

November 28, 2022

Solar Industries India Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	100.00	100.00	[ICRA]A1+; reaffirmed
Total	100.00	100.00	

*Instrument details are provided in Annexure-I

Rationale

While assigning the credit rating, ICRA has taken a consolidated view of Solar Industries India Limited (SIIL) and its 100% subsidiary Economic Explosives Limited, or EEL (together referred to as SIIL or the company), given the common management team and significant operational linkages between the entities, besides the strategic importance of EEL for its parent.

The reaffirmation of the rating takes into account the leadership position of SIIL in the industrial explosives industry, supported by a large manufacturing infrastructure with some units in proximity to mines, a backward integrated facility in India as well as manufacturing units in select countries. In addition to a dominant market position in India, SIIL has developed a reasonable global footprint in recent years with supply to over 65+ countries. Exports and overseas sales accounted for 36% of the Group's total revenues in FY2022 and 42% in H1 FY2023.

The rating considers the favourable medium-term demand outlook with increased demand from the end-users such as the mining, infrastructure and defence sectors. The Atmanirbhar Bharat Abhiyan of the Government of India (GoI), which is aimed at curtailing import dependence and increasing the sourcing of indigenous defence products, also presents large growth opportunities for the company. The order book of the company, indicating revenue visibility, is also strong at Rs. 4,008 crore as on September 30, 2022. This comprises orders worth Rs. 3,123 crore from Coal India Limited (CIL) and Singareni Collieries Company Limited (SCCL) and defence orders of Rs. 885 crore.

SIIL has established relations with reputed clients in the mining and infrastructure industries which ensure repeat orders. Additionally, in the last few years, the company has been manufacturing and supplying products to the defence sector (under a technology agreement with the Ministry of Defence, GoI) and has also developed products to meet the indigenisation requirements in defence supplies.

The rating favourably factors in the healthy revenue growth of 57% in FY2022 at Rs. 3,947.6 crores along with expectations of strong growth in FY2023, led by healthy volume growth and a sharp increase in realisation on the back of increased raw material prices (mainly ammonium nitrate or AN). The operating profit margin (OPM) remained healthy above 20% between FY2018 and FY2021. However, due to the sharp increase in raw material prices (mainly AN), the operating margins moderated to 19.9% in FY2022 and further to 18% in H1 FY2023. As per management guidance, the operating margin is expected to remain range-bound at 18-20% for FY2023 and FY2024.

The rating, however, remains constrained by the vulnerability of SIIL's margins to any fluctuations in the prices of its key raw material i.e. AN. ICRA notes that the company has a price escalation clause in the business agreements with its key clientele that inhibits material variability in margins to an extent even as the pass-through may be with a lag effect. The company's capital structure remained strong with a gearing of 0.5 times as on September 30, 2022, backed by strong net worth. Notwithstanding the sizeable capex outgo and growing working capital requirements with strong revenue growth, the expanding operating profits and cash accruals would continue to support healthy debt coverage metrics and a favourable liquidity profile.

The company faces high sector concentration risk with a considerable portion of its revenues derived from the mining sector. Any operational or regulatory impact on the mining sector could therefore, impact SILL's revenue and cash generation. However, ICRA has also taken note of the efforts being taken by the Group to increase its presence in other sectors, especially defence, which is expected to result in increased customer and product diversity. Given the sizeable revenue contribution from exports and the overseas sector, SILL's profitability remains vulnerable to the volatility in foreign currency exchange rates. However, a partial natural hedge from exports, USD billing in select markets and borrowings in local currency for overseas subsidiaries provide some cushion to the company's profitability metrics against the extreme fluctuations in the foreign currency exchange rates. ICRA also notes the highly regulated nature of the explosives manufacturing industry with the need for licensing for various products. The company's operations therefore remain vulnerable to any changes in the regulatory framework.

The rating also takes note of the ongoing legal proceedings regarding the vacation of Mr. Kailash Chandra Nuwal's office of executive director of the company. SILL had filed an appeal with the Supreme Court against an impugned order passed by the National Company Law Appellate Tribunal (NCLAT) on January 5, 2022 and the matter is sub-judice. While the management doesn't anticipate any material impact on the business operations of the SILL on account of the ongoing litigation, this would remain a key monitorable for the rating.

Key rating drivers and their description

Credit strengths

Largest manufacturer of industrial explosives and initiating systems in India with established global presence - The Group has been operational in the field of manufacturing explosives for over 25 years with SILL being the flagship company of the Solar Group. SILL is a leading player in the industrial explosives sector with a sizeable market share of around 24% in India and significant manufacturing capacities in the domestic and overseas market. The extensive experience of the promoters and the Group's well-established track record have helped it expand business in over 65+ countries with SILL being the largest exporter of explosives. Exports and overseas sales contributed to 36% of the company's total revenues in FY2022 and 42% in H1 FY2023. The domestic explosives sector accounts for 70-80% of SILL's total revenues on a consolidated basis, followed by a 20% share of initiating systems and the defence sector. The explosives manufactured by the company find application in the mining, infrastructure and construction industries.

EEL remains strategically important given its sizeable manufacturing of initiating systems as well as product development for defence application, an area of importance for the Solar Group.

Reputed clientele comprising large players in mining industry provides repeat orders - CIL and its subsidiaries are SILL's key customers, contributing to ~17-18% of its revenues in the last four years. Notwithstanding its established relations with CIL, the company has diversified its customer profile to include new customers with allocation of mines to private companies. This customer diversification has reduced the contribution of CIL in the revenue mix as a percentage of the total sales, though in absolute terms the revenue has been increasing YoY. Its other major customers are the Ministry of Defence (Government of India), SCCL and infrastructure players. The company's total order book as on September 30, 2022 stood at Rs. 4,008 crore; this comprises orders worth Rs. 3,123 crore from CIL and SCCL which are to be delivered over the next two years, indicating revenue visibility. Apart from that, it has defence orders of Rs. 885 crore as on September 30, 2022, comprising supplies of multi-mode hand grenades to the Ministry of Defence (to be completed by Q1FY2024) and Rs. 300-crore export order of ammunitions to be delivered over a period of two years.

Group's healthy revenue and profitability, comfortable capitalisation and coverage metrics; price variation clause with key clients limits moderation in profitability - SILL's financial profile is characterised by healthy revenue growth of 57% in FY2022 at Rs. 3,947.6 crores along with expectations of continued strong growth momentum in FY2023. The revenue growth has been fueled by a sharp increase in realisation on the back of increased raw material prices (mainly AN), besides healthy volume growth. The Group has been recording healthy profitability over the years along with comfortable capitalisation and coverage metrics. The consolidated operating margin remained above 20% between FY2018 and FY2021. However, due to the sharp

increase in raw material prices (mainly AN), the operating margins moderated to 19.9% in FY2022 and further to 18% in H1 FY2023 with expectation of the same being in the range of 18-20% for FY2023 and FY2024.

ICRA notes that the company has price escalation clauses in the business agreements with its key clientele that inhibit material variability in margins to an extent even as the pass-through may be with a lag. SILL's gearing, in line with management guidance, continued to be at 0.5 times as on September 30, 2022. With an interest coverage of 17.3 times and TD/OPBDITA of 2.1 times (annualised) as on September 30, 2022, the company continues to exhibit comfortable leverage and coverage indicators.

SILL is expected to generate stable cash flows in the coming years with a scale-up in its explosives as well as in the defence sector in the domestic and overseas market. Although the company is undertaking debt-funded capex and has witnessed some increase in working capital intensity, the expected revenue growth and a healthy profitability are likely to keep the company's gearing level at 0.5 times along with comfortable coverage metrics. The company's debt repayments are expected to remain sizable over the medium term but growing accruals should allow them to be met timely.

Favourable demand prospects with end-user industries demonstrating growth - The company caters to the demand of end-user industries such as mining, infrastructure and defence. With the Government's rising budgetary allocations towards defence, the demand prospects for the company's products are expected to increase. Also, the Government's emphasis on increased allocations for indigenous sourcing for identified products over the next few years and the company's track record of supplies augur well for the company's prospects in defence supplies.

Credit challenges

Vulnerability of profits to raw material price and forex fluctuations; SILL's pricing and natural hedge mitigates the risk to an extent - The key raw material required by SILL in manufacturing explosives is AN, the prices of which are volatile. As the raw material procurement is not entirely order-backed, the company's margins remain vulnerable to any adverse fluctuation in commodity prices. SILL, however, enters into contracts having price escalation clauses with its key customers, which mitigate the risk to an extent and allows it to pass on the price increase, albeit with a lag.

Further the company remains exposed to volatility in foreign currency fluctuations. The natural hedge through growing exports and invoicing in US dollar in select markets mitigates the forex risk to an extent. The company has started availing loans in local currency for overseas subsidiaries; however, for new subsidiaries, it mostly depends on US dollar denominated borrowing from Mauritius subsidiary. Therefore, some forex risk will continue to persist.

High sector concentration risk with considerable portion of revenues from the mining sector - SILL exhibits high sector concentration risk with a considerable portion of its revenues derived from the mining sector and thus, the revenues remain vulnerable to the mining activity in the country to an extent. Entities such as CIL and SCCL dominate its revenue profile, highlighting its high dependence on the mining sector. Any operational or regulatory impact on the mining sector could impact SILL's revenue growth. The company's efforts to increase its presence in other sectors, especially defence, are expected to provide some comfort against sector concentration risk, going forward. Management initiatives to diversify the revenue mix is also evident from revenue dependence on CIL and its subsidiaries reducing from 26% in FY2016 to 14% in H1 FY2023.

Exposure to regulatory risks - SILL operates in a highly regulated explosive manufacturing industry with high entry barriers. Its operations, therefore, remain vulnerable to any changes in the regulatory framework impacting the industry.

Lumpiness in defence business with long approval cycles and tender-based awards - Although the company has maintained a dominant position in industrial explosives, the management forayed into the development and supply of defence consumables and ammunitions in the past decade with technical assistance from the Ministry of Defence. More recently, the company received a specific work order from the Ministry of Defence, GoI, to supply defence products over a period of two years in FY2021, followed by growing participation in defence orders in recent years. Although measures such as increased budgetary allocations towards defence, announcement of negative lists of imports to emphasise domestic procurement and permitting the export of select products offer huge opportunity for the company, the approval process remains long-drawn. This, coupled with the tender-based bidding process, may bring in lumpiness in revenues from this sector.

Environmental and Social Risks

Environmental Risk - Given the safety and environmental health-related concerns associated with explosives, the industry is exposed to the risk of tightening regulatory norms for production, water management, waste and hazardous material management. Additionally, some products can face restrictions/substitution over time because of their hazardous nature. Further, in the event of accidents, litigation risks could be high. While the company has a demonstrated track record of running its operations safely, the nature of the risk weighs on its rating.

Social Risks - Companies like SILL need to operate responsibly as it is an imperative and instances of non-compliance with environmental, health and safety norms could have an adverse impact on the local community which could manifest in the form of protests, constraining the ability to operate or expand capacity. The company hasn't experienced/reported any incident suggestive of safety lapses in its manufacturing facilities over the past several years and its ability to maintain the manufacturing controls would be monitorable.

Liquidity position: Adequate

SILL's liquidity position is adequate, evident from healthy cash flow from operations which remained in the range of Rs. 200-300 crore, access to cash and liquid investments of ~Rs. 127.8 crore as on September 30, 2022 and buffer from undrawn working capital limits. ICRA also notes SILL's proposed capex of about Rs. 450 crore in FY2023 towards capacity expansion and modernisation in domestic, overseas and defence sector along with organic and inorganic investments, which will be partly funded through debt. Going forward, a capex of Rs, 400 crore annually is expected over the next two years. The Group's annual repayment also remains sizeable over the medium term which may be met from its rising accruals.

Rating sensitivities

Positive factors – Not applicable*

Negative factors – The rating may be downgraded if there is a significant decline in revenues or profitability, or if the company undertakes higher-than-anticipated debt-funded capex. The net debt/OPBITDA increasing above 1.5x, or any adverse regulatory measure(s) that weaken(s) the credit profile, could also result in pressure on the ratings.

**the assigned rating of [ICRA]A1+ is the highest rating in the short-term scale*

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach-Consolidation
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has taken consolidated view of SILL and EEL. ICRA has considered the consolidated financials of SILL; the company had seven subsidiaries, 18 step-down subsidiaries, one associate and one entity with joint control/significant influence, the details of which are provided in Annexure-2

About the company

SILL is the flagship company of the Solar Group, which is promoted and headed by Mr. Satyanarayan Nuwal. The company initially commenced trading of explosives in 1983 and ventured into explosive manufacturing in 1996. SILL, along with its subsidiaries, manufactures bulk explosives, packaged explosives and initiating systems, which find application in the mining, infrastructure and construction industries. The Group forayed into the defence sector in 2010 and diversified into the

manufacturing of propellants for missiles and rockets, warheads and warhead explosives. At present, there are 27 manufacturing plants across nine states in India, in addition to seven overseas units in Zambia, Ghana, Nigeria, Turkey, South Africa, Tanzania and Australia. The company has also established a Centre of Excellence for Life Assessment for Explosives and Ammunition. The head office of the Group is located in Nagpur (Maharashtra).

Key financial indicators (Consolidated)

	FY2021	FY2022	H1FY2023
Operating income	2517.6	3947.6	3182.2
PAT	288.1	455.5	371.3
OPBDIT/OI	22.0%	19.9%	18.3%
PAT/OI	11.4%	11.5%	11.7%
Total outside liabilities/Tangible net worth (times)	0.8	0.8	0.9
Total debt/OPBDIT (times)	1.5	1.1	1.0
Interest coverage (times)	12.2	15.6	17.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as on Nov 25, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020
				Nov 28, 2022	Nov 29, 2021	Feb 23, 2021	Dec 18, 2020	-
Commercial Paper Programme	Short Term	100.0	100.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial Paper Programme	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE343H14139	Commercial Paper	13-Oct-2022	7.15%	13-Jan-2023	50.0	[ICRA]A1+
INE343H14147	Commercial Paper	17-Nov-2022	7.30%	20-May-2023	50.0	[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Subsidiaries		
Economic Explosives Limited	100.00%	Full Consolidation
Blastec India Private Limited ¹	100.00%	Full Consolidation
Emul Tek Private Limited	100.00%	Full Consolidation
Solar Defence Limited ²	100.00%	Full Consolidation
Solar Defence Systems Limited ²	100.00%	Full Consolidation
Solar Avionics Limited ^{2&4}	100.00%	Full Consolidation
Solar Explochem Limited	100.00%	Full Consolidation
Solar Overseas Mauritius Limited	100.00%	Full Consolidation
Solar Mining Services Pty Limited, South Africa	86.56%	Full Consolidation
Nigachem Nigeria Limited	55.00%	Full Consolidation
Solar Overseas Netherlands B.V.	100.00%	Full Consolidation
Solar Explochem Zambia Limited	65.00%	Full Consolidation
Solar Patlayici Maddeler Sanayi Ve Ticaret Anonim Sirketi	100.00%	Full Consolidation
P.T. Solar Mining Services ²	100.00%	Full Consolidation
Solar Nitro Ghana Limited	90.00%	Full Consolidation
Solar Madencilik Hizmetleri A. S	100.00%	Full Consolidation
Solar Overseas Netherlands Cooperative U. A	99.99%	Full Consolidation
Solar Overseas Singapore Pte Ltd	100.00%	Full Consolidation
Solar Industries Africa Limited	100.00%	Full Consolidation
Solar Nitro Zimbabwe (Private) Limited	100.00%	Full Consolidation
Solar Nitro Chemicals Limited ²	65.00%	Full Consolidation
Solar Mining Services Pty Ltd, Australia*	76.00%	Full Consolidation
Solar Mining Services Cote d'Ivoire Limited SARL ²	100.00%	Full Consolidation
Solar Mining Services Burkina Faso SARL, Burkina Faso ³	100.00%	Full Consolidation
Solar Mining Services, Albania ⁵	100.00%	Full Consolidation
Associates		
Zmotions Autonomous Systems Private Limited	41.00%	Full Consolidation
Entities with joint control or significant influence over the entity		

Company Name	Ownership	Consolidation Approach
ASTRA Resources Pty Limited	49.00%	Full Consolidation

Source: SIIL annual report FY2022 and Quarterly results.

Note 1 : Blastec (India) Private Limited merged into Emul Tek Private Limited w.e.f September 21, 2021.

Note 2: The entity has not commenced its business operations

Note 3: The entity was incorporated on April 06, 2021.

Note 4: The entity was incorporated on November 16, 2020

Note 5: The entity was incorporated on April 22, 2021.

**Formerly known as Australian Explosives Technologies Group Pty Limited*

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Anupama Arora
+91 124 4545 303
anupama@icraindia.com

Menka Sabnani
91 79 4027 1562
menka.sabnani@icraindia.com

RELATIONSHIP CONTACT

L. Shivkumar
+91 20-61143406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)
info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.