

July 21, 2017

Solar Industries India Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Commercial Paper	100.00	[ICRA]A1+; assigned
*Instrument details are provided in Annexure-1		

Rating action

ICRA has assigned a short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 100.00 crore¹ Commercial Paper (CP) of Solar Industries India Limited ('SIIL' or 'the company')².

Rationale

ICRA has taken a consolidated view of SIIL and its subsidiaries while assigning the ratings. A consolidated view has been taken because of the similar line of operations, strong operational and financial linkages between the group entities and the common management group.

The assigned rating takes into account SIIL's established presence for over two decades in the industrial explosives industry. In addition to being a domestic market leader with a share of ~23%, the company is also the largest exporter of explosives from India with a presence across 42 countries. The rating also takes into account the operational efficiencies derived by SIIL from backward integration and its reputed customer base comprising large players in the mining and infrastructure industry, who have been extending repeat orders. The rating also factors in the company's financial profile characterised by healthy revenue growth, comfortable capitalisation and coverage metrics.

The rating is, however, constrained by the vulnerability of the company's profitability to any adverse forex fluctuations and fluctuations in the prices of the key raw material—ammonium nitrate. Nevertheless, SIIL hedges its forex exposure and enters into fixed price contracts bearing price escalation clauses with its customers, which mitigate the risks to an extent. SIIL derived ~50% of its revenues from the mining industry in FY2017 and thus its operations remain vulnerable to the cyclicity in this sector. ICRA notes that the company operates in a highly regulated industry with high entry barriers and consequently its operations remain vulnerable to any regulatory changes.

Key rating drivers

Credit strengths

- Long and established track record of over two decades in the manufacturing of industrial explosives
- Largest manufacturer of industrial explosives industry in India with a market share of 23% in FY2017; established presence in the international markets being the largest exporter of explosives from India
- Reputed customer base comprising large players in the mining industry who have been giving repeat orders
- Backward integration ensures operating efficiencies
- Financial profile characterised by healthy revenue growth, comfortable capitalisation and coverage metrics

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

Credit weaknesses

- Margins remain vulnerable to any fluctuations in the prices of the key raw material – ammonium nitrate; however demonstrated ability to pass on the price changes mitigates the risk to an extent
- High segment concentration risk with over 50% of the revenues in FY2017 derived from the mining sector
- Profitability remains susceptible to any adverse fluctuations in forex; however hedging undertaken by the company mitigates the risk to an extent
- Exposure to regulatory risks

Description of key rating drivers

SIIL has been engaged in the manufacturing of industrial explosives since 1996 and has established its presence within the industry over the last two decades. The Indian industrial explosives industry is dominated by 7-8 major manufacturers, who collectively account for over 70% of the market share. SIIL is the largest player in the domestic market with a market share of 23%. It is also the largest exporter of explosives from India and has a presence across 42 countries. The company has developed established ties with its key customers, comprising reputed players such as Coal India Limited and The Singareni Collieries Company Ltd. leading to recurring orders. Furthermore, SIIL manufactures some of its raw materials such as emulsifiers, sodium nitrate, and zinc nitrate at its own manufacturing units, which ensures operational efficiencies thereby supporting its margins. Driven by the increase in the sales volumes, the company's revenues have increased at a CAGR of ~10% between FY2012 and FY2017. Additionally, supported by its strong net-worth and healthy profitability SIIL's capitalisation and coverage metrics remain comfortable as depicted by a gearing of 0.52 time as on March 31, 2017 and an interest coverage of 12.04 times.

Nevertheless, the company's profitability remains vulnerable to the volatility in the prices of its key raw material, ammonium nitrate, which has been exhibiting a declining trend since FY2015. SIIL, however, revises the prices of the products every quarter and also enters into fixed price contracts bearing price escalation clauses with its customers, which mitigates the risk to an extent. Since the company derives ~28-29% of its revenues from exports, its margins also remain susceptible to any adverse fluctuations in foreign exchange. While the imports of ~7-10% made by the company provide a natural hedge. SIIL also enters into forward contracts to hedge its net exposure, which mitigates the forex risk to an extent. The company derived ~50% of its revenues from the mining industry in FY2017 and thus its operations remain vulnerable to the cyclicity in this sector. Additionally, since the company operates in a highly regulated industry with high entry barriers, its operations remain vulnerable to any regulatory changes.

Analytical approach:

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below:

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company

Solar Industries India Limited (SIIL) 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. It manufactures bulk explosives, packaged explosives and initiating systems which find application in the mining, infrastructure and construction industries. In addition, the company diversified its product profile to include propellants for missiles and rockets, warheads and warhead explosives for the defence sector in 2010. SIIL has twenty five manufacturing

plants across eight states in India in addition to four units overseas in Zambia, Nigeria, Turkey and South Africa with a workforce of over 3,000 employees.

The Solar Group comprises 7 Indian companies and 15 foreign companies, which are subsidiaries of SIIL.

SIIL reported a net profit after tax of Rs. 194.73 crore on an operating income of Rs. 1,579.99 crore for the period ended March 31, 2017.

Table 1: Key Financial Indicators

	FY2016	FY2017
	Audited	Audited
Operating income (Rs. crore)	1448.62	1579.99
PAT (Rs. crore)	177.50	194.73
OPBDIT/ OI (%)	21.00%	20.50%
RoCE (%)	23.16%	21.66%
Total Debt/ TNW (times)	0.47	0.52
Total Debt/ OPBDIT (times)	1.30	1.55
Interest coverage (times)	14.89	12.04
NWC/ OI (%)	36%	37%

OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax;

NWC: Net Working Capital; RoCE: Return on Capital employed; TNW: Tangible Net-Worth

Source: Consolidated financial statements of SIIL and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table 2

S. No	Instrument	Current Rating (FY2018)		Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. crore)	FY2018	FY2017	FY2016	FY2015
				July 2017	-	-	-
1	Commercial Paper	Short-term	100.00	[ICRA]A1+	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

Name of the instrument	Date of Issuance/ Sanction	Coupon rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
Commercial Paper	-	-	-	100.00	[ICRA]A1+

Source: SIIL

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