



**SOLAR
INDUSTRIES
INDIA
LIMITED**

REGD.OFFICE :
11, ZADE LAYOUT, BHARAT NAGAR,
NAGPUR - 440 033, (M.S.) INDIA.
PHONES : +91-712-2561000, 2560010, 6681888
FAX : +91-712-2560202
CIN : L74999MH1995PLC085878
e-mail : solar@solargroup.com
website : www.solargroup.com

1st June, 2017

To,
The Executive Director
Listing Department
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex
Bandra (E)
Mumbai

To,
The Executive Director
Listing Department
Bombay Stock Exchange Limited
Floor no.25, PJ Towers
Dalal Street
Mumbai – 400 001

Trading Symbol: "SOLARINDS EQ"

Scrip Code: 532725

Sub: Transcription of Conference Call with investor/analyst held on May 30, 2017.

Dear Sir,


Further to our letter dated May 24, 2017, we are forwarding herewith a copy of Transcription of Conference Call with Investor/Analysts held on Tuesday, May 30, 2017.

Kindly take the same on record and acknowledge.

Thanking You

Yours truly,

For Solar Industries India Limited


(Khushboo Pasari)
Company Secretary &
Compliance Officer



Encl: As above



“Solar Industries Limited Q4 FY17 Earnings Conference Call”

May 30, 2017



**MANAGEMENT: MR. R.D. VAKIL – EXECUTIVE DIRECTOR
MR. NILESH PANPALIYA – CHIEF FINANCIAL OFFICER
MR. AKSHAY MOKHA – INVESTOR RELATIONS**



Moderator: Ladies and Gentlemen, Good Day. And welcome to the Solar Industries Q4 FY17 Earnings Conference Call. As a reminder, all participant lines will be in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Siddharth Kumar from Adfactors PR. Ltd. Thank you and over to you, sir.

Siddharth Kumar: Thank you. Good afternoon, all participants. We thank you for taking out time and joining the conference call. We also thank Solar Management for taking out time to discuss the quarterly and annual financial performance.

We have today with us Mr. Nilesh Panpaliya – Chief Financial Officer, Mr. R.D. Vakil – Executive Director and Mr. Akshay Mokha from the management who takes care of the Investor Relations at Solar.

We will begin this call with an opening remark from Mr. Panpaliya, following which the line will be open for question-and-answer session.

Before we begin, we would like to mention that certain statements in this call could be forward-looking statements in nature and are subject to risks and uncertainties which could cause actual results to differ materially from those anticipated. Such statements are based on management's belief as well as assumptions made by information currently available to them.

Finally, handing over the call to Mr. Panpaliya. Thank you. Over to you, Nilesh sir.

Nilesh Panpaliya: Good afternoon, everyone. And thank you for joining us today to review our quarter four and full financial year results. We are happy to announce that our Company's growth rate has once again surpassed the industry growth rate. Our explosive volumes grew by almost 13% whereas the explosive industry increased is around 6% in volume terms.

Coming on to the highlights of the quarter, the top-line for FY17 versus that of FY16, there is a growth of 8.72% and when we see quarter-on-quarter for Q4 FY17 with Q4 FY16, the turnover has increased by 7.53%. The growth in this quarter mainly comes from Coal India Limited and our institutional sector. The yearly growth of 9% has been achieved despite of several challenges that we face during the year. There was a decline of commodity prices which resulted in the fall of the realization of finished goods and roughly the commodity prices, that is the ammonium nitrate, there was a drop of almost 9% and you can say almost a turnover of Rs. 60 crores was lost on account of that.

Demonetization was another factor which has slowed down the industry growth, that is a macroeconomic level. And further, most of you are aware that there has been a translation currency fluctuation losses in our overseas subsidiaries, amounting to almost around Rs. 117 crores. Despite of these challenges we have posted a healthy top-line growth of 9% and our



PAT growth of 13.7% for the financial year. In this quarter, as I have mentioned, the sales has grown by 7.53% and the profit after tax has grown by almost 24.45% i.e. Rs. 253.97 crores compared to Rs. 43.8 crores.

Now, as you are aware that we are already having our manufacturing units in Turkey, South Africa, Nigeria and Zambia, now in this Q1 FY18 we have also started the commercial production in South Africa, whereby increasing our global footprints. And in our overseas unit now with the commodity market globally has now stabilized and now global mining is showing signs of improvement, as a result of which in this year we will definitely have a better year compared to as far as the performance of overseas units are concerned.

We have also received another Rs. 40 crores order from the defense sector, taking our total order book to almost Rs. 140 crores. And we have been regularly safety is one of our topmost priorities. And I would just like to mention that today we have almost completed as on date 4.25 million accident free man hours and we have been regularly imparting training to our supervisors, executives, operators at various levels.

Now, coming again back to the quarterly numbers. The sales has increase, as I mentioned, to 7.53% when we compare with fourth quarter FY17 from the previous year quarter. And our EBITDA showed a growth of 5.44%, but when we talk in margin terms it demonstrates a minute decline of 0.44%. We can see our EBITDA margins at 21.78% compared to 22.22% which is relatively stable. Interest and finance cost has increased from Rs. 5.59 crores to Rs. 6.28 crores year-on-year basis and this is due to increase in our working capital requirements. However, for the full year the EBITDA margin stands at around 21.34%.

Coming to the quantity analysis, the cartridge sale has increased almost by 13.34% in this quarter whereas the bulk sales has increased by 14.26%. And for the full year our cartridge has increased by almost 23.77% and the bulk volume has increased by 7.21%.

When we talk about our yearly customer breakup, Coal India which was almost 26% of our revenue, this year it amounts to almost 24% of our total revenue. Institutional has increased from 19% to 21%, infra and housing sector remains the same, that is around 26% and the exports and overseas are almost 28% of our total revenue. Coal India has come down from 26% to 24% but when we talk about our overall sales to them, it is at Rs. 412 crores compared to Rs. 405 crores and this is as I made you aware that there has been a drop of almost 9% in the price of our raw material, key raw material ammonium nitrate, as a result of which the realization was lower.

As far as our balance sheet figures are concerned, the total net fixed asset stands at around Rs. 860 crores compared to Rs. 728 crores and the total capital employed is Rs. 1326 crores compared to Rs. 1139 crores. The return on capital employed works to around 22.5% and return on net worth is around 19.97%.



When we talk about our inventory days, there is a marginal increase from 57 days it has moved to 73 days, because during that time there was more import of ammonium nitrate for us. The creditor days, however, from 45 days has gone to 37 days, and this is because of the change in our buying policy. The debtor days have moved marginally from 63 to 67 days.

As far as the loan position is concerned, the working capital loan is almost Rs. 240 crores compared to Rs. 186.48 crores. The long-term debt stands at Rs. 147.35 crores compared to Rs. 134 crores. And the total debt comes to around Rs. 387.53 crores compared to Rs. 320.62 crores. If you talk about cash and investments, that has moved to Rs. 75.68 crores from Rs. 56.35 crores. So if you look at the net debt figure, it stands at Rs. 311.85 crores compared to Rs. 264.27 crores.

The total CAPEX done by us for the year is roughly around Rs. 194.71 crores. And going ahead, a CAPEX of similar level will be there.

As far as the statutory and regulatory compliances are concerned, we would just like to inform that everything is in place, like various filings with the statutory requirements and certificates and all, we have comprised it.

And during the year the Company received no instances of insider trading which is mechanism, discriminatory employment, child labor or sexual harassment.

Just to give you some guidance for the future, we expect our top-line to grow more than 20% each year for the next three years. And the growth will come from all segments, that is our domestic explosives, our overseas plants and exports and from the defense. We have the right actions in place to achieve our targets and execute our plans. We are gaining superior skill in exploring the growing market opportunities due to our proactive management and extensive product portfolio. And we have established ourselves as a significant player across the value chain and remained optimistic of top-line and bottom-line growth in all the segments.

On that note, we conclude our remarks. And once again thank you all for joining us on this call. Now, we will be happy to discuss any questions, comments or suggestions that you may have.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the question-and-answer session. We take the first question from the line of Ankit Merchant from KRChoksey. Please go ahead.

Ankit Merchant: Sir, could you just guide us about the defense revenue going forward? Because, as far as I know, the opportunity size is pretty good, but since last seven years this issue has been growing on and we are facing some bottlenecks. So how do you see defense going forward and what are your expectations from defense in the next two years?

Nilesh Panpaliya: Definitely defense, as you are aware, we have setup facilities and last four years we had to go to various clearances and all and finally after all the trials we have received orders almost to



the tune of now Rs. 140 crores and then we have started our supply also. Defense, at every stage of supply there is a regular product valuation which is happening and the qualification we have to repeatedly get it done. So, now with whatever supplies we have done again the productivity qualification and defense takes its own time before we have a continuous supply chain relation established. But now till whatever stage we have reached, for the financial year we see that we should be able to achieve a turnover, though we have order of Rs. 140 crores, but going by the most optimistic view you can definitely be able to do around Rs. 100 crores of turnover this year and for the next year definitely around Rs. 200 crores of turnover is achievable.

Ankit Merchant: Okay. And sir in the infra space how is the demand catching up and what are you seeing? This 20% growth which you have been targeting, what would it be coming from, from where would it be coming from?

Nilesh Panpaliya: Again, if we classify in two, one is the domestic market and definitely infra is one of the sectors from where the demand will be coming up typically from road construction and housing. So, I have with me Mr. Roomie Vakil, he will be explaining to you how this demand will be coming up.

R.D. Vakil: Last year there had been a little tepid growth in the coal industry, but this time Coal India has taken a target of 11% increase in coal and about 15% increase in overburden removal. Again, Singareni Collieries which also had a static growth last year, this time they have taken a target of 10% increase in overburden removal and 18% increase in coal. So, looking at the coal sector, we are quite optimistic, even if they do not achieve these targets we expect a 7% to 8% growth is on with us because many of the new mines have started coming into operation.

On the road sector, already they have achieved, they have gone up from 2 kilometers to 23 kilometers per year, last year they did about Rs. 8,600 kilometers of road work. For the coming year 6,400 kilometers of contracts have already been finalized. So we expect the road construction will go up from 23 kilometers a day to about 30 kilometers a day during this financial year, which will be a substantial boost to the demand of explosives. These are the two major... the iron ore industry has picked up substantially, they have shown an increase of 15% from 155 million to about 198 million last year and they are bound to grow because steel has already shown a 11% increase last year, and going ahead we expect this iron ore and cement which showed us a marginal drop last year, but with the emphasis on housing, construction coming up strongly from the Ministry and various states taking initiative in this, we expect that the cement industry will also grow at 6%. All in all we are expecting a fairly optimistic in the FY18. Nilesh will give you the feedback.

Nilesh Panpaliya: Sure. Also I mentioned that South Africa plant will be operational, so that also will be contributing to our revenue. Along with that, we are identifying new geographies for exports. So all these things together will give us a growth of 20%.



- Moderator:** Thank you. Our next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.
- Ravi Naredi:** Sir, what will be the GST impact on our product and if anything you want to share?
- Nilesh Panpaliya:** We would not have any impact of GST on our products because normally we do not have that stock and all that mechanism.
- Ravi Naredi:** So, any GST rate on our product?
- Nilesh Panpaliya:** Yes, the proposed GST for explosives is 28% and for initiating systems it is 18%.
- Ravi Naredi:** And at present it is going same rate?
- Nilesh Panpaliya:** Pardon?
- Ravi Naredi:** At present the same rate is going on, the tax rate?
- Nilesh Panpaliya:** Presently the VAT is different, it is lower, VAT is 14%, excise is 24% presently.
- Ravi Naredi:** But it will not impact our demand or anything?
- Nilesh Panpaliya:** No, it would not impact our demand.
- Ravi Naredi:** Sir, as far as coal production, you are saying our share is down from 26% to 20%, Mr. Vakil is saying the Coal India production will rise, so why these differences are there?
- Nilesh Panpaliya:** No, what I mentioned there was as a percentage of total revenue it has come from 26% to 21%. However, our sale to Coal India has increased, it is almost we are meeting 28% of Coal India's requirement. What I am trying to say, because we have increased other sector, as a percentage of total sales Coal India shares look down. But definitely we are the largest supplier to Coal India today and we will be continuously increasing our supply to Coal India. But people say that it is customer dependent and all, there they would like to see this percentage. Going ahead, though we will be increasing our supply to Coal India, this will come down below 20%. So, infrastructure is increasing, exports is increasing, work is increasing and defense is also getting up. So, earlier when you look at a part of total revenue, Coal India was almost 59%, today it looks at 26%, 24% and then in couple of years it will look around less than 20%.
- Ravi Naredi:** Sir, as far as the defense order is concerned, we were very much bullish in last since three years, four years, but what we want it is not coming from the defense sector, so where is the problem in the sector or either we are not getting the order...?
- Nilesh Panpaliya:** As I mentioned, we have already received orders of around Rs. 140 crores, this year we have supplied around Rs. 11 crores.



- Ravi Naredi:** Only Rs. 11 crores?
- Nilesh Panpaliya:** Rs. 11 crores we have done, because what happens is qualification is taking a time even beyond our calculation or imagination, because first we did the trials that got cleared, then we made the first where again the process of qualification is there, but now field trials they need to conduct and all these things.
- Ravi Naredi:** So, you are thinking that this Rs. 11 crores will be Rs. 100 crores in a year?
- Nilesh Panpaliya:** Because we have orders worth around Rs. 140 crores which we need to execute in this year only. Since July and August the supply will start and then it will continue for that full year.
- Moderator:** Thank you. Our next question is from the line of Amit Saoji from Sahuji & Associates. Please go ahead.
- Amit Saoji:** My question is, big companies like Reliance, L&T are in defense, whether we are going to do some strategic partnership with these companies, because these companies will be needing explosives. Anything is in pipeline?
- Nilesh Panpaliya:** We have signed NDAs with lot many companies, non-disclosure agreements. And as soon as we finalize something we will definitely let you all know on the same.
- Amit Saoji:** And any acquisition plans we have?
- Nilesh Panpaliya:** As of now nothing, but we are always open to look whenever the opportunity comes.
- Moderator:** Thank you. Our next question is from the line of Dhaval Dama from Equirus Securities. Please go ahead.
- Dhaval Dama:** Sir, just wanted to ask you, like on the overseas side we have seen a bad year in terms of translation losses for us, so do you think that this is a bottom or further pain is expected during the first half?
- Nilesh Panpaliya:** This is the bottom which we have seen, now we are seeing that currencies have fairly stabilized there and we do not see a further downturn. And with the global mining activities and the commodities price now almost stable, we have seen that the mining industry there is showing a pickup again, and which is reflected in our overseas turnover also, despite of so much translation losses or revenues from our overseas operation continues to be under same line. But this year definitely there will be a good growth of 20% on this revenues. So, as of now we do not see further fall in the revenues.
- Dhaval Dama:** Sir, so when you mentioned 20% growth on the overseas business, so is it including South Africa or you are seeing...?



- Nilesh Panpaliya:** No, South Africa we have just started. And if you see our volume growth, in case of cartridge we see a volume growth of 9% on all our overseas operations combined together. In case of bulk we are seeing a good growth of 15% and even our accessories sale is for the current year.
- Dhaval Dama:** Right. Sir, second thing, you mentioned that CAPEX for the next couple of years could be around Rs. 200 crores per annum. So, could you give a rough breakup of where we would be spending that amount, let's say which portion of the business would it go into?
- Nilesh Panpaliya:** Rs. 50 crores we have reserved for our overseas operation, Rs. 75 crores for our domestic operation and Rs. 75 crores around for defense.
- Dhaval Dama:** Sir, another thing that I wanted to ask you was, with the currency also now facing a bit of a headwind, like say the INR has appreciated, so would we be taking price hikes for exports?
- Nilesh Panpaliya:** Come again?
- Dhaval Dama:** Like say the INR has recently appreciated also to some extent, and say we do some quantum of export sales also, so would we be taking price hikes over there?
- Nilesh Panpaliya:** As of now our exports are open and definitely on a spike we are looking ahead to book those exports.
- Dhaval Dama:** Sir another thing, so like say South Africa we have put about 25,000 ton plant, so what kind of revenues could we expect from the South Africa business for the current year?
- Nilesh Panpaliya:** For the current year around Rs. 75 crores of revenue is what we are expecting.
- Moderator:** Thank you. Our next question is from the line of Arvind Kumar from FirstRand Bank. Please go ahead.
- The line from the current participant seems to have dropped out. We will move on to the next participant that is from the line of Abhijit Mitra from ICICI Securities. Please go ahead.
- Abhijit Mitra:** So, on the Rs. 140 crores of defense order book, can you give a bit more color, as in what are the constituents and since April there seems to be an increase of almost Rs. 40 crores, so which is the order which we have received, if you also can throw some light on that?
- Nilesh Panpaliya:** So, this order which we have received is a mix order of fuses, pyros and some ammunition. And as we said, we are dealing in four products that is, one is high energy explosives, that is HMX, Oma, Octol, and Okfol. And then we have propellants, the delivery system. The third is ammunition filling and fourth is fuses and pyros. So, roughly the order is classified between all these four categories. Going ahead, where exactly they are going to use it, that is something we cannot let you know.



- Abhijit Mitra:** Okay. But these fuses, pyros and ammunition order which you have got, it is a capital item or, I mean how...?
- Nilesh Panpaliya:** They are all consumables.
- Abhijit Mitra:** So, the execution cycle for this Rs. 40 crores would also be much lower compared to say a typical HMX or a propellant or an ammunition filling so to say?
- Nilesh Panpaliya:** Yes, all will happen over a years' time.
- Abhijit Mitra:** And just to get a sense, when exactly will the South African operation start, I think we were expecting it a bit earlier, what has been the hold up there?
- Nilesh Panpaliya:** It has already started.
- Abhijit Mitra:** Okay, it has already started. So the Q4 has seen the contribution from it?
- Nilesh Panpaliya:** From Q1 it has started.
- Abhijit Mitra:** Okay. Also, if you can give a breakup of that Rs. 194 crores of CAPEX which you have done in this year, I mean which all operations have seen, what amount of CAPEX and for which end objective, as in on the domestic side we were previously thinking of increasing the bulk capacity, so in terms of increasing the bulk capacity guidance if you would want to also highlight something that will also be great.
- Nilesh Panpaliya:** So, on this Rs. 194.7 crores of CAPEX which we did, for our explosive industry we did almost around Rs. 65.5 crores, for overseas operation we have pumped in around Rs. 72 crores and in defense we have around Rs. 57.29 crores. As far as bulk is concerned, earlier what we could deliver was 2 lakh tons, now with this additional CAPEX we will be able to deliver around 230,000 tons of bulk explosives.
- Abhijit Mitra:** So, each year the Rs. 50 crores - Rs. 60 crores or rather Rs. 75 crores that you have earmarked, that will take up the bulk capacity by 30,000 tons, is that the way to look at it?
- Nilesh Panpaliya:** On the Coal India tender, which will be scheduled in another couple of months, then we will decide how much CAPEX needs to be more done in the bulk category. Also, modernization and atomization of the plants are happening, there also we are pumping in.
- Abhijit Mitra:** And the CAPEX for the defense sector, where is it exactly directed?
- Nilesh Panpaliya:** There are various, like earlier we had just setup a propellant plant but now we have set up a full rocket assembly unit. And we have also received ToT from Ordnance Factory, from DRDO. So these all places we need the CAPEX.
- Abhijit Mitra:** So the ToT has received for what, the rocket assembly plant?



- Nilesh Panpaliya:** Yes, rocket assembly.
- Abhijit Mitra:** So, now what would be the total capital employed in the defense business?
- Nilesh Panpaliya:** Total around Rs. 275 crores.
- Moderator:** Thank you. Our next question is from the line of Sneha Talreja from Edelweiss. Please go ahead.
- Rohan Gupta:** Sir, Rohan Gupta here. Sir, on margin profile from our defense business, how is it going to be different from our current business?
- Nilesh Panpaliya:** Approximately it will be more than what we are doing in our current explosives business. So, right now our explosives business is giving around EBITDA margins of 21.5% so it will be better than that.
- Rohan Gupta:** So will it be upward of 25% something?
- Nilesh Panpaliya:** Let's hope for the best.
- Rohan Gupta:** And sir, second, in our exports business after the commissioning of the South African plant, so there we have seen our subsidiaries margins are on a lower side, especially in global businesses. So how you see that margin profile improving there?
- Nilesh Panpaliya:** Actually, basically what had happened, in Nigeria we were having better margins in the Indian operations and because of the global slowdown, fall in commodity prices the margins had gone down. But now in this year again the margins are back to almost the same level, so going ahead they will improve. Now what happens is we are manufacturing explosives there and we are supplying our initiative systems from India, so definitely the combined margins are higher.
- Rohan Gupta:** And that will only be reflected from the current year?
- Nilesh Panpaliya:** Yes.
- Rohan Gupta:** The stand prices which were down by 9%, so how the realizations are now?
- Nilesh Panpaliya:** Realizations have also gone down by 11%.
- Rohan Gupta:** No, whether the TAN prices are still at a lower level or they have increased?
- Nilesh Panpaliya:** See, presently the commodity prices have gone down and we have a price escalation clause with all our clients, like Coal India every three months it gets revised, the institution gets revised every month. And for our trade and infrastructure segment we do it on almost 15 days of 70 basis. Accordingly, everything is passed on to the customer but definitely when the raw material prices fall down by 9% then definitely the prices also drop down. And now whatever



is the recent drop, that will get reflected in the next quarter in case of bulk explosives, because most of our bulk explosives sales happen to Coal India. So prices are revised after every three months.

Rohan Gupta: So, there prices have been revised downward further in this quarter?

Nilesh Panpaliya: Yes.

Rohan Gupta: So, generally our EBITDA, we generally work on fixed EBITDA per ton, I mean, our contract with the customers will be like we will get a Rs. 300 per kg or something like that?

Nilesh Panpaliya: No, it is not like that. It is on the basis of the prices and it is linked to the prices of domestic ammonium nitrate, then imported ammonium nitrate and labor index and divisional prices. So whatever are the movements in these prices, accordingly the prices get fixed. But definitely we do not work on the fixed EBITDA margins or Rs 100 per ton or kg basis, that we do not do.

Rohan Gupta: So, it means that whenever the prices are falling we do have some impact on our absolute margin per ton basis?

Nilesh Panpaliya: Yes, and the same is true when the prices are increasing. It takes a quarter and we keep a stock, so whenever there will be a rise or a fall we are holding ammonium nitrate of that level. So by the time we have a two months stock and that is three months to change, accordingly and we are having our own department to keep the track of the way the ammonium nitrate prices are changing globally. As on that study we increase our stocks of ammonium nitrate either to three months or reduce it further to 45 days based on the feedback we have. Because we have got good connect with all international ammonium nitrate manufacturers, and we are importing also.

Rohan Gupta: And sir the guidance which you gave, 20% top-line growth, I believe it was mainly on account of volume growth, you are not factoring any sort of prices change in TAN prices?

Nilesh Panpaliya: No.

Rohan Gupta: So, if the prices of TAN goes upwards then it will be additional thing?

Nilesh Panpaliya: Then it will definitely grow much higher. The prices also move up by say 5% or something, that will be additional...

Rohan Gupta: Then it can go to 25% plus?

Nilesh Panpaliya: Yes.

Rohan Gupta: And if the prices go up then we also have some further room for margin expansion?

Nilesh Panpaliya: Yes, definitely.



- Rohan Gupta:** Sir, in your defense business you mentioned that you are expecting whole almost Rs. 100 crores to be executed in the current year itself. So that will depend on, I mean the confidence is coming from where, it has already been given that from the next month onwards you have to start executing or we are expecting some go ahead from the Ministry or...?
- Nilesh Panpaliya:** We have orders received, we have already supplied around Rs. 11 crores and now the product validation is going on, so they do it multiple times which we are not aware, but as per what they have given us that it will take them two, three months to do this product validation and from July and August the supply will start and we will be able to execute this Rs. 100 crores by the end of this financial year. And what was happened even that BPB2016 has come recently which has definitely given us more clarity on the procurement policy and have made things easy for us. And you can also see that government is taking all the initiatives for the strategic partnership program also, and there is a huge opportunity in the type of ammunition item like propellants and ammunition, fuses, rocket and gun ammunition. So, definitely all this strategic partnership program will give a big boost to the private sectors who are looking ahead to supply to defense sector. So, with every day clarity which is coming to even defense organization on the procurement from private players, that is giving us confidence that we will be able to execute this Rs. 100 crores.
- Rohan Gupta:** Is there any risk to this that Rs. 100 crores we may not be able to achieve in the current year, any risk related to that?
- Nilesh Panpaliya:** The risk is only, means Rs. 100 crores is achievable, only thing is that there may be a delay of one or two months, so maybe Rs. 80 crores will get done or maybe it can go to Rs. 120 crores. It may be just a one or two months delay by the time they validate our product.
- Participant:** And you have got additional Rs. 40 crores worth of orders, so what will be the likely order book by end of the year, I mean how this business will move, like we will have six months or eight months of order book or long-term order book?
- Nilesh Panpaliya:** This order book is for one year, say Rs. 140 crores and in the coming next year we are expecting that we will do around Rs. 200 crores for defense. So definitely by that much the order book will increase in that proportion.
- Rohan Gupta:** Sir, recently this company like Bell and all have received orders in case of Aakash and other LRSM and QRSM categories, so have we started getting any orders from these companies for the supply of propellant and all?
- Nilesh Panpaliya:** We already have orders of Aakash with us.
- Rohan Gupta:** From Bell?
- Nilesh Panpaliya:** No, not from Bell, from BDL. So we will be supplying them with the propellants.



- Rohan Gupta:** And in case of LRSM and QRSM in other missiles?
- Nilesh Panpaliya:** We are working on Enviro, CONCOR and Pinaka Mark I, Mark II, so a lot of things we are working on. And definitely now they are having the clarity on the procurement from the private sector post the BPB 2016 which got released, they are formulating the process how they can give orders to us and how they will procure from us.
- Rohan Gupta:** So, once these strategic partnership is formulated, so once you join your hands... in the earlier question also like somebody has asked, so if we join our hands with companies like Reliance or maybe Bell or something, so you will become only source of supply of these kind of products or there will be multiple sources?
- Nilesh Panpaliya:** Presently in India we are the only company who is supplying HMX because we have only set up the plant. But of course, if they enter with some international partners or somebody comes up in domestic also, we will definitely there we can also be the supplier.
- Rohan Gupta:** Sir, just last thing on taxation. So we have been on 22% - 23% tax bracket, so what will be the tax rate going forward for this year?
- Nilesh Panpaliya:** It will be more than around 30%, full tax bracket.
- Rohan Gupta:** So now we are in a full tax bracket?
- Nilesh Panpaliya:** yes.
- Rohan Gupta:** So the tax advantage is completely gone from this year?
- Nilesh Panpaliya:** Yes, tax advantage has gone now.
- Moderator:** Thank you. Our next question is from the line of Payal Goenka from Ratnabali Capital Markets Limited. Please go ahead.
- Payal Goenka:** Sir, in your bulk phase we have seen a volume growth of around 7% and in case of cartridge we have seen a volume growth of around 24%. Going ahead which segment do we think will drive the growth in the future?
- Nilesh Panpaliya:** See, bulk we are expecting a growth of almost 15% plus in the current financial year and cartridge we are expecting a growth of 20% plus. And even our initiating systems will grow by 10% plus.
- Payal Goenka:** Okay. Sir one more thing, sir in case of Coal India they have given us a target of around 11% for this year, but then we have grown by just 3% we have missed the target. So seeing a bleak future of the coal industry going ahead, so what impact will that have on the business?
- Nilesh Panpaliya:** The future of coal industry?



Payal Goenka:

Yes.

Nilesh Panpaliya:

I think even the Minister has made it very clear that they had taken like last year total coal requirement of 884 million tons and they had planned to produce 724 million tons, but finally ended up because of various constraints of 650 million tons. Now, about 200 million tons is still being imported. And going ahead Coal India has taken up a target of 11% increase. The Ministry has been insisting that they should do 660 million tons this year, that is 19% increase. So I think Coal India has been realistic to take a target of 11%. With this, we expect that by 2019-2020 we will be still importing about 273 million tons. So, there is going to be a perpetual shortage of coal, even if they achieve the 1 billion ton target by 2019-2020 which Ministry has set for Coal India. And Singareni does 100 million tons by then, they will still be 300 million tons as import. The other aspect is that they are opening up the coal sector for private mines, in the sense earlier it was only for captive consumption, now it has been opened up for trade as well, four blocks of about 18 million tons I guess are being auctioned. We should see a major shift in the next two, three years because once this auction is successful and private entrepreneurs are allowed to mine and sell coal, we shall see big giants coming into play and that will boost the coal production. But all indications are that we will still be importing about 200 plus tons, because the shortage is going to continue.

Moderator:

Thank you. Our next question is from the line of Kartik Mehta from Canara Robeco. Please go ahead.

Kartik Mehta:

Sir, on your defense front if you can give me the order book number as on financial year 2016.

Nilesh Panpaliya:

Rs. 72 crores.

Kartik Mehta:

Which is now...?

Nilesh Panpaliya:

Rs. 140 crores.

Kartik Mehta:

And just one thing I wanted to highlight is that, I know a few factors are not in our hand, a lot hinges on government procurement policies and other stuff, but we have been consistently going around in terms of guidance on the defense and we probably are running at reputation on this front. So, Rs. 74 crores - Rs. 72 crores of order book at the beginning of this current year FY17 and we could do only Rs. 11 crores, though we started with Rs. 60 crores - Rs. 70 crores. So, again, we are starting with Rs. 100 crores of guidance, plus or minus Rs. 20 crores on Rs. 140 crores of order book. And you have categorically answered to many participants that there is enough visibility. But we wish that this time we could achieve what we could talk.

Nilesh Panpaliya:

Right. Very true, like as we had mentioned last year also that we will be doing around Rs. 60 crores and we are sensing that we would not be able to achieve and we are starting to supply them or trying to follow up with them. We come to know that there are still certain validations and qualifications which they keep on doing and which were not clear. So immediately we had revised it to Rs. 20 crores during the current quarter and revised it to Rs. 20 crores and we



could do around Rs. 11 crores. So, now that we come to know that whatever we have supplied they are again doing validations and qualifications for that, because once they want to go away with the Indian private manufactures they would like to ensure that the product, their quality and everything is foreign player, otherwise it will be a challenge for them also.

Kartik Mehta:

And would it be fairly distributed across the four quarters or it would be...?

Nilesh Panpaliya:

No, once we start it will be like the first quarter is gone because now whatever validation and whatever they are doing, so we know that first quarter we would not be supplying them and the supply will start only after July. So this is what guideline has been given by them. So, they have asked us that one they will give us a go ahead, July from August we can start our regular supplies to them in all these four categories. August there you will see a gradual increase month after month in our supplies to defense. But yes, as you have rightly mentioned that this is first time our company has received order and first time any private sector supplying to them, so there can be uncertainties in this which we are not sure. But whatever feedback we give or whatever guidance we give for this sector is purely based on whatever feedback and the positivity we see from that organization.

Kartik Mehta:

So, it would be largely second half driven?

Nilesh Panpaliya:

Yes, it is largely second half driven. And since this order has to be executed in one year's time, so based on that we have taken and we have the capacity to manufacture and deliver them the goods worth around Rs. 100 crores.

Kartik Mehta:

On the explosive side, what is the order book in India and overseas?

Nilesh Panpaliya:

In India roughly we have, the tender is presently ongoing and there will be a new tender which will be happening in two to three months' time. So till then for a quarter the requirement is roughly around Rs. 150 crores - Rs. 200 crores, that is just Coal India requirement. As far as Singareni is considered, we have done around Rs. 200 crores - Rs. 230 crores of order, so that takes us to Rs. 230 crores and Rs. 150 crores, that will be roughly around Rs. 400 crores. And then of course export also we have got orders worth around Rs. 100 crores, so that takes us to Rs. 500 crores. And infrastructure orders are also there, another Rs. 100 crores.

Kartik Mehta:

So, this is for the quarter you mean?

Nilesh Panpaliya:

No, this is for the full year, we have a visibility and the order will keep coming.

Kartik Mehta:

Only the extra keeps on coming, even exports also are a short cycle orders?

Nilesh Panpaliya:

Coal India quarter order I said Rs. 150 crores, because post that there will be new tender. But for rest, like Singareni Rs. 230 company is for the full year, export is also for the full year and more orders will get added to this, and even our trade keeps on coming in. So it will depend on how monsoon goes.



- Kartik Mehta:** Regarding South Africa, I think we were supposed to start in the third week of January, because the water trial production was going on.
- Nilesh Panpaliya:** Right, and post that now we have started it in April, because there was a delay from January took two months because there was some license clearances which we required to get, we have now started, we have done all the trials and April the production has started and supplies are already meeting.
- Kartik Mehta:** So, is it in line with your April estimate and even so for May?
- Nilesh Panpaliya:** Yes.
- Kartik Mehta:** So, no delay in the schedules and disappointments as such?
- Nilesh Panpaliya:** No.
- Kartik Mehta:** And see, you guided for 20% revenue for the full year in FY18, within that the bulk is 15%, cartridge 20% and detonators and fuse?
- Nilesh Panpaliya:** That are 10% to 12%.
- Kartik Mehta:** Both?
- Nilesh Panpaliya:** Yes. Detonators are 10% and fuse is around 13%, but initiating system as we talked is 10% to 12%.
- Kartik Mehta:** And I do not know whether you have uploaded the presentation, I could not see it. So...
- Nilesh Panpaliya:** Yes, we have uploaded the presentation on the website.
- Kartik Mehta:** Okay, it was not there. Anyways, I will check other data like in terms of sales mix and volume mix and other thing.
- Nilesh Panpaliya:** You can check, we have a couple of them.
- Kartik Mehta:** And in terms of margin, this year you had obviously translation loss driven margin in FY17 which you believe that with the stability in the currency norms will not be that case. So, ideally you should see YoY improvements in the margins?
- Nilesh Panpaliya:** Yes, definitely we will see an improvement in the margins.
- Kartik Mehta:** So, any number that you would like to highlight that what you are looking at internally?
- Nilesh Panpaliya:** Internally we are looking at close to around 22% plus minus



- Kartik Mehta:** So, that would be what percentage? So that 22% would be what percentage YoY, basis point point of view?
- Nilesh Panpaliya:** Improvement like this year we had 21.42%.
- Kartik Mehta:** Yes, so just 60 bps you are looking at?
- Nilesh Panpaliya:** Right.
- Kartik Mehta:** This is despite of the fact that you are sitting on a ready base in the translation losses and also the defense would be, if we go by then it will
- Nilesh Panpaliya:** It will definitely be better, but this is the least which will be there. Internally we know that this much will definitely come.
- Moderator:** Thank you. Our next question is from the line of Arvind Kumar from FirstRand Bank. Please go ahead.
- Arvind Kumar:** My question is more regarding South Africa operation. Can you provide some color on that? And also, your broad strategy for the sub-Sahara if you can, what do you see for this year as well as for next couple of years? Thank you.
- Nilesh Panpaliya:** So, South Africa, definitely the plant is now operational, we have got clients which are based close to our mines. And we are very confident that within one year these plants will stabilize. Post that we will look at more opportunities in other areas in South Africa and we can definitely grow there. As far as total Africa is concerned, now we are present in Zambia, we will be starting in South Africa, so there are more geographies, many countries where the mining activities are going on. Definitely it is always open to export from our existing base or to set up the plants in those geographies, so definitely we are working on those lines.
- Arvind Kumar:** What sort of investment you are looking for next couple of years in those locations?
- Nilesh Panpaliya:** Already we have kept aside in our budget CAPEX plan, around Rs. 50 crores, that amount we have kept aside. So based on the opportunity we will decide that how much more investment we will do.
- Arvind Kumar:** Sir, one follow-up question on that, in South Africa what sort of clients you are targeting, which industry?
- Nilesh Panpaliya:** Definitely all the mining companies which are there, be it gold mine or be it coal mine or iron ore mine or platinum mine.
- Moderator:** Thank you. Our next question is from the line of Manish Mahavar from Religare. Please go ahead.



- Manish Mahavar:** Sir, just wanted to check, what was the size of explosive industry in FY17?
- Nilesh Panpaliya:** Volume wise you want or...?
- Manish Mahavar:** Volume wise.
- Nilesh Panpaliya:** The size was 12 lakh tons.
- Manish Mahavar:** And you said it has grown around 6%, right?
- Nilesh Panpaliya:** Yes.
- Manish Mahavar:** And what was our market share in FY17 and how it has changed on a YoY basis?
- Nilesh Panpaliya:** Market share, like again segment wise we will have to see. If you talk about explosives we have done around explosives around 25.5% in our total volume out of the 12 lakhs.
- Manish Mahavar:** So you consider only bulk cartridge in this market share?
- Nilesh Panpaliya:** Yes.
- Manish Mahavar:** Okay. And just wanted to check, how the competition or the competing environment in explosives this year FY17?
- R.D. Vakil:** So, there are essentially there are 30 manufacturers in India, but 18 are major suppliers to Coal India. So the competition is quite intensive as far as core sector is concerned, most people are either in cartridge explosives or bulk explosives. There are a number of players in initiating systems are much less, near about 10 players in initiating system. So the competition is quite good. There are only five companies which have a pan-India presence, the rest of them are localized, they have presence in one or two subsidiaries of Coal India or only at Singareni or only in the south market of Naively. So, it is very diverse. So you can say the major competitors are Gulf Oil, Oreca Industries i.e. IEL and IOC, IOC has their bulk plants in all their subsidiaries, Gulf Oil has bulk plants in all their subsidiaries of Coal India and Singareni, and IEL has. The other players are having in one or two subsidiaries or only in one subsidiary. So those companies which have a pan-India presence are in better shape to get larger share of the market.
- Manish Mahavar:** But in the last one year how they have performed with respect to the competition, how the competition has performed or how our market share has moved in last one year in FY17 versus FY16?
- R.D. Vakil:** Our market share?
- Manish Mahavar:** Yes.



- R.D. Vakil:** We have been doing consistently higher than the previous year. As we have said that Coal India has shown a growth of only 3% this year but we have shown 6% growth in Coal India business. If you look at overall the industry, growth is about 6% and we have shown a growth of about 13%, so that is how we have moved.
- Manish Mahavar:** And secondly again in this industry side, sir how is the progress towards southern market because we are a bit weaker in the southern market and we are more focusing on the southern market actually.
- R.D. Vakil:** We have two plants in Singareni Colliers in Telangana, one at Ramagundam and Kothagudem. and we are the largest supplier to Singareni today, we have 50% of the market share. And as far as the cartridge explosives and detonators are concerned, we have our dealer network in south and we are monitoring this and managing that market quite effectively.
- Manish Mahavar:** And Nilesh, just next year you have guided for around 20% growth on a YoY basis. And if I look at you have said overseas subsidiaries, especially in South Africa you are expecting turnover of around Rs. 75 crores, right, in next year?
- Nilesh Panpaliya:** Yes.
- Manish Mahavar:** And if you look at your defense, it is right now around Rs. 10 crores to Rs. 11 crores of turnover this year, next year you expect around Rs. 100 crores of turnover. If you look at 20% of this growth, if you look at incremental growth from even for the South Africa and defense, it itself is coming around 8% to 10% of around this 20%. And you are saying around 15% to 20% growth, 15% in our bulk and 20% growth in cartridge, so do you expect the realization drop in our domestic explosives business?
- Nilesh Panpaliya:** A little bit drop considering the commodity prices, however we have kept it around the same level. In case of bulk and this thing whatever we have taken into consideration based on current prices. So, this year whatever prices we have started with and now the prices have come down, so based on that we have taken the recent prices.
- Manish Mahavar:** Okay, so based on current prices we were expecting some drop?
- Nilesh Panpaliya:** Yes.
- Manish Mahavar:** And Nilesh, could you give me exact capacity for FY17, for all basically bulk, cartridge, detonator and fuse?
- Nilesh Panpaliya:** Capacity?
- Manish Mahavar:** Yes, capacity.
- Nilesh Panpaliya:** License capacity what we have for bulk is 301,000 metric tons; for cartridge we have 125,000 metric ton, detonators we have 190 million number and we have got 75 million fuse.



- Manish Mahavar:** And this bulk capacity which is 301,000 is including your acquired business **Mold-Tek 1:01:22.1** and I think plastic I think, this is including that?
- Nilesh Panpaliya:** Yes.
- Moderator:** Thank you. Our next question is from the line of Abhijit Mitra from ICICI Securities. Please go ahead.
- Abhijit Mitra:** Quickly two questions, firstly in detonating fuse, you are seeing a sharp drop in volume as well as in realization in this quarter, so if you can highlight what is it, is it just that we have used up our license capacity and is it the remaining which we have produced or what exactly has happened?
- Nilesh Panpaliya:** No, in case of BF what has happened is we have reached our full capacity, like we have exhausted the license. Post that we have done surplus, almost we have reached around 92 million meters we have done. In fact, we did not have license, we have now applied for enhancing the license. So that was the reason why you see a volume drop in the fourth quarter. However, as far as prices are concerned, we have this year focused more on domestic sales rather than exports. So that is the reason domestic the prices are down, so that is why you see drop.
- Abhijit Mitra:** And quickly on this Rs. 40 crores of consumable orders, what is the market potential of this kind of consumable orders over FY18, I mean what is your sense is it an order which is more easily to be expected from the Ministry rather than typical HMX propellants or...?
- Nilesh Panpaliya:** These type of things once we start the size will be more bigger than this, these are the initial orders so definitely there will be repeat orders and larger orders we are expecting.
- Moderator:** Thank you. Our next question is from the line of Amit Kadam from LIC Mutual Fund. Please go ahead.
- Amit Kadam:** Sir, my question is again on this defense part. Just wanted to have a correct handle on the CAPEX what we are putting. So, from like three years back we were marking almost Rs. 200 crores odd, Rs. 225 crores for this business. Now we are increasingly adding more CAPEX, almost Rs. 50 crores and maybe this year we have marked Rs. 75 crores. Sir, I wanted to understand where this CAPEX is going, and then we have that Rs. 11 crores of sales what we did and then Rs. 100 crores for this year. This new CAPEX what we are putting is to upgrade the existing thing or are we trying to tender for the new future products, so that kind of new technology is what we are trying to achieve? Because if Rs. 200 crores is what we had initially marked for this thing, so asset utilization has still not happened but still in the last two years, if counting FY18, we will be putting another Rs. 120 crores odd into those business?
- Nilesh Panpaliya:** So, what we had started earlier was, as you rightly said, around Rs. 175 crores to Rs. 200 crores we had marked for defense and then we have set up. But while trying to set up we could



sense and from Rs. 10,000 number of propellant which we were planning to make we have restricted to Rs. 2,500 number of propellant. Then we setup an HMX plant, almost 50 metric tons capacity and then we could sense that there are more opportunities in its compound like Oma, Octol, and Okfol for which we require a bigger capacity, so we have to put up that also additionally. We are just trying to explain you where the CAPEX has gone. Then we got the license for RDX, TNT and so we had to set up TNT plant, and RDX plant as well where we can manufacture and this is required in bulk by the defense. Of course, product validation is going on. Then as we were doing that we were invited for the government for this Pinaka Mark II where we have to make the propellants for them which we have supplied and almost 75% of the tests are over which were all success, balance is remaining. Post that they have also asked us whether we can do the full assembly of this Pinaka missile for which we have setup facility. And then in between also from BDL we are doing ammunition filling for few of their warheads. So this is where exactly the CAPEX is done. Now as you rightly said, we have earmarked this Rs. 75 crores for the defense in our next budget and that will purely depend on the way the order flows in and what new prospects we give. And if we do not see anything probably this CAPEX would not happen, but definitely from 200 we have increased and we have done all this, so we are definitely a partner with the government for Pinaka Mark II and which they have developed. So this is where the CAPEX has gone.

Amit Kadam: So, generally any thumb rule over this particular business where like by the end of FY18 my capital employed business will be somewhere around Rs. 325 crores kind of thing? So, how much is the earning potential? I understand every product is different and like that, but still any...?

Nilesh Panpaliya: Rs. 700 crores plus/minus Rs. 100 crores is the earning potential.

Amit Kadam: So, 2x is what we can aim for?

Nilesh Panpaliya: Yes.

Amit Kadam: And sir, then in that pursuit, because we have like what you narrated five different things what we have tried in last three, four years from propellant to assembly of Pinaka, now we are also pursuing or have signed NDAs with these upcoming joint ventures with Reliance and others, so my CAPEX intensity would go up or the joint venture or any agreement is for this CAPEX, utilizing this CAPEX only?

Nilesh Panpaliya: This is for utilizing this capacity only, because eventually what they will require, other HMX, Oma, Octol, and Okfol, RDX, whatever be the use.

Amit Kadam: And sir, the last question on this particular part is, how is the payment term, because we are dealing with government agencies, so how is the payment receivables for this?

Nilesh Panpaliya: Payment terms, we just started supplying to them. But whatever our experience is in dealing with government agencies like Coal India for that matter, right now we are getting it in 45



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days, going ahead what we are considering is maybe it may happen in 60 days, 90 days, 120 days, so we will have to wait and see how the trends are. But normally what we are finding as per the orders which we are receiving, it is mentioned 60 days, but it may take around 90 days or 120 days for that matter. But it will be secure because we are supplying to the Ministry of Defense. But by calculating our working capital requirements I think we have taken 120 plus days.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to the Management for their closing comments.

Nilesh Panpaliya: Thank you very much for your keen interest and participation in knowing about the progress of Solar Industries. I hope we have been able to clarify all your doubts and we look forward to interacting with you as we progress on our journey to be one of the leading companies internationally in the explosives industry. Thank you very much. Should you have any queries you may kindly respond to Mr. Nilesh Bansal here. And if you can spare some time, you can always visit our factory to see how the progress has been made. We invite you to have a look at our establishments which we believe are of world-class quality right now. Thank you very much.

Moderator: Thank you. Ladies and Gentlemen, on behalf of Solar Industries, this concludes today's conference. Thank you for joining us and you may now disconnect your lines.