Ratings

CRISIL
An S&P Global Company

Rating Rationale

December 24, 2019 | Mumbai

Solar Industries India Limited

Long-term rating upgraded to 'CRISIL AA+/Stable'; short-term rating reaffirmed

Rating Action

Total Bank Loan Facilities Rated	**Rs.750 Crore**
Long Term Rating	**CRISIL AA+/Stable (Upgraded from 'CRISIL AA/Positive')**
Short Term Rating	**CRISIL A1+ (Reaffirmed)**

Rs.50 Crore Commercial Paper	**CRISIL A1+ (Reaffirmed)**

1 crore = 10 million
Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has upgraded its ratings on the long-term bank facilities of Solar Industries India Limited (SIIL; a part of the Solar group) to **'CRISIL AA+/Stable'** from 'CRISIL AA/Positive', and reaffirmed its rating on short-term bank facilities and commercial paper at CRISIL A1+.

The upgrade reflects the expectation of continued improvement in scale of operations while maintaining profitability, better geographical diversity due to significant ramp up in export & overseas business and pick up in defence business.

The Solar group is expected to sustain strong revenue growth over the medium term driven by increase in both international and domestic business. Healthy market position in geographies it operates in and entry into new markets will result in growth in overseas business. Increasing revenue diversity in the domestic market with ramp up in defence business due to comfortable order book and entry into new segments such as propulsion systems for space applications will boost domestic market growth. For the first half of fiscal 20, performance remained flat with sale of 1.56 lakh MT of explosives as against 1.58 lakh MT during the corresponding period of last fiscal. This was mainly on account of prolonged rainfalls and subdued economic activity in both domestic & international markets.

Overall revenues have grown at CAGR of 18% to Rs.2468 crore from Rs.1083 crore over the last 5 years through fiscal 2019. The operating profitability was steady at above 20% over the same period and is expected to sustain at similar levels over the medium term. Export & overseas operations have increased significantly over the last few years to Rs.866 crore in fiscal 19 from Rs.461 crore in fiscal 16 and currently contribute around 35% of the total revenues. Sales from defence segment also picked up in fiscal 19 and contributed Rs.170 crore vis-a-vis Rs.37 crore during the previous fiscal.

The ratings continue to reflect Solar group's robust market position in the domestic, export & overseas markets in the explosives and detonators industry, strong operating efficiency, and strong financial risk profile. These strengths are partially offset by susceptibility to regulatory risks and volatility in foreign exchange (forex) rates.

Analytical Approach

For arriving at its ratings, CRISIL has combined the financial and business risk profiles of SIIL, its subsidiary, Economic Explosives Ltd (EEL; rated 'CRISIL AA+/Stable/CRISIL A1+'), and other subsidiaries and step-down subsidiaries. This is because all the entities, collectively referred to as Solar group, have a common management and significant business and financial linkages.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

*** Robust market position**

With a market share of 24% in the domestic explosives segment, the group is one of the largest manufacturer and exporter of explosives and initiating systems in India. The group's manufacturing unit in Nagpur is world's largest cartridge plant at a single location. Solar group is one of the few players with a complete product range and capability to develop and supply customized products on demand. Along with healthy growth in domestic market, Solar group has also expanded significantly in the overseas market over the last few years. Furthermore, the group is also the largest supplier of explosives to Coal India Limited (CIL, rated 'CRISIL AAA/CCR AAA/Stable/CRISIL A1+'). With diversified revenue profile the group has been able to reduce its dependence on CIL which contributed 17% of total sales in fiscal 19 as against 58% in fiscal 07. Further, the group forayed into defence business in 2011 and has gained advantage by setting up high energy explosives, delivery system, ammunition, rocket/missile integration, pyros, igniters and fuses manufacturing facilities. Limited shelf life of the explosives, regular consumption requirement of the Armed Forces, Make in India focus and typical long term tenure of defence supply contracts provide steady medium-term revenue visibility.

With a healthy order book of Rs.1645 crore as on September 30, 2019 in the domestic market and continued growth in international business over the medium term, the group is expected to maintain its robust market position.

*** Strong operating efficiencies with significant backward integration**
Majority of raw materials (apart from ammonium nitrate) such as detonator components, emulsifiers, sodium nitrate, and calcium nitrate are manufactured internally, leading to cost savings, quality control and a stable operating margin of 20% over the five fiscals through fiscal 2019. Also, all of the group's 25 bulk explosive manufacturing units are located in a 50-60 kilometre radius from major mining regions. Solar group is able to pass on the variations in raw material prices to its customers through the price escalation clause in the contracts thus maintaining margin even in volatile raw material price movements.

*** Strong financial risk profile**
Capital structure is healthy with strong networth of Rs.1237 crore and moderate gearing at 0.46 time as on March 31, 2019. Furthermore, cash accrual is expected to remain healthy, backed by strong growth in revenue and profitability, which will be sufficient to repay upcoming debt obligations and partly meet annual capital expenditure (capex) of about Rs 250-300 crore over the medium term. Hence, incremental borrowing would be modest. Interest coverage and net cash accrual to total debt ratios remained healthy at 9 times and 0.46 time, respectively, in fiscal 2019.

Weaknesses:
*** Exposure to regulatory risks**
The explosives industry has high entry barriers as it requires industrial licensing, and various clearances from government, chief controller of explosives, and directorate general of mines safety. Furthermore, as per the Ammonium Nitrate Rules 2012, ammonium nitrate, key raw material (comprises 70% of the group's total raw material cost), has been classified as an explosive. Hence, its production, distribution, sale, and stocking require a licence. Sale of explosives is regulated by Petroleum and Explosives Safety Organization and Chief Controller of Explosives to prevent misuse of end products. Though the Solar group takes precautions at all stages of the manufacturing process, and is also a member of SAFEX (an international apex body that promotes global best practices on safety standards in the explosives industry), it will remain susceptible to regulatory risks.

*** Volatility in forex rates**
Partial imports of raw material and operations in Nigeria, Zambia, South Africa, and Turkey exposes Solar group to adverse currency fluctuations. For instance, during first half of fiscal 20, the group incurred a translation loss of Rs.42.5 crore due to currency devaluation. In order to safeguard itself from volatility in forex rates, Solar group has begun borrowing debt in local currency in overseas markets. This reduces the forex rate risk considerably. Also, sale price in overseas markets is linked to dollar. The group has a policy of hedging all imports and keeping exports open. However, CRISIL believes, due to overseas presence, forex risk shall remain.

Liquidity Superior
Cash accrual is expected to be more than Rs 250 crore per annum against yearly debt obligation of Rs 100-150 crore in fiscals 2020 and 2021. Cash and cash equivalents stood at Rs 107 crore as on March 31, 2019. On a standalone basis, SIIL has access to fund-based limit of Rs 355 crore which is marginally utilised. Capex of Rs 250-300 crore per annum will be partly met through internal accrual, leading to low incremental borrowing. Bank limit is expected to be sufficient to meet incremental working capital requirement, which are assessed to be minimal. SIIL has a policy of paying 30% of its profit as dividend.

Outlook: Stable
CRISIL believes the Solar group will maintain its robust position in the domestic explosives industry and report healthy revenue growth in the export & overseas and defence businesses, over the medium term. Also, financial risk profile will remain steady.

Rating sensitivity factors:
Upward Factors:
* Better than expected revenue growth while sustaining profitability
* Sales from India operations not contributing more than 50%
* Leading position in all the geographies the group operates in
* Sustained strong financial risk profile

Downward Factors*:*
* Weaker-than-expected operating performance with operating margin falling below 16%
* Significant moderation of capital structure and debt protection metrics due to sizeable, debt-funded capex or acquisition or working capital requirement
* Lower-than-expected contribution in revenue from the defense manufacturing business
* Disruption in business due to untoward incidents

About the Group
Solar group is one of the largest domestic manufacturer and supplier of bulk and cartridge explosives, detonators, detonating cords, and components. It has manufacturing facilities in 25 locations in India, and plants in Nigeria, Zambia, South Africa, and Turkey. In fiscal 2011, the group entered the defence sector to manufacture high energy explosives, delivery system, ammunition filling and pyros fuses.

For the six months ended September 30, 2019, net profit was Rs.160 crore and operating income Rs.1127 crore, against Rs.128 crore and Rs.1136 crore, respectively, in the corresponding period of the previous fiscal.

Key Financial Indicators

As on/for the period ended March 31	Units	2019	2018
Operating Income	Rs crore	2468	1917
Profit after tax (PAT)	Rs crore	277	234
PAT margin	%	11.2	12.2
Adjusted debt/Adjusted networth	Times	0.46	0.44
Interest coverage	Times	9.02	13.34

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Rating assigned with outlook
NA	Commercial Paper	NA	NA	7-365 Days	50	CRISIL A1+
NA	Cash Credit*	NA	NA	NA	55	CRISIL AA+/Stable
NA	Cash Credit^	NA	NA	NA	51	CRISIL AA+/Stable
NA	Letter of credit & Bank Guarantee	NA	NA	NA	215	CRISIL A1+
NA	Letter of credit & Bank Guarantee%	NA	NA	NA	48	CRISIL A1+
NA	Letter of credit & Bank Guarantee#	NA	NA	NA	159	CRISIL AA+/Stable
NA	Term Loan	NA	NA	Sept-2025	50	CRISIL AA+/Stable
NA	Term Loan	NA	NA	Aug-2021	18.75	CRISIL AA+/Stable
NA	Term Loan	NA	NA	Jan-2020	50	CRISIL AA+/Stable
NA	Term Loan	NA	NA	Sept-2019	50	CRISIL AA+/Stable
NA	Proposed Long-term Bank Loan Facility	NA	NA	NA	53.25	CRISIL AA+/Stable

Annexure - List of entities consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
Economic Explosives Limited	100%	Wholly owned subsidiary
Solar Defence Limited	100%	Wholly owned subsidiary
Solar Defence Systems Limited	100%	Wholly owned subsidiary
Emul Tek Private Limited	100%	Wholly owned subsidiary
Blastec (India) Private Limited	100%	Wholly owned subsidiary
Solar Overseas Mauritius Limited	100%	Wholly owned subsidiary

Annexure - Rating History for last 3 Years

	Current			2019 (History)		2018		2017		2016		Start of 2016
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	50.00	CRISIL A1+			26-12-18	CRISIL A1+	28-04-17	CRISIL A1+	30-11-16	CRISIL A1+	CRISIL A1+
						30-04-18	CRISIL A1+			20-06-16	CRISIL A1+	
										20-04-16	CRISIL A1+	
Fund-based Bank Facilities	LT/ST	328.00	CRISIL AA+/Stable			26-12-18	CRISIL AA/Positive	28-04-17	CRISIL AA/Positive	30-11-16	CRISIL AA/Stable	CRISIL AA/Stable
						30-04-18	CRISIL AA/Positive			20-06-16	CRISIL AA/Stable	
										20-04-16	CRISIL AA/Stable	
Non Fund-based Bank Facilities	LT/ST	422.00	CRISIL AA+/Stable/ CRISIL A1+			26-12-18	CRISIL AA/Positive/ CRISIL A1+	28-04-17	CRISIL AA/Positive/ CRISIL A1+	30-11-16	CRISIL A1+	CRISIL A1+
						30-04-18	CRISIL AA/Positive/ CRISIL A1+			20-06-16	CRISIL A1+	
										20-04-16	CRISIL A1+	

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	**Amount (Rs.Crore)**	**Rating**	**Facility**	**Amount (Rs.Crore)**	**Rating**
Cash Credit*	55	CRISIL AA+/Stable	Cash Credit	77	CRISIL AA/Positive
Cash Credit^	51	CRISIL AA+/Stable	Cash Credit^	101	CRISIL AA/Positive
Letter of credit & Bank Guarantee	215	CRISIL A1+	Letter of credit & Bank Guarantee	263	CRISIL A1+
Letter of credit & Bank Guarantee%	48	CRISIL A1+	Letter of credit & Bank Guarantee#	159	CRISIL AA/Positive
Letter of credit & Bank Guarantee#	159	CRISIL AA+/Stable	Term Loan	150	CRISIL AA/Positive
Proposed Long Term Bank Loan Facility	53.25	CRISIL AA+/Stable	--	0	--
Term Loan	168.75	CRISIL AA+/Stable	--	0	--
Total	**750**	--	**Total**	**750**	--

**Interchangeable with other fund based facilities*
^Interchangeable with non-fund based facilities
%Interchangeable with other non-fund based facilities
#Interchangeable with fund based facilities

Links to related criteria
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating criteria for manufaturing and service sector companies
Rating Criteria for Chemical Industry
CRISILs Criteria for Consolidation
CRISILs Criteria for rating short term debt

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