



Safety • Quality • Reliability

September 21, 2020

To,
The Executive Director
Listing Department
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex
Bandra (E)
Mumbai: 400001
Symbol: "SOLARINDS "

To,
The Executive Director
Listing Department
BSE Limited
Floor No. 25, PJ Towers
Dalal Street
Mumbai: 400001
Scrip Code: 532725

Sub: Transcription of Conference Call with reference to the unaudited Financial Results of Solar Industries India Limited for the quarter ended on June 30, 2020 with the management of the Company.

Dear Sir,

Further to our letter dated September 14, 2020 we are forwarding herewith a copy of Transcription of Conference call hosted by Nirmal Bang Institutional Equities, on Thursday, September 17, 2020 at 11:00 am to discuss the unaudited Financial Results for the quarter ended on June 30, 2020 with the management of the Company.

Kindly take the same on record and acknowledge.

Thanking you

Yours truly,

For Solar Industries India Limited

Khushboo Pasari
Company Secretary &
Compliance Officer

Solar Industries India Limited

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“Solar Industries India Limited
Q1 FY2021 Earnings Conference Call”

September 17, 2020



ANALYST: MR. CHIRAG MUCHHALA - NIRMAL BANG EQUITIES PRIVATE LIMITED

**MANAGEMENT: MR. MANISH S. NUWAL – CHIEF EXECUTIVE OFFICER,
MANAGING DIRECTOR & EXECUTIVE DIRECTOR - SOLAR
INDUSTRIES INDIA LIMITED
MR. NILESH PANPALIYA – CHIEF FINANCIAL OFFICER -
SOLAR INDUSTRIES INDIA LIMITED
MR. SURESH MENON - EXECUTIVE DIRECTOR - SOLAR
INDUSTRIES INDIA LIMITED**



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Moderator: Ladies and gentlemen, good day, and welcome to the Solar Industries India Limited Q1 FY2021 Earnings Conference Call hosted by Nirmal Bang Institutional Equities. 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 all, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Chirag Muchhala from Nirmal Bang Institutional Equities. Thank you, and over to you, Sir!

Chirag Muchhala: Thank you, Steven. Nirmal Bang Equities welcomes you all to the Q1 FY2021 conference call of Solar Industries India Limited. The management is represented by Mr. Manish Nuwal, Managing Director and Chief Executive Officer; Mr. Nilesh Panpaliya, Chief Financial Officer; and Mr. Suresh Menon, Executive Director. I now hand over the call to the management for their opening remarks, post which we can take questions from participants. Over to you, Sir!

Nilesh Panpaliya: A very good morning to all the shareholders and potential investors. I would like to start by saying that I hope you, your friends and family remain safe and healthy during this unprecedented global health crisis. As always, I would like to remind you that during the call, we might make projections or other forward-looking statements regarding future events and about future financial performance. Please remember that such statements are only predictions. Actual events or results may differ materially, and our website will be updated with all the relevant information from time to time. Now I would request our Executive Director, Mr. Suresh Menon, for his comments on the company's performance for this quarter.

Suresh Menon: Thank you, Mr. Nilesh. Good morning, everyone, and thank you all for joining us on this earnings call for the Q1 for the period ended June 30, 2020. As we mentioned in the last quarter that the impact of external factors that is COVID pandemic, will be visible in the result of Q1, and the same will materially affect in the quarter.

During April and May 2020, revenues were impacted by the severe lockdowns and restrictions; however, with the gradual lifting of lockdowns and easing restrictions, we could achieve the sales in June 2020 better than what we achieved in comparable month of the previous year.



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Coal production in Q1 was less than last year by 12% as most mining and construction activity came to a standstill. Both central and state government's imposed restrictions in manpower deployment and movement of goods and men in the mentioned period.

Housing and infrastructure sector were grossly affected due to movement of migrant workers back home. Sales from exports and overseas have shown growth, giving us confidence of achieving our set targets in the sector. Though the impact of COVID was seen in countries like Nigeria and South Africa but was offset by sales from Ghana. In a major boost for Make in India and Atmanirbhar Bharat, the first ever Pinaka Rocket fully manufactured by your company, Economic Explosives Limited, have been fully successfully test fired by the Army at the firing range in Pokhran, Rajasthan. It is for the first time in India's defense history that Pinaka Rocket fully manufactured by private organization has been successfully test fired. Further, we are anticipating orders for the Multi Mode Hand Grenade soon.

While our business continues to be profoundly impacted by COVID-19, we are seeing steady signs of demand returning in all the countries where we operate. With the expected boost from revival of the economy and turnaround in our overseas businesses, we expect our revenues and margins in second quarter 2021 likely to be maintained when compared to similar quarter of the previous year despite the severe impact of COVID. We will keep a watch on how the COVID-19 situation pans out and its impact on us, while we will not shy away from investment in any opportunity, which gives us a strategic advantage.

That being said, it will still be challenging to predict the growth numbers for the subsequent year. We do target and anticipate our topline to cross last year's numbers, but on a conservative side, COVID-led uncertainties can impact demand from mining and infrastructure in India, and as a result, we may see a slippage by about 5% to 10%. Over to Mr. Nilesh!

Nilesh Panpaliya:

Thank you, Mr. Menon. Friends, now I am pleased to be here to provide an update on our business and financial performance for three months ended June 30, 2020. The world has changed drastically over the last six months, and evaluation that may previously have taken years or even decades to offer has been accelerated into matter of months. While we continue to live in a world of volatility and relative unpredictability, our priority remains to ensure that the business continuity and accelerate through the recovery process, moving on, looking forward to retooling to a new normal that is going to emerge post COVID-19 scenario.



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This quarter was an extraordinary period, in which there was severe lockdowns in the country and some parts of the world due to spread of COVID-19 pandemic across the globe. So this quarter cannot be compared to previous year same period due to obvious challenges pandemic brought. It is not only affecting human lives, but the company's top and bottomline as well.

Now let us quickly review the quarter. The revenue for the quarter is down by 20.79% year-on-year basis, that is from 620.03 Crores to 491.14 Crores, impact of Rs.129 Crores approximately. The domestic volumes in the quarter are reduced by 24%. That is 70287 metric tons compared to 92531 metric tons.

The realization of explosives is down by almost 7.39% that is Rs.34238 per ton compared to Rs.36969 per ton. As such, the explosives revenue was down by 29.65%, that is from 342.08 Crores to 240.65 Crores and revenue from initiating systems was also down by 26%, that is from 82.30 Crores to 60.89 Crores.

If you look how the sectors got affected. Revenue from Coal India was lower by 10.4%. That is Rs.98.48 Crores compared to 109.91 Crores on year-on-year basis. Revenue from non-Coal India and institutional was lower by almost 32.24%, that is from 71.80 Crores to 48.65 Crores. Revenue from housing and infra in domestic market was down by almost 49.27%. That is from 211.47 Crores to 107.28 Crores. However, some positivity, export and overseas revenue grew by almost 6%, 5.95% from 195.45 Crores to 207.08 Crores, and defense from revenue was almost similar, that is 23.46 Crores compared to 25.24 Crores, which we did in a comparable quarter of previous year.

When we look at raw material, the raw material consumption has decreased by almost 2.49%, that is from 57.41% to 54.92% as a percentage of sales, this is due to fall in commodity prices, change in product mix and better realization from exports.

AN price in Q1 FY2021 was 25139 per ton compared to 26335 per ton in Q1 FY2020, that is down by almost 4.54%.

Coming to employee cost. The employee cost has increased by 1.49%, and in absolute numbers has reduced from 52.43 Crores compared to 48.84 Crores on account of nonavailability of workers due to COVID pandemic. Hence, reduction in contract workers also affected sales thereby, as a percentage of sales it is appearing on higher side.



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The other expenses have increased by almost 2.37%, and in absolute number is 80.64 Crores against 87.07 Crores. However, on the account of lower sales, again, the figures as percentage of sales looked on higher side.

The EBITDA margin for the quarter stands at 19.51% compared to 21.01%. The interest cost as a percentage of sales increased from 1.95% to 2.5%, again, on account of lower sales. However, in absolute numbers, it is 12.30 Crores compared to 14.42 Crores, which was in our last quarter of previous year. So, if we compare from the previous quarter, which ended on March 31 and look at June quarter, it has reduced.

Depreciation has increased from 19.51 Crores to 22.79 Crores on account of capex, which was done in previous year. The profit before tax stands at 12.36% compared to 15.92%. Now the current tax rate is 25% after the new guidelines. As such, the net profit in absolute terms is down to Rs.43.97 Crores from 73.83 Crores, that is 40.44%.

Net profit margin is of 8.95% compared to 11.91% in similar quarter previous year. A few other details which we would like to highlight. The working capital days has reduced from 113 days to 91 days, mainly on account of inventory days, which has now become normalized and reduced from 74 to 99 days. However, the debtor days have remained the same. That is 59 compared to 60.

The debt to equity ratio is now 0.46 compared to 0.51. For the quarter, we gave the capex of 48.78 Crores, and for the year, we have a planned capex of 210 Crores. The total order book as of date stands at 1153 Crores, comprising of orders from Coal India to the tune of 710 Crores, Singareni 105 Crores and defense of 338 Crores.

Had the sales number, were higher, these figures would have definitely been different. Now we would be happy to take any question, comments or suggestions that you may have. Back to you, operator. Thank you.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Sujit Jain from ASK Investment Managers. Please go ahead.

Sujit Jain:

Two questions, you can note them down. The SGST benefits package in Maharashtra, when does it end? What was the MEIS benefit in FY2020 of the 72 Crores, other operating income. If you net off the standalone from consolidated, the margins in the remaining business, that is ex of standalone are lesser than the standalone business, which actually kind of pulls down the ROCE, we have done great compounding and as well as 85% to 90%



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of our cash flow from operations have been reinvested, but what explains the loss in, for example, the 74% subsidiary in South Africa, 64 Crores and 38 Crores in FY2020 and FY2019? You have spoken in the annual report about ISRO business, how big that opportunity could be? And some of the entities that are there in annual report, which are promoter entities, our promoters, what kind of business they are into apart from this business, which is, for example, Gulmohar Developers, Sun Developers, Sunbeam Developers, etc. Thanks.

Suresh Menon:

Let me take the question of overseas, particularly with subject to South Africa. Our views are like this. Solar is the only Indian company to successfully set up overseas manufacturing facility. If you look at the Solar's first three overseas plants, which is right now maybe in between six years to nine years, we have a market share there, about 12% to 38%. In India, Solar has a market share of about 24%, and India's total market size is about USD 700 million.

In Africa continent, in the countries that we are present, the market size is about USD 1 billion, and currently, we are doing about USD 70 million to USD 80 million. In South Africa, the market size is about USD 680 million. It is a known mining country, where most large and small mining houses are headquartered. It is also the center of exclusive business in Africa, and a very well regulated and technologically advanced in mining. Solar has strategically positioned itself while entering into South Africa, we have built a world-class production facility in South Africa, which has been very well acknowledged by most mining houses in Africa. It also showcased our capability in building the world-class facility. While doing so, we have leveraged our world-class detonators into South Africa underground mining market.

Most of the growth for us in future will come off from South Africa. Therefore, we see a huge growth in the coming years. We have leveraged our presence in South Africa with the mining houses. The first fruit we have seen is the Anglo American, which has given us a three-year underground detonator contract. Now we see the second fruit that is coming in Ghana, where a large mining house has given us a five-year contract in Ghana. So all these are based because of our base in South Africa.

South Africa has a \$680 million market size. So we hope to penetrate that market going forward. Now you have to take.

Nilesh Panpaliya:

Next question, I believe, was on the package scheme of MEIS and you wanted to know about the standalone margin?



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- Sujit Jain:** So the total other operating income of 72 Crores, how much of that was MEIS FY2020?
- Nilesh Panpaliya:** Of the other operating income how much it was? 10 Crores.
- Sujit Jain:** Okay. Also about ISRO business opportunity?
- Nilesh Panpaliya:** About the ISRO business opportunity we will share that as and when because right now, we are in testing and product development stage. The moment we get the confirmation, we will update all the investors on that. Right now, as we have explained that Pinaka is the opportunity we are looking and the MMHG orders, which are going to come to our company. So those are the two areas where we are clear.
- Sujit Jain:** And the other promoter entities, not related with Solar mentioned in the annual report?
- Nilesh Panpaliya:** Other?
- Sujit Jain:** Promoter entities, such as Sun Developers, Sunbeam Developers. So just wanted to know what kind of businesses promoters are into apart from Solar?
- Nilesh Panpaliya:** Apart from Solar and explosives, the promoter are not focusing in any other business. We are totally into explosives.
- Sujit Jain:** Nothing related with real estate infrastructure, etc.?
- Nilesh Panpaliya:** No.
- Sujit Jain:** Okay, and the last question that I had asked about the scheme in Maharashtra when does it end? The package scheme where you get the SGST benefit?
- Nilesh Panpaliya:** Hello?
- Manish Nuwal:** Package scheme, when does it end?
- Nilesh Panpaliya:** The Package scheme is valid up to...
- Suresh Menon:** It is valid up to May 2022.
- Nilesh Panpaliya:** May 2022. Yes, and those companies, which you are talking about, they are simply investment companies, nothing beyond that. They are not related to explosives.



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- Sujit Jain:** Thanks.
- Moderator:** Thank you. The next question is from the line of Kishore B., an individual investor. Please go ahead. Thank you. The next question is from the line of Santosh Visalappu from Ashika Stocks. Please go ahead.
- Santosh Visalappu:** First, I would like to congratulate on the ongoing developments on the defense side.
- Nilesh Panpaliya:** Thank you.
- Santosh Visalappu:** It has been a long wait, and we get to hear now the ongoing developments, which are very positive for the company. I will start, Sir, first, excluding Ghana, what would be the revenue growth from the exports and overseas business? Second, Sir, what is the status of the Brahmos propellents TOT absorption that we are working upon and the three mines that we are working upon, the details, the names of them are put up in the presentation, and thirdly, what is the outlook of our realization going forward from the current order book? And what is the outlook on the ammonium nitrate prices given the current scenario? That is it, Sir.
- Nilesh Panpaliya:** Mr. Santosh, you have asked few questions in one lot. First was related to the update on Brahmos and mining. So we cannot update on each and every product like that, but for your knowledge and everybody's knowledge, the company has already delivered the product, and it is being successfully fired. As far as the overall business from Ghana and other sector is concerned, we have already explained about the potential of overseas business, and that should take care of the individual sector. As far as ammonium nitrate pricing is concerned, the prices are governed by the market dynamics, and like we have seen in many of the commodities, prices have fallen down, and again, have increased a bit. So the same thing will happen in ammonium nitrate also if we believe the historical trends. Thank you.
- Santosh Visalappu:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Abhishek Ghosh from DSP Mutual Funds. Please go ahead.
- Abhishek Ghosh:** Sir, just one question. In terms of the housing and infra, which had seen sharper decline on account of the lockdown impact, how are things shaping up over there? And also in terms of how is the competitive intensity in that segment?



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Nilesh Panpaliya: So in case of this housing and infrastructure, as we have said, that because of this complete shutdown which we faced earlier, and now we feel that gradually post this monsoon, from Q2 onwards, this should gradually pick up, and that is what we are expecting. So Q3 and Q4, we expect a better demand from these two sectors as well.

Abhishek Ghosh: Sir, in terms of the debt levels, well, the debt has remained stable because our working capital has come down, but overseas has kind of seen an increase in overall capex. Sir, how should one look at the debt levels over FY2021 and FY2022 end?

Nilesh Panpaliya: The debt level we will maintain the debt-to-equity ratio of 0.5, so that we look forward to, and now the type of capex we have planned, we will be made through internal accruals and maintaining the same level of loans.

Abhishek Ghosh: Sir, but that 250-odd Crores kind of a capex run rate, which you had been maintaining, in 2022, should that number come off or will that continue that thrust of capex of 250-odd Crores annually?

Nilesh Panpaliya: As of now, we do see that that will be planned, but now like we mentioned in our opening speech, that we will see how things evolve, how this Corona COVID pandemic affects the globe and how it changes the market dynamics, and accordingly, we will decide, take a call on capex.

Abhishek Ghosh: Okay, but that will be mostly overseas defense?

Nilesh Panpaliya: No. That will be even for domestic because domestic also we are doing a lot of capacity upgradation, technological transformations are there, which are taking place, and coupled with our, of course, defense investment.

Abhishek Ghosh: Thank you so much for answering my questions and all the best.

Moderator: Thank you. The next question is from the line of Lokesh Manik from Vallum Capital. Please go ahead.

Lokesh Manik: Good morning Sir. Sir, I had a couple of questions. One was, Sir, on the recent developments in the defense side with regards to 101 products where import substitution will happen. As I understand we have invested in this segment over the past seven years. So just wanted some further details in terms of do you see any new products that are coming up that previously we were not into and that side has opened up? And the current investments



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that we have made in the defense side would be sufficient to cater to the opportunity that is opening up?

Nilesh Panpaliya:

If you have observed that the list is almost 101 items. And those lists are, that those list cover items other than ammunition as well, right? Those are related to hardware's and ammunition both. If you look at the ammunition items, and if you look at the kind of disclosures we have been making in our annual report and quarterly conference calls, we have already clarified, and we have already informed everybody that the company is one of the most integrated player in the field of ammunition. Which means, we have established the facilities to make high-energy materials, iron ore technique items, fuses, warheads, propellents and complete integration of rockets and missile as well. It means that we already have built a capability to handle these products.

If you look at those items, we already have the facilities to do those or handle those products, and that is what we have been doing in last couple of years. So looking at the opportunities, we are ready to handle those opportunities, and as the volume will pick up, say, from start or trials to the commercial production orders and further ramp up, we will also have to ramp up our facilities in tune with that, but as of now, what I can say is that we have a complete facility to handle those products, and we are ready for that.

Lokesh Manik:

Sir, just one last question. Our corporate structure is a bit complex in terms of subsidiaries, number of subsidiaries and shut down subsidiaries. So is there any plan to simplify this structure? And what would be the rationale for so many companies?

Nilesh Panpaliya:

We have not studied from that angle, which you are referring to, but we definitely will look into those kind of things, and as and when time comes, we will do the further demerger or merger activity in those subsidiaries as per the need and the requirement of the business.

Lokesh Manik:

Right, right. Sir, it becomes much easier to analyze the company then.

Nilesh Panpaliya:

Sure, Sir.

Lokesh Manik:

That is it from my side Sir. Thank you so much.

Moderator:

Thank you. The next question is from the line of Siddharth Mohta from Principal India. Please go ahead.



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- Siddharth Mohta:** Yes. Sir, I have got two questions. The first one is on the Pinaka. Sir, as we have successfully tested our materials. Sir, so what does it mean in terms of opportunity size? And have we participated in any tender related to it?
- Nilesh Panpaliya:** Pinaka, as you must have read that this was the first time in the history that any private sector company has manufactured, and those have been successfully test fired. Now this definitely opens a huge door of opportunity for us supplying them to defense. So as of now, they have placed order related to hardware with all the companies, which you must have read, and soon, yes, 6 regiments, so they are trying to built up for that, the required hardware for Pinaka, they have already placed the order, and definitely, soon within another span of, say, six months, you will see that some orders will come for integrated Pinaka rocket, inquiries will start coming in.
- Siddharth Mohta:** Okay, Sir, would it be possible, just to give the range what can be an order size, whatever its best visibility that you have for the two hardware that we have bought and after six months, which may come?
- Suresh Menon:** Like Mr. Nilesh has said that inquiries are expected to come. Once inquiries come in, we can respond to this kind of question, please.
- Siddharth Mohta:** Sir, regarding this Multi Mode Hand Grenade, where price finalization it has already done?
- Moderator:** Mr. Mohta, can you speak closer to the handset, please? You are inaudible. Seems like we lost the connection for Mr. Mohta. The next question is from the line of Sunil Jain from ASK Investment Managers. Please go ahead.
- Sunil Jain:** Yes. Sir, if you can explain, which you have mentioned in the annual report, the Center of Excellence of life assessment, how it helps us in terms of having incremental revenues, etc., especially in explosives and ammunition? Also, a question is on the, now the extended part of this family, which, I believe, was handling the institutional business development responsibilities sitting in Rajasthan. So who is taking care of that portfolio? And they still have a large stake. What if the demand a boat seat what would be our response? Thanks.
- Nilesh Panpaliya:** Firstly, I would like to say on the percentage holding, which they are holding that is around 28%, which they will continue to hold. As far as the part is concerned, basically, it was an automatic vacation from the office. So that is what their concern is. So a legal thing is going on that, and as the matter is subjudice, as and when it will come, we will take the best course of action. Now as far as the part of business, which he was looking, was basically



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from Bhilwara, so under him, he already had a professional team, which was looking after that. Now Mr. Menon, who is there with us as Executive Director, he will be managing that. So that will continue without any interruptions. Thank you.

Sunil Jain: Yes, and I have asked you about the Center of Excellence of life assessment, if you can elaborate on that, which you have opened recently.

Suresh Menon: This Center of Excellence for Lifetime Assessment is basically the country has observed over number of years, that in our country, there is a lack of capability to see the life of the ammunition. So we rely on the certifications of the vendors who are supplying the products from overseas countries. So once the product comes to the country, after certain years because of any one part or other part if the life of the ammunition can be predicted, then country can save thousands of Crores every year. So based on that requirement, company came forward and set up this Center of Excellence. It will help our country a lot. As far as revenue is concerned, the establishment is not from that perspective, but to help the country, and that will benefit everybody. Thank you.

Sunil Jain: Thanks.

Moderator: Thank you. The next question is from the line of Pankaj Bobade from Axis Securities. Please go ahead.

Pankaj Bobade: Sir, I have two questions. First is regarding defense. How do you see this business? I want a broad color. I mean, how do you see this business over next three to four years or five years, whether it would be comparable to our current core business? And what would be the margins in that segment? And second question would be, so with mining opening up for private parties, what type of business opportunities do we see?

Suresh Menon: Let me answer the second question first, and this is with the private mining that is opening up, coal mining opening up for the private sector. This is part of our overall strategy of the country reaching 1.5 billion tonnes of coal production. So we are well geared for that. I think we have a fairly large contract already in place with lots of private mining parties. So we are well prepared for that. So there are opportunities that is going to come up in that sector.

Nilesh Panpaliya: When we talk about the defense business, yes, it is a long-term business, and the product really takes a long time to get fortified and stabilized, but if you look at the delays in starting the releasing of RFPs and finalizing, so over the years, earlier, there was no policy



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in place to buy ammunitions for private sector. Second, the real push was not there, but I mean with the recent in place and with the push there for Atmanirbhar Bharat, the government has taken various measures, like any import of ammunition, if it is 200 Crores, the government has said, forwardly announced that they will not be importing that if it is beyond this limit, and then that will definitely open a gate of opportunity for players like us and as has been explained few time back by our MD that we have so many types of ammunitions. We have such an integrated plant that our company will be in the best position to avail that opportunity, and these various items, which will be required by the services, we will need a very small capex in the nature of 40 Crores, 50 Crores, 70 Crores to be ramped up from here onwards. So let us see now how government, what their plan about defence how they come out with various inquiries. We will be definitely participating in all those and get benefit of these things. As far as 1 product starts flowing, then we can give you, like, Multi Mode, which is, as we said, is coming up, we already have an order book in hand. So a gradual period of years, over the period of next three years, we will see a very good ramp-up in our revenues from defence, and we will keep updating you probably more clarity in the next conference call, which we will have for Q2.

Pankaj Bobade: Sure, Sir. The margins in this new business are they comparable with the old core business? And second thing, how do you see this ramping, I mean, do we see the revenues from the new business as good as the core business over, say, four, five years?

Nilesh Panpaliya: As defence in the long gestation period is there in defence. So definitely, and this is more capex oriented long gestation. So definitely, EBITDA margin will be better than the explosive margins, and so definitely, we expect the margins will improve going ahead once we have revenue flowing in from defence.

Pankaj Bobade: Sir, so could you be able to give a trajectory because as you said, this is long gestation period?

Nilesh Panpaliya: Right now, we are doing around 21%, 22%, and we say there is an improvement in that. So you are asking for EBITDA or you are asking for trajectory?

Pankaj Bobade: No, I am asking for scale. Scale.

Nilesh Panpaliya: Scale?



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Pankaj Bobade: We have been investing for last seven-odd years, and as you said, it is long gestation period. I very well take that into account, but going forward, say, in the next five years, do we see the scale of the business being ramped up to the level as it is as our core businesses?

Nilesh Panpaliya: No. Our core business, no, we are there in Indian market and overseas market. So that will also grow. So you can expect that out of this total basket, 40% will be our Indian market, maybe 40% of domestic and exports, and balance 20% from the defence.

Suresh Menon: The basic questions from your side was that how defence business will reflect in the overall business of the company. So let me clarify you that since we are making explosives. For us, making explosive means we can handle the products for civilian and defence applications, both. Over the years, we have expanded the product portfolio even in civilian explosives product, and recently, over last seven years, we have expanded into defence products. Going forward, the same kind of experience will help us to expand our reach for the products like space related requirement also.

So if you look at this kind of diversification within the same explosive family, it means that company is expanding its geographical reach, company is expanding its product portfolio. That will help the company to sustain any kind of situation, and that will enhance the sustainability of the company, and that is the strategy behind all these diversification within the same explosive segment, and going forward, definitely, like we have been saying that defence will become one of our major contributing product, for our overall business portfolio. How much it will contribute? That is difficult at this moment, but as government is very clear that they want to implement the practically 100% indigenization as good as 100% indigenization, and because of that policy push, they have come out with the Atmanirbhar Bharat scheme and they have very clearly spelled out that so many items of ammunition will be procured from India. So those kinds of policy push will definitely help our company to contribute for making our country self-sufficient in ammunition, and once we reach to that stage in next couple of years, as we have already started exploring the sales of these products for the overseas market also. So this is a journey, which will definitely unfold in the years to come. So we have to wait for those kinds of total clarity because it is an evolution of the business. Thank you.

Pankaj Bobade: Sure thanks a lot.

Moderator: Thank you. The next question is from the line of Siddharth Mohta from Principal India. Please go ahead.



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- Siddharth Mohta:** Sir, my question is on this Multi Mode Hand Grenade, where price finalization has happened, and soon order is going to be finalized. So can you please quantify the order size and the execution time? And is there any follow-up order on this MMHG that is a Phase II?
- Nilesh Panpaliya:** We can share the information like this, the order, which is going to come is for almost 1 million pieces, 1 million, 10 lakh pieces. That needs to be delivered in a period of two years from the date of order. Second, the price for this product, it is difficult to share at this moment. Just wait for another couple of weeks we will share with the investors. As far as the follow-up order is concerned because since it was for the first time that our company has really made it successful after almost more than 22 years of research on this product. So once the product starts flowing into the Army soldiers, definitely more orders will come up. That is what is our expectation. Thank you.
- Siddharth Mohta:** Okay. Sir, regarding this Singareni order, retendering was supposed to happen in June 2020. So any update on that front?
- Nilesh Panpaliya:** The Singareni tender is already over, and the sales orders will be in that state. Once order comes, we will share with you.
- Siddharth Mohta:** Okay, and would it be possible for you to quantify the order which was there this time?
- Nilesh Panpaliya:** It will not be wise on our part to share the order quantity at this moment, but definitely, orders will be more than the last year, last tender.
- Siddharth Mohta:** And might be in a month or so, Sir, we can hear something on this front?
- Nilesh Panpaliya:** We are expecting that within a month's time, we should get an order, but because of COVID situation especially in Singareni Collieries' mines and offices, so they are not working at the same speed at which they were working at.
- Siddharth Mohta:** Sir, South Africa, our loss was around 55 Crores in FY2020, and you have mentioned that we have won some of the contracts. So what can be the quantum of loss of profit might be in FY2021 and 2022? And the same question is applicable for our new facility, Australia and Ghana?
- Nilesh Panpaliya:** What we can share at this stage that as far as South Africa business, Mr. Menon has already shared the intent for which we have entered into the market. If you look at an opportunity, the initial year where we have really lost big amount in that subsidiary, but as per the



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current order book and execution stage, we are confident that in this year, we should reach to a breakeven level, and in Ghana, we are already operationalized. So definitely in this year itself, we will see profits. As far as Australia is concerned, once production starts, so then definitely we will reach to the breakeven level within a period of six months. That is our expectation.

Siddharth Mohta: So the loss, which was seen in the South Africa, it would not be repeated in Australia and the Ghana because we might have also learned from our experience in operating overseas entity?

Nilesh Panpaliya: Like we have been sharing that every geography had its own unique challenges, otherwise we would have replicated the same Indian experience with South Africa also. We were already there in Zambia, Nigeria and other parts of the world, like Turkey also. So every country has its own unique challenges, and the basic thing is that we are into explosives. Our vision is very clear, and we have to be there in practically all parts of market, which gives an advantage to remain or become a major global player in the market. So based on that vision and strategy, we are entering into those markets. So like we have also seen the similar experience in Turkey also, that initially for two, three years, we were making losses, and then the company and the country started giving us good results. Similar thing we will see in South Africa also. We have to have some patience to see the fruits coming out of our investment and the efforts we have been done in last three to four years' time. We will see the positive results very soon.

Siddharth Mohta: Sir, my final question is that you said the breakeven in all the three entities. So I assume it is at the PBT level or it is at the operating profit, which is EBITDA?

Nilesh Panpaliya: I cannot share the breakeven level for each country.

Siddharth Mohta: Thank you.

Moderator: Thank you. The next question is from the line of Rohan Gupta from Edelweiss. Please go ahead. It seems like we lost the connection for Mr. Rohan Gupta. The next question is from the line of Sujit Jain from ASK Investment Managers. Please go head.

Sujit Jain: Sir, we mentioned about 450000 tons of capacity and production of 435000 tons in the annual report, and in the Q4 presentation, we talk about close to about 335000 tons of sales. So if you can reconcile these numbers, what is our capacity, fill it into domestic and overseas? And what is the capacity utilization?



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- Nilesh Panpaliya:** Okay. So we will take the next question, till we give you these figures.
- Sujit Jain:** Sure. Thanks.
- Moderator:** Thank you. The next question is from the line of Rohan Gupta from Edelweiss. Please go ahead.
- Rohan Gupta:** Good morning. Sir, couple of questions from my side. Sir first is on our international operations. So given the uncertainty of COVID, earlier we had planned almost entering to almost two countries every year. Have we changed any strategic plan in that current year? And over next two years, how our global operations will pan out, Sir?
- Nilesh Panpaliya:** Rohan, we have already shared recently in conference call itself about South Africa, Ghana and Australia and Tanzania as well. I think that should suffice your question.
- Rohan Gupta:** No. Sir, when we enter into any new country, we have been planning almost one year in advance. So I am just saying that over next two years, are we going to continuously add new countries over next two years? Or there is going to be some slowdown in our international operations when adding a new country, Sir?
- Nilesh Panpaliya:** So basically, you are mixing both questions. First is, are we going into new countries and/or we have slowed down our efforts. First point is what countries we have already shared in our report that our target is already there; efforts are already going on where the targets or countries are identified. So we are continuing with those efforts, but major point is the investments, which were high in nature, especially for South Africa. That phase is, I can say, is almost over.
- Rohan Gupta:** Okay. So as you sir mentioned that South Africa from this year onwards, we can expect breakeven, and Australia also, maybe over next two years, can be brought back to breakeven. Is that right? Because after that, probably all other countries, we will be on a breakeven point, right, or on the profitability zone?
- Nilesh Panpaliya:** Absolutely, and another factor we should keep in consideration that once we enter into different level of market, which Mr. Menon has said, that we have entered into the advanced market as far as mining is concerned. Once we are through from that phase, definitely, we need not to relearn the same thing again and again on that kind of requirement, say, product requirement, service requirement or cultural related issues. So we will be out of all these three new things, which we have to feel or pass-through when we



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enter into big new mining markets. So those learnings and experience and the reputation, which we have recently built, even in South Africa that will definitely help us a lot.

Rohan Gupta:

Sir, that was exactly my question that in last five years, our learning curve has stepped up a lot. So over next three to four years, given these major countries we have already covered and most of them now above breakeven, so can we expect a significant jump in profitability over next three years from all these countries where we are already in. That is what my, I mean, question was, Sir?

Nilesh Panpaliya:

You are very right. Once we are out of that phase, which we have already shared but in this year, we will see a significant increase in topline and bottomline from overseas market despite of the COVID-related challenges, and definitely, you are right, we will see the similar improvement in coming years to come.

Rohan Gupta:

Okay. Sir, second question is on defence. So similar thing has happened in defence as well because our huge investment has gone there, but we are still struggling with the lower revenues that none of our fault but continuous delays in government order. Sir, do you see that in last six months, given the escalating border tension and government focusing continuously more on in the Atmanirbhar Bharat, do you see that something has changed in last six months, where we continue to see, Sir, more RFPs are coming in, but when it comes to the order inflow or getting orders converted into revenues, that is not happening. So do you see, Sir, that over next one year, one and a half years, now the time has come where this order, defence business is now ready to take off significantly?

Nilesh Panpaliya:

What I can say that there is a positivity as far as sourcing of ammunition from indigenous sources, indigenous suppliers, but same thing, I would also like to submit that in the past years, we have seen, there was no policy in place to buy the ammunition from private sectors. If you look into the both the sides and the kind of preparations which we have been doing in last six, seven years at this stage, we are ready, government is also ready with the policies in place, and there is a special push under Atmanirbhar Bharat. So these three things if we combine, we will see definitely a bigger pie of buying ammunition from private players in India, and that will definitely help us. As far as whether significant or not significant, I can say that one of the orders, which is Multi Mode Hand Grenade, it will be the first time from Indian private player, that government will buy the ready-to-use ammunition, and once this starts, it will reflect the government's intent also, and once it starts, definitely we will see more clarity on various other products also.



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Rohan Gupta: Just last one, Sir, third one. Sir, on capex this year, you have roughly 200 Crores. So going forward, over next two, three years because you mentioned that you want to maintain debt equity of 0.5x, given our solid cash flow generations on the global operation. So it means that, and with our balance sheet size growing, it means that we are looking at large capex going forward. I just wanted to understand that over next two years to three years, what will be our cumulative capex and which part of the business it will be?

Nilesh Panpaliya: We will share on these issues as and when time comes. Otherwise, our policies were clear. We do our business by maintaining the financial position in a conservative manner, and we believe debt equity ratios around 0.5 is a very good reference benchmark, and we will keep exploring the opportunities by maintaining few of the basic benchmarks. Thank you.

Suresh Menon: Now I would quickly like to answer Mr. Sujit Jain's question. What we had mentioned in the annual report, the total production of 437500 was our global production of explosives, which we did, but in the domestic market, we did a production of 337000. Our domestic production capacity is 450000 and our overseas capacity is 127000. So that makes us 577000 as our global explosive capacity. So I think hope it clears it well.

Moderator: Thank you. We take the last question from the line of Santosh Visalappu from Ashika Stock Broking. Please go ahead.

Santosh Visalappu: Thanks for the opportunity. Manish Sir, I just wanted to understand what, are we facing any specific challenges to pursue a \$6 billion kind of an offset obligation that is to be met yet. So are we getting any challenges in pursuing this opportunity it means a lot can be doable there, given the pricing dynamics in favor of us what stops us from pursuing this opportunity? Just I am trying to understand if you could throw some color on it, please.

Manish S Nuwal: Definitely, offset policy is there, but this offset policy will come and there are foreign suppliers who are willing setting up a JV, and for that, they will need to transfer that technology and share their products and facility. So there are lot of not only company level issues, there is government level issues and global political issues, which are there, concerning to this. We have said that all these things to get the clarity to set up policy, Santosh you have been tracking defence so well, and from last seven to 10 years, you have been associated with the two major companies who are working in defence, and you have shared with us so many thoughts on this and have been really telling us how things are moving. So you are very well informed that earlier when we started, there was no policy at that time, whether private sector can supply to defence or not. So from there, the journey started. Then there were obstacles like single party, which was their supplier. So that got



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cleared. Then you are well aware that there were so many product qualification and validations, which need to gain. So how long it takes, then you are well aware that since you were importing all this. So we did not have the testing facility. We did not have the life assessment center. So over a period of time, it has taken the policies and steps to reach at this level. So this is how the defence business has evolved and now we are seeing a clarity in few of the products where we have worked over a period of seven years and got this supply chain in place and received the orders, and even after receiving the orders like we had, they asked us to defer the delivery schedules. So all these things till now they have given that 200 Crores, less than 200 Crores contract, if there is an Indian capacity, they should buy from India, but the defence requirements are huge. So normally, they will come in, let us see which segment that comes into play, then they have now banned 101 items, but that is about phases. So even they have their contractual obligations with those suppliers or vendors from this thing, and so everything will take and happen at an appropriate time.

Now as we said, that for Multi Mode Hand Grenade for the first time, like the contract rates, everything is finalized, quantity is finalized, contract terms are finalized, and within two weeks, we will get that, which we will share with you, and even the Pinaka Rocket, like the technology has been so good and we got the technology transfer. We developed the same with the help of DRDO, and it was like mentioned that all six were successfully test fired and hit the target. So now let us wait and see how the government goes ahead, what item they are trying to take, where the 1000 billion will get offset. So as and when the clarity comes on that, we will definitely share with you, and we are in the right position, well placed with the best integrated facility anyone could have to take advantage or to get benefit of this opportunity, which is open for us.

Santosh Visalappu:

Sir, I had one small request. The way we put the order book details for the Coal India for Singareni and for the defence, now that you are having such a wide presence in the international market. I would request if you could share some order book numbers for the international markets consolidated. That should see some color towards quarter-on-quarter and what is happening on the international front?

Manish S Nuwal:

Yes, just what happens in domestic market now, we have a clear-cut tender of two years from Coal India. We have a clear-cut tender of this from Singareni. Similarly, we will look, so if we have such big tenders in all the this thing, as you have suggested, we will definitely consider that, and we will start putting that on next time that what orders we have from this outside countries plus exports.

Santosh Visalappu:

Thank you Sir. Thanks a lot, that is it.



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- Moderator:** Thank you. As there are no further questions, I now hand the conference over to Mr. Chirag Muchhala for closing comments.
- Chirag Muchhala:** We thank the management for taking time out and sharing their valuable insights on this call, and we also thank all the participants for their presence. Sir, do you have any closing remarks?
- Manish S Nuwal:** We would just like to thank all the investors and our stakeholders which were there for attending this call and hearing to us and giving us suggestions and their variable guidance, and we assure that your company will take all the right steps to ensure what is most beneficial in the interest of all the stakeholders, and we will do our best to reach to the performance which is expected out of us. Thank you so much.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Nirmal Bang Institutional Equities, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.