SOLAR

Safety • Quality • Reliability

23rd December, 2020

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

To,
The Executive Director
Listing Department
BSE Limited
Floor no.25, PJ Towers
Dalal Street
Mumbai - 400 001
Scrip Code: 532725

Sub: Intimation under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Dear Sir,

In accordance with the Regulation 30 read with Para A of part A of Schedule III of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 we wish to inform you that **CRISIL has reaffirmed its 'CRISIL AA+/Stable/CRISIL A1+' ratings on the bank facilities and commercial paper of Solar Industries India Ltd (SIIL; a part of the Solar group).**

This is for your information and record.

Thanking You

Yours truly,
For Solar Industries India Limited

(Khushboo Pasari)
Company Secretary &
Compliance Officer

Solar Industries India Limited

Rating Rationale

December 22, 2020 | Mumbai

Solar Industries India Limited

Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	**Rs.750 Crore**
Long Term Rating	**CRISIL AA+/Stable (Reaffirmed)**
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 reaffirmed its 'CRISIL AA+/Stable/CRISIL A1+' ratings on the bank facilities and commercial paper of Solar Industries India Ltd (SIIL; a part of the Solar group).

The ratings continue to reflect the 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 to volatility in foreign exchange (forex) rates.

Revenues of Solar group are expected to grow by over 10% in fiscal 2021 while maintaining the operating margin over 20%. The growth is driven by healthy orders from coal mining, growing demand from exports and overseas business and strong growth expected in defense business. As on October 31, 2020, the group had order book of Rs 1,745 crore, including order book of Rs 702 crore for defense products.

In the first-half of fiscal 2021, the group reported revenue of Rs 1,078 crore (modest de-growth of 4%) and EBITDA of Rs 218 crore, against Rs 1,127 crore and Rs 231 crore, respectively, for the same period previous fiscal. Revenue was adversely impacted in first quarter owing to lower demand due to Covid-19 pandemic which resulted in year-on-year revenue de-growth of 21% in the quarter. The performance recovered significantly in the second quarter with year-on-year revenue growth of 16%.

In fiscal 2020, the group reported revenue of Rs 2,237 crore with EBITDA of Rs 475 crore, against Rs 2,462 crore and Rs 517 crore, respectively, in fiscal 2019. The performance was impacted in fiscal 2020 due to extended monsoon affecting demand from the mining and housing and infrastructure sectors.

The financial risk profile of the group remains strong driven by adequate accruals of over Rs 250 crore per annum against annual capex requirements of Rs 200-250 crore over next 2-3 fiscals. Further, the net gearing is expected to remain below 0.5 time over medium term driven by prudent funding of capex through mix of debt and internal accrual.

Erstwhile director, Mr Kailash Chandra Nuwal, his son, Mr Rahul Nuwal, and wife, Mrs Indira Nuwal, have instituted proceedings by way of company petition before the National Company Law Tribunal, Mumbai Bench (NCLT)against *inter alia* Mr Kailash Chandra Nuwal's vacation of office as director of SIIL. The NCLT, after a detailed hearing on September 15, 2020, has reserved orders on the interlocutory application filed by the petitioners. As per discussion with the management, the proceedings have not impacted the group's operations. However, the outcome of the proceedings is a key rating sensitivity factor, which CRISIL will continue to monitor for further clarity.

Analytical Approach

For arriving at its ratings, CRISIL has combined the financial and business risk profiles of SIIL, its subsidiary, Economic Explosives Ltd (rated 'CRISIL AA+/Stable/CRISIL A1+'), and other subsidiaries and stepdown subsidiaries. This is because all these entities, collectively referred to as the 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 about 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 customised products on demand. Along with healthy growth in the domestic market, it has also expanded significantly in the overseas market over the last few years. The group is also the largest supplier of explosives to Coal India Ltd (rated 'CRISIL AAA/CCR AAA/Stable/CRISIL A1+'). The group forayed into the defence business in 2011 and has gained advantage by setting up high-energy explosives, delivery systems, ammunitions, 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 1,745 crore as on October 31, 2020, 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 2020. Also, all of the group's 25 bulk explosive manufacturing units are located in a 50-60 kilometre radius from major mining regions. The Solar group is able to pass on the variations in raw material prices to its customers through a price escalation clause in the contracts, thus maintaining margin even in volatile raw material price movements.

*** Strong financial risk profile**

Capital structure is strong with tangible networth of Rs.1,375 crore and gearing at 0.49 time as on March 31, 2020. Furthermore, cash accrual is expected to remain healthy, backed by strong growth in revenue and sustained profitability, which will be sufficient to repay upcoming debt obligation and partly meet annual capex of about Rs 200-250 crore over the medium term. The capex will be funded through a prudent mix of debt and internal accrual. Interest coverage and net cash accrual to total debt ratios remained healthy at 8.95 times and 0.49 time, respectively, in fiscal 2020 against 9.02 times and 0.46 time, respectively, for fiscal 2019.

Weaknesses

*** Exposure to regulatory risks**

The explosives industry has high entry barrier 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 the Petroleum and Explosives Safety Organisation and the Joint Chief Controller of Explosives to prevent misuse of end products. Though the 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 the Solar group to adverse currency fluctuations. During fiscal 2020, the group incurred a translation loss of Rs 45 crore due to currency devaluation. In order to safeguard itself from volatility in forex rates, the group has begun borrowing debt in local currency in the overseas markets, which reduces forex risk considerably. Also, sale price in the 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, the group will continue to be exposed to forex risk.

Liquidity Superior

Cash accrual is expected to be more than Rs 250 crore per annum against yearly debt obligation of around Rs 100 crore in fiscals 2021 and 2022. Cash and cash equivalents stood at Rs 121 crore as on March 31, 2020. On a standalone basis, SIIL has access to fund-based limit of Rs 211 crore, which is minimally utilised. Capex of Rs 200-250 crore per annum will be funded through a mix of debt and internal accrual. Unutilised bank limit is expected to be sufficient to meet incremental working capital requirement. SIIL has a policy of paying 30% of its profit after tax as dividend.

Outlook: Stable

CRISIL believes the Solar group will maintain its robust market 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 strong.

Rating Sensitivity factors

Upward factors

* Better-than-expected revenue growth while sustaining profitability
* Sales from India operations not contributing more than 50%
* 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 operations due to untoward incidents

About the Group

The 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 systems, ammunition filling and pyros fuses.

Key financial indicators (Consolidated; as reported)

As on/for the period ended March 31,	Units	2020	2019
Operating Income	Rs crore	2237	2462
Profit after tax (PAT)	Rs crore	279	277
PAT margin	%	12.4	11.2
Adjusted debt/Adjusted networth	Times	0.49	0.46
Interest coverage	Times	8.95	9.02

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments and are included (where applicable) in the Annexure -- Details of Instrument in this Rating Rationale. For more details on the CRISIL complexity levels, please visit www.crisil.com/complexity-levels.

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating assigned with outlook
NA	Commercial Paper	NA	NA	7-365 Days	50	Simple	CRISIL A1+
NA	Cash Credit	NA	NA	NA	20	NA	CRISIL AA+/Stable
NA	Cash Credit*	NA	NA	NA	30	NA	CRISIL AA+/Stable
NA	Cash Credit^	NA	NA	NA	100	NA	CRISIL AA+/Stable
NA	Letter of credit & Bank Guarantee	NA	NA	NA	148	NA	CRISIL A1+
NA	Letter of credit & Bank Guarantee	NA	NA	NA	280	NA	CRISIL AA+/Stable
NA	Letter of credit & Bank Guarantee#	NA	NA	NA	50	NA	CRISIL AA+/Stable
NA	Term Loan	NA	NA	Sep-2025	97	NA	CRISIL AA+/Stable
NA	Term Loan	NA	NA	Aug-2021	25	NA	CRISIL AA+/Stable

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

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

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Annexure - Rating History for last 3 Years

	Current			2020 (History)		2019		2018		2017		Start of 2017
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	50.00	CRISIL A1+			24-12-19	CRISIL A1+	26-12-18	CRISIL A1+	28-04-17	CRISIL A1+	CRISIL A1+
								30-04-18	CRISIL A1+			
Fund-based Bank Facilities	LT/ST	272.00	CRISIL AA+/Stable			24-12-19	CRISIL AA+/Stable	26-12-18	CRISIL AA/Positive	28-04-17	CRISIL AA/Positive	CRISIL AA/Stable
								30-04-18	CRISIL AA/Positive			
Non Fund-based Bank Facilities	LT/ST	478.00	CRISIL AA+/Stable/ CRISIL A1+			24-12-19	CRISIL AA+/Stable/ CRISIL A1+	26-12-18	CRISIL AA/Positive/ CRISIL A1+	28-04-17	CRISIL AA/Positive/ CRISIL A1+	CRISIL A1+
								30-04-18	CRISIL AA/Positive/ 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	20	CRISIL AA+/Stable	Cash Credit*	55	CRISIL AA+/Stable
Cash Credit*	30	CRISIL AA+/Stable	Cash Credit^	51	CRISIL AA+/Stable
Cash Credit^	100	CRISIL AA+/Stable	Letter of credit & Bank Guarantee	215	CRISIL A1+
Letter of credit & Bank Guarantee	148	CRISIL A1+	Letter of credit & Bank Guarantee%	48	CRISIL A1+
Letter of credit & Bank Guarantee	280	CRISIL AA+/Stable	Letter of credit & Bank Guarantee#	159	CRISIL AA+/Stable
Letter of credit & Bank Guarantee#	50	CRISIL AA+/Stable	Proposed Long Term Bank Loan Facility	53.25	CRISIL AA+/Stable
Term Loan	122	CRISIL AA+/Stable	Term Loan	168.75	CRISIL AA+/Stable
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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