SOLAR

Safety • Quality • Reliability

1st March, 2022

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

To,
The Executive Director
Listing Department
BSE Limited
Floor no.25, PJ Towers,
Dalal Street,
Mumbai
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 Ratings Limited has reaffirmed the rating CRISIL AA+/Stable/CRICIL A1+ for the bank facilities and commercial papers of Solar Industries India Limited.**

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

Ratings
CRISIL Ratings Limited (A subsidiary of CRISIL Limited)

CRISIL
An S&P Global Company

Rating Rationale

February 28, 2022 | Mumbai

Solar Industries India Limited

Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	**Rs.1080.5 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 Ratings has reaffirmed its 'CRISIL AA+/Stable/CRISIL A1+' ratings on the bank facilities and commercial paper of Solar Industries India Limited (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 50% in fiscal 2022, supported by volume growth and higher realizations while the operating margin will moderate to over 19% on account of higher raw material prices. The growth is driven by healthy orders from coal mining, growing demand for other segments. As on December 31, 2021, the group had order book of Rs 2,733 crore, including order book of Rs 537 crore for defense products.

In the first 9 months of fiscal 2022, the group reported revenue of Rs 2,631 crore and EBITDA of Rs 484 crore, against Rs 1,724 crore and Rs 350 crore, respectively, for the same period previous fiscal.

In fiscal 2021, the group reported revenue of Rs 2,521 crore with EBITDA of Rs 515 crore, against Rs 2,240 crore and Rs 434 crore, respectively, in fiscal 2020. The growth in revenues was largely supported by exports and overseas business.

The financial risk profile of the group remains strong driven by adequate accruals of over Rs 400 crore per annum against annual capex requirements of Rs 250-300 crore over the medium term. 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 accruals.

The rating also takes a note of the ongoing legal proceedings regarding vacation of Mr K C Nuwal's office of executive director of the company. The company had filed an appeal earlier with National Company Law Appellate Tribunal (NCLAT) against impugned order passed by National Company Law Tribunal (NCLT) on February 22, 2021. The matter is currently on hold and will be resumed after 6 months starting March 7, 2022. As per discussion with management, business operations of Solar Group have not been impacted due to this matter. CRISIL will continue to monitor the proceedings and any impact on business operations will remain a key monitorable.

Analytical Approach
For arriving at its ratings, CRISIL Ratings 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 2010 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 2,733 crore as on December 31, 2021, 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 around 20% over the five fiscals through 2021. 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.1,586 crore and gearing at 0.5 time as on March 31, 2021. 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 200-300 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 12.59 times and 0.5 time, respectively, in fiscal 2021 against 8.95 times and 0.49 time, respectively, for fiscal 2020.

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 65% 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, Ghana, Zambia, South Africa, and Turkey exposes the Solar group to adverse currency fluctuations. During fiscal 2022, the group incurred a translation loss of Rs 37 crore during the quarter Q3 of fiscal 2022, 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, started billing in USD in some of the overseas markets. 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 around Rs 400 crore per annum against yearly debt obligation of around Rs 100-150 crore in fiscals 2022 and 2023. Cash and cash equivalents stood at Rs 101 crore as on September 31, 2021. On a standalone basis, SIIL has access to fund-based limit of Rs 211 crore, which is minimally utilised. Capex of Rs 200-300 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, but expected to conserve cash over the medium term in light of the growth opportunities.

Outlook: Stable
CRISIL Ratings 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% on a sustained basis
- 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, Ghana, 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	2021	2020
Operating Income	Rs.Crore	2521	2240
Profit After Tax (PAT)	Rs.Crore	288	279
PAT Margin	%	11.4	12.5
Adjusted debt/Adjusted networth	Times	0.50	0.49
Interest coverage	Times	11.34	7.89

Any other information: Not applicable

Note on complexity levels of the rated instrument:
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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	31	NA	CRISIL AA+/Stable
NA	Cash Credit*	NA	NA	NA	30	NA	CRISIL AA+/Stable
NA	Cash Credit^	NA	NA	NA	265	NA	CRISIL AA+/Stable
NA	Letter of credit & Bank Guarantee	NA	NA	NA	190	NA	CRISIL A1+
NA	Letter of credit & Bank Guarantee	NA	NA	NA	359.5	NA	CRISIL AA+/Stable
NA	Letter of credit & Bank Guarantee#	NA	NA	NA	85	NA	CRISIL AA+/Stable
NA	Term Loan	NA	NA	Sep-2025	100	NA	CRISIL AA+/Stable
NA	Term Loan	NA	NA	Aug-2021	20	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 Ltd	100%	Wholly owned subsidiary
Solar Defence Ltd	100%	Wholly owned subsidiary
Solar Defence Systems Ltd	100%	Wholly owned subsidiary
Emul Tek Pvt Ltd	100%	Wholly owned subsidiary
Blastec (India) Pvt Ltd	100%	Wholly owned subsidiary
Solar Overseas Mauritius Ltd	100%	Wholly owned subsidiary

Annexure - Rating History for last 3 Years

	Current			2022 (History)		2021		2020		2019		Start of 2019
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating

Fund Based Facilities	LT	446.0	CRISIL AA+/Stable		--	05-03-21	CRISIL AA+/Stable	22-12-20	CRISIL AA+/Stable	24-12-19	CRISIL AA+/Stable	CRISIL AA/Positive
Non-Fund Based Facilities	ST/LT	634.5	CRISIL AA+/Stable / CRISIL A1+		--	05-03-21	CRISIL AA+/Stable / CRISIL A1+	22-12-20	CRISIL AA+/Stable / CRISIL A1+	24-12-19	CRISIL AA+/Stable / CRISIL A1+	CRISIL AA/Positive
Commercial Paper	ST	50.0	CRISIL A1+		--	05-03-21	CRISIL A1+	22-12-20	CRISIL A1+	24-12-19	CRISIL A1+	CRISIL A1+

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Rating
Cash Credit^	**65**	**CRISIL AA+/Stable**
Cash Credit	**6**	**CRISIL AA+/Stable**
Cash Credit	**25**	**CRISIL AA+/Stable**
Cash Credit^	**200**	**CRISIL AA+/Stable**
Cash Credit*	**30**	**CRISIL AA+/Stable**
Letter of credit & Bank Guarantee	**70**	**CRISIL A1+**
Letter of credit & Bank Guarantee	**120**	**CRISIL A1+**
Letter of credit & Bank Guarantee#	**50**	**CRISIL AA+/Stable**
Letter of credit & Bank Guarantee#	**35**	**CRISIL AA+/Stable**
Letter of credit & Bank Guarantee	**359.5**	**CRISIL AA+/Stable**
Term Loan	**3**	**CRISIL AA+/Stable**
Term Loan	**97**	**CRISIL AA+/Stable**
Term Loan	**20**	**CRISIL AA+/Stable**

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

Criteria Details

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

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Note for Media:

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