

Oct 18th, 2010

C.M.P.:
Rs.525.00

Target Price:
Rs.605.00

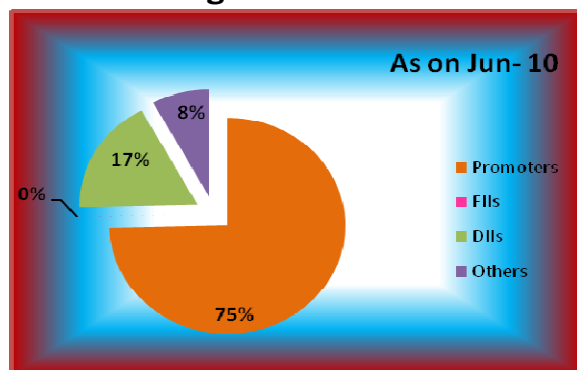
1 Year Comparative Graph



Stock Data

Sector	Specialty Chemicals
Face Value(Rs)	Rs.10.00
52 wk. High/Low (Rs.)	Rs.539.85/316.45
Volume (2 wk. Avg.)	3899
BSE Code	532725
Market Cap(Rs in Mn)	9095.10

Share Holding Pattern



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SYNOPSIS

- Solar Explosives, a solar group company was incorporated on February 24, 1995. It is one of the largest Indian Explosive manufacturing company. The name of Solar Explosives Limited got changed to Solar Industries India Limited.
- The Solar Group has a licensed & installed capacity of 175, 000 MT of Explosives, 140 million Detonators & 20 million meters of Detonating fuse.
- The manufacturing facility of the company is located at Village Chakdoh, 37 kms from Nagpur and is spread over an area of 150 acres. This ISO 9001 certified facility with a licensed capacity of 80,000 TPA of all kinds of explosives is the largest manufacturer of packaged explosives in India.
- The Company has informed that the Credit Rating Agency CRISIL awarded P1+ rating for the issue of commercial paper of the Company. Further the Company raised Commercial paper aggregating to Rs. 25 Crores.
- Net profit of the company has increased at yoy 32.76% Rs.585.93mn from Rs.441.36mn of same period of last year.
- Net Sales and PAT of the company are expected to grow at a CAGR of 12% and 18% over 2009 to 2012E respectively.

Financials (Rs.in.mn)

	FY10	FY11E	FY12E
Net Sales	5604.62	6277.17	7093.21
EBIDTA	1119.98	1190.89	1330.45
PAT	585.93	643.00	724.54
EPS	33.82	37.12	41.82
P/E	15.52	14.14	12.55

Peer Group Comparison

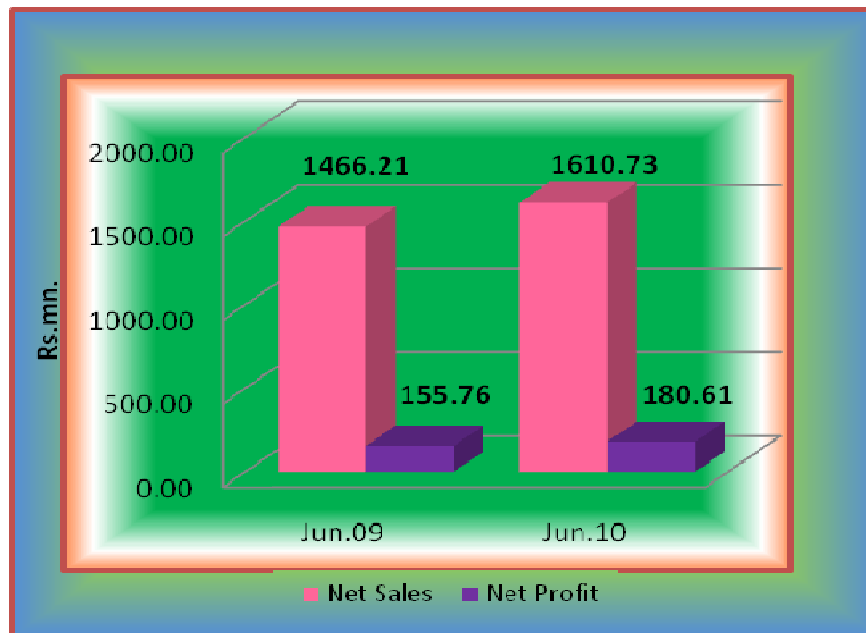
Name of the company	CMP(Rs.)	Market Cap.(Rs.Mn.)	EPS(Rs.)	P/E(x)	P/BV(x)	Dividend (%)
Solar Inds	525.00	9095.10	33.82	15.52	3.43	70.00
BASF India	664.80	27154.8	25.66	25.96	3.14	80.00
Ineos Abs	362.10	6418.8	35.44	10.30	2.36	35.00
DIC India	313.90	2879.0	60.18	5.21	1.45	35.00

Investment Highlights

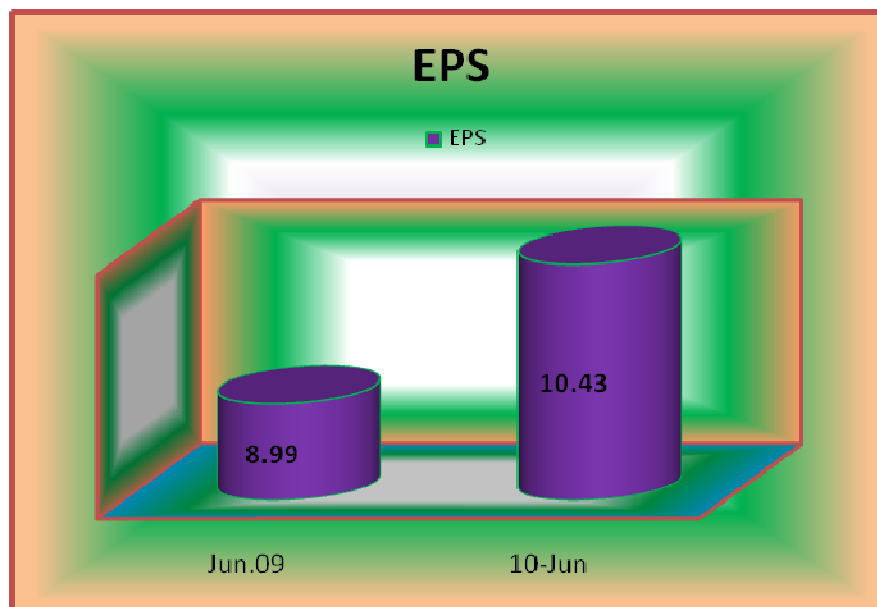
➤ Q1 FY11 Results Update

Solar Industries India Ltd disclosed results for the quarter ended June 2010. Net sales for the quarter moved up 10% to Rs.1610.73 million as compared to Rs.1466.21 million during the corresponding quarter last year. During the quarter, Net Profit is increased to Rs.180.61 million from Rs.155.76 million in previous year same quarter. The Basic EPS of the company stood at Rs.10.43 for the quarter ended June 2010.

Quarterly Results – Consolidated (Rs in mn)			
As At	Jun-10	Jun-09	%Change
Net sales	1610.73	1466.21	10%
PAT	180.61	155.76	16%
Basic EPS	10.43	8.99	16%



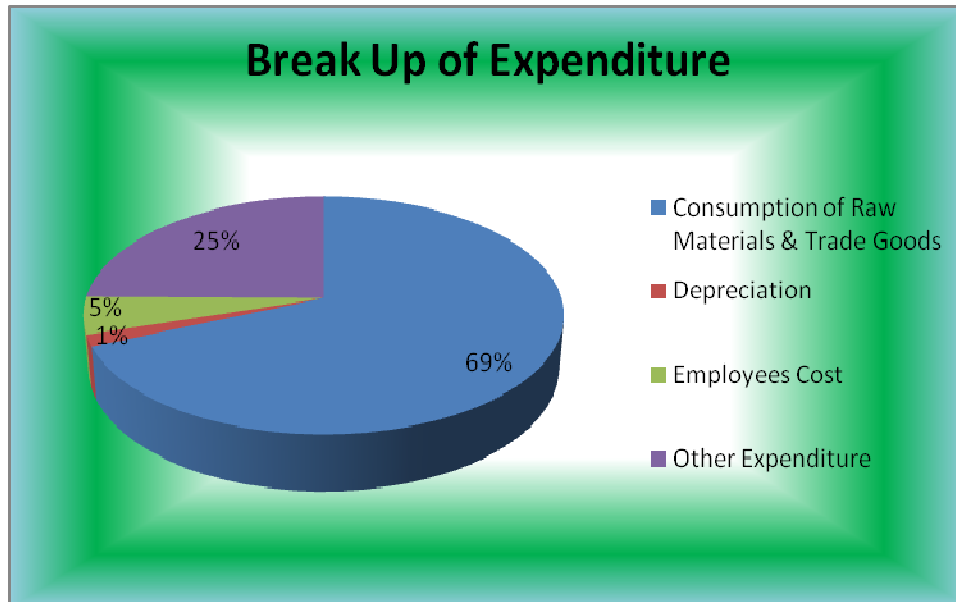
Basic EPS of the company stood at Rs.10.43



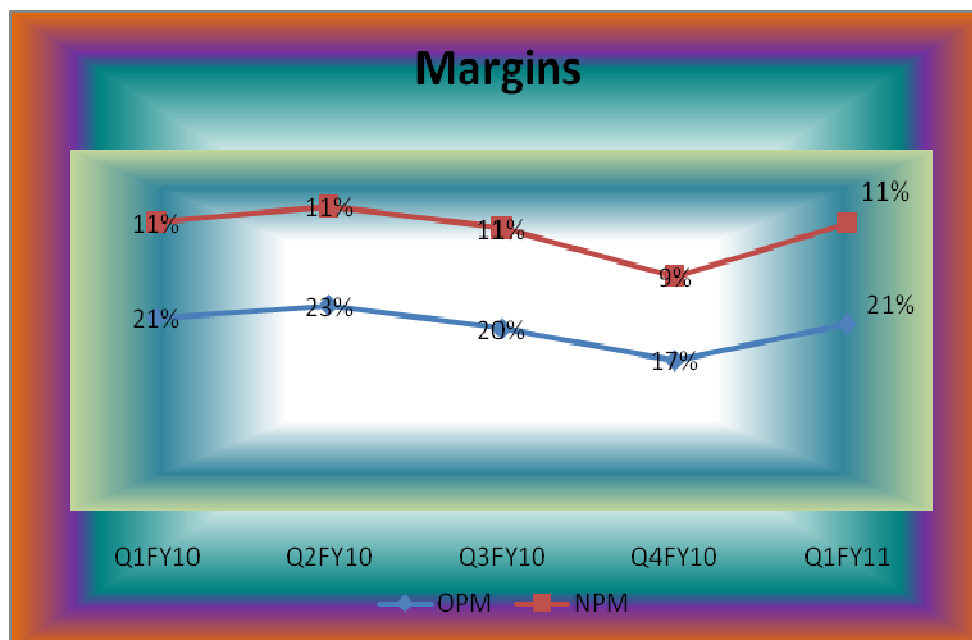
◆ **Break up of Expenditure**

Expenditure for the quarter stood at Rs.1311.60mn, which is around 12% higher than the corresponding period of the previous year. Raw material cost of the company for the quarter accounts for 56% of the sales of the company and stood at Rs.900.14mn from Rs.883.92mn of the corresponding period of the previous year. Other Expenditure cost increased 33%YoY to Rs.325.92mn from

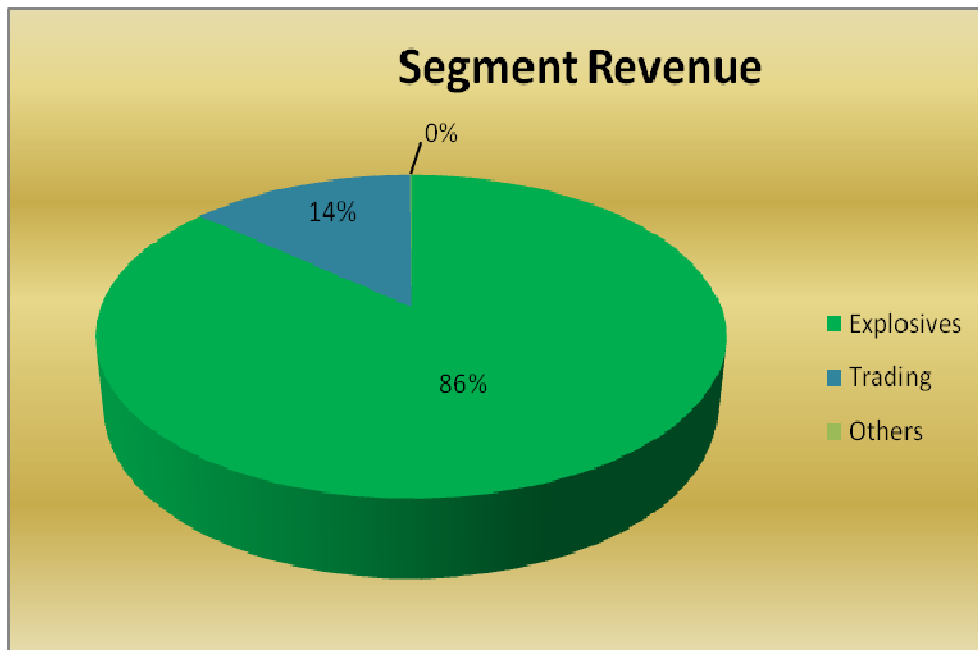
Rs.244.66mn and accounts for 20% of the revenue of the company for the quarter.



OPM and NPM for the quarter stood at 21% and 11% respectively from 21% and 11% respectively of the same period of the last year.



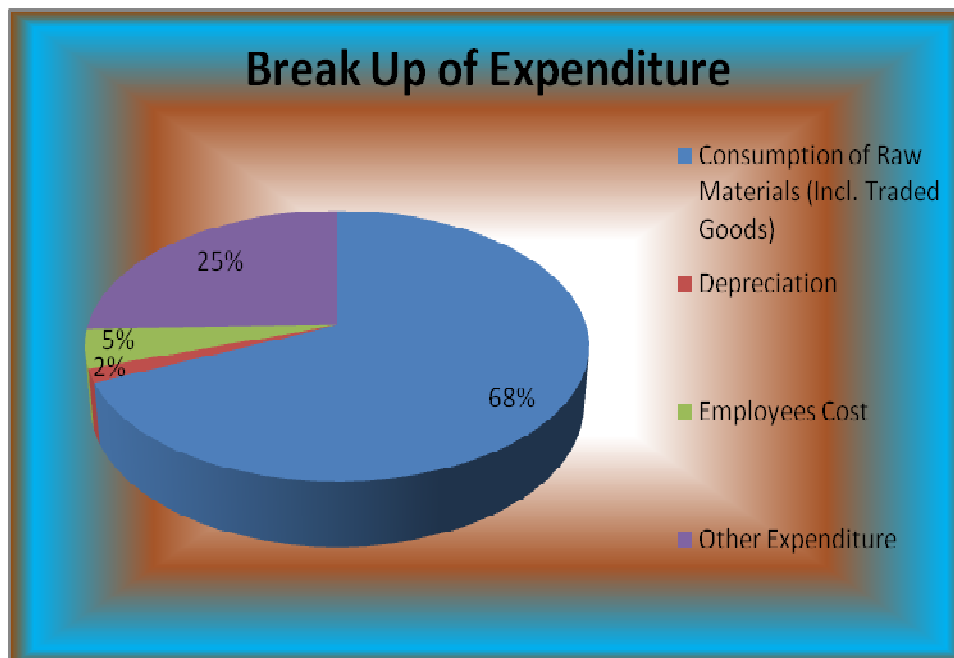
➤ Segment Revenue



➤ FY10 Performance

Net profit of the company has increased at yoy 32.76% Rs.585.93mn from Rs.441.36mn of same period of last year. Total revenue for the year stood at Rs.5604.62 mn from Rs.4987.63 which is 12.37% increased than that of a year ago. EPS for the year stood at Rs.33.82 per equity share of Rs.10.00 each.

Operating profit of the company stood at Rs.1119.98mn. OPM for the year stood at 19.98%. Expenditure of the company increased 12.57% YoY to Rs.4714.04 mn. Interest expenses for the year stood at Rs.133.60mn.



➔ **Board recommends Final Dividend**

Solar Industries India Ltd has recommended 35% Final Dividend for the F.Y. 2009-10 subject to the approval of Share Holders at Annual General Meeting.

Company Profile

Solar Explosives, a Solar group company was incorporated on February 24, 1995 by Satyanarayan Nuwal, Nandlal Nuwal and Kailashchandra Nuwal. The journey of “Solar” Group started in the year 1984 when a proprietary firm Solar Explosives was formed by Satyanarayan Nuwal for trading in Explosives. In this year one of the, then largest Indian Explosive manufacturing company awarded its first consignment agency to Solar Explosives. The name of Solar Explosives Limited got changed to Solar Industries India Limited and the trading symbol of the Company on NSE was changed from SOLAREX to SOLARINDS with effect from April 13, 2009.

The Solar group has a two decade reputation in the explosives industry, starting out as a trading organisation it soon became the nation's biggest explosives trading entity. The Solar Group has a licensed & installed capacity of 175, 000 MT of Explosives, 140 million Detonators & 20 million meters of Detonating fuse. The manufacturing facility of the company is located at Village Chakdoh, 37 kms from Nagpur and is spread over an area of 150 acres. This ISO 9001 certified facility with a licensed capacity of 80,000 TPA of all kinds of explosives is the largest manufacturer of packaged explosives in India.

Products manufactured by the company

The company is one of the largest manufacturers and suppliers of Explosives and Explosive Accessories in India covering the entire range of products such as Bulk and Cartridge Explosives, Detonators, Detonating Cords, Pentaerythritol Tetranitrate (PETN), and Cast Boosters. It has manufacturing facilities strategically located in and around Nagpur spread over a total area of 350 acres. Four out of six of our Explosive manufacturing units are ISO 9001 certified by Det Norske Veritas (DNV) of Netherlands.

Clientele

The company supplies its products to major public and private sector companies like Coal India Limited and its subsidiaries, Steel Authority of India Limited, Singareni Collieries Company Limited, and Hindustan Zinc Limited. The Company also supply to various national hydroelectric projects, cement industry, infrastructure and construction sector, Border Roads Organization etc.

Its products are also exported to countries like Indonesia, Malaysia, Sri Lanka, Oman, Jordan, Syria, Lebanon, Ethiopia, Kenya, Uganda, Tanzania, and Nigeria.

Subsidiaries

■ **Economic Explosives Limited**

Solar Group forayed into manufacturing of Explosive initiating systems by setting up of Economic Explosives Limited (EEL) at village Sawanga 40 kms. from Nagpur, on a 165 acres of sprawling industrial plot. EEL has become a 100% owned subsidiary of Solar Explosives Limited with effect from September 25,2005 subsequent to a share purchase agreement between the promoters of EEL and Solar Explosives Limited. Company has got an ISO 9001 certification for its activities since 1999.Date of Incorporation : August 16, 1995.

■ **Solar Capitals Limited**

Solar Capitals Limited (SCL) an independent company was formed as a dedicated, on-site manufacturing facility for bulk Explosives for customers. Currently the company has modern and advanced bulk Explosive plants at Singrauli (Madhya Pradesh), Chandrapur (Maharashtra) and Korba (Chhatisgarh).The system is based on plant manufacturing of the Emulsion Matrix, which is non-Explosive. SCL has become a 100% owned subsidiary of Solar Explosives Limited with effect from September 25, 2005 subsequent to a share purchase agreement between the promoters of SCL and Solar Explosives LimitedDate of Incorporation : August 16 1995.

■ **Solar Components Private Limited**

Solar Components Private Limited was set up in the year 1998 for manufacturing of Aluminum Tube, Copper Tube and Brass Fuse Head with Capital expenditure of Rs. 1.25 crore. The products manufactured are used for manufacturing of Detonators. The unit is a part of total Backward Integration for manufacture of Detonators.During the last two years company has expanded its manufacturing capacity from 30 Million Per Annum to 90 Million Per Annum. The total Capital Expenditure made by the end of the year 2002-03 was Rs. 2.25 crore.Date of Incorporation: June 13 1997.

Financials Results

12 Months Ended Profit & Loss Account (Consolidated)

Value(Rs.in million)	FY09A	FY10A	FY11E	FY12E
	12m	12m	12m	12m
Description				
Net Sales	4987.63	5604.62	6277.17	7093.21
Other Income	157.23	229.4	217.93	231.01
Total Income	5144.86	5834.02	6495.1	7324.21
Expenditure	-4187.53	-4714.04	-5304.21	-5993.76
Operating Profit	957.33	1119.98	1190.89	1330.45
Interest	-234.85	-133.6	-118.45	-117.26
Gross Profit	722.48	986.38	1072.45	1213.19
Depreciation	-62.18	-78.5	-83.21	-89.87
Profit before Tax	660.3	907.88	989.24	1123.32
Tax	-218.94	-321.95	-346.23	-398.78
Profit after Tax	441.36	585.93	643	724.54
Equity Capital	173.24	173.24	173.24	173.24
Reserves	2126.34	2479.2	3122.2	3846.75
Face Value	10	10	10	10
EPS	25.48	33.82	37.12	41.82

*A=Actual, *E=Estimated

Quarterly Ended Profit & Loss Account (Consolidated)

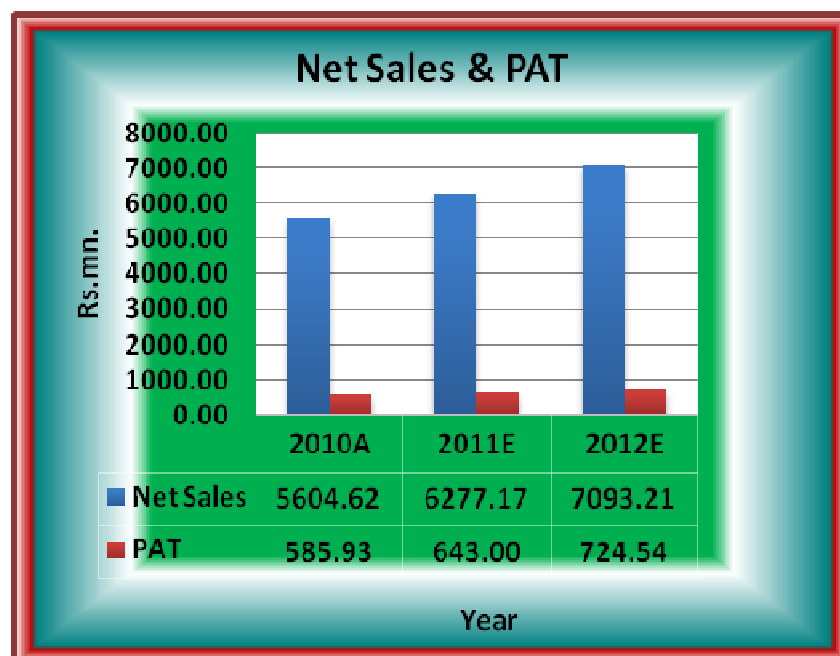
Value(Rs.in million)	30-Dec-09	31-Mar-10	31-Jun-10	30-Sep-10
	3m	3m	3m	3m(E)
Description				
Net Sales	1457.77	1565.3	1610.73	1449.66
Other Income	64.25	90.01	33.69	38.41
Total Income	1522.02	1655.31	1644.42	1488.06
Expenditure	-1227.92	-1394.97	-1311.6	-1223.51
Operating Profit	294.1	260.34	332.82	264.55
Interest	-25.97	-11.73	-29.89	-30.49
Gross Profit	268.13	248.61	302.93	234.07
Depreciation	-20.17	-22.1	-20.19	-21.2
Profit before Tax	247.96	226.51	282.74	212.87
Tax	-85.85	-80.95	-102.13	-75.57
Profit after Tax	162.11	145.56	180.61	137.3
Equity Capital	173.24	173.24	173.24	173.24
Face Value	10	10	10	10
EPS	9.36	8.4	10.43	7.93

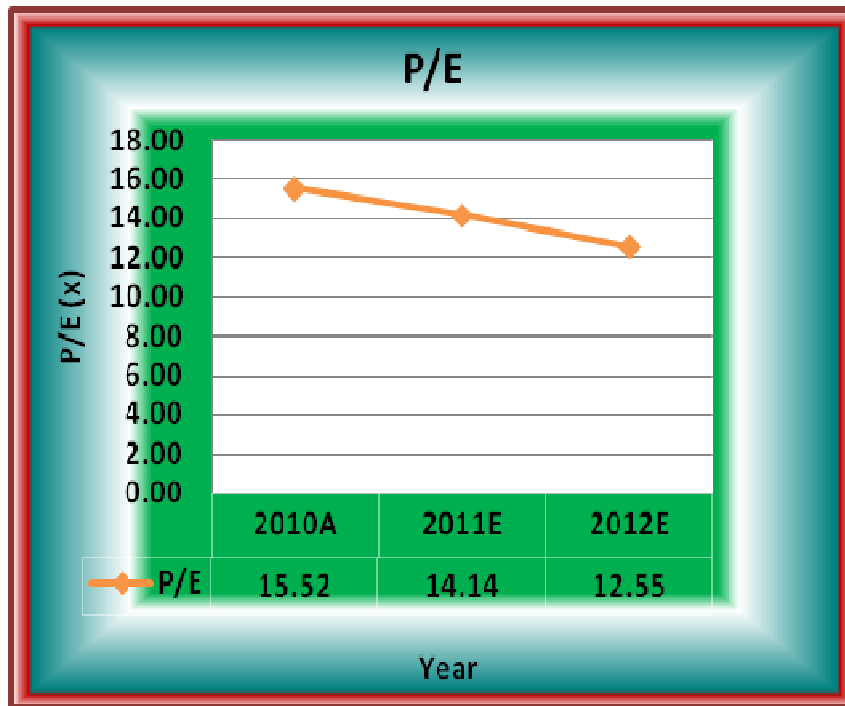
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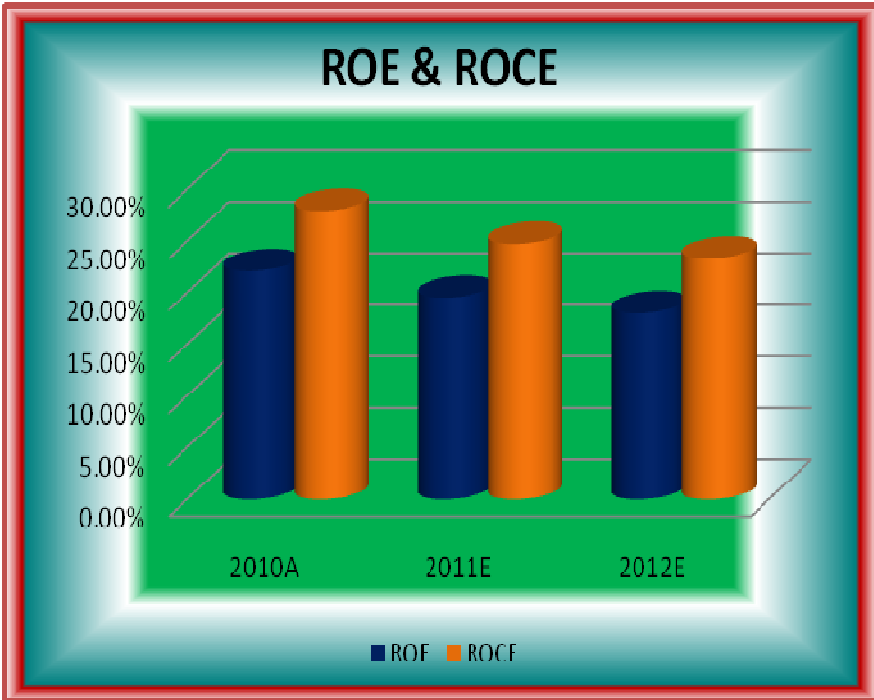
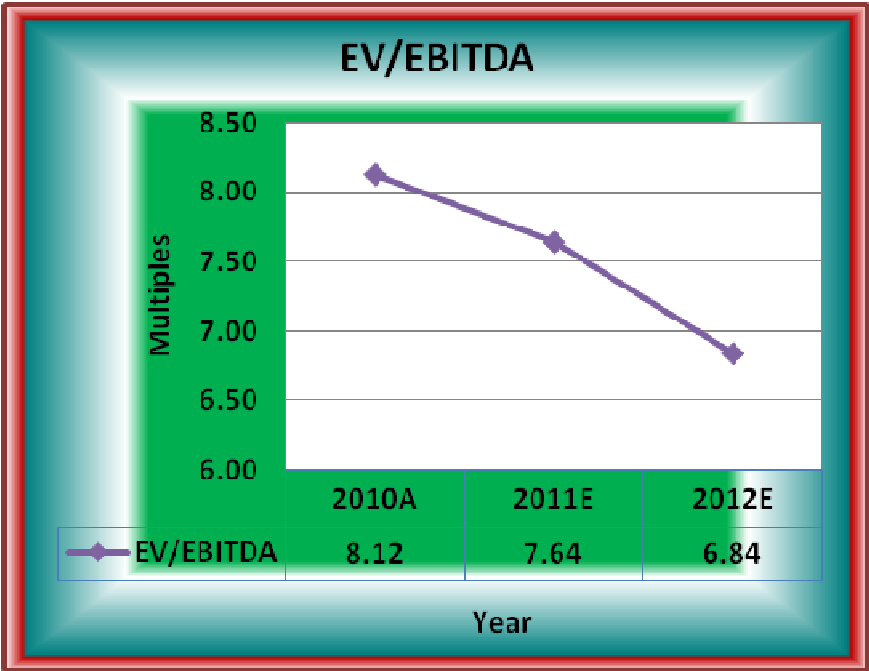
Key Ratios

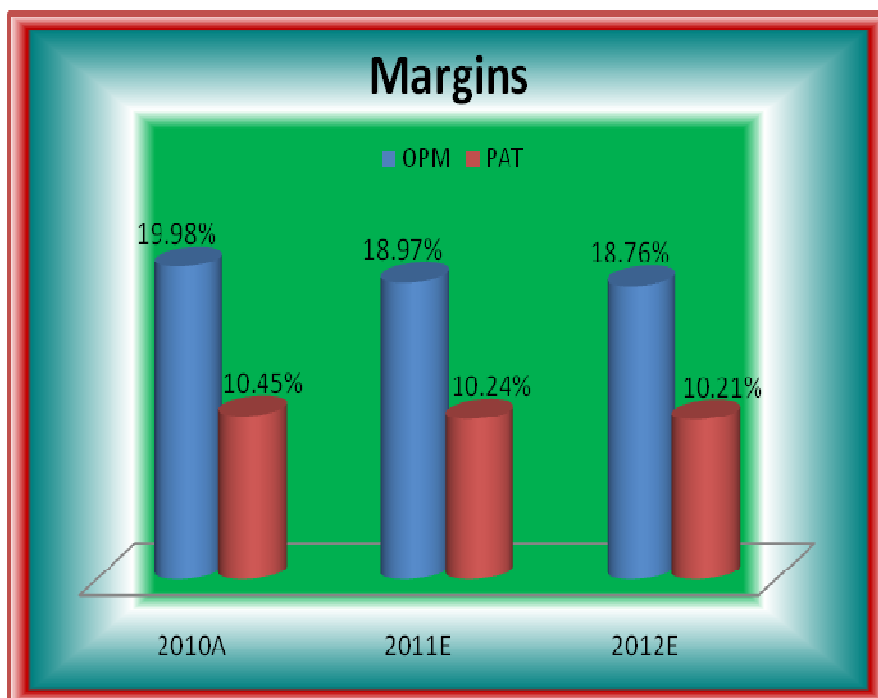
Particulars	FY09	FY10	FY11E	FY12E
EPS (Rs.)	25.48	33.82	37.12	41.82
EBITDA Margin (%)	19.19%	19.98%	18.97%	18.76%
PAT Margin (%)	8.85%	10.45%	10.24%	10.21%
P/E Ratio (x)	15.38	15.52	14.14	12.55
ROE (%)	19.19%	22.09%	19.51%	18.02%
ROCE (%)	29.67%	27.93%	24.73%	23.31%
EV/EBITDA (x)	7.09	8.12	7.64	6.84
Debt-Equity Ratio	0.31	0.41	0.36	0.32
Book Value (Rs.)	132.74	153.11	190.22	232.05
P/BV	2.95	3.43	2.76	2.26

Charts:









Outlook and Conclusion

- At the current market price of Rs.525.00, the stock is trading at 14.14 x FY11E and 12.55 x FY12E respectively.
- Price to Book Value of the stock is expected to be at 2.76 x and 2.26 x respectively for FY11E and FY12E.
- Earning per share (EPS) of the company for the earnings for FY11E and FY12E is seen at Rs.37.12 and Rs.41.82 respectively.
- Net Sales and PAT of the company are expected to grow at a CAGR of 12% and 18% over 2009 to 2012E respectively.
- The Solar Group has a licensed & installed capacity of 175, 000 MT of Explosives, 140 million Detonators & 20 million meters of Detonating fuse.
- The manufacturing facility of the company is located at Village Chakdoh, 37 kms from Nagpur and is spread over an area of 150 acres. This ISO 9001 certified facility with a licensed capacity of 80,000 TPA of all kinds of explosives is the largest manufacturer of packaged explosives in India.

- The Company has informed that the Credit Rating Agency CRISIL awarded P1+ rating for the issue of commercial paper of the Company. Further the Company raised Commercial paper aggregating to Rs. 25 Crores.
- Net profit of the company has increased at yoy 32.76% Rs.585.93mn from Rs.441.36mn of same period of last year.
- On the basis of EV/EBITDA, the stock trades at 7.64 x for FY11E and 6.84 x for FY12E.
- The Company is well positioned and well capitalised to tap the opportunities and expand its business portfolio. We expect that the company will keep its growth story in the coming quarters also. We recommend '**BUY**' in this particular scrip with a target price of Rs.**605.00** for Medium to Long term investment.

Industry Overview

The Specialty Chemicals segment in the Indian Chemical Industry is a new emerging sector which brings promises of huge growth.

Specialty chemicals are those chemicals which are produced at a low volume; they are high priced and usually targeted at a wide variety of markets. These chemicals are developed under the user's specifications which usually vary from one user to another. The methods of development depend on the application and the function of the chemicals. This industry requires the best technical know how.

The different Specialty chemicals:

- Diagnostic Aids
- Adhesives
- Paper Additives
- Flavors & Fragrances
- Elastomers
- Foundry Chemicals
- Industrial Enzymes
- Cosmetic Additives
- Dyes

- Food Additives
- Metal Plating & Finishing Chemicals
- Lube Additives
- Category Specialty Chemicals
- Industrial Cleaning Agents
- Fuel Additives
- Polymer Additives
- Oilfield chemical
- Mining Chemicals
- Photographic Chemicals
- Paint Additives
- Construction Chemicals
- Rubber Chemicals
- Water Management Chemicals
- Surfactants
- Textile Auxiliaries
- Electronic Chemicals.

The Specialty Chemicals segment is disunited with a huge number of companies. TNCs have a stellar inherence in this sector. Many of the present textile manufacturers are emerging as specialty chemical developers.

Market Characteristics

- The specialty chemicals segment is estimated around US \$ 465 million
- The industry has emerged from textile auxiliary chemical industry.

Key Success Factors

- Application of superb engineering skills for better chemical formulations
- Customization of the chemicals for specific end users requirements
- Technical knowhow to be imported for better production
- More export oriented productions
- Formulation of policies for the better functioning of the industry.

Future of the Specialty chemicals segment:

- Focus on improvement in efficient processes for enhanced productivity
- India to be one of the main source of base materials
- The demand of the segment depends on the demand of the end users.

Each and every day, various chemical products are being discovered so as to satisfy the needs that are arising in the industrial, commercial, residential fields. Various new chemical companies are starting and thus the chemical industry is witnessing a vast growth. There is a cut-throat competition going on between the manufacturers and thus each one of them is trying to deliver the most innovative & the best product. In all this, you are benefitted the most as you get a wide array of options to choose from. Various types of chemicals are being manufactured, explosives being one of them. Explosives can be described as a type of material, which are energetically or chemically unstable. Due to this instability, the material suddenly expands and at the same time a lot of heat is generated along with the change in pressure that causes explosions. There are two types of explosives that are listed below. This group of explosives is generally used in demolition, mining and even for military products. High explosives experience detonation at various rates from 1000 to 9000m/s. They can be further divided in two categories that differ in their sensitivity.

High Explosive Primary explosives are highly sensitive to mechanical friction, shock and even heat. They burn or detonate very quickly as compared to its counterpart. Secondary explosives are also known as base explosives and are less sensitive to heat, shock or friction.

Low Explosives - They can be described as a mixture of oxidant and a combustible substance and are easily decomposable. They are generally used as propellants. This group includes various types of explosives like gun powder, illumination devices, flares etc.

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