Safety • Quality • Reliability

January 28, 2023

To,
The Executive Director
Listing Department
National Stock Exchange of India Limited
Mumbai: 400001
Trading Symbol: "SOLARINDS"

To,
The Executive Director
Listing Department
BSE Limited
Mumbai: 400001
Scrip Code: 532725

Subject: Transcription of Conference Call with reference to the Unaudited Financial Results for the quarter and nine months ended on December 31, 2022 with the Management of the Company.

Dear Sir,

In furtherance of our letter dated January 23, 2023, we are forwarding herewith a copy of Transcription of Conference call hosted by ICICI Securities Limited on Wednesday, January 25, 2023 at 05:00 p.m. to discuss the Un-audited Financial Results for quarter and nine months ended on December 31, 2022 with the Management of the Company.

Kindly take the same on record and acknowledge.

Thanking you

Yours truly,

For Solar Industries India Limited
Khushboo Anish Pasari
Digitally signed by Khushboo Anish Pasari
Date: 2023.01.28 09:59:56 +05'30'
Khushboo Pasari
Company Secretary &
Compliance Officer

"Solar Industries India Limited Q3 FY-23 Earnings Conference Call"

January 25, 2023

MANAGEMENT:	**MR. MANISH NUWAL – CEO & MD, SOLAR INDUSTRIES** **MR. SURESH MENON – EXECUTIVE DIRECTOR, SOLAR INDUSTRIES** **MR. MILIND DESHMUKH – EXECUTIVE DIRECTOR, SOLAR INDUSTRIES** **MR. MONEESH AGRAWAL – JOINT CFO, SOLAR INDUSTRIES** **MS. SHALINEE MANDHANA – JOINT CFO, SOLAR INDUSTRIES** **MS. AANCHAL– INVESTOR RELATIONS, SOLAR INDUSTRIES**
MODERATOR:	**MR. AMIT DIXIT – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to Solar Industries Q3 FY23 Earning Call hosted by ICICI Securities. As a reminder, all participant lines will be in listen only mode, and there will be an opportunity for you to ask questions later during the presentation. Should you need assistance during the conference call, please signal an operator or pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I will now hand the call over to Mr. Amit Dixit of ICICI Securities. Please go ahead.

Amit Dixit: Good evening everyone. And thanks for attending this call. I thank Solar Industries for giving us an opportunity to host this call. Today evening we have with us Mr. Manish Nuwal – CEO and MD; Mr. Suresh Menon – Executive Director; Mr. Moneesh Agrawal – Joint CFO; Ms. Shalinee Mandhana – Joint CFO and Ms. Aanchal from Investor Relations. So, without much ado, I would directly pass control to Ms. AAnchal for taking this forward. Over to you AAnchal.

Achal: Thank you so much Amit. Good evening dear investors and potential shareholders, warm greetings in the New Year. We had a fantastic year in 2022 and hope to have a similar one in 2023 and we wish the same for our investor fraternity as well. I am Aanchal and I welcome you all to earnings call of Solar Industries India Limited to discuss quarter three earnings. Joining us today on this call is MD & CEO Mr. Manish Nuwal, Executive Director- Mr. Suresh Menon, Executive Director-Mr. Milind Deshmukh, Joint CFO-Ms. Shalinee Mandhana and Mr. Moneesh Agrawal.

Please note that certain statements concerning our future growth, prospects our forward-looking statements regarding our future business expectations, indented to qualify for the safe harbor, which involves a number of risks and uncertainties that could cause actual results to differ materially from those in such forward looking statements.

Now, I request Mr. Manish Nuwal to give opening remarks on the performance of the company. Over to you sir.

Manish Nuwal: Thank you AAnchal. A very good evening to all the valued stakeholders, on the backdrop of strong performance by our international and institutional businesses. The revenue for the quarter stands at Rs.1812 crore which is up by 78% year-on-year basis. And nine-month revenue stands at Rs.4994 crore up by 90% year-on-year and the net profit is up by 109% year-on-year for the quarter and 110% year-on-year for the nine months, which stands at Rs.219 crores and Rs.591 crores respectively. Defense revenue has crossed for Rs.100 crores for the consecutive second quarter and progressing towards yearly turnover of around Rs.400 crores. Our company has participated in various RFPs which includes RFP for one of the Pinaka variant and RFP for drone base loitering munition. The defense order book now stands at Rs.817 crores.

The company intends to offer its products for space application has also started showing results after the successful launch of Vikram S and static test of PSOM-XL motors made for ISRO.

The company intends to expand it further in the coming years. Amid geographical tensions, the risk of higher interest rates and economic slowdown brings in overall volatility in the business environment. Despite these challenges, our quarterly and nine-month revenue number gives us confidence to revise our annual growth guidance from 50% to over 65% for FY23. Going forward, we will stay focused on expanding our core businesses through continuous strategic investments to enhance the stakeholders value. Now, I'm handing it over to Achal to take you through the summary of financials. Thank you.

AAnchal: Thank you so much sir. I'm extremely happy in presenting the numbers of a quarter where we have crossed the revenue of 1800 crores and profit of 200 crores for the first time. We grew at 78% year-on-year registering a revenue of 1812 crores versus 1018 crores. EBITDA is at 357 crores up by 93%, PAT is at 219 crores up by 109% year-on-year, demonstrating the strength of our business. Now let's quickly review the quarter in detail. Explosives, the domestic volume in the quarter has increased by 17% that is 1,22,000 metric tonnes compared to 1,04,000 metric tonnes and our realization of explosive is up by 46% that is 71,000 tonnes versus 49,000 per tonne. As such explosive revenue was up by 71% from 513 crores to 876 crores. Revenue from initiating system was also up by 32% that is from 101 crores to 133 crores.

Coming to our customer basket:

Revenue from CIL was up by 64% year-on-year from 192 crores to 314 crores. Revenue from non-PIL Institutions was up by 133% year-on-year from 147 to 342 crores. Revenue from housing and infra was up by 41% year-on-year from 215 to 304 crores. Export and overseas revenue grew by 93% year-on-year from 377 crores to 729 crores. Defense revenue was up by 51% year-on-year from 73 crores to 110 crores.

Coming to our cost breakup raw material, the percent of raw material consumption is 63.55% versus 58.92%. In absolute terms the cost grew at 599.77 crores versus 1151.45 crores in the same quarter the previous year. The percentage of employee cost is 5.06% versus 6.62%. In absolute terms, the cost is 91.71 crores versus 67.39 crores. Other expenses percentage was at 12.09% versus 16.97% as a percentage of sales in absolute terms expense crosses 219 crores versus 173 crores. The interest cost is almost 25.46 crores versus 13.41 and the percentage is at 1.41% versus 1.32%.

Coming to the highlights for nine months:

We registered revenue very close to 5000 crores that is, 4994 crores, which is up by 19% year-on-year. EBITDA at Rs.952 crores up by 89%, PAT at Rs.591 crores, which is up by 110% year-on-year. We have also given our investor presentation with detailed numbers. Now, we would be very happy to take any questions, comments or suggestions that you may have. Over to you Amit.

Amit Dixit: Perhaps can we have questions?

Moderator: Our first question is from Garvit Goyal from Nvest Research. Please go ahead.

Garvit Goyal: Sir what shall be the overall PAT margins by the financial year 23 and by going forward what will be the revenue growth and PAT margins stated my financial year 24 and 25?

Management: For the current year, we have given projections of 11% to 12% of the PAT margin. And for the next two years we'll come up with a growth guidance in our quarter four results.

Garvit Goyal: Okay. My next question is, what are the drivers for the value growth in the domestic explosive business as one year ago the rates went up 43,962 and now it is 71,793. So, how sustainable these rates are going forward for say next one to two years.

Management: I am so sorry, can you just come up with your question a little slowly we are just unable to hear it clearly.

Garvit Goyal: What are the drivers for debt value growth in the domestic explosive business as one year ago rates were at 43,962 and now it is 71,793. So, how sustainable these rates are going forward for approx. next one to two years?

Management: Like you have mentioned that in this quarter our volume had increased by 17% and price increase was there by 46%, going forward as we are expecting that commodity prices should start correct and accordingly our finished goods prices will also get corrected. And because it is our finished goods prices are linked to the key raw material prices like ammonium nitrate and fuel oil. So, at this moment, it is not a certainty that prices will fall in a particular percentage. So, as we move forward, we will keep giving or revising our guidance, but as far as next few years are concerned, we believe that there will be some corrections, but it should stabilize in next one or two quarters. And based on that, we will give you future guidance.

Moderator: Thank you very much. Our next question is from Noel Vaz of Union. Please go ahead.

Noel Vaz: So, I just have one question which is specifically related to the order book which was given. So, in your presentation it is specifically mentioned that your order book at the end of the third quarter stands at 3389 crores. So, this is a sequential decrease over the second quarter. So, I'm just trying to understand how should we see this order book going forward and how did exactly relate to does it relate to your revenues going forward as well?

Management: So, the order book for that the different order standards at 817 crores and the rest order of around 2572 is from CIL and Singareni Collieries, general these orders are received for a period of two years. So, for CIL the next order will be coming in the month of October 23. So, till that period the order is there from CIL and for Singareni it will come in 2024 April, so till that the orders are inclined, inline what Singareni Collieries is already involve so. So, in one-and-a-half-year order for Singareni Collieries are captured in this.

Noel Vaz: Okay. So, basically SCCL one and a half years orders are reflected in this 3300 number as well as CILs one year number right?

Management: Yes.

Noel Vaz: Okay. And basically, quite simply put at the end of that period, then again order book can be **(Inaudible) 12:50** so to say is a better way to put it?

Management: Yes, correct.

Noel Vaz: Okay, fine. Also, just one more thing, I just wanted to try and understand generally how your pricing mechanism works, generally speaking, when there is a increase in the raw material cost within how much of a time period is there a lag or is it a pass through in terms of product mix?

Management: Yes, we have contractual obligations with the customers. So, generally that lies in between one month to three months in rising as well as falling trend there is always a lag of that much period.

Moderator: Thank you very much. Please go ahead. Our next question is from Dhananjai Bagrodia. Please go ahead.

Dhananjai Bagrodia: Is international volume growth significantly higher?

Management: It is in line with our annual guidance we had spoken that the volume growth will be in the range of 15% to 20%. So, even international business is in that line.

Dhananjai Bagrodia: Okay. So, is in line with 15%-20% rest of the business?

Management: Yes.

Dhananjai Bagrodia: Okay. And my follow up question is, so what would be current inventory debtors and payables?

Management: So, the current working capital days are around 100.

Dhananjai Bagrodia: Okay. And how would you see that ending for the end of the year?

Management: So, we see around 90 to 100 days of working capital cycle.

Dhananjai Bagrodia: Okay. And so current realizations are down or stable Q-on-Q, what we are seeing right now?

Management: It's stable Q-on-Q.

Dhananjai Bagrodia: Okay. And lastly, what will be the CAPEX in Q3?

Management: The current CAPEX is Q3, current till nine months the CAPEX is around 350 crores. And the target is around 450 to 500.

Dhananjai Bagrodia: And the target is 450 to 500. And ma'am what would you expect that to be for next year?

Management: This quarter we have revised our guidance for the current year to around 65%, so next year will come up in quarter four results.

Moderator: Thank you very much. Our next question is from Puneet Kabra who is an Investor. Please go ahead.

Puneet Kabra: Question I have if is, if I have to take a three- or five-year view, considering what Coal India is planning in terms of CAPEX, mining, government initiatives, private mining in coal. So, you know it all more, what kind of volume growth can we expect for this industry in the next couple of years or three to five years what kind of volume growth will be a reasonable number to look at?

Management: Like we have been repeating or giving our projections of growth, as far as volume is concerned, we still believe that we should be able to achieve a growth of 15%, 16%, 17% year-on-year basis for next couple of years, because there is a plenty of demand from coal mining, which we all are aware of. So, that gives us a lot of confidence in giving such kind of guidance that we are expecting a growth of around 15% in volume terms.

Moderator: Thank you very much. Our next question is from Sanjay Sathpathy of Ampersand. Please go ahead.

Sanjay Sathpathy: Sir, I couldn't get in earlier because of link issues. So, I may ask some questions which could be repetitive. So, just first thing is that you have given a guidance of 65% growth, I'm assuming that it is at least 65% because otherwise Q4, which is traditionally a bigger, seasonally biggest quarter, you are looking at a significant decline compared to quarter three. Can you please confirm that?

Management: So, we have given guidance of over 65% for the year 23.

Sanjay Sathpathy: So, my question is that will you continue to do this 15%, 17% volume growth, which you said that you will be doing each year for next couple of years. Will that continue in quarter four as well and are you seeing some kind of decline or dramatic change in realization or in raw material cost?

Management: Yes, as we have volume we do see 15% to 17% growth and on the basis of realization during the quarter the relations were stable, but since the raw materials that is especially the ammonium nitrate is already at very highly elevated levels. We see that should come down and subside in coming quarters

Sanjay Sathpathy: Ammonium Nitrate?

Management: Yes, that is a basic raw material for us.

Sanjay Sathpathy: So, if that falls then it will be pass through so it can have some kind of impact on your revenue or realization. But your overall profitability per unit may continue to be as good or maybe better is that what we should conclude?

Management: Yes, that is correct. At highly elevated prices the margins are generally less as compared to when the prices are stable.

Sanjay Sathpathy: Okay, But does it affect your unit profit that is in terms of rupees per tonne of exclusive that you sell?

Management: We generally do not look in that way for us when we speak on margins we see the EBITDA margins for which we have given our guidance that at average level 18% to 20% should be there.

Moderator: Thank you very much. Next question is a follow up from Garvit Goyal of Nvest. Please go ahead.

Garvit Goyal: My question is, in the last year volume growth in the domestic business has been 13%, how sustainable this volume growth is by going forward?

Management: We have already answered that we see sustainable volume growth of around 15% to 17%.

Garvit Goyal: Okay. And what is the drivers for the export businesses as year-on-year for nine month, there is an increase of 97%, what is the expected growth by going forward in next two to three years?

Management: Our export will continue to be growing as indicated to you, giving us an overall growth in EBITDA level at 18% to 21%. So, we expect the same kind of growth to take place in the near term.

Garvit Goyal: You are saying 18% to 21%, I am right?

Management: EBITDA level yes exports translating to that EBITDA level.

Moderator: Thank you very much. Our next question is a follow up from Noel Vaz of Union. Please go ahead.

Noel Vaz: Yes, I just wanted to know what exactly are the capacity expansion plans over FY23 and using a medium term if you can give me some color on that in terms of broad CAPEX pay over the next five years or may be just the volume number that will be helpful. Thank you.

Management: So, our current year CAPEX plan like Shalinee has mentioned that we are targeting around 450 crores or maybe around 500 crores, so it will be in that range. And in coming years also, for next couple of years, we believe that our CAPEX program will run around 450, 500 crores levels on an annualized basis. And our major CAPEX programs are for increasing the defense product portfolio, including the geographical presence within the country and increase our international presence in either new territories or expanding the current capacities of our major geographies where we are present like Turkey, Nigeria, and South Africa and Australia.

Noel Vaz: Okay. So, I am just trying to understand so when you are expanding to these international markets, what is the CAPEX or what is the investment that goes into setting up these kind of international businesses because I may be completely wrong so you can just tell me where exactly I am wrong but it just seems as though you just need to set up like a sales or a marketing division over that or is there something more to that?

Management: We have each country operating on their own and taking position at that level to grow the business. The growth in the business could be within the region that they are operating and the nearby regions that they are. So, we have a separate set of people in these country to handle this business.

Noel Vaz: So, we're talking about a separate plant as well and in foreign country as well, that is also?

Management: Yes.

Noel Vaz: Okay. And with this, just one trying to understand so these international businesses these are also for defense or these are for civilian applications?

Management: This is for only civilian applications.

Moderator: Thank you very much. Our next question is from Aniket Mittal of SBI Mutual Fund. Please go ahead.

Aniket Mittal: Just a few questions. One is from the overseas business side; I recollect we were planning some expansions in Australia and Indonesia. If you could throw some light as to where we are on that?

Management: Yes, our expansions in Australia and Indonesia is on line now, we expect our Australia operations to start in Q1 of financial year 24. In Indonesia, we have partially started and partially is on way, which we should start in the year Q1 of 24 also.

Aniket Mittal: Okay. And what are the capacities that we've set up over here?

Management: We don't share the capacity for each product country wise. It is generally we share the territories where we are expanding and on an overall basis we give growth guidance that's all.

Aniket Mittal: Sir on is, if maybe for the current year itself, we've been seeing a fairly decent growth in the international market. If you could just highlight certain dynamics in the individual geographies as to how they're planning, what is the growth that you're currently seeing within those geography, maybe from a volume perspective itself, that would be helpful?

Management: So, the growth from international market is coming from couple of factors like first is, volume growth of around 15% to 20% in various product ranges and second is, like we have said that in last couple of years we were investing and start the new territories. So, those territories have started **(Inaudible) 27:05** and in future we are planning to expand in the nearby market. So, all these three factors are giving us growth from international market and in future also, similarly we will keep growing.

Moderator: Thank you very much. Then the next question is from Prasheel Gandhi of Nirmal Bang Institutional Equities. Please go ahead.

Prasheel Gandhi: Sir, my first question pertains to the interest cost, net debt levels could you highlight what's the net debt level for third quarter, at the end of third quarter?

Management: For the group level it is around 1400 crores.

Prasheel Gandhi: 14 million net debt.

Management: Sorry, net is 1258 that is the gross.

Prasheel Gandhi: Okay. And my second question pertains to the interest cost, we have seen a huge jump in interest cost for the quarter. So, is this something that we need to assume for quarters going ahead or this is just a one-off and we can expect the interest cost to come down?

Management: The interest cost already the repo rates have been going up. The repo rates have been going up. And in the quarter earlier, the average cost of borrowing was less, so around 2.5% repo rates have increased so as a result the interest cost has also increased.

Prasheel Gandhi: And my final question pertains to the drone-based loitering munition. So, could you highlight the potential market and what revenue potential that we can expect from this segment over next two to three years?

Management: It is very difficult to give any such kind of guidance on what can be the potential for drone-based ammunition. But like we have been mentioning that company is increasing its product portfolio for a variety of applications. So, drone base ammunitions are new age technologies on which company is investing and like we have mentioned that few of our products are qualified and we participated in various RFPs for these products. And once we receive any significant orders, commercial orders, we will definitely share with the stakeholders.

Prasheel Gandhi: So, could you highlight the competitive intensity in this case, are we the only players or how is the competitive intensity in this place?

Management: We are yet to receive any kind of official information that who else are participated, so difficult to share at this stage.

Prasheel Gandhi: Okay. And my final question pertains to market share, could you highlight market share of key overseas geographies, what are the current market shares that we have?

Management: We don’t have the market share of each country wherever we are operating. So, it is difficult to answer this question.

Moderator: Thank you. Our next question is from Jenish Karia of Antique Stock Broking. Please go ahead.

Jenish Karia: Sir, if you can help for the reason for declining gross margins on a year-on-year basis?

Management: We have mentioned that this year also, although the raw material prices are at a highly elevated levels and despite all of these factors we are increasing margins to around 18% to 20% level.

Jenish Karia: So, the point I am trying to make is that is there any inventory loss that have been incurred during the quarter?

Management: So, if we look at our annual guidance what we have shared is that the revenue which we are targeting grows more than 65% and even factor the growth into our revenue side. And what we are saying is that we are expecting EBITDA margins of around 18% to 20%. We have also see that there is always inventory which we have to carry to run our operations. And there are always such contracts which keep going with our customers. So, as we carry inventory, there are also contracts which are still running conditions. So, every month or every quarter, there are some escalations and accordingly our inventory will get adjusted to those customers. We don’t see much impact due to these factors.

Jenish Karia: Okay. And sir one last question, I see that the other expenses has declined on a sequential basis I’m not sure if you have answered this earlier, so if you could just help with the reason for decline in other expenses in a sequential basis?

Management: So, if you capture the material consumed and other expenses, then both are moving in a similar range what we have seen in last couple of quarters, so we don't see much change on that account. And all these changes are happening because of changing either customer mix or product mix.

Moderator: Thank you. The next question is a follow up from Dhananjai Bagrodia. Please go ahead.

Dhananjai Bagrodia: Sir most of my questions have been answered. But just on the other flip side is there any risk we see in terms of global slowdown and are we seeing there anything in terms of the maybe order enquiry pipeline or how customers are reacting?

Management: We have factored in various kind of challenges whatever we can foresee. And based on those challenges, we have given a guidance which we have issued in this financial year. We are targeting to raise our revenue by over 65% this year. So, that captures the variety of challenges which we are facing at this moment.

Moderator: Thank you very much. Our next question is also a follow up from Sanjay Sathpathy of Ampersand. Please go ahead.

Sanjay Sathpathy: Sir, can I just ask what is the top country that you export to from here in India?

Management: We don't share the country-wise revenue, country wise figures which we are.

Sanjay Sathpathy: I am just asking the name of the country, the top one or two country that you export to?

Management: So, that also we don't share.

Sanjay Sathpathy: And the thing just wanted to confirm from you is that you just mentioned that you are getting into Australia and Indonesia. So, am I to understand that you didn't have much revenue from these two geographies till yet?

Management: Yes, you can assume like this that these countries are yet to start so revenues from Australia and Indonesia is yet to capture fully into our revenue numbers. So, these territories are at a very nascent stage, we are expecting revenues to grow from these markets in coming years.

Sanjay Sathpathy: And as far as your exports are concerned bulk of it is for coal or it is diversified?

Management: Our exports are mainly from India to our overseas subsidiaries where we have geographical presence and apart from our overseas subsidiaries, we are supplying to variety of customers and those customers spread to almost over 60 countries.

Sanjay Sathpathy: Are you supplying for coal mining predominantly or for non-coal usage?

Management: So, it's a mix of usage some of them are for coal, but most of them are for infrastructure related activities.

Sanjay Sathpathy: Okay. And the same thing which you will try here in Australia as well. Are you fine with giving this guidance of 15% to 17% growth overall, can I ask that how much you are looking at within India and how much exports will continue to grow?

Management: So, this was your last question I will answer to that. So, we are expecting volume growth of 15% to 17% in India and outside as well. Thank you.

Moderator: Thank you, sir. Then our very last question is from Prasheel Gandhi of Nirmal Bang. Please go ahead.

Prasheel Gandhi: Sir just a question in earlier calls we were guiding for a 25% value growth over medium term. So, with expectation of ammonia nitrate prices correcting and hence the expectation of our realizations to come down. So, do you still maintain that guidance?

Management: Yes, after capturing all these kinds of scenarios we believe that we should grow by over 65% in this financial year.

Prasheel Gandhi: No, sir for the coming quarters of over medium term we were maintaining some 25% growth guidance over medium term. So, could you highlight that?

Management: We have shared that; we are targeting a volume growth of around 15% to 17%. And as far as value growth is concerned, it is difficult to share at this stage, which we will definitely share after Q4 results are over.

Moderator: Thank you very much. Ladies and gentlemen we have reached the end of our question-and-answer session and I would like to hand the call back to management for closing comments.

Aanchal: We appreciate the time given by everyone. Thank you so much. See you again in the next quarter.

Moderator: Thank you very much. Ladies and gentlemen on behalf of ICICI Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.