

Q1FY09 UPDATE : HOLD

Date	12.08.08
CMP	INR 395
52 week High / Low	INR 549/180.1
Equity Capital	INR 17.3 crs.
Face Value	10
Mkt. Capitalization	INR 683.35 crs.

BSE SENSEX	15,503.92
NSE - NIFTY	4,620.40
NSE Code	SOLAREX
Bloomberg Code	SOXP IN
BSE Code	532725

SHAREHOLDING PATTERN (%) (30-6-08)

Promoters	74.60%
Institutions / Flls	15.75%
Public & Others	9.65%

STOCK PERFORMANCE (%)

	3-MTS	6-MTS	1-YR
SEL	-6%	-16%	109%
Nifty	-11%	-13%	0%
Sensex	-11%	-12%	3%

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SOLAR EXPLOSIVES LTD.

Exports growth offsetting domestic demand...

KEY RESULT HIGHLIGHTS

- ❑ **Topline zooms on the back of exports:** Consolidated net sales for the quarter grew by 51.4% YoY and 18.4% QoQ to INR 94.37 crs. Cartridge explosives contributed ~ INR 48-49 crs. to revenues while bulk explosives and other accessories contributed ~ INR 30 crs. and INR 24- 25 crs. respectively.

Consolidated revenues grew on account of increasing exports and modest realization improvement. Exports were at INR 24 crs. for this quarter vs. INR 22 crs. in FY08. Detonators and detonating fuse formed a major portion of export with realization increasing by 19.6% & 56.6% QOQ respectively. We expect the topline growth to be robust in the region of 40-45% going forward.

- ❑ **Profitability Improves:** Operating profits grew by 68.2% YOY and 12.6% QOQ to INR 20.14 crs. This was on account of improved realizations primarily on the exports. Operating profit margins expanded by 210 bps YOY to 21.3% primarily on account of improved realizations. OPM's contracted QOQ by 110bps on account of raw material cost increase which was partially mitigated by control over other expenses. We expect the company to maintain OPMs at 20-21% going forward.

Net profit grew by 43% YOY and 18.8% QOQ to INR 10.83 crs. with margins remaining stable QOQ at 11.5% but contracting YOY by 70 bps on account the company attaining full tax paying status and also increase in cost of debt on working capital debt in a rising interest rate scenario.

- ❑ **Capex Plans:** The company plans to undertake a capex of INR 45 crs. in FY09 with more than 50% in directed towards it's Nigeria plant which is expected to start commercial operations by end of FY09. Capex is across all segments with ~80% directed towards bulk & cartridge explosives and the rest for accessories. Approximately INR 50 crs. of IPO proceeds is lying unutilized.
- ❑ **CIL's new tendering policy:** Coal India Ltd. (CIL) has revised its tendering policy from an annual tendering process to a three year tender with a price escalation clause which enables price review on a quarterly basis. This will be beneficial for the company as it will be able to revise prices quarterly and hence command better realizations and at the same time have quantity assurance for 3 years.
- ❑ **Business Opportunity:** Based on the estimated coal production of 680 Mn MT at the end of the XIth 5 year plan, annual demand for explosives is expected to be in the range of 800000MT for coal mining alone. (CIL's Current requirement – 425000MT).

VALUATIONS

- ❑ We have revised our FY09 sales estimates from INR 348.8 crs. to INR 404.7 crs. while PAT has been revised upwards from INR 42.1 crs. to INR 43.5 crs. The stock currently trades at 15.7x our FY09E revised EPS of INR 25.1. With mining activities accelerating in the economy, better price realization and margin expansion we believe the company to continue to grow at 40-45%. Favorable macro-economic outlook for the coal mining sector coupled with the company's leadership position augurs well for the stock in the long run and hence **we recommend investors to "HOLD" the stock at the current level with a long-term horizon.**

CONSOLIDATED FINANCIALS

(Rs. in cr)

Particulars	Q1FY09	Q1FY08	% change (YOY)	Q4FY08	% change (QOQ)	FY08A
Net Sales	94.37	62.33	51.4%	79.7	18.4%	281.0
Other Income	2.57	2.34	9.7%	2.9	-10.6%	11.7
Total Income	96.94	64.67	49.9%	82.5	17.4%	292.6
Raw Material Consumed	45.89	39.3	16.8%	51.2	-10.3%	162.5
Stock Adjustment	4.89	-1.03	-574.7%	-12.0	-140.9%	-6.5
Employee Expenses	3.74	2.82	32.5%	4.9	-24.2%	12.1
Other Expenses	19.72	9.27	66.1%	17.6	11.9%	53.5
TOTAL EXPENDITURE	74.23	50.36	112.7%	61.8	20.2%	221.6
PBIDT	20.14	11.97	68.2%	17.9	12.6%	59.3
Interest	4.52	2.27	99.3%	3.2	42.7%	10.6
PBDT	18.18	12.04	51.0%	17.6	3.4%	60.4
Depreciation	1.44	1.2	20.1%	1.8	-20.4%	5.5
PBT	16.4	10.84	54.4%	15.8	6.1%	54.9
Tax	5.72	2.97	92.7%	6.4	-10.3%	17.4
Fringe Benefit Tax	0.05	0.03	61.3%	0.1	-39.5%	0.2
Deferred Tax	0.14	0.27	-47.3%	0.2	-28.8%	1.2
Reported Profit After Tax	10.83	7.57	43.0%	9.1	18.7%	36.1
EPS (Unit Curr.)	6.25	4.37		5.3		20.9
Equity	17.3	17.3		17.3		17.3
Face Value	10.0	10.0		10.0		10.0
PBIDTM(%)	21.3%	19.2%		22.5%		21.1%
PBDTM(%)	19.3%	19.3%		22.1%		21.5%
PATM(%)	11.5%	12.1%		11.4%		12.9%
Tax rates	35.3%	33.3%		42.2%		34.2%

Particulars	Q1FY09	Q1FY08	Q4FY08	FY08
Cost analysis % of sales				
Raw Material Consumed	53.8%	61.4%	49.2%	55.5%
Employee Expenses	4.0%	4.5%	6.2%	4.3%
Other Expenses	20.9%	14.9%	22.1%	19.0%

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