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February 18, 2020

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

To,
The Executive Director
Listing Department
BSE Limited
Floor No. 25, PJ Towers
Dalal Street
Mumbai: 400001
Scrip Code: 532725

Sub: Transcription of Conference Call with reference to the Unaudited Financial Results for the quarter and nine months ended on December 31, 2019 with the management of the Company.

Dear Sir,

Further to our letter dated February 8, 2020 we are forwarding herewith a copy of Transcription of Conference call hosted by BOB Capital Markets Limited, on Wednesday, February 12, 2020 at 4:00 pm to discuss the Unaudited Financial Results for the quarter and nine months ended on December 31, 2019 with the management of the Company.

Kindly take the same on record and acknowledge.

Thanking you

Yours truly,

For Solar Industries India Limited

Khushboo Pasari
Company Secretary &
Compliance Officer



Solar Industries India Limited

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“Solar Industries India Limited
Q3 FY2020 Earnings Conference Call”

February 12, 2020



**ANALYST: MR. ROHIT AHUJA – RESEARCH ANALYST - BOB
CAPITAL MARKETS**

**MANAGEMENT: MR. MANISH S NUWAL – CHIEF EXECUTIVE OFFICER,
MANAGING DIRECTOR & EXECUTIVE DIRECTOR - SOLAR
INDUSTRIES INDIA LIMITED
MR. NILESH PANPALIYA – CHIEF FINANCIAL OFFICER -
SOLAR INDUSTRIES INDIA LIMITED
MR. SURESH MENON - EXECUTIVE DIRECTOR - SOLAR
INDUSTRIES INDIA LIMITED**



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Moderator: Ladies and gentlemen, good day, and welcome to the Solar Industries India Limited Q3 FY2020 Earnings conference call hosted by BOB Capital Markets Limited. As a reminder all participant lines will be in the listen only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference all, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Rohit Ahuja of BOB Capital Markets. Thank you, and over to you, Sir!

Rohit Ahuja: Thanks for logging in. I welcome you all to Solar Industries post results conference call for Q3 FY2020. I welcome from the management, Mr. Manish Nuwal, MD and CEO, Mr. Nilesh Panpaliya, Group CFO; and Mr. Suresh Menon, Executive Director. I now hand over the floor to the management for introductory comments, and then we can start with the Q&A. Thank you.

Nilesh Panpaliya: Very good afternoon to all the valued investors, well-wishers and potential investors of Solar Industries India Limited. On behalf of Solar Industries, I am Nilesh Panpaliya, CFO, welcome you all to the earnings call for Q3 for the financial year 2019-2020.

I would like to remind you that during the call, we might make projections or other forward-looking statements regarding future events and about future financial performance. Please remember that such statements are only predictions. Actual events or results may differ materially, and our website will be updated with all the relevant information from time to time.

To begin with, I would request our Managing Director and CEO, Mr. Manish Nuwal, for his comments on the company's performance for this quarter.

Manish S Nuwal: A very good afternoon, everyone. Monsoon this year has surprised one and all. It was initially predicted well below normal but finished with excess rain, not just for the year, but highest in last 25 years. Excess and prolonged monsoon affected mining, infrastructure and well sinking activities. Very heavy rain fall in eastern, central and northern part of India had a major impact on the sale of packaged explosives as well sinking operations were totally stopped. The demand in this segment will continue to be muted in the fourth quarter due to continued unseasonal rains.

Coal India's monthly production dropped to a record low as the heaviest rains in 25 years, flooded mines and hindered shipments, and as a result, the total coal production was down substantially in this third quarter. However, there has been an uptick in the Coal India



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production in December 2019 and January 2020, hence, should see some improvement in the fourth quarter. The follow-up from trade tensions across major economies, most notably the U.S, and China, political uncertainties and a slowing Chinese and Indian economy, negatively affected global growth. Industrial production, market sentiments and our operations in Turkey is a major fallout of that.

Coming to defense we have the order book of 377 Crores, but the delivery schedules have been extended by the customers, resulting in lower revenues in this quarter. Under government's program of indigenization for the best defense procurement, our defense revenue will certainly go up once the RFP under Make in India get finalized. We have also participated in RFP for multi-mode hand grenades and Pinaka rockets, along with few other products.

Though government has been articulating the need to involve the private sector in defense for a long time, but progress is quite slow. But we are hopeful of achieving FY2020 revenue guidance of 300 Crores in FY2021. Though we are very confident of pickup in domestic and economic activities, led by revival in investment cycles, higher coal production, higher capex spending announced in the budget 2021, but continued unseasonal rains, global slowdown and the recent Coronavirus threat are posing risk in the near term. But our team is very well-focused, making all the efforts to meet these challenges.

Now I will request Mr. Nilesh to share the financial details of quarter 3 in details to you all. Thank you.

Nilesh Panpaliya:

Thank you. Coming to the third quarter financial numbers; in the third quarter, our consolidated revenue was down by 14% that is 561 Crores from 653 Crores. Due to extended rainfall in the third quarter, our domestic volume was down by 10% that is from 95719 metric tonnes to 86386 metric tonnes.

Our domestic explosives revenues were low by 21% that is from 353 Crores to 278 Crores on account of fall in ammonium nitrate prices, which resulted in fall of the realization of explosives prices as well. However, during the period, the initiating system revenue grew by 17%, that is from 63 Crores to 74 Crores.

Our export and overseas revenue stood at 222 Crores compared to 239 Crores. That is a decrease of 7.45%. This was because there was an overall fall in the commodity prices globally, which resulted in lower revenues in the countries we operate.



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Another reason is on account of translational loss of 13 Crores, which were coupled with lower revenues from Turkey, which is facing economic slowdown. Now the revenue from defense is 26 Crores in the current quarter compared to 41 Crores as we have mentioned earlier that the deliveries dates have been shifted by the customers.

Coming on to raw material consumption the same has decreased by 3.8% that is from 57.4% to 53.60% as a percentage of sales when we compare year-on-year. This is on account of change in the product mix. The employee cost in absolute terms has increased from 46 Crores to 49.41 Crores that is by 6%. However, it looks marginally higher as a percentage of sales in this quarter by 1.67% from 7.14% to 8.81% that is on account of lower sales.

The other expenses in absolute terms have reduced by 11% from 110 Crores to 98 Crores in the current quarter. However, as a percentage of sales, it seems to be increased from 16.86% to 17.39%. That is by 0.3% on account of lower sales.

For the quarter, we report an EBITDA of 123 Crores, which is 21.87%, up from 19.12% when we compare year-on-year basis and is in line with our earlier 2 quarters, that is 21% plus. Just to remind you, in Q1, it was 21%, and in Q2, it was 22.28%.

Interest and finance cost is almost same in absolute numbers, that is 14.64 Crores in Q3 FY2019 compared to 14.11 Crores in current quarter last year. However, the same has increased by 0.27% from 2.24% to 2.51% as a percentage of sales when we compare year-on-year.

Depreciation in absolute terms, it has increased by 47% from 14 Crores to 23 Crores. However, as a percentage of sales, it has increased from 2.29% to 3.93%, that is by 1.64% due to increased Capex in the previous year. The profit after-tax margin stands at 15.43% compared to 14.58%. When we compare on a year-on-year basis, the current tax rate for the quarter is 25% as the tax rates were reduced because of the budgeted provision of 2019. The net profit is down by 11.7% year-on-year. That is 65 Crores compared to 73.67 Crores. However, the net profit margins have improved by 0.31% that is from 11.28% to 11.59%.

Coming to the capex the total capex in Q3 FY2020 is 65 Crores. We have a planned capex of 250 Crores for the year. The total order book is 1396 Crores, which comprises orders from Coal India around 840 Crores, Singareni Collieries around 180 Crores and defense order book of 377 Crores. So these are all the updates for the quarter. Now we would be happy to take questions, your comments and suggestions, so back to the operator. Thank you.



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- Moderator:** Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. We have our first question from the line of Nilesh Soni from IndiaNivesh Securities. Please go ahead.
- Nilesh Soni:** Sir, I have a couple of questions. Sir, can you please give the split between the export and the international business revenue for Q3 as well as for 9-month FY2020?
- Nilesh Panpaliya:** Our total exports for the quarter is around 52 Crores, and our overseas turnover revenue is around 170 Crores.
- Nilesh Soni:** 170 Crores, correct?
- Nilesh Panpaliya:** Yes.
- Nilesh Soni:** And for 9 months, Sir, if you can give that?
- Nilesh Panpaliya:** So our 9-month exports, is around 118 Crores, and our overseas revenue is 502 Crores.
- Nilesh Soni:** 502 Crores. Okay, one more question. Sir, can you please quantify, what orders you won from the defense space? What all orders you won from the defense space in Q3 as well as for 9 months?
- Nilesh Panpaliya:** As we have mentioned earlier that we have orders from all the sectors that is high energy materials, we have **home** delivery systems, pyros igniters. So it is a complete basket of all these products.
- Nilesh Soni:** Thank you Sir. That is it from my side.
- Moderator:** Thank you. We have next question from the line of Shreyas Bhukhanwala from Canara Robeco Mutual Funds. Please go ahead.
- Shreyas Bhukhanwala:** Sir, couple of questions. So you did mention that Q3 was largely hampered by rains. So how are you seeing infra segment performing in Q4?
- Nilesh Panpaliya:** So typically, as we have mentioned that because of this water logging and this well sinking activities, which is a typical part of infra, we will still have a subdued demand from this sector, and we do expect that now probably the housing and the road construction activity should eventually pickup. That will be from March onwards. January because we are still witnessed the rainfall.



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Shreyas Bhukhanwala: Sir, secondly, like considering 9 months degrowth of around 6% in revenues. How do we see full year revenue growth?

Nilesh Panpaliya: So it will be earlier to our production, this will be down by almost 7% to 8%.

Shreyas Bhukhanwala: On the full year basis as well?

Nilesh Panpaliya: Yes.

Shreyas Bhukhanwala: Okay. Sir, thirdly, on the defense side so how much are we targeting for this year on the revenue side?

Nilesh Panpaliya: It will be somewhere close to around 150 Crores to 160 Crores.

Shreyas Bhukhanwala: Okay. Sir, on the order book side, on the Coal India, have you seen any downsizing on the ordering, order book basically? Because last quarter, if I see our order book was almost 1070 Crores, which has come down to 840 Crores?

Nilesh Panpaliya: Yes. So it is basically a running contract. But now because of the change in this thing, prices of the ammonium nitrate, the prices have come down. So because of that effect, we are seeing it.

Shreyas Bhukhanwala: Okay and how much has been the price change in ammonia were, if I see sequentially?

Nilesh Panpaliya: The price change in ammonium nitrate has been almost 8%.

Shreyas Bhukhanwala: Okay, quarter-on-quarter?

Nilesh Panpaliya: Yes.

Shreyas Bhukhanwala: Okay, and lastly, on the translation loss, you said it was 13 Crores this quarter. If you can just help me how much was the same in last year same quarter and 9 months, if you can just help me with that?

Nilesh Panpaliya: Yes. So for the 9 months, we have lost and total revenue of 56 Crores because of translation.

Shreyas Bhukhanwala: Okay, and how much it would be, maybe if you can just guide on the 9-month last year?

Nilesh Panpaliya: Last year 9 months. I will give you that figure in some time.



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Shreyas Bhukhanwala: Sure, thanks.

Moderator: Thank you Sir. We have next question from the line of Jasdeep Walia from Infina Finance. Please go ahead.

Jasdeep Walia: Thanks for taking my question. Sir, do you provide the blasting services as well? If yes, what is the contribution to sales?

Nilesh Panpaliya: Yes, blasting services we are providing only in Turkey, not in India.

Jasdeep Walia: Could you describe your services, Sir. What all do you provide?

Nilesh Panpaliya: Full blasting services. We load the hole and fire the shot, the full blasting services. We have not done drilling so far.

Jasdeep Walia: Okay, and Sir, I was just going through the presentation of the global competitor of yours Orica. They have started providing digitally enabled blasting services, something like wireless blasting, etc., and that component of the revenue is growing really fast. So are you also investing in that segment?

Nilesh Panpaliya: Yes, we are also getting into that segment. That is still in the development stage today. I think it will take about a year to get to reach somewhere for getting that digital dignitaries, wireless dignitaries.

Jasdeep Walia: Got it, and Sir, all your global competitors already provide that service?

Nilesh Panpaliya: No. The market is yet to develop in that segment. Though competitors may be claiming that they have done, they are also in the trial stage.

Jasdeep Walia: You guys would launch it commercially by end of next year?

Nilesh Panpaliya: Maybe a 1, 1.5 years probably. We are still in the development phase.

Jasdeep Walia: Got it Sir. Thanks, that is all from my side.

Moderator: Thank you. We have next question from the line of Santosh Yellapu from IndiaNivesh. Please go ahead.

Santosh Yellapu: Thank you for the opportunity. I had a couple of questions here. First question, as Sir said, if you award Aspire to have 7% to 8% growth for the full year, and if we do the back of the



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revenue calculation, then we need to do a 40% kind of growth for Q4. So if we go by the first 1.5, 45 days of the quarter, have you got those kinds of fillers that we can attain this kind of growth?

Nilesh Panpaliya: Santosh, what we mentioned was, that will be a negative growth, means it will be down.

Santosh Yellapu: My mistake, Sir, I am sorry. I got it. Sir, second thing, I just want to get a sense how much has the ammonium nitrate prices fallen Y-o-Y? Just a percentage sense because if I see degrowth in the realization, that is 13% Y-o-Y despite having such low growth across all the segments in the domestic market, our volumes also grown. So did we resort to any kind of aggressive discounting in housing and infra and despite that also we ended up with the volume degrowth?

Nilesh Panpaliya: So the ammonium nitrate pricing has gone down by 8%.

Santosh Yellapu: Sir, lastly, what is the rationale for an increase in the long-term borrowings we see in the domestic segment? Similarly, for the stress in the working capital cycle of the overseas business, especially in the scenario, when our business is not growing?

Nilesh Panpaliya: The business is not growing, but since the economic conditions there have slowed down, so we are thinking like, there is some delay in getting that payment cycle as well, but we have taken various measures to ensure that our debtor days are well as per our given guidelines, and similar situation is there in local market as well, even especially Coal India, where we are, and even in Singareni. So there, whatever was the earlier payment, now there is a delay so this was a short-term challenge, and we are hopeful that by this March end, things will be back to their original levels.

Santosh Yellapu: One last question, if I may. How do you see the domestic market performance? That means you just said that a few minutes back that the road in infra segment should start picking up from March onwards. But the Coal India expects similar kind of volume what they did last year. So where do we get the visibility that the revival would happen and it would contribute to our numbers?

Nilesh Panpaliya: I think first let us talk about Coal India. Currently, their production is down compared to last year. As already explained to you due to the unseasonal rains, heavy flooding in most of the mines, the production has dropped. But Coal India has taken a target of 660 million tonnes for this year, which they will not be achieving. They will be down by about 7%, 8%. Next year's target has already given to them by the government of 720 million tonnes. They have already started procuring high capacity equipment for about 7000 Crores this year.



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They are already gone in for increasing the rate availability because evacuation was one of the major problems, and 700 Crores have been spent on that to get additional rates. The railway lines in Southeastern Coal Fields and in Odisha the Mahanadi Coal Fields have already been completed, which will release about 200 million tonnes of coal. All in all, Coal India has to see that the imports of coal are restricted to 200 million tonnes. Currently, we are importing 234 million tonnes of coal at a foreign exchange out growth of 1.6 lakh Crores. So ministry has mandated that this should come down or at best it should not increase. We expect the coal demand to pick up the powers, the generation has started increasing, power consumption has started increasing. In January, we have seen that about 3.7% increase is there in the power demands. So we expect that 4.5% to 5% power demand will increase in the coming years. So this will save us a big opportunity. All as already said in baring the short-term glitches that we are having due to Coronavirus and flooding of states. The coal segment should look up in the next 2, 3 years, and they have mandated to produce 1 million tonnes by 2023-2024. The infrastructure segment side, the road construction is a major trust area. We are only about 2.5% of our roads are 4-lane roads. We are gathering about 135000 kilometers of 4-lane and a 5.7 million kilometers of road. The government has plans to do to 2 lakh kilometers of roadways in the next 5 years. So this should see the rate of roads 4-laning production going up by about 10000 to 12000 for every year. This will give a big boost to the cartridge explosives market.

The major depression this year we had is in well sinking operations. As you know, the cartridge explosives and detonators are used largely in the well sinking segment because of the very heavy monsoons, most of the well sinking operations in the Western Coast, particularly where the water tables are very low, have been postponed. We hope that with the normalcy coming in, the well sinking operations will start operating faster than next monsoon. Every time there is a good monsoon, we get open wells and the villages are filled, and therefore, the need for deepening is not there. Once, after a good summer, the water dries up, and then they had to do the blasting to generate sources of water from the underlying springs. So these are areas where we find that if you look at the budget, 1.7 lakh Crores has been allocated for transport infrastructure, which is a very big amount allocated, and hopefully, we see that this could improve. They have extended the release given to the housing sector by 1 more year. We should see the housing construction improve as well.

Cement Manufacturing Association has forecasted a growth of 6.5% for the next 2 years on cement demand, and it will reflect in our growth as well. So we are quite positive about the next 3, 4 years cycle. We should see that the things will be back up to our normal growth patterns. Thank you.



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Santosh Yellapu: Sir, and do we see any slowdown because of the global slowdown or global concerns? Do we see the Ghana and Australia plants getting delayed by any chance?

Manish S Nuwal: The plant is not likely to get delayed. The plant will be ready by March end in Ghana and probably by September in Australia.

Santosh Yellapu: That is it Sir. Thank you Sir.

Moderator: Thank you. We have next question from the line of Shithish Chitransh, Individual Investor. Please go ahead.

Shithish Chitransh: I have been investing into the company and I have been tracking the company since a long time, and if I look at the previous quarter's concall, then there were several reasons that I found have continued into this quarter as well. Please do correct me if I am wrong. So last quarter, it was said that the rainfall has impacted. The economic conditions domestically were not good. The U.S.-China trade tension and the revenue from Turkey was quite adverse. This quarter, the Coal India production was also pretty low. So the only thing that has added to the adversity was the Coal India production, right and anything else that has reduced the volume and revenue?

Nilesh Panpaliya: Yes. So definitely, as one of the factors we said was Coal India. Secondly, what we mentioned was because of this heavy rainfall, there has been water logging, and the well sinking activities, which is a part of these infrastructure activities, where a lot of explosives are used. That was completely not there. Demand was not there, and even the commodity prices were down. So that also resulted in lower realization, which again resulted, and even if you talk about defense revenue also, that also came down because of the delayed in the orders by the customers so all these factors, which has affected the quarter.

Earlier, like we said Q3 is normally is a monsoon quarter where demands are low. But Q3 is now these 2 months, both October and November, we did sales trend and even in this part of Maharashtra, where we have WCL on there and January was one of the wettest month like what they told in 15 years. So there was higher rainfall. So these parameters are beyond our control.

Shithish Chitransh: Right. Sir, there was a supply order received from ISRO and you would also like invested into this start-up or that was launching satellites. So is there any growth regarding maybe this time?



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- Nilesh Panpaliya:** So yes, we have made that investment in the start-up and we also received the first order from them, and we are developing the Propellants, and as far as, that we will give in the first quarter of 2021, and as far as this BrahMos is concerned, so whatever Propellants we have supplied them, they have flight trails have concluded successfully, and we have also received supply orders for BrahMos Propellants.
- Shithish Chitransh:** Yes. So Sir, just wanted to confirm if the sales that was started in Tanzania has the sales been consolidated into these numbers of Q3?
- Nilesh Panpaliya:** Yes.
- Shithish Chitransh:** Thanks.
- Moderator:** Thank you. We have next question from the line of Shreyas Bhukhanwala from Canara Robeco Mutual Fund. Please go ahead.
- Shreyas Bhukhanwala:** Sir, a couple of questions. On the well sinking, you said, so how much proportion would be well sinking in our infra, can you guide us?
- Nilesh Panpaliya:** So if infra was around 30%, 35% of our total revenue, 1/3 of that is well sinking activities.
- Shreyas Bhukhanwala:** Okay. Secondly, on the Coal India side. So last quarter, we were expecting some incremental orders to come in from Coal India. So have they fructified? Or are we seeing that coming in this quarter?
- Manish S Nuwal:** At same level.
- Nilesh Panpaliya:** So the orders are at same level. There are no further orders flowing in as of now?
- Shreyas Bhukhanwala:** But have you bid? Or have we put in any tenders?
- Nilesh Panpaliya:** Yes, we had bid, we have tendered, and it is now a part of the total order book, which we have mentioned.
- Shreyas Bhukhanwala:** Okay. So already we have received the incremental orders, which we are supposed to receive.
- Nilesh Panpaliya:** Yes.



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Shreyas Bhukhanwala: Sir, thirdly, on the margin side. So I see gross margins have improved 300, 350 BPS in, if I am not wrong you mentioned that is because of the product mix whereas I see in our domestic business, infra actually it has degrown wherein majority of the explosives used are packaged, which have higher margins. So is that because of the overseas business, we have seen better product mix there and better margins there?

Nilesh Panpaliya: This is because of increase in initiating systems sales both in domestic and as well as export markets.

Shreyas Bhukhanwala: So majorly because of the IS?

Nilesh Panpaliya: Yes.

Shreyas Bhukhanwala: How much was the growth in that, if you can just help me?

Nilesh Panpaliya: It was roughly around 17% growth.

Shreyas Bhukhanwala: 70%?

Nilesh Panpaliya: Yes, 17% growth is the revenue of initiating systems.

Shreyas Bhukhanwala: 17%. Okay, and Sir, lastly, on the working capital. So in days, how much is the working capital?

Nilesh Panpaliya: Means, in this...

Shreyas Bhukhanwala: Working capital days as on December end?

Nilesh Panpaliya: December end, the working capital days is 126.

Shreyas Bhukhanwala: 120 days?

Nilesh Panpaliya: 126, yes.

Shreyas Bhukhanwala: Which was around 95~~00~~ days as on?

Nilesh Panpaliya: 90 as on this March. March, and September, it was 95. Right now, it has gone to 126, but it will come down to those levels, as I said.

Shreyas Bhukhanwala: So this is largely due to delayed payments by customers?



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Nilesh Panpaliya: Yes, delayed payment by the customers, one of the reason, and even the sales revenue are lower. So when you calculate the day, it seems to be reduced, and inventory level, we had maintained based on the expected higher sales, so which has not taken place so now in these 3 periods, that will also consolidate.

Shreyas Bhukhanwala: Sure, thanks.

Moderator: Thank you. We have next question from the line of Divesh Jain from Safehands Financial Advisor. Please go ahead.

Divesh Jain: My first question is just that, can you tell me what is the total contribution of Coal India and Singareni as a percentage of revenue?

Nilesh Panpaliya: So Coal India and Singareni as a percentage of total revenue is 30%.

Divesh Jain: 30%?

Nilesh Panpaliya: Yes.

Divesh Jain: Sir and the second one, as you shared, revenue is decreased by changing in delivery data by customers. So can you tell me any specific reason for change?

Nilesh Panpaliya: That we do not know because that is as per the requirement for the material because like we are supplying pyros igniters, they are used, and so we do not know exactly why they are delayed. We have received that. We would like to have the procurement there.

Divesh Jain: That is from my side. Thank you.

Moderator: Thank you. We have next question from the line of Chirag Muchhala from Nirmal Bang. Please go ahead.

Chirag Muchhala: The question is mainly on the overseas markets. So the 3 main countries currently, which are contributing largely to overseas is that Turkey, Zambia and Nigeria. So can you please, I mean, just give a brief outlook about all the 3, how it looks like right now and even from the next 1 year point of view, considering some of the global trade tensions that you are mentioning? So how is that likely to pan out?

Nilesh Panpaliya: Yes. We expect the infrastructure segment in Nigeria to grow in the next 1 year. There are lots of new mines of cement mines and coal mines are coming up in Nigeria today. So we



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expect growth to take place in Nigeria in the next 1 year. Zambia because of downfall of copper mining in Chile, and so we expect the mining in the Zambia belt to increase in the next 1 year, and in Turkey, definitely, there is a slowdown in the economy, and it has fallen down by almost 30%. The demand has fallen down by 30%. So we are a much better place today, and I think this is just the bottom there in Turkey. It should improve from now on.

Chirag Muchhala: Okay, and Sir, last time, you had mentioned that post the Vedanta exit, the copper mining operations were hitting Zambia. So have they revived now?

Nilesh Panpaliya: The Vedanta has walked out of the copper mines. The government has taken over the copper mine, and they are running the copper mine now. So they are ramping up the production now slowly.

Chirag Muchhala: Okay. So we are now again supplying back to them?

Nilesh Panpaliya: We are again back to supplying them.

Chirag Muchhala: Okay, and Sir, around 3 new countries that we are planning, so actually trial production was supposed to start in Q4 in Ghana, in Australia plus, we were also in the ramp-up phase of South Africa. So how these 3 countries are likely to pan out in the next 1 year?

Suresh Menon: Ghana, we should start at end of Q4, we should start Ghana. So, we should grow in Ghana because that is a good gold mining country, and so volumes are available there. In South Africa, we have 2 segments. We are almost reaching our target level in as far as underground mining is concerned. In the surface mining, there is a small delay. But I think next year, we should be able to catch up our desired volume in South Africa. Australia will take another 6 months to 9 months to start operations there in Australia.

Chirag Muchhala: Sir, collectively, the entire exports plus overseas segment, I mean, considering some bit of slowdown that we have seen in the 9 months, do we expect a large, significant growth in, let us say, next year? Or will it also be, I mean, somewhat like maybe a single digit or 10% kind of a growth?

Suresh Menon: So our base is now increasing overseas. So we should see growth in exports, technically. So this is first thing because from a number of countries that we are operating, we are operating in more number of countries. So we will be able to handle the neighboring countries from that place. So typically, from India, the export should grow.

Chirag Muchhala: Sir, any approximate range would you like to, I mean, say, right now, or it is too early?



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- Nilesh Panpaliya:** You want this year or next year?
- Chirag Muchhala:** Next year, Sir, FY2021?
- Nilesh Panpaliya:** Yes. Export growth overseas, we will be about 900 Crores from overseas operation next year.
- Chirag Muchhala:** Okay, and exports, Sir?
- Manish S Nuwal:** 250 Crores.
- Nilesh Panpaliya:** 250 Crores, roughly.
- Chirag Muchhala:** Last question is on this Chinese, I mean this new threat of coronavirus. So any direct impact we have, any imports of any components or chemicals or any such things, on directly, I mean independence on China?
- Nilesh Panpaliya:** We are waiting for what is going to happen, and currently, we are not envisaging any major issues.
- Chirag Muchhala:** Okay. But Sir, no direct inputs we have from any Chinese suppliers?
- Nilesh Panpaliya:** We have a few, but I do not think it will impact us adversely. Yes, in the near term.
- Chirag Muchhala:** Okay Sir.
- Moderator:** Thank you Sir. We have next question from the line of Dhaval Dama from Equirus Capital. Please go ahead.
- Dhaval Dama:** Just wanted to ask you a couple of things. Now this year, we are saying that we are going to do a capex of 250 Crores. I think that would be great if you can give us a breakup of the capex in which segments you are spending? Or whether you are doing it in India, or overseas, what would be the quantum of that?
- Nilesh Panpaliya:** So this is one-third, one-third on each in domestic overseas and defense.
- Dhaval Dama:** Sir, till date, what would be the total capex that we have done in our defense business?
- Nilesh Panpaliya:** I will give you that figure in some time.



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Dhaval Dama: Sir, another thing I wanted to know, like, say, how are things progressing on the South African manufacturing facility that we had set up for bulk explosives? Because the expectation was that since it has started operations sometime during Q1. So it would give some bump up to revenues on the international business side. So I just wanted to know, have some color on that side of the business?

Nilesh Panpaliya: As Mr. Menon has already informed that initially, we did face some challenges as far as manufacturing and ramp-up of this bulk explosives expansion. But we have been, did is in line with our expectation in case of underground products, which we had launched there. They are almost reaching the levels which we have targeted, and we are very confident that in February and March and in first quarter, we will definitely see a good growth in the revenue from bulk explosives, surface mining explosives as well.

Dhaval Dama: Okay, and Sir, last thing, if I may ask, like say, looking at how the year has gone by, so I think that on the revenue front, it is going to be muted for us. So what do we envisage like, say, for the next couple of years, if we have to look at it from a growth perspective, where do you think we can be looking at how things are standing currently in the markets in terms of demand and everything also?

Manish S Nuwal: Basically, if you are asking from the topline angle, then till 9 months, like we have said that this is what we achieved, and by the year-end, the revenues will be down by at least 6%, 7%. This is based on various factors. Like Mr. Nilesh has explained, and Mr. Vakil has also explained you that there are various factors behind that but as far as future or next coming years are concerned, we are quite optimistic because of various factors. First, like Mr. Vakil has explained that as far as government support is concerned, on infrastructure, we see good growth should coming from Q4 or Q1 of the next financial year. Similarly, we are seeing that Coal India is ramping up the coal production and overburden removal, so which is a good thing for us, and if we look at our international business, what we have seen in last 2 years, so this is the bottom of what we are seeing today. But if we are going forward, then definitely, things will be much, much better based on our efforts in those markets, and like we are sharing with all our stakeholders as far as defense is concerned, we have a very healthy order book. But because of some deferment from the customer side, we are facing those challenges, and we have already participated in the RFPs under Make in India program and apart from those, we have also participated in RFPs for multi-mode hand grenade and Pinaka. This is apart from very small RFPs. So once these orders start coming, so that will give us a big push, and all are waiting for some of the complete ammunition order to come in, and once we start the first order for any of those RFPs, so that will open the gate for the future opportunities, because the order to us in the form of complete ammunition will be, for the first time, in the Indian ammunition history, which is going to



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the private sector. So if you look at all these 3, 4 positive sides that housing and infra, coal mining, international and defense, so we see a good growth rate coming back to the old days from next year onwards.

Dhaval Dama:

Sir, last one thing, if I may. Now if I look at it over the last 4 to 5 years, I think that we have been ambitious on the defense business side, and we have put in a lot of money over there also if I have to look at it from that perspective. But for some reason or the other, the government orders or the order inflow is not coming in. So any take on that? Why such delay happening each and every time on the government side? And what do you see going ahead? Because I think that every year we are putting in further capex also over there in that segment, and the asset sweating is not happening to the level at the rate at which we had anticipated earlier, right?

Manish S Nuwal:

I will answer your question in a manner that we have made strategic investments as far as ammunition sector is concerned, and defense or ammunition, these are the long gestation projects, and over the last 6 to 7 years of our investments, after which we have started the trial production, this is quite normal as far as defense is concerned. But yes, we are also affected by policy related executional challenges, and we should all understand that ammunition procurement from the private sector is happening for the first time in a country like India, which was totally dependent either procurement from the PSUs or import groups. So once we have to enter or we have to create a new channel of procurement, it is a time taking and quite cumbersome. But in last couple of 3 years, the government has already formed the procurement policy. Accordingly, they have floated the RFPs also. We have also participated and we firmly believe that in coming few months, say, in another 3 months, once we will get any order for complete ammunition, the whole dynamics will change. So we all should wait for that to happen. There have been some delays, but those delays will not affect our momentum and our strategic models. So we are very optimistic and positive on different business.

Dhaval Dama:

Thanks a lot Sir. That is it from me.

Moderator:

Thank you. We have next question from the line of Rohan Gupta from Edelweiss. Please go ahead.

Rohan Gupta:

Good evening. Sir, first question is on the margin difference, if you can just give that, definitely accessories have higher margin, as you mentioned, in the product mix. What kind of above general average margin will be driving our accessories business, Sir?



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Manish S Nuwal: It is quite difficult for us to give a specific reply on margins side for each product wise. But by and large, like we have been maintaining that 21%, 22% is a normal rate of EBITDA, which we have been achieving over the last couple of years, and this quarter also, we are in the same range, plus/minus 1% or 2% for industry like explosives is not a big change as far as business is concerned. From analyst angle, yes, I agree that 2%, 3% is a big change. But all is happening because of various factors. First it is the change in the product mix, which Mr. Nilesh explained you that there has been increasing the sales of initiating systems and this is all because of our expanding global footprint. Second is, there is some commodity price fall, which is more than 8% in a lot of other raw materials apart from ammonium nitrate, and third is like, we have a good R&D base, and we are working on product optimization level. So these things are driving those kinds of comfort or those kinds of extra reduction in the raw material consumption ratios, and plus/minus 1% or 2% is not a big deviation as far as our industry is concerned.

Rohan Gupta: Sir, second question, you gave us some guidance of overseas target for next year is roughly 900 Crores, which I believe that for this year, maybe somewhere close to 800 Crores. So we are looking at, I mean, close to just 12% to 13%?

Nilesh Panpaliya: Last year, we achieved almost 700 Crores, or to be precise, it was like 700 Crores, and this year also, we are expecting that because of various factors, which I have already shared this year, we will be reaching around 670 Crores to 675 Crores level, and based on our efforts and our confidence in those countries, next year, we will definitely cross 900 Crores.

Rohan Gupta: Sir, in defense, like I understand that there have been some delays from the government order, and that is quite normal also as you already mentioned that how the government dynamics work. So this year, we are likely to close 150 Crores. Initially, we target roughly 300 Crores and then scale it down. So do you see that are we very close, though I understand it may be very tough for you also to predict, but do you see some very strong growth visibility that next year, we may still achieve that roughly 400 Crores plus ahead of target, which we were setting up earlier for FY2021 to be achieved?

Nilesh Panpaliya: As far as defense sector is concerned, like we have said, that there were a lot of delays as far as execution is concerned, not from our side, but conversion of RFPs into orders is the major thing, first. Second is that, since we already have a large order book, but there were delays in the shipment or deferment of the schedule. Going forward, we are extremely positive because we can see that some of the RFPs will convert in the coming months or maybe a quarter or two, and shipment or delivery schedules will start very soon. Based on these, we have said that we should definitely reach to 300 Crores in next financial year, and let me clarify also that, although there has been delay in the last 2, 3 years, that the kind of



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product portfolio, which we have built under different segments, will reflect in numbers from next year onwards. We may be reaching to 300 Crores or we may be reaching to 400 Crores, will not be a big issue, as far as our investments in defense as a strategy. Second, this will be the initial phase of our, what you can say, that it is the initial phase of our reflection as far as our entry into ammunition sector is concerned. Once we cross 300 Crores, definitely, it will be another paradigm shift in Solar's business.

Rohan Gupta: Sir, on this debt segmentation which we have given in the presentation, so on a working capital, roughly out of 386 Crores you mentioned that domestic is close to 70 Crores, but overseas working capital is roughly 317 Crores. So this, I mean, composition of working capital, which is a slightly, I mean, which is more concentrated to our overseas despite our revenues is hardly 40% are from the overseas. So is there some working capital limits, which we are using or having outside, we are using for our domestic market? Or how this, I mean, component varies so much which is not profit net to domestic sales?

Nilesh Panpaliya: We will answer to this question later on.

Rohan Gupta: Thanks Sir. Thank you so much. Thanks a lot.

Moderator: Thank you Sir. We have next question from Abhishek Ghosh from DSP Mutual Fund. Please go ahead.

Abhishek Ghosh: Sir, just on the Coal India part of it, we almost have about 2 years kind of an order book now. In terms of when does it come up for retendering for Coal India, so we had some of it last October? So when is it next?

Nilesh Panpaliya: Third quarter it started. So from here, we still have 2 years for the next tender.

Abhishek Ghosh: Sorry?

Nilesh Panpaliya: So we have 2 years now here for the next tender.

Abhishek Ghosh: So when you bid it out for these ones, how is the competitive intensity this time around?

Nilesh Panpaliya: There is always very fierce competition. So that is 1 thing, which is constant is the competition. That is always there, 2 things are very clear as far as procurement or supply to the PSUs, which go by a reverse auction. First thing is that practically every year, we have seen prices dropping down. But the second input as far as price dropping down is basically dropping down prices in our backup raw material as well. So these are the normal thing, and



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competition is definitely not reducing, it is going up every year, and we have to pass through these phases. We cannot escape out of this. But we are pretty confident that as far as business of Solar is concerned, Coal India revenue is less than 15% now, almost 15%, and within 2 years, it will go below 10% so this will also become one of our key, Coal India will always remain our largest customer. But as far as the total metrics is concerned, it will go down below 10%. So that is what I can share with you.

Abhishek Ghosh: Sure, and Sir, in terms of the raw material, have ammonia prices further corrected in terms of, is it further? Because in the last call, you had mentioned that gross margins will improve in second half of FY2020. Has that largely been reflected in 3Q? Or is there further improvement in 4Q to that extent?

Nilesh Panpaliya: I do not think much impact will be there as far as the lag is concerned. It will always remain plus/minus 1% between the sale price and the procurement price, and as ammonia goes up and go down, our procurement prices of ammonium nitrate also goes up and down. May not be in the same tandem, but there will be some big lag or short lag, but it keeps happening, if you see last 5 years, 10 years of trend, but both work in tandem may not be quarterly basis may not be on 6-monthly basis but year-on-year, it has to catch up.

Abhishek Ghosh: Okay. You typically have a month's inventory?

Nilesh Panpaliya: Overall, yes, it depends on the geography. Like if you look at our Turkish operation, the inventory level will be less than 7 to 10 days as far as ammonium nitrate is concerned. But if you look at (inaudible) 57.00 we have to carry an inventory of 3 months at least, if we have to run the operation 12 months in a year. Otherwise it is impossible. As far as India is concerned, it varies between 15 and 45 days.

Abhishek Ghosh: Thank you so much for answering my questions and all the best.

Moderator: Thank you Sir. Ladies and gentlemen, that was the last question. I now like to hand the conference over to Mr. Rohit Ahuja of BOB Capital Markets for closing comments. Sir over to you!

Rohit Ahuja: Thanks, everyone, for attending the call, and especially thank you to the management of Solar for this call. I appreciate that. Thank you.

Nilesh Panpaliya: Thank you.



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Moderator:

Thank you very much, Sir. Ladies and gentlemen, on behalf of BOB Capital Markets Limited, that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.