



“Panama Petrochem Limited  
Q3 FY2022 Earnings Conference Call”

February 11, 2022



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LIMITED**



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**Moderator:** Ladies and gentlemen, good day and welcome to the Q3 FY2022 earnings conference call of Panama Petrochem Limited. As a reminder, all participant lines will be in the listen-only mode and anyone who wishes to ask a question by pressing “\*” and then “0” on your touchtone telephone. To remove yourself from the question queue, you may enter “\*” and “2”. Should you need assistance during the conference call, please signal the operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mahesh Narvekar - Vice President, Corporate Relations. Thank you and over to you, Sir!

**Mahesh Narvekar:** Thank you. Good evening everyone. Welcome to Panama Petrochem Limited earnings conference call for Q3 FY2022. I would like to begin by expressing my gratitude to all of you by taking your time to join us on this call. This conference call may contain some forward-looking statement about the company which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not guarantee of future performance and involve risk and uncertainty that are difficult to predict. I would like to introduce Mr. Hussein Rayani, Joint Managing Director of Panama Petrochem Limited and Mr. Pramod Chief Financial Officer of Panama Petrochem Limited. I request Mr. Hussein Rayani, Joint Managing Director to share the Q3 performance overview of our company. Over to you Sir!

**Hussein Rayani:** Thank you Mahesh. Good afternoon everybody. It is my pleasure to welcome you to the Q3 earnings conference call of Panama Petrochem Limited. I hope all of you are keeping healthy and safe. Now before talking about the performance I wish to stress that the company produces petroleum-based value-added specialty oils for diverse industries with products like rubber process oils, printing aids., textile, anti-static cooling oil, drilling fluids etc.

Now about the performance, we witnessed a good demand across all products categories during the quarter with revenue growth of 20% year-on-year with stable margins in spite of disruption in supply due to recurrence of the COVID wave.

Volumes were slightly lower in the quarter due to such disruption; however, the sales and profitability numbers crossed pre-COVID levels for nine month period of the financial year 2022. In spite of increase in crude prices, the margins and profitability continued to remain firm during the quarter.



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The company has successfully passed on these price increases to most customers. Earnings per ton have also increased compared to pre-COVID levels. I request Mr. Mahesh Narvekar to give the financial highlights. Over to you Mahesh!

**Mahesh Narvekar:** Thank you Sir. On a consolidated basis in Q3 FY2022 the operating income for the quarter was 510 Crores which also an increase of approximately 20% on a year-on-year basis. Operating EBITDA reported was 69 Crores against 17 Crores on a year-on-year basis. Operating EBITDA margin stood at 13.5%. Net profit after tax reported was 54 Crores for a quarter ended December 31, 2021. PAT margin reported at 10.6%.

On a consolidated basis for the nine months ending FY2022 the operating income was 1627 Crores which was an increase of approximately 79% on year-on-year basis. Operating EBITDA reported was 229.6 Crores which was an increase of about 101% percent on year-on-year basis. Operating EBITDA margin stood at 14.1%, net profit after tax reported was 174 Crores, which was a net increase of about 131% on a year-on-year basis while PAT margins were reported at 10.7%. Thank you. With this we can now open the floor to question and answer session.

**Moderator:** Thank you. Ladies and gentlemen we will now begin with the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. First question is from the line of Nikhil Shah an individual investor. Please go ahead.

**Nikhil Shah:** My name is Nikhil Shah. I have become a recent shareholder in the company. I just had you know one broad question is if you look at the FY2018, FY2019, FY2020 the gross margins of the company which was hovering in the range of 14% and FY2021 going into the nine months of maybe the first half of FY2022 the gross margin jumped to about 23% and in the third quarter it has moderated to 21% and probably this was also what helped this was from what I understand is the import substitution benefit. My question larger question was going forward where do you see the gross profit margin to stabilize in what range and in that context the earlier guidance of the EBITDA percentage of 13% I just wanted to get your perspective on that?

**Hussein Rayani:** Thank you so much for joining the call and for your question. I would just like to again start my answer with the management focus on being more on the specialty zone of products. As you must have been tracking we have been and also I have mentioned in my previous call that we have been continuously focused on introducing more specialty and value-added products which has drastically helped us to improve our profit margins, the gross margins. In the current quarter, we have seen that there was a lot of volatility,



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first due to when the Omicron was identified the end of November, we had the oil prices substantially dropped and then currently in the subsequent months due to the geopolitical situation with Russia we have seen again the oil price is drastically going up. So this definitely has impact on the margins, especially for the contracted orders where we cannot change prices but overall I would like to say that the focus of the management is to keep on introducing more specialty products or further increase the share of the specialty oils from the current 65% going forward to larger portion of specialty oil taking over the conventional oil so we see the margins to remain sustainable. Also we have pass-on pricing mechanism with most customers which help us to tide us over in these critical situations so overall going forward with the increase in the share of these value-added products we are confident to maintain our margins.

**Nikhil Shah:** The earlier guidance of the EBITDA in the range of 12% to 14% stays right?

**Hussein Rayani:** Yes we expect anticipate EBITDA margins to be between 12% and 14%.

**Nikhil Shah:** The important component for that being gross profit margin because you are anyway kind of 100% utilization and your adding capacity and all of that is also getting consumed, so hence the gross profit margin also you expect to be range bound say in the 20% 23% range?

**Hussein Rayani:** Yes. It will be range bound in that range.

**Nikhil Shah:** Because know this first six months the 23% gross profit has helped you to sustain an EBITDA margin and if this moderates then it will be difficult for you to maintain the EBITDA in the range of 12% to 14% because there is no operating leverage so to speak because you are already at 100% so I was just trying to get that perspective?

**Hussein Rayani:** As I said in the Q3 there were there was a lot of volatile situation which going forward we feel that once things stabilize it will be more comfortable but still in this tough period, we have been able to pass on most of the price increases to customers and we have been able to maintain our margins and with more value-added products replacing the conventional products we will definitely have better EBITDA margins going forward. We keep our guidance of 12% to 14% of EBITDA margins.

**Nikhil Shah:** One last question then I will come back in queue. The employee expense for the quarter was 4 Crores as against 16 Crores in first half, which indicates a run rate of 8 Crores so what is the reason for the cost dropping to 4 Crores because it is almost a 1% point impact on bottomline?



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**Hussein Rayani:** In the first and the second quarter of this year we had given performance based incentives to our employees which have resulted in the employee cost going up and that were the reason majorly for the employee cost.

**Nikhil Shah:** So the steady state employee cost is about 4 Crores per quarter and on top of it you will have the incentives. Is that the way to understand it?

**Hussein Rayani:** Yes. It is about 4 Crores to 5 Crores, the employee cost.

**Nikhil Shah:** Thank you Sir.

**Moderator:** Thank you. The next question is on the line of Saurabh an individual investor. Please go ahead.

**Saurabh:** Congratulations Sir for the good results. Sir I would like to check on two questions; first one is regarding which big new names you have added recently to your clientele list and are these long-term contracts and if you can answer this I can then ask the second one?

**Hussein Rayani:** I would not be able to give you any names but yes we have added new big names in our list of clients in this year and most of the business with these new customers is on contract basis, with the pricing mechanism of a monthly basis and a quarterly contract.

**Saurabh:** Second one is if I see your overseas subsidiary which is Panol Industry I believe they have already started production there and if you can highlight at what capacity the plant is running as of date?

**Hussein Rayani:** Yes we are running at over 100% capacity utilization at our subsidiary Panol Industry. The Panol our subsidiary company is more focused on servicing specialized products for the specialized industries in the MENA region. So we see the margins from the subsidiary company has been improving over the years with the introduction of new products and new regions and new horizons and we are confident going forward the subsidiary company to keep on giving good support to us with increasing margins.

**Saurabh:** So can we assume that the margins which Panol is now contributing around 9% it can enjoy the similar margins with your domestic unit around 16%?

**Hussein Rayani:** Yes. The margins at Panol about 12% and we expect that going forward it will be sustainable.



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- Saurabh:** Thank you. Thank you very much Sir and again congratulations.
- Moderator:** Thank you. The next question is in the line of Ramesh Damani from Ramesh Damani Finance. Please go ahead.
- Ramesh Damani:** Good afternoon. Congratulations on a good quarter. I just want to ask Hussein the price of oil has risen so sharply this quarter are your price prices lagging behind by 20 days or so? Can we expect a better price realization next quarter?
- Hussein Rayani:** Yes, Mr. Damani. Yes this quarter we faced a very volatile swing in the oil prices, first going down substantially and then increasing substantially but as I have been mentioning in my previous call and discussions is that we have a monthly pricing with our customers and also about 60% of our raw materials, we are buying on contract basis with our suppliers. So this really helps us to tide over any kind of a supply disruption and on the pricing normally our raw material prices are time lagged about four weeks, four to six weeks I would say compared to the oil price movements and whatever the changes in the raw materials prices we pass on to our customers as we have a monthly pricing mechanism with them. So it is a pass-through mechanism, most of the time. Going forward we feel that with these high oil prices our raw materials price will definitely be following suit and it will be going upwards and the same would be passed on to the customers.
- Ramesh Damani:** Just final question is there any demand slowdown in the industry do you feel that your volumes are suffering because of a demand slowdown or is it just a seasonal thing?
- Hussein Rayani:** There was a little bit of a delayed offtake from most customers because of the lockdown we faced in the Q3 due to the Omicron wave and the COVID waves so there was a little bit of a delayed slowdown but mostly we have a yearly forecast from customers for the demand so we are very hopeful in the current quarter it will be taken up. More or less on a yearly basis, we do achieve our targets with our customers but we do feel that in the Q3 there was a slight slowdown in the demand because of the COVID base.
- Ramesh Damani:** Thank you and best luck for the next quarter.
- Moderator:** Thank you. The next question is from the line of Akshay Shah an individual investor. Please go ahead.



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**Akshay Shah:** Good afternoon Sir. I have a few questions to ask. My first question is on the margin trend. What is the guidance in the coming quarters as we move to normalized business scenario? My second question would be can we have a future order book outlook at least for next two quarters?

**Hussein Rayani:** On the EBITDA margins we have given a guidance of 12% to 14% which is sustainable and for the coming two quarters, we have a quite a healthy order book on hand. So it looks quite promising quarters going forward.

**Akshay Shah:** Thank you.

**Moderator:** Thank you. The next question is in the line of Naveen Goel an individual investor. Please go ahead.

**Naveen Goel:** Good afternoon Sir. I just wanted to ask you what is your outlook on volatility in the key raw material price which are crude derivatives and foreign exchange fluctuations and one more thing what is the contribution from export sales and does the company enjoy pricing power in exports?

**Hussein Rayani:** In regards to your first question regarding the oil prices we feel that it will remain at higher levels going forward and we would have subsequently our raw material prices would be either that would be going up going forward. Regarding the forex we have a firm forex policy, about 60% of the exposure on the forex is naturally hedged because of our exports turnover and export proceeds and another 20% we do forward contracts and keeping only about 20% to open exposure so we are quite covered on the forex front with our policy and in regards to your second question this quarter we had about 43% sales from the exports and we do have a better pricing and realization from our export orders.

**Naveen Goel:** Thank you so much. Best of luck for the future.

**Hussein Rayani:** The next question is from the line of Manpreet an individual investor. Please go ahead.

**Manpreet:** Mr. Rayani, a quick question. You mentioned to Mr. Damani that in Q3 you saw some customers holding back because of Omicron but since you have annual contracts with them so what I am understanding from that is that possibly in Q4 you should be able to cover up on the less demand that you saw in Q3 so would that be would that assessment be right?



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- Hussein Rayani:** Yes that is the right assessment.
- Manpreet:** My second part on revenues itself so you had mentioned that there was a disruption in supply chain in Q3 and that also led to fall in volume. So I am assuming that now starting off Q4 things are almost back to normal?
- Hussein Rayani:** Yes in terms of the COVID way we are all hopeful and we have been strongly coming out of it to normalcy but I would still feel that on the oil prices still there is a lot of volatility due to the geopolitical situations developing world over so it is difficult to predict but on our side we have been very prudent in our procurements. We have supply agreements with our suppliers any unlikely disruptions at least we have the supply contracts, the supply volume which will keep on flowing to us so we really hope that there is more stability in the oil prices going forward, which may I guess still take maybe a few months for things to clear out but yes we are hopeful the demand outlook is looking stronger than Q3 and the Q4 and we would be definitely keeping up the good run rate going forward.
- Manpreet:** Thank you. That is really helpful and from my side, I would just like to add that I have been a shareholder in your company for the last four years and seen the way you have grown after COVID it has been very encouraging and I hope that you grow by leaps and bounds. So it has been a great journey for me.
- Hussein Rayani:** Thank you. You keep me encouraging, Manpreet. Thank you.
- Moderator:** Thank you. The next question is from the line of Parag, an individual investor. Please go ahead.
- Parag:** My question was basically regarding the coming year, I mean not the FY2022 but FY2023. So what is the capex that the company expects to do in the coming year and how does the company expect to finance it?
- Hussein Rayani:** We have a plan to increase our capacity by about 30% in the next three years from the current two 240000 tons to up to about 340000 tons and the capex about is about 100 Crores which will be all through internal accruals. We are a debt free company and we really look forward to remain so.
- Parag:** Just a follow-up question is like I just observed a minor observation like your short-term debt as you said there is no long-term debt but short-term debt just see a trend last few





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years has been going up so I think maybe related to the working capital so how do you plan to bring that under control or is that a concern for the company if at all?

**Hussein Rayani:** It is not a concern. It is well under control the short term. Mr. Mahesh would you like to add something on it.

**Mahesh Narvekar:** If you see the working capital cycle it has remained stable over a period of time and we are enjoying a very good cash credit. We suppose that we do not require much commitment as far as working capital is concerned because we do have adequate funds with us so our working capital requirement is not that much.

**Parag:** Just one last question which I had is like just assuming that positively thinking that as we go in the next year that is next financial year we move into a like a COVID free scenario so leaving COVID behind and whatever supply chain issues that have resulted other than that and other than oil which no one can predict what are the major challenges that Panama sees itself assuming that there is no COVID and oil no one can predict other than that what would be the major challenges that the company sees and how it plans to tackle it?

**Hussein Rayani:** There are no other challenges except the volatility of the oil crisis and the lockdowns that we have been facing over two years due to the COVID waves but other than that we are well on course. The R&D team is continuously adding new sets of products which are more on environmental friendly, more cleaner and greener products, meeting international regulations so we are well on course in terms to supply customers requirements, changing requirements for better products. So we do not know we supply them product but we give them a good solution to their requirements. So as long as the oil prices are in check, we feel that there are no other major challenges that we may face.

**Parag:** Thank you. Thanks a lot for answering my questions. I will get back into the queue. Thank you.

**Moderator:** Thank you. The next question is on the line of Abhishek Maheshwari from SkyRidge Wealth Management. Please go ahead.

**Abhishek Maheshwari:** Thank you for taking my questions. You said the volumes were lower this quarter. Was it across all sectors or a particular sector was affected more than the others because as I understand you supply your products to wide range of industries?



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**Hussein Rayani:** Thanks Abhishek for your question. So overall if we see it was only a marginal drop in the volumes for this quarter compared to the previous quarter and if you will compare it to the same quarter last year you know we have been doing the revenues have in fact gone up by almost 20% so I would say more or less, all segments were a slightly slower compared to the second quarter especially in segments like for the fast moving consumer goods or cosmetics, we found a little bit slow down but more or less we have kept up the volume in this quarter and certain orders we had in the inks and resins industries and other industry, the offtake was a bit delayed which would be covering up in the subsequent quarter.

**Abhishek Maheshwari:** Thank you. My second question is regarding your base oil supply situation. Are we seeing any supply side issues in terms of higher ocean freight or moving pricing issues?

**Hussein Rayani:** As I mentioned in my earlier answer that about 60% to 70% of our base oils are on the supply agreements, so we have contracts with suppliers so we have not faced any major disruptions in the supply.

**Abhishek Maheshwari:** Sir, in ocean freight cost?

**Hussein Rayani:** The ocean freight are continuously being very, very volatile. It has been increasing but as I said it is a part of the cost which is passed on to the customer and it is a global phenomenon, so customers are now accepting these higher prices because there is no other option and the export in this quarter was about 43%, it was quite encouraging so we see a stable supply to our export customers and export markets.

**Abhishek Maheshwari:** That is it for me. Thank you. All the best.

**Moderator:** Thank you. The next question is from the line of Utsav Anand from UV Financial. Please go ahead.

**Utsav Anand:** I would like to ask you on the capacity, you are working around at 260000 currently, right?

**Hussein Rayani:** Utsav, you are not audible.

**Utsav Anand:** Your current capacity is 260000 right?

**Hussein Rayani:** Yes about 240000.



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**Utsav Anand:** About 240000 and by the year you are planning to increase this capacity like 280000 or 300000?

**Hussein Rayani:** About 270000 in this year.

**Utsav Anand:** In this financial year or the current financial year?

**Hussein Rayani:** This financial year.

**Utsav Anand:** Approximately will be operating at 275?

**Hussein Rayani:** Yes by the Q4, end of this Q4.

**Utsav Anand:** End of Q4. You were also adding at approximately 10000 at Dubai also, right?

**Hussein Rayani:** Totally 30000 from Dubai and from our UAE and the Indian plants so it would be about 10000 from Panol, from UAE and 20000 from our Indian plants.

**Utsav Anand:** By the end of Q4?

**Hussein Rayani:** Yes.

**Utsav Anand:** I have one more question, regarding the new clients that you have added, any idea like approximately revenue bracket where they will be contributing or we can expect to target.

**Hussein Rayani:** Can you repeat your question, I did not get it.

**Utsav Anand:** The new clients that have been added to the company, on contract basis and monthly basis, what revenues the company is targeting? What order book can it carry from these clients?

**Hussein Rayani:** It will be about 5% to 6% from the new customers.

**Utsav Anand:** Approximately 5% to 6%.

**Hussein Rayani:** Yes.

**Utsav Anand:** Thank you.



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**Moderator:** Thank you. The next question is in the line of Ritika Merchant an individual investor. Please go ahead

**Zulfikar Merchant:** This is Zulfikar Merchant. I am an individual shareholder. I would like to ask you two questions can you brief us the status of the capacity expansion program and the second question is due to increase in the crude prices recently how is the operation impacted and effects on the margins?

**Zulfikar Merchant:** Mr. Merchant, thank you for your question. On the capex as I already have informed earlier we would be increasing the capacity from 240000 tons to 340000 tons in the coming three years and in the financial year 2021-2022 we will be adding 30000 tons which will be commercially available from Q4. On your second question regarding the operating margins, the crude oil has been very, very volatile what we have seen in this quarter first the dip and then again going up substantially so it does have an impact on the business and the margins because contracted orders we have to fulfill all commitments but we have a pass-on mechanism with our customers so we have a monthly pass-on mechanism to our customers and we anticipate the margins will be stable and the unsustainable as for the guidance given.

**Zulfikar Merchant:** Thank you Sir. Thank you very much.

**Moderator:** Thank you. The next question is the line of Sudhir Bheda from Right Time Consultancy. Please go ahead.

**Sudhir Bheda:** Good afternoon. Congratulations for steady set of number in given circumstances. My question I actually joined little bit late so excuse me for that if I am repeating the questions. Sir can you throw some more light and color on the statement that you just said that our R&D team is working and coming out with the newer and environment friendly products and which are finding traction in the export market and with the MNC so please elaborate on that what kind of new products and as we are moving from 65% value added to 90% so if you can throw some more color on that?

**Hussein Rayani:** Thanks for your question, Sudhir. We have a DSIR upgrade R&D center in our Ankleshwar plant. The team is continuously working on integrating new sets of products especially there are many regulations being enforced world over, regarding the one part of the oil, which is carcinogenic in nature, the aromatic content, there is a label regulation to reduce the polycyclic aromatics in the oils to below 3% but certain of our industries the demand almost zero aromatics so we are continuously introducing new products which are compliant to global standards, which are compliant as per the



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requirements to the customers and these new products are continuously replacing the existing set of products. Most of the products the demand for new products come from the customers and to our technical team to our R&D team and they keep on providing them new samples, with new formulations, meeting their requirements. So it is an ongoing process what I would say. It is not an overnight change. There is a continuous addition of new products in our portfolio. We are getting into more specialized segments and this has really helped us to improve our margins as you have been seeing numbers. Going forward we would be wanting to further take up the specialty business up from the current 65% about 80% to 85% going forward. So there is a continuous work going on backend with our team and which has we've got good results out of that and we will definitely be continuing this focus, more focused on this part of our business strategy.

**Sudhir Bheda:** Great Sir. My last two question is like I will summarize it in one sentence in which area those new products will find applications and the second part of it is what kind of margin increment we will see in FY2023 due to this kind of changes where we are moving to 80%, 85% of the specialized product?

**Hussein Rayani:** We are especially in segments for the textile industry, in the segments where we are servicing the ink industry. There is a continuous addition of new products. We have also introduced some new products in the drilling industry so these are the segments where we are continuously more focused and working. With this change in our product mix, we expect the margins to be 12% to 14% going forward.

**Sudhir Bheda:** Sir that is what we are doing right now so what kind of incremental margin we will get as we move from 65% to let us say 80%, 85% or 90%.

**Hussein Rayani:** Especially for the next year we have a very stable margin guidance because also we see a lot of volatility ahead but we are confident to have a guidance and stable margin range bound margins.

**Sudhir Bheda:** Thank you. All the best Sir.

**Moderator:** Thank you. The next question is from the line of Utsav Anand from UV Financial. Please go ahead.

**Utsav Anand:** I just like to ask you mentioned that we have been increasing the specialty share from 65% to 85% the 85% by when can we expect to achieve that?



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**Hussein Rayani:** It is a gradual changeover. So we have about 3% to 5% every year we are planning to replace the existing conventional products with the specialty products. So this would be in the next five years.

**Utsav Anand:** Next five years and the capacity that you will be adding will be fulfilling this particular this requirement.

**Hussein Rayani:** Yes.

**Utsav Anand:** Thank you.

**Moderator:** Ladies and gentlemen that is the last question. I now have the conference over to Mr. Hussein Rayani for his closing comments.

**Hussein Rayani:** Thank you everyone. I would like to thank everyone who has participated in this call. For any further queries or information, please get in touch with our Investor Relation Team and we will be very happy to answer them. Thank you very much once again and have a great evening.

**Moderator:** Thank you. Ladies and gentlemen that concludes this conference call. We thank you for joining us. You may now disconnect your lines. Thank you.