



“Panama Petrochem Limited Q1FY'23 Earnings Conference Call”

August 02, 2022



**MANAGEMENT: MR. HUSSEIN RAYANI – JOINT MANAGING DIRECTOR,
PANAMA PETROCHEM LIMITED.
MR. PRAMOD MAHESHWARI – CFO, PANAMA
PETROCHEM LIMITED.
MR. MAHESH NARVEKAR – VP (CORPORATE
FINANCE), PANAMA PETROCHEM LIMITED.**



*Panama Petrochem Limited
August 02, 2022*

Moderator: Ladies and gentlemen, good day and welcome to the Q1FY23 Earnings Conference Call of Panama Petrochem's 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 call, please signal an 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: Good morning, everyone, welcome to Panama Petrochem Limited Earning Conference Call for Quarter 1 ending 30th June 2022. I would like to begin by expressing my gratitude to all of you by taking the time to join us on this call.

This conference call may contain some forward-looking statements 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 risks and uncertainties that are difficult to predict.

I would like to introduce Mr. Hussein Rayani, Joint Managing Director and Mr. Pramod Maheshwari – CFO Panama Petrochem Limited. Now I request Mr. Hussein Rayani to share the Quarter 1 performance overview of our company. Over to you sir.

Hussein Rayani: A very good morning to everybody. It is my pleasure to welcome you all to the quarter ending June 2022 Earnings Conference Call of Panama Petrochem limited.

Overview of Company Products

We are into the manufacture of petroleum specialty products. We manufacture over 80 different variants of petroleum specialties catering to about six to seven different industrial segments. We have food manufacturing plants in India. And we entered into the manufacturing of our first overseas plant in UAE under the name Panol Industries, which is a 100% owned subsidiary of Panama PetroChem with a total installed capacity of 240,000 metric tons. We are currently running on 100% capacity utilization at all our units and we have a plan of continuously increasing our capacity in the coming years. This year, we have a plan to add another 30,000 tonnes to our capacity, which will be commercialized in the second half of this year.

Overview of Performance

The business environment, as you all know is challenging with recessionary concerns. However, we have achieved stable performance in this quarter with good demand seen in our value-added offerings, enabling us to record good operating margins, which was at 15.8% during this quarter.



*Panama Petrochem Limited
August 02, 2022*

Crude prices though volatile has been in range and helped the company to strategize procurement. Company has been successful in maintaining the net realizations on higher side during the quarter. Though we have witnessed good, stable demand across all product category categories during the quarter it's the value-added products that has stood apart.

The expansion program is on due course and we will see additional capacity going on stream in batches starting from second half of 2022 to 2023.

Now I request Mr. Mahesh Narvekar to give the financial highlights.

Mahesh Navrekar: On a consolidated basis in quarter one ending June 22 the operating income was Rs. 553 crores which was approximately 8% growth over March 2022 quarter. Operating EBITDA reported was Rs. 87.57 crores against Rs. 72.17 crores in March 2022 quarter, a growth of around 21.3% there. Operating EBITDA margin stood at 15.8% which was higher than 14.1% reported in March 2022 quarter. Net profit after tax grew approximately 15% over March 2022 quarter, at Rs. 64.58 crores. PAT margins reported at 11.7%.

With this we can now open the floor to question-and-answer sessions.

Moderator: Thank you very much. We will now begin with the question-and-answer session. We take the first question from the line of Mr. Sudhir Bheda from Right Time Consultancy. Please go ahead, sir.

Sudhir Bheda: A couple of questions from my side. One is, as we see the results, I believe that there is a quarter-on-quarter decline in the volume and also year-in-year decline in volume because as price goes up, but our turnover remains constant. So, that means volume might have gone down that part, I believe. So, can you provide some light on that?

Hussein Rayani: So, I will say that, yes, the environment was quite challenging in this quarter, as we have been seeing over the last five or six quarters, things have been very volatile. But I would say that the Indian market has been quite resilient after the COVID restrictions were lifted, I personally feel that the Indian market bounced back very strongly. Currently, if you see in this quarter in the 1st Quarter of this year, our domestic sales actually the volumes increased over the preceding quarter to 44,440 tonnes compared to 41,585 tonnes in the previous quarter on a standalone basis from our domestic sales.

The UAE plant the Panol Industries there was a dip in sales over there, because of the global scenario. But overall in this quarter, we have achieved total volumes of about 57,220 tons. So, which is slightly down from the preceding quarters because a lot of customers have postponed their uptake of orders, but we will catch up in the coming quarters in the coming months. They will list their orders. So, I think it will catch up in the coming quarters.



*Panama Petrochem Limited
August 02, 2022*

- Sudhir Bheda:** So, do you still believe that we are given the additional capacities are coming so still you believe that our volume can grow by 15% to 20% in this year?
- Hussein Rayani:** Yes, we are quite optimistic, looking at the forecast from our customers and the demand. We feel like there will be a 15% to 20%, we will be able to have a growth in the coming months and the volume --
- Sudhir Bheda:** Volume growth right.
- Hussein Rayani:** Volume growth.
- Sudhir Bheda:** And one more question, what would be the EBITDA given now cost pressure is coming down? So, what's the EBITDA outlook over there in the year 23?
- Hussein Rayani:** Yeah, so in this quarter, the EBITDA on the console basis was 15.8%. We firmly believe that we will be able to maintain our EBITDA margins between 13% to 16%.
- Sudhir Bheda:** So, you are upping that guidance. As you were constantly maintaining the 12% to 14% so now this range is up right, that's a good news.
- Hussein Rayani:** Yes, because as you know the strategy of the Management is to continuously change product mix in favor of value-added products. We see good demand for our value-added products from our customers. So, we are quite optimistic to maintain the EBITDA margins.
- Sudhir Bheda:** Last question, do you see now that exports are picking up in recent weeks or days?
- Hussein Rayani:** So, in this quarter, the export sales was about Rs. 132 crores compared to Rs. 113 crores in the previous quarter of March 2021-2022. So, there has been an increase in this quarter of our export sales, which now stands at about 43% of the total revenues. Even though I would say the local domestic sales is outperforming due to the very resilient Indian markets, but in the coming quarters, we expect the exports to be maintained and increasing.
- Moderator:** Thank you very much. We take the next question from the line of Mr. Dinesh, Investor. Please go ahead, sir.
- Dinesh:** Question is on value-added products, what is the margin differential with regular products and what is the position of value-added product in this --?
- Hussein Rayani:** Our margin differential for value-added products gives a margin of about 14% to 17% against regular products which is about 10% to 13%. Currently, the contribution from value-added product stands at around 67%.

Moderator: Thank you very much. We will take the next question from the line of Mr. Naveen Goyal, Investor. Please go ahead, sir.

Naveen Goyal: Could you please guide us on revenues and operating margins in coming quarters? And one more thing that how do you see a year forward from here? And we will be able to sustain the margins going forward?

Hussein Rayani: Yes, we will be able to maintain a revenue growth of 15% to 20% and margins at current levels for this year. The domestic markets are quite resilient and the demand has been encouraging in India. And India has been very far better place compared to other markets.

Moderator: Thank you. We take the next question from the line of Mr. Zulfikar Merchant, he is a retail investor. Please go ahead.

Zulfikar Merchant: I would like to ask one question in the present scenario has the company added any new markets in exports? And what are the challenges it's facing on exports?

Hussein Rayani: The exports in this quarter was Rs. 132 crores compared to Rs. 113 crores in the previous quarter, an increase of 17%. The total exports stands in this quarter at 43% of the total revenues. We have been aggressively introducing our products into newer markets and adding new customers. The current geopolitical environment is causing numerous challenges, especially on the logistical part. However, we have been successfully working closely with the shipping lines to ensure timely deliveries to our customers.

Moderator: Thank you. We will take the next question from the line of Priyan Purohit from Kamayakya Wealth Management. Please go ahead, sir.

Priyan Purohit: My question is, since we have been doing really great capacity utilization of 100% plus, but the extra capacity that we are adding for the year is only about, if I calculate it's about maybe 10% to 15% of existing capacity. So, what is stopping us from maybe pushing further and maybe increasing the capacity by say 50%, or maybe doubling it over the next two, three years? So, do we have any such further CAPEX plans in place?

Hussein Rayani: So, we are currently running at over 100% capacity utilization, but our capacity is expandable about 15% to 20% over the installed capacity. This year, we have already planned an addition of 30,000 tonnes to our existing capacity. And in the coming years, we have further plans to increase about 30,000 tonnes per year each of the coming two or three years, we have a CAPEX of about Rs. 100 crores which we have for this planned expansions or through our internal accruals.

So, as I said the capacity is expandable about 15% to 20%. And looking at the growth, we are well on course, with this addition of capacity. And we will definitely evaluated after every two

years. And with the situations thereon we will definitely revise our capacity additions if required. So, right now for the next two or three years, we have sufficient additions to cater to the demand.

Priyan Purohit: And secondly, could you throw some light on this current CAPEX that we are doing, the 30,000 metric tons? Is it all for your value-added products? Or could you maybe share the mix there?

Hussein Rayani: Yes, most of this addition is on the value-added products almost 70%.

Priyan Purohit: My last question on the debt front so I think in Q4, we had already reduced our debt significantly to about some Rs. 30 odd crores. So, any plan to go completely debt free in the coming quarters?

Hussein Rayani: So, we are a completely debt free company. We have short term debts for the working capital and it is only for the nominal working capital debt.

Moderator: Thank you. We take the next question from the line of Mr. Rohan Mehta, investor. Please go ahead sir.

Rohan Mehta: I have two questions. Let me share the first one. How do you see the competition evolving, pre-pandemic era versus post-pandemic era? And why I am asking this is because I have observed that many unorganized players due to liquidity issues or supply problems have shut down their shops. So, how do you see in this? And how is the competition in the space basically.

And the second one is regarding FX. So, what we have observed that during this last quarter itself, the FX markets were very volatile. And it was very uncertain that how the currency will move. So, how the company managed these FX transaction?

Hussein Rayani: Let me first answer your first question. Definitely the pandemic has caused quite disruptions in trade. The unorganized markets are in difficult position. And due to this a lot of business has got diverted from the unorganized segments to the organized segment. This I would say still the supply chain disruptions exist due to the current geopolitical uncertainties, and the unorganized segments are still facing difficulties. However, for us, since we manufacture a range of products with a very diversified portfolio and a customized solutions to our customer, we are very comfortably placed amongst the organized players.

Regarding your second question, the FX markets has definitely been very volatile in this quarter. However, since we have about 45% of our sales from exports, we have a natural hedge of about 45% as our export proceeds are used for import payments, as both are in U.S. dollars. And almost half of the balance open position we do forward contracts. So, we are very well covered on the volatility from the FOREX markets.

Moderator: Thank you very much. We take the next question from the line of Vivek Shah, investor. Please go ahead.

- Vivek Shah:** I wanted to ask about the expansion plan of the company in progress and how much quantity will be added in the current year? And when will this be commercialized?
- Hussein Rayani:** Yes, so our current installed capacity is 240,000 tonnes on a consol basis. This year, we will be adding another 30,000 tonnes which will be commercialized in the second half of this year. Going forward we have a plan for the next three years to add 30,000 tons additional capacity year-on-year all of which will be through lot internal accruals.
- Moderator:** Thank you. We take the next question from the line of Mr. Shanker Tare, investor. Please go-ahead sir.
- Shankar Tare:** I am calling from Mumbai. My name is Shankar. I want to ask one question. My question is world market are in price inflationary scenario, is there any impact in our business segment?
- Hussein Rayani:** There has been cost escalations due to the inflationary scenario especially in terms of the freight costs and other allied accessories inputs and service cost, but our general trade down is a pass on mechanism of prices to our customers, where we have a monthly pricing with our customers. So, any such increase in our costs are passed on to our customers thus mitigating these costs to certain extent.
- Moderator:** Thank you. We take the next question from the line of Kalpesh Parekh from JSN Advisory. Please go ahead.
- Kalpesh Parekh:** Couple of questions, one you mentioned the domestic business was quite very well. So, in the sense like can we get a picture on which segment was much better or which segment fared much better like inks or probably the pharma space or rubber or textile or all were doing very good. How was the scenario?
- Hussein Rayani:** So, the Indian market is definitely well better place compared to other markets. And we have seen some good demand from the segments, especially from the inks and the coating industry and the rubber industry. And also, a pickup in cosmetics and the pharmaceutical segment. We will see say the textile industries were quite stagnant, but overall since we are covering about six to seven different segments, so overall, we see a good demand, if some segments are running slow, the others are running quite well. So, I would say generally, the ink and the rubber would be the outperformers.
- Kalpesh Parekh:** My second question was linked to this first question only, like you mentioned in the second half, we will have this extra, incremental capacity coming in. So, in that scenario, do you foresee a scenario where demand will outstrip your production capacity, and we might have to run the plant about 100% capacity.

- Hussein Rayani:** So, as I said, our capacity is about 15% to 20%, expandable over the installed capacity. In addition, we are adding another 30,000 tonnes to our capacity. So, looking at the forecast of the demand from our customers, we are very well covered for this year to cater the increasing demand. And I think this would suffice for this year, considering that a lot of our products are fungible and also expandable over the installed capacity. So, we would be able to cater the increasing demands from the customer.
- Kalpesh Parekh:** Last question was on the margin front. We did extraordinarily good 15.8% in this quarter, but still your margin guidance is still hovering in the band of 13% to 16%. I understand you want it to portray some conservatism over there, but nevertheless, do you foresee the scenario where at least we can extrapolate in the band of 15% to 16% or even about 16%.
- Hussein Rayani:** Yeah, it's possible because as I said, there is a steady shift in our product mix. For more of value-added products. In the coming quarters in the coming years, we have plans to further increase our value-added products which we have been doing over the past couple of years. And we want to continue on that front. And the value-added products definitely offer and give us a better realization and better margins. So, going forward we are quite upbeat on the margin side and to maintain it on the current levels.
- Moderator:** Thank you. We take the next question; this is a follow up question from the line of Sudhir Bheda from Right Time Consultancy. Please go ahead, sir.
- Sudhir Bheda:** Just I want to ask an accounting question Foreign Exchange gain of around Rs. 10 crore. Is it a part of the normal business or it's just accounting standard for which we have to account, something extraordinary which will not recur?
- Hussein Rayani:** So, this is the accounting standards and is a notional loss, because as per the accounting standards, we have to revalue our inventory as per the current the, we have to revalue our creditors as per the existing exchange rate. But this is realized during the time of actual sales. So, this is a notional loss, which will be realized at the time of actual sales.
- Sudhir Bheda:** In fact, it is a gain I believe.
- Hussein Rayani:** No.
- Sudhir Bheda:** In this quarter, there was an inventory gain as price has moved substantially from the March level.
- Hussein Rayani:** No, inventory gain.
- Sudhir Bheda:** So, it's all profit, or EBITDA, which are we also showing, is just a normal course?
- Hussein Rayani:** Normal course, yes.

Moderator: Thank you. So, we take the next follow up question from the line of Priyan Purohit. Please go ahead, sir.

Priyan Purohit: So, just wanted to get some more clarity on your value-added products, since essentially you have been able to increase your margins because of that. So, if I notice all your peers have sort of faced RM pressure, and their margins have gone down whereas we have actually been able to expand. So, I just wanted to understand whether, do we have any special position in terms of market share in these extra value-added products? Say for example, you know, maybe are we the only manufacturer of a particular type of petroleum jelly or white oil in India or something like that?

Hussein Rayani: Yes, so, we do a lot of customized solutions for our customers and a lot of import substitutes. So, a lot of our customers especially in the segments of inks and ink manufacturing or in the rubber industry, or in the textile industry, we make products based on customer's specifications, requirements, process, and exactly as per their requirements. So, these are very tailor-made products, where there is much less competition, and we can pass on a higher price, due to this. A lot of our customers who are in multinationals, they otherwise import these products from either Europe or other Western countries.

So, we give them a solution with a just in time delivery, equivalent to the these grades that they require. So, these are very custom-made, and we are very well positioned to supply them. Because we have been approved by them, our plans are audited by them. So, we are much well ahead of the curve, and very well pleased to service them with these products.

Priyan Purohit: So, my second question is on the front of your product pricing. So, essentially the way I understand it, since we are already running at almost full capacity so I imagine there won't be a lot of headroom in terms of volume growth until the new capacity comes in. So, how do we exactly see your product testing going forward? Do you expect to get better realizations in the coming quarters?

Hussein Rayani: Yeah, so as I said, in the second half of this year, we will have additional capacity, which will be commercialized. And so we are currently well placed, because we have a yearly forecast from our customers, wherein we evaluate the demand from them, and based on that we have projections to add capacity for this year and the coming years. Even though we are running on 100% we can further increase our capacity by another 15% to 20%. So, we are very well positioned to cater the increasing demand.

Priyan Purohit: And one last question from my side. So, just to reiterate your guidance for FY23, you said that we should be able to comfortably get a 15% to 20% top line growth. So, if I just do a rough calculation we probably need to achieve a quarterly run rate of about an odd you know, Rs. 600 to Rs. 650 crores of revenue. So, we are on track to do that then for the coming quarters.



*Panama Petrochem Limited
August 02, 2022*

Hussein Rayani: So, as I said, we are confident and quite optimistic to have a 15% to 20% growth in revenues for the coming quarters.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Hussein Rayani for closing comments, over to you sir.

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 Relations team. And we will be very happy to answer them. Thank you very much once again.

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