"Panama Petrochem Limited
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MANAGEMENT: **MR. HUSSEIN RAYANI – JOINT MANAGING DIRECTOR – PANAMA PETROCHEM LIMITED**
MR. MAHESH NARVEKAR – VICE PRESIDENT, CORPORATE RELATIONS – PANAMA PETROCHEM LIMITED, MR. PRAMOD MAHESHWARI, CHIEF FINANCIAL OFFICER, PANAMA PETROCHEM LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the March 2023, Q4 Earnings Conference Call of Panama Petrochem Limited. As a reminder, all participant lines will be in listen-only mode and anyone who wishes to ask a question may enter star and one on their touchtone telephone. To remove yourself from the queue, you may enter star and two. Should you need assistance during the conference call, please signal an operator by pressing star then zero 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, Aman. Good morning, everyone. Welcome to Panama Petrochem Limited. Earnings Conference Call for Q4, year-ended March, 2023. 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 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 guarantees of future performance and involve risks and uncertainty that are difficult to predict.

I would like to introduce Mr. Hussein Rayani, Joint Managing Director of Panama Petrochem Limited. And I request Mr. Hussein Rayani to share the Q4 performance overview of our company. Over to you, sir.

Hussein Rayani: Thank you, Mahesh. A very good morning everybody. It is my pleasure to welcome you all to the quarter-ending March 2023 earnings conference call of Panama Petrochem Limited.

The results for March quarter has been more or less on expected lines. On revenue front, there was a good demand in domestic market with healthy realizations. In spite of the prevailing geopolitical challenges, logistical issues, and the crude price uncertainty, the company reported stable earnings for the quarter-ending 31st March, 2023. There has been good offtake of value-added products like the textile oils, white oils, and other industrial lubes, which enabled us to maintain EBITDA margins around 14%.

The forex market has been very volatile during the entire year, due to which there has been significant increase in the cost of finance due to the dramatic increase in the rate of interest on global front. And even though with the notional loss on exchange fluctuations, we were able to maintain the margin at around 14%.

Further, the company has repaid all the short-term debt and has become a debt-free company in true sense. The company has announced a final dividend of INR5 in addition to the interim dividend of INR3 per share, totaling to INR8 per share equal to 400%, thus adhering to the dividend payout policy of the company. The ongoing capacity expansion is in due course and we will see additional capacity of 30,000 tons going on stream in batches in this year.

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

Mahesh Narvekar: Thank you, Hussein sir. On a consolidated basis, in Q4 FY '23, the operating income for the quarter was INR513.24 crores and operating EBITDA was INR69 crores. Operating EBITDA margins stood at 13.4%. Net profit after tax reported was INR50.81 crores for quarter ended 31st March, 2023. PAT margin reported was at 9.9%. For the annual consolidated basis, the operating income was INR2,255.3 crores, which was an increase of approximately 6% on year-on-year basis. Operating EBITDA reported was INR315.6 crores, which saw an increase of around 4.3% on year-on-year basis. Operating EBITDA margins stood at 13.99%, that is almost 14%. And net profit after tax reported was INR232.97 crores.

With this, thank you. With this, we can now open the floor for question-and-answer session.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Sujit Chaudhury as an Individual Investor. Please go ahead.

Hussein Rayani: Yes, good morning.

Sujit Chaudhury: Good morning, sir. I am Mr. Sujit Chaudhury. Sir, one question is, are there any challenges in raw material oil procurement?

Hussein Rayani: Thank you for your question. There has been supply chain concerns in the markets. A few of our refinery suppliers have been on maintenance turnaround in the last few months. However, the company has firm long-term contracts, supply contracts, which ensure smooth procurement. Also, these firm contracts enable the company to maintain optimum inventory levels, which helps to mitigate and absorb any fluctuations in the oil prices.

Sujit Chaudhury: Thank you, sir.

Moderator: Thank you. The next question is from the line of Aakash Gupta as an Individual Investor. Please go ahead.

Aakash Gupta: Yes. Sir, I would like to know the contribution of value-added products in this quarter and has the margin in this segment impacted?

Hussein Rayani: Thank you, Aakash, for your question. The company intentionally added value-added products over conventional products in the product mix. The product mix has improved in favor of value-add products to the tune of 68%, thereby enabling the company to report healthy EBITDA margins of 13.4% in this quarter with a risk -- 12.04% in the preceding quarter. So we have been successfully implementing our strategy to improve the product mix in favor of value-adds. Thank you.

Aakash Gupta: Thank you.

Moderator: Thank you. The next question is from the line of Naresh Jain as an Individual Investor. Please go ahead.

Naresh Jain: Could you please guide us on revenues and operating margins in coming quarters, and how you see the year forward from here? And will we be able to sustain the margins going forward?

Hussein Rayani: Thank you, Naresh, for your question. We anticipate more stability and normalcy in the year coming ahead in the business environment, thereby giving more visibility on the business front. We expect the Indian markets to outperform in comparison to the global markets, and we expect global demand for our products. We anticipate a good demand in our products, especially for our textile oils, white oils, and other industrial lubricants. Due to these favorable factors, we expect to sustain the margins, and we are hopeful for a 15% growth in the operating – in the revenues and sustainable margins. Thank you.

Naresh Jain: Thank you very much.

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

Sudhir Bheda: The result is very disappointed from the shareholder point of view, as we believe that whatever reason you mentioned geopolitical is there. Well, in the December quarter was a good season, but in the March quarter, there was quite a stability in upfront. So, even we are not able to hold on to the per kg or per ton margin, and we are even -- de-grew our revenue from INR572 crores in December to INR510 crores. Of course, the oil prices have come down, but then we are not able to maintain the per ton margin in the March quarter, compared to December quarter. And year-to-year, Y-on-Y the performance is even worse as PBT has declined from INR68 crores to INR62 crores.

So, how do we see the year forward? Are we now getting into the revenue growth in the coming year and able to hold on to our margin of, say, 14%? So, how does the scenario look like in the years ahead? Thank you very much.

Hussein Rayani: Yes, thank you for your question, Mr. Sudhir. First of all, I would like to inform you that the company, the focus of the company is to -- is more on the value-added products. As I also mentioned in one of the previous answers I just gave, that we have intentionally concising our exposure to the conventional grades, and replacing it with more value-added products, which bear -- which give healthy realizations and better margins.

If you will see in the quarter four, March '23, the EBITDA margins have increased to 13.4% compared to 12.04% in the preceding quarter. The volumes in this quarter were maintained. The revenues were down, as you rightly said, the oil prices have been downwards, thereby, there has been a decrease in the price, but the margins are sustained in this quarter.

If you see on a whole yearly basis for the year ended March '22-'23, the company has done a total on a console basis, a total of PAT of INR233 crores, which is higher than the last year, and the total revenues of the company for the year ended at INR2,255 crores, compared to INR2,138 crores in the preceding year.

So, overall, as I said, the management is more focused on the margins to be sustained and that is achieved with the introduction of more product mix in favor of the value-add products.

Sudhir Bheda: So, how do you see, because now oil prices are more or less stable between $70 and $80? And now, as you say, there is no volume growth compared to the December quarter. So, how do we see the volume growing in the current fiscal FY '24? And whether, see, I am talking about the per ton margin, so whether we are able to hold on to per ton margin?

Hussein Rayani: We've given guidance on the EBITDA margins, and we are sustaining those EBITDA margins. We are hopeful that in the coming year, we will be able to increase our revenues by 15% further. And all our expansion plans are in due -- are as per the plan and going ahead as per the plan.

Moderator: Thank you, Mr. Bheda. I request you to join the queue for any follow-up. Thank you. The next question is from the line of Manpreet Singh as an Individual Investor. Please go ahead.

Manpreet Singh: Mr. Rayani, my question is that, in the previous question, you were just asked that how the quarter-on-quarter revenue de-grew. And you mentioned that because the focus was more on the specialty products. Now, on an overall basis, if you look at the financial year, definitely you were able to grow your consolidated revenues by let say 5% and kept your earnings per share stable. But what I'm seeing is that this actually happened in the first half.

So, your first half of FY '23 was much better than your second half of FY '23, whereas, in first half of FY '23, I feel the global economic scenario was more difficult because the war had just started. The commodity prices were shooting all over the place. The supply chain concerned, there was some problem in Egypt also, and then Suez Canal, that ship got stuck.

So, I think second half, actually, things got smoothened out and got better. But still, your revenues were lower in your second half versus first half. So, what are your thoughts around it? And the second part of the question is that, is it because it's coming from a particular sector that you serve? Because I do understand your revenue mix, you got pharma, you're serving around 20%, 25%. Then you've got other sectors. So, has it been that any particular sector has been weak in the second half, which resulted in all this?

Hussein Rayani: Yes. Thank you for your question, Manpreet. There has been a volatile situation throughout the year we have experienced. As you see, the oil prices have been quite volatile all through the year. Also, there were harsh increases in the global interest rates, which resulted in high cost of finance. Just to give you a comparison, this year we had a finance cost of about INR10 crores compared to INR4 crores in the last year.

So, there have been a lot of volatile conditions. The currency was fluctuating. This year, we had -- for this year, 2022-'23, we had a notional exchange loss of around INR12 crores. Despite these conditions, we have maintained EBITDA margins for the whole year of about 14%, compared to the last year on similar levels.

So, as I said, the focus, we have seen the volatility still persist throughout the year. But as I have mentioned earlier, the focus of the management is to focus on more value-added products, which are bearing better margins. So, that would be the way forward going ahead.

Manpreet Singh: I understand. And I hope that you are able to come out of this. So, I really wish you the best of luck for it.

Hussein Rayani: Thank you so much, Manpreet for your wishes.

Manpreet Singh: Thank you.

Moderator: Thank you. The next question is from the line of Rohan Mehta as an Individual Investor. Please go ahead.

Rohan Mehta: Good morning, sir. First of all, congratulations for a good set of numbers.

Hussein Rayani: Thank you so much.

Rohan Mehta: Sir, a small clarification is required on the finance cost. When it is compared with the same quarter last year, it has increased by around INR1 crores. So, are we having any expansion plans, or I mean why it is increased basically?

Hussein Rayani: The finance cost increase is due to the increase in the interest rates on the global front.

Rohan Mehta: Okay, sir. These are the floating loans basically, right?

Hussein Rayani: Yes.

Rohan Mehta: Okay. Thank you, sir. Thank you very much.

Moderator: Thank you. The next question is from Mulesh Savla from Shah & Savla, LLP. Please go ahead.

Mulesh Savla: Hi, good morning and thanks for taking my question. Mr. Hussein, can you please share volume data for Q3 and Q4?

Hussein Rayani: Yes. So, on a console basis, the Q3 volume was about 59,000 tons, and in the Q4, it was about 57,000 tons.

Mulesh Savla: In fact, we were thinking of increasing volume by about 15% rather than we have de-grown our volume.

Hussein Rayani: Yes. As I said, we are intentionally concising our exposure on the conventional grade of oils. And, of course, it is being replaced by more value-added products. So, the volume is not vis-à-vis the same. But overall, it has a good impact on the EBITDA margin, which is shown in this quarter.

Mulesh Savla: So, per ton margin, can you please share with us? What is our per ton margin for both these quarters?

Hussein Rayani: On EBITDA percentage, it is about 13.44% in this quarter, compared to 12% in the last quarter.

Mulesh Savla: Generally, I think we have always talked about margin on ton basis rather than EBITDA, because you say the volume, I mean the rate may -- oil price may come down or go up, but generally you work on the basis of margin per ton, and your EBITDA margin varies depending upon the oil price going up and going down. So, I think the real judgment can be arrived from knowing the per ton margin.

Hussein Rayani: Normally, we have about 80 various grades of products. We generalize it as on the specialty grades and the conventional grades. We work on the EBITDA percentage. Normally, the conventional grade has about 8% to 10% of EBITDA margin. This is 14% to 16% on the specialty. So, we have given guidance on the EBITDA margin between 12% to 14% and this quarter we had about 13.44% as the EBITDA margin.

Mulesh Savla: Okay. And in fact in the current quarter, there has been exchange gain rather than loss. So, looking at that gain also, our result seems -- I mean disappointed. We are frankly disappointed with the current quarter's performance. Maybe on annualized basis as another participant rightly said that H1 was better in spite of so many headwinds, and in fact we were expecting that the current quarter you could have done a little better, and the volume also as you guided in the last con call that there is good demand and selling high value product is not a problem, especially in the domestic market. You did found some concern in the export market, but you said that local market is doing well and we should be able to grow by 15% in terms of volume. So, any thought on that, and how do you see Q1 and Q2 of the current financial year?

Hussein Rayani: We have -- actually seen the volatility being there throughout the whole of the year, and if you see on the yearly basis, there was an exchange loss of about INR12 crores for the year. However, as I said that we are mitigating most of these risks by adjusting our inventory.

On the export front, of course, there are concerns, more challenges because a lot of the countries are experiencing tremendous shortage of currency. There are inflationary and recessionary concerns and challenges. We are mitigating those risks by increasing our presence in more global markets. The exports have in fact in this quarter increased to 44%.

Overall, we see that it was a very volatile year in terms of the currency, in terms of the crude oil price. Going forward, we are hopeful that there will be more stability and normalcy and more visibility on the business. And we are hoping for the best.

Moderator: Thank you. The next question is from the line of Utsav Anand, as an Individual Investor. Please go ahead.

Utsav Anand: Hi sir, good morning. Congratulations on the good set of numbers. I would just like to ask regarding the expansion that we are doing, has that been done?

Hussein Rayani: Can you repeat your question?

Utsav Anand: Regarding the expansion that we were doing for increasing our capacity, that was supposed to be done by Q4 of the last quarter, has that been completed sir?

Hussein Rayani: No, I still didn't get your question actually. Can you please repeat?

Utsav Anand: Sir, I was asking regarding the capacity enhancement that we were doing?

Hussein Rayani: Yes, so we have added 30,000 tons in this year and as per the plan, more than 50% of that capacity expansion has been commercialized in the Q4 of this quarter ending March '23. Next year, we have another expansion plan of 30,000 tons, which is also on due course and it is as per the plan.

Utsav Anand: So 30,000 tons has been added to the production line, right, if you are trying to get that?

Hussein Rayani: Yes, 30,000 will be added. Now more than 50% has been commercialized and the rest will be commercialized in the coming months.

Utsav Anand: By when will it be commercialized, by which -- quarter one?

Hussein Rayani: No, quarter four, for this year.

Moderator: Utsav, please use the handset, you are not very clear.

Utsav Anand: The entire 30,000 has been commercialized, right? That is supposed to be done by the last year?

Hussein Rayani: Yes, about 50% has been commercialized in this quarter and the balance will be in the Q1 of this year.

Moderator: Thank you. Mr. Anand, we request you to join the queue for any follow-ups. The next question is from the line of Javed Merchant, as an Individual Investor. Please go ahead.

Javed Merchant: Sir, my question is how are the export markets faring, and what are your assessment going forward?

Hussein Rayani: As I already answered the previous question, we have seen some challenges on the export markets due to the geopolitical issues. And few of the countries where we are supplying our products are facing tremendous currency shortages. Further, the recessionary and inflationary concerns are imposing greater challenges. However, the company is able to mitigate these concerns by expanding its reach to newer markets. For this quarter, the exports have increased to 44% of the total revenue.

Javed Merchant: Okay. Thank you, sir.

Hussein Rayani: My pleasure. Thank you.

Moderator: Thank you. The next question is from the line of Manpreet Singh, as an Individual Investor. Please go ahead. Manpreet, your line is unmuted. Please go ahead with your question.

Manpreet Singh: Okay. I'm sorry, I'm sorry. I had muted myself. Sorry. Thanks. So, Mr. Rayani, I wanted clarification on two fronts. One is regarding this FY -- regarding this expansion of 30,000, which happened in Q4 of FY '23. And as you mentioned that 50% has already been commercialized and remaining 50% is left. So I just wanted to understand, I think in one of the earlier calls, you'd mentioned that some testing has to be done before commercialization happens. So what is the reason this remaining 50% hasn't been commercialized yet? Is there some testing going on or what is it?

Hussein Rayani: No. This is actually, we normally commercialize in batches, so about 50% of the testings were all done. Already we have started commercialization of this new capacity. And in the batch wise, so Q4, these commercialized about 50% of this new capacity and another 50% will be in this quarter. It's in the batch-wise process.

Manpreet Singh: Okay. And I think then by end of this financial year, FY '24, you have another, let's say 30,000 tons coming up online. Correct?

Hussein Rayani: That's right. That's right.

Manpreet Singh: Okay. Now my second part of the question is around the industries that you serve. So pharma was particularly weak for different chemical companies that were serving pharma sector. So last couple of quarters were weak for them. So are you seeing that thing improving for yourself or pharma sector? And even the other sectors you serve, are you seeing weaknesses, or strengthening in those other sectors as well apart from pharma?

Hussein Rayani: I think the major segments where we saw good growth was in the textile segment for our textile oils. We manufacture antistatic coning oil and circular knitting oils, which goes in the texturizing units. So we saw good demand in that segment.

Further, we saw some good demand in the white oils, which goes in most of the cosmetics industries and also in the industrial lubricants. So these segments, we saw some better performance and growth.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that would be our last question for today. I would now like to hand the conference back to Mr. Hussein Rayani for closing comments. Thank you, and over to you, sir.

Hussein Rayani: Thank you. 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 very much. Ladies and gentlemen, on behalf of Panama Petrochem Limited, that concludes today's call. Thank you all for joining us, and you may now disconnect your lines.