



“Panama Petrochem Limited
Q2 FY '24 Earnings Conference Call”
November 09, 2023



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

Moderator: Ladies and gentlemen, good day and welcome to the September 2023 Q2 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 may enter star and one on their touchtone phone. To remove yourself from the question queue, you may enter star and two. Should you need assistance during this conference call, please signal an operator by pressing star and 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, Dorwin. Good morning, everyone. Welcome to Panama Petrochem Limited earnings conference call for quarter 2 ending September 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 belief, opinion and expectations of the company as on the date of this call. These statements are not guarantee of future performance and involve risks and uncertainty that are difficult to predict.

I would like to introduce Mr. Hussein Rayani, Joint Managing Director and Mr. Pramod Maheshwari, CFO, Panama Petrochem Limited. I request Mr. Hussein Rayani to share the quarter 2 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 September 2023 earnings conference call of Panama Petrochem Limited. Let me begin by giving a quick review of the business. Overall, the business environment was stable and meet few challenges persist particularly in the export markets. Despite these challenges, company recorded a 25% growth in exports during the period by targeting new regions and markets.

Thus, Panama Petrochem has performed well with stable growth in revenues and margins. Company reported a healthy margin of INR65 crores in this quarter on a revenue of INR578 crores. As you all see, the geopolitical crisis continues with volatile commerce particularly in crude oil and energy markets. We do expect the domestic demand to remain stable and with company's reliance on value-added products should enable us to weather these challenges. The expansion program has been successfully implemented to the tune of 30,000 tons going on stream.

Now, I request Mr. Mahesh Navrekar to give the financial highlights.

Mahesh Narvekar: Thank you, sir. On a consolidated basis for September 2023 quarter, the operating income was around INR578 crores, which was approximately 8.2% growth on a sequential basis. Operating EBITDA reported was INR65 crores against INR63.5 crores in same period. Net profit after tax

was INR46.9 crores against INR48.5 crores on quarter-on-quarter basis. As per six months ending September 2023, the operating income was INR1,112.8 crores and operating EBITDA reported was INR128.6 crores. Net profit after tax reported was INR92.8 crores.

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

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Vijay, an individual investor. Please go ahead.

Vijay: Good morning, sir. Sir, I want to ask one question. Since the company is debt-free with surplus cash, is there any future plan on diversification?

Hussein Rayani: Thank you, Vijay, for your question. The company's R&D is continuously striving to introduce new products and offer new customized solutions to clients. The company plans to further improve the product mix and the product portfolio.

Vijay: Okay, thank you, sir.

Moderator: Thank you. The next question is from the line of Akash Kumar, an investor. Please go ahead.

Akash Kumar: Yes, good morning, sir. Sir, could you please brief us on the status of expansion plan of the company? And when can we see the total expanded capacity going on stream? Also, what capacity will be commercialized? And when will it be added to the top line?

Hussein Rayani: Thank you so much for your question. The expansion plan is in process. The capacity has been increased to 270,000 tons in 2023. And we plan additional 15,000 tons to be added in our subsidiary plant in UAE. And 15,000 tons to be added at our EOU Taloja plant in the coming year. Thank you.

Akash Kumar: Okay, sir. Thank you.

Moderator: Thank you. The next question is from the line of Zulfikar Merchant, an individual investor. Please go ahead.

Zulfikar Merchant: Good morning, sir. Sir, I would like to add one question. There has been a lot of appeals in the global space riddled with conflicts. In such a scenario, how is the company managing the exports, sales and finance in the view of scarcity of dollars? In the present scenario, has the company added any new markets in exports?

Hussein Rayani: Thank you, Mr. Merchant, for your question. As you rightly said, there have been a lot of geopolitical concerns world over. In spite of these challenges, the company has registered a 25% growth in exports. And the company's strategy is to develop new geographies and adding new customers. We did not face any export finance issues since all our exports is covered by letter of credit.

Zulfikar Merchant: Okay. Thank you, sir.

- Moderator:** Thank you. The next question is from the line of Rohan Mehta, an individual investor. Please go ahead.
- Rohan Mehta:** Good morning, sir. Sir, looking at the current scenario of the crude oil, I mean the volatility in the crude oil is too much. What can be the best estimate for the sales growth and the margin? And the second question will be, when we are talking about margins, what is the best guidance on the specialty product margins?
- Hussein Rayani:** Thank you, Rohan, for your question. Yes, the times are quite concerning with the geopolitical situation. However, we have, as I have been also said in our previous calls, we have in the specialty segments a sustainable margin of between 13% to 15%. And we anticipate the margins to sustain with further improvement in product mix.
- Rohan Mehta:** Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Deepak Goyal, an Investor. Please go ahead.
- Deepak Goyal:** Good morning, sir. Is there any difficulty in facing base oil procurement?
- Hussein Rayani:** Thank you, sir, for your question. The company has contractual agreements with our suppliers for the raw materials. Hence, we do not face any issue in the procurement. And we have continuous access to raw materials.
- Deepak Goyal:** Okay. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Rajesh Jain, from ENB Investment. Please go ahead.
- Rajesh Jain:** Good morning, sir. Thank you for the opportunity. Sir, if you see the quarter we have de-grown, is it possible to share how much of this is due to the volume and how much of this is due to the price?
- Hussein Rayani:** In this quarter Q2, we had a total volume of 65,200 tons with about 8% increase over the previous quarter.
- Rajesh Jain:** But if you compare with the Q2 of last year, sir?
- Hussein Rayani:** Yes, compared to the Q2 of last year, the volume was about close to 64,000 tons.
- Rajesh Jain:** So, we have grown in volume, but we have lost -- whatever the de-growth is there, mainly due to the price?
- Hussein Rayani:** Due to the price. That's right.
- Rajesh Jain:** Sir, my second question is regarding the capex. We were to add 30,000 last year, and you had mentioned, I think, these 15,000 or 30,000 capacities to be commissioned in the first quarter. So, what is the status of these new capacities? Have they been commissioned and running successfully?

- Hussein Rayani:** Yes. So, we added 30,000 tons in the year '22-'23. So, totally 270,000 tons capacity compared to 240,000 tons in the year before, which is successfully commissioned. In the coming year, we have another plan of additional 30,000 tons.
- Rajesh Jain:** So, that will be this year or the next year, sir?
- Hussein Rayani:** It will be in the next year.
- Rajesh Jain:** So, this year you will not be adding any more capex?
- Hussein Rayani:** Yes, in the second half, we will start in batches.
- Rajesh Jain:** In batches, okay. But as on H1, including the new capacities that have been commissioned, what is the capacity utilization?
- Hussein Rayani:** So, we are running at about 95% capacity utilization.
- Rajesh Jain:** Including the new ones?
- Hussein Rayani:** Including the new ones.
- Rajesh Jain:** Then why are we not going for the new capacities immediately?
- Hussein Rayani:** So, we are adding another 30,000 tons in order because we expect steady growth. Looking at that scenario, we have a plan to add additional capacity.
- Rajesh Jain:** Okay. Sir, my next question is regarding the oil samples that we had given for these drilling companies. Have the samples which have been given, has it been approved? Have we started any commercial supplies to them?
- Hussein Rayani:** Absolutely. The whole range of products for the drilling industry was introduced with all approvals and also commercially being supplied to the major service providers worldwide. And it is a commercial negotiation.
- Rajesh Jain:** Sir, to see a significant volume from this segment, how much time it may take?
- Hussein Rayani:** So, right now, because of the situation, it has not really taken off, but we are expecting good orders in the coming years.
- Rajesh Jain:** Okay. So, now keeping two years or three years in perspective, how much turnover we can expect? Any target management has?
- Hussein Rayani:** Yes. So, close to about INR200 crores additional from this segment.
- Rajesh Jain:** From this segment, that oil drilling oils only? Oil drilling lubricants only? And I suppose these margins are better than and these are all specialty oils?
- Hussein Rayani:** Yes, this is more on the specialty side.

- Rajesh Jain:** Specialty side. Sir, my last question is, I think someone earlier to me also had asked, we are having so much of cash in the balance sheet. And we are doing capexes also in phases, which is very good, seeing the demand and also utilizing the cash very judiciously and efficiently. But in spite of that, we have, let's say, INR130-odd crores. Is there anything management is looking for, let's say, some acquisitions or any other things so that this cash can be utilized more effectively?
- Hussein Rayani:** Many things are on the table and we will look at the opportunity arises. But the management is clear, the cash on hand will be used for all the expansion plans for the capex, for the dividend payout and for the working capital.
- Rajesh Jain:** So, you feel for all those three things only this much cash would be required?
- Hussein Rayani:** Yes.
- Rajesh Jain:** Okay. Sir, lastly, we make one oil for this textile industry?
- Hussein Rayani:** I think there are many other questions in the line, so if I would...
- Rajesh Jain:** Okay, I'll come back in the queue, sir. No problem. Thank you.
- Moderator:** Thank you. Ladies and gentlemen, if you wish to ask a question, you may please press star and one. The next question is from the line of Mukesh Panawani from WC Securities. Please go ahead.
- Mukesh Panawani:** Sir, my question is, right now, what is the share of revenue which is coming from value-added products?
- Hussein Rayani:** Yes, the value-added is about 68%.
- Mukesh Panawani:** 68%. And, sir, what is our target in the long term?
- Hussein Rayani:** We would like to take that about 85% going forward in the next three years to five years.
- Mukesh Panawani:** Okay, that is great. And, sir, the new capex which we are doing, like it is for the value-added products or it is for commodity?
- Hussein Rayani:** Yes, mostly 70% of the new capacity will be for the value-added products.
- Mukesh Panawani:** Okay. And, sir, in the last two quarters, we have seen that the operating profit margin is coming down, like from 14%- 15% it has come down to 11%. So, what about the H2 of this year? Would we be able to be, like, again back?
- Hussein Rayani:** We have given a steady guidance of the EBITDA margins between 11%- 13%, which is sustainable for us.
- Mukesh Panawani:** Okay, that is all from our side. Thank you.
- Hussein Rayani:** Thank you.

- Moderator:** Thank you. The next question is from the line of Piyush Jain from Acquaint Bee Ventures. Please go ahead.
- Piyush Jain:** Sir, can I have the volumes for Q1 as well?
- Hussein Rayani:** Volumes for?
- Piyush Jain:** Q1, last quarter.
- Hussein Rayani:** Yes. So, the volumes for the Q1 last quarter was about 60,000 tons on a consol basis.
- Piyush Jain:** Okay. Sir, I wanted to ask a question. Do we have any plans to get into ester-based chemistry? And by when do you think if there are, will we see some significant materialization towards this?
- Hussein Rayani:** Not really in the ester-based, but the R&D has been, is working continuously to add a lot of new products in our existing segments and improving the product mix for the value-added products.
- Piyush Jain:** Okay. Also, sir, from this, so drilling oil right now, as a contribution, do you see this ramping up this year?
- Hussein Rayani:** Yes, in the next two years, we see some good orders coming.
- Piyush Jain:** Already it is a very, very slow ramp up and you won't see anything materially this year, the contribution from drilling oil, is it correct?
- Hussein Rayani:** Yes, not so much significant in this year. Okay.
- Piyush Jain:** Yes, I'll come back in the queue, sir. Thank you.
- Hussein Rayani:** Thanks, Piyush.
- Moderator:** Thank you. The next question is from the line of Rajesh Jain from ENB Investment. Please go ahead.
- Rajesh Jain:** Thanks for the opportunity once again. Sir, what I was asking is about the coning oil that you're used in the textile industry. I think we are one of the main suppliers and that segment contributes significant revenues to us. Are we started supplying to the Tirupur and the Coimbatore belt of South India also?
- Hussein Rayani:** I would not be able to divulge the name of our customers, but we have been very active in this segment where it is about 50%% of our revenue. And we have a good set of customers. We are servicing the customers in the Surat, Vapi belt mostly. And it's a steady segment for us, steady growth in this segment.
- Rajesh Jain:** No, sir. I'm not asking any customer name. What I wanted to know is, maybe due to capacity constraints, you were not targeting the Coimbatore belt textile mills. Of late, since now we have

been expanding regularly, could you be able to talk and supply to these companies also in South India now?

Hussein Rayani: Yes, there are plans, but we are mostly active on the western coast of India in Maharashtra and Gujarat. Of course, we have to also consider the logistical costs for catering the south of India. But of course, we have thoughts out there and we will definitely take it forward in the coming future.

Rajesh Jain: Okay. So subsequent to that, so you said logistics, most of our plants are there in the western region?

Hussein Rayani: Yes.

Rajesh Jain: Is there any plans to put up a plant either in north or southern parts of India where there is a good potential?

Hussein Rayani: Of course, there is a good potential and many things are on the cards. We will take it up as and when there is an opportunity arises.

Rajesh Jain: No problem. My last question is, just to get a flavor of the competition, is it that in South India the competition is very severe?

Hussein Rayani: There is competition all over. As you know, India is a big market with many players. But our strategy of the management is to go more into the specialty segments where we face less competition and short businesses with better margins.

Rajesh Jain: Okay. Thank you very much, sir. I wish you all the best. Thanks.

Moderator: Thank you. The next question is from the line of Rehan Laljee from Equatree Capital. Please go ahead.

Rehan Laljee: Hi. Thanks for taking my question. Can you share some volume information on H1 versus H1 comparison?

Hussein Rayani: Yes. So in the half year of this year, the volume is about 1,25,000 tons.

Rehan Laljee: Okay. And last, sir?

Hussein Rayani: Correspondingly, in the previous year, it was about 1,20,000 tons.

Rehan Laljee: So this is on a consol basis, right, after capacity? All after adding capacity.

Hussein Rayani: Yes. After adding capacity and on a consol basis.

Rehan Laljee: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Piyush Jain from Acquaint Bee Ventures. Please go ahead.

- Piyush Jain:** Sir, what kind of volume growth do you expect over the year now?
- Hussein Rayani:** We anticipate about 10% to 15% growth.
- Piyush Jain:** Volume wise?
- Hussein Rayani:** Volume wise. Okay.
- Piyush Jain:** And sir, do you also expect these margins to have bottomed out at these levels? Because your sustainable guidance range is 11% to 13%. So are there any one or four product mix severe changes that has actually taken this hit towards 10.3%?
- Hussein Rayani:** No. Actually, we are the strategy, as I said, of the management is to further improve product mix of the specialty oils, which is now currently 68% and to take it forward. And we see an upside on the EBITDA margins with that change.
- Piyush Jain:** Right, sir. So that is your strategy, which has been in place in the last few years. Correct? Yes. As I understand. So are we facing some temporary hit because the margins have been falling over the last few quarters, right? If I compare Q4, March quarter was 13% and then it's 10% plus right now. So is it because of a product mix change or is there any particular point you'd like to point out something?
- Hussein Rayani:** See, there are many reasons towards that. As you see, in the last of the whole year, there have been a lot of upheavals and a lot of crisis worldwide. And because of these geopolitical changes, because we are --our raw material is a derivative of the crude oil. So whenever there is such kind of crisis, we do face some challenges.
- But we are mitigating those challenges with the pass on mechanism to our customers. But the overall idea and the overall picture is for the company is to go and add more, introduce more specialty products, which bear better margins, both in our existing segments and also finding new applications.
- Piyush Jain:** So, let me rephrase. So a lot of these macro headwinds, do you think they have subsided for you now to confidently say that the margins will improve from here on in the next couple of quarters at least in the near term?
- Hussein Rayani:** Well, as you must also be aware of the current crisis, it is not to an end right now as we are talking. So it's difficult to predict what's going to be in the coming future. But as I said, we are, though we are dependent a lot on the price of the oil, oil prices and the crude oil price, since our raw material is a direct derivative.
- But on the supply side, we have contracts with our suppliers. So we face no constraints on the supply chain. At the same time, we are servicing a lot of multinationals with demand forecast for the whole year. So we have some kind of visibility on the business. But of course, difficult to predict on the geopolitical situation, how it goes from here.
- Piyush Jain:** Okay. So another question, you were doing a lot of import substitutes post-COVID, wherein you started realizing good value for the kind of products that you had. So you had improved

realization post-COVID, right? So has competition intensity in some of those products increased again? Or you still are the sole local player for most of these products and still competing import or some local competition has cropped up in any of these products?

Hussein Rayani: We are still servicing customers with import substitutes, which has been one of the main reasons for good performance and the good business visibility that we have. And that is continuously going on because as you know, the government's drive of Make In India has been very, very beneficial for us, for servicing these multinationals who have set up over here in India and they prefer to buy from the local companies. So that has been definitely a big part of our business and it's still going on very well.

Piyush Jain: So no new local competition has cropped up in some of these segments, right? It still remains,

Hussein Rayani: Not really.

Piyush Jain: Not in the specialty side? And when you say specialty, that would correspond to the entire 65%-68% value added that you would...

Hussein Rayani: That's right.

Piyush Jain: Okay. Thank you.

Hussein Rayani: Thank you so much.

Moderator: Thank you. We have no further questions. I would now like to hand the conference over to Mr. Hussain 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. Have a good day.

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