



“Panama Petrochem Limited
. Q3 and 9M FY '23 Earnings Conference Call”
February 10, 2023



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LIMITED
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Moderator: Ladies and gentlemen, good day, and welcome to Q3 FY '23 Earnings Conference Call of Panama Petrochem 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 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, Mr. Mahesh Narvekar.

Mahesh Narvekar: Thank you. Good morning, everyone. Welcome to Panama Petrochem Limited Earnings Conference Call for quarter 3 ending 31, December 2022. I would like to begin by expressing my gratitude to all of you by taking our 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 risk 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.

I request Mr. Hussein Rayani to share the quarterly performance overview of our company. Over to you, sir.

Hussein Rayani: Thank you, Mahesh. Good morning, everybody. It is my pleasure to welcome you all to the quarter ending December 2022 Earnings Conference Call of Panama Petrochem Limited. The geopolitical issues and volatile business environment persist in this quarter as well. The company faces challenges in the form of volatile raw material price due to very uncertain oil markets. The price has been very volatile, coupled with supply chain constraints. The businesses were facing challenging times. War and sanctions era has made the international commerce difficult to perform and execute, thus affecting the export markets. However, given these challenges, Panama Petrochem has performed well with stable growth in revenues and margins.

Going forward, we anticipate steady performance in coming quarters. We do expect the domestic demand to remain stable and the company's reliance on value-added products would enable us to weather these challenges. Customer requirements are expected to remain stable in the near future as we have not observed any fall or postponement in their requirements, and the order book remains healthy in the quarter. Company hopes to provide steady growth guidance for next quarter as well, backed by good domestic manufacturing demand.

On margin front, we are confident of maintaining the trend in near future, backed by increasing the product mix towards the value-add. Expansion programs have been successfully implemented in batches with 30,000 metric tons going on stream in this quarter ending March 2023.

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

Mahesh Narvekar: Thank you, sir. On a consolidated basis, for December '22 quarter, the operating income was around INR 574 crores, which grew approximately 12.4% over December '21 quarter. Operating EBITDA reported was INR 69 crores against INR 68.7 crores in the same period. Operating EBITDA margin for the quarter stood at 12.03%, Net profit after tax was INR 50.15 crores against INR 54.12 crores on a year-on-year basis. PAT margins reported at 8.74%.

As for nine months ending December 2022, the operating income was INR 1,742 crores, registering the growth of 7.07% over previous period. Operating EBITDA reported is INR 246.59 crores, which was an increase of about 7.4% on a year-on-year basis. Operating EBITDA margin stood at 4.16% as against 14.1% on a year-on-year basis. Net profit after tax reported was INR 182.16 crores, which was a net increase of about 5% on a year-on-year basis. PAT margins were reported at 10.46%.

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

Moderator: The first question comes from the line of Harshil Solanki, Equitree Capital.

Harshil Solanki: I had few questions. Firstly, sir, if you can help us with the volume number for the current quarter?

Hussein Rayani: Yes. In this quarter, we have clocked a volume of 59,000 tons on a consol basis.

Harshil Solanki: And this is including our 30,000 additional capacity, which has come up or this is excluded?

Hussein Rayani: The 30,000 tons additional capacity has been completed and the trials and if the production will commence in this quarter.

Harshil Solanki: Sir, in the past, we have said that if the crude fall, we expect the volumes to increase. But in the current quarter, our volumes have declined. So what is the reason behind that?

Hussein Rayani: We have been actually facing a global scenario and the recessionary pressures and the inflationary concerns have led to an over on a little bit of the demand in the export and global markets have been a little bit challenging. The environment is quite challenging. The raw material prices, especially the oil prices are very volatile, but we are still quite happy with the performance in this quarter. And we see that the order book in this current quarter is also quite healthy. And going forward, we are hoping for a much more stable performance by the company.

Harshil Solanki: Sir, you have earlier guided that we will touch 3 lack volumes in this full year, and in the nine months, we have done close to 180,000, so do you think that number is achievable or we need to revise our guidance for the volume, given the uncertainties?

Hussein Rayani: We anticipate about 10% to 15% growth in this year.

Harshil Solanki: Yes, sir, but that looks cheap, right? We did 260,000 last year and nine months, we have done INR 1,80,000. If I add 10%, 15%, it comes to roughly 3 lakh, so...



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- Hussein Rayani:** Nine month basis, the total revenues of the company is about INR 1,740 crores, reserve is about INR 1,627 in the nine months of last year. So we are on track, and we anticipate a 10% to 15% growth.
- Moderator:** Harshil, we request that you return to the question queue for follow-up questions. Next question comes from the line of Rajesh Mehta, an Individual Investor.
- Rajesh Mehta:** Sir, could you please guide us on revenue and operating margin in the coming quarters? And how do you see a year forward from here? And will we be able to sustain the margin going forward?
- Hussein Rayani:** We anticipate, Rajesh, revenue growth of 10% to 15% and sustainable margins in the range of 12% to 14% for this year. The domestic markets are quite resilient and the demand has been encouraging.
- Moderator:** The next question comes from the line of Megha Verma, an individual investor.
- Megha Verma:** Sir, I wanted to know what is the contribution of value-added products in this quarter? And has the margin in the segment impacted?
- Hussein Rayani:** Yes. Thank you so much for your question. The contribution from value-added products is about 65%, and we have been able to maintain the margins in the range, in spite of volatility in the raw material prices, which saw wide fluctuations over a short period of time.
- Moderator:** Next question comes from the line of Samir Goel from Investor.
- Samir Goel:** I just wanted to know in this period of crude volatility, if the company facing any challenges or any anticipate any future with regard to base on performance?
- Hussein Rayani:** The company has further renewed long-term purchase contracts with our existing suppliers from different parts of the world to ensure steady and timely delivery of raw materials. Due to our firm contracts, we do not anticipate any disruptions.
- Moderator:** Next question comes from the line of Rohan Mehta, an individual investor.
- Rohan Mehta:** Sir, I just want to check that basis, if I see past two years demand of our products, what do you think, I mean, whether company is looking for any significant capacity expansion? And if yes, any tentative time lines for the same?
- Hussein Rayani:** Yes. We have a plan of a total addition in our capacity by 100,000 tons, out of which in this year, we have completed about 30,000 tons. In the coming two years, we plan to add another 60,000 tons to our existing capacity.
- Moderator:** Next question comes from the line of Dixit Doshi from White Stone Financial Advisors.

- Dixit Doshi:** I'm slightly new to the company. So a couple of basic questions. So you mentioned that 65% of revenue was from value-added products. Can you mention that, two, three years back, pre-COVID, how much was the value-added product mix?
- Hussein Rayani:** Sure. Thank you for your question. So we have been consistently changing the product mix in favor of more value-added tailor-made specialized products. If you see about three to four years back, the contribution from value add was about 50%. So we have been gradually increasing in that, and we have plans to further introduce more product ranges in the special in the value-added product range.
- Dixit Doshi:** Second question is, so if I see our historical performance see, till FY 2020, we were doing a 6% to 8% EBITDA margin. And from last 3.5 years, almost we are doing almost 13%, 14% margin consistently. So what led to this change, if you can elaborate?
- Hussein Rayani:** Yes, it has been due to a combination of factors. But as I have also mentioned in the previous calls that the direction of the management is to keep working on the specialty zone and the change in the product mix is the reason why we have been able to -- the margins have been on the upswing, and that's the direction we plan to go forward.
- Moderator:** Mr. Dixit, request that you return to the question queue for follow-up questions. Next question comes from the line of Harshil Solanki from Equitree Capital.
- Harshil Solanki:** I had two questions. Any update on the drilling fluid? Have you started the full-fledged supply or still we are under trial basis? Can you share some light on that?
- Hussein Rayani:** Yes. This is a new range of products which we have introduced in our portfolio, and we have all the approvals required to supply this product commercially to the major service providers worldwide. We have been supplying this product now on a regular basis to global service providers. But in the last couple of years due to the very volatile situation in the oil markets, we are still hoping that in the coming years, this will be a significant part of our revenues.
- Harshil Solanki:** Sir, next question is on the GDR. Last month, 750,000 GDRs are converted into equity. And the promoters were bought close to 2 lakh shares on the market. So this has related into some dilution of promoter holding. So how does the promoter family look at it going forward? Because in future, the conversion continues to happen, are holding will be?
- Hussein Rayani:** Mr. Mahesh?
- Mahesh Narvekar:** Harshil, Mahesh here. As far as this promotes dilution, promoters have not sold any shares into the market. Neither did they enter into all these transactions here. And GDRs have been totally converted into equity. So further dilution, we don't anticipate any dilution from the promoter side.

- Moderator:** Mr. Harshil, we request that you return the question queue to ask a question. Next question comes from the line of Abbas, an individual investor.
- Abbas:** I would like to ask one question. How are the export markets faring? And what is your assessment going forward?
- Hussein Rayani:** Thank you for your question. The export has contributed 41% of the sales revenue, which is an increase of 30% from the preceding quarter. We anticipate more stability in export markets this year. We have successfully introduced our products to five new markets and thus have added about 12 new customers.
- Moderator:** Next question comes from the line of Utsav Anand an Individual Investor.
- Utsav Anand:** Congratulation on great set of numbers. I just wanted to know the capacity that we are adding for 30,000 tons this quarter, the additional capacity, right?
- Hussein Rayani:** Yes.
- Utsav Anand:** Will we see any production coming out of that for the quarter?
- Hussein Rayani:** In this quarter, the trials and productions will be in this quarter for the additional capacity.
- Utsav Anand:** So we can see that will be affecting the revenue also like growth in revenue because of the additional capacity...
- Hussein Rayani:** In this quarter.
- Utsav Anand:** Sir, my next question is the next INR 30,000 that we'll be adding, by when you can see that being added to the total capacity?
- Hussein Rayani:** It will be in batches in the second half of the next year.
- Utsav Anand:** Around at the same time?
- Mahesh Narvekar:** Around the same time.
- Utsav Anand:** And sir, my last question is regarding the capacity utilization that you're working on right now? Manufacturing, what utilization are you working on?
- Hussein Rayani:** So we are currently working at about 95% capacity utilization.
- Utsav Anand:** So do we see that maintaining this quarter as well? Yes, for like...
- Hussein Rayani:** Yes, we are having the order books are quite healthy in this quarter, and we have seen steady demand from our customers.

- Moderator:** Mr. Utsav, we request that you return back to the queue for follow-up questions. Next question comes from the line of Siddhant Dand from Goodwill.
- Siddhant Dand:** Regarding the GDR, so how many was the current status with the GDR? How many are outstanding?
- Hussein Rayani:** We already shared this information in our BSE and NSE website, you can go through it.
- Siddhant Dand:** And what are the future capital allocation plans of the company?
- Hussein Rayani:** We already mentioned all the shareholding pattern in the last one...
- Siddhant Dand:** No. Capital allocation plans like in terms of dividend payouts or buybacks?
- Hussein Rayani:** Yes. Dividend payout, we have already mentioned our policy, 20% of net profit.
- Siddhant Dand:** We plan to continue with that, right?
- Hussein Rayani:** Yes.
- Moderator:** Next question comes from the line of Manpreet Singh, an Individual Investor.
- Manpreet Singh:** Mr. Rayani, I have two questions, basically follow-up from answers you gave during the call. My first question is regarding this long-term supply of raw material that you were talking about. From the earlier calls, I've understood that it's a monthly contract that you get into with your customers. So whatever volatility in raw material happens, you are able to pass it on. But in this quarter, it seems that you were not able to pass it on and your gross margins got impacted.
- So in light of it, are we to understand that now you've taken a policy of entering into long-term contracts for your raw material supply so that you can assure your gross margins? If the answer is yes, then I would want to know that wasn't this done earlier, considering the volatility. So this is the question around the raw material.
- And my second question would come around the volume, the sales volume, but that I'll ask later on.
- Hussein Rayani:** Yes. See, our purchase is under long-term contracts with our suppliers who are refineries who are located world over in different parts of the world. And we've been having long-term contracts with them over the years because in times of volatility and supply chain constraints, if we have a contract that we get a steady flow of raw materials always. So this has been the policy. We have about 50% of our raw material requirements are under long-term purchase contracts. And the balance requirements we do spot purchase.
- In terms of the sales, with our customers, normally, we have a practice of quarterly engagement on the volumes, but the prices are negotiated every month. So it is the same strategy which we

are following that every monthly any changes in the prices are always passed on. In this quarter also, if you would have seen, there is a slight downward on the margins. But we have always given the guidance on the margins, and we have been able to have a steady performance in this quarter also. So there is no change in the business model in terms of supply of raw materials and our sales to our customer.

Moderator: Mr. Manpreet, we request that you return to the question queue for follow-up questions. Next question comes from the line of Venkatesh from Logic Tree.

Venkatesh: So one big picture question. I know that you expand capacity. You mentioned we are adding 30,000 this quarter and another 60,000 probably in the next one or two years. So what is your, if I take a slightly long-term view on, say, a three-year or a five-year horizon, what is it that do you envision for Panama Petro in terms of broad top line growth? And are there any new opportunities, new value-added products that you may want to get into? Can you give us some big picture and most importantly, sir, is Panama Petro, is it in terms of competitive positioning? What is the advantage that we enjoy because we've been very successful at it for a very long term, I just want to understand what is your strength?

Hussein Rayani: Yes. Thank you very much for your question. The company, the management has a very clear direction to work more closely in the specialty zone and keep on adding new products, which are much more environmental friendly which are much more specialized, which are much more tailor-made. So if you see the long-term vision of the company is to keep introducing newer and cleaner products, which are the need of the time.

So that is -- we have a very strong R&D center at our Ankleshwar unit, but there is a lot of work going on not only to introduce newer products in our existing segments that we are operating, but also to introduce some new products for new specialized application. So if you would see, we are confident of having a growth of about 10% to 15% every year and with our vision to change the product mix more towards the value adds.

Moderator: Mr. Venkatesh, we request that you return to the question queue for follow-up questions. Next question comes from the line of Dixit Doshi from White Stone Financial Advisors.

Dixit Doshi: My question was approach this 30,000 tons expansion, how much is our capacity right now? And what is the margin difference between the value-added products and non-value-added products?

Hussein Rayani: The total capacity with this new addition would be about 270,000 tons as compared to 240,000 tons in the last year. And normally, we have about for the conventional grades, we have an EBITDA margin of 8% to 10%, vis-à-vis about 14% to 15% for our value-add. So we have a blended EBITDA in the range of 12% to 14%.

Moderator: Mr. Dixit, we request that you return to the question queue for follow-up questions. Next question comes from the line of Manpreet Singh, an Individual Investor.

- Manpreet Singh:** So Mr. Rayani, the second thing I wanted to understand is with respect to your volume done so far and then your sales estimate for the entire year. So what I understand so far is that in nine months, you've done around 170,000 tons to 180,000 tons of volume. But last year, you've done 260,000 tons. So if I just sort of annualize the current run rate, it gets me to around 240,000 tons for the entire year, which is, of course, going to be lower than the previous year. So in light of this, how do you expect that your sales volume you are going to enjoy growth of 10% to 15% in your revenues and probably your profitability as well?
- Hussein Rayani:** Yes. So if you will compare the revenues on a nine monthly basis, there has been an increase of about 7% from INR 1,640 crores to INR 1,760 crores. So INR 1,742 crores for the nine months of this year. In terms of volume, we have clocked about 180,000 tons. So we anticipate in terms of the sales, we should be about 10% higher than the last year.
- Moderator:** Mr. Manpreet, to ask a question, please return to the queue. Next question comes from the line of Venkatesh from Logic Tree.
- Venkatesh:** Yes. So just gain the capacity, right? Sir, we're adding 12,000 this quarter and the next 30,000 would in the second half of FY '24. Is that right, sir?
- Hussein Rayani:** Yes, that's right.
- Moderator:** Next question comes from the line of Manpreet Singh, an Individual Investor.
- Manpreet Singh** Mr. Rayani, I'm sorry, I'm back on the previous revenue part, I was not able to ask the clarifying questions, I have to come back. So I was able to understand that you said that in nine months, the revenues have increased to, I think, INR 1,738 crores versus INR 1,320. So then the follow-up question is that if your volume has been lower, how is that your revenue has gone up? Is it because you've been able to increase your selling price? Is it because you've been able to improve your product mix? So what's the reason for that?
- Hussein Rayani:** So even if you compare for the nine months volume data, in the nine months last year, FY '22, we had about 170,000 tons of volumes done vis-à-vis 80,000 tons in the nine months ending in this year FY '23. So there has been about 6% increase in volume on a nine monthly basis.
- Moderator:** Mr. Mantri, please return to the question queue. Next question comes from the line of Venkatesh from Logic Tree.
- Venkatesh:** Yes, sir. Following-up on the question on your competitive advantage. I wanted to check with you as Panama Petro, is there a global company or a company in the region that you consider as a benchmark or a competition somebody who we think we can kind of compare ourselves with?
- Hussein Rayani:** We cannot reveal any kind of data on the competition. But yes, for us, the advantage, as I said, we are having a product mix where value-add is about 65% of our total revenues. Export contributes about 41% of our total revenues. We are currently exporting our products to more



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than 75 countries worldwide. And in terms of the domestic sales, we've been working with most of the multinational companies in each segment. So we provide them with an import substitute products, which otherwise they would have to be importing. So we give them a just-in-time delivery with an import substitute. So all these advantages help us to further cement our position with our customers and increase our relations with them.

Moderator:

Thank you. That was the last question for today. We have reached the end of question-and-answer session. I would now like to hand the conference over to Mr. Hussein Rayani for closing comments.

Hussein Rayani:

Thank you, everyone. I would like to thank everyone who have 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. On behalf of Panama Petrochem Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.