Panama
PETROCHEM LTD.

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CIN No. L23209GJI982PLC005062

June 30, 2022

BSE Limited Pjiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai 400 001 **Scrip Code: 524820**	**National Stock Exchange of India Limited** Exchange Plaza,5th Floor,Plot No. C/1 G Block,Bandra-Kurla Complex Bandra (E) ,Mumbai-400 051 **Scrip Symbol :PANAMAPET**

Dear Sir / Madam,

Sub: Intimation of credit rating on the Bank Facilities

Pursuant to Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015 (the “Regulations”), this is to inform you that CARE Ratings Limited has upgraded / reaffirmed the ratings on the Bank Facilities of the Company, as under:

- **Revised/upgraded** the rating on long term bank facilities to **CARE A+; Stable** from CARE A; Stable
- Reaffirmed the rating on short term bank facilities to **CARE A1;**

Press Release dated June 29, 2022, issued by the credit rating agency is enclosed herewith.

This is for your information and records.

For **Panama Petrochem Limited**

Gayatri

PANAMA PETROCHEM LTD. MUMBAI

Gayatri Sharma
Company Secretary & Compliance Officer

Panama Petrochem Limited

June 29, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	59.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE A; Stable (Single A; Outlook: Stable)
Short Term Bank Facilities	590.00	CARE A1 (A One)	Reaffirmed
Total Bank Facilities	**649.00 (₹ Six Hundred Forty-Nine Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the long-term ratings assigned to the bank facilities of Panama Petrochem Limited (PPL) factors in the consistent improvement in operating performance and profitability margins. PPL's total operating income grew by 47% in FY22 majorly due to improved realizations. Despite uncertain geopolitical conditions, operating profitability margins have remained stable at 13.88% in FY22, due to the company's cost rationalization measures, focus on value-added and high-margin products and increase in raw material prices. CARE believes that despite the moderation in operating margins going forward with normalcy of economic activities however, the margins are expected to remain above the historical levels supported by focus on value added products and sustenance of the cost reduction measures adopted by the company. The ratings further, derive strength from the improvement in the liquidity profile of PPL with substantial improvement in gross cash accruals and reduced working capital utilization driven by controlled working capital management. This has also resulted in building up of a liquidity back-up in the form of unencumbered cash and bank balance of Rs. 138.91 crore as on March 31, 2022. Healthy profitability and low cost of overall debt with lower debt utilization resulted in improved coverage indicators in FY22. The company had no long-term borrowing plan as the yearly planned capex of Rs. 30 crore over the next couple of years is expected to be funded out of internal accrual. Thus, coverage indicators are expected to remain comfortable.

The ratings continue factor in the extensive experience of the promoters in the petrochemical industry with diverse product offerings, long-standing relationship with reputed clientele and track record of consistently catering to them over the years.
The ratings are, however, constrained by vulnerability of the company's profitability to the fluctuations in forex rates and base oil prices which are volatile being a crude oil derivative. The company's operations are also exposed to high competition in the industry from other established players.

Rating sensitivities

Positive Factors:

- Sustenance of Operating income above Rs. 2,500 crore on a consistent basis
- Sustenance of Operating profitability (PBILDT) above 13% on consistent basis

Negative Factors:

- Operating profitability declining below 8% on a consistent basis
- Any large size debt funded capex or acquisition impacting the capital structure
- Deterioration in liquidity position with increase in operating cycle to more than 100 days

Detailed description of the key rating drivers

Key Rating Strengths:

Extensive experience of the promoters with diverse product offerings

The promoters have been in the petrochemicals business for over three decades. PPL has gradually expanded its presence across industry verticals growing from a Rs. 500 crore company to a Rs. 2000 crore company over the past 10 years. Mr Amirali Rayani, the Chairman of PPL and his son Mr. Amin Rayani, the Managing Director & CEO are in-charge of the day-to-day operations. They are assisted by a team of qualified and experienced professionals for various functions such as operations, marketing, finance, etc. PPL manufactures over 80 product variants of base oil, which is used across broad industry segments such as printing ink, resin, cosmetics, rubber products, pharmaceuticals, engineering, textiles, machinery manufacturing, chemical and petrochemical industries etc. Cosmetics industry accounts for the highest share of revenue (24% of revenue in FY22) followed by Inks/coatings (21% of revenue in FY22), rubber oils (19% of the revenue in FY22) and textile (19% of revenue in FY22).

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Diversified reputed clientele with repeat orders
PPL caters to the demand of reputed and a diversified clientele with includes industry majors such as Hubergroup India Pvt. Ltd (for Inks), Reliance Industries Ltd., Dabur (for cosmetics) and ATC Tyre (for rubber oils) etc. It has been consistently receiving orders from its clients over the past 10 – 15 years and has developed grades of base oils to cater to their specific requirements. Long approval process of at least a year in getting a particular grade approved by the clients acts as a major entry barrier for new players and increases the stickiness of the clients to PPL. PPL does not have contractual arrangement with its clients but supplies to them on a spot basis based on monthly orders received from them. The revenue concentration risk has moderately increased in FY22 with top 10 clients contributing 38% vis-à-vis 30% in FY21. PPL currently exports in more than 70 countries world over which contributes about 40% of the total sales. Apart from having a manufacturing set up in India, PPL has manufacturing facilities in UAE under its 100% subsidiary Panol Industries, RMC FZE which caters to western Asia.

Robust performance in FY22, margins expected to moderate to some extent going forward
PPL reported 47% growth in its TOI in FY22 driven by improved sales realizations which increased by 48% in FY22 on a YoY basis. The volumes were partly impacted during FY22 on account of the pandemic and higher prices of commodities the consumers partly deferred their discretionary spending mainly in the cosmetics, ink segment.
PBILDT margins have slightly improved in FY22 to 13.88% from 13.44% in FY21. This improvement was on account of several factors such as increase in share of value-added products (such as Aroma Free Distillates for Ink & Coating Industry, Aromatic Free Solvent for Paint Industry, Bio-degradable oils for drilling & Oil Exploration, Aromatic free and non-carcinogenic new generation oils for Rubber Industry etc.) in the sales portfolio, certain cost reduction measures adopted by the company during the year and successfully passing on prices to its customers. CARE believes that PBILDT margins would moderate to some extent owing to rising crude prices and relaxations of import restrictions going forward. However, the margins are expected to be higher than historical levels owing to the cost management practices adopted by the company and also gradual increase in the share of higher margin products.

Comfortable gearing and coverage indicators with comfortable operating cycle
Owing to its improvement in operating performance and cash generation ability, PPL's overall gearing remained comfortable at 0.56x as on March 31, 2022. The management does not intend to raise any external debt over the medium term and the entire expansionary capex is likely to be funded through internal accruals. CARE expects PPL to remain net cash positive over the medium term, amid the absence of any debt-led capex, healthy margins and improved product mix.
Further, PPL's operating cycle remains comfortable at 70 days in FY22 (PY: 83 days) and moderate utilization of working capital limits at 50% for 12-month period ending in April-22. PPL maintains inventory level of 90 days and offers credit period of 50-60 days. Further, the company receives 70-80 days of credit period from its suppliers. Hence, overall operating cycle remains comfortable for PPL.

Key Rating Weaknesses:
Susceptibility of its operating profit to volatility associated with key raw materials (which are derivatives of Crude Oil) and forex risk
Base oil, the key raw material used in the manufacturing of PPL's products is a derivative of crude oil. The price of crude oil is affected by factors like global demand, global production, geo-political factors and government regulations hence tend to remain highly volatile. Change in the price of base oil take place with a lag of two months and not necessarily in the same proportion. While PPL is able to pass on the price changes to its customers, it happens with a lag of one month and high volatility in prices may impact the profit margins adversely. Further PPL is exposed to currency risk mainly on account of its import payables and export receivables in foreign currency, mainly US Dollars. PPL enjoys natural hedge upto 40% given its exports and for the remaining portion, it follows a hedging policy and enters into forward contracts to cover around 30-40% of its net exposure and keeps the remaining open.

Exposed to high competition in the industry
PPL operates in a highly competitive industry marked by low entry barriers and fairly large competing products. As such, companies in the industry are seldom able to charge a premium for the products sold by them and focus on increasing their volumes. This also restricts their ability to pass on raw material price increases to their customers partially.

Liquidity: Strong
The company has strong liquidity position marked by healthy cash accruals with no long-term debt. The average working capital utilization (fund based and non- fund based) remained low at 50% for the 12 months ended April 2022 and provides significant liquidity backup. Further, PPL had unencumbered cash balance of Rs. 138.91 crore (consolidated) & Rs. 119.17 crore (standalone) as on March 31, 2022.
The company has capacity expansion plans of Rs. 60 crores over the next couple of years, which will be funded by internal accruals.

Analytical approach: Consolidated
CARE has considered the consolidated business and financial profile of Panama Petrochem Limited and its whole owned subsidiary Panol Industries, RMC FZE.
List of subsidiaries is enclosed in Annexure – 6.

Applicable criteria
[Policy on default recognition](#)
[Consolidation](#)
[Financial Ratios – Non financial Sector](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Credit Watch](#)
[Short Term Instruments](#)
[Manufacturing Companies](#)

About the company
Incorporated in the year 1982, Panama Petrochem Limited (PPL) is engaged in the business of manufacturing of petroleum derivative products which find application in industries such as cosmetics & pharmaceuticals, Inks/Coatings, textiles, automobile, power, engineering, and rubber. The product portfolio includes liquid paraffin oils, petroleum jelly, ink oils, antistatic coning oil, rubber process oils, transformer oils, cable filling compounds and paraffin wax (some portion of wax is traded). PPL has four manufacturing facilities located at Ankleshwar (Gujrat), Daman (Union Territory), Taloja (Raigadh, Maharashtra) and Dahej (Bharuch, Gujarat) with an aggregate installed capacity of 2,00,000 MTPA in FY22. Besides, PPL has overseas operations in UAE managed by its wholly owned subsidiary Panol Industries, RMC FZE (Panol). Panol has a manufacturing facility at Ras Al Khaimah (UAE) to manufacture Transformer Oils, Industrial Lubricants, Rubber Process Oils, etc. with an installed capacity of 30,000 MT per year.

Brief Financials (₹ crore) (consolidated)	FY21 (A)	FY22 (A)	2MFY23
Total operating income	1452.42	2132.35	NA
PBILDT	195.21	296.00	NA
PAT	135.35	230.34	NA
Overall gearing (times)	0.55	0.56	NA
Interest coverage (times)	21.82	41.94	NA

A: Audited; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-fund-based - ST-BG/LC		-	-	-	590.00	CARE A1
Fund-based - LT-Cash Credit		-	-	-	59.00	CARE A+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based - ST-BG/LC	ST	590.00	CARE A1	-	1)CARE A1 (05-Jul-21)	1)CARE A2+ (06-Aug-20)	1)CARE A2+ (01-Jul-19) 2)CARE A1 (02-May-19)
2	Fund-based - LT-Cash Credit	LT	59.00	CARE A+; Stable	-	1)CARE A; Stable (05-Jul-21)	1)CARE A-; Stable (06-Aug-20)	1)CARE A-; Stable (01-Jul-19) 2)CARE A; Negative (02-May-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not available

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Annexure- 6: List of Subsidiaries

Name of companies/ Entities	% Holding as on March 31, 2022
Panol Industries RMC FZE	100%

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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