Panama
PETROCHEM LTD.

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CIN No. L23209GJI982PLC005062

July 6, 2023

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,BKC, Mumbai-400 051
Scrip Symbol :PANAMAPET

Sub: Intimation of credit rating on the Bank Facilities

Dear Sir/ Madam,

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 assigned the ratings on the Bank Facilities of the Company, as under:

- Reaffirmed the rating, on long term bank facilities to **CARE A+; Stable**
- **Upgraded** the rating, on short term bank facilities to **CARE A1+** from CARE A1

Press Release dated July 05, 2023, issued by the credit rating agency is enclosed herewith.

This is for your information and records.

For **Panama Petrochem Limited**

Gayatri Sharma
Digitally signed by Gayatri Sharma
Date: 2023.07.06 09:40:15 +05'30'

Gayatri Sharma
Company Secretary & Compliance Officer

Panama Petrochem Limited

July 05,2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long term bank facilities	59.00	CARE A+; Stable	Reaffirmed
Short-term bank facilities	590.00	CARE A1+	Revised from CARE A1

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The re-affirmation of the long-term ratings and revision in short-term ratings assigned to the bank facilities of Panama Petrochem Limited (PPL) factors in the consistent operating performance, strong capital structure and liquidity position with healthy debt protection metrics.

PPL's total operating income grew by around5% in FY23 majorly due to improved sales realizations. The operating profitability margins have remained stable at 13.74% in FY23. This was on account of healthy capacity utilization of its manufacturing facilities with favourable changes in the product mix towards a higher share of value-added products and other cost-control measures implemented in the last few years.

The revision in short-term ratings considers improvement in the liquidity profile, backed by improvement in operating cycle, significant cash balance and low utilization of working capital limits. The company does not have any major capex plan in the medium term and the minor capex outlay in the range of ₹ 20-25 crore each year is expected to be funded out of internal accruals.

The ratings continue to derive strength from experience of the promoters in the petrochemical industry with diverse product offerings and long-standing relationship with reputed clientele. 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: Factors likely to lead to rating actions

Positive factors

- Improvement in Operating income above ₹2,500 crore on a consistent basis
- Substantial increase in volumes while maintaining operating margins (PBILDT) at around 15% on a sustained basis
- Maintaining healthy financial risk profile, and liquid position

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
- Net Debt/PBILDT increases more than 0.20x on sustained basis

Analytical approach: Consolidated.

CARE Ratings Limited (CARE Ratings) has considered the consolidated business and financial profile of Panama Petrochem Limited and its whole owned subsidiary Panol Industries, RMC FZE.

Outlook: Stable

CARE Ratings believes that PPL is expected benefit from its established market position, healthy product diversity and long-standing relationship with its customers. The profitability margins may moderate marginally going forward. The company will however continue to maintain its healthy financial risk profile over the medium term, supported by its strong capital structure and liquidity.

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

Detailed description of the key rating drivers

Key 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 ₹500 crore company to a ₹2,000 crore company over the past 10 years. Amirali Rayani, the Chairman of PPL and his son 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 FY23) followed by Inks/coatings (21% of revenue in FY23), rubber oils (19% of the revenue in FY23) and textile (19% of revenue in FY23).

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 reduced in FY23 with top 10 clients contributing 24.82% vis-à-vis 38% in FY22. In order to diversify its presence globally and also to take advantage of proximity to raw material availability, PPL has set up a manufacturing facility in Ras Al Khiama in UAE which, is managed by its subsidiary PANOL. Apart from common management and financial support extended by PPL to Panol there are no inter group transactions. Panol caters to the demand of Gulf Oil Corporation in UAE and other companies based out of MENA region. Also, PPL's clients in India which have a manufacturing base in UAE are catered to by PANOL.

Consistent revenue and PBILDT margins

PPL reported a revenue of Rs 2248.72 crores in FY23 (FY22: Rs 2132.35 crores) i.e a marginal growth of 5.46%. The increase in revenue was mainly due to improvement in sales realization. In FY23 of the total revenue around 51% was from export sales. Furthermore, PPL reported consistent PBILDT margin of 13.74% (PY:13.88%). This was on account of healthy capacity utilization of its manufacturing facilities with favourable changes in the product mix towards a higher share of value-added products and other cost-control measures. 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.

Healthy financial risk profile with comfortable operating cycle

Owing to its improvement in operating performance and cash generation ability, PPL's overall gearing remained comfortable at 0.25x as on March 31, 2023. The management does not intend to raise any term debt over the medium term and the entire expansionary capex is likely to be funded through internal accruals. CARE Ratings 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. Furthermore, PPL's operating cycle remains comfortable at 65 days in FY23 (PY: 70 days) and moderate utilization of working capital limits at 57% for 12-month period ending in April 2023.

Favourable industry outlook

Specialty petrochemical companies that use base oil as the primary raw material have gained in the last couple of years on account of growing demand from end-user industries and disruptions in the supply of base oil, in turn, helping the organised players. Currently around 40 percent market for base oil derivative (for non-automotive application) is catered by unorganized segment. The top company in the organised segment comprises of Raj Petro Specialties, Savita Oil Technologies, Gandhar Oil Refinery, Panama Petrochem, Apar Industries etc.

CareEdge expects the credit profile of large players to remain strong with sales growth of around 8-10% in the medium term. However, moderation in profitability margins likely due to higher import costs. The operating margins for larger players may decline and settle in the range of 9-10% going forward.

Key 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 takes 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. Furthermore, 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 57% for the 12 months ended April 2023 and provides significant liquidity backup. Furthermore, PPL had unencumbered cash balance of ₹221.76 as on March 31, 2023. The company has capacity expansion plans of ₹40 crore over the next couple of years, which will be funded by internal accruals.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks
Environmental Risk: The industry is subject to environment risk such water/air/soil contamination, global warming, disruptions of ecosystems etc. However, PPL has robust polices in place to mitigate the above-mentioned risk. PPL also endeavours towards usage of renewable energy and improving productivity and efficiency of all processes, equipment and systems to conserve precious natural resources.
Social Risk: The social risk faced is low as the products of PPL are further used in industries like pharmaceuticals, cosmetics, rubber and ink/coating industry.
Governance Risk: PPL practices adequate governance and has professional and well experienced senior management to ensure proper code of conduct.

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

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Chemicals & Petrochemicals	Petrochemicals

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 2,15,000 MTPA in FY23. 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)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24
Total operating income	2132.35	2248.72	NA
PBILDT	296.00	308.97	NA
PAT	230.34	232.97	NA
Overall gearing (times)	0.56	0.25	NA
Interest coverage (times)	41.94	26.70	NA

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

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

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 2023-2024	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
1	Non-fund-based - ST-BG/LC	ST	590.00	CARE A1+	-	1)CARE A1 (29-Jun-22)	1)CARE A1 (05-Jul-21)	1)CARE A2+ (06-Aug-20)
2	Fund-based - LT-Cash Credit	LT	59.00	CARE A+; Stable	-	1)CARE A+; Stable (29-Jun-22)	1)CARE A; Stable (05-Jul-21)	1)CARE A-; Stable (06-Aug-20)

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

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

Note on the 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.

Contact us

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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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