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31ST ANNUAL REPORT 2012-13

Board of Directors

| | |
|---------------------------|-------------------------|
| MR. AMIRALI E. RAYANI | Chairman |
| MR. AMIN A. RAYANI | Managing Director & CEO |
| MR. SAMIR A. RAYANI | Whole-Time Director |
| MR. DILIP S. PHATARPHEKAR | Independent Director |
| MR. MADAN MOHAN JAIN | Independent Director |
| MR. MUKESH T. MEHTA | Independent Director |

Company Secretary

MS. GAYATRI SHARMA

Auditors

M/S. BHUTA SHAH & CO.
Chartered Accountants, Mumbai, India

Bankers

INDIAN BANK
D C B LIMITED
IDBI Bank
YES BANK
HSBC BANK
STANDARD CHARTERED BANK
HDFC BANK
CITI BANK
DBS BANK LIMITED

Listed at

BSE LIMITED
NATIONAL STOCK EXCHANGE OF INDIA LIMITED
LUXEMBOURG STOCK EXCHANGE (GDRs)

Registered Office

Plot No: 3303, G.I.D.C. Estate,
Ankleshwar 393 002, Gujarat, India.
Tel : 91-2646-221 068,
Fax: 91-2646-250 281
Email: panamaoils@satyam.net.in

Corporate Office

401, Aza House, 24, Turner Road,
Bandra (W), Mumbai 400 050, India.
Tel : 91-22-42177777
Fax: 91-22-42177788
Website: panamapetro.com
E-mail: panama@vsnl.com

Plants

Ankleshwar, Daman, Taloja & Dahej

Registrar & Share Transfer Agents

Bigshare Services Private Limited
E-2, Ansa Industrial Estate,
Sakinaka, Saki - Vihar Road,
Andheri (E), Mumbai 400 072.
Maharashtra, India.
Tel : 91-22-2847 3474
FAX: 91-22-2847 5207
E-mail: info@bigshareonline.com

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NOTICE

Notice is hereby given that the **THIRTY - FIRST ANNUAL GENERAL MEETING** of the Members of **PANAMA PETROCHEM LIMITED** will be held on Friday, 27th September, 2013 at 11:00 A.M. at the Conference Hall of the Registered Office of the Company at Plot No. 3303, G.I.D.C. Estate, Ankleshwar, Gujarat 393 002 to transact the following business:

Ordinary Business:

1. To receive, consider and adopt the Audited Balance Sheet of the Company as at 31st March, 2013 and Profit and Loss Account for the year ended on that date together with the Reports of the Auditors and Directors thereon.
2. To declare dividend on Equity Shares.
3. To appoint a Director in place of Mr. Amirali E. Rayani, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. Samir A. Rayani, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint Auditors and to fix their remuneration and in this regard to consider and, if thought fit, to pass, with or without modification(s), the following resolution as an **Ordinary Resolution**:

"RESOLVED THAT M/s Bhuta Shah & Co., Chartered Accountants, Mumbai be and are hereby appointed as the Auditors of the Company to hold office from the conclusion of ensuing Annual General Meeting until the conclusion of the next Annual General Meeting, on such remuneration as shall be fixed by the Board of Directors of the Company."

Notes:

1. A member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a member of the company. The proxy form should be lodged with the company at its registered office at least 48 hours before the commencement of the meeting.
2. **Corporate Members:** Corporate Members intending to send their authorised representatives are requested to send a duly certified copy of the Board Resolution

authorizing the representatives to attend and vote at the Annual General Meeting.

3. Members/Proxies attending the meeting are requested to bring their copy of Annual Report to the Meeting.
4. The Register of Members and Share Transfer Books of the Company will remain closed from Monday the 23rd day of September 2013 to Friday the 27th day of September 2013 (both days inclusive).
5. Payment of dividend as recommended by the Board of Directors, if declared at the Annual General Meeting will be payable to those Shareholders whose names stand on the Register of Members of the Company as on 23rd September, 2013. In respect of shares held in the electronic form, the dividend will be payable on the basis of beneficial ownership furnished by National Securities Depository Limited and Central Depository Services (India) Limited for this purpose. Dividend will be paid within 30 days from the date of declaration of dividend.
6. Members are requested to notify any change in their address/mandate/bank details immediately to the share transfer Agent of the Company- M/s Bigshare Services Pvt Ltd.
7. All documents referred to in the Notice are open for inspection at the Registered Office of the Company during office hours on all days except Sunday and Public Holidays between 11.00 A.M. and 1.00 P.M. up to the date of Annual General Meeting.
8. Members desirous of obtaining any information as regards the accounts and operations of the Company are requested to write at least one week before the meeting so that the same could be complied in advance.

By Order of the Board of Directors
For Panama Petrochem Ltd.

Place : Mumbai
Date : 29th May, 2013

Gayatri Sharma
Company Secretary

DIRECTORS' REPORT

Dear Members

Your Directors have pleasure in presenting the **Thirty-First** Annual Report of the company together with the Audited Statement of Accounts for the Financial Year ended March 31, 2013 for your consideration and approval.

FINANCIAL HIGHLIGHTS (Stand Alone Basis)

(₹ In Lakhs)

| Particulars | As on March 31 st , 2013 | As on March 31 st , 2012 |
|---|---|---|
| Net Profit before Tax | 1,293.90 | 3,932.50 |
| Less: Provision for Taxes | 105.79 | 869.43 |
| Net Profit After Tax | 1,188.11 | 3,063.07 |
| Add : Profit Brought Forward | 10,678.85 | 8,565.78 |
| Profit available for appropriation | 11,866.96 | 11,628.85 |
| Dividend of previous year including Dividend distribution tax | - | 142.80 |
| Interim Dividend paid | - | 258.58 |
| Proposed Final Dividend | 344.30 | 172.39 |
| Dividend distribution tax | 55.85 | 69.91 |
| Less : Transfer to Reserves | 119.99 | 306.32 |
| Profit Carried Forward to Balance Sheet | 11346.82 | 10,678.85 |

OPERATIONAL PERFORMANCE

The Company had revenue from operations of ₹ 63,474.96 Lakhs during the financial year 2012-13 as against ₹ 58,422.22 Lakhs in the financial year 2011-12 showing a growth of 9% as compared to last year. Earnings before Interest, Depreciation, tax & amortization were ₹ 2,363.33 Lakhs as against ₹ 4,828.94 Lakhs during the previous year. The Company posted a Net Profit of ₹ 1,188.11 Lakhs as against ₹ 3,063.07 Lakhs in the previous year.

The profit of the company was affected because of the fluctuating raw materials cost. Consequently, margin on the finished product plunged sharply. Further, profitability was adversely impacted due to the sharp depreciation of the rupee's exchange rate.

A large part of the raw materials used for the production of various products is imported and the steep increase in the cost of global commodities has affected the bottom-line as well as the operating profit margin of the company.

MANAGEMENT DISCUSSION & ANALYSIS

The detailed Management Discussion & Analysis Report is attached hereto with the Director's Report and should be read as a part of this Report.

DIVIDEND

Considering the profit earned during the year under review as compared to the previous year, your Directors have recommended a dividend of 40% i.e. ₹ 4/- per share for the year ended March 2013.

CREDIT RATING

We are glad to announce that your Company got conducted credit rating from one of the leading credit rating agency CARE and is assigned a "CARE A+" rating to the Long Term Facilities and "CARE A1+" rating to the Short Term Facilities.

BUY BACK OF EQUITY SHARES

As a policy of constantly rewarding and enhancing the shareholders value, your Company vide Board Resolution dated February 14th, 2013 has approved the proposal of buyback of fully paid up equity shares of the Company from open market through stock market mechanisms, at a price not exceeding 160/- per share, upto an amount not exceeding ₹ 17.87 crore being 7.97 % of the aggregate of the Company's paid up equity share capital and free reserves as at March 31st 2012.

The buyback commenced on March 20th, 2013. The Company has bought back 11,765 equity share upto March 31st 2013 and all the shares bought back in the buyback offer upto March 31st, 2013 have been extinguished as on date. Further, 62040 Equity shares were bought back as on the date of the report.

SUBSIDIARY

During the year, Panol Industries RMZ FZE, UAE was formed as a wholly owned subsidiary of the Company.

Pursuant to the General Circular No. 2/2011 dated 8th February, 2011 issued by the Ministry of Corporate Affairs, the Board of Directors of the Company has accorded its consent for not attaching the accounts of the aforesaid Subsidiary Company along with the accounts of your Company. However, the financial information pertaining to the aforesaid Company, as required in the aforesaid Circular, is provided in the Annual Report of your Company. The accounts of aforesaid Company are kept for inspection by any shareholders at the registered office of your Company. Your Company further undertakes that the Annual Accounts of the Subsidiary Company and the related detailed information

shall be made available to Shareholders of the Company on demand.

The Consolidated Audited Annual Accounts of your Company together with its subsidiary for the Financial Year 2012-2013 are being published pursuant to Clause 32 of the Listing Agreement.

COST AUDITORS

Based on the Audit Committee recommendation at its meeting held on 29th May, 2013, Mr. Girikrishna S. Maniar, Cost Accountant (Membership No. 8202) was re-appointed by the Board as the Cost Auditor of the Company for conducting an audit of the cost accounting records of the Company for financial year commencing from 1st April, 2013 to 31st March, 2014.

Cost Audit Report for the Financial Year 2012-2013 will be submitted by Cost Auditor along with his observations and suggestions, and annexure to the Central Government within the stipulated time period.

The Cost Audit Report for the financial year 2011-2012 was submitted to the Central Government within the stipulated time.

LISTING OF SHARES

Your Company's shares are listed on the BSE Limited and National Stock Exchange of India Limited. The Company has paid the listing fees for the year 2012-2013. The GDRs of the Company are listed on Luxembourg Stock Exchange.

CORPORATE GOVERNANCE

Your company has implemented all the mandatory requirements pursuant to Clause 49 of the Listing Agreement. A separate report on Corporate Governance is given as a part of the Annual Report along with the certificate received from the practicing Company Secretary, M/s. Milind Nirkhe & Associates, Company Secretaries, confirming the compliance.

PUBLIC DEPOSITS

During the year under report, your Company did not accept any deposits from the public in terms of the provisions of section 58A of the Companies Act, 1956.

INSURANCE

Your Company has taken adequate insurance cover for all its assets.

CORPORATE SOCIAL RESPONSIBILITY

As a socially responsible Company, your Company has a strong sense of community responsibility.

As its operations have expanded, your Company has retained a collective focus on the various areas of corporate sustainability that impact people, environment and the society at large. Founded on the philosophy that society is not just another stakeholder in its business, but the prime purpose of it, the Company, across its various operations is committed to making a positive contribution.

As a policy, your Company promotes and encourages economic and social development within its communities while providing active support to local initiatives for upliftment of society in general.

In discharge of social obligations, your company regularly contributes to trusts formed for charitable purpose.

TRANSFER TO THE INVESTOR EDUCATION AND PROTECTION FUND (IEPF)

Pursuant to the provisions of Section 205C of the Companies Act, 1956, the amounts of dividend remaining unpaid or unclaimed for a period of seven years from the date of its transfer to the unpaid dividend account of the Company are required to be transferred to the Investor Education and Protection Fund (IEPF) set up by the Government of India. Consequently no claim shall lie against the Company in respect of any such amounts.

The amount of unpaid / unclaimed dividend up to the financial year 2004-2005 has been transferred to IEPF. The unpaid / unclaimed dividend amount of equity shares of the Company for the financial year 2005-2006 are due for transfer to the said fund in the month of November, 2013. Members who have not yet encashed their warrant (s) are requested to make their claims to the Company without any delay.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

A. Conservation of Energy:

The Company is aware of energy consumption and environmental issues related to it and is continuously making sincere efforts towards conservation of energy. The Company is in fact engaged in the continuous process of further energy conservation through

improved operational and maintenance practices. Information as required under section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, is given in Annexure A, forming part of this Report.

B. Technology Absorption:

The Company has an updated R & D Center at its Ankleshwar Plant. It is the technical centre of Panama and has been the backbone for most of our major product breakthroughs. This Centre at Ankleshwar is fully equipped with modern testing & analytical equipments. The Centre is operated by the team of well qualified technocrats, as a result, the in-house R & D unit of Panama has been recognized by the **Ministry of Science & Technology & the Department of Scientific and Industrial Research (DSIR)**. With this recognition Company will spend more on R & D activities and get more new products which will be of better quality. It will also assist in research for import substitution, energy conservation and control of pollution. The in-house R & D facility has enabled us to develop new products which have resulted in the evolution of the Dahej Plant.

Expenditure on research & development

The expenditure on R & D activities incurred during the year is given hereunder:

| Particulars | Amount (₹ In Lakhs) |
|---|--------------------------------|
| Capital | 0.31 |
| Revenue | 29.13 |
| Total R & D Expenditure | 29.44 |
| Total Turnover | 63,474.96 |
| Total R & D Expenditure as a Percentage of total turnover | 0.05% |

C. Foreign exchange earnings and outgo:

i. **Export Activities:** During the year under review the Company has made Import/Export as given in (ii) below.

ii. **Foreign Exchange Earnings and Outgo:**

(Amount in ₹ Lakhs)

| | |
|---------------------------------------|-----------|
| Total Foreign Exchange Inflow | 22,149.60 |
| Total Foreign Exchange outflow | 43,681.11 |

PARTICULARS OF EMPLOYEES

During the financial year under review, none of the Company's employees was in receipt of remuneration as prescribed under section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, and the Companies (Particulars of Employees) Amendment Rules, 2011. Hence, no particulars are required to be disclosed in this Report.

CONSOLIDATED FINANCIAL STATEMENTS

The Audited Consolidated Financial Statements have been prepared in accordance with the Accounting Standard (AS) 21 on Consolidated Financial Statement read with Accounting Standard (AS) 23 on Accounting for Investment in Associates, notified under section 211 (3C) of the Companies Act, 1956.

DIRECTORS

After the last Annual General Meeting, Mr. Moiz H. Motiwala and Mr. Hussein V. Rayani have resigned from the Board.

In accordance with the provisions of the Companies Act, 1956 and the Company's Articles of Association, Mr. Amiral E. Rayani and Mr. Samir A. Rayani retire by rotation and being eligible offer themselves for re-appointment. Directors recommend their re-appointment.

AUDITORS

M/s Bhuta Shah & Co., Statutory Auditors of the Company hold office until the conclusion of the ensuing Annual General Meeting and being eligible to offer themselves for re-appointment.

A certificate under section 224(1) of the Companies Act, 1956 regarding their eligibility for the proposed appointment has been obtained from them. Your Directors recommend their appointment.

AUDITORS' REPORT

Comments made by the Statutory Auditors in the Auditors' Report are self-explanatory and do not require any further clarification.

DIRECTORS' RESPONSIBILITY STATEMENT

In terms of the provisions of section 217(2AA) of the Companies Act, 1956, and to the best of their knowledge and belief and according to the information and explanations

obtained by them and same as mentioned elsewhere in this Report, the attached Annual Accounts and the Auditors' Report thereon, your Directors confirm that:

- a. in preparation of the annual accounts, the applicable accounting standards have been followed;
- b. the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31st March, 2013 and of the profit of the Company for the year ended on that date;
- c. the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- d. the Directors have prepared the Annual Accounts on a going concern basis.

ACKNOWLEDGEMENT

We thank our Clients, Investors, Dealers, Suppliers and Bankers for their continued support during the year. We place on record our appreciation for the contributions made by employees at all levels. Our consistent growth was made possible by their hard work, solidarity, co-operation and support.

By Order of the Board of Directors
For Panama Petrochem Ltd.

Place : Mumbai
Date : 29th May, 2013

Amirali E Rayani
Chairman

Form 'A'

(Amount in ₹)

| Particulars | As on March 31, 2013 | As on March 31, 2012 |
|--|-------------------------------------|-------------------------------------|
| A) Power & Fuel Consumption | | |
| 1. Electricity | | |
| a) Purchase of Units | 8,20,683 | 1,036,198 |
| Total Cost | 47,90,820 | 5,972,370 |
| Rate per Unit | 5.84 | 5.76 |
| b) Own Generation | | |
| 1) Through Diesel Generator | NIL | NIL |
| 2) Through Steam Turbine / Generator | NIL | NIL |
| 2. Coal | NIL | NIL |
| 3. Furnace Oil | NIL | NIL |
| 4. Diesel Oil | NIL | NIL |
| 5. Others (Gas) | | |
| Quantity | 49839 | 36631 |
| Total Cost | 1647430 | 853764 |
| Rate per Unit | 33.06 | 23.31 |

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

The management of Panama Petrochem Ltd. presents the analysis of company for the year ended on 31st March 2013 and its outlook for the future. This outlook is based on assessment of the current business environment. It may vary due to future economic and other developments both in India and abroad.

This management discussion and analysis ("MD&A") of Panama Petrochem Ltd. for the year ended on 31st March 2013 contains financial highlights but does not contain the complete financial statements of the Company. It should be read in conjunction with the Company's audited financial statements for the year ended on 31st March 2013.

INDUSTRY OVERVIEW

The petroleum specialty product industry in India has been one of the fastest growing industries in the country. Since the beginning, the industry has shown an enviable rate of growth. The sector has a significant growth potential. However, for last couple of years, global oil sector was affected by high feedstock Prices and slower growth in demand. Although the current per capita consumption of petroleum products is low, the demand for the same is growing.

India is at a threshold of growth in consumption of petrochemicals due to increased domestic demand, booming middle class, still nascent retail sector, and focus on infrastructure. The demand for Automobiles, Packaging and Medicare is likely to remain strong. Combining all the petrochemical sectors, demand in India is expected to be robust in coming years. This industry also has immense importance in the growth of economy of the country and the growth and development of manufacturing industry as well. It provides the foundation for manufacturing industries like cosmetic, packaging, pharmaceuticals, agriculture, textiles etc.

BUSINESS OVERVIEW

Established in 1982, Panama Petrochem Ltd., today is one of the leading manufacturers and exporters for various kinds of Petroleum specialties. Company's diverse range of products includes Mineral Oils, Liquid Paraffins, Transformer Oils, Petroleum Jellies, Ink Oils, and other Petroleum Specialty Products.

MANUFACTURING FACILITIES

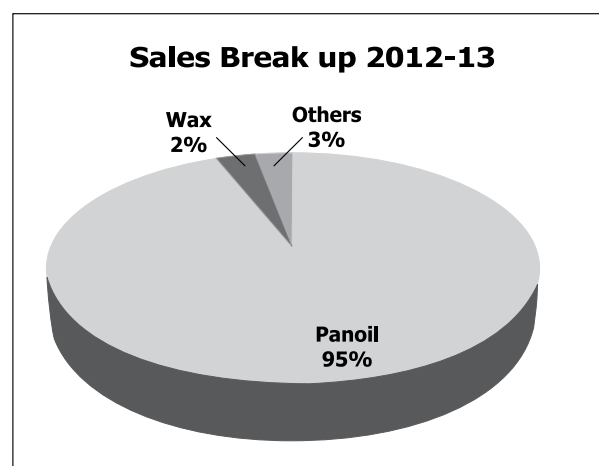
The Company has adequate manufacturing capacity to cater the domestic as well as International requirements. Its four manufacturing units, all located in western India, namely in Ankleshwar (Gujarat), Daman (Union Territory), Taloja

(Raigadh, Maharashtra) and Dahej (Bharuch, Gujarat). The Company's products are exported to more than 40 countries globally. The Company has a fully equipped state-of-the-art Research and Development Center at its Ankleshwar unit where it formulates new and value-added products. The Company manufactures more than 80 product variants used across 6-7 broad industry segments.

The Company develops customised products as per client specification in the field of petroleum and feeds to various industries like Printing Ink, Resin, Cosmetics, Rubber products, Pharmaceuticals, Engineering, Texturising and Chemicals including Petro Chemicals.

Over the years, the Company has forged strong relations with its clientele, comprising of leading names across sectors. Its ability to offer customised products complying with global quality standards has enabled to generate not only repeat business from existing clients, but also general referral business from new clients.

PRODUCT WISE SALES BREAK UP FOR THE FINANCIAL YEAR 2012-13



Panoil is the key product of the Company, it has various variants depending upon its end use application.

FUTURE OUTLOOK

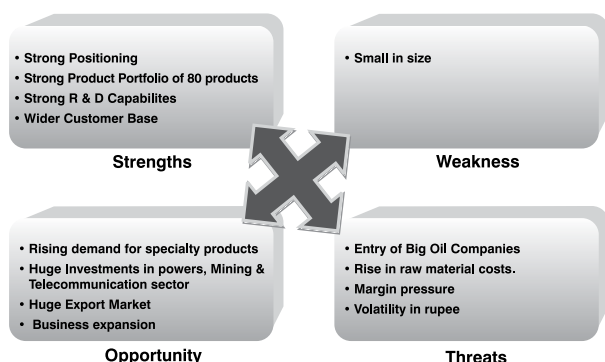
Though the outlook for the Indian economy at present looks somewhat gloomy in line with the world economies, the future may not be as bleak as it is made out to be. This is because the Indian economy has certain inherent strengths and resilience to withstand these downturns. The power sector as in the past continues to show growing demand. However, the volatile base oil prices, slowing automotive sector and depreciating rupee could dampen the demand for the petroleum products. With slowing down

of the economy, the spending of the general masses may not increase much, which in turn may affect the growth potential for other petroleum specialty products.

The Company is planning to expand its operations to withstand against the negative market forces. In view of that, the company has opened a wholly owned subsidiary in UAE. The Company is hopeful to override the adverse effects of the price fluctuations in the petroleum industry by resorting to bulk purchases and cost control measures.

It is management's view that the Company will continue to strengthen its financial position with stable production volumes and positive improvements in Commodity prices.

SWOT PROFILE



OPPORTUNITIES:

With increasing industrialization, focus on infrastructural development and outsourcing boom, the demand for the petroleum products manufactured by the Company is likely to further improve in the coming years. Demand for intermediates, dyes, specialty chemicals etc. will increase the demand for petroleum specialty products. This will result in a significant growth in this industry. Growing demand from the plastic industry, rubber industry, personal care industry, and power sector will lead to a strong demand in petroleum products. The relationship established by the company with the clientele would augur further growth in its business. Moreover, the company has been increasing its presence in the export markets like USA, Africa, Europe and Asia.

THREATS:

A steep rise in raw material costs on account of a drastic hike in crude oil prices may affect the profit margins of the company. Changes in Government policies, especially regarding import of Base Oil will have an adverse impact on the performance of the company. However, considering the multifarious purposes for which the Base Oil is used and the

domestic supplies are not adequate to meet the domestic Demand, the possibilities for such adverse changes in Government policies appear to be remote.

RISKS AND CONCERNS

• Environmental Risks

All phases of the oil business present environmental risks and hazards. As a result, they are subject to environmental regulation pursuant to a complex blend of federal, provincial, and municipal laws and regulations. The Company believes that it is in compliance with current applicable environmental rules and regulations.

• Financial Risks

Financial risks associated with the petroleum industry include fluctuation in commodity prices, interest rates, and currency exchange rates and profitability of the Company depends on the prices and availability of the base oils. The prices of base oil have increased during the last year and have resulted in corresponding increase in cost of production. However, as a general practice in the industry, the higher input costs are passed on to the customers.

• Operational Risks

Operational risks include competitive environmental factors, reservoir performance uncertainties and dependence upon third parties for commodity transportation & processing and a complex regulatory environment. The Company closely follows the applicable government regulations. The Company carries insurance coverage to protect itself against those potential losses that could be economically insured against.

PERFORMANCE

Revenue from operations of the Company rose from ₹ 58,422.22 Lakhs in the financial year 2011-12 to ₹ 63,474.96 Lakhs in the financial year 2012-13 showing a growth of over 9% as compared to the last financial year.

The profit after tax has come down to ₹ 1,188.11 Lakhs against ₹ 3,063.07 Lakhs during the previous year.

The year under review was a challenging year. The extreme volatility of the Indian Rupee, significant slowdown in the economy, acute tightness of the financial markets, and inflationary pressures were amongst the main reasons for reduced Profit of the year.