Paushak Limited

Overview

Paushak limited is engaged in the manufacturing of phosgene based specialty intermediates and is India's largest phosgene based specialty chemicals manufacturer while addressing the needs of pharmaceutical, agrochemical and performance industries. Company has 4 decades of experience of handling modalities of phosgene gas. Phosgene is a versatile molecule and its derivatives have applications in diverse fields like pharmaceuticals, agrochemicals, polyurethanes, perfumeries, dyes, etc. The product range of the company includes: Isocyanates, Chloroformates, Carbamoyl Chlorides, Carbamates, Protecting agents & Acid chlorides.

Extracts from corporate brochure of company:

PHOSGENATION

Your Strategic Partner for Phosgene Derivatives

Paushak has more than 37 years of proven record for safe phosgene handling & Phosgenation. Paushak is India's Largest Phosgenation player in private sector. Paushak manufacturing facility is located at Halol, 40 km away from Vadodara, Gujarat, India. Paushak is committed and deeply invested in the future of the Phosgene chemistry. As an extension of this belief, the Company has been moving up the value chain into higher value specialty products to supplement the existing product portfolio including CO based chemistry.

Financial Analysis

Sales and Profit growth

Company has been growing its sales at a moderate pace @ 19% for last 11 years (2010 -2020) from Rs. 25.2 Crs in FY 2010 to Rs. 137.9 Crs in FY 2020. Global phosgene market has been dominated by Chinese and European manufacturers, however, after the closure of many factories in china (due to enforcement of strict pollution norms) during 2017-18 have provided opportunity for paushak to grow its customer base.

From AR FY 2017 –

> *The Company has taken steps to enter into the agrochemicals intermediates business by introducing some products which are expected to grow in the near future. The Company has been able to sustain its base of business in the specialty chemicals segment. It has also introduced some new products in this segment. The product movement in the pharma intermediates category continues to be slow.*

Crisil rating agency in report dated dec, 2018, highlighted that the company has been able to grow in last one and half years through diversification of customer base into sectors other than pharmaceutical.

> * **Moderate scale of operations:** Paushak has a moderate scale of operations at Rs 104 crore for fiscal 2018, despite being in existence for over four decades. The revenue remained range-bound between Rs 65-80 crore in three years ended fiscal 2017. The growth momentum has picked up in last one and half years through diversification of customer base. It was largely supplying to pharmaceutical sector but has recently diversified its presence to other sectors including agro-chemicals and performance-based materials. Sustenance of its growth momentum and consequent increase in scale will be critical.

Further, Paushak is also actively exploring various opportunities, including contract manufacturing, with global customers, who are leader in their markets and sees a good opportunity for itself while offering an "India alternative" to them.

Narration	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Last 4 Quarters	Total 11 Yrs
Sales	25.2	29.8	33.6	50.8	54.1	69.0	77.9	72.3	104.8	139.5	137.9	137.9	
Operating Profit	4.6	5.9	5.0	11.6	10.6	17.5	16.8	12.3	29.4	40.2	42.8	42.8	
Operating Profit Margin (OPM%)	**18%**	**20%**	**15%**	**23%**	**20%**	**25%**	**22%**	**17%**	**28%**	**29%**	**31%**	**31%**	
Other Income	0.7	0.9	1.2	1.2	3.9	2.7	2.7	5.1	3.0	12.8	7.0	7.0	**41.2**
EBITDA	5.3	6.8	6.1	12.7	14.5	20.2	19.5	17.4	32.4	53.0	49.8	49.8	
Interest	0.7	0.5	0.3	0.2	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	**2.3**
Depreciation	1.5	1.6	1.7	1.8	1.8	2.1	2.8	3.2	3.4	3.9	4.4	4.4	**28.0**
Profit before tax (PBT)	3.1	4.8	4.1	10.7	12.6	18.0	16.6	14.1	28.9	49.0	45.4	45.4	
Tax	0.9	1.1	0.7	2.9	3.8	5.0	4.2	3.2	7.4	10.0	10.5	10.5	**49.7**
Tax%	31%	23%	17%	27%	30%	28%	25%	22%	26%	20%		23%	
Net profit after tax (PAT)	2.1	3.7	3.5	7.8	8.8	13.0	12.4	10.9	21.5	39.0	34.9	34.9	**157.6**
Net Profit Margin (NPM%)	**9%**	**12%**	**10%**	**15%**	**16%**	**19%**	**16%**	**15%**	**20%**	**28%**	**25%**	**25%**	
Cash from Operating Activity (CFO)	2.4	1.4	1.4	2.5	9.4	8.7	13.5	12.4	10.5	23.5	41.3	**CFO**	**127.2**
Capex (NFA+WIP change+Dep)		1.1	2.1	0.4	4.1	8.3	16.6	5.6	5.9	10.4	16.9	**Capex**	**71.2**
Free Cash Flow		**0.3**	**-0.7**	**2.1**	**5.4**	**0.4**	**-3.0**	**6.9**	**4.6**	**13.2**	**24.4**	**FCF**	**56.0**
Share Capital	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.1	3.1	**FCFE(Post Int. exp.)**	**53.7**
Total Debt (D)	2.1	2.2	2.9	1.2	0.0	0.3	0.5	0.0	0.6	0.0	0.0	**Inc. in Debt in 10 Yrs**	**-2.1**
Dividend Paid (Div) Without DDT	0.6	0.6	0.6	1.0	1.0	1.0	1.0	1.0	1.0	1.5	1.9	**Total Div 10 Yrs**	**11.1**
Cash + Investments (CI +NCI)	13.9	14.0	13.7	13.9	18.0	19.8	18.4	33.9	53.7	116.9	164.6	**Cash+Investments**	**164.6**
Self-Sustainable Growth Rate (SSGR)				**21%**	**36%**	**61%**	**61%**	**49%**	**41%**	**52%**	**70%**	**SG to Capex**	**0.37**
PBT/Avg. NFA (<10%,>25%)		43%	37%	99%	128%	133%	87%	51%	81%	132%	116%	**Interest Outgo**	**1**
ROE on Avg Equity (<7%,>25%)		14%	12%	22%	21%	25%	20%	14%	22%	27%	17%		
ROCE (EBIT on Avg CE/TA) (<10%,>35%)		15%	11%	25%	25%	29%	22%	16%	24%	27%	19%		
Incremental ROE 3Yr Rolling				**77%**	**40%**	**55%**	**17%**	**7%**	**25%**	**63%**	**35%**		
Trade receivables	5.9	5.9	7.4	14.2	14.3	21.5	20.8	16.4	38.7	32.5	26.2		
Trade receivables as % of sales	**23%**	**20%**	**22%**	**28%**	**26%**	**31%**	**27%**	**23%**	**37%**	**23%**	**19%**		
Inventory	3.8	4.9	7.6	7.8	7.6	7.1	9.1	8.6	12.1	17.9	16.3		
Inventory as % of sales	**15%**	**16%**	**23%**	**15%**	**14%**	**10%**	**12%**	**12%**	**12%**	**13%**	**12%**		
Net Fixed Asset Turnover (High is better)		2.66	2.98	4.69	5.49	5.10	4.08	2.63	2.94	3.75	3.52		
Receivables days (Low is better)		72	72	78	96	95	99	94	96	93	78		
Inventory Turnover (High is better)		6.9	5.4	6.6	7.0	9.4	9.6	8.2	10.1	9.3	8.1		
Working Capital cycle days		125	140	133	148	133	137	138	132	132	123		
Net Fixed Assets (NFA)	11.0	11.3	11.2	10.5	9.2	17.8	20.3	34.7	36.6	37.8	40.7		
Capital Work in Progress (CWIP)	0.9	0.1	0.7	0.0	3.5	1.1	12.4	0.3	1.0	6.2	15.9		
Dividend Paid (Div) Without DDT	0.6	0.6	0.6	1.0	1.0	1.0	1.0	1.0	1.0	1.5	1.9		
Dividend Payout (Div/PAT)	30%	17%	19%	12%	11%	7%	8%	9%	4%	4%	5%		
Retained Earnings (RE=PAT-Div)	1.5	3.1	2.8	6.8	7.9	12.0	11.5	10.0	20.5	37.4	33.1		
Price to earning	8.9	6.3	5.4	2.7	5.7	9.0	15.2	16.9	19.2	16.1	14.2		
Mcap	19	23	19	21	50	117	189	185	412	629	496	**584**	
Cash + Investments (CI +NCI)	13.9	14.0	13.7	13.9	18.0	19.8	18.4	33.9	53.7	116.9	164.6	**165**	
Total Debt (D)	**2.1**	**2.2**	**2.9**	**1.2**	**0.0**	**0.3**	**0.5**	**0.0**	**0.6**	**0.0**	**0.0**		
Total Equity (E)	25.6	28.6	31.3	38.0	45.7	57.4	68.7	83.0	113.1	177.6	227.2		
Debt to Equity ratio (D/E)	**0.1**	**0.1**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**		
Cost of funds	12.0%												
Interest outgo (Rs. Cr.)		0	0	0	0	0	0	0	0	0	0		1
Interest Coverage (OP/Int. Out)		22.9	16.3	48.0	149.4	1120.5	367.5	372.7	801.9	1175.1	#DIV/0!		

	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20		Total 11 Yrs
Cash from Operating Activity (CFO)	**2.4**	**1.4**	**1.4**	**2.5**	**9.4**	**8.7**	**13.5**	**12.4**	**10.5**	**23.5**	**41.3**		**127**
Cash from Investing Activity (CFI)	-1.1	-0.3	-1.1	0.1	-7.1	-7.8	-12.6	-10.8	-9.8	-0.1	-39.2		**-90**
Cash from Financing Activity (CFF)	-1.3	-1.0	-0.4	-2.5	-2.3	-0.8	-0.8	-1.6	-0.6	-22.9	-1.9		**-36**
Net Cash Flow (CFO+CFI+CFF)	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.0	0.1	0.5	0.3		**1**
Cash & Eq. at the end of year	0.0	0.1	0.1	0.2	0.2	0.3	0.4	0.4	0.4	0.9	0.0		
Total Retained Earnings (RE) in 10 Yrs (A)	147												
Total increase in Mcap in 10 yrs (B)	565												
Value created per INR of RE (B/A)	**3.86**												
Costs as % of Sales													
Raw Material	**34%**	**37%**	**43%**	**42%**	**44%**	**39%**	**37%**	**35%**	**36%**	**38%**	**33%**		
Power & Fuel	**14%**	**11%**	**13%**	**9%**	**8%**	**8%**	**8%**	**5%**	**4%**	**4%**	**3%**		
Employee Costs	**15%**	**14%**	**14%**	**10%**	**11%**	**10%**	**12%**	**16%**	**13%**	**13%**	**15%**		
Selling & Admin Costs	**9%**	**9%**	**8%**	**7%**	**9%**	**7%**	**10%**	**7%**	**6%**	**5%**	**5%**		
Other Manufacturing Expenses	**9%**	**9%**	**7%**	**8%**	**8%**	**10%**	**12%**	**18%**	**12%**	**9%**	**10%**		
Other Expenses	**1%**	**1%**	**1%**	**1%**	**1%**	**1%**	**1%**	**2%**	**1%**	**1%**	**2%**		
Total Cost as % of Sales	**82%**	**80%**	**85%**	**77%**	**80%**	**75%**	**78%**	**83%**	**72%**	**71%**	**69%**		

Compounded Sales Growth	
10 Years:	17.36%
5 Years:	20.87%
3 Years:	21.44%
TTM:	-1.15%

Compounded Profit Growth	
10 Years:	24.28%
5 Years:	28.38%
3 Years:	38.41%
TTM:	6.78%

Source: screener.in

During the same period Paushak saw net profit growth @ 32% from Rs. 2.1 Crs in FY 2008 to Rs. 34.9 Crs in FY 2020. Operating profit margins have been fluctuating over the last decade between 15% and 31%. Average OPM for last 5 years is around 26%. Strong operating efficiency aided by its backward integrated operations have led to strong operating margin in recent years. Crisil Rating agency in report dated dec, 2018, highlighted volatility in raw material prices causing margins to fluctuate. However, they further expected the margins to be over 25% over medium term.

> *Due to volatile raw material prices and moderate scale, the margin has fluctuated between 19-25% during fiscals 2013 and 2017. With higher growth in the recent past, the operating margin has improved to over 25% and is expected to remain at similar levels over the medium term.*

Company has been able to show steady growth in domestic market over the last 10 years from Rs. 17.7 Crs in FY 2010 to Rs. 115.3 Crs. in 2019. In domestic market, company has been able to show good growth with increasing penetration over the years. During the same period sales from exports have shown meagre grown from 8.5 Crs in FY 2010 to Rs. 21.8 Crs in FY 2019. However, over the years revenue from exports have been fluctuating which needs to be checked whether company is able to get any long term contract from exports which will ensure steady revenue.

Narration	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Sales from Domestic Market	17.7	21.5	25.2	36.4	48.4	58.2	65.2	60.1	81.4	115.3
% sales from Domestic Market	67.6%	69.8%	72.8%	69.8%	83.2%	80.4%	79.1%	84.1%	79.1%	84.1%
Sales from Exports	8.5	9.3	9.4	15.8	9.8	14.2	17.3	11.4	21.5	21.8
% sales from Exports	32.4%	30.2%	27.2%	30.2%	16.8%	19.6%	20.9%	15.9%	20.9%	15.9%

Tax Payout -

When an investor analyses the tax payout ratio of Paushak Ltd, then he notices that the company has been paying taxes lower than the standard corporate tax rate in India. In last 11 years, company has paid total income tax of Rs. 49.7 Crs on total PBT of Rs. 207.3 Crs i.e. approx. 24%. However, as per details of computation of tax provided in AR FY 2018 and FY 2019 it is noticed that the company enjoys lower Tax rate benefits as company falls under the provision of MAT u/s 115JB.

(b) Reconciliation of tax expense and the accounting profit multiplied by India's tax rate

(₹ in Lacs)

	Particulars	31st March, 2019	31st March, 2018
a)	Profit before Income tax expense	**4,898.98**	2,886.53
b)	Tax at the Indian Tax Rate *	1,055.67	616.03
c)	**Tax effect of amounts which are not deductible (taxable) in calculating taxable income**		
	Dividend income	(13.03)	(18.37)
	Expenditure related to exempt Income	0.11	0.11
	Provision for Doubful Debts	(2.58)	(7.56)
	Deferred Tax	(0.00)	127.95
	Others	31.05	21.30
	Income Tax Expense	**1,071.23**	739.46

*The company falls under the provisions of MAT u/s 115JB and the applicable Indian statutory tax rate for year ended March 31, 2019 is 21.55%.

83

Also, the applicable Indian statutory tax rate for year ended 31st March, 2018 and 31st March, 2017 was 21.3416%. This shows that Paushak will be able to enjoy benefit of lower taxes in future also.

> Minimum Alernate Tax (MAT) for the earlier years is available in accordance with the provisions of the section 115J(AA) of Income Tax, 1961 over the period of subsequent 15 assessement years and it is recognised to the extent of Deferred Tax Liabilities in view of certainity involved of its realisation against reversal of Deferred Tax Liability.

Cash Flow Analysis -

Over the period from 2010 to 2020, its cumulative PAT is Rs. 157.6 Crs and cumulative CFO is Rs. 127.2 Crs. On comparing cPAT and cCFO, it is noticed that cCFO is approximately 80% of cPAT. However, when investor notices cumulative *Other income* for past 11 years i.e. 2010-20, it is around Rs. 41.2 Crs. Therefore, cCFO is less than cPAT because of Paushak's high amount of other income (Income from investments, sale of land). *Other income* is not considered in CFO calculation although it will be added in PAT numbers. From 2010-20, FCF generated is approximately Rs. 56 Crs. FCF is the excess cash company has from its operations after fulfilling its Capex requirement.

At the end of FY 2020, company has cash and cash investments of Rs. 164.6 Crs. Cash and Cash investments have increased exponentially from Rs. 53.7 Crs in FY 2018 to Rs. 116.9 Crs. in FY2019. Major change is explained in AR FY 2019, wherein it is stated that investments made in Nirayu Pvt Ltd and Shreno Ltd are valued at fair value through other comprehensive income resulting in appreciation of fair value from 5.6 Cr to Rs. 66.7 Crs.

Investment in Equity Instruments (Unquoted)

• 1,433 (31st March, 18: 1,433) equity shares of Rs.100/- each fully paid up in Nirayu Pvt.Ltd.	**1,615.23**	98.47
• 1,33,332 (31st March, 18: 1,33,332) equity shares of Rs.100/- each fully paid up in Shreno Limited. (Note 1)	**5,051.56**	460.82

Operating Efficiency Analysis

When an investor analyses the Net fixed Asset Turnover (NFAT) of Paushak, then he notices that the NFAT of the company initially improved from 2.66 in FY2011 to 5.49 in FY2014. Later on, the NFAT decreased to 2.63 in FY2017. Investors may relate the decline in NFAT with the capex done by the company on capacity expansion during the same period. Once again the NFAT improved to 3.75 in FY2019. However, it again declined to 3.52 as the company has started capex of Rs. 120 Cr. for capacity expansion for period FY 2020-22.

On analysing trade receivables over the years, it is noticed that trade receivables increased from 72 days in 2011 to 96 in FY2014. From FY 2014 to FY 2019, trade receivables were in range of 93-99 days. In FY 2020, it improved to 78 days. Trade receivable as % of sales has also improved in the last three years from 37% to 19%. During FY2019, the Company has made changes in its Policy for receivables, payables and working capital which resulted in lower Receivable days and higher current ratio.

	Mar 2008	Mar 2009	Mar 2010	Mar 2011	Mar 2012	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017	Mar 2018	Mar 2019
ROCE %	6%	21%	14%	18%	14%	30%	30%	32%	25%	12%	29%	27%

Paushak has maintained healthy return on capital employed over the last 7 years except in FY 2017. Crisil expects ROCE around 18% through the capex cycle.

From Crisil credit rating report feb, 2020 -

> ***Strong operating efficiency:*** *Paushak's strong operating efficiency is aided by its backward integrated operations, which have led to strong operating margin (32% in the first nine months of fiscal 2020, and 29% in fiscal 2019), and return on capital employed (RoCE; expected at 20% for fiscal 2020). The company is one of the few players licenced to manufacture phosgene gas, which involves government restrictions. RoCE is expected to sustain around 18% through the capex cycle. Further, the working capital cycle is moderate with receivables and inventory of 86 and 66 days as on March 31, 2019, respectively.*

Paushak has been able to maintained high ROCE even during the last capex which started in FY 2014.

Research & Development

The company has been able to improve their profit margins because of investments done by company in research and development to improve their operational efficiency and add high margin products. Company has strong R&D focus with R&D investment of the order of 2-3 percent of net sales for last 12 years.

Steps taken by management (as mentioned in Annual reports)–

1. Focus on development of continuous processes instead of batch processes. Converted more products into continuous processes and thereby improved capacities without inordinate investments.
2. Focussing on more profitable product mix.
3. Focus on R&D for cost reduction.
4. Backward integration of operations which helps it to cushion the impact of raw material prices.
5. In FY 2015, management conducted detailed study of their entire operations process through a reputed professional engineering consulting firm.
6. Automation process to ensure that the Company maintains the highest levels of good EHS (environment, health and safety) practices.
7. Company invested in windmill for captive use. A significant part of energy requirement are met from such non-conventional source of energy.
8. Developed indigenous technology for its one of the key product portfolio

Benefits derived like product improvement, cost reduction, product development or import substitution:

The Company has continued to commercialize some products which were earlier available from China.

The Company has adopted solvent-free processes for many products, which are environment friendly as well as low cost.

Over the period of time, it is seen that expenses towards Power and Fuel has been brought down from 14% in FY2010 to 4% in FY 2019 which shows that steps taken by management in R&D has improved operating efficiency and profit margins.

Equity and Debt

No equity dilution happened in last 12 years. Promoters have maintained their holdings around 66% for last 10 years. Company did buyback of shares worth Rs. 21.25 Crs (@1700/share) in April 2018. Promoter i.e. Nirayu Pvt Ltd participated in the buyback of shares wherein they surrendered 2.83% shares. This reduced their holding from 66.68% to 66.44%. However, over the FY 2019 they bought shares from market which increased their promoter holding to 66.71%.

Paushak has no debt on its balance sheet. Paushak has grown business with only internal accruals and it has maintained its debt-free status for the past many years. This shows that balance sheet of the company is strong.

Company has been a consistent dividend payer for last 12 years. Current dividend yield is less @ 0.24%. However, the company has been utilising the retained earnings to improve earnings for all shareholders by investing the same in their core business. Company has been able to create value for minority shareholders by giving regular dividends and buyback of shares.

Expansion of Phosgene capacity -

Company has kept their focus on core competency i.e. phosgene based speciality chemicals and intermediates.

a) Company expanded their manufacturing capacity of Phosgene from 120 MT/month in FY 2009 to 400 MT/Month in FY 2019. Paushak started the capex in FY 2014 for an investment of Rs. 15 Crs.

From AR FY 2014

The Company has received a clearance from the Ministry of Environment and Forests for expansion of its licensed phosgene capacity. The approval from the Ministry of Industries is also obtained and now the permission is sought for implementing expansion commercially from the Gujarat Pollution Control Board.

The Company have initiated the new project installation in 2 phases with an investment plan of Rs.15 Crores. This would enhance the capacity of phosgene from existing 120 MT per month to the permitted 400 MT per month.

b) Currently, Paushak is in process of expanding its capacity by 3 times i.e. from 400 MT/month to 1200 MT/month. As per Crisil Credit Rating report dated 17.02.2020, required capex of Rs. 120 Crores is expected to be largely funded with internal accrual and surplus cash equivalents of around Rs 50 crore as on September 30, 2019. Till 17.02.2020, Rs 25 crore of capex has been carried out, and Rs 75-80 crore is likely to be incurred in fiscal 2021, and the balance in the following year.

From Crisil credit rating report feb 2020 -

2020). Capex of Rs 120 crore, to increase capacities, has commenced in fiscal 2020, with about Rs 25 crore expended till date. The capex was earlier expected to commence in fiscal 2019; but was delayed because the plants were redesigned to optimise the efficiencies. Capex is expected to be largely funded with internal accrual. Timely execution of capex and successful ramp-up will be a key rating monitorable.

the first nine months of fiscal 2020, from Rs 101 crore in the corresponding period of last fiscal. With some part of the production capacities likely to be commercialised by September ' December 2020, ramp up in scale is expected from fiscal 2022 onwards. With the management's focus on enhancing capacities and capitalising on improved demand, growth is expected to gather momentum over the medium term.

Liquidity Adequate

Liquidity is marked by a cash equivalents surplus of about Rs 50 crore as on September 30, 2019, and low bank limit utilisation. Expected cash accrual of over Rs 30 crore, per fiscal, is expected to suffice to cover the incremental working capital requirement. Capex of Rs 120 crore, to be incurred over the next three fiscals, will also be largely funded via internal accrual.

Expansion approval granted for following products as per information available on
http://environmentclearance.nic.in/writereaddata/Form-1A/EC/09072018119_2017_Paushak_Letter.PDF -

S. No.	Product	Quantity (MT/Month)		
		Existing	Additional	Total
1	Phosgene	400	800	1200
2	3,4,4 – Trichlorocarbanilide	50	-50	0
3	Carbamoyl Chloride	40	-12	28
4	Chloroformates	250	150	400
5	Vinyl Chloroformates	1	0	1
6	4 Nitrophenyl Chloroformate	10	-5	5
7	Urea	10	190	200
8	Isocyanates	50	250	300
9	Carbonates	20	20	40

As per Environmental Impact & Risk Assessment Report prepared by Aqua-Air Environmental Engineers Pvt Ltd, Surat, during 2016-17 average production of phosgene was 212.64 MT/Month of total capacity of 400 MT/Month. Capacity utilization of phosgene is around 53.16% in FY 2016-17. As sales have increased from Rs. 72.3 Crs in FY2017 to Rs. 137.9 Crs in FY2020, it may be assumed that current capacity utilisation would be more than 80%.

Product list with approved quantity and average production of the year 2016-17			
Sr.	Name of the Product	CCA Qty (MT/M)	Average Production of year 2016-17 (MT/M)
1.	Phosgene	400.0	212.64

Entry Barrier for other companies -

Phosgene being a hazardous gas is heavily regulated by government. Getting approval for manufacturing unit or expansion of already existing unit is not easy and is time consuming process which may take 3-4 years. The company is one of the few players licenced to manufacture phosgene gas. As per annual reports, they have been handling phosgene safely for last 4 decades. This shows that company has limited competition from Indian players.

Because of hazardous nature of phosgene, company has to invest to ensure safety standards as per Government norms which may impact profit margins. However, investments in R&D has reduced costs as well as operating efficiency has improved.

Competition –

Apart from Chinese competitors, other competitors are Atul Ltd and BASF. Atul is the only other Indian company licensed to produce phosgene. Atul has also expanded its phosgene capacity five times (couldn't find Atul ltd's capacity).

https://www.moneycontrol.com/news/business/moneycontrol-research/tactical-pick-atul-industries-4407641.html

Management and their remunerations

Paushak belongs to Alembic Group. Paushak is led by Mr Chirayu Amin and his family members, the promoters of Alembic Pharmaceuticals Ltd. Paushak doesn't have any subisidiary.

ALEMBIC GROUP OVERVIEW

Alembic Ltd is the oldest Pharmaceutical Company in India founded in 1907. Alembic group has combined turnover of more than USD 600 Million with market cap of more than USD 2 Billion with diversified interests through following Group Companies:

- API & Formulations : Alembic Pharmaceuticals Ltd.
- API & Intermediates : Alembic Limited
- Specialty Chemicals : Paushak Limited
- Consumer Glass : Yera Glass
- Engineering & Real Estate : Shreno Limited

Alembic Pharmaceuticals Limited is among the top 15 Pharmaceuticals Companies in India and sites are USFDA/cGMP approved for API & Formulations with more than 50 ANDAs, 64 USDMFs & 250 EU DMFs.

Mr. Abhijit Joshi is the MD & CEO of the company. He has drawn gross salary Rs. 56.43 lacs in FY2019 (Rs. 23.5 lacs in FY 2014) which is well below the ceiling as per the Act. Mr. Abhijit Joshi joined company as Whole-time Director of the Company effective from 1st May, 2013.

From AR FY 2014 -

Mr. Abhijit Joshi has done his Masters in Organic Chemistry and Production Management. He has vast experience of 32 years in the fields of Basic Research, Tech-transfer, Production and Manufacturing site administration, etc. He has worked with various well known Indian as well as Multinational Companies in pharmaceutical space.

In FY 2018, the Board proposed payment of commission to Mr. Udit Amin, Non-Executive Director of up to 3% of the net profits of the Company which was approved at the 45th AGM held on 6th Aug, 2018. In FY 2019, he received Rs. 76.75 lacs as commission. Total remunerations doesn't appears to be very high.

From FY 2015 to FY2019, permanent employee strength has increased from 172 to 265. Crisil Rating agency also highlighted the hiring of personnel at senior and mid-management levels in the strengths of the company.

* **Established market position:** Paushak has an established market position for more than four decades in the phosgene-based intermediates. It derives revenues from chloroformates, isocynates, specialty chemicals, carbonates and phosgene gas. These products have wide range of applications across pharmaceutical, agro-chemicals and others. In the last two years, the managerial bandwidth has been expanded by hiring personnel at senior and mid-management levels. Consequently, the revenue improved by over 50% to Rs 104 crore in fiscal 2018; and the company has reported Rs 63 crore in the first six months of fiscal 2019. With the management focus on enhancing capacities and capitalising on improved demand, Paushak is likely to maintain revenue growth momentum over the medium term.

Further, in Feb, 2020 they have published advertisement for hiring of 56 personnel. This seems to be in line with the expansion plan. This will ensure manpower availability to maintain revevue growth.

PAUSHAK

Your Strategic Source For Phosgene Derivatives

WALK-IN INTERVIEW

Paushak Limited invites dedicated & passionate individuals to join its team.

Function	Qualification	Specialization	No. of Positions	Experience in Years	Location
• **Production-Manual Plant** (For shift Operations)	Diploma/B.Sc/B.E/B.Tech (Chemical Eng.)	Chemical/Agrochemical/Speciality Chemical	4	(4-8)	Panelav
• **Production-DCS** (For shift Operations)	Diploma/B.Sc/B.E/B.Tech (Chemical Eng.)	Chemical (Proficiency in DCS operations for manufacturing of phosgene derivatives)	20	(4-8)	Panelav
• **Research & Development**	M.Sc-Organic Chemistry	Chemical/Agrochemical/Speciality Chemical	2	(4-8)	Panelav
• **Research & Development-Trainee**	M.Sc-Organic Chemistry	Chemical/Agrochemical/Speciality Chemical	5	(0-2)	Panelav
• **Process Engineering** (For shift Operations)	B.E/B.Tech (Chemical Eng.)	Scale up Technology Transfer in Chemical/Agrochemical/Speciality Chemical	1	(5-8)	Panelav
• **Purchase**	Diploma/B.E/B.Tech	Chemical/Agrochemical/Speciality Chemical	1	(4-8)	Vadodara & Panelav
• **Technical Services**	B.E/B.Tech (Chemical Eng.)	Chemical/Agrochemical/Speciality Chemical	1	(4-8)	Panelav
• **Civil-On third party payroll** (For shift Operations)	Diploma-Civil	Chemical/Agrochemical/Speciality Chemical	2	(4-8)	Panelav
• **Technicians**	AOCP	Chemical/Agrochemical/Speciality Chemical	15	(2-8)	Panelav
• **Technicians**	Electrical	Chemical/Agrochemical/Speciality Chemical	2	(2-8)	Panelav
• **Technicians**	Mechanical	Chemical/Agrochemical/Speciality Chemical	8	(2-8)	Panelav

Date: 09th February, 2020 (SUNDAY) • Reporting Time: 09:00 hrs to 16:00 hrs

Venue: Sanskriti Hall, Alembic Corporate Office, Opposite Inorbit Mall, Vadodara

Related Party Transactions –

Company has significant investments in related/promoter companies.

a) Purchase of Options Right of Immovable property of Shreno Ltd. Can it be called wrong allocation of funds?

In FY2014, the Company entered into an Option Purchase Agreement for a parcel of land at Bangalore with Real Estate Developer. The Company has given deposits of Rs 8,50,00,000/- towards acquiring Option Rights having Total Value of Rs 18,94,86,000/-. The Company can exercise its Option Rights at any time before the expiry of 48 Months from the date of execution i.e. 21-06-2013 of the Agreement

Investment in Associates	
Option Right of Immovable Property of Shreno Ltd. (Refer Note No. 6 to Notes forming part of accounts)	**85,000,000**

Later these Rights were cancelled at the option of Shreno Ltd.

Investment in Associates		
Option Right of Immovable Property of Shreno Ltd. (Rights cancelled at the option of Shreno Limited during the year)	-	850.00

b) In FY 2019, Company sold land for sum of Rs. 10.17 Crs to related party M/s Alembic Ltd. (pg 77 of AR FY2019). Earlier, company used to receive rent of approximately Rs. 17 lacs/annum from this land.

c) Current investments in related parties is approximately Rs. 79.81 Crs.

Investment in Equity Instruments (Unquoted)	
• 1,433 (31st March, 18: 1,433) equity shares of Rs.100/- each fully paid up in Nirayu Pvt.Ltd.	**1,615.23**
• 1,33,332 (31st March, 18: 1,33,332) equity shares of Rs.100/- each fully paid up in Shreno Limited. (Note 1)	**5,051.56**
Investment in Preference Shares (Unquoted)	
• 1,37,053 (31st March, 18: 1,37,053) 5% Non-Convertible Cumulative Redeemable Preference Shares of Rs.100/- each fully paid up in Nirayu Private Limited. (Note 2)	**1,314.67**

Risks (as mentioned in Annual reports) and *steps to mitigate risks*–

1. The Company identifies safety aspect of phosgene & downstream products production as a key risk.

   The Company is actively looking at modernization / technology up-gradation in this regard. The Company has put more emphasis on safety practices along with automation to minimise the risk and will continue to do so in future as well.

2. With increasing utilization of its manufacturing capacities, the Company needs to increase its investments and efforts on Environment, Health & Safety requirements considering the hazardous nature of its operations. At the same time, the Company needs to ensure that despite increase in investments for EHS, it manufactures quality products at competitive prices.

   Company has reduced waste as much as possible via increased yields and removal of solvents. The Company has also obtained ISO 14001 and OHSAS 18001 accreditation.

3. Cost competition and pricing pressure experienced in various products.

   The company is addressing the issue through improvement of operating efficiencies and optimizing input costs.

4. Cost competition and pricing pressure from Chinese manufacturers has been threat to the industry in general.

   The Company has continued its journey through improvement of operating efficiencies and optimizing input costs across the product portfolio.

Margin of Safety –

a) Self-Sustainable Growth Rate –

   SSGR of Paushak has been between 40%-69% for last 5 years. Because of high SSGR, company has been able to grow @ 19% for last 11 years without the need of external capital.

b) Free Cash Flow –

   FCF is the excess cash company has from its operations after fulfilling its Capex requirement. Over the last 11 years, FCF generated is approximately Rs. 56 Crs. In 11 years, company has done total capex of Rs. 71.2 Crs including buyback worth Rs. 21.25 Crs in 2018, capex done for expansion of capacity from 120 MT/month in FY 2009 to 400 MT/Month in FY 2019 and current capex undertaken in FY2020. It appears that company has been able to grow and expand without taking any debt.

c) Price to Earnings Growth Ratio – PEG Ratio is 0.7 i.e. less than 1 which means that the stock price is currently undervalued.

"PEG is a good yardstick to assess the valuation of a stock, particularly during bull markets when PE indicates overvaluation. It is true that PEG less than 1 leaves a margin of safety even when the stock looks fully priced," Dr VK Vijayakumar, Chief Investment Strategist at Geojit Financial Services

d) P/E Ratio is 19.8 at CMP 2125 on June 04, 2020 which provides less margin of safety.

Future Growth -

Future growth outlook depends on –

1. Timely execution of capex without deteriorating the balance sheet.
2. Ability to get contract manufacturing for global customers.
3. Maintaining the return on capital above 20%.
4. 3 times capacity will give ample room to grow the top line.
5. Maintaining the current profit margins in future.
6. Increase in permanent employee strength is positive.
7. Proper allocation of capital by the Management and rewarding the minority shareholders.

Recently, prominent investor Ashish Kacholia has bought stake in this company.

Historical shareholding details of Ashish Kacholia in Paushak Ltd. (PAUSHAKLTD)

Quarter	Name	Total no. shares held	Percent Holding	Pledged	
				shares	%
Mar 2020	Ashish Kacholia	42,678	1.38%	0	0.00%
Dec 2019	Ashish Kacholia	36,793	1.19%	0	0.00%