

Decent result; Targets 3000+ cr revenue from FMCG business by FY26.

CMP: INR 669

Rating: Buy

Target Price: 2,903

Stock Info

BSE	542333
NSE	RPSGVENT
Bloomberg	CESCVIN
Reuters	CESV.BO
Sector	IT
Face Value (INR)	10
Equity Capital (INR Cr)	27
Mkt Cap (INR Cr)	1,840
52w H/L (INR)	1,147/244
Avg Yearly Vol (in 000')	113

Shareholding Pattern %

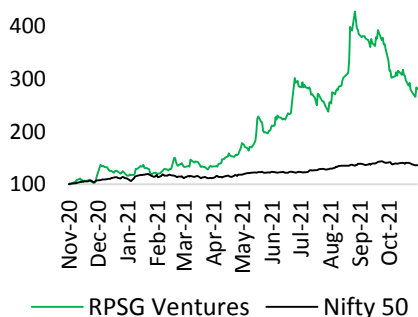
(As on September, 2021)

Promoters	54.35
FII	13.57
DII	2.39
Public & Others	29.69

Stock Performance (%)

	1m	3m	12m
RPSG	-17.6	7.4	175.1
Nifty	-3.4	5.2	36.1

RPSGVENT Vs Nifty



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RPSG Ventures in Q2FY22, Revenues exceeded expectations and came in at INR 1,599 cr against estimates of INR 1,365 cr. It increased by 23% YoY/-1% QoQ driven by the growth across the segment.

However, the Gross Profit margin declined 40 bps YoY/ -107 bps QoQ due to raw material cost pressure.

EBITDA increased 34% YoY/-7% QoQ and stood at INR 201 Cr and above the expectation of INR 165 Cr.

EBITDA margin expanded by 105 bps YoY/ contracted by 86 bps to 12.55%. EBITDA margin contracted on the QoQ basis in line with compression in gross profit margin.

Other income increased by 675% QoQ/ down 16% YoY to INR 10 Cr.

Effective tax rate increased by 328 bps QoQ/ 1415 bps YoY to 31.47%.

PAT exceeded expectations driven by an increase in other Income. It stood at INR 75 cr against estimates of INR 65 cr and increased by 23% YoY/ down 13% QoQ-PAT margin increased by 138 bps YoY/ down 64 bps YoY to 4.67%.

Valuation & Outlook

The management is targeting to grow its FMCG business to INR 3,000 Cr with emphasis on couple of very high growth products like Too Yumm chips and Karare. The company's focus is to create 4 mega brands in future and a majority of these categories have matured. As the impact of pandemic fades and mobility normalizes, we expect the company's growth rate to revert to mid-teens. Going forward, the company plans to launch 2 more categories and has already started working in one more large category. Also the sports business will gain traction in future. Hence, we project EBITDA margins to remain in the range of 11.8% to 12.40% during FY22E-FY24E.

We expect RPSG Ventures to post Revenue/EBITDA growth of CAGR 16.6%/15% respectively over FY21-FY24E and value RPSG Ventures at PE of 1.5x to its FY24E EPS (Core) of INR 82.

We maintain our Buy rating on the stock and value it on SOTP valuation for a target price of INR 2,483 per share (Bear/Lower case scenario), INR 2,903 per share (Base case scenario) and INR 3,199 per share (Best case scenario).

We value FSL at 17x FY24 EPS of INR 11.3 for the Target Price of INR 192 per share. We assign an Accumulate rating on the stock.

Particulars (INR Cr)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	4606	5599	6256	6901	7614
EBITDA	401.9	702.1	741.0	855.6	928.7
Net profit	-68	-96	103	181	233
EPS (INR)	-1.3	-36.1	39.0	68.5	87.7
PE (x)	-522.4	-18.5	17.2	9.8	7.6
EBITDA Margin	8.72%	12.54%	11.84%	12.40%	12.20%
PAT Margin	-1.48%	-1.71%	1.65%	2.63%	3.06%
ROE	2.07%	1.69%	5.79%	7.77%	8.30%
ROCE	2.82%	7.16%	6.80%	8.45%	9.03%

Source: Company, Arihant Research

SOTP - Valuations

Bear/Lower Case Scenario							
Listed Subsidiary	FY24E Sales (A)	P/Sales (x) (B)	Valuation (in Cr.) (A*B)	CMP	% Stake	Mcap	Value/share
FSL		17x FY24E PE	192		54%	7215	
					Holdco Discount	60%	
					Valuation	2885.94	1089
Apricot Foods	359.7	1x	360	unlisted	70		136
Guilfree Industries Limited	490	1.5x	735	unlisted	100		277
Herbolab India Private Limited	41	2x	82	unlisted	100		31
Quest Properties	124	5x	620	unlisted	100		234
APA services	1.35	1x	1	unlisted	100		0.5
ATK	58	1x	58	unlisted	80		22
RPSG Sports Private Limited	Discounting	15%	1516	unlisted	51		572
Value of Subsidiaries							2361
Core business		1.5x FY24E PE					123
					Intrinsic Value per share		2483
					CMP		669
					Upside		271%
Base Case Scenario							
Listed Subsidiary	FY24E Sales (A)	P/Sales (x) (B)	Valuation (in Cr.) (A*B)	CMP	% Stake	Mcap	Value/share
FSL		17x FY24E PE	192		54%	7215	
					Holdco Discount	60%	
					Valuation	2885.94	1089
Apricot Foods	359.7	1.5x	540	unlisted	70		204
Guilfree Industries Limited	490	2.5x	1225	unlisted	100		462
Herbolab India Private Limited	41	3x	123	unlisted	100		46
Quest Properties	124	8x	992	unlisted	100		374
APA services	1.35	1.5x	2	unlisted	100		0.8
ATK	58	1.5x	87	unlisted	80		33
RPSG Sports Private Limited	Discounting	15%	1516	unlisted	51		572
Value of Subsidiaries							2780
Core business		1.5x FY24E PE					123
					Intrinsic Value per share		2903
					CMP		669
					Upside		334%
Best Case Scenario							
Listed Subsidiary	FY24E Sales (A)	P/Sales (x) (B)	Valuation (in Cr.) (A*B)	CMP	% Stake	Mcap	Value/share
FSL		17x FY24E PE	192		54%	7215	
					Holdco Discount	60%	
					Valuation	2885.94	1089
Apricot Foods	359.7	2x	719	unlisted	70		271
Guilfree Industries Limited	490	3x	1470	unlisted	100		555
Herbolab India Private Limited	41	5x	205	unlisted	100		77
Quest Properties	124	10x	1240	unlisted	100		468
APA services	1.35	2x	3	unlisted	100		1
ATK	58	2x	116	unlisted	80		44
RPSG Sports Private Limited	Discounting	15%	1516	unlisted	51		572
Value of Subsidiaries							3076
Core business		1.5x FY24E PE					123
					Intrinsic Value per share		3199
					CMP		669
					Upside		378%

Source: Company, Arianth Research

CMP as on 30th Nov 2021

Q2FY22 Conference call key takeaways**FMCG Business:**

- RPSG aims to build a diversified FMCG conglomerate led by new-age brands and innovative products, to serve the modern aspirational consumer.
- The focus of the management on the economic scale, Create Disruptive Innovations, Build Brand Equity, Build GTM offline and online and Play in categories of scale.
- The company has a plan to develop a robust and sustainable supply network Invest in R&D capability. Build a future-ready, highly driven Organization.
- Too Yumm has a plan to enter into an ethnic category and the company is working on it.
- The company also has the plan to launch 2 more categories going forward and already started working in one more large category, it will come around the next few quarters. Three core verticals to drive the FMCG Business. In the food business, size of (INR 117,000 cr) and in sub-categories salty snacks is 17,000 cr (15%), Indian Ethnic is 17,000 cr (14%), New Category 1 INR is 16,000 cr, Staples INR is 30,000 cr and New Category is 2 37,000 cr in 2019. Personal Care INR is 34,000 cr in that Haircare INR 21,000 cr (8%) and skincare is 13,300 cr (12%). In Herbal Wellness is an 11,000 cr (15%) in 2019.
- The company has a vision for the product like for the Too Yumm 1) Unique positioning in a large market, 2) Fast ramp-up to 200 Cr; Equity scores amongst the top 3 in the category. For Dr. Vaidya's 1) Significant online presence – 1 Million consumers served. 2) 150 + FDA-approved formulations 3) Sight of future innovations.
- For Naturali 1) Unique positioning tough to replicate by established brands, 2) Sight of a future tranche of innovations and Focus on Enablers 1) At least 3 more category spaces planned. 2) Reasonable strong distribution set up: 300,000 stores 3) Ability to create new products, Supply networks to deliver competitive pricing and costs. 4) Strong organization in place. RPSG FMCG reported INR 100 Cr in Q2FY22.
- Strong momentum back on the business across brands.
- **Chips:** Potato Chips are liked by consumers. Strong repeat rates from stores. Now distributed in 200K stores every month. The company has 2 manufacturing locations operational 2 more already planned to take the count to 4. Naturli ~\$4B USD in personal care with 10% growth in value sales for the personal care category.
- **Naturli** seems encouraging as per the demand and will launch nationally by end of February. An Online Business with a firm footing; Robust Product Portfolio, 50+ solutions across wellness and curative needs, 150+ FDA-approved formulations, Category First Products like Ayurveda for Muscle Build/ Herbo Turbo/ Livitup.
- In-house Manufacturing & R&D, 10,00,000 consumers serviced through DTC channel and 25000+ Free Doctor consultations over the last year to build trust and credibility towards Ayurveda.
- The company has target to build a 500cr brand in FY22 and New manufacturing plant & ramped up R&D for future scale and FY23-24 is expected to expand internationally.
- **Evita** supported with new launches, INR 10/ price points 9 Products under Family/Large pack and 4 Products INR 10 Price point launched. The company has steady top-line progress and EBITDA breakeven. If the current forecast works for the company will be breakeven in a year or so.
- The company is looking for an investment of 1500 cr by 3-4 years. This year and next year will be a mix of debt and equity and going forward it will be more equity.
- **Distribution:** The company has different distribution for Too Yumm and Evita but going forward it will be merged.

- **Advertising:** 1) spending money on the advertisement, 2) disruptive communication these are the thing that the company is going to focus on these. The company is not overspending but they are spending in the right direction.
- **Synergy:** There is one distributor for the food and personal care product and in Delhi & Kolkata it was very helpful. It 70:30 splits and personal care is 17k stores. The company has some bit of synergy with Spencer's as the FMCG business is using staple from it and their sourcing ability to launch one brand in Delhi. Digital: Dr. Vaidya's entire business is online and half of the business is for the company websites. Natural is going digitally by this month of December month. The company is looking to establish digital center excellence by 5-6 months.
- **M&A:** The company is seeing more acquisitions than mergers but the company will look into the company has potential to grow nationally and complement 4 megabrands.
- **EBITDA Margin:** once the company has achieved INR 6000 cr after that the company can do a 15-18% margin easily.
- **Sports business:** Sports business has been incorporated wherein the Company is holding a 51% stake and the balance stake is held by private and unlisted company of RP-Sanjiv Goenka group. RPSG get rights for Lucknow at INR 7,090 crores. CVC Capital win Ahmedabad at Approx INR 5,300 crores.
- **FMCG:** The company is more focused on FMCG business
- **Naturali Gross Margin:** The gross margin is 28-30% at the current level. The company is looking in line with the industry level and going forward it will be 45-50% gross margin.
- **Outlook:** RPSG Ventures targets 3000+ cr Revenue from FMCG business by FY26. 1) Too Yumm! (~INR 1800 cr 4% MS), 2) Naturali, (~500 cr 3% MS) 3) Dr. Vaidya's (New Age Ayurveda) ~INR 500 cr 2% MS, 4) Evita INR ~ 500 Cr 3% MS.

Industry Scenario:

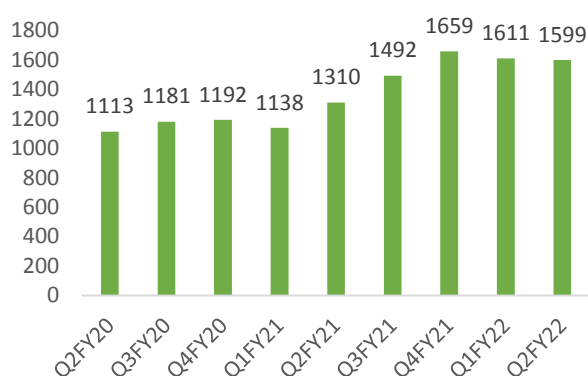
- Indian Branded FMCG Market stood at INR 700,000 Cr in 2019.
- Within this, the Consumer Health posted a CAGR of 10%, Beverages posted a CAGR of 13%, Home & Personal Care posted a CAGR of 9%, and Packaged Food posted a CAGR of 13% between 2014-19.
- In Beauty & Personal Care market in comparison to India, per capita consumption in Brazil is 11x, Mexico is 7x, china 5x. In the snacks market in comparison to India, per consumption in Brazil is 6x, Mexico is 8x, china is 4x.
- FMCG large companies like ITC, Reckitt, Dabur have Sustained focus on GTM and Brand Creation over years.
- Drivers which are influencing Indian consumer needs include Increasing digital influence, Health & Wellness, Smart Shoppers, and No one size fit all and they are looking for more agile, more relevant, and topical responses.

Q2 FY22 Performance of the company

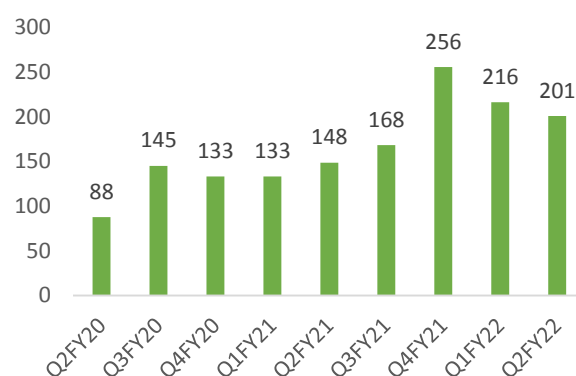
INR in Cr.	Q2FY22	Q1FY22	Q2FY21	YoY	QoQ
Net Sales	1,599	1,611	1,310	22%	-1%
Raw Material	72	53	53	34%	35%
(Increase)/Decrease in stock	(1)	1	(1)	-16%	-218%
COGS	71	54	52	35%	31%
GP	1,529	1,557	1,258	22%	0%
Gross Profit (%)	95.59%	96.66%	96.02%	-43bps	-107bps
Employee Cost	1,004	1,050	836	20%	-4%
Other Expenses	324	291	274	18%	11%
EBITDA	201	216	148	35%	-7%
EBITDA Margin (%)	12.55%	13.40%	11.33%	122bps	-86bps
Depreciation	70	69	62	12%	2%
EBIT	130	147	86	52%	-11%
Other Income	10	1	11	-11%	673%
Finance Cost	30	28	26	13%	7%
PBT	109	119	71	54%	-9%
Tax Expense	34	34	13	170%	2%
Effective tax rate %	31.47%	28.18%	17.99%	1347bps	328bps
PAT	75	86	58	29%	-13%
Profit /(Loss) to Non-controlling	13	25	43	-70%	-49%
PAT margin (%)	4.67%	5.32%	4.43%	138bps	-64bps
Consolidated PAT	61.9	60.4	15.1	311%	3%
EPS (INR)	4.9	9.5	6.7	-28%	-49%

Source: Company, Arihant Research

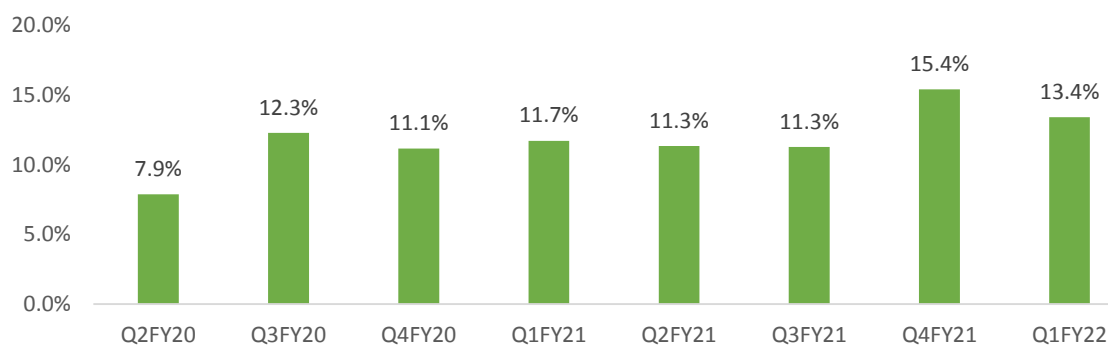
Gross Sales Cr



EBITDA (INR Cr)



EBITDA(%)



Source: Company, Arihant Research

RPSG Ventures Limited Financial (Consolidated financial)

Income Statement (INR Cr)

Year End-March	FY20	FY21	FY22E	FY23E	FY24E
Revenues	4,606	5,599	6,256	6,901	7,614
<i>Change (%)</i>	5.4%	21.6%	11.7%	10.3%	10.3%
Cost of Goods Sold (COGS)	209	191	269	242	267
Gross Profit	4,398	5,408	5,987	6,659	7,347
Employee costs	2,896	3,588	4,043	4,472	4,926
Other expenses	1,099	1,118	1,203	1,332	1,492
Total Expenses	4,205	4,897	5,515	6,045	6,685
EBITDA	402	702	741	856	929
Depreciation	225	249	294	285	299
EBIT	177	453	447	570	630
Interest	102	107	107	90	71
Other Income	39	64	33	37	38
PBT	114	410	373	517	597
Exceptional Items	0	-115	0	0	0
PBT after exceptional Items	114	294	373	517	597
Tax	38	236	151	196	227
<i>Rate (%)</i>	33.3%	80.2%	40.3%	38.0%	38.0%
PAT	76	58	223	320	370
Non-controlling interest	144	154	119	139	137
Consolidated PAT	-68	-96	103	181	233
<i>Change (%)</i>	-1.5%	-1.7%	1.7%	2.6%	3.1%

Key Ratios

Year End-March	FY20	FY21	FY22E	FY23E	FY24E
Per share (INR)					
EPS	-1.3	-36.1	39.0	68.5	87.7
BVPS	1378	1305	1450	1557	1682
Valuation (x)					
P/E	-522.4	-18.5	17.2	9.8	7.6
P/BV	0.5	0.5	0.5	0.4	0.4
Subsidiary Valuation	1772	1772	1772	1772	1772
EPS (Core EPS)	65.7	48.0	59.8	74.8	81.7
PE(Core)	-16.8	-23.0	-18.4	-14.7	-13.5
EV/EBITDA	6.5	3.5	2.9	2.1	1.6
Return ratio (%)					
EBIDTA Margin	8.72%	12.54%	11.84%	12.40%	12.20%
PAT Margin	-1.48%	-1.71%	1.65%	2.63%	3.06%
ROE	2.07%	1.69%	5.79%	7.77%	8.30%
ROCE	2.82%	7.16%	6.80%	8.45%	9.03%
Leverage Ratio (%)					
Total D/E	0.3	0.2	0.2	0.1	0.1
Turnover Ratios					
Asset Turnover (x)	3.1	3.9	3.8	3.6	3.5
Inventory Days	86	96	90	92	92
Receivable Days	41	39	40	40	40
Payable days	16	21	25	25	25

Balance Sheet (INR Cr)

Year End-March	FY20	FY21	FY22E	FY23E	FY24E
Sources of Funds					
Share Capital	27	27	27	27	27
Reserves & Surplus	2,300	2,132	2,517	2,799	3,130
Non controlling interest	1,327	1,301	1,301	1,301	1,301
Total Equity	3,653	3,460	3,844	4,127	4,458
Loan Funds					
Deferred Tax Liability (Net)	93	149	149	149	149
Capital Employed	6,275	6,329	6,569	6,746	6,976
Application of Funds					
Gross Block	1,366	1,511	1,692	1,895	2,122
Less: Depreciation	717	772	882	996	1,123
Net Block	654	899	999	0	0
CWIP	7	5	5	5	5
Financial Assets	711	635	635	635	635
Investments	94	47	209	209	209
Inventories	50	51	66	61	67
Sundry debtors	603	608	686	756	834
Cash and bank	370	161	260	453	671
Other Current Assets	452	546	546	546	546
Total Current assets	1,479	1,454	1,646	1,904	2,206
Total Current liabilities	724	1,217	1,234	1,278	1,327
Total Non-Current assets	4,796	4,875	4,924	4,841	4,770
Capital Employed	6,275	6,329	6,569	6,746	6,976

Cash Flow Statement (INR Cr)

Year End-March	FY20	FY21	FY22E	FY23E	FY24E
PBT	114	294	373	517	597
Cash From Operating Activities	240	968	590	781	860
Tax	56	67	151	196	227
Net Cash From Operations	0	0	0	0	0
Capex	(147)	(185)	(181)	(203)	(227)
Cash From Investing	100	(460)	(343)	(241)	(266)
Borrowings	331	(293)	(160)	(150)	(150)
Finance cost paid	(100)	(106)	0	0	0
Cash From Financing	(79)	(652)	2	(150)	(150)
Net Increase/ Decrease in Cash	205	-211	98	193	218
Cash at the beginning of the year	172	370	161	260	453
Cash at the end of the year	370	161	260	453	671

Source: Company, Arianth Research

Income Statement (INR Cr)

Year End-March	FY20	FY21	FY22E	FY23E	FY24E
Revenues	4,099	5,078	5,840	6,716	7,387
<i>Change (%)</i>	7.1%	23.9%	15.0%	15.0%	10.0%
Employee costs	2,774	3,467	4,059	4,634	5,090
Other expenses	696	807	934	1,088	1,175
Total Expenses	3,470	4,274	4,993	5,722	6,264
EBITDA	629	804	847	994	1,123
Depreciation	185	206	185	171	163
EBIT	444	598	662	823	960
Interest	58	52	47	42	37
Other Income	9	1	1	2	2
PBT	394	547	616	782	925
Exceptional Items	0	115	0	0	0
PBT after exceptional Items	394	432	616	782	925
Tax	55	70	86	109	139
<i>Rate (%)</i>	13.8%	16.2%	14.0%	14.0%	15.0%
PAT	340	362	530	672	786
y-o-y	0	0	0	0	0
Consolidated PAT	340	362	530	672	786
<i>Change (%)</i>	-10.1%	6.5%	46.5%	26.9%	16.9%

Key Ratios

Year End-March	FY20	FY21	FY22E	FY23E	FY24E
Per share (Rs)					
EPS	4.9	5.3	7.6	9.7	11.3
BVPS	40	40	45	51	60
Valuation (x)					
P/E	34.6	31.9	22.3	17.6	15.0
P/BV	4.3	4.2	3.8	3.3	2.8
EV/EBITDA	19.7	15.2	14.3	11.7	9.9
Return ratio (%)					
EBITDA Margin	15.3%	15.8%	14.5%	14.8%	15.2%
PAT Margin	8.3%	7.1%	9.1%	10.0%	10.6%
ROE	12.3%	12.9%	17.0%	18.8%	18.9%
ROCE	9.7%	12.4%	13.3%	15.2%	16.1%
Leverage Ratio (%)					
Total D/E	0.3	0.2	0.2	0.1	0.1
Turnover Ratios					
Asset Turnover (x)	3.7	4.1	4.3	3.6	3.0
Receivable Days	42	41	41	41	41
Payable days	8	13	10	10	10

Source: Company, Arianth Research

Balance Sheet (INR Cr)

Year End-March	FY20	FY21	FY22E	FY23E	FY24E
Sources of Funds					
Share Capital	694	696	696	696	696
Reserves & Surplus	2,072	2,103	2,424	2,888	3,465
Non controlling interest	1	1	1	1	1
Total Equity	2,766	2,800	3,121	3,585	4,162
Loan Funds					
Defered Tax Liability (Net)	73	47	47	47	47
Total Liability	4,587	4,830	4,982	5,420	5,965
Application of Funds					
Gross Block	769	897	1,023	1,125	1,237
Less: Depreciation	628	662	733	811	897
Net Block	141	235	290	314	341
CWIP	0	0	0	0	0
Financial Assets	673	586	697	1,204	1,800
Investments	0	83	83	83	83
Sundry debtors	557	577	656	754	830
Cash and bank	191	137	170	578	1,098
Other Current Assets	141	153	153	153	153
Total Current assets	1,104	1,231	1,343	1,849	2,445
Total Current liabilities	724	1,217	1,232	1,269	1,316
Total Non-Current assets	3,483	3,598	3,639	3,570	3,520
Capital Employed	4,587	4,830	4,982	5,420	5,965

Cash Flow Statement (INR Cr)

Year End-March	FY20	FY21	FY22E	FY23E	FY24E
PBT	394	432	616	782	925
Cash From Operating Activities					
	464	1,045	650	921	1,068
Tax	54	70	86	109	139
Net Cash From Operations	410	976	564	812	929
Capex	(95)	(173)	(126)	(102)	(112)
Cash From Investing	14	(350)	(226)	(102)	(112)
Borrowings	253	(267)	(50)	(50)	(50)
Finance cost paid	(58)	(51)	(47)	(42)	(37)
Cash From Financing	(277)	(689)	(306)	(301)	(296)
Net Increase/ Decrease in Cash	148	-63	32	408	520
Cash at the beginning of the year	47	191	137	170	578
Cash at the end of the year	191	137	170	578	1,098

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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