



5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

RPSG VENTURES LTD

WHAT WE LIKE

PROVEN TRACK RECORD OF RPSG GROUP

6
Business Sectors

15+
Companies

45,000+
Employees

43,900 crs
Gross assets



DEMERGER: A SOURCE OF VALUE UNLOCKING
On 7th February, 2017 CESC decided to restructure its diversified portfolios. The IT service operations of CESC were transferred to RPSG Ventures — in addition to some other subsidiaries that focused on BPO, FMCG, restaurants, real estate and others. Demerger is a proven source of unlocking value as one business that has high potential gets free from the shackles of the other cash-guzzling business.

ATTRACTIVE VALUATION

	% Stake	FY20 Rev	FY20 PAT	Value
Standalone	NA	64	174	0
First Source	54%	4107	339	2750
Guiltfree	100%	289	-175	867
Quest Prop	100%	107	17.5	175
Bowlopedia	100%	8.9	-14	0
Herbolab	64%	16.3	-5	0
SOTP Valuation				3792
Mkt Cap				1470

Assuming:

- No value to Standalone Business, Bowlopedia, Herbolab, & RPSG VC (Brands like The Souled Store, Mcaffeine, ShopG, Stylecraze, Skincraft)
- Holding Co discount of 50% for First Source
- 3x FY20 sales for Guiltfree (8x for FMCG)
- 10x FY20 profit for Quest (RE business)

HIGH OPTIONALITY IN BUSINESS

It is very difficult to predict earnings and business performance of an entity like RPSG Ventures. However, as an investor, one can look at it as an opportunity to partner with a VC. The future remains highly unpredictable. But one successful business out of the several can put them in a different orbit altogether.

WHAT WE DON'T LIKE

EXECUTION & CAPITAL ALLOCATION RISK

Hit rates in start-ups and SMEs are very low. One must keep in mind that there are two unknown variables here where we do not have any control.

- How the underlying businesses will perform?
- Whether RPSG Venture will be able to demonstrate good capital allocation and serve the minority shareholders fairly?

We at SSS could not find out anything that make us doubtful of the management especially given the track record of the RPSG Group, but the above risks are always there.

HIGH DEBT ON BOOKS

High debt on the books makes the business fragile and also raises questions on the debt service capacity of the company.

Many of the businesses they own are currently not in a position to generate sufficient cash for their operations. Hence, the pressure on raising more debt is still on.

Beyond a point, servicing this rising debt will become a big challenge.

NO PROVEN TRACK RECORD IN VC SPACE

RPSG Venture was set up in 2018. Hence, it is fairly new and we have not come across any successful exit in their portfolio yet. VC space in India is attracting a lot of competition which may lead to the pressure of getting into lesser attractive deals. Though we at SSS could not verify this situation in any existing deals so far.

VALUE BUY/VALUE TRAP

A very thin line separates a "Value Buy" from a "Value Trap".

You cannot connect the dots looking forward. You will only be able to connect it looking backwards. VC businesses have asymmetric payouts. But pricing them remains a perpetual challenge.

