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The Trick Is To Spot Them At The Larval Stage

TINY TREASURE

October 2016

BSE Code	:	530843
Time Duration	:	1 year
CMP	:	₹315 (as on 27 October, 2016)
Target Price	:	₹428

Cupid

LET'S JOIN HANDS TO HELP WORLD PLAY SAFE!!

The Tiny Treasure for the month of October, 2016 is Cupid Ltd. Cupid is engaged in the business of dealing, marketing and manufacture of rubber contraceptives and allied prophylactic products. The company manufactures male condoms (MC) and female condoms (FC). It also offers water based lubricant jellies. The Nashik, Maharashtra based company primarily supplies condoms to government, NGO's and UNFPA for their family planning and AIDS prevention programs.

The company is riding on wave of developments since 2010 with launch of FC. It is seeing traction in water based lubricant jelly, build up in export orders and approval of United Nations Population Fund (UNFPA) / World Health Organisation (WHO). These positive developments are expected to enhance earnings at CAGR of 19% over last five years. Recently, Cupid has received order worth Rs 10.1cr from UNFPA which gives reasonable revenue visibility. Global condom sales are expected to knockout 38.2bn pieces by 2019 at five year compounded growth rate of 9%. We believe company can munch a small pie of this growth owing to its 80% exposure to export markets. We expect 20% rise in topline which can enhance EBITDA and PAT margin by 200 and 100 bps respectively. Hence, we expect upto 30% upside in stock from current levels.

Export Markets to drive growth : The company derives 80% of its sales from export markets. The company exports to over 26 countries. Prime markets for it are South Africa, LatAm, Caribbean and Commonwealth of Independent States (CIS) countries. The company gets 20% of its revenue from contract manufacturing for development agencies like Population Service International. Africa has one of the lowest global condom usage rates at 4% which is lower than Asia Pacific region and other developed countries. South Africa is a large market and offers high margins. Cupid has been successful in bagging lucrative tender from South African government since many years. Africa has shortage of 445mn condoms which leaves huge opportunity for Cupid.

The company is fully occupied till Q1FY18 with total capacity of around 350mn mainly due to new order from UNFPA for supplying Rs 6.7cr of MC and Rs 3.4cr of FC. We see Cupid is strengthening its ties with USFPA on account of quality, execution and timely delivery.

Demand for FC adding more feathers on cap : Sales of the company rose six-fold to Rs.61cr over FY10-16 while PAT also grew nine times to Rs 15.9 cr since introduction of high margin FC. FC are ten times expensive than MC. Cupid makes about 20mn FC a year and is looking forward to double it soon owing to increasing demand. Rising child bearing population of women is expected to drive market growth in coming times. Implementation of campaigns and free distributions of samples by NGO in LatAm led to expansion of contraceptive market in this region. Considering these factors high margin FC sales are rising rapidly leading to improved profits.

Cupid is among a handful of companies globally to make FC. Cupid is among few companies approved by WHO/UNFPA for worldwide bulk procurement of FC and only company so approved globally for both FC & MC.

Financial Performance : The company recorded rise in sales by 38% to Rs 61cr in FY16 as compare to Rs 44.44cr in FY15. EBITDA and PAT also noted growth of 99 and 107% in FY16 vs FY15. The company has healthy profit margins. EBITDA and PAT margins are swelled by 1367 bps points and 871 bps points in FY16 vs FY15 due to rise in demand for high margin FC.

In Q1FY16, gross sales rose by 26.8% to Rs.15.8cr on YoY basis. Operating profit and PAT surged up by 32.3% and 27.16% on yearly basis. EBITDA and PAT margin expanded by 472 and 4 bps points individually. PAT margin witnessed marginal growth due to rise in tax by 55.32%.

Valuation : Cupid with 2017 EPS of 20.25 is trading at 2017 P/E of 15.75x. The P/B as of now is 8.86x. It has high ROE and ROCE of 52.8% and 79.01% respectively. It is virtually debt free. Considering lucrative financial numbers and future growth perspective, we recommend to **BUY** this scrip in range of Rs 310-325 per share (CMP- 315) with target price of 428.

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201606	201603	Q on Q Var%	201506	Y on Y Var%
Net Sales	15.85	17.72	-10.58	12.49	26.88
Total Expenditure	9.73	9.40	3.49	7.86	23.85
PBIDT (Excl OI)	6.51	8.85	-26.38	4.92	32.33
PAT	3.83	4.62	-16.92	3.02	27.16
PBIDTM% (Excl OI)	40.09	48.47	-17.29	38.51	4.10
PBIDTM%	40.09	48.47	-17.29	38.51	4.10
PATM%	23.61	25.29	-6.64	23.60	0.04
Adj. EPS(Rs)	3.45	4.15	-16.87	2.71	27.31