

SINCE 1986

DALAL STREET
INVESTMENT JOURNAL
DEMOCRATIZING WEALTH CREATION

TINY
TREASURE

August 2019



The Trick Is To **Spot Them** At The **Larval Stage**

BSE Code : **530843**

Time Duration : **1 year**

CMP : **₹124.30** (as on 22 August, 2019)

Target Price : **₹160**

Cupid Ltd.

Include Cupid Into Your Portfolio For Strong Performance!

Our Tiny Treasure for the month of August is Cupid Limited. It is a leading condom manufacturing company in India engaged in designing and manufacturing of male condoms, female condoms and lubricant jelly. It earns majority of revenue through exports to South Africa. The company gets major orders from the government, WHO and UNFPA and other such international organisations giving revenue visibility.

Exports getting stronger

The company's exports have been rising consistently. In the June quarter of FY20, its revenue mix consisted of exports 94% and domestic 6%. On a YoY basis, in June quarter of FY19, the revenue mix consisted of exports 78% and domestic 22%. The main reason for the growth in exports is its commencement of export of female condoms to Brazil. South Africa is the single largest country purchasing over 1 billion pieces of male condoms in a year. Also, a partner in South Africa has approached the company to participate in a joint venture to manufacture male condoms in South Africa. The company is getting orders from Brazil, South Africa, WHO, UNFPA and many international NGOs. There are countries like Mozambique, Zimbabwe, DRC-Democratic Republic of Congo and other countries like Cameroon, Ivory Coast and Benin where the company has been already supplying condoms over the years.

Strong order book

The total order from Brazil stands at Rs 124 crore, which is the largest single order so far for the company. Earlier in 2015, it had bagged the biggest order worth Rs 104 crore from South Africa for supply of female condoms. As on April 1, 2019, the company's order book stood at Rs 143 crore, of which it has executed orders worth Rs 37 crore. During the June quarter, it added orders worth Rs 54 crore, taking the total order book to Rs 163 crore. The order book share between male and female condoms is that the male condoms comprise 29% of the total order book and the balance 71% comprises of female condoms. The current order book has given revenue visibility for the next one-and-half years.

Apart from the above, in August 2019, it won orders worth Rs 14.1 crore from UNFPA to supply male condoms to Uganda. It has also won order worth Rs 4.7 crore from UNFPA to supply male condoms to Mozambique.

Prudent product mix

In terms of product mix, 61% of the revenue came from female condoms and the balance 39% from the male condoms. The company is planning to expand its sales by offering different types of male condoms with variables related to size, texture, colours and flavours. Also, female condoms in two different sizes, with different colours and flavours will be promoted through online and offline channels. Also, the company has initiated the process to register Cupid Angel Female Condom trade mark in the 28 Eurozone countries. Female condom is the only women controlled device which provides dual protection against the spread of STIs, including HIV and prevention of unintended pregnancy. Female condoms are being promoted by institutions like UNAIDS, USAID and UNFPA in several developing countries, including Ghana, South Africa, and Brazil. The highest consumption of female condoms, up to 75% of the total consumption, is from the countries of the sub-Saharan region and Brazil. The growth forecast for female condoms is 14.5% CAGR.

Management commentary

The company expects to get approval for the Cupid female condoms for distribution in the US market. The management has estimated to clock total revenue between Rs 110 to Rs 120 crore and net profit of Rs 24 to 27 crore in FY20. The company is planning to launch the newly-developed products like Hand Sanitizer, different types of wipes and vaginal wash through online sales. It also plans to sell its products through already established e-commerce portals by adopting digital marketing medium.

The expanded capacity has resulted in lower cost of production because of higher volumes and lower overheads. The margins are improving not only because of high volumes, but also due

Continued On PG 2...

CONFIDENTIALITY NOTICE : Information contained in this report is intended for the subscribers of this product only. Unauthorized forwarding, printing, copying, distribution, or using the information in a searchable, machine-readable database is strictly prohibited and may be unlawful. **Disclaimer**: The recommendations are purely a view point and there is no guarantee on the returns. Hence all the clients (paid or unpaid) are requested to apply their prudence before acting on any of the recommendations. Neither DSJ Pvt Ltd nor any of its promoters, members, or employees shall be held responsible for any losses incurred (if any) by acting on the recommendations. Disclosure : Kindly refer to the detailed disclosures as per SEBI (investment advisors) regulations, 2013 placed at www.DSJI.in

DSJ Pvt. Ltd. : C - 105, Trade Center, North Main Road, Near Axis Bank, Opp. Lane no. 6, Koregaon Park, Pune - 411001 | For Customer Service : 020-49072626 OR service@dsji.in

Registered Office Address: 419-A, 4th Floor, Arun Chambers, Tardeo, Next to AC Market, Mumbai - 400034

CIN No. : CIN-U22120MH2003PTC139276 SEBI Research Analyst - INH000006396

DSJI INVESTMENT ADVISORY UNIT (CRU)

to addition of new products with new variants carrying higher margin capacity.

Consumption and demand scenario

The demand is growing for male and female condoms primarily due to the prevention of STIs including HIV and also prevention of unintended pregnancies worldwide. The donor funding has improved over the past year and is expected to remain stable for 2020-21. The other factor contributing to the increased demand is that the requirement for condoms from the low and middle income countries is improving due to growing economy and better affordability. Further, the improved budgetary allocation by governments in countries such as Brazil, South Africa and India, has increased demand for condoms. Increasing number of women in the workforce and practices of seeking expert help for delayed pregnancy are resulting in increased use of condoms. According to Arizton Advisory & Intelligence, the global condom market is expected to cross \$11 billion in terms of revenue by 2023, growing at CAGR of 8.62% during 2017-23, with male and female con-

dom sales expected to cross 48 billion units during the period.

Financial performance

The company's standalone revenue for Q1FY20 came in at Rs. 34.13 crore as against Rs. 17.28 crore in the corresponding quarter last year, registering 97.5% yoy increase. The EBITDA for the quarter rose by 92.8% yoy to Rs. 10.7 crore as against Rs. 5.55 crore in the corresponding quarter last year, with a corresponding margin contraction of 77 bps. EBITDA margin for the quarter stood at 31.4%. The PAT for the quarter came in at Rs. 8.16 crore as against Rs. 4.48 crore in the corresponding quarter last year, an increase of 82.1% yoy.

Valuation

The company is trading at TTM P/E of 9.11 with TTM EPS of Rs 14.16. In FY19, it delivered ROE and ROCE of 20.03% and 27.6%, respectively. Considering the robust financial performance, attractive valuation and bright growth prospects due to exports, we see potential upside of 29% with target price of Rs 160 over a period of one year.

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201903	201803	201703	201603	201503
Net Sales	85.47	80.60	83.64	61.15	44.44
Total Income	87.94	81.78	84.44	62.80	46.19
Total Expenditure	64.90	53.45	49.81	35.83	32.67
PBIDT	23.03	28.33	34.63	26.97	13.53
PAT	15.21	17.09	20.55	15.93	7.71
Dividend %	30.00	45.00	40.00	30.00	15.00
Adj. EPS(Rs)	11.40	12.81	15.41	11.95	5.78

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201906	201903	Q on Q Var%	201806	Y on Y Var%
Net Sales	34.13	36.91	-7.51	17.28	97.49
Total Expenditure	23.42	30.49	-23.19	11.73	99.65
PBIDT (Excl OI)	12.01	6.88	74.66	6.31	90.38
PAT	8.16	4.36	87.31	4.48	82.12
PBIDTM% (Excl OI)	33.90	18.41	84.14	34.98	-3.09
PBIDTM%	33.90	18.41	84.14	34.98	-3.09
PATM%	23.03	11.66	97.51	24.84	-7.29
Adj. EPS(Rs)	6.12	3.27	87.16	3.36	82.14

Continued On PG 3...



**Track calls using our new investor app