

CUPID

Valuepickr Mumbai

P.S. I am invested in Cupid, and could suffer from a bias. But trying hard not to show bias 😊
My first such presentation – so please share any feedback / comments 😊

Cupid Business 101

- Incorporated in 1993 and listed on BSE in 1994
- Manufacturer of
 - Male Condoms
 - Female Condoms
 - Lubricant Jelly
- Core customers (Exports to 26 countries)
 - Global NGOs who are working in Africa, APAC against spread of HIV
 - Health departments of countries such as South Africa
 - Some contract manufacturing
- Competitors
 - Male Condoms: 100s of manufacturers
 - Female Condoms: 5 major players globally; 2 in India
 - Lubricant Jelly: Few makers in India

Products

- Male Condoms

- Global demand of 27Bn units – projected to grow to 42Bn units by 2020
- Cupid has production capacity of 325 Mn units and sold about 200 Mn units in 2016
- Male condoms formed 49% of the business in FY 16 and in Q1 FY'17 was down to 45%

- Female Condoms

- Condom worn by the female partner with two rings to hold the product in place
- Global demand of 100 Mn Units – projected to grow to 340Mn units by 2020
- Cupid has production capacity of 25 Mn units and sold about 15 Mn units in 2016
- Growing proportion of business at 55% in Q1'17 and attracts higher Gross Margin at 50-60% EBITDA

- Water based Lubricant Jelly

- Sales to commence in Q2'17
- Obtained ISO certifications and CE certifications needed to sell in Europe
- Setup capacity to generate revenues of Rs 7.5 Cr (12% of FY 16 revenues)
- Confirmed orders of Rs 3.0 Cr already for FY 17

Key Business Drivers

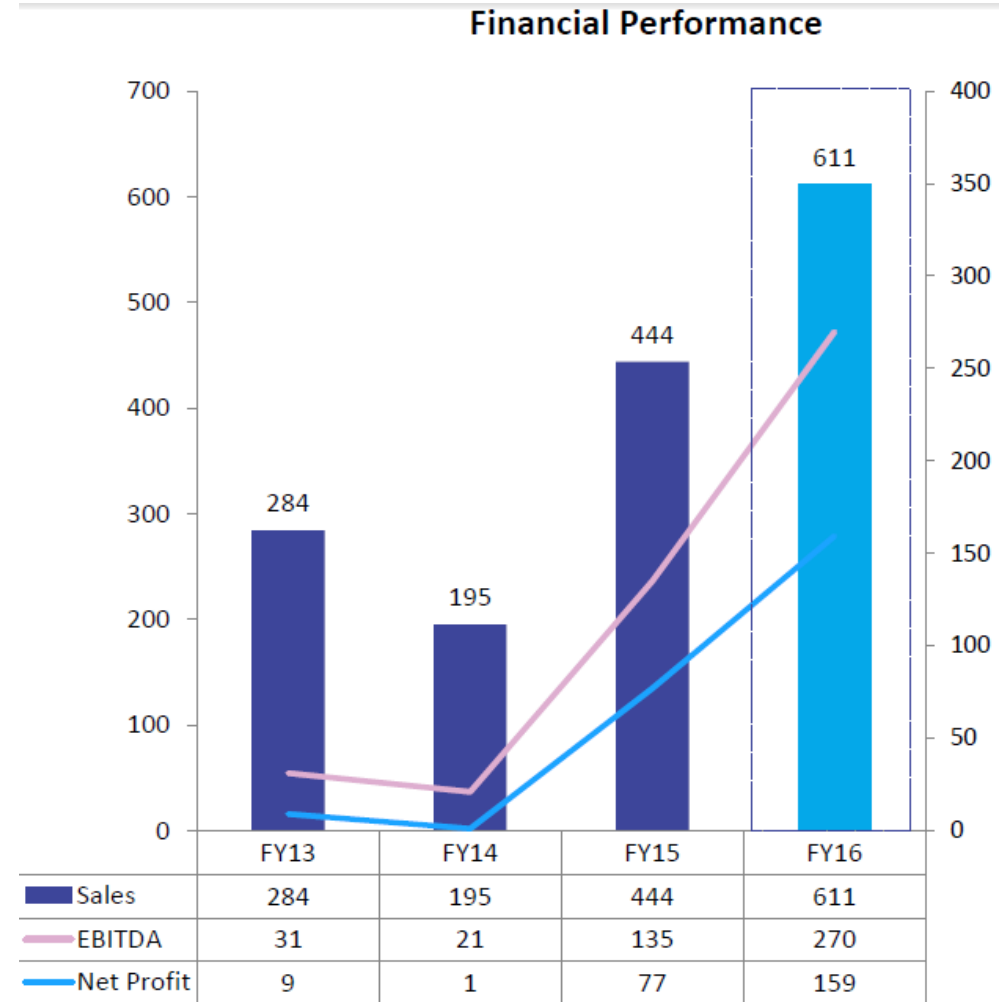
- Growing awareness of HIV and condoms as the best solution
- Globally contraception growth of ~12% and a never-ending demand 😊
- Female condoms not very popular but slowly gaining traction
 - Product designs have not been user-friendly, usage is messy
 - Much more expensive (\$0.33 for FC; max 0.14 for MC); Cupid is the cheapest product in Market
 - FC demand of 100 Mn units was 0.4% of MC (27 Bn), but projected to grow to 340 Mn
 - FC is considered ultimate solution: puts contraception in hands of the vulnerable (women)
- Cupid FC condoms are the cheapest and rank quite well with other FC makers in terms of user and government acceptance
- Strong support from all governments and NGOs globally
 - In FY 16, Cupid won large \$16.3 Mn 3-year tender to supply UNFPA with condoms
- Contract manufacturing business (utilization of capacity on MC)

Key Risks

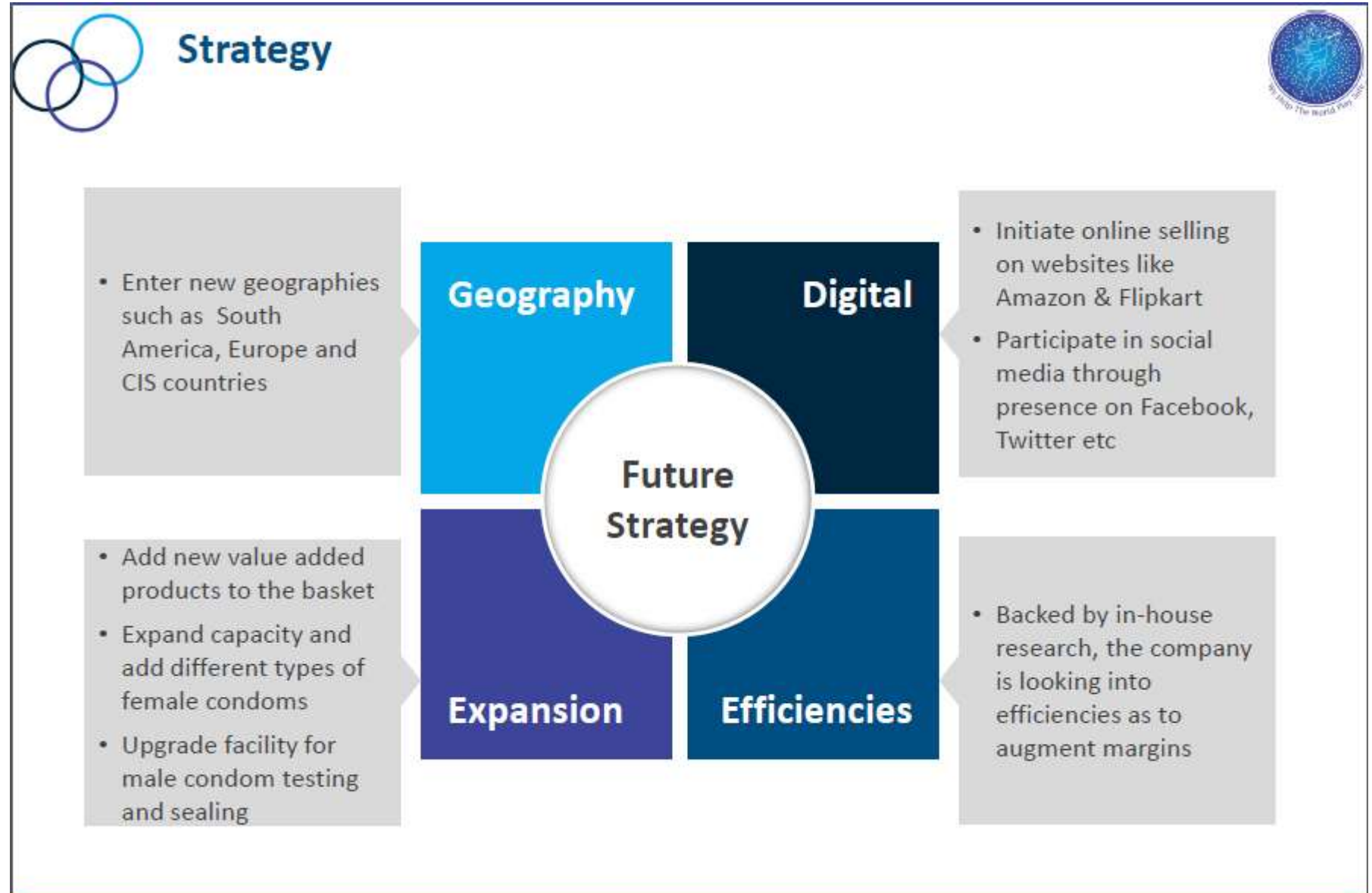
- This product does not face a demand risk – people will continue to need contraceptives and the demand will only grow; Main risks are -
 1. Margin risk is the biggest risk - FC does not become more popular as FC margins are 2x the MC margins
 2. Competition eats into FC margins (Till end of year, only 2 players had UNFPA pre-qualification, now 3 more players are pre-qualified)
 3. Revenues can be lumpy and dependent on government / NGO funds (e.g. in FY 14 Gol had postponed large condom order)
 4. 2nd rung leadership is weak – Omprakash Garg (promoter) is mid-70s, visually impaired and his children not a part of the business; Durgesh Garg is COO and nephew
 5. BSE suspension not a risk (on flimsy suspension grounds by BSE; Cupid appealed to Delhi HC, suspension was quickly revoked)

Financials

- Business improving from FY 14 (drop from FY 13 to FY 14 due to postponement of order by Gol)
- FY 16 saw 39.1% growth in sales (driven by FC sales, contract manufacturing) and 2x in EBITDA (driven by FC rise) and 106.7% rise in Net Profit
- Company gave 30% dividend (Rs 3 – current yield of 1%)
- Capacity utilization grew from 52% to 64% (no need for CAPEX for 2-3 years)
- Great return ratios with low debt
 - ROE – 52.8%
 - ROIC – 72.5%
 - ROCE – 74.6%
 - EPA / Sales at 40% (in perspective Ajanta 8.29%)
 - Virtually debt-free with LT borrowings of 88 Lakhs



Future Strategy



Stock movement and Valuations

- 52 W High: 507; 52 W Low: 190
- CMP of 291.55
- FY 16 EPS: 15.07; P/E of 19.35
- Adequately valued given growth rate and margin expansion
- FY 17 sales guidance of 15 – 20% (history of low-guidance and over-delivery)
- Expected sales growth of 20 -25% (90% of FY16 already locked in) and higher EPS growth (increasing FC %)
- Fair valuation of 22 – 25x of FY17 EPS (19-20) for 1 year TP of 440 – 500



	Metrics	Growth Rate	EBITDA Margin	PAT Grwth	Cap. Turnover	ROIC	Inv Capital	EPA / Sales
Business Value Drivers	TTM	37.60%	41.41%	106.61%	1.7	72.50%	36.13	38.18%
	3 year average	29.13%	32.07%	517.44%	1.42	36.11%	28.13	11.54%
	5 year average	26.19%	25.48%	716.92%	1.37	24.01%	24.6	4.70%
Business Quality Bottomline	Nature of Industry:	Competitive Intensity? Industry Growth rates?			Global contraceptive growth of 12%; FC growth rate of 35%; Competitive MC market; FC market restricted to 5 players globally; Cupid cheapest and among best			
	Opportunity	How big is the runway? How many years out?			Growing awareness of condoms so long long run ahead for condoms; FC designs getting better increasing adoption			
	Capital Allocation:	Able to invest large Capital at high ROIC?			Great record; ROIC of 77%; ROIIC of 200+%			
	Predictability:	How many variables in the business			Few variables; Need to keep on executing the tenders well (already lowest price) and keep innovating (Cupid 3 FC coming up soon)			
	Sustainability:	How hard is it to dislodge from its perch?			Hard given lowest price and good quality; HLL is latest challenger but less nimble as a PSU			
	Disproportionate Future:	Building blocks in place for disproportionate future? Do multiple Optionalities exist?			Cupid has the technology and manufacturing base; Exports to 26 countries and needs to implement to I-NGO standards; Started to enter B2C space (small plans) and lubricants (untapped market); Plus planning for more women-oriented products in near future			
	Business Strategy & PLanned Initiatives	Is the company likely to grow efficiently & emerge stronger in next 2-3 years?			Likely to continue to grow at a steady pace; Expected 20 - 25% sales growth;			
	Key Monitorables:	Next 2-3 years – what are the key monitorables, key health indicators?			1. % of FC by sales; 2. Contract manufacturing revenues; 3. Lubricant jelly sales			
	Near Term Visibility:	Next 2-3 years – how strong is the visibility?			Reasonably strong with 56Cr of FY 17 revenues already locked in; However as a B2B business reliant on large NGO and Govt tenders revenue can be lumpy			
	Long Term Visibility:	5-10 years on - how likely to survive & prosper?			Likely to continue to grow at a steady pace if implemented well and 2nd generation takes over			
Valuation Spotlight	BQ Category	Laborious? Or Disproportionate Smarts?			Was disproportionate in FY 15; Now Laborious Category A company			
	Business Transition Track Record:	Managed significant business transition to its advantage? What impresses most?			Strong growth with huge increase in profit; Steadily innovating (Cupid 2 then Cupid 3 then Lubricant Jelly); Top FC manufacturer (15% of global market and growing); Ability to grow without debt addition is most impressive			
	Performance vs Perception GAP:	Current P/E or Perception captures business quality/performance? How big is the GAP?			Trailing P/E is 19.35; Stable PE: 20 - 25x (Not a PE re-rating candidate); Bet on growth in EPS to grow price			

Checklist -

https://docs.google.com/spreadsheets/d/1K2Bg5aAX054AWUCPPm2Lrlwj75nR_IEDyv1dbbxVF-c/edit#gid=1558418095

QUESTIONS?
COMMENTS?
FEEDBACK PLS 😊