

# Cupid Limited (Cupid)

**Sector: Pharmaceutical**

## Best quarter yet; Revised to BUY

 16<sup>th</sup> MAY, 2016

Cupid Limited has reported its results for Q4FY16. It has posted net sales of Rs.177 mn, a growth of ~35.8%/13.6% YoY/QoQ due to increasing sales of female condom and ongoing order from the National Department of Health, South Africa. EBITDA margin have expanded by ~1629/800 bps YoY/QoQ.

**Revenue growth by ~35.8% YoY:** Cupid posted revenue of Rs.177.2 mn vs. Rs.130.6 mn in Q4FY16, a growth of ~35.8%/13.6% YoY/QoQ, respectively, due to continuing increased sales of female condom. The increase is seen due to the commencement of the US\$ 16.28 mn order that Cupid had received from the National Department of Health, South Africa and increasing contribution from ex-South African countries from 8% previous year to 25%. We expect that on a conservative basis the company will grow at a CAGR of ~22% over FY16p-19e backed by growth in the female condom segment.

**Increasing Product Portfolio:** Cupid Ltd. has developed a new version of the female condom known as Cupid 2 and has received Maharashtra FDA approval for their Lubricant Jelly. The Cupid 2 is smaller in size and is more economical so that a larger population of poor women can afford a female condom. As per the management, the facilities for Cupid 2 were audited in FY16 by WHO UNFPA, the results for which would be available mid-year in three months' time from now.

**EBITDA margin expanded by ~1629 bps YoY:** EBITDA of the company stood at Rs. 83.2 mn vs ~Rs. 40 mn/60.8 mn, showing ~108%/36.9% growth YoY/QoQ. EBITDA margin expanded by ~1629/800 bps YoY/QoQ to 47% in Q4FY16. The increase in contribution from its high margin female condom to ~50% of the total revenue has significantly increased the EBITDA margin in Q4FY16. We believe that on conservative basis Cupid Limited will maintain this healthy margin (EBITDA growing at ~22% CAGR over FY16p-19e) due to its product mix favoring female condom and the inception of the lubricant jelly in FY17.

**Debt scenario:** Cupid maintains its debt free status with no long term borrowings. Apart from this, cupid has significantly reduced its short term borrowing from ~Rs. 22 mn to ~Rs. 9 mn. This has led to a positive impact on the company's PAT margin ~26% vs. ~9.8% YoY.

**Declaration of dividends:** The company declared a total dividend of Rs. 3/share (30%) of face value of Rs. 10 each to enhance the investor's confidence.

**Valuation:** We are fully convinced on Cupid's growth story as well as its fundamentals and believe that it has a high potential to outperform over longer tenure. We upgrade the stock to a 'BUY' rating with a price target of Rs. 432 (44% upside). The stock currently trades at 30.8x/119.9x/13.5x of FY17e/FY18e/FY19e.

Price	Price Target	Up/Down (%)
Rs. 300	Rs. 432	44

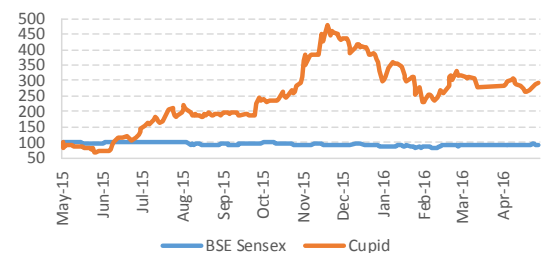
Bloomberg Code	Reuters Code
CUPD IN	CUCO.BO

Share Holding (%)	As on 31st March 2016
Promoters	48.46
FII	0.1
DIIs	0.03

Stock Data	
Nifty	7,815
Sensex	25,490
52 week high/low	507/67
Market Cap (Rs. bn)	3.4

Price performance (%)	1M	3M	6M	1Y
Absolute	5.3	15.0	-0.4	199.6
Relative to Sensex	5.5	4.7	0.3	205.9

### Relative Performance



Source:-Bloomberg

### Exhibit 1: Financial summary (Rs mn)

Y/E March	FY14	FY15e	FY16p	FY17e	FY18e	FY19e
Net sales	195	444	611	768	923	1110
Growth (%)	-31.2	127.5	37.6	25.6	20.1	20.3
EBITDA margin (%)	10.8	28.9	41.4	41.4	41.4	41.4
PAT	1	77	159	200	240	289
Adjusted PAT	2	77	159	200	240	289
EPS (Rs)	0.2	6.9	14.3	18.0	21.6	26.0
Growth (%)	-81.0	4431.2	106.6	25.6	20.0	20.3
P/E(x)	1959.0	43.2	20.9	16.7	13.9	11.5
ROE (%)	0.9	36.0	52.8	45.9	40.0	36.2
ROCE (%)	1.8	30.5	47.6	43.4	38.4	35.1
Debt/equity (x)	0.17	0.09	0.02	0.02	0.01	0.01
P/Bv (x)	17.9	13.8	9.2	6.5	4.8	3.7

Source: Company, BOBCAPSe

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**Exhibit 2: Income Statement**

(Rs Mn)	4QFY16	4QFY15	YoY (%)	3QFY16	QoQ (%)
<b>Net Sales</b>	<b>177.2</b>	<b>130.6</b>	<b>35.8</b>	<b>156.1</b>	<b>13.6</b>
Raw material consumed	59.3	53.4	11.1	61.5	-3.6
(%) of net sales	33.5	40.9		39.4	
Staff cost	10.3	9.4	9.6	9.6	7.5
(%) of net sales	5.8	7.2		6.2	
Manufacturing & Other Expenses	24.4	27.7	-12.0	24.1	1.0
(%) of net sales	13.8	21.2		15.5	
<b>EBITDA</b>	<b>83.2</b>	<b>40.0</b>	<b>107.9</b>	<b>60.8</b>	<b>36.9</b>
Depreciation	5.0	4.1		4.9	
<b>EBIT</b>	<b>78.2</b>	<b>36.0</b>	<b>117.5</b>	<b>55.9</b>	<b>39.9</b>
Interest	0.8	0.5		0.2	
Other Income	5.2	0.0		4.4	
<b>PBT</b>	<b>82.7</b>	<b>35.5</b>	<b>132.7</b>	<b>60.1</b>	<b>37.5</b>
Less: Provision for Tax	36.5	22.7		18.1	
Less: Minority Interest	0.0	0.0		0.0	
<b>Recurring PAT</b>	<b>46.2</b>	<b>12.8</b>	<b>261.0</b>	<b>41.9</b>	<b>10.0</b>
Exceptional items	0.0	0.0		0.0	
<b>Reported PAT</b>	<b>46.2</b>	<b>12.7</b>	<b>262.4</b>	<b>41.9</b>	<b>10.0</b>
<b>Key Ratios (%)</b>					
EBITDA Margin	47.0	30.7		39.0	
Tax / PBT	44.2	64.0		30.2	
NPM	26.0	9.8		26.9	
<b>EPS</b>	<b>4.2</b>	<b>1.2</b>		<b>3.8</b>	

Source: Company, BOBCaps

**Exhibit 3: Revision of estimates**

Y/E Mar (Rsmn)	FY16p			FY17e			FY18e		
	Old	New	Chg.	Old	New	Chg.	Old	New	Chg.
Net sales	631	611	-3%	915	768	-16%	1327	923	-30%
EBITDA	195	253	30%	293	318	9%	425	382	-10%
EBITDA margin (%)	30.9	41.4	1050	32.0	41.4	940	32.0	41.4	940
PAT	117	159	36%	182	200	10%	269	240	-11%
EPS (Rs.)	10.6	14.3	35%	16.3	18	10%	24.2	21.6	-11%

Source: Company, BOBCAPSe

- We are positive on the scope of growth for Cupid Ltd. on a global front and expected the Company to take up strong initiatives to explore the advantages of the domestic market and incorporated the same in our revenue estimates. However, the Company's marketing strategy for female condoms in the domestic market was not very significant. Thus, being conservative, we have reduced our revenue estimates for FY17/18e till the time there is clarity on the same.
- Going forward, we have kept the EBITDA margin unchanged as per FY16 performance. We might revisit the same on the basis of next quarter performance.

## Financials

**Exhibit 4: Income statement (Rs mn)**

Y/E Mar (Rsmn)	F14	F15	F16p*	F17e	F18e	F19e
<b>Net sales</b>	<b>195</b>	<b>444</b>	<b>611</b>	<b>768</b>	<b>923</b>	<b>1,110</b>
<i>growth (%)</i>	<i>(31.2)</i>	<i>127.5</i>	<i>37.6</i>	<i>25.6</i>	<i>20.1</i>	<i>20.3</i>
COGS	114	185	220	277	333	400
Staff Cost	23	32	39	49	59	71
Change in Finished Goods	(10)	9	(0)	(0)	(0)	(0)
Other Expenses	47	91	99	124	149	180
<b>EBITDA</b>	<b>21</b>	<b>128</b>	<b>253</b>	<b>318</b>	<b>382</b>	<b>460</b>
<i>growth (%)</i>	<i>(31)</i>	<i>506</i>	<i>97</i>	<i>26</i>	<i>20</i>	<i>20</i>
Depreciation	15	18	19	21	22	24
<b>EBIT</b>	<b>6</b>	<b>110</b>	<b>234</b>	<b>298</b>	<b>360</b>	<b>436</b>
Other income	1	7	17	17	17	17
Interest paid	5	3	2	2	2	2
Extraordinary/Exceptional items	(1)	(0)	-	-	-	-
<b>PBT</b>	<b>2</b>	<b>114</b>	<b>248</b>	<b>312</b>	<b>374</b>	<b>450</b>
Tax	1	37	89	112	134	161
Minority interest	-	-	-	-	-	-
<b>PAT</b>	<b>1</b>	<b>77</b>	<b>159</b>	<b>200</b>	<b>240</b>	<b>289</b>
Non-recurring items	1	0	-	-	-	-
<b>Adjusted PAT</b>	<b>2</b>	<b>77</b>	<b>159</b>	<b>200</b>	<b>240</b>	<b>289</b>
<i>growth (%)</i>	<i>(81)</i>	<i>4,431</i>	<i>107</i>	<i>26</i>	<i>20</i>	<i>20</i>

Source: Company, BOBCAPSe

**Exhibit 5: Balance sheet (Rs mn)**

Y/E Mar (Rsmn)	F14	F15	F16p*	F17e	F18e	F19e
Cash & Bank balances	<b>2</b>	<b>32</b>	<b>92</b>	<b>218</b>	<b>338</b>	<b>486</b>
Other Current assets	100	161	258	284	340	408
Investments	-	-	-	-	-	-
Net fixed assets	163	156	156	160	168	174
Goodwill	-	-	-	-	-	-
Other non-current assets	-	-	-	-	-	-
<b>Total assets</b>	<b>265</b>	<b>349</b>	<b>506</b>	<b>662</b>	<b>847</b>	<b>1,069</b>
Current liabilities	33	64	116	123	127	133
Borrowings	32	22	9	9	9	9
Other non-current liabilities	14	22	20	20	20	20
<b>Total liabilities</b>	<b>79</b>	<b>107</b>	<b>145</b>	<b>151</b>	<b>156</b>	<b>161</b>
Share capital	111	111	111	111	111	111
Reserves & surplus	75	131	250	400	580	796
<b>Shareholders' funds</b>	<b>186</b>	<b>242</b>	<b>361</b>	<b>511</b>	<b>691</b>	<b>908</b>
<b>Total liabilities</b>	<b>265</b>	<b>349</b>	<b>506</b>	<b>662</b>	<b>847</b>	<b>1,069</b>

Source: Company, BOBCAPSe

**Exhibit 6: Ratios**

Y/E Mar	F14	F15	F16p*	F17e	F18e	F19e
<b>Per share data (Rs)</b>						
EPS	0.2	6.9	14.3	18.0	21.6	26.0
CEPS	1.5	8.6	16.1	19.9	23.6	28.1
DPS	-	1.8	3.6	4.5	5.4	6.5
BV	16.7	21.8	32.5	46.0	62.2	81.6
<b>Profitability ratios (%)</b>						
Gross margins	30.0	51.3	57.6	57.6	57.6	57.6
EBITDA margins	10.8	28.9	41.40	41.40	41.40	41.40
Net margins	0.9	17.4	26.1	26.1	26.0	26.0
<b>Valuation ratios (x)</b>						
PE	1,959.0	43.2	20.9	16.7	13.9	11.5
P/BV	17.9	13.8	9.2	6.5	4.8	3.7
EV/EBITDA	159.0	25.9	12.8	9.8	7.9	6.2
EV/Sales	17.2	7.5	5.3	4.1	3.3	2.6
RoE	0.9	36.0	52.8	45.9	40.0	36.2
RoCE	1.8	30.5	47.6	43.4	38.4	35.1
RoIC	0.5	31.8	57.7	64.6	68.4	69.5

Source: Company, BOBCAPSe

**Exhibit 7: Cash flow statement (Rs mn)**

Y/E Mar (Rsmn)	F14	F15	F16p*	F17e	F18e	F19e
Profit after tax	1	77	159	200	240	289
Depreciation	15	20	19	21	22	24
Chg in working capital	(23)	(30)	(45)	(19)	(51)	(63)
Total tax paid	1	8	(2)	(2)	(3)	(4)
<b>Cash flow from operations</b>	<b>(7)</b>	<b>75</b>	<b>132</b>	<b>199</b>	<b>208</b>	<b>246</b>
Capital expenditure	(6)	(13)	(19)	(25)	(30)	(30)
Change in investments	-	-	-	-	-	-
<b>Cash flow from investments</b>	<b>(6)</b>	<b>(13)</b>	<b>(19)</b>	<b>(25)</b>	<b>(30)</b>	<b>(30)</b>
<b>Free cash flow</b>	<b>(13)</b>	<b>62</b>	<b>113</b>	<b>174</b>	<b>178</b>	<b>216</b>
Issue of shares	-	-	-	-	-	-
Net inc/dec in debt	12	(11)	(13)	-	-	-
Dividend (incl. tax)	(1)	(29)	(90)	(90)	(90)	(90)
Other financing activities	1	7	50	42	33	21
<b>Cash flow from financing</b>	<b>12</b>	<b>(32)</b>	<b>(53)</b>	<b>(48)</b>	<b>(57)</b>	<b>(69)</b>
<b>Inc/(Dec) in Cash &amp; Bank bal.</b>	<b>(1)</b>	<b>30</b>	<b>60</b>	<b>126</b>	<b>121</b>	<b>147</b>

Source: Company, BOBCAPSe

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