

Cupid Q1FY21

Financial Results & Highlights

Introduction

Cupid is engaged in business of dealing, marketing and manufacture of rubber contraceptives and allied prophylactic products. It is the first company in the world to obtain Pre-qualification status from WHO/UNFPA for supply of both Male & Female condoms. It currently exports to more than 65 countries worldwide.

Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	28	35	-20.00%	43	-34.88%
PBT	8	11	-27.27%	14	-42.86%
PAT	6	8	-25.00%	10	-40.00%

Detailed Results:

1. The current quarter was dismal with a revenue decline of 20% YoY and a profit decline of 25% YoY.
2. The company's total order book as of 1st July 2020 consists of Rs 117 Cr of confirmed orders.
3. The EBITDA margin for Q1 fell to 31.1% vs 35.2% a year ago.
4. Geographical sales breakup was 94% in exports and 6% domestic in Q1FY21.
5. Product-wise revenue breakup in Q1 is as follows:
 1. Male Condoms: 56%
 2. Female Condoms: 43%
 3. WBJ & Hand Sanitizers: 1%
6. The company is looking to enter into the manufacturing of Medical Devices for use in the treatment of COVID, Dengue, HIV, Malaria, and other diseases.

Investor Conference Call Highlights

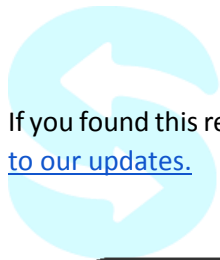
1. The company was unable to open up till the 1st week of May and even then it had to face labour shortage which further slowed down operations in Q1.
2. The company has been awarded a contract of Rs 45 Cr from Brazil to supply female condoms. This order is expected to be received in mid-September.
3. The company has gotten new orders worth Rs 6 Cr since July 1 and now the order book has confirmed orders of Rs 123 Cr. Around 31% of this order is for female condoms and 69% is for male condoms. This does not include the brazil order.
4. The company is also getting inquiries from the Philippines, Russia, Bolivia, and many countries in the Sub-Sahara African continent. Thus the management believes that it can easily get more orders than the confirmed amount above (Rs 123 Cr + Rs 45 Cr).

5. The management has stated that the company has enough capacity to handle Rs 55-57 Cr of quarterly sales.
6. The temporary working capital loan in Brazil was reduced to Rs 17 Cr as on 30th June from Rs 31 Cr on 31st. The company's investment plus the bank deposit have grown from Rs 25 Cr to Rs 44 Cr in the same period and receivables have been reduced from Rs 41 Cr on March 31st down to Rs 24 Cr on 30th June.
7. The management is looking to bring this WC loan down to 0 by the end of the year.
8. The company has registered four new brands of Cupid Male Condoms in the US during this quarter and has registered a trademark for Female Condoms under the Angel brand. Cupid expects to start marketing female condoms in the USA by the end of next year.
9. The company has no plans to expand capacity and it will outsource any extra orders above Rs 175 Cr.
10. The management has refused to comment on the topic of investments and subsequent write-offs into real estate companies done in recent years by the company.
11. The company is still on the hunt for a new CEO and is looking for a candidate which can help them win new orders and in expanding international marketing.
12. The management maintains that the key to the USA market will be female condoms as the male condom space is very competitive and it will be able to get much better margins on female condoms.
13. The management is reluctant to enter the B2C space in India as there isn't much incentive to develop this space with low margins and high expenses especially promotions and marketing. It is much better to sell its products at better margins in the B2B space overseas.
14. The management has stated that the company will at least match last year's total dividends of Rs 4.5 per share in FY21.
15. The company is planning to set up a facility within its existing factory premises for medical devices and start initial production from late November. This segment is expected to generate revenues of Rs 20-30 Cr by March 2021.
16. The management has clarified that the majority of RM for the medical devices is available in India and only a few others will be sourced through imports from South Korea.
17. The company only uses natural latex in its condoms. All of it is sourced from Kerala. Latex prices have gone down in the year so far but the management does not know how long this trend will continue.
18. The average revenue per female condom in the USA is expected to be around \$1 which is almost double that from existing female condom sales for the company.
19. The company is targeting sales of \$5 million in the first 2 years of selling female condoms in the USA.
20. Going forward, the management expects Female Condom orders from Brazil and an increasing amount of Female Condom order from the UN Population Fund for the prevention of HIV and prevention of unintended pregnancies, mostly in the Sub-Saharan countries.
21. The tender order from Brazil is for 1 year while the order from UNFPA is for 3 years.
22. The company has an initial budget of Rs 12 Cr to set up the medical devices business. It is expected to be generated through internal accruals.
23. The main reason the company is entering into the medical devices field is the import substitution opportunity in this field right now.
24. Margins in this business are expected to be between 20% and 30%.

25. The company has been selling female condoms in India through e-commerce sites like Amazon and Flipkart as well as wholesale dealers in major cities like Mumbai, Bangalore, Delhi, and Pune.
26. The management does not see any execution risks in fulfilling its existing order book at the current moment.
27. The company is looking at both B2C and govt tender channels in both India and abroad for the sales of its medical devices in the future.

Analyst's View:

Cupid is a leading condom maker in India. It is also one of the only 3 WHO-approved female condom manufacturers in the world. It exports its products to over 80 countries around the world now. The company has had a dismal quarter due to one month of production loss and labour issues slowing down the company's operations revival. The company seems to be well placed with a strong order book ensuring revenues of more than Rs 123 Cr. The company is also looking to expand into the medical devices field and to register its female condom with the FDA to start sales by the end of next year. It remains to be seen how the COVID-19 situation pans out and what challenges the company faces in its foray into the medical devices field. Nonetheless, given the company's long history of expertise in this field and the consistent sales growth and expanding order book, Cupid is a good small-cap stock to watch for.



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