

Cupid Q4FY21

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)								
	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
Sales	42	43	-2.33%	48	-12.50%	149	164	-9.15%
PBT	8	14	-43%	13	-38.46%	38	53	-28%
PAT	6	10	-40%	10	-40.00%	29	40	-27.50%

Detailed Results:

- The current quarter was dismal with revenue fall of 2% YoY and while PAT was down 40% YoY.
- The company's total order book as of 1st April 2021 consists of Rs 113 Cr of confirmed orders.
- The EBITDA margin for Q4 fell to 22.8% vs 35.8% a year ago.
- Geographical sales breakup was 75% in exports and 25% domestic in Q4FY21.
- Product-wise revenue breakup in Q4 is as follows:
 - Male Condoms: 53%
 - Female Condoms: 29%
 - WBJ & Hand Sanitizers: 1%
 - IVD: 17%
- The company has started dispatching goods pertaining to the new tender order received from Brazil.
- The company announced a final dividend of Rs 3.5 per share for FY21.

Investor Conference Call Highlights

- The company has not gotten any approach for the buyout of Veru yet, but the management is optimistic that the sale will be good for Cupid and the industry.
- The management is expecting full production in this post-corona period and is operating at 92% utilization currently.

3. There was an 18% increase in the last quarter for latex and a 25% increase in cost in silicon oil. The management expects these RM costs to have peaked and to come back to normal levels in the future.
4. The margin from male condoms is between 15% to 20%. From female condoms, it is anywhere from 45% to 55%. And in the lubricants, it is about 40%.
5. The management expects sales of Rs 40-50 Cr at minimum in the medical devices business,
6. The overall guidance for sales in FY22 is around Rs 170 Cr.
7. The South African government has floated a new tender, which is asking for a total procurement of 1 billion male condoms and 40 million female condoms each year for the next 3 years. Cupid expects sales of Rs 60-80 Cr from this tender each year which is 10-15% of the total tender requirement. This should start from Oct 2021 onwards.
8. The unit price is expected to be at INR 2 per unit for male condoms and about INR 30 per piece for female condoms.
9. The margin expectations from IVD are the same in both domestic and export markets.
10. The sales of medical devices are expected to reach Rs 100 Cr in FY23. It will include products like antigen COVID rapid test kits, test kits for malaria, dengue, HIV, and pregnancy test kits. Most of these sales are expected from exports. These expectations are from customers' inquiries and some of the tenders which are in the planning stages.
11. The company is also on the lookout for possible acquisition opportunities as its investments and reserves have exceeded INR 65 crores which should be sufficient for any such investments.
12. On the USFDA front, clinical trials in South Africa have been delayed by 5 months due to COVID-19.
13. The management expects a growth rate of 10-15% in sales from FY23 onwards.
14. The management reiterates that Cupid's priority is for the export business rather than for domestic sales of male condoms as domestic margins are a lot less than export margins.
15. The management admits that there is limited scope for increased sales of female condoms in the domestic market. It is selling only 1,000 female condoms per month currently, mostly through internet sales.
16. The total production capacity of Cupid is at 560 million condoms each year currently. The management believes that this size is best for an international condom manufacturer.
17. Cupid has lobbied the Health Ministry in Delhi and is hoping that they would come out with a tender to supply female condoms in India.
18. The company has been able to reduce the overall cost of production by aggressively negotiating with its suppliers.
19. The company is still on the lookout for a suitable candidate for the CEO job.
20. Around 35% of the order book of Rs 113 Cr is for female condoms. The order book is expected to give Rs 35 Cr of sales for the next 3 quarters.
21. The major reason for the delay in tender payments was that countries had diverted and relocated much of the discretionary funds to other corona-related facilities.
22. The sales from the South Africa tender will appear in P&L from Q3.
23. The average margin in male condoms in FY21 was near 18% vs 16% a year ago.
24. The Rs 40-50 Cr of sales from medical devices are expected to be distributed evenly throughout FY22 with a minimum of INR 10 Cr to INR 12 Cr per quarter.
25. The management believes that even if it is not able to locate a proper person for the CEO job, Cupid would train some people internally for the job.

26. The company is also looking to invest Rs 7 Cr in its Nashik facility to expand on the medical devices business. The company has set aside Rs 10-15 Cr for working capital needs in this business and anticipates a further Rs 5 Cr in additional R&D.
27. HIV and Malaria testing is also expected to be mostly driven by tenders in both domestic and export markets. The typical tender size for these devices is Rs 10-15 Cr. The big tenders for HIV from countries like South Africa can go up to Rs 40-50 Cr.
28. In the testing kit space, there are 7 to 8 manufacturers already working in India. But demand is outpacing industry capacity so there is enough scope for the business to expand. The company is expecting a min of 15-20% net profit margin from this business.
29. The company is expecting the testing kits business to be run 80% by tenders and 20% by distributors.
30. The biggest contract manufacturer of condoms in Malaysia is looking to launch its brand. The management believes that this will create an opportunity for Cupid to poach some of the international brands like Durex post this development. It is already doing contract manufacturing for Playboy USA.
31. Cupid has about 30 repeat customers worldwide from all categories from the institutional business to government tenders to NGOs and through private sales.

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 down quarter revenue fall of 2% YoY and PAT decline of 40% YoY. The company seems to be well placed with a strong order book ensuring revenues of more than Rs 113 Cr which doesn't include the projected sales of Rs 40-50 Cr from medical devices. It is seeing renewed demand for male condoms and has also been able to improve the margin on this segment to 22%. The company is looking to expand in the medical testing space and is expecting sales of Rs 40-50 Cr in FY22 & Rs 100 Cr in FY23. It remains to be seen how the COVID-19 situation pans out for Cupid in South Africa, given it is a major market for both condom sales and HIV testing kits, and what challenges the company faces in its foray into the medical devices field in the domestic space where there are already 7-8 competitors. 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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