



# CUPID LIMITED

Manufacturers and Suppliers of Male & Female Condoms

Date: - 24<sup>th</sup> July, 2017

To,

Department of Corporate Services,  
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Phiroze Jeejeebhoy Towers,  
Dalal Street,  
Mumbai – 400 001  
SCRIP CODE: 530843

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**Subject: - Conference call Transcript**

Dear Sir / Madam,

With reference to captioned subject, we hereby enclose the transcript of Q1 FY 2018 conference call which was hosted by the company on 21<sup>st</sup> July, 2017 at 4.00 p.m.

This is for your records.

Kindly acknowledge the receipt.

Thanking You.

For CUPID LIMITED

Saurabh V. Karmase



**Company Secretary and Compliance Officer**

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# “Cupid Limited Q1 FY18 Earnings Conference Call”

**July 21, 2017**



**MANAGEMENT: MR. OM PRAKASH GARG – CHAIRMAN & MANAGING  
DIRECTOR, CUPID LIMITED**



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**Moderator:** Ladies and gentlemen, good day and welcome to the Cupid Limited Q1 FY '18 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing \* and then 0 on your touchtone telephone. Please note this conference is being recorded.

I would now like to hand the conference over to Mr. Diwakar Pingle from Christensen IR. Thank you and over to you, Mr. Pingle.

**Diwakar Pingle:** Thanks, Janice. Very good afternoon to everyone and thanks for joining this Q1 FY18 earnings call for Cupid Limited. I hope you have received the copy of the press release and the results which are also uploaded on the website and stock exchanges. To discuss the results and to address the queries of the investors, we have with us Mr. Om Garg, Chairman & Managing Director of the company. Mr. Garg will give a brief overview of the quarter gone past and some color on the outlook for how the full year will pan out. Post which, we will get into the Q&A session.

I would like to remind you that everything said on this call that reflects any outlook for the future or which can be constituted as a forward-looking statement must be viewed in conjunction with uncertainties and risks that we face. These uncertainties and risks are included but not limited to what we mentioned and prospectus filed with SEBI and subsequent annual report which you can find on website.

With that said, I now turn the call over to Mr. Garg. Over to you, sir.

**Om Prakash Garg:** Thank you, Mr. Diwakar. Ladies and gentlemen, I would like to welcome all of you to the first quarter 2018 earnings call for Cupid Limited. As mentioned earlier, we hope that you have seen the results published yesterday and so I will not go into the details of those numbers. However, couple of highlights I would like to mention.

First of all, the performance is as per our anticipated line of action and we are quite satisfied with both the topline growth of about 19% and profit after tax growth of about 12% based on the first quarter results. Going forward, we have lot of opportunities to look for. First of all, there are indications that quite a few tenders will be published including one from Government of South Africa, one from Government of Brazil, one from US Agency for International Development and also one from Government of India.

Some other opportunities we see in the current financial year include the possibility of setting up manufacturing facilities in South Africa for both male condom and female condom production as well as for the lubricants. The third opportunity we see are to commercialize



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/ several of the products which are in pipeline and I will mention some of the details later on during the Q&A session. Fourth and still quite important for us is to launch Cupid products directly to the consumers through a network of sales distribution as well as marketing of our products through international marketing companies. And finally, we are having some encouraging results from our online sales especially of female condoms and we are very much looking to utilize the digital marketing techniques for the promotion and spreading the awareness for female condoms.

With that said, I would like to open the session for Q&A.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. We take the first question from the line of Vishal Shah, individual investor. Please go ahead.

**Vishal Shah:** To start with, could you throw some light on the finance cost and why they have increased substantially?

**Om Prakash Garg:** The main reason is that we had invested most of our savings and reserves into the fixed deposits and in some of the mutual funds. So on a temporary basis, we had to draw on our credit limit with the bank.

**Vishal Shah:** And regarding what is your current capacity installations and utilizations?

**Om Prakash Garg:** For male condom, it is about 80% and for female condoms, it is almost 99%.

**Vishal Shah:** And in terms of the ratio, which is a greater capacity, the male or the female?

**Om Prakash Garg:** It is the male condom with installed capacity of about 325 million pieces per year and female about 20 million pieces.

**Vishal Shah:** But your product mix is more of female condoms and as against the male ones. So what is the middle ground over here?

**Om Prakash Garg:** Traditionally, we are about 50-50 plus minus 10% but in this first quarter, there were more female condom sales because the market demand was higher and the male condom orders were not in huge quantities because of the budgeting allocation, they were delayed until May and June. So that is the reason for 60% of female sales and 32% of male.

**Vishal Shah:** Do you have any plans of expanding the female condoms capacity as against male condoms because certainly like it also creates quite a unique sound to it, that female condoms, they are your USP to say like people know Cupid more because of the female segment.



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- Om Prakash Garg:** Yes, that is correct and we do have plans to double the female condom production capacity from 20 million a year to 40 million and as mentioned previously, we have developed a technology where we can convert the male condom dipping machines into female condoms.
- Vishal Shah:** Do you already have it in place?
- Om Prakash Garg:** Yes, we do and so it will take us only 2 months for us to convert and actually the process is already on. We have ordered some of the formers which would be utilized for the production of female condoms.
- Vishal Shah:** And will it incur any extra cost?
- Om Prakash Garg:** Very little, only about 10-15 lakhs.
- Moderator:** Thank you so much. We move on to the next, it is from the line of Ashish Rathi from Infina Finance. Please go ahead.
- Ashish Rathi:** Sir, I am looking at this company for the first time and I would need some bit of information on the basics. Sir if you could just tell me first on what is the sales we have from the lubricants and the sales from devices?
- Om Prakash Garg:** First of all, welcome to the initiation for Cupid Limited. The lubricant sales were about 5 crore last year, that is when we had launched the product. Now in this quarter, we had done about 1.7 crore of lubricant sales and for the entire year, we are projecting about 10 crore sales of lubricant jelly and the margins are about 40% EBITDA on this product.
- Ashish Rathi:** And devices?
- Om Prakash Garg:** On the devices is the balance 92% which includes female condoms as well as male condoms.
- Ashish Rathi:** So when you say devices, you mean condoms. So there are no implants or rings, I was just asking for other than condoms, what is the sales?
- Om Prakash Garg:** That is correct. We are primarily a condom manufacturer along with several other related products.
- Ashish Rathi:** Are we looking at other than these like intrauterine devices, contraceptive vaginal rings and things like that, are we looking at those as a segment for us going ahead?
- Om Prakash Garg:** Not on a priority basis and the reason being that we have several other new products related to gels and wipes that have more demand in the market place with a higher profit margin.



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- Ashish Rathi:** And secondly wanted to understand in our business right now, I can see the sales mix which is there region wise, South Africa, Africa etc. forming bulk of around 70% of the sales. So most of these sales are tender based?
- Om Prakash Garg:** Yes, right now they are tender based, most of it.
- Ashish Rathi:** Do we have our own brand and do we have a front end in India?
- Om Prakash Garg:** Yes.
- Ashish Rathi:** So what could be the mix for at a company level between tender sales and brand sales?
- Om Prakash Garg:** Right now, it is almost 99% tender based; however, starting last year, we have decided to bring it to consumers directly through a distribution network. We have started initially in 8 states and in addition to that, we are going to market our products through international marketing companies as well besides selling it through the chemist shops.
- Ashish Rathi:** And sir what kind of costs are we expecting to incur on this front in the setting up of the distribution say for FY18 and if you could tell me for FY19 what kind of advertisement promotions spend or distribution spend are we looking at?
- Om Prakash Garg:** I think we are estimating about 2 crore in FY18 and 3 crore for FY19.
- Moderator:** Thank you. Next question is from the line of Aditya Singh from State Bank. Please go ahead.
- Aditya Singh:** My question is regarding the QIP plans because most of us investors were worried about how does the company plan to raise funds going forward? So is it going to be through the QIP route sir?
- Om Prakash Garg:** We were considering QIP along with the couple of other options including raise some debts; however, currently we are looking at using our own internally generated funds. So there will not be any QIP in the immediate future.
- Aditya Singh:** Thanks a lot for that clarification. That is great news. So the next question that I wanted to ask you was considering now that we will be utilizing our cash because I think about 19 Crores of cash are present on our balance sheet currently. So I am assuming that some of that fund raising is going to come from that 19 crores and also that in the earlier concall you had mentioned about some acquisition plans. So where do we stand on that sir?
- Om Prakash Garg:** First part is correct that we would be utilizing part of those 19 crores savings. In terms of acquisition, we have looked at couple of possibilities but no target has been located as yet.



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Instead, we are going to concentrate on developing and commercializing some of the new products which we have developed through our R&D and I could mention few, besides male and female condoms, we have water based lubricants, we have hand sanitizers and we have different types of wipes including one wipe to slow down the premature ejaculation and we are going to also develop gel for ultrasound purposes. So we are going to concentrate on these. These are high margin items, but of course the key is to establish a marketing strategy both in India and also there seems to be a good demand overseas.

**Aditya Singh:** Great sir, sir thanks a lot. Sir just one last question sir about the South African order renewal. Was that I think it was planned about around December or September, so do we expect that this year in FY18?

**Om Prakash Garg:** Yes, the new tender is supposed to come out in late December and last month when we were over there, they had indicated that the quantities will be at least 50% higher than the last tenders which was a 3-year tender published in 2015. They are looking at over 1.2 billion male condoms and, at least 75 million female condoms over the next 3 years.

**Aditya Singh:** Great sir thanks a lot. Sir just another question sir about considering the last concall, you had spoken about hiring a new Chief Executive Officer for the company. So how are our plans moving forward on that front sir?

**Om Prakash Garg:** Unfortunately, very slowly. We have looked at few candidates, talked to three of them. Basically what we are looking for is a leader in FMCC group with strong international and national marketing experience. So the search is still going on and hopefully we would achieve our target in next 3 months.

**Moderator:** Thank you. We take the next question from the line of Priyanka Shah from Discovery Capital. Please go ahead.

**Priyanka Shah:** Sir, I wanted to get an update on your order book in terms of the South African order and the government of India order which is going to come in May?

**Om Prakash Garg:** As of April 1, 2017, we had reported an order book of 89 crore and out of which, during this past quarter, we have dispatched about 19 crore leaving us with a balance of 70 crore as of June 30<sup>th</sup>. In addition, we have about 33 crore worth of orders which we are expecting from our repeat customers and some of the projected orders like the Government of India order you mentioned which has been long delayed. So our order book is about 103 crore and our plan is to execute maximum possible orders during this current year. I should also mention that as has happened in several past quarters, during the quarter we expect to get some additional orders which would carry our order book into several quarters beyond the current financial year.



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- Priyanka Shah:** Got it. And regarding your ad spend that you mentioned that you will be spending about 2 crore in FY18 for the consumer segment, how much has already been spent in the first quarter?
- Om Prakash Garg:** First quarter, we did about 20 lakhs only.
- Moderator:** Thank you. We take the next question from the line of Kranti Bathni from Wealthmills Securities. Please go ahead.
- Kranti Bathni:** I just wanted to ask you what is the volume of online sales as you told there is an initiation of online sales, what is the volume you are getting?
- Om Prakash Garg:** Volumes are quite low. This past quarter, we sold about 3000 female condoms, but the important thing is that those orders came from about 300 towns and cities spread all across the country. Now for the next 9 months, we are expecting an order of about 10,000 pieces from about 500 semi urban areas including some rural centers. So although the dollar volume sales in terms of rupees are not that significant right now, but our message is spreading quite nicely and recently besides selling it on Amazon, Flipkart and eBay, we have been advertising on through Google as well as through the Facebook. So the message is coming loud and clear from overseas customers as well through online sales.
- Kranti Bathni:** Sir, my second question is in the last quarter call; you told there is some progress you are going to initiate launching your product to get US FDA approval. Is there any something movement towards getting FDA approval? Any progress you made?
- Om Prakash Garg:** No, like I mentioned in the last call the process is on. We are submitting all the requested information to US FDA, but it will still take about 12 to 15 months and the main reason is that they have not yet arrived at the specifications of the clinical trial which has to be done in US under US protocol.
- Kranti Bathni:** Somewhere the documentation is going on?
- Om Prakash Garg:** Correct.
- Moderator:** Thank you. We move onto the next question is from the line of Viraj Mahadevia from Actis. Please go ahead.
- Viraj Mahadevia:** I was curious with the raw materials as a percentage of sales which has trended in 30% to 35% but in Q1 have moved up to 43%. Is there any specific reason for this?
- Om Prakash Garg:** The main reason is that increase in the latex prices, they were down in May, but just before the rainy season, the tapping is much slower and the prices started to move. Now since the rainy





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season is in full swing in Kerala, now the prices are going down and we expect latex prices to be at least 10% lower in the second quarter and in subsequent quarters. The other input which we have is the silicon oil which had also moved up and also some of the packaging material cost due to temporary shortage of paper which is used in the packaging industry.

**Viraj Mahadevia:**

Understood, right here. Sir can you also throw a little bit more light on the shift to this B2C model from B2B, how many distributors have you appointed exclusive or otherwise do you have dedicated sales force in the country, was it entirely through the stockiest and retail channel. And also little bit on the ultrasound gel, how similar or different is it from the sort of sexual wellness gels that we are promoting in terms of entering that space?

**Om Prakash Garg:**

First of all in terms of B2B and B2C as you know traditionally we have been B2B and like I mentioned in the response to the earlier caller, bulk of our business has been that, but for the last couple of years, we have been considering switching over to B2C and we did some surveys and we found out that for long-term profit sustainability, Cupid must get into B2C segment, although we realized that this road will be tough and real challenge both in terms of the investment as well as in terms of slow return. We have looked at some of our competitors and their numbers and their performance also for along the same lines. So we have concluded that it is almost a must for long-term growth of the company, we realized that it will be a slow and expensive process over the next 3 to 5 years. Now in terms of the distribution network, we have appointed superstockists and they are in the process of establishing the distributors. We have covered 8 states in stepped up manner. We started with Bombay and Maharashtra, and then we moved into Gujarat, Rajasthan, Haryana, UP, Bihar, Jharkhand and last week into West Bengal.

**Moderator:**

Thank you. We take the next question from the line of Subrata Sarkar from Dalmia Securities. Please go ahead.

**Subrata Sarkar:**

Garg, just two-three things like if you explain like since we have not decided to go for QIP right now, so but as you discussed in last concall that we have certain plans for inorganic growth as well as new product launch and that is why we were not interested at that point to raise debt. But once this QIP is out of fiction now, so will we take debt to fund those either acquisition or new initiatives?

**Om Prakash Garg:**

Very good question. The bulk of the money as I had mentioned in the last call was going to go for the brand promotion and to set up the distribution center. At that time, it was approximately 11 crore out of the 25 crore we were looking to raise through QIP. Now in our revised projection, we are planning to spend about 7 crore to promote the brand and set up this distribution center. The other big items were the expansion of these facilities to add 20% production capacity in our existing facilities in Nasik. Now, we have a possible alternate, that is the government of South Africa would like manufacturers like Cupid to set up operating



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units over there in order to generate some employment and to save on their foreign exchange reserves. Cupid would benefit in that kind of project in several ways. First of all, we have our patented technology which will generate some royalty for Cupid and the supply contract would be for a period of 5-years with the government of South Africa, a guaranteed offtake and besides the royalty payments, we expect to get some consulting fees for the use of our technical expertise and to manage the operations there.

**Subrata Sarkar:**

Sir, this South Africa plan or incentive which government gives, does it involve some interest subvention easy loan facility for building up capacity also or only it is a guarantee to take offtake?

**Om Prakash Garg:**

Actually both. The Government of South Africa would offer a loan of USD \$5 million, partly grant and partly loan at low interest rate out of total projected cost of USD \$8 million. So that means the owners have to come up with the difference, the balance of US \$3 million and according to the South African rules, 51% of the ownership of the new company has to go to women controlled black organization. That means only a maximum of 49% of equity stake is available for a private investors like Cupid.

**Subrata Sarkar:**

So, it will be decided by like some tendering process or like Cupid will get some advantage on that sir in preferential basis like what will be the procedures?

**Om Prakash Garg:**

First of all, they have circulated an information memorandum for any and all the people who may be interested to set up a plant there. We understand that Cupid would get a preferential look at the proposal mainly because our track record in the last 2 years has been excellent with the department of health there both in terms of the product quality as well as delivery schedule and more than that, the Procurement Director from the Treasury Department is planning to visit Cupid facilities next month. They like to see the facilities themselves and understand how the operations are going on here and what kind of technical skills are required.

**Moderator:**

Thank you. We take the next question from the line of Sidharth Grover from Equirus Capital. Please go ahead.

**Sidharth Grover:**

I just wanted to check what is the breakup of the order book in terms of male and female condoms?

**Om Prakash Garg:**

The breakup in the female and male condom is 55 million is the female condoms and the balance 48 or so is male condoms out of a total of 103 million.

**Sidharth Grover:**

And sir in terms of value, how much it will be?

**Om Prakash Garg:**

In terms of?



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- Sidhharth Grover:** Value. If I see the order book, you have given the number of roughly 1000 million that you expect to execute this year. Say if I have to quantify the 1000 million into female and male condoms, that will be?
- Om Prakash Garg:** Yeah, like I mentioned that 100 crores is about 50-55 female condoms and the balance in male condoms and about 10 crore from the lubricants.
- Sidhharth Grover:** So currently in this quarter, we did a sales of roughly 200 million and we are currently operating at a capacity in female and male condom. So how do we expect to execute the order book by end of this financial year?
- Om Prakash Garg:** No, like I mentioned we are in the process of doubling the female condom capacity from 20 to 40 million.
- Sidhharth Grover:** And how much you are spending for this?
- Om Prakash Garg:** Very little is about 10 to 15 lakhs only because we have developed in-house technology to use the male condoms machines to manufacture female condoms.
- Moderator:** Thank you. We take the next question from the line of Tejes Gutka from Tamohara Investment. Please go ahead.
- Tejes Gutka:** Sir just one small clarification. You said that the contribution from female condoms was higher this quarter. If I understand correctly, that is a better margin product for us, but profitability wise we have seen a lower profitability this quarter?
- Om Prakash Garg:** Yes, female condom contributed about 60% of the sales and 32% was male condoms and the balance was lubricants. Now the female condoms, we had lower realization due to appreciating rupee. Our invoices are all in USD, but when we received the funds into India, they are reflected in rupees and we lost some money there.
- Tejes Gutka:** Okay, fair. And lastly on the South African funds, they have floated the IM, is there some timeline that they have mentioned as to when they start closing on this?
- Om Prakash Garg:** They would like all the interested parties to submit their proposals by end of October and they would like to see the facilities start producing in about 18 months' time.
- Moderator:** Thank you. We will take the next question from the line of Cindrella Carvalho from Dolat Capital. Please go ahead.



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- Cindrella Carvalho:** Sir just wanted to understand little more on the material cost. You said that latex price as well as the silicon oil price had gone up this quarter and you expected to normalize in the coming quarters. So will it come back to the earlier 2 years average of around 36%? Is that the way to look at it or it will be higher this year?
- Om Prakash Garg:** No, we expect it to be in that range, 36%-37%.
- Cindrella Carvalho:** And sir in terms of the African order, as you mentioned we have received almost 33 crore repeat order, right?
- Om Prakash Garg:** Yes.
- Cindrella Carvalho:** So what the expectation is of is there any visibility in terms of any further repeat order or as of now this is what we are expecting?
- Om Prakash Garg:** No, as of July 1, these are the orders we have looked at from all of our customers who give us the repeat orders; however, like I mentioned earlier, we should expect more orders would come in during the second quarter like we have had in the past several quarters.
- Cindrella Carvalho:** And sir just to come back on the same QIP question, so as you have mentioned that you would look at for some debt, so is there any development in terms of a foreign debt because of course these African opportunity of opening the facility over there already like gives us an opportunity to take the government funding. So are there any plans of going for debt which will be foreign denominated so our interest rates will be very low also over there?
- Om Prakash Garg:** No, exactly. We are looking at foreign currency loan because the cost it seems like 2.5%-3%.
- Moderator:** Thank you. We take the next question from the line of Ronak Jain from Vibrant Securities. Please go ahead.
- Ronak Jain:** Sir, wanted to ask about your B2C business. Which are the markets that you will be concentrating on like will it be your South African markets, Indian markets and US markets or you like comfortable in diversifying into the new areas?
- Om Prakash Garg:** No. We would be certainly interested to diversify. Last year, we sold our products to 40 countries and we are looking to expand into new geographies as well. However, for the B2C business, our main target right now is to setup a network in India because of our population and because of the percentage of younger people in the country and more and more use of contraceptives including condoms amongst the younger generation people.



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- Ronak Jain:** And would there be any need for some, like when you will be diversifying into other countries, would there be need for some other regulatory approvals also like for the US, US FDA and others regulatory approvals?
- Om Prakash Garg:** In some countries, they would require additional certifications like you mentioned US FDA is one. We are trying to register in Russia as well and they would also require additional registration; however, most of the African and Latin American countries because of our WHO prequalification status, they do not require any detailed additional registration process.
- Ronak Jain:** And one last question related to this only. So like right now we do not have like a significant amount of B2C sales right?
- Om Prakash Garg:** Right now, we do not.
- Moderator:** Thank you. We take the next question from the line of Ganesh Radhakrishnan from Pristine Portfolio. Please go ahead.
- Ganesh Radhakrishnan:** Wanted to know this 103 crores of confirmed orders, how many quarters you planned to deliver this?
- Om Prakash Garg:** How many?
- Ganesh Radhakrishnan:** Quarters.
- Om Prakash Garg:** Like I mentioned earlier, we would try to execute most of these orders in the next 3 to 4 quarters and again we are expecting based on the past patterns some additional repeat orders during the quarter. So that is why we are looking at a robust order book for not only FY18 but at least first half of FY19.
- Ganesh Radhakrishnan:** Sir in your B2B business, what kind of client concentration you have, what is the largest customer, how much does he contribute to your sales?
- Om Prakash Garg:** While the largest customer we have is the Government of South Africa which is about 50% of the total sales, the single largest customer.
- Ganesh Radhakrishnan:** And this is the customer for whom the current order will expire in June 2018 and FRPs in the process right now, am I right?
- Om Prakash Garg:** Exactly right.



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- Moderator:** Thank you. We take the next question from the line of Ashish Rathi from Infina Finance. Please go ahead.
- Ashish Rathi:** Sir, wanted to understand on the tender part of the business. So sir like as a management, how do you feel that continuity and sustenance of these tenders will repeat every year? Is there any particular reason that gives you comfort on this?
- Om Prakash Garg:** No, actually that all depends on the funding sources both from the international donors like the global fund and World Bank, but also from the national government like most of the European governments, US government, those are the major contributors and like in the first quarter, there were hardly any tenders because the funding's were either not approved or were delayed. So there is no certainty except that the indications right now are that the demand is growing up, the male condom segment is growing at the rate of 9.5% each year and female condom demand is going up at the rate of 14.5% per year.
- Ashish Rathi:** So sir like how long this each tender generally runs, what is the timeframe? Is it for a one year contract or how does it?
- Om Prakash Garg:** Most of the contracts or tenders are for one year; however, WHO, UNFA, they have a 3-year long-term agreement, supply agreement with Cupid to supply both male and female condoms and like we mentioned earlier, the South Africa government, they prefer a 3-year. However, most of the tenders are like 1 year duration.
- Moderator:** Thank you. We take the next question from the line of Ankit Kohli from Pure Research. Please go ahead.
- Ankit Kohli:** Mr. Garg, congratulations on three front; one, posting good topline in what a seasonally a weak quarter. Secondly, choosing organic growth over M&A and thirdly and most importantly, not going in for a QIP which is very helpful. My heartiest congratulations to you and the team before I start my questions. Secondly, on the financials, I have one question. In terms of the order book and EBITDA, so the order book as it currently stands is seen as if we can be touching almost 120 crores in revenues this year. So which is going to be higher than 97 crores guidance you had given. Would that be right and also in terms of the EBITDA guidance that you have kind of shared of 35%-40%. Would that still be retained given the increase in raw material price in the first quarter?
- Om Prakash Garg:** First of all, I think we are expecting sales between 95 to 103 crores during the financial year 18 and because of the mix of female condoms and male condoms, yes we do expect to maintain EBITDA level at +36% for FY18.



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- Ankit Kohli:** But you mentioned that you planned to execute most of this 103 crores in FY18 itself, so that should add up to much higher than 103 crores or if I am getting something wrong here?
- Om Prakash Garg:** No, that my estimate of 95 to 103 does include the 19 crores we have already done in the first quarter.
- Ankit Kohli:** So the 19 that is already done is also included in this, is it?
- Om Prakash Garg:** Correct.
- Ankit Kohli:** Okay. Thank you for clarifying that. My second question is around the overall marketing like we had discussed last time some revamp of the website, more educational literature out there to kind of promote Cupid as a B2C brand. Is that something that has been moved forward and actioned upon?
- Om Prakash Garg:** Yes, we have started to generate some educational material and we have developed some of it in YouTube material as well which is used quite a bit now. Also, we have supplied some of these materials to all the provinces in South Africa where they have been used to promote not only promote female condoms, but also instructions like how to use a female condom and what are the advantages of using Cupid female condoms as compared to the others.
- Ankit Kohli:** But do we have any international agency that is working dedicatedly for us to take care of our marketing presence right now or do we have any plans to endorse one?
- Om Prakash Garg:** Now, we would like to enroll one. So far, we have not selected any one, but obviously we have to spend more time and more money because this is going to be a crucial element to expand our sales going forward.
- Moderator:** Thank you. We take the next question from the line of Pakil Gulesha from NVS Brokerage. Please go ahead.
- Pakil Gulesha:** I just wanted to know your vision for Cupid for the next 3-5 years. Do you see it a major part of revenues still coming from B2B contracts or do you see turning into a B2C company like a Durex or a Skore is in India for male condoms?
- Om Prakash Garg:** My vision for Cupid is to grow Cupid Limited as the most diversified condom manufacturers in the world both in terms of the varieties of male condoms and varieties of female condoms we are able to offer and also into extended geographies beyond the 40 countries we are supplying to right now. In terms of the percentages of B2C sales, we are expecting about 20% of our sales in 3 years' time and the balance 80% would still be in B2B; however, we are trying



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to expedite the process because ultimately for long-term growth and income, we have to concentrate on the consumer markets. .

**Pakil Gulesha:** And secondly, do you face any competition in the female condom market in India or is Cupid the only company that sells?

**Om Prakash Garg:** No, actually Hindustan Latex, government owned PSU, HLL, they also are qualified to supply female condoms. So, they are our competitors in India.

**Pakil Gulesha:** So, do you have any idea what percentage of market share you have in India as against them?

**Om Prakash Garg:** I would say right now we have about 90% of the market.

**Moderator:** Thank you. We take the next question from the line of Chitrangda Kapoor from Sameeksha Capital. Please go ahead.

**Chitrangda Kapoor:** I need a little clarification on the deal that you have mentioned about South Africa in which you have been invited to set up a plant there. Just wanted to clarify did you mention that 51% stake will be with the women entrepreneurs from South Africa?

**Om Prakash Garg:** Yes, 51%. Majority control has to be with them.

**Chitrangda Kapoor:** So the ownership is with the women entrepreneurs in South Africa and does that mean that the 3 million balance amount which is needed for the project will be supplied by the women entrepreneurs in South Africa and it will not be with you?

**Om Prakash Garg:** Yes, being an equity partner, they would have to come up with their share of capital required.

**Chitrangda Kapoor:** So that 3 million would be shared between you and the women entrepreneur?

**Om Prakash Garg:** Correct.

**Chitrangda Kapoor:** And who decides who will be the partner with you in the women entrepreneurship, is it the government of South Africa which decides that?

**Om Prakash Garg:** No, what they have asked us to do is to submit information on the proposed setup including who the partners would be, what are their financial strengths and operating and technical expertise. Now, we are considering two outfits and depending on how the final negotiation shape up, we would select one of the two. One has already visited Cupid and the other one is planning to do that in August. Government of South Africa would exercise the control to the





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extent that would value it whether this outfit would be able to supply the quality products within the specified time.

**Chitragda Kapoor:** And you also mentioned that there is a 5-year contract with South Africa government for which you will get a royalty as well as a commission fees. So the size of contract would be for female condoms exclusively or is it across all the product launches?

**Om Prakash Garg:** All the products and in order to provide some incentives to outside manufacturers like Cupid, they are saying look, you are investing money here, you are generating employment and you are helping us to conserve our foreign exchange reserves which are quite low. In return, we would guarantee that the offtake from the plant will be picked up by the government procurement people and not only that, they have indicated that even if the production cost is little higher from this plant in South Africa as compared to imports that they would still consider buying from the locally generated units.

**Chitragda Kapoor:** Sir locally it would be 100% procurement and then whatever is the balance you will export it?

**Om Prakash Garg:** There is no definite clarity on that. From what we understand is that during the construction period of 18 months, they would continue to import from companies like Cupid. So in practical terms, when the current 3-year contract expires in June 18, they would give some supplementary orders to Cupid to cover that 18 months construction period.

**Moderator:** Thank you. Next question is from the line of Chirag Khasgiwala, individual investor. Please go ahead.

**Chirag Khasgiwala:** Sir regarding your South Africa plant, so you said that 51% ownership will be the women entrepreneurs, so in that case whatever new orders you get both the plant is commenced, you will get only 49% share of the profits from that right? If supposed to, currently you are getting 100%.

**Om Prakash Garg:** Yes, that is true. And the reason is that the government policy is to promote local manufacturing just like Make in India project.

**Chirag Khasgiwala:** And what could be tender size of the other or tenders like Brazil and all?

**Om Prakash Garg:** Brazil, we understand is looking for 100 million female condoms. During the last 2 years, they had no request because their economy was in bad shape. The US AID is also about US \$30 million and Cupid has been invited to participate for the first time in US AID tender and they supply mostly to the African countries and government of India is looking at about 200 crores allocation for the next tender. So the amounts are quite substantial and we hope that some of these come through in next 3 to 6 months.



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**Moderator:** Thank you. We take the next question from the line of Jal Chandnani, individual investor. Please go ahead.

**Jal Chandnani:** Sir first of all congratulations in delivering great performance this quarter as well. I know this quarter is one of weaker ones generally and again I think this is a great decision that you decided to withhold the QIPs for now. So as I understand as you mentioned Cupid primarily has been in the B2B business, it is good to hear you are shifting towards the B2C model. Now on that front, you said that in India you have already started operations. What is the breakdown of what percentage of that is the female condoms versus the male condoms?

**Om Prakash Garg:** We have just started the operations in the sense that we have placed our three products into different stores, but the actual sales volume has been minimal. We just started this at the end of June. So we would wait at least for next 3 months in order to get some numbers published, but our feeling is that in terms of volume, amounts, female condom being more expensive should equal to male condom sales, so say 50-50. That is our estimate right now, but the market place will tell us exactly what is the response.

**Jal Chandnani:** Understood and just the follow-up on that. As you mentioned earlier to sell condoms in a few of the geographies, you would need prior approvals. For instance in the US, that is the US FDA. If I remember reading correctly from the previous concall, female health companies, Chicago is the only one which has an approval as of now. So where are we planning in terms of how much investment will be have to make this sort of penetrate in the US customer market that is the US retail market?

**Om Prakash Garg:** I think it would be between 7-10 crore which is about say million to million and a half USD; however, that could change as the US FDA is considering a proposal to downgrade the female condom classification from class III to class II. Class II being like male condoms. So several women groups have their contacted the US FDA that if the restrictions are removed and they are converted into class II products, the clinical trial required and the constraints would be eased off and that could significantly reduce our investment in getting the US FDA approval.

**Jal Chandnani:** Understood sir and I think that would be great because I think that would reduce our investments and just one last question on the R&D. You mentioned that the company is working on a premature ejaculation sort of a product that will help with that, is there any development on that front or is there any other companies that are making something similar to that?

**Om Prakash Garg:** Well, we were approached by a US company that they would like Cupid to market this product in India and during our subsequent discussions, both parties have realized that it would be more economical to manufacture it in India itself and that the other partner is willing to export



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the products, this PREBOOST is called or this wipe. They would export it from Cupid facilities into other countries.

**Moderator:** Thank you. We take the next question from the line of Venkatesh Balasubramaniam, individual investor. Please go ahead.

**Venkatesh Balasubramaniam:** Mr. Garg, little bit of a confusion again. You said you are expecting 95-103 crores of revenues that is the revenues you are expecting in the next 9 months or that is the revenues you are expecting in the full year that is 103 crores for the full year which is including the first quarter number of 19.7 crores?

**Om Prakash Garg:** That is correct. I think just couple of minutes ago I clarified that. That this 103 would include the 19 which we have already done.

**Venkatesh Balasubramaniam:** And given that you are expecting very robust prospects, any expectations for the next year sir?

**Om Prakash Garg:** In general, we are looking at 15% to 20% growth year-on-year. Of course that would depend on several factors including the donor funding availability and also our performance into B2C business.

**Venkatesh Balasubramaniam:** Sir once again as an individual investor, sincere request from my side that if there is a requirement for funds before you consider any kind of institutional funding, please do reach out do think about a rights issue, most of the existing investors would be gladly ready to invest money in your company once again if there is a rights issue.

**Om Prakash Garg:** Thank you very much and I think several shareholders had mentioned and we did consider that briefly into our meeting yesterday and we are certainly aware of the advantages of rights issue both for the company as well as for the shareholders.

**Moderator:** Thank you. We take the next question from the line of Omkar Kulkarni, individual investor. Please go ahead.

**Omkar Kulkarni:** Last time in 2015 when we got the South African order worth 104 crores, how much the government allocated. How much was the total orders?

**Om Prakash Garg:** We have done about 65 crores out of that.

**Omkar Kulkarni:** No, I am asking out of 104 crores, the Cupid got 104 crores worth of orders. So how much was the total order they gave out?



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- Om Prakash Garg:** This was 80% of the order Cupid got. So 20% of the order, the other party got, Chicago based.
- Omkar Kulkarni:** When this order you got, there were only 2 players, right, you and female healthcare company, right?
- Om Prakash Garg:** Correct, two approved suppliers.
- Omkar Kulkarni:** They got 20% and you got 80%.
- Om Prakash Garg:** Correct.
- Omkar Kulkarni:** So this time in December when they will be giving out their next tenders, you said that it will be 50% higher than the last tender.
- Om Prakash Garg:** That is what we understand.
- Omkar Kulkarni:** That is what you understand. So out of that, how much you are expecting because this time suppose there are 4 players, right?
- Om Prakash Garg:** So I would say minimum, we would expect 25% but because of our track record quality of product and the delivery performance, we could expect between 25% to 50% of the total quantity.
- Omkar Kulkarni:** Understood because last time you got the majority portion?
- Om Prakash Garg:** Correct.
- Omkar Kulkarni:** So this time, you are expecting the maximums to be around 50%?
- Om Prakash Garg:** Yeah, of course we are hoping for the maximum possible, but it is reasonable to expect between 25%-50% of the allocation.
- Omkar Kulkarni:** The second question is now you are saying that most of the internal accrual which you are generating, it will be used for promotion and ad spends and for any other purposes. So do we expect a lower dividend payout this year?
- Om Prakash Garg:** I do not think so. Last year, during this financial year, 16 and 17, we had increased our dividend payout from Rs. 3 per share to Rs. 4 which is to be approved at the next AGM in September. No, we do not expect any reduction in the dividend payout. As of now, there are no such plans.



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- Omkar Kulkarni:** And just a small observation. Last time in the last AGM, the AGM was used to be held in the office of the company, this time it will be held in the motel I guess?
- Om Prakash Garg:** That is true. The reason is that within the manufacturing facilities here in Nasik, we do not have a big enough conference room to accommodate 30 to 40 people we are expecting at this next AGM.
- Omkar Kulkarni:** So that is the only reason, okay.
- Om Prakash Garg:** And also it is more convenient, it is only 2 Km away from the factory where we could still bring all the shareholders to visit the plant and chat with our staff people.
- Moderator:** Thank you. We take the next question from the line of Punit Mittal from Global Core Capital. Please go ahead.
- Punit Mittal:** There is news about the government of India divesting from HLL and does Cupid have any plans to look at getting the stake or buying HLL?
- Om Prakash Garg:** Actually very interesting question. We are interested to at least look at it and when the financial package is available, we would certainly consider it. Out of the total revenue, the condom part is very limited and their profitability as we understand is not as great because their overheads are quite high, but to answer your question, yes, we would definitely look at it and at least consider their acquisitions.
- Punit Mittal:** The second question is I think from your conversations today that you are looking at setting up a plant in South Africa because the South African government wants to promote local manufacturing and if I heard correctly given the fact that the RFPs will be opened in October and then the decision will be made and then it takes about 18 months to set up a plant. So we are realistically looking at somewhere around FY2020 when the operations would be commissioned. So in the meantime, what are the plans or capacity expansion or are we not looking to do any capacity expansion within India and along the same lines when you said the wiper product that you are actually planning to manufacture in India with the US partner. So for that as well, what are the plans for setting out the infrastructure, the capacity?
- Om Prakash Garg:** Our expansion for female condom capacity is already on and like I mentioned, the investment is very limited. So we would go ahead with that. Now to answer the first part of your question, the government of South Africa has split the project into two parts. They want to get a secondary packaging plant within 6 to 9 months and the full production in about 18 months. So if we get the approval in January, we could have the secondary plant running by September-October in 2019.



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- Punit Mittal:** And the second part of the question where how are you planning to set up wipes manufacturing and what are the plans on those lines?
- Om Prakash Garg:** Well, we do have space about 10,000 square feet available on our first floor which would be utilized to set up this manufacturing of what we call PREBOOST or the wipe.
- Punit Mittal:** And do you have any expected timelines of when it can be done and how long will it take and also the expected revenues from that product?
- Om Prakash Garg:** The timing would depend on what technology we use. We have two alternates; one is to license the patent technology from US. The other alternate is we can develop it inhouse and we actually have started to work on it already. So in terms of market size, we have commissioned a small study. In US for example, it is very big, something like US \$400 million. In India from our informal discussions, we understand the market is quite large in India as well, but no hard statistics are available.
- Punit Mittal:** Yeah, but when you are actually for this one you are partnering with US partner who already has this product. So your discussion was basically initially to just market this product into India, but now you are saying that you could possibly manufacture and export into the US. So there are two aspects of this product. So the question is the export part, how much of the revenue can come from the export part apart from the Indian domestic marketing?
- Om Prakash Garg:** Okay, we do not have a reliable estimate yet. The partner has just mentioned that we would switch the manufacturing to Cupid in India, but they have not indicated what kind of revenues they expect from this export out of India.
- Moderator:** Thank you so much sir. Next question is from the line of Rahul from Discovery Capital. Please go ahead.
- Rahul:** Sir, I had a question regarding the incremental capacity which is coming up in China, which would have the approvals big for the tenders. So do you see pricing pressure in these tenders?
- Om Prakash Garg:** For the male condoms, yes, definitely we do see; however, in female condom section, the only Chinese manufacturer who is approved by WHO, their cost of production is much higher than Cupid's. So we do not expect any significant pressure in terms of female condom prices.
- Rahul:** Our EBITDA actually, margins are quite high. So even if their costs are higher, they may still decide to pay at lower rates you think where they could ultimately be pressure even on the female condoms?



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**Om Prakash Garg:** It is quite possible. We really do not have any inside information from this company; however, there process I understand is very cumbersome and their production capacity is very slow. So I do not know how much they are ready to discount, but there is always a possibility we should not discount what the competitor could do.

**Rahul:** Sure. Sir and the other question are on the B2C business. Approximately, how much incremental at losses do you expect to bear in FY18 and FY19 on this business as you continued to actually fasten this business and who is the team that is going to be actually executing given it is a completely different line of business. Who are the experts in the teams that you have already recruited or in the process of recruiting who can actually do this?

**Om Prakash Garg:** We are estimating that we would need 2 crore in the first year for the promotion and another 2 crore in the 19 and then the third year should be a breakeven with a sale of about 10 crore. In terms of the team, we have hired a chief business development officer who is here heading all the activities into these 8 states where we have initiated the network and this gentleman is based out of our Andheri office.

**Rahul:** And in terms of the total investment that you are going to be making here, you should be expensing to the P&L or you will be capitalizing it a) in the terms of the ad spend?

**Om Prakash Garg:** It seems like we would be able to capitalize part of it.

**Moderator:** Thank you. We take the next question from the line of Chitragda Kapoor from Sameeksha Capital. Over to you, ma'am.

**Chitragda Kapoor:** I have only one question, sir. In the beginning of the call, you mentioned that there are certain tenders which is expected to be footed from Brazil as well as US agencies. I just wanted to understand since we are not US FDA qualified, are we qualified to apply to those tenders. If yes, then how?

**Om Prakash Garg:** Yes, the answer is we are qualified and the reason is that we already have 5-10K from US FDA for male condoms and this tender US AID tender which is already circulated is to supply male condoms and as discussed earlier, we are trying to get our female condoms registered with US FDA. So we do qualify to supply male condoms to US financed tenders.

**Moderator:** Thank you. Sir, that was the last question. I now hand the floor over to Mr. Garg for his closing comments.

**Om Prakash Garg:** Thank you. On behalf of Cupid Limited, we would like to thank all the shareholders who have participated in this earnings call and our objective again is to make Cupid Limited as the most diversified condom manufacturer in the world both in terms of the variety of products and also



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in terms of the commercialization of the new products which are in the pipeline and of course the emphasis is to go from B2C over the next 3-5 years. And also we would like to expand into many more countries beyond the forty we have been supplying to because the demand is coming from everywhere. Low and middle-income countries where the affordability is improving, we would like to service them. Ultimately, our objective is to grow Cupid to come up with sustainable and profitable operations so that we create a value for all our shareholders who have supported Cupid over the last 20 some years. We would like to thank you again for your participation.

**Moderator:**

Thank you. Ladies and gentlemen on behalf of Cupid Limited, we conclude today's conference. Thank you for joining us. You may now disconnect your lines. Thank you.



