



CUPID LIMITED

Manufacturers and Suppliers of Male & Female Condoms

Date: - 11th November, 2020

To,

Department of Corporate Services,
BSE LIMITED,

Phiroze Jeejeebhoy Towers,

Dalal Street,

Mumbai – 400 001

SCRIP CODE: 530843

The National Stock Exchange of India Ltd.

Exchange Plaza, 5th Floor, Bandra-Kurla

Complex, Bandra (East),

Mumbai - 400051

Fax No. – 6641 8125 / 26

SCRIP CODE: CUPID

Subject: - Q2FY21 Conference Call Transcript

Dear Sir / Madam,

With reference to captioned subject, we hereby enclose the transcript of Q2FY2021 conference call which was hosted by the company on 6th November, 2020 at 5.00 P.M.

This is for your records.

Kindly acknowledge the receipt.

Thanking You.

For CUPID LIMITED



Saurabh V. Karmase

Company Secretary and Compliance Officer

ECSIN: EA041701A000083921



“Cupid Limited Q2 FY21 Earnings Conference Call”

November 6, 2020



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



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Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY21 Earnings Conference Call of Cupid Limited. 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 * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Binay Sarda from Christensen IR. Thank you and over to you, sir.

Binay Sarda: Thanks, Steve. Good evening to all of you and thanks for joining this Q2 FY21 Earnings Call for Cupid Limited. We have mailed our results press release to you. I hope you have received the same and we have also uploaded this on our website and stock exchange. To discuss the result and 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 then we will open the floor over to you for 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 construed as a forward-looking statement must be viewed in conjunction with uncertainties and the risk that we face. These uncertainties are not limited to what we have mentioned in the prospectus filed with SEBI and subsequent annual report which you can find on the website. Let me hand over the call over to Mr. Garg. Over to you, sir.

Om Prakash Garg: Thank you, Binay. Good afternoon, ladies and gentlemen. On behalf of Cupid Limited, I would like to welcome you all for attending the Q2 FY21 earnings conference call today. I hope by now you had a chance to look at the press release and the financial results we had published last night after the board meeting. So, I would be very brief in my comments on the results.

We had a revenue of about 30 Cr. with EBITDA of 34% and net profit after tax was 7.08 Cr. which is about 23% of the topline. So, the net profit was just over 7 Cr. I should mention that this performance would have been better if we did not exclude the 18 Cr. worth of material which is in transit and according to the new accounting rules, it could not be recorded as sales in this quarter until it reaches the destination in Brazil, Tanzania and elsewhere. So that is the main reason for reduction in revenue during this quarter as compared to the earlier quarters. Also, during this quarter, we completed the dispatch of the entire 120 Cr. worth of female condom orders to government of Brazil. In terms of the order book, we had a healthy order book at about Rs. 120 Cr. as of October 01, 2020.

In other development, company board has decided to start a new line of business, a new business vertical in terms of manufacturing of medical devices within Cupid. These would include rapid testing kits and ELISA kits. Rapid testing kits are useful not only for Corona, but also for dengue, HIV and Malaria etc. And ELISA tests are based on enzymes and it indicates the antibodies amongst the Corona infected people. There is a huge market for this business, approximately Rs. 860 billion throughout the world. The project is under construction already and we expect to start the commercial operation at the end of 4th quarter.



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The business is looking excellent both from domestic side as well as for export. This diversification has been on our mind for a long time that would give us another vertical, another opportunity to improve Cupid's performance going forward for next several years.

Now, I would like to mention 3 other items, which indicates that the financial strength of Cupid has improved quite a bit during the last 6 months since March 31st. Number one, our receivables have come down from 41 crores to about 25 Cr. as of September 30th. Number two, our short-term working capital borrowing has come down to 12 Cr. as compared to 31 Cr. 6 months ago and we plan to eliminate this temporary working capital loan by the end of this financial year. Number three, our payables have also come down quite a bit from 21 Cr. down to only 6 Cr. and finally, our cash and cash equivalent in the company has increased to 48 Cr. So, all these parameters indicate that company's financial situation has improved quite a bit during this half yearly period. Now, I would like to open the meeting for Q&A session.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Rohit from Raj Enterprises. Please go ahead.

Rohit: My question is pertaining to the press release that was shared with us yesterday. So, I just have a question pertaining to the new LOB that, new business vertical that we have decided to get in to, that is the manufacturing of RDTs and ELISA test. Now would you help us understand that when you talk manufacturing, then how are we planning to increase the CAPEX and what would be the time taken to complete this entire cycle and also there was a mention of a party called as Invox Health. Can you specify the role of this party in the entire manufacturing process?

Om Prakash Garg: Our joint venture partner is Invox, and they have the expertise in not only manufacturing but also in marketing these products, both in India and abroad. They have over 10 years of experience in this line of business. Now in terms of the schedule, we started to work on it last month and the construction and installation of machinery should be all over by end of January and we should be able to start commercial production in late February or early March. Revenues would start coming in during the first quarter of 2022. This is going to be a very exciting new vertical for Cupid. It gives us a chance to diversify and also it will lessen our 100% dependence on the condom business.

Rohit: Thank you, Mr. Om Garg, and also the other question that I had was regarding the pricing of the international rubber prices and would you be able to guide us on the EBITDA margins going forward in the coming quarters because we have seen quite a rise in the international rubber prices? So, what your guidance like on the EBITDA front?

Om Prakash Garg: Yes, you are correct. In the last two quarters, the trend on the rubber prices was downward. For example this quarter which ended on September 30th, the price was only Rs. 99 per kg. Now the trend is going up because of more international demand. So, we expect at least in this current quarter, third quarter, the prices will be about 10% higher than the previous quarter.



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- Rohit:** And how would it affect the margins, can you give a ballpark figure if you can?
- Om Prakash Garg:** It would have a minimum impact of only couple of percent in terms of our production cost and hence on the margin, very little practical impact.
- Moderator:** Thank you. The next question is from the line of Shalu Asija from Invest Research. Please go ahead.
- Shalu Asija:** I just want to know the revenue guidance and profit guidance for this financial year?
- Om Prakash Garg:** We are projecting total sales of between 135 to 140 Cr. for the entire year and our net profit should be between 30 to 35 Cr. The overall business this year has been severely impacted from the spread of Coronavirus. Many of the governments have reduced and relocated their budgets because of the virus and also there is a depreciation in terms of Brazilian and South African currencies. And the third factor for overall reduction in the sales for the entire year as we are projecting is due to shifting of dispatch dates by our customers from one month to the other or one quarter to the other. So, I hope I have given you our projected revenue and profit forecast.
- Moderator:** Thank you. The next question is from the line of Anand Vir, an individual investor. Please go ahead.
- Anand Vir:** I just wanted to know a little bit more about this joint venture. Will you be forming a subsidiary with Invex or how will it work and what is the revenue guidance once our 10 Cr. facility is set up including this new business vertical?
- Om Prakash Garg:** We are just making our preliminary financial projections, but we expect the revenues of at least 30 Cr. starting the first quarter of next financial year and we will split the profit and loss at 50:50 ratio with the partner.
- Anand Vir:** So, will the partner own part of Cupid or just part of that joint venture. Will it be a subsidiary?
- Om Prakash Garg:** No, it will be only a joint venture, not a subsidiary of Cupid.
- Moderator:** Thank you. The next question is from the line of Jayant Raghavan, an Individual Investor. Please go ahead.
- Jayant Raghavan:** I have some very brief questions. You mentioned that we lost certain revenue in this quarter because of the items in transit which could not be delivered, and revenue could not be recognized. So how much was that sir, in terms of topline and how much would that have added to the bottomline?



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- Om Prakash Garg:** It is 18 crores worth of goods in transit right now. So, it would have added another 3 to 4 Cr in profit.
- Jayant Raghavan:** Then, second question is, when we see the new normal pre covid, we were seeing that Cupid was showing a bottomline of around 10 crores per quarter. So now understandably for the first two quarters, we have this transit issue and the COVID situation. So, can we expect that in the coming quarters, the December and thereafter we will be hitting 10 crores bottomline?
- Om Prakash Garg:** Yes. That is our projection for the next two quarters, we should have a total profit of about 20 Cr.
- Jayant Raghavan:** Assuming that everything goes normal, right?
- Om Prakash Garg:** Yes. Assuming all the possible restrictions caused by COVID virus as I mentioned earlier would be removed.
- Jayant Raghavan:** Now, in terms of production, are we back at 100% levels or are we still facing labor shortage, material shortage, is the production still impacted or are we at the pre-COVID level?
- Om Prakash Garg:** Now, during September month, we are almost back at 100% of capacity. Earlier as you have mentioned, we had disruptions due to shortage of manpower and also some problems with the shipping of material, movement of material due to Corona. But now we are almost back to normal.
- Jayant Raghavan:** So, that means October onwards we can assume that things will be back to the pre-COVID new normal of 10 Cr. and all this, right?
- Om Prakash Garg:** Yeah. That is our expectation. That is our projection.
- Jayant Raghavan:** So, this 10 Cr. that we are expecting can be only from the condom business, right? So, the diagnostics should be a top up on whatever we are doing on the 10 Cr., right?
- Om Prakash Garg:** Yes, this projected 10 Cr. profit would be only from the condom business.
- Jayant Raghavan:** And sir, regarding the dividend, we have declared a dividend of Rs. 1 this time because of the COVID situation. But do we have a dividend policy or are we expecting to increase the dividend in the coming quarters?
- Om Prakash Garg:** Well, our current thinking is that we would like to maintain a dividend of 40% or Rs. 4 per share as we did it in the last financial year. So, in this term dividend is Rs. 1 per share and we hope to make up the difference in the final quarter results after March.
- Jayant Raghavan:** Great. And is there any update on the succession planning or new CEO, or it is still in process?



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- Om Prakash Garg:** No, we have continued our search for a possible CEO candidate, but as of now we are unable to locate one who could fulfill all the requirements of the business. But in the meantime, our current team has been doing a reasonable job including this expansion of business now with the new vertical.
- Jayant Raghavan:** Very good and sir one last point. I just talked to the local chemist and they tell me that there is a lot of demand even for the pregnancy test devices. So, in your diagnostics business, you mentioned different types of tests. Is there a scope to include the pregnancy test as well?
- Om Prakash Garg:** That is under our consideration, yes, pregnancy test kits.
- Jayant Raghavan:** And the last question is about the AGM. Have we scheduled anything?
- Om Prakash Garg:** It would be virtual on December 22nd at 12 noon.
- Jayant Raghavan:** So, it would be online, right? So, we can interact like all other companies through this, right, audio-video?
- Om Prakash Garg:** Yes, online.
- Moderator:** Thank you. The next question is from the line of Ayush Mittal from Mittal Analytics. Please go ahead.
- Ayush Mittal:** Sir, I am asking that this 120 Cr. order book mentioned in the press release, does this include the order from Brazil that you mentioned in the last quarter?
- Om Prakash Garg:** Yes, it does include partial shipments to Brazil. The dispatch schedule from Brazil has not been finalized, but it seems that part of the order maybe extended into the first quarter of next financial year. But yes, to answer your question, bulk of the Brazilian order is included in this year.
- Ayush Mittal:** Sir, I am asking that the current order book of 120 crore, does this include the order from Brazil also?
- Om Prakash Garg:** Yes, we have.
- Ayush Mittal:** Sir, there was no announcement of the order from Brazil that you have talked about while you had said that going forward, we will be making all the announcements on the exchange of the order that we receive?
- Om Prakash Garg:** Sorry, I still did not get the last part of your question.
- Ayush Mittal:** No, problem sir. I will send an e-mail. Sir, what is the contribution of the female condom in our order book as of now?



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- Om Prakash Garg:** From Brazil?
- Ayush Mittal:** What is the contribution of the female condoms in the total order book as of now?
- Om Prakash Garg:** As of now, the total order for female condom is about 45 Cr.
- Ayush Mittal:** Sir, what is the expectancy on further orders on the female condom side going forward?
- Om Prakash Garg:** You mean the projected profit?
- Ayush Mittal:** No, are you expecting more orders going forward?
- Om Prakash Garg:** Well, we are expecting some, but it would all depend on the budgets from these two governments, mostly Brazil and South Africa. So, we are expecting some, but we are not sure how much it would be for next year.
- Moderator:** Thank you. The next question is from the line of Dipesh Sancheti from Shefali Art. Please go ahead.
- Dipesh Sancheti:** Just a question on the new diagnostic businesses you are planning. There is a company which is available in the listed space and which make US FDA RT PCR kits. And month on month, the prices have gone down from 325 to 230 to recently 172 and they have sold something like 9 lakhs to 8 lakhs kits per month. Will it be viable for getting into the business looking at these prices?
- Om Prakash Garg:** Yes. We are projecting a margin of 20% as compared to these market prices which are currently in operation.
- Dipesh Sancheti:** Since the prices are already falling and also one of the participants had said about pregnancy kits, pregnancy kits generally had the MRP of Rs. 50. Would it be really viable into getting into this pregnancy kits business?
- Om Prakash Garg:** No, we have to look into the details. But our thinking is that we would include manufacturing of pregnancy kits as well into our current medical devices project scope.
- Dipesh Sancheti:** So, what sales are we looking in Q4 with this diagnostic business. Like will it be operational, will it be commercially operational?
- Om Prakash Garg:** Yeah, we would start the commercial operation at the end of February or beginning of March, that is our projection.
- Dipesh Sancheti:** So, sir, the proper sales would come out maybe in the first quarter of FY21?



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- Om Prakash Garg:** FY22.
- Moderator:** Thank you. The next question is from the line of Vaibhav Badjatia from HNI Investment. Please go ahead.
- Vaibhav Badjatia:** Sir, just wanted to get a sense from you in terms of highlights of the budgets that you are receiving from various countries and institutions regarding allocation towards condom distribution. Great if you can provide your views on that whether due to this COVID funds are getting diverted to other areas and therefore there can be some declining orders from the institutions and countries to which we sell to?
- Om Prakash Garg:** We see a growing market for the condom business especially the tender business from the international market. However, there may be some short-term fluctuations due to allocation of funding due to Corona impact. But in general, the demand for condom is going up and the supply is not increasing in proportion. So, we are being one of the lowest cost producers of condoms anywhere in the world, we are expecting a good share of orders for Cupid going forward.
- Vaibhav Badjatia:** And sir, any new country that you are planning to enter in terms of the condom business, any new country you are seeing that they might be releasing new tenders and you can cater to the requirement?
- Om Prakash Garg:** Yeah. We have added couple of new countries. One is Papua New Guinea and Bolivia and also couple of other smaller countries in Sub Sahara Africa.
- Moderator:** Thank you. The next question is from the line of Rishabh Jain, an individual investor. Please go ahead.
- Rishabh Jain:** Sir, is there any plan of the company to incur any major capital expenditure in the coming 5 to 6 years?
- Om Prakash Garg:** Increase the production capacity?
- Rishabh Jain:** No, like expenditure on some big assets, on some capital expenditure on the fixed assets? Is there any plan of the company and there is any compulsion for the company to replace any asset, to replace any machinery of the major amount in the upcoming 5 to 6 or 7 to 8 years?
- Om Prakash Garg:** For the condom business, we are not contemplating any major requirements for capital expenses. But for the medical devices project, we would be looking at about 6 to 8 Cr. of investment.
- Rishabh Jain:** So medical devices and testing business we have to incur only 6 to 8 Cr. of capital expenditure?
- Om Prakash Garg:** A total of 6 to 8 Cr. for medical diagnostics division.



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- Rishabh Jain:** So that will include all the things of preparing any manufacturing facility, medical devices, right?
- Om Prakash Garg:** Correct.
- Moderator:** Thank you. The next question is from the line of Anand Vir, an individual investor. Please go ahead.
- Anand Vir:** Sir coming back, any update on the US FDA approval and also, we were looking at rather we had our options open for any acquisitions. Does this new vertical put that off the chart?
- Om Prakash Garg:** Now, in terms of US FDA, we are expecting the results of the contraceptive efficacy study by June or July next year and then it would be submitted to US FDA and we are expecting to have their approval by the year end, by December 2021 assuming that their decision making process has not slowed down due to additional work from Corona related vaccines development. And what was the second part of your question, please repeat?
- Anand Vir:** Are we actively looking at acquiring any smaller companies or entering any new business verticals or is this is?
- Om Prakash Garg:** Not right now.
- Moderator:** Thank you. The next question is from the line of Palash Agarwal, an individual investor. Please go ahead.
- Palash Agarwal:** Sir, I wanted to ask that, when we had a conference call at the end of the last quarter, you have guided us that we are about to receive an order from Brazil for female condoms for about 45 crores. Have we received that order?
- Om Prakash Garg:** Yeah. The new order from Brazil is 45 Cr.
- Palash Agarwal:** Actually, we didn't receive any notification about this or any announcement of this on the exchange, so I didn't know about that. Thank you so much for that. Another question I wanted to ask is about these medical devices business that we are entering, what kind of asset turns are we looking at? I mean we are investing 10 Cr. and what kind of revenue will you think that can be generated at full capacity?
- Om Prakash Garg:** Well, we are still looking at the possible revenues. But by the end of next financial year, we could be looking at a significant increase in revenue from the medical devices project alone by the end of FY2022.
- Palash Agarwal:** Sir, I am saying that since this is a very lucrative space and we will be able to generate 80 to 100 crores of revenue by investing 10 crores into the assets. I want to understand what kind of



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competitive landscape, what kind of competition do we expect for these products that we will be manufacturing in medical devices? Will there be strict competition, and will you be able to earn margins?

Om Prakash Garg: There are 6 to 7 manufacturers already in operation. The good news is that the demand is extremely high due to Coronaviruses throughout the world. So, the current manufacturers are not able to meet all the requirements and requests from different countries. So, we see a positive situation for our production line as well going forward.

Palash Agarwal: And sir just another follow-up question on this. Basically, the medical community has been expecting the vaccine for Coronavirus by maybe in 8 months, 9 months or another year or so. If a good vaccine comes out and then, do you think that demand for these products will persist in the future?

Om Prakash Garg: Well, the vaccines when they come out and they get tested and when they are available for all the citizens, it would take from 1 to 2 years. In the meantime, this virus is continuing to spread all over the world. So, we suspect that the demand for this rapid test kits would continue. However, we would continue to monitor the supply and demand situation and there are some other products we could be looking as well.

Moderator: Thank you. The next question is from the line of Subbu Murugesan, an individual investor. Please go ahead.

Subbu Murugesan: One of the questions I had was that do you have an update on the US market entry? In the previous call you mentioned that we will be doing some pregnancy efficacy studies and the potential launch will be sometime later next year, is that still very the timeline? Any update on that?

Om Prakash Garg: Yes, like I mentioned earlier, we are planning to submit the results of this pregnancy efficacy study results to US FDA in July next year and we are expecting the approval from US FDA at the end of the year. At that time, we would be launching the sales actively of our female condoms in the US.

Subbu Murugesan: And any update on South Africa, sorry, it has already been covered, I had some connection issues. But if you could just let me know, are we expecting any orders from South Africa and if yes, how big is it going to be?

Om Prakash Garg: The budgetary situation in South Africa has been seriously impacted by the Corona. So, we do expect some orders, but we are not sure yet what their budget allocation would be for next year.

Subbu Murugesan: Any other big orders you are expecting apart from Brazil and South Africa? Is there anything else you are working on?



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- Om Prakash Garg:** For female condom, besides Brazil and South Africa, we are expecting some orders from WHO, UNFPA. These orders are in limited quantities but from several African countries. So, we expect those orders to continue in the next year.
- Moderator:** Thank you. The next question is from the line of Santhosh Jain, an individual investor. Please go ahead.
- Santhosh Jain:** Just wanted to understand the order situations, as you currently have the order book of 120 Cr. which you expect mostly to be executed by the end of this financial year. So next year we are not sure what kind of orders we will be getting from either Brazil or South Africa. So, is it possible that there could be a significant downfall in the revenues on the next financial year on a year-on-year basis?
- Om Prakash Garg:** Well, we do not know that. As I mentioned, we are still expecting new orders for the next financial year. But part of this 45 crore order from Brazil would continue at least into the first half of next year and we are hoping that in the meantime we would receive additional new orders.
- Subbu Murugesan:** When you receive the Brazil order for the first time, it was roughly 120 Cr. and you said that you were the only company which was qualified to supply female condoms to Brazil. But then the order size went down to 45 Cr. So, has any other company also become eligible for supplying to Brazil and going forward do you expect the competition to increase there?
- Om Prakash Garg:** No, the competition also received similar quantity of order and we don't expect any increased competition because the number of pre-qualified supplier is limited. There are no new manufacturing units being approved by WHO, UNFPA.
- Subbu Murugesan:** And any update on the JV which you were working on South Africa, you are supposed to set up a JV in South Africa for manufacturing the condoms over there itself. So, there were lots of issues which were there previously. So, what is the update on that?
- Om Prakash Garg:** Our South African partner, after discussions with the Department of Health there and the calculation of all the expenses and the expected revenues, they have decided not to proceed with the joint manufacturing unit in South Africa. It is not a profitable situation right now. It may change if the government provides some more incentive for local manufacturing unit. But right now, it is on hold.
- Subbu Murugesan:** Does that mean we can lose out the South Africa business?
- Om Prakash Garg:** No, our export orders will continue. I was talking about the manufacturing of condoms in South Africa through this joint venture. That project is on hold. The rest of the business will continue.



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- Subbu Murugesan:** I mean in terms of your test kit business, what kind of EBITDA and net margins you are expecting from this business?
- Om Prakash Garg:** From which business?
- Subbu Murugesan:** The new test kit business?
- Om Prakash Garg:** That would be, we are expecting a net margin of about 20%.
- Subbu Murugesan:** And what could be the EBITDA margin?
- Om Prakash Garg:** At least 30%.
- Moderator:** Thank you. The next question is from the line of Sashreek, an Individual Investor. Please go ahead.
- Sashreek:** Sir, is there any update on the succession plans of the company for a CEO?
- Om Prakash Garg:** As I mentioned earlier, we are still looking for a CEO, but so far, we have not been able to locate a suitable candidate.
- Moderator:** Thank you. I now hand the conference over to the management for closing comments. Over to you, sir.
- Om Prakash Garg:** Thank you. We would like to thank all our shareholders for their continuing support to the company even during the difficult Coronavirus situation. Also, I would like to thank all our employees for their dedicated work during the year in spite of all the problems we had to face due to Coronavirus. And I would like to assure everyone that the entire Cupid team is working to improve its performance as we go forward both in terms of increasing the revenue and in terms of reducing the costs wherever possible. Thank you for attending the conference.
- Moderator:** Thank you. Ladies and gentlemen on behalf of Cupid Limited that concludes this conference. Thank you all for joining us and you may now disconnect your lines.