



# CUPID LIMITED

Manufacturers and Suppliers of Male & Female Condoms

Date: - 3<sup>rd</sup> June, 2019

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, 5<sup>th</sup> Floor, Bandra-Kurla

Complex, Bandra (East),

Mumbai - 400051

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SCRIP CODE: CUPID

**Subject: - Conference call Transcript**

Dear Sir / Madam,

With reference to captioned subject, we hereby enclose the transcript of Q4 & FY 2019 conference call which was hosted by the company on 30<sup>th</sup> May, 2019 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**

CIN No : L25193MH1993PLC070846

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“Cupid Limited Q4 & FY-19 Earnings Conference  
Call”

**May 30, 2019**



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



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**Moderator:** Ladies and gentlemen good day and welcome to the Cupid Limited Q4 and Full-year FY19 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, 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 Ryman. Good evening to all of you and thanks for joining this Q4 and full-year FY19 Earnings Call for Cupid Limited.

We have mailed the 'Press Release' to you. I hope you have received the same and we have also uploaded this on our website and the stock exchanges.

To discuss the results 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 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 the uncertainties and the risks that we face. These uncertainties and risks are included but not limited to what we have mentioned in the prospectus filed with SEBI and subsequent annual report which you can find on the web site.

With that said, let me hand over the call to Mr. Garg. Over to you sir.

**Omprakash Garg:** Thank you, Binay. Good evening, ladies and gentlemen. On behalf of Cupid Limited I would like to welcome you all at the 4<sup>th</sup> Quarter FY19 and the Full-year FY19 Earnings Conference Call today. As Binay had mentioned we hope that you have had a chance to go through the press release we had issued after the board meeting last night. In any case I will go through some of the highlights.

We had an excellent fourth quarter. We had recorded the maximum sales ever in the 25 years history of Cupid at approximately 37 Cr. Not only that during the quarter we had recorded the highest ever percentage of export sales at 95%. As a result our net profit increased from approximately 2 Cr in the prior year quarter to about 4.3 Cr during the fourth quarter FY19. Similarly for the entire year FY19 we have recorded the highest sales ever at 85.5 Cr recorded in the 25 year history of the company. Further just like the quarter our export percentage during this financial year '19 was the highest ever at 83%.



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In terms of the bottom line we have provided the three reasons for the reduction in net profit in the press release and we can discuss this further during our Q&A session. Now I would also like to mention that during the 4<sup>th</sup> quarter we had the opportunity to enter into the Brazilian market for the first time and as many of you are aware this is one of the largest Condom market in the world. Further we are taking additional steps in preparation to enter the lucrative US Female Condom market. We would have more discussions during the Q&A session.

We also have a healthy order book at 143 Cr as on Mar 31<sup>st</sup> 2019 and as you will recall this time, in the last quarter we had 130 Cr and we have dispatched approximately 36 Cr out of that and have added 49 Cr additional new orders during the fourth quarter bringing the total order book to 143 Cr. In terms of dividend earlier we had declared an interim dividend of Rs. 1 per share and at our last night's board meeting we have recommended final dividend of Rs. 3 per share bringing to a total of Rs. 4 per share for FY 19. This is in addition to the 20% bonus shares we had declared earlier the year.

Demand for both Male and Female Condoms is robust and the reasons are again mentioned in the press release but briefly I would point out that the donor funding for the procurement of Condoms has been the best ever in several years, resulting in more orders for the manufacturers like Cupid. The second positive aspect is that the consumer demand from the lower and middle income countries has increased significantly during the year and is expected to continue over the next few years. The third reason is that the national governments like Brazil, South Africa and India have expanded their budgets for the procurement of Condoms. This is to prevent the spread of HIV AIDS as well as to prevent unintended pregnancies.

Now looking at the future, based on the current data available we are targeting an increase of 20% to 25% in terms of both the top line and bottom line for FY20. With these words I would like to open the discussion now for the Q&A session. Thank you.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Omkar Kulkarni, who is an individual investor.

**Omkar Kulkarni:** My question is out of this 143 Cr what's the contribution from Male and Female and what's the timeline for this 143 Cr? that's the first question.

**Omprakash Garg:** The split between Male and Female Condoms are, Male Condoms 60 Cr and the balance 83 Cr is from Female Condoms. Out of these we expect to execute between 105 to 110 Cr by March 31<sup>st</sup> 2020. The balance of the order will be carried into the following year FY21.

**Omkar Kulkarni:** So, this means this current financial year we will be having higher contribution from Female?

**Omprakash Garg:** Yes, we should have more contribution from Female based on the order book.



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- Omkar Kulkarni:** That will be good for your overall margin that's what I'm saying.
- Omprakash Garg:** This is including, all the Female Condoms orders including Brazil.
- Omkar Kulkarni:** I'm saying this will help your margins significantly because it is getting higher margins, Female?
- Omprakash Garg:** Correct.
- Omkar Kulkarni:** What's the status on the US FDA and all the process regarding that?
- Omprakash Garg:** We have taken several steps with respect to US FDA. First of all we have applied for the trade mark registration and it should be coming through within a year. Second step we have taken is that we have engaged a consultant to help us in filing the 510K application. As a third step, we have started the Contraceptive Efficacy study to prove that it is a safe product to use. In other words there would be no pregnancy while using Cupid Female Condoms. Also we have just started to sell Cupid Female Condoms online to US customers. Based on this we are expecting at least \$ 1 per piece revenue after deducting the marketing expenses there. Our target is to get the active sales and marketing going in the second half of 2020 after the pregnancy study results are available in June 2020.
- Omkar Kulkarni:** All in all you expect commercialization or the marketing and sales of product to US in the second half of 2020?
- Omprakash Garg:** We would make a start but more business would be done I think in 2021.
- Omkar Kulkarni:** When do you think the approval from US FDA would come?
- Omprakash Garg:** We are hoping it will be in the second half of 2020.
- Omkar Kulkarni:** Right now how many players are there?
- Omprakash Garg:** There is only one recognized player who is eligible to supply to the US.
- Omkar Kulkarni:** So, 100% is with them currently?
- Omprakash Garg:** Right now 100% is with them and our target is to capture at least 10% of the \$10 million US prescription category business when we do enter into that market. So, it would be about a million-dollar sales we are targeting for the first year which is about 7 Cr additional revenue.
- Omkar Kulkarni:** So, \$10 million is the overall market you are seeing?



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- Omprakash Garg:** According to the industry source the current US prescription market is about \$10 million. In addition there is a demand for Female Condoms from several big cities in US, particularly New York City and San Francisco.
- Omkar Kulkarni:** Does US government also come with a tender for FC?
- Omprakash Garg:** Not yet. Most of the purchases are done by states and the individual cities, not through national tender so far.
- Omkar Kulkarni:** And one question is on the Brazilian tender side which you had mentioned earlier this year that the overall tender size will be around 30 million pieces, so how much of this is captured into the sales and what's the status on that tender from Brazil?
- Omprakash Garg:** The exact quantity for the tender from Brazil is 29.3 million pieces and with a total value of about 74 Cr. In the fourth quarter we have dispatched about 6 Cr worth of Female Condoms to Brazil.
- Omkar Kulkarni:** So, this 74 Cr is for Cupid Limited?
- Omprakash Garg:** Yes, this is the order exclusively for Cupid.
- Omkar Kulkarni:** And what was the total tender size out of this 29.3 million?
- Omprakash Garg:** The total quantity was 35 million pieces as I had mentioned in the last con-call.
- Omkar Kulkarni:** So, out of 35 million, 29.3 has been awarded to Cupid on basis of only lower price or what was the other criteria for issuing such a huge order for Cupid?
- Omprakash Garg:** There were several criteria including quality of product and meeting regulatory requirements. In addition there was a three-member team who audited our facilities. So, with all those activities we qualified to participate in this international tender for the first time and as a result of that we were awarded 29.3 million out of a total of 35 million pieces tender.
- Omkar Kulkarni:** One last question is on the JV in Africa, what is the current status?
- Omprakash Garg:** Unfortunately the additional condition imposed by the lender in the JV were not making profitable proposition for the two partners, the South African partners as well as Cupid. So, we have more or less dropped that JV idea. However another South African party has approached us and they have offered more lucrative terms to set up local manufacturing unit for both Male Condom and Female Condoms. That party would be visiting Cupid next week for further commercial discussions.



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- Omkar Kulkarni:** In the press release you have mentioned two customers from Africa, they have been added, so are you talking about them?
- Omprakash Garg:** No, these are the two new customers who had applied to the South African treasury and they got orders to sell Cupid Female Condoms to the government there. So they are not part of the JV. That is like partnership sales what we call sales through agents.
- Moderator:** The next question is from the line of Vaishali Kumar from Vihan Investments.
- Vaishali Kumar:** I wanted to understand that in this US market our competitor at what price they are selling their product?
- Omprakash Garg:** As we understand it's about \$3 per piece.
- Vaishali Kumar:** So, is that a fair assumption that we can double our profit in next 2 years?
- Omprakash Garg:** Yes it is a fair assumption.
- Vaishali Kumar:** In our new customer base which is from South Africa, this is for which segment, for Male Condom or Female Condom?
- Omprakash Garg:** We have both, for Male Condoms as well as Female Condoms. But as you are aware we are exporting Male Condoms for the first time to South Africa whereas we have been exporting Female Condoms since 2010.
- Moderator:** The next question is from the line of Pratik Chauhan from Tik Investments.
- Pratik Chauhan:** Are you planning to enhance your business into the market of menstrual cups or something of like that? It is also made up with latex rubber.
- Omprakash Garg:** We have been thinking about it but we have not prepared any business plan as yet.
- Moderator:** The next question is from the line of Akash Banbalia, who is an individual investor.
- Akash Banbalia:** In last conference call in Quarter 3 you said that December quarter had 10 crores of sales because two of the major orders which were 20 crores approximately were dispatched in Quarter 4 because the LC did not come in place from the client.
- Omprakash Garg:** Correct.
- Akash Banbalia:** So, that means if I reduce those 20 crores from this quarter then we have not done that great. The company has not performed that great.



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**Omprakash Garg:** No the reason for that is one of the two customers which was Tanzania, they came through with LC and we have fulfilled the entire quantity for the fourth quarter, a total of 8.5 Cr so far. However in terms of Brazil the purchase orders we had received in the fourth quarter was worth only about 6 Cr and the reason for that is they have their own regulatory and import restrictions. So, that is the reason that the total quantity was not exported from Brazil. However in June quarter, we are expecting at least 11 Cr worth of goods.

**Akash Banbalia:** I'm not able to understand. That means that December quarter was drastically very weak if this was the condition then because you told in the last conference call that the two sales were to be considered in this quarter. We couldn't dispatch it because the LCs did not come, letter of credit. So, either we should take it in this quarter or last quarter. So, I just wanted to understand you told is that in last quarter 20 crores should be considered. It was just a formality of LC that came bit late in Quarter 4, so is that because you told as the result come late of Quarter 3, so you told LCs came into Quarter 4 otherwise in this 20 crores this to be considered in December quarter. So, that means we are assuming that the December quarter would have a top line of 30 crores.

**Omprakash Garg:** We were expecting a total sale of 20 Cr as you have rightly mentioned. However the funding from Brazil came only for 6 Cr and 8.5 from Tanzania for a total of 14.5 crores instead of that original 20 crores.

**Akash Banbalia:** But if we see from March '17 to March '19, the yearly, we have hardly grown. It is 85 crores in March '17, 80 crores in March '18 and 85 crores in March '19 for the yearly, total topline that we have. But the employee salaries have increased from 5 crores to 7 crores that is almost a 50% hike. But our top lines are not performing and our employees are getting benefited and that is not something I can correlate with.

**Omprakash Garg:** No, we moved up from about 80 Cr to 85 in FY 19 and one of the reasons is that the major contracts from South Africa were completed last year. So, that is also reflected in the 85 Cr top-line.

**Akash Banbalia:** What you are saying is correct but if you compare March '19 to even March '17, even in March '17 we had achieved 85 crores. So, in past 3 years the company is not able to even cross 100 crores. but the salaries have increased from 5 crores to 7 crores, so there is a 50% hike overall what I can see.

**Omprakash Garg:** First of all we are targeting to cross over 100 Cr in the current financial year as I indicated earlier.

**Akash Banbalia:** That is what we are trying to achieve that is a future thing that we are expecting from the management. But looking at the past I am not able to understand on what basis or what governing the 5 crores in salary costs have gone up to 7 crores, why there was a 2 crores extra



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payment when the company has not performed that. When the company has not grown 50% why the employees have taken a hike of 50%?

**Omprakash Garg:** Some of it is related to the business development expenses in Brazil specifically.

**Akash Banbalia:** I'm sorry but fail to understand but there is no development since past 3 years. It's on an average 80 to 85 crores that's the flat top line that we are increasing. And if I see the PBT, PBT if you see from 32 crores we have gone down drastically to 20 crores.

**Omprakash Garg:** What has gone down to 20 Cr?

**Akash Banbalia:** In March '17 we were at 32 crores PBT (profit before tax) and now at March '18 we are at 20 crores. If we see there is a drastic fall.

**Omprakash Garg:** And we have given those three reasons, 3 Cr relates to the inventory write-off, another 3 Cr is the business development expenses and about 2.5 to 3 Cr is the result of lower percentage of Female Condoms as compared to the Male Condoms. So, that would make up the difference of the reduction in EBITDA you are mentioning.

**Akash Banbalia:** We had a 3 crores of inventory loss, when did this happen, which year?

**Omprakash Garg:** Could you please speak a little louder about your question on the inventory?

**Akash Banbalia:** When did we lose 3 crores of inventory that we scrapped out, which year?

**Omprakash Garg:** This is in March '19.

**Akash Banbalia:** We lost 3 crores and the reason for that why it was scrapped?

**Omprakash Garg:** The reason we have given there is that with the government of India we have supplied some of the orders and we were expecting the follow-up orders which were delayed due to their internal process and maybe bureaucratic setup and it did not come through until the expiry date of the Condoms. So, as per the regulatory requirements we had to write-off that inventory unfortunately. If that would not have been the case our profit shown would be 18 Cr instead of 15 and with respect to the other 3 Cr business development expense, this is a reasonable expense. I know 3 crores is lot of money but we are looking at 74 crores worth of orders from Brazil in the current year and they are already planning a similar tender for the next year. and I must point out that to enter into the Brazilian market many-many other manufacturers and our competitors have tried and very few have succeeded because their requirements are quite stiff in terms of the product quality, registration requirements, auditing requirements and of course the little bit of language issue is there as they deal in Portuguese. So, what I'm saying is that this business development expense is worth it for this largest Condom market in the world and



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hopefully we would be active there for next several years. So, we should not just look at this year, of course impact on bottom line but look at more in the future.

**Akash Banbalia:** I will buy that point of yours but if Indian government had failed to take up our orders, did we try means I barely see—as a user I barely see—in our Indian domestic market the Cupid brand. So, if we had 3 crores of inventory available, we could have sold it in within the Indian market itself which we didn't do it.

**Omprakash Garg:** I'm sorry I'm not getting your question, so could you please speak a little louder again?

**Akash Banbalia:** I'm saying basically we have 3 crores of inventories, why didn't we try and sell it in the Indian market through retail channel? Why did we have to scrap it?

**Omprakash Garg:** The government order did not come in time.

**Akash Banbalia:** I would like to interrupt; I was saying if the orders didn't come, why didn't we sell it through retail channel like how Durex and all other brands Kohinoor sell their products through retail channel, why didn't we sell the 3 crores? We could have earned and earned a good margin also over there.

**Omprakash Garg:** No, as you know there is an expiry on each of the Condom and unless it is sold before the expiry date that Condom has to be discarded. This is actually the first time ever Cupid has done so and now we have the new order from the same department of health, government of India for 25 Cr which we would be starting in June.

**Akash Banbalia:** What I remember generally the expiry date of a Condom is basically a one-year. So, if we had created that 3 crores of material in this financial year also, the expiry of all those Condoms would come in the next phase, we could have sold it. We could have kept it in our inventory under the closing stock and it would have sold it. But we have started that is what I'm not able to understand or either we created beforehand in financial '18 and we took it forward then we scrapped it. What was the manufacturing cost?

**Omprakash Garg:** No, manufacturing cost is our normal cost; this is the amount we have written it off. Now to answer your question it's illegal to hold the Condoms which have expired. We are not allowed by law to keep it in our premises, nor are we allowed to sell it even the discount.

**Akash Banbalia:** I'm asking when was this 3 crores inventory manufactured, the date of manufacturing?

**Omprakash Garg:** It was 2017-18, about a year ago.

**Akash Banbalia:** And they didn't give us a permission. Suppose this order was prepared for March '17-18 we could have sold it before and we knew that the Condoms come with an expiry date. So, we



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might have waited for six months, for next six months did we try and sell it off or how long did we wait till the end moment because if there is an expiry you might not even given to Indian government?

**Omprakash Garg:** No, the Government authorities they were aware when the Condoms were manufactured and what is the expiry date. However they did not come through with the follow up order as had been agreed and planned. So, that is why in this new 25 Cr order you have to be more careful in terms of coordinating the order book from the government with the production schedule.

**Akash Banbalia:** As you just mentioned that there was a business development cost of another 3 crores, so that is reflected since March '18 to March '19, there is an increment of other expenses of 5 crores that I can understand. But there is no answer for my question for the employee cost increase of 2.5 crores that is 50% because the only pain point that I feel that the company did not perform well is the employees couldn't give a good turnover.

**Omprakash Garg:** I guess this is one way to put it.

**Akash Banbalia:** So, how do we compensate and out of the 7 crores what is the top management taking out of this thing and in 5 crores in March '17 what was the management taking out as a bonus? Can you give me a brief on that because the only factor is basically is creating questions in our mind of all the investors is that the company used to give great performance and all of a sudden it has gone to average and the employee cost is increasing, the other expenses are increasing and the market cap has also following 50%. So, there are a lot of questions that we are scared of.

**Omprakash Garg:** In terms of the management compensation and expenses, there is absolutely no increase between '17 and '18 and '18-19. And just for your information out of the 12 Condom manufacturers in India only 3 are profitable including Cupid.

**Akash Banwalia:** What is this other income of 2.47 that we have generated that is through investments or through the interest income?

**Omprakash Garg:** Mostly it is investment income plus there is about 80 lakhs of export incentives.

**Akash Banbalia:** The 80 lakhs that we are getting will be in proper cash format or can we generate some interest income or it will be just credit whenever we are paying the custom duty or anything while exporting?

**Omprakash Garg:** No, this is the export incentive provided by the government of India to Cupid as a manufacturer and this amount, this license we can either use it to import machinery for Cupid use or we can more or less cash it out.



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**Akash Banbalia:** So, what is the plan that the management is taking? Are we planning to have one more unit installed or are we planning to cash out?

**Omprakash Garg:** Right now our plan is to cash it out because we have acquired all the machinery we needed in this year earlier. So, there is no major CAPEX requirement in next 2 to 3 years, so we will cash it out.

**Akash Banbalia:** And are we planning to cash out and make our investments or are we going to give it or put it in FD or something or we are planning to acquire?

**Omprakash Garg:** Most of over 32 Cr cash reserves are in either FDs or in mutual funds. Our cash position is pretty good at 32 Cr.

**Akash Banbalia:** I would also like to understand as you mentioned in the earlier conference calls as well that this 80 crores or whatever we are achieving since past 3 years and our machineries are running at 90% productivity and now you just mentioned that we will be crossing 100 crores this year. So, are the existing machineries have been upgraded or the new line of plant and machinery have started the production?

**Omprakash Garg:** Yes, like I have mentioned in the last con call we have increased our capacity from 400 million pieces per year to 560 million pieces per year and they have been completed in March and now the additional production units are manufacturing Condoms for our export customers. So, it's all done, accomplished.

**Akash Banbalia:** Last question on the dividend front; the reason I'm asking this question is because I fail to understand if as an investor and I'm putting the money in your company I feel that you have the capacity to giving a 20% or 25% credit of it that is why we are investing. But if you give my money back to me, so that doesn't make sense. If I had the knowledge how to make my own money 25% I wouldn't have invested in companies. So, why are we giving out dividends and paying taxes and our cash flows are getting disturbed? I mean that you could still invest in mutual funds or invest in CAPEX or marketing expense or the business development expense rather than giving back to the shareholders and to the Indian government through dividend distribution tax? That amount can be generated for that purpose.

**Omprakash Garg:** As you are aware our cash position is quite strong and we are almost a debt-free company and we are generating additional cash every quarter. So, our plan going forward is to get into diversification, either try to acquire another business or go into two related business and we are looking at Female Sexual Health and Wellness area over the next two years.

**Akash Banbalia:** I understand, so that's exactly is my point so when we are having so many of plants that requires good amount of investment. There is no need for a company like Cupid which is a small-cap company to give away their cash to government by issuing dividend. We could have



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some way acquired or something or you could have just invested that money in mutual funds or through FDs or something and kept it with you. Because once you give it back to shareholders it no way coming back to the company.

**Omprakash Garg:** So, I wish you can convince the rest of the 18,000 shareholders that Cupid should not be giving them a dividend.

**Akash Banbalia:** I mean if this sounds logical then everybody would be convinced that if you give us an assurance that the Cupid can give us as you just mentioned in the initial call that we can give 20%-25% rate of return by giving Rs. 3 per share. Why an investor is investing in the companies because it doesn't know how to make 20%-25% of his money. He is living in another company that is why he invests. But getting back the same money and then we go in future debts or something then we take interest that's where I have a disconnect at.

**Omprakash Garg:** I would really appreciate if you could send us a note with all these brilliant ideas and we will definitely consider modifying some of our long-term financial planning.

**Akash Banbalia:** Okay fine, thank you.

**Moderator:** The next question is from the line of Subbu Murugesan, who is an individual investor.

**Subbu Murugesan:** My first question is in terms of the inventory that you lost. You said that you have to scrap 3 crores of inventory, so what steps have you put in place so that this does not repeat in the future because 3 crores is a substantial sum because if you had not lost that in inventory then the profit would have been fine your? So, basically have you put in place any steps for the future so that this thing doesn't get repeated?

**Omprakash Garg:** A very good question and thank you for that. We have placed several checkpoints in order to avoid a similar situation happening again. The most important one is that unless we have a written order from the purchasing department of the government we will not take manufacturing. However times they call us and say they need Condoms badly 'please go ahead and manufacture them'. So, in other words we will not take any more chances based on their phone calls and verbal commitments. So, this way it would be safe that we are manufacturing against their purchase order.

**Subbu Murugesan:** And my next question is in terms of the Brazilian order, who said that you have about 68 crores that is remaining. Do you plan to ship that all in this year or how is the split between Q1-Q2-Q3-Q4 of this 68 crores Brazilian order?

**Omprakash Garg:** We are planning to do about 42 Cr of Female Condoms until March, 2020.

**Subbu Murugesan:** And this will be equally split like 10 crores each quarter?



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- Omprakash Garg:** Yeah, we would like to do it equally. It's a lot easier in terms of production planning. However it doesn't depend on Cupid entirely. The customer budgets and their requirements may vary but we prefer the way you are suggesting. It should be stretched equally each quarter.
- Subbu Murugesan:** One question is on the South African market, so now that the JV is not going ahead how much we plan to get from the South African market in the future and what is your expectation now for the next few years from this market in terms of revenue?
- Omprakash Garg:** Like I had mentioned in my last call there are two categories of orders we were expecting. One is directly from the tender and last year we had received orders worth about 17 Cr which would be completed by September. Then the government is supposed to issue new quantities to manufacturers like Cupid for the year 2 of the 3 year contract. We don't know yet how much Cupid would get. The total quantity is 40 million pieces. The other channel we are expecting and we were hoping is through JV which has been delayed and now the new partner who is visiting us next week he had negotiated with the health Ministry in South Africa that if they can get the facilities ready by September by the time they are ready to an award of next year's contract this JV would be considered for an allotment. We don't know how much it would be but original was anywhere from 13 to 16 million pieces from the JV.
- Subbu Murugesan:** So, the JV plan is not fully dead yet, so you could go ahead with the JV but with the new partner who is coming next week so that is still a possibility.
- Omprakash Garg:** Yes that is the possibility currently we are exploring.
- Subbu Murugesan:** You said US market is about \$10 million through prescription market and you expect to capture 10% of this, so that's 1 million. So, what would be your profit margin, your EBITDA margin from the US? Would it be higher?
- Omprakash Garg:** Yes, EBITDA margin is much higher. However we don't have a complete handle on the marketing expense over there. So, from what we understand the existing supplier is getting approximately \$3 per piece and we are counting at \$1 per piece net to Cupid. Now that compares to about \$.30-\$.40 we are getting in our other orders. So, we see a big potential in the US market but we have yet to get in there and it would be a real challenge. But it offers very lucrative opportunity.
- Subbu Murugesan:** If you are saying it's a \$10 million market and the price is \$3 per piece, so then approximately you have over 3 million pieces that's the market and you are saying you will capture \$1 per piece then you will probably get \$3 million in profit, is the calculation okay that's how you see it?



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- Omprakash Garg:** No, not really in the sense that currently the market is \$10 million per year. Since we have not entered there, we are projecting that Cupid would get 10% of the \$10 million in the year of the operation, so that is \$1 million.
- Subbu Murugesan:** You said you have two new customers from South Africa, so how much volume or how much revenue have they generated and how much will they generate in the future, are they like a big customer agent or small or could you give some more detail?
- Omprakash Garg:** For Male Condoms we got two new customers, one order is for 68 million pieces and the other one is for 46 million pieces. The total amount of is about 23 Cr.
- Subbu Murugesan:** And this 23 Cr would be delivered over this year?
- Omprakash Garg:** No, within one year, from October '18 to September '19.
- Subbu Murugesan:** One final comment on the dividend policy, the previous caller said that he prefer not to receive dividends. But I think that you might be aware different people have different views and you have that many older people who basically rely on dividends. So, I think increasing dividend is also a good thing because especially if your revenue top-line and bottom-line are not doing that well then the only comfort is that you are at least giving out dividends. So, I would hope that you don't decrease your dividends or change your dividend policy drastically because one of the few good things that has come out is that the Cupid continues to pay good dividends and seen increasing, so I hope you bear that in mind as well. That you have different kind of investors and they have different preferences in terms of dividends.
- Omprakash Garg:** Thank you for your comment.
- Moderator:** The next question is from the line of Raja Kumar, who is an individual investor.
- Raja Kumar:** My question is on the top-line guidance that you had given 105 to 110 crores. So, just want to know what is the margin guidance if you can tell me.
- Omprakash Garg:** Margins are about 15% in the Male Condom and 40% to 45% in the Female Condom and we are targeting about 50-50 ratio. So, it would be about 27%-28% EBITDA.
- Raja Kumar:** In terms of the absolute number what is the number?
- Omprakash Garg:** If we have sales of between 105 and 110 Cr, we are looking at a PAT of 18 to 19 Cr.
- Raja Kumar:** That is still lower because you said this year you have lot of one-off, the inventory write-off, business development expenses so on and so forth. So, that should kind of get evened out next year, so you should work with a higher base. So, if you are talking about current year PAT of



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15 which includes all these one-offs, so if I have to add back and then I have to look at a higher number on that, so if you are saying your PAT is going to be only 19 so we are not doing any improvement compared to the current year.

**Omprakash Garg:** No, first of all we are not expecting any write-off on the inventory. In terms of the business development expense there would be some as we service the existing market as well as look for new markets. So, we still expect a net improvement in the bottom line for FY20. So, instead of 15 Cr we are looking at 18 to 19 Cr.

**Raja Kumar:** In the last earnings call you mentioned that in Q4 you will do a top line of 45 to 50 crores because of two orders that got pushed in December quarter to March?

**Omprakash Garg:** Correct.

**Raja Kumar:** But if you see the actual number has come to 37 crores. So, my question is why you have not peaked even the low range of your guidance of 45?

**Omprakash Garg:** No, reason for that like I mentioned earlier, the anticipation on that full Brazilian quantity order which did not come through due to their own budgetary restrictions, so directly that 40 to 45 came down to 37.

**Raja Kumar:** My only request is if the management is giving a guidance at least the lower range should be achieved, so I just want the management to be little conservative when you give the numbers so that as an investor we can expect that if you people always meet the guidance because otherwise there will always discount your guidance. That's the request so having said that I want to know this 105 to 110 that you have given so what is the confidence level the management has. Do you think you will go below 105 or you will at least make the lower range?

**Omprakash Garg:** It's a good question; unfortunately there are so many variables on which the performance depends. Mainly the customers can reschedule their orders from one quarter to the next or from one financial year to the other. Our target which we are giving out today are based on the facts as we know them today and with so many other factors are beyond our control. So, we tried to be as precise as possible like we did it 40 to 45 Cr based on what we were expecting and we were told by the Brazilian Authorities. Then due to their change in government and their budget cuts, procurement, the purchases were delayed, so I understand and of course will try to come as close to the forecast as possible but it's very difficult to control all the factors. Some time may even do better than the forecast if the situation improves for example; they want more Condoms than what they were planning to buy.

**Raja Kumar:** Just want to know the hedging part, do you hedge your exports and similarly on the raw material side do you have a hedging policy because I see the price of the rubber going up so



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just wanted to know what will be the impact in terms of margins? Do you have those protected, you work on a cost base model or if you can give more color on that?

**Omprakash Garg:** In terms of purchases of raw material?

**Raja Kumar:** Yes.

**Omprakash Garg:** Our biggest single cost is the purchase of latex. The natural rubber latex which is the raw material and our pricing is based on the Rubber Board of India, a pricing index. On the top of that the manufacturer or our supplier, they put a premium price to the Rubber Board price so more or less the entire industry is getting the raw material more or less at the same price. In terms of the other materials there are some variations for example this year the silicone oil lubricant which is imported from both US and China was in short supply for a while and the prices moved up and in last 2 months they have come down again to the normal level. So, we monitor all the price movements on the major ingredients.

**Raja Kumar:** On the diversification I just wanted to kind of caution the management that don't get into any unrelated diversification because you have enough cash on the balance sheet. I also want the management to take cognizance that currently you have a very good top-line to fixed asset turnover; almost 5 times you are doing which is really-really good. That talks a lot about the management their efficiency. So, I just want you to take cognizance of this and make sure that you are moving on a very asset light model if you are growing any diversification.

**Omprakash Garg:** Thank you very much for that suggestion. We are quite aware of the risk in terms of going into an unrelated area where we have no experience so our priority is to go into this Women's Sexual Health and Wellness which fits right into our current businesses.

**Raja Kumar:** On the dividend part I don't agree with one of the caller. He said that you should not be declaring dividend but I like your current dividend policy. I would request that the same policy is maintained. That talks about confidence and talks about the real cash flow that comes into the company with the investors can vouch that yes this company is really making profit. So, I think you should maintain this current 40% to 45% of dividend pay-out that you are doing. You should do that and not get into unrelated diversification because I'm sure this market that you are operating in has enough room. I think you give a top line of 85-90 crores it's not a big thing for you. You have enough room to move upwards on the existing market.

**Omprakash Garg:** Thank you very much for supporting management's dividend policy. In general, the cash we are generating after taking out the CAPEX and meeting all our requirements; we take a practical approach on the amount of dividend and we have been getting lot of guidance from shareholders like you and will continue to seek year guidance.

**Moderator:** The next question is from the line of Narendran Ravi, who is an individual investor.



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- Narendran Ravi:** My question is related to the domestic retail exposure. In the previous calls you have mentioned that you are working with distributors' channels to enhance the revenue and the sales outcome in India. So, just wanted to check with you on the latest update on that considering India is one of the biggest populated country could you please update on that?
- Omprakash Garg:** Unfortunately, the distribution channel did not yield the results we were expecting, so what we have decided is to go back to the model of marketing our Cupid brand Male Condoms in the domestic markets through wholesalers. We are getting a much better performance.
- Moderator:** The next question is from the line of Jayant Raghavan, who is a private investor.
- Jayant Raghavan:** My first simple question is on the spike in the other expenses. Tell me what exactly the other expenses constitute?
- Omprakash Garg:** The other expenses are the business development expenses I mentioned earlier.
- Jayant Raghavan:** The second question is regarding succession planning, so what I understand is that we are looking for the CEO and we currently don't have a Chief Business Development Officer or a Chief Operations Officer or something of these critical positions. Where are we in the search for the CEO and currently who are the key personnel who actually run the day-to-day operations of the company and ensure that we are going according to the planned growth?
- Omprakash Garg:** First of all, we do have a Chief Operating Officer who has worked for the company for 20 years and we have an entire Operating team with an average experience of 15 years. So, they are very well trained and highly qualified people, doing all the work we have been reporting. In terms of the CEO, we have been trying as you know but we have not been able to find a suitable candidate who is marketing oriented and who has also the operating and financial background to take the business to the next level. The performance as you see from the existing management team speaks for itself. Like I mentioned in the earlier call we are perhaps the best profit-making Condom manufacturer in India by far with the existing management.
- Jayant Raghavan:** Just couple of points, number one regarding the one of the callers had pointed out the increase in the salary cost whereas there was no change in the top-line over the last 2 years, so as a shareholder from my side my opinion is that the staff need to be compensated well and the deserving staff need to be taken care of regardless of the growth in the top-line. I am personally fine with the increase in the staff cost regardless of the top-line because it's important to retain the key performing staff that is one observation. And the second is regarding the Annual General Meeting venue, is it possible to have the meeting somewhere in a place like Bombay instead of having it in Nashik, so people have easier access to the main point like Bombay?



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- Omprakash Garg:** Thank you very much for the first comment regarding the compensation to our senior people. We have been very lucky to have all these top 10 people at the compensation level we are paying. If we have to replace them our cost may go 50% higher. I appreciate your comments that irrespective of the top-line we have to keep our senior staff compensated. In terms of your second comment we would certainly consider the next AGM to be in a place like Bombay.
- Jayant Raghavan:** My last comment is regarding the turnover and the market capitalization, so as we can see the market capitalization has grossly fallen like close to about 50% because marketplace for growth and growth in the top-line despite our best efforts has not been coming through so if in FY19 or FY20 or 21 even if we can keep our target of 10% or 15% growth rate by maintaining the return on equity, I think the markets will be actually more comfortable with the company because right now what is concerning us is the inability to predict or to forecast the bottom-line because every quarter we are stuck to this number between 2.5 to 4 crores and we are not able to move beyond that. If the management can keep this in view and at least plan to grow 10% consistently year-on-year, maintain the return on equity and maintain the balance sheet that you have actually maintained as of now that will be really great. So, if the stock price on the market capitalization is in compound at least 15% to 20% smoothly in a year that will be great. We are not looking for a10X or 20X return in a short period of time but at least a stable rate of growth of 15% or 20% every year, without diluting the quality of the balance sheet.
- Omprakash Garg:** No again we appreciate your comments. Of course, our target is to have a steady 10% to 15% growth rate but sometimes situation is beyond our control. However we would certainly make every effort to maintain a steady level of growth quarter on quarter.
- Moderator:** The next question is from Uday Tharar, who is an individual investor.
- Uday Tharar:** Just wanted to know, you mentioned in the call earlier that you are selling Female Condoms in the US online. How is that possible without getting a US FDA approval?
- Omprakash Garg:** The reason is that through internet sales there is no requirement that the product must be registered in the country. By law online sales are allowed from any supplier or manufacturer like Cupid to an individual. There is no government regulatory requirement that product has to be approved by US FDA. A similar situation is in terms of Sex Toys over \$ 1 billion worth of Sex Toys are being exported from both China and US to all over the world and the individual countries may have some legal restrictions but not on the internet sales.
- Uday Tharar:** What website are you using to sell your Condoms in the US?
- Omprakash Garg:** We have a list of 8 websites Amazon, eBay and several of the Condom specialized websites. We have about 8 sites and our sales have really picked up. We increased our sales 33% from last year's level and we are expecting to double these internet sales by March, 2020. We see



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that as a real opportunity to not only promote but to realize actual sales on all our products, water-based lubricants, Female Condoms, Male Condoms to many new areas, new countries.

**Uday Tharar:** You are selling this at \$ 1 per piece in US?

**Omprakash Garg:** No that was the target we have when we get the US FDA approval. This internet sales is very-very small quantity. We just started on it.

**Uday Tharar:** What is the price you are selling it at?

**Omprakash Garg:** We are getting at about \$ 2 but we have made only two sales so far so it's not a good statistics to depend on.

**Moderator:** Next question is from Puneet Kumar, who is an individual investor.

**Puneet Kumar:** This question is regarding the water-based jelly, you have been given that it is with the capacity 75 million per annum, right?

**Omprakash Garg:** Will you say that again?

**Puneet Kumar:** The capacity of water-based lubricant, you have mentioned is 75 million sachet per year?

**Omprakash Garg:** I still don't get it. Please say once more.

**Puneet Kumar:** You have mentioned that the water-based lubricant is 75 million per year, right?

**Omprakash Garg:** Yes.

**Puneet Kumar:** What is the number of breakups we have delivered in the last year?

**Omprakash Garg:** We have sold worth about 1 Cr.

**Puneet Kumar:** So, what is the number of sachets, I can't relate in the percentage of utilization. What I want to know is what is the percent utilization in the water-based jelly?

**Omprakash Garg:** We are utilizing 90% of our production capacity but just to give you an idea our margin on the sale of water-based lubricants is about 50%.

**Puneet Kumar:** From where we are selling this like online channels or from wholesale distributors like how?

**Omprakash Garg:** Internationally it is through NGOs, for example we had a very good order recently from a party in Austria and within India we are also selling it through NGOs and through some wholesale dealers.



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- Puneet Kumar:** I have seen on the balance sheet that the PPE means Property Plant Equipment has been increased by 4 crores, so can you explain where it has gone?
- Omprakash Garg:** There are two big German-made dipping lines which were worth about 3 Cr and then we have electronic testing machine we have purchased 6 of them at about 30 lakhs per piece so those are the two major pieces of equipment, categories of equipment.
- Moderator:** The next question is from Subbu Murugesan, who is an individual investor.
- Subbu Murugesan:** This is in terms of your guidance so you said for next year you expected a 105 to 110 crores in sales but the profit will only be around 18 to 19 Cr but this year on 85 crores of sale you are already making around 15 Cr which includes the inventory write-off of 3 crores, so if you adjust for the inventory write-off for this year, on 85 Cr you would have made close to 18 crores already this year adjusting for the inventory write-off. So, we see how is it that next year you go to 105 crores but still your profit has only 18 crores?
- Omprakash Garg:** The main reason for that is the percentage mix of the Male and Female Condoms. Male Condoms would be more like 60%-65% next year and balance will be Female Condoms so the impact of bottom-line is due to the low EBITDA coming out of Male Condom space.
- Subbu Murugesan:** This year you are saying you had a higher Female Condom contribution. Could you just explain how that worked is it because next year I expect you have a Brazilian order which would be lot of Female Condoms. But this year you did not have Brazilian order that much except of last quarter. So, from an order perspective how are you saying that Female Condom would be lower next year especially you have the Brazilian order?
- Omprakash Garg:** The Brazilian order, the plan we have been given is that we would be dispatching about 40 million pieces and based on our past experience we hope that it will come through but the balance of the material except 6 Cr from South Africa. So, 46 to 48 million will be Female and the balance about 60 million will be Male Condoms which has lower EBITDA.
- Subbu Murugesan:** In terms of raw material cost could you give just an overview like you said couple of quarters before you said one of the products was low in supply and prices were very high but how is the situation? Do you expect any raw material squeeze and higher prices for the next few quarters?
- Omprakash Garg:** Actually, we are in a real good situation. We don't foresee any special spike in the raw material prices. They are all available in plenty and the item you had mentioned was silicone oil which has come down by 40% in last 2 months. The situation right now looks normal.
- Moderator:** The next question is from Omkar Kulkarni who is an individual investor.



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- Omkar Kulkarni:** My question is what will be the total expenses you will be taking for the US, for the business development for various approvals, for procedural things and all that stuff in the next 1-1.5 years?
- Omprakash Garg:** I would say \$ million to million and a half at the most including the contraceptive efficacy study and the 510 K related work, so about \$ million to million and a half.
- Omkar Kulkarni:** Approximately one-year worth of sales, right?
- Omprakash Garg:** Well, we don't know how the sales will go. We are hoping after the initial efforts the sales would pick up so it's difficult to pinpoint the numbers right now. But I think it's a largest and most lucrative market, so we are giving it a priority even if the initial marketing expenses are higher than our initial budget.
- Omkar Kulkarni:** About the forthcoming like the second-year order from South African tender, when are you expecting that?
- Omprakash Garg:** October.
- Omkar Kulkarni:** In October it will be finalized?
- Omprakash Garg:** Yes, we hope so.
- Omkar Kulkarni:** In the first order what was the share gained by Cupid? How much Cupid gained? My question was regarding when are you expecting the second tender, you said October I guess, right?
- Omprakash Garg:** Yeah, for second-year it should come through in October.
- Omkar Kulkarni:** How much percentage was allocated to Cupid in the first year and out of how much order?
- Omprakash Garg:** We had received from the tender about 17 crores worth of order for Cupid to supply the Female Condoms and about 23 crores worth of Male Condom orders, so a total of 40 Cr we had received this year from the South African government.
- Omkar Kulkarni:** Out of that 17 Cr how much was the total tender for Female?
- Omprakash Garg:** Total tender was 85 Cr. We got about 20%.
- Omkar Kulkarni:** Can you segregate that in terms of Male and Female?
- Omprakash Garg:** Yes, the Female was 20% of the total order of Female Condom and the Male quantity was much-much bigger, it is 1 billion pieces and we received 114 million pieces order worth of 23 Crores.



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- Omkar Kulkarni:** 20% in terms of Female and the rest was given to FC or other HLL or Chinese company?
- Omprakash Garg:** Bulk of the order went to the Female Health.
- Omkar Kulkarni:** What about the Chinese company that whether they issued any...
- Omprakash Garg:** Chinese company is not producing from what we understand, so they did not even participate in the tender. As we speak there are only 3 players Female Health, HLL and Cupid.
- Omkar Kulkarni:** How much is the tender for Indian government for the current financial year?
- Omprakash Garg:** In current financial year, we have received about 25 Cr worth. The total order is about 200 Cr from the budget which was presented in February.
- Omkar Kulkarni:** So, 175 Cr would have gone to HLL?
- Omprakash Garg:** HLL plus couple of more private manufacturers like Cupid but mostly to HLL.
- Omkar Kulkarni:** When are you expecting the second tender from Brazilian government and what would be the approximate size for that?
- Omprakash Garg:** From what they have told us it would be about 85 to 90 Cr worth of order and normally their budgets are approved in March-April of each year.
- Omkar Kulkarni:** The tender would be when it will open in May-June or June-July?
- Omprakash Garg:** If their budgets are approved in March-April it should be not later than May because usually they do need these Condoms and commodities, so they move on the procedure tender opening process immediately after the funds are approved.
- Omkar Kulkarni:** By next Mar- Apr we should hear from them about the tender.
- Omprakash Garg:** Yeah, we hope so.
- Omkar Kulkarni:** What was the current year order like the total size? Cupid received 74 Cr, right?
- Omprakash Garg:** 74 Cr total amount.
- Omkar Kulkarni:** How much was the total tender, 90 Cr, worth of order?
- Omprakash Garg:** They got about 6 million, so that would be about 10 Cr, 84 Cr total.
- Omkar Kulkarni:** Out of 84 Cupid received worth 74 Cr worth of orders, right?



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- Omprakash Garg:** Cupid's total allotment was 74 Cr.
- Omkar Kulkarni:** Yes, out of the total tender size of 84 Cr, right?
- Omprakash Garg:** Will be about 84.
- Omkar Kulkarni:** How many parties participated in this tender?
- Omprakash Garg:** I believe only 3 are qualified.
- Omkar Kulkarni:** HLL, FC and Cupid?
- Omprakash Garg:** Yes.
- Omkar Kulkarni:** Can you tell the reasons why Cupid was preferred over FC; in terms of price you would be superior than FC but in terms of quality can you explain?
- Omprakash Garg:** I think the quality was the most important criteria and also the certifications, regulatory requirements we had a complete set of certificates which they had verified during their three-days audit stay in Nasik. So, I think the auditing team was very much impressed by the capability of Cupid staff.
- Moderator:** Thank you very much. That was the last question. I would now like to hand the conference back to the management team for closing comments.
- Management:** On behalf of Cupid, I would like to thank all the shareholders who have participated in the 4<sup>th</sup> Quarter and full year FY19 Earnings Conference Call. Also I would like to thank all the employees of the company who have worked throughout the year to achieve these objectives. Finally, I am always thankful to the shareholders who have stayed with Cupid and who have given us the confidence to carry on the task with the objective of always trying to improve the shareholders value. Thank you very much and good luck.
- Moderator:** Thank you very much. On behalf of Cupid Limited that concludes the conference. Thank you for joining us and you now disconnect your lines.