



# CUPID LIMITED

Manufacturers and Suppliers of Male & Female Condoms

Date: - 18<sup>th</sup> July, 2016

To,

Department of Corporate Services,

BSE Limited, P.J. Towers,

Dalal Street,

Mumbai – 400 001

Scrip Code – 530843

**Subject: - Conference call Transcript**

Dear Sir / Madam,

We hereby enclose the transcript of Q1 FY 2017 conference call which was hosted by the company on 14<sup>th</sup> July, 2016 at 4.00 p.m.

This is for your records.

Kindly acknowledge the receipt.

Thanking You.

For CUPID LIMITED



Saurabh V. Karmase

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# “Cupid Limited Q1 FY17 Earnings Conference Call”

**July 14, 2016**



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



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**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Cupid Limited Q1 FY17 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 this conference call, you may 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. Ankit Gupta from Christensen. Thank you and over to you, Mr. Gupta.

**Ankit Gupta:** Thanks, Margret. A very good evening everyone, and thanks for joining this Q1 and FY17 investors call for Cupid Limited. I hope you have received the copy of press release and results which are also uploaded on our website and also on the stock exchanges.

To discuss the results and to address your queries today, we have with us Mr. Om Garg – Chairman and Managing Director of the Company.

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 be viewed in conjunction with uncertainties and risks that they face. These uncertainties and risks are included but not limited to what we have mentioned in our prospectus filed with SEBI and subsequent annual report that are also available on our website.

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

**Om Garg:** Thank you, Ankit. Good evening, Ladies and Gentlemen. Welcome to the 1<sup>st</sup> Quarter 2017 investors conference call. I welcome you all to this session and I am looking forward to a very interactive session.

To start with, I assume that most of you have looked at the financial results, so I will not be going into details on the results itself. However, I like to present to you some highlights of the quarter just ended. First quarter results are very much satisfactory to us and we have achieved a 27% increase in the total revenue and also we have expanded the EBITDA to 33%. In terms of profit, we have again increased the net profit by 27%, resulting in the same percentage for EPS.

In terms of the actual operations – we have male and female condom sales. Female condom sales were 55% during the quarter as compared to 51% in the last quarter. Also, during the quarter we launched our water based lubricant jelly and we are getting some encouraging responses from our potential customers. In fact, we have received confirmed orders worth Rs.3 crores to be executed in the balance of the financial quarter and we are expecting more such orders.



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In terms of CAPEX, we are estimating about Rs.3 crores will be spent in the financial year, mainly for the installation and expansion of the water based lubricant facilities and also to upgrade our existing facilities to improve on the productivity and to improve the product quality.

Going forward, our emphasis will be on below six points.

1. We like to expand our male and female condom sales to new geographies. Last year we had exported male condoms to 22 countries and female condoms to 18 countries. Now in this quarter just ended, we have added four new countries for male condom exports and two new countries for female condoms.
2. The second project we are going to work, like I mentioned earlier, is the expansion of facilities to produce water based lubricant jellies. We are gearing for a total production worth Rs.7.5 crores during the year, assuming we get the order.
3. And third point is that the Cupid II product is under review by UNFPA and we are expecting final decision by October 2016.
4. Fourth project is that during the year we did some additional R&D and we have come up with a new female condom called Cupid III, this is to diversify basket of our products and this product we are going to launch also on our online sale program.
5. And next point is, we are still working with the NSE to expedite the listing as much as possible and we are hoping to hear from NSE in due course
6. And finally, we are continuing our R&D efforts to come up with new products related to women's health and wellness areas and also in the area of personal hygiene.

Now coming to the order book – As you know we have sold Rs.16.2 crores worth of products in the first quarter and I am happy to report that we have confirm orders on hand for about Rs.27 crores and another Rs.29 crores worth of orders we are expecting from our customers with whom we have signed long-term agreements, and also some repeat orders from our major customers. So this would give us a total of Rs.56 crores worth of order book and we are hoping to execute all this during this year till March 31<sup>st</sup>, 2017.

And we really value that you have repossessed your faith in the Company and we are committed to increase the shareholders value. And as we move forward, we are confident on the prospects of business and also the growth opportunities which lie ahead of us.

Now I would like to open the floor for questions and answers.



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- Moderator:** Thank you very much. We will now begin with the question-and-answer session. Our first question is from the line of Chirag Khasgiwala, he is an Individual Investor. Please go ahead.
- Chirag Khasgiwala:** Just wanted to know what is your total order book as of today? We understand that you have confirmed order books of around Rs.56 crores which is to be fulfilled in FY17 itself, so if you can throw some more light on the visibility of FY18. And my next question will be regarding the latex prices, what have been the average latex prices for you in the last quarter and what is your outlook on the same?
- Om Garg:** In terms of the outlook for FY18, we expect a 15% to 20% growth year-over-year. In terms of the latex prices, they have been (+/-10%) not a huge variation this year as compared to last year. And on an average basis we expect the same trend to continue next year.
- Chirag Khasgiwala:** So this year the latex prices globally have been moving up, so is it affecting your numbers as such or how is the story?
- Om Garg:** No, actually the latex prices within India, they are up and down like I mentioned, however there is not a great impact because on the demand side it had slackened two, three months ago and we benefitted from that. And now it is going up a little bit and so on an average basis it should be okay.
- Chirag Khasgiwala:** And can we throw some more light on your Cupid III condoms, I mean what will be year target market segment and what will be the features of that?
- Om Garg:** The Cupid III is a new version of our Cupid female condom series and it is basically we would like to launch it on a commercial basis, B2C market including the online selling.
- Chirag Khasgiwala:** So is it different from Cupid II?
- Om Garg:** Yes, the main difference is that in Cupid II we still have a sponge acting as an internal retainer whereas in Cupid III, instead of a sponge it is a plate, it is a ring, so it makes it look smaller and compact in size and it is easy to carry in the pocket.
- Chirag Khasgiwala:** And if you look at your quarter-on-quarter numbers, why has there been a decline, the revenues declined by roughly 10%, EBITDA declined by 26%. So what is the reason for that?
- Om Garg:** You mean as compared to fourth quarter last year and first quarter this year?
- Chirag Khasgiwala:** Yes.
- Om Garg:** The main reason is that fourth quarter is seasonally the strongest quarter for sales and the reason for that is that everybody would like to get their shipments out by the time the budget gets exhausted, which is March 31st in many countries. So the order shipments they get



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increased. And on the other side, quarter one is always the lowest on a seasonal basis and the reason for that is that by the time the new budget gets announced it is almost like first week of May, so the sales are lower in the first quarter. This is a general trend going on in the industry.

**Chirag Khasgiwala:** So in Fy18 we can assume you are expecting around 20% growth but you don't have any order book as such for that, right?

**Om Garg:** No, we do have three contracts. Number one, that South African Government contract through our agents, that extends up to June 2018, so that would come under FY18 which ends up in March, as you know.

**Chirag Khasgiwala:** So how much will be that in terms of amount, can you quantify that for FY18?

**Om Garg:** I think the total order was Rs.104 crores over a three-year period, so it would be at least one-third, about Rs.35 crores.

**Chirag Khasgiwala:** And for latex, you don't expect the prices to move up as significantly from here, for you especially?

**Om Garg:** No, we have almost fixed price contract based in US dollars. So for example, any devaluation of the South African Rand will not impact. And on the other side, any appreciation in dollar value in terms of rupees will benefit us.

**Chirag Khasgiwala:** I am asking for the latex.

**Om Garg:** Oh, latex! All the prices are in rupees and there is no currency exchanges involved there.

**Chirag Khasgiwala:** But do we expect the cost for you to move up?

**Om Garg:** Not really, the indications are that the plantations are good, the supply would be reasonable and there is no heavy demand even into next year.

**Moderator:** Thank you. Our next question is from the line of Mahesh Alapati, he is an Individual Investor. Please go ahead.

**Mahesh Alapati:** Your order book is around Rs.56 crores, can you give me the breakup of the Rs.56 crores order in terms of male and female condoms?

**Om Garg:** Male condom is about Rs.27 crores and female condom is about Rs.29 crores, so approximately 50-50.

**Mahesh Alapati:** As on July this is the order book status, so going forward in this year do you expect any further additions to the order book, are you participating in any tenders?



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- Om Garg:** We have submitted few bids and it would be reasonable to assume that we would get some new additional orders. However, we cannot quantify those.
- Mahesh Alapati:** And about NSE listing, there is one guideline with respect to NSE listing that the company that is applying for listing should not have any disciplinary action from any exchanges before three years, from past three years. But in our case in past few months we have had one suspension kind of disciplinary action from BSE, do you think this will affect our NSE listing process?
- Om Garg:** Well, we hope not and the step we took towards that is that we have received a letter from BSE saying that the audit committee has cleared our case about three weeks ago and we have submitted that to NSE.
- Mahesh Alapati:** And can you tell me the estimate of globally what is the total estimate in terms of value for the tenders that they float in terms of value for both in male and female condoms?
- Om Garg:** The exact amount and allocation for the tender is really not known well in advance, mainly because it all depends on the resources of the funding agency like the WHO, UN, World Bank and Gates Foundation. So it is difficult to quantify the total amount.
- Mahesh Alapati:** Last year what was the total value, if you can throw some light?
- Om Garg:** Which one?
- Mahesh Alapati:** Last year what was the total value of tenders floated by the government and developmental agencies, FY16?
- Om Garg:** FY16, the total revenue from condoms, including the tenders and in the open market was about \$27 billion.
- Moderator:** Thank you. Our next question is from the line of Abdul Puranwala from Centrum Broking. Please go ahead.
- Abdul Puranwala:** Sir, I just had one query regarding the visibility what you have given. So you say you have an order book of around Rs.56 crores, so this is to be executed with next nine months?
- Om Garg:** Yes, we are hoping to achieve that.
- Abdul Puranwala:** So sir, anything apart from that we would see on the revenue front?
- Om Garg:** Well, like I mentioned to the previous caller, we may get some additional orders beyond Rs.56 crores.



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- Abdul Puranwala:** No, why I am asking is, see we have done already Rs.16 crores in this quarter and another Rs.56 crores, so that amounts to like Rs.72 crores, showing a growth of almost Rs.14% which is way below than what we are clocking in the last two years. So that is why...
- Om Garg:** No, not really, because last year sale were Rs.62 crores and if we do Rs.72 crores as minimum it is about Rs.15%.
- Abdul Puranwala:** Yes, that is right, which is lower than the last year growth of around 38%.
- Om Garg:** No, growth of 27% from quarter-to-quarter. So again, we could expect, we could get some more orders, but that is why we are saying that we expect a growth between 15% to 20%. Like it has happened in last two years that we have exceeded our projected numbers and we will try to repeat the same.
- Abdul Puranwala:** Sir, my next question was regarding the new Cupid III, you are through in your R&D, so can you tell me what is the R&D cost incurred to build this particular product?
- Om Garg:** It is actually no additional expenses involved, expect the salaries of the people and these are all absorbed in the operating cost, because R&D people are all involved in the production as well.
- Moderator:** Thank you. Our next question is from the line of Ashutosh Garud from Reliance Wealth. Please go ahead.
- Ashutosh Garud:** Sir, what was the order book last year same time?
- Om Garg:** Last year was about Rs.27 crores.
- Ashutosh Garud:** And you mentioned that this is a quarterly phenomenon where the Q1 sales are lower as compared to the other quarters, but if you see last year's first quarter we actually did better than the Q4 of FY15, so I mean almost in line with the FY15 numbers. So I am not able to get why, I mean last year Q1 was better than all the other quarters which you did earlier to that and only in this quarter we have actually slipped on the run rate front as compared to what we were doing Rs.18-odd crores in Q4. So if you can explain this.
- Om Garg:** The reason for that is that the sales of female condoms increased tremendously in the first quarter of last year as compared to the fourth quarter of the previous year 2014-2015.
- Ashutosh Garud:** So you would basically if we are expecting somewhere in the range of Rs.70-odd crores for the full year we would expect to continue run rate which we are on right now, quarterly sales I mean Rs.18 crores - Rs.19 crores.
- Om Garg:** Yes, that is what we are expecting.



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- Ashutosh Garud:** And on margin front you think this 28% - 40% kind of margins on EBITDA level is sustainable?
- Om Garg:** Yes, I think between 30% to 35% is sustainable.
- Moderator:** Thank you. Our next question is from the line of Anish Nanda, he is an Individual Investor. Please go ahead.
- Anish Nanda:** This Cupid II which is going to be expected to be approved in October of this year as well as Cupid III, what is the kind of revenue that we foresee for these two, how much addition would it be to the Rs.56 crores order book that we have as of right now? And my second question would be, since you mentioned that the audit committee of BSE has cleared the case three weeks back, the documents for which we have submitted to NSE, now can we see a revision in the circuit filter of BSE from 2% to at least 5%, because we are the one of the very few companies out of the several 10,000 companies, probably less than 10 which are still stuck at 2% since the past couple of months. So can we see some progress on that moving forward? Because we don't see any reason why it should be stuck at 2% when 99.99% of the companies are not within that 2% band.
- Om Garg:** I really don't have the answer because it is not very transparent why this circuit is still continuing. We have answered all the questions they had raised when the suspension took place, and now since we applied to NSE we have answered all their queries. So I hope that some expert's advice would be helpful in order to get the situation clarified.
- Anish Nanda:** So would it be safe to assume that maybe within the next four weeks we could see the NSE listing take place, because previously you had mentioned in one of our meetings conference call that the NSE has already visited Cupid office and scrutinized all the documents and inspected even the office and everything. So it has been about a month and a half since that, so another one month, would that be something we can expect, the NSE listing? Because then by that at least we are not in the 2% band, we don't have all the restrictions of BSE which is I would say artificially controlling the valuations and the trading on the exchange.
- Om Garg:** No, I would like to see that, but basically the decision timing by the NSE is beyond our control, we can request them and we can supply the additional information they wish but it is really up to them to take a final decision at the earliest possible time.
- Anish Nanda:** And if you could just answer my query, the first one, about the Cupid III and II, what is the kind of revenue you foresee?
- Om Garg:** We don't have a good handle on that yet, the reason is that we cannot popularize and send samples all over the world until this is pre-qualified by WHO UNFPA, I am talking about



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Cupid II. And for Cupid III it is too early to give out any estimates because we are going to emphasize sale of Cupid III in the retail market in India and surrounding countries.

**Anish Nanda:** And lastly, any progress on the acquisitions that you were contemplating?

**Om Garg:** Not really, the baby diapers, adult diapers and sanitary napkins, we studied all those in quite a bit of detail and our conclusion is that margins are not there to justify an investment. Having said that, now we are looking at some new items products to see if we can look into investing in those.

**Moderator:** Thank you. Our next question is from the line of Pritesh Vora from Incedo. Please go ahead.

**Pritesh Vora:** My question is to you, what kind of business model we have? Do we sell business to retail or do we contract manufacture or... how majority of revenue comes from?

**Om Garg:** Majority of the revenue comes from B2B where we participate in the tenders and we get a long-term contracts awarded, that is our primary source of revenue. The second one is the job work, third party manufacturing we do. The consumer business is minimal right now. And as I mentioned earlier, we are going to rejuvenate that and we are starting the sale of Cupid male condoms in the Indian retail stores almost immediately.

**Pritesh Vora:** So what kind of advantage, generally these tenders are from WHO tender or Indian tender, what kind of tender it is?

**Om Garg:** No, most of the tenders are international and they are financed by the international donors group like South African Government, international aid societies, Gate Foundation, World Bank, WHO and also some of the national governments.

**Pritesh Vora:** So basically what kind of competition we face in those kind of work and how much percentage of revenue comes from tender work?

**Om Garg:** No, like I mentioned, over 80% of the work of the revenue is now coming from the tenders and balance about 20% from the third party job work contract manufacturing.

**Pritesh Vora:** So whom we see in the international tenders from African countries is one thing, who are the other participant, is there any other Indian vendor or is there any Chinese vendor who participate into these, or what kind of competition you face there?

**Om Garg:** Well, for the male condoms there are quite a few prequalified manufacturers who participate in these tenders. However, for female condoms there are very limited number of prequalified manufacturers.

**Pritesh Vora:** And male, female you are saying 50%-50% your top-line, right?



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- Om Garg:** Exactly.
- Pritesh Vora:** So what is the growth rate, when you say 15% - 20% your growth target, how do you come at this particular number, arrive at this number?
- Om Garg:** We get lot of feedback from the ground and we look ahead for the various international donor agencies, how many budgets they have approved and based on that and keeping in constant touch with a major consuming countries, like in sub-Sahara Africa, we get an estimate. And we talk to our own customers, so it is an estimate but we have been quite successful in last three years in our projections.
- Pritesh Vora:** Sir, our EBITDA margin is close to 40%, so how sustainable these margins are and why our margins are so high?
- Om Garg:** Well, the reason the margins are so high is because the female condom EBITDA is between 50% to 60% and the balance is the male condoms. Now as long as our prices stay in the range we have right now, I think we can sustain that, at least until the June 2018 contract. And after that, of course, we will enter into a new long-term contract.
- Moderator:** Thank you. Our next question is from the line of Dixit Doshi from Whitestone Financial. Please go ahead.
- Dixit Doshi:** Sir firstly, the first question is, you mentioned that 80% of revenue comes from B2B model where we build and give to the organizations. So in that case when they give it to the consumer, is it the packaging helped our name or they have their own packaging and we just supply in bulk?
- Om Garg:** No, we supply, even if we supply in bulk it always says manufactured by Cupid Limited India and also our certification number, our registration number.
- Dixit Doshi:** So it does give us a branding over there?
- Om Garg:** It does, it gives a lot of exposure to Cupid brand in both female and male categories. And if we deliver fully packed condoms, then of course the entire details are written there in terms of how many pieces are there and what are the instructions for use. And there clearly it says that manufactured by Cupid Limited and manufacturing date and expiring date, expiry date.
- Dixit Doshi:** And even in India, let's say, do we do anything B2C even in male? You mentioned that in female you will do it once the Cupid III will be launched, but in male also do we do anything B2C currently?
- Om Garg:** Not currently, however until two years ago we had about 39 customers, mostly wholesalers spread over 15 states and we were doing pretty good business. However, the reason we



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discontinued that was - Number one, the government had a price freeze just like some other pharmaceutical products. And second reason is that the margins were much lower from our sales in India as opposed to our export orders.

**Dixit Doshi:** So now is it the free pricing or still it is capped?

**Om Garg:** No, still it is capped, some people have challenged it in the High Court but the final decision has not come through.

**Dixit Doshi:** And just last one question, you mentioned that you are evaluating some different products in hygiene side and you mentioned about the diaper and the sanitary napkin, but you mentioned that it is not feasible right now. So any other product if you can mention which you are planning?

**Om Garg:** One is hand sanitizers, so we have done lot of research and we have produced the samples and now we are going to get feedback from prospective buyers. And then there are few other products generally related to the personal healthcare.

**Dixit Doshi:** But all of these products, plus the Cupid III, will require a lot of distribution network also. So have we planned anything, let's say over next two years how we want to approach the distribution network in India?

**Om Garg:** No, that is still under consideration, it would require, like you indicated, lot of efforts and maybe Rs.5 crores or Rs.7 crores in terms of establishing the distribution network.

**Dixit Doshi:** And does these new products like sanitary napkin or diaper, will they come up let's say in next couple of years or it will take more time?

**Om Garg:** No, the sanitary napkins and the diapers, they will not be introduced, the reason as I mentioned is that the margins are not there, net margins. But some of the other products we are hoping that will come in the next two years.

**Moderator:** Thank you. Our next question is from the line of Sri Ram from Metro Investments. Please go ahead.

**Sri Ram:** I have got a couple of questions, one is that you said you will be introducing water based lubricants, how will be the gross and EBITDA margin for these products compared to our condoms, will it be same or better?

**Om Garg:** Sorry, go ahead.

**Sri Ram:** No, you will be introducing water based lubricants you said.



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- Om Garg:** Yes.
- Sri Ram:** And how will be the gross margin and EBITDA margin compared to our condoms?
- Om Garg:** It is almost like female condoms, gross margin is 40% and EBITDA about 30%.
- Sri Ram:** That is number one. Number two is that the Cupid III is a premium product compared to Cupid II, do you expect some more volumes in that product?
- Om Garg:** We don't know yet, it is too early, but we are hoping that with the new packaging and ease to carry these condoms in the pockets or purse will enhance the sales, but really it is too early to quantify any of these numbers.
- Sri Ram:** I am not talking about numbers, I am talking about is it a premium product so that you can price it in premium category?
- Om Garg:** No, we will introduce these at the current prices, like our regular Cupid Female Condoms initially.
- Moderator:** Thank you. Our next question is from the line of Pankaj Kudale, he is an Individual Investor. Please go ahead.
- Pankaj Kudale:** Sir, I have question on registration in different countries and organizations, which are the countries, organizations contributing significant sales for FHC where Cupid is currently absent and what kind of cost is involved in registration and prequalification? And post that, how much time it takes for us to start business?
- Om Garg:** Well, first of all because of our prequalification with WHO and UNFPA we are able to export to many countries, including those where we are not yet registered. But in general, we got the registration in the European countries with our C mark both for lubricant male condom and female condoms and we got registrations in South Africa, in Kenya, in Nigeria, Cameroon. However, the process of registration is quite time consuming.
- Pankaj Kudale:** So does that cover these countries that you mentioned, most of the businesses where we are targeting or there are the larger parts where we are still to do the prequalification?
- Om Garg:** No, it covers most of the countries where there is demand.
- Pankaj Kudale:** I have also a question on the CEO, so as I understand you were kind of looking for appointing a new CEO and there was a search that was ongoing. So any update on that front?
- Om Garg:** Well, we are still looking for a suitable candidate, the one we looked at, they did not fulfill all the requirements. We have many people available with the financial background and some



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production background, but we need to have mostly the marketing people with the background in FMCG or similar operations.

**Pankaj Kudale:** Any timeline that you have in your mind for closing this?

**Om Garg:** I wanted it yesterday. We are trying but it is difficult really to set a deadline, sooner the better.

**Pankaj Kudale:** One last question, any new competition getting built and how is the existing competitors, mainly FHC doing, are they losing share or getting tender better than us?

**Om Garg:** No, I think we have been quite successful in terms of competing on the tenders against FHC, Female Health Company, and their last report showed that their sales are down. So we will see how it goes, it is an everyday battle.

**Pankaj Kudale:** And you don't see any new competition getting built as well?

**Om Garg:** Yes, there is one by Hindustan Latex, HLL and one Chinese company, they got approval recently. However, with more players coming in, our experience has been that the markets also tend to expand. So there is a positive angle to newcomers coming into the market as well.

**Moderator:** Thank you. Our next question is from the line of Sandeep Agarwal from Arihant Capital. Please go ahead.

**Sandeep Agarwal:** Sir my question is regarding other expenses, sir other expenses as a percentage to turnover in March quarter is 13.32% and this quarter is 20%, any specific reason for increase in other expenses?

**Om Garg:** Yes, in the first quarter there were three major expense areas where there were increases. Number one, the salary and wages which reflected the annual increase starting April 1, that is one head. Second one is the increased price of electricity in Maharashtra during the peak summer months. And third one is that we spent lot more money in marketing, especially overseas. So because of these three reasons you see additional expenses.

**Sandeep Agarwal:** Sir, what will be the tax rate for financial year 2017 you expect?

**Om Garg:** About 35%.

**Sandeep Agarwal:** Tax rate?

**Om Garg:** Yes.

**Sandeep Agarwal:** And my next question is, sir you mentioned CAPEX plan is approx Rs.3 crores, including Rs.1.25 crores you mentioned result announcement?



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- Om Garg:** Yes, right now the total CAPEX we see is Rs.3 crores for the projects which are ongoing .However, if we pickup and initiate some new project then there will be additional CAPEX requirement.
- Moderator:** Thank you. Our next question is from the line of Vishal Singhania, he is an Individual Investor. Please go ahead.
- Vishal Singhania:** Sir, you said that for financial year 2018 the growth will be 20% year-over-year?
- Om Garg:** Yes, our target is to have growth year-over-year between 15% and 20%, of course we always try to improve, that is our guideline.
- Vishal Singhania:** Sir but if we go by the guidelines given by UNFPA of 340 million pieces by 2020 and if Cupid is to maintain the market share then you can easily do 30% growth year-over-year, so why are you under promising?
- Om Garg:** It depends how much share Cupid would get out of those new additional requirements.
- Vishal Singhania:** But current Cupid share is 25%, 20 million pieces?
- Om Garg:** For the...?
- Vishal Singhania:** For female condom.
- Om Garg:** No, the current sales are about between 14 million and 15 million and we want to increase it to about 20 million in this current year and 25 million in the next year.
- Vishal Singhania:** And so you are a cash surplus company, so if a large scale investor looks at the company the shares are pretty illiquid, so if he looks for investment he would rather want to have good dividend policy, an aggressive dividend policy. So why not declare interim dividends?
- Om Garg:** Well, we considered that at the board meeting and we have concluded the first quarter and we are satisfied with the results. However, based on the review of results after the second quarter and also the half yearly, the board will take a call on the amount of dividend to be declared.
- Vishal Singhania:** And there was a news that HHL was banned due to lower quality of female condoms, so does Cupid gain from that or there is no effect on Cupid?
- Om Garg:** Well, we get more enquiries but it has not resulted in any new fresh orders, only because of that news about HLL.
- Moderator:** Thank you. Our next question is from the line of Vivek Mavani from VMFS. Please go ahead.



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- Vivek Mavani:** Sir, basically regarding Cupid II and Cupid III, I understand I mean it is still going to be undergoing the approval process, but in terms of pricing, I mean given that the product is going to be superior to the existing product what kind of pricing would you expect on that and in terms of timeline when do you see the approvals and revenues coming from the new products coming in?
- Om Garg:** Well, for Cupid II if we get the approval in October we start marketing it, selling it and we are going to start with almost the same price level as we are doing currently because we are introducing a new product a lot of people are not familiar with it, it's a kind of introductory offer. And in terms of Cupid III, really we don't know the timeline yet because it is too early.
- Vivek Mavani:** Second thing is a follow-up question to the previous question regarding the margins, I mean your expenses have grown faster and hence when I look at margins compared to the fourth quarter or even the third quarter there has been a dip in the EBITDA margin. So are you likely to make it up in balance three quarters and higher sales or do we see this as the indicative margins going forward?
- Om Garg:** No, we are hoping that we will take care of some of those additional expenses spread over and the main reason for that is our sales will increase and the percentage of revenue from female condom is likely to grow.
- Vivek Mavani:** And in female condoms, what is the capacity that we are running right now?
- Om Garg:** Right now we have about 50 million active capacity and we are using most of it and we are in the process of expanding it initially to 25 million and eventually to 40 million.
- Vivek Mavani:** And when would the new capacity likely be coming on stream?
- Om Garg:** It should be next year, up to 20 million.
- Moderator:** Thank you. Our next question is from the line of Mahesh Alapati, he is an Individual Investor. Please go ahead.
- Mahesh Alapati:** Sir, regarding other expenditure, do you see the same run rate of Rs.3.3 crores for every quarter or do you see it smoothing down in next quarters?
- Om Garg:** No, it will smooth down, because like I mentioned the power rates are extremely high during the first quarter and the wages and salaries increases are already built in now in our forecasting, in our budget.
- Mahesh Alapati:** So the hike in power charges are one time or they will come down or they may remain at the same high levels?



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- Om Garg:** No, the salary and wages are fixed for this rest of the year.
- Mahesh Alapati:** Power charges.
- Om Garg:** Oh, power charges will come down, July would still be bad but starting August it will come down.
- Mahesh Alapati:** As I understand, you are exploring into acquisition for expansion into other product categories in physical wellbeing, I understand the opportunity in condoms itself is very huge, as you said \$27 billion in FY16 and it is going to be around \$40 billion - \$50 billion by 2020. So why not increase our market share in category where we have experience and expertise from past two, three decades, why are you looking into other categories and acquisition if there is so much of market potential in condoms itself?
- Om Garg:** The reason for that is that the competition also in the condom market is increasing, although the requirements are huge, so there is lot of competition which would limit how much we can grow. And also to improve the bottom-line we like to get into growth areas where the overall margins are better. So looking for the new opportunities.
- Moderator:** Thank you. Our next question is from the line of Nimesh Shah, he is an Individual Investor. Please go ahead.
- Nimesh Shah:** Wanted to check, if I see the balance sheet for March 2016 you had some Rs.9 crores of cash and cash equivalence. Assuming something would have got added in this quarter also, how do you intend to use the cash which is available with you?
- Om Garg:** Well, you are right. We have about Rs.21 crores as of June 30th and we intend to use it for two purposes. Number one, as we indicated we are looking for some new opportunities, so would need the capital for that. And after paying income tax, of course the surplus part of those will be distributed as dividends.
- Nimesh Shah:** Sir and secondly, if you see again the balance sheet of 2016, the debtors outstanding were some Rs.13 crores out of the total sales of Rs.62 crores, which is like some 21% of the total sales. So is it an impact of higher sales in Q4 2016?
- Om Garg:** Mostly, yes.
- Moderator:** Thank you. Our next question is from the line of Yash Matai from Vibrant Securities . Please go ahead.
- Yash Matai:** Sir, can you throw some light on the B2C market for female condoms globally and also in India?



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- Om Garg:** The margin should be about 60% of the sales.
- Yash Matai:** The market size of that B2C, because I believe that most of the sales for female condoms come from B2B.
- Om Garg:** Correct.
- Yash Matai:** So if you can throw some light on the B2C market in terms of size say in India and also globally and how do we plan to enter that market?
- Om Garg:** Well, in India the projections are that with some promotion and the government is also starting a program, Ministry of Health and Family Welfare in Delhi that we expect in the first year about 20 million female condoms, that includes both for family planning purposes and also for the prevention of HIV, including the commercial sex market.
- Yash Matai:** So these come under B2B correct, if I am not wrong?
- Om Garg:** Which one?
- Yash Matai:** The family planning thing and the commercial market which you said, are they categorized as B2B or B2C?
- Om Garg:** It will start out as B2B but then it spills over into B2C as people become more familiar and the products are available in many more varieties and even in remote locations, then the demand grows at the consumer level as well. It will take some time but we are hoping that margins will be retained, in fact we are trying to improve them.
- Yash Matai:** Secondly, as you said that you are trying to enter into new areas of products and one of the speakers currently questioned that when you have so much of potential in female condoms with such high margins and profitability, fir the rationale for entering new products. So I mean, you said that the competition is there and in the future the growth will come down. So, I mean it does not tally with what you are saying. Because on the one end you are saying that the margins will be there, you can improve them, on the other hand you are saying that there is competition so you want to enter into new product. So, I mean the story is not clear, in the sense, how the company wants to go forward.
- Om Garg:** Okay, let me try to explain. The female condom market is growing but the actual demand would depend on the international donor funding availability. So on one hand assuming the trend continues in terms of the funding availability, then the demand will increase and we are forecasting a better market, more demand and the number of units will be sold more. Now we cannot take that for granted because if the economy let's say in Europe is bad, US is also not that good, Asia is struggling, if you look at all that and suddenly the funding gets dried up, for



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example, many of the national governments in Europe, including Netherland, France, Sweden, Britain, they have cut back on their donations to these programs. So depending on all that we cannot rely on this growth rate which currently we are enjoying, that is why I mentioned that there is a visibility for demand and therefore profitability until June 2018. And we are closely monitoring it between now and then. South Africa for example, they are already planning their next three year contract, beyond June 18th, and in fact we are going to see them next week in order to get some more insight.

Now in terms of the seemingly contradiction why we want to develop new things and why we are looking at that? Like I indicated in the previous answer, we would like to diversify so that we don't put all our eggs into one basket, which is male condoms, female condoms and water based lubricants if we can see some opportunities with better return. The other reason is that in some of the items we are looking at, the investment level is quite reasonable, we don't have to borrow money, we don't have to exhaust all our Rs.25 crores surpluses. So that is another attraction, it is low cost item and if we can come up with a product which is in demand and can arrange the distribution network, it offers potential to us.

**Yash Matai:**

So what I understand from this is that female condom market is primarily driven by tender of B2B business and there is a lack of B2C which was actually my main concern that I am not sure that there is a B2C market which exists for female condoms as it exists for male condoms, so that is one. So I assume that the most of the market for female condom is B2B and which is volatile which as you mentioned if the funding is not there the wont make us enter, I understand that. So second thing is that in tender when you apply, what are the kind of key factors which come into the picture which will decide that whether we win the contract or not, in terms of do we have any differentiation from other guys who are pure applying for the tender or there is not? Because if there is no differentiation then over time as you said, couple of new guys have got approvals, then definitely we may not win those contracts. So your thoughts on that?

**Om Garg:**

Well, basically first of all you are right that most of the female condom market is in B2B because these governments and the international NGOs are selling these at subsidized price. Now what do they consider before awarding the contract, they look at the quality of the product, they look at the track record of the manufacturer and of course all the technical qualifications and finally it comes to price in lot of cases. For example, when we came into the market in 2012 Female Health Company had a monopoly for over 24 years and they were charging almost 80% more than what we were offering. And as you know, our margins are already quite high, still we could offer much lower price as compared to Female Health Company. So I think we would continue to monitor the situation and try to maintain a high EBITDA.



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- Moderator:** Thank you. Our next question is from the line of Anand from Broadcom Limited . Please go ahead.
- Anand:because** I think my question was already answered, so I would give away to somebody else. Thank you.
- Moderator:** Thank you. Our next question is from the line of Omkar Duggar, he is an Individual Investor. Please go ahead.
- Omkar Duggar:** The Company got an order from South Africa last year, what are the possibilities of getting such orders in next two, three years?
- Om Garg:** Well, we consider it reasonably good, the reason is that they are already planning for their next three-year tender, starting from July 2018. And we believe that based on our track record and the positive feedback the department there has received about the female condoms, we stand a very good chance for a renewal of that another three-year contract. And as you know, South Africa has the largest number of HIV in any country of the world and they do have resources to prevent HIV.
- Omkar Duggar:** One more question, the Rio Olympic will be happening in a month or so, so there will be demand for the product. So how do you plan to capitalize on that?
- Om Garg:** Well, we have approached our contacts in Brazil and the feedback is that the Brazilian economy is very shaky, very weak and they have no funding available to purchase new condoms, including female condoms. They have decided that they will exhaust the stock they have, left over stock from last two years, so no new major purchases will be done. In fact, government has postponed floating of the new tenders which last year they said it would be done this March-April for the Olympics.
- Omkar Duggar:** So there will be no more demand from their side?
- Om Garg:** Not until their economy improves.
- Omkar Duggar:** And a question about succession planning sir, I would like to know your stance on succession of the Company.
- Om Garg:** Well, we have a professional organizations and 18 of the 20 senior people have been with the Company for over 18 years, they joined all in 1998 and the turnover has been minimal. So the only major issue is to hire a new CEO and then run the Company. As you know, right now I am doing, holding dual projections. So once we get, if we are lucky to get the proper guy, qualified, I think the organization chart would be complete on a long-term basis.
- Omkar Duggar:** And one more question, I would like to know the vision of yours for the Company, say by 2020.



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- Om Garg:** No, we want to grow it at the rate I mentioned, at least 15% to 20%, so we should be a Rs.100 crores by 2018. And then continue on that trend and would like to capture a larger share of the market, that is why we are always thinking about bringing new products in the contraceptive area.
- Omkar Duggar:** Yes, currently the product mix is 50% - 50%, right?
- Om Garg:** Correct.
- Omkar Duggar:** That is female and male?
- Om Garg:** Right.
- Omkar Duggar:** So what are your vision to take it up to say 65:35 or 70:30 towards the female side?
- Om Garg:** We would like to do that, but because of the funding available and the demand, I think it is reasonable to take it up to 60% female and 40% male.
- Omkar Duggar:** Okay, you are saying in the next two three years?
- Om Garg:** Yes, within next two to three years.
- Moderator:** Thank you. Our next question is from the line of Srinivas Seshadri, he is an Individual Investor. Please go ahead.
- Srinivas Seshadri:** My first question is regarding the female contraceptive market, I just have a few questions. firstly, what drives buying behavior at a consumer level from the various agencies you sell to?
- Om Garg:** Sorry, I am not able to hear you properly.
- Srinivas Seshadri:** So what I wanted to understand is, what typically drives buying behavior at a consumer level from the various agencies you sell to, is it mainly the commercial sex workers who are buying it or is it something which is used by day to day householders, I mean can you share insights on where does this product end up? And what is the level of subsidy which the final consumer avails of when they are buying from such agencies?
- Om Garg:** In general the maximum sales of female condoms are in the HIV prevention area and basically all the sexually transmitted infections and there are many more as you know beyond HIV, so the governments are trying to prevent the spread of these viruses and the studies have shown that \$1 invested in the prevention saves at least \$17 in the public health area. Now in terms of subsidy, different governments and different international agencies, they have different targets and criteria, in some places these female condoms are distributed free of charge especially to



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commercial sex workers who are not able to afford those commercial prices. But in other cases it is like it could be for example 80% subsidy of the purchase price.

**Srinivas Seshadri:** And your opinion, bulk of the products will be going more in the market rather than household kind of sale, is it?

**Om Garg:** No, my long-term objective is to popularize it not only as a prevention of unintended pregnancies, we had over 125 million unintended pregnancies all over the world last year and 86 million of those resulted in abortions. So there is lot of scope in terms of prevention of unintended pregnancies. And the third element, which maybe you are alluding to, is that a lot more people now they appreciate female condom as a pleasure tool. So they like to experiment, they like to see how it works and what are the advantages. And in the younger population the demand seems to be increasing between 14 to 25 age group.

**Srinivas Seshadri:** And sir, what would your per unit realization ratio be between female and male, how many times would it be?

**Om Garg:** It will be at least seven times, male condom you can find as low as Rs.3 a piece and female condom we are realizing between Rs.24 to Rs.25 a piece.

**Srinivas Seshadri:** And sir my second question was relating to your revenue concentration, since you are a B2B business, just wanted to understand which are the key contracts, how much would be say the contribution of revenues from say the top three customers, how do those metrics look like and what would be the confidence in retaining those customers post the conclusion of the current contracts?

**Om Garg:** Well, we are working with our six major customers very diligently on a routine basis and the top customers being right now is the Department of Health, Government of South Africa is number one. WHO UNFPA Population Fund who does procurement for the UN system and also for some of the national governments, that is our number two customer. Number three is the international NGOs, one is called Population Services Inc. based in Washington DC and another one DKT International also based there. And now we have located this year some new buyers as well, one is called Global Fund out of Amsterdam and they seem to have lot of funding available and they work with IDO, International Development Organization. Now beyond those, then there are some national governments, they buy independently, smaller quantities than the major tenders. And finally we do have some private sales, for example, one customer in Australia, one in Portugal, one in Kuwait, one in Trinidad, one in Russia, these guys are repeatedly buying female condoms and they are selling it in retail in their respective business districts.



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- Srinivas Seshadri:** How much would be sale, you mentioned around 20% gross in the non-tender business, would that be the right number, I mean you would say that they are being sold on a commercial basis in the end?
- Om Garg:** Right now it is quite small, but it is growing.
- Srinivas Seshadri:** And sir, what would be the share of revenue coming from the top three customers, roughly?
- Om Garg:** Top three customers would be 70% for female condoms.
- Srinivas Seshadri:** And you mentioned the South African contract comes up for renewal sometime maybe in 2018, for the WHO and the third customer when are milestones, are they annual contracts or are they again long-term?
- Om Garg:** No, we have a three year long-term agreement to supply both male and female condoms to WHO and UNFPA, we renewed it this year, so they will be renewed again in 2019.
- Moderator:** Thank you. Our next question is from the line of Chirag Khasgiwala, he is an Individual Investor. Please go ahead.
- Chirag Khasgiwala:** There was a news sometime back that you have received preapproval from Zimbabwe Government, so what is the update for any order from them?
- Om Garg:** It is true that our products were all approved by the Zimbabwe Government and they are very much interested to purchase. However, they have not lined up the funding yet so they are still requesting for funding. So we have no order as such. However, we are continuing to be in touch with them and hopefully in early next year we would receive some from Zimbabwe.
- Chirag Khasgiwala:** And in terms of latex prices, what is the correlation of Indian latex prices as compared to the global latex prices, if the latex prices globally move up like there were some strikes in Thailand and all, so the global prices started already moving up. So do you think the Indian latex prices will also move in the same line? And similarly you can be also get impacted by that.
- Om Garg:** The trend is almost similar, however, if the latex prices are lower internationally than the Kerala latex lobby, they have been able to convince the government to impose an import duty whereby that benefit they have in terms of lower international price, it disappears.
- Chirag Khasgiwala:** So you expect your latex prices to remain in the similar range or you expect they also to move up now?



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- Om Garg:** No, I think it will in the similar range, like Rs.80 per kilo all the way to about Rs.120 with an average of about Rs.100. And today we bought some at Rs.97. So we are working within that band and at the end of the year the average comes just about right.
- Chirag Khasgiwala:** Then the new company, the Hindustan Latex, it has been completely banned or they have got the approval to sell the female condom in the Indian markets?
- Om Garg:** No, the ban is on the male condoms based on their product failed in Ethiopia just based on the published news items, there is no ban on the female condom.
- Chirag Khasgiwala:** So do you think there could be pressure on your margins because of the increasing competition now?
- Om Garg:** It's too early to say, but we don't expect, it will be really a significant reduction.
- Moderator:** Thank you. Ladies and Gentlemen, that was our last question. I would now like to hand the floor over to Mr. Om Garg for closing comments.
- Om Garg:** Thank you very much for an active and interactive session. You have raised some important questions which gives us a thought how to work on some of the areas where improvements could be made. And we are really thankful that you have repossessed faith in the Company. And going forward we are confident about the business prospects and also we are looking for very active growth prospect in our business. So thank you again for supporting Cupid and I would like to assure all the investors that we are working every day diligently to improve the shareholders' value. Thank you.
- Moderator:** Thank you. Ladies and Gentlemen, thank you for joining this conference call. For all follow-up queries, please get in touch with Mr. Ankit Gupta at Christensen IR. On behalf of Cupid Limited, thank you for joining us. And you may now disconnect your line.