



CUPID LIMITED

Manufacturers and Suppliers of Male & Female Condoms

Date: - 3rd November, 2016

To,

Department of Corporate Services,
BSE LIMITED,

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The National Stock Exchange of India Ltd.

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SCRIP CODE: CUPID

Subject: - Conference Call Transcript

Dear Sir / Madam,

We hereby enclose the transcript of Q2 FY 2017 conference call which was hosted by the company on 28th October, 2016 at 3.00 p.m.

This is for your records.

Kindly acknowledge the receipt.

Thanking You.

Yours Truly

For Cupid Limited



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“Cupid Limited Q2 FY17 Earnings Conference Call”

October 28, 2016



**MANAGEMENT: MR. OM GARG – CHAIRMAN AND MANAGING
DIRECTOR
MR. ANKIT GUPTA- CHRISTENSEN**



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Moderator: Good Day, Ladies and Gentlemen, and Welcome to the Cupid Limited Q2 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, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Ankit Gupta from Christensen. Thank you and over to you, Mr. Gupta.

Ankit Gupta: Thanks, Malika. A very good afternoon everyone, and thanks for joining this Q2 and H1 FY17 investors call for Cupid Limited. At the outset, let me take the opportunity of wishing you all a very Happy and Prosperous festive season.

I hope you have received the copy of press release along with the results. It is also available on the website of the company and the stock exchange.

To discuss the results today, and to address your queries, we have Mr. Om Garg from Cupid Limited.

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. Ladies and Gentlemen, welcome to the Cupid Second Quarter and First Half Conference Call. Like Ankit has mentioned, I hope you have seen the results which we have circulated. However, I would like to highlight some of the points from the results.

First of all, I am happy to report that this is the best quarter ever in the history of Cupid when we started the business since 1998. And in terms of top-line, we have done about Rs. 22 crores in the second quarter and Rs. 38 crores in the first six months. And the corresponding number for the profit after tax is Rs. 5.3 crores and Rs. 9.3 crores for the six months' period.

Second of all, this second quarter, a couple of more things. We have started the production and sales of the commercial lubricants, which as you know is the third product in our basket. And also, third item of significance during this quarter was our successful attempt, finally, to get Cupid registered at NSE, National Stock Exchange.



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Now, looking at the activities coming up during this quarter. First of all, our order book is quite healthy; we have Rs. 46 crores worth of confirmed orders. And you will recall that in the last conference call we had Rs. 56 crores, out of which we have dispatched the Rs. 22 crores, leaving a balance of about Rs. 34 crores. Now, that Rs. 34 crores has been increased to Rs. 46 crores during this quarter. And we are also expecting some more orders.

Now, out of this Rs. 46 crores we will try to dispatch the maximum amount, both in volume and of course in the revenue. The second important thing which is likely to happen is we have initiated a process to register Cupid Female Condoms at the US FDA. Now the significance of that is that it will open the roads for Cupid Female Condoms not only in USA but also USAID which is the procurement and distribution agency for the US Government will permit us to compete for their business in Africa. They are selling lot of female condoms and male condoms for which we would become eligible. As you know we already have US FDA 510(k) for male condoms, now we are going after the female condoms. I must mention that this process is time consuming and costly. It could take 12 to 18 months easily. But it is a very important step that we have decided to do aggressively.

The second aspect which is also very important is that we have decided to go in an aggressive way to promote Cupid brand within India, both for female condoms and male condoms. The female condom, the brand campaign we are calling, 'Cupid for Her', and also, 'Protection for Her'. And what we mean by that is that Cupid Female Condom provides protection against unintended pregnancies and also protection against spread of sexually transmitted infections, STIs including HIV. So it is a dual protection tool for women and it gives them a gender equality and gives them the control to take their own decision about the reproductive health rights of women. And for India, in particular, as you know because of our population, a very high percentage below the age of 35 years offers us tremendous opportunity.

We got a glimpse of the potential size of the market during the Navratri festival, we initiated a program in Boriwali where we had participated for 11 days in spreading out the messages about Cupid Female Condoms. And as a result we got some quite a bit of positive feedback. And we started to sell physical sales through about 10 chemist shops in and around the site in Boriwali. In addition, we are also in touch with NGOs, now that the word has been out that three NGOs have requested us to work with them and supply female condoms for their distribution amongst sex workers in and around Bombay. You will be pleased to know that initially we are concentrating our efforts in Greater Bombay area, and eventually we would extend and expand this program to other major cities including Delhi, Bangalore, Pune, Ahmadabad and Chandigarh and others.

The third item of importance, which will start to happen this quarter is that we have launched a program to ordinate our packaging program which would expedite the process and hopefully



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improve on the cost, final packaging done through automation rather than using manual manpower.

So, going forward we are quite positive on the prospects of business. And let me again wish all of you a very Happy Dhanteras today and also the festive season of Diwali.

I am very pleased now to open the floor for questions. So, please go ahead.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Ajit Roy who is an investor. Please go ahead.

Ajit Roy: Sir, three questions. One is a strategic one. Just trying to understand how big your revenue profile can be on annual basis, if I have to break it in two components, B2B and B2C, over next three to five years where do you see or what are your aspirations in terms of revenue?

Om Garg: Okay. Now, over the next three to five years our B2B sales, which as you know in terms of female condom is about 99% right now, we see that getting reduced to about 60%. And the other 40% through the launch of this brand promotion going from B2C directly to the consumers through super markets and through the various chemist shops. So that is our projection, 60:40 distributed between B2B and B2C over the next three years.

Ajit Roy: But if I look at your current annualized revenue of say Rs. 100 crores, can our business be capable to be a Rs. 300 crores - Rs. 400 crores annual business or there are limitations on the B2B, WHO and the government aided businesses that we have, how big is the opportunity size?

Om Garg: Yes, there is of course a limitation on the funding available from the institutional investors and other international donors. So that directly relates to the amount of business, volume of business in B2B market. So the main reason, we have decided to aggressively follow this B2C strategy is to take advantage just in case with B2B business start to slide down in next two to three years. So we have a readymade platform to fill in the gap and also to expand our local market.

Ajit Roy: Any hiccups to our B2B business, after that we will have to look for other alternatives, that is the right way of understanding?

Om Garg: No, we do not believe that B2B business will die down, there will always be requirement

Ajit Roy: Sir on an annual business, beyond a point that you cannot keep on growing on that, because it is an aid based program.



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- Om Garg:** Aid based is one aspect of it, the other aspect is the family planning. Several governments, for example even Government of India is initiating a tender process to procure female condoms both for family planning purposes and aids prevention. And there are several other governments, again, depending on their budgets are likely to result in more demand for female condoms through B2B.
- Ajit Roy:** Second question was on the raw material side, so high cost latex pricing impact is there in the quarter or it is likely to come up in subsequent quarters because we had seen a rally in the latex and rubber prices in last two, three months which has now cooled down. So that impact is already there in our numbers or it is likely to come in the ensuing quarters?
- Om Garg:** High cost has already come in to the calculation until September, but we see it likely to continue at least for October, partly November. Eventually, we have seen the average price per kilo of latex within a close band of plus minus 5%, and this is how we do our estimation in terms of latex cost.
- Ajit Roy:** And just to understand on the competitive intensity on the female as well as male side, how many players are there globally in the female side of the business?
- Om Garg:** Female side there are four qualified manufacturers who supply female condoms.
- Ajit Roy:** And they would be based from where, one would be us?
- Om Garg:** One is us, the Female Health Company out of Chicago, they are the largest and the biggest and the oldest one. They had the monopoly on this business for 24 years until Cupid came on the scene in 2012. Now, few months back two other players have been prequalified, one is HLL, Hindustan Latex, this is a government company, Government of India, and there is another one out of Shanghai, China, called Dahua Medical.
- Ajit Roy:** I was wondering, apart from you who are the other active members in the business and the management bandwidth aspect of the business?
- Om Garg:** Well, we have about 20 managers and 18 of them have been with the company since we started production in 1998, there is hardly any turnover in the senior staff.
- Moderator:** Thank you. Our next question is from the line of Venkatesh B who is an Investor. Please go ahead.
- Venkatesh B:** Sir, my first question is, you say that you have a backlog of say Rs. 46 crores and I guess you are expecting to deliver, hoping to deliver the entire Rs. 46 crores in the current year in the second half. Now, what is the visibility for sales beyond that? I mean, when you talk about Rs.



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46 crores is that all the orders you have or is it like these are the orders which can be executed this year? Because what I remember was you started the year with order backlog of almost Rs. 127 crores and you have done sales in the first two quarters of something like Rs. 37 crores, so you should be ideally having Rs. 80 crores - Rs. 90 crores, why is the number so low at Rs. 46 crores?

Om Garg: A good question. The Rs. 46 crores order book is up to March 31st, 2017. And we will try to dispatch maximum out of that Rs. 46 crores. Now beyond that we do have Rs. 40 crores order for the financial year 2017 - 2018 only from the female condom business from South Africa which is part of this three year long-term contract we had totaling Rs. 104 crores. And beyond March 31st, 2018, we still have one full quarter until June 2018, which is another about Rs. 30 crores of order. So those are confirmed pending orders. In addition, we always get several repeat orders from our existing customers and also from UNFPA, UN Population Fund with whom we have a three year long-term supply contract. But those orders come through purchase order by purchase order so we did not include here

Venkatesh B: Just to reemphasize this, so basically you have visibility for the next two quarters of Rs. 46 crores, for FY18 you have visibility for Rs. 40 crores. And for FY18-2019 for the first quarter you have visibility for Rs. 30 crores, am I correct sir?

Om Garg: Yes, this is minimum.

Venkatesh B: Okay. Now, in the next six months are there any large tenders which have to be decided where you are in the fray, either you bid or the tenders have come up where you need to bid, is there anything like that in the next six to nine months?

Om Garg: Yes, there is one by the Ministry of Health, Government of India. We have participated in that and the results of that should be announced in next two weeks, we hope.

Venkatesh B: And how large is that tender, sir?

Om Garg: That tender, total is about Rs. 80 crores but we have applied for something like Rs. 15 crores.

Venkatesh B: Why is that you have applied only for Rs. 15 crores, is it because of capacity constraint, why wouldn't you bid for entire Rs. 80 crores?

Om Garg: Because we have these repeat orders expected from UNFPA and also we have two customers for whom we are doing the contracting work, third party contract manufacturing.

Venkatesh B: Finally one last question from me, I think few quarters back or sometimes back you had said that by financial year 2018 - 2019 you are expecting to get to around Rs. 100 crores top-line,



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does that number stay given the context or should we be expecting a higher number than Rs. 100 crores by 2018 - 2019 in terms top-line?

Om Garg: Right now, because we do not have a full handle on the situation, even on the FY18 and that is the fourth quarter of this year, January to March, there are lot of tenders and lot of request, which come out. And once that picture is clear we can forecast what would be our top-line in FY18 and also in FY19. So, right now I would say that Rs. 100 crores is still our target at a minimum.

Moderator: Thank you. Our next question is from the line of Anish Nanda who is an investor. Please go ahead.

Anish Nanda: Congratulations on a wonderful performance quarter-on-quarter and year-on-year. It is heartening to note the progress has been made. My first question is about the US FDA application process that you have just begun. You mentioned that it could take anywhere between 12 to 18 months. Once that happens, what is the kind of market that you are looking at? Because I believe the US market is very big and the margin also could be much higher than Africa, because in Africa we are depending on funding agencies. So what is the outlook, maybe a year down the line once the FDA approval comes through?

Om Garg: Okay, first of all let me caution that this process has just begun, we are trying to understand what is involved. And there is lot of paper work and lot of technical work to be done as a part of filing our application. In addition, US FDA would require a clinical trial involving a trial of 100 couples, the clinical trial has to be done in US under US supervision. So I am just saying that it will be time consuming and it is quite a bit expensive proposition. However, we have decided to go ahead with it because we do see a lot of potential in this. I do not have any estimated numbers on the sales, but you are correct that it is being sold at \$1 or \$1.50 per piece in retail. And while as compared to we are selling it at about Rs. 25 or about \$0.40 right now in bulk, B2B in the tender. So there is a huge potential, but at the same time we have to look at the marketing expense over there which is also quite expensive as compared to doing this brand promotion program for marketing, say in India.

Anish Nanda: And today on ET Now, in your interview, you mentioned something about the financial FY17 March ending numbers would be about double of last year. So we were just wondering, are you talking about a 100% jump? Because when you mentioned double we were not very clear what exactly that really meant.

Om Garg: No, what I tried to say is that the performance in next two quarters, which is quarter three and quarter four will be similar to what we have done in the first half quarter one and quarter two, i.e. the top-line is about Rs. 38 crores and the bottom-line is about Rs. 9.2 crores. So, in March



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31st, 2017, we are expecting what we did in the first half. That is what I meant. So if that happens, the total sales will be around Rs. 74 crores for the entire 2016 - 2017.

Moderator: Thank you. Our next question is from the line of Rahul Jha from Bay Capital. Please go ahead.

Rahul Jha: Sir, I had three questions for you. When you said that competitor in China, what is the capacity of that competitor?

Om Garg: They are a very new player and their product is good, but it is three times as expensive as our product.

Rahul Jha: What is the capacity of that competitor?

Om Garg: 20 million. But they have not started active sales yet in the market, since they were approved about six months ago, so they have not started their active marketing campaign, as far as we know.

Rahul Jha: On the cash level that you have piled up in your balance sheet, so what are the plans to utilize that cash?

Om Garg: Well, we are looking at several possibilities. Of course, one could be acquisition and also the expansion, the organic growth within the company in terms of either capacity expansion or developing some new value added products. And outside organic growth we are looking at several possibilities, although we have not yet come up with a product with a good margin. And of course the other utilization of cash would be to pay out to shareholders as dividend.

Rahul Jha: If I hear you correct, you said that you are planning to automate the packaging of the condoms, correct?

Om Garg: Yes, we are going to overhaul it in November.

Rahul Jha: So, if I understand it correctly, are you automating the assembly of the condoms or final process, final packaging after the condoms have been assembled?

Om Garg: No, the primary packing will remain the same and there are some regulations stipulated by WHO, we are talking about secondary packaging which is called consumer packaging which is the outside box, the attractiveness, the color scheme and the appearance.

Rahul Jha: So, is there any significant CAPEX to be incurred for that?

Om Garg: No, our total brand promotion program for the first three months is about Rs. 50 lakhs.



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- Rahul Jha:** No, CAPEX audit automation process, how much will be that?
- Om Garg:** Automation process will be maximum Rs. 1 crores.
- Moderator:** Thank you. Our next question is from the line of Bhavin Shah from Samiksha Capital. Please go ahead.
- Bhavin Shah:** Sir, just a couple of few questions, Mr. Garg. If I look at your reserves for the last two years, second half has been much stronger than first half, however you seem to be a little more cautious about the second half and now your order book has also kind of come down from last quarter. So, are you just being conservative or something specific to this year why you are not expecting a stronger second half?
- Om Garg:** The reason is that we are working at approximately 90% of our capacity and we are saying that we would at least match the performance of the first half. And of course we will continue to improve our top-line and bottom-line in the next two quarters, several ways we are trying to do it, one is to increase the proportion of female condoms to male condoms which is about 50:50 now. Higher percentage of female condom sales and revenue as you know would be in better profitability.
- Bhavin Shah:** So, are you saying the capacity is fungible between the two?
- Om Garg:** Yes, the capacity is interchangeable. And also, like I mentioned in response to previous caller, we are expecting some additional orders. So this Rs. 46 crores number can move up, but then the question would be how much of that can we ship out and what would be the mix.
- Bhavin Shah:** But you mentioned in the beginning of the call that this is your record quarter and you are operating near the peak utilization. So basically the revenues we generated this quarter, I mean, the same revenue you could repeat, provided there is enough demand without adding capacity, is that correct?
- Om Garg:** In fact not only repeat, we are trying to exceed that.
- Bhavin Shah:** So what is the headroom in the revenues, without adding more capacity? What is the further upside in revenues if you have enough demand without having to add additional capacity?
- Om Garg:** That depends on the mix of the product. If we get more orders for female condom than male condoms, then it would be Rs. 5 crores to Rs. 10 crores higher.
- Bhavin Shah:** And are you looking at adding capacity in near term, because it looks like near your peak utilization?



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- Om Garg:** No, we are looking at expanding our female condom production from 20 million currently in steps to 25 million and 30 million, eventually going to 40 million, assuming that the market is favorable and that the orders are likely to come. So we do have a growth plan.
- Bhavin Shah:** Can you give us some sense of overall market, like how big is it, India, Africa, US, what is the total market size today, what rate you think it is growing?
- Om Garg:** See, the growth rate is about 9% and there are several research reports and unfortunately their conclusions differ quite a bit. But the one we have seen, the projection is that in year 2020 the total contraceptive market will be about US\$8 billion.
- Bhavin Shah:** That is both male and female?
- Om Garg:** That I believe is both, the projection and forecast for female condoms are very limited.
- Bhavin Shah:** Okay, so it is relatively a newer market, okay. And you mentioned most of your female product is for B2B, what about male, how is the split between B2B and B2C today?
- Om Garg:** Male condom, 80% is B2B, plus some private customers. So the total export is about 80%. And the two local manufacturing jobs we are doing is about 20%, it varies between 15% to 20%. But there are a lot of customers now we have, we are regularly getting export orders from several countries, including Russia, including Portugal and even from the sub-Saharan African countries, including Haiti, Trinidad, Cuba. So, again, market for male condoms are also likely to grow.
- Bhavin Shah:** And as of first half, sir can you talk about your inventory and the receivable situation, how is that?
- Om Garg:** Our inventory is about Rs. 6.5 crores and our receivables are about Rs. 13 crores.
- Bhavin Shah:** And you talked about you are doing a brand campaign for female condom in India, do you have similar plans for male?
- Om Garg:** Yes, we do. In fact the entire campaign is a total campaign combining both male and female condoms, so we are going to launch Cupid male condoms as well and we are redesigning the packaging for both these products.
- Moderator:** Thank you. Our next question is from the line of Anand Srinivasan who is an Individual Investor. Please go ahead.
- Anand Srinivasan:** Sir, one question that I have is, the search for CEO, how is that going?



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Om Garg: We have interviewed a couple of people already, but like I mentioned in the last quarter call we are not getting to the people with the right qualifications, I mean, we are looking for a CEO who has experience in the FMCG line of work, personal hygiene and women's health related areas. The candidates we are getting applications, most of them are related to finance and some related to production. So we have decided to advertize this job immediately with some national recruiting company and we are hoping to find a suitable candidate.

Anand Srinivasan: On the CAPEX, so if you are running at 90% capacity, is there any immediate plan for ramp up or we can do something about it?

Om Garg: Yes. First of all we have 10% scope until we can utilize 100% of the capacity available. The second is to raise revenue and profit within the same capacity is by producing more value added products, same time, energy and efforts and at the end we get better margins and better top-line. So that is another way. And third way would be to try to change the mix within our installed capacity, I mean increased female condoms for sale as compared to male condoms. But ultimately if the market demand is there in next 12 to 18 months, we also have plans to expand our male condom capacity beyond what we have.

Anand Srinivasan: And how long does it take to expand?

Om Garg: It could be six months to a year.

Anand Srinivasan: So that is like two quarters grip we will, so are we anticipating a need in acting on it ahead of time?

Om Garg: Ahead of time what?

Anand Srinivasan: So, let's say if US FDA comes through, would you anticipate that and put this CAPEX in position six months ahead of time?

Om Garg: Yes, of course we would look at the timing and the scheduling. What we do not want to do is take a decision to increase the production prematurely, spend all the money and utilization is not there. So, that we would like to avoid. There is another possibility if temporarily we get more order we could outsource them and take up the sales, make the commitment on sales, increased sales.

Anand Srinivasan: But if you do an outsource would the standards and the quality be met in the same way?

Om Garg: On the outsourcing?

Anand Srinivasan: Yes.



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- Om Garg:** Yes of course, we have to send our own team and there are some strict guidelines and specification requirement, they have to be met before we would venture into anything like that.
- Moderator:** Thank you. We have the next question from the line of Vishal Singhania who is an individual investor. Please go ahead.
- Vishal Singhania:** Sir, you said that we have Rs. 46 crores of order book in hand and Rs. 28 crores of sales we have recorded in first half. So if you do the total you get Rs. 84 crores of sales. So why are we saying Rs. 74 crores of sales, why are you reducing the expectations?
- Om Garg:** No, what we said is that at the end of first quarter we had order book of Rs. 56 crores, out of which we have one Rs. 22 crores this quarter, second quarter. So the pending order from that was Rs. 34 crores and we got additional order of Rs. 12 crores to make it Rs. 46 crores. What I am saying is that we would at least repeat the performance of these two quarters, quarter one and quarter two into next two quarter, three and four. And we have done Rs. 38 crores in the first two. So we are hoping to do better than that, but at least Rs. 38 crores out of the existing orders of Rs. 46 crores.
- Vishal Singhania:** Right sir, but you said you will try to release entire Rs. 46 crores in this year and we have the capacity also, so why are you like reducing expectations, we can do Rs. 84 crores, right?
- Om Garg:** Yes, but order book does not mean everything will get shipped out.
- Vishal Singhania:** But you said earlier that you will try to execute the entire thing within the second half.
- Om Garg:** Yes, we will try. If we do that then it will be Rs. 38 crores plus Rs. 46 crores, that would make it Rs. 84 crores. But I would not commit to that right now because we have used the plant capacity and also there are other practical constraints like the timing of shipment, when the customer wants those to be shipped. Maybe someone would want us to ship in April so that we can include that in March sales. So there are some practical considerations. What I can assure all our shareholders is that we will try to do the best to improve both the top-line and bottom-line.
- Vishal Singhania:** Okay sir. And my second question is, by what time will we know the status of the repeat order from South Africa?
- Om Garg:** South Africa order, we were there a couple of months ago and we had several rounds of meeting with the government officials. Their deadline is a year from now, December 2017 they would issue the next tender, although the current tender extends up to June 2018, as you know. And they are looking at increasing their requirements, they mentioned in number that maybe as high as 50% more than last tender.



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- Moderator:** Thank you. Our next question is from the line of Chirag Khasgiwala who is an Individual Investor. Please go ahead.
- Chirag Khasgiwala:** Just had few questions. Like, as you said that your commercial lubricant is increasing, so how much is it scalable in terms of contributing to the overall earnings of the company?
- Om Garg:** We have installed capacity worth about Rs. 7 crores annually. And in this current quarter we have done just over Rs. 1 crores and we have orders on hand for about a little over Rs. 2 crores, and that Rs. 2 crores is included in that Rs. 46 crores, confirmed order book. But to answer your question, we can do up to Rs. 7 crores. It is a new product for us and we have to do lot more marketing and we have to let the outside world know that this is a third product Cupid has added.
- Chirag Khasgiwala:** In terms of your B2C segment, as you said that you are going to increase your shares of B2C segment to around 40% of the total sales, so do you think that your margins will become more volatile due to volatility in the latex prices, or is it possible for you to change the product prices in line with the change in latex prices?
- Om Garg:** No, like I mentioned the impact of latex price will not be very significant, because during the year we have seen for many years the average price stays within band of plus minus 5%. So, however the major impact is going from B2C on the positive side would be that we will produce several variants of female condoms in India. For example, it would be a natural color, it would be pink color and others as per demand. And also different flavors, we would have vanilla flavor, strawberry, chocolate and hopefully all that variety and variant would provide us an opportunity for a higher premium.
- Chirag Khasgiwala:** So in terms of our capacity, as you said that you are getting order from Indian government and your tender in that is Rs. 15 crores out of total Rs. 80 crores, but since you are already expanding your capacities then what is stopping you from going for full Rs. 80 crores, since you already doing plant to integrate capacities?
- Om Garg:** No, but we have commitment. Like I mentioned we have a third party job-work, we have commitment from those two customers. And also we have WHO, UNFPA orders and also we have won a tender to supply male condoms from South Africa. So we have carefully looked at all that and said we could spare for the government such and such quantity, which by the way has a lower margin than rest of our other orders. So we are trying to come up with a mix in terms of volume and also in terms of net margins.
- Chirag Khasgiwala:** So you mean the Indian order will be at lower margins?



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- Om Garg:** Yes, there is a lot of competition in the government tender. And I believe that all of us have to be very aggressive in our quotation.
- Chirag Khasgiwala:** Who are the other competitors, is there competition from HLL?
- Om Garg:** No, there are several big players in India as you know for male condoms, HLL of course being a government company they have their own quota. But for the public sector, I mean for the private manufacturers like Cupid you have the biggest one in TTK Healthcare.
- Chirag Khasgiwala:** So this order is only for male condoms, it is not for female condoms?
- Om Garg:** Of female condoms there will be only two bids, one coming from HLL and one from Cupid.
- Moderator:** Thank you. Our next question is from the line of Kushal Sheth who is an Individual Investor. Please go ahead.
- Kushal Sheth:** Quickly wanted to ask you question, in the earlier quarters you spoke about entering the B2C business being with very low margins and you said that it is going to be an expensive process, earlier in this call as well. And you also stated that the US FDA approval is going to be an expensive and long process, is this going to impact our margins going forward?
- Om Garg:** You mean for male condoms or female condoms?
- Kushal Sheth:** Overall, is it going to impact, since we are aggressively expanding in terms of advertising towards the B2C business as well as the expenses that we are going to incur with the US FDA approvals, is it going to impact our overall margins?
- Om Garg:** I would say to a limited extend, and the reason is that our expenditure targets and procedures are fully setup already for B2B business. We are on all the main list for any tender advertized anywhere in the world, we would come to know of it, which country, what is the volume, what is the total dollars budget for that. So there is no increase to B2B. However, to do the promotion in India, that would increase our expenditure and have some limited impact, because as I mentioned earlier we will try to increase the per unit revenue also from the B2C business here. And certainly the extra margin available in US will compensate the marketing cost there.
- Kushal Sheth:** One more really quick question, I just wanted to know, when you said earlier that we can outsource the production of condoms if required, was this specifically with relation to male condoms because female condoms, as you stated earlier, there are only two approved manufacturers in India and other companies would not have the technology in place to manufacture even if we decide to outsource the manufacturing.



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- Om Garg:** You are absolutely correct, I was referring to male condoms.
- Kushal Sheth:** So in case there are additional orders in terms of female condoms, the only thing that we can do is use our own capacity to increase the production of female condoms versus male condoms?
- Om Garg:** Exactly, you got the idea, right approach. So, before we go on full blast extension of our capacity in male condoms, we would look at possibilities. One, to outsource the male condom orders and yet be able to expand our female condom sales...
- Kushal Sheth:** In our own capacity?
- Om Garg:** Right. And then of course increase the step two, increase the female condom capacity first. And ultimately if it looks like a robust demand over a three to five year period, then only we will go for a larger expansion in terms of male condoms.
- Moderator:** Thank you. Our next question is from the line of Gaurang Ved who is an Individual Investor. Please go ahead.
- Gaurang Ved:** Sir, can you please clarify that UNFPA was supposed to take a final decision on Cupid II, so any color on that? And what about the launch of Cupid II and III, what is the response, can you just elaborate on that please?
- Om Garg:** Yes. Cupid II, we had several new questions on the technical side which have been raised by US FDA so that Cupid II prequalification process has been slowed down. We are constantly in touch with them, the process is going on but it is taking longer. In terms of Cupid III, we are still doing the development work and that is targeted at distribution within India, like we had previously indicated. And we are hoping that it would be ready in next several months by the time our B2C plans are formulated.
- Gaurang Ved:** So that Cupid III will only for Indian market or that will be for world over, that product will be available, how it will work sir?
- Om Garg:** Initially because we have the permission for India we would launch it in India, but in order to sell it worldwide we have to do lot more work. For example, we have to go through clinical trials and there is a prequalification process which is again 8 - 12 months. So that is why we are saying Cupid III will be initially for the Indian customers.
- Gaurang Ved:** And sir just one question, very quickly. For female condom we have capacity of around 20 million and you are saying as per the demand we can increase the capacity in the phased manner, maybe from 20 to 25, 30, 40 as on the requirement. So how quickly we can increase



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our capacity? Let's say from 20 million to 30 million we want to do, how long it will take us to do that?

Om Garg: It would be about two months to go from 20 million to 30 million and maximum six months to go up to 40 million.

Gaurang Ved: And what will be the indicative CAPEX for that, roughly?

Om Garg: It would be about Rs. 4 crores to go up to Rs. 40 crores.

Moderator: Thank you. Our next question is from the line of Ankit Babel from Shubhkam Ventures. Please go ahead.

Ankit Babel: Sir, I just have one question. You have around Rs. 16 crores of cash in your balance sheet and you would be generating around Rs. 5 crores - Rs. 6 crores more in the second half. As you said that you are looking for acquisition, just wanted to know if you go for an acquisition what could be the ticket size of that?

Om Garg: Depends on what we finally select, I mean our original target was between Rs. 15 crores to Rs. 20 crores without taking on any debt, as you know we are a debt free company. But it all depends on what product we zero in on, what business. If it is attractive, profitability is attractive we may go for a bigger size of the business, bigger unit.

Ankit Babel: Sir, suppose if we do not go for any acquisition, suppose if we did not sign any target then can we assume that you will distribute the cash to the shareholders in the form of dividend?

Om Garg: Like I mentioned earlier, shareholders interest are on our mind all the time and we would try to do our best in terms of balancing the use of cash between the acquisition...

Ankit Babel: But sir, any kind of payout which you would like to share, because you will be doing somewhere around Rs. 20 EPS this year and if you are just distributing this Rs. 1, Rs. 1 as interim dividend that is too less for a company like you which is generating cash on a quarterly basis. I am asking, in case if you do not acquire, I agree that if you acquire something then you will have a better utilization of cash, but if we do not acquire will you pay Rs. 10 - Rs. 15 dividend to the shareholders? Next year again you will generate cash, so for an acquisition anyways on an annual basis you can generate around Rs. 15 crores - Rs. 20 crores.

Om Garg: No, I understand. There is one other aspect besides acquisition and that is what capacity expansion and other brand promotion...



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- Ankit Babel:** But your asset turnovers are very high, so you do not need more than Rs. 3 crores - Rs. 4 crores of CAPEX per annum
- Om Garg:** Right, each quarter of course we would review the dividend policy, including your suggestions.
- Ankit Babel:** I am just worried what is stopping you to give sir, in case you do not acquire anything.
- Om Garg:** First of all that process of acquisition we will know within a year, yes or no. Following your line of thought if we decide not to, then the next thing will be how much cash do we need for the current operations both in terms of brand promotion, automation, expansion, like female condom expansion and possibly expansion of the male condom. And do not forget this FDA, we are looking at lot of expenditure. But if we have surplus cash beyond all that...
- Ankit Babel:** How much it will cost sir, US FDA?
- Om Garg:** US FDA will be anywhere from Rs. 15 crores to Rs. 20 crores because the clinical trial itself is about \$2 million.
- Ankit Babel:** So this you will capitalize or you will expense it out?
- Om Garg:** No, it will be as per rule, we have to capitalize part of it.
- Ankit Babel:** And this Rs. 15 crores - Rs. 20 crores would be a cost for next 12 to 18 months?
- Om Garg:** Yes, correct, up to maybe 2 years.
- Moderator:** Thank you. Our next question is from the line of Meghna Joshi who is an Investor. Please go ahead.
- Meghna Joshi:** My question has been answered. Thank you.
- Moderator:** Thank you. Our next question is from the line of Gautam Chugani who is an Investor. Please go ahead.
- Gautam Chugani:** My question was, what is giving you confidence in the domestic B2C market about the demand and specifically regarding the female condom products? And considering the fact that you found lot of growth in B2B opportunities, I am guessing the reason for that was because B2C selling the product domestically was a challenge, so what is giving you that confidence that B2C will succeed this time?



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Om Garg: Starting point for that is our population and the demographics and we have looked at the number of unintended pregnancies in India and 48% of those ended up in abortions. So we believe there will be big demand in terms of family planning areas and the best way to prevent such pregnancies, or one of the best way I should say, is through the use of female condoms. The other indication we have is that we did a survey in the UTI Office building in Bombay which also houses Bank of Baroda, and we talked to about 100 women in the age group of say 20 to 35, and we asked them if they heard about female condoms and would they like to use it? 93% gave a very positive comment on that. The third indication is that we did a small survey amongst the bar girls and the sexual workers in Thane district, and the response was tremendous, except in their cases they said it was little bit too expensive, the affordability was an issue with them. Now, based on this Navratri activities we are getting lot of on line traffic and the demand is already increasing, plus we have contacts from these NGOs who are involved in selling of these condoms for HIV. So, all this put together, we have come up with this business strategy, we believe that there will be a demand for this condom in India, maybe not today, it will take us maybe a year but we see that as a growth potential for Cupid going forward. And on the top of all that, the government, Ministry of Health is also going to support this endeavor.

Gautam Chugani: Sir, just a follow-up question, if you kind of look at male and female behavior of buying protection, who do you think is the decision maker and who is the right person to influence?

Om Garg: I think right now the decision maker is male, men make most of the decisions. But we had some small surveys, especially in the Delhi area where women are buying male condoms for their partners. But in terms of female condom we do not have a good handle on that and we believe in the beginning men would still be involved, but our ultimate objective is to educate the women, especially the younger generation that this is a protection tool for them, that is why we are saying Cupid for Her, and a Protection Tool for her. So we are hoping that with good educational efforts and training and demonstrations and surveys, like I mentioned we are going to talk to 10,000 people in next two weeks all over Bombay to get their reaction what they feel and we are hoping eventually that women will take their decision to buy the female condoms.

Gautam Chugani: Sir, just last question. If you actually explore, I do not know what is your thinking around the whole online strategy, because I believe that a lot of sexual wellness products are being sold online and one of it could be your actually for example a commercial lubricant that you already started manufacturing. Probably, and this is a question and a suggestion is that, is there a way in which you have a very robust online strategy for non-condom products and the condom becomes sort of a product to building that brand and so on so forth, so have you explored this line of thought?

Om Garg: No, it is a very good suggestion, thank you for that. We have thought about launching lubricants online, but so far we have not taken any concrete steps. Our female condom sales



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are doing better, not big volumes as yet, but we got request from about 135 Indian cities, all corners of the country, and they have bought one or two pieces. So, I think the lubricants will be very good product for the online.

Moderator: Thank you. Our next question is from the line of Omkar Kulkarni who is an Individual Investor. Please go ahead.

Omkar Kulkarni: As far as the B2C market is concerned will be facing competition from HLL since they have got the approval, right?

Om Garg: yes.

Omkar Kulkarni: So is the market so large that both of them can accommodate the market?

Om Garg: Yes, we believe the market is going to be huge with over 50% of our population female and specially the percentage of younger people. If this idea catches on and if we can convince girls and women that this is a tool which gives them full control in their decision making process and that they will be equal partners, we believe the market could be quite huge. Now what percentage we would get out of that is yet remains to be seen.

Omkar Kulkarni: Right, but you are saying that the scope for both the players, that is HLL and Cupid is very large?

Om Garg: All I know is that we are expecting the market to be quite big and obviously that would be split, but what percentage they get and what Cupid gets will depend on how we approach it, what is our strategy effort, we are quite confident that we would get a fair share.

Omkar Kulkarni: But currently only two players are there, right, as far as B2C market in India is concerned?

Om Garg: Correct.

Omkar Kulkarni: And as far as your third party contracting is concerned, that is 20% of the overall sales, right?

Om Garg: Correct.

Omkar Kulkarni: And what are the margins in that, are they lower than the regular margins?

Om Garg: Yes, they are about the same, about 15% margins because you are talking about male condoms.

Omkar Kulkarni: And what about the overall EBITDA margin, you have done 42% to 43%, is it the maximum you can achieve?



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- Om Garg:** We could improve that, provided we change the mix, i.e. if we increase the percentage of female condoms from 50% to 60% or 70%, then the EBITDA would proportionately go up.
- Omkar Kulkarni:** And how do you think you can achieve that, like in how many years, like in two three years can you go to 70% from 50%?
- Om Garg:** We could, that is one of our long-term objectives, if we get this female condom going, not only in the local markets but also in the B2B business all over and if the demand is there and the funding is available for female condoms, we could easily go to 70:30.
- Omkar Kulkarni:** So your aspiration is 70:30 in say next three years?
- Om Garg:** Yes, I think that is achievable.
- Omkar Kulkarni:** And one last question, your PBT has increased by around 37% - 38%, right?
- Om Garg:** Yes.
- Omkar Kulkarni:** So you PBT has increased by around 38% and your tax expense have gone up by around 59% to 60% in comparison to PBT, so what is the rationale behind the larger increase in tax?
- Om Garg:** Yes, we are now in the 35% tax bracket including the surcharge.
- Omkar Kulkarni:** So will this be the same run-rate of tax charges?
- Om Garg:** As far as I know, yes, we would be in the highest tax bracket.
- Omkar Kulkarni:** And the cost of raw materials, as far as it is concerned, it is almost 45% to 46% of your total sales, right?
- Om Garg:** About that, yes.
- Omkar Kulkarni:** So, significantly it has rallied from Rs. 5 crores to almost Rs. 10 crores, right?
- Om Garg:** Yes.
- Omkar Kulkarni:** As far as year-on-year numbers are concerned?
- Om Garg:** No, it is a major chunk, raw material cost is as you mentioned applied to even 50% of our production cost. And we are keeping an eye on the all the major inputs, including of course the latex which is the highest and then the chemicals, silicon oils and the oiling and packing.



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- Omkar Kulkarni:** So the question is, will this be the same kind of run-rate for this cost of raw materials is concerned, I mean the highest rate of cost of materials? Or will it be coming down in the subsequent quarters?
- Om Garg:** No, again, it depends on the mix of male and female condoms.
- Omkar Kulkarni:** Yes, as far as the latex price is concerned I am asking.
- Om Garg:** No, we believe that the latex prices will be stable because there is more production than the demand. However, if the tier industry picks up in India going beyond next year, then there could be a rise in pressure. Right now we think it would remain the same.
- Omkar Kulkarni:** As of what it was in Q2, right?
- Om Garg:** Yes, it was about Rs. 98 per kilo.
- Omkar Kulkarni:** So you expect the similar thing in Q3 and Q4?
- Om Garg:** Yes, we do.
- Moderator:** Thank you. We would be taking the last question from the line of Anand Srinivasan who is an Individual Investor. Please go ahead.
- Anand Srinivasan:** So in case the government orders come through, would the receivables go up? Because typically government orders tend to have a longer payment cycle and that impacts the balance sheet badly?
- Om Garg:** Not really, the payment terms on the government order is 30 days which is level actually better than what we have been receiving from other orders. So no, it will not impact negatively.
- Moderator:** Thank you, sir. I would now like to hand the conference over to Mr. Garg, for his closing comments.
- Om Garg:** We really appreciate so many valuable inputs. And we appreciate the confidence and faith you have in Cupid's management. And we would like to assure you that shareholders' interest is our top priority going forward. Again, thank you very much for support and wish you Happy Diwali season.
- Moderator:** Thank you very much, sir. Ladies and Gentlemen, on behalf of Cupid Limited, that concludes today's conference. Thank you for joining us and you may now disconnect your lines.