



CUPID LIMITED

Manufacturers and Suppliers of Male & Female Condoms

Date: - 12th February, 2018

To,

Department of Corporate Services,

BSE LIMITED,

Phiroze Jeejeebhoy Towers,

Dalal Street,

Mumbai – 400 001

SCRIP CODE: 530843

The National Stock Exchange of India Ltd.

Exchange Plaza, 5th Floor, Bandra-Kurla

Complex, Bandra (East),

Mumbai - 400051

Fax No. – 6641 8125 / 26

SCRIP CODE: CUPID

Subject: - Conference call Transcript

Dear Sir / Madam,

With reference to captioned subject, we hereby enclose the transcript of Q3 FY 2018 conference call which was hosted by the company on 7th February, 2018 at 4.00 p.m.

This is for your records.

Kindly acknowledge the receipt.

Thanking You.

For CUPID LIMITED

Saurabh V. Karmase



Company Secretary and Compliance Officer

CIN No : L25193MH1993PLC070846

Factory & Registered Office:

A-68, M.I.D.C. (Malegaon), Sinnar, Nashik - 422113, Maharashtra, India

Tel: +91 2551 230280 / 230772 / +91 7722009580 Email: info@cupidlimited.com, Website: www.cupidlimited.com



“Cupid Limited Q3 FY18 Earnings Conference Call”

February 07, 2018



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



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Moderator: Ladies and gentlemen good day and welcome to the Cupid Limited Q3 FY18 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Diwakar Pingle from Christensen IR. Thank you and over to you sir.

Diwakar Pingle: Thank you Inba. Welcome to all the participants who have joined this Q3 FY18 earnings conference call for Cupid Limited.

As usual we have sent copy of the press release and the results and we have also uploaded the same on our website. In case anyone is not in the mailing list or would like to be added or not received it, please do let us know. We will ensure that our release reaches you at the earliest.

To discuss the results and to address the queries from the investors today we have Mr. Om Garg – Chairman and Managing Director of the company. Mr. Garg will give a brief overview of the Quarter gone past including the financials and some of the business highlights. We will keep it brief post which we will open to the Q&A. I'm sure most of you have a lot of questions today.

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

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

Om Prakash Garg: Thank you Mr. Diwakar. Welcome ladies and gentlemen. On behalf of Cupid Limited I would like to welcome you all for the third quarter FY18 earnings conference call today. As Mr. Diwakar has mentioned by now you must have seen the press release and the results announced by Cupid board of directors last night, so I will not go into the details except to point out some of the highlights.

The export component was 72% and the domestic sales were about 28%. The percentage of low margin Male Condom was higher in this quarter at 55% as compared to the last, a year ago quarter which was only 36%. However, the higher margin Female Condom percentage sales in this quarter was only 44% as compared to 60%, sales percentage in the quarter a year ago. These results are reflection of 3 major developments during the quarter; first and foremost was the reduction in Female Condom procurements by the government of South Africa due to their budgetary controls and reductions. This reduction unfortunately may continue in the fourth



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quarter as well. The new budgets would be announced and will be effective from April 1, 2018. The good news is that yesterday the government of South Africa has announced a new five-year tender which would be effective from July 1 2018 when the current tender will terminate. I will cover more details later on the new tender and the opportunity it provides Cupid for future growth. The second factor affecting the results was that the Ministry of Health, Government of India purchase order was delayed, so we could not benefit it in the month of November and so the sales were reduced. The third one is as I mentioned the overall percentage of Female Condom was down which is higher EBITDA margin item than the male condoms. I just like to point out that we are comparing the results of this quarter to a year ago quarter, December 2016 which was the best quarter ever in the history of Cupid with a turnover of about 28 Cr and EBITDA of about 38%. So those are the explanations for the actual results.

Now looking at the ongoing operations, we have 3 exciting developments. Number one, the 20% capacity expansion which we had announced during the last quarter is fully on track and we expect the production from the new facilities to start in the first quarter of FY19. The second one relates to the joint-venture in South Africa and like I mentioned few minutes ago we would be discussing more during the question and answer period. We are also continuing our worldwide campaign to increase the number of countries where Cupid products are being registered. We just got a registration from Tanzania which is a growing buyer for these products as well as we are making steady progress in registering our Female Condoms down in Brazil. The USFDA registration program is getting speeded up due to reclassification possibilities next month in March.

So I see that in general the condom market is expanding, the demand is growing both in India and abroad and the supplies are not expanding in proportion. We have a Ministry of Health, Government of India second tender within a span of three months and this quantity is even larger, 455 million pieces as compared to about 350 million four months ago. So the demand is increasing from other countries as well. again South Africa tender is now calling for 1 billion Male Condoms per year for three years, Female Condoms, total of 120 million pieces of over a three year period and lubricant jelly about 20 million sachets per year for three years. Because of the HIV prevention and promotion program and also because of increase in unplanned pregnancies there is a growing emphasis in the national and international donor agencies budgeting process for FY19 to promote the use of more and more condoms especially amongst our younger population. with these remarks I would like to open the session for question and answer.

Moderator:

Thank you very much sir. Ladies and gentlemen we will now begin with the question and answer session. We have the first question from the line of Ashwin H, an individual investor. Please go ahead.



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- Ashwin H:** The first one is on revenue, 21 crores. Does it mean that 100% of capacity utilization was for male condoms or did you operate below optimum capacity utilization?
- Om Prakash Garg:** Yes, in this last quarter October to December male condom capacity utilization was very close to 100%.
- Ashwin H:** And was there any production of female condoms or was it not there at all?
- Om Prakash Garg:** Yes, we produced about 5 million Female Condoms during the quarter, also the female condom manufacturing capacity was expanded from 25 million to 52 million pieces per year.
- Ashwin H:** My second question is on your last quarter, you had talked about December 2017 that you would release a few products including hand sanitizer. I feel that you still have that as plan for coming quarter for coming months, so was there a delay, when can we expect with earlier plans?
- Om Prakash Garg:** We have delayed the launch of these new products because we are still negotiating with the distribution company. Based on our limited brand promotion program we have concluded that more efficient distribution system will be to go through a professional company who already have their sales force in place in all parts of India.
- Ashwin H:** Otherwise the product is already ready to go to market?
- Om Prakash Garg:** Yes, we do have the products ready. We have started to sell it online already.
- Ashwin H:** On US FDA I think you mentioned last time that by December the regulations on whether Class II or Class III for female condoms would come out, so has that happened or there is yet clarity is awaited on that front?
- Om Prakash Garg:** The submission deadline was February 2, obviously it has closed and now the USFDA is reviewing all the inputs received from the interested parties and we expect a final decision to downgrade the classification to Class II by March end.
- Ashwin H:** And if that happens how long will it take you to go to market in the US with your female condoms, if it is downgraded?
- Om Prakash Garg:** If it is downgraded we expect that we could complete all the filings including clinical trial required by USFDA in next 6 to 8 months.
- Moderator:** Our next question is from the line of Omkar Kulkarni, an individual investor. Please go ahead.
- Omkar Kulkarni:** What is the status on the South African orders?



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- Om Prakash Garg:** We have completed 85% of that 104 crores order which we have received back in 2015 and by June 30th, 18 we expect to complete the balance 15% or about 15 Cr.
- Omkar Kulkarni:** I'm asking about the repetition of that order.
- Om Prakash Garg:** The new tender which was published yesterday, has more than doubled the total quantity; for example for female condom, in the last tender it was 54 million pieces over the 3 year period. This year it has been increased to 120 million pieces which is a combination of imports which is about 80 million over the three-year period and the balance 40 million from the local manufacturing. The government would like the manufacturer to set up local manufacturing over there. So the quantities of orders have definitely more than doubled as we were expecting during the last conference call. And for male condom as well it's 1 billion male condoms each year for three years and also for lubricants, it is 20 million sachets each year for three years. And like I was indicating earlier although there was a budgetary control in last couple of months, the government has enlarged the allocation for contraceptives. Further as you are aware the HIV is still a major issue. South Africa has the largest HIV positive population and the worst part of this is that 58% of the HIV positive are women and specially the women between the ages 14 and 24. So it's still a national priority and that is I think the basis for increasing the allocation in the new budget starting from April 1, 2018.
- Omkar Kulkarni:** Last time we were expecting?
- Om Prakash Garg:** During the last conference call I've mentioned that we were expecting an order of about 70 to 75 million.
- Omkar Kulkarni:** Out of 75 million which we were expecting the total order you are expecting around 30 million to come to the Cupid's kitty?
- Om Prakash Garg:** Yes we were expecting 30 million pieces order, because there would be four qualified bidders for this tender and we still expect in the same ratio.
- Omkar Kulkarni:** But now the size has grown from 75 million now you expect it to 120 million, right?
- Om Prakash Garg:** 120 million like I said split into 80 million is the export and we expect 25 to 30 out of the 80 exporting from India like we have been doing regularly. And for the balance 40 million which has to be produced locally there, we expect about half if everything goes well in terms of the installation, regulatory approval and the government priority pricing.
- Omkar Kulkarni:** So out of 40 million you are expecting 20 million for Cupid, right?
- Om Prakash Garg:** Right.



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- Omkar Kulkarni:** And out of 80 million?
- Om Prakash Garg:** Out of 80 I said about 25 and out of the 40 we expect 20.
- Omkar Kulkarni:** And this 40 would be joint venture with another partner?
- Om Prakash Garg:** Yes, it's one of our local partners we are setting up a joint venture unit. Now because of this new tender the scope and size of the joint venture has expanded, and we are just starting the negotiation based on this new tender, in fact started today.
- Omkar Kulkarni:** Sort of this 20 million, the profit would be shared 50-50, right?
- Om Prakash Garg:** Yes, 51 will go to them.
- Omkar Kulkarni:** And 49 to Cupid?
- Om Prakash Garg:** Yes.
- Omkar Kulkarni:** And another news is that there is the resignation from the Chief Development Officer, right?
- Om Prakash Garg:** Development Officer?
- Omkar Kulkarni:** Which you had last year I guess.
- Om Prakash Garg:** We had hired him about a year ago and he has decided to resign due to personal reasons.
- Omkar Kulkarni:** Any chance of appointing a new one or what would be the consequences because of his resignation?
- Om Prakash Garg:** There is no immediate consequence in the sense that we are already looking for a replacement and if we decide to go with the distribution company some of the direct marketing workload would be reduced.
- Moderator:** We will take the next question from the line of Ankit Kohli from Pure Research. Please go ahead.
- Ankit Kohli:** Can you please elaborate on your capital allocation philosophy here? You are expanding into various markets and you are also setting up joint ventures and you are expanding your production. So what would be your capital allocation philosophy, how do you look at and what kind of returns are you looking at in terms of ROEs you want to maintain? What is Cupid's capital allocation philosophy?



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Om Prakash Garg: In general you are aware we have been very conservative and as of September 30th we had cash and equivalents of about 27 Cr. As of December 31st still have close to that amount, Rs. 25 Cr. Now next year we have three projects as you mentioned, one is the 20% expansion in capacity of which would cost a total of 7 Cr plus some infrastructure expenses and second major project is the joint venture, our equity participation would cost about 4 Cr and we are reviewing this estimate. Most likely, it will increase because of this larger scope of the operation under the new tender. We are a debt-free company and also accumulating profit each year. Last year as you know we had 20 Cr, this year assuming we have a similar performance in fourth quarter to this quarter we would still be more than 18 Cr after paying about 10 Cr in income taxes.

Ankit Kohli: My question was slightly different. I'm trying to understand when you make a capital allocation decision when you decide to enter into a venture not expand your capacity, do you have a certain returns ratio in mind with you believe that the internal return rate you want at least 20%-25% or how do you kind of go about making that decision from a capital efficiency perspective? It can be any decision, not there the specific ones here but what is the management's approach to capital allocation?

Om Prakash Garg: We look for a minimum of 20% return.

Ankit Kohli: We kind of touched upon this earlier as well; the female condom market especially requires a lot of nurturing in terms of use their education so that inhibitions around the use of the product kind of go down. And FC2 of course is there and how aggressive are we going to be in terms of educating the potential users because even some recent press articles show that there has been some criticism in South Africa around the fact that FC2 is the really only one which is educating the potential users and others are not and that kind of articles specifically mentions Cupid is there. And as we look to expand into US educating the users and kind of developing a trust-based relationship with them is going to be very-very important, so how aggressive are we going to be on this front over the next 6 to 12 months or one year, I'm just trying to understand the roadmap that you in mind and how you plan to really create this market is as opposed to male condom market which is already fairly developed?

Om Prakash Garg: It's a very exciting question and we have allocated about US\$20,000 over the next 12 months for education and training of public health officials and some of the ultimate users of female condoms covering all the nine provinces in South Africa. We have discussed with the national department of health there and they are helping us to set up this training program. They have also mentioned that Cupid Condoms have been very popular and there is not even a single report of any adverse comment on the use of Cupid female condoms. This article you are mentioning seems is highly biased and we are in the process of replying to the misquotations and some of the outright mistakes they have reported in that article. The important thing is that we are trying to make Cupid Female Condoms available which are not only safe and easy to use based on comments we have received but also they are affordable. When we started the



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project here at Cupid in 2007 and '08 under a five-year in house R&D program, one of our objective was to develop a preventive device which would empower women but at the same time it should be affordable so that more and more women can afford to purchase and use it. So very valid question about the training. However we have been doing selected training in South Africa. One of our partners has done training in selected areas very actively. As an integral part of the training program, we use Female Condom demo model where we show to end users - how the package is opened, how to insert a Cupid Female Condom and how it is used. There are written instructions with sketches so that almost anybody can understand how to use it properly. In terms of the digital marketing, we have been very active in terms of promoting and spreading awareness about Female Condom. Further, as you are aware, we have been selling it on Amazon and Flipkart and recently we have made arrangements to sell Cupid products with several e-commerce portals which are already dealing in women related sexual and hygiene products.

Ankit Kohli: Last time we had spoken, you had indicated that the final top line for us the current fiscal could be between 93 to 95 Cr. Now I understand there has been some slowdown in Q3 and you are saying that Q4 might also pan out on the same line, so where do you expect FY18 to end and how much of the 71 Cr order book will kind of flow into the next fiscal?

Om Prakash Garg: We are expecting top line more or less like last year, maybe 5% higher. In terms of next year, we are projecting 10% to 15% improvement over FY 18.

Ankit Kohli: So around 90 Cr is what the revenue should be?

Om Prakash Garg: Correct.

Ankit Kohli: And that would effectively mean that we are looking at a fairly big jump in the next quarter because that will mean we have to do approximately 27 Cr next quarter as opposed to the 21 that we have done in the current quarter, is that the right way to understand this?

Om Prakash Garg: No, not really, fourth quarter would be just like third quarter with the top line of about 20 to 22 Cr, so that would put the number at about 85 Cr for FY 18.

Ankit Kohli: That will be flat on a YOY basis?

Om Prakash Garg: Exactly.

Moderator: Our next question is from the line of Ranjan Kumar, an individual investor. Please go ahead.

Ranjan Kumar: I'm just reading your presentation, you have mentioned about a contract from a large Pharma company for male condoms in January 2018. So could you please explain what is the contract size and timelines that is required to be executed?



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- Om Prakash Garg:** We had two new contracts; one I already mentioned was the Government of India order which was worth about 23 Cr. Now the one in January we have received from a major Pharma company is initially for 2 Cr but they intend to continue for the entire year. So, the indications are that this could be above 15 Cr additional orders and they will be continuing till March 19 at least.
- Ranjan Kumar:** The cumulative order book as of now is 71 Cr and you plan to execute this over the next three quarters. So I have a question here is like what are the company's efforts enhancing the revenue visibility beyond three quarters, so right now we have revenue visibility only for three quarters?
- Om Prakash Garg:** As you notice the trend in our order book during the quarter lot of additional orders come in as the budgets are approved and purchase orders are released so while we exhaust the part of the 71 Cr orders, we may get additional orders during the quarter.
- Moderator:** Our next question is from the line of Prachi Dave, an individual investor. Please go ahead.
- Prachi Dave:** I wanted to ask you there is new change in the budget regarding the taxation which would be 25% for companies which have less than 250 crores revenue, so is it applicable to us, can our margin increase because of that?
- Om Prakash Garg:** You mean the reduction in income tax from 30 – 25% for the companies with revenue upto 250 Cr?
- Prachi Dave:** Yes.
- Om Prakash Garg:** Yes we would definitely benefit it by 5% for FY19. It is a good news for us.
- Prachi Dave:** There would be more expense regarding the training and awareness program, do you expect our margin to slightly decrease because of that or does this included in your tender expenses means before you apply for budget?
- Om Prakash Garg:** No, it will not be a significant amount. Like I mentioned it's about \$20,000 which is about 12 lakhs on revenue of about 100 crores over a year, so it will not be that significant.
- Prachi Dave:** Have you thought of any CEO or the succession planning because I have full trust in you, so I just wanted to know about that as a shareholder?
- Om Prakash Garg:** No, again we have not been successful yet in selecting the right candidate. We have one more interview scheduled in next two weeks.
- Moderator:** Our next question is from the line of Akriti Shah from Sameeksha Capital. Please go ahead.



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- Akriti Shah:** Can you please understand that the 71 crores order book which is mentioned in the PR, how much of this order book pertains to male condoms and female condoms?
- Om Prakash Garg:** Close to 52 is for male condoms and 19 Cr is for female condoms and the main reason is that the current female condoms tender would expire in June 2018. After that, we would start with this new tender allocation I mentioned earlier.
- Akriti Shah:** Which countries will be fulfilling this order?
- Om Prakash Garg:** The male condom orders are mainly from Ministry of Health, Government of India from DKT India and also from this new Pharma Company which I mentioned earlier. Female condom is mostly from South Africa and the balance from WHO/ UNFPA.
- Akriti Shah:** You mentioned that last part of this order will be fulfilled in the next three quarters, so how much are we expecting will be fulfilled in the next three quarters of 71 crores?
- Om Prakash Garg:** I would say minimum of 20 Cr in each quarter.
- Moderator:** Our next question is from the line of Pankaj Bajaj, an individual investor. Please go ahead.
- Pankaj Bajaj:** My first question is around branded business, so out of our target which is 2 crores of branded business in financial year 18, how much we have already achieved?
- Om Prakash Garg:** We have achieved only about 55 lakh and in general the brand promotion program is going rather slowly as compared to our projections. The main reason is that there are two new players with lot more advertising and promotional campaign.
- Pankaj Bajaj:** Since we have adopted a technology which can turn our machines from male condoms to female condoms, so with that how much capacity we have result end up in female condoms only?
- Om Prakash Garg:** Right now, we have equipped two machines for female condoms and the combined capacity of these two machines is approximately 45 million pieces per year.
- Pankaj Bajaj:** And that 45 million machine if your start producing male condoms from the same machine how much it will be around approx.?
- Om Prakash Garg:** You mean the new machine?
- Pankaj Bajaj:** Yes.
- Om Prakash Garg:** The new machine we are buying would cost about 7 Cr.



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- Pankaj Bajaj:** But these machines are capable of producing both male and female condoms, right?
- Om Prakash Garg:** Yes.
- Pankaj Bajaj:** If 45 million female condoms then how much male condoms can be produced out of these machines?
- Om Prakash Garg:** If we use it 100% for male it will be 80 million pieces and if we use 100% for female condoms it's about 22 million pieces per year.
- Moderator:** Our next question is from the line of Sahil Talwar, an individual investor. Please go ahead.
- Sahil Talwar:** The Government of India tender will be realized in which month and what are the sort of margins that we are looking at for that tender?
- Om Prakash Garg:** Margins for Government of India order is approximate 10%.
- Sahil Talwar:** I'm talking about the JVs that we are forming in South Africa, is there any royalty on topline expected from there other than this 49% profit sharing?
- Om Prakash Garg:** Yes, in addition to the 49% equity profit we are expecting a royalty for Cupid's intellectual property including our patent and technical know-how.
- Sahil Talwar:** Is there a number that has been negotiated or are we looking at number for that?
- Om Prakash Garg:** We are still negotiating but we are expecting a 5% on the sales invoice value.
- Moderator:** Our next question is from the line of Imran Khan from Metis Capital. Please go ahead.
- Imran Khan:** I just have couple of questions on South African and the B2C business in India. My first question would go on the B2B business part, can you please confirm what percentage of the domestic revenue was B2C?
- Om Prakash Garg:** B2C revenue in the last quarter was about 50 L total.
- Imran Khan:** And what percentage of the B2C business was under Cupid brand and what was under White Label?
- Om Prakash Garg:** All under Cupid brand. Both Cupid brand Male Condom, Cupid brand Female Condom which we are calling Cupid Angel. In addition to Cupid brand, we are doing this third-party job work for DKT India and the pharma company in their own brand.
- Imran Khan:** When we say most of it, so can I assume 90% of the business from Cupid Brand?



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- Om Prakash Garg:** You mean in the Cupid brand?
- Imran Khan:** Yes.
- Om Prakash Garg:** Yes.
- Imran Khan:** 90% would be in Cupid Brand and rest 10 in White Label, right?
- Om Prakash Garg:** No but the third-party job work is in their own brands for example this Pharma company job but which we are doing, we are manufacturing condoms in their brand according to their specifications.
- Imran Khan:** My simple question what percentage was under Cupid, so you said majorly was under Cupid, so then I repeat my question was that close to 90 or what sort of percentage was that under Cupid?
- Om Prakash Garg:** Out of the total domestic sales about 10% was in Cupid brand.
- Imran Khan:** So this was all into B2C?
- Om Prakash Garg:** This is B2C.
- Imran Khan:** What are the margins in B2C business in December quarter?
- Om Prakash Garg:** Margins are again about 15%.
- Imran Khan:** In your expectation was that B2C margins could pass B2B margin in the coming two years, so you still maintain that?
- Om Prakash Garg:** I think in the long run, yes. However, in the initial stages the expenditures for promotion and advertising are lot higher, so I think it would be over a period of 2 to 3 years that the margins will be better off in B2C than B2B.
- Imran Khan:** On the second question which is on South Africa the reduction in volumes in December quarter reflects loss of your share in the procurement or it's a temporary cutback in budget?
- Om Prakash Garg:** It's a temporary cutback; we still have their orders on books. However, they have not issued the purchase orders because their budgets were cut back.
- Imran Khan:** Do you expect the revenues to shift into March quarter?
- Om Prakash Garg:** Some of it we are expecting but bulk of it would come in the first quarter with the new budget, beginning in April.



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- Imran Khan:** What is your expectation for FY19 for female condoms procurement from South Africa?
- Om Prakash Garg:** This was an earlier question as well, with a new tender we don't know yet. But we are expecting at least 40 to 50 Cr from the female condom sales in FY19.
- Imran Khan:** 40 to 50 Cr and how much in the unit terms?
- Om Prakash Garg:** In unit terms we are pricing it about Rs. 20 a piece, so 25 million pieces would be about 50 Cr.
- Moderator:** Our next question is from the line of Anirudh Somani, an individual investor. Please go ahead.
- Anirudh Somani:** I would like to have an update on registration process in Nigeria and Republic of Congo and what kind of business can we expect from these two regions in the coming years?
- Om Prakash Garg:** Both these countries are very heavy consumers of mostly male condoms but now also female condoms. Because we are WHO and United Nation's Population Fund Prequalified supplier we do not need a separate registration in Congo. In fact in the last financial year we did a significant amount of exports to both Congos over 7 to 8 Cr. In Nigeria, they do need registration and our process is going on. Yet we have supplied it through WHO and for which they do not require a registration. But for third-party orders they do need a separate registration.
- Anirudh Somani:** Any timeline and any ballpark number or figure that you can give me with respect to registration and the business that we expect in the first year?
- Om Prakash Garg:** Nigeria has been slow. We have talked to other people as well. I would not be surprised if it takes another 9 to 12 months for registration in Nigeria.
- Anirudh Somani:** Another question is with respect to the next financial year, what are the revenue mix that we can expect like with respect to male condoms, female condoms and lubricants?
- Om Prakash Garg:** I think our reaction would be 50% to 55% female condoms, about 40% to 45% male condoms and the balance from lubricants.
- Anirudh Somani:** With respect to lubricants our expected turnover this year was supposed to be 10 crores. Do you foresee that we can achieve it and how much will it grow in next year?
- Om Prakash Garg:** This year it has been slow, however, for next year we are still targeting about 10 Cr from lubricants sales.
- Anirudh Somani:** This year how much do you expect from lubricants sales?
- Om Prakash Garg:** This year it would be about 4 to 5 Cr total.



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- Anirudh Somani:** So basically we have underperformed our expectations.
- Om Prakash Garg:** Yes it is, for the lubricant.
- Moderator:** We will take a next question from the line of Vipul Patel, an individual investor. Please go ahead.
- Vipul Patel:** You've mentioned US FDA recently published regulations. I would like to understand what is the change in terms of time, effort, how early can we start on that front?
- Om Prakash Garg:** The USFDA currently classified female condoms as Class III product, like pacemaker or implant whereas the male condoms are classified as Class II products which do not require that much testing and documentation. So over the last five years many women's group in US were demanding that because of this Class III classification for female condom these were not readily available to American women. And in fact, as you may know there was an absolute monopoly from one supplier since 1993 till to date because while Cupid is trying to get registered in US, there is no other manufacturers registered except that one supplier. So they are likely to relax the classification of female condoms including the requirements for clinical trial. That is why I mentioned hopefully from 6 to 9 months we could be very close to getting the Cupid Female Condom registered there.
- Vipul Patel:** And would it also result in cost saving because of lesser clinical trials?
- Om Prakash Garg:** Definitely, 6 months ago we were estimating above two years and \$2 million. Now we are looking at nine months and less than one million-dollar.
- Vipul Patel:** What would be the next promising potential things happening over the next 6 to 12 months something like promising big tenders coming up or venturing with partners or any significant development that you foresee what you are trying to get it done?
- Om Prakash Garg:** Couple of things we are expecting, number one there will be a big female condom procurement tender from Brazil. This has been delayed by few months but that would be after South Africa in terms of the volumes. The second major new market we are looking at is the CIS countries. We have already dispatched above five containers in last 12 months and that part of the world seems to be having more demand. Third source is Government of India likely to double their purchases. The rate of increase of population in India especially in UP and Bihar is worrisome for the government planners. Specifically, we are developing value added products, and have come out with colored and flavored female condoms, vanilla and lavender. Now number one consumers are asking for more varieties and interesting thing is that they are willing to pay more for it. So we are hoping that our margins would be slightly better in these new types of products.



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- Moderator:** Our next question is from the line of Pankaj Bajaj, an individual investor. Please go ahead.
- Pankaj Bajaj:** This question is in continuation to my last one where you have updated the two machines have been installed at the cost of Rs. 7 crores each which can produce 22 million female condoms and 80 million male condoms. So is this a part of our 20% capacity expansion or it is over and above that?
- Om Prakash Garg:** No, it's part of that 20% expansion.
- Pankaj Bajaj:** Second question is also a follow up question that what is our target for branded sale or branded products sale for the next year for the financial year 19?
- Om Prakash Garg:** We're estimating approximately 3 Cr. But like I indicated it's going rather slow and we have to spend I think considerably more in advertising and promotion than we had originally envisaged.
- Pankaj Bajaj:** Do we have spent our 2 crores of budget allocation for advertisement, have we already exhausted it or we have still some left on that part?
- Om Prakash Garg:** No, we have spend about 50 L and the balance will be carried over into next year.
- Moderator:** The next question is from the line of Pranay Shah, an individual investor. Please go ahead.
- Pranay Shah:** The capacity expansion you are saying about 7 crore and you have settled up a plant in South Africa, so what is the push that will go to the top-line due to this capital expansion?
- Om Prakash Garg:** The timings are different, the 7 Cr expansion that would be spent within this FY18 budget. And the one in South Africa will go into partly FY19 and partly in FY20, so it will be staggered.
- Pranay Shah:** What is the top-line expansion you are expecting from the 7 Cr CAPEX?
- Om Prakash Garg:** It would be an additional about 10 Cr to 12 Cr in sales, so if normally we would be doing 100 Cr it would be 112 Cr using the new machine.
- Pranay Shah:** Looking at the current balance sheet we have total fixed assets of around 15-16 crores.
- Om Prakash Garg:** Yes about 16.
- Pranay Shah:** On a fixed asset of 16 crores we are generating the turnover of 85 crores at present.
- Om Prakash Garg:** Correct.



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- Pranay Shah:** So after undertaking the expansion of 7 crores I think should we be expecting a higher increase in the turnover?
- Om Prakash Garg:** Like I mentioned, the minimum revenue we have assumed for the male condom is 12 Cr. Now on the other hand if we decide to use the same machine to manufacture female condoms then we are looking at almost 40 to 50 crores increase in revenue producing about 20 to 25 million pieces at Rs. 20. So depends on how we end up using this new capacity which would give two different numbers in terms of both the top line as well as the profitability.
- Pranay Shah:** So basically it is like we are making the expansion considering there would be a greater demand in future?
- Om Prakash Garg:** Yes definitely.
- Moderator:** We will take the next question from the line of Aditya S from SBI. Please go ahead.
- Aditya S:** I understand that the South African tender that we had expected to materialize in Q4, so what would be the amount in value terms of that tender that we are expecting?
- Om Prakash Garg:** Female condom alone over the three-year period would be about 240 crores.
- Aditya S:** Has the tender taken place and how much are we expecting now out of those 240 crores?
- Om Prakash Garg:** I would say two third from import, and one third from local manufacturing in South Africa.
- Aditya S:** When would we expect this during March like the tender to sort of materialize?
- Om Prakash Garg:** The closing date of the bidding is March 19 and we expect that the results should be out sometime in April. The deliveries will start from July 1, 2018 from the new tender.
- Moderator:** Our next question is from the line of Omkar Kulkarni, an individual investor. Please go ahead.
- Omkar Kulkarni:** Have you been approached by any company for a buyout or something like that?
- Om Prakash Garg:** Not yet.
- Omkar Kulkarni:** Any plans from your side?
- Om Prakash Garg:** No, like I mentioned there are no immediate plans, but it depends on what opportunities may come around.
- Omkar Kulkarni:** I'm asking this question whether you would want to sell Cupid?



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- Om Prakash Garg:** This is something we can talk about, not in the public forum.
- Omkar Kulkarni:** What's your view on that? I'm not talking about valuation and all that stuff. There isn't any succession planning as such as of now.
- Om Prakash Garg:** Like I mentioned earlier, the company is professionally managed and the one person we need is the CEO which we had discussed earlier. We are looking for one and so in that sense there is no need for a succession plan except to hire a competent CEO. Now in general I am very positive on the business and also I'm very positive about the prospects for Cupid Limited. However, I have to be realistic, in the sense looking at my age I have to consider planning for next 3 to 5 years.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the floor back to Mr. Garg for closing comments.
- Om Prakash Garg:** On behalf of Cupid Limited I would like to thank all the participants during the last hour. It was really an exciting session. If for any reason we have not been able to answer your questions, please do let us know and we would be pleased to get back to you. I would like to thank all our shareholders for their support and also to Cupid's board of directors and all our employees for working hard to achieve these results. So again thank you all for your participation in the third quarter FY18 Q and A session.
- Moderator:** Thank you very much sir. There is a gentleman on behalf of Cupid Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.