



# “Cupid Limited Q4 FY16 Earnings Conference Call”

**May 12, 2016**

**MANAGEMENT: MR. OM GARG – CHAIRMAN AND MANAGING  
DIRECTOR, CUPID LIMITED  
MR ANKIT GUPTA-CHRISTENSEN INVESTOR  
RELATIONS**



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**Moderator:** Good Day, Ladies and Gentlemen, and Welcome to the Cupid Limited Q4 FY16 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankit Gupta – Christensen. Thank you and over to you, sir.

**Ankit Gupta:** Thank you, Malika. A very good evening everyone and thanks for joining this Q4 and full FY16 earnings call for Cupid Limited. Given it is our first investor call we would like to give you a background on the Company and then proceed with the remaining session.

Cupid Limited is a BSE listed company, it has got its headquarters in Nasik, Maharashtra. The Company is a leading manufacturer of superior quality male and female condoms. It has one of the largest manufacturing facilities in India with in-house research and development center. So the Company is India's first WHO approved female condom manufacturer. It is largely an exporter, the testimony to the same is that the Company exports close to 75% in its total sales and has got presence in over 26 countries.

So to discuss the results and to address queries of the investors 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 with SEBI and subsequent annual report which you can also find on our website.

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

**Om Garg:** Thank you, Ankit. Ladies and Gentlemen, thank you for joining on this conference call, first ever. As Ankit has mentioned, we have already loaded the press release along with the results on the Cupid's website as well as on BSE website. Right now, I would like to summarize the financial highlights of the year just past ending on March 31st, 2016.

Company had very exciting year, we have achieved total income revenue of Rs.62.8 crores which is 39% more from a year ago numbers. And the EBITDA number is Rs.26.9 crores which is 99% improvement over the same period over a year ago. The EBITDA margin has improved from 30% to 43% and we have the profit is Rs.15.93 crores as compared to Rs.7.7 crores, or an increase of 107%. This has resulted in to the earnings per share of Rs.14.33 as compared to earnings of Rs.6.93 per share a year ago. The EBITDA margin is a reflection of



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the business strategy we have adopted i.e. we like to maintain the highest standard of product and quality and with minimum production cost.

Now with that financial background, now I would like to move to the operational side of the business during the year. We had significant improvement in the utilization of our resources both for male condoms as well as female condoms. In terms of male condoms, we received repeat orders and orders from new customers from new geographies and now we are supplying to, like Ankit had mentioned, over 26 countries both male and female condoms. One additional feature in the past year was that we have long continuous orders from two international NGOs and our domestic production now i.e. the contract manufacturing is 20% of our total revenue for the year.

Turning to female condoms, we have the biggest customer has been the Government of South Africa, Department of National Health. And in addition to that for the first time last year we increased the share of female condom sales to 25% to non-South African market. This 25% increased from 8% from over a year ago. And as you know, the demand for both male and female condoms, they are increasing at the rate of over 9%. Worldwide there are 27 billion male condoms being sold last year for \$6 billion and the forecast is for this 27 billion to increase to 42 billion by 2020 and the total revenue will be \$9.3 billion.

Now in terms of our facilities at Cupid, we had not only improved our capacity utilization but also during the year we had upgraded our testing and ceiling capacity in order to improve the productivity as well as to improve on our quality. And because of Cupid's good track record in terms of delivery time and quality we have been getting orders like I mentioned from not only existing customers but the new customers as well.

During the year a couple of other significant points is that we developed a new version of female condom, we are calling is Cupid 2. Cupid 2 is smaller in size and also it is economical, more affordable to many of the poor women all around the world who will be affording these condoms. The facilities were audited last year and the results from the UNFPA WHO would be available mid-year in three months' time from now.

The other point was that during the year we got approval from Maharashtra FDA to start manufacturing and sale of Water Based Lubricants Jelly. The demand for the Lubricant Jelly is increasing as they are used with the male condoms and we expect to start production and sale in the coming year 2017 financial year.

The other significant event was that Cupid has applied for registration at NSE and our application is under review and we are waiting to hear from them.

Going forward, I think we are geared to maintain and hopefully improve our performance, specially the EBITDA margin; however that will depend on the international funding



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availability and also on the input cost as you know the commodity prices have started to go up recently and also the exchange rate component. So we hope to overcome all these barriers and improve on our performance.

In the end I would like to say that we really are thankful to all the investors for placing trust in us and supporting us during good times and bad and I like to assure all our shareholders that we are working hard every day to improve on our performance and give the maximum possible returns to our shareholders going forward.

Thank you and now we will open the conference for question-and-answer session.

**Moderator:** Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Baidik Sarkar from Unify Capital. Please go ahead.

**Baidik Sarkar:** Your presentation does give a perspective on the various competitive business but if I request you to get a layer deeper and throw some light on the specifics of your B2B and B2C business model, for instance, how exactly does your channel in the B2C segment work and B2B you mentioned 20% is from CRAMS so could you throw some light on how exactly that works, are they annuity driven and what the remaining 80% of B2B CRAMS business is about?

**Om Garg:** Thank you. B2C question, we have been working on it, one problem though is that there is a price restriction on how much we can charge on the male condom side and as compared to the revenue and profit realization in the domestic market we are able to sell more male condoms at a better price to both our private clients and from tenders B2B. However, we do have a plan to start Cupid brand, Cupid male condom and Cupid female condom this year. In terms of female condoms, again the margins are much higher in exports and the awareness is quite limited in India, although through the social network we have been selling smaller quantities of female condoms in 116 cities in India in last four months. So we are committed to a B2C program, however it will take about a year to year and a half to gear it up.

**Baidik Sarkar:** What component of your B2C business is from India? I meant to understand how much of your B2C business is India oriented, or how much would you export from your B2C segment, are they entirely export led?

**Om Garg:** Yes. Right now our 75% of the business is export and the domestic component is also in the contract manufacturing.

**Baidik Sarkar:** And you are saying there are price controls in Africa because of which there is a cap on how much you can charge, is that what you are implying?



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- Om Garg:** No, in South Africa there is no price control, the price control is in India (local market), the drug regulators with the Government of India have put a cap on the MRP. It is Rs.8.40 per male condom
- Baidik Sarkar:** So our growth for FY16 we grew about 38%, could you help us divide the growth between B2C and B2B which segment really drove that growth?
- Om Garg:** I would say almost 90% of the growth has come from B2B and only 10% from B2C mainly because there is no B2C right now as far as female condoms are concerned and the margins on B2C under the contract manufacturing is much smaller than the export markets for the same product.
- Baidik Sarkar:** So what is the outlook on your B2B business, is it driven by multi-lateral funding, for example WHO, UNFPA etc and what is the outlook on that, what is your order pipeline as far as your business is concerned?
- Om Garg:** Order outlook is very-very healthy. We have confirmed orders of about ~Rs.12.7 crores and we have additional orders worth about Rs.52 crores. These orders will be repeat orders coming from our customers with whom we have signed agreements. This is what we have as of today, during the year we hope to build upon this book.
- Baidik Sarkar:** And typically who are your clients, I mean I understand the Government of South Africa, UNFPA, are the development agencies your typical clients?
- Om Garg:** Yes, we are working with several development agencies including WHO and we are working with international NGOs like Population Services Inc. out of Washington DC, DKT International, Marie Stopes International out of London and we have several other organizations for example Planned Parenthood International division and also IDA, International.
- Baidik Sarkar:** So are these global tenders, what is the comparative scenario like, who are your peer groups in the industry?
- Om Garg:** The tenders are for some specific products, as they have commitments from their donors.
- Baidik Sarkar:** But mostly they are global L1 tenders, is that right?
- Om Garg:** Yes, mostly they are global tenders.
- Baidik Sarkar:** And the comparison is purely on pricing like L1?



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- Om Garg:** It is on pricing, delivery and quality. We have an excellent track record in terms of delivery and quality.
- Baidik Sarkar:** So what is the market opportunity sir, I mean what would be the aggregate market opportunity in a typical year what would the global tender market opportunity be like?
- Om Garg:** Going forward the growth rate is 9% to 15% increase depending on the funding available. Like I mentioned, the demand is going to increase from 27 billion to 42 billion by 2020, so the prevention of STIs including HIV and prevention of unintended pregnancies for family planning purposes, those are the key drivers and now several national governments have also started to promote use of condoms, even Government of India after a lapse of three years have floated a tender to supply male condoms this year and we are hoping that they will also issue a tender to supply female condoms later on in the year.
- Baidik Sarkar:** You mentioned a while back your confirmed order book is about Rs.12.7 crores and you have got additional orders worth about Rs.52 crores, so the confirmed order you are sitting on right now is roughly Rs.65 crores, is that a fair observation?
- Om Garg:** Yes, it is and the reason for that is that the long-term agreement which runs throughout the year they issue one purchase order and when we have completed the supply immediately they issue another follow-up order.
- Baidik Sarkar:** So this Rs.65 crores would come into fruition by this year or is that long dated beyond 12 months as well?
- Om Garg:** No, this has to be delivered by March 31st, 2017. And as I indicated earlier, we are hoping and expecting additional orders during the year.
- Baidik Sarkar:** So which means even if your B2C component of your business is flat, looks like FY17 you could do potential revenues of about Rs.90 to Rs.100 crores?
- Om Garg:** It would be difficult to put a number but we are trying to improve both in terms of the top-line as well as bottom-line.
- Baidik Sarkar:** Sir, you mentioned in your opening remarks there is potential for your EBITDA margins to go up, what would an ideal EBITDA margin look like? And secondly, what kind of capacity utilizations are we working on right now?
- Om Garg:** We were at capacity utilization of 64% last year and this year business plan calls for about 80% capacity utilization. And to answer the other part of your question, the way we are planning to improve the EBITDA margins is by the launch of value added products both for male condoms and female condoms. We have come up with products which are in demand and



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people are ready to pay higher price for each of those, so that would result in a better margin using the same production capacity and same marketing channels.

**Moderator:** Thank you. Our next question is from the line of Aditya Iyer from Dimensional Securities. Please go ahead.

**Aditya Iyer:** I had just one question, if could just explain better the unit economics on the new product line which is going to be the Lubricant Jelly segment, I understand the capacity that you mentioned in the presentation something 75 million sachets per annum, so what would be the rough selling price per unit and the gross margins on the same?

**Om Garg:** It's unit price will be about Rs.1.20 per 4 ml sachet and we expect a sale of between Rs.4 crores to Rs.5 crores this year. EBITDA Margins are about 30% on Lubricant Jelly.

**Aditya Iyer:** FHCO recently announced an acquisition for another company, so you are seeing an industry where the market leader is switching off and going into other acquisitions like the formulations research business, do you think that that would allow Cupid to take a larger market share if possible over the next three years or so in the FC market?

**Om Garg:** Yes, it is quite possible and we are already working on it, the next budget for South Africa has allocated more funds for HIV prevention and thus more demand for female condoms. We have excellent track record for delivery with the current tender. So I am hoping that we will take some more share of the FHC in favor of Cupid.

**Moderator:** Thank you. Our next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

**Ravi Naredi:** Sir, what is the reason BSE has suspended our Company from listing?

**Om Garg:** Yes, at one days' notice we were told that trading would be suspended and they have not given us any reasons for doing it, all they said was submit certain information which we have done and since then we moved to the Delhi High Court and we got a clear revocation of the order, and as you know the trading resumed on April 20th.

**Ravi Naredi:** And how is the relation with the stock exchange now?

**Om Garg:** Our relations have been good for the last 22 years since we have been a member of BSE. We have not had any problem at all on the regulatory side.

**Ravi Naredi:** How many employees are in in-house research and total budget for financial year, what was the budget of financial year 2016 for research and development?



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- Om Garg:** Research and development budget is rather limited because the same people who are on R&D side are also on the production side, I would say it is about Rs.2 crores.
- Ravi Naredi:** And how many people in R&D?
- Om Garg:** About 5
- Ravi Naredi:** And how many employees in the Company?
- Om Garg:** A total of 100 employees including 30 Company workers.
- Ravi Naredi:** What is the total Capex plan for the year?
- Om Garg:** 2 Cr to 4 cr in FY17.
- Moderator:** Thank you. Our next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.
- Dheeresh Pathak:** Referring to slide nine where you are saying own brand is 45%, can you just about which market these brands are because in India we are not familiar with your brand, we have not seen any marketing or any advertisement of your brand, can you just talk about that?
- Om Garg:** Our brands are in international market. If we talk about male condoms, we are mostly in sub-Saharan Africa and we are also supplying through WHO, UNFPA and some international NGO organizations. For the female condoms we have started supplying into new geographies, for example this year we supplied to Cuba, Trinidad, Haiti, Russia, Kuwait and several new African countries.
- Dheeresh Pathak:** It will be helpful to me if you can split your revenues into three broad segments, one is, how much you get from government agencies where you have to participate in a tender process. Second bucket would be how much you get from contract manufacturing where you might make it for some other company and third is your own retail sales where you sell through retail shops, you advertise and you have a brand and those sales. So if you could just broadly breakup your revenues Rs.61 crores into these.
- Om Garg:** Contract manufacturing as I mentioned earlier is about 20% of our total revenue and in terms of the government the biggest order we have is from the Department of Health, South Africa, which is about Rs.20 crores in FY16
- Dheeresh Pathak:** So in last year you did from Rs.60 crores you did Rs.20 crores from this government business?
- Om Garg:** Correct.





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- Dheeresh Pathak:** Okay, 20% i.e. Rs.12 crores you did from contract manufacturing, so 32%, so call it balance 30% is your own retail sales where you do branding of your own products?
- Om Garg:** No, not retail. The other one is in Cupid brand but male condoms are purchased by different agencies and private distributors, so we are selling it in Cupid brand both male and female condoms but it is not directly to the consumers, same question like we were talking earlier about B2C our presence is rather limited right now but we are working on our expansion plan for brand promotion in India.
- Dheeresh Pathak:** So what is the difference in this between the government business and this business, so these are not government agencies, who are these clients then?
- Om Garg:** They get the funding from international donor organizations like Gate Foundation and several private foundations, so they support these different organizations; they are not related to national governments.
- Dheeresh Pathak:** So these are NGO type of bodies which get funding from foundation and they buy from you?
- Om Garg:** Yes, exactly right.
- Dheeresh Pathak:** So that is about Rs.30 crores of revenue last year, right?
- Om Garg:** That is correct.
- Dheeresh Pathak:** And in terms of government agencies Rs.20 crores you said that was mainly from South African Government, right?
- Om Garg:** Yes.
- Dheeresh Pathak:** And the order book on this business is how much?
- Om Garg:** The order book is Rs.104 crores over a three-year period ending up in June 2018.
- Dheeresh Pathak:** Of which you supplied first year is this year FY16, right?
- Om Garg:** Yes.
- Dheeresh Pathak:** So you have already supplied 20 so you are left with about 84?
- Om Garg:** Correct. And like I mentioned we are expecting additional orders going forward.
- Moderator:** Thank you. Our next question is from the line of Ranghan Venky from Brilliant Securities. Please go ahead.



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**Ranghan Venky:** What is the principle raw material for you, is it latex or rubber and what is the average price of the raw material for the last financial year and what is the price per unit of the male condoms and female condoms? If I see that there is a 50% of male condoms and 49% of female condoms or so like that, and how is that because on a capacity of 325 we have made about 260 something like that what is apportionment 90-90 it comes like that, can you just briefly tell me about that?

**Om Garg:** The average price for male condom we have achieved is Rs.1.70 per piece, there is extreme variation on the lower end it is just what we call a naked condom of only foiled condom and no packaging what we call bulk condoms. But on the female condoms the average selling price we have is about Rs.25 a piece and the input cost, the latex rubber like you mentioned is about Rs.40% of our total cost.

**Ranghan Venky:** What is the raw material price or the average price for the whole year because you advance, see sometimes you get the order and the price goes up what will happen is there is a pass through in that or contract manufacturing you set up like that where based on the input latex being the major input you provide for some cushion?

**Om Garg:** Yes, we do that, every year the normal range on rubber price is about Rs.70 per kilo, it also went all the way up to Rs.120, so we have worked out a weighted average for the last several years and we work on that. For example, if the input cost is lower we do not offer that margin to our customers, we will still work on the average price.

**Ranghan Venky:** But what is the maximum, pass through is not supposedly abnormal increase there, you can pass it on to them on the contract manufacturing?

**Om Garg:** Well, the contract manufacturing depends, normally it is a yearly contract with month to month purchase orders and if there is a significant variation we have a provision to review the prices.

**Moderator:** Thank you, sir. Our next question is from the line of Bhavya Pabby who is an Individual Investor. Please go ahead.

**Bhavya Pabby:** I have two specific questions I would like to ask, the first one being in relation to your products. So as mentioned in the investor presentation we are doing a 49:51 split right now between female and male condoms, what does Cupid envisage to achieve in the next one to two years, are we targeting to increase our sale of female condoms over male condoms given that this is more of a high margin product?

**Om Garg:** Exactly, our target is minimum 60% female condoms for FY18.

**Bhavya Pabby:** And sir how would you say that would overall impact the net profit margin of the Company?



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- Om Garg:** Well, proportionately it will go up. Our female condoms are more like 55% EBITDA margin. If we go to higher percentage of female condoms the EBITDA margin should improve.
- Bhavya Pabby:** Your investor presentation says that around 70% of our sales are currently being derived from South Africa and ex-South Africa region. Going forward is your strategy to penetrate these regions more or would you be looking to enter the domestic territory in India or would you be looking to enter other countries, which one would be the best way forward for Cupid?
- Om Garg:** Our strategy is to continue to serve South African requirements but also at the same time there are several other pockets and geographical areas where female condoms are required, a couple of examples would be CIS countries and the South American region. So we would like to expand into those new geographies. And in terms of India, like I mentioned earlier, the awareness level is quite limited here and there is a lot of educational effort required. The demand in India based on all our market research is mostly currently related to commercial sex workers and to some extent for teenagers on casual sex. Thus, in India our target is modest in the next year.
- Moderator:** Thank you. Our next question is from the line of Chirag Shah from Edelweiss. Please go ahead.
- Chirag Shah:** Sir, two questions, first on the commodity side, so there are some chemicals that you use. Now in case of abnormal movements what I understood you cannot pass on that cost and there could be significant variations in your performance based upon how commodity cost move, is it right even for the tender business? And the second question is, globally in the markets where you are currently present, so Africa, what is your kind of market share, if you could put some color on that and who are the top players with whom you compete for L1 orders?
- Om Garg:** In terms of female condoms the biggest competitor we have is female health company out of Chicago and we were L1 for this big South African tender last year. And in terms of male condoms we have some big players like Durex and Ansell, however some of them they do not compete in the tender business because their margins in their own brand are much better.
- Chirag Shah:** And on the commodity cost, so you would be reasonably large player in the tender business, that would be right from what you highlighted, is this the right understanding?
- Om Garg:** The way these rubber growers in Kerala work, these are small farmers and some local businessman they collect the rubber after tapping and then they process it and then they make it available to users like Cupid. Now financially they are not clearly big enough that they can stock a whole lot of quantity and for us to book the rubber when the prices are too low they want 100% advance payment. So basically we do every week as we need it and weighted average like I mentioned comes to a regional level, we have looked at it for the last 10 years.



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- Chirag Shah:** Sir just for clarification, when you got this Rs.100 crores order from South Africa it would be for a fixed price, the order that you highlight which is that June 2018 for you would be at a fixed price for the entire period or there is a price escalation clause every quarter or every six months, how does it work?
- Om Garg:** Basically it is at a fixed price, but like I mentioned the margins are quite high, our cost of production is say about Rs.10 and we are selling at Rs.25, but internally our customers in South Africa who are our partners they have a provision with the government that if there is a currency devaluation they would get their rates revised which happened last January, February.
- Chirag Shah:** Just a clarification of earlier thing, so on the commodity thing there is no such provision in the contract, it is only for currency?
- Om Garg:** There is a provision, if there is a fluctuation some of our customers have put in to review it every quarter, but like I mentioned in the bottom-line the variations we have noticed over several years it is not a significant factor, the range of price as I have mentioned and then it is maximum 40% contributor on the variable cost. So we do have a provision in certain contracts but most of the yearly contracts they really do not have any provision.
- Chirag Shah:** And your billings are billed in USD right, so you receive dollars or the currency risk sits on your head, if I supply to Africa and the Africa currency moves significantly is it your risk or you get dollars only, it does not matter how it behaves?
- Om Garg:** We always get dollars, Our export business is 100% in dollars. So we have no risk with their local currency.
- Moderator:** Thank you. Our next question is from the line of Rishabh Mehta from Bank Of Baroda. Please go ahead.
- Rishabh Mehta:** Sir, I have two questions, one is, what is the revenue contribution from female and male condoms in the fourth quarter? And my second question is, what is the contribution of UNFPA order to the overall revenue? Thank you.
- Om Garg:** UNFPA is about 20% of our total orders, like 20% of Rs.62 crores from UNFPA strictly.
- Rishabh Mehta:** And in the fourth quarter what has been the revenue contribution for male and female condom?
- Om Garg:** Like I mentioned about 50:50 for the quarter and for the entire year last year it was 51% male and 49% female.
- 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, couple of clarifications, we understand that your focus going forward would be on the female condoms, I mean growing faster as a percentage, but then given your capacity if you had to move to 60% revenue from female condoms what kind of capacity addition be required or can the same capacity support that revenue mix?

**Om Garg:** No, actually we are already planning to increase our capacity from 20 million pieces this year to 40 million pieces over the next 18 months and the capital expenditure required for that is less than Rs.5 crores.

**Vivek Mavani:** So it is 20 million to 40 million pieces only for female condoms?

**Om Garg:** Correct.

**Vivek Mavani:** And so what would be the volume that you did last year in terms of the female condoms?

**Om Garg:** Last year we did about 12 million pieces, that is all the orders we had and now the forecast is for more demand so we are gearing up for that in 2017.

**Vivek Mavani:** And correspondingly what would have been the volume on the male condom side?

**Om Garg:** The volume we did last year was 118 million pieces and now we are planning to move that up to 210 million in FY17.

**Vivek Mavani:** And just a question which probably, I do not know if there has been a thought process already, now that you are generating significant free cash flow, I mean cash flows which probably do not have enough investment utilization for business, so any thoughts on distribution of surplus cash which would be sitting on your balance sheet?

**Om Garg:** Well, this is under discussion with our board members and we are looking at all possibilities including if we go for an acquisition in to women, health and wellness area we like to add one or two more products in our basket, so that would take care of some of the extra cash.

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

**Vishal Singhania:** Sir my question is, sir you said in the presentation that UNFPA is planning for 340 million pieces by 2020 from the current capacity of 100 million pieces for female condoms.

**Om Garg:** No, in terms of female condoms 100 million will go up to 339 million by 2020.

**Vishal Singhania:** So will we be able to maintain this market share that we have right now of 25%, are we planning to go for another capacity expansion after this 40 million pieces?



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**Om Garg:** Right now we do not have any plans but depending on the market situation we have here all the infrastructure, land, building, all the technology required in terms of production machinery, we could easily increase our production capacity within six months.

**Vishal Singhania:** Also you have mentioned in the business highlight that growth was largely driven by sales from new territories, from ex-South African territories.

**Om Garg:** Yes, that is true. Within sub-Sahara Africa we covered about 16 countries all the way from Ivory Coast and Cameroon in the North down to Mozambique and Zimbabwe and in between like Democratic Republic of Congo. So we are expanding in sub-Sahara but what we mean is that it is every other country except South Africa itself where we got this big Rs.104 crores order.

**Vishal Singhania:** So what is the growth of the African business year-over-year in financial year 2016 compared to financial year 2015?

**Om Garg:** African business has almost doubled in a year's time both for male condom and female condoms. Now I should mention that most of these UNFPA orders for male condoms, they are being distributed to many countries all around the world, we have a three year contract with UNFPA and WHO to supply both male and female condoms and we have a price fixed with a provision to modify the prices if there are some very ups and down, volatility in the commodity areas, but through WHO and UNFPA we are selling it to many countries.

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

**Rahul Parekh:** Actually my first question is, do you hedge currency risk?

**Om Garg:** Right now we don't, we have tried to do that but we have very limited experience in that and our cash flow is more or less on an ongoing basis, we know when we ship the goods and when the payment is due and we do it on a cash basis as it comes almost every day and every week.

**Rahul Parekh:** And for the capacity utilization was 64% for the entire business, so can you divide this into male and female?

**Om Garg:** Female condom, I have mentioned is about 60% and the balance is male condoms.

**Rahul Parekh:** So the expansion is only for female, not male expansion is planned?

**Om Garg:** Right now no because we still have some spare capacity, but we do have space available if the market situation warrants it we could go into male condom expansion also.



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- Rahul Parekh:** For the Maharashtra factory that you have got an approval from.
- Om Garg:** No, these are Lubricant Jelly water based.
- Rahul Parekh:** So when will the sales start, when will you start doing sales from that factory?
- Om Garg:** We actually starting this month, month of May, we already got two orders but these are international players.
- Rahul Parekh:** So what is the total revenue contribution that you expect from this as a percentage of total?
- Om Garg:** Like I mentioned it will be we are targeting a modest Rs.5 crores to Rs.6 crores in this FY17.
- Moderator:** Thank you. Our next question is from the line of Chirag Kagziwala from GMO. Please go ahead.
- Chirag Kagziwala:** If you look at your balance sheet there if you look at the debtors the debtors days has increased significantly from 45 days to roughly 62 days in this year, even your short-term loans and advances have shot up, so what is the main reason, is it like your payments getting stuck up from the customer or what is it? And secondly, as you mentioned in your presentation that you are coming up with new Cupid 2 female condoms which will be smaller in size and economical, so how is it going to impact your earlier version of the female condoms market?
- Om Garg:** Let me tackle your second question first, Cupid 2 market is for Asian women and most of it will be more or less new demand and it will add to the overall requirements, not replace any of the markets for Cupid 1 condoms, it will be a supplementary product available for specific target groups. And what was the first one?
- Chirag Kagziwala:** Regarding your balance sheet, your trade receivables have shot up significantly, even if your debtor days if we see it was 45 days roughly in FY15, it has gone up to 62 days in FY16, so with increase in sales is it like your payment getting stuck up, you are not getting payments or how is it?
- Om Garg:** No, the main reason is that as our volume of business has increased the numbers of debtors have gone up and the only contribution of the slight delay in payment was related to the devaluation of the South African Rand and for 15 days or so the payments were coming only slowly. But we have no bad debts and cash flow is very strong, more receivables are an indication of more volume of business.
- Moderator:** Thank you. Our next question is from the line of Raman S from Metro Investment. Please go ahead.



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- Raman S:** You said that average price of the raw material i.e. latex price for last 12 years is the same and working on the cost you have taken the average price of that.
- Om Garg:** Average price for latex is about between Rs.85 to Rs.90 per kilo.
- Raman S:** And right now what is the price?
- Om Garg:** Today it is about Rs.104 because in the last two weeks' prices have gone up in parallel to increase in petroleum prices and also there are some certain shortages reported out of Malaysia and Thailand.
- Raman S:** Since the current price is more than the average price based on which you have work out the cost now, your gross margin gets impacted negatively because of that?
- Om Garg:** You are asking about the average price of latex?
- Raman S:** No, see our current price is more than average price based on which you work around through your cost and since it has gone up now will your gross margin also get impacted literally?
- Om Garg:** Right now at Rs.104 - Rs.105 a kilo you are right, we are above our average. However, for last six to nine months we had a big advantage, much lower rubber and other input costs which is part of the reason that our EBITDA margins improved.
- Raman S:** My second question is that, you said in the end of this year your capacity will go up to 81%.
- Om Garg:** Yes.
- Raman S:** Do you have any plans for Brownfield expansion in your existing area?
- Om Garg:** In India, like I mentioned earlier we are launching Cupid male condom brand and Cupid female condom brand.
- Raman S:** The EBITDA margin is the same for water-based jelly?
- Om Garg:** No, the Jelly is very much in demand and it is relatively new product, margins in order to enter the market we have been a little aggressive and yet we are expecting at least 30% EBITDA margin. Now there is a further scope in the sale of jelly which is there are several new ingredients, if we can add those then that will add to the value and instead of Rs.1.20 or Rs.1.30 per sachet we could charge as much as Rs.2 per sachet which would eventually improve our EBITDA margins.





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- Moderator:** Thank you. Our next question is from the line of Abhisek who is an individual investor. Please go ahead.
- Abhishek:** Sir, my first question is, which are the other players apart from FC2 globally and which do you think can give competition to Cupid globally?
- Om Garg:** The biggest player if FHC out of Chicago and they had a 24-year monopoly on the price and distribution and then we were the second one which came in July 2012, so they are still our biggest competitor but we are doing quite well now in terms of international tenders against their bidding. There are more players in the pipeline and what impact they would have on the market, normally more players come in, the market size also increases proportionately.
- Abhishek:** My next question is, has Cupid already got FDA approval?
- Om Garg:** Cupid does have all the ISO, WHO and UNFPA approvals.
- Abhishek:** Last question is, you are actually already sitting on such a superb margin, do you think over a long period of time are you going to maintain that?
- Om Garg:** No, it would be a challenge however like I mentioned earlier we are working in our R&D center on the new value added product in the same category, for example female condoms and male condoms. So if there is a severe competition, on one hand that would tend to reduce the EBITDA but on the other hand with our value added products we would try to maintain, even we will try to increase our EBITDA.
- Moderator:** Thank you. Our next question is from the line of Aniket Gore from Ceramet Consultant. Please go ahead.
- Aniket Gore:** I just wanted to understand conceptually these female condom acceptance versus male condoms, so one of the points that we get sometimes from doctors is that female condoms are not as safe or also in terms of user comfort, can you give some color about the kind of feedback you get from the agencies you work with, are these comfortable for the user ladies, are they accepted very well and how do you explain this big jump in estimated numbers also, what is driving that trend? If you would give us some insight on that that would be nice.
- Om Garg:** It is a very good question. As you know male condoms have been around for over 60 years and female condom is relatively new device, new products. The awareness and educational aspects have to be emphasized much more and when we were developing our female condoms from 2008 to 2012 we had participated in two clinical trials, one in Durban, South Africa and one in Shanghai, China under international supervision. And we got some excellent input from say 300 couples in each case and they had commented on the functionality study. Basically they like the product, in case of Cupid we have a special design which is very comfortable for



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women to use. And in terms of safety the error margin is about the same as male condom, less than 3%. When we go to the field now and we visit the nine providences in South Africa where Cupid condoms are being sold we often talk to the officials and sometime even to the end users, they like the product, the only thing is that they would not want to buy it on their own because they cannot really afford it, so they are always looking at subsidized price which the South Africa Government is doing it. In India also this trend will come up as government is planning to promote female condoms for sex workers in major cities and also for the younger people to avoid unintended pregnancies, I think the prices have to be subsidized. So Rs.3 to Rs.5 is what people have mentioned to us, they are comfortable in purchasing.

**Aniket Gore:** Follow-up related to this only, in terms of design, so would you say that your current design is in any way superior to what FHC is doing and how easily replicable is that?

**Om Garg:** Well, superior in the sense we have a completely new design, the external retainer and the internal retainer are completely different, our internal retainer is a medical grade foam which gives a very comfortable feeling once it is inserted into the vagina and it also helps to install it. So women have said that it increases the sexual activity by x number of minutes. So generally we have got a good feedback, however we have not been in the market for too long, so these last two years we have got quite positive feedback.

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

**Anish Nanda:** I just have two questions, one is, you have mentioned about the new geographies that Cupid is entering, so I believe that Cupid is right now selling in about 30 countries worldwide so what is the additional number of countries that you plan to sell in the current year? And secondly, what about the ecommerce, are you planning to increase the ecommerce presence for Cupid for increasing the online presence and the sales?

**Om Garg:** Yes, we are targeting about seven to 10 countries, new countries for the coming year, mostly it is in South Africa and also in CIS countries and in the Caribbean island and some in Brazil. In terms of the ecommerce, we mentioned earlier that we have received inquiries and small quantity orders from 115 cities in India, metropolitan areas, even rural areas and female condoms are being purchased both by men and women, and in the women these are married women as well as teenagers and commercial sex workers. So we are counting on much better prospect and demand, however we are at the initial stages and it will take us at least another six months.

**Anish Nanda:** And just one more question, Zimbabwe your product was approved for usage by the government, is there any likelihood of getting an order from the Zimbabwe Government?



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**Om Garg:** Well, the department there have recommended to buy Cupid female condoms, however their funding has not been secured, they are still waiting for funds to come from World Bank and from WHO.

**Moderator:** Thank you. Ladies and Gentlemen, due to paucity of time we are taking the last two questions. The remaining questions could be sent to the Investor Relations team so that it could be addressed, we regret the inconvenience. The second last question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

**Ankit Babel:** My first question is, the margin levels which you mentioned in both of your products male and female, you mentioned that in male it is around 12% to 15% and female it is around 55%. Now if I do the math of your Rs.60 crores revenue with a 51% share of male and 49% of female, if I put this margin the EBITDA comes to just around 21 crores whereas your actual EBITDA is around 26 crores. So I believe the margins are actually higher than what you are saying, so am I right in my calculation?

**Om Garg:** Yes, exactly right and the reason for that is that we have supplied value added female condoms which are getting much higher margins, and one way to do is the better packaging, we make it more attractive, more feminine like and people are willing to pay for packaging. So that is the result, your math is exactly right.

**Ankit Babel:** What is the new margin sir?

**Om Garg:** The new margins are 60% to 65% for female condoms.

**Ankit Babel:** And so this will continue at these levels or this can improve going forward?

**Om Garg:** We do not really know how the orders will come through, we are of course trying to improve on it but it depends, sometimes it depends on the budget of the customers, they would want a bulk pack and no consumer packs, no boxes. So it is difficult to predict and forecast but our efforts will be to improve the margins by adding some values to the users.

**Moderator:** Thank you. The last question is from the line of Aman Agarwal from Yes Bank. Please go ahead.

**Aman Agarwal:** You have mentioned in the presentation that you have swiftly upgraded your testing and feeling facility for male condoms, sir does this mean that these have any impact on the cost of production?

**Om Garg:** Yes, cost of production has improved, it has gone down because these are more modern machines, the productivity is high, the downtime is lower and in addition to that the quality is much better, the number of reject samples have been reduced significantly.



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- Aman Agarwal:** So this will reduce the cost as well as it will improve the quality also?
- Om Garg:** Yes, it will.
- Moderator:** Thank you. Ladies and Gentlemen, I now hand the conference over to Mr. Garg for his closing comments.
- Om Garg:** I would like to thank all our investors for their support and confidence that they have shown in Cupid's Management and I would like to assure them that we are working very diligently to make sure that each of our shareholder get a better return for their investment. And for any feedback, we like your comments which can go through our Investor Relation people, Ankit Gupta or our Company Secretary; all the details are available on Cupid Website. So we would really welcome your feedback and comments how Cupid's performance could be improved going forward. Thank you.
- Moderator:** Thank you very much, Mr. Garg. Ladies and Gentlemen, thank you for joining this call. For all follow-up queries, please get in touch with Mr. Ankit Gupta or mail him at [ankitgupta@christensenir.com](mailto:ankitgupta@christensenir.com). You may now disconnect your lines. Thank you.