

Quick Heal

Security Simplified

“Quick Heal Technologies Q3 FY2018 Earnings Conference Call”

February 08, 2018



ANALYST:

**MR. VISHAL SRIVASTAV – EDELWEISS
BROKING LIMITED**

MANAGEMENT:

**MR. KAILASH KATKAR - MANAGING
DIRECTOR & CHIEF EXECUTIVE OFFICER -
QUICK HEAL TECHNOLOGIES LIMITED**

**MR. SANJAY KATKAR – JOINT MANAGING
DIRECTOR AND CHIEF TECHNOLOGY OFFICER
- QUICK HEAL TECHNOLOGIES LIMITED**

**MR. RAJESH GHONASGI – CHIEF FINANCIAL
OFFICER - QUICK HEAL TECHNOLOGIES
LIMITED**

**MR. VIJAY MHASKAR - CHIEF OPERATING
OFFICER - QUICK HEAL TECHNOLOGIES
LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Quick Heal Technologies Q3 FY2018 Earnings conference call, hosted by Edelweiss. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Vishal Srivastav from Edelweiss. Thank you and over to you Sir!

Vishal Srivastav: Thank you Rio. Good afternoon ladies and gentlemen. On behalf of Edelweiss Broking, I welcome all participants for Q3 FY2018 conference call of Quick Heal Technologies Limited. From the management team, we have Mr. Kailash Katkar, MD & CEO, Mr. Sanjay Katkar, Joint MD & CTO, Mr. Rajesh Ghonasgi, CFO and Mr. Vijay Mhaskar, COO. I would like to thank the management for giving us the opportunity to host this call. I would now like to handover the call to Mr. Kailash Katkar for his opening remarks after which we will open the floor for Q&A. Thank you and over to you Sir!

Kailash Katkar: Thank you. This is Kailash Katkar. Good evening everyone. On behalf of Board of Directors and the management of the Company, we extend a very warm welcome to all of you to the conference call of Quick Heal Technology Limited to discuss the Q3 of Financial Year 2018.

Before we discuss our financial performance for Q3, let me highlight key developments, which took place in Q3. We entered in technology collaboration with Finland Based Company, Jetico and introduced end-point encryption solution to enterprise customer under Seqrite. This product has received an encouraging response from businesses and government establishments. I am really glad to inform you that our flagship products continue to win in sale recognitions which Seqrite end point security and Quick Heal Total Security receiving best Triple Plus Certificate from AV Labs.

In line with our commitment to secure digitization of our nation, our collaboration with Government Cyber Swachhta Kendra to offer a free Botnet removal tool has resulted in a 51% decrease in Malware infection in all networks across the country, which demonstrates a robustness of our products.

Talking briefly about our Q3 performance, we have seen continued and steady growth in our revenue driven by a strong uptick of retail products by partner communities and following the stabilisation of GST. In the enterprise and government segment, our strategy to focus on customer retention while adding new customer had led positive result with Seqrite successfully retaining 80% of its customers.

With our focus efforts on research and development, we shall continue to deliver high quality IT security products and solution, about R&D new developments, Sanjay Katkar will be giving you more detail about the development. With this I would like to hand over to Sanjay Katkar, Chief Technology Officer.

Sanjay Katkar:

Thanks Kailash. Good evening everybody. At Quick Heal R&D, we continue to focus on delivering enterprise grid IT security to small and mid enterprise, mid market enterprise and Quick Heal Security Lab is focused on keeping close watch on the Internet Threat Landscape and receiving timely update and advisories to all our customers. Major things we observed on the threat landscape front in the last quarter is increasing Malware targeting cryptocurrency mining. With more and more Malwares using infected computers, resources for mining of cryptocurrency this is the new trend that we have been observing. So similar trend has been observed on mobile front with lots of fake apps being uploaded to the market wherein they are mining cryptocurrency on infected smartphones.

Our team has also seen increasing banking provisions in infection vector wherein few of the Trojans are also targeting Indian banks, which is something that is growing. So this is something that is creating more awareness among mobile users and we have also seen some growth in Malwares targeting IoT devices, which is going to be huge cause of concern for industrial IoT as Industry 4.0 is being adopted. So on technologies and products front we released couple of new products for enterprise segment so Vijay will be talking about them in a short while and cyber security remains a top priority for organizations of every price and hence our focus has been to introduce newer products and features in our exiting products for enterprise segments.

With this I would like to update that our R&D and security lab has been constantly working on newer innovative ways to provide better production and appropriately making use of latest technologies like artificial intelligence and machine learning and cloud based solution to strengthen our product offerings. That is all from my side and I am handing over to Vijay for further updates.

Vijay Mhaskar:

Thanks Sanjay. Good evening everybody. I just wanted to continue from where Kailash and Sanjay updated. In a soft mark time the retail business definitely transforming and journey continues. We have done a lot of progress in Q3. As we discussed before there is lot of focus on strengthening our distribution network and primarily looking at the dealers. Currently we have brought 20000 dealers on board with Quick Heal and we aspire to increases number further.

We have seen good engagement with the dealers and we have continued engagement activities going on with the dealers. We want to really focus to ensure we have distributed and dealers both very committed to the Quick Heal retail business growth. We continued to drive the retail businesses cash and carry model. As we updated you

as last quarter and that has helped us to bring lot of efficiencies in the DSO. Customer retention that Kailash talked about is growing. We have to do lot more on the retail side for sure and that focus will continue, but customer retention is growing in that definitely after good efforts and initiatives from across the company.

Also driving a lot of customer oriented campaigns so going forward on the retail both customer acquisition and customer retention would be focused why we strength on the distribution network.

Moving onto the enterprise business, it is definitely seen the growth both enterprise and government. What we see is we have a good footprint of end point security solutions. There is opportunity to cross sell and up sell. The solutions that we have in the portfolio like data loss prevention, we have added encryption now, we have MDM which is a mobile device management, all these are great products to get more value to our customers and that is focus to make sure not only we add more customers but for existing customers will give you more value so if you look like that acquisition side, we are acquiring about 21 new customers everyday and there is increased focus to have more larger accounts with 500 plus users so happy to note that we have added about 25 new customers with 500 plus users and that shows that the products solutions are getting adopted not only into plus 500 user accounts but in a larger accounts and that is something we want to drive further.

Encryption position as Kailash mentioned we had partnership with the Finland company and we will launched that solution in this quarter and things really good progressed. As we have increased awareness of data protection in social and government circles, we expect that encryption and DLP both solutions would get more attraction so that is again a cross sell and up sell opportunity for our existing customers as well as acquire new customers which is something will be actively selling.

As Sanjay mentioned about the Cloud Solution and we have talked about last quarter also so Cloud based end point security that is something we are launching this quarter and now something solutions for managed service provide as MSP product if we are launching that it will enable our service provider to provide solutions through Cloud Solutions are basically we are enabling service providers to offer the solution and having a Cloud based solution to gives lot more efficiency for offering the solutions. We definitely expect this should help us to get more customers in domestic as well as international market.

On the on premise side, we have a solution until Q3 we had solution with 500 end points for server license. We have increased that. This quarter we are launching a solution. We will have 500 end points per server license that also helps us to increase our total addressable market. We can have now larger accounts targeted and will continue to drive this further in subsequent quarters.

From the mobile security, Sanjay talked about how Malware is spreading and how much awareness is going on so to enable adoption of mobile security we are also launching a mid priced mobile security solution primarily targeting e-commerce channel so that should help us to get more customers who want to adopt it first time and we should help us to get in more paid customers. We are also driving more partnerships to get more free users who want to just have a footprint of mobile security solutions and hopefully they would upgrade from free to paid solution down the course.

From the UTM perspective network security, we have launched a UTM product in December so far about 30 plus installation done successfully. This should help us to get more customers in Q4 and Q1 forward. Going forward R&D would be really focusing on strengthening the features set of this product. We want to really complete into 250 to 500 user market because we feel that market is pretty wide open and definitely something we can get more traction on.

Finally from R&D perspective, we grow initiative to move all R&D projects on a guide methodology. We are seeing a good traction to that. We have seen most of this projects should be kind of move into new methodology by this March and we have seen greater productivity, greater efficiency and also better pace for our development project. So that is a quick overview on the operations and the R&D side. I would handover to our Chief Financial Officer, Rajesh Ghonasgi.

Rajesh Ghonasgi:

Good evening. I will just take you through some of the slides all the data that I am going to talk about or just slides, the analysis is there. I will just go slide by slide and touch upon the important points.

On slide #3, you will see Q3 to Q3 are seasonal comparison shows that we had a revenue growth of 18%. Now this is important because we have consistently shown growth over the last two quarters. We have actually come out this year from two major restructuring, demonetisation a year ago, which has to be kept in perspective because that impacted Q3 of earlier year and GST which is well behind us because processors are stabilized, the GST itself has stabilized.

Our customers have accepted the kind of change in pricing that we had to do. Our MRPs have not changed, but the GST pass on and the way it cascade through as it is now behind us so in that sense the transition restructuring impact of both these events is behind us and stability in the revenue number one. If we look at the EBITDA and PAT and PAT margins you will see that there has been a growth and some of the reasons for the growth is explained in the financials that come below after the slide.

Nine-month revenue seems flattish primarily because we had a bad Q1 on account of that being the period just in ahead of transition to GST and subject to that actually the next two quarters have done pretty decently so that is the reason why we say that the

impact of GST will change, the restructuring has been accepted by our customers has gone through our system and we believe that as a concern GST itself and the processors are also behind us so we are comfortable there.

On the next slide you see the revenue growth breakup. In Q3 to Q3, we had growth in Seqrite brand for enterprise and government. 37%, which is substantial, and retail, which was 7% up over the same period of last year. Now if you recall our hypothesis has been that since we are dominant in retail, we are the dominant player and retail depends upon the purchases of retail purchases of machines as well as retail renewals. We expect that there will be a high single-digit growth about to say, but the real growth will come from what we call us as Seqrite brand that is pretty visible because you have grown 37% in Q3 and close nine-months including GST change quarter, we have done 21% growth in that is the story that we have bringing to you that key growth and finally Seqrite stabilizing, the product stabilizing and the sales infrastructure delivering productivity. That is an important message is coming out of the last two quarters.

The next slide has a number of licenses. Here of course we see that the license in sales increased for retail in volume terms is higher than revenue, which means that you are also stabilizing at the middle end for the product. On other hand, enterprise products, the volume growth is actually slightly lower than revenue growth, which means that we are able to get better ARPU or better price per license from our corporate from entry level corporate to mid corporate customers. This is also important because we multiply the volume and additional volume is coming at higher net recovery per license. So that is an important point because the Seqrite products are going to in be a determinate of our margins simply because is now come and is going to go beyond breakeven and that is why the growth is slated.

Slide #6 is an important slide we give this every quarter. You will see that costs have been controlled hugely. Remember over the last year to this year that has been a pay hike, we have rationalized costs. We kept them under control without losing functionality that is to continue delinquency line wise we can see that the costs have been kept under control. The only cost that went up was advertising and sales promotion and increased advertising, the charging is done based on the actual consumption of resources, which we that creation of let us say the creative media etc., gets charged off and there is lead and lag which means that there is normally a quarter between spending and the quarter delivering so in that sense these other expenses should see a substantial impact in the current quarter that is the January, February and March quarter, but other than advertising and sales promotion, you will find that cost have been kept under severe control and we believe that this is feasible going forward so Q4 should not have any uncertainty or undue cost coming through so our principal that cost being fixed as revenues scale up.

Operating revenue will be visible for the 12 months period regardless for the fact that Q1 was impacted by GST transition. We must have talked about the fact that we have changed the post GST, we changed our downs that number is very visible, our net receivable days was 126 earlier because we brought in either in advance or delivered cash on delivery methodology has come down to 71, no should not be 71, it should be less but then we have small carry forward from the last year pre-GST sales etc., which are getting liquidated and as that happens you will find this number drops primarily because we now sell only on advance or cheque on delivery revenue.

Net impact is from 86 days working capital we are down to 52 and we split that this is keep dropping slowly. In terms of financials we did total PAT of Rs.6.6 Crores versus Rs.1.6 Crores last year. Of course last year was impacted by demonetisation we come out of that and some of the upside actually is visible in January so we believe that our order book in December was very healthy and part of it has come in January, but costs is what is driving all of this, we have been able to take control of cost and not impact revenue so Rs.6.6 Crores is the bottomline for this quarter, for nine-months is Rs.33.8 Crores despite bad Q1, we have been able to get and go beyond what was in nine-month revenue profit last year.

In terms of ratio will find EBITDA for three months 17.8% for the entire nine-month period at 27.5% and since we just explained the costs are fixed and revenues normally in Q4 look up and we also had a good order book in December, we believe that just 27.5% should scale up to the margins that we have talked about early to mid 30s for the full 12-month period.

Then the balance sheet, balance sheet is one of the keenest you can see. We have generated cash to Rs.280 Crores today. It is about Rs.40 Crores is higher than what you were last quarter and Rs.151 Crores in fixed deposit is IPO money which is getting spend on IPO proceeds. The proceeds are going to be spent on specific items that we have defined in IPO so we have been adding cash, which also shows that after expensing out everything, we are able to collect despite demonetisation impacting debtors, despite GST delay in collections then revenues for dealers, which led to period collection for us, we still have been able to convert much of the profit up the last year into cash and that we believe is a huge strength that we carrying forward. We will be able to generate cash from all the profits have been generating roughly about two to three months after the end of the year.

Then of course there are standalone results, which is what the company reports to the stock exchange, but consolidated is more important because it consolidates the expenses up all the external location also. Of course, there are some information shareholding etc., we can take that on the call. So this is analysis for the financials and we can go into the Q&A now. Thank you.

- Moderator:** Thank you very much. We will now begin the question and answer session. We have the first question from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.
- Riddhesh Gandhi:** Congratulations on a numbers. Sir I just had a quick questions so there was a little bit of inventory destocking which had happened going into GST and obviously the last year because of the demonetisation etc., so how much of this growth has happened is actually restocking of book entries that had been slide up in the system, how is the actual growth in credit demand?
- Vijay Mhaskar:** This is Vijay. Thanks for the questions. We are actually at part of this transformation for retail, we are actually tracking not just the primary billing, but also tracking about the liquidation and activation. So what you are seeing here is actual growth in proportion both on activation and liquidation and not just the billing so in short it is not just increasing the stock is actually liquidating the stock and activating the stock.
- Riddhesh Gandhi:** Got it and can you just also highlight a little bit of traction you are getting on your mobile products and in terms of do you expect to see traction increasing on that?
- Vijay Mhaskar:** Mobile we are not as such getting traction on the paid product as such. It is more about getting more downloads and free mobile security software, but again the numbers are not large and that is something we are also seeing how awareness can be generated in the market because more and more consumers realize that the threats that Sanjay talked about that would really increase the more adoption on the mobile security.
- Riddhesh Gandhi:** Actually the PC growth actually being reasonably slow and low single-digits, so our growth going ahead will be effectively gaining market share?
- Vijay Mhaskar:** That is correct.
- Riddhesh Gandhi:** Understood. Okay. That is all from my side thanks.
- Moderator:** Thank you. The next question is from the line of Madhubabu from Prabhudas Lilladher. Please go ahead.
- Madhubabu:** Sir on the retail side I think the volume growth was 19% year-on-year whereas the revenue was around 7% so is it the ARR average prices has declined and what is the current average price for the retail license?
- Vijay Mhaskar:** The way we have variants of the products so what it shows is that the mid price variant is getting higher traction than the top premium price variant so that depends on how the movement happens, but we are definitely seen movement of mid price product more than what happened in the previous quarters.

Madhubabu: Okay and so overall is there pricing pressure on the retail side because the low single or high single digit growth whereas volume growth but actually higher so is it also competition on the pricing and how is the pricing from the other players like Vscan and all those?

Vijay Mhaskar: There is definitely pricing pressure. There is a lot of competition even local competition is there and the game is really to give more value to the customer and having a strong brand definitely helps that but so there is a pressure on pricing for sure and we are monitoring that very closely, but we will see how to and we have own strategies to counter that but this certainly pressure in the market.

Madhubabu: Okay Sir and second on the end point security in the Seqrite so earlier most of our traction was on the 200 nodes kind of so we had a built much scalable products so how is the view on the 500 nodes plus segment and do we have maintained a difference cleansed area?

Vijay Mhaskar: As I mentioned in my commentary earlier this quarter we got almost 25 accounts with 500 plus user if you look at complete history of Seqrite we are now close to about 100 customers with more than 500 users so certainly there is more adoption and as we scale up the product to 5000, the total addressable market is increasing so obviously it should help us to gain more customers with more than 500 users.

Madhubabu: I mean assume that most of the part of the enterprise revenues are coming from endpoint whereas the other products are still not a significant so how we plan to address it and if you see the bigger players they have multiple boutique of products on the enterprises and much higher R&D budgets so how we plan to at least over two or three perspective how we plan to scale this or views on that would be helping? Thanks.

Vijay Mhaskar: Right so on enterprises if you see there is lot of traction for end point security, we already have mobile device management MDM. We added encryption right now with the acquisitions of the technology. We launched UTM 2.0 so portfolio is increasing and our plans right now is to give more value for solution and also increased the number of solutions in the portfolio.

Madhubabu: Just I think the net cash is around Rs.430 Crores on the balance sheet and what is the capital allocation strategy. Would we look for boutique acquisitions and how will that add value on acquisitions?

Vijay Mhaskar: Regarding the cash part of it we are working on acquisitions of technology or the company so that is going on at present I do not have anything to tell you in detail actually.

Madhubabu: Okay Rs.430 Crores is approximately the cash on balance sheet?

- Vijay Mhaskar:** Yes.
- Madhubabu:** Okay but it would be on enterprise right if at all we do an acquisition?
- Vijay Mhaskar:** Majority it will be on enterprise side but it can be retail product also.
- Madhubabu:** Okay because retail we are already the leader in the market?
- Vijay Mhaskar:** Yes we are leader but I am not talking about any acquisition in antivirus but there are something new disruptive technology coming up which might require the customer base might be retail customer also.
- Madhubabu:** Thanks I will come back for a follow up.
- Moderator:** Thank you. The next question is from the line of Hardik Jain from Whitestone Financial. Please go ahead.
- Hardik Jain:** Good evening Sir. Sir if you can help us to understand how this Jetico tie up will help us and if you can help us understand what is the exact deal about it so do we have to pay any up front payment to Jetico or how does it work?
- Kailash Katkar:** For Jetico, this is a company who developed this product and has been selling more than 9 to 10 years and one of the big, US defense is obviously using the technology so it is proven technology. The customers who have adopted this across Europe and US. We actually bought the source code from them and we own the source code and we will be doing derivative of that. So any further development our team would be doing that and we have full encryption and various features so if you look at the product wise it is actually very competitive product and feature rich product and we did a comparison across the what is available in the market it definitely really pans out. So with our own team focusing on it and adding more feature content definitely helps us to keep that lead. We need to create more awareness in the market for sure and that is what we are focusing right now but we have been in SME, kind of medium market segments where we are very strong. You want to create more awareness and the need of encryption. And as talked a little bit earlier about data protection being trained now and if you see GDPR is getting adopted into Europe and we are hearing about even Government of India at working to bring some regulation around the data protection so the whole awareness about the data protection across the industry and across within the government is increasing and we feel data was prevention and encryption of the right technologies and right solutions for the customers. We just need to create more awareness have more discussion in the customers and that should really translate into more business.

- Hardik Jain:** Okay and if you can help us in the sense how much we have invested or we will have to invest in obtaining the source code or in this deal?
- Kailash Katkar:** That data is confidential. We have an NDA and due to that we cannot give that information out. It is highly competitive for us and of course for our partner, but I would say it is a reasonable price to pay and there was value add in terms of encryption that is added to us.
- Hardik Jain:** And Sir, if you can help us to understand, how many numbers of approximately customers we have in Seqrite right as of today?
- Kailash Katkar:** Seqrite is above 25000 customers that we have got inclusive of endpoint security MDM and UTM.
- Hardik Jain:** Sir, employee cost has decreased substantially over the last one year, which was around 10 Crores and decreased to 7 Crores, what could be the main reason for it?
- Kailash Katkar:** I mean what they are looking at is from the stage of where we are and from the operation perspective, more than needs at this hour and what solutions and what functions we should be focusing on, so we start optimizing each of the function and making sure we get more protective we gain more efficiency. That is definitely one. The second is mobile is where we actually disinvested from, remember we talked about insurance product that we stopped buying so that one place definitely we had a little bit of disinvestment on mobile, but overall I would say optimizing on the cost, each of the functions and get better productivity and better efficiency.
- Hardik Jain:** Sir, one last question, so are mentioning in your statement earlier that you have seen the trend that data threat to banks and financial sector is increasing, so do we have any of our customers who are using our securities product any bank in India?
- Sanjay Katkar:** We do have a lot of cooperative bank using our solutions and as our products are getting scaled up we do look forward for on boarding bigger banks as our customer, but the statement that I have made about threat was about, the threats data are more targeting the users, the bank users I will say, so this should be affecting the retail side so that is something that we need to increase more awareness and that is what we are trying to do through all our communications, advertisements and press releases to make sure that it increases the security awareness among the mobile smartphone users and that should definitely replaced in the business side as people start taking security seriously.
- Hardik Jain:** You mentioned you have 100 customers, which have more than 500 names so just if you can, I want to know what is the highest number of installation that we have done for a single customer?

Kailash Katkar: Part of the endpoint is what we have largest so far, but I know we have one more going on 1500 that definitely have done what we had so far.

Hardik Jain: Thank you Sir.

Moderator: Thank you. The next question is from the line of Megha Hariramani from Pi Square Investments. Please go ahead.

Megha Hariramani: Thank you for the opportunity. My first question is on the new product launches that we expect in 2018, have we outlined the number on that front?

Kailash Katkar: What I talked about was the product launches that we planned in Q4, so we did endpoint security for 5000 endpoints, UTM 2.0, PPS on cloud, endpoints security on cloud, MSSP which is a math service provider and I have talked about encryption, so these are deals that we did. We also talked about mobile mid priced version getting launched in Q4. We are actually amidst of planning for next year obviously the projects are underway, but it is pretty natural to announce the dates of the releases of those products, but certainly this is a long roadmap of the things that are underway and we are looking forward to doing more releases in next year starting from Q1.

Megha Hariramani: Sir, the entire year of 2018, I am talking about calendar year, we expect lot of new launch is coming in?

Kailash Katkar: Yes. Agile Technology is actually focused on that. We want to do shorter release cycle and get more content out sooner so that is what we are switching on to.

Megha Hariramani: The second question is on the non-retail business vertical, what kind of growth do we estimate for that?

Kailash Katkar: Enterprise?

Megha Hariramani: Yes.

Sanjay Katkar: We expect growth, which is far faster than retail, which is going to be at single digits and how much it could be we are attempting to get a huge amount of traction out of there and look at the history 37% this quarter, 21% for the nine-month despite a bad Q1, so I think we will have a reasonable number, which is maybe north of 30%.

Kailash Katkar: So from aspirational perspective that definitely is a focus and definitely want to grow it at faster pace, so the numbers that we have seen is something, we will feel good, but definitely we need to improve from there.

Vijay Mhaskar: As the new products get stabilized, there is a cycle of stabilization so new products are launched in this quarter, but as the partner to understand them and then they start

selling, it will take two quarters more, so those will add further revenues to the enterprise segment actually.

Megha Hariramani: So, that will be Q1 FY2019 or Q2 FY2019, where we see growth from the products coming in?

Kailash Katkar: Correct.

Megha Hariramani: Third on the R&D front, how much to be intent to spend in the next two year for R&D expenses?

Sanjay Katkar: So, as what we are right, we are investing at a line and based on what products we are working on. As we find more opportunities, we could invest more, so definitely there is appetite to invest more and that is what we are working on as Kailash we could do potential acquisitions also, but certainly we could do more development in R&D, but at this point I said are on agile methodology we are optimizing the investment and we do not see any immediate need to increase that number, but we could as based on the opportunities.

Megha Hariramani: And what about advertisement expenses?

Rajesh Ghonasgi: Advertisement expenses will continue. In fact we will have to increase more for a Seqrite front and it could be double this year. Seqrite we will start putting more funds since the product is ready for 5000 users now so we will be start putting some more funds into Seqrite brand building activity.

Megha Hariramani: That is it from side. Thank you.

Moderator: Thank you. The next question is from the line of Parimal Maithani from Credential Investment. Please go ahead.

Parimal Maithani: Good evening Sir. I just wanted to know the retails degrowth in terms of over the last nine-month, is it going to be same state or it is going to change going forward?

Kailash Katkar: I will take the first part of that question. I will give some quantitative answer. If you see these three months and the last months stable growth. The degrowth is an account of the first three months, which was the GST driven quarter and retail distributors actually stopped selling because their transition date, was the date of which they said they did not want to carry inventory because of the potential that would be refused credit for tax bids into the product. This was across industry that is not just to do with products, but every other industry, so that is behind us. So really speaking and I will give you some numbers. We had a mess of around 16 plus Crores in Q1 many be about 18 Crores to 20 Crores of which a small chunk about little over the third has been

recovered in the next quarter. So what we are reflecting is the impact of the pre-GST quarter coming through. So that is the quantitative answer. To be very frank you will see that Q2 and Q3 have not been affected by that and I can tell you that the December order booking was good and we actually had a healthy January billing, which flew from the December revenues and which by the way is not going to be accounted, which we are accounting as a separate from our Q4 target, so this information I cannot give quantitative of numbers, but we have seen that Q2 and Q3 and in Q4 we do not see the same impact, so quantitatively speaking it is an event driven reduction let us say about 11 Crores to 12 Crores worth of revenues going out because it could not be captured then. Definitely not much larger, but we recovered some of it in July, but we have not recovered 100%, so that in a nutshell is the number count that we lost for Q1.

Rajesh Ghonasgi: You also need to consider one thing that before GST it was VAT, so we used to pay 6% and now with GST we are paying 18% GST on retail products so again that cost is being absorbed by the company because we cannot increase the MRP price, there is a lot of pressure on MRP actually as well as market driven price that MOP also there is a big pressure on that.

Parimal Maithani: Sir, I just wanted to know the dip of sale was not due to you moving to cash in advance or cheque against delivery right Sir?

Kailash Katkar: I do not say no, see this drop that you see in nine-month is not an account of the restructuring of the case downs.

Sanjay Katkar: This was actually as you mentioned because of GST impact in Q1 and we have seen a pretty good growth in Q2 and Q3 and we are looking good momentum in Q4.

Parimal Maithani: Sir, we expect the working capital cycle going down more from these levels or it could be steady state whatever is at correct level?

Kailash Katkar: Yes, we should improve actually because we still have pre-GST outstanding, but they will stabilize at a slightly better number than this.

Parimal Maithani: Sir, moving to your non-retail side of the business, you have mentioned in the concall the tie up with Jetico is there any royalty payment there or is just one time payment, which is paid to them?

Kailash Katkar: It is a onetime payment.

Parimal Maithani: So they are not entitled to any sales, which do on encryption or they would not get any part of that business?

Kailash Katkar: No.

- Parimal Maithani:** Sir, you said license have moved to 5000 endpoints going forward what is the run rate going to be in terms of increasing this nodes to going forward from here?
- Rajesh Ghonasgi:** I do not have that number yet, but there is definitely intent to grow that number to a larger number again next year.
- Parimal Maithani:** This is incorporating all your cloud as well as your data encryption as well going forward from here on?
- Kailash Katkar:** On premise with the cloud we are targeting the larger number there.
- Parimal Maithani:** Now since you mentioned you have got healthy order book in December is it safe to assume that the Q4 will be similar to something on the lines of Q4 of March 2016?
- Kailash Katkar:** See, actually about what Rajesh spoke about healthy order in the month December this is because before this Q3 in Q2 we had around 26 warehouses across India, but after GST then we have reduced it to three warehouse across India, so the transportation time is taking play a bit time and that is the reason like you know we have start closing our quarterly sales just four to five days before quarter end actually because the delivery is important. The delivery has to happen before December 31, 2017 or end of the quarter actually.
- Parimal Maithani:** Sir, are you going to maintain the run rate in terms of the performance, which you have delivered in Q2 or either Q4?
- Kailash Katkar:** Yes, that is what we aspire for.
- Parimal Maithani:** It is going to be similar on Q4, March 2017 where you had a degrowth in terms of your endpoint.
- Kailash Katkar:** That is the aspiration.
- Vijay Mhaskar:** No, Q2 is the aspiration.
- Parimal Maithani:** Q2 is the aspiration. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Ruyam Verma from Augmen Catalyst. Please go ahead.
- Ruyam Verma:** Sir, I just wanted to know that our EBITDA margin in this quarter has reduced marginally if I compare with the previous quarters especially Q2 so what would be the main reason regarding this?

Kailash Katkar: You can look at it in two terms. Number one sequentially and seasonally. Now I am looking at the number seasonally, one of the reason is that the December FY2018 quarter with December 2017 versus the September 2017 is not really comparable because Q2 always has a higher volume, but if you go back one year you will find that the margins have increased so it is seasonal variation. We always look at it seasonally because Q2 is the more buoyant quarter, Q3 is not as, but that way we compare to Q3 last year. So in those terms you will find that for the three months itself the margins have improved, EBITDA has improved and for the nine-months also despite a bad Q1, we have improved and that is the way it is more of a seasonal variation than anything else.

Ruyam Verma: My next question what is your revenue mix basically last quarter you talked about revenue about 50% of retail and enterprise and are we on that particular path to maintain the list or are we still on?

Vijay Mhaskar: We talked 50:50 that is an aspiration that we have a few years down the line because remember currently we are at 23% this quarter overall 22% for the nine months. We are effectively talking of doubling it or more that we should do over a three year plus period, but yes that seems to on, look at the pure revenue numbers, segment we have breakup on slide 4 shows that retail has grown 7% in full revenue terms, but enterprise it is Seqrite brand business has grown 37%, so our entire focus is going to be that retail maintains a single digit growth we generate cash out of it, but the upside the stars, the stars are the Seqrite products and they will deliver much higher rate of growth, so the retail average growth will be pulled up by the Seqrite brand.

Ruyam Verma: Sir, my last question is regarding the Seqrite brand, can you give me two figures, and basically first how many total users we have with 500 plus accounts and the total number of customers that we have?

Kailash Katkar: So, total number of customers that we have is about 25000 and 500 plus user accounts we have about 100 plus now total.

Ruyam Verma: 100 plus, so what would be likely growth number that we see in this 500 plus user account basically and do we have any users with more than 500 accounts as in say about 1000 accounts?

Kailash Katkar: Right, that was the earlier question on this call. The largest account we have is about 5000 users, another account is turning about 500 users from quantifying the growth in that segment currently that is not done, but definitely we want to increase that number quarter on quarter.

Ruyam Verma: Thank you. That is all from side.

- Moderator:** Thank you. The next question is from the line of Aman B from Astute Investments. Please go ahead.
- Aman B:** Good evening Sir. My first question is regarding the enterprise market, so as of end of 2017 what is the market size as well as what is the industry growth for three months and nine months if you can give that number?
- Rajesh Ghonasgi:** Frankly from the market perspective from the endpoint security it is not fully quantified and measured. You look at any of breakup from Gartner or IDC, but if you just have to take estimates we estimates we had about 8% to 10% of the market share at this point. Industry steadily growing because more solutions are getting added and that is the way we want to focus on to get that larger market share to the Seqrite brand.
- Aman B:** Sir, what will be our ranking in terms of sales in this, according to your estimate?
- Kailash Katkar:** How do you want to rank?
- Aman B:** Ranking in terms of sales, so if you have 8% to 10% market share the top player will have 20% to 30% market share?
- Kailash Katkar:** Currently, we do not have that ranking.
- Rajesh Ghonasgi:** One of the issues is that we have been dealing only listed entities in this area. That data does not come out in balance sheet form publicly so that is one we are the parties we expect that as we grow there will be more technology research, which will produce this data.
- Kailash Katkar:** See, most of the MNCs they would not give India split, so we would not be to figure that is the exact reason in India.
- Aman B:** But in terms of say there are two big MNCs in this business apart from among the Indian company we would be largest in enterprise?
- Kailash Katkar:** Yes, definitely.
- Aman B:** Another part of this question, so roughly the market, which you are catering is as of now 500 plus, but not 5000 plus, so out total market what is the addressable market after 5000, will the addressable market increase substantially or is the most of the customer in this 500 to 5000 range only?
- Kailash Katkar:** No, actually they are larger enterprise, as you go up the chain the number of customers might be lower, but the number of users are significant, so I would say it is still a significant market over there just be on 5000 endpoints.

- Aman B:** There as of now only the two MNCs will have a product?
- Kailash Katkar:** Correct.
- Aman B:** You will be guiding the first Indian company to have a product?
- Kailash Katkar:** Correct.
- Aman B:** The other competitor the Indian player does not have 5000-product as of now?
- Kailash Katkar:** So, I do not have definite answer on that, but certainly we are getting in that space.
- Aman B:** The second question is regarding so you mentioned that we have 100 customers of 500 users plus, so what is the median for us per customer?
- Kailash Katkar:** Currently it is about 150 to 200 endpoints.
- Aman B:** Sir, just to understand that does it also happen initially when the endpoints are lower, the margins are much lower and overall as endpoints increase the margins of the company substantially increase?
- Rajesh Ghonasgi:** Yes, this is the function size. Remember our development cost are fixed, there are salary costs. There are also asset costs because we run depreciation and officers, lighting and air conditioning, etc., so that is a fixed cost. On the other hand, as the EPS number grow very simple larger number of license sales to individual customers, the total number of licenses grow up and that is a very big part or a very big pivot of our operating leverage there as this volumes grow up, costs are going to grow up in the same sense, direct cost are reasonably flat because most of it is delivering the product as well as updates to the customer, which is largely the web enablement cost everything else and other than sales incentive everything else is fixed, so as the revenues scale up, as the number of PPS licenses go up we will be able to produce the operating leverage upsize that we have talked about.
- Kailash Katkar:** Let me add one more angle to it. As you grow to the larger customers from the number of users perspective the requirement of the fixed set also increases, so think of MDM will not be as relevant to the smaller segment of the company, but definitely relevant for the companies, which are larger in size, so as we add more product to the portfolio we will see that the adoption of complete portfolio would be in higher as you go higher in the segment.
- Moderator:** Thank you. The next question is from the line of Viraj Mithani from Jupiter Financial. Please go ahead.

- Viraj Mithani:** Good evening Sir. I would like to know what is the Seqrite growth in this quarter can you give some sense on Seqrite growth and in days to come also?
- Rajesh Ghonasgi:** This quarter it was 37%.
- Viraj Mithani:** The growth was 37% quarter-to-quarter?
- Vijay Mhaskar:** That is seasonally against the same quarter and if I look at it in nine months to nine months it was 21%.
- Viraj Mithani:** And what was the sequential growth, can you give idea on the last quarter and this quarter?
- Vijay Mhaskar:** While that comes that has been computed by a colleague do you have any other question to ask that we could answer?
- Viraj Mithani:** Yes, in the sense of the Seqrite is growing in the days to come like in next quarter and henceforth what is your sense can we grow at this rate or higher rate?
- Kailash Katkar:** Definitely the pace at which we are growing we want to continue and maintain and grow that pace further with the adoption of the solutions with more customers and both acquiring more customers, retaining these customers and to cross sell and upsell to the existing customers we should be able to drive this growth further.
- Viraj Mithani:** We are trying to growing by much further rate than if it is possible right?
- Kailash Katkar:** That is what we are aspiring and that is a possible.
- Viraj Mithani:** Sir, you talked about that we are largest in Seqrite business in the Indian company who is the next to us, which Indian company would be competing with us in only Indian company not an MNC?
- Sanjay Katkar:** In Indian company, we have not seen any players that are offering range of enterprise products that we have actually. So our most of the competition that we face is from MNCs actually.
- Viraj Mithani:** There is a sequential level growth that is what I wanted that is it?
- Vijay Mhaskar:** Actually we were at 165 last quarter Q2, 165 million versus 154, which is this quarter, so there is a small dip, but is because of the seasonal movement that happened. Q2 is always better than Q3. Q2 is better than Q1 as well Q3.
- Viraj Mithani:** Sir, I understand Q4 is the bad quarter right, am I correct to think that way?

- Kailash Katkar:** No, Q4 is actually one of our best quarters.
- Viraj Mithani:** Best quarter, right among all the quarters Q4 is the best?
- Kailash Katkar:** Yes, best.
- Viraj Mithani:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Hardik Jain from Whitestone Financial. Please go ahead.
- Hardik Jain:** Just one small query Sir. You used to give till last quarterly numbers used to give data, which is about the active licenses that we have, so we have not given that data in this quarter can you help us with that?
- Rajesh Ghonasgi:** That data we have missed out, at present do not have with us on our table.
- Hardik Jain:** Fine, I will take it later. Thank you.
- Moderator:** Thank you. The next question is from the line of Parimal Maithani from Credential Investment. Please go ahead.
- Parimal Maithani:** Sir, you mentioned about customer retention in terms of goodness, one of my colleague in the previous line asked about active license number also, in terms of active license, what percentage is the retention, retention as a percentage of active license?
- Rajesh Ghonasgi:** Retention is about 75%.
- Parimal Maithani:** Every year you give active customer license number in terms of last year it was close to 8.1 million something like that so out of that what is the retention overall thing between combining your retail and non-retail business put together, because you mentioned about in the enterprise press release but what is the net amount of retention that you have?
- Rajesh Ghonasgi:** We do not have that split at present with us.
- Kailash Katkar:** No, the point is the retention numbers are that are with us is like based on the compared to the expired numbers actually, not with the total active count we cannot have the exact percentage calculated right now. So retention on enterprise royalty is around 79% of the customers that are getting expired, get renewed and we retain them and on retail front it is close to 35%.
- Parimal Maithani:** So do not mind sharing, can you give the run rate in the retention where is it in terms quarter-on-quarter or year-on-year what is the retention run rate if you can tell?

- Kailash Katkar:** Currently we do not have the quantification, but we can say retention has been going for the last three quarters both on the retail count as well as on the enterprise Seqrite count.
- Parimal Maithani:** Sir, just finalizing your data that you putting across of the previous quarter in terms of your enterprise business has grown from Q1 of FY2016 from 9 Crores to on the rate of 57 Crores last year full year, do you think the same run rate going ahead?
- Kailash Katkar:** Yes.
- Parimal Maithani:** We almost break even on that business right in the terms of cost wise and all that?
- Vijay Mhaskar:** Yes. In fact we are not just close to that one of the thing that you are seeing is that our improvement in margins in an account of the fact that the cost embedded in that business have been counted by the increased revenue so that is the reason why part of our upside in bottomline had happened.
- Parimal Maithani:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Aman B from Astute Investments. Please go ahead.
- Aman B:** My next question was basically on the advertising and sales promotion in enterprise, so could you explain how does it work basically, so we have two front end, our own employee visit every of our customer or are there third party vendors who help us in customer acquisition in enterprise solution only?
- Kailash Katkar:** Like retail, we have a channel partner and retailer, same way in enterprise we have a system integrators and we have lot of system integrators across India who sells our enterprise solutions to the customer and along with the system integrator sales team or the marketing team he just sells the products over there and he goes to the customers because product demonstration and product and all those things are done the partner as well as system integrator team.
- Aman B:** Sir, every system integrator will be associated with three, four players minimum, so how does he decide, which one and how does it work basically, do we provide some margin incentive to the system integrators or is it dependent on?
- Kailash Katkar:** See in enterprise products, it does not work like a retail product. Retail product at least has some MOP what you call as market driven price, but with the enterprise product the customer is the master. He sits with the negotiation and there is a lot of negotiation, which keeps on happening and there is a lot competitors who comes over there, so based on customer size, customer network and the challenges, which is going to come

while doing the installation part of it, the price is defined so there is no fixed price when it comes to enterprise.

Aman B: So, whenever we are trying to acquire a customer there will be other players also trying to do the same and depending on our capability and pricing?

Kailash Katkar: Yes.

Aman B: The customer decides whether to go with Quick Heal or some other player?

Kailash Katkar: Yes.

Aman B: And the same thing will happen at 5000 nodes?

Kailash Katkar: Yes, that is very much actually.

Aman B: There the competition will reduce because not many people will have this?

Kailash Katkar: No, there is.

Vijay Mhaskar: Bigger MNCs are the competition actually.

Aman B: There are two only right?

Kailash Katkar: There are lots.

Sanjay Katkar: At least seven to eight are active in India actually.

Aman B: But, two has the main market share or is it also split?

Kailash Katkar: Which two one you are talking about, Symantec and McAfee.

Aman B: Yes. These were the biggest market share in India, right in enterprise?

Kailash Katkar: Yes. No, much other players are not there, but they are now very active in centers like segmentation happening, more players on a little midsize and smaller size network and then very larger network, okay these player are little less actually as for the competition, but it is there actually.

Aman B: And the same is true for government side also?

Kailash Katkar: Yes.

Aman B: As of now what is the maximum number of the users we serve in government basically like the nodes?

Kailash Katkar: 5000 users is maximum we have installed, but there is one more, which is 500 is what we have installed.

Aman B: These two are for government not some big private players?

Kailash Katkar: Yes, government.

Aman B: And the highest for private players will be what Sir?

Kailash Katkar: It is about 3500 to 4000.

Aman B: With this 5000-nodes we will be targeting more of government side or the private side?

Kailash Katkar: Both.

Aman B: Thank you.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to Mr. Vishal Srivastav for closing comments.

Vishal Srivastav: On behalf of Edelweiss, I would like to thank management for taking the timeout and answering to all of our questions. We would like to thank all the participants for attending the call. Thank you. For the last comment I would like to hand over to Mr. Rajesh.

Rajesh Ghonasgi: Thanks. I hope we have had a good session in terms of giving you quantitative and qualitative information. I am sure there will other more detailed questions. This is just a start and this is a brief period barely an hour and half. In case if you have any questions, answers are available with me or with my team, just mark them to me or our Company Secretary Raghav Mulay. The best thing to do is to send it at cs@quickheal.co.in. It will reach Raghav who is the Company Secretary and he will make sure that we connect back with you. I will look forward to that. Have a good day.

Moderator: Thank you very much. On behalf of Edelweiss that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.