“Quick Health Technologies Limited Q4 FY2018 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Quick Heal Technologies Limited Q4 FY2018 Earnings conference call. This conference may contain forward-looking statements about the Company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kailash Katkar – MD & CEO from Quick Health Technologies Limited. Thank you and over to you Sir!

Kailash Katkar: Good evening. I am Kailash Katkar – MD & CEO. Along with me I have Mr. Sanjay Katkar – Joint MD & CTO, Mr. Vijay Mhaskar - Chief Operating Officer, Mr. Nitin Kulkarni – who has been appointed as a Chief Finance Officer and Our Investor Relations Team, Strategic Growth Advisors. We welcome you all to participate in our earning conference call to discuss on our performance for quarter and the year ending March 31, 2018.

I will start with a brief update on the business performance.

We have a unique business model with strong presence in retail, government and enterprise segment. We are the market leaders in Retail segment with more than 30% market share, where we provide IT security products for Home, SOHO and mobile segment under the brand name "Quick Heal". We have established a robust diversified network and a dynamic ecosystem of channel partners across India to reach our end customers. Our Retail channel has more than 20,000 partners who help us reach our end customers through a three-tier distribution systems. The large retail customer base gives stability and we have renewal ratio of approximate 35% now.

To distinguish ourselves in Enterprise and Government market we have created a band "Seqrite", which is gaining traction with Enterprise and Government. To cater Enterprise and Government business we have developed strong internal sales team who work closely with channel partners to identify new sales prospects, sales solutions and provide after sales support to end customers as well as Enterprise and Government channel partners. The Enterprise and Government business gives a sustainability of revenue, as the renewal ratio is higher at 75%. Our strategy is to improve market share, expand range of security products and solutions and cater new SMBs and mid and large enterprise opportunities.

Over the last two years, the business has faced headwinds due to demonetization and GST implementation. With effects of demonetization fading away and GST implementation normalizing we have seen business pickup over the last couple of quarters. The Retail business grew by 27% in Q4 but we could not achieve annual growth as expected. In the future our efforts will be to achieve annual growth in Retail business as well. The Enterprise and Government business grew by 14% year-on-year, which is lower than what we expected and planned, which was about 30%. Our strong product portfolio should help us to achieve growth in Enterprise business in coming years. The efforts are on to grow the Enterprise business along with strengthening Seqrite brand and also to grow our network of system integrators and partners.

At Quick Heal, our focus has always been to identify new threats and to device new solutions that are future ready across customer segment and across platform through our focus, research and development efforts.

With this I will ask Sanjay to share more detail on our research and development efforts.

Sanjay Katkar: Thanks Kailash. Good evening everyone. Over the years with more and more integration of technology in our daily lives and amount of digital data has generated the importance of securing the data have never been realize more than today. So we at Quick Heal have always strived to stop the ever-evolving threat to our sustained R&D efforts in introducing more advance products and solutions.

So I will share a few details of How Quick Heal Labs has been on the forefront of watching on the cyber security threat landscape and providing timely updates to guard against these threats to all our customers. So for the quarter ended March 2018 Quick Health Security Labs detected over 181 million Windows malware and the Trojan Horse family retain its position as the most dominant malware in entire quarter and it grew by almost 14% compared with its detection in same quarter last year. However, on mobile front, for the Android OS Quick Heal Security Labs recorded over 1 million detections which includes Malware, Potentially Unwanted Applications and Adware. So the main trends observed in android threat landscape includes the persistent growth in fake android apps, banking Trojans heavily targeting banking apps and cryptomining apps and hidden adware. So with the current focus on cryptocurrency the threat of cryptojacking has gained significantly and in fact we have seen quite an important cases in last week itself. So in cryptojacking, the hackers use terminals or network of computers and their processing power to mine cryptocurrency. So in fact it has come to light that one of the country’s largest business conglomerates suffered big cryptojacking attack last month and these activities are growing day-by-day.

So with threat ever evolving, various of our R&D teams work in co-ordination with each other on product upgrades as well as providing newer features, which will help Quick Heal to sustain its leadership position as one of the most trusted brands in IT Security Solutions across consumers and across platforms.

With this I will now ask Vijay to share his thoughts on the operations of the company.

Vijay Mhaskar: Thanks Sanjay. Good evening all. Let me focus little bit on the business side. If you look at from the last year's perspective we have been really focusing on increasing our market penetration and the focus was really on the how to bring the channel ecosystem and strengthen it and bring it to the next level. We have increased the channel partner count on the retail side to almost 21,000 by end of FY2018. So, this is really helping us to gain more market penetration and more visibility in the market.

Our retail sales team has been working relentlessly to onboard more and more channel partners, which help us to create more visibility for brand and thereby increasing the demand for our products.

Along with the focus on partners, we are also focusing on the liquidation and activation. Activation is basically the consumption of the product at the end-user level. So strengthening our distribution network and focus on the liquidation and activation actually is us moving in the right direction and some of the numbers and the performance that Kailash talked about reinforces that fact.

Having added more channel partners, we also tried to work on managing credit lines and as mentioned before couple of quarters we have been really encouraging to move towards cash and carry model. It is a strategic shift and we can see a movement towards that. So certainly, that is something we will carry forward for the next quarter and really push that model as a way to do business.

Another area that our retail team is focusing really hard is on the customer renewals and Kailash talked about on our retail side we have 35% renewal rate that is something we really want to move further because we feel more and more customers we retain, gives us a larger user base and helps us to grow the user base and eventually the business. So that would be again a focus for this year to ensure we not only sustain the renewal rate but also grow on the retail side.

Moving onto the Enterprise and Government segment as you have always seen the enterprise segment has been growing and this year also we have seen we have added about 5000 customers in this year alone. That comes to about 20 plus customers added everyday that is what I am talking about the new logos and new customers. We have a healthy renewal business that again Kailash talked about, about 75% renewal rate so that again is very healthy. We want to move that forward towards 80%, 85% even to a 90%.

Just on the additional new acquisition perspective, we added about 4 lakh new users in FY2018. So that really speaks about the products acceptability in the market and the relevance in the market. The enterprise business consists of large enterprise as well as SMB and the team is really focusing on how to bring about more partners to handle the customer base that we have. Particularly for SMBs we feel the SIs and partner ecosystem play a very pivotal role. For the year as a whole, we have added about 5000 new customers but again we focused on not only getting SMB customers but also look at 500 plus user accounts larger customers and I am happy to note that 100 plus new customers were added who had more than 500 users. That shows us that we are moving not only wider on the base we are moving up the value chain and getting more larger customers, So that would be our focus for coming year to grow more user base into 500 plus user accounts.

On the Government business, we basically see a growth throughout the year. In Q4 though we had slowness and primarily because the GeM. As you know on the government side there is a transition going from DGS&D to GeM, which is a portal for doing all the purchases from the government department. So GeM was launched but it is not very stable so because of that we had some slowness in the business. We see continued demand from government agencies for Quick Heal and Seqrite products so we feel that momentum should continue. As GeM stabilizes we should see a more traction in government business.

Moving onto the product front in the context of what Sanjay was talking about the threat landscape that really uses opportunity to offer better solution. We are expanding our portfolio each quarter and Q4 is not an exception. We launched the EPS Cloud version and already customers started adapting to it. EPS product itself is scaled up now and it supports 5000 end-users per server license. This helps us in adding not only the SMBs but the middle segment of the enterprises. If you look at endpoint security plus DLP plus mobile device management and encryption, it really gives us large portfolio for enterprise product and that really gives us a ability to address all the customer needs from the security perspective. So that would be our focus to grow the SME and the middle segment and also grow the product portfolio in my next quarters.

We have launched mobile security for ecommerce. We have seen mobile security being picked up in to the ecommerce segment so that version is launched now in Q4 and we would try to get some market share from that segment too.

In Q1 we will be launching the mobile security family pack as well as mobile lifetime protection. So what Sanjay mentioned about the threat landscape, it is definitely picking up on Android. We feel that there will be more customer awareness growing in the market and that will help us to gain more market share in the mobile security business.

Our UTM business is definitely seeing growth. We expect the newer releases to bring more features and also our increased focus on the channel should get us more market share. The UTM business has seen growth. We feel in next few quarters we should see more growth on the UTM business.

While focusing on in-house product development we are also exploring and launching third party product in the network security space. That work is in progress right now. We will be talking about it in subsequent quarters. So overall a great quarter from the business and the product perspective and as a whole Quick Heal team is really excited about the future opportunities.

With that let me handover to Nitin from the CFO's perspective.

Nitin Kulkarni: Thank you Vijay. Good evening everyone I will take you through the consolidated financial performance of the company for the quarter and year ended March 31, 2018.

First let me talk on quarterly results.

Revenue for the quarter grew by 29% to Rs.1,187 million as compared to Rs.922 million in Q4 of 2017. The growth was mainly driven by Retail segment which grew by 27% Y-o-Y. In terms of licenses sold the Retail segment saw a growth of 30% and Enterprise and Government segment grew by 31%.

Now I will come to the cost analysis. Over the course of the year, we have been working on various cost optimization initiatives, the impact of which you can see in the improved margin profile of the company. Let me also talk about spend on advertising and sale promotion expenses, which is very important to our line of business. As the majority of our revenue comes from retail segment where we need to continuously focus on advertising our products to create brand awareness, which helps us in the market penetration. You are aware we also cater to Enterprise and Government segment through separate brand Seqrite, which gives us sustainability of revenue as this segment has high renewal ratio, which was earlier alluded to by Kailash earlier. To further penetrate in the market, we need to keep investing in brand promotion through various media channels. The investments in our advertising expenses and sales promotion are towards various tactical marketing campaigns, which supports scalability and sustainability of our business.

The EBITDA grew by 79% to Rs.654 million from Rs.366 million and the EBITDA margin improved by more than 1,500 basis points from 39.7% to 55.1%.

The PAT growth has been more than 100% to Rs.492 million from Rs.222 million. The growth was partially aided by onetime income of Rs.65.96 billion, which relates to service tax credit of earlier years. This is mainly on account of input tax credit on taxable services for past years, not availed by the company earlier; however, please note that this was a onetime credit and will not be appearing in future.

The cash PAT which is profit after tax plus depreciation for the quarter is Rs.561, million which grew by 85% from Rs.304 million in Q4 2017.

Now I will move on to the full year financials.

Revenue saw a growth of 6% to Rs.3,183 million from Rs.3000 million. The growth has been lower due to weak economic sentiments in the industry on account of GST implementation in the first half of the year; however, second half of the year was better and we ended the year with a growth of 6%.

Segment wise Enterprise and Government grew by 14% to Rs.647 million whereas revenue from Retail segment was almost flat at Rs.2,741 million. In terms of licenses sold for the full year the enterprise segment saw a growth of 23% and retail segment grew by 4%.

The EBITDA for the year grew by 33% to Rs.1203 million from Rs.901 million. The EBITDA margin improved by 776 basis points from 30.05% in 2017 to 37.81% in 2018 this is mainly on account of various cost optimization initiatives driven throughout the year as well as increase in the topline.

The PAT for the year has grown by 56% to Rs.830 million from Rs.532 million. The growth was partially driven by one-time income of Rs.65.96 million on account of service tax credit. The cash for PAT for the year grew by 31% to Rs.1,099 million compared to Rs.842 million in 2017.

Before moving onto balance sheet, I would also like to touch upon standalone financials.

Revenue for quarter 2018 grew by approximately 29% from 918 million to 1183 million.

The EBITDA for the quarter has been Rs.661 million as compared to Rs.383 million a growth of 73% Y-o-Y. The margin for Q4 2018 improved by 1,420 basis points to 55.85% as compared to 41.65% in 2017.

During Q4 2018 we had an exceptional charge of Rs.71.81 million. This is on account of impairment of investments made in our wholly owned subsidiaries

The PAT grew by 81% from Rs.236 million in Q4 2017 to Rs.427 million in Q4 2018. PAT margin came at 36.09% as compared to 25.72% in Q4 2017 showing an overall improvement of 1,037 basis points.

Now I will come to the full year financials.

The revenue growth for the year has been 6% at Rs.3,162 million for 2018 compared to Rs. 2,990 million in 2017. As discussed earlier the lower growth in the revenue has been mainly due to the weak economic business sentiments due to GST implementation during the first half of the year; however, due to various cost optimization initiatives the profitability at the operating level has improved by 27% from Rs. 972 million in 2017 to Rs. 1,237 million in 2018. The improvement is also reflected in EBITDA margin, which improved, by 661 basis points from 32.52% to 39.13%. The PAT for the year has been at Rs. 789 million, which grew by 33% from Rs. 592 million in 2017.

As explained earlier the PAT for the year includes a onetime income of service tax credit booked in Q4 and it also accounts for an exceptional charge on account of impairment in value of investments in wholly owned subsidiaries

Now I will come to the balance sheet.

As on March 31, 2018 we have cash and cash equivalents along with investments in mutual funds and fixed deposits of Rs. 4,633 million as compared with Rs. 3,847 million a net addition of Rs.786 million during the year. The cash balance includes IPO money of Rs. 1,507 million invested in fixed deposits. The utilization of proceeds is as per the project as stated there are no IPOs.

I am also happy to report that the board has recommended a final dividend of Rs.3 per share, which is subject to shareholders' approval in the ensuing annual general meeting. The total payout ratio will be 31% including dividend distribution tax.

On the working capital side, we have been working hard to reduce our overall working capital days. Having passed through demonetization exercise and GST implementation we have started our strategies to focus on reducing receivable days. As on March 31, 2018 our receivable days stand at 112 days, which also includes impact of GST of around 11 days. Excluding GST impact our adjusted receivable days will be 101 days as compared to 107 days as of March 31, 2017.

With this we will now open the floor for question and answers. 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 Hardik Jain from Whitestone. Please go ahead.

Hardik Jain: Good evening Sir. Congratulations for a good number. Sir you mentioned that you are planning to launch some third-party networking products? Can you give some detail about it?

Vijay Mhaskar: Currently, we are just in exploration phase at this point and not decided to launch it, but certainly we are working in that area.

Hardik Jain: Sir in the presentation, it is mentioned that Retail segment has a ratio of 35% and Enterprise and Government has a renewal ratio of 75% so by this what is it mean so out of every 100 licenses that are due for renewal only 35% get renewed?

Kailash Katkar: Yes.

Hardik Jain: And balance 65% they either shift to some other software or they renew it later is it?

Vijay Mhaskar: It depends. So let me define that. So we are looking at renewal as a customer retention. So suppose a license expired on January 1, within 90 days either the customer renews the license or buys a new license, we take that as a customer retention. So currently we are measuring it within first 90 days after the expiry about 35% to 36% retention. Having said that, what happens also is the remaining 65% may come back after sometime and they either pick new license and renew it or they may not use any paid software. So that certainly is the focus right now to get those customers to renew in that window. Ideally not even in a window basically it should be at the expiry time itself. What we have seen is that we need to really create the awareness in the customers and create urgency for renewal at the expiry time.

Hardik Jain: In enterprise when the renewal is rated so high so generally at the time of renewal for the enterprise segment the payment is done upfront at the time of renewal or payment is later on collected after some credit period?

Kailash Katkar: In the Enterprise side, we work through the partners. The fulfillment is always done by the partners. So partner would obviously collect once implementation is done and renewal is done and we work with partner for the billing and the collection.

Hardik Jain: I will come back in the queue if I have any more questions.

Moderator: Thank you very much. The next question is from Megha Hariramani from Pi Square Investments. Please go ahead.

Megha Hariramani: Thank you for the opportunity. The numbers have been really great for the quarter. Just want to understand going forward do we see similar kind of margins staying intact we understand we had good cost saving coming in so do we expect this 35% run rate for quarter or on the overall basis 24% that we have for the full year. So how do the margins reflect and how do the sales growth look like for us for next two years?

Nitin Kulkarni: This is Nitin. A lot of cost optimization measures, which we have been taking are definitely seeing the benefits but there are certain costs like advertisements and sales promotions, which are a very critical and important to our business so we have to incur those costs. So as you see we have to really look at the numbers on an annual basis and on quarterly nos there is lot of volatility due to seasonality factor and definitely there is an aspiration to maintain the margin at this stage.

Megha Hariramani: Just one more question how much do we intend to spend on R&D going forward?

Vijay Mhaskar: If you look at our ratios we go about 18% spend on R&D and that kind of pretty good part for all the rest of the IT industry does and let me add little bit to what Nitin commented, obviously we want to maintain on the margins perspective but we also want to make the right investments for our future growth primarily for the new ideas, innovations. It involves the R&D, particularly in the enterprise space for couple of years, before the product will be shipped. So we want to make certain investments for our future products, we also have seen that we need to bring more automation growth on the front of R&D and business so that also would need some investment. We need to get our IT infrastructure setup to handle the new challenges coming upon cyber security and also the branding on the Seqrite, so some of these areas incur certain investments. We think that will start paying benefit from next year onwards and also help us to grow the business but certainly we want to take this opportunity and make sure we make those investments while we will also be very cautious that our cost line should be managed and the margin should be managed well.

Megha Hariramani: Any plan number that they have on the investments we intent to make every year?

Vijay Mhaskar: No we do not have any plan number at this point but I would say for R&D between 18% and 20% will be a good level of investment.

Megha Hariramani: Thank you. I will join back the queue.

Moderator: Thank you. Next question is from Vandeep Dharmse who is an Individual Investor. Please go ahead.

Vandeep Dharmse: Good evening gentlemen and congratulations for a good Q4 numbers. The question I had is Q2 and Q4 usually look very good when compared to Q1 and Q3 will this cyclical trend continue or will it come to some normal level post two to three years?

Vijay Mhaskar: These are cyclical in nature in our business and that would continue although the efforts are always on to bring more linearity and that will continue but Q4 being the last quarter there we always see a surge in the closure of the business but we will try to make it better. It is cyclical in nature of the business that is what it is.

Kailash Katkar: Actually it is a market driven.

Vandeep Dharmse: Any specific reason for Q2 and Q4 to always look at?

Kailash Katkar: If you look at from the retail business perspective, which is about 80% of our business, when we have a good quarter and it’s a stock and sell model so when you do a stocking in Q4, for Q1 to do additional stocking becomes little difficult so basically we give that time to really liquidate and activate the products, actually activation trend continues throughout the year and there is no variability there, it is more about liquidation and so that creates a more space in Q2 and then Q2 again is a more stocking quarter and follows in Q3 and Q4 again.

Vandeep Dharmse: Thank you.

Moderator: Thank you. Next question is from Debashish Mazumdar from Edelweiss. Please go ahead.

Debashish Mazumdar: Thank you very much for having me and congratulation on a very good set of number. I have few questions. Let me start with the retail business. If I see the Q4 there is a very strong trend in the retail business, which is very different from what we have earlier guided for so any specific one half in this or we are seeing this trend to continue in the near future.

Vijay Mhaskar: Any specific trend that you are observing here or it is just the growth you are talking about?

Debashish Mazumdar: I am just talking about the growth because normally what we have seen around that 10% to 12% growth that we are expecting in the retail business, if you see the Q4 the growth is upwards of 30%?

Vijay Mhaskar: So the Q4 last year that is FY2017 there is an effect of cash demonetization and that is what we were coming out. So I would say after Q4 then we had a Q1 impact of GST so Q2, Q3, Q4 is really recovery from that and I would say Q4 has come to the right level now and from here it should grow so I would say we are catching upon the lost growth in last Q4 and next Q1.

Debashish Mazumdar: Is it if I say on a normalized basis in FY2019, FY2020 what is the kind of growth we are expecting in the retail business would it be same like 8% to 10% or you have got a better visibility now?

Vijay Mhaskar: I would say it would be about 8% to 10% that is what we are looking at annualized level.

Debashish Mazumdar: Coming to the enterprise business in Q4, we have seen a sudden drop in realization and that is what I think that is the reason why I am not able to get the enterprise business growth that we are targeted at the beginning of the year. So again any specific trend here or it is a onetime phenomenon?

Vijay Mhaskar: I would say as I mentioned in my commentary if you see enterprise and government business, enterprise business has grown in the right trajectory, little bit higher would have better as Kailash said. We were expecting higher on government, but because of the GeM implementation and lot of this orders have to be fulfilled through GeM and that is what impacted government business and that is the reason can see an impact but otherwise as government GEM gets stabilized in Q1 and Q2 we should pickup the momentum again.

Debashish Mazumdar: Sir this is where I am little confused. What I am trying to understand is the thing that you are mentioning that should impact my realization and actual number of license that is getting sold but what I am saying is there is a 30% growth in actual number of license sold but there is a degrowth of around 26% in the realization although I understand that the realization in Q4 similar last year was Rs.720 which is very, very on a higher side so what I am trying to understand is even for the full year basis, there is a 4% degrowth in realization. So what I am trying to understand going forward although may be the license sale if you can break up the 30% growth target that you have in your mind for the enterprise business what is the target for the license, new license sales and what is the target for the realization.

Kailash Katkar: See when it comes to enterprise product we have a range of products as we have for our retail product, so we have a product at a premium level also and we have a product at a basic level also so it totally depends upon the market and customer actually. Sometime the customers look for low value product and sometime the customers look for a high security and a higher value product. We are focusing more on getting more customers on board rather than finding out how many customers are on a basic product and how many customers on a premium product but even if we get a customer on a basic product we always keep in touch with the customer to migrate that product to the premium products.

Debashish Mazumdar: Now when you say that you have added 100 plus new customers in 5,000 plus user category is it?

Kailash Katkar: 500.

Debashish Mazumdar: 500 plus I am sorry, so is it right to assume that this 500 plus category normally help to increase my realization going forward is it a right assumption.

Kailash Katkar: People tend to expect that the price should be much cheaper for higher number of user licenses than compared to what you give it for 25 or a 50 users license.

Debashish Mazumdar: Understood and if you can help me with the active licenses in between retail and enterprises. Currently if I am not wrong you have 8.4 million total active licenses if you can break me up for between retail and enterprises please?

Kailash Katkar: At present that data is not available.

Debashish Mazumdar: I will take it offline and somebody has taken this question earlier also. We have seen a significant jump in EBITDA margin to 39% from 33% on the past and our earlier guidance of for the next few years margin to be maintained between 33% and 35% so are we seeing this EBTIDA as a new trajectory or it is a one half you will again go back to 33%, 35% levels?

Nitin Kulkarni: There is lot of cost optimization happened during the year as a result of that we are getting the benefit but we also have to take a call that if we want to grow the business we have to make the investments, so I think since we are also looking at a topline growth we will be making investments as explained by Vijay earlier. So definitely we have aspiration to maintain the EBITDA level but since we are incurring these costs it will be difficult to maintain the EBITDA at these levels but definitely we will have an aspiration to maintain it at between 30% and 33%.

Debashish Mazumdar: 30% to 33% is too low from the current number so you are saying that you are maintaining your earlier guidance of 32% to 33% there will be that?

Kailash Katkar: So that will be always there because business needs new products and for that new product development you do not get customer on-board immediately so for that we need to do that investment and that investment is immediately get write-off as it is mainly employee cost.

Debashish Mazumdar: And if I see to your gross revenue and net revenue my dealer's margin as a percentage of gross revenue, which was 11% earlier year came down to 8% this year. So is it which you called sales incentive to dealer and distributors which you remove from gross revenue so is it this 8% is there any change in structure that you have made so that it has came down to 8% or again there is nothing to read about it?

Kailash Katkar: There are lot of factors happened in this last year because there was a GST implementation and there was a big impact on company's revenue as well. Earlier it was a 6% VAT and under GST it is 18% so we have to really rework on entire chain like transfer pricing, the incentive part, the dealer margin because we have to maintain the MRP and MOP. So to maintain that a lot of changes has happened and because of that there was a impact on incentive which has come down to 8% but practically speaking it has to be in between 8% and 10%.

Debashish Mazumdar: Understood. And one last question from my side, there is an exceptional item that impairment of investment in subsidiary, I think this is a consecutive second year we are getting this amount Rs. 7.5 Crores this year I think Rs. 4.4 Crores was the number last year so what is this thing is related to and are we expecting some number in FY2019 also?

Nitin Kulkarni: Yes, so the current year number of Rs. 75 million is on account of impairment in wholly owned subsidiaries and these numbers are already pegged into consolidated financials so this impact is only on standalone financials . This is based on the independent valuation done based on the historical trend and projected future numbers.

Debashish Mazumdar: Is it expected to get repeated in future?

Nitin Kulkarni: We do not expect it because we have a strong pipeline and based on that we are monitoring it on a regular basis. But again this impairment testing will have to be done at the end of next year and we do not expect to get this recurred in next year.

Debashish Mazumdar: So these are like investment in different products in the past.

Nitin Kulkarni: No so basically we have wholly owned subsidiaries and in those subsidiaries Quick Heal India has made the investments.

Debashish Mazumdar: And one last question if I remove that Rs. 6 Crores credit that you are saying the other income is Rs. 24 Crores, which is lower than the Rs. 28 Crores number we have clocked in last year although my cash balance has increased but my yield has decreased significantly if I take these two numbers so again any specific reason around this?

Nitin Kulkarni: If you look at the overall investment market there is definitely a reduction in the rates. So whatever rates we were getting last year, there is a significant dip from October and November and the returns on investments have come down and that has resulted in reduction of this other income.

Debashish Mazumdar: For our number, for our model, the current yield has a future indication?

Nitin Kulkarni: Yes that is right but again it depends on various factors, if there is a bond rally in next say three to six months down the line so this number is very hard to predict but for your modeling purpose you can go ahead with the current yield.

Debashish Mazumdar: May be in this call or offline if you can comment with the active license numbers for retail and enterprise that would be really helpful and one last thing when you say 35% of renewal rate for retail do you also take your existing customer after the expiry of your product from the existing customers he is buying a new product from your dealer because of the rate differential do you also consider that and then it will come to a 35%?

Vijay Mhaskar: Yes we consider that also. So we consider the customer retention and not just renewal.

Debashish Mazumdar: Thank you very much for answering my question.

Moderator: Thank you. Next question is from Aman Vij from Astute Investments. Please go ahead.

Aman Vij: Good afternoon Sir. Couple of questions from my side; first could you tell me the total customers you have as of now in enterprise as well as 500 plus users as of now not the addition?

Vijay Mhaskar: So about 132 customers we have with more than 500 users and total customer it is about 30,000 plus.

Aman Vij: 30,000 in enterprise only?

Kailash Katkar: Yes that is right.

Aman Vij: But just correct me if I am wrong your medium nodes per customer is around somewhere between 150 and 200 and taking an average realization of Rs. 600, Rs. 700 and then you try to calculate the number of your total revenue as of now in enterprise, which is around 60 odd Crores so it comes out to be around 4,000 customers so does it means 25,000 customers are not contributing much to the revenue as of now?

Vijay Mhaskar: As Kailash mentioned, there are some customers who are using the basic value the other customers using the premium value that is why.

Aman Vij: Average over there.

Vijay Mhaskar: That is one variability and the second is, always the number of customers that we have and the number of users nodes so it varies from about five, ten users, 25 users to 500, 600 users per customers. So that is the kind of range we have. The total active customers what we have today are about 30,000.

Kailash Katkar: We have like one-year customers and three years customers so that overlapping is there. So when you ask for active customers they are 30,000 so some of them must have bought this product last year or maybe two years back.

Aman Vij: The difference between the licenses and the revenue so one reason is if maybe the realization has fallen but there is a very big gap. So is there a lag between the licenses sold and revenue being recognized because in Q4 there is 30% growth in licenses sold and almost flattish revenue growth. So is it only because of lower revenue product compared?

Vijay Mhaskar: Right that is the competition of the product that was sold in that quarter.

Aman Vij: That is it there is no other reason, there cannot be any lag in.

Kailash Katkar: No there is no lag. For us the customer is important and whatever product he is looking for. So that is the reason we keep a range of products because it totally depends upon customer what he is looking. Some customers are very price sensitive, they are not at all feature sensitive and some customers are really quality sensitive and they are ready to spend more amount for good quality product. And so for us the customer is important.

Aman Vij: So what is the range for us just a broad pricing range of Seqrite products, is it like Rs.500 to Rs.1000 per license?

Vijay Mhaskar: So if you look at from our transfer price, it could be somewhere Rs. 500 to Rs.1,000 but again it depends on what version of product. It can be even Rs.1500 per user. And there is dealer margin as well.

Aman Vij: Not much lower than Rs. 500, right even if it is a vanilla product?

Kailash Katkar: See for Enterprise product there is no MOP. There is no fixed market price.

Aman Vij: I understand more license were there, you might have to get some discounts and all those things.

Vijay Mhaskar: For educational customers we do have to give discounts of more than 50%. So those customers we want them adopt these products for the right reason but they may not have the affordability so we do give a consideration.

Kailash Katkar: There is a market practice that for education vertical there is a 50% discount, so sometime it is more than 50% discount.

Aman Vij: How much education will be contributed as of now, roughly?

Kailash Karkar: We do not have that figure available with us right now.

Aman Vij: Okay and you said that the government segment was impacted, so most of this licenses growth is in SMEs only?

Kailash Katkar: Yes.

Aman Vij: Okay. One more clarification I needed. What is the margin typical in enterprise for the distributor compared to retail?

Kailash Katkar: As I said there is no fixed price so it totally depends upon the customer-to-customer. Some of the customers are ready to pay more money. In that case even the dealer also gets a good margin, but some of the customer pays very less money, so in that case the dealer also get a less margin.

Vijay Mhaskar: There is one more variability, which plays out. In case of enterprise there is a question of requirement and limited services. Many cases partners are able to deliver the service, so we will have to give more margins to the partners and they will actually go on site to implementation and so on. So it really varies from customer-to-customer. It depends on what location it is, what customer it is, what size of the customer it is.

Aman Vij: How many partners do we have as of now Sir?

Vijay Mhaskar: On the enterprise side we have registered about 500 plus partners. Total partners that we work is about 2,000 plus on enterprise side.

Aman Vij: Okay and do they play a major role. So no one partner will be exclusive from my understanding, so how much role do they play in convincing the customer about buying A software versus B software?

Vijay Mhaskar: Definitely in enterprise segment partners have a lot of say and they definitely play an important role.

Aman Vij: Can it happen we provide them higher margins so they will recommend our product more that is because we are providing higher margins?

Vijay Mhaskar: Not necessarily. It is actually value based buying

Aman Vij: Sure. Second question is on the working capital difference between the SME versus the retail? So how does it work in this enterprise business, working capital?

Nitin Kulkarni: Can you please repeat your question?

Aman Vij: Basically you have given the working capital overall company level, so I was looking at the difference between say average what is for SME versus retail, maybe inventory that needs to be kept?

Nitin Kulkarni: We track this data at the organization level, so we do not track it at that individual level.

Aman Vij: But roughly trend wise, will it be more on enterprise or it will be lower in enterprise segment?

Kailash Katkar: That would be at a similar level. It will be at similar level.

Aman Vij: Thanks. I will come back in the queue.

Moderator: Thank you. Our next question is from Pankaj Bobade from Axis Securities. Please go ahead.

Pankaj Bobade: Thanks for taking my question. Congratulations for good set of numbers for Q4. Sir, just wanted to understand what is the total potential of the business and where do we see our company maybe two or three years down the line?

Vijay Mhaskar: If you look at the market opportunity this definitely is significant both on the retail and enterprise. Just to give you a perspective on the retail, there are about 24 million laptops and desktops just on the consumer side and equal number on the corporate side. As Kailash said we have 30% market share. Lot of consumers still are not paying for security software, so that definitely is addressable segment that we have to go after and that is only after educating that customer. Switch to enterprise side, 40 million SMEs in India out of which about 1 million SMEs are tech enabled which have IT infrastructure and just few minutes back we talked about 30,000 customers, so again that is again a significant number that we can go into. So I would say from the sector perspective and the domain perspective, definitely there is a great opportunity. As we deliver better products and more products and get more awareness in the customers, we can get more traction. One more space, I also look at the mobile security although it is not picked up as much, but as the threat landscape more severe, and with more awareness in the consumers, we should see more adoption of mobile security software also. So, those are the three fronts I can see we definitely have a good opportunity.

Pankaj Bobade: Well Sir, these things as you mentioned are accepted, but in India generally people look for either freeware or anything which is available free with the instrument itself. So how do we tackle with that?

Vijay Mhaskar: The major difference in any other software versus security software is security software literally needs to be updated every hour or every minute, because the threats are coming, we almost receive 4 lakhs threats everyday, so I think it will be impractical to have a free software which is not updated, is not going to protect anything. So I think that is the awareness that we need to get into consumers that for you to get protection you need to have updated software and that means something has to constantly look at those threats, analyse it and provides the update and that incurs cost. So there is a misconception that like any other software or free software is good enough. It is not good enough and more awareness that we drive I think better would be for consumers and we can provide better solutions.

Pankaj Bobade: Where do we stand vis-à-vis the international players like the likes of Symantec in India, I mean or may be on the global platform?

Vijay Mhaskar: In India I have said, we have 30% market share in the consumer side, and on enterprise side, certainly we have a presence of larger players there, particularly in the mid to higher segments and we have to compete with them, or we are competing with them, but we are pretty confident that the solutions that we have are the important. Another important thing which I think we have to remember that we are close to 8.5 million endpoints and in security software more intelligence you can get from endpoints better it is. So we are in that unique position where we have pan India about 8.5 million endpoints, which are feeding us the threat intelligene everyday and that gives us a better opportunity to provide the right solution. So be it consumer or be it enterprise having that rich solution should help us to give a better production into the consumers. So we believe as we grow our products and portfolio we should be able to gain the market share in the mid segment as well as in enterprise segment.

Pankaj Bobade: One last question, whether there is price differential between our products and global products provided by global vendors and another question would we be able to defend this EBITDA margins of around 37.8% going forward?

Vijay Mhaskar: I will take the first half of the question. The first half is there is a price difference, yes. We have three segments of products and so all our products definitely are valued whether they are rated across the globe..

Nitin Kulkarni: We definitely intend to defend this EBITDA margin at 33% to 35%, I think that is the aspiration.

Pankaj Bobade: It would be 33% to 35% every quarter?

Nitin Kulkarni: It is annualized basis at organization level.

Pankaj Bobade: Thank you Sir. Thanks a lot.

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

Parimal Maithani: Good evening Sir and congratulations for a wonderful numbers. Sir in your opening remarks you have mentioned in one of your statements that Q4 is not going to be an exceptional quarter can you elaborate on that what do you mean by that Sir in terms of going ahead from here in terms of father wide performance?

Nitin Kulkarni: Can you please repeat your question?

Parimal Maithani: In the opening remarks you mentioned Q4 is not going to be an exceptional quarter? Are we going to have the same run rate as we had in Q4 going forward in subsequent quarter Sir?

Vijay Mhaskar: So Q4 being the last quarter would usually be higher quarter so I do not see change in that trend as such but I do not recollect the exact comment that you are referring.

Kailash Katkar: So actually, we have mentioned on slide #31 about quarterly revenue trend, which like Q1 will be somewhere between 14% and 20%, Q2 will be somewhere at 27% to 35%, Q3 will be somewhere around 18% to 25% and Q4 will be somewhere around 35% to 40%.

Parimal Maithani: Sir second question is in terms of if I keep on motioning is 8.4 million active customers can you elaborate of how is the growth rate has been over the last two years in this number or which you have?

Vijay Mhaskar: I do not have the number right away but we definitely adding more end users every year.

Parimal Maithani: And if you can share what is the home grown Indian domestic companies, which they have what is their active endpoint or whatever the data that they accept because as you mentioned there is that threat is everyday in India and if you have 8.4 million endpoints, which has shown deducting data what is the nearest competitor or ballpark figure that we can?

Vijay Mhaskar: Parimal, we do not have that data from the competition but suddenly 8.4 million endpoints is a good sample that we have across pan India.

Parimal Maithani: Sir coming towards our enterprise growth in terms of the business what has been the difference between the Q3 and Q4 in terms of customer additions, how quick has been the growth in terms of license sold?

Vijay Mhaskar: Q3 numbers are already there published.

Parimal Maithani: No but what is the growth rate you are getting in terms of acquiring customers or number of license between Q3 and Q4. Since in the enterprise segment you are getting traction so what have been the traction in terms of numbers?

Nitin Kulkarni: Parimal, if you look at the slide #37, it is 2,151,000 licenses were sold in Q4 2018 for retail side and 1,125,000 licenses for enterprise were sold in Q4 2018. So these are the numbers for Q4.

Parimal Maithani: Sir yearly one I am asking for sequential quarter wise?

Kailash Katkar: We do not compare quarter-to-quarter. We compare year-to-year so Q4 versus Q4, Q3 versus Q3 compare that way because it is a seasonable business actually as I mentioned in slide #31 that we have quarterly revenue trends like Q1 is always 14% to 20%, Q3 is always 18% to 25% and Q2 and Q4 is always higher that is 27% to 35% on Q4 it is 35% to 40%.

Parimal Maithani: Sir are we still going to have the seasonality in terms of quarter wise going ahead?

Kailash Katkar: Yes it will be there because it is not driven by company it is driven by the market.

Parimal Maithani: Thank you very much.

Moderator: Thank you. Next question is from Aditya Nahar from Alpna Enterprises. Please go ahead.

Aditya Nahar: Thank you for taking my question. The question is specifically for Mr. Kulkarni the new CFO so I just wanted a quick update on what your priorities are for the next two to three years at Quick Heal and whatever you can share I mean just general direction of what they going to be looking after at any particular area they are going to be focusing on?

Nitin Kulkarni: In terms of business, next two three years we are definitely looking at growth. The focus areas will be enterprise, which I think we have always been saying that we would like to grow. . . And we are definitely looking at the cost optimization initiative which we have started. As Vijay also mentioned that there will be few investments to get the topline growth but we will continue to focus on cost optimization so that costs do not go out of proportion and we are able to maintain the EBITDA margins that is what is the plan for next two to three years.

Aditya Nahar: Thank you so much and best of luck.

Moderator: Thank you very much. Due to time constraints, we will take that as the last question. I would now like to hand the conference back to Mr. Kailash Katkar for closing comments.

Kailash Katkar: I take this opportunity to thank everyone for joining on the call. I hope we have been able to address all your queries. For any further information kindly get in touch with us or Strategic Growth Advisor, our Investor Relation Advisor. Thank you once again.

Moderator: Thank you very much. On behalf of Quick Heal Technologies Limited that concludes this conference. Thank you for joining us ladies and gentlemen, you may now disconnect your lines.