

**Quick Heal**

*Security Simplified*

“Quick Heal Technologies Limited Q1 FY18 Earnings  
Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Quick Heal Technologies Q1FY18 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 phone. I now hand the conference over to Mr. Debashish Mazumdar of Edelweiss. Thank you and over to you Sir!

**Debashish Mazumdar:** Good evening everybody. On behalf of Quick Heal Technologies Limited and Edelweiss Investment Research, I welcome you all to Q1FY18 Quick Heal Technologies conference call. From the management side, we have Dr. Kailash Katkar, Managing Director & CEO, Mr. Sanjay Katkar, Joint Managing Director & CTO, Mr. Abhijit Jorvekar, Executive Director & SVP – Sales & Marketing, Mr. Rajesh Ghonasgi, Chief Financial Officer, and Mr. Vijay Mhaskar, Chief Operating Officer. So I will hand it over to the management for further discussion about the results and then we will have a question and answer session. Over to the management. Thank you very much Sir!

**Kailash Katkar:** Good evening everyone. I am Kailash Katkar here. On behalf of Board of Directors and the management of the Company, we extend a warm welcome to all of you to the conference call of the Quick Heal Technologies Limited to discuss the first quarter of FY2017-18. The recent incident of cyber attack globally as well as in India has reinforced the need for highly effective and robust IT security solutions to address the system vulnerability and ensure real-time protection. The cyber security industry is going through an exciting phase as threat landscape is continuously evolving, in PC segment over 1.2 billion Malware were deducted in 2016 while ransomware detection grew by over 90%.

Government policies favouring a digital economy is creating a huge demand for IT security products and solutions. With this rising demand we remain excited about the company’s growth prospects.

Talking briefly about first quarter performance, our results were adversely impacted by the transition of our economy to the GST regime. We witnessed the decline in our retail segment revenue primarily due to delay in stocking of our products by our distributors. However our enterprise and government segment continues to display growth drive by arising acceptability of our enterprise product. Overall active licenses grew by 7.7% YoY, which has come to 8 million as on June 2017. We expect to see an improved performance during the second quarter, which is usually a strong quarter, the second quarter began on a positive note with July witnessing good pickup in demand from the distributor who had held back their purchases in the first quarter.

Going forward with the rising need for IT security in India we remain excited about the company's growth prospects. Last year we launched a mobile insurance product with our partner, New India Insurance. This business is facing multiple challenges in servicing good versus bad claim because of this inefficient services is being paid by Quick Heal, hence we are looking at restructuring this business model. With this I would now like to handover the call to Mr. Sanjay Katkar, Joint Managing Director & CTO to talk briefly on our technology development.

**Sanjay Katkar:**

Good evening everyone. This is Sanjay here and for an update from technology and R&D front, I would like to start with the most important update of this quarter, which you all may be knowing that this quarter we saw a biggest ever global Ransomware attack in the month of May and followed by another targeted attack in a month's time by a Petya Malware. So the good news is that all Quick Heal users were successfully protected from these global attacks with no Quick Heal user losing any of the data, so this really boosted the confidence of our channel partners and customers in the brand and we even helped Maharashtra Government in opening the technical support helpline for state government to tackle the global attack situation.

So Quick Heal security license was successfully able to mitigate the threat by releasing updates to its customers well in advance. So these all reflects in our certification results for our products in this quarter. This quarter Quick Heal was able to grab best +++ rating for its retail as well as enterprise range of products from AV Labs of Poland and even Quick Heal Seqrite products were listed as top products among the top five vendors by AV-Test certification from Germany and CIO outlook recognized Quick Heal Technologies in the top 25 cyber security technology companies of 2017 in Asia-Pacific region. So Quick Heal R&D is more optimistic with its upcoming product upgrades as well as new feature releases and looking forward for an amazing quarter and a year ahead. With this now I would like to handover the call to Mr. Vijay Mhaskar, Chief Operating Officer, Quick Heal Technologies.

**Vijay Mhaskar:**

Thanks Sanjay. This is Vijay, want to give you update on which of the business verticals, how things are progressing. Starting with the retail the focus is definitely to increase our customer connect and the dealer connect. Last quarter we mentioned about launching a portal for our dealers and enrolling them, the good news is that we enrolled about 17000 dealers on this board and we are incentivizing them and rewarding them. Going forward we want to add more dealers as that correlates to a better reach in the market and obviously more customers. We are also focusing on customer retention going forward, we want to focus on our renewal process to increase our customer retention in retail segment. We have seen good retention in the enterprise segment, we want to have a similar kind of success in the retail segment, so that is a brief on the retail.

Switching on to the enterprise, as Kailash mentioned the product acceptability in the SMEs is definitely there, we have been adding more partners and in this quarter also we will be adding more partners to expand our reach to number of SME. While the product is definitely adopted and accepted into the SMEs we also want to grow all user base, so the product R&D, as Sanjay mentioned, is also focusing on increasing the EPS product to about 5000 user scale. With that we will be able to address larger accounts. This quarter we had a focus on getting more customers with 500 plus user accounts and so far we have seen a good traction for that. So as we scale the product we will see better traction of adopting and acquiring customer accounts with larger user accounts. We are also targeting through align more system integrators to work closely with us to handle the larger accounts.

Overall we acquired about 22 customers everyday, which is pretty good count compared to 17 customers per day, last year, so quarter-to-quarter I think we have seen a good progress. Other strategy we mentioned last quarter was cross sale and up sale, in the enterprise segment we have been seeing a good traction of adopting DLP by multiple customers so the cross sale of option of EPS has seen good traction.

We will be launching encryption as a new option in Q3 that is a technology that we have acquired, so that should also get as another opportunity to cross sale and up sale with the customers. So that is a brief on the enterprise and suddenly the government is adopting the new portal GeM, so we are launching our product on that portal and making sure we have good coverage to various government agencies. We are also working very closely with certain and other government agencies and also want to work with them on new projects. So overall we have seen good traction of revenue from government vertical and with a close coordination and collaboration with the agencies we think we can do more.

On the mobile segment, as Kailash mentioned, we have been looking at restructuring the insurance business, but the mobile security business itself they are really three prong approach, their acquisition of more customers through the partnerships ISP than OEMs, so that is the focus right now, retention of the customers using more interactive applications and monetisation of the application through more creative ways of advertising. So this is the focus. Having said that, mobile security still has not seen the traction across the globe and as it picks up over the next couple of years I think we are well set with our product offerings. So that is brief overview of all the four verticals that give you insight as to what is going on. I would like to hand it over to Rajesh Ghonasgi who is our Chief Financial Officer.

**Rajesh Ghonasgi:**

Good evening. Let me start from the point that Mhaskar has talked about. Retail. See you have had a situation retail dealers did not move their orders primarily because roughly from the end of April there was a lot of uncertainty about (a) what would the rate be and (b) how would the credit mechanism for GST work and because of which a

lot of the small scale associations in various cities actually took an active stand and we will not acquire and we will start buying only from July 1, 2017 to make sure that there is no loss of credit. Now this is a teething problem we are very frank something that was seen across industries, across businesses and it affected us.

We talk to our dealers, we talk to the associations who work with them and we saw that there was a fair amount of fear. Most of the fear was suppose I have stocks on hand on June 30, 2017 I might not get credit going forward so that would be a COGS or cost of goods for me and hence a lot of the smaller dealerships did not acquire, so that is what has affected us and this point I am talking about because you also said that active license has actually gone up if you see from March to June 2017. It is there on slide 8, you see that we have actually gone up and one of the reasons is that why we did not get revenues in our book. We have a stock-and-sale model and our stocks were consistently going from various tiers of dealers into customers hands and customers have authenticated and these numbers are not what is they sold to customers who have also been authenticated on server, which means actual increase in people who bought software from our dealers from the entire tier system and now our actual users and hence one of the things that comes out, which I think Vijay will talk about is that we have absorbed in effect the additional inventory from the field into customers machines and hence there should be a backlog buildup and we should be able to fill in that vacuum.

Having said that let me come to some of the numbers. Here we had a low revenue lower than last year's Q1, which led to a substantial dip in revenue and that also since we have a cost that is largely fixed it means that we had been shown a loss. If you see the numbers I take you to slide #14, the most important part of our structure is much of our cost is salary cost and all of it is fixed, how efficient we are relative to the number of people and how fit we are relative to the revenues that we develop is extremely important. So if you look at slide #14 you will find that over the last five quarters we have actually had a fairly strong hand in terms of cost control.

Q1 saw an annual payhike in April. Despite the payhike we have made sure that our costs are under control, we have done some fairly proactive work in cutting out cost and some of the difference, you will find that exactly a year ago our quarter run rate for fixed cost was 46 Crores it is 44 Crores today. Some of the cost drops I will explain. Technology subscription charges have dropped primarily because we replaced an expensive service that we acquired from outside India, with our own product. This is our own developed product, which has helped us remove a substantial cost. Now that shows that we have been actually highly focused on cost control, we have been looking at each and every item of cost and without cutting our functionality or ability to sell or to develop we have been pairing the cost down to wherever required and that is the reason why we are fairly comfortable in cost and cash flows.

I take you to the next slide, which gives us the Q1 versus Q1 last year and of course you can see that our PAT was far higher negative at 11 Crores versus 5.5 Crores. I will just give a background to the next 15 days that is between July 1, 2017 to July 15, 2017. As we said we extended the dealer quarter from the end of June to July 15, 2017. The major reason was that we also need to make sure that dealers were comfortable and they make enough in terms of incentives and commissions because that is a very important part of our model.

We found that the moment June 30, 2017 got over the uncertainty of what would hit us or what would hit them in attack or what would hit them as a credit went away they actually opened and started buying, so much of what would have been bought in the last month actually getting bought in the first 15 days. Now since we are giving the audited numbers for the first quarter I cannot give the numbers for the first 15 days, but qualitatively speaking I would say that much of what we had given up in Q1 has come back to us in the form of extremely sharp orders in the first 15 days of the quarter. We will qualitatively talk about it, I will ask Vijay to dwell into this and that to us was a very big positive.

The other part the uncertainty that existed was there was no clarity on what kind of rate could GST apply at, we had two rates 12%, 18% and thankfully the government actually passed the notification in the second last day putting all our products whether food as a service or whether food as goods under the same rate at 18%, so in a sense while the rate went up the uncertainty completely went out and we believe that dealers now are fairly comfortable that 18% is the rate we do not have any dispute leftover, things are moving well and barring teething issues, I think dealers handling of GST I think is moving along smoothly so that uncertainty is now behind us.

So this was the big thing in this particular quarter that while we did fell in enterprising government retail had a setback. Within this we also combine mobile with retail and we are looking at driving cost down further by addressing the inefficiencies in the insurance market as we said good claims versus bad claims is one of the banes of being in the insurance industry is that you do not know how much of the nonacceptable claims actually get through, so we are restructuring it to chop this part out and hence get a substantial savings in our mobile business also. We will talk about that as we go along in the Q&A.

As far as the balance sheet is concerned, as you can see fairly clean, extremely clean, we have actually increased over the last year we increased the total amount of cash that we have in mutual funds, which is the non-IPO money, the IPO money is seen as fixed deposit, which has been steadily used up to address the IPO requirement the reason why we went for the IPO and as we go along as revenue picks up the advertising part of it will also pick up and we able to utilize these funds completely. Beyond this I would actually go to the Q&A after this because a lot of the points that we have raised

would lead to questions and me, Vijay and Kailash will answer all of those especially in the changes that we talked about. Thank you.

**Moderator:** Thank you. Ladies and gentlemen we will now begin the question and answer session. We have a first question from the line of Megha Hariramani from Pi Square Investments. Please go ahead.

**Megha Hariramani:** Thank you for the opportunity. My question is on the orders that we have received in the first 15 days, as you said you cannot quantify the numbers since you have not audited it, but if we were to take these orders in June would the numbers have been better as compared to what they look right now?

**Rajesh Ghosangi:** Yes, the numbers would of course look better. The thing is that remember all these revenues that we have created were actually sold earlier in May and June there was actually no cost to it setting off the incentive that we would give our dealers and direct cost, so I would say yes the numbers would be far better.

**Megha Hariramani:** So there would have been a positive growth in a way instead of a de-growth?

**Rajesh Ghosangi:** I would not go into that area right now, but I would say that the incremental revenues are substantial enough.

**Vijay Mhaskar:** We have seen a good traction, I think the more focus is also the confidence in the distributors that there were clarity on how the GST billing is going to happen and for us that was more important, so those 15 days were crucial that the regime has begun and transition has completed and the billing has started, so over the time we saw more confidence as the days progress in those 15 days in fact we saw more billing from July 7, 2017, July 8, 2017 onwards, so overall we were pretty confident that going in Q2 we should be able to look this Q2 as H1, so we are looking at Q1 plus Q2 combined so end of September we will be looking at achieving the H1 targets.

**Megha Hariramani:** What would be guidance for the next two years on the overall scenario?

**Vijay Mhaskar:** So we are definitely want to be in the growth on all the verticals, we think retail would be more on the single digit primarily because of how the desktop, laptop market is, but enterprise and government board are looking promising right now and they should be on the same trajectory that we see for last year. So enterprise government on a similar trajectory of last year retail more on to the single digit growth.

**Megha Hariramani:** Last question would be, any inorganic opportunity that we are looking at?

**Rajesh Ghosangi:** At present we are not looking from that point of view, but may be in next year we will definitely start looking for some acquisitions and additions.

- Megha Hariramani:** So how are we planning to utilize the cash that we have currently on the balance sheet?
- Kailash Katkar:** The main focus will be to find out some security technology companies or the technologies, which can be acquired and get into the market.
- Megha Hariramani:** That is it from my side. Thank you. I will join the queue.
- Moderator:** Thank you Madam! We have a next question from the line of Piyush Chada from Ocean Dial. Please go ahead.
- Piyush Chada:** Thanks for taking the question. You can also track your user base via client activations at the consumer end could you just tell us what the trends in client activations were in Q1 in the sense was this largely a channel destocking event or was there also an impact on consumer demand?
- Rajesh Ghosangi:** No it was not at all, if you look at the slide number 7 and 8, slide number 8 will give you a clear figure on quarterly basis, so it is a 7.7% growth in active license.
- Piyush Chada:** So is that something that whenever you did your budgeting before GST would this growth be something that you would be expecting or would it have been better than this?
- Rajesh Ghosangi:** Yes, our consumption would have counted this into account and based on this we also work out what the possible stocking movement will be. The stocking movement is what got affected due to GST, but the consumption by customers has actually been on target.
- Kailash Katkar:** The Ransomware and some of these threats, which have come in have increased the more awareness and that also increased the option of the products.
- Piyush Chada:** Thank you for that. Are you seeing any pricing pressure that is coming about due to the increase in GST rates?
- Vijay Mhaskar:** There is a pricing pressure because initially it was a 6% VAT, which was transferred to the consumer, now it has become a 18% GST so we have not decided yet, but down the line we will have to get down the transfer price to dealers actually.
- Piyush Chada:** So this may affect margins going forward?
- Rajesh Ghosangi:** It actually was two ways, number one this is a retail phenomenon as far as enterprise and global are concerned the loaded cost that the customer paid on purchase price of Rs.100 all the taxes put together was in the range of 21 to 22 there actually the customer got an upside because he drops from 121 to 118 so some give and take on



both sides one on the retail side there might be a pressure, but on the other side there is no pressure because people actually see an upside, the buyer actually see an upside.

**Piyush Chada:** You have a very channel driven retail approach I am sure you are working on converting some of the retail clients to subscription based model could you just give us some kind of colour on what you are trying to do and what kind of success you are meeting with?

**Vijay Mhaskar:** Although the product is sold through channel we are trying to get in touch with the customers to make sure when they activate the product, they get the prompt and get the customer information in so that we are able to leverage that at the renewal time, so the focus is really give more updates to the customers about what are the different threats happening and get them more aware of why they should really renew the product with the premium quality product like Quick Heal total security and we protect it and some of that you have seen some results, but we need to do more work on this, so this quarter and the next quarter is that what we are focusing on to increase the focus on customer retention.

**Piyush Chada:** This is direct retention it is not via the channel?

**Vijay Mhaskar:** No, this is a direct retention, so they may choose to buy the renewal pack from the channel, but what we are really focusing on is to not lose the customer and customer stays on Quick Heal products.

**Piyush Chada:** Fair enough, so it is more of a renewal strategy than a direct to client strategy that is fair enough. Thanks a lot.

**Moderator:** Thank you very much Sir! We have a next question from the line of Amy Truesdale from Jupiter Asset Management. Please go ahead.

**Amy Truesdale:** Thanks for taking my question. I just have a couple of questions, firstly how is competition looking because I heard that recently Kaspersky has started giving out free antivirus, so just wanted to know the impact of that and secondly on the kind of government side, the government has had some schemes, also kind of giving out free products just wanted to how you see that and sort of a potential opportunity there?

**Rajesh Ghosangi:** Security free product is not new to this domain has always been there, but having tier I distributing a free product has caused some buzz we have not seen direct impact to our business right now, but we are seeing pressure on the pricing and particular on the enterprise side we are seeing pressure on the pricing so our strategy has been to show more value to the customers as Sanjay mentioned about WannaCry threat we about to do a very agile and quick solutions to the customers, so really compete with the value propositions and increase the pricing and not really compete on the freeware.

- Amy Truesdale:** On the government side?
- Rajesh Ghosangi:** Yes, government side there has been a digital moment in government and we have been partnered with government agencies certain government agency leveraging the bot removal tool from us and there are more collaboration going on, so over the time we expect, we already have a good traction in the government business, in the enterprise and the government we track the revenue together and we have seen a good growth with the digital movement going on we do expect the more traction on the government side.
- Sanjay Katkar:** The point that you raised in the query was about government releasing a free ware for users is like they are just giving out a bot cleaner, which is not a full-fledged security product and so it is hardly going to impact our sales or any revenues on the retail front as well, so this in fact is going to be a good opportunity for us because the free tool that government is distributing has been developed by us and we have an opportunity to brand ourselves at the right place where the users are facing a virus problem, so we look at this as an opportunity for growth actually.
- Amy Truesdale:** Great. Thanks very much.
- Moderator:** Thank you. We have a next question from the line of Dikshit Doshi from White Stone Financial Advisors Private Limited. Please go ahead.
- Dikshit Doshi:** First question was as you mentioned that in first 15 days of July we have seen a good traction from distributors in retail segment, so if you can just say that like is it the inventory level per distributor is back to the normal right now?
- Sanjay Katkar:** No, it is not at the normal level, there is a lot of scope and lot of room there for stocking and that is what we will be leveraging in Q2.
- Dikshit Doshi:** Even after the one-and-a-half month of Q2 still there is a scope for improvement?
- Sanjay Katkar:** Yes certainly.
- Dikshit Doshi:** Secondly can you give a breakup between the enterprise and the government sales?
- Rajesh Ghosangi:** We usually do not split that as we track it as a combined vertical.
- Dikshit Doshi:** But which segment would be growing faster if you can?
- Rajesh Ghosangi:** So both enterprise and government both I would say government is from a larger pace perspective, but the product perspective if you look at both enterprise and government we target the same product so that is the reason we track it as a single vertical.

- Sanjay Katkar:** We have been seeing the same level of growth in both and it is not like anyone, both the verticals are helping us in revenues in same level actually.
- Dikshit Doshi:** On a product development expenses just to get a sense so over last couple of years we were preparing for this Seqrite programme so going forward there would not be much investment in a product development expense or it will continue at high level only?
- Vijay Mhaskar:** So when it comes for enterprise product development there is a big demand in the market and there is lot of new technologies, which are coming in and we have to be competent for that and for that we have to continue that development part of it, so when it comes to enterprise security product development the development cost will continue for that, but we see that more and more enterprise customers are going to come on board because looking to the recent attack, which happened in May and immediately within a month's time another Ransomware attack has really created a good awareness among the users, which people are like focusing on buying for the security product and Abhijit Jorvekar would like to add something for your last question.
- Abhijit Jorvekar:** You asked about the kind of share between enterprise and government, like Vijay has mentioned at this time government is slightly faster and serious, but that because government is pretty deal driven sometimes certain quarters we might actually get a bigger deal in government business and we might see a bigger skew on government, but otherwise enterprise is more uniform, government tends to have some ups and downs, but overall a growing trend in government.
- Dikshit Doshi:** Over last couple of years we have also spent some money for the office space requirement, so now are we enough space we have for next couple of years or three years or we still need to do some investments?
- Kailash Katkar:** We invested in the future already in the sense that the space is already with us, so we do not envisage to requiring any more external space.
- Dikshit Doshi:** At least for next two three years?
- Kailash Katkar:** Yes.
- Dikshit Doshi:** Just one last question about the cash so we have a good amount of cash and also we generate 50, 60 Crores of cash flows per year so is there any dividend policy we have?
- Kailash Katkar:** Yes, we have a dividend policy the size on the actual dividend based on the amount of cash required, cash generated and cash generated part for the future, you will see that for the past year we have given in the earlier year we have given about 30% and 37% of the profit as dividend, we will continue with that and the board will look at future

requirements of cash, currently as you see we have enough cash and we believe that the board will keep both these points in view and continue with the dividend policy.

- Dikshit Doshi:** Thank you.
- Moderator:** We have a next question from the line of Salil Sharma from Kapoor Sharma & Company. Please go ahead.
- Salil Sharma:** I wanted to ask you that you just mentioned about the current quarter, which is going on and I understand the June quarter was affected because of the GST backlog, generally if you go by a past result the Q2 sales are generally double that of Q1 now because of these extraordinary reasons the Q2 should be above 2-2.5 times or can you give me some idea?
- Rajesh Ghonasgi:** Looking to the Q1 current figure it has to be at least double and more than double Q2 actually.
- Salil Sharma:** That you are saying already as one month has gone by, so you are seeing that kind of traction happening?
- Rajesh Ghonasgi:** Yes.
- Salil Sharma:** Alright. The second question is regarding the margin we have been, last concall I think you spoke about the margin should be averaging out around 32% to 33% EBITDA margin, so are we sticking to that guidance?
- Vijay Mhaskar:** Yes, subject to any such event I do not think there will be demonetisation change, two major changes have gone behind us, if these are not there we would very well be trending on to that number on an annualized basis, so I would say if no other such event occurs we should be well on course there on an annualized basis.
- Salil Sharma:** If I am not wrong one of two quarters you have given the margins have gone up to even 40%, 41%?
- Vijay Mhaskar:** Yes, I will explain that part. We always look at H1 versus H1 and H2 versus H2 primarily because there is a skew between quarters and that is pretty visible, it is there in the historical data also and that is why some quarters would show you a huge upside with a sum total of normally six months or 12 months that we look at even when we do comparisons we look at H1 or 12 months, which gives a picture of where we are in terms of ratios.
- Salil Sharma:** I missed out what is the cash in hand as on June 30, 2017 including the mutual fund investment?

- Vijay Mhaskar:** We had about 168 Crores in fixed deposits, the fixed deposit is primarily because SEBI's rules tell us that we can invest actual money will be there, other than that we had investment in mutual fund this is the pre-cash that we generated of 213 Crores, there were total of 213 plus 169 Crores.
- Salil Sharma:** You talked about the cloud version in the last con-call when do you think that will be launched in which quarter?
- Rajesh Ghonasgi:** We would bring a data of that around end of this year, but really full launch in Q4, which is around February – March timeframe.
- Salil Sharma:** Which is the segment you think would be taking on the cloud version like where exactly?
- Vijay Mhaskar:** Enterprise, so in the enterprise SMEs and SMBs primarily, but the way we are designing obviously is to take a larger scale on cloud, but will be starting with a small base with the customers and then move up the chain.
- Salil Sharma:** What is the R&D expenses in this quarter and number of employees on this quarter gone by?
- Rajesh Ghonasgi:** About the R&D expenses go to one of the slides 18 or slide 14, which gives you a picture of for example operating cost salaries was at 11.7 Crores, technical service fees 2.4 Crores and there is substantial drop in technology subscription charges because we replace an external service with our own in-house built service. So our run rate of direct R&D cost, which is people cost plus technical services plus other subscription is 14.5 Crores on the run rate basis per quarter.
- Salil Sharma:** Right and lastly just to understand are we also involved in when there is an active attack on a particular enterprise are we also involved in tackling that or is it just purely a product company?
- Vijay Mhaskar:** We do have a services sector being which does take care of ongoing attacks and handling them and mitigating them, so this is just started last year and we are seeing some kind of traction on there because we do have some customers on-board for that actually.
- Salil Sharma:** Yes, because that would make lot of sense for the BFSI space they would be encountering such kind of things?
- Vijay Mhaskar:** Yes.
- Salil Sharma:** Even for the media space we have something like just yesterday there was a pack of Media Company?

**Vijay Mhaskar:** Currently in the sense it is not particularly to any particular vertical, but services that involve that we have been working on and have some customers on board are soft services, which involves continuous monitoring of any particular attack that is happening and mitigating at the real time, so this involves any vertical that may have such kind of attacks actually, so by and enlarge most of the attacks are similar and no matter what vertical they are for, so we will be covering those verticals as well. At the same time our product range we are trying to increase the features and offerings by looking at the kind of threats that we are seeing and the demand that may come in future actually.

**Salil Sharma:** Lastly although spoken about that IOT products, when will that be launched?

**Vijay Mhaskar:** This Q2 we are planning to have this beta and by Q3, it should be there in the market.

**Salil Sharma:** The two new launches should help us to how much effect do you think will have on the sale?

**Vijay Mhaskar:** In particularly I would say newer products would not impact revenues immediately because it takes some time for people the consumers to understand and adapt as well as the partners to understand and adapt, so it takes certain number of cycles for us and particularly the these being Arabella it will have a bigger cycle of initial stabilization, after that we can say that how much impact it may give some revenue, so this year I do not see it will have any impact on the revenues actually.

**Salil Sharma:** Thank you.

**Moderator:** Thank you Sir! We have a next question from the line of Amish Kanani from JM Financial. Please go ahead.

**Amish Kanani:** I wanted to know how many dealers we sell through my whole presentation suggest about 18000 plus dealers and you mentioned in the commentary that we have registered 17000 for the portals if you can just share some more insight into what this registration processes are about whether all of our dealers have got the GSTN number and how are they preparing in turn for the GST regime, also how much of the proportion of sales that they do is say prior to GST was in cash are they converting all into billing process and stuff like that?

**Vijay Mhaskar:** Let me handle the first part of it and later part probably Rajesh would help out from the GSTN perspective. So as you know for the retail we build the distributors and the product stock moves to the dealers and we would really want to get an insight as to how this whole flow happened so we start getting design the portal where the dealers were enrolling through this portal and they earn the reward points as the product gets activated and get gifts from that, so the intent is not only incentivising the dealers, but

also connect with the dealers and reach out to them and see the challenges they have and also share the new product information that they are actively selling the product in the market. So we started this about Q4 this initiative and by Q1 end we are about 17000 dealers on-boarded. We want to go and keep up these drives further to increase the number of dealers that should help us going forward, but the intent really is to make sure we have a good connect with dealers and they know the strategy of the company, they know about the product and they are actively selling in, in the market. Can you just repeat that part?

**Amish Kanani:** I was wondering whether all our dealers at least this 17000-18000 that we have they got GST?

**Rajesh Ghosangi:** Number one is part of the education we have been telling our dealers to get this registered and I think most dealers have been registered with the government also because we find that this is not really a big issue. More than 95% of our dealers were actually ready well before the last date, so in that sense we have not found any issues happening on this account.

**Amish Kanani:** What is the proportion of sales I remember our direct sales through internet and online was in single digit, is the rest of the all business in the retail portion is sold through distributor dealer channel?

**Rajesh Ghosangi:** That is true. So the online proportion is still not a large proportion, the retail and distribution is that, distributors contribution is lot more.

**Amish Kanani:** The entire piece on that retail side was disturbed, which we hope to recope in the second quarter. Sir can you also give us some light whether we will be able to recope the lost sales in large part of it in this quarter or it is spread equally over the next two three quarters?

**Rajesh Ghosangi:** So we look at a really analysed manner right now some of that will recover in Q2, but we should be fully recovered by Q4.

**Amish Kanani:** Is there any ratio that you can put 50:50 the lost sales of Q1 will it be recovered in addition to the normal growth in say Q2 and Q3 50:50 or two third, one third or 75:25 something.

**Rajesh Ghosangi:** I think that will be difficult to put together, but as I said together we should be able to get across three quarters the Q1 revenue.

**Vijay Mhaskar:** So we are focusing on activation part of it where we make sure that where the activation keep on increasing and secondly when it comes to like stocking at the distributor level it is totally market driven, it is not in our hand actually, but we are

focusing towards it that we should be able to cover in coming next three quarters actually.

**Amish Kanani:** Last question from my side, on the mobile insurance product that you are saying, which we are reviewing and discontinuing, is there any onetime charge that we have also had because of this in Q1 or something like that?

**Rajesh Ghosangi:** No, this is actually it is not anything like a charge it will be write-off anything, it is just that we are not discontinuing anything we are just completely restructuring it, we are also renegotiating, we are also trying to find controls in place and also find markets, which are not insurance driven.

**Vijay Mhaskar:** So we want to gain more customers, but we use insurance as a vehicle, we still want to continue gaining more customers on the mobile security through different acquisition studies.

**Amish Kanani:** Thanks a lot and all the best.

**Moderator:** Thank you very much Sir! We have a next question from the line of Ankit Pandey from Quant Capital. Please go ahead.

**Ankit Pandey:** Thanks for taking my question. I guess my question is basically the 63% decline in retail license says year-on-year in fact two months have been elapsed there has been no sales, so I would ask and put it to the management what are the strategies we have taken to try to counter this, how often do we check into the dealer database and the portals to see how much is the inventory level and what are the sales and what are our learnings from this to sort of manage this kind of an emergency situation, what are the levers we operate on?

**Vijay Mhaskar:** The question is how often we monitor, we have automation in place and we monitor both activations very regularly, we have actually portal in place and we can do branch and regional wise also. We have also automation in place now to track the stock level because as you know the billing is to the distributors, so we track the stock level, we track the activations, we track the liquidations from distributors to dealers, so that is in place. This event was obviously across the industry it is driven by the government, it is a big event and from the stock and selling model perspective it is kind of unavoidable to handle this. Our focus was as Kailash mentioned throughout this Q1 we wanted to really make sure that we do not lose the consumer demand and what helped also was Ransomware attack that create the awareness, so we definitely have a good traction on activation, we continuously tracking that and as we also build the confidence with the distributors to start the billing as soon as the GST transition happens so that also was well managed, we were continuously in discussions with the partners and distributors to make sure they gain the confidence so overall I think it was pretty well handled from



the prospective of giving the comfort to the partners that we will resume the billing once they are comfortable and I think in the first 15 days definitely assure that the transition did work out, but obviously not everything would be recovered in Q2, there lies a lagging effect, so all three quarters will recover. There are obviously learnings from the prospective of can we do more on the customer retention, can we do more on the number of dealers that we have, so those learnings we have taken and strategically we want to have more dealers in our fold, we want to increase our customer retention and have a direct touch with the customers so those definitely would help us going forward.

**Ankit Pandey:** We will have a direct account in one area at least the investor confidence has been very shaken with 63% decline in that segment, so I do not know this seems to be something that we need to look into any MRR dealers incentivization or anything like that, that you would like to highlight that you would like to try next time if something like this happens?

**Kailash Katkar:** So if you are looking from a decline part of it, decline is in number of license sold it is a decline, but if you look at the activation part of it we have grown in activation part of it, so what I want to say the stock, which was there available with the distributor is continuously moving towards the customer that is not at all decline and the sale part is declined because of two reasons, one was the demonetisation and second was for GST purpose, so if I look from a customer acquisition part of it the numbers have not at all declined, they are in a growing phase, but when you look at a sale point of view yes they are declined, but they will get automatically recovered in coming two to three quarters.

**Ankit Pandey:** So if I look at even the average price realization it has jumped quite a bit sequentially and year-on-year, I do not know if that is the right way to calculate that, so you could help me out there, but have we tried some amount of incentivization for example in pricing for our online sales?

**Rajesh Ghosangi:** See one of the things during such time it is our premium product that tends to move so the average you see in the past also has gone up, so we do not see any percentage in driving any discount there, but as far as the rate is concerned as far as GST transition was concerned I do not think discount itself would have driven anything.

**Vijay Mhaskar:** Regarding the online yes, we are active on online, but still there is significant preference right now from the consumer prospective to buy on the counter and also get help from the retailers for installation and so on, so I would say it is still time for the major of the user base to move to the online we have those studies in place and as the consumer gets comfortable more to the online we will move in that, but we still see that is not going to be major trend so far.

- Ankit Pandey:** Have you tried on those?
- Rajesh Ghosangi:** I understand your question, but let me tell you when you sell it to the distributor you do not get cash in hand, it is on a credit basis and when there is a GST impact, which is going to happen the dealer would have taken us or the distributor would have taken us on a task because whatever the GST difference amount would have been there, there would have demand company for to pay us that remaining amount by passing on credit note and all this thing. Measuring inventory at all distributor level it was a big headache and all this thing, so even we decided not to push any material towards the distributor because that would have created a big problem on June 30, 2017 and July 1, 2017, so we just focused on liquidating those material towards the customer and that we continued for almost two quarters and that has happened and now since July 1, 2017 it took around 5-6 days, but after that all distributors started picking up material and that really is going very well now and we do not have to face any problem past inventory and all this thing because with other brands or with other IT goods in the market like hardware goods and all this thing people are facing lot of problems, distributors are facing lot of problems and there is still fight between the distributors and the hardware vendors and all this thing to pass on that credit note and all this thing. It is pretty likely there is nothing there and business has started moving smoothly since sudden date of July.
- Ankit Pandey:** Thank you for the clarification. I was just mostly also talking about the online sales whether we have actually tried any incentivization, but may be we will just carry on this conversation.
- Vijay Mhaskar:** For online sale let me tell you we are focusing too hard on online sale and if you look at if we are looking inside detail working out our online sale is increasing by double digit, it is between 12%-15% it is not like a retail sale, but online sale is again a retail sale, but most of our customers are moving towards online purchase actually.
- Ankit Pandey:** Thank you. I wish you could report that and may be I have a couple of other things we will just meet some time in the call. Thank you so much for the clarification and all the best.
- Moderator:** Thank you very much Sir! We have a next question from the line of Debashish Mazumdar from Edelweiss. Please go ahead.
- Debashish Mazumdar:** I have two to three questions in my mind. First let me start with the enterprise business, so we have seen lot of SMEs and small medium companies moving into the cloud platform and basic premise is that when people move to cloud platform the security requirement is the comparatively low, so if you can help me with that what is the kind of traction you were seeing there that is number one, number two question is when you said that because of the competition intensity in the market again in the enterprise

space we are seeing some pricing pressure in fact if I see the last three, four quarter numbers, your realization has moved up consistently, so when you see pricing pressure what kind of, if you kind of quantify that what is the kind of pricing pressure you are seeing going forward, so these are the two questions I have and third question is may be right now because of lot of uncertainties in the macro level your business is down and there is a degrowth and loss over the period of next four five years what is the vision of the management to go forward and at what level you want to see your company five years down the line?

**Rajesh Ghosangi:**

To answer the first question about the cloud security I would like to add that yes SMEs are trying to move their lot of computing on the cloud, but it is something that is not going to reduce the importance of security in fact the security need increases a lot because of this because there are lot of compliances and policies that government is also drafting and releasing that will make sure the responsibility of the data in the cloud is to be more critical than that of in premise and so the security plays a very big role here actually and products like of us DLP and DLP particularly especially the data on the move is something that is going to move faster and we have started seeing a lot of enquiries for that feature of our product and we have seen good customers being added in that segment as well, so for us and we do see SMEs has a good traction for selling our enterprise could have and cloud related features will definitely have more demand in the future and that is where we are focusing our development efforts and to price pressure I think Vijay can handle the questions.

**Vijay Mhaskar:**

So on the cloud application let me also add that the applications that were moving in that cloud, users still have endpoint, endpoints have to be protected, so endpoints reason and that we are selling whether applicant is in the cloud or not you will need to have that provision noted that your cloud version of endpoint security will come down the road and that will also help this SME, so SMEs are definitely going into cloud for their applications and eventually they will also get endpoints into the cloud. The pricing pressure suddenly you are seeing a pricing pressure on enterprise level and the way we countering that is giving more value add and as Sanjay said DLP encryption is something we are launching in next quarter some of value add is everything has to pull up the price, but our focus would be adding more value to the end customer and that should pull up the end price to the customer and not really getting to the price and what is the third one I think that was something...

**Rajesh Ghosangi:**

Can you just repeat the third part?

**Debashish Mazumdar:**

So five years down the line where do you want to see your company in terms of topline and bottomline what is your internal target I am not asking for quantification, but some qualitative aspect of that will be fine?

**Rajesh Ghosangi:** We would like to say that we do not talk about five years of doubt in the open because in the next two to three years qualitatively speaking we feel that we should be able to complete the growth commitments we have talked about, one retail will not be double digits it will be in single digit and single digit if possible, but our real star so to say going to be enterprise and government, in both places wherein we continue product mature as well as customers being brought in, Vijay will talk about that.

**Vijay Mhaskar:** Enterprise and government definitely would see a double-digit growth, retail would be single-digit and I would say three year that should be the trajectory that you should expect, beyond two years we will have to see what are the other verticals that we will add.

**Rajesh Ghosangi:** We do have some hope from mobile vertical as well, but there are still a lot of things that need to happen, so that something I would like to add to that actually.

**Vijay Mhaskar:** So with the retail product we are market leader and we will maintain that we will be there as a market leader in the retail segment in coming future or so. When it comes to enterprise and government we are leaders, but I would not say that we have a very big major stake of this enterprise or the government, but in coming two to three years time we will be definitely having a very big market share for this enterprise as well as for government sector and for mobile we are ready with the product, but we are just waiting and watching from the market if really market took this as a positive that security is important for the mobile purpose then we will be the first to grab that market.

**Debashish Mazumdar:** Thank you very much for answering my questions.

**Moderator:** Thank you very much Sir! We have a next question from the line of Piyush Chada from Ocean Dial. Please go ahead.

**Piyush Chada:** Thanks for the second opportunity. Just extending their line of thought on the dividend payout ratio the company's market cap, ex-cash is somewhere around about Rs.900-1000 Crores now, in terms of valuation I doubt you would get a meaningful acquisition something like 2.5 tonnes revenue may be 8-9 times EBITDA, so is there any thinking around doing a buyback itself?

**Rajesh Ghosangi:** Buyback we will think of in the right time. One of the things is you just completed the IPO, so there are certain conditions that we will meet with SEBI in mind number one, so at a right time it will happen, but this probably is not the right time because SEBI would not allow, number two on the other hand we are also looking at acquiring something like a string of pearls you are talking of technologies, etc, it does not mean going and doing a big bang approach and we have done that by the way some of the products that we talked of enhancements in enterprise based on the string of pearls

where we acquire technology that was far cheaper and was available faster and had we developed it ourselves, so we are looking at using that as a post multiplier and getting this enterprise and government to scale up into the 20s and growth rates of 20s and thereabout.

**Piyush Chada:** Fair enough. Thank you.

**Moderator:** Thank you Sir! Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Debashish Mazumdar for closing comments. Over to you Sir!

**Debashish Mazumdar:** Thank you very much for the management team for clarification of most of the doubts we have in our mind and we will come back in the next quarter then discuss further. Thank you very much. You can disconnect your lines now.

**Rajesh Ghosangi:** Thank you Debashish!

**Moderator:** Thank you very much Sir! Ladies and gentleman on behalf of Edelweiss that concludes this conference call. Thank you for joining us. You may now disconnect your lines.