"Quick Heal Technologies Q2 FY2018 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Quick Heal Technologies Q2 FY2018 Earnings conference call, hosted by Edelweiss. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Debashish Mazumdar from Edelweiss. Thank you and over to you Sir!

Debashish Mazumdar: Thank you very much. Good evening to all the participants and the management team of Quick Heal Technologies Limited. On behalf of Edelweiss Investment Research, I welcome you all in the Quick Heal Technologies Limited Q2 FY2018 earnings conference call. From the management side, we have Dr. Kailash Katkar, Managing Director & CEO, Mr. Sanjay Katkar, Joint Managing Director & CTO, Mr. Rajesh Ghonasgi, Chief Financial Officer and Mr. Vijay Mhaskar, Chief Operating Officer. Without wasting further time, I will hand over to the management for the further discussion. Over to you Sir!

Kailash Katkar: Good evening everyone. I am Kailash Katkar here. On behalf of the Board of Directors and the management of the company, I welcome all of you. The corporate India has witnessed two significant game changing in form of demonetisation and GST in last one year. These two events have changed the entire dynamic of how various businesses operate. They have made the corporate India to rethink and rework its business processes and systems, custom acquisition strategy, product-pricing strategy and supply chain management. Talking briefly about our Q2 FY2018 financial year 2018 performance we have been able to successfully revive our retail growth momentum in Q2, which was impacted due to the GST in last two quarters.

Our enterprise and government segment has shown promising growth, number of license sold had increased. We continue to focus on optimizing direct and indirect cost and creating operating efficiency in the system. We are also able to reduce working capital cycle by adopting efficient sales and credit mechanism and focusing on timely stock clearance through increasing handholding with the channel partner network. We can see that there has been rise of 17.43 % in our cash and bank position on year-on-year basis. The first two quarter of this financial year witnessed several incidents of cyber attack globally as well as in India.

According to RBI the recent push for digital India has significantly increased the number of digital transactions in India. Post GST large numbers of small and medium enterprise will now have to setup robust technology platform and IT security solutions. We at Quick Heal are confident of capitalizing on this digital opportunity. We have also strengthened our sales team by appointing experienced sales leaders for each of the business vertical.

With this I would now like to hand the call to Vijay Mhaskar, Chief Operating Officer to talk briefly on our technology development.

Vijay Mhaskar: Thanks Kailash. Good evening all. As you have seen Q2 performance indicates the changes that are driving and skill, are working in interest of the customers, partners and overall business. In Q2 the retail sales team focused on efficient selling and managed the credit lines and as a result the cash position of the company has improved by 17.5% as mentioned by Kailash. We also increased our attention to expand our dealer network on boarding more dealers in an effort strengthening the business relationship with them has been the focus of our retail sales team. We will continue this focus in Q3 and Q4 also. We want to on board more dealers and get more visibility to our products.

The best in class product certifications and toll-free customer support are the key USBs that Quick Heal offers to our partners and the customers. We also want to make sure we have long standing relationship with the customers, so there is an increased focus on the customer retention in the retail segment too. In the enterprise vertical, we showed consistent growth in the business. As stated earlier the product is proven in the market and well accepted. We have more than 25000 customers now. Our strategy is expanding to more SMEs and SMBs and that is working.

We are also very conscious about while we expand our customer base, retaining our customer base, so that also has equal focus. We have launched the encryption offering in this quarter, so that gives us opportunity to cross sell this product and offering to all existing and the new customers.

As we increase our customer base we are also looking at larger accounts and this quarter also there was a focus of gaining more accounts with larger user base, which is 500 and more users and I think the team has been successful in doing that. Also, cross selling DLP, which is an offering that we offer to UPS customers. Overall, I think the cross sell and up sell is fantastic opportunity that we have in enterprise segment and while we retain our customers and expand our customer base. We have on boarded a large distributor in Q2 and will give us expanded reach into the market and that push will continue to get more SIs and partners in the fold in Q3 and Q4.

In the last quarter, we have also given update on the mobile business, so we continue to focus on the mobile security, it is a three-pronged approach, more acquisition, more retention and monetisation, so number of steps have been taken to make sure we get more traction on the mobile security. It all again depends on how the threat vector is there in the mobile segment itself. I would also like to emphasize our EBITDA performance. The EBITDA has improved by about 10.5% and that is a result of multiple measures A) the in-sourcing of the software basically instead of third party software using inhouse software developed by the R&D. Our update is much more efficient, so the CDM cost has been brought down and overall the efficiencies that we have given, I think because of that we have seen a significant improvement in the EBITDA. So, with that I want to hand it over to Sanjay Katkar who is a Chief Technology Officer to give more updates on the technology front and the threat landscape.

Sanjay Katkar: Thanks Vijay. This is Sanjay here and good evening everybody. I would like to start by giving some updates from a security lab which is our research division. In this quarter we have stopped over 200 million Malware infections across Quick Heal users and the highest infection month being the month of July. For Quick Heal Security Labs detected nine new Ransomware infections in this quarter with around thousands of more variant and on the mobile front the detection of Androidware in Q2 rose 40% in comparison with that of Q1, so potentially unwanted applications grew by more than 200% and more detailed report of complete threat landscape and statistics will be seen in our soon to be released quarterly threat report which we will be announcing on our website by next week.

So on the product and technology front as Vijay said we have recently launched a new offering of Seqrite encryptions with more and more data getting generated and more and more data, which is happening on regular basis, it is highly recommended to encrypt all your data and government is all the more serious about private security and making certain security norm and encryption is a mandate for many industries such as healthcare of financial industries and also highly recommended in all others, so if you are collecting a story, personal identifiable information you have a responsibility to safeguard that data, in this scenario encryption becomes all the very important feature so we recently launched Seqrite encryption which is available, which provides tool encryptions this encryption and this will give us more opportunity to up sale to our existing customers as well as open up those experienced customer. So, we have delivered number of key features and enhancement to our endpoint security in first half of this financial year and as a result we have seen better acceptance of our product into SMEs as well as higher enterprise, so this has given us good antidote certain bigger government department. We have been maintaining this stronger focus on technology and innovation in our future product releases with further investment into next generation features on UTM endpoint security and cloud platform, this will further strengthen our product portfolio in the future quarter, so that is all from my side and now I would like to hand over the call to the Chief Financial Officer, Mr. Rajesh Ghonasgi.

Rajesh Ghonasgi: Thanks Sanjay. As Vijay stated earlier we have had an improvement in EBITDA and the details are given in the presentation, but I would like to reiterate some points that has stated earlier. Number one there were two major financial events demonetisation and we barely had color of demonetisation and GST happen, both are substantial reform and we believe that the impact of those we have already seen much of it and we are now coming off. In effect we had a drought and we are coming out of the drought. Hence, if you see the slide 5 and you have the details about the quarter-to-quarter seasonally and you can see that revenue on the margin is lower and actually tracked and improves drastically. We have kept control on cost, which is very visible in EBITDA and EBITDA margins. We have been able to ramp it up and if you look at Q1, there was a huge impact, it took sometime for GST to be work through this system, while we as an organized entity have got our returns etc., in place. The fact is there was sort of displacement in June and July and we are happy to say that currently it looks like that is all behind us, so you will see that on a H1 basis ratios have come to par. Q1 was substantially down quarter because of GST transition. In Q2 we have taken care of that and going forward will see how to take that into control. You will see that the number of licenses has increased. We will discuss that in the Q&A as we go along, but some of the significant changes one is consistency of cost you see that right across the last six quarters we have had a considerable control on cost, remember Q1 and Q2 this year and after a very decent pay hike. We have been able to keep people numbers in control and wherever possible not replace and hence bring in some operational efficiency. In addition, there are some other things that we have done, which is get some of the outsource activities, in-source using our own skills and own software hence drop down cost substantially, it is very visible in the direct cost and you see that the growth margins have gone up and operating cost have been kept under control and we are keeping a very, very sharp eye on that.

We will see that for the past six quarters, five quarters and plus one quarter ago behind that cost have been kept absolutely under control and we hope to keep that in order. Some of the things that has happened this quarter, which we will discuss in the Q&A, if you have reviewed and look at the way we sell on credit we have tightened credit hugely. In retail we have moved from credit to cash and carry pay up and take it away and hence we will find that overall on September 30, 02017 versus 2016 the working capital has come down and basically on account of debt, you will find the debtors and receivable days went down from 71 to 51 and I can say that 51 is a number as of September 30 and hence we put in a new sales cycle, which said that payments have to be made or cheques have to be given in the time of booking the order and we bank it on receipt of material. In the next month actually a substantial amount of the debtors has got collected, so numbers are even far better as far as end of October is concerned, substantial amount of this debtors have been collected, so one of the upside we expect to have is that since collections, we could force collections to happen before without any credit or reducing the credit cycle hugely in retail, we expect the productivity pay off from that is our sales people will actually produce more sales or will be creating more sales opportunities as against just collecting, so we hope to make this a permanent part of our operations and make sure that they keep this DSO under control or that go below what we have right now so that we generate cash and without having a pressure of collecting in the future. Now that also exacerbated because of the two major events, but we have addressed this by reengineering our entire credit cycle.

If I take you to the profits in terms of ratio you will find that on a seasonal basis, number one gross margin has improved as I said because we have in sourced a lot of work we have cut out vendors or we have re-negotiated and brought the cost down and much of it is using our own tech force and creating solutions, which would replace higher cost external vendors. You will see that the EBITDA margin has improved by 6% this point over 600 BPS and EBIT and PBT also have gone up in the same sequence. If you look at the consolidated balance sheet you will find that balance sheet is as clean as it was earlier in terms of cash on hand the Rs.250 Crores which is on account of cash submitted by the company Rs.156 is an account of IPO money which has a very specific end use, which tends to also release our operating cash other way. This Rs.24 Crores we pay salary on the first day of the next next month, so this Rs.24 Crores was basically salary to be paid in the first two days of October nothing more than that and that shows cash generation capability, the cleanliness of balance sheet remains as strong as it was many, many years ago and we believe that we will continue with a clean balance sheet, strong cash generation and having enough funds to think about growth opportunities in the future. With that I would hand it back to the moderator for carrying forward the Q&A.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. We take the first question from the line of Madhu Babu from Prabhudas Lilladher. Please go ahead.

Madhu Babu: Sir congrats on a good quarter. Sir the volume growth and the licenses were around 3%, so going into H2 do you expect the retail volume to bounce back to 7% to 8% for a year-on-year growth?

Kailash Katkar: We are expecting that growth in coming quarters as well.

Madhu Babu: Because there was demonetization last year, so would that be higher than that percent what I am talking? Would there be a sharp bounce back on year-on-year basis?

Kailash Katkar: If you look from that point of view because I remember last year quarter there was the demonetization part of it. I am expecting quite high growth compared to last year Q3 part.

Madhu Babu: Sir how was the pricing change for the retail because I understand GST there was a tax rate, which earlier we were getting because we were manufacturing in tax free zone?

Kailash Katkar: After carefully analyzing of the whole GST framework, I would like to tell you that before GST we used to collect VAT, which was 6% to 7% across India and after GST, that is after July 1, 2017, we started collecting 18% from the customers, but then that has really impacted the pickup by the customers, so we have to pass on around 10% to 11% discount to the partners, so that the sale does not get affected; however, we are in the process of analyzing it at much deeper level of transactions so maybe by December, we will be able to come out with a proper strategy to make sure that the price to the consumer does not get hit actually.

Madhu Babu: Second Sir, just on the working capital cycle we said that we have reduced the time for the dealers, but how is the competitor's working capital cycle and just can you explain how the changes are there in the working capital?

Kailash Katkar: Competitors are not aware of it, but we are confident what we are doing today because payment collection was a very big challenge and after demonetization as it is there is cash problem in the market and I see that since there is a lot of cheque transactions happening in the market, I believe the dealers or our distributors who pickup material from us they are comfortable for making on the spot payments and for that also we are passing cash discount to them, so that it really improves our capital working capital.

Madhu Babu: The last one from my side on the R&D headcount, I think there has been a substantial reduction there, so would it be a risk on the enterprise side?

Kailash Katkar: What we have done is really adopted an agile process and software development lifecycle to bring about more efficiencies and some of this process also helps us to prioritize the project based on the market potential and revenue potential and adjust the investment and rationalize the investment, so some of the productivity gains and efficiency gains that we have realized through these processes helped us to bring the R&D cost down. As far as the investment, we will continue to invest on upcoming projects be in the enterprise or retail or mobiles, so that continues. We just want to make sure we are very efficient at it.

Madhu Babu: Thanks a lot.

Moderator: Thank you. We take the next question from the line of Anuj Gupta from Perfect Research. Please go ahead.

Anuj Gupta: Good evening Sir. Sir my question is consumers are moving towards using mobile more than the PCs, so whereas consumers do not feel the need to install any antivirus, so how will this be impacting our business and even if we talk about Quick Heal, there are free antivirus defender being offered on maybe web browsers, so how are we being challenged from this and how will it impact in your industry?

Sanjay Katkar: So, this is again the old question, which used to come to me long back maybe three quarters back, so let me tell one thing. I agree to this thing that PC sale is going down, so that is the reason there is a big challenge on retail growth and that is where we are focusing more on enterprise product and enterprise sales, so if you look at this quarter, we have grown our enterprise and the government sector sale by almost 27% compared to retail, we are declining, but when it comes to enterprise we are growing.

Anuj Gupta: While focusing on the enterprise business Sir apart from that are we focusing on for mobile Any kind strategy we have for that?

Vijay Mhaskar: So mobile definitely there is a focus. We have as I said in my opening comment the three prong strategies, which is basically getting more mobile device acquisition done and having our presence on multiple mobile devices. Also in mobile, device is very important to be performance. Application has to be performance and has to give value, so the retention of the customers is very important, so we are focusing towards that and have specific strategies towards that and finally monetization, so monetization on the mobile happens to which one is the product that we do free subscription there we advertise through advertisement we monetize for the company and the other one is the paid subscription, which is Total Security, so by having the good focus on acquisition, retention, and monetization, we hope to get more traction in mobile security. Having said that let me also tell you that the threat vector on mobile is not as strong, so the tool for customers from mobile security perspective is still not strong. It is upcoming. Gartner expects this to be in 2018-2019 where there will be more pull for mobile security, but we are positioned to gain the market share and more presence in the mobile security and we have the right solutions in place.

Anuj Gupta: I am not clear regarding the acquisition for mobiles that you said, so can you just clarify regarding?

Kailash Katkar: The acquisitions basically you work with the partners with ISPs and tele cos. to get the presence of the mobile security onto the devices because a lot of traction for mobile is through the OEMs and ISPs, so essentially work closely with these partners the Telco's and ISPs to get the presence of our mobile security software on the mobile devices.

Anuj Gupta: Sir like in terms of enterprise business why does the company choose SME as a base consumer and what is the credit liability rate if any of our products get virus or hit by a virus like Ransomware, do we suffer any blow to our reputation?

Rajesh Ghonasgi: There are two questions, so can you repeat the first question. We could not hear it clearly.

Anuj Gupta: In terms of enterprise business, why did the company choose us as an SME over a big company for marketing?

Vijay Mhaskar: Definitely from the future perspective, we are great and this product is certified in the top three consistently, but more importantly in the SME and SMB, the customer support becomes very important and we have 30 plus branches and the support present pan India and that becomes a really good USP, so a strong good solution product, which is proven by 24000 more customers and a very accessible customer support that I would day the main USP for the product.

Anuj Gupta: The main USP is the customer support for us?

Vijay Mhaskar: Correct and the feature asset also.

Anuj Gupta: Sorry?

Vijay Mhaskar: The product features.

Anuj Gupta: Alright and Sir what will be the product liability risk if any of our products by virus like Ransomware will not be suffering body blow to our reputation?

Kailash Katkar: That is the end user license agreement with each product, so there if you look, no antivirus company takes that kind of a responsibility of any kind of hit by the viruses like Ransomware because on a daily basis, almost 50000 new Ransomware keep on coming to the market, so it is a bit obvious sometimes we are very much ahead in advance to protect the viruses. Sometimes virus may attack first to the customer.

Moderator: Thank you. We take the next question from the line of Dixit Doshi from Whitestone Financial Advisors. Please go ahead.

Hardik Jain: This is Hardik Jain on behalf of Dixit. So, congratulation first of all for a good set of results. Sir one thing you were saying that you moved your retail platform from primarily your credit model to now cash carry model, so what is the kind of reaction that you have seen from the dealers? Did you see dealer acceptance good or you have seen some of the dealers moving out as they were used to the credit facilities that were given earlier?

Vijay Mhaskar: Thanks for the question. Definitely, we have seen a good traction, so it took literally two quarters for us to get issues sorted out, but the distributors have been very welcoming this change. One of the other reason is we give a lot of support to distributors to liquidate the stock to dealers, so expanding more dealers is actually ensuring that the stocks will get liquidated and that is how we have ensured the profitability for the distributors, so while we are encouraging them to do cash and carry, but we are also giving lot of support by expanding dealers and giving the sales to really helping them to liquidate that stock and so once those concerns are addressed of portability, I think the distributors are absolutely on board with this change.

Hardik Jain: I guess the margins for the distributors must have increased in the process?

Kailash Katkar: Yes.

Hardik Jain: One more question Sir in the enterprise segment the number of licenses that we have sold this quarter, so I know you do not want to give the specific numbers, but primarily the major part of that sales would be to the government or to the private sector?

Kailash Katkar: It is a mix actually. It is an enterprise and government. So, if you look at that part, it is 20% increase in the number of license sold into the enterprise and the government. So even the number of license numbers are also mentioned in the presentation.

Hardik Jain: It is mentioned Rs.267000 or something, I just wanted to understand the major portion of this Rs.267000 is sold either to government entity?

Sanjay Katkar: That bifurcation is not there with me at present.

Hardik Jain: That's it from my side.

Moderator: Thank you. We take the next question from the line of Kaustav Bubna from SKS Capital. Please go ahead.

Kaustav Bubna: I have a few questions on your government and enterprise business versus your retail business, if you generalize what was the margin profile differential be on EBITDA, so would the government business be higher margin or the retail business?

Rajesh Ghonasgi: As a matter of policy, we do not give this data out. All I can tell you is the government and enterprise business has been growing very well. It is addressing all the operating leverage that we talked about and we expect that growth will be sustained because we instead of trying to address areas that are strong for our let us say competitors. We are actually trading new businesses in SME and the emerging corporates and we believe that because of growth, the operating lever is story that we had and it will continue to play out.

Kailash Katkar: I can answer this question in a very short like if you look at our enterprise and the government, the cost of sale acquisition is very high compared to retail and if you look at our retail part of it, the BTL and ATL cost is very high compared to the enterprise and government. So, it is coming almost to the equal part of it like.

Kaustav Bubna: That was a good answer. On your goals for this government and enterprise business now it is about 20% of your overall sales, but that is because your retail segment is muted? In the next three to five years, where would you want to see your government and enterprise division as a total percentage of sales in your business? What is the revenue potential you see again not exact numbers, but just in %?

Kailash Katkar: I understand your question. By coming two to three years time, I am expecting 50% to 50% that retail versus government and enterprise.

Kaustav Bubna: In the next two to three years?

Kailash Katkar: Yes.

Kaustav Bubna: Do you see this mainly coming from the enterprise side of the government and enterprise, right?

Vijay Mhaskar: With this Digital India, the government has become more aggressive and especially for Make in India. The growth rate for enterprise and government definitely would be higher than the retail, so I think that is where we will be expecting a 50:50 in over two to three years.

Kaustav Bubna: In this quarter and in general, we have been seeing and you also mentioned in your presentation that even though the number of licensees increased in your retail division, there was higher demand for lower price products, so is there any type of indication you can give me to tell me that what are these lower priced products and if you could me any indication on the price differential between the higher price products and lower priced ones?

Sanjay Katkar: Yes, I can. If you go to Quick Heal website you will get to know and if you go to retail product side there are around four different products ranging from Rs.1000 to Rs.2500. So, if you look at a lower end product that is getting more sales. Maybe this is because of GST impact because the customer is get hitting by the GST cost in the market and not with the Quick Heal products, but overall whatever expenditure, the consumer is making for his day-to-day life, he must have gone for the lower cost products.

Kaustav Bubna: Is your mobile segment included in this retail division?

Kailash Katkar: Yes.

Kaustav Bubna: So how much would that be as of today?

Kailash Katkar: Mobile is not growing too much actually and the management is really thinking on the entire mobile strategy part of it.

Kaustav Bubna: Let us say how much percentage of your total retails sales would that be right now?

Kailash Katkar: At present, I do not have these figures.

Kaustav Bubna: But approximately?

Kailash Katkar: Around 1% or 2%.

Rajesh Ghonasgi: In actual terms in relative terms, it is not impactful. It is between 1% and 2%.

Kailash Katkar: I do not have exact figures, but it might be close to 1% or 2%. If the percentage is very low, I did not really focus on getting that number.

Kaustav Bubna: I mean just retail division where do you see I mean what is your outlook where do you see growth really has not been coming apart from demonetisation and GST growth is coming us per your expectations in the retail segment so who is end customer in the retail segment that you are targeting and what is your marketing and sales plan to increase your quantum of sales and not just increasing your volume on lower cost and lower price products but increasing your total revenues?

Kailash Katkar: Even on so retail part of it of course we are focusing on home users as well as home offices and small offices that comes under the retail part of it so with retail we have pack up to around 10 user pack on website as well and on the shelf shops and we are also focusing on HNS products, which was supposed to get released in last quarter, but due to some technical challenges that product is getting delayed by almost six months. And this HNS product will have a big market in retail segment.

Kaustav Bubna: But if you are saying that this is going to get delayed there?

Kailash Katkar: May be in next four to five months.

Kaustav Bubna: Great thank you for your time.

Moderator: Thank you. We take the next question from the line of Amish Kanani from JM Financial. Please go ahead.

Amish Kanani: Congrats on good numbers. Sir, if you take the first half numbers, there is still decline in sales or retail side and which is sharper. My question is Sir if you take the full first half, is the decline in sales more due to higher GST or is it because of the change in collection terms that you mentioned or is it also there is price aggression by Tier-I vendors which we have seen?

Kailash Katkar: This is just because of GST first quarter we could not able to achieve anything. So, first quarter was almost flat that the reason H1 is affected.

Amish Kanani: Sir lot of companies have shown resurgence in sales in the second quarter for us to cover of the first half and dealer adjustment and inventory adjustment that has happened of course not in your industry and in general consumer facing industry. Given that you have changed the collection terms and this is higher impact of GST and

I was wondering what is major reason for driving the sales, which has not recovered to the extent one would have like it to be?

Kailash Katkar: Let me tell you when with this GST the sale had impacted in Q1 even in Q2 the first month was still difficult people was still not ready to buy the products because they really did not how they are going to get what he is saying transfer of credit and all this thing so it took us, yes whatever sell what you see in Q2 just happened in last two months actually.

Amish Kanani: I think last two months trends are not thing has first month and first quarter is what you are saying. Sir can you confirm on two-month basis if there was Y-o-Y growth?

Rajesh Ghonasgi: Yes, see if you see the overall revenue that is what I said that quarter-to-quarter seasonal basis we are almost at par. We come from having a virtual huge negative in Q1 and looking at the trend we are fairly confident that the bad times are behind us. We have also to look at another point that GST as concept is great but there have been at least three or four changes whether it is return filing dates, or return filing rates, etc., so in our dealers still finding their feet in the sense and we expect that by now I think that behind us so we should see improvement happening.

Amish Kanani: You know this new rated of 18000 there is a 11% discount that you might have to give will it impact our realization on the profitability in the future like before?

Rajesh Ghonasgi: I am not able to understand whether 11% discount is likely to be because what has happened over a period of time, I am again saying that the first three months I am not really enough to evaluate because the dealers and vendors both have gone through a cycle where they had to get their processes in place. Lot of them are still grabbling, the rates have changed, a lot of things have happened, so I think another three months plus, before we know exactly what the impact of the ITC that is tax credit is going to be. What is expected is that we pass on the credit that we get. Now I think it is too early to talk about it. May be another three months with the stable GST, we would be able to review and see what could be the position, but we believe that we have optimally priced our product and we are passing on proper prices to our customers.

Amish Kanani: Sir, can you just confirm that there will not be any retrospective effect of this discount, so there will be prospective, right?

Kailash Katkar: I do not understand what retrospective can be because our sale contracts are based on closed contracts where we know deliver and this passes on, so there is nothing open left up in that.

Amish Kanani: There is no pending across the cross stock?

Kailash Katkar: You have also to look at the fact that we have changed our whole credit cycle. You know, there is another point that I should add and I think I would like Vijay to add also. See we have taken a very brief step of stemming the problems of such events and you also said that this is good time to reengineer the way or sales is structured and moving to a cash front or cash immediately on delivery is a huge change and despite that change you will find out a revenue more or less got on a season to seasonal basis. So, we believe that you know we have a taken tough stand and you should pay off because it will reduce the amount of stress on an account of collections and NPA. Number two, it also opens the sales team, it is actually creating entire sales funnel, all the various channels, all the way down to the actual user.

Vijay Mhaskar: Basically, we wanted to really focus on bring more business efficiency and that is how we looked at the amount of time we are spending on to recoveries and outstanding that is not really the productive. It is not working for distributors and not working for us to, so I think what we did is, is really look at the real issue. The real issue is that we have to create a pull need to focus on the dealers and create that pull and once that is created the liquidation happens smoothly. The stock moves smoothly and then the profitability of the distributor is ensured, so then we move the cash billing, so that help the distributors to really invest in the Quick Heal products and then help work closely with Quick Heal to start liquidating his products to the dealers, so it is a close working collaboration with distributors and dealers that is what Rajesh mentioned about this change and we think the change is good. It brings more efficiencies and definitely lot of distributors concerns about profitability get addressed because of the focus on liquidation, the focus on activation, so that is what we engineered and of course helps us also from the working capital perspective.

Amish Kanani: Thanks, last question does it increase in the active licenses user on a H1 basis, I think was 3% is that a good indicator on the underlying demand?

Vijay Mhaskar: Yes, so that is an indicator which is finally, although we are doing primary billing and locked the stock get liquidated to the dealer, the good indicator is how the product is finally going to the consumer, so activation is good indicator. It is kind of sometimes one indictors that will show up after some time, because the stock takes time more down but having activations on the rise is actually definitely a good indicator, it shows the pull.

Amish Kanani: Thanks a lot, and all the best Sir.

Moderator: Thank you. We take the next question from the line of Salil Sharma from Kapoor Sharma & Company. Please go ahead.

Salil Sharma: My questions are based again to what the earlier speaker was talking about the sales. Broadly speaking do we expect move out of the 100 to 120 Crores kind of a quarterly turnover, which we have seen in the past 15 quarters, so may be in the next one or two years, can you give visibility there?

Vijay Mhaskar: We had been looking at, so retail is going to have slower growth for sure because of the reduction in the laptop and desktops adoption. We are expecting the growth to come from enterprise and that is what we have currently focusing on and opening up more verticals and more offerings, so that is the focus we want to get us to a higher quarterly number, that is the goal, but it all depends on some of these verticals, I mean enterprise government has differently shown a good traction, we need to get on the mobile security to do better and that would kind of over compensate what we have seen in the retail standalone product.

Salil Sharma: Now, what I want to understand even the BSFI space will require our products to a large extent and with a recent incidence that you have been mentioning, so we have a presence there?

Vijay Mhaskar: Yes, we have clearance in the small banks. The product currently scales up to 2500 endpoint per server. We have instillations already up to 5000 endpoints so include some of the smaller banks. In February, we will be launching a product to scale up to 5000 endpoints and also cloud version, which will help us to get into the larger installations and that is way we want to focus as Kailash said, we want to really focus on enterprise because the market, total addressable market is much bigger. We have good picture set. We have support system in place so getting those customers is what we are aspiring through launching new products.

Salil Sharma: Just another thing is that you spoke about the mobile side, now it is more and more mobile banking coming into play so do you think the demand from there should go up, I do not want to bank from my mobile unless there is a proper security, so do you think this will lead to more sales from our client?

Kailash Katkar: We launched a feature called Safe Pane, which basically indicates if a mobile compromised and that is whole intent of showing to the consumer that while they are doing financial transaction they should be cautious and careful about what is going on the mobile, so we are expecting. This feature was launched about a couple of months. We have seen good adoption. We still have to see better adoption and better monetization, but that is our endeavor right now to create more awareness in the market, so overall awareness in the market is very low, so the focus is to create more market awareness, consumer awareness and then the demand should pick up.

Salil Sharma: I think we have advertised more and the consumers will be aware that there is some product, which can take care of or I do not know how it will look, you could increase awareness?

Vijay Mhaskar: So, both ATL and BTL activities, we keep doing that, but thanks for your suggestion, we will definitely look at to increase the more visibility.

Salil Sharma: And also, as I understand correctly the GST hit what you were explaining that is more or less being compensated by the ITC, which we get, so I would not affect the margin?

Rajesh Ghonasgi: No, we do not expect that will affect the margin.

Salil Sharma: Lastly, if I remember correctly in the last one or two concalls we spoke about new products in the IoT and the cloud space, so what is the status of that?

Vijay Mhaskar: Kailash alluded to that earlier, basically the product is in alpha stage right now. We are hiring some field trials. There are some hardware glitches that we are sorting it out, but planning to launch in Q4.

Salil Sharma: So, these are two different products or in the same products?

Kailash Katkar: It is the same product, basically it is a home networking solution that is primarily for at homes where we have router, this network will definitely help you to protect the devices that are connected to your router.

Salil Sharma: Thanks a lot.

Moderator: Thank you. We take the next question from the line of Mayur Parkeria from Wealth Managers. Please go ahead.

Mayur Parkeria: Thank you for taking my question. Since we are expecting enterprise and government to reach to 50% levels from current around 20% in the next two to three years, it will be helpful if you can throw light on the direction of two important things, which is the EBITDA margin and working capital as to how this will change at the company level?

Kailash Katkar: So, I think Rajesh will able to answer to answer. Technical item just to tell you one thing that there is also enterprise in government products, I am talking about 50% in coming three years time based on the products, which we are currently developing, but we are also focusing on coming with some new products and for new products we will be spending into new enterprise products or new consumer products. For that, how it is going to affect EBITDA, I think Rajesh will able be to answer.

Rajesh Ghonasgi: Number one is enterprise and government have both shown consistent growth and as this growth happens it is both end of this entire revenue capable of taking on additional cost. We are not actually adding additional cost because if you see we have been able to reduce number of people and the total cost, but overall our entire hypothesis has been that enterprise in government are areas where we are getting into a new business, which we did a few years ago and two, we are addressing that part of the business with strong people who are in the large enterprise part either do not address or do not know to address, so we are creating virtually a new market SPI so to say and I belief is as growth happens growth is going to be faster than cost and enterprise and government will add to their growth will add to the operating leverage that we have discussed earlier. We will for example, this quarter over last quarter, last year enterprise government had grown and enterprise in government having grown, you can see the 600 basis point improvement so, as enterprise and government keep growing, we will be able to squeeze all these efficiencies or in a set these assets far better.

Mayur Parkeria: So, you mean to say in a way it is the fixed cost that is more spread out because it is a marginal cost improvement?

Rajesh Ghonasgi: Yes.

Mayur Parkeria: And on the working capital, how will it impact, what is the current cycle for the government specific?

Rajesh Ghonasgi: Government sales and enterprise sales are both are largely on credit except that the way we deal is completely a different impact. I will ask Vijay to get into this because at the retail end we deal with the first dealer and then we make sure that it cascade the profit or the incentive cascaded down the line to the next year and thereafter until the final customer buys it. Here, putting cash upfront actually makes sense because that is the way this business works in retail. In the case of enterprise in government they actually have from day one we have very direct connection with the department of the end user customer. So, in that sense, we know the customer far better. We know his position far better. He understands our skills far better, so our credit control is by a scale different there.

Vijay Mhaskar: So, we are directly in touch with the customer. The fulfillment of the products in the solutions is done through partners, but we expect a lot of control on that so both enterprise and government we have very tight credit cycle there.

Mayur Parkeria: I read that your unwillingness to go on the number part of it, but let say at a corporate level if we are at 35 days for that segment will it be at a 75 days, 90 days or even higher level?

Kailash Katkar: It depends upon customer-to-customer like sometime government sector you know it might go beyond 90 days also means they might sign paper for 30 days, but they have might land up saying after 90 days so we directly do not bill to the government or directly to the enterprise, but we definitely know the customer very well and the partner in between who is really going to put effort to make this deal happen or close this deal with the customer and it totally depends upon customer to customer like if I go to bank, bank might pay me on time, like if I say I want payment and 30 days I might get it in 30 days, but if go for big industries like you know industries like Tata and telcos and all this thing, I do not think whatever is signed on paper you will get payment on time. It totally depends upon industry-to-industry.

Mayur Parkeria: Second question from my side, while talking about mobile you indicated that management is rethinking on the entire mobile strategy, so two things if you can give a broader outlook; one is are we looking at that being a B2B model or are we looking at going into a B2C model where we will sell to the retail through the shops and through the dealers and finally to the consumer or we will like to partner with the OEMs?

Sanjay Katkar: As I said we are rethinking on that strategy. Without discussing with my management team, I cannot speak anything what is there in my mind.

Mayur Parkeria: I will come back later. Thank so much Sir.

Moderator: Thank you. We take the next question from the line of Piyush Chedda from Ocean dial. Please go ahead.

Piyush Chedda: Congratulations on the great quarter. Just at a structure level you seem to be showing a 3% to 4% growth on the retail business and round about 25% on enterprise and government, which has just turned about 10% of your total business, so as a firm can we say that somewhere between 5% to 7% volume growth is what we can look at?

Kailash Katkar: You mean license growth?

Piyush Chedda: License growth for active users, whichever way you would say, what I am trying to re-chat is what kind revenue growth can we look at going forward, so somewhere in the region of 7% to 8% is that a fair number to use?

Kailash Katkar: Yes, as I told you that we have a range of products and it totally depends upon market because I could have really told you what market is thinking as on today, but because of this last two to three quarters like demonetization and GST, the entire market is disturbed and we are unable to judge what is happening. We never expected that low cost, low price products would increase more compared to the high cost product, but that as happened in this quarter, so we are just watching it, we are just trying to understand the market. We really do not know what is going to happen in the market, but we are ready for everything. Let it be any product, let it be any services or let it be any vertical enterprise government whatever it is, we just try to judge the market and based on that we try to keep on changing our strategy and try to hit to the market and get the business on board.

Piyush Chedda: So, our retail is completely unpredictable right now, it is hard to say?

Sanjay Katkar: Unpredictable yes, and about enterprise and government, I have already told you about that.

Piyush Chedda: Yes, Thank you.

Kailash Katkar: Thank you.

Moderator: Thank you. We take the next question from the line of Rudyam Verma from Augmen Catalyst. Please go ahead.

Rudyam Verma: I just wanted to know the EBITDA in the EBITDA margin breakup of retail and the enterprise segment would that be possible?

Rajesh Ghonasgi: As a policy we do not give this data, number one it is competitive, number two as I said you know we are focused on increasing the revenue base and as we stated retail is a very large chunk of business and enterprise government are growth areas and we expect that this weighted average is what we have discussed, but what we are confident of is enterprise and government will grow and our operating leverage that we have talked about is going to be visible as that growth happens.

Rudyam Verma: And also, the average realization per license segment price, can we get that number please?

Rajesh Ghonasgi: That also is the data that consider competitive we would not be giving that out, one is this has specific prices, specific realization as the individual product or the product group level, I think we will have to keep it confidential.

Rudyam Verma: Also going forward as you mentioned that both the segments would contribute equally to the revenue figures 50%, 50% or do you have another sale mix in mind right now?

Kailash Katkar: You are talking about enterprise and government?

Rudyam Verma: No, enterprise in government and retail.

Vijay Mhaskar: So as Kailash mentioned right, currently the mix is 85:14 in two to three years is what we are looking at for enterprise in government to contribute more percentage wise and that is we have talked about 50%, 50%, but that aspiration goal that you want to get through and it is also related to the growth that we are seeing currently. The retail is now single digit growth versus enterprises and government has double-digit growth.

Rudyam Verma: And is it likely that we will see a double-digit growth in retail in the next few quarters or that is not possible right now?

Kailash Katkar: That is not possible.

Rudyam Verma: Thank you so much Sir.

Kailash Katkar: Thank you.

Moderator: Thank you. We take the next question from the line of Dixit Doshi from Whitestone Financial Advisors. Please go ahead.

Dixit Doshi: My question was regarding the working capital in the enterprise segment, so I think could the answer is around 60 to 90 days, which you answered already in the call in, just one more question the increase in activations was how much in this quarter? I could not find it in the presentation so?

Rajesh Ghonasgi: Slide number 4 you will find the quarter-to-quarter data 81.1 billion versus 7.5 that is roughly about 10%.

Dixit Doshi: I got it. Sorry I missed it.

Moderator: Thank you. We take the next question from the line of Chirag Goel from Individual Investor. Please go ahead. There is no response from the line of Mr. Chirag Goel. Sir, this is the last question for today. I now hand the floor over the management for their closing comments.

Kailash Katkar: I would like to thank all of you for joining us into this conference call. Thank you for patience.

Moderator: Thank you. Ladies and gentlemen on behalf of Edelweiss that concludes today's conference. Thank you for joining us. You may now disconnect your lines.