"Quick Heal Technologies Q1FY17 Earnings Conference Call"

August 08, 2016

ANALYST: **MR. BHRUGESH PARSAWALA - ICICI SECURITIES**

MANAGEMENT: **MR. KAILASH KATKAR - MD AND CEO**
MR. SANJAY KATKAR - MD AND CTO
MR. RAJESH GHONASGI – CFO
MR. ABHIJIT JORVEKAR – ED AND SVP SALES & MARKETING

Moderator: Ladies and gentlemen good day and welcome to the Quick Heal Technologies Q1 FY2017 Earnings Conference Call hosted by ICICI Securities. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by entering "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Bhrugesh Parsawala from ICICI Securities. Thank you and over to you Sir!

Bhrugesh Parsawala: Thank you. Hello and good evening everybody. Thank you for joining us today for the Quick Heal Technologies Q1 FY2017 Earnings Conference Call. With us today from the management side, we have Mr. Kailash Katkar, Managing Director and CEO, Mr. Sanjay Katkar, Managing Director and CTO, Mr. Abhijit Jorvekar, Executive Director and SVP Sales and Marketing and Mr. Rajesh Ghonasgi, CFO. So with us further ado, I will now hand over the call to Kailash Sir for his initial remarks. Over to you Sir!

Kailash Katkar: Thank you Bhrugesh. Good evening everyone. On behalf of Board of Directors and management of the company, we extend a warm welcome to all of you to the conference call of Quick Heal Technologies Limited to discuss the first quarter of financial year 2016-2017.

Before we discuss our financial performance for the first quarter, I would like to give you a brief introduction about ourselves. Quick Heal Technology Limited is one of the leading providers of security software products and Solution provider India. We are currently the market leader in retail segment with more than 30% market share. All retail and mobile products are offered under brand name with Quick Heal and all enterprise solutions are offered under the brand Seqrite.

Our strong brand recognition is highlighted by the fact that there are more than 25 million products likely installed till date. We have more than 7.6 million active licenses. Over the last five years, the number of licenses is growing by 2.0x times. We continue to strengthen our distribution network, which currently have branch offices in 36 cities in India and international offices. In India, we have 18,041 retail channel partners, around 438 enterprise channel partners, around 139 government partners and around 1,189 mobile channel partners.

Our operating performance during the first quarter of year 2016-2017 had partially declined in retail segment, but has grown in enterprise segment, government segment and mobile segment. We are very optimistic about the growing IT security market opportunity in India driven by increasing awareness around the need for the security products and solution.

We are very well equipped and support the requirement and address new age challenges with our comprehensive product offering. We are hoping of maintaining strong growth momentum and sustaining our leadership position across segment and market.

With this I would like to hand over call to Mr. Sanjay Katkar, Chief technology Officer to talk more briefs on technology development. Sanjay to you!

Sanjay Katkar: Good evening everybody. Usually in the product company like ours there is not much of a change in the product portfolio in short duration like a quarter I will say, but the only update I have to share here is we are constantly working on enhancing our existing product portfolio in a way that it becomes more user friendly and enhances all features that we have and at the same time keeps on taking feedback from the customers and releasing the package to make sure that the newer things reported by customer are taken care.

So that is the ongoing activity and we have certain products that are in pipeline but they are still under development I would say. So on the enterprise product portfolio front, we are working on enhancing our product to support larger enterprises, so that it will widen our market segment beyond SMBs in the coming day or so. We are currently working on those products and we hope to see release road very soon from the team and work on one new enterprise product and one new consumer product is still in progress. So by next quarter we will be able to announce release roadmap as currently the team is working on the architecture and development front is working on the timelines for the same. So that is all I have from the R&D front and now I would like to hand over to Rajesh for financials.

Rajesh Ghonasgi: Good evening. At the outset, let me just repeat the standard disclaimer. We are going to give some forward-looking statements. These are indicators. These are not commitments and I just wanted to make sure that the standard disclaimer is stated upfront.

Let me come to some of the important points relating to the financial statements. Number one of course we have already explained that first quarter is always the softest of the quarters. It follows Q4 and hence in a push-pull FMCG type of system Q1 is lower in terms of other quarters and Mr. Abhijit Jorvekar will explain that.

The other things of course in terms of financial reporting, the major change has been that the accounting standards have changed. What we have reported is Ind-AS as against Indian GAAP last year. As it happens there are not too many changes in terms of P&L, there is one very important change, which is Ind-AS does not look at revenues the way Indian GAAP did. Hence we have given reconciliation in our presentation where you will find that the total revenue has reported under Indian GAAP last year and the fact that there is some adjustment to dealer incentive which is particularly the reduction and hence net revenue is reported has been brought in, so in absolute terms there is no change, because the bottomline remains the same, but what we would earlier have accounted in sales and marketing expensive as dealer incentive, gets removed from there and gets reduced from revenue.

It can have an impact basically on the amount of revenue hence the ratios, but once as the quarters go by and we take care of this across the quarters we will get all the quarters to apple-to-apple comparison and the impact I mean the trend should be visible across the quarter that is one.

The other changes of course is that SEBI made some pronouncements this was done very, very fast from September last year to December to January and as we were completing our audit there were changes that we brought in by the CA Institute and SEBI. Based on that this first time implementation we were told we could not give all the quarters data because it would take a fair amount of time to complete all the quarters in Ind-AS so based on SEBI's pronouncements we have reported two quarters this quarter and same quarter last year. When September comes by we will be adding one more quarter plus we have to give the annual numbers for last year which by definition cannot be completed until the auditors audit it and it would have been very difficult to complete it. Several companies are going to give the results in September because of that. We decided it did not make sense to wait and we finished it now.

The other thing is that as per SEBI rules we have decided to provide standalone accounts as auditor review. It does not mean that we have not written the books, it is just that with small subsidiary and changing over from IND-GAAP to IND-AS we found that the time impact as well the cost impact in Japan getting that change done every quarter, it would be very expensive. So we decided to follow SEBI's rules of publishing standalone through the board, but the rest of the data has been provided in consolidated form. It is pretty much final, we have followed all the accounting principles. The only thing that has not happened is, we have not got the auditors to sign off the audit because it would have taken lot more time and probably being much more expensive. That is reason while we have provided standalone audited, but consolidated has also been provided. Now that is changed in the accounting system.

One of the major things we have done is to make sure that costs are under control. Now there are several slides that provide that. Sanjay has been very, very hard, Kailash would have been very, very focused on costs so you will find that costs are under fairly strong control. So just make sure that this was visible we added cost analysis slide. There are small changes, small difference which may not be mapped with IND-GAAP and IND-AS. The major change was dealer incentive. If we remove dealer incentive from Q4 FY2016 and we look at the same head so within this there are multiple changes that have occurred.

Number one, effective April 1, we have given a pay hike. We have given a very decent pay hike, but that decent pay hike has already been factored in and some of the cost increases can be seen in salaries for example, but if you see each line item, you will find that other than items where there are very direct relationship to revenues for examples sales promotion where Q4 is very large quarter and Q1 is not, there will be a variation. You will find the other expenses overall are actually well within control so this is an important point because we have controlled the people numbers, there have been very marginally increases, pay hikes have been given and cost as you can see are slightly higher. They are under control, part of period because some of the exists were not replaced and most important we have been looking at cost very, very carefully, but now after the last year was over, products are in place, we have decided that we will be careful about that.

In addition do that there is one item I would like to talk about, there is an exceptional item in the financials, on slide #14of Rs 3.78 Crores. We had invested in the company Vigilant. Vigilant is in the field of mobile tracking. It is worth, it is highly contiguous to work that we do and we were interested and helping them grow. As it happened this investment was made well before the IPO started and we had financed them to the extent of Rs 3.4 Crores in form of convertible debentures, convertible loans basically and the interest and that particular item we have provided has a matter of conservatism.

What happened was in June that particular entrepreneur he was going to get financing from third party or private equity entity, could not get so, may be because of valuation and we decided that in the short time that was there between that day and reporting we did not want just finance him without pull analysis and finding out whether we could more justice to that particular product or not, so it is not as if it is gone, it is just that in accounting terms, we had to take a charge. We are still talking to that particular entrepreneur and how do take care of it. We might find a way of doing the work ourselves and helping him grow, but as a matter of prudence we have provided for it and in our cost analysis I kept it outside the system because this is a decision taken by the management to help somebody in a field which is directly contiguous and where about 30% to 40% of work would actually fit into our products. So it is not as if it has gone or something, it is just that it is a prudent proposition that we provide for it when we had a two shorter time to actually apply our mind and find a solution for that. There are two more points; one is the service tax issue.

We had filed this. If you remember we had this service tax issue where the department had insisted on taxing us as a service when the invoices that were being delivered were being excised and the law is very clear once an excise got, it cannot be serviced. So our stand still remains, it is just the case has been filed in CESTAT. It was filed at a time our last reporting came in and as of now we expect it to take some time before we get called for a hearing. So that particular case that this is with CESTAT in Delhi and subsequently I think will all get clear together when the CESTAT handles the issue, gives an order and then we know how it goes.

Before I close on this service tax issue, let me state that we are very confident based on our council's opinion, the facts on the ground, the fact that we have been paying excise duty on that product and that product comes with an excise invoice that should not fall under service tax. It is just an attempt to charge us service tax because it comes from an exempted area.

The other point is regarding NCS and Malani who had tied to prohibit us has by forcing us into action, filing cases, threatening us, it was a very unfair thing because remember we in middle of an IPO. They had filed three cases, one of the Shrirampur Court, which is North of Kolkata claiming that they Own Total Security, the second one was the shareholding claim where they filed a case in the City Civil Court, Kolkata claiming that they were shareholders and third was a claim, the general claim, claiming damages in the Kolkata High Court.

Now with extreme speed we have been able to approach the courts, had multiple hearings held and those first two cases in one in Shrirampur claiming that they were owners of Total Security and the second one which is City Civil's Court, which is important because the claim that they were shareholder, both have been summarily dismissed by the said courts. This was done on the 8th of June. The orders came in about two weeks later and we had published in the on the stock exchanges. The two out of three cases have been thrown out.

I want to talk about the third case because we have strategy to address it, try to address it fast and as cleanly as the other two. So in a sense, I will repeat what we had stated in the communication to the exchanges that we have said even at the beginning including to the media that this was an ambush that was done by someone, who had all the time in the world to do what he wanted, but when the road hit the rubber they did not appear. If you see the orders they did not appear for any of the hearings. Show cause notices were issued, the plaintiff did not appear, and we asked the courts to just dismiss the case and the court were pretty much convinced and they dismissed the cases. So if you see the last May 11 report, there is paragraph 4 a,b,c out of that 4 a and 4 b are gone and we hope that we will be able to do the same for 4 c very soon. That is as far as the financials are concerned, I would hand over to Abhijit.

Abhijit Jorvekar: Good evening gentlemen. Talking about sales numbers as reported we have seen small fall in sales numbers in our retail business. It is very minor fall, but this was accompanied by exceptionally high growth in our enterprise and government business along with our mobile business, which we consider to be the future pillars of our growth henceforth.

Along with that I would also like to state the fact that historically first quarter tends to be lower quarter for us, because after a very major Q4 which is very common in stock and sell kind of ecosystem, which we work as far as consumer products are concerned, this is a very normal situation for us and we do not see alarming over here and we should be on track and H1 should be normal and anyway we look upon results as combination of Q1 and Q2. HI is what we look at in terms of considering the overall performance so we do not see anything alarming. Another very important aspect which I would like to also talk about specifically about consumer business is that while we talked about this shortfall in retail numbers, the activations of the product have significantly surpassed our previous activations and in fact they are higher than most of the recent past activations or rather historical activations that we have seen in the past and other thing is the activations are significantly higher for the premium product we have that is Total Security which is the market leading product. So all in all we see the things pretty positive, the activations are very high for consumer products, enterprise and government business grew at a very high growth rate and mobile also grew at a very good rate.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question and answer session. We have the first question from the line of Sangam Iyer from Subhkam. Please go ahead.

Sangam Iyer: As Mr. Jorvekar said that there was a minor break on the retail side in this quarter and it should be back to normal levels in the coming quarters. So what is giving us that visibility because when I look at retail our second quarter numbers will have to grow by almost 23%, 24% to normalize at their 15% levels and that would mean the retail grows much faster. So can you just give some idea to what is giving us that comfort in terms of this pickup and also the reason why this quarter we saw the sharp dip in the retail business, so almost 15% YOY dip. We know the seasonality, but Q1 it should be almost right, so why should there we dip on the retail side on a YOY basis?

Abhijit Jorvekar: First of all, the reason behind dip is pretty. One is we ourselves initiated certain corrective measures in first quarter. One of them as you know there was a small increase in certain price points of some of our products. What happens is after we close our financial year, definitely certain learning and certain corrections are in the way in our processes. Our retail business is pretty large in terms of the ecosystem and there are ongoing corrections that we have to bring about and best time to do that in Q1, because that is the quarter which typically contributes not more than 10% to 15% of our sales, so it is not cause of concern if we do not sell enough in that quarter, rather it is a time for us to know, replan and redo things. I also mentioned that activation for the products are very healthy, so we are pretty confident about the growth trends.

Sangam Iyer: I am just a bit confused. When we say activations are at historic high levels that would mean that much of increase in the license sales happening right?

Abhijit Jorvekar: Yes.

Sangam Iyer: License sales have actually dipped as per the presentation during the quarter. So is it like the Q4 push out that happened those licenses are actually getting activated in Q1, which is also result that there is a dip on a YOY basis in the retail business, but if activations are happening high then it should also get reflected into sales numbers?

Abhijit Jorvekar: First of all to answer this, what getting activated majorly sold in Q4 you are right on that part. What happens is because this is stock and sell business, selling keeps on happening throughout the year, but the major part of the sale typically happens in quarter four, in fact we have also told in the past we have a very strong quarterly pattern which we can see in our sales. Q1 being the weakest, Q2 being the strong quarter and then Q3 again being slightly weak quarter and then Q4 being the strongest of them. So we do not see this in anyway as a major difference or change in the way things have been in the past. Even in past historically we have seen occasionally the Q1 could be lower than previous quarter and we do not see that as inhibiting factor or anywhere alarming. It is like sometimes interest of business to ensure that we keep up things under control especially certain processes or if we see certain ways in which market operates or certain corrective actions and Q1 is the right period to do that.

Sangam Iyer: When I look at your overall retail sales number for the first half and for the full year. Should we looking at percentage of the overall revenues contribution this is going back to the levels of 78%, 80% or how should one look at the retail sales?

Rajesh Ghonasgi: We do not see this actually having any impact on overall growth for the year, because as we said Q1 tends to be a very small part of the overall annual picture. If we try to convert this 17% into actual numbers, if you look at a number itself, it is not such a significant number?

Sangam Iyer: Right, that is why I asked whether the contribution would go back to that 78%, 80% of the total revenue from retail sales or how would the mix look like may be first half?

Rajesh Ghonasgi: Retail would still continue to be a very strong player in the business. As far as percentage or share of the total business is concerned, I think that it will continue to grow at great rates, we see a great Q2, we see great year ahead, but definitely we expect that the other parts of business fire of pattern is significantly better rates and in fact that is the plan. So if we try to put it in the ratio perspective, it would not be right to comment whether it will stay at same part of business, it might be slightly lower or higher, but ideally we would like new businesses to fire up and bring in and contribute more that is how we look at it.

Sangam Iyer: Got it Sir. I will come back for further question.

Moderator: Thank you. The next question is from the line of Hardik Jain from White Stone Financial. Please go ahead.

Hardik Jain: Good evening Sir. In the enterprise segment, just wanted to understand for enterprise and government segment, do we have some kind of order book in place? Further, what kind of organizations we have sold in and how many installations per client?

Rajesh Ghonasgi: Coming to the first part of your question. We do not really have an order book because we are Product Company. While we say that we have funnel, but we do not have order book and funnel is pretty broad because these are opportunities and there could be starting from very small opportunities of few thousand rupees to some decent size ones. Government again we sell to very multitude type of establishments, we sell to defence, we sell to state government entity, central government entity, it is interest of security perspective, we cannot diverge names of customers.

Hardik Jain: Exactly, I do not want the name Sir. On an average, what is the number of installations per client that you have done?

Rajesh Ghonasgi: Majority of customers would typically be less than 250 users. There is a part of business where we do SOHO, but if we talk about other part of business, majority of customers would typically be in a 100, you know 150-computer range.

Hardik Jain: Typically in this installations whatever we have done in enterprise right now where we able to replace some existing software out there or it was purely new set up, so most of the licenses that we have sold, it is kind of what do you call, our first installation or new fresh set up or you have replaced some competitor out there?

Rajesh Ghonasgi: It is just a combination of both and I would say there is a decent number of Greenfield sales as well as, but definitely replacement is higher and we are replacing a lot of competitors. I think we talked about the certain advantages we have in terms of services, provided through branches, so we are replacing lot of competitors but at the same time there is also decent amount of Greenfield sales happening.

Hardik Jain: My last question, as you said you sell through the distributors, so the installation and the maintenance part is handled by the distributors there is no interaction between the final customer and the company?

Rajesh Ghonasgi: The installation and maintenance is handled by the distributor, but we have team and customer with more than 100 computers does tend to have certain primary interaction with us and that is a pretty ongoing part of our business, we considered that to be an important part of our business that helps us in retaining the customers.

Hardik Jain: Thank you.

Moderator: Thank you. We have the next question from the line of Saurabh Jain from Astute Investments. Please go ahead.

Saurabh Jain: Good evening Sir. Just I had two questions. You said that effective first April we have taken a pay hike, so if you can just give us the average pay hike?

Kailash Katkar: In fact we do not want to give the pay hike numbers let me tell you that it is pretty decent related to our industry. That is the reason might be do not want to give you because not everybody has got the same pay hike, giving you range will give a lot of combination.

Saurabh Jain: On a rough range because decent can mean different numbers?

Kailash Katkar: It is between the 9% and 12% range.

Saurabh Jain: Okay and this would be across the board for R&D?

Rajesh Ghonasgi: Across the board, which means pay, hike has already been factored into Q1 that you see.

Saurabh Jain: Right, just as a followup to the previous part has been question. For newer customers in the enterprise division, we have both replacement as well as new Greenfield sales, so for the replacement as compared to competitors any pricing difference that we have and what might it be?

Kailash Katkar: Normally in case of replacement I would say replacements are normally not driven only by pricing. The observation has been again we talked about this, we derive more value by being physically present at significant number of locations. This is where medium industry, small and midsize businesses see more value, because partners tend to be better trained on our product. That because we have a lot of ongoing training activities etc., year long calender, we keep on training and updating our partners on all kinds of emerging technologies and features in our products that one part. The other important aspect is, what we have seen is that customers are more comfortable with vendors with whom to have very good direct line of communication and in fact there have been numerous instances where we saw that which we are able to add lot more values to the customer when such situations have arisen. In fact in decent number of cases, we also acquired customers who were using competitor's products and because they did not get requisite level of support especially in case of such situation where they were targeted in case of certain attacks, so they moved to vendor like other moved to us because they found better value in those situations.

Saurabh Jain: Given all that also you say still a pricing difference or are we price at par the competition this is higher?

Kailash Katkar: It again depends on value, which the customer senses, so in larger account I would say we have placed price at par or sometime depending on size of the cost we might have to discount, but midsized accounts we tend to get a small premium.

Rajesh Ghonasgi: I would like to add here that when it comes to enterprise product there is no fixed MOP. It is totally depends upon the customer's need and requirement. It kind of services we are looking from us or they looking just for product or we are also looking for additional services onsite or something like this, sometime there is no need of services, but still customer keeps on demanding more services. So based on that prices keeps on fluctuating actually. So there is no fixed MOP actually.

Saurabh Jain: The retails have actually gone down by 16% and 18%, so any indication that you can give us if you can quantify through the year that what that how that might be?

Rajesh Ghonasgi: As we mentioned earlier, this being smallest part or quarter of the year typically being around 10% to 15% of the year. Absolute number value on that with which it is lesser than previous year and if you look at the activation trend. We do not see this being sales of any concern and we expect to see attractive growth in upcoming quarters.

Saurabh Jain: But would you say this is all because of internal reasons, the reason, which you have, give before.

Kailash Katkar: Yes, we see this more because of internal reasons, the way we drove the market in a very calculated way. We have to bring corrections periodically. We increased pricing of some of our products and then in terms also we have to bring out corrections in certain business. We also sometimes we tend to see some malpractices which could happen in market, so when I say malpractices are not really detected to us, but the way the product gets sold and so on, that needs to be periodic correction and that what we are working on currently.

Saurabh Jain: You have taken the increases in the prices of products, any quantification of that?

Kailash Katkar: It is a small increase only in some of the products, some of the multi-user products in consumer product category, there are small increase in prices, just you know as I said to take care of certain market condition and where we saw certain malpractices, so that has been taking care of.

Saurabh Jain: I was just trying to do some basic calculations average realization per license in the retail is about 475, 485 for us?

Rajesh Ghonasgi: I think it is typically tends to remain the same range.

Saurabh Jain: Few years out your sense can this number be moving up or it might just stay at this level?

Kailash Katkar: That totally depends upon market, because actually we develop the product, we wanted to sell the product, but product pricing is not totally driven by the company. There are so many competitors in the markets. We need to really steady of our competitors and market expectations and based on that this price keeps on fluctuating. So after five years or after eight years, we would definitely allow to see that price keep on increasing, but that is not in our hand actually.

Saurabh Jain: Just to get a sense what could have been this price say three years back?

Kailash Katkar: Three years back I have not calculated. Rajesh do you know what was three years back average?

Rajesh Ghonasgi: It was roughly in the same range, so there is not a major change at least last three to four years. One reason being that, we have a very wide range of products and top on that we have multi-user products as well, so while the largest selling product is the most premium product that Total Security. We also have anti-virus then we also have Guardian and multi-user product, so it is really tough to predict, this is how it works. We have not seen a major deviation in the range not more than 5% to 10% here and there and again it changes again on quarter-to-quarter and region-to-region as well.

Saurabh Jain: You mentioned that premium products for us grown by 15%?

Rajesh Ghonasgi: It is more than 15% incidentally the activations.

Saurabh Jain: Can you give us sales as you define by premium products, what is the sale in this quarter?

Rajesh Ghonasgi: It is a Total Security that I was referring to.

Abhijit Jorvekar: It is 45 to 48% of our overall revenue, this is largest in revenue terms over the last three years I would say because now has other products like enterprise products come through of course there will be change, but historically the premium is in the largest volume seller.

Saurabh Jain: Going forward do you see this also moving up or more and more people migrating to Total Security?

Rajesh Ghonasgi: We see a strong trend yes, but again as I said it is very regional thing, but yes we see overall Total Security growth and activations continue to remain strong, but that is the fastest growing product for us.

Saurabh Jain: That is it from my side. Thank you.

Moderator: Thank you. We have the next question from the line of Abhilasha Satale from First Global. Please go ahead.

Abhilasha Satale: I just wanted to know that how are your segmental margins like in retail and enterprise, government and mobile. With this revenue share going up from enterprise and government and mobile segment, how can we see your margins shaping over the period of time, because on a quarter-on-quarter basis it is a fluctuation we can see because of fixed cost having more share in your overall cost, but on a year-on-year basis, how do we see margins moving?

Abhijit Jorvekar: Let me take that. Firstly if I just give you a gross margin variation remember other as per the cost regardless of how we slice it, are fixed other than this year promotion and incentive cost. Our gross margins for both retail as well as enterprise in government products are more or less the same. They range between 89% and 92%. So between that while the pricing is different, the delivery system is also different the gross margins range between 89% and 92%. As far as mobile is concerned, the margins are lower. The margins are between 45% and 55%. One of the reasons being that we purchase the insurance from an insurance company and then resell it that insurance is direct cost. Currently we have spent a huge amount on product development and on the sales infrastructure for mobile segment. It is currently not returning all that cost. Mobile is a place where large volumes will occur. So, we are talking of three P&Ls with three different metrics. One is high volume growth but lower gross margins, retail which is a cash cow, mature product, which will have middle level growth with 90% gross margins and enterprise which will have 90% gross margin, but again which will deliver a lot of bottomline simply because it is not break even stage yet. We have invested hugely in our sales system. The gross margin going down per se is not going to be an issue, because our view is the gross margin may go down, we will be able to explain it as being the rates of these three and overall the rest of the margin, the EBITDA, the PAT will go up because this will start returning positive EBITDA.

Abhilasha Satale: If contribution from mobile sales is going up over a period then how will our operating margins will be impacted? What could be diet range for all the three products?

Abhijit Jorvekar: It is very difficult to say right now we have invested in mobile. Mobile we have got a full scale promoter team and sales team out in field and they are not yet delivering all the revenues they can, so they are not yet break even. So just getting to break even is a huge bottomline upside. Our view is we are looking at the far future where that will give us the broad 5 Crores kind of volumes that is what we are looking at.

Abhilasha Satale: You mean to say 5 Crores volumes mobile is likely to break even?

Rajesh Ghonasgi: I just said that it is a kind of volume that could happen, remember there is something like 10 Crores of smart phones that got sold last year. I am just giving a number may be Abhijit can talk about what kind of growth will happen. We would not require 5 Crores number to get to breakeven. Breakeven will be far, far earlier than that. You are looking at a number of Rs 20 to Rs 25 Crores it should be at breakeven, which will not require 5 Crores licenses, it is much lower number.

Abhilasha Satale: Okay then over a period how would we see our segmental revenue mix moving and our margins pertaining say over medium to it could say one or two years?

Rajesh Ghonasgi: Over the medium term, over the next two years as the amount of enterprise goes up and mobile goes up, the gross margins could dip by percentage points out, so that 91%, 92% could become 89%. But then out EBITDA will go up because we have already loaded as huge amount of cost for the sales infrastructure for enterprise and mobile that has actually been whole theory that as long as we spread and get more revenue out of that that cost is not going to start jumping the way let say other costs, direct cost would do.

Abhilasha Satale: You have already said that you have invested heavily into R&D expenses and also, how do we see that expense is planning like how much traction still we have to invest or are we totally done and there would not be any capex going forward?

Kailash Katkar: Actually we are into security software development and if you see the current scenario the wall is changing very fast and security part is a very important when it comes to digital security and we are not just into an antivirus solution. We are into security software. So antivirus is a very small part of it and it is about lot many things like for enterprise like endpoint securities, gateway level security then data loss prevention and now they are smart phones are coming up, smart cities are coming up. So we have to be ready with the products. We have to do research and development for that. Product development is a second part, but first initial part, the research and development is very important. So we will keep on, we will keep continuing doing these kind of research and development and for that we will keep on investing in that actually.

Abhilasha Satale: In FY2017 and 2018 how much investment are we looking in R&D procedure?

Kailash Katkar: My thought process is whatever we are investing into research and development year-on-year, if you look at our increment in research and development is somewhere around 20%, 25% which will continue that, but which would not grow beyond that actually.

Abhilasha Satale: Thank you.

Moderator: Thank you. The next question is from the line of Aman Vij from Astute Investments. Please go ahead.

Aman Vij: Good evening Sir. I had two questions. First if you could tell the industry five in each of the three segments as well as industry growth in the segments?

Kailash Katkar: Practically if we think about retail industry we get to know this information from competent media organization like Dataquest or CRN or some other magazines, but when it comes to like enterprise segment, this information we are getting it from IDC Gartner, Abhijit does Gartner releasing any information on Indian market something like?

Abhijit Jorvekar: Actually there are reports on security businesses in India, but they are very consolidated types and very granular report on security especially our product sectors are not available. In fact a lot of potential that project is based on our understanding of typically PC sales and server sales that is the data, which is available in ecosystem. There are multiple agencies, which publish the reports and that is what we typically try to utilize to get an understanding of demand for security products and coming to enterprise we also referred to other parameters like what could be industry growth rate, so like recent as we were referring to report which talks about SMB growth rate. There are periodic reports would be, whatever on the target segments we get report based on those target segments and use them as a reference to understand growth rate for those parts of the business.

Aman Vij: You have any numbers for according to you may be they would not be totally accurate, but according to you what is the growth rate of the industry like enterprise security solutions as well as retail security solutions?

Abhijit Jorvekar: Based on the current understanding what we have seen that the PC growth rate is typically are around 8% to 10% so that is what we have been observing. Our growth rate historically has been higher than whatever is ongoing basic growth rate. One is because of our ability to reach our to markets without distribution network and wide range of products that we have that is one part and as far as enterprise is concerned, the part of business that we focus on we have been always saying that we do not focus on as of now on very large enterprise, the focus is on small and medium product business including those and thereby the growth rates are pretty significant, they are significant double digit close to 50% plus in some parts of that, so that is where growth rate for the individual part of businesses are.

Aman Vij: Sir and related question is in terms of enterprises we have seen a very good growth rate, so could you classify into how much growth was from government side as well as first if you can classify as of now what is from SMEs and what is from government and the growth rate in each for the Q1?

Rajesh Ghonasgi: We will provide the same to you separately where we have noted it down, so we will provide the same to you separately. But coming back to the first part of your question, the growth rates in enterprises as well as government were roughly in same range. We saw the total rate of growth which is roughly around 70 odd percent, so growth in both the parts of business that is our enterprise product category and the product sold to government, so private as well as government business growth rates are pretty much in same range of that 70%.

Aman Vij: Who are the top players in the segment in government and enterprise respectively?

Rajesh Ghonasgi: Are you asking at about of competition?

Aman Vij: Yes competition.

Rajesh Ghonasgi: There are multiple competitors. All the big three global players Symantec, MegaPatron, and Micro we do come across and we also come across Sophos a bit of cashless. We do come across all of them.

Aman Vij: So they are as well enterprise as they are in retail?

Rajesh Ghonasgi: We do not see them being very strong in the retail part in fact we do not see any of them mentioned names or any of the other players to be strongest in the country more than this especially if you look at pan India distribution, we do not see any one out there. We see some of the players having some present and some parts of India but we never see any one of them having the kind of presence we have across India and the kind of strength.

Aman Vij: Stickiness is normally more in the enterprise business or the retail business?

Rajesh Ghonasgi: We are currently market leader in consumer or retail business, but we have fast growing business which also sales to government and enterprises and SMB product of government and enterprise.

Aman Vij: That is clear but I am asking as you see most normally stickiness you say in retail but is it difficult to convert customer from the competitor in retail or is it more difficult to convert in an enterprise?

Rajesh Ghonasgi: Consumer business we actually do not trace that conversion because retail business happens over the counter so it is very tough to measure it per se but yes considering the fact that we are growing at a rate which is much higher than the PC growth rate we believe that we are definitely acquiring customers who were customers of our competitors. Coming to enterprise yes as I said again in part of businesses we do find lot of traction especially in the smaller and medium size businesses or they look out for vendors which strong local presence.

Moderator: Thank you. We have the next question from the line of Pariman Mithani from Individual Investor. Please go ahead.

Pariman Mithani: Good evening Sir. I have two numbers. I wanted to know the base number for your enterprise license at the time of when you started this thing?

Abhijit Jorvekar: You said you have another questions, I think we will try to answer that. Can you ask the second question?

Pariman Mithani: And second in terms of capability, I wanted to know the capability of installation maximum that you can do for given client in the enterprise. The size of the installation that you can do in terms of will it be 250 or 2000 what is the number and secondly how do you in this enterprise segment, how do you compete with companies like Symantech which have larger establish clear than this market and how do you compete with them?

Kailash Katkar: Recently we have done 5000 installations at one of the government sector.

Pariman Mithani: What is the maximum that you can do about because my understanding is that companies like Symantec and HFCs of world are in the category about 10000 installations?

Kailash Katkar: So of course we are not into that category, but we will definitely develop those kinds of capability within a year’s time actually.

Pariman Mithani: This 5000 installation was it competition with which vendor from this thing which you ahead?

Kailash Katkar: MNC product.

Pariman Mithani: Second thing in terms of percentage in terms of renewal of enterprise business licenses, one is percentage of renewal I know it may be a small number, but what is the percentage renewal happening earlier?

Kailash Katkar: When it comes through the enterprise products, the percentage is very high. It is more than 80%, 90%, but when it comes through consumer products it is very difficult to tap the consumer customer because consumer customer does not like anybody calling them and disturbing them.

Pariman Mithani: In this quarter, we have done 233 lakhs of installation license sold in enterprise, so do we mean to say 90% of repeat orders?

Kailash Katkar: Abhijit is do you have can you answer this question?

Abhijit Jorvekar: We have significant amount of retention business, so roughly around.

Pariman Mithani: Can you give me yearly percentage, I wanted yearly percentage if you can give me that?

Abhijit Jorvekar: So you all know what is the yearly percentage?

Pariman Mithani: Retention business from the time the enterprise business that you have been getting on and the base number?

Abhijit Jorvekar: Retention and enterprise business has always been in higher double digits more than 50% historically.

Pariman Mithani: Okay and the base period at number of license sold?

Kailash Katkar: And one more thing when it comes through the renewal, the renewal charges are not same as what you sold as a new pack. They are quite less actually.

Pariman Mithani: That was my second?

Kailash Katkar: You cannot compare last year's the enterprise revenue generation with this year's revenue generation and based on that you calculate the number of customer retention. Because when we try to retain customers, you have to give very competitive rate, they expect the renewal rate to be quite less close to 50% only.

Abhijit Jorvekar: There are other perspective is, we also do three year licenses, because of that the retention year-on-year measurement is not as simple because very decent number of around 15%, 20% if customer actually go for three year licenses even in enterprise, so it is not real major that if we do this number a part of those customers not actually be customers from the previous year, there could be customers were actually bought product three years back and as I did 20 odd percent customers who buy three year products.

Pariman Mithani: As you mentioned there is a discount at like discount given to you what is the percentage discount there?

Kailash Katkar: I just now told you it is all on negotiation basis. When it comes to enterprise customer there is no fixed MOP. So it is always on negotiation basis if there is no competitor like pitch into that customer then we tried to get a good rate, but there are lot of competitors pitching for that same customer then you really need to drop the rate.

Pariman Mithani: Secondly in terms of enterprise, have you reach break-even points in this business, which we started?

Kailash Katkar: Yes, in enterprise there are so many products, so if I have to talk product to product wise, Endpoint Security which we launch five to six years before we have already crossed breakeven point long back.

Pariman Mithani: In terms of mobility, in the close to breakeven point it is going to still take time for breakeven point?

Kailash Katkar: It will take time.

Pariman Mithani: Thank you Sir. I will get back in queue for further question.

Moderator: Thank you. We have the next question from the line of Hardik Jain from White Stone Financial. Please go ahead.

Hardik Jain: I have some followup questions. When IPO came there was one product, which was shown on the slide with the Hardware Firewall. So is the contribution to the sale is very nominal still or do we?

Kailash Katkar: It is growing that sale is also growing.

Hardik Jain: Can you share the numbers? What is the kind of sale that we are doing for that firewall business?

Rajesh Ghonasgi: This is embedded in the enterprise and government. We did not break it up, because it would be extremely detailed, but since you asked for that may be share this with everybody on the website. By the way product is called UTM Universal Terminator Module and it is not just set top box actually it has a lot of other things may be just for since you rate at may be Sanjay you can explain the UTM concept itself and then we put this data separately on the website as an agenda to our PPT.

Sanjay Katkar: That approvals that we are talking is gateway security where we have multiple products is not a single product like series of products for small medium to larger enterprises and typically used by organizations starting from 25 to 30 PC then it goes up 500 to 1000 PC network, so current Quick Heal supports networks up to the size of 500 machines in a network actually, so that is the product and it is growing pretty fast in our customer basis going fast on that product line actually.

Hardik Jain: The margins for this firewall will be higher but I think it is embedded in the entire?

Kailash Katkar: Let me explain firewall portion and we get it manufactured from outside, so the direct cost of goods is pretty high, but that is not the issue, because our contribution of the product is the entire design is from us, it is just the manufacturing happens elsewhere, it happens in Taiwan by the way and it gets integrated in India out of Pune, outside Pune and they distribute to customers so the margins per se in ratio terms will be lower but if I strip out the cost that we reimburse then you know it is a very substantial customer way set up.

Hardik Jain: But in this kind of business also I suppose there is some subscription charges that for firewall also people has to pay so from next year onwards the entire renewal which you get that will be very high margin revenue is it?

Kailash Katkar: As compared to other products like endpoint security and the Pure software plus I would say the margins are lesser in UTM actually.

Hardik Jain: One more question Sir when we say we saw the Total Security is 45% of our revenue but number of licenses is smaller part of the revenue, so that is because the pricing is much higher. When I sell that license for three years Rs.2500, so entire 2500, is accounted as revenue in one year or it is spread over three years?

Kailash Katkar: Let me explain that. The way the sales revenue happens is that our entire sales is done to the dealer on no return basis that is one of the under pinnings of our business model unlike other cases where they do take it back or they cancel the product because of which in accounting terms both Ind-GAAP and Ind-AS as long as the sales do not get taken back it has taken as sale on transfer basis.

Hardik Jain: Entire 2500 will be recorded as revenue in the first year itself?

Abhijit Jorvekar: Since there is a cost embedded in this for the future. We make an estimated every reporting day along with auditors and we passed an entry to the extent of that revenue happening in the future. It is a very small part I will explain it this way. There is an opening balance which would be reverse and fresh intuitively passed so it comes between 1% and 0.5% of the revenue, so what you are think today as our revenue is after exact impact.

Hardik Jain: I did not get that that Sir, what kind of estimate I am so sorry but I did not get that?

Abhijit Jorvekar: It is very simple. The products that we sell will get support in the future even if they cannot be returned. So we make an estimate of how much would be effective cost whenever the cost then drops drastically because the only real cost that exists is web-enablement cost. A small proportion is provided if you go into our balance sheet and split it up we will find in one of the provisions the sales revenue carried forward to the future. It is a very smaller.

Hardik Jain: It has done in the last quarter?

Abhijit Jorvekar: No, it is done in every quarter both under Indian GAAP as well as Ind-AS, so actual terms is difference between Ind-AS and Indian GAAP which is for us except the adjustment of dealers, but this amount would be between 0.5% and 1% of revenue.

Hardik Jain: I think I misunderstood the statement, but it was mentioned in speech when in the opening remarks that some dealership commission was removed from this year. I did not get the statement?

Rajesh Ghonasgi: Let me just explain this is to do with the fact that entire accounting paradigm had changed this quarter almost all companies if you track, you must have seen them. I had to move from Indian GAAP to Ind-AS. Ind-AS is the Indianized version of IFRS and there are small changes. For example, the way we account for ESOPs for example. Now you do a fair value versus intrinsic value right so those kind of difference will come in, they are not very large for us.

Hardik Jain: Okay it is only from the accounting perspective?

Rajesh Ghonasgi: Let me explain this in two sentences. In Indian GAAP, we showed revenue as a topline and the dealer commission or incentive as a cost in the sales and marketing functional line items. On an Indian GAAP, we take it out from this sales and marketing functional item and deducted from revenue straightaway, so this only change if I take the two numbers.

Hardik Jain: Okay, I thought it was some structural change in the business, it is only related to account?

Rajesh Ghonasgi: May be we can take it offline I will just tell you that it is there on one of the slide, slide #13, but may be I could just take it offline.

Hardik Jain: And one more question. Every realization for the enterprise business will be similar to the retail business or will be much higher?

Sanjay Katkar: Actually let me just start in fact let me just explain. The average realization per license would actually be lower. There is the reason for that. In the case of retail what we sell is boxes where DVD, of course customers come and log in and download and store also, but that is one. The other part is retail customers buy small volume at one go. When you talk of enterprise customers as we go up from 25 to 50 to 100 to 200 the price per license would drop down, but that is okay because we are getting large number of license is to at one go. The other part is to deliver the decent happen in the form of boxes. It happens in the form of and secured FTP and download. So the costs of delivery are different, the cost per license is different, but the marketing costs are also lower.

Abhijit Jorvekar: The marketing cost tend to be lower and overall the cost per customer is also lower typically because if we consider the other operational costs even in case of like 200 computers, they use single download to update their licenses, they do not consume even significant amount of our bandwidth on our service.

Hardik Jain: Right and dealership margins for retail and for enterprise will be almost similar the margin that you give to your distributor or dealers it will be similar?

Kailash Katkar: They are roughly in the same range. The structures they tend to vary a lot, but otherwise roughly in the same range.

Hardik Jain: And the dealers what the margins that they get for enterprise I suppose the commissions for the renewal orders will be much lesser for them and for the fresh installation they will get higher commissions?

Rajesh Ghonasgi: That is what happens in the enterprise business. Even in retail business what happens is in case of retail business a lot of fresh sale or other retention also happens with fresh sales over there. It is much easier for customers to just go to the nearby shop and buy fresh license, so it is very tough to talk about that. But overall I would say other renewal margins are lower in case of enterprise, in case of retail margins are slightly lower than the fresh products.

Hardik Jain: Thank you Sir.

Moderator: Thank you. Ladies and gentlemen due to time constraints we will take the last two questions. The next question is from the line of Vikas Jain from KJMC Capital Markets. Please go ahead.

Vikas Jain: Thanks for the opportunity. Can you share the projection for the next three years?

Rajesh Ghonasgi: We actually have not been sharing this information. I would request Abhijit to talk about what we expect of the growth in the next three years.

Abhijit Jorvekar: I think we have already talked about in the past as well. We expect that the consumer business we talked about PC growth rate during this communication and we expect our consumer business to grow at a rate, which is definitely better than the PC growth rate as would be there at that part of time. So rather than putting a number on it the PC growth rate might change. There are projections it might grow as well as in some years it could be also. We expect that would always grow at a rate higher than the PC growth rate as far as consumer business is concerned. As far as enterprise is concerned, we do yes expect to grow at good double-digit growth rates simply because of reason that we see that SMB itself as a sector is growing at this double-digit growth rate and there is the country of entrepreneurs we see a lot of new business is coming and buying a products because that is the focus. You also see our government business growing at good double digit growth rate because again there is stronger intent on buying Indian product that we have seen in government which will definitely support our business, so that is how we see business growth happening. Mobile is a very dynamic one to talk off because when the mobile growth rates are very high, the awareness on security in that domain is still happening and putting a number any terms of types of growth would be tough right now. It is all depends on the way security ecosystem and mobile evolve.

Vikas Jain: Thank you.

Moderator: Thank you. We have the last question from the line of Saurabh Jain from Astute Investments. Please go ahead.

Saurabh Jain: Sir just followup questions. For our products, can you clarify how many different renewal options do we have is it only one year and three years?

Abhijit Jorvekar: Right now it is only one and three years for mainstream and these things we occasionally ended up doing a two year renewal but that very rare that is not a main stream of the shelf renewal. It would not impact.

Saurabh Jain: For the retail for example in FY2016, can you break up how much was one year renewal, how much was three year renewal?

Kailash Katkar: We do not have those figures actually.

Saurabh Jain: Okay, but any sense that you have on this?

Kailash Katkar: May be we do not have those figures. We will start counting that kind of results in future. We are yet to start getting that kind of data from the server.

Saurabh Jain: Would you said assume that most people 70%, 80% might be getting it one-year renewal only done?

Kailash Katkar: We really do not have that data. We are not at all mining that kind of data.

Saurabh Jain: Thank you.

Moderator: Thank you. Ladies and gentlemen that was the last question and the question queue will now be closed. Any additional questionnaires will be addressed offline. I would like to hand the floor back to Mr. Bhrugesh for closing comments.

Bhrugesh Parsawala: Thank you management for taking out and addressing the questions of the investors and I will hand over to the management for the call for closing comments.

Rajesh Ghonasgi: Thank you all for coming online. I understand that there might be some other questions whether follow on or otherwise, I would suggest you are just mark mail to me. My mail address is there at the back of the presentation and also marks a cc to Dickinson's representative Nilesh Dalvi. We will connect with you immediately as soon as possible and get on one on one if there are add on or we missed out your question. I look forward to that. Thank you.

Moderator: Thank you gentlemen. Ladies and gentlemen on behalf of ICICI Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.