

Quick Heal

Security Simplified

“Quick Heal Technologies Limited Q3 FY2017 Earnings Conference Call”

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Moderator: Ladies and gentlemen, welcome to the Q3 FY2017 results Call of Quick Heal Technologies Limited, hosted by Emkay Global Financial Services. We have with us today Mr. Kailash Katkar, Managing Director and CEO, Mr. Sanjay Katkar, Managing Director and CTO, Mr. Abhijit Jorvekar, Executive Director and SVP Sales and Marketing, Mr. Rajesh Ghonasgi, Chief Financial Officer, and Mr. Vijay Mhaskar, Chief Operating Officer. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Manik Taneja, Senior Research Analyst from Emkay Global. Thank you and over to you Sir!

Manik Taneja: Thank you operator. Good evening everyone. I would like to welcome the management and thank them for giving us the opportunity and I would now like to hand over the call to Mr. Rajesh Ghonasgi for his opening remark. Over to you Sir!

Rajesh Ghonasgi: Thank you. I would like to address your view to the disclaimer page because some of the things we will be discussing will be forward-looking and hence the disclaimer applies. We have the entire management here and Sanjay unfortunately is indisposed. He is logged in from his home so he will talk if there is a requirement that he answers but since then disposed my colleague Mr. Vijay Mhaskar, Chief of Operations will be articulating the operation and technology issues. Having said that, I would like to request Kailash to take it forward.

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

Before we discuss our financial performance for the third quarter, let me highlight the key achievement during the quarter. The Seqrite endpoint security that is EPS and Quick Heal Total Security Product, which is consumer product, have been recognized as a top product by AV Test Institute October 2016. This AV Test is from Germany. Our Seqrite EPS Enterprise Suite Edition has awarded AVLab BEST+++ Award in October 2016. Lastly Quick Heal has reviewed as a top trademark driven industry award by CII in Industrial Intellectual Property Award.

Coming to the performance during the quarter, total revenue marginally declined by 2% on the year-on-year basis primarily driven by 6% decline in revenue from retail products which was partially offset by 14% increase in revenue from enterprise and government products and 48% increase in revenue from mobile products. On similar revenue basis, we have been able to achieve higher EBITDA growth of 45% primarily driven by reduction in direct cost and strict control on our operating expenses. Our PAT has further grown by 154% on year-over-year basis. While we witnessed certain unforeseen economy developments during the quarter, our high quality security solution and strong distribution and marketing efforts helped us to sustain our revenues whilst improving profitability.

We further believe that in aftermath of demonetization and increased government focus on cashless digital India, there will be heightened need for high quality IT Security Solutions. Hence we see a strong need to further strengthen our effort towards creating awareness around the need for IT Security Solution.

With this, I would like to hand over the call to Mr. Vijay Mhaskar, Chief of Operations and brief the technology part of it further.

Vijay Mhaskar:

Thanks Kailash. Good evening all. This is Vijay Mhaskar. As Kailash mentioned we have great achievement from Endpoint Security Solution which we are evolving to address the bigger market share through continued focus on this product portfolio. AVLab as Kailash mentioned gave us the best +++ in EPS Category. AV Test Institute has awarded the Top Product in October 2016 for both EPS and Total Security. We will invest into Software and Hardware in our labs to ensure as we scale up this software and are able to qualify. This will help us to address the needs of the larger corporate for Endpoint Security. Other trend that we have seen is on the encryption. We have seen requirement of encryption so R&D team is currently working on encryption solution, which will be available for endpoint product solution portfolio in next 12 months. We believe larger enterprises as well as government customers would be requiring this and this will complement our already good strong portfolio of endpoint security as well as data loss prevention portfolio.

From the mobile perspective again we are getting good traction and you would have seen that in the results. We feel with good trend of population moving towards the digital payment and having this solution in timely manner I think good. We should see more traction for this going forward.

Other trend that we are seeing is on SME and SMB who are not necessarily having their own data centers. They are looking for cloud solution so the Endpoint Security Cloud Solution what we are working on and we will be offering that later this year will enable not

only us but also the managed security service providers who can offer this solution on the cloud and then enable SME and SMBs to have the Endpoint Security Solution.

So that in brief is about the technology announcements that we are doing, I would like to hand over the call to Mr. Abhijit Jorvekar, who is Executive Director and Senior Vice President for Sales and Marketing to cover sales part of it.

Abhijit Jorvekar:

Thanks Vijay. The quarter started on positive note. As the festival season was well-positioned in earlier part of the quarter, we did not see a major impact of festivals on sales. We saw major recovery in sales in early November, however post demonetization there was major dip in the business, both on activation as well as the actual business. There was major fall in sales of PCs and laptops during the course and this was pretty significant because this directly affects even primary buying of product. Further there was liquidity crunch experienced by some parts of our distribution network leading to delayed payments. We supported our partners by extending credit lines to those who were reasonable on targets. Our mobile product and government part of enterprise business did really well. We saw some delays in closures on the enterprise front again, which were also caused but overall the business still went on good note and we saw significant growth in the enterprise business. That is all from me.

Now let me hand over to the Mr. Rajesh Ghonasgi, our Chief Financial Officer.

Rajesh Ghonasgi:

You would have seen the presentation we have put on the website and I will just walk you through some of the slides. On slide 9, we have given the results for nine months and the Q3 on year-on-year basis and yes you can see that we were affected by the demonetization process. We will see that on nine months to nine-month basis, we had 10% improvement in revenues. EBITDA has gone up by 16%. Overall on a larger period of H1 and H2 we believe we should be able to show you improvements that we are talking about but specifically the quarter got impacted. The revenue analysis which shows that there was substantial growth in mobile and there are certain reasons why mobile grew so much although licenses did not. We had a higher value product introduced which was not the same time last year which had good movement and so on.

In terms of financial operations, we have been highly focused on making sure that we do the best based on assets that we have on books, which are the physical assets and of course our employees. So you will see that number of people has been fairly stable. There is only seasonal friction where some people come in and go but overall number is highly stable.

The other part as you will see is that direct cost has gone down and we over the last six months have renegotiated a large part of our direct cost purchases as well as renegotiated certain networking cost, which is a substantial part of delivering our software to the user and the net impact is the gross margin looked healthier than last year. Further, keeping control on people numbers, keeping control on cost, have enabled us to show better margins than last year although our revenues have seemed to be slightly lower.

The other big item is of course you have had other income. Out of this other income around Rs 1.25 Crores is on account of closing of old income tax assessments where we were clearly supposed to get certain refunds and the interest on those refunds. The rest of it is fixed deposits that we have on our balance sheet. This helped us being positive at PAT level despite the dip.

The next slide gives a picture on our cost structure. We kept our costs under control so that we are able to drive margins and only when required we will focus on increasing our costs.

The other thing of course coming to the balance sheet, you will see the balance sheet is pretty clean as only payables and such accounting liabilities, no loans etc. We had one impact because of demonetization; not just the retail sales got impacted negatively but it had a follow on impact on our dealers. To that extent you will see the debtors has gone up slightly. We should have been around 60+ days while actually it comes to the 83 days so that has been an impact, which is pretty visible in the trade receivables, we have also seen in that waterfall chart, where you can see 83 but at the same time last year later around 63-65.

Now this was for the period up to December. Right now we are on the way out and I think we have recovered in a sense and we are on the way to recovery. So that gives you picture of the financial. We have some other details, which could be of interest, but that is the major part of financial performance. Now having said this we could go onto the Q&A session.

Moderator:

Thank you very much. We will now begin the question and answer session. We have the first question from the line of Dhruv Bhatia from AUM Advisors. Please go ahead.

Dhruv Bhatia:

Thank you for the opportunity. My question is more on the mobile solution that you offer. While I believe current penetration level will be low, could you let us know how internationally mobile security has been growing, just to get a sense of how big the opportunity is for us in India?

- Vijay Mhaskar:** Yes, perspective on awareness on mobile security is right. It is still a domain which is picking up. We see a certain level of awareness especially this results in people buying the product as part of sale and it is evolving. Another aspect in as threat factor keeps on evolving in the mobile domain, we definitely see more opportunity. Globally in terms of adoption, we see all the major vendors have the mobile products and as we just said like this awareness is something which is definitely hindering the adoption of the product but it is very important the sheer size of another platform is huge and it cannot be neglected and it is very major opportunity for all security vendors and Quick Heal intends to continue its presence and as most of have seen we have grown new domain in this quarter and we believe that we would continue having decent double-digit growth with along mobile security products in near future.
- Dhruv Bhatia:** But are you looking to tie-up with OEMs to sell this mobile security solution or is it that you are selling it on B2C basis?
- Vijay Mhaskar:** Right now, it is mostly B2C but yes we are in touch with certain OEMs, and as discussion passed, we are also in touch with telcos, service providers various kind of aggregators so we tend to be in touch with various organizations and there are organizations with whom we have worked in the past, there are certain organizations we are currently working, in terms of delivering products to end user.
- Dhruv Bhatia:** Who is globally the big player in this mobile solutions security space?
- Vijay Mhaskar:** If you look at this most of the major security players like Quick Heal do have mobile security products and right now there is no clean demarcated leader in this space so it is very open business and Quick Heal stands equal chance of doing business. The good part as mobile as a platform is also pretty, it is mobile so people are still in a phase where they are adopting new products and definitely gives Quick Heal an opportunity to be one on those products which can have global adoption.
- Dhruv Bhatia:** If you could help with the pricing of these products how are these products priced by Quick Heal?
- Vijay Mhaskar:** The basic security products; we have got two products in this. One is where we give only security that is for the mobile phones and that is priced around Rs.500 and besides this we also have products where we have bundled handset insurance along with the security product so there you know the price basically depends on the value of the handset because there is insurance bundled with this product so there we have products starting all the way

from roughly Rs.600 to nearly Rs.3000 depending on the value of the handset so this is rough distribution of products we have.

Dhruv Bhatia: Thank you.

Moderator: Thank you. The next question is from the line of Avinash Sharma from the Dalal & Broacha.

Avinash Sharma: Thank you for the opportunity. My question was related to firstly the enterprise and government segment. You mentioned that the government space is doing better so just wanted to have some colour in delay some of the closures as you mentioned, and what would be your outlook for you say coming few quarters and in retail segments license growth in terms of volume has not been that strong and may be impacted because of the demonetization but just wanted to know what are the levers we have over the next three-four quarters where we can push that growth back up to get 10%? Thank you.

Vijay Mhaskar: I will take the last part of it first. One thing which we know affected business in the third quarter was PC sales, which I mentioned earlier, PC and laptops sales really getting affected. So this being need driven product retention business normally does not get affected because customer already is on both normally I mean so that is a perspective but at same time because the new PC and laptop purchases were significantly affected that definitely has had some impact on business.

Next is coming to how would it shape up so we see that whatever PC laptop buying which has got impacted in the third quarter will definitely happen in the upcoming quarters and it would definitely help us in some improvement while we do not see this coming as windfall in the current quarter or the next quarter but we believe this could definitely happen in staggered way and that would benefit us in terms of growing our retail business and will come back to the normal good course in retail business.

Coming to the enterprise product business where we do government as well as enterprise customers SMBs as well as from emerging enterprise customers, one part is we saw stronger growth in government, one is definitely we have strong government team in place and process for that and demonetization did not definitely affect government buying. So that is one reason, which I will definitely say we saw stronger growth in government.

In case of enterprise I would say we did not see degrowth or we actually saw business slowing down, the challenge was more in terms of decision-making getting delayed so some of the business which could have happened in third quarter might spill over into the current

quarters. That is where we see this enterprise thing moving, but it has not got a significant impact most of the cases were closed, it was not a significant movement of business from third to fourth quarter.

Avinash Sharma: Right Sir just follow up on that you mentioned, I mean, if I just look at the overall base like enterprise and government together what could be as I would say we have introduced new products, which have come up in the last year and then we are talking about some cloud security products as well, but considering the base of the business, which is roughly around Rs.50 Crores for the annual year, it is a bit lesser, but do you consider this as to be a main grow driver or do you feel that, basically I wanted a view of over say the next two years?

Vijay Mhaskar: Some of the products, which were mentioned by Vijay, are still in pipeline. We are constantly introducing new products and technologies, so some of the technologies are part of existing products. It is an ongoing process and we do not see enterprise or government business becoming the significant part of business in current year, it would definitely happen over a period of time, it will definitely take up a significant part of our business, but we see that retail will continue to being the flagship part of our business for at least coming two more years, but yes what we definitely see we have been reiterating this that enterprise business will definitely grow as a part of the pie and we always reiterated this fact that we would like it to be at least 30% of our business in near future.

Avinash Sharma: Okay Sir. I will just come back if I have followup on that.

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

Amish Kanani: Hi Sir. Congrats on a descent set of numbers, given the challenges. If you can just walk us through the growth post demonetization in November, December and whether there is some traction in January directionally or some indication of how the situation panned out both on the retail side and the enterprise side and given that the trend is, the growth is coming now more from mobile and the government whether that is sustainable on a median term? Thank you.

Vijay Mhaskar: As far as enterprise business, we said that it was stable, we did not see any major impact on that business and the trend continues, so anyway things have come back to normal, so whatever minor business, which spilled over into the current quarter we are already addressing it, so that is the way it is and we see growth rates in that business being stable and they are already descent, so we hope to continue seeing that kind of growth rates in the enterprise business and retail is on recovery path, so we are pretty much doing what had

happen during the normal course of business, so that is something we already see in terms of business in the current quarter.

Amish Kanani: The question was despite the SME segment being impacted majorly where we have seen any degrowth and what could be the reason for that because it is presumed that the liquidity crisis hit the SME sector the most if you see the survey, so any reason why you were stable?

Vijay Mhaskar: One part is if you recall the earlier statement I made, we basically are need product, so in terms of adoption, if we have a subscription if you need security you end up buying it, normally a customer would not say without security, but the only effect we see in terms of the receivables or the credit lines that we end up extending our partners, so definitely that is where the impact is visible, in the need, people cannot stay without security.

Moderator: Thank you. We have the next question from the line of Manik Taneja from Emkay Global Financial Services. Please go ahead.

Manik Taneja: Thank you for the opportunity. I wanted to prod you further on the trajectory that we are seeing on a retail side, this is a business segment, which has grown in mid teens for us over the last two, three years; however, we have seen a very modest single digit growth in at least nine months FY2017, if you could help us understand how should we be thinking about growth in this segment going forward that is question number one? Second question while you partially alluded to it just wanted to get some sense in terms of the fact that you said that there was some impact because of demonetization on business, are you seeing things coming back to normal because Q2 and Q4 are the quarters where you do most of the sales?

Vijay Mhaskar: Definitely we see business coming back normal in current quarter. It started happening in latter part of December, so buying has definitely resumed and as far as status of retail business is concerned, we can expect growth, which can be slightly better than the current quarter because the current quarter was definitely affected by this event, but considering there is a mature project category or mature category we definitely cannot expect the kind of growth we have seen some of the other product categories that we have.

Manik Taneja: The second question that I had was in terms of some of the investments that we have made in the last three to four years we would not need to increase our cost and we would essentially see margins moving up to historical level, given the fact that you are saying on the retail side our growth could be lower than what has been in the past does it by any means impact our margin outlook going forward?

Rajesh Ghonasgi: Number one is demonetization this particular quarter we have been affected and while I will not try to put a number to it, I would say that if you look at the other FMCG companies' computer resellers, HP, Dell, etc., and of course smart phones all have got fairly negatively impacted. Now the thing is this has impacted us. We were actually on a good trajectory in October as you said and we do not track sales in each month, we actually look at how much of the inventory is getting used up on a daily basis, which shows up as a customer renewal or a new customer and that was doing well. Now for the last 45 days roughly a couple of days or few days after demonetization we all got affected. Our ticket size for the end customer is anyway from Rs.500, I am talking of the computer product for Rs.2000 and even this is cash across the counter market, so that got affected. It is a substantial amount that we would have lost, I would not put a number to it, but I would say double digit in terms of Crores has been lost, now how much of it will come back is unknown, we will try that, but we clearly do not know that, but in a direct sense our whole what you call annual margins theory the fact that we have cost under control and as and when revenues happen the margins will come back, it is only a question how we go through this cycle.

Manik Taneja: Sir I am asking more from a longer-term perspective; do you think the margins can go back to 40% plus in next six to eight quarters?

Rajesh Ghonasgi: That would be difficult to say because 40% plus is not something that we talked at. We said better than what we were and getting into better margins than we have reported over the last two years primarily because we will be investing back into new products, but it would not be at the level that we did over the last year.

Manik Taneja: Thank you.

Moderator: Thank you. The next question is from the line of Rahul Jain from Systematix Shares. Please go ahead.

Rahul Jain: My question is pertaining to the enterprise business, if you see in the current budget session there was a small cess in terms of the tax rate that has been lowered down for the SME, which covers 96% of the total corporate base and what I understand is this is the market, which we tap. Does this change make any sense to you in terms of how you tap this client into business or any other view you can share on the enterprise side of strategy?

Vijay Mhaskar: As we mentioned earlier we being a need base product, taxation rates will not necessarily have an immediate impact on us. Any change in taxation structure, the major changes that we had been talked about could actually have an impact because that is where an automation could significantly increase, so any change which could lead to significant

adoption of automation, computerization is something which can affect our business, but otherwise while this can maybe add to some kind of improvement in liquidity in businesses, but as I said this might not necessarily lead to immediate change in the business dynamics, people will keep on buying security irrespective of in fact this is one of the most important product people would keep on mind irrespective of the financial condition of the organization. The only thing is as I said the payment cycles could get impacted, but yes people buy security.

Rahul Jain: What I am trying to say is if they can increase their spend on discretionary things because their tax liability will go down, are you trying to say that there is already enough penetration, and they are already buying such products and only the people who are not part of the ambit would get into the game only once there is major automation in the system overall?

Vijay Mhaskar: So what we see is, we might see customers moving towards more value added part of solutions, so customers with more basic solutions could move to in a product with better features that is something which can happen and definitely we would also make that part of a strategy to address that part of, need of customers or prospects.

Rahul Jain: That is, it from my side. Thank you.

Moderator: Thank you. Next question is from the line of Biren Shah from Aadinath Shares. Please go ahead.

Biren Shah: What is the average realization per license per year?

Kailash Katkar: Actually that varies across the product, their products are quite different, for example, retail products go out in boxes, they are from a manufacturing base, enterprise and government normally go in the form of downloads and secure FTP and mobile is always a download and their different products.

Vijay Mhaskar: We have products across the range and the largest selling products even in retail are the premium products, so I think the way we have been talking about the Total Security which is a premium offering for retail customer continues to be the most adopted product from product basket and there the realization is significantly high, but to ensure we have most of rather large part of market address we have also product, which are priced significantly lower, so their the realization is lower than, let us say Total Security where the realization is almost close to around Rs.800 odd, but the lower products definitely are lower, so it is a

broad range I would say and interestingly all these product categories contribute to growth and all of them are still growing.

Biren Shah: What could be the size of the digital security market?

Abhijit Jorvekar: Digital security market is a very broad term, because it includes lot of other product, which we actually might not be part of including enterprise firewalls so on and so forth, so it is a very large market, it is I think...

Biren Shah: Is there any planning to venture into such kind of thing?

Vijay Mhaskar: So, I mean to include the large enterprise is pretty significant. We currently are focusing on the SME through our portfolio of endpoint security as well as UTM, but Abhijit said there are a vast number of solutions and is a vast scale also, the market is definitely huge.

Biren Shah: Is there any planning to venture into the home automation security or Internet of things security market?

Vijay Mhaskar: Yes, we are looking at. The research is going on that. Definitely we are interested in that market and looking at it.

Biren Shah: Okay and why Q2 and Q4 is always better than Q1 and Q3, is there any seasonality, which is playing out with such kind of IT company?

Abhijit Jorvekar: It is more of a business dynamics and I think that is with most of the companies, because a significant part of business comes from stock and sell products, so that is one reason behind that a bumper closure and then slightly slow first quarter and then again a great second quarter then we have a festival season, what we have seen is third quarter is not really a business thing, where people rather or companies like us actually want to control business, it is affected more because of the festival season and it is a very cyclical thing starting with certain festivals in eastern part of the country, so it flows down significantly for 45 to 60 days period depending on how staggered the festival season could be and could affect really a large part of country over a period of time.

Biren Shah: What is the size of the India's gadget market? Is it more than Rs.100 Crores or Rs.150 Crores?

- Abhijit Jorvekar:** Gadgets, we have some data from 2015 or like where we had heard some 18 million plus smart phones having got sold, but that is one still growing, but can you please come in terms of the gadgets.
- Biren Shah:** Gadget means that ranges from PCs, laptop, tablet, mobile, smart phone everything where you can address the market.
- Abhijit Jorvekar:** We do not have that data right now with us, while we do use some data available for some of the subscriptions we have, but some of that is not in public domain.
- Vijay Mhaskar:** Okay, I will put it in this way. If you access our red herring prospectus there is a whole lot of data on this, red herring prospectus.
- Biren Shah:** What could be the top line in next three years?
- Abhijit Jorvekar:** We actually like to look at the qualitative, we could see numbers, we are talking of new products like IoT, etc., so right now, I think, in a very generic sense, now we are looking at, I think Vijay would like to talk about the fact that we would like to grow in mobile and enterprise to a level where we have substantial chunks of the pie?
- Vijay Mhaskar:** As Abhijit said we want to certainly grow the enterprise business towards 30% of the portfolio and also mobile business that we want to certainly grow and you will relate to home networking solutions, so that something is currently what our focus on. Qualitatively that is what we want to expand our portfolio and expand the scale and the reach and that should get us the revenue growth.
- Biren Shah:** So enterprise solution will bring down margin to certain extent because retail is a creamier business?
- Abhijit Jorvekar:** We do not see that really happening, enterprise value addition comes from the new features which keep on getting added and I think Vijay mentioned at the start of communication that we are constantly upgrading product, better test results, more features, so it is an ongoing thing and that is something which prevents prices in the enterprise.
- Biren Shah:** This demonetization or increase of digital transaction will it provide some boon to the security solution provider?
- Kailash Katkar:** It is supposed to be; we are looking forward to it.
- Biren Shah:** Thank you very much.

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

Amish Kanani: Sir if you can remind us what proportion of our sales is now in cash versus online which might be paid through digital and post demonetization there are any changes or not? Second thing just clarify whether the 30% share of sales that you said in near future whether you mentioned a non-retail, which is enterprise, government and mobile put together or it was only enterprise and government?

Rajesh Ghonasgi: Yes, let me just give you the answer for the first question. Can you just repeat that so that we will break it up?

Amish Kanani: How much is done through cash, maybe we in turn to our distributors might be giving this thing through digital cheques and banks, but may be end retail products and retailers how are they paying?

Rajesh Ghonasgi: All our transactions with dealer of course are electronic because everybody pays by NEFT most. They might issue cheque but that is not the story. At the retail level people buy one, two, three licenses that is in cash primarily because this is the equivalent of somebody let say Rs.2000 worth of home products that would be normally in cash people may change and more digital, but within this around 7% to 8% of revenues come from our e-commerce store on a website and that of course we hope to grow that is completely digital because payments happen electronically. As far as balance is concerned, India is still cash economy, we hope that it is most to do digital it helps us both ways and business creates a need that is pretty palpable. On the other hand, we do not want to be a cash economy because there are negatives to that, but how long will it take, how far it will go, I think it is not in our control. What we are ready for is whichever method of payment the customer wants. We have distribution channel which addresses him that is the first question and I think I will request a second and third question

Amish Kanani: The 30% share in the near future is for enterprise and government or enterprise & government and mobile put together?

Vijay Mhaskar: So this 30% is only enterprise and government. Mobile is separate because of the very dynamic nature of mobile business. While we see a good growth rate in that currently higher than rest of the businesses is it is a very dynamic business, but the evolution is something we are keeping a finger crossed on that in terms of what part of our business could that be.

Amish Kanani: If I can just add in terms of other income, if you can clarify this year we had come black because of the other income, if you can just tell us of the trajectory of other income and how are we booking it, accrual versus cash accounting treatment?

Rajesh Ghonasgi: First of all, we have about Rs.180 Crores in FD and out of the balance there is a substantial Rs.130 Crores in mutual fund. I will explain the way we deploy it without taking risk or how we manage the risk on that and of course the balance left over is the month end cash which is meant for payments or for salaries, so that is why we are. This quarter is not really normal quarter, because demonetization hurt us. If demonetization had not happened that probably would have reported a free cash flow higher by about Rs.20 Crores. Now that is the fact of life and that I would have been part of our free cash without any encumbrance. So as we go along over the next two years, we will be investing in the areas that the RHP talked about the IPO money. We also expect that we will continuously keep on adding cash remember a chunk of that cost that we have is depreciation is non-cash, so cash generation on an annualized basis on a normal basis will be pretty healthy. That is number one. So we have just been affected by this quarter with higher cash, lower debtors, of course I am not talking about the P&L itself, which would have been better. The other question you asked was what do we do with the cash. First of all, the IPO money is invested in the way SEBI's LODR rules and all the other SEBI rules apply, it is basically FD. You time the FD in relation to cash flows and these cash flows are the ones that we have or even that you have committed in the IPO document. As far as the rest of the cash is concerned, we generate it and pending use whether it be in the form of dividend or actual use in business we have very low risk policy, safety is the first priority, cash flow and return, that SLR concept that is we will follow, we take no risk whatsoever, certainly no risk that we are not supposed to manage because our job is to produce software efficiently and not try to continue markets, so in that money is kept in as safe form as possible with highly rated instruments, fixed income only, no risk taking with any other type of instrument and hence you believe that the money will be used to produce return, but in a very large sense it will be used for business as and when it comes up either paying dividends or in actual expenses.

Amish Kanani: Can you remind the MF investment number you mentioned on the balance sheet?

Rajesh Ghonasgi: It is about Rs.120 Crores.

Amish Kanani: Okay, so Rs.180 Crores of FD and MF of Rs.130 Crores and that yields approximately 6% to 6.5% can we assume that that?

Rajesh Ghonasgi: Yes.

- Amish Kanani:** Thanks a lot, all the best.
- Moderator:** Thank you. The next question is from the line of Ritesh Bhagwati from Fortune Interfinance Limited. Please go ahead,
- Ritesh Bhagwati:** Thanks for taking my question. My question pertains to like do we have any products in pipeline like in near term like next 12 months or 18 months, if yes then when are they going to get rolled out?
- Vijay Mhaskar:** Ritesh, this is Vijay. You probably missed the earlier update, so on enterprise side we have Cloud solution and MSSP solution, which is in the pipeline. We will also have higher unified set management provision which is going to be most scalable and besides that we are also looking at researching at this point for owning solution, so that is the kind of the roadmap going ahead 12 to 24 months.
- Ritesh Bhagwati:** Second question in general parlance like past four, five years we have grown at an average of 17%, 18% on topline basis, due to recent move by government focusing towards digitalization, so security would be a key thing, so any broad sense like how do we see our topline panning out over next four, five years due to this move by government like do we see the same pace of growth rate or we going to see the growth rate going 300, 400-basis higher than past growth rate?
- Vijay Mhaskar:** It is tough to say this right now. The move is positive which would lead to higher adoption of technology and improve business, but it is tough to predict on this right now in terms of what kind of immediate impact this will have on business.
- Ritesh Bhagwati:** That is, it from my side.
- Moderator:** Thank you. The next question is from the line of Avinash Sharma from Dalal & Broacha. Please go ahead.
- Avinash Sharma:** Thanks for opportunity again. It is a question again on the enterprise segment; just want some comments from Abhijit Sir. Related to there is some qualitative commentary as you like what would be your go to market strategy again in this segment to penetrate further and whether they have been any increased conversations for recent products which are satisfying much larger number of nodes and so any color on that would be helpful?
- Abhijit Jorvekar:** Because confidentially the reason we cannot divulge names of our customers, but we are consistently, we have been able to acquire really good number of customers, even in this

quarter and yes the size of customers or the number of endpoints which are being addressed by our products right now definitely scaling up we are having customers. Earlier it was typically we talked about 100 mark, today we have more customers which are closer to 500 kind of mark; there are also customers which more than 1000 endpoints already getting acquired. So we see this moving ahead and the Cloud initiative that Vijay talked about definitely that will also help us in adding customers, so that is where we are heading and the endeavor is ongoing to acquire bigger customers with more complex networks, with more complex security needs and that is an ongoing initiative there are lot of interesting customers which were acquired in multiple range right now longer in publishing pharmaceuticals so on and so forth.

Avinash Sharma: My question was the same. You are seeing good traction in the number of customers you are adding to your enterprise is that correct?

Abhijit Jorvekar: Yes, definitely. In fact, just to add we have been also talking about product called MDM/Mobile Device Management, so beside EPS that one more product we started seeing some business traction on now.

Avinash Sharma: The Cloud product you spoke about I am sure the adoption would be much quicker considering the deployment, but ticket size would be lower than the EDS product which we have EPS product?

Abhijit Jorvekar: The Cloud product we will be tying up with partner, who in turn will deploy security at customer's place. So you would have certain pricing model based on the features and size of networks so the whole pricing would end up being determined also with the levels of services, which would be in turn provided the actual partner who would deploy the solution at customer's place, final price.

Avinash Sharma: Okay Sir, hopefully we see good Q4, you can give us better outlook for the financial year 2018.

Rajesh Ghonasgi: Sure.

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

Parimal Mitthani: Good evening Sir. I have two questions. One, there is article in the press at least for a year back that you have signed the MoU with CERT, the Computer Emergency Response Team of the government. What is the progress on that front?

Sanjay Katkar: I can answer that. This is Sanjay here. The MoU was for giving a technical assistance to government or in terms of analyzing malwares and giving the threat perspective about what new malwares we are seeing and that has been in progress constantly as soon as we signed we have started sharing that thing, so that is something which is noncommercial it is just about sharing the data that we see at our customer base actually.

Parimal Mitthani: How does it benefit Quick Heal in terms of MoU?

Sanjay Katkar: So the benefit is like when we share credential agents, they also share this similar threat intelligence that they come across certain government installations as we may not be present and we do get samples from them which we had not seen actually, so that helps us to improve product and be ready for the threat that are targeting Indian installation.

Parimal Mitthani: This is the department, which has tied up with UIDAI, so do you do any work with them on this thing?

Sanjay Katkar: Currently we are not tied up with the UIDAI, we are trying to reach out.

Parimal Mitthani: My second question is a month back there was an article interview by Mr. Sanjay Katkar in terms of enquiring encryption as well as cloud security coming, any progress for this month?

Sanjay Katkar: Yes, on the encryption front we have made a good progress, we have signed up in agreement with an organization for acquiring the technology. It is a Europe based organization and we will be getting the technology and the integration will start in next three months, so it is something that will take sometime for integration and I will be able to come out with timeline only after the knowledge transfer phase is out, so we are entering that phase very soon actually.

Parimal Mitthani: Market size for this?

Sanjay Katkar: So, this feature is particularly being needed by very large enterprises and government is adding more compliance or adding certain rules may be RBI is adding rules banks to go for encryption and all that kind of feature, so we will be ready with such features once we integrate that actually, so market is definitely bigger I cannot come out with figures right now, but the thing is it is going to be norm or a standard very soon, so we have to be ready for that kind of market.

- Parimal Mitthani:** The contract type of this thing Sir, if you can tell me? Which are the players that are ahead of you because since you do not have technology here, which are the players that you compete within this space?
- Sanjay Katkar:** Most of the MNC vendors in security domain have technology and most of them have acquired it. Encryption is something that has been like in a different league because it is dependent on the different operating systems, so the full disc encryption is something that we are acquiring. The agreement is in that phase where in we cannot disclose any figures right now.
- Parimal Mitthani:** The same article you mentioned that this market is growing close to around 10% per annum and it is likely to grow further, so any indication in terms what revenue will contribute going ahead after this into our bottomline and topline?
- Sanjay Katkar:** I do not think I will be able to judge that right now, because what I have seen is adoption of such technologies India takes a longer time than in the western world any other developed countries. The point is we have to be ready with that future and if at all government makes a norm certain standards are restricted on financial organization or any government organization then only this will pickup very fast I will say, but if it is in terms of demand it is only coming from very large enterprises for now.
- Parimal Mitthani:** Last question in terms of enterprise or government since you clubbed both together, where was the growth higher in terms of enterprise or government?
- Vijay Mhaskar:** Abhijit can answer.
- Abhijit Jorvekar:** It is a pretty balanced thing. Definitely right now government is going slightly faster than enterprise business for us, but we see that enterprise in certain quarter have actually grown as faster, historically we have seen it, it is a balance between the two, but currently in recent part we have seen government growing faster than enterprise.
- Parimal Mitthani:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Hardik Jain from Whitestone Financial Advisors. Please go ahead.
- Hardik Jain:** Most of my questions are answered. Only one question, I would like to ask is, you said that because of demonetization in retail, the new sales were impacted, as I understand before the

new sales start coming to normal, the online registration should start becoming normal before the sales become normal. So are your registrations getting to the normal level now?

- Vijay Mhaskar:** Yes, that started. We see things falling back in place.
- Hardik Jain:** One more question is on the cloud platform, you said you will be ready to rollout this cloud solution in the next 18 to 24 months right?
- Vijay Mhaskar:** Yes.
- Hardik Jain:** Okay and how much do you plan to spend on building this solution?
- Sanjay Katkar:** That actually you really cannot predict. The R&D team they keep on demanding as per the reforming and as per the need, but we definitely look into that unless and until we know that demand is genuine from the department. We need to keep on spending that part of it. You really cannot do proper budgeting for that.
- Hardik Jain:** That is, it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Alok Sanganari who is an Individual Investor. Please go ahead.
- Alok Sanganari:** My question is about the number of licenses in the beginning of presentation you mentioned that you have 7.6 million active licenses then in the revenues, you say that in nine months of FY2017 you have sold 4.3 million licenses whereas in last nine months you sold 4.07 million, so how does like these two figures does not match up?
- Vijay Mhaskar:** 7.6 is the number of licenses in place, 4.2 was sold and they got replaced. Now we not only have one year license, but we also have multiple year licenses, so with the 7.6 million includes the customer who would have bought last year say 4 odd million, the customers who bought earlier who have multiple year licenses, for example some government buy three year licenses, what would happen is there could be a customer who bought three years, he would not be visible in next year sale addition, but is still customer whom we are servicing, who has paid money and three years later he will renew. Government departments have this requirement, they do not just wait for one year, some even have five years, although three years is more norm than five years, so when you see the difference, a difference is an account of licenses which are already in use may not be sold this year, but would have been sold last year, all the year before and are still valid and at the time of their expiration, they will come back and buy a new copy or renew it.

- Alok Sanganari:** But you take 4 million last years, and 4 million of this year, so we are already more than 8 million?
- Sanjay Katkar:** Some get expired.
- Vijay Mhaskar:** Some of it expired.
- Alok Sanganari:** Even if they do not single that?
- Vijay Mhaskar:** No, number of licenses sold which are including new sale as well as the renewal sale.
- Alok Sanganari:** It includes renewal also, okay, got it. Thank you.
- Moderator:** Thank you. We have one last question. The last question is from the line of Jaykant Kasthu from Dolat Capital. Please go ahead.
- Jaykant Kasthu:** This is regarding I wanted to know about the average ticket size of the government licenses if you can put light into that number?
- Vijay Mhaskar:** We sell to government in two formats. We have a significant part of our licenses coming from rate contract currently so that is one part of business where prices are predefined on which we build business and there is a tender process where we fill up tenders and it happens on L1 basis, so there is a significant difference in the pricing we get applied in these two cases.
- Jaykant Kasthu:** Average situation of that contract would be licenses would be like around three years, five years?
- Vijay Mhaskar:** Majority is one year then three years and very rarely in case of certain bundling situations we end up giving five year licenses but they are very significantly small in terms of rest of business, so one and three is the major portion out of which again one would be bigger.
- Jaykant Kasthu:** And clients in terms of government are they like mostly like banks or like central government institutions?
- Vijay Mhaskar:** We got more stated as well as central government and client profile varies where there are difference institutions, ministries and it is a very diverse set of customers.
- Jaykant Kasthu:** Thank you very much.

Moderator: Thank you very much. That was the last question. As there are no further questions from the participants, I now hand the conference over to Mr. Manik Taneja of Emkay Global for closing comments.

Manik Taneja: Thank you everyone. I would like to thank the management once again. You can disconnect.

Rajesh Ghonasgi: From the management side, we would like to thank all the participants for taking their time and coming on the call. Secondly, we are available anytime, so you have the contact number just mark it to me or Nilesh Dalvi and we will address your queries if any and of course if you are in Pune just give us a call, it will be great to meet whoever is here. Thank you.

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