

Quick Heal

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“Quick Heal Technologies Limited Q4 FY16 Earnings Conference Call”

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 **ICICI Securities**



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MODERATOR: **MR. KULDEEP KOUL – ICICI SECURITIES**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Quick Heal Technologies Q4 FY16 Earnings Conference Call hosted by ICICI Securities Limited. 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 call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Rajesh Ghonasgi – Chief Financial Officer, Quick Heal Technologies. Thank you and over to you, sir.

Rajesh Ghonasgi: Hi, Good evening. Let me first start off by introducing the panelists here. I have with me Kailash Katkar – CEO and MD of Quick Heal Technologies, we also have Sanjay Katkar – CTO and MD of Quick Heal Technologies. My colleague, Abhijit Jorvekar, is in Japan to meet customers and attend to business, he is calling from Japan and he is online, and of course me here. I will hand it over to Kailash but before that let me just apologize, we were logged into the call, but virtually the worst moment possible, our entire building's fiber line got cut, whatever it is, we finally got onto another line and that is why there was a delay, sorry for that.

Kailash Katkar: Thank you, Rajesh. Good evening, everyone. On behalf of Board of Directors and Management of the Company we extend a very warm welcome to all of you to this main conference call of Quick Heal Technologies Limited to discuss the audit financial results for the fourth quarter and the full financial year 2015-16.

We have achieved a major milestone in our journey by successful completing our Initial Public Offering in the Indian capital market in February 2016 and we are happy with the encouraging response received from the investors. We take this opportunity to once again sincerely thank all of you for your support and we shall remain committed to a long-term business growth and shareholders' wealth creation.

Before we discuss our business financial performance for the fourth quarter and full year, I would like to give you a brief introduction about ourselves. Quick Heal Technologies Limited is one of the leading provider of security software products and solutions in India. Our solutions and products are today available across segments for retail, enterprise, mobile, across various platforms like Windows, Mac, Android, iOS, Linux and for various devices like desktop, laptop, mobile, smartphone, tablet, servers as well as gateway level protection. Our end customer includes home user, small offices and home offices, assembly enterprise, education institutes and government agencies and departments. All retail and mobile products are offered under the QuickHeal brand name and all enterprise solutions are offered under Seqrite brand name. A strong brand recognition is highlighted by the fact that there are more than 24.5 million product license installed till date, we have more than 7.3 million active licenses having grown in 2x times over last five years spread across more than 80 countries as on 31st March, 2016. We are currently the market leader in the retail segment with more than 30% market share, we have very strong and loyal distribution network associated with the Quick Heal. We have offices in 36 cities in India and four international offices.

If I have to tell about channel partners, in retail we have 19,000 plus channel partners, close to 400 channel partners in enterprise vertical, around 300 channel partners in government vertical and around 1,100 mobile channel partners. Our internal sale team and channel partners, collectively we identify the customers and sale our product to the customers and along with the channel partners we also provide after sales support to our customer. We at Quick Heal lay strong emphasize on R&D which I think Sanjay will be taking note.

Our in-house proprietary antivirus technology is based on an innovative behavior and threat detection system which detects and quarantine security threats in real time. The Company has consistently invested in product development, further, our products are backed by strong customer support in English and various regional Indian languages. Going forward, we shall continue to focus on our R&D efforts and will continue to develop new products and introduce enhanced features in existing products. We are positive on maintaining our current growth momentum in future as well as we see a lot of under penetration and rising need for IT security in coming future.

Now I would like to hand over to Sanjay Katkar who will speak more about technology. So I will just hand over to Sanjay.

Sanjay Katkar:

Good evening, everyone. I am excited to be on the call with you all on this first conference call after our IPO. So myself Sanjay, Co-founder and Chief Technology Officer and I head the Company's R&D operations here.

As you all know we are in IT security and India being our major market. The threat landscape for India is equally challenging as it is for western countries here and our observation is it will continue to be. So in last year's statistics what we had observed is India was listed as the third top destination for cyber-attack and that is also reflected in our annual reports that we regularly release, in fact quarterly release threat reports for desktop as well as mobile landscape. So there are large number of financial provisions against Indian SMEs and most of the targeted attacks are left unreported.

So if we look like taking a deep look at how malware includes Windows machine in creating security risk across corporate networks, and we will show just how creative and adaptive malware and virus authors have become. The most attacks in the last year faced by Indian enterprises are Ransomware attack and the Advance Persistent Threats, the APTs and APTs are mostly like targeting infrastructure, government verticals as well as some private organizations of large scale. So that is what we have been observing and that is why we are enhancing our capabilities in our R&D. And at Quick Heal R&D has enhanced our product line for retail as well as enterprise security.

We recently launched the new version of our flagship retail product Quick Heal v17 which has enhancement features as well as anti-Ransomware which is one of the prominent feature in it and better performance. We also released a Seqrite Endpoint Security v6.4 during early last

quarter which is like now enhanced for larger network supporting up to 2,000 plus endpoints. So this has got very good feedback from our partners and users and we will see more enterprise customers of this size coming onboard in coming quarters.

This year we plan to release one new product in retail category and one new product in enterprise category by December this year, but those products will be, like those releases will be beta releases and we will be able to start getting revenue of those products in next financial year. So these products will further strengthen our position in respective segment and these products are still in development stage and further details of these products will be made available as we come closer to the release date.

So that is all like a short-term on R&D, I think I will pass on my call to Abhijit Jorvekar who is online with us will take you through the market performance and how we have been doing in market.

Abhijit Jorvekar:

Thanks, Sanjay. So very good afternoon gentlemen. So talking about the market's overall, so the Indian PC market continues to be growing at same rate because that is a most important driver for us, so roughly at 10% but vis-à-vis that we were able to really manage great growth rate of 17% in terms of our consumer antivirus business and that was a major landmark or thing for us last year.

Besides this, we also strengthened the consumer business further. Some of the areas which were like under represented or where the distribution channel especially in deeper south and some parts of northeast and even up north like in the case of Kashmir J&K have been strengthened this year. So that is on the consumer business, again another important aspect of consumer business is we have strengthened the leadership and the fact that we grew at 17% vis-à-vis the 10% PC growth clearly indicates that we are able to grow faster than the market and also acquire customers who might be using our competitor's products.

Besides this consumer business the other businesses that we are currently targeting from a vertical perspective are like enterprise, pretty much more SME centric, and this like Sanjay said there were some new additions in the product portfolio last year and this also helped us growing over there and we saw some interesting acquisitions over there spread across the sector which includes manufacturing services, banks, BFSI sector and so on so forth, even pharma and automobile as well. So that is like how we did about this thing. It is a very wide range of customers that we have acquired. Importantly, the size of customers or the network that we address are growing bigger, so that is one more thing which is happening, we now have a stronger network of partners as well for our enterprise business and we are continuously adding new partners in underrepresented areas or for domains in terms of businesses that we intend to target, so that is one area which we are working very aggressively and this is happening across India.

Then coming to the government business that we have, last year one major thing which happened is we were able to get all our products listed in the DGSND rate contract and that was a major enabler for our business and helped us in growing that business as well. And we have a lot of key government accounts and departments which includes various parts of the defense establishment and related entities like DRDO Laboratories and manufacturing units related to that. Besides this there were some very specific achievements over there, some large government departments having initiated direct communication with us to work closely with us in terms of providing them with right kind of security. This is in terms of products, we are not talking about solutions, so that is one key thing, the awareness has increased. Besides this we see that a strong growth will continue in both enterprise as well as government next year.

The other business that we actually started last year was the mobile business where the gadget security product that we had just started in 2014, 2015-16 was the first complete year because the previous year we barely had one and half months of operations. This year again we saw a great traction like Kailash said we have acquired more than 1,000 channel partners in this business and we saw a lot of traction. Brand Quick Heal, again mobile being a consumer product we saw that there is a strong traction for Quick Heal brand over there, there is great acceptance over there and we definitely see that this business could grow in multiples this year and it could be one of the major business in terms of adding volume to our overall business, so that is where we see it.

One very important aspect which I would definitely like to share is that Quick Heal was mentioned in Gartner's reports as being one of the, rather being the market leader in enterprise business in India and that is also a key achievement considering that, again, our enterprise products are relatively new and getting such a reference by Gartner was very important for us. And that also showed the growing acceptance for our enterprise brand Seqrite in market.

So these were some key things from sales perspective that we saw in the market last year. I think I would hand over to Rajesh Ghonasgi, our CFO.

Rajesh Ghonasgi:

Thanks, Abhijit. Let me tell you some of the tests that have happened, just three or four months since the IPO. Before I start, let me just put in standard disclaimers relating to the numbers, whatever I say or whatever my colleagues say are covered by disclaimer that these may not occur. However, let me get into the details.

Number one is, of course we closed the IPO, so we are a post-IPO company and this is the first result that we have given out, we are trying to be very-very transparent, the presentation is the first one that we made and of course if you all have views on that we would love to hear that so that we could improve this and we go along. We will try to be as clear and as transparent as you investors want us to be.

The other part of course, there was a painful event, I will talk about it at the end of my presentation, there are two items I will take up. The issue of Mr. Malani and the service tax issue, both of which are now going smoothly, I will explain that in some amount of detail.

The third part is, coming to the financials. We had issued the financials as required by SEBI's requirements yesterday and today we made sure that the financials that have come out have the numbers sliced out in functional form so you could see exactly what the money is being used for. So unlike having just one single salary expense we split it into R&D, sales distribution, general administration etc.

So in the presentation that we have put out on slide 39 and 40 is a fairly is a fairly detailed analysis at the functional usage level. I will just take you through some of the points and I will also take you through some of the things that are important.

Number one, on an annualized basis we have done 18% growth over the last year. On a quarter basis we did 26% growth and this actually is the underpinning of our entire strategy that as we go along the products that we develop will deliver the thrust which will give us higher revenues. Now Q4 has been good, we have already had the earlier nine months where we had given the H1 data and there are variations that happened across the quarter and Q3 was a flat quarter for us, flat at the EBITDA level and that has been explained in one of these slides where we have stated the kind of variation that occurs in Q1 to Q2, Q2 to Q3 and then to Q4. And as Q4 and Q2 are fairly strong, as long as we do well in those quarters the overall operating leverage will be visible.

Now I come to the specific moments. For example, we had said that enterprise and government is a very large part of our thrust. Enterprise and government together have grown at 21% which is faster than the 16% growth in retail, but enterprise and government being a 13% slice it will take some time before the impact is visible in terms of the overall chart. But we are glad to say that the government took off very well, a lot of these strategies have worked and we expect that enterprise and government which are now as of this time, as of end of the year, our entire sales team is stable, they are well-populated there, should deliver growth.

On the other hand, the fact that we did 18% of which 16% was from retail is another good point that I would like to talk about because PC growth itself is around 10%, we have been able to get 16% growth which means that somewhere along the way either we have got customers who are not buying security earlier or we they have taken it from someone else. Whichever way, it gives us a good feeling that we are able to beat that number, my entire estimate earlier was between 12% to 15% but it looks like 16% is a good number to start with and we hope to keep that momentum. Retail has always been a highly stable and successful product line, we expect that it will continue to show its leadership and underpin all the growth initiatives that we are talking about.

Now coming to some of the other numbers, I will go to EBITDA. Now the EBITDA ratio apparently looks lower than last year, but then this was because we also had a scale up in number of people in the first nine months. In the last quarter you will see that the EBITDA shot up and shot up higher than it was in the same quarter last year, that was 39% last year to 44.3% and we expect that as we go along we will be able to manage that upswing.

The other part is, some of the other expenses instances of functional report you will be able to see that specific cost can be looked at. Our revenue ratio growth was 18% but R&D cost was 30% which indicates that we were in an investment mode last year and this of course continue to some of the operating leverage and then talking about.

In terms of advertising, and sale promotion and sale and distribution, I would like to take these numbers together because in an accounting sense some of these numbers move out, sales, promotion and some of the incentives are highly fungible. So these two put together 24.6 was the growth. Last year on a like-to-like basis we went from around 16.2% to 17% this year while we have been able to cut on advertising, sales promotion from 14.7% to 13.3%.

G&A is largely linked to the number of people, so as long as R&D costs go up G&A tends to go up, and by the way this year, this is unique over last year, in fact we have built a new office, the office was populated, that cost has been factored for the first time for the full year. And as we go along those numbers, that net cost number should not go up, the G&A should not go up much going forward because offices are all stable now.

The other part is, I will come to some of the other points. In terms of funds, we already initiated some of the CAPEX that we had intimated in the RHP and much of this is to drive testing of highly complex products and we should have those in hand soon to be able to test and deliver the new products that Sanjay talked about.

The other part is, over the next six months to a year we will be investing in to new offices which are far smaller compared to what we invested in last year and that for some time will be stable situation as far as CAPEX is concerned.

Now I will explain the funds. Much of the funds that came in, if you see the cash and balance there is a substantial amount of Rs.269 crores and then the current investments Rs.108 crores. The current investments are highly risk averse mutual funds and cash and bank balances are the funds that we generated from the IPO and the reason why you see that here is that by SEBI's rules we cannot deploy it anywhere except in scheduled banks, so therein FDs can be used as and when the cash is required, they are in fairly good banks, high quality banks. And we have some amounts left over which were for the year and basically the amount that we had to pay the bankers in escrow and the salaries because the salaries get cleared in the next working day on 1st or 2nd, so we had amounts for salary. So that is the cash and bank balances.

I will come to the two other issues. As you know there was an event where one Mr. Malani came and tried to claim that he was a shareholder. We have then gone and taken action against that. One is, we had gone to the media and stated in so many specific words that he was never a shareholder of the Company and this is based on documentary evidence and various regulatory filings, so there you know we are very-very confident, there is no case. On the other hand, since this was a situation that somebody tried to damage the IPO and damage the reputation of the Company we have taken some strong steps.

While these matters are sub-judice I think I can give you some level of information. We filed an FIR, the FIR was accepted by the police, the police investigated and took their own action and the perpetrator was brought in remand. The police investigation is continuing. On the other hand, there are some actions that happened, we have explained in our note, the financial. The other party had filed three cases, of these all the three cases have no documentary proof because we carry the documents in our hands, the ink on signed paper, etc., and we are extremely confident that these should go by the wayside very-very soon and we are focused on that.

I will come to the service tax issue. The service tax claims or the orders tended to come in a bunch at the time of the IPO. We do not know why this was so but having gone through it there were several events that occurred after that. Number one, in the course of the Budget the Finance Ministry issued a tax research unit notification, they do it for all indirect taxes and in that one of them actually covered our case where it stated that in case a product carries an MRP and are cleared through an excise factory their rate cannot be charged to service tax. Now this is exactly the fact that apply to our product, the product is an MRP product, it gets cleared from a factory, it gets cleared under an excise invoice, it gets cleared through an excise process, this is the way it has been from 2006 onwards. And that is why we are confident that this issue should be rested in our favour and of course we also decided that since the issue is large and a complete level of comfort and abundant caution we took, legal opinion from senior counsel who have also given us opinion saying that your case is excellent based on that the law understands historical treatment that the products were given and along with that the notification that came out along with the Budget. And then of course that our case was that we have which indicated that we are right, I would not go into that detail but let me just say that at the Management and the Board level we are very confident that our our stand is right, that our goods our materials will be treated as excise and hence should not be chargeable to service tax.

Now that in a nutshell is the description of the financial and the two issues that were in the public domain. I would request the Chorus team to address us to question-and-answer session, Karuna?

Moderator:

Sure. Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Dikshit Doshi from White Stone Financial Advisors. Please go ahead.

- Dikshit Doshi:** Sir my first question is, why there was so much reduction in the sales during the December quarter, is there any seasonality in our business?
- Abhijit Jorvekar:** Yes, there is a seasonality in our business, typically the second and fourth quarter tend to be large for us and the first and third quarter tend to be a bit weak, like first is the most weak and then we have a strong second quarter and slightly weak third. Last year we had a very peculiar situation, now we being the organization with a very strong pan-India distribution what we observed last year was that the festival season was pretty staggered and so it started with Durga Pooja and Dussehra and that is where East also is a very strong market for us. So starting with Durga Pooja and Dussehra then Diwali, the whole festival season we observed was very widely spread last quarter, I mean in the third quarter this year. We saw that it affected us in perspective of the working days which were available and the amount of time we got in terms of addressing the prospective customers or business, so yes that is what we saw but yes we do have seasonality in business but not to a level which we saw in the last quarter.
- Kailash Katkar:** I will add, see in the presentation we put out we will specifically try to address it on slide 30, as and when you build you models if you have any questions I have data made available for you on how the last two years
- Dikshit Doshi:** Sir second question is, in your press release I was just looking at the enterprise number, so your volume growth for the enterprise was 34% for the full year and whereas your number of license sold, growth was 21%, so have we taken any price correction in the enterprise business?
- Sanjay Katkar:** Not really, we have not made any price correction over there. One is, because we are also selling, Rajesh does that include government figures?
- Dikshit Doshi:** You have given the government and enterprise number; the volume is almost 34% but the absolute sales growth is 21%.
- Rajesh Ghonasgi:** So what we saw is that in fact because, we saw a lot of action even in the lower part of business, when I say the lower part of SMB. And because the government buying in DGSND rate contract happens at a pretty decent pricing, so that is one reason why we saw this consolidation happening over there.
- Dikshit Doshi:** As the sales from the government business increase you may see some more price correction?
- Rajesh Ghonasgi:** We can expect that, but it is tough to say that, but we see rate contract prices tend to be pretty decent, that has been our observation historically.
- Dikshit Doshi:** And sir you have given the number of licenses in retail enterprise and even in mobile, can you just give us the breakup let's say in retail like you have sold some 5.76 million licenses, so out

of this how much could be the new licenses sold which are like the first time users and how much would be the renewal licenses?

Kailash Katkar: At present we do not have that kind of breakup, but in coming future we will be able to capture that kind of breakup and maybe from next time we will be able to answer this question actually.

Abhijit Jorvekar: I will just add, this is primarily because the way we capture user data, it is based on IP addresses and email addresses both of which tend to change. So we will put in some other process to capture it without getting data misused.

Dikshit Doshi: And sir one more question, recently we have seen that IRCTC issue where the website of IRCTS has been hacked, so they must be using the latest technology or the latest security systems and everything, so what as an industry or the Quick Heal is doing for to develop more complex security products?

Sanjay Katkar: So the issue that came in the news was about IRCTC website hack, it was like at the server side, the websites are mostly on the Linux platform and such attacks are targeted attacks where they study the website and the software running behind that and the OS which is running and then they come out with a complex attack. But then see, we at Quick Heal are having certain enterprise products that can tackle such attacks in the sense covering as much of a threat landscape based on our customer profile. So currently our products that are there in the market are mostly for Endpoint Security and mobile device management which are pretty much improvised security quality and some of our cloud offerings are being focused on these kind of attacks. So currently we do not have such products but definitely our products are being well equipped with technology to protect the network that is in premise for all the enterprises that we are providing the solution. So in that sense we are pretty much at par with that of what kind of threats are there and our lab is well equipped for handling such attacks that are we were observing over the period actually.

Abhijit Jorvekar: Just quickly, I think in fact in the previous year we also saw two instances where we were able to specifically nullify or detect targeted attacks towards two major government defense organizations, so in fact that was in print as well. So we do have the technology and we do have proactive mechanisms integrated in product as well.

Moderator: Thank you. Our next question is from the line of Keshav Harlalka from BHH Securities. Please go ahead.

Keshav Harlalka: I just had a question, we came out with a IPO in February 2016, so what was the reason for you not giving December quarter numbers at the time of IPO itself?

Kailash Katkar: See, at that time right from November to January the entire management was out on an IPO road show. We had timed the IPO out and we had a schedule within which to complete it. So

we completed that, our audits and other work was not done at that point of time. So that is all the reason, there is no other reason to it.

Keshav Harlalka: Can you give us some kind of guidance on future revenue, you have done a PAT of Rs.58 crores for the current year FY15, so can you give us some kind of sense of what kind of growth we can expect in numbers for FY16-17, FY17-18?

Sanjay Katkar: I think first I will just take a minute on the revenue direction, see I am not at a liberty to give bottom-line guidance but look at the growth possible. This year we have shown that while Q3 was soft Q4 was roaring back actually, Q4 had great growth and one of the parts that grew was a) enterprise and b) government which is one of our underpinnings of future growth. So if I look at it just to give some numbers, see enterprise on quarter-on-quarter basis enterprise and government was 69% on the same period last year, so we believe that growth A is going to be there because I am talking of the same season Q4 versus Q4. On the other hand, on a 12 months' basis you can see the past two years we have done 18% growth and before that we actually did 16% growth, we did 18% again the year before. So our belief is that despite the fact that there is a full pressure of PP sales, we are able to seek that with our sales teams, our retail teams, our dealers are actually able to open doors to accounts where A) we might never have sold earlier which might be somebody's else's customer or, B) getting in customers using whichever price points who might never have bought a license earlier. Now this I am saying purely from the data point of view but I would request Abhijit to talk about the sales in all fields.

Abhijit Jorvekar: Before that I would just like to add here that we are product company, we are not service company, so the product is ready, the product is ready to move into the market. It is all about market. See how the market gets changed suddenly you cannot predict that change but we are always ready to cater more and more customers. So our team is ready, we are spread across India, our products are ready and we are still developing more and more products, more advance features we are adding to the existing product. So we are focusing on that we should have more and more customers and we will definitely grow. Even if you see our last two to three years' growth cycle it is somewhere around 15% to 18%, we will definitely grow beyond that actually.

Keshav Harlalka: I have one more question sir, in the third quarter in the quarter-ended December there was a loss of Rs.21 lakhs, so was there any one time write-offs or was it just we can look at it that yours is a seasonal business?

Abhijit Jorvekar: It is about seasonal business but Rajesh will be able to tell you, because our expenses, our cost is stable for every month actually.

Rajesh Ghonasgi: See, I will tell you this. It is a purely unique event, actually Q3 is always a best quarter and our cost especially R&D and G&A costs are fixed, it is our incentive cost that are variable relative to revenues. So we have this variability in the revenues which impacts the bottom-line also.

And normally our bottom-line is breakeven plus, we actually never had this problem. This was a unique situation that Mr. Jorvekar talked about. So we do not expect that this constantly will happen, in fact our view is that as long as the holidays and as long as the festival season does not stagger together we will not feel that kind of effect.

Abhijit Jorvekar: Just to add to what Rajesh said right now, with improvement in growing businesses in enterprise and government we expect to actually get out of this seasonality over a period of time. Another interesting thing which I would like to point out to is the fact that actually our mobile vertical, our mobile products did pretty good in the third quarter but because it is a small part of our business it is really reflected in our numbers, but going ahead with rest of the products growing the seasonality part can be counted to a certain extent but I would not say 100% simply because what we have seen is the seasonality also affects interestingly enterprise, government buying because the holiday thing does affect. But I think there would be some improvement in the nature of seasonality going ahead.

Keshav Harlalka: So to sum up what we can say is you are looking at more stable revenues going forward and you are guiding, can I say you are guiding at a 20% growth year-on-year?

Rajesh Ghonasgi: Let me bring in, we have grown around 18%, we are very confident of being able to drive that number. That said, I am not at liberty to give growth guidance anything like that but I think the fact that we did 18% is a good indicator.

Keshav Harlalka: And you had declared a dividend of 30% of profits, so can we also say that you will have a dividend policy of giving out 25% - 30% of profits as dividend to shareholders, can you tell me what would be your dividend policy going forward?

Rajesh Ghonasgi: See, our dividend policy envisages between 20% to let's say 40%, we do not have a number, this is a board discussed number, so between 20% to 40% depending upon future use of funds. Which also means that while we will very periodically also look at the amount of cash on hand and the use thereof and if we do not have an immediate use, we are also open to looking at finding a way of passing it on to shareholders periodically.

Moderator: Thank you. Our next question is from the line of Pritesh Chedda from Lucky Investment. Please go ahead.

Pritesh Chedda: Sir, can you give some thoughts on channel distribution side and how has it grown in the last two, three years? And second, on the growth rate side, obviously we have this niggling issue in our mind that since the PC growth rate is about 10% and then we every time think what will be Quick Heals growth rate, so if you could give us some thoughts on the penetration of this particular product line or, what segment of the market would you address because there would always be certain PCs which would be preloaded, so some thoughts on that side. And my third question is, on the R&D expense side we have expanded a lot over the last three, four, give

years, what other products do we have in our basket which can turn into opportunity or meaningful business?

Kailash Katkar:

I will take the one on channel, see the channel parts, one is, we do not just go all out in terms of expanding the channels, we have a pretty decent Pan-India distribution network for the consumer business. So in this part of the business the focus is more in terms of addressing newer markets, I think our effort is some expansion which happened in the Northeast. Now this is incidentally a growing market and pretty good market for us and in the northern parts like we have strengthened a bit in J&K region and then down South in some parts. So we just do not go about expanding channel for sake of adding numbers because we have seen that it all depends on market dynamics and our ability to reach out to customers, that is a very controlled number and because we have a strong team out here we are able to manage that, so we do that. As far as the newer businesses are concerned, the enterprise business and the government business, we are still in process of adding partners. Here one of the reasons is the instance we start targeting a certain business, so if we are targeting let's say education, there are specific partners who work in education or in government or in the specific businesses, so that is where we are actually adding number of partners. Again, there are partners who work in different parts of businesses, some partners work only in very large accounts, the Tier-A integrated or Tier-B integrated and so on so forth. So we are working on identifying these new partners and building relationship with them and this is happening across India for various sectors. Coming to the PC growth part of it, yes you are right, the PC growth rate globally has been pretty stagnant and India continues to be one of the better markets in terms of numbers like around close to 10%. But I will give you one positive insight, one is that Gartner reports do predict that there could be some improvement in PC shipment numbers in the upcoming year or maybe in the current year itself and maybe could stabilize a bit and there we could see some growth in near future. But we are not just banking on the PC growth part of it, one is like as we told in the initial part of our discussion that yes we being the market leaders we have that ability to reach out to a lot of unaddressed market and market which might be currently using some other products, so that is one part of it. Another is the sectoral perspective, if we look at the growth rates for individual product categories, we can see that spending on security in certain businesses itself is growing, we talk about BFSI, we talk about government, somebody in fact asked a question about targeted attacks on certain government agencies. So opportunities in security as a domain are growing and as a security company we see a lot of opportunities for us, not just the PC part, the pure PC part is something which indicates how will the consumer business move, but the rest of it is something we are working on, we have been adding a lot of new products, we had EPS, we had DLP and we have a lot of other features which we have added in the recent past, very strong asset management and device management and so on. So where we are coming from is that we have a strong product portfolio and we are capable of getting revenue not just from which is driven by PC growth rate but also by the security needs of the industry.

Pritesh Chedda:

So in your retail business when you highlight, which is about 86% of the revenue, in that if you have to link it to from your first chart that you put out individual PC usage, that component of

the business would be what part? So do we have to look at it that way and that is the business which will grow slower and everything else would grow faster, if you could share some more light there.

Kailash Katkar: So the way we see it right now, the PC or the consumer business, we expect that to continue to grow, we do not expect it to come down, we expect it to grow.

Pritesh Chedda: Retail side of the business right?

Kailash Katkar: So that is the retail or consumer antivirus business, so we expect that to continue to grow. And rest of the businesses definitely, they will definitely grow at a rate which are better than the rate of the consumer business because one is, we are a relatively new player and the threat perception or the actual threats which are like coming around we see there is a lot of business opportunity over there.

Pritesh Chedda: You guys have any statistics on under penetration or business taken from other players or how much of the new devices are preloaded which would actually help you slice and dice the growth, so if you can share that for us to understand your growth vis-à-vis the PC growth.

Kailash Katkar: See, as far as the specific date on preloads is concerned, it is very tough to get that but majority of branded PCs might come with some kind of demo copy of antivirus. But the fact, I think we are growing at this rate what we have seen is we are definitely able to get even on the new PCs because there is a very strong brand, relevance buying our brand, so we see that happening.

Pritesh Chedda: Penetration amongst the devices?

Kailash Katkar: If you are referring to devices are you referring to specifically mobile?

Pritesh Chedda: PCs.

Kailash Katkar: If you are talking about PCs, again there are no specific reports from any of the research agencies in terms of what the precise penetration level, if you refer to some global numbers it would be anywhere between 50% to 60%. So there is a lot of unaddressed market.

Pritesh Chedda: And initially I asked you question on the R&D spend which you have done and other products, opportunity, meaningful ones if you want to highlight.

Sanjay Katkar: See, we do have two new products lined up which we plan to release this year, one is in the retail segment and one is enterprise segment. Both enterprise will be released in the second quarter and the retail will be released in the third quarter of this financial year, but those releases will be pretty much limited kind of test run for us to get the first feel of the customers. But we cannot tell more about the product as these are more kind of competitive environment where we cannot share certain things right now but we will be definitely sharing as we come closer to the release date.

Moderator: Thank you. Our next question is from the line of Sunil Jain from Nirmal Bang. Please go ahead.

Sunil Jain: This is more related to R&D expenses, we had seen in last five years it has increased from 7% to 17%, no doubt you are introducing product for mobile and enterprise, so once the products are ready and they come on auto mode so this R&D expenses will remain at these levels or it will come down?

Kailash Katkar: The R&D expenses in absolute terms will stabilize over next two to three years. Hence, we are sure that the cost growth would definitely be lower than the revenue growth. So it is not that the cost percentage would remain at 17%, cost levels with absolute numbers would remain thereabout but relative impact would come down.

Sunil Jain: The benefit of R&D expenses which you had already done, once that start kicking in then possibility is there that these R&D expenses come down?

Kailash Katkar: Yes.

Sunil Jain: And second question is related to enterprise business, sir we had seen growth pickup in this year at 21%, over a period of say next three years how you see the mix of your revenue from retail, mobile and enterprise?

Abhijit Jorvekar: See in terms of mix, we have seen some very minor teens this year over previous year, so we see it moving ahead, we definitely expect rest of the businesses to contribute more in the coming years. It is very tough to put absolute numbers on all of that but we see that happening. There are a lot of products improvement which is happening on an ongoing basis and we being a technology company that adds a lot in terms of gaining new customers. And we mentioned about the rate contract, so coming ahead we will continue to enjoy the benefits of that in the upcoming years. So the team is now well-gearred to get benefits out of that from government business, similarly in case of enterprise we again see that we have a very stable team right now, strong in terms of capability. So we expect these teams to actually contribute more, in fact mobile we might see that being a major player depending on the market dynamics in the next two to three years. So we are already being saying, we would like definitely to reduce the structure, the way it looks like retail business being at that mid-80s and all, we would like actually to see that coming down to somewhere in the 70s, lower 70s and rest of the business is actually contributing. That is how the overall business plan is also being getting driven.

Sunil Jain: But in enterprise business how you are looking at growth, means last year it was 21% so as the business now getting since last two years you are emphasizing a lot on that business, so do you see any big growth in that or this is likely to remain at these levels?

Abhijit Jorvekar: We see growth in that, one is, we created a new brand last year, Seqrite was introduced last year that is something which happened, so definitely we saw improvement in that, then we saw

improvement in government, we saw overall improvement in acceptance of products in sector. So there were sectors or areas like the services business, we saw that we were actually moving ahead and getting more customers. So we see this growing, we see this happening.

Sunil Jain: So if I just ask, in enterprise business your market share must be low, so how much that would be?

Abhijit Jorvekar: Again, there are no consolidated figures in terms of what the precise size of enterprise business in India, they are very broad level figures, so it is very tough to say that this is the percentage we have. But as I said we have referred to by a Gartner report as being strong player in the enterprise business, so I think that is a good indicator that we already are in thick of it and we are driving it and the overall capabilities in terms of distribution, tech support and training that we have deployed on field we believe we can definitely drive this to the next level.

Moderator: Thank you. Our next question is from the line of Jagvir Singh from Shade Capital. Please go ahead.

Jagvir Singh: Sir, why our receivables are so high compared to FY15 in FY16?

Rajesh Ghonasgi: Yes, we have had a substantial growth in revenue, and if I just look at the Q4 to Q4 revenue because of a substantial growth the outstanding get shown up. Now I will explain that in some metric terms. On an average we give a credit period of around 60 days to our dealers, give or take a few days for collection, we look at every quarter's DSO based on that quarter's annualized number and not the average because Q1 and Q3 are lower numbers so it actually shows up a much higher DSO. To give an example, my total outstanding for this end of March can be compared, Rs.94 crores can be compared with revenue which is around Rs.134 crores. So in a very direct sense if I annualize the last quarter we have a 65 days DSO, that is explained in the working capital sheet where we have explained how the working capital was built up on the asset side and how we got it financed on the other side, so 65 days DSO based on the actual sales. Now if I look at the way the thing moves, that is like the last two months of the year, if I take the total revenues of February and March that is equal to the revenues of two months are equal to the amount due as of the end of the year. So I think it is in sync with the revenues and as revenues have grown that physical amount looks high, but if I take the last quarter per say the DSO looks pretty normal between the range of 60 and 65. By the way this also is a major part of our model because we have a push and pull system and historically we have seen that the outstanding of the quarter gets collected in the next 60 days, so by the time June turns around and I give the June figures we should see that this amount would have been converted into cash. And that is done over the last about 15 or 16 years and that is one thing that Mr. Jorvekar's dealer channel system has always delivered, cash at the end of the cycle. So I think we will address this also by making sure that the cash is visible in the June results.

Jagvir Singh: And what are the revenue percentage share from government business at consolidated basis?

Rajesh Ghonasgi: See, it was on a quarter basis we did 14.3% of our revenues from enterprise and government and on an annual basis 13.3% of our revenues came from enterprise and government. One of the reasons why we are not slicing enterprise and government separately is that the products that we sell in enterprise and government, that is the endpoint protector system, the UTM which is the terminator module and the MDM, the products are exactly the same. So totally we have done 14.3% pie share in Q4, 13.3% pie share for the entire year.

Jagvir Singh: And what is the revenue percentage from mobile services sir?

Rajesh Ghonasgi: Mobile specifically was 1.6% of revenues, now this seems small because the product was rolled out only a year earlier actually, earlier the product that was there had completely restructured it so it is not comparable to the earlier share. But last year we did about Rs.5 crores in revenue and that Rs.5 crores is equal to 1.6%. Now this is year one of our product being in the play, in the market. So our expectation going forward this should grow.

Jagvir Singh: And sir you have around Rs.370 crores of cash in the balance sheet, so what you will do with this much cash sir?

Rajesh Ghonasgi: See, one of the thing is there is a very defined usage plan in the RHP, we will stick to it, number one. Number two, we will also look at other growth initiatives, much of it is to do with maybe new projects and of course maybe also look at whether there are acquisition opportunities, so that is the driver or the force or the increment that we are talking about. At the end of it, remember a large part of the cash is there because we built a business over the last 15 years we have had huge amount of success, our retail product has been stable, it is a cash generator, it is also in a direct sense it is probably the star of this particular industry, the antivirus on the B2C basis. So it has always delivered cash, one of the reasons why you look at a huge cash is because this model has been successful, I would have been answering the opposite question if we were repaying loans if it was not so. But retail has always delivered cash over the last 15 years and that is the reason why we have this, it has enabled growth in business, it has enabled us put money in to other products, it has also enabled us to build offices,, etc., from which we can address new business. So in that sense this was a problem that we were going in in the first instance where we had cash, we were generating cash with zero debt and going forward we use it best possible. On the other hand, I also stated at the time evaluating dividends that if we have we will use it if the use gives us better returns, if it does not then periodically the Board will look at the amount of cash and determine what to do with it which means they could take a call on returning it back to the shareholders in one form or the other.

Jagvir Singh: And what is the status of the cash of Manohar Malani? Did he got the bail from court of not?

Rajesh Ghonasgi: Let me explain this in very brief. See we filed an FIR, the police investigated and found that there was a clear case and then the police went and arrested him on remand. Now after that the

normal process has been followed and the police are investigating now. He got the bail and police are investigating.

Moderator: Thank you. Our next question is from the line of Dikshit Doshi from White Stone Financial Advisors. Please go ahead.

Dikshit Doshi: Sir I guess in your enterprise business you must be making losses if you segregate in terms of different division, so can you just quantify that how much enterprise and mobile business would be making losses?

Rajesh Ghonasgi: See, as a policy and as a fact that this is competitive data I would not be able to give you the profit and loss made at the line of business at this stage, but let me assure that enterprise has grown to a level where A) the revenues are growing which is very visible, enterprise and government, B) we also over the last two years been able to build a sales infrastructure of which the sales team is fairly good, fairly mature, fairly stable and probably we are at this stage where we can actually deliver hugely. Third point is in terms of mobile, we have invested hugely last year, let me be frank, yes there would be a loss, I cannot give the number but much of it is in building the brand. There are two brands we build A) Seqrite and B) Gadget Securance which also meant delivering a method at the retail end to drive customers, etc., and that involves investments. So we have done that and just moving from that operating loss to a breakeven itself will be a pretty good position which we hope to do this year and the next.

Dikshit Doshi: Let's say you do not give the number for how much loss you would be making, but can you just give us rough number that at what level of sales in enterprise and mobile it will be above breakeven let's say?

Rajesh Ghonasgi: That would still be difficult, in fact it would be pretty much competitive because we do not want to give this. But on the other hand in fact I would like to ask Abhijit talk about the fact that he has a strong sales force, the products are there, now the sales force also is completely stable and probably amongst the best we have. So Abhijit, can you talk about the fact of sales force?

Abhijit Jorvekar: Before that I just wanted to add here one thing, as you know that we are market leader when it comes to retail products, but I cannot say that we are market leaders when it comes to mobile or when it comes to enterprise, because in enterprise also if you look at one product which is Endpoint Security, yes we are leading in market but there are so many other products in enterprise whom those products are yet to capture that big market share actually. So we see there is a big potential for different products in enterprise products as a big potential market share and market is also looking for more and more features in this existing enterprise product. So what is happening, suppose if a customer is looking for something unique feature like for example a discovery feature in enterprise product, then we have to take and design the architecture and we need to identify what theme size will be required and what kind of expenses will happen. But this is not something different product, it is a same product but it is

additional module, additional features that are added into this product. For example, Endpoint Security, under Endpoint Security year we have launched DLP that is Data Leakage Prevention, so for that Data Leakage Prevention we have to setup a separate R&D team to develop this product. So all this cost is getting added into the enterprise product development, so we are not able to bifurcate this cost and we are not able to identify what exactly breakeven and all this thing is coming but enterprise demand is there, market potential is big and customer feature demands are also in a big way. So that will keep on happening and in future Rajesh will be able to maintain a separate kind of finance accounting document where we will be able to tell out feature wise how much expenses we are making.

Dikshit Doshi: And in enterprise can you just quantify what are the size of that enterprise which we are targeting, let's say 30 PC, 50 PC?

Abhijit Jorvekar: So right now in the previous year, rather like in 2014 what we saw is majority of customers were around that 100 user kind of ecosystem, but in the last financial year 2015 what we saw it has moved up a bit, we have significant number of customers who are around 250 users, we also have customers who now have more than 1,000 computers and their numbers is growing. But the stew is more around 200 - 250 users, so that is where the major chunk of the business is happening. The lower part of business, the 50 user or 100 users still continues to be very strong for us.

Kailash Katkar: It totally depends on the profit margins where we are going to get more, it is not something that we are just targeting because if I have to tell you there are some international customers where our products are deployed on around 5,000 machines also. So product capability is there but we look from a profitable point of view and then based on that we focus on the target market.

Dikshit Doshi: Sir let's say there must be price difference between the normal SME enterprise and the government order, so not in absolute but at least if you can give in terms of percentage, what would be the difference between the pricing?

Kailash Katkar: Actually, here I would like to say that when it comes to retail product there is at least MRP mentioned, so there is a market-driven price, MOP is always there. But when it comes to enterprise product there is no fixed MOP, market drives the price actually because there is a lot of negotiation while selling the products to the enterprise customers based on customer size and based on customer location and all this thing.

Moderator: Thank you. Ladies and Gentlemen, that was our last question. I would now like to hand over the floor over to the management for their closing comments. Over to you, sir.

Rajesh Ghonasgi: Wanted to thank all of you for taking the time out this evening to come on our call. In case you have any questions me or my company secretary are available or you can get through to Dickenson Seagull IR, their numbers are given in the presentation for any questions, etc., and

we will get back to you. In case you all are making visit to Pune we are always open, we would love to bring you here, there is Kailash and Sanjay, may be you could join Sanjay and the product team, these are the guys who build products and that would be a good way of coming to know about our Company and its products. So looking forward to talking to you very soon, maybe another two months from now and looking forward for some good news to come. Thank you.

Moderator:

Thank you very much, sir. Ladies and Gentlemen, on behalf of ICICI Securities that concludes this conference call. Thank you for joining us and you may now disconnect your lines.