



“Quick Heal Technologies Limited
Q2 & H1 FY2019 Earnings Conference Call”

November 13, 2018



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Moderator: Ladies and gentlemen, good day and welcome to the Quick Heal Technologies Limited Q2 H1FY2019 Earnings conference call. This conference may contain forward-looking statements about the Company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kailash Katkar –MD & CEO. Thank you and over to you Sir!

Kailash Katkar: Good afternoon friends. I am Kailash Katkar – MD & CEO and along with me, I have Mr. Sanjay Katkar – Joint MD & CTO, Mr. Vijay Mhaskar - Chief Operating Officer, Mr. Nitin Kulkarni – Chief Finance Officer and Strategic Growth Advisor, our Investor Relations Advisors. We welcome you all to participate in our earnings conference call to discuss our performance for the period H1 FY2019.

I will start with a brief update on the business performance, then I am going to request Sanjay and Vijay and Nitin to share updates on R&D operations and finance respectively. There has been steady momentum in the business, which is very much visible for our performance in H1 FY2019. The retail segment grew by 20% on Y-o-Y basis; the enterprise segment has grown by 8% in H1 FY2019 on account of good recovery in the second quarter, which witnessed the growth of 16%.

With this, I will ask Sanjay to share more details on our R&D and development as such.

Sanjay Katkar: Thanks, Kailash. Good afternoon everyone. As we all know technology has become a part of our daily life. It tends to provide convenience, ease of use and saves time; however it also puts the digital journey of consumers at risk and that is where the cybersecurity has become increasingly important and with rising awareness customers especially in the enterprise segment have started placing increased interest in important of the safety and security of their digital assets. And we are seeing the pulse into the market with this and R&D is at the heart of our company where we develop and introduce new and advance security features as well as launch of new products and solutions to tackle the rapidly evolving cyber threat landscape.

In line with our vision to secure the digital world, we are committed to protect our customers from advanced cyber threats and are working round the clock to ensure the same. Through the state of the art Quick Heal Security Lab, we continuously monitor the threat landscape and devise solutions to provide advance protections to our customers and continuously improve our product line to tackle the newer threats. So, during the second quarter, we blocked over 288 million cyber



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threats targeting individual's and businesses. The main trend include increase in Ransomware attack via remote desktop protocol and cryptocurrency mining, there were over 7000 Ransomware and 33000 cryptojacking hit on a daily basis during this period. And on the mobile front, we blocked over 19 lakh threats on Android OS, which includes Malwares, potentially unwanted applications and hardware.

With this I will now ask Vijay to share more details on the operations of the company.

Vijay Mhaskar:

Thanks, Sanjay. Good afternoon all. Let me give you some brief on the business front. As in the past Q2 is a better quarter for us in comparison to Q1 and this time the same trend is followed. So, in the retail segment, we have been talking about strengthening our distribution network and we are focusing that continuously, particularly in the territories where we are not very strong so that effort continues and in fact, this is one of our strengths as a Quick Heal as a company, that we have a strong distribution network.

Our sales team is focusing on liquidation and activation of the stock at the various points of the network and the team is also driving customer demand through various marketing campaigns. We are driving the sales automation to ensure, we have a close track of the stock at various regions and various points in the network and that will continue to drive in subsequent quarters.

In Q2 we also launched a festival pack a special festival pack which gives customer extra validity if the license is activated on the designated festival days. So, this is essentially to help drive us more revenue in the festival season.

We will keep driving innovation at the product as well as at the go-to-market level to (a) acquire more customers (b) upgrading existing customers to premium products and (c) retain them for the lifetime. This should really get us more value for the customer and also help us to gain more market share.

Now moving on to the enterprise and the government segment, as Kailash explained we had a good growth in H1 all because of the catch up that we have done in Q2 so enterprise and government has a good growth in Q2 and across H1. This is really sets up us on a right path for the future. Our enterprise business has grown sustainably with adding about 1.3 lakh new users in the portfolio. The enterprise business consists of large enterprises as well and we have added about 26 new accounts with more than 500 users, so this again is something we are tracking very closely, and this helped us to move up the value chain.

Our renewal rate continues to be around 80% and the new product that we have launched EPS and Cloud that has adoption of almost 44 new customers the, MDM the Mobile Device Management and encryption also received good traction in Q2. So, enterprise overall the new product is where we are focusing on to get more traction in subsequent quarters.



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In Q1 commentary we talked about government business not doing well due to GeMS stability issues, so Q2 is been really focused heavily on GeM issues and worked very closely with GeM authorities. And with all the hard work that has been put in, I think the whole GeM ecosystem is stabilizing and the government business is back into the growth trajectory. We need to streamline the GeM business further, but we are pretty optimistic about what are the growth prospects in the government business through GeM.

We are also working with government agencies so that to Seqrite products enterprise product gets empaneled and the consumer get more government departments. We have appointed regional distributors for UTM that is Unified Threat Management and it is similar stocking as well as liquidation of the UTM devices. So we are seeing the more momentum of UTM devices. The new version of the product is well received in the market and with the addition of more features in last few months, we think UTM is set up for getting more market share in the market.

We are increasing our partner count and also adding larger sites in our fold, which would help us to move into larger accounts, so we have been acquiring close to about 22 new customers every day. We will expand that further as we had more partners. We also focused on increasing value share from our existing customers by cross selling and up selling complete portfolio of Seqrite products.

Now we have close to 32000 active customers in the enterprise segment as we add more products and sell more products to these customers, I think it is definitely a chance to get a good growth. On the product front, we are expanding our portfolio each quarter. In Q2 as I said we launch the festival pack in Q2 also we did home networking solution which is a segment for the retail segment basically and that product has been put in the market for testing right now but formally we will be launching in Q3.

So overall with the expanded product portfolio and the go-to-market strategies that we have we think both retail and enterprise and government should grow in future quarters. Overall a good quarter from business and product perspective and the whole Quick Heal team is very excited about the future possibilities.

With that let me handover to Nitin Kulkarni – CFO of Quick Heal.

Nitin Kulkarni:

Thank you Vijay. Good afternoon everyone I will take you first through the consolidated financial performance of the company for the half year ended September 30, 2018.

In terms of revenue, revenue for H1 FY2019 grew by 20% to Rs. 1622 million as compared to Rs. 1354 million in H1 FY2018. Both the segments have shown growth, the retail segment which grew by 20% from Rs. 1154 million in H1 FY2018 to Rs. 1379 million; the enterprise segment grew by 8% from Rs. 309 million in H1 FY2018 to Rs. 335 million in H1 FY2019. The

enterprise segment, which has witnessed slowdown in Q1 of FY2019 on account of GeM adaptation issue, which Vijay alluded to earlier in government business, had shown good business traction in Q2 of FY2019. The second quarter saw a growth of 16% which was supported by a traction from both enterprise and government businesses.

In terms of licenses sold retail segment saw a growth of 23% and enterprise and government segment remained flattish. In the current financial year, we have made efforts to reduce seasonality in the business and stabilize the business across all the quarters. There is a clear focus to rationalize costs in all possible areas but at the same time, we are also ensuring that there is no impact on the overall business.

The EBITDA grew by 58% to Rs. 686 million in H1 FY2019 from Rs. 434 million in H1 FY2018 and the EBITDA margin improved by 1019 basis points to 42.27%. The PAT growth has been 77.43% to Rs. 482 million in H1 FY2019 from Rs. 272 million in H1 FY2018. PAT margins improved by 965 basis points to Rs. 29.72. The Cash PAT, which is PAT plus depreciation for H1 FY2019, was Rs. 602 million.

Now coming to the consolidated balance sheet, as on September 30, 2018, we had cash and cash equivalents along with investments in mutual funds, tax-free bonds and fixed deposits of Rs. 4948.54 million as compared with Rs. 4845.52 million as at the end of June 30, 2018, which show the net addition of about Rs. 100 million during the quarter.

The cash balance includes an IPO money of Rs. 126 Crores invested in fixed deposits. As you are aware the utilization of the proceeds of this IPO money as per the object clause as stated in the IPO document. On the working capital side as of September 30, 2018, our receivable days stood at 123 days. In the last year we were working with our channel partners on cash and carry model; however, during the last two quarters we had extended credit limits to few of our partners keeping in mind the overall business scenario; however, the overall working capital cycle base stood at 87 days compared to 83 days as of March 2018.

Now I will also touch upon the Q2 FY2019 financials. Revenue for Q2 FY2019 has been Rs. 1091 million compared to Rs. 1051 million in Q2 of FY2018, which shows a growth of 4%. The EBITDA of Q2FY2019 has been Rs. 596 million as compared to Rs. 595 million at the end of Q2 FY2018. The margin for Q2 FY2019 stood at 54.7%. The PAT for Q2 FY2019 stood at RS. 421 million compared to RS. 385 million in Q2 FY2018.

Now I would also like to touch upon standalone financials. Revenue for H1 FY2019 has been Rs. 1616 million as compared to Rs. 1342 million in H1 FY2018, a growth of 20.4% on Y-o-Y basis. The EBITDA for H1 FY2019 has been Rs. 695 million as compared to Rs. 445 million at the end of H1 FY2018. The margin for H1 FY2019 stood at 43%. The PAT for H1 FY2019 stood at Rs. 441 million compared to Rs. 282 million in H1 FY2018.



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Coming to standalone quarterly financials, revenue for the quarter FY2019 has been Rs.1089 million as compared to Rs. 1045 million in Q2 so the growth of 4%. The EBITDA for Q2 FY2019 has been Rs. 603 million as compared to Rs. 603 million at the end of Q2FY2018. The margin for Q2 FY2019 stood at 55.4%, PAT for Q2 FY2019 stood at Rs. 377 million compared to Rs. 393 million in Q2 FY2018.

During the current quarter, we had an exceptional charge of Rs. 50 million on account of impairment of investment made in a wholly-owned subsidiary, additionally Rs. 30 million towards decline in fair value of investments made in a company and this Rs. 30 million is included in the other comprehensive income in the financial statements.

With this we will now open the floor for question and answers. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Hrudhyam Verma from Augmen Catalyst. Please go ahead.

Hrudhyam Verma: Sir my question was very basic actually I just wanted to know I mean Microsoft Windows has its own antivirus software so how do we compete with that?

Sanjay Katkar: Microsoft Windows yes, they have their own antivirus software but that gives a very basic level of protection and the main purpose behind that by Microsoft is to have at least basic protection for their OS if there is no antivirus software installed. But the antivirus software that we offer has much better features and much better protection, which is multi-layered and for the kind of threat that we see nowadays is basic protection will just take you a protective up to certain level but for advanced threats and the latest Ransomware and all it is like they have to go for multilayer protection which is provided by the paid software.

Hrudhyam Verma: Okay but Sir I mean would not be very easy for them to just upgrade their software because they anyway are a software technology companies so would not that be very easy for them to just upgrade their software?

Sanjay Katkar: Yes, you have the, your question is right. The point is Microsoft is into the business of operating system and other like server operating system so their main focus is OS and their main reason for including security is to have at least bare minimum protection because Windows is the most attacked OS in the world currently and the millions of threats that we see on regular basis they are all targeted towards windows and that is the reason they are giving the basic protection and if you see at the threats that they are coming on day-to-day basis they are mostly targeting the first defense that OS gives and that is the windows defender actually and they are easily crack that and they go into the OS to attack the system. So the main purpose behind their or the motivation behind the Microsoft to give that is to have the basic protection and that is why it is also reflected



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in the certifications if you go and check the global certifications Microsoft product certification results are at the baseline and the basic level protection is what they are reflecting it on the certification side. It has nothing like I mean there are a lot of features that come into the real protection like when it comes to, when we are doing online transaction and all that those features are not at all given by Microsoft because their focus is to protect the office or whatever the that comes along with OS, their focus is not on the applications that are additionally installed by the user on to the OS actually. So, if you carefully see if you are using some other accounting package or anything else it is completely out of the domain of the protection act.

Hrudhyam Verma: Okay, and Sir on the mobile segment are we planning to focus because in the previous call you mentioned that your focus is very limited so now has that changed?

Sanjay Katkar: No, it is not like that, the point is on the mobile front we are making sure we cover all the threat we also make sure our product is compatible with all the operating system that is released on different players of Android and different handsets of Android and making sure that we are protecting the phone with the latest threat that they are there. The other point is that we are checking the taking point wherein the user is able to pay for the security and go for the paid version is what we are focusing on and that is where the focus has been towards how much to be given free and how much to be given into the paid version and that is where we have optimized the release that is focused on the paid version wherein we are giving good enough protection for those who are going for a paid version actually. So nowadays as we are having more and more wallets and payment apps that are more popular on Android, the more and more newest versions are targeting these apps to shake in money from these wallets from that are where the future has been a focus. So, I do believe that we will see a more of an interest by users as they start seeing the threat affecting them and then this interest should we should be ready for that market as the interest rises actually.

Vijay Mhaskar: This is Vijay. As Sanjay said, we have one of the very good products and technologies to protect the mobile ecosystem or is also we are doing is a go-to-market so currently we have multiple channels that we go through, e-commerce, we have a retail channel and we have basically made this product available to the consumers. As Sanjay said, as the demand for mobile security increases for the paid mobile security we will see more monetization of that but as far as from the Quick Heal perspective, definitely we have a good product and technology and the coverage for mobile security.

Hrudhyam Verma: Sir and you mentioned that we are adopting a cash and carry model but now we have started giving credit so is this going to continue, or this was just for a few quarters because it got the business was down or anything like that?



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Vijay Mhaskar: No, so we will continue to do a balance between cash on credit. The credit is something will be continued and that we decide based on what kind of stocking we need to do in the market we are in a stock and sell model so that will be a strategic move that will do.

Hrudhyam Verma: Okay. Sir just last question, Sir we have I mean Rs. 490 Crores cash that you mentioned so Sir any looking for any acquisitions or buyback or dividend anything that you have in the pipeline you are discussing?

Vijay Mhaskar: If you look at from the technology acquisition perspective we have already done one last year so that is continuously on our radar and we look at all the options from the upgrading of our product the build, buy and partner. So building our own products, buying out technologies and partnering with some will continue and we will try to leverage our funds towards that.

Hrudhyam Verma: Right now, there is nothing in the pipeline as to I mean how we are going to utilize the cash basically because Sir because of that ROEs have been suppressed so I mean what is your plan in your outlook on how to deploy this cash?

Vijay Mhaskar: Currently there is no committed spend at this point but definitely we are evaluating various options.

Hrudhyam Verma: Thank you. That is, it from my side.

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

Amish Kanani: Congrats on a relatively good set of numbers. Sir if you can just both retail as well as government and enterprise seems to be doing well but if you take on a half-yearly basis yes the combined numbers are good and if you just look at Q2 then the numbers are not so good so the question is if you can just remind last year Q1 was bad because in the run-up to GST we did not have a good quarter in that context if we have to kind of understand the overall annual growth rates both the retail it seems on a half-yearly basis is growing at 20 and also there is a traction as you mentioned in both the government and enterprise Seqrite products, so the question is how do you look at the annual number and is the surprise more coming from retail which is growing at 20 or it is more of enterprise rated products are picking up?

Vijay Mhaskar: By the way thanks for that comment and absolutely right point that the last Q1 that is Q1 FY2018 was impacted by GST and so some of that spillover that had happened on Q2 so we as a company we would always encourage investors to look at from the YTD perspective because that is more the right comparison and that is where Nitin mentioned about the H1 comparison that is how we should look at it. We definitely have a good momentum and we are striving for that momentum to continue in Q4 and in the future so with the sustained momentum we definitely



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think we should have a much better Q3 and Q4. But as far as guidance we do not have the number guidance at this point, but we assure that we will maintain the momentum.

Amish Kanani: Yes, Sir the question was is the see normally if I remember correctly our retail used to grow in a band of between 8 and 12 and this half is grown at 20 so the question is if at least this year the momentum looks much higher than that 8 to 12 band on an annual basis also, just as a directionally or it is that too early and trends are volatile on that side that is the question?

Vijay Mhaskar: So, it is too early to do that, but we would from the company perspective would stick towards that retail around 8% to 10% and enterprise to around 20% to 25%.

Amish Kanani: Okay and Sir you did mention about the Seqrite product getting a good traction even on a larger corporates having I think more than some x number of users that you were mentioning so if you can Cloud-based offering is picking up so if you can just give us some more flavor there and you know whether that is also a great source of growth?

Vijay Mhaskar: So as we grow the business I mean we have focusing on SMB and SME but the product has definitely scaled upwards and has more features more content for the larger enterprise and that is where we start focusing on a mid-market now and trying to really acquire the customers with 5000 to about 10000 user accounts and we have seen a good traction both on-premise installation as well as on the Cloud and that gives us more confidence now that we can go after that market and not only sell our flagship endpoints security but sell other products also. So, the advantage of going into the larger account base is a larger deal size and that helps us to get more accounts. So definitely something that we want to continue focusing both from the R&D perspective to achieve and help some of the customers be successful in their deployments and they are referenceable to us and that should help us to grow larger accounts that will increase the deal size and also number of users that you would have.

Amish Kanani: Sir one last clarification from my side in terms of growth, is this our retail product, I understand also we used to sell a single user license also to the SMEs very small enterprise so is the growth also coming from that type of clients who is now adopting more and more of our products or corporate is the securitized where we are pushing corporate and hence retail is pure retail so just clarification?

Vijay Mhaskar: It is a good point, so corporate selling standalone product is not a big number it is a small number so major growth is really coming from the Seqrite and corporate.

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

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



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- Aman Vij:** Good afternoon Sir. A couple of questions, first what was the total number of new customers in an enterprise that we have added for the half-year in combined?
- Vijay Mhaskar:** So, both 1500, this quarter about 1500 previous so both close to about 3000 customers that we are having.
- Aman Vij:** So, on the enterprise side itself so on a half-year basis, we grew by 8% mainly because of first quarter not being that good but why where the licenses sold at the flattish level at that point of time?
- Vijay Mhaskar:** We definitely, at Q1 if you look at H1 then it is flattish because of Q1 was little bit muted but Q2 definitely it has picked up and what happens also is when you get the customer on-board we also look at how much value we can offer to that customer, so it is also the deal size that goes on so as we acquire more customers we want to acquire more customers but also increase the deal size per customer so that we get more revenue. So, the focus now is also moving up the value chain mode and just number of customers we are also looking at how much value we add per customer and having bigger customer is more than 500 users is definitely going to help us achieve that.
- Aman Vij:** Okay, but given so if we are acquiring say ten customers with fifty user each versus one 500 users customer so the license fee it should have increased at the same rate, right?
- Vijay Mhaskar:** In Seqrite the number of server licenses.
- Aman Vij:** Okay, so if out of this 5.4 lakh licenses how much are the seqrite licenses?
- Sanjay Katkar:** I do not have that number at this point.
- Vijay Mhaskar:** We do not have that numbers at this point.
- Aman Vij:** This part of the business only so could you tell us the contribution of EPS, Cloud as well as basic EPS in the enterprise segment so how much does endpoint security contribute and how much does endpoint security cloud contribute?
- Vijay Mhaskar:** We do not have the split for that but as I have said we already got 44 customers in for enterprise cloud and we launched that in January so it is early adoption right now, having said that let me also remind that cloud adoption across SME and enterprise is just picking up and I think as we go forward we will see more customers adopting to the cloud version primarily because the cost of, having the IT department managing the product on premise is heavy and so that is where the SMEs will move. So there is not just us as a company across the whole security segment you are seeing that cloud adoption would increase over next few years and I think what we have done is positioned this product at the right time so as the customer starts moving towards more cloud



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adoption, our contribution from cloud adoption we start increasing and so the percentage would start increasing.

Aman Vij: Sir 44 number is till date or only in Q2?

Vijay Mhaskar: The Q2 number.

Aman Vij: What is the total number as of?

Vijay Mhaskar: I think it is about 50-odd because we did not have much, we just launched it in Q4 and we had few customers in Q1, but real traction happened in Q2.

Aman Vij: On the basic end point security number will it be roughly right to say that 70% to 80% comes from end point security out of the enterprise?

Vijay Mhaskar: You mean between end point security and other products?

Aman Vij: Yes, other in enterprise only?

Vijay Mhaskar: So that split I do not have right now. **Aman Vij:** Last question and then I will come back in the queue, on the write off so which was this subsidiary that we have written off?

Nitin Kulkarni: So, this is one of our subsidiary, overseas subsidiaries as we have made investments so based on the historical performance, we have taken an impairment.

Aman Vij: And the Africa?

Nitin Kulkarni: We will not be able to name the subsidiary so this is one of our wholly owned subsidiaries where we have made the impairment.

Aman Vij: No issues. I will get back in the queue.

Moderator: Thank you. The next question is from the line of Dikshit Doshi from WhiteStone Financial Advisors. Please go ahead.

Dikshit Doshi: Firstly, in continuation so is there more exceptional impairment possible going forward?

Nitin Kulkarni: We are tracking this on a regular basis and we have been monitoring these subsidiaries and these subsidiaries are monitored regularly so we do not expect any additional impairment to come, but it all depends on the future performance of the subsidiaries. But at this stage, the answer is no.

Dikshit Doshi: How much we have invested in this subsidiary?



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- Nitin Kulkarni:** So, this figure, if you look at March financials these figure are already there in the March financials, So, it is more or less the same number, which was invested in March **Dikshit Doshi:** Okay and secondly if we see our other expenses which went up from Rs. 14 Crores to almost Rs. 19.5 to Rs. 20 Crores so is it mainly because of our higher ad spend or is there anything else?
- Nitin Kulkarni:** So, S&M sales and marketing expenses have gone up mainly because of advertising and marketing spend.
- Dikshit Doshi:** Okay and anything we are planning outside India I mean anything material we are doing there any country we are targeting?
- Kailash Katkar:** So, we already have a lot of distributors partners in more than 40 countries and not all of them are really performing but they are not dead, they are active, they keep on selling, some of the partners are really selling a good number of licenses and apart from that we have four subsidiaries through which we try to create a channel network in those countries and this impairment happens for the same purpose because when we have office in Japan or a Middle-East or some other place we really need to do lot of brand building over there because Quick Heal brand is much popular here in India but it is not popular in other countries and we need to spend lot of money and whatever we spend and whatever we generate so there is a gap and if that gap keeps on increasing then the impairment is mandatory from our statutory point of view and so the impairment happens actually. But we always focus that you know we make good revenue and generate good profit but for that, we need to spend some money before.
- Dikshit Doshi:** Lastly on an enterprise, so you did mention that the Q1 was impacted because of government orders and we did perform well in Q2 but even 12% growth looking at our base is too small I guess, so over two-three years, what could be the sustainable growth rate?
- Kailash Katkar:** You know one thing that the elections are coming, national level elections are coming and at that given time I really do not know for how long government sector will grow for releasing the new order and all these things but if everything is fine we should grow because there is a big scope in the government sector as well as in enterprise sector.
- Dikshit Doshi:** But let us say barring government on an enterprise business also what could be the good sustainable growth rate?
- Vijay Mhaskar:** So basically around 20%-25% growth is something we are targeting right now.
- Dikshit Doshi:** Thank you.

Moderator: Thank you. The next question is from the line of Aditya Nahar from Alpna Enterprises. Please go ahead.

Aditya Nahar: Just a question on your subsidiary is there a reason why you do not want to reveal the name of the subsidiary or is it just that you are comfortable revealing that in your annual report for the next year and second my question was if I look at your half and half performance for enterprise and government business I understand that the first quarter was pretty bad and you sort of covered up in the second quarter but I was curious that your revenue actually have gone up but your absolute number of unique licenses have come down by almost 13000 half and half so my question is, is that because of customers sort of not renewing their product so have you taken any price increase or price hikes?

Nitin Kulkarni: Yes, this is Nitin. The first one is yes definitely it is a wholly-owned subsidiary of Quick Heal India you will get to know the name of the subsidiary when we publish it in March 2019 but this is a wholly-owned subsidiary of Quick Heal India.

Aditya Nahar: Right got it. Okay so investments you have made in other companies?

Vijay Mhaskar: No, not really it is a wholly owned subsidiary of us. So, on the licensing part , we have various versions of the products depending on the number of features and its contents and are priced accordingly, A higher priced products are sold more where we get more realization.

Aditya Nahar: Thank you.

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

Keshav Harlalka: Sir, I just wanted to know I have been observing a trend of numbers so Q1 and Q3 the number sales is around Rs. 60 Crores to Rs. 70 Crores and Q2 and Q4 the sale is in excess of Rs. 100 Crores so can you comment on why there is a 40% drop in sales in Q1 and Q3 over Q2 and Q4 that is question No.1. **Vijay Mhaskar:** So, basically it is a seasonality it is a stock and sell model, retail in Q4 basically there is a big quarter after that people focus more on the liquidation so partners would not consume as much so if Q1 comes down and again Q2 we stock it up and Q3 is a little bit lower so although we try to bring more linearity but I think inherently the stock and sell model we would see this quarterly pattern.

Keshav Harlalka: Okay now so there is no growth in topline like you given us 109 Crores of topline Q2 FY2019 and FY2018 Q2 was Rs. 104 Crores so there is jump is only Rs. 5 Crores and Q1 to Q1 cannot be compared because it is not apples and apples Q1 last quarter Q1 you had a GST issue so can you comment on why there is no growth in top-line?



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- Vijay Mhaskar:** As we have discussed in earlier at the call the last Q1 FY2018 had a GST impact and what happened there the stocking did not happen as much so a lot of this partners and dealers moved their billing in Q2 so that Q2 last year FY2018 Q2 was obviously higher now in that comparison this Q2 is that flattish or little down but eventually if you look at Q1 plus Q2 that is H1 number compared to last H1 you would see a 20% growth.
- Keshav Harlalka:** Sir, can you also comment on why the growth in enterprise business is only 8% vis-à-vis retail business growing at 20%?
- Vijay Mhaskar:** As we explained earlier in the Q1 we had the government business did not pick up because the GeM issues now that that is addressed if you look at Q2 number of enterprise that has picked up and compensates some of that for Q1. So that way H1 shows 8% but if you look at this Q2 number there it has grown 16%.
- Keshav Harlalka:** Okay got it. Sir, can you also comment on the pledge of shares by promoters, 27%?
- Nitin Kulkarni:** No there is no pledge of shares by promoters, they are a lock in because we had an IPO two and half years back so there is a lock in on the shares and not pledge.
- Keshav Harlalka:** Can you give guidance; can you assume the guidance to be 20% or can you give us some guidance what would you grow year-on-year?
- Nitin Kulkarni:** Generally, we do not give guidance, but Vijay has already mentioned on the call earlier that retail segment we will have higher single-digit growth and the enterprise segment upwards of 20% growth we will have on an annual basis.
- Keshav Harlalka:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Alekh Dalal from One Thirty Capital. Please go ahead.
- Alekh Dalal:** Can you give us some sense of where you think the EBITDA margin should settle for the first half this is a big jump this is first half FY2018, so could you continue at this levels or how should we see it?
- Nitin Kulkarni:** So, we have said earlier that EBITDA margin would be in the range of 32% to 35% so we are still holding on to that number.
- Alekh Dalal:** But first half you have done 42%, right?



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Nitin Kulkarni: Yes, but so yes, a lot of investments will have to be made in the second half in the wake of getting a higher revenue so definitely if things go well then, we can have higher EBITDA also but at this point of time, we are holding on to the number of 32% to 35%.

Alekh Dalal: On the retail side, in terms of the market, there is one product called net protect which is being sold for about Rs. 700 versus your product at about Rs. 1100 and in addition Dell has started to packet Symantec in the laptop directly so can you give us a sense of how you are going to compete versus the lower end and the higher end because you are firmly in the middle segment now so how do you compete against both of these guys?

Vijay Mhaskar: You talked about the combination product right, by the way Quick Heal perspective Quick Heal total security is the most premium product in the market right now, if you look at the pricing in the market, we have different variants of the product, there is a Quick Heal Product Security, there is a Quick Heal Internet Security and there is a Quick Heal AV Pro. Basically that product categories are maintained to ensure that we give protection to all sectors of customers so whether it is a lower end which is could be Rs. 500-600 affordability all the way up to Rs. 1200 to Rs. 1300 so our strategy is to essentially address the whole of the pyramid and give the right level of protection obviously it would be based on the number of features that they gave us at a certain price but customer is and we promote that as the customer of a lower price segment at the renewal time is kind of encourage to move on to higher price products.

Alekh Dalal: And do you see this trend of embedded sort of OEMs embedding antivirus and something that might hurt your business, or have you also tried to do the same but certain brand?

Sanjay Katkar: See this OEM security software trend is there since years actually and we have been able to successfully deal with that because of the protection that comes is the basic and then it is just a one or two months of trial version that is there along with the software and some of the vendors do give six months trial so but after that the PC and laptops are unprotected actually and that is where we cash in and grab the user side.

Alekh Dalal: Thank you.

Moderator: Thank you. The next question is from the line of Akshay Ramnani from HDFC Securities. Please go ahead.

Akshay Ramnani: Thanks for the opportunity. Just wanted to know on the retention ratio what would be the breakup of the retention ratio at the retail and enterprise segment?

Vijay Mhaskar: The enterprise segment is currently at 80%, on the consumer segment it is something should be understood better because in the consumer side we look at retention after the expiry within first 90 days because usually, consumers do not renew on the expiry date itself so that is hovering around 40% and we are trying to improve that further so that is what we are currently tracking.



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- Akshay Ramnani:** Still, we have seen an improvement because if I remember it was around 35%?
- Vijay Mhaskar:** Yes, we are seeing improvement.
- Akshay Ramnani:** How do you see the liquidations and activations on the retail side?
- Vijay Mhaskar:** That is moving on pretty good and as I said in the earlier commentary that distribution network is one of our strengths and our sales team coupled with the distribution network ensured that we do a good liquidation and activation and there is a good sales automation in place now to get us almost really track of how things are progressing.
- Akshay Ramnani:** And on the enterprise segment what percentage would be this GeM of the total enterprise revenue?
- Vijay Mhaskar:** We do not give that split at this point.
- Akshay Ramnani:** That is, it from my side. Thanks.
- Moderator:** Thank you. The next question is from the line of Saurabh Jain from Astute Investments. Please go ahead.
- Saurabh Jain:** Good afternoon Sir. Just a few questions, you know I just wanted to understand that there is lot of advertisements by a lot of hardware and computer companies which are talking about including anti-security, cybersecurity in their product so I just wanted to understand that do a lot of this cyber attacks which actually happen are they happening mostly on computers where there is absolutely no anti-security product or is it happening on products where there is only the manufacturers supplied and cybersecurity products?
- Sanjay Katkar:** See the advertisements that you are talking I do not know which advertisement you refer, the point is many of the vendors are having different softwares that they bundle some of them bundle a complete security product and some of them bundle just a basic security product into their laptops or desktops actually but whatever is the bundle actually what we have observed is the mostly they are either lowend versions or the versions with like basic security and for any advance security or additional features they have to like go for the paid version is what the options we have seen and that is the trend we have been seeing. Unless there is some completely different offer there are certain brands that they give one year protection with certain things with they have their own tie-ups with the other vendors but then it will not be seen across different vendors, it is just like particular single vendor may come out with certain features but then they also charge premium on the branded product that they are working on it or releasing it.



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Saurabh Jain: Because ideally obviously it would be ideal that they buy a paid product to protect themselves fully but the free product which comes with the computer inbuilt is that which is actually good enough it may not be the best but is not that good enough for protecting?

Sanjay Katkar: Yes, so I look at it this way if it is good enough you mean it is better than the one that is without protection okay, so if you have a PC where there is no protection if you have PC with some basic protection definitely going to give you some level of protection, but if you look at the current threat that we are seeing the latest Ransomware and crypto miners they are more advanced and they will easily circumvent and navigate all this basic security and one has to really go and have advanced layer of security to make sure that they are protected.

Saurabh Jain: Right, but the newer threats like from Ransomware and even cryptocurrency are that something that says a Microsoft basic and a cybersecurity software will not be able to manage that?

Sanjay Katkar: They are able to manage it but only it is like they are I mean their updates and things come pretty late actually by the time many of the users get affected so it has to be like on-time updates and all that so that is what I am trying to say the premiumness with the paid version is that you get up to date security, up to the minute security in the sense the Cloud protection that we are offering to our customers is like always connected always up to date so as soon as the new threat we see is at any of our customers automatically all of our rest of the customers are protected with that threat and that is all automated through the cloud protection act.

Saurabh Jain: On the retail side, what is the total number of licenses, which are active as of now?

Sanjay Katkar: So, it is around 6.9 to 7 million roughly.

Saurabh Jain: Typically, what is the replacement cycle as per what you understand for a desktop or for a laptop for customers?

Sanjay Katkar: In India, it is quite different like mostly internationally around three years but here it is sometimes it is like in the range of five to seven years.

Saurabh Jain: So my question is also that is there a possibility that a lot of the customers who used to earlier buy a retail license and now they might be moving to a new laptop, which actually has inbuilt anti-security or they are moving to other devices like a Tablet so is there a possibility that I mean a retail business is also a big part of a business is could be under threat?

Sanjay Katkar: I do not see that much but it is like we have been seeing this kind of security included in Microsoft products since more than a decade now and that has hardly impacted the paid version market. There is a different market for each segment, there is a segment of user who will always go for free, there is a segment of users who will always take security seriously and go for paid version so if you look at paid version and if you look at the Microsoft history they have been



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bundling security product since almost like 2004 in earlier dot versions they used to bundle but then there is always a set of users who will always look for a premium and better protection and that is why they go for paid version.

Saurabh Jain: Right. I was just trying to understand that I am guessing that they would be making the product more and more robust as time is passing, I mean obviously it has become a big issue in the last?

Sanjay Katkar: Yes, the reason why they are making it more and more robust is because that is the most targeted operating system and more and more advanced threats are being seen that can still break their earlier so it to be supposed to be robust security so that is the main crux here actually.

Saurabh Jain: Lot of these operating system companies are they trying to create an ecosystem where they are trying to unless really required, they do not want thirdparty software companies trying to sell things to their customers so is that also something that you see at all?

Sanjay Katkar: No, on Microsoft front we have not seen that because Microsoft more actively interacts with all the security vendors including Quick Heal and we are in touch with them to understand their future releases and how our products can still work on them before the product is released so that is what we have seen, we have seen quite a good cooperation from their side but that is what the current market is. We have not seen any such cooperation from Apple or any other vendors like even android but Microsoft is something that they have taken cyber security seriously and so they allow third party Apps.

Saurabh Jain: And what about Android Sir?

Sanjay Katkar: Android is like they allow thirdparty Apps, but they did not interact with the third parties they do not wait, or they do not test releases with the third party.

Saurabh Jain: Just a last question from my side, so you know for the Q3 already half of the Q3 is over so if you can give us any sense of how that is going for us?

Vijay Mhaskar: No sorry we cannot give guidance for current quarter.

Saurabh Jain: Not a guidance but you will have a sense of how that is progressing?

Vijay Mhaskar: No, we cannot disclose.

Saurabh Jain: Thank you very much.

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



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Aman Vij: Sir, could you talk about that we have reduced our R&D team sales and marketing team as well as technical support team so is it that any particular reasons?

Vijay Mhaskar: No, so this is not something as an initiative or something. We are addressing this as projects change. We address the headcount based on the project so that is pretty much it as we find new products or projects to invest, we will add more headcount but from the headcount perspective, there are no specific initiatives there.

Aman Vij: Okay and our enterprise partners are also reduced?

Vijay Mhaskar: So, we have about close to 500 plus registered partners from the enterprise but total number of partners that they work to the system is about 2000 so what happens is in enterprise also we have Platinum, Gold, and Silver, so Platinum partner where we actually bill that is about 500 registers below that there is almost 2000 other partners which are gold and silver who help us to actually fulfill deployment install and so on, some of these partners are actually are more closest to customer and they give us the lead, so from the number of partner perspective enterprise side I would say I would look at the larger count of 2000 and not just a registered partner because that is where we get the lead from.

Aman Vij: Numbers in the presentation says 330 it used to be 500 plus but why that now 330?

Vijay Mhaskar: So, 500 are the registered partners the billing partners that are currently about 360-380.

Aman Vij: Okay so this number is billing partner?

Vijay Mhaskar: Correct.

Aman Vij: Okay, and Sir is there any threat from the there is the new technology isolation-based technology protection coming up, there is a global company Menlo Security, so do you envisage a threat because they talk about something pretty different from the antivirus software solution that we are offering?

Sanjay Katkar: No, we do not consider that as a threat in the sense there are a lot of such companies that come out with the technology that is single technology that they cover and they try to make sure that they do good hike but the thing is security software, I mean if you look at their proper presentations and sales, nobody depends on the single product there so they have to be have an antivirus and security and firewall and above that these products are sold, so and at the same time what we at Quick Heal most of the way we will do is they keep on releasing such features inbuilt into the product so that there is no need of such additional products to be added further and that is how we also work so on Quick Heal front we are also working on such disruptive technology wherein we will be covering such protection into the inbuilt protection that we have already released into the product line.



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- Vijay Mhaskar:** So the other thing is on a security side the certifications count a lot and if you look at this German or UK certifications they actually do the certification on the real fact and you see some of the new technologies usually were not get into the certification because they cannot protect all the real-time threat so that is what is very important, as Sanjay said it has to be a comprehensive multi-layered approach to take care of the advanced threat.
- Aman Vij:** Okay sure, last question from my side, do we have any number in terms of our user base in enterprise as well as retail, how many of them will have Windows XP or an older version?
- Nitin Kulkarni:** No, we do not have that information.
- Aman Vij:** The reason I am asking is, Windows 10 and even the news we keep hearing about lot of attacks happening in India happening because most of the systems are on old operating system and there is fewer threats or lesser attacks happening on the newer version of Windows so is our main retail base or even the enterprise base that we offer mainly running some older systems?
- Sanjay Katkar:** That statistics we do not bifurcate but that is not the case what I can share right now here. We are having good enough user base who are having the latest operating system and still using our software.
- Aman Vij:** But bulk will be Sir old systems only?
- Sanjay Katkar:** No, it is not the case actually the older version is getting phased out and we are seeing lot of users already moved on to latest versions, but we cannot share the number of I mean the exact percentage right now we do not have the figures in hand.
- Aman Vij:** I will just stop here. Thank you.
- Moderator:** Thank you. The next question is from the line of Parimal Mithani from Credential Investments. Please go ahead.
- Parimal Mithani:** Sir, I just wanted to know since you been in the concall you have been mentioning on the enterprise Sir is your focus more on the government side of the business because the government e-portal is not working and what is your breakup between private organization and the government side Sir?
- Vijay Mhaskar:** We are focused across. We have separate sales and infrastructure for our enterprise and government so there is an equal and strong focus on both the segments.
- Parimal Mithani:** No, Sir my question relates to because on a concall I heard that elections coming in government spending going down are you focusing more on the government or you are a focus is more on the



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private sector because of an election I understand the spending from government may not be there but what is your clear focus in terms of?

Vijay Mhaskar: The response was in the response on the question on the government growth and that is where the response was, but as such you know we are focusing on both and remember that in the government sector also on a national election there will be some other bodies and who would be buying the software so we will continue to focus on both.

Parimal Mithani: Sir in terms of the empanelment of your products on the government side on the enterprise side what is a normal timeframe that it takes to get empaneled?

Vijay Mhaskar: The empanel you mean on the government agency?

Parimal Mithani: Yes, Sir could you mentioned?

Vijay Mhaskar: So that takes months to a year so that is a long process.

Parimal Mithani: Currently how many products from the enterprise are empanelled on the government website Sir?

Vijay Mhaskar: Our products have actually consumed in the government what you are talking about is an agency empanelment that is an additional effort that will help us to get us more penetration, so we are selling in the government and all our products are currently sold in the government.

Parimal Mithani: This was just in terms of the articles in the press and all that the enterprise segment is lot of even the big and smaller in your category of people have been growing at good percentage do you think you would be able to maintain that growth rate?

Vijay Mhaskar: No, I did not get the question.

Parimal Mithani: Sir lot of your competitor in your field in the same line of business with the same amount of topline has been growing at between 20% and 25% or more than that also you think we will be able to maintain that going ahead?

Vijay Mhaskar: So, are you comparing MNCs or you comparing the local players?

Parimal Mithani: I am talking of local players Sir some in the south some in the west which has reported good numbers it is in public domain itself Sir.

Vijay Mhaskar: I do not recollect any numbers. But anyway, so the guidance we have given earlier in the call both me and Nitin about the retail and enterprise that stands.



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Parimal Mithani: Okay and Sir as of today what is our number of enterprise customers we have as of September 30?

Vijay Mhaskar: Close to about 32000 plus.

Parimal Mithani: Okay so which was 26000 as of last concall right?

Vijay Mhaskar: Last time it was 31000 and added about 1500 clients.

Parimal Mithani: Thanks.

Moderator: Thank you. Ladies and gentlemen due to time constraints that was the last question. I now hand the conference over to Mr. Kailash Katkar for closing comments.

Kailash Katkar: I take this opportunity to thank everyone for joining on the call. I hope we have been able to answer all your queries for any further information kindly get in touch with us or strategic growth advisor, our investor relation advisors. Thanks once again.

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of Quick Heal Technologies Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.