"Quick Heal Technologies Limited
Q4 FY2019 Earnings Conference Call"

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MANAGEMENT: **MR. KAILASH KATKAR – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER - QUICK HEAL TECHNOLOGIES LIMITED**
DR. SANJAY KATKAR - JOINT MANAGING DIRECTOR & CHIEF TECHNOLOGY OFFICER - QUICK HEAL TECHNOLOGIES LIMITED
MR. VIJAY MHASKAR - CHIEF OPERATING OFFICER - QUICK HEAL TECHNOLOGIES LIMITED
MR. NITIN KULKARNI - CHIEF FINANCIAL OFFICER - QUICK HEAL TECHNOLOGIES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Quick Heal Technologies Limited Q4 FY2019 Earnings conference call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on 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 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kailash Katkar, Managing Director and CEO for Quick Heal Technologies Limited. Thank you and over to you Mr. Katkar!

Kailash Katkar: Good Evening friends. I am Kailash Katkar, and along with me, I have Mr. Sanjay Katkar, Joint M.D. and CTO, Mr. Vijay Mhaskar, COO, Mr. Nitin Kulkarni, CFO and SGA our Investor Relations Advisor. We welcome you all to participate in our earning conference call to discuss our performance for the quarter and full year ended March 31, 2019. Before starting with brief update on business performance, I would like to inform you that share buyback program was approved by the Board of Director as well as the shareholders of the company. CFO Nitin will give you more update on it.

Now I will start with brief update on the business performance. For FY2018-2019 Q4 has not been up to our expectations, the revenue saw a marginal dip; however, we were able to increase the operating profit and net profit for the year. The sales were flat and the same can be attributable to the muted performance of the retail segment, which reported lower sale as compared to last year. The enterprise and government segment have grown by 8% in revenue terms whereas in volume terms this segment grew by 11%. I am happy to share that our flagship product Seqrite has received the best performance 2018 award for its endpoint security solution from AV Test Institute in Germany for 2018. Seqrite has achieved the top spot after a series of intensive testing throughout the year. Now I will hand over the call to Sanjay to share detail on our R&D efforts.

Sanjay Katkar: Thank you Kailash and good evening everyone. I will start by sharing some more details on the award that Seqrite endpoint security has received. The AV test demonstrate Seqrite's capability to deliver strong endpoint protection against advance test and attacks while making minimal use of enterprise IT resources, which was well below the industry average, so Seqrite consistently displayed a high level performance throughout the various rounds of testing in 2018. The solution has special relevance within emerging businesses where the networks often have a significant percentage of endpoint with older OS and low hardware configurations. Now I will share few updates on the Threat Landscape for the past quarter. The year 2018 was an eventful year from a cyber security perspective and cyber security threats only increased and there were news of even more daring attacks and cyber breaches with more companies waking up to the catastrophic damage the lack of cyber security framework can cause.

The beginning of 2019 has been no different. In the first quarter of 2019 we detected over 434 million threats targeting the retail segment with January clocking the highest detection of over 160 million Malware. Cryptojacking and Ransomware continued to be the most dangerous threats with daily detection count of over 69000 and 22000 respectively. Fake apps continued to be penetrated in the mobile segment with Quick Heal Security Labs observing 28 fake apps and 24 fake antivirus apps. On the enterprise front, manufacturing industry faced the highest that is 27% of the detection followed by professional services, education and automobile industry verticals respectively. The threat of cyber attacks has only increased in recent years leading to the biggest enterprises rushing to understand, identify and secure this threat, but SMB still have a long way to go when it comes to cyber security and that is market that we are penetrating. Cyber security remains the serious challenge for these organizations as awareness does not reflect how vulnerable they are to cyber attacks. With the help of robust product portfolio and state-of-the-art threat research and response division, Seqrite is perfectly positioned to partner SMBs in securing their digital transformation. Given the heterogenous nature of SMBs, customer demand varies and depend on the size and type of business. Hence, Seqrite has adopted a multi-pronged strategy to further penetrate in the SMB segment that includes customized products for SMB, well-planned channel strategy, strong customer support and threat detection and prevention through the state-of-the-art Quick Heal Security Labs. So with these, I will now hand over the call to our Chief Operating Officer, Mr. Vijay Mhaskar to share updates on the operations of the company.

Vijay Mhaskar: Thanks Sanjay. Good evening all. Let me give you some brief on the business front. As Kailash explained, Q4 this year has not been up to our expectations, which resulted into flattish revenue for this year compared to the previous year. The retail business follows a stock and sell model. In Q4 the retail product stocking slowed down compared to the previous year Q4. The slowdown was triggered by the challenges in the distribution channel for hardware product like laptops and desktops. Hardware product distribution channel has a significant overlap with the consumer security distribution channel, so it caused delayed payment recovery from our primary partners and as a result the debtor days increased. So we have taken a cautious approach in stocking in Q4 to avoid any undue risk to Quick Heal business due to the payment recovery. We have continued to work closely to strengthen the Tier-3 distribution network, our strength is 25000 dealers working closely with Quick Heal. Our sales team is working closely with this retailer so that the consumption of a product grows. We also aspire to grow the retail base so that our reach in the market grows.

On the product front, we will be launching latest technological innovation to the market in this quarter. We will keep pushing the envelope on the technology to keep our consumers protected from any latest threat. We launched home network security product in Q4, the product needs more market awareness. Our marketing efforts are underway, and we will scale it further and that should help us to get traction with this new product.

Now moving onto the enterprise and government segment, we expected higher growth from the enterprise and government verticals, but in FY2019 the growth is below our expectations. As evident from the numbers given in the presentation for the enterprise and government segment, the customer acquisition has moved up, but our average realization per unit is low, so the translation of customer acquisition to the revenue has not moved up as much. There are multiple factors contributing to this. First factor is we have multiple product variants in enterprise segment and in Q4 we have seen a lower price variant had higher contribution. The second factor is obviously the competition in the market, which is driving down the price for license throughout the segment, so that had impact on our ARPU and finally the cross sell and up sell effort, we still need to do a lot more to ensure that we sell our younger products to our existing customer base and that actually would help us to increase the ARPUs. So younger products are showing promise, but the base is small as we do a more cross sell strategy we should be able to get more business momentum on this product.

On the government business, the business is moving up, the GEM is stable now, we are able to flow a number of orders through GEM so that part is behind us. The real challenge for us on government is to get more strategic or bigger accounts and that exactly is our endeavour going forward. As you know, in Q4 there was election announced, so there are some impacts of that in getting the orders, Q1 also would be impacted with that. So we are currently focusing on also the PSUs in the government vertical and see how we can get more sales from the PSU segment. Overall mix quarter from the business perspective with the broader portfolio of a product we expect better returns for our GTM initiatives. With that let me hand it over to Nitin, our CFO to give you an outlook on the finance side of it.

Nitin Kulkarni: Thank you Vijay and good evening everyone. Before moving onto financials, I am happy to share that Board of Directors has recommended a final dividend of Rs.2 per equity share with a face value of Rs.10 per share for FY2018-2019. This is subject to shareholders' approval in ensuing annual general meeting. With this the total payout ratio will be 20% including dividend distribution tax on the current equity base.

As informed by Kailash in his opening commentary, I also would like to brief you on the share buyback program, which has been approved by the Board of Directors as well as shareholders of the company. The company had proposed to buyback up to 63,63,636 equity shares at a price of Rs.275 per share payable for an amount aggregating up to Rs.1,750 million. The buybacks shall be undertaken on a proportionate basis from the eligible shareholders through the tender offer process and as per the stock exchange mechanism as specified in the SEBI circular. The tender offer will open on Monday May 20, 2019 and will close on Friday May 31, 2019. The buyback is being undertaken by the company after taking into account the operational and strategic cash requirements of the company in the medium term and for returning surplus funds to shareholders in an effective and efficient manner.

I will now take you through the consolidated finance performance of the company for 12 months ended March 31, 2019. Revenue for FY2019 has been almost flat at Rs.3,149 million as compared to Rs.3,183 million as in FY2018. In terms of segmental performance, the retail segment revenue is lower by 5% in 2019 at Rs.2,604 million as compared to Rs.2,741 million in FY2018. The enterprise segment grew by 8% from Rs.647 million to Rs.701 million in FY2019. The enterprise segment growth has been lower than our expectations mainly due to intense competition in the market.

In terms of volume that is licenses sold, retail segment saw a marginal growth of 2% whereas enterprise and government segment grew by 11%. The retail as well as enterprise segment has been facing realization pressure due to change in product mix. Similarly, the enterprise segment is also witnessing additional pressure due to intense competition. Our renewal ratio continues to be at a healthy level of close to 40% for retail segment and about 80% for enterprise segment. We are continuously engaging with the whole ecosystem of channel partners across the country with an objective of improving this further.

Our EBITDA for the year grew by 6% to Rs.1,279 million from Rs.1,203 million in prior year. The margins improved by 281 basis points to 40.6%. Net profit for FY2019 is at Rs.918 million as compared to Rs.830 million in FY2018 registering a growth of 11%. The PAT margin has improved by 308 points to 29.2%. The cash PAT that is PAT plus depreciation for FY2019 has increased by 5% to Rs.1,154 million as compared to Rs.1,099 million in earlier years.

The improvement in profit in spite of flat revenues was possible mainly due to our relentless efforts on cost controls. Now we have launched multiple Seqrite products in the market and in the coming year we would like to invest more in marketing effort in order to strengthen Seqrite brand and generate more customer demand.

Depreciation for the year has been lower by 13% as compared to earlier year. This is mainly on account of no major additions in fixed assets and lower charge because we follow written down value (WDV) method of depreciation. Other income for the year stood at Rs.327 million compared to Rs.300 million last year. This is mainly as a result of higher treasury book and better FD rates from some of our fixed deposits.

Now I will come to consolidated balance sheet. As of March 2019, our cash and cash equivalents along with investments in mutual funds, tax free bonds, and fixed deposits stand at Rs.5,247 million as compared to Rs.4,665 million at the end of March 2018. This shows a healthy net addition of Rs.582 million during the year. The cash balance includes IPO money of Rs.980

million invested in fixed deposits. The utilization of proceeds is as per the objects as stated in IPO document.

On the working capital side, as of March 31, 2019, our receivable days stood at 138 days as compared to 111 days in March 2018. The receivable days have increased by around 27 days. As mentioned by Vijay earlier, the challenges in the distribution channel network has caused few payment delays, which has resulted in increase in receivable days; however, we are actively working on bringing down the receivable days back to the normal operating level. Our overall working capital cycle stood at 101 days compared to 82 days at end of March 31, 2018.

Now I would like to touch upon Q4 FY2019 financials. Revenue for Q4 has been at Rs.860 million compared to Rs.1,187 million in Q4 2018. The revenue has been lower due to lower sales in retail segment, which is mainly on account of management's conscious decision to keep the outstanding exposure at an acceptable level. As a strategy, we want to limit further elongation of credit period. The EBITDA for Q4 2019 has been Rs.386 million with a margin for Q4 at 44.9%. PAT for Q4 2019 has been Rs.277 million with a margin stand at 32.3%.

Now I would like to touch upon standalone annual financials. Revenue for year 2019 was Rs.3,129 million compared to Rs.3,162 million in earlier years. EBITDA for 2019 has been Rs.1,294 million compared to Rs.1,237 million in FY2019year-on-year growth of 5% margin for 2019 stood at 41.4%. PAT for FY2019 stood at Rs.840 million compared to Rs.789 million in FY2018, year-on-year growth of 6%. The margin for 2019 stood at 26.8%.

Coming to standalone quarterly financials, revenue for quarter has been Rs.854 million compared to Rs.1,184 million in Q4 2018. EBITDA for quarter has been Rs.389 million. The margin came at 45.6%. PAT stood at Rs.237 million at a margin of 27.8%.

During the quarter, there was an exceptional charge of Rs.43 million on account of impairment of investment made in wholly owned overseas subsidiary of the company. The exceptional charge for the full year is Rs.93.17 million. With this, now we will open the floor for question and answers. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Hrudhyam Verma from Augmen Catalyst. Please go ahead.

Hrudhyam Verma: Sir North Indian side of the Airtel to provide mobile antivirus service, your take on that Sir?

Vijay Mhaskar: Yes, that is something we have looked at it and we have been discussing with other Telco providers, but to us that is not the prime area, we still feel to going through distribution and through online to direct consumer is the right way to go for the right monetization for the product and services that we provide.

Hrudhyam Verma: No, so right now they are providing in mobiles, later on they can start providing multi device anti-virus which would be very easy. So Just wanted to know that are we planning to enter such model or as you mentioned earlier that you will still want to go through the service and distributor model.? -

Vijay Mhaskar: So we have looked at that area, as I said, the monetisation was challenging on that route, so we have had discussions, but we do not think it is very promising.

Hrudhyam Verma: Sir one more question, now how should we look at this quarter and what is your view for this quarter and going forward like was it because of elections or is this some one off kind of a pressure. Can you just give an outlook going forward especially growth outlook?

Vijay Mhaskar: So as we have always been saying that for retail we can do about 7% to 9% growth and that is what we expect the market to grow and from the enterprise front we aim to grow about 15% to 20%. We agree that Q4 was not up to the expectations, but our efforts are on and the push is on to make sure we achieve on the retail front about 7% to 9% growth and in enterprise segment by about 15% to 20% on annual basis.

Hrudhyam Verma: Okay and as you mentioned that there is intense competition in enterprise segment, so even after that you still are very positive that you will achieve this kind of growth?

Vijay Mhaskar: Right, we entered into SMB and now we are moving into mid-market, so competition definitely is there, but we feel with the product portfolio, support network and the USPs that we have, we should be able to drive this kind of growth, plus the GTM strategies that we have that should help us to get us where we want to be. Basically the growth of 15% to 20% is definitely something we want to achieve.

Hrudhyam Verma: Okay and Sir just last question, did we get any 500 & 1000 plus users this quarter?

Vijay Mhaskar: Yes, we do have onboarding of such clients every quarter and right now we have about 162 plus accounts and that focus will increase in current quarters also to make sure we have larger accounts. Just to also reemphasize that the products which we now offer are scalable to a larger account base, of 5000 to 8000 users also, which helps us to actually get higher accounts and the new products that we have on mobile device management, we have actually seen the user count there is higher compared to the end point security primarily because some of the organizations have a lot more mobile work force and we are able to penetrate those accounts better, so we are hoping through products like MDM, (Mobile Device Management), we should be able to get higher user base accounts into our portfolio going ahead.

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

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

Hardik Jain: Good evening Sir. In enterprise segment, if we see McAfee has done a turnover of almost Rs.750 Crores this year in 2018 and they have grown around 25% to 30% CAGR over last four years, so enterprise as a segment is growing in the country with such a small base what is the reason that we are not able to even grow at 20%, is it because there are some gaps in the product itself or is it pricing or is it something else, if you can explain it?

Vijay Mhaskar: Yes, so Hardik, the number that you gave I have doubt, but I will not challenge that. As far as Quick Heal's Seqrite brand is concerned, we recently launched a number of products, which are yet to get traction and would take time in enterprise segment, that is one. The second is the Seqrite brand strengthening is definitely required and that is something we are focusing on. You would have noticed a lot of efforts on ATL and BTL is happening for Seqrite in Q4 and that will continue, so I think by virtue of having a strong brand and having a strong portfolio, both should help us to get into these accounts. The third one is scalability of our product, so as we have been talking about the products were previously suitable for users up to 500 to 1000 or maximum I would say 2000 users. Now we are going all the way up to 5000 users and more, so that also increases the reach of our customer base, so that are the market that we can attract, so that is something I would say will help us to achieve higher growth rate.

Hardik Jain: Secondly Sir because there was one understanding in the market that the government companies and the government departments would prefer an Indian company to protect the data because it is from the national security point of view and they would prefer an Indian company rather than foreign company. Do you see this really materializing in the marketplace?

Vijay Mhaskar: Frankly not and it is actually only on the paper, we have worked very closely with the government agencies and still working on, to highlight because it is not just from the fact of Quick Heal business, but actually it is about National Security that having foreign company software running onto government laptops is not a healthy thing. But I would say that still we are pushing really hard to ensure this realization happens in the government departments. Frankly on the ground we do not see that. There are in fact a lot of RFPs and tenders where there will be clauses, which actually preclude Indian companies. So we still see that, and we are fighting, we are pushing for that, but any of the visibility that this community can give and represent this to government I think will be really helpful.

Hardik Jain: And last question from my side Sir, although on an annual basis our revenue looks flat, but this is on the back of good Q1 because of the GST implementation, which was one-off benefit that we got on Q1, so if we normalize it actually the revenues have declined, so my question is did we lose any of our big distributor or big dealer in this year, which has stopped doing business with us?

Vijay Mhaskar: No, on the retail side we have more than 88 distributors that we deal with, so those are with us for long, there will be small churn here and there, but that is because distributors want to focus on some other business, but that is normal, I would not say that is abnormal.

Hardik Jain: No major distributor left us?

Vijay Mhaskar: No major change, yes.

Hardik Jain: Okay. That is it from my side.

Moderator: Thank you. The next question is from the line of Saurabh Jain from Astute Investment Management. Please go ahead.

Saurabh Jain: Good evening Sir. Just a couple of questions, Sir, in Q4 there is degrowth in retail licenses and you have talked about the fact that there was a slowdown on sales of laptop and even hardware, was it due to that or was it due to people not actually buying antivirus, if you can just talk a little bit more about this?

Vijay Mhaskar: So the numbers that we talk about here is actually the billing numbers as we are in a stock and sell model, so it does not reflect actually on the product being actually consumed in the market that is activation numbers. Activation we are seeing pretty good numbers at this point. I do not think it is actually about the product that we are getting billed into the primary distributor or T1 distributor right, so that is where we have seen a drop and I mentioned earlier we had some disruption into the distribution channels primarily because the laptop and desktop OEMs they had some practices, which caused the cash rotation problem with the distributors, so number of them had their cash locked-in which impacted their investment that they could do into other businesses and because we have overlap between the distribution channel for the hardware products and the consumer security products, we had to suffer that and essentially it actually impacted our ability to recover the outstanding and in a way impacted our billing for Q4.

Saurabh Jain: But the distributor will actually buy the product if there is a demand for it in the retail end even though he might sell it after say a month or two months?

Vijay Mhaskar: The distribution channel is three tiers, so by the time he bills the product, by the time it flows to Tier-3, it takes almost two to three months. So there is usually enough stock in the market, so there is no need to do.

Saurabh Jain: How does the industry actually do in this period of time I am talking about other cyber security or antivirus products out there?

Vijay Mhaskar: Unfortunately, we do not have the database, no agency in India, which produces the data, so that data is not available.

Saurabh Jain: And so far how is April and May panning out for us?

Vijay Mhaskar: I would say as usual we have been tracking, the stock levels at every distributor, lot of our billing happens in May and June, April is pretty much signing up targets with the partners, so that has been completed and if we look at what has happened in April I think we will see pretty good Q1.

Saurabh Jain: Right, but I am talking about in actual number terms?

Vijay Mhaskar: I would not be able to give you guidance on actual numbers.

Saurabh Jain: Okay and another question was that the worsening of the net working capital is it all due to retail or is it also due to enterprise?

Nitin Kulkarni: Majority of the contribution comes from retail segment.

Saurabh Jain: Okay.

Nitin Kulkarni: If you look at the working capital the primary reason for increase in debtor days is mainly because of increase in debtor days for our retail vertical,

Saurabh Jain: Right, because we have constantly kept changing this approach of selling on credit or on cash and carry in the last two years, earlier we were selling on credit then we changed cash and carry only and then we started extending the credit, now we are saying that we will not extend credit beyond the certain period of time.

Nitin Kulkarni: Earlier a year back we were selling it on cash and carry model and then we also mentioned in the earlier calls that since it is more of a stock and sell model, so it has to be a combination of both, that is for some cases it will be cash and carry and for some cases we have to give credit to the distributors, so these are business calls, now we are consistent with this model, we are working on this and we hope that in one or two quarters we will try and bring it to the normal operating level.

Saurabh Jain: What is the total number of customers now in enterprise with more than 500 users I thought this number was more than 200?

Vijay Mhaskar: **It is** around 200 but I do not have exact numbers right now, and we added some more in Q4.

Saurabh Jain: Will you be able to give us a number of how many we added this quarter?

Vijay Mhaskar: I do not have that number right now.

Saurabh Jain: Okay and just last question from my side, generally we are seeing that there is a lot of pressure on pricing including on the enterprise side, in this kind of scenario, do you think there is a floor ever to the pricing or it does not really exist?

Vijay Mhaskar: I did not get you, can you repeat the question?

Saurabh Jain: There is a certain price below which people will not go in the industry or that does not really work through?

Vijay Mhaskar: That does not really work through because in this enterprise world there are the MNC players, Tier-1 players and also there are local players and there are entrants, startups and so on who do not mind to get the business at whatever cost it is, so that is the ground reality.

Saurabh Jain: Okay, thank you. That is it from my side.

Moderator: Thank you. The next question is from the line of Mangesh Barge from Investor Maze. Please go ahead.

Mangesh Barge: Good evening to all. I just need to understand that you are saying that because of the cost parameter or cost restructuring your margin will expand, so going forward will our margins be stable or are you see some margin expansion.

Nitin Kulkarni: Mangesh, in this dynamic situation it will be really difficult to comment about two, three years down the line, but definitely if I look at the near term which is a one year, we will be able to maintain EBITDA at about 35% , also lot of investments will happen during the year on marketing and as a result of that there will be some impact on margin, but still EBITDA margin of 35% is what we foresee

Mangesh Barge: So investment can be one aspect which may squeeze the margins, but do you see any competition from the local or any global players which may impact our margins in future?

Vijay Mhaskar: That is the fact today, so particularly on the enterprise and on the retail front, there is a lot of competition and obviously the ARPU gets impacted, so our effort is to acquire more customers so if you look at Q4 annually we have done more acquisitions on enterprise than retail, so now it is about how do we give more value to the customers and that is what the focus is and that will help us to increase the margins also.

Mangesh Barge: So you are saying that you might be having some cross selling strategy. On one hand, I am seeing in your presentation where you have mentioned that there is a huge opportunity for India to penetrate into antivirus and security as attacks might be very high, so on a ground level if global companies are growing 18%, 20%, why not Quick Heal is targeting an overall growth of 20%, I know that retail base is huge, but on enterprise and government front do we have some targets set down the line, I am looking from the long term perspective, how do you see the Company growing till 2020, 2025, in terms of market penetration?

Vijay Mhaskar: If you look at Quick Heal portfolio composition, we have about 80% retail and the enterprise is about 20%, now if you see the growth, the retail will grow about 7%, 8% that is because of the market growth in the retail side. and enterprise is going at about 15% to 20% and it averages out to about 12% to 13% growth. So, now, if you compare other companies, they have started as enterprise companies and then started penetrating on the consumer side, so the proportion of enterprise revenue is higher which is a growing market, and our endeavor is obviously to get there where we have higher proportion of enterprise revenue coming and because that also is a growth market and that exactly what we are focusing on, but in a short term a year or two I would say retail will major share,

Mangesh Barge: Yes I understood that. My second question is related to our Buy-back programme and the dividend which we have declared, any specific reason why are we going for a buy back considering the current price point? Any specific reason?

Nitin Kulkarni: Mangesh, , if you look at our cash position we have about Rs.525 Crores of cash, and we have been generating about Rs.100 Crores of cash every year and after considering the existing organic and inorganic requirement the management thought that whatever cash is left after consuming the cash for buyback, will be adequate enough to take care of the organic and inorganic growth opportunities and that is why we have decided to give this cash back to shareholders in more efficient manner that is a rationale behind the buyback.

Mangesh Barge: Okay and when you say the inorganic way, are you really looking for something because if organic is giving some 8% to 15% growth, so do you have any thought process to grow inorganically for Indian portfolio?

Nitin Kulkarni: We are definitely looking at few inorganic opportunities, which could be partnerships, alliances or some acquisition, but it is very difficult to put a comment at this stage because there are many variables involved in the entire process, but we are working on it and the process is on.

Mangesh Barge: Okay, thank you. That is it from my side.

Moderator: Thank you. The next question is from the line of Devanshu Bansal from Emkay Global. Please go ahead.

Devanshu Bansal: Thanks for the opportunity. Sir, we have provided 15% to 20% guidance for our enterprise segment FY2020, can you break it down into volume realization mix as to what part would be contributed by volume and what part would be average realization?

Vijay Mhaskar: I do not have that split Devanshu, this is across the portfolio, there is a lot of product mixes in this and lot of segment in that, so I would not able to give you the exact split of that.

Devanshu Bansal: So why am I asking is because we did fairly well on the volume part, we grew 11%, but still we posted around 8% growth in the enterprise segment?

Vijay Mahskar: It is actually difficult to predict that because in enterprise world every deal is unique by itself and it is really about how do we sell more product into that deal and convince the customers to get more products and at the end of it we hope to get both higher volume and higher ARPU, ARPU because of increasing the product attached to the customer.

Devanshu Bansal: Okay and can you give a broad idea in terms of industry growth in the enterprise segment?

Vijay Mhaskar: I would say if you look at Gartner report, this is global report, there is no India split available and across the whole security market it is about 10% to 12% growth across all the different segments in the cyber security, which has more than 10 plus kind of segments right now, so I would say definitely it is a growing market and number of products have been offered, so from that perspective it is definitely promising.

Devanshu Bansal: The three year growth if you peg at 10%, 12%, so what is the bases of us predicting 20% growth, so what are we seeing in the market?

Vijay Mhaskar: If you look at three years back, we were primarily selling endpoint security into enterprise world, now we are selling DLP, we are selling encryption, mobile device management, so we opened out from one product to about seven, eight products now, Unified Threat Management is another product, which is getting good traction, so by virtue of adding more products it helps us to increase the total adjustable market and that helps us to give higher growth.

Devanshu Bansal: Okay, thank you.

Moderator: Thank you. The next question is from the line of Chirag Patel from Bhavesh Investments. Please go ahead.

Chirag Patel: My question is on two fronts. First one, on the IT business and particularly on the enterprise side, since last two quarters, the voice is not that proper like whether we are receiving any orders from this entities or not and what is the outlook on it particularly on the enterprise security solution because somewhat what I heard in last concall that some changes government has made in tender processing and all, so is it resolved or still we are facing that issue?

Vijay Mhaskar: Chirag, those were in reference with GEM, which is the e-commerce portal launched by government and most of the central purchases are routed through that right now. This was very unstable in Q1 and Q2, and in Q3, Q4 it has been stable and now we are able to route most of the orders through GEM. so that is regarding the government. .Now on enterprise certainly we are acquiring more customers and I think it is more about cross selling more products to the existing and new customers so that we can get better ARPU.

Chirag Patel: What are the receivable days for enterprise solution like we have overall consolidated receivable days for FY2019 stands at 138, particularly enterprise solution?

:Nitin Kulkarni: We do track this data internally, however we do not share it, enterprise receivables are more or less on track, the enterprise customers are paying as per their payment terms, the days are higher in retail only that is what I can comment at this point of time.

Vijay Mhaskar: On enterprise side it is usually back to back versus in retail it is a stock and sell model, so you will not see so much challenge of debtor days on enterprise side

Chirag Patel: And why there are challenges prevailing on retail side, is it due to cash crunches, which economy is passing through or any other issues there?

Vijay Mhaskar: As I mentioned earlier, it was more about the channel disturbance that happened because of the laptop and desktop sales practices and that actually overlapped with our channel and some of our primary distributors their cash was locked and whole cash rotation got disrupted, so we took a cautious approach there, we did not go and do this on the recovery side, so that is where it is impacted.

Chirag Patel: When will it normalized?

Vijay Mhaskar: So this year in subsequent quarters we should come to normal pace.

Chirag Patel: Okay and what is the average ARPU on retail front?

Vijay Mhaskar: It is already in the presentation.

Chirag Patel: Thank you.

Moderator: Thank you. The next question is from the line of Alekh Dalal from One Thirty Capital. Please go ahead.

Alekh Dalal: Your sales and marketing expenses have gone up from Rs.19 Crores in Q4 FY2018 to about Rs.20 Crores this quarter despite your revenue being down 27%, so I am trying to understand your cost of acquiring a customer has gone up?

Nitin Kulkarni: These are quarter-to-quarter different activities, we had some dealer meets during this quarter and as a result of that this cost has gone up a little bit.

Alekh Dalal: Okay, so that should come down next quarter?

Nitin Kulkarni: I think you should look at this cost on an annual basis that will give you a correct picture.

Alekh Dalal: Okay, thanks and what was your license activation growth, can you share that, how impactful this inventory, the channel issue was because license activation should give you a good sense?

Vijay Mhaskar: That number, we track internally. , but we do not make it public.

Alekh Dalal: But was it high single digits, I just wanted to understand the consumption and your market share?

Vijay Mhaskar: That trend is going positive right now, so that is not a concern for us, it is more about stocking in T1.

Alekh Dalal: Is it high single digits, double digits?

Kailash Katkar: We cannot share that thing.

Alekh Dalal: And it is very difficult to figure out, because the revenues are down to 28%.

Kailash Katkar: I understand that because let me tell you one thing, there are three factors, one is the license sales, second is a license activation, so there are lot of combinations need to be done while calculating those things.

Alekh Dalal: Understood and your EBITDA margin guidance you said was about 35% and in this quarter the EBITDA was down 1000 basis points, so you think reasonably you can achieve 35% or because this year you have done 40%, so should we bake in 500 basis points, so margin decline in the next year?

Nitin Kulkarni: This is basically on an annual basis, so when I said 35%, it is after considering the fact that we will be putting lot of investments on marketing side, after the Seqrite products are ready, so after considering that fact we are saying we will get 35%, , if there is a upside on revenue, then there is no reason why this number should not go up, but at this point of time we are saying that we will hold onto 35%.

Alekh Dalal: Based on that and your guidance it looks like your EBITDA should not grow in FY2020, is that correct?

Nitin Kulkarni No, if you look at last year also, we have been always in the range of 35% to 37%, so if we get a higher revenue next year there is no reason why EBITDA numbers should not go beyond 35%.

Alekh Dalal: Okay, thank you. That is all from my side.

Moderator: Thank you. The next question is from the line of Gulshan Patni who is an Individual Investor. Please go ahead.

Gulshan Patni: I have two questions. One is that why don't you decrease the price of your products?

Vijay Mhaskar: That has been discussed and reviewed multiple times. We still think there is a lot of pull for the Total Security, the premium products and customers are happy with the product, so we have different strategy, we have three variants and we target different customer segments. We still feel the lower price segment is targeted by AV product and that is the study that we are adopting not necessarily dropping the price of the top

Gulshan Patni: I am actually talking about the retail side.

Vijay Mhaskar: Retail side we have three variants, we have Total security, internet security and AV pro, AV pro is a low price category and that competes with a lot of local competition, Total security which is the complete solution for the premium customers who want complete protection, that is what at a premium rate and so far we have decided not to drop that rate, but that debate continues internally and we will take a right call at the right time.

Gulshan Patni: Okay and are you launching any new product next year?

Vijay Mhaskar: Yes, we will announce it in the due course, I cannot pre-announce it.

Gulshan Patni: Okay, thank you.

Moderator: Thank you. The next question is from the line of Saurabh Jain from Astute Investment Management. Please go ahead.

Saurabh Jain: Thank you for the followup Sir. From our understanding we know that in enterprise for the different segments, which is the endpoint security, data loss prevention, encryption, unified threat management, mobile device management, for each of them there are different ranked players who are having strength in these each segment and for the larger enterprises who have more than 500 users, they do not mind going to four or five different companies for having a cyber security solution, so they will go to mobile device management, the top one or two companies and for unified threat management, another one or two companies, so if we have introduced new products in the last two or three years may be in that say we are in the fifth or the sixth position then how do we move up and actually cross sell these products to customers?

Vijay Mhaskar: What the trend is that we are seeing is customers are looking for consolidation primarily because the sector segment that we look at SMB and mid market, sometimes just one IT person or couple of IT people manages the whole portfolio, so having multiple vendors is always challenging and having lesser number of vendors is actually much better given to as is the business needs, so that exactly is the advantage, you highlighted absolutely right thing that if you look at Quick Heal, the Seqrite brand has all the products that the customers need to do for a complete security and having one vendor providing that is actually a unique USP that we have and that exactly what we are driving.

Saurabh Jain: But is in the trade off would they necessarily compromise on may be the technology or the security part or the perception of it, just to reduce the number of vendors?

Vijay Mhaskar: From the technology part, we are at par if you look at endpoint security and in any of the other products also the features that we have, are actually at par, it is more about the brand and that is we are strengthening the brand where the customers are rest assured that they are getting the best of the products and earlier Sanjay talked about getting the award and that is another ratification that the product in the technology, that consumers are buying actually the world class in fact one of the best in the world.

Sanjay Katkar: And even the integrated approach is something that people are expecting and that is what when it comes to single vendor, they can have a better security if there is an integrated approach and that is what we are trying to achieve by also having integrated features, which can help each other.

Saurabh Jain: Okay, but would you have any number that above 500, the number of users and the number of customers that we have said they are 200 plus, how many of them are we actually giving integrated solution too?

Vijay Mhaskar: Certainly some of these customers are buying multiple products,. I do not have the exact numbers, but that exactly is what we are focusing on, is some of the larger customers, try to get three or four solutions in that account and that would increase our ARPU.

Sanjay Katkar: It also benefit the customer.

Vijay Mhaskar: Exactly, here the customer is at the better end because we are dealing with one vendor, less number of negotiations and better negotiations.

Saurabh Jain: Alright, thank you.

Moderator: Thank you. The next question is from the line of Ruchi Burde from Bank of Baroda Capital Markets. Please go ahead.

Ruchi Burde: Thank you for the opportunity. My question is on the retail segment, you mentioned about distribution channel challenges, so now we are almost in the half of the first quarter of FY2020, so I wanted to check has these issues eased out and if yes can we expect some inventory replenishment boosting retail revenue growth in June quarter?

Vijay Mhaskar: As I mentioned earlier our Q1, this has been the first quarter of the year, April is more alignment with the partners and signing up the targets and so on, so that activity is complete. If you take any indication of that, it looks like normal quarter and normal year for us, but actual billing would really start in May and June, so I would say the proof is in the pudding until we actually see the billing, I would not be able to disclose any numbers.

Ruchi Burde: Okay, just a sense on the challenges that you mentioned about in your distribution channel, what is your assessment of those issues at this point of time, is it some better or they have gone worse or their status quo, what do you experienced in the quarter of March?

Vijay Mhaskar: So they are definitely better and as we are observing it now more closely also we have alternate strategy has been planned, so I think overall the situation seems to be better.

Ruchi Burde: Understood, that is helpful. Thank you.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I would like to hand the conference over to the line of management for closing comments.

Kailash Katkar: This is Kailash here. We are rigorously working towards achieving better growth momentum in the current year, which will be supported by higher volumes and better realization due to the innovative products and solutions offering to the customers. I take this opportunity to thank everyone for joining the call. I hope we have been able to address all your queries. For any further information kindly get in touch with us or SGA, our Investor Relation Advisor. Thank you once again.

Moderator: Thank you. On behalf of Quick Heal Technologies Limited we conclude this conference. Thank you for joining us. You may now disconnect your lines.