Quick Heal
Security Simplified

"Quick Heal Technologies Limited Q3 & 9 Months' FY22 Earnings Conference Call"

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MR. NAVIN SHARMA – CHIEF FINANCIAL OFFICER

Moderator: Ladies and gentlemen, good day and welcome to the Quick Heal Technologies Limited Q3 FY22 Earnings Conference Call. We have with us today Mr. Kailash Katkar – Managing Director and CEO; Mr. Sanjay Katkar – Joint Managing Director and CTO; and Mr. Navin Sharma – Chief Financial Officer.

As a reminder, all participants' 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 touch-tone phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Navin Sharma from Quick Heal Technologies Limited. Thank you and over to you, sir.

Navin Sharma: Good evening everyone. I am pleased to welcome you all to our Earnings Call to discuss our Q3 and 9 months FY22 Results. Please note a copy of all our disclosures are available on the investors section of our website as well as stock exchanges. Please note that anything said on this call which reflects our outlook for the future which could be construed as a forward-looking statement must be reviewed in conjunction with the risks that the company faces.

Let me now hand over the floor to our MD and CEO – Mr. Kailash Katkar to talk about major developments and key initiatives. Over to you, Kailash.

Kailash Katkar: Good evening ladies and gentlemen. Trust you and your dear ones are well and safe. Thank you for making the time to join us today to discuss the Quick Heal Technologies' results for Q3 and 9 months. I would like to take this opportunity to update you about the key developments for the quarter. We had a very successful Q3 with growth in revenue earnings and cash flow. Again, despite Covid challenges and considering last year's spillover, 9 months are not comparable, but still, we have achieved at par results. Navin will definitely cover our financial performance in detail in his comments.

We have witnessed massive digitalization in the last couple of years. The cybersecurity industry is going to follow the out space and emerging used cases. We find ourselves in the right place at the right time to cater to and latch onto the opportunities that the world is presenting in front of us, we have been slowly and quietly preparing ourselves for the win.

Today, I will be touching upon a few elements of our transition along with our way ahead. During the quarter, both our businesses performed well. We are a legacy in the retail antivirus business and command market leadership in the geographies that we mostly operate. The business is strong and constitutes about 75% to 80% of our overall business. On the other hand, we have been incubating a new business within the company since past few years to serve enterprise customers at large. Currently, it has become a sizeable business for us within a few years of operations. It has been growing at a fast pace and we foresee that to continue in the times to come. We have onboarded industrial experts from across globe in the product, sales, R&D, finance, HR domain to lead us to where we intend.

We work with an attrition rate lower than the industry owing to our employees' value proposition, a great culture, and empowerment. We have continuously upgraded our product offerings to our retail customers and launched a new version with a focus on data privacy which is the need of the hour. Talking about our enterprise customers, we have launched new products under the Seqrite Hawkk series and have a very strong pipeline of the next generation products under development. While our retail business currently is mostly driven by Indian market, we have also started to spread ourselves globally through the enterprise segment. For the 9 months of financial year 2022, around 18% of our enterprise business is coming through global market. We are setting foot in new geographies and you can expect growth in these numbers going forward. We are into the business commanding over 95% in gross margins and have a very strong balance sheet and are a debt-free company. We have been funding our R&D and marketing investment through our internal accruals and charging it into our P&L while on the inorganic side, we are in a constant lookout for strategic opportunities to fuel our growth momentum.

Apart from the road map we are in for the future, we have been continuously and constantly rewarding our investors through dividend and buyback program and will continue to do so. As a company, we are working extensively into building a 3-year road map for us and we will be talking about it in the next quarter.

Now, I would like to hand over the floor to Mr. Sanjay Katkar Joint Managing Director and CTO. Over to you, Sanjay.

Sanjay Katkar: Good evening everyone. Before I speak about trends in cybersecurity market, I would like to discuss a couple of points:

During the quarter, Seqrite bagged Advanced Approved Endpoint Protection 2021 test certification for its EPS range of products and solutions offering protection from unknown advanced sophisticated ransomware and APT attacks. Also, Seqrite EPS received AV test top product certificate for stopping the most sophisticated malware with perfect scores on the parameters of protection, performance, and usability, for the second time in a row. On the product side to which Kailash referred earlier, we have continuously upgraded our product offerings and have launched a new version of our retail consumers with focus on data privacy. For enterprise customers, we have launched new products under the Seqrite Hawkk series, and with this launch, we are aiming to redefine enterprise security with comprehensive solutions to secure their digital transformation journey. We will continue to gradually invest and add more products under the Seqrite Hawkk series that will mark our foray into the endpoint detection and response – EDR as we call it, zero trust data privacy, and cloud-based network security products.

On the cybersecurity trend, Q3 proved unexpectedly fast paced for various sophisticated attacks. Our record shows several thousand attacks per day on some days. In quarter 3, the new ransomware groups quickly capitalized on some of the most dangerous vulnerabilities in the wide. Our research underscores that ransomware continues to evolve and is becoming more dangerous based on the catastrophic damage it can inflict on the target organizations. We continue to see ransomware attacks; coin miner attacks and phishing attacks aggressively increase in sophistication and frequency in Q3.

To conclude, I would like to say that as we sail through the pandemic and as we become more and more reliable on digital infrastructure to solve our day-to-day needs such as being connected to the world, work remotely, digital learning, and payment, demand for our security products and solutions will continue to remain strong.

With this, I would like to hand over the floor to our CFO – Mr. Navin Sharma to discuss our financial performance with you.

Navin Sharma: Let me now take you through the financial highlights for the 3rd quarter and 9 months ended December 2021.

Historically, Q3 has always been a weak quarter for us but still we were able to deliver good growth in Q3 FY22. In Q3, our consolidated revenue from operations grew by 13.9% to Rs. 796 million compared to Rs. 699 million in quarter 3 of last year driven by strong growth in the enterprise business and higher renewal rate on consumer segment. 76.4% of the revenue for the quarter came from retail segment whereas 23.6% from enterprise and government segment. EBITDA for the quarter was up 24.4% Y-o-Y at Rs. 205 million compared to Rs. 165 million in Q3 of last year.

EPS for the quarter stood at Rs. 2.45, up by 17% Y-o-Y. The 9 months' results are not comparable as the financial numbers of Q1 FY21 includes revenue spillover of Rs. 300 million from Q4 FY20 due to nonavailability of transport facilities due to lockdown. If the revenue spillover of Rs. 300 million in Q1 FY21 is left aside, we have registered over 20% growth Y-o-Y during 9 months of FY22. Even after considering the revenue spillover, we have recorded modest growth of 4.6% in 9 months Y-o-Y. In line with our continued focus on R&D and innovation, we increased our investment in R&D by 25% on Y-o-Y basis and it stood at Rs. 213 million compared to Rs. 170 million in Q3 of last year.

Other income during the quarter has gone down by 42% Y-o-Y to Rs. 36 million from Rs. 63 million in the last year. This was partly due to reduction in the treasury side due to buyback and also partly due to fall in the treasury yields. With this, profit after tax for the quarter increased by 6% Y-o-Y to Rs. 143 million. PAT margin for the quarter stood at 17.9%. Cash profit after tax during the quarter stood at Rs. 188 million.

The effective corporate tax rate for the quarter was at 26.99%.

Overall, to sum up, we managed to have substantial strong growth and we are confident to continue this growth trajectory in the coming future while the economy continues to recover.

With this, we will now open the floor for questions.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Della D'Souza from Anand Rathi. Please go ahead.

Della D'Souza: I have two questions; the first one being what is your ARPU for the retail segment in the current quarter? Has it gone up? Secondly, our working capital days have gone up compared to last year. Can you throw some color on it and could you provide an outlook for the same?

Navin Sharma: First is with respect to ARPU. Currently, you must have seen that we are operating at 95% to 96% gross margin. Hence what we are focusing on increasing the revenue through multiple ways, and hence, we are not currently focusing much on ARPU, and again, ARPU has a lot of business dependencies. With respect to working capital, yes, overall net working capital days increased to 110 days versus 76 days in December 2020. The increase in working capital days was a result of the increase in receivable days from 127 days to 163 days. As you might know, several small- and medium-size enterprises are currently impacted with lower liquidity due to lockdown restrictions imposed earlier which have severely impacted their business. We have taken adequate measures regarding collections. I would also like to highlight that almost more than half of the total receivables are with our top 20 distributors with whom we have been doing business for several years. We are keeping a close watch on these receivables and we are confident of their collection. We will continue to maintain our financial discipline and expect the debtor days to reduce over the next two quarters.

Moderator: The next question is from the line of Rahul Talwar from Sharekhan. Please go ahead.

Rahul Talwar: Heartiest congratulations to you'll for a great set of numbers. My first question is your enterprise security segment Seqrite is growing at a very fast rate and it already constitutes almost say 25% of your total revenue. Where do you see this in the next 3 to 5 years?

Kailash Katkar: As I have already answered this question in the past investor calls also that we are aiming to have 50-50% in the next 3 years' time where we see that enterprise revenue should grow up and we are very much confident about it. Even if we don't touch to 50-50% but we will be very close to 50%-50%.

Rahul Talwar: My second question is, we have been developing products that are targeted towards SME and large enterprises in say the last couple of years. Any concrete deal which has happened in this quarter if you could provide any insights on that?

Kailash Katkar: Not specifically in this quarter because those products are about to release. Some of the beta version has come out and we have started doing beta testing with a few of our customers and we are getting very positive response from the customers. So, revenue is yet to start for those new products. And that is the reason it is giving me confidence that my enterprise ratio will go to 50-50%.

Moderator: The next question is from the line of Nishant Khandelwal from Globe Capital. Please go ahead.

Nishant Khandelwal: Congratulations to the whole team on a great set of numbers. We can see the revenue has grown around 14% on a Y-o-Y basis. I just have a couple of questions on the R&D side. First of all, what was our R&D spend during the quarter as a percentage of total revenue? Can you please give us a light on that?

Navin Sharma: Nishant, in the current quarter, the total R&D spend is 27% of revenue, and on 9 months, our R&D spend is slightly higher than 25% of our 9 months revenue.

Nishant Khandelwal: Your investment in R&D has gone up significantly. It is somewhere around 230+ millions on a consolidated basis. Is it targeted towards the enterprise segment only or the retail segment also? The reason I am asking this question is you are already a legacy in the retail segment. So, I am just wondering where this whole spend is on.

Navin Sharma: Nishant, R&D spend is a mix of retail and enterprise, but you rightly said that majority of this new spend or majority of the increase is on account of R&D investment on enterprise side of the business.

Nishant Khandelwal: So, you are still focused more on the enterprise segment for this R&D spend, right?

Navin Sharma: Yes, because on the retail side, we already had made those investments in the past and those investments are yielding results. So, as of now, fresh investment is not much required on the retail side other than regular maintenance spends for R&D.

Moderator: The next question is from the line of Kanika Sood from NBS Research. Please go ahead.

Kanika Sood: Congratulations to the management on a good set of numbers. My question was on the product development side. Can you please give us some flavor on the planned launches and the timelines by which we can expect them to be out in the market?

Sanjay Katkar: Currently, we are in the process of launching a couple of products, but at the same time, we have planned a detailed discussion on future road map in our next quarter discussion. With this, I will say we have already launched endpoint detection and response product in this quarter which we assume that we are going to enter the EDR market with the launch of this product, which is purely for large enterprises and we will be soon launching a privacy data protection product again for large enterprises.

Kanika Sood: Do you mind sharing how many new products we are planning in total? These products that we are planning, are they focused on the enterprise segment only or are we seeing anything on the retail side?

Kailash Katkar: Majorly, products are focused on enterprise side and as I already mentioned in my speech, we are building a 3 years' road map and that we would definitely like to talk to all the investors in the next quarter.

Navin Sharma: Kanika, just to add, currently, retail business or legacy business is quite matured business where required investment are very much there and the market is not changing very drastically. Hence, a majority of new product development & spends on R&D would be happening on the enterprise side. And as Kailash said in his initial commentary, next quarter we will be there out with a detailed 3-year road map where we will be discussing about all aspects of the business, right from team to product to our M&A strategy, everything we will be discussing at length and in detail in the next quarter.

Moderator: The next question is from the line of Vivek Ganguly from Nine Rivers Capital. Please go ahead.

Vivek Ganguly: This was on the enterprise business, a quick question. Historically, even in the retail front, you'll were very India-bound company and now we are seeing a significant portion or a respectable portion of your enterprise business coming from non-India markets. Can you just give us a flavor of what the thought process is, how would you all be selling, would you all be having a partner there who would be doing it, and which regions you all are targeting near-India regions? Some sense because we see there is a lot of opportunity, and if you all are taking your enterprise global, would it also be possible for you all to also turn your retail model around into a more India+ model?

Kailash Katkar: If I have to talk about our retail part of it, yes, when it comes to India, the brand popularity is very strong. So, it becomes easy for us to build a business for retail from India and neighboring countries of India. When it comes to the global market part of it, I see it is more comfortable to take enterprise products to the international market. It is just because we directly reach out to the customers to sell the enterprise products because for the retail, it happens mostly through online, and at present, we are available online in India and as well as we are working with some of the other international country online platforms also. And for enterprise, we are working through the partners and we have good number of partners in some of the countries like Italy, Spain, African countries, middle East, even Asia Pacific countries, and through that, we are trying to reach out to the enterprise customers and we are able to generate close to 18% of revenue from total enterprise revenue.

Vivek Ganguly: Just as a follow-up to that, in the markets where you all are taking your enterprise products, your partners would be IT consultant firms or they would be very specific security consultant firms who as a part of their entire offering from service products, they have the option to include Quick Heal enterprise as a part of the solution that they provide to their customers.

Kailash Katkar: They are mostly system integrators selling security products. Specifically, their specifications are more into security products.

Moderator: The next question is from the line of Keshav Garg from CCIPL. Please go ahead.

Keshav Garg: Many congratulations for good numbers. Sir, I had some doubts like now our retail business is around 75% of our total revenue and this enterprise business we started 3 years back. If we take out the enterprise revenue, basically a quarter of the revenue, then on a trailing 12-month basis, our retail business is around 250 crores. If we see even 5-6 years back, we were doing around 250 crores revenue only when enterprise business was not there. So, basically our retail business is either stagnant or declining. Is my thinking correct or you would like to correct me somewhere?

Navin Sharma: Keshav, there are two aspects to it. Aspect number 1) We all understand and appreciate that there has not been the expected growth from the organization in the last few years, and that's the reason that we are discussing that in the next quarter, we will be coming with a 3-year road map as to how we will be growing the company with right set of revenue. That is part 1. 2) On absolute terms if you compare it to last year's retail segment, there is a degrowth of 2.5%, but the moment you adjust last year's numbers with revenue spill-over of Rs 300 Million, then even on retail side on 9 months basis, there is a good growth of 15%. In summary, we haven't grown in the past few years, but with new leadership team, planned product development, and with right set of channel partners or let us say sales line what we are looking for, fast growing enterprise business as the growth in retail business would be modest even in the future. That is the reason why we are incubating our fast-growth business and enterprise segment which was a single-digit contributor over the past sometime, till this quarter, we have reached to 25% level, and as Kailash already said that in the next 3 years, we want this business to be a 50:50 business, i.e. half of the revenue to be coming from enterprise without a degrowth in retail segment.

Keshav Garg: Sir, I wanted to understand that in the last year, 2021 calendar year, the PC sales went up in the domestic market by around 40-50%. In that case, since our antivirus is being used in PC, then shouldn't our revenue also have grown somewhere in the same range?

Navin Sharma: Keshav, there are two aspects to it. In fact, earlier one of the questions was with respect to ARPU. One part that PC sales growth is there in the market, but at the same time, probably because of pandemic, people at this point in time are opting for antivirus products which is in their budget and probably that is the reason why ARPU on the retail segment is comparatively lesser, but this is a temporary phenomenon and we expect that ARPU should start increasing the way Sanjay has explained in his commentary that sophisticated attacks or cyber-attacks are happening, probably we expect this phenomenon of lower ARPU to be corrected in the coming future.

Kailash Katkar: Most of the new PCs that are sold come with some kind of protection for initial 6 months or so. After that, people start renewing or buying and putting a security which is a paid security.

Definitely, our team is making sure that we are trying to grab the surge in the PC sales market by addressing them.

Keshav Garg: Sir, do we have any partnership with PC OEMs like Dell, HP, etc., wherein we can pre-install our antivirus software with them rather than the customer buying after buying a PC? Can we pre-install it in partnership with the OEMs?

Kailash Katkar: No, at present, we are not doing that.

Sanjay Katkar: Most of these vendors have partnerships assigned globally, and our experience also says that bundling of OEM is having a thinner margin. It's in fact an investment business actually. We have to invest into the per copy that they distribute along with the laptops. The only thing is, we have to grab the market as the people start using it and as they start facing the challenges of threat sites.

Keshav Garg: Lastly, I wanted to understand that since you are saying that from a quarter of our business if enterprise government business becomes half of our business 3 years down the line, then what will be the impact on our margins? Because margins in retail segment would be definitely higher than the enterprise segment. Then, what happens to our margins 3 years down the line?

Navin Sharma: Keshav, as we said earlier that our gross margin is 96% and since we are a product company and we charge all our R&D investment to P&L, gross margin regardless whether it is retail or enterprise, we command 95-96%, which means any increase in revenue either on retail or enterprise will help us improving our operational margins.

Keshav Garg: Thank you very much and best of luck. And thank you for the regular buybacks also.

Moderator: The next question is from the line of Aishwarya Suresh from Sushil Finance. Please go ahead.

Aishwarya Suresh: Congratulations on a good set of numbers. I have two questions. The first one is that what is the size of Indian retail cybersecurity segment and how well are you placed?

Kailash Katkar: I think we have answered this question in the past investor call also that there are no confirmed figures from any vendor because it used to happen 10 to 15 years back that some of the media company used to do this survey, but for the last many years, no one has done a particular survey for the consumer part of it, but whatever we gather the information when we meet the channel partners and the tier-1 partners which we have across India, what we see is around between 650 to 800 crores consumer market is there and we are obtaining up to 35% part of it. But this is all paid. This is what I am talking about.

Aishwarya Suresh: My second question is that how do you plan to gain market share? Do you have any number in mind which you will be able to achieve in the next 3 to 5 years?

Kailash Katkar: We have a lot of strategies when it comes to gain more market share but that keeps on changing on a regular basis. It totally depends upon market because the entire thing is driven by the market, channel partners, and the e-commerce partners. Through that, we have to reach out to the consumers.

Sanjay Katkar: There is a market for different segments of customers. I mean to say, there are different price points and each price point has a different market size and we are making sure that we are present in each of these markets with our offerings and pushing our products across our channel partner network as well as online sales partners. At the same time, there are a lot of international MNC products that come and disturb the market with dumping the products at a very low cost. For them, India is a very small market to grab it or maybe the partners are doing that, but many a times, certain area or certain pockets of the market get disturbed because of the product getting pushed at a very low cost. Then we have to play well and we have been very well positioned in this market. We are able to come out of this situation by pushing the right mix of products. So, when there is such a situation, we come out with a lower cost products which we have and that's how we try to make sure that we at least maintain the market share, and wherever there is a gap, we try to get the market share from the competition. I mean to say it's day in day out work for our sales team.

Moderator: The next question is from the line of Reena D'Silva from Mount Intra Finance. Please go ahead.

Reena D'Silva: Firstly, I would like to congratulate you on a great set of numbers. I have a couple of questions. What is your view on the antivirus industry in the retail space? How is it growing? What are your views? How do you think it will pan out in the future?

Sanjay Katkar: Antivirus as we have been observing, there is a single digit growth over the last at least 3-4 years and it had earlier got impacted by PC sales, but during the pandemic, PC sales went up. It had given a smaller boost to this consumer retail part of the antivirus product. At the same time, what we are also observing is a lot of things are evolving in this market. I mean to say OS is evolving and the kind of threats that we are seeing is also evolving. As people are focusing more towards protecting their privacy nowadays rather than in fact just ransomware and there is identity threat that is a bigger challenge. As these things change, the market dynamics are going to change. So, we are making sure that we invest into these newer features of the retail product and stay on top of the game. According to me, retail market will grow in single digit but there will be certain push which can give it a little bigger push and we are hopeful for mobile getting pushed in this retail segment because mobile has now become a key aspect of doing all kinds of transactions online and digital. Everything is moving on mobile and threats on the mobile front are also growing on that pace, but comparable to PCs, they are at a very lower rate right now. But this will change and that's what we hope on the retail front. Mobile can be one of the future growth segments.

Reena D'Silva: Also, last quarter, you mentioned that L7 is almost ready with the product. Just wanted to understand how long would it be before we start seeing the benefits?

Navin Sharma: Reena, basically from a stage where L7 was more into completing its product development or testing it, it has already started generating revenue. The revenue generation or it's a type of customers where L7 has ventured into, it's very impressive and we expect this trend to improve in the future.

Moderator: The next question is from the line of Aryan Sharma from Monarch Networth. Please go ahead.

Aryan Sharma: Congratulations for the satisfying numbers. My first question is, we are sitting on a good amount of cash. What is the average yield we get on these cash and cash equivalents?

Navin Sharma: With current market conditions, 3.83% is average yield what we are getting from cash in the balance sheet.

Aryan Sharma: As you also mentioned that you have a road map for the future 3 years or so, is there any road map to utilize this cash for a better purpose or any plans for that?

Navin Sharma: Of course. When we are talking about growth which has to be a comprehensive that covers both organic as well as inorganic growth. That goes without saying. Along with that, we have been rewarding our investors in the past too with dividends and buybacks. And we will continue the trend where a comprehensive growth for business is there, but at the same time, shareholders also get the right share of it.

Aryan Sharma: Coming to the marketing side, as we say we have around 30% market share if I am not wrong. Is it correct?

Navin Sharma: Yes, 30% to 35% on the retail side.

Aryan Sharma: But generally, when we see, for example, like top 10 antiviruses in India, we don't feature in any of the sites like Radar or PCMag which are being used by a lot of individuals. Are we not concerned for that kind of marketing?

Sanjay Katkar: We are operating in a different market. In India when you say these magazines are being looked by certain segment of users. But if you see on ground, on sales if you see for example sales through Amazon or sales through partners, we are having the largest share of the sales that happens in India. If you see the rating of the products, these magazines are biased, and are driven by a lot of marketing efforts. But at the same time, there are a lot of certifications that happen through independent testing organizations like AV-TEST. If you go to the AV-TEST website which is a German-based lab and that is referred by Gartner, that is referred by all the large enterprises where they look for the technical qualities, performance of the product for protection from threats. And these organizations test products every couple of months and with the latest threats which are there effective in real life to the larger organizations. And that's why today in my opening speech I said Quick Heal was figured in top products in that test which compared to all the global players there. Global players when I say are Symantec, Avira, or even the Sophos. If you can go to that website, you will see that we feature in the top products which is for continuously second time in this year's series. That really helps our sales and marketing team to go and pitch to the large enterprises or even government segment and that is where it is considered. That is why we are seeing a good enough traction on the enterprise front.

Kailash Katkar: That is the reason we have maximum share in India.

Aryan Sharma: So, we have more kind of an organic growth, you mean to say, if I am correct.

Moderator: The next question is from the line of Aditi Gupta from Bliss Consultants. Please go ahead.

Aditi Gupta: Sir, I have a question regarding your trade receivables. You have a very high level of trade receivables. Have you provided for them, and in future, do you expect a portion of the same to go bad?

Navin Sharma: As mentioned in my earlier part, yes, receivables have increased. On a conservative basis, we have made some provisions as well. The entirety of the provision is to the tune of Rs. 3 crores, but these are more of aging-based provisions, and as I said in the earlier part of commentary more than 50% of receivables are from our top 20 distributors with whom we are in regular touch & we understand their financial condition in and out. So, per se, even the provision which has been made, this is more of a conservative. We don't foresee any major surprise coming on the collection front. The collection has largely been slowed down because of cash availability. Once the cash starts coming into circulation, we expect our receivables to go down, and in the next 2 quarters, you will see this happening.

Aditi Gupta: One more question I have. Do we plan to increase the sales and marketing expense?

Kailash Katkar: Sales and marketing expense as I have already told in the past also that our sales is seasonable. When I say that, Q1 is always a bit down but Q2 is on an upper side, and then again Q3 is down because of the festival time, and then again Q4 is always up. So, we have to really plan our sales and marketing expenses based on the buying seasonality, and based on that, we have to spend more into the marketing part of it whenever this buying happens. Especially, the year-end is more budgeting time and most of the organizations and buyers buy products majorly in the quarter 4 and quarter 2. Based on that, the advertisement expenses and marketing expenses take place.

Navin Sharma: Aditi, just to add to that, even if you see for 9 months, our total sales and marketing expenses are to the tune of 24% of revenue. We always maintain a fair balance between spend and growth and we also try to see that how the S&D cost is helping to increase the revenue.

Kailash Katkar: I would say that our expenditure when it comes to the product development cost part of it, it is stable all the 12 months. Sales and marketing like advertising cost will vary on a seasonal basis and our sales will also vary based on seasonal basis. So, usually if you have to really compare anything, you should do it year on year. Will be much better than comparing to quarter on quarter because we will not be able to give right kind of justification for quarter-to-quarter explanation part of it.

Moderator: The next question is from the line of Nidhi Singh from Newland Investments. Please go ahead.

Nidhi Singh: My question was mainly in terms of attrition rate. I just wanted to point out that attrition has been a major concern for most of the IT companies and in the IT sector as a whole. How has that impacted Quick Heal at large given that you did mention this in your opening remarks also, but just I would like you to throw some light on it. What is the current attrition rate if you can provide for Quick Heal? Has it gone up from the past or has it come down if that you can give? Also, what are the steps that we are taking which would be helpful in those terms? You have mentioned that we are comparatively lower. What is it that we are doing differently or something that is being helpful for us in that sense?

Kailash Katkar: Yes, Nidhi. Your question is right. The entire industry is facing a lot of challenges about the attrition part when it comes to the software development companies. But if I have to talk about Quick Heal and about the software developing engineers and the customer support engineers which is close to 50% of our employees, and definitely the attrition rate if I have to compare with the past of Quick Heal, it has gone up. And the entire industry is facing the same problem. But whatever problem the industry is facing today, the attrition rate is close to 40% in the industry and Quick Heal attrition rate is close to 24% to 25%. Entire industry is taking a lot of effort and we have also taken a lot of efforts to balance this attrition and retain those employees and try to get more and more employees on board. Now, those efforts I will not be able to put it here because I really don't remember that part because HR people really work on this part, but I just wanted to say that we have taken a lot of efforts to make sure that we retain our employees and get more and more talent on board actually.

Moderator: The next question is a follow-up from the line of Keshav Garg from CCIPL. Please go ahead.

Keshav Garg: Sir, I wanted to know that how much is mobile antivirus contributing to our top line.

Navin Sharma: Keshav, as you are aware that in India, the awareness of using antivirus in mobiles is still not there. We are using a right mix of strategies with free and paid versions at a later stage. This is something which we are also evaluating. In India, you know that more than 600 million smartphone devices are there, and it has a huge market but just we need to understand the customers' behavior and we need to see that how this segment can be catered through antivirus. In summary, it's not that we are not selling much products, as of now, awareness in industry itself is not there and we are just trying to develop that awareness.

Sanjay Katkar: Percentage is less than 1% right now, contribution part.

Kailash Katkar: Percentage is very less and it is not only Quick Heal facing this problem, the entire antivirus cybersecurity industry is facing the same problem. People are not ready to buy security software for their smartphones. I don't know why, but this is happening everywhere globally.

Keshav Garg: Sir, a few months back in Ranchi, Jharkhand, on the FM Radio, I heard your advertisement of Quick Heal for mobile antivirus or some mobile product. That means that we are basically in the market and we are selling that product.

Kailash Katkar: Yes, of course, the product is already available on the website. In shops also, the product is ready. And we have to do this kind of activity for awareness because we cannot spend too much money on that part because we knew that it is not generating revenue, but wherever we get these opportunities or wherever we get opportunity to speak on media, we definitely speak about mobile security part also along with other security parts.

Keshav Garg: So, why can't we get into a partnership with the OEMs who are selling mobiles like Oppo, Samsung, etc.?

Kailash Katkar: We have already tried all those things, but we failed in that.

Sanjay Katkar: OEM business is not at all a revenue generating business. It had to be investment business. Phone owners or phone vendors ask for money to distribute any product on their handsets and it is not giving results because after expiry of the trial version, people don't renew it. We have done that earlier and we are already doing that again in certain pockets of Indian market with certain vendors like iBall. Even Indian vendors are bundling our software, but if you compare revenue-wise, it's not giving that big returns. So, our current revenues are less than 1% of our total revenue, the mobile contributes less than 1%.

Keshav Garg: Sir, what about the IT distributors like Redington and Ingram Micro? Is there a possibility of getting into partnerships with them since they are basically selling their wares and they have the distribution and everything, marketing setup?

Kailash Katkar: We are already doing that actually. That is the reason we were able to generate at least 1% of revenues.

Sanjay Katkar: We are working with these large retails like Ingram Micro and all. They are working with our retail products for PCs as well as for mobile also.

Navin Sharma: Keshav, it cannot be a push model rather a pull needs to come from market. Awareness amongst users needs to be there which is lacking today. Hence, we are addressing it from the root rather than pushing it through vendors, etc., as Sanjay also said, OEMs expect money to install a free software on their phones, and once the software validity is over, renewal is not happening.

Hence, we are addressing it from the root. And in place of pushing, we are trying to create awareness and pull from the customers.

Moderator: The next question is a follow-up from the line of Della D'Souza from Anand Rathi. Please go ahead.

Della D'Souza: Just if you could share how much sales is coming from the online platform? Do we still have liquidity pressure on the traditional dealer ecosystem?

Navin Sharma: Della, in this quarter, total online sales has generated 23% of revenue, and in the last 9 months, online sales has generated 26% of our total revenue. This is in line with how we performed last year. But yes, this is one of the channels which we are working aggressively to expand our business. With respect to liquidity, yes, liquidity pressure is there and it's reflecting in our receivables as well, but all our channel partners are acknowledging the money what they owe to us and we are working to get this money collected in due course.

Della D'Souza: Also, could you please tell how much of your revenue is coming from exports? Do you have any plans of entering into any new geographies?

Navin Sharma: On the enterprise segment, 18% of our revenue is coming from exports. Overall, 4% to 5% is the revenue comes from exports. With increase in enterprise business, export revenue would increase further.

Moderator: As there are no further questions, I now hand the conference over to Mr. Navin Sharma for closing comments. Over to you, sir.

Navin Sharma: Thank you all for joining the call. I hope we have been able to answer the questions raised by you. In case if you need any clarification or any additional input, you can get in touch with EY, our investor relations advisors. Thank you once again and Happy Republic Day as well.

Moderator: Ladies and gentlemen, on behalf of Quick Heal Technologies Limited, that concludes this conference. We thank you all for joining us, and you may now disconnect your lines.

The transcript has been edited for reading purpose.

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