

Quick Heal

Security Simplified

**“Quick Heal Technologies Limited Q1 FY 2021
Earnings Conference Call”**

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Moderator: Ladies and gentlemen, good day. And welcome to the Quick Heal Technologies Limited Q1FY21 Earnings Conference Call. 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 call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note, this conference is being recorded.

We have with us today Mr. Kailash Katkar – Managing Director and CEO; Mr. Sanjay Katkar – Joint Managing Director & CTO; Mr. Nitin Kulkarni – Chief Financial Officer. I would now like to hand the conference over to CFO, Mr. Nitin Kulkarni. Thank you and over to you, sir.

Nitin Kulkarni: Thank you, Janice. Hello and good evening everyone. I am pleased to welcome you all to our earnings call to discuss our Q1 financial year 2021 results. Please note, a copy of all our disclosures are available on the Investor Section of our website, as well as stock exchanges. Please note, anything said on this call, which reflects our outlook for the future, or 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: Thank you, Nitin. Good evening, ladies and gentlemen. Thank you for joining us today to discuss Quick Heal Technologies financial results for Q1 financial year 2021. I would like to take this opportunity to update you about the developments and initiatives for the quarter.

Before I begin, I hope you and your family are safe and taking adequate precautions while dealing with this pandemic. I would like to take this opportunity to thank all COVID-19 warriors for their efforts in containing this pandemic and keeping us safe. I would like to inform you that Quick Heal is also at the forefront to help the poor and impacted communities during such difficult time. As a responsible corporate citizen, we are actively involved directly and indirectly for the betterment of our society.

Our financial performance in Q1FY21 has improved compared to Q1FY20, aided by revenues spill over from Q4. As a result, our margins have improved considerably. I will let Nitin discuss our financial performance in detail later.

On the product side, I am happy to inform you that Quick Heal Total Security and Seqrite Endpoint Security are certified by AV-Test as the top products. AV-Test is an independent research institute for IT security from Germany. We have launched the next generation products this quarter for our retail consumers and updated our enterprise product to secure our customers from the ever-evolving threat landscape.

I will now hand over to Sanjay to elaborate more on products we have launched, AV-Test certification and industry trends. Over to you, Sanjay.

Sanjay Katkar:

Thank you, Kailash. Good evening, everyone. As Kailash mentioned, we have recently introduced the next generation products powered with the theme of privacy, protection and performance for our retail consumers. With this launch, we are aiming to redefine consumer security with comprehensive solutions to tackle the growing sophistication of cyber-attacks. Apart from the best-in-class protection, the new portfolio is equipped with privacy features like anti-tracker, identity protection, webcam protection, Wi-Fi scanner, among others, that empower consumers to take charge of their privacy in the digital world.

On the enterprise side, we have launched the new version of our Unified Threat Management product in the last quarter, a UTM product. This product enables enterprises with presence in multiple geographies to manage multiple UTM devices and strengthen network security across branches from a single centralized consol. I would like to update that we are also working on new innovations, especially for the enterprise segment that will help us to increase our reach and overall market in this segment and we will update you on these products closer to their launch.

As Kailash informed, AV-Test, a Germany based independent antivirus certification organization, has recognized our flagship product Quick Heal Total Security and Seqrite Endpoint Security product as the top product. I would like to provide more details on this.

During May and June of 2020, AV-Test continuously evaluated 22 global security products with a focus on realistic test scenarios and challenged the product against the real-world threats. We all know, during these months, lockdown was in effect across most of the countries, and cybercriminals were taking undue advantage of the situation by targeting remote workers. As per the test results, our product was certified as the top products on three specific parameters. Those parameters are superior protection, robust system performance and usability. This certification is a testament to the quality and capabilities of our R&D team.

Multiple PC vendors have reported a surge in demand for laptops and desktops due to remote working and online education. We expect this trend to play out well for us in the future. On the enterprise side, demand from the MSME market continues to be weak. We expect the demand to pick up once situation is back to normal. On the government side, we are witnessing temporary shift in fiscal spending focus due to COVID-19, leading to lower government spending on cyber security.

While the world is focused on the health and economic threats posted by COVID-19, cyber criminals around the world are undoubtedly are capitalizing on this crisis. We have observed a spike in phishing attacks, malware and ransomware attacks, and attackers are using COVID-19 as a bait to impersonate brands, thereby misleading consumers and employees. This will likely result in more infected personal computers and phones. Not only the businesses are being targeted but

the end-users who download COVID-19 related applications are also being targeted in downloading ransomware disguised as legitimate applications.

For the larger enterprise market, as mentioned in the previous earning call, COVID-19 has reinstated the importance of cyber security and has demonstrated the fact that cyber security is a crucial element for a successful business continuity plan and cannot be ignored. Even though we are seeing lockdowns being lifted in many parts of the country, most of the corporates are still preferring to work from home for safety reasons. This presents a newfound opportunity for cyber security products and solutions.

And with this, I now hand over the floor to Mr. Nitin Kulkarni, our CFO, for his comments on the financial performance.

Nitin Kulkarni:

Thank you, Sanjay .and good evening again, to all of you. Let me take you through the financial highlights for the first quarter ended 30 June 2020. As Kailash mentioned, we have delivered strong growth this quarter, but we continue to see the impact of COVID-19.

As discussed in the previous earnings call, the non-availability of transport facilities continues to be the challenge in most of the first half of this quarter. As the lockdown has started to get lifted gradually, we saw some revival in the availability of the transport facility. We expect this headwind to fade away and the situation returning to normalcy hopefully from the second quarter of this financial year.

Consolidated revenue from operations for the quarter stood at INR 735 million, up 27.5% as compared to INR 576 million in Q1FY20. 87% of our revenue come from retail segment and balance 13% from enterprise and government. The average realization went down for retail segment whereas the enterprise segment has seen growth mainly as a result of change in the product mix.

On the retail side, as mentioned earlier, we continue to face challenges due to COVID-19. But we were able to deliver strong growth due to spillover of revenue from Q4. I would like to highlight that we are seeing demand slightly improving on the retail side and we are optimistic about the year.

On the enterprise side, as Sanjay mentioned earlier, demand from MSME continues to be weak and temporary shift in the fiscal spending focus due to COVID-19 has led to lower government spending on cyber security. This has impacted our enterprise revenues for the quarter. We are hopeful that enterprise sales will pick up in coming quarters.

Our EBITDA stood at INR 321 million, up 150% compared to INR 128 million in Q1 of last year. EBITDA went up because of higher revenue, lower travel expenses due to no travel and reduction in power and fuel cost mainly due to closure of our offices during the lockdown period.

Depreciation for the quarter is lower as a result of written-down value method of depreciation followed by the company.

The other income for the quarter has gone down on account of the shift of investment to lower risk products in the form of fixed deposits due to the current uncertain economic environment. PAT for the quarter stood at INR 250 million, up 110% compared to INR 119 million in Q1 of last year. PAT margins stood at 34.0%, up 1,331 basis points from 20.7% in Q1 of last year.

We exercised the options permitted under Section 115 BAA of Income Tax Act 1961, which has resulted in lower corporate income tax during the quarter. As a result, the corporate income tax rate was reduced to 26.16%.

On the working capital side of the business, as cautioned in the previous earnings call, we have seen net working capital days significantly going up to 124 days. Our average net working capital days for the previous financial year were at 104 days. This rise in net working capital days is mainly due to the rise in debtor days in retail business, as many distributors are facing a cash crunch due to COVID-19 situation.

I would like to highlight that almost half of the total receivables are with our top 10 to 15 distributors with whom we have been doing business for last many years and we are keeping a close watch on these receivables. The situation is expected to remain like this in Q2 as well and debtor days are likely to be in this higher range.

As a reminder, during the previous quarter, based on our internal assessment, we have already made provision for doubtful debts of INR 50 million for receivables from a few of our dealers. We are strongly following up with them for the collection and expect part of this amount, part of the recovery during this quarter. However, this provision was made in the last quarter purely on a conservative basis.

Our current cash and cash equivalents stand at around INR 3.9 billion, including investments in mutual funds, tax free bonds and fixed deposits. I would like to highlight this again that we are cautiously looking for an opportunity to better utilize the cash on our balance sheet.

On the M&A side, we again remain very cautious and calibrated in our investments. And we will be looking at smaller and midsize investments.

Overall, to sum up the quarter, we continue to face challenges due to COVID-19 situation. The lockdown has been gradually lifted and we expect things to come back to normalcy from Q3 onwards.

With this we will now open the floor for questions. Thank you.

- Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Kranti Baheti from Wealthmill Security. Please go ahead.
- Kranti Baheti:** Good resilience Quick Heal has shown this quarter. But I would like to know how the things are going to pan out because of your experience in the last quarter. How the business visibility is looking, because most of the people are working from home, how that demand for cyber security products and antivirus products are panning out?
- Sanjay Katkar:** We are seeing demand getting generated because of this new situation where there is an upsell of laptops and PCs. But at the same time, the lockdown has created a lot of challenges for us for the deliveries and the liquidity crunch among the partners is creating a challenge. We are trying to handle the situation, but at the same time, I do see that this will recover by Q3 somewhat and mostly by Q4. Currently, we are seeing an impact on the revenues.
- Kranti Baheti:** How are the PC sales looking? Is there any pent-up demand the market can witness in terms of PC sales in India?
- Sanjay Katkar:** Yes. So I have seen that there is quite a good jump in PC sales and laptop sales, so there is a growth in PC sales, if we compare that with the last year. And that will definitely result in growth in sale of security products. But then we will have to balance between the liquidity crunch and the stocking. At the same time, we will see that there is going to be enough demand in future quarters.
- Kranti Baheti:** Okay. Sir, my final question is, are you going to focus on Indian geography? Or you want to expand to other geographies, what is your plan?
- Sanjay Katkar:** So, for retail products, we are already present in other geographies outside of India as well, like Southeast Asia and even in Middle East. But for retail, in developed countries we are not seeing much of a growth because the markets are completely changed there and the demand over there is not for the retail products but mostly towards enterprise products. So for our enterprise vertical, we are expanding our geographical presence into multiple geographies, even in developed countries. As we release newer products, we will be able to address certain segment of the markets in SME and the enterprise segment. So, we are growing our presence geographically. As I said in my opening remarks, we will be releasing certain more products, I cannot talk about them now, but we will be able to address mostly the international markets because of those products that we will be launching.
- Kranti Baheti:** Okay. Are you going to have your own team, or you are going to have a franchisee kind of model in overseas locations?
- Sanjay Katkar:** No, we mostly work through partners. So it's not like we will be having our own team, definitely we will be having our person's present there, but that will be managing the partners in that region.

- Moderator:** Thank you. The next question is from the line of Varun Goenka from Nippon India Mutual Fund. Please go ahead.
- Varun Goenka:** I have several questions, let me take it one by one. First, if you can give us some understanding of our device-wise installation. So, when I say device, laptop, mobile, PC, any other device, do you have a breakup, as on current installations, what could be the breakup across devices?
- Sanjay Katkar:** So, we don't have breakup for laptop and PC, because for us it is the same thing as we consider Windows as a platform, but we do have differentiation among the mobile and the Windows products actually. For mobile currently, I don't have the figures in front of me. But I can just tell you that almost 95% of our activations or sale is on the Windows platform, so that's laptop and PCs. Mobile is still very less because mobile cyber security market is still picking up.
- Varun Goenka:** Okay. Secondly, if you could break up sales of customers into, let's say, existing customers, customers who have upgraded, customers who have newly come, repurchased, any breakup or understanding on that?
- Kailash Katkar:** I think we have already given this kind of information in past investor calls, meetings also. What we are tracking on product renewal, that is considered not only the product renewal, but if same machine buys new product and does the activation, that also we consider as a renewal of the customer. And that is close to somewhere between 35% to 38% actually.
- Varun Goenka:** So, 35% to 38% is existing customers renewing your product?
- Kailash Katkar:** Yes, by existing customers.
- Varun Goenka:** Okay. And how many customers would that be, sir, current?
- Kailash Katkar:** This is in consumer part of it.
- Varun Goenka:** Right. So how many consumers would that be as of now today?
- Kailash Katkar:** So, the exact figure I don't have at present, but it will be close to 7.2 million.
- Varun Goenka:** Okay. So, 7.2 million, these are individual customers, right?
- Kailash Katkar:** Yes.
- Varun Goenka:** And the sale that we do through our partners, there the billing is to you or to the partners? So, do you know your end customer?
- Kailash Katkar:** We personally don't know the end customers, but we know by the name or contact details. But sometimes they give wrong information while doing the activation part of it.

- Varun Goenka:** Okay, I get it. So what I am trying to get to is, let's say, of the retail of the individual consumers only, let's say, 35%, 38% is renewals, then of your enterprise sales how would you track your renewal rates there?
- Kailash Katkar:** That is very high, that is close to 80%- 85%.
- Varun Goenka:** Okay. So how are you able to track that, sir?
- Kailash Katkar:** The same way we track for consumer part of it. Sanjay will add to it.
- Sanjay Katkar:** Enterprise is like the license sale, it's not a walk-in sale. So, most of the times even the partners sell, the product goes through us and the enterprise tracking mechanism is different actually. So, enterprise generally is more through installations because it's installing throughout the network. So, most of the enterprises go for renewal instead of changing the product. So, the renewal are more than 80% actually. Even in consumer, even though we are tracking it to 35% to 38%, most of the expired or not-renewed customers do come back to us after three, four months. And if we calculate that or the older customer as a renewal, then our renewal goes beyond 60%. But that only happens over the period, it doesn't happen immediately after expiry, it takes at least three to four months extra.
- Varun Goenka:** Of course, sure. And what would be the concentration of our receivable, let's say, top five customers? I am assuming retail does not have any receivables
- Nitin Kulkarni:** No, if you see the business model, 80% of our revenue comes through retail. A significant part of receivables is from a retail business. Because we have a partner channel system and we bill to our T1 partners, and from there it goes to T2, T3 and the end consumer. So out of receivables, retail verticals will have maximum receivables.
- Varun Goenka:** Would you have any direct to consumer sales, sir? I mean, being in the market for so long?
- Nitin Kulkarni:** No, it is only through our website, otherwise it is all through channel partners.
- Varun Goenka:** Yes, correct. But are there any sales right now directly through Quick Heal? Now that, I mean, it's a known brand or it is a known product, so have you got any traction?
- Nitin Kulkarni:** See, online sales from our own website which is direct sale from Quick Heal. And if you look at the current quarter, in fact now the online sale has increased a lot because of this lockdown, and hence physical facilities are not available. So online sale has increased, but this is purely on our website, on our portal.
- Varun Goenka:** Right. So how much would that be?

Nitin Kulkarni: So if I look at first quarter, it will be about 20%- 25%. So, this sale is including our sale on online plus portal sale, portal sale through e-commerce.

Varun Goenka: Correct. I got it. So yes, total online sales, even on Amazon you are selling directly, right, not through a partner model?

Nitin Kulkarni: No, you are right, we are selling directly.

Varun Goenka: Sure. And just a final point before I get back in the queue, in terms of our product superiority or, I mean, how would you benchmark your product to, whom would you benchmark? And in what areas is you better than, let's say, a Symantec or McAfee or vice versa? If you can help us, you understand the industry better than most of us, sir.

Sanjay Katkar: Varun, as I said in my opening remarks, we are benchmarking ourselves and we are getting certified by international antivirus certifying bodies. And in fact, last quarter we were selected among the top products in the last recent tests actually. So, if we see technologically as well as the performance wise, our product is at par with the most of the MNC products, including Norton, McAfee.

Varun Goenka: No, I got that comment, I heard that comment. What I am trying is, which are the features which is really making us better than them? Features, pricing or what is it that is making us better?

Sanjay Katkar: It's like not only features, see, I don't think the sale happens only because of features, there are multiple factors here. If you see, the availability, the support, the back-end, in the sense after-sales support, and the partner trainings that we conduct are also crucial. A consumer who goes and buys, he doesn't only look at the features, he needs a lot of support when it comes to threats and viruses that they have to deal with on the laptop or a PC. So, there has to be a trained engineer who can handle any eventuality or attacks like ransomware or even hacking attempts. As we are present across India, we have trained workforce throughout India, not only our own workforce, but 25,000 channel partners that we have, and we conduct weekly training for their engineers. And that is this is strength that helps us to convince the partners and consumers to go for our product.

Varun Goenka: Okay. So, let's say, on the distribution part, 25,000 channel partners, what area does it cover or how deep does it go into?

Sanjay Katkar: So mostly, all the metros and then A, B, and certain level of C class cities as well. And we are trying to expand our presence in even B and C class, because we are seeing demand growth in those areas.

Varun Goenka: And what percentage of sales would be on non-Metro? Maybe that gives us an indication.

Sanjay Katkar: We don't measure that actually, currently I am not having that in front of me.

Varun Goenka: No problems. Just you were clarifying on the receivables, what is the concentration of receivables, let's say, top five customers or top 10 customers?

Nitin Kulkarni: So if you see, as I said, it is mostly from retail vertical. And if I take say top 20 dealers with whom we are dealing for many years, so that will be about more than 50%, that will consist of more than 50% of our receivables. And with these dealers we have been dealing for at least two decades.

Moderator: Thank you. The next question is from the line of Keshav Garg from Counter Cyclical Investment. Please go ahead.

Keshav Garg: Sir, can you quantify that how much revenue has spilled over from fourth quarter to first quarter?

Nitin Kulkarni: So, Keshav, if I have to talk about the exact number, it is about Rs. 28 crores.

Keshav Garg: Okay. And sir, so going forward will we be able to maintain the same run rate as first quarter?

Nitin Kulkarni: So, this is difficult. This Rs. 28 crores is a spillover from Q4, so you have to keep that number in mind while modelling. And secondly, in the current situation as Sanjay also mentioned, that demand will pick up from the Q2 end or Q3 onwards, so it will be very difficult really to tell you what kind of revenue momentum we will have. So, we are making all our attempts, we are talking to these dealers, we are talking to customers, partners, and we adopted to this new style of work. But commenting anything on the numbers will be very difficult, so we will get a better clarity when we come to end of Q2.

Keshav Garg: Okay sir. Also wanted to understand that our turnover is flat at around Rs. 285 crores roughly since past five years, and our EBITDA is flat since past eight years at around Rs. 90 crores. And this is in nominal terms, if we adjust for inflation then actually our EBITDA is half in the past eight years, so basically adjusting for inflation. So, I mean, what's the reason for this stagnation in our business?

Nitin Kulkarni: So, basically, if you look at retail vertical, so there have been two events in the last ¾ years, which is demonetization and GST, which has definitely impacted the retail business. And on the enterprise side, the sluggishness and slowdown in economy has badly impacted SME and SMB business. This is the main reason for the flatter revenue of about Rs. 300 crores for last two to three years. And definitely, as Sanjay mentioned, we are working on new products which will be released, say, in a year or so that will definitely give us upside on revenue as far as enterprise segment is concerned.

And if you look at EBITDA, for past three years we have EBITDA in the range of 35% to 38%,. So, I think that kind of EBITDA with 20%, 25% profitability seems to be a very decent number, if you look at the way industry is trending now. And we are also investing a lot in the new products, we are also looking at a lot of inorganic opportunities. So, all the efforts are happening in right direction, which will definitely take us to the next level in the years to come.

- Keshav Garg:** And also our operating margin used to be at around over 50% some seven years back, and now they have come down to around a third of our turnover. So why this operating margin is reducing?
- Nitin Kulkarni:** Seven years is a too long period to compare. We are working on cost structure and developments even on our existing products. A lot of investment is happening on these products, even in retail vertical. And that is a reason why we have EBITDA of 35% to 37%. And this investment is definitely going to give us better results in years to come. So, I think comparing it for seven years back will be too old and outdated data.
- Sanjay Katkar:** We have invested heavily into large enterprise products that are still under development and certain products for midsized organizations are already released. And these product investments will give results in coming years actually. So, that investment we have to keep doing because we have to release new products.
- Keshav Garg:** So, sir, basically in the past five years that our turnover is flat, the industry would be growing, even though in single digit, but the anti-virus market can't be stagnant in the past five years in India.
- Sanjay Katkar:** See, when you are talking about industry is growing, it is about the global thing, things in India had been quite different and our presence in India had been more than 90%. So, here I am talking about the licenses that we are selling, the number of licenses has grown, but the price per licenses has come down over the years. And we have also at the same time entered into SME market which has been impacted because of other eventualities, the events that happened over the years. And in fact, even COVID situation has impacted mostly the SMBs and that is where our enterprise sale, more than 80% of our enterprise sale happens to SMBs, because our presence is there. Now, we are entering a large enterprise segment by introducing more products, which will happen in like next three, four quarters. But then as we enter new segments, certain segments are getting impacted and that is creating problems for us. But at the same time, we are trying to increase our presence in other geographies and increase our products and enter new markets, that's what our focus has been.
- Nitin Kulkarni:** Yes. And just to add to that, we have made entry into an enterprise vertical about seven or eight years back. So, you have to understand one thing that a lot of investment is happening in enterprise business, which will definitely give results in years to come. So, it is more of an investment which we are making for a future growth.
- Keshav Garg:** So, basically, seven, eight years back we entered this new business segment and still our revenue is flat since past five years. So basically, anyway, you have answered that. Sir, my basic point is, sir, that when will we break out of this Rs. 300 crores turnover and Rs. 100 crores operating profit range?

Nitin Kulkarni: So, as I said earlier, we are working on a lot of products and these are all new innovative products with which we will be able to cater to large and mid as well as large enterprises in one to one and a half years, and that is the difference. So, all this investment is happening, it has already started happening, our R&D team has already started working on this development. As far as enterprise segment is concerned, these are the products which we will be able to sell it in India as well as overseas market, and it will be more of a growth engine for us. So, these investments we are confident that revenues in one to two years down the line will definitely show growth.

Keshav Garg: Okay. Sir, thank you very much. Best of luck. And sir, please consider doing a buy-back, since our last buy-back was more than one year back and we have ample cash on balance sheet. Thank you.

Moderator: Thank you. We take the next question from the line of Nikhil Chandak from Landmark Group. Please go ahead.

Nikhil Chandak: My question was, when I see your presentation, the enterprise business is just about 13% of total sales, the retail business is 87%. In a retail product, which is priced as low as, say, Rs. 500 or sub Rs. 1,000, if the shift really happens online, through your own website the downloading happens, then I don't know where is this big issue of debtors really coming from? So why shouldn't the company increase the reliance on online sales instead of doing it through distribution channel? It's very simple, right, somebody who uses an antivirus software, he's obviously very familiar with the simple act of download, which is cash flow wise extremely efficient, especially since 87% of sales is retail sales. So, this is the first question.

The second question is on the competition. Now, obviously, there are all the global major brands are in India, you are competing against McAfee, Norton, Kaspersky, everybody. How do you see the competitive landscape, especially when most new laptops and desktops now come with company built, I mean, pre-built or pre-installed antivirus software. The Dells of the world and the Lenovo's of the world have 30-days tie-ups with McAfee, etc., you could get a free trial, which is very easy to convert into an actual license after the end of the trial period. Plus, Windows has their own antivirus software now, Windows Defender is there.

So how do you see the competition? It is very strong to my mind, but I wanted to know your views on the competition part. And are you looking at such similar tie-ups with the vendors to actually have Quick Heal as one of the install software on a trial basis so that it's easier to expand your customer base just like McAfee. So, these are the two questions.

Nitin Kulkarni: So, first question on 87% revenue for retail. So, this is right for this quarter, definitely the spillover was entirely for retail, that's why for the current quarter the retail number is higher. If you see it on an annual basis, the retail is about 80% and enterprise is about 20%. So, this is the first point.

On second point where you talked about online sales. So, online sales are just about 15% of our total sales for retail. So, you have to understand that we have a very strong network and still majority of our sales happens through our channel partners. And retail is more of a stock and sale model where we have to sell the material and then based on the liquidation the payment comes. And the strong network and strong distribution system which we have built in is definitely giving us the revenue so far. So, your point is right that online sale going forward will increase, but still the distribution channel is going to be still an important factor. And that is where the money is stuck up. And that is the reason for higher amount of debtors.

I think on other point, competitive landscape, maybe I will request Sanjay to add his views.

Sanjay Katkar:

Yes. So as Nitin rightly said, the thing is, see, if you compare our presence on the online sale, we are, again, having more than 30% of the share on our online retail product sale actually. So even there if you compare all the big e-commerce like Flipkart, Amazon, we are present heavily on those online platforms. But at the same time, India is a different country where like offline sale is also a big market and that is where we have a good presence across Indian, and that we cannot avoid actually. So it's not like we don't want to go online, we are present online and we are making sure that we get the maximum share out of online sale that happens in India. And that we are doing and that we are seeing that because of lockdown there is quite a good jump in our online sale, even on Amazon as well as on our own website. But at the same time, India has a large offline market which needs to be tapped and we really have to be present there. And that presence is through partners and that is where all these debtors come in.

Nikhil Chandak:

On the competition aspect if you can elaborate, how do you see? You know, its very stiffly competed market, unit prices are obviously reasonable, enterprise is a different segment altogether, right, there in fact, I am sure it's not very easy to compete with Norton and McAfee, etc. Plus the inbuilt software is making it very easy to avoid buying Quick Heal product. So how do you tackle these issues from a competition perspective?

Sanjay Katkar:

See, these challenges have been there since more than two decades. I don't consider that as a challenge, because if you see, there are users who don't want to buy or want to use free or a trial version, there is a set of users who will only go for those products. But then the market that we are addressing is those users who are seriously buying security and paying for the security, and that is where the market and our presence has been actually. So if you compare even if people have a trial versions on the laptop that they buy newly, it's till 30 days, after that whatever security it comes, it's very basic security, even Windows Defender is by default 'on' in Windows, that comes along with the OS. But that security is very minimum, bare minimum security. But if you compare the threats that are coming today, if you see the ransomwares, and the attacks that are happening, they are being designed by studying these basic security and they still enter your PC or laptop and make sure that whatever attack they want to do. So, one has to go for paid security to have the best of the security. And that is the market that we are targeting. And so, I don't feel there is going to be a

change. It is like there will always be a free market and there will always be a market for paid versions, and serious buyers will go for paid security, which is where we are addressing it.

Moderator: Thank you. Next question is from the line of Mithun Ashwath from Kiva Advisors. Please go ahead.

Mithun Ashwath: I think most of my questions were answered, but just a follow-up on the previous speaker. A lot of the computers that we buy already have a pre-loaded antivirus, and which we can upgrade to a paid version. Why don't we actually tie-up with branded computer or laptop companies so that even our antivirus is present there as a free version for a month. And I am quite sure a lot of people would upgrade to a paid version once that gets over. So that would be a good way to tap the retail market, rather than going through this whole channel partner route, which seems to be a little outdated. So just wanted your thoughts on that. Thanks.

Sanjay Katkar: Yes. So, as you rightly said, laptops and PCs come with a pre-installed product, but see, most of these laptops and PCs are branded actually. And they come from multiple MNCs like Dell, HP. And these tie-ups happen in the US. So, there it's not easy to enter this market, we have tried this but at the same time, what we have observed is, OEM products, it's not like they pay, it's like we have to pay them for each sale that they do of laptop or PC. It's like pay for the customers that they acquire. But at the same time, renewal rate for these products is very less actually, because people after expiry they either talk to the partners or they look for something online. And of course, there is a renewal for whichever comes along with the laptop or PC, but at the same time what has happened is, since Windows 10, most of the trial versions are removed the next day they are expired by the Microsoft, and default Windows Defender is installed. That's the policy that Microsoft has followed. So, OEM things doesn't work nowadays, means, it works but it doesn't give that much result. And country like India, we have observed, doing OEM is more of a losses business than selling through channel partners actually. Because mostly OEMs take money for bundling, at the same time conversion to the paid version is very less actually. So, if you compare conversions of the freemium products, your conversion rates are 2% to 3% actually, It means, if somebody gives 100 pieces as bundle, only 2 or 3 persons go for paid version after that.

Mithun Ashwath: And just a follow-up on this. What is your market share in the retail category compared to the other competitors, the larger MNCs, would you have some numbers?

Nitin Kulkarni: So, it is about 30%+ today.

Mithun Ashwath: Your market share is 30%?

Nitin Kulkarni: 30%+.

Mithun Ashwath: Okay. So, you would be the number one in India?

Nitin Kulkarni: Yes, we are number one in India. You are right.

- Moderator:** Thank you. The next question is from the line of Deepesh Parwal from Future First. Please go ahead.
- Deepesh Parwal:** So, my question is on lines of retail sales only through our channel partners and online discussion which is currently going on. I just want to know, what is that, that is stopping us to go into only aggressively? Just to add on to that, after COVID a lot of industries where feel is required, like automobiles, homes, all of them are getting sold online nowadays, or they are trying online nowadays. But somewhere if I look through our presentations, and if I go through this concall also, somehow feel is that we are just taking online sales as and when they are coming, we are not trying very hard to convert those or go aggressively or increase our market share through online. So how do we like see that?
- Kailash Katkar:** Let me answer your question. Just now, Nitin has already told you that our online sale in this COVID-19 situation has grown by more than 20%. So that itself shows that we have done aggressive activities on the online part of it. Because in this COVID-19 situation, we were very less present when it comes to the marketing activity on ATL part of it, but we had done more on internet marketing part of it, and that's the reason the online sale has increased by 20% in the last three to four months' time. And again, I want to tell you that we are not at all against online sales. See, if I have to tell you that four years back, out of total revenue, our online sale was close to 4%, now it has reached to 15% to 17%. That itself shows that we are putting efforts for the online sale. And we knew that in future online sale is going to increase and based on that we are putting all those efforts to make sure that happens. But we cannot neglect the partner sale. If you want me to do only online sale, then it will be very difficult to achieve these numbers. We just can't neglect offline sales through partners.
- Sanjay Katkar:** Just to add to that, if you see the total antivirus sale that happens in India through Amazon, we are capturing more than 30% of that sale as well. So, our presence on most of the Amazon as well as Flipkart, which are the top two e-commerce websites, our presence is very aggressive on both online platforms, including our websites. So, if you see last quarters, all the promotional budget was on online sales activities.
- Deepesh Parwal:** Okay, thank you. That's nice to know. And one more question regarding SME segment. I have heard that last two years were very tough, but let's keep aside that, what would be our target for, let's say, three years down the line or two years down the line in terms of revenue from that segment alone, any expectations?
- Nitin Kulkarni:** See, this year, definitely because of COVID-19 situation and overall economic situation, SME SMB market is not really going to pick up to a great level. But as I said earlier that we are working on new products, innovative products, which are going to capture to mid and large enterprises. Since you are talking about a horizon of three years, we are very bullish on enterprise segment over a three-year window.

Sanjay Katkar: Yes. And even as market activities improve after the lockdown, the SMB definitely will see some uptick after that. But SMB only works when, what our experience is that, when there are good enough activities in market and everything is going good, then SMB sales start picking, that is what we have observed actually.

Moderator: Thank you. Next question is from the line of Nikita Mehta, individual investor. Please go ahead.

Nikita Mehta: I had a couple of questions. First of all, I wanted to understand in terms of receivables, there is an increase in the balance sheet in terms of receivables. Can you just throw some light on how many deals have not paid and have they made any interim payments or what kind of dues are pending?

Nitin Kulkarni: So, on the receivables, if I have to again repeat., because of this COVID-19 situation there is a huge liquidity crunch with our dealers, and that is the main reason for increase in receivables. Generally, Q1 is where we get a substantial collection from our debtors, but because of this COVID-19 situation and overall liquidity problem, the collection for the quarter has substantially gone down. I think that is the main reason for increase in receivables. And we expect this situation to continue in Q2 as well. And from Q3 onwards, we feel that things will come back on track.

As far as the receivables are concerned, I also mentioned in my opening commentary that these receivables are being tracked very closely. We have calls with all vertical heads and these dealers on a fortnightly basis. And on a conservative basis, we had made a provision of Rs. 5 crores in the last quarter. So, whatever receivables we have, so I would say that they are being tracked on a regular basis and we are quite hopeful of collecting that money. So, we don't expect significant amount of bad debt from that.

Nikita Mehta: Okay. And the other one I wanted to know was about the current pricing trend in the retail market. are we able to charge any premium now given that there was pent-up demand due to COVID?

Nitin Kulkarni: So, in fact pricing is under severe pressure nowadays, definitely due to COVID and overall the cost consciousness in the entire ecosystem, whether it is partner, direct customers or even on enterprise side, so pricing is definitely under pressure. And charging premium at this point of time would be very difficult for everyone.

Moderator: Thank you. We take the next question from the line of Keshav Garg from Counter Cyclical Investment. Please go ahead.

Keshav Garg: Sir, I wanted to understand, what does our subsidiary do? I think it doesn't do anything except make a small loss.

Nitin Kulkarni: So, for subsidiaries there are definitely plans for increasing and growing them in the near future. And we have been saying that these new products we will first consolidate them in India and then we will monetize them in these international subsidiaries. So subsidiaries, basically purely due to lower sales realization these subsidies have been making losses so far. But we have been working

on expansion plans for the subsidiaries, and this new product launch will definitely help monetizing this into our international market. And we expect these subsidiaries to turn profitable in the years to come.

Keshav Garg: Okay. And also sir, you mentioned that you have around 30% of market share in retail segment. So, how has this moved in the last five years, like what was the market share five years back, approximately?

Sanjay Katkar: So, mostly for last three, four years, it has been same, I mean to say, we are able to maintain the market share. But earlier it was lesser around 27% to 28%. And much, much lesser before that. So 30% share has been maintained, it's like we are trying to increase but it's stagnant, for at least three years.

Keshav Garg: Okay, sir. Great. And also, I missed that earlier question, some participant asked about, so basically are you present in the cellular mobile market?

Sanjay Katkar: Yes, we are present there.

Keshav Garg: So basically, how much turnover is coming from that segment? I mean, out of our total revenue, what percentage comes from there?

Nitin Kulkarni: So, as Sanjay mentioned in his comment earlier, at this point of time, mobile revenue is very insignificant. But we are definitely confident that as the threat landscape builds up, the mobile business will grow.

Keshav Garg: Sir, but basically in the past five to six years there is a huge revolution, I mean, in the penetration of smartphones. So, this market should have grown basically many folds in the past five years due to penetration of smartphones.

Sanjay Katkar: See, the thing is, number of mobile users have grown, the download for free trial has gone up. But the paid users are not growing much actually, in the sense people are not paying for security on mobile. But definitely if you look at the percentage, it's like a we talk about paid users, so paid users around 1% is our revenue coming from mobiles actually. But definitely what we are seeing is, the number of paid users is growing, but the base is very small for now. So, as the digital transactions are growing, people are becoming more serious about security, but compared to the user base it is quite small actually.

Keshav Garg: And sir, also you mentioned that you are investing a lot in new product development. So basically, are you charging it off to the P&L or are you basically capitalizing the R&D for new product development?

Nitin Kulkarni: So, the entire R&D cost on a conservative basis is charged to P&L.

- Keshav Garg:** And sir lastly, sir, you mentioned that pricing is under pressure, so approximately prices are following by what percentage per year?
- Nitin Kulkarni:** So, it is very difficult, again, it is case to case basis we have variety of products, then there is a competition also, then the overall ecosystem of partners. So, commenting on this pricing trend on a year-on-year basis will be very difficult.
- Moderator:** Thank you. We take the next question from the line of Ashish Kapadia, individual investor. Please go ahead.
- Ashish Kapadia:** I wanted to ask a couple of questions in terms of your price points. I just wanted to ask you regarding the pricing points between your channel partners and your online platform, are products sold at the same price point across the two channels?
- Nitin Kulkarni:** Yes, so they are sold at the same price.
- Ashish Kpadia:** Okay. And the second question is, there's a 50% drop in your other expenses compared to the previous quarter. Can you give me a bit more flavor on what that is?
- Nitin Kulkarni:** Yes. So if you look at the previous quarter, so in previous quarter, as I said, we had made doubtful debt provision for few of our dealers in retail vertical, that was about Rs. 5 crores. Then we also had the dealer meet, and on that the expenditure was spent, plus there was additional expenditure on CSR related activities also. These are not there in Q1, so that is the main reason for reduction in costs.
- Ashish Kapadia:** Okay. And do you expect this trend to continue in the coming quarters?
- Nitin Kulkarni:** So, trending will be very difficult to really comment. See, during this quarter, due to COVID-19 a lot of offices were closed, so we had a lot of saving on the office establishment costs also. So, whether this trend will continue to remain, I don't think it will remain, the cost will go up to some extent, but more or less it will be in this range.
- Ashish Kapadia:** Okay. And one final question, in the previous quarter conference call, there was comment about new management appointments to shore up your senior management team, is there any update on that?
- Nitin Kulkarni:** See, basically as I said earlier, Kailash mentioned in the last call that we are doing leadership hiring. So, it is more of a continuous process, we are strengthening our leadership team and this will happen over the next two quarters. So, definitely because of the current COVID-19 situation, we have also postponed the plans and then we will take call depending on how things go on.
- Moderator:** Thank you. Well, ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Nitin Kulkarni for closing comments.

Nitin Kulkarni: I thank everyone for joining the call. I hope we have been able to address all your queries. For any further information or any kind of additional questions, you can kindly get in touch with EY our IR advisors. Thank you very much. Stay healthy and stay safe. Thank you.

Moderator: Thank you. On behalf of Quick Heal Technologies, that concludes this conference. Thank you all for joining. You may now disconnect your lines.

(This document has been edited for readability purposes)

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