



“Quick Heal Technologies Limited Q2 FY’20 Earnings Conference Call”

November 15, 2019

**MANAGEMENT: MR. KAILASH KATKAR – MANAGING DIRECTOR AND
CEO, QUICK HEAL TECHNOLOGIES LIMITED**

**MR. SANJAY KATKAR – JOINT MANAGING DIRECTOR
AND CTO, QUICK HEAL TECHNOLOGIES LIMITED**

**MR. NITIN KULKARNI – CHIEF FINANCIAL OFFICER,
QUICK HEAL TECHNOLOGIES LIMITED**

Moderator: Ladies and Gentlemen, Good Day and welcome to the Q2 FY '20 Earnings Conference Call of Quick Heal Technologies Limited. We have with us today from the Management, Mr. Kailash Katkar, Managing Director and CEO; Mr. Sanjay Katkar, Joint Managing Director and CTO; and Mr. Nitin Kulkarni, Chief Financial Officer. 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kailash Katkar. Thank you and over to you, Sir.

Kailash Katkar: Thank you. Good Evening, Ladies and Gentlemen. Welcome to Quick Heal Technologies' quarter and half year ending September 30, 2019, earnings conference call. Let me begin with developments for the quarter. This quarter has not been up to our expectations. During the quarter, we continued to see slowness in the market, this also added to the pricing pressure, it was coupled with some challenges in our distribution channels. Our organization-wide initiatives like efforts for liquidation of stock, strengthened sales team, and consistent R&D efforts are expected to bear fruit in the coming quarters. I am happy to share that Quick Heal Technologies has been granted a patent for its signature-less, behavior-based detection technology. We also signed an agreement with L7 Defense, an Israel-based cyber security start-up and made a strategic investment of \$300,000. This investment will help us enter into the fast growing next-generation web application firewall and API security market. With this, now I hand over the floor to Mr. Sanjay Katkar.

Sanjay Katkar: Thanks Kailash. Good Evening everyone. As Kailash highlighted earlier, we saw some slow down during the quarter owing to pricing pressure already prevailing in the market and SMEs overcoming challenges and aspiring to have more effective cyber security practices. Quick Heal detected around 257 million Windows malware this quarter, which is much higher than 242 million detections made in the previous quarter. However, the quarter also saw some significant malware detection in both Windows and Android, which reminds us of the ever -increasing threats. Quick Heal Security Labs made a significant detection of 27 malicious apps on official Google play store and these apps were removed from the play store after Quick Heal Security Labs reported it to Google. In the enterprise segment, the education domain was at high risk. It was hit the hardest, accounting for more than 30% of cyber threats targeting Indian enterprises. So, the sector's rapid digitization has made it a lucrative target for cyber criminals. This was followed by threat across other industries like BFSI, media and entertainment, and professional services. However, this quarter saw a major shift in the sector with the highest attacks at educational institutions. Seqrite detected over 38 million Windows malware during the quarter and this statistics marked an increase of 4 million and 10 million over the number of threats detected in Q2 2019 and Q1 2019, respectively. It also marked a massive year-on-year increase of 12 million over the corresponding numbers in Q2 2018, which saw 26 million threats stopped by Seqrite.

The threat trend does not show any signs of slowing down and hence I believe that market slowdown can impact only to the level of delayed decisions on cyber security products purchases

and the overall demand for cyber security products and solutions will still be there if we look at the long-term prospects. As Kailash mentioned to you in his address about our recent investment into L7 Defense, an Israel based cyber security start-up. I would like to give some more insight into this. L7 Defense is into domain of API security and they are working on a disruptive way of protecting the APIs and nowadays most of the computer software applications are web applications. Web application usage is growing day by day and API integration is at the core of the web application, so APIs have become an ultimate means for sharing data and integrating between applications and APIs. API attacks has become main cyber security threat to companies today, so L7 Defense startup product is focused on protecting against API attacks and they have the only in-line solution that autonomously monitors, detects, and blocks API attacks at a very high accuracy. So, with this investment we will be able to enter the API security market once their product is ready and integrated with our product which will take a couple of quarters or more for it to get ready.

The other good news is about the recent US patent that we received in this quarter, our innovative behavior-based detection technology which is the part of our GoDeep AI technology that goes behind all our product range. So, Quick Heal and Seqrite products are powered by its GoDeep AI technology for advanced malware detection for providing the users with multi-layer protection and this pattern gives us the advantage of being the one of the best behavior-based detection technology leveraging signature less detection to block Zero Day malware attacks. This is a result of our innovation based on our constant Research and Development in the threat detection based on our 25 years of experience. This will go a long way in establishing Quick Heal and Seqrite products as market leaders. 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 to all of you.

Let me take you through the financial highlights for the quarter and half year ended September 30, 2019. I will start with highlights of first half of the financial year 2020. Consolidated revenue from operations stood at INR 1562 million as compared to INR 1622 million for the same period last year. In terms of segmental performance, the retail segment revenues for H1 '20 stood at 1,336 million as compared to INR 1,379 million for the same period last year. Our enterprise segment registered a revenue of 317 million as compared to INR 335 million for the same period last year. In terms of revenue mix, our retail segment contributes 81% while enterprise and Government contributes 19%. On the licenses sold front, for the retail segment, we have sold 2553K licenses compared to 2763K licenses sold during the same period last year. Our enterprise and Government segments have shown some drop with 494 K licenses sold in H1 2020 compared to 529 K sold for the same period last year. Our EBITDA for the half-year ended September 30, 2019, stood at INR 606 million compared to 686 million for the same period last year, margins were at 39%.

Net profit for the quarter stood at INR 486 million compared to 482 million in the same period last year. PAT margin stood at 31%, marginally up from 30% for the same period last year.

We exercised the option permitted under Section 115BAA of the Income Tax Act 1961 which has resulted in lower corporate income tax during the quarter.

Cash PAT, that is, PAT plus depreciation for the half year is at INR 593 million. For the half-year ended September 30, 2019, our sales and marketing expenses increased by 7% compared to the same period last year. General administration expenditure increased on YOY basis mainly on account of one-time expenses of INR 20 million towards buyback. Depreciation for the half-year was lower compared to same period last year. This is on account of no major additions to fixed assets during the period and we also followed the written down value method of depreciation. Other income for the quarter stood at INR 157 million compared to INR 151 million for the same period last year.

Now, I will come to the highlights for Q2 of 2020. Consolidated revenue from operations stood at INR 986 million compared to INR 1091 million for the same period last year. In terms of segmental performance, the retail segment revenues for the quarter stood at INR 879 million compared to INR 955 million for the same period last year. As explained by Kailash and Sanjay earlier, our retail segment saw some decline owing to pricing pressure and a few challenges in our distribution network. Slowdown in the market, coupled with lower demand from SMEs, led to subdued revenues in our enterprise segment, which were at INR 171 million this quarter compared to INR 191 million for the same period last year. In terms of revenue mix, our retail segment contributes 84% while enterprise contributes 16%. On the licenses sold front, for the retail segment, we have sold 1724 K licenses compared to 1965 K licenses during the same period last year. The Enterprise and Government segment has shown a marginal drop with 247 K licenses sold in current quarter compared to 297 K sold for the same period last year. EBITDA for the quarter stood at INR 478 million compared to INR 597 million for the same period last year. Margins for the quarter stood at 49%. Net profit for the quarter stood at INR 367 million compared to INR 421 million compared to the same period last year. PAT margin stood at 37%, margin is down from the same period last year that is 38%. Cash PAT, which is PAT plus depreciation for quarter is at INR 423 million. Depreciation for the quarter was lower compared to the same period last year. Other income for the quarter stood at INR 73 million compared to INR 87 million for the same period last year.

Now, moving to the consolidated balance sheet as on September 30, 2019, our cash and cash equivalents along with investments in mutual fund tax-free bond and fixed deposits stand at INR 3,905 million compared with INR 4,948 million as at end of September 2018, a net reduction of INR 1043 million. Cash balance includes IPO money of INR 825 million invested in fixed deposits, utilization of proceeds is as per object loss as stated in the IPO. On the working capital side, as of September 30, 2019, our overall net working capital is around 104 days with receivable days of 138 days. Our efforts on improving collections has started showing results. We have brought down receivable days from 155 days in the last quarter to 138 days as of September.

Now, lastly, I will touch on the half year financials on a standalone basis:

Revenue for H1 was INR 1,548 million compared to INR 1,616 million in last year H1. EBITDA stood at INR 616 million compared to INR 696 million. EBITDA margin was at 40% compared to 43% for the last year. PAT has been at INR 497 million compared to INR 441 million in the last year, showing a growth of 12.5%. PAT margin for the year ended is at 32% compared to 27% in H1 FY '19, an improvement of 476 basis points. For the quarter, revenue stood at INR 977 million compared to INR 1,089 million, EBITDA of INR 486 million compared to INR 603 million last year with a margin of 50% as compared to 55% in Q2 of Financial Year '19. PAT stood at INR 376 million compared to INR 377 million for the same period last year. The PAT margin for the quarter is at 39% compared to 34% in Q2 of last year showing an improvement of 382 bps. With this, we will open the floor for questions. Thank you.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Richa Singh, an Individual Investor. Please go ahead.

Richa Singh: Sir, Q2 and Q4 are seasonally strong quarters for us, so what are the major reasons for the degrowth for this quarter?

Kailash Katkar: The major reason for this quarter is the market pressure. There is a problem in cash movement and there is a pricing pressure also on products. There is a general slowdown in market, coupled with the challenges faced by SMEs and that is the reason for the slowdown in Q2. Nitin will be able to add more to it.

Nitin Kulkarni: As Kailash mentioned, as far as our retail segment is concerned, you know that there is pricing pressure and there is some disruption in the distribution network which has impacted the retail segment. On enterprise segment, there is a general slowdown in the economy and as a result of that, there are challenges faced by SMEs. These are the main reasons why there is an impact on our revenue numbers as far as Q2 is concerned.

Richa Singh: Sir, what will be a sustainable EBITDA margin going forward?

Nitin Kulkarni: A number of new products are coming in and there will be lot of investments made in Research and Development and sales and marketing. We do not give any guidance, but we are confident that we will be able to hold on to the EBITDA margin of 35%.

Richa Singh: Sir, can you talk a little more about the new investment in L7 Defense?

Sanjay Katkar: This investment is in the gateway side product. We did not have a gateway or data centre level product and the L7 Defense has a disruptive technology with a web application firewall coupled with API securities. So, we definitely feel that this investment will help us enter this market with a new innovative technology. However, it is at the early stage where the startup is working on those products.

Richa Singh: Sir, can you talk a little more about your R&D potential?

- Kailash Katkar:** Are you talking about the Israel company's R&D potential?
- Richa Singh:** Yes.
- Sanjay Katkar:** This investment is purely into their product development capabilities and our idea is to bring their products to the Indian market when it is ready to launch in India. So, we are just waiting for that product to get ready for Indian markets.
- Moderator:** Thank you. The next question is from the line of Gulshan Patni, an Individual Investor. Please go ahead.
- Gulshan Patni:** Sir, I had two questions, what will be the growth going forward?
- Nitin Kulkarni:** As far as growth is concerned, we are taking a lot of measures and at this stage, H2 for the current year is better and we feel that we are likely to do better than last year in terms of revenue.
- Gulshan Patni:** Any plans on cutting down the prices? How can we increase our revenue?
- Kailash Katkar:** The question is not only about the pricing, it is also about the market slowdown and the cash movement in the market. There is a big disturbance in the cash movement in the market, so just cutting down the price will not help to grow the revenue.
- Sanjay Katkar:** We do have a product mix which also addresses the price pressure, but the demand has slowed down. This is what we are observing.
- Nitin Kulkarni:** If you check, Quick Heal has a range of products for all those people who are price conscious & also for people who are security conscious.
- Gulshan Patni:** Then how did your competitor do that?
- Nitin Kulkarni:** Competitors do not have a range of products. They have a maximum of one to two products in the market.
- Sanjay Katkar:** We have also observed that most of the competition is facing the same challenge that we are going through because the distribution network is the same and that is where we are able to get this feedback.
- Kailash Katkar:** After selling, collecting the payment is a big challenge. If somebody has not paid for a long time and if you still keep on selling materials to those distributors, it will become risky for any business & the same is being faced by us & our competitors.
- Gulshan Patni:** Are there any new product launches going forward?
- Sanjay Katkar:** In this quarter, we have not launched any new product. We have our existing products that have scaled up and newer versions of the existing products were launched.

- Gulshan Patni:** So, the demand revival will come from the second half but if the liquidity scenario remains the same then there will be no revenue growth or it will be muted?
- Kailash Katkar:** Yes.
- Moderator:** Thank you. The next question is from the line of Richa Singh, an Individual Investor for a follow-up question. Please go ahead.
- Richa Singh:** Sir, what is our strategy to tackle the pricing pressure going forward?
- Sanjay Katkar:** Pushing the right product mix is what we follow when it comes to pricing pressure because different markets and even different regions in India have different pricing stability and fortunately, we have a very big range of products. Definitely, the right mix of products will help us to take care of that.
- Richa Singh:** Sir, in the slowdown scenario, what are the steps that we are taking to tackle the slowdown in the demand?
- Kailash Katkar:** The cyber threat problem is still there and the slowdown is a momentary thing and in this period, we are strengthening our distribution network, training the distribution network, so that once we start seeing some movement in the stock, we will be in a better position to track the orders. So, we are doing a lot of training activities & dealer strengthening & we are doing the necessary corrections to tackle the distribution network challenges that we have been facing.
- Moderator:** Thank you. The next question is from the line of Mahavir Jain from Astrum Advisors. Please go ahead.
- Mahavir Jain:** Sir, now that we have received two patents in US markets, so what is the kind of benefit that we see due to these patents which we have received? Will we be able to hike the prices or what are the kind of benefits that we can see due to these patents?
- Sanjay Katkar:** These patents will help us pitch our products better in the enterprise segment as we have been working towards a marketing plan for promoting our GoDeep AI technology and having US patents definitely helps the credibility of the technology and the acceptance into the market with that technology.
- Mahavir Jain:** After receiving the patent and during this period have we seen any better response from the market?
- Sanjay Katkar:** We have seen an increase in interest into our products in terms of understanding what is GoDeep and we have been getting more opportunities to present ourselves. So, this will go a long way for when it comes to fighting competition because competition is mostly coming from MDM products, so here having patents is definitely helping us. We have seen an uptick in our website hits for this particular page of GoDeep AI and people are getting to know what is it that we are offering with these new patents.

- Mahavir Jain:** Now that there is a buyback, are we planning to do a buyback or the plan is for dividend from the coming time?
- Nitin Kulkarni:** At this stage it is difficult to comment, but depending on the organic and inorganic opportunities, the Board will take the appropriate call.
- Moderator:** Thank you. The next question is from the line of Hardik Shukla, an Individual Investor. Please go ahead.
- Hardik Shukla:** Sir, what is the nature of agreement with L7, do we get exclusivity of that technology to use in India or is it a global tie up, how does it work?
- Sanjay Katkar:** This has got more to do with bringing their product into our Indian market. Currently, there is no exclusivity, but this product is in the startup or development phase wherein we will be able to understand it much better and see how we can take it to the Indian market and they are looking forward for addressing not only India but the Asian markets as well.
- Hardik Shukla:** In terms of technology, when I look at a US company, for example, CrowdStrike, they seem to be growing at the rate of 50% in terms of their enterprise security solutions. I just wanted to know how the Indian market is going compared to the US market, is this security enterprise market increasing at a very high pace and are we keeping up with that pace or are we kind of not up to the mark?
- Sanjay Katkar:** The global markets are at a different rate of growth and pace and specifically in India we have seen that the rate is not as per the global standards, but at the same time the more digitization we are doing in India and the more policies and regulations that are getting set, I feel that there is a good opportunity for cyber security products to grow at a faster rate, but currently, as you said, globally the trend has already caught up because cyber threats are being taken seriously throughout the globe by enterprises and that should follow in India as well, that is what we are hoping for.
- Hardik Shukla:** Sir, just a question out of interest, lately I have seen a lot of instances in Indian media where the journalists have been targeted, their mobile systems have been targeted and the privacy has been breached. So, is there any scope for us to provide privacy security through our solutions?
- Sanjay Katkar:** The recent news had been really brought in attention towards mobile security and our products are already taking care of those challenges and I would like to add here that all the Quick Heal mobile security users were protected by the spying that happened. We saw certain hits on our product users as well which were protected well by our product. Mobile security is definitely going to be in demand and we have seen some interest by people when they started seeing this news that the mobile security is going to take care of that and most of the mobile security products that we launched had been taking care of such spying as well as threats that target particularly individuals as well. Such incidents actually help us bring in mobile security into the limelight and we feel that these types of incidents and news will definitely bring in more interest

into mobile security products, not only in the retail segment but even in the enterprise mobility usage. And on the enterprise front, we are seeing better traction in terms of mobile security getting accepted and I feel gradually even on the retail front, this should reflect but I cannot say when this will happen, but definitely the awareness has gone up and people are seriously thinking of going for paid security on mobile.

Hardik Shukla: Do you think it would be a good strategy to cover the high-value target?

Sanjay Katkar: In fact, we are doing that in a lot of our marketing campaigns and we are planning our further marketing campaigns towards that as well.

Kailash Katkar: I just wanted to add one more thing for an individual - Quick Heal already has a mobile security product, and for enterprises, the employees who use mobile, we also have an enterprise product called MDM, Mobile Device Management.

Sanjay Katkar: We are seeing much better demand for MDM products in enterprises and since the base is very small, we see a very good growth there, but it will take some time to reflect revenues, but we have started seeing good traction there.

Hardik Shukla: Sir, just on the competition side, in terms of last quarter, how much would be our success ratio in terms of the number of tenders that we might have participated in and what is our success ratio compared to competitors?

Nitin Kulkarni: We will not be able to share this data on the call right now.

Hardik Shukla: In terms of some issue with the partner network, is that issue persisting at the moment or has that been resolved?

Sanjay Katkar: Yes, it has been resolved. We have taken care of the distribution network in the right way, so I hope this will help us in Q3 and Q4.

Moderator: Thank you. The next question is from the line of Parimal Mithani from Credit Suisse. Please go ahead.

Parimal Mithani: Sir, I just wanted to know what was the cash balance as of September 30th on the balance sheet?

Nitin Kulkarni: INR 390 crores.

Parimal Mithani: Sir, the JV that you have done with L7, can you throw some light on how it compliments us in the Indian environment?

Sanjay Katkar: That will help us push the API security and web application firewall security products into enterprises in India.

Parimal Mithani: Does it fill the product gap in terms of the product?

- Sanjay Katkar:** We are not in that market and we will be able to get their product into the Indian markets, that will also complement our Seqrite products offerings.
- Parimal Mithani:** Sir, what is the market size of that product?
- Sanjay Katkar:** Currently, I do not have India figures, but the global figures are about \$1.2 billion market size.
- Parimal Mithani:** Who are your competitors in this space?
- Sanjay Katkar:** India is a very new market for this kind of product, the global competition is from F5 and Imperva.
- Moderator:** Thank you. The next question is from the line of Ashok Shah from LFC Securities. Please go ahead.
- Ashok Shah:** Sir, since IPO we have got the cash balance, so last year we had utilized it for the buyback of shares. Do we plan to continue this type of cash utilization to buyback in the same manner?
- Nitin Kulkarni:** Cash will be used for organic, inorganic strategic opportunities and the calls pertaining to buyback and dividend depending on the situation will be put to the Board and they will take the appropriate call.
- Moderator:** Thank you. The next question is from the line of Kapil Bhatt, an Individual Investor. Please go ahead.
- Kapil Bhatt:** Sir, I have questions about our subsidiaries in America, Japan and Africa, are we doing any business there? As you said that global market is actually heated up with cyber security products and the cyber security companies in those regions are growing like (+50%), so are we doing any efforts to grow the sales in those markets with the help of these subsidiaries?
- Nitin Kulkarni:** Yes, we have subsidiaries in these locations, these subsidiaries are basically front end sales offices, and yes, lot of efforts are happening on these subsidiaries, and yes, we are working on this, we know that these are good markets to tap and there are efforts being made to increase the traction in these subsidiaries.
- Kapil Bhatt:** Do we have any employees/sales person in the sales office who are pitching our products in those markets?
- Nitin Kulkarni:** Yes, we have a few employees who take care of sales related activities there.
- Kapil Bhatt:** So what are the projections on the global front? Are we looking to ramp up the sales?
- Nitin Kulkarni:** It is difficult for us to talk projections on the call but yes there are plans & we are working on the plans and we hope to do better in the future.

- Kapil Bhatt:** The next question is on the service tax demand, is that matter still pending with the authorities or have we got any update from them?
- Nitin Kulkarni:** The matter is still pending with the authorities and we are waiting for the revert.
- Moderator:** Thank you. A follow-up question from the line of Gulshan Patni, an Individual Investor. Please go ahead.
- Gulshan Patni:** Sir, will you always focus on growing the anti-virus business or will you diversify somewhere else?
- Sanjay Katkar:** The focus is not only on antivirus but on complete cyber security solutions. For enterprise, there is a bigger range of products, and for retail, we have not only anti-virus but also total security for retail users. On the enterprise front, it involves the end point security and gateway security like UTM and we have also entered onto the mobile front by releasing Mobile Device Management products, so I will say complete range of cyber security products is what we have focused on & have not focused on anything else other than security currently.
- Gulshan Patni:** You will focus on cyber security solutions, right?
- Kailash Katkar:** Yes.
- Gulshan Patni:** You will lot diversify into anything else?
- Kailash Katkar:** No.
- Moderator:** Thank you. Ladies and Gentlemen, that was the last question for today. I now hand the conference over to Mr. Kailash Katkar for closing comments. Thank you, and over to you, Sir.
- Kailash Katkar:** I 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 EY, our IR advisors, thank you once again.
- Moderator:** Thank you very much. Ladies and Gentlemen, on behalf of Quick Heal Technologies Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

Contact details :

Registered Address :
Marvel Edge, 7th Floor,
Office No.7010 C&D,
Opposite Neco Garden Society, Viman Nagar,
Pune, Maharashtra, 411014
Email : cs@quickheal.co.in ; info@quickheal.com
Website : www.quickheal.com
CIN : L72200MH1995PLC091408