“Quick Heal Technologies Limited Q4 and FY2021 Earnings Conference Call”

May 17, 2021

MANAGEMENT: MR. KAILASH KATKAR, MANAGING DIRECTOR AND CEO
MR. SANJAY KATKAR, JOINT MANAGING DIRECTOR AND CTO
MR. NITIN KULKARNI, CHIEF FINANCIAL OFFICER

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Quick Heal Technologies Limited Q4 and FY '2021 Earnings Conference Call. We have with us 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 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nitin Kulkarni from Quick Heal Technologies Limited. Thank you and over to you, Sir.

Nitin Kulkarni: Thank you Lizann. Hello and Good Evening everyone. Hope all of you and your families are safe during this pandemic times. I am pleased to Welcome you on to our earnings call to discuss our Q4 and Financial Year 2021 results. Please note a copy of all our disclosures are available on the investor section of our website as well as on the 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 to all of you, thanks for joining us today to discuss Quick Heal Technologies Limited financial result for Q4 and entire Financial Year 2021 Results.

I would like to take this opportunity to update you about the major developments and initiatives for the quarter as well as some highlights for the year. Before I begin I hope you and your family are safe and taking proper care while dealing with this pandemic. I would like to take this opportunity to thank all the frontline staffs and public authorities for their continuous effort in containing this pandemic and keeping us safe. Before starting with the brief update on business performance, I would like to inform you that share buyback program was approved by the Board of Directors as well as the shareholders of the company. CFO – Nitin Kulkarni, will give you more update on it.

We have delivered a strong finance performance during the quarter despite the disturbance caused by the pandemic. Nitin will cover our financial performance in detail in his commentary. During the year we have strengthened the leadership team with the appointment of Mr. Bibhuti Kar – R&D and Engineering Head; Mr. Sanjay Agarwal – Chief Product Officer; and Mr. Amith G. – Strategy Head, and at the same time focus on building new capabilities. These initiatives have accelerated new product development efforts and in fact we have recently launched Seqrite Hawkeye, the first in the series of new product launch plan. Seqrite Hawkeye empower enterprise to enhance their security visibility and manage multiple points products from the single console. Now, I would like to hand over the floor to Mr. Sanjay Katkar, Joint Managing Director and CTO, to discuss the latest cyber security threat. Over to you, Sanjay.

Sanjay Katkar: Thanks Kailash and Good Evening everyone. During lockdown, online sales jumped up and physical delivery was not available and as you all know we have 25,000 retail partners across India, this was hit due to pandemic. The increase in our business coming from increased laptop sales during pandemic got reflected in the second half of the year. We are seeing more confidence from most of the retail partners with respect to the demand, however, we are cautious due to liquidity issues in the retail dealer's ecosystem and hence do not want to increase exposure. Approximately 80% of our business is retail and 20% is enterprise. Within enterprise, Government business which constitutes 15% to 17% of enterprise business was degrowing as they were not spending enough on the cyber security due to COVID pandemic. Many of the decision from Government sector has been kept pending or delayed because of the current situation, so SMEs are high percent of enterprise which were hit the most during lockdown and recovered during the latter part of the year when restrictions were lifted. We are focusing on the SME segment in which we have 6% to 7% market share, and we plan to enter into large enterprise segments soon. The focus is to increase the enterprise revenue share for next few years. Retail business which grew at low single digits during initial part of the year picked up in Quarter-4. The run rate retail reach closer to pre-COVID levels during Quarter-4.

Coming to the trends in cyber security market, most of the 2020 infiltration attempts see a noticeable shift on a newer attack surface formed due to remote working model and changing modus operandi of the business worldwide, At Seqrite we observed that the total number of malware attack dropped by Rs. 35 million compared to 2019, but this was mainly due to reduction in threats like Adware and PUAs that are the least harmful in nature. Simultaneously, the dangerous threats like Trojan and Ransomware and infectors have also escalated further, primarily because of new vulnerability that have popped up because of virtual learning culture. We believe the trend of lower less detrimental attacks and higher targeted dangerous attack will continue in 2021.

Now, I would like to conclude my remarks by stating that demand will continue to remain strong for cyber security products and solutions as we become more and more reliable on digital infrastructure to solve our day-to-day needs such as being connected to work remotely, digital learnings and digital payments and this will definitely help cyber security market and I am more bullish towards that. I would like to hand over the floor to our CFO, Mr. Nitin Kulkarni, to discuss our financial performance with you.

Nitin Kulkarni: Thank you Sanjay and again Good Evening to all of you. As informed by Kailash in his opening commentary, I also would like to brief you on the share buyback program which has been approved by the Board of Directors as well as shareholders of the company. The company had proposed to buy back up to 63,26,530 equity shares at a price of Rs. 245 per share payable for an amount aggregating up to Rs. 155 crores. The buyback shall be undertaken on a proportionate basis from the eligible shareholders through the tender offer process and as per the stock exchange mechanism as specified in the SEBI circular. Buyback is being undertaken by the company after considering the operational and strategic cash requirements of the company in the medium term and for returning surplus funds to shareholders in effective and efficient manner.

Before moving onto financials, I am happy to share that Board of Directors had also recommended a final dividend of Rs. 4 per equity share with a face value of Rs. 10 per share for Financial Year 2021. This is of course subject to shareholders' approval in ensuing annual general meeting. With this dividend of Rs. 4 per share, the total payout ratio will be about 24% on the existing equity base.

Now, let me take you through the financial highlights for the fourth quarter and full year ended March 31, 2021. As Kailash mentioned earlier, we were able to deliver good growth during the quarter and close the year on a very positive note. I will now take you through the consolidated financial performance of the company for the quarter ended March 31, 2021. We delivered strong earnings with robust EBITDA and PAT growth for the quarter despite the impact of pandemic. In Q4, our consolidated revenue from operations grew by 64% to YOY Rs. 1,053 million compared to Rs. 643 million in Q4 of last year with retail segment revenue growing by 75%, driven by mainly higher renewal rate on consumer segment along with improvement in enterprise segment, 83% of our revenue for the quarter came from the retail segment and balance 17% came from enterprise and Government. Enterprise grew by 42% due to strong growth in SME segment with Indian economy slowly recovering from the pandemic.

I would also like to highlight the fact that in Q4 of last year, due to lockdown and non-availability of transport facilities, revenue in our retail segment was significantly impacted and revenue worth Rs. 280 million was pushed to the next financial year, which is being considered in FY2021, this is the important factor to note.

EBITDA for the quarter jumped by 609% YOY at Rs. 538 million compared to Rs. 76 million in Q4 of last year. EBITDA margin increased to 51.07% from 11.8% in Q4 of last year. In line with our continuous focus on R&D innovation, we increased our investment in R&D by 35% YOY at Rs. 173 million compared to Rs. 128 million in Q4 of last year. While employee benefit cost was up due to mix of increased headcount, change in pyramid structure, and marginally higher due to increase in outsourcing cost coupled with annual increments, which we have given it from October 1, 2020. Coming to sales and marketing expenses, sales and marketing expenses declined by 29% to Rs. 170 million from Rs. 239 million in Q4 of last year. This is mainly on account of some of the BTL ground activities were not possible in the current year due to pandemic situation; however, we have slowly started other marketing events from H2 of this year. Our G&A cost remains lower by 24% YOY of Rs. 127 million from Rs. 166 million last year. This reduction is mainly on account of doubtful debts provision which we had made for few dealers in our retail segment in the last year Q4 which was partially recovered in the current year. Other income during the quarter was lower by 30% to Rs. 57 million versus Rs. 82 million in Q4 of last year, this is primarily on account of reduction in treasury yields. PAT for the quarter rose by 397% YOY and stood at Rs. 397 million compared to Rs. 80 million in Q4 of last year. PAT margin increased to 37.73% from 12.44% in Q4 of last year.

Now, coming to the full financial year:

For the full financial year consolidated revenue was at Rs. 3,330 million up 16% compared to Rs. 2,861 million for the last year. The recovery is commendable as during the initial part of the year, business was severely impacted by lockdown. As the restrictions in economy was uplifted, business continued to recover sequentially during the year. Recovery in retail segment was stronger with 24% increase in revenue while enterprise grew by 9%. In case of enterprise segment in first two quarters of the year, Government spending was less and SME segment also faced some liquidity pressure.. For the whole year, 82% revenue came from retail and balance 18% came from enterprise. EBITDA for the full year grew by 55% YOY to Rs. 1,415 million versus Rs. 914 million in last year. This is mainly on account of top line growth. Other income during the year was lower by 24% at Rs. 242 million versus Rs. 316 million. Again, this is primarily on account of reduction in treasury yields for the whole year compared to last year. PAT grew by 44% to Rs. 1,070 million versus Rs. 744 million during the previous year. PAT margin for year increased to 32.1% versus 26% in the last year.

Now coming to licenses sold in retail segment during the year, we were up by 34% compared to last year while the revenue was up only 24%, so this mismatch is primarily on account of change on the product mix and higher demand for lower price products observed during the last few months. On enterprise side, licenses sold during the year was up by 8% YOY and revenue was up by 9%. We noticed sequential demand recovery on the enterprise side starting from Q2 till end of the year.

Now, I will come to few of the balance sheet items mainly on net working capital, overall networking capital days increased to 104 days versus 97 days in March 2020. The increase in working capital days was result of increase in receivables from 136 in March '20 to 150 in March 2021. The rise in receivable days was mainly due to strong sales booking in Q4 as well as liquidity issues with few of our retail dealers where collections are delayed. We will continue to maintain our financial discipline and focus and expect the debtor days to remain about in the range of 130 to 145 days. This is what the level which we have been maintaining so far. On cash and cash equivalent, our current cash and cash equivalents is at Rs. 4,809 million compared to Rs. 3,877 million in March 2020. This is including investment in mutual funds tax-free bonds and fixed deposits. I would again like to highlight that we were cautiously looking for opportunity to better utilize the cash on our balance sheet. On M&A, we again remain very cautious and calibrated in our investments and we are looking at smaller and medium-sized investments. Our current investment in L7 is the testament of the same. We continue to monitor the progress of our investee companies and so far, we are satisfied with them.

I would also like to give you an update on service tax:

The Commissioner of Service Tax, Delhi has preferred an appeal against a favorable order passed by CESTAT amounting to Rs. 561 million covering a period of 2011 to 2014. Now hearing for condonation of delay as well as admission of appeal on merit basis is still awaited.

Now to sum up, the demand environment was good during the last quarter with enterprise side supported by higher business activity and sharp recovery in economy. Demand for the consumer segment was aided by a strong demand for PCs and laptops mainly due to work from home and virtual learning trend. Overall business activity has started coming back to pre-COVID levels, however, with second and more devastating wave impacting our lives, economic activities and business activity may take a hit in near future. With vaccination gaining pace, hopefully, we expect businesses to regain momentum in due course of time. This is on all finance side. With this now, we will open the floor for questions.

Moderator: Thank you. Ladies and Gentlemen, we will now begin with the question and answer session. The first question is from the line of Siddhant Dand from Goodwill. Please go ahead.

Siddhant Dand: Could you just explain the top line segregation between retail and enterprise, what is the bottom line of segregation, what are the difference in the margins of the enterprise business versus the retail business and how it will go ahead once we reach our 60:40 target?

Nitin Kulkarni: If you look at our segment revenue breakup, business revenue segment for the quarter, retail was at Rs. 95 crores and on an annual basis, we were Rs. 299 crores and enterprise side it is Rs. 201 million for the quarter and annual run rate was Rs. 665 million, so which is broadly converted to 18%. To answer your question on margin, yes, we do track this internally on a regular basis and as we have been saying earlier on all our calls, enterprise segment is where we are making lot of investments, margin is far better in retail segment compared to enterprise segment

Siddhant Dand: The future guidance retail margins will continue to be better than the enterprise margins in the long term?

Nitin Kulkarni: It all depends on enterprise since we are making the investment, revenue will definitely pick up at some point of time and then when we will get back to a trajectory which we want enterprise segmental to show on the margin, but in the near term yes, retail will have decent margin and since we are making investment in enterprise segment, we will have lower margin to start with. But slowly we expect this to catch up as we move along.

Moderator: Thank you. The next question is from the line of Mayank Babla from Dalal & Broacha. Please go ahead.

Mayank Babla: Sir my question was regarding the margin expansion in this quarter, it was largely led by rationalization in sales and marketing and general and administration cost, so going ahead what will be the trend in the margins and will these cost go back to earlier levels or are these margins sustainable?

Nitin Kulkarni: To answer your first question, yes, we mentioned earlier that revenue spillover from Q4 coming into this year has helped, so may not be like-to-like comparison. But the revenue which we reported for last year Q4 and current year Q4, we are showing growth, so cost rationalization is only to the extent of Rs. 5-6 crores and as I mentioned in my opening commentary because of pandemic some of the sales and marketing events we started in H2 and that is the impact. But if you see the overall margin it is mainly driven by growth in the top-line. And to answer your question on margin outlook we do not give any guidance but do not judge us by this year EBITDA margin which is 42% for reasons mentioned above. For revenue growth we are making lot of investment on enterprise side, we are working on lot of new products and we will be doing lot of investments where revenue is expected to come in subsequent years, so with that there will be some impact on EBITDA and if I have to give you a number, we are targeting EBITDA range between 32% to 35% that is what is our current estimate.

Mayank Babla: Sir my second question, in the earlier calls you had mentioned that the physical sales or the physical sales component is more for Quick Heal and which is why we were impacted during the lockdown days, now given that the lockdown again are imposed in Q1, will our sales be impacted to a large extent?

Nitin Kulkarni: Retail is more of a stock and sell model. Last year Q4 call, we explained in detail that unless and until we shift the goods out of the factory and control is passed, we are not able to recognize the revenue, that is the case with retail. In case if stricter lockdown is imposed going forward or if it continues for a longer time, then yes definitely there will be some impact on our retail business and this is purely because of the fact that we will not be able to execute. There will be demand and orders at hand but we may not be able to execute it because of lockdown and non-availability of transport facilities. This is also going to have impact on enterprise side; today most of our revenue comes from SME and SMB segment, so because of lockdown or pandemic impact, there will be lot of liquidity impact on this SME and SMB, so that will also have some impact. We are seeing lot of demand with work from home, online training, online classes. There is a potential, but we have to see what kind of impact pandemic will have in times to come, I think it all depends on that, hope I addressed your question.

Mayank Babla: So it is safe to say that H1 will be slightly softer and then we can expect H2 to be strong by FY22?

Nitin Kulkarni: No, I do not want to comment anything on whether H1 will be softer or H2 will be stronger. If there is a lockdown, if there are restrictions, then all the businesses who are following this model will get impacted and we are no exception to it, I think that is what I can comment.

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

Vivek Ganguli: Thank you for the opportunity, my question was regarding the investment and the focus that you all have on the enterprise segment. We know that you all have hired senior people to lead this business, can you give us a little more color to the layout of the business who you all are competing against how sales happen? And on a three to five-year basis, what is the ballpark figure where you all would like this business with?

Sanjay Katkar: If I understand there are two parts of the question what is this new products and all the kind of business in we are focusing on and how is it going to impact and how it can impact in the span of two-three years. So the products that we are focusing on the Seqrite band is more particularly targeted towards the large enterprises and till the products are in the category with the new challenges, trade landscape is being getting developed based on the remote working situation that we have seen now and more particularly the challenges that are created due to the new working environment that is being adopted. If you see the releases by Gartner or IDC, it is like more zero-trust related approaches for the products will be seen in the market and that is where we are focused. At the same time, newer privacy laws are expected to get implemented and it is going to create newer market for particular kind of products. So currently I cannot say what will be the competition because many of these are completely new aspect or new approach towards it, but it is a very fast-growing market is what we see based on the data and survey data coming out from the Gartner of the world or even IDC. More data is getting generated, more connectivity and remote connections are going to happen, so all this is going to be targeted. And these products are targeting the security towards that. it is going to be in the high growth category. It includes service along with the product and we are focused on the cloud-based approach here, wherein most of the products and services we are planning, are focused on the cloud approach which means use anywhere and apply to the cloud-related workload for all organizations. It is completely new approach, so I cannot name the competitors, but definitely it is very fast-moving cyber security category that we have targeting in large enterprises.

Vivek Ganguli: For this to business to achieve the profitability of the overall company would that be the Rs. 150 crores odd size, where you all would achieve the same profitability, or would it be earlier than that?

Sanjay Katkar: Currently we are in the investment mode, it depends on the products that we are going to release are multiple products and the investment is going into a multiple product. So the profitability cannot be commented on right now, Certain products are at the research stage and certain products in the early beta stage, so it all depends even how the current situation unfolds. The spending in cyber security is expected to grow faster, but at the same time got stuck up with the current situation in the market and only the solutions which are very critical are getting deployed and most of the spending is delayed a lot. But at the same time, as we see more and more attacks are creating a big challenges for large enterprises, cyber security spending is supposed to increase. So, if that happens I am assuming couple of years should be okay to achieve the breakeven but cannot say right now.

Kailash Katkar: I would like to add here that we are into the product development phase, so when it is a product development, what Sanjay mentioned, is all about what is the market demand in the coming future and what kind of developments are happening. And of course, there is a cost for that development, but at the time of investing into development part of it, you really cannot calculate what will be the revenue generation, because these kinds of products are totally new to the market which are going to come not only by us but by lot of other competitors also. And since it is a product, it is not customized product. It is a general product for a large enterprise customer, so once the products are released and if you get more and more customers onboard automatically the profit margin will go up. If you have less customers onboard profit margin will be very less. So that is a different challenge once the product is released, but as on today we are focusing on those development part of it.

Vivek Ganguli: Okay, so you all have not yet released those products in the market?

Kailash Katkar: No, not yet.

Vivek Ganguli: Not even beta testing

Kailash Katkar: No, they are under development, it will take still around one-and-a-half years' time.

Moderator: Thank you. We will move onto the next question that is from the line of Parimal Mithani from Credential Investments. Please go ahead.

Parimal Mithani: Thanks for the opportunity and I hope all of you are well and congratulations on good numbers. Sir, I just wanted to know the trade receivable part has been more or less same in the Q4 at the end of the year. We always see the receivable part increasing, is there any plan in terms of getting it down, I think the pandemic has changed the way lot of how businesses operate and we being on the digital side of the business, are you going to maintain the same sales force and is there any change in terms of sales and marketing going ahead? Secondly in the enterprise and Government side of the business I think we are coming close to a particular level in terms of revenue right now, have we reached the breakeven point in terms of what we have invested currently?

Nitin Kulkarni: First point on debtors, yes, you are right. If you look at the Q4 number, whatever sales we do in Q4, in last two months, that goes into debtors. And since we had a strong sale in Q4, debtor days which are at 150 have gone up and even debtors also have gone up in that terms. Having said that as I mentioned earlier retail **is stock and** sale model where we sell and then the stock gets liquidated in subsequent months. And especially with the current situation when there is lot of liquidity pressure with these dealers, so we are expecting debtor days to come down in next three to six months, but it all depends on what kind of liquidity situation is there in the market. We have regular calls with sales heads. We talk to the dealers on regular basis and we have a proper mechanism in place for collection follow up and we do not see anything getting into **bad or doubtful category.** So debtor days are up mainly because of higher revenue and liquidity issues at SME/SMBs and at partnerts end. And secondly yes, we are putting a lot of efforts on this but debtor days as I said in my opening comment, it will remain in 130-140 days range at least for some time.

Parimal Mithani: If you can give me a breakup of between direct and online sales and sales through retail network, what is the bifurcation?

Nitin Kulkarni: So online sales, there are two parts, online sale is all direct online sale through our website and e-commerce portal. If I have to talk about growth in Q1, most of it was happening online and due to pandemic, lockdown, transport facilities not being available.

If you compare it with '19-20, our online sale onn our website has gone up by about 24%, and if you look at indirect ecommerce sale which has gone up by 8%. And if you look at the composition, the online sale percentage has almost remained same, it is 22% for this year and 23% for last year because our distribution revenue has gone up. So that is why percentage has remained same, but if you compare it year-on-year there is a growth of 24% on direct online sale and through ecommerce portal we have grown by 8%.

Parimal Mithani: Sir on the corporate side of the enterprise side of the business, how do you see it going forward, because I think first time Q4 you have seen growth maybe it is just one time or it is like recurring, I just wanted to know that?

Nitin Kulkarni: It is definitely not one time as Kailash and Sanjay also mentioned. With online working, work from home, there is lot of potential and demand available and we are definitely there to take advantage. With SMEs, SMBs, we have right set of infrastructure where we can take advantage, but again it all depends on the pandemic situation. And if this lockdown is extended, with pandemic impact coming in the next three-four months, then SME-SMB will definitely have larger impact because they will have issues on liquidity. So it all depends on what kind of impact pandemic has , but as far as we are concerned we are quite positive on the overall situation.

Kailash Katkar: Parimal if I have to answer your question, when you mentioned about the number of credit days, if you compare with Quick Heal last three to four years all these number of days part of it, even in this pandemic situation where there is a lot of challenge of cash flow, still we could able to maintain of 150 days which itself is a very challenging for us, but we have maintained that. As Nitin said that while doing all this transaction with the Tier-1 partners, we make sure that we have right partners onboard and we bill right amount of material to those partners to make sure that we will receive our payment maybe not on time, but at least 100% we will receive the payment because we have to maintain those relation with those channel partners and in India without credit you cannot do business. So when there is a credit then the number of days will come into the picture, sometime there will be more number of days, but this happens every time in Q4 because Q4 has a bigger amount of sale. And your second question about enterprise sales growth in coming future is there any challenges, of course the demand is there in the market, the challenge is cash flow. Now, in this you have seen that the entire year now, it is more than one year the pandemic is going on and the most affected businesses are the SME businesses. When it comes to enterprise sale, our major sale happens in the SMEs and small portion into the large enterprise and even though having such a big cash flow challenges, still we could able to grow into our enterprise sale. We are trying all our level best to make sure that we continue to grow into the enterprise sale and we definitely wanted to grow by double digit in enterprise sale. And if this lockdown situation comes out, I feel that all businesses will come on track and even we will be able to grow in the double digit.

Nitin Kulkarni: I will just add to what Kailash said, I will share one data point for your comfort, during the year we did a sale of Rs. 430 crores of course after including taxes and that is why the number is higher and we have collected Rs. 402 crores, I think almost equivalent amount is being collected, so it is not that there is lot of stickiness, we have been collecting the money but then because of the current situation there are slight delays.

Parimal Mithani: Sir last question because regarding your service tax demand, I think the amount is Rs. 122 crores odd including penalty, have you tried to use any of the Government schemes in terms of settling this issue you are confident that you will win this with the Government of India?

Nitin Kulkarni: Parimal, I will give you little update, for 2011 to 2014, we are at CESTAT Delhi and in January 2020 we had hearing with Department in November-December and earlier period and in January 2020 the CESTAT has passed the favorable order in favour of us stating aside this Rs. 56 crore demand that is for ’11 and ’14, and this case was purely decided in our favor on merit.

Kailash Katkar: So we are very much confident that we will definitely come out of this situation.

Parimal Mithani: Because is there is any adverse effect, it almost had a big effect on our company?

Kailash Katkar: When Nitin mentioned that we got a favorable order that itself shows that we are on the right path.

Nitin Kulkarni: Parimal the auditors were putting an emphasis of matter to this point in all our earlier reports, after getting this favorable order from CESTAT Delhi, they are also convinced and they also have removed this emphasis, so we also have clean audit report from auditors on this point as well.

Moderator: Thank you. We will move onto the next question that is from the line of Milind Karmarkar from Dalal & Broacha. Please go ahead.

Milind Karmarkar: Congratulations on a great set of numbers, I had a couple of questions of course one of that was on the enterprise business, a part of it has been answered so I used to track the company long back so I have met you also a couple of times, enterprise business is a large business and especially with cyber security threats I think that could be a big business, so even in 2016-17 if I am not mistaken, we had discussed this and you had said that you had got in some system which can test simultaneously many nodes which is a requirement of banks and many other enterprises and you were reasonably confident of growing your enterprise business, but when I see over last three to four years, the enterprise business has a percentage of overall revenue and still remains same, so just wanted to understand what are the difficulties which they are seeing in getting ourselves entrenched in this business, that was my first question?

Kailash Katkar: First and most I think Sanjay will definitely answer this question, but I just wanted to start by saying that when it is a retail customers can any given time change their existing product but when it comes to the enterprise even if you have a good future, even if you have a good lot of things which is going to support your enterprise, but the system integrator over there or the IT person will always feel to continue what product he already has running into the systems because changing entire system, end-point security is a big challenge to those people. So you have to really come with a very big differentiator which will make and feel him to change the existing product. That is a big challenge actually and Sanjay will definitely explain you about what challenges we are really seeing and what we are really developing towards the enterprise solutions.

Sanjay Katkar: You rightly pointed that we had been scaling up our products and for last three-four years end-point security product has been our flagship product under the enterprise segment section of our business and currently the adoption of end-point security for larger enterprises has really grown for us actually if you see two years back we used to have like less than 10 enterprises as our customer who are having more than 500 computers, but today if you see every quarter, we are adding more than 20 new customers who are having more than 1000 end points security. Our products have been scaled up and we are seeing adaptation of our products of end-point security across large enterprise. It is growing gradually and we are gradually getting up the market share from those large enterprises. But at the same time as Kailash rightly pointed, we are focusing not only for 1000-2000, we are focusing for more than 20,000-30,000 large enterprises and for that we are seeing the challenge of changing from our product to a new product. At the same time, we are also seeing the newer challenges and newer threats have really made this enterprises think about the other approach, the approach that we are starting to see about the zero-trust and network security and that is where we are also enabling our products to integrate with these large other products that are already there into the larger enterprises. For example, the stock operations is for organization is having with some third party, our product should be integrating with that, so all those things have already started, and we are seeing good results and we can demonstrate of products actually.

Kailash Katkar: If you check the power point presentation which is there on our website, there is a table where we have mentioned about the large enterprises customers onboard on quarterly basis, so you can definitely go and check that part of it and as Sanjay said that we have our products ready for 20,000 user, 25,000 user but getting those customers onboard is not that easy because people they do not change the existing system into a newer system, it is a pain for them actually. Sales and marketing is a big challenge when it comes to changing from existing system to the new systems.

Milind Karmarkar: Okay, so do you think that along with your research your sales and marketing efforts especially on the enterprise side you will have to spend some more?

Kailash Katkar: Yes, you rightly pointed out, so when it comes to the sales and marketing part of it, sales team that is the reason I have got lot of senior leadership people in all department and function and when it comes to the marketing expenditure part of it, yes, the way we are doing it for our retail part of it, we wanted to do it for the enterprise part of it also, but for that we need to have a proper agency to really drive, because most of the good agencies in India are very much expert into the consumer products compared to the enterprise products. Once I get that good agency, we are already evaluating lot of agencies once I get such kind of agency, I will open up my budget for enterprise marketing, but it is not something that we are not at all doing any marketing. In-house we are definitely doing lot of enterprise marketing and recently we have just launched Seqrite Hawkeye, if you just go to website you will be able to see that. And also we are doing lot of digital marketing for Seqrite Hawkeye.

Milind Karmarkar: My second question was on the retail product as everything is going digital and on the net because earlier if I am not mistaken the way we sold our products was through the consultants or through like say the system integration guys. But with digital and internet or cloud becoming the mainstay now, I would not say lagging, but why our sales through the net are not growing not as much as they would have because two things probably would happen it would reduce our debtors also on the retail side, so what is the reason why we are unable to sell or it is a typical mindset of an Indian consumer?

Kailash Katkar: I got your question and it is all about business understanding and market-driven business, it is not that I do not want to go online, if it was not we would have not earned a single Rupee from online sales. We already have entire process system in place for the online sales, but that does not mean that I have to close down my retail shop sale and shift entirely to the online sales and if I sell over there, so gradually if you see that at the time of IPO our online sale revenue generation was close to 8% including the e-commerce that means Flipkart and all. Today, it has reached to 23%, so it is not in my hand it is in market's hand. I am available at both the places, I am available at retail shops also, I am available at Flipkart also, I am available at Amazon also, I am available at our own portal also. If market is comfortable to go and buy online, we are available there, we are doing marketing there also and we do not want to leave this retail shop sale also because they are the influencer to the customer, it is something that they influence the customer. Retail shop sales is always something which customer never thought of going and buying the anti-virus software. These people who go for repairing or some other purpose, they pose them to buy this products, so I do not want to lose this sale.

Sanjay Katkar: I would like to say that the answer is Indian consumer mindset is slowly changing towards online, it is taking time actually but at the same time in this transition we are making sure that we are having right presence on online sales as well, so our spending on digital marketing is grown, our presence on all the e-commerce platform is quite high and we make sure that collective business of the e-commerce platform for all the anti-viruses we have still the major share, that is what we are making sure and we do not move that as we have grip on offline sales, we are also trying to make sure that we capture the right market share in the online sales, that has been there.

Moderator: Thank you. The next question is from the line of Amit Doshi from Care PMS. Please go ahead.

Amit Doshi: Sir, this new product launch that you mentioned about the Hawkeye, so what kind of market kind of annual sales that you are targeting from that product?

Kailash Katkar: I think I have answered this question to somebody, just two questions back. We are into product development, once we develop the product we definitely get margins if I sell more and more number of licenses, when the product is new, getting people onboard is not that easy. Getting first 25 customers or 50 customers is very, very difficult but once I get around 50 customers onboard, then reaching out to the higher number, hundred customer is easy and then after 100 to 1000 customers, again it becomes very easy. So initially it takes bit longer but I would say once I see that 50 customers are onboard or 100 customers are onboard, then receiving 1000 customer is not at all difficult.

Sanjay Katkar: I would like to add to that, Hawkeye target security posture market, this is something that is catching up actually and most of the enterprises have all the end-point securities there and gateway securities, but people are now focusing on having single pan visibility across the enterprise infrastructure and that single pan visibility is something that we are offering through product Hawkeye and that is why we have named it as Hawkeye. The adaptation of this single pan visibility is gradually growing and also it is very important nowadays to capture larger enterprises unless we have these kind of products, they do not even entertain. So with this release we are making sure that we are there on even the security software markets and we will make sure that we are getting representation in most of the enterprises. So this is going to help us but the market size of this kind of product is yet under evaluation. Because many times enterprises expect that to be free with other products actually, but it is completely different platform approach, so it is chargeable and most of the vendors are charging for that. So we are gradually evolving in this market, we will be able to talk about this after say two-three quarters of as we see the customers and how they take it, that is definitely going to help us in the large enterprises.

Amit Doshi: I understand, I was just trying to understand that if there is a competition already there in that space say for example they already have say sold around 10,000 licenses of the similar product so I was just trying to understand that, I am not asking that whether that 25 clients or first 100 clients will get connected in next one quarter?

Sanjay Katkar: I got your point but with every new product which we come out even I cannot dare to put a target on my sales team because people will get frightened, so unless and until even the sales team does not get confidence with the first 10, 15, 25 customers, even they are not able to commit anything to the Management.

Amit Doshi: Just the Q4 results so while this work from home based, more importance of the schools, online schooling, working from home everything has been there for last now more than three quarters, so anything in particular that Q4 numbers were so good and that is showing in the numbers?

Sanjay Katkar: It is not that way, I think Nitin has answered this question, if you see the Q4 numbers are very good, because you are comparing with the last year Q4 but then you need to understand what was the last year Q4 and what was the challenges at the time of last year Q4.

Amit Doshi: Sequential year so even if you look at last three quarters, we have around 17?

Kailash Katkar: This business is like a seasonal business, you check for last four to five years Q1 is not like a Q2, Q2 is not like a Q1, Q3 is not like a Q2 and Q4 is not like a Q3, it is seasonal business because it is stock and sell business, it is not something that you have a very large cyber attack in Q4, it is not that way. It is stock and sell business based on that it becomes a seasonable business.

Sanjay Katkar: At the same time I will say that the relaxation on the front of pandemic gradually happened and we saw lot of people started coming out of that and thought of the pandemic is back of the mind and people started spending, so partner started seeing confidence of people coming to their doorstep, so partner also was confident in stocking, that is where we felt that Quarter-4 we saw more confidence from the partner side at the same time liquidation was little bit better than the earlier two quarters, this has definitely helped. We were waiting for something at least go into the market, push the stock wherever there is a chance because in earlier quarter as you have seen activations were happening but we were not able to stock, we were not able to build that partner, and on that vacuum was also created, so we were really able to do that in Quarter-4.

Amit Doshi: Okay, that explains a lot because in past September has been more generally contributing overall as an annual, so I thought March this time.

Kailash Katkar: I just wanted to add as Sanjay rightly mentioned the activation was on track, but Q1, Q2, Q3 the cash flow in the market was very, very challenging, people were not able to pay what they have purchased one year back and that was the reason we could not stock it and as Nitin said that he had mentioned figures also that how much sales we have done and how much we have done the collection part of it, so it is not only a challenge for selling the product, it is equally challenging to collect the payment.

Amit Doshi: This multiple products that the team is working on R&D for enterprise business, so you mentioned that there were strong line up but sometime more to go, so I think one of the comment you mentioned about 1.5 years from now, so nothing is kind of on the pipeline or which is going to come out in say next FY ’22?

Kailash Katkar: Product development is not something like that. Product development has a bigger cycle for any product designing than architecture and then really developing that product, testing it and after the product is ready customers are not ready to onboard those product unless and until they do not see you already have multiple customers onboard, so again that is a different challenge, then that also takes a long time.

Sanjay Katkar: We are having multiple products under development but then couple of them should be released this financial year, but release does not impact revenue of that financial year immediately. Because as soon as the products are released, it takes certain time for the whole ecosystem and the partner ecosystem to understand the products and reach out and grab the right customers attention for them. So we are going to do beta at least two quarters down the line at least third to fourth quarter we have certain beta ready and at least one product will be released in that category by the end of financial year.

Amit Doshi: Last one the service tax demand you mentioned that there is a Rs. 56 crore order which has come in favor of you, so overall demand is Rs. 122 crores, so is it that for some number of years the relief has been given or can you explain a bit more on that?

Nitin Kulkarni: Overall demand is Rs. 161 crores, out of that so it is starting from 2011 to June 2017, out of that Rs. 56 crores order we got it in favor.

Amit Doshi: That I understood Rs. 56 crores is part of the order, but I am just trying to understand this for period is particular issue of the matter?

Kailash Katkar: No, it is the same case, only thing the Department has put demand for first four years, then after two years there was a second demand, and then for next two years something it was third demand and then the first order which came that had gone to tribunal and there we got a favorable order. Second and third are still in pipeline they are in tribunal, so the dates are yet to come.

Nitin Kulkarni: So just to add 11 to 14 was at CESTAT Delhi, 14 to 15, 15 to 16 is at CESTAT Mumbai and 16 to 17 is at Commissioner level in Pune, so first case which was 11 to 14 which was at CESTAT Delhi that was decided in our favor, and if you look at subsequent years, the matter is same.

Moderator: Thank you. The next question is from the line of Himesh from Sequent Investments. Please go ahead.

Himesh: Sir congratulations for the great set of numbers, so can you give me the total number of retail touch points that we have?

Nitin Kulkarni: Touch points?

Himesh: Yes, like how many retailers we have been selling?

Nitin Kulkarni: You are talking about number of license sold or number of retailers what we have?

Himesh: Number of retailers that we have?

Nitin Kulkarni: We have T1, T2, T3, T4, so it is a long distribution chain and everything put together should be roughly it will be about 25,000.

Himesh: What was the number in Q3 and the same last year?

Nitin Kulkarni: It is more or less similar number, so there has been some churn plus we also have added few of new dealers but more or less number stays in this range.

Sanjay Katkar: If you check the power point presentation of respective quarter this you will get all these answers in those presentation.

Moderator: Thank you. The next question is from the line of Swechha Jain from AMS Wealth. Please go ahead.

Swechha Jain: Sir, thank you for giving me this opportunity, I have couple of questions, the first question is actually a follow up on an earlier participant who asked the question about the percentage of sales that we have through our online portal, the company and indirectly that we sell on online, so do we have a breakup in that how much is towards retail and how much is towards enterprise?

Nitin Kulkarni: So enterprise online sale does not happen, it is only retail.

Swechha Jain: My second question is in terms of licenses sold, do we track in such a way where we know the licenses that we have sold, can we have a split between how much licenses are sold to like a first time user, how much of it is sold to a user who was using an earlier some other software and then has moved to our portal, and how much of these licenses are renewed, so do we track on these parameters?

Kailash Katkar: We track.

Swechha Jain: Can you share those numbers for FY21?

Kailash Katkar: Those numbers are for the internal purpose.

Nitin Kulkarni: Basically, we track these numbers and there is a complete mechanism of tracking customer movement whether it is one year, three year, five year and so if I have to talk about renewal in case of retail, the renewal ratio would be about 40% to 45% and all other numbers also we track it, but that is more for internal consumption.

Swechha Jain: Okay, and Sir we have onboarded couple of people at a senior level so do we any ESOP policy or have we given them any such kind of ESOP policy or plan?

Nitin Kulkarni: Yes.

Swechha Jain: So we have given ESOP to all of them of the senior Management?

Nitin Kulkarni: Yes.

Swechha Jain: Sir just a couple of few more quick questions, can you share the yield that we got in our investments in FY '21?

Nitin Kulkarni: You are talking about mutual fund investments?

Swechha Jain: Yes, overall on mutual funds, bonds everything so what was the yield?

Nitin Kulkarni: In current year if you look pre-tax it was about 4.2% compared to 6.6% last year.

Swechha Jain: Can you give us the EBITDA percentage separately for retail and enterprise?

Nitin Kulkarni: That we track it internally and as I said in the beginning that retail has a better margin compared to enterprise because we are making the investments in enterprise, but that is more for internal tracking.

Swechha Jain: Sir just wanted to confirm, one of the participants was asking about selling and marketing in general expenses, which has gone down this year, I just wanted to confirm you said that these expenses would come back right in FY22, have I got that correct?

Sanjay Katkar: It is not that way, it is not something that marketing expenditure is done on percentage basis, it is done on need basis. If the need is there we will do the marketing, we will do that spending and then we are not going to look at what is the percentage. With this pandemic, there are lot of marketing activities which got hampered but we have tried to do some other activities . Based on that the percentage will keep on varying, and with this year FY21-22, even today we all do not know what is going to happen about this lockdown period, so we cannot say that what kind of marketing we will do but we have to continue doing marketing activities and if the lockdown is there maybe the expenditure on marketing will be bit less.

Swechha Jain: Sir my one last question, in our investor presentation, we have written that we are evaluating certain strategic inorganic opportunities, so just wanted to know are we actively pursuing something, can we see something in FY22?

Nitin Kulkarni: Yes, we have an internal cell, M&A cell and we are actively looking at right fit opportunities for us and we have closed almost three transactions in last two years but then as you know M&A has got lot of variables and it takes time, because you should get a target which aligns to your line of business so we are continuously on lookout for inorganic activities.

Moderator: Thank you. We will take the next question from the line of Mayank Babla from Dalal & Broacha. Please go ahead.

Mayank Babla: Thank you for taking my followup, Sir just looking at the different angle for the sales bifurcation, how much percentage of the sales comes from our partnerships with say laptop OEMs or PC OEMs and what is the strategy over there?

Nitin Kulkarni: Basically, we do not have any OEMs tie-up, for retail it is more through dealers and for enterprise it is more through system integrators.

Mayank Babla: These system integrators these Tier-1 companies like TCS, Infosys HCL, even they provide security as a service, you mean to say these SIs?

Nitin Kulkarni: Yes, they are TCS, Infosys are very large SIs For our size of business when we talk about SME,SMBs these are mainly Tier-2, Tier-3 kind of system integrators.

Mayank Babla: Okay, so we look at them more as partners than enablers, they are not threat to us, so security is a service is an enabler to us?

Nitin Kulkarni: Yes.

Mayank Babla: Sir you said that online sales is 22% of revenue and it looks optically similar to last year because of the distribution revenue, so could you clarify?

Nitin Kulkarni: In terms of value, it is much higher because our distribution sale has gone up. So to give you the exact number, this year online sale is Rs. 45 crores on our site sale, against Rs. 36 crores of last year. And indirect, which is e-commerce is Rs. 20 crores this year against Rs. 18 crores of last year. There is a growth, but percentage remains same because our distributor sale has gone up.

Moderator: Thank you. Ladies and Gentlemen, due to time constraint, that was our last question. I now hand the conference over to Mr. Nitin Kulkarni for his closing comments.

Nitin Kulkarni: I thank everyone for joining the call, I hope we have been able to address all your queries. If you need any further information, you can kindly get in touch with Ernst & Young, our IR Advisors. Thank you very much, stay safe.

Moderator: Thank you. Ladies and Gentlemen, on behalf of Quick Heal Technologies Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.