“Quick Heal Technologies Limited Q4 & FY 2020 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Quick Heal Technologies Limited Q4 & FY2020 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 conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that 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 now hand the conference over to Mr. Nitin Kulkarni. Thank you and over to you!

Nitin Kulkarni: Thank you, Janis. Hello and good morning everyone, I am pleased to welcome you all to our earnings call to discuss our Q4 and FY 2020 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 morning, ladies and gentlemen. Thanks for joining us today to discuss Quick Heal Technologies Limited financial results for Q4 & FY2020. 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 precaution while dealing with this pandemic. I would like to take this opportunity to thank all the frontline staff and public authority for their continuous effort in containing this pandemic and keeping us safe. The year 2020 was more challenging than what we had expected. Throughout the year we saw a slowdown in economy which coupled with an overall credit crunch affected our business. Going into Q4 we were optimistic about the year as Q4 is always strongest for us and so we were hoping to end this year on a positive note. However, the sudden and unexpected COVID-19 crisis in March 2020 led to a very weakened quarter. I will let Nitin discuss the impact of COVID-19 on the financials in detail.

On the positive side, I am impressed with how the entire Quick Heal team worked to implement work from home protocol while supporting our customers seamlessly. Quick Heal was able to adjust to the rapidly changing work culture due to the lockdown and continue to support our customers in an increase cyber threat environment. We also announced a strategic investment of INR 2 Crores in Ray Pte. Ltd, Singapore-based company. It is a strategic investment in the networking and wireless technology space. I will let Sanjay discuss this in detail. This is a second investment from us during the year and we will continue to explore such small and mid-sized strategic investments. Now let me hand over to our CTO, Mr. Sanjay Katkar.

Sanjay Katkar: Thanks, Kailash. Good morning, everyone. As Kailash mentioned, we have invested INR 2 Crores in Ray Pte. Limited. Ray is a Singapore-based startup, specializing in next generation networking and wireless technology with the flagship product RayOS, which is an open source Cloud native extensible operating system with an ecosystem of application. So, Ray's vision is to reimagine networking and wireless technology and it intertwines with our vision of a safe, secure and seamless digital experience for everyone. Therefore, Ray is an ideal partner for us. Ray is a young exciting startup lead by veteran cyber security professionals, and we believe this transaction allows Ray to benefit from Quick Heal's rich legacy and expertise in technology landscape to build a successful company. At the same time, the investment gives Quick Heal an entry into an emerging space that will help shape the future of cyber security. I would like to highlight another key development for the quarter, Fino payments bank selected Seqrite mSuite, to power and secure its workforce mobility, after rigorously evaluating multiple products. Our product was selected due to its better ease-of-use design and better monitoring capabilities of devices on real-time basis. Seqrite mSuite also makes it easy to remotely schedule security scan for the ITT to identify risks and infections with best-in-class anti-malware capability. One of the key achievements for the year was, we received two patents for our indigenously developed Anti-Ransomware and Signatureless Detection Technology. The two patents help us stand apart from the competition and detect and block known and unknown malware on the real-time basis.

Currently our R&D team is working on similar innovations, which will be out in due course of time. I would like to take this opportunity to bring to everyone's attention the current trend in cyber security, especially as more and more businesses are adopting remote working style. As Kailash mentioned earlier that the lockdown obstructed our FY 2020 growth due to lower Q4 sale, but it has also opened new opportunities for us. During lockdown, we saw majority of enterprises asking their employees to work from home. This led to change in working style for many enterprises, and we noticed many enterprises were caught unprepared to adapt to this change which led to numerous cyber security challenges. This pandemic demonstrated the fact that cyber security is a crucial element for successful business continuity plan and cannot be ignored. Following the spread of Coronavirus in India, we were amongst the very few companies to quickly adapt to the remote working culture and encourage our employees to work from home to ensure their safety. All departments including threat intelligence, protection, response and daily updates to our products continue to remain operational uninterrupted as normal to provide round-the-clock detections and technical support to all our customers. During the last two months, we observed cybercriminals riding on COVID-19 wave and exploiting security loopholes in remote working to distribute a variety of malware and steal sensitive information. I will give you an example of such an attack and it was in news recently which Quick Heal detected - a new wave of advent Java red campaign targeting Indian Cooperative Banks across India using COVID-19 as a bait; the campaign begins with the spear fishing e-mail which claims to have originated from RBI or any other nationalized bank and lures users to open the attachment containing the malware. If the malware propagation is successful, attackers can steal sensitive information like swift logins and move laterally to launch larger scale attacks on the financial fraud. So, our enterprise arm Seqrite was able to detect and block all such attempts using the combination of our technology of signature and signature less based detection. We strongly believe that every enterprises customer must look at their cyber security practices and protocols and begin to take active steps to secure themselves. We continue to shield our customers from such innovative attacks and are continuously investing our resources in staying ahead of the curve. 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 morning to all of you. Let me take you through the financial highlights for the fourth quarter and full year ended March 31, 2020. I will begin with a summary of the financial performance during the financial year 2020. As Kailash alluded to in his opening remark about severe impact of COVID-19 on the performance, all of you are aware that the World Health Organization announced the global health emergency because of new strain of Coronavirus COVID-19 and classified its outbreak as a pandemic on March 11, 2020. In response, the Indian Government has taken various actions and ensured many precautionary measures which forced significant disruption to business operations and adversely impacting most of industry, which has resulted in sharp slowdown of economic activity. The lockdown was imposed by the Indian Government in the entire country from the last two weeks of March though a lot of business and customers began to take precautionary measures early on. If you look at our retail segment we follow, stock and sale model and the goods are required to be physically dispatched to dealers. This was not possible due to non-availability of transport facility across the country and has significantly impacted the revenue for the quarter for a retail vertical. If you look at the enterprise vertical, revenue was impacted in the latter end part of quarter, as most of the enterprises were waiting to better understand the impact of COVID-19 on the businesses and uncertainty in the economy before committing their orders. As a result of this, if you look at the consolidated revenue from operations, which stood at INR 2,861 million, down 9.1% compared to INR 3,149 million in the financial year 2019. 80% of revenues come from retail segment and 20% from enterprise and government. If you look at EBITDA, our EBITDA stood at INR 914 million down 28.5% compared to INR 1,279 million in financial year 2019. EBITDA went down because in Q4, overall operating costs did not go down in line with the sharp fall in revenue as some of these expenses incurred at the start of the quarter itself. We had dealer business meets during the year and as a result of that sales and marketing expenses have gone up compared to last year. The general administrative expenses during the year include a one-time charge of INR 20 million towards the buyback expenses. During the last quarter of the year, based on our internal assessment, we have made provision for doubtful debts of about INR 50 million for receivable from few of our dealers. Please note that this is done purely based on the current liquidity situation in the market and its resultant impact on few of our dealers. We are strongly following up with them for the collection and expect some recovery however this provision is done purely on conservative basis during the quarter. The reduction in other income is as a result of the reduction in the treasury side post buyback and overall small reduction in yields across investments. Company does not have any borrowing and correspondingly no interest expenses. Depreciation for the year remain almost at a flat level. PAT for the year stood at INR 744 million down 19% compared to INR 918 million in financial year 2019, PAT margins stood at 26% down 315 basis points from 29.2% in financial year 2019.

Coming to the performance of the quarter, for Q4 of 2020, consolidated revenue from operations stood at INR 643 million, down 25.3% compared to INR 860 million in Q4 of 2019.As mentioned earlier this was due to COVID-19 impact which has been very severe for us. In terms of segmented performance, retail segment revenue for the quarter stood at INR 545 million versus INR 681 million in the last Q4. Our enterprise segment registered revenue of INR 141 million compared to INR 211 million in Q4 of 2019. Both segments witnessed a sharp fall in the number of licenses sold; however, we continue to witness growth in average realization for licenses sold. The retail segments specifically saw 20% jump in the realization & this was mainly driven by change in the product mix. EBITDA for the quarter stood at INR 76 million down 80% compared to INR 386 million in Q4 of 2019. While we continue to look at reducing costs across the business with sharp drop in revenue for quarter and increase in some of one-time cost as explained above has resulted in the lower EBITDA. Net profit for the quarter stood at INR 80 million down 71% compared to INR 277 million in Q4 of last year. PAT margin stood at 12.4% down by 1,982 basis points from the same period of last year. We exercised the option permitted under Section 115BAA of Income Tax Act, 1961 which has resulted in lower corporate income tax during the quarter, as a result corporate income tax rate was reduced over 26.5% resulting in lower income tax for the year. The working capital side of the business, we have maintained our net working capital days at 97 days despite the drastic slowdown in the month of March. For reference, our net working capital days as of December 2019 was 108 days. In coming future, because of the liquidity situation due to COVID-19 pandemic this may increase and will have some impact on debtor days based on distributor's financial condition. Our current cash and cash equivalents stand at around INR 3.8 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 opportunity in order to better utilize the cash on our balance sheet as we have just completed the share buyback this financial year, and on the M&A side we again remain very cautious and calibrated in our investments and we will be looking at smaller and mid-size investments going forward.

Finally, a quick update on the CESTAT matter that has been pending in our books for a long time. Post favorable order in the month of January 2020, the contingent liability of INR 1,611 million which we were showing in our books of accounts in our financial statements was removed from the financials after a suitable disclosure and note and auditors have also removed emphasis of matter in the annual audit report which they were giving it till last year. Overall, to sum up the financial for the year, we had an adverse impact due to the slowdown in the Indian economy, this coupled with headwinds on the distribution side because of the unforeseen lockdown due to COVID-19 pandemic has resulted in one of our most challenging quarters to date . We remain optimistic that sales will return to normalcy as the country exits from the lockdown and demand for cyber security products will continue to remain strong. With this we will now open the floor for question and answers. Thank you very much.

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 Kartik P from Wealth Mills Securities. Please go ahead.

Kartik P: People have started working from home, they are back on their PC, so a lot of focus will be there in terms of the cyber security. So, how do you foresee things? How will it influence Quick Heal and also how are you tracking your renewals? There should be a tremendous improvement in terms of your renewal. How is that segment looking?

Nitin Kulkarni: You are right, there is a lot of uncertainty around at this point of time and things will be clearer once we are out of lockdown and once things start operating but since you raised the point on enterprise segment I will tell you some of the things which we are doing in last two months on enterprise side. So, in the last one and a half months, we have been engaged in enabling partners, identifying sales and presales team so that they have acquired skills and are more effective in creating value proposition to the customer as and when the customer base resumes business. Most of the SMEs have already started resuming their business in a small way and they are building blocks toward infrastructure security and we have also been focusing on a renewal and our sales team is ensuring customers are renewed on time as renewals form a good part of the business. With renewable, we are also trying to enhance the deals sizes by doing up sale and cross sale to these customers, so this is more on enterprise side. Since we also cover government segment into that, I will also touch upon few of the points on the government segment. So, state government and central government are slow right now, but few of the government departments have also started processing and they are adopting towards the culture of remote working and mostly all customers are following the schedule and trying to meet all their respective internal cyber security deadline, so we are taking a lot of these type of steps and whenever we are out of lockdown and whenever we see an opportunity maybe in next three to six months' time, I think we will be there to take the advantage of the situation.

Kartik P: Could you just give the outlook on what is your contingency plan to overcome these issues?

Nitin Kulkarni: Quick Heal is one of the companies to quickly move and adopt work from home before the lockdown to ensure that safety of our employees and families as well as we are providing required support to customers and all the required updates have also been given on time. If you look at the retail side, we continue to support our customers as the team also quickly adopted to working from home culture, customer and product updates have also been rolled out on time. We also believe that consumer business will have a big change and online sales will increase. On the retailer shop side, we remain in touch with them and are jointly devising a strategy to increase sales once we exit the lockdown. We are taking all the necessary steps and we are ensuring that we are upgrading ourselves with the situation. We are adopting to the changing requirements of customer and changing our interaction style with the customer and we expect Q1 to be a little bit on the slower side. I think in Q2, we feel that things will get to a normal level and since we have taken many actions mentioned earlier, we will be able to take it to the next level from there.

Kartik P: Okay. Thank you. I will come back in the question queue.

Moderator: Thank you. We take the next question from the line of Neeraj Bhatia from Sanaka Capital. Please go ahead.

Neeraj Bhatia: Sir, in the last year, we have seen realization increase in your products while volume was low. How do you see the realization and volume coming in the year forward? And since you have stock and sell model, has the Quick Heal kits movement started in terms of reaching out to your distributors and have we started physical supply of the kits again?

Nitin Kulkarni: On the realization per unit, we also have been saying on earlier calls that, this is driven by market., We have a bouquet of products which we sell, and realization per unit is all driven by market - which product are we selling, what is the competitive landscape, what is the price range given by competition on enterprise side. So, these are the things which really determine the realization per unit. So, if we take just a holistic view by total number and total sale and coming to arithmetical calculation that is not something which gives you a real picture, since these things are all decided by market. If there is a change in the product mix on any of the vertical, then that directly has an impact on the realization per unit and else most of these things are all decided by market. We move according to the requirements of the market.

Neeraj Bhatia: Do you expect the current realization to hold? They are probably going for a higher end products, so do you expected to hold or improve further?

Nitin Kulkarni: So, this is something which I cannot comment at this stage. So, if the situation remains, yes it may improve, but if that situation changes, then again it can go back to the earlier level. So, it is very difficult to comment. It is all driven by market.

Neeraj Bhatia: And the physical supply of kits has started again?

Nitin Kulkarni: It has started on a very small scale. So, you are aware that again till May 31, 2020 there is a lockdown at some places, movements have started at some places, but it is absolutely on a smaller scale. It has not really picked up if I have to answer your question.

Neeraj Bhatia: So, your distributor might be having stock of kits?

Kailash Katkar: Yes. I would like to add here that even if we decided to transport the goods to the dealers, most of the dealer shops are not yet opened actually, hardly ~ 10% shops are open and it totally depends upon area wise lockdown rules and regulations & on that basis, the shops will open and the actual sale will start happening.

Moderator: Thank you. Next question is from the line of Neerav Dalal from Maybank Kim Eng Securities. Please go ahead.

Neerav Dalal: Hi. Good morning. Thank you for the opportunity. I had a couple of questions. One is in terms of your strategy; how do you see retail and enterprise over the next three to five years? What would be the revenue share that you are looking at say three to five years from now because as I see the enterprise business is also declining in terms of number of the subscription. I just wanted to understand your strategy in terms of enterprise versus retail say three to five years from now.

Nitin Kulkarni: We have been saying that enterprise is something which is a growth engine for us and a lot of focus & investment is happening on enterprise. So, we definitely have strong aspiration of growth in the enterprise segment and in three to five years we will see enterprise segment growing in terms of revenue. Now if I have to put an exact number to this, it would be difficult but we are working on growth in the enterprise segment.

Neerav Dalal: Correct, currently we would be at 80-20, retail versus enterprise. So any number that you have in mind in terms of 50-50, 60-40 because what I think is that enterprise is what would drive long term growth and annuity, long term steady growth and we have been at this 15%-20% range for a long time now. So, I just wanted to understand that.

Nitin Kulkarni: You are right. If I have to answer it differently, the aspiration is definitely to have at 50% enterprise and 50% retail over three to four years down the line and we are also working towards it.

Neerav Dalal: Are you looking at change in the sales or strengthening the sales by getting some new leader under your fold to just push the enterprise side of the business, any take on that?

Nitin Kulkarni: So, we have made lot of changes in the last six months in our leadership team. We also had a global sales head joining us a few months back. We also have few leadership in R&D joining. So, a lot of changes have been already done. Lot of changes are also in the process mainly on enterprise side just to get it boosted. It is a continuous process and we also have a new marketing head who has joined us in last month.

Neerav Dalal: We have got about INR 375 Crores on the book, would you be looking at larger acquisitions or you are happy with this INR2/10/15/20 Cr.? What is the acquisition size that you are looking at?

Sanjay Katkar: The focus has been to make small size acquisitions as you mentioned like INR 5, 10 at the most 20 Cr. We do not have experience of having larger acquisitions because it becomes a too much of a risk for us. Of course, our acquisition strategy is focused on cyber security and in something where we have strength. We are also focusing on the large enterprises, we are releasing products for larger enterprises but that is a long process and it will take time, but at the same time our current strength lies in SME and SOHO segment, we are trying to see how we can add to this basket. The current investment that we did in Ray, having Os based product. With cloud based Os, they are going to revolutionize the router and access point market by having a cloud Os and controlling from cloud any router that they bring into the market and then there is going to be a security cover provided by Quick Heal. It is fully focused on the SME and medium size organization with a very competitive pricing. That is something that we are trying.

Neerav Dalal: Yes. Thanks. last question, the recent acquisition that you did of an investment of INR 2 Crores, what would be your stake and say in the company and how would the partnership work? Would you be introducing their products into India or you would be pushing yourself into Singapore, how would it work?

Sanjay Katkar: We have a minor stake of 4% and the focus is to develop a product together that is suitable for SMEs and mid-size organizations and the product launch is planned not only for India, but for throughout the world. So, their focus is global & they have started getting interest and discussions at higher level from, Indonesia and Dubai and some customers in US as well and Quick Heal will be focusing for their products in India.

Neerav Dalal: In India, okay and would that be exclusive?

Sanjay Katkar: Yes, for now at least discussions are on that way so that is why we have been trying to invest strategically into that.

Neerav Dalal: Got that. Thanks a lot.

Moderator: Thank you. We will take the next question from the line of Subhankar Ojha from SKS Capital. Please go ahead.

Subhankar Ojha: Hi. Thanks for opportunity. So just on the previous question, can you also talk about the capital allocation? If you have thought of any broad guidance on the acquisition size and how are you going to use the rest of the cash? And secondly what was the free cash flow generation in FY2020?

Nitin Kulkarni: So, last year, PAT + Depreciation should be about INR 100 odd Crores and on acquisition side, as Sanjay mentioned earlier, we are looking for a right kind of technology and something that really complements our products and gives us the benefit. We have been very selective on this and that is why it takes time. So, as far as size is concerned, currently we are looking at small and mid-size deals but if we see a target company which fits into our requirements and which fits into our kind of a product mindset and if it is a niche technology, then even if it is a large deal of say $10 to $15 million, we definitely would like to at least explore it.

Subhankar Ojha: And you do not have a geography in focus, it can be anywhere right?

Kailash Katkar: It will be more on enterprise side, but yes if the target is really good, company is really good, we would not mind looking at other geographies as well.

Subhankar Ojha: How much of your sales will be through online? What will be the physical and the online sales mix?

Nitin Kulkarni: Our online sale is about 20% and channel partner sale is about 80%.

Subhankar Ojha: Have you seen any changes during the lockdown?

Nitin Kulkarni: Yes. First of all, there is no comparison because in lockdown no physical dispatches are happening, so whatever is coming through is only online, so yes there is a big increase in online sales during the first two months.

Subhankar Ojha: Got it, Sir. Thank you and all the best.

Moderator: Thank you. Next question is from the line of Chirag Patel from Adina Share. Please go ahead.

Chirag Patel: I have two questions. The first one is in terms of general administration on expenses side. Right now, on FY2020, this is around 20% of turnover; last year it was 6.5%, so what is the main component that is driving this increase?

Nitin Kulkarni: As I mentioned in my opening comments, so if you look at this increase of about INR 7 Crores general and administrative expenses on year-on-year basis, we had a buyback during the year and on buyback we incurred the cost of about INR 2 Crores, which mainly consisted of filing fees and other regulators fees, it was more of one- time cost of INR 2 Crores. During the last quarter based on our internal assessment and looking at the current liquidity situation we have made a provision for doubtful debt for a few of our dealers of about INR 50 million in this quarter. So, this is done purely based on the current liquidity position. These are all continuing dealers with us. We are following up with them and we will have some collection coming out of this in the subsequent quarters, but purely on a conservative basis we have made this provision. So, these are the two components, which have bumped up the G&A expenses compared to last year.

Chirag Patel: And could you also explain increase in Sales and marketing expense, it is quite less around 5%?

Nitin Kulkarni: As I said, we had a few dealer meets during the year, dealer meets were across India and because of that expenses have gone up . If you see the percentage it looks higher because the revenue is lower, but in absolute terms because of this sales and marketing dealer meets, the expenditure has gone up.

Chirag Patel: Can you just highlight, what is our market share currently in India? particularly in retail product category.

Nitin Kulkarni: So, if you look at retail it is about 30+%.

Chirag Patel: What is the second most from competitors' market share, Sir?

Nitin Kulkarni: The right data is not readily available, so for us to make any comment on this may not be right.

Chirag Patel: What was the trend of market share for our products in retail category of last five years? Is it in the similar range or we are getting some up and down?

Nitin Kulkarni: Yes. So, it is more or less on the same range and a little bit on a higher side.

Chirag Patel: What is the size of products that we operate in?

Nitin Kulkarni: So, it is about 700 to 800 Crores for the products where we operate. So, this number is not readily available, this is based on our internal assessment.

Chirag Patel: Does this include enterprise and retail or just retail category?

Nitin Kulkarni: No, it is only retail.

Chirag Patel: Okay. Thank you.

Moderator: Thank you. We take the next question from the line of Sunil Agrawal from Sanaka Capital. Please go ahead.

Sunil Agrawal: Thank you. Sir I have two queries. One was on the market share, so I think you said about 30% retail, so can you throw some light on the enterprise side also in terms of currently what is the market share and how do we see the growth in market share vis-à-vis competition and what could be the share for the nearest competitor? Second is on the earlier acquisition, I think last year we have done Israel-based L7 Defense, so can you throw something in terms of how the company has gained any tractions this year in terms of on the revenue or the P&L impact?

Nitin Kulkarni: On enterprise side, this right data is not readily available, and hence it will be very difficult for us to tell you exactly what our market share is in this. On second question for L7, as we mentioned that it was more of a start-up and they are doing very well and they have started generating some revenue traction, but it is too early to comment. I think we have to wait for another year since everybody knows that start-up investment also takes time really to pick up, but so far based on what feedback we are getting, they are doing a better job but maybe we will have to wait for another year and then we will be able to comment better on this.

Sunil Agrawal: How will Ray compare in terms of providing additional benefits to the company? On the P&L side, will it be again one year down the line or what kind of timelines you have?

Nitin Kulkarni: So, Ray is also a start-up, they started their operations in the late 2019 and our investment is more of a strategic investment. So, we are hopeful that this investment deal will give us a good return that is why we have made the investment, but it is too early really to comment on this. We have to definitely wait for a year and then observe the performance and then we will be able to comment.

Sunil Agrawal: Sure. Thank you.

Moderator: Thank you. We will take the next question from the line of Vikram Kotak from Crest Capital. Please go ahead.

Vikram Kotak: Initially you mentioned that work from home will take off ; so what is going to be different in the sense that before COVID and post COVID how will our business strategy change in terms of manpower or business or opportunity or new sectors, What will be your strategy going forward and seems like it will be a good time for the IT companies like you going ahead so can you please comment on that?

Sanjay Katkar: Yes. So if you are looking at the current situation, what we have been doing is we are gathering and learning from what is the new normal and accordingly we are conducting a lot of sessions for SMEs as well as enterprises about what they should be doing for work from home and how our products fit in to it, but that is the current situation. But at the same time our team is working on two aspects, one is coming out with solutions and packages or maybe products that will be focused on the current situation and other is on the R&D front working on the features and the new products that will help this kind of new norm that is going to exist actually, so parallelly we are working on both the things. So, on the enterprise front and on the SME front what we have observed is currently people are more focused on cybersecurity trainings and cyber security related best practices, with the products and solutions they are yet to start demanding or start implementing because there is lot of discussions happening and on the consumer front we have seen that there is a slight increase in demand for laptops and PCs maybe because of work from home or maybe even schools have started working remotely and students have started connecting to classes remotely, so there is going to be a small surge in PCs and laptop and we feel that this should be a positive sign because this is an opportunity. We are being strongly present in consumer segment and Quick Heal brand is well recognized, so our marketing team is focused on current themes. So, I do definitely see a good opportunity because of the new norm that is getting set, only thing is that we have to rightly add up ourselves to this opportunity and take it. On the other hand I have also seen government's announcement that around INR 200 Crores cannot go for global tender , so we are looking for those things to get implemented properly and see how we get more opportunity to present locally without getting the deal to the MNC level and all that so this is definitely a positive sense for us actually, I can see that and we are making sure that we are present in all the deals that are happening and pushing ourselves to be present in the deals that are going to happen. Currently what we have seen is that government is quite slow on currently spending on cyber security, they are just doing lot of announcements, but buying and all that is quite low, but definitely we will see some pickup in government, consumer may have some pickup but SMEs and enterprise I am not sure because SMEs are at very big losses and really getting them renew for our existing product is getting challenging but they are interested in security but their spending is quite cautious now, so currently we cannot say about the SMEs actually.

Vikram Kotak: Sanjay one more question for you. What about the global footprint because in one of those global health reports by McKinsey, it says the US alone will spend $3 billion in cyber security, so I am just saying that what are the work we are doing on the global side and where do you see your global revenue going up on a global SME, are you making some footprint on that?

Sanjay Katkar: Yes, our team is quite well working on that, global ecosystem depends more on partner ecosystem, in the sense managed security services and system integrators that deal the with respective markets and we are exploring a lot of tie-ups with these system integrators and managed service providers, so accordingly there has been lot of changes in a product to add up to those ecosystems, which are like cloud-based managed service providers need and those certain changes have already been rolled and certain changes are already in pipeline for our products so that we can better serve the partners in those areas so we are focusing on those areas and definitely it depends on lot based on how they accept our products. At the same time what we have seen is as the current example of us investing into Ray we have seen certain different interest like OEMs telecoms because they too are getting pressures on providing clean bandwidth and all that, so that is where we have seen that working with Ray, they are more into OEM kind of deals and talks with these telecom guys for coming out with Ray's OS as a fabric and Quick Heal technology as a security fabric providing access points, so all these attempts we are doing, in fact even in India we are trying to talk to telecom guys and bring out a solution, which can be good for telecom as well as us, but these things need to see a fruit that is what we are trying to see so that is what our focus is.

Vikram Kotak: FY2021 we understand it is all about COVID and disruption with supply chain and the shops are not opening and all that, how do you see assume the FY2022? As a normal year? And what kind of growth rate you are targeting over the next two years?

Sanjay Katkar: Yes, so you rightly said, in the current financial year we are not looking at anything, in fact we are looking at how much is going to be the loss in business opportunity because of the current situation, but I definitely expect the things to become normal by next financial year and this definitely gives us an opportunity like the new changes that are happening in the market and getting our product ready in this financial year so that they can be pitched into the new normal. So I see this current year, good for looking deeper into R&D and coming out with best product solutions that can help in the new normal and at the same time once the market starts to become normal and in fact I will say not only normal it will come back with a bang because lot of things are changing globally like manufacturing moving to India, government focusing on cyber security, so all these are definitely going to create a new market and opportunity. I feel we should be growing in the next financial year as consumer as well as enterprise segment. For consumer growth, we were doing consumer growth in the range of single digit percent and that should be at the higher single digit and we should be on track for that actually, but I am doubtful about SMEs because SMEs as we have seen our enterprise is not growing that fast because major percentages from SMEs and throughout last three years I have seen has been going through a lot of different challenges in India and that has affected SME market not only for us but for all the vendors actually and we hope that if that picks up we are very well placed for SME to capture the market and our newer products that we are focusing and that we are planning to release by the first quarter of the next financial year, those products are focused towards larger enterprises and that is where we feel that will give us additional revenue apart from what we already had the product for SME, so that should also add up to the growth engine. Currently I cannot put the figure to that, but yes we are targeting.

Vikram Kotak: One last small point that you mentioned that your liquid money is lying in mutual funds, so is there any worrying about it?

Nitin Kulkarni: These are all debt based liquid funds and yes based on our internal assessment they are all safe at this stage and what we have done post the Franklin issue, we have again reassessed the situation and also based on the inputs from our Board members we have moved some of the money to fixed deposits with a few good banks, where returns are lower, but at least we have relatively more safety and liquidity certainty to a larger extent. We are review it on regular basis and do not see major risk at this point of time

Vikram Kotak: Okay. Thank you so much.

Moderator: Thank you. We take the next question from the line of Avimal Mathani from Credential Securities. Please go ahead.

Avimal Mathani: I just had two questions. One is earlier, Mr. Sanjay spoke about the government tenders of up to INR 200 Crores, it is not tendered globally, and it will be mostly local based tenders. How are you placed versus your competitor and if you have a competitor in that space what is the difference between you and the competitor?

Nitin Kulkarni: In India we are at a better place and we are there to take advantage of the situation so there is a competition, but we are in a better position to take the advantage of the situation.

Avimal Mathani: Because if my understanding is there, McAfee and Symantec of the world will not be there in the INR 200 Crores category now, so I just wanted to know in terms of Quick Heal versus other competitors if there are, and how you are trying to approach it because I think earlier McAfee and Symantec were giving a lot of competition for this, so how are we placed now? Sir, can you just highlight how you are going to take this opportunity?

Sanjay Katkar: Yes, so the move that government has done is definitely a welcome move and in fact I feel that should help us a lot, we will not be getting MNC competition, but that is what we assume, but what we are saying is government's guidelines are something that are guidelines and not enforcements, some organizations do follow guidelines, some organizations do not so what we are trying to do is we are aggressively pushing our government sales team to increase the presence and make sure that we put our best of the product. Definitely this should help, and we want to see how this will evolve.

Avimal Mathani: Actually, this tender is for the government, either state or central government. What are the typical orders that if you can give a ballpark figure for this like are they up to INR 100 Crores/200 Crores? The normal range of these tenders' range from.

Nitin Kulkarni: Definitely less than INR 100 Crores, but typically it is very difficult to give us the exact number, but for sure they are less than INR 100 Crores.

Sanjay Katkar: So I want to add to that in a sense if INR100 Crores is quite a big figure it can go up till INR200 Crores only if it is a big department or across nation some kind of orders, but most of the government orders are of less than say INR50 Crores or even less than that and many times certain department wise orders do come in, we have a lot of presence in most of these departments so these are smaller orders that come up and approximately our 60% of our business happens through GeM portal currently actually.

Avimal Mathani: My second point is since most of our products are made in India, is there any local MNC, which makes local and distributive things who have been eligible for, they can tell the government since our products are being made in India so is there a competition in that level?

Sanjay Katkar: You rightly pointed many MNCs are trying to win orders, they are trying to put themselves as MNC under Make in India because most of these MNCs have large offices in India like Symantec or even McAfee they have large offices including Bangalore and Pune actually, but truly speaking those products are not Make in India because certain parts gets developed here and other controls are in the U.S. actually, but that is a convincing game that we have to keep doing with the government departments because the clouds that they use and everything is not in India since their technologies and their main head office is out of India actually, so this is why we try to pitch in that our company development happens in India in fact afterwards from cloud to everything is in India and somewhere you get convinced and certain departments, which are very crucial and they know importance of these have already pushed the orders to us, but certain departments which are not very tech savvy but the order can be big like railways or something like that so there it becomes very difficult to pitch, but we are trying our best to do that actually.

Avimal Mathani: Sir because if I see from the presentation you have Nuclear Power Corporation, which is one of the biggest in terms of nuclear power?

Sanjay Katkar: Yes in fact we have a lot of good big orders from government like navy. Not only navy, certain departments of DRDO and lot of banks who are feeling that their data is crucial and they want local cloud are with Quick Heal, and by banks I mean cooperative banks and financial back ends of the banks, but definitely the very big orders that are there still they are not coming to us where we are trying to push ourselves.

Avimal Mathani: Any nearest competitor to you in this local column that you compare with?

Sanjay Katkar: Yes, I will give you the complete picture. The one thing is if you see MNC competition, which is taking bigger government orders, there are few like Trend Micro and Kaspersky and Symantec they are all taking bigger orders and they have tried to push, but we are much better than Kaspersky in terms of share of the government market, but if you have to talk about Make in India competitor in India we are the largest player and we have the largest set up size from the financial as well as R&D side. There are small pockets on the retail products in India and small pockets like one in Chennai and one in Mumbai, but they are not up to the size and the number of products are not there up to the mark because our products are quite in comparison with global vendors and we are competing with them globally as well. So if you see competition wise in India we are the number one competition for all the local players and we are having bigger shares, but if you compare ourselves with MNC competition that is coming to India and trying to get government market then the competition is like Trend Micro, Symantec and McAfee.

Avimal Mathani: Sir second point is in terms of a distribution model I think now since COVID coming in, the physical work is digital. What is the ramp up on the online side and What is the feedback that you have been getting in the last two months?

Sanjay Katkar: You rightly pointed it has changed the economy and the way people are buying things, so online has definitely gained preference and I would like to assure that we are present in all the online platforms like Amazon, Flipkart and our own online platform of our website and what we have seen is we are getting good share of online business that is happening for antivirus and security products, these are all consumer products that I am talking about, so our enterprise is still like it hardly goes online, but consumer started showing lot of interest on online and we are trying to focus our all marketing and communication channels more focused towards online so taking us on Amazon and trying to have social media presence for bringing customers to buy online, even rolling our schemes for online things that is what we are doing and we are seeing some results on that, but compared to that earlier norm of like offline business versus the current ,now the numbers are quite different in the sense to say earlier the offline market size was huge and it is still huge, so reaching that level through online is going to take a long time, it is not going to happen immediately, but definitely whatever online is growing we are making sure that we keep getting more and more share into the growth of the online market and earlier as well the amount of antivirus that goes online we had more than 30% of market share on that business as well, online business of India and we are still maintaining that and we are trying to get more business online, so our strategy is focused on online currently as you rightly said because we have teams now sitting working from home so the focus is how to come up with a more schemes for online business and therefore we are doing that.

Avimal Mathani: I think you guys are in the tailwind of the industry compared to having headwinds in terms of cyber security, my point is are you going to rationalize your physical versus digital footprint going forward or is there any thought process from the management side in terms of distribution?

Sanjay Katkar: We are not going to give up on a physical distribution in the sense there is quite a good strength that we have and partner network of more than 22,000 across India and that ecosystem is not going to die out given the current situation, because of the current situation, only thing is they are facing a dent with this current situation and we are in touch with those partners as well. So, we are not going to give up on that market, but at the same time yes, we realized that online is growing faster and we should be there and making sure that is what we focus on. I do feel that this situation had accelerated the movement of offline market to online market and this acceleration is what we are seeing but it is going to take some time so we are not going to give up on physical distribution because it is still more than 70% of our market was before COVID it was coming from offline market and that is what we cannot lose actually, but because of the situation we have to wait for that to come to normal.

Moderator: Thank you so much. The next question is from the line of Harshid Rathi from KR Finvest. Please go ahead.

Harshid Rathi: My question is that you have mentioned in presentation that Q4 revenue has fallen due to the lockdown all over in India but lockdown was imposed on March 25, 2020 and six days were left in Q4, so how can you justify this statement that due to the six days of lockdown the revenue has fallen by 25% in only a single quarter?

Nitin Kulkarni: If you see in Maharashtra, this lockdown started around March 17-18, 2020 because of the lockdown transporters were not available and in retail vertical we have to physically dispatch the goods to the dealers and after that only we will be able to recognize the revenue. Since transporters were not available in last 15 days of quarter, which is a very critical and crucial period for us, and good part of our revenue comes in the last few days of the quarter which we have lost because of non availability of transporters. In spite of having orders from dealers we were not able to really dispatch the material to these dealers and because of that we were not able to recognize the revenue for accounting purpose so that is the main reason why there is a big dip in the revenue because of COVID-19 situation.

Harshid Rathi: You are saying they were heavy orders, so it should reflect in next quarter, right?

Nitin Kulkarni: So, some catch up will happen in the next quarter that is what I can say at this stage, but even if you look at the situation today, it is not fully operational.

Sanjay Katkar: Our model is more stock and sale and we have to stock all our partners, dealers with the stock and as you rightly said Q4 is big quarter for us and all this happens in the last three to four weeks of the fourth quarter. We did get orders, but since we cannot fulfill the orders and because of the deliveries we cannot recognize it, that is affecting us and that fulfilling orders whenever it happens it will reflect in our books

Harshid Rathi: So, Sanjay this is the only reason due to which the revenue has fallen?

Sanjay Katkar: Yes.

Harshid Rathi: Thank you so much.

Moderator: Thank you. We take the next question from the line of Saurabh Ginodia from SMIFS Capital Markets. Please go ahead.

Saurabh Ginodia: Sir, I had a couple of questions, one question was with respect to the gross margin in the online business and second was share of the business coming from the renewal side in both retail and enterprise separately if you can share that data?

Nitin Kulkarni: We do not share this data as far as the gross margin is concerned separately for online side, so if you look at enterprise side renewal is about 75% to 80% and in case of retail it is close to 35% to 40%.

Saurabh Ginodia: Okay Sir, Thanks.

Moderator: Thank you very much. Well ladies and gentlemen this was the last question for today. I would now like to hand the conference back to Mr. Nitin Kulkarni for closing comments. Over to you Sir!

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

Moderator: Thank you. On behalf of Quick Heal Technologies Limited we conclude today's conference. Thank you all for joining. You may now disconnect your lines.

(This document has been edited for readability purposes)

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