"Quick Heal Technologies Limited Q1 FY 2022 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Quick Heal Technologies Limited Q1 FY 2022 Earnings Conference Call.

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.

As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

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

Nitin Kulkarni: Thank you, Aman. Hello and good evening, everyone. I hope all of you and your families are safe during these dynamic times. I am pleased to welcome you onto our earnings call to discuss our Q1 financial year 2022 results. Please note, a copy of all our disclosures are available on the investor section of our website as well as on stock exchanges. Please note, anything said on this call which reflects our outlook for the future on 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 out the float or 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, everyone. Thank you for joining us today. This quarter was severely disrupted by the second wave of COVID-19, most deadly infection and situations were really out of control across India. Every family was affected. In this situation, dealing with business partner was very, very difficult. And still we have delivered a good performance in this quarter. We are confident that we will fulfill our commitment by the end of this year.

Share buyback was successfully completed during the quarter. The main highlight of this quarter has been the revenue growth from the enterprise segment. This positions us well for the coming quarter and is in line with our strategy to boost our market share in this segment. Additionally, we are making a lot of investment into next generation solutions under the Seqrite Hawkk umbrella. Sanjay will be sharing more insight on this part.

While we have not been able to conduct our regular CSR activities due to the pandemic, we have diversified into new areas like COVID-19 relief and healthcare. Under healthcare, we have donated three Aarogya vans, which aim to boost healthcare services in rural areas.

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

Sanjay Katkar: Thanks, Kailash. And good evening, everyone. As Kailash mentioned, we have recently introduced Seqrite Hawkk, It is a family of next-generation solutions aimed at empowering enterprises to secure their digital transformation journey. Threat actors have been constantly banking on new technologies to devise innovative attack strategies and target organizations across geographies. Data breaches and their impact on firm's reputation have only increased in scale over the years. It is therefore crucial for leaders to up their cyber security posture and prevent compromises of sensitive enterprise data.

Assessing the criticality of the current cyber security landscape, we have introduced Seqrite Hawkk to help enterprises boost their defense against malicious actors. With this launch, we are aiming to redefine enterprise security with comprehensive solutions to secure their digital transformation journey. We will continue to gradually invest and add more products under the Hawkk umbrella that we mark our foray into endpoint detection and response, EDR as we call it, zero trust, data privacy, and cloud-based network security products. I am excited to share with you all that during the last financial year our team of threat researchers were the first to expose true identity of the state actors behind a sophisticated APT attack on Indian critical sectors.

Advanced persistent threat or APT is a prolonged and targeted cyber attack that remains undetected for an extended period of time. One such APT campaign was uncovered by our team of researchers at Seqrite labs, dubbed as Operation SideCopy. The campaign was detected for the first time by our researchers in October last year, and in July 2021, we uncovered the second wave of the APT, expanding its target list from Indian defense units to the critical infrastructure.

After thorough investigation, we have discovered potential links between SideCopy and its operators to Pakistan. Upon discovery, we proactively alerted the government authorities and are working with them to keep potential targets safe. This is a breakthrough discovery, making us the first vendor to export the true identity of the actors behind the attack.

With sophisticated attacks like operation SideCopy, the emergence of ransomware economy and rise in the number of data breaches, the demand for cyber security will continue to remain strong. With our dedicated efforts into new product development and quality threat research, we are looking forward to explore further growth opportunities.

I would like to request Nitin Kulkarni to take you through the financials.

Nitin Kulkarni: Thank you. Again, good evening to all of you. Let me take you through the financial highlights for the quarter ended 30th June 2021.

As informed by Kailash in his opening commentary, I also would like to brief you on the share buyback program which was completed during the quarter. The company has bought back 6,326,530 equity shares at a price of Rs. 245 per share, in which a total amount of Rs. 1,930 million was utilized for the entire program. Payment has been made to eligible shareholders whose shares were accepted under the buyback program. After the buyback, post extinguishment of these shares, total number of equity shares got reduced from 64.2 million to 57.8 million. Promoter shareholding went up slightly by a 0.19% to 73.02 compared to 72.83 pre-buyback. I would also like to update you on our AGM, which was conducted on 6th of August 2021. Shareholders approved distribution of dividend of Rs. 4 per share in AGM, which was held on 6th August through video conferencing.

Now let me take you through the financial highlights for the first quarter ended June 30, 2021. As Kailash mentioned earlier, we were able to deliver good performance in a very challenging quarter. I also would like to highlight one fact here that the results are not comparable on Y-o-Y basis, as the financial numbers of Q1 2021 includes revenue spillover of Rs. 280 million from Q4 due to non-ability of transport facilities as a result of the lockdown imposed by the government. Again, moreover, results are also not comparable sequentially, as Q1 has been traditionally and seasonally weak quarter as compared to other quarters.

In Q1, our consolidated revenue from operations stood at Rs. 548 million compared to Rs. 734 million in Q1 of last year. After adjusting for the impact of spillover revenue, revenue is up by 20% on a Y-o-Y basis. 75% of our revenue came from retail segment and balance 25% came from enterprise and government. Average realization increased for both retail segment as well as enterprise segment. On the retail side, as mentioned earlier, yearly numbers are not comparable due to high base in Q1 last year with revenue spillover. If we adjust for the impact of spillover in Q1, retail segment revenue has gone up by double digit on a Y-o-Y basis. Enterprise business grew by 39% due to good growth in SME segment.

The EBITDA for the quarter stood at Rs. 52 million with a margin of 9.5%, in line with our continued focus on R&D and innovation, we increased our investment in R&D by about 29% on a Y-o-Y basis at Rs. 194 million, compared to Rs. 150 million in Q1 of last year. While employee benefit costs were up due to mix of increased headcount, change in pyramid structure of organization and higher outsourcing cost, coupled with annual increments. Last year, for the entire organization, increments were effective from October 1, 2020, and this year it was effective from April 1, 2021, hence the employ cost of current quarter of 2022 had an impact of two increments during the last one year, resulting in higher overall employee cost in Q1 2022 compared to same period last year.

Now coming to sales and marketing expenses. Our sales and marketing expenses increased by 27% to Rs. 161 million from Rs. 127 million in Q1 of last year. This is mainly on account of higher advertisement branding done in the current quarter of the year. With lockdown restrictions getting relaxed in the later part of the quarter, we have started our marketing initiatives and expect the momentum to continue in the coming quarters.

We have made a doubtful debt provision for a few of our customers, more on a conservative business in the current quarter where collections have slowed down. However, we are hopeful of collecting these amounts subsequently. This has impacted our G&A cost in the current quarter. With this, profit after tax for the quarter stood out at Rs. 62 million with a margin of about 11.3%.

Our effective corporate tax rate for the quarter was at 25.92% for standalone and 15.93% for consolidated financials. Lower effective tax rate for consolidated financial is mainly on account of impairment cost elimination for our Japan subsidiary, not impacting profit for the quarter in consolidated financials.

In line with our overall strategy to make corporate structure more simple and consolidation of few of our overseas operations, the board has approved for discontinuation of operations for our wholly owned Japan subsidiary. The exceptional item of Rs. 21 million in standalone financial statement is towards the impairment charge considered during the quarter for this subsidiary.

Now coming to balance sheet items. Our overall net working capital days increased to 152 days versus 124 days in June 2020. The increase in working capital days was the result of the increase in receivable days from 169 days to 220 days. The rise in receivable days was due to difficulty in collections due to lockdown restrictions during the quarter, and the liquidity issues with many medium sized enterprises and our retail partners as more than two months of lockdown in the current quarter has severely impacted the retail businesses. I would like to highlight that almost half of the total receivables are with our top 20 distributors, with whom we have been doing business for last many years and we are keeping a close watch on these receivables and are confident of their collection. We will continue to maintain our financial discipline and expect the debtor days to remain higher over the next two quarters.

Coming back to cash and cash equivalents. On cash and cash equivalents, our current cash and cash equivalents is at Rs. 2,968 million, compared to Rs. 4,809 million in March 2021. This is including investment in mutual funds and fixed deposits as well as tax free bonds. The decrease in cash and cash equivalents is due to deployment of Rs. 1,930 million towards the share buyback program. I would again like to highlight that we are cautiously looking for opportunity to better utilize for 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 a testament of the same, we continue to monitor the progress of our investee companies so far, and we are quite satisfied with their progress.

I also would like to give you the update on our service tax matters. The Commission of Service Tax Delhi has preferred an appeal against the favorable order passed by Sales Tax amounting to Rs. 561 million, covering a period from 2011 to 2014. Hearing for condonation of delay as well as admission of appeal on merit basis is still awaited.

Overall, to sum up the performance of the quarter. The last quarter was very challenging due to second wave of COVID-19 situation. Lockdown restrictions are getting gradually lifted and with vaccination gaining pace, we expect business to regain momentum in due course of time.

With this, now we will open the floor for questions. Thank you and back to you, moderator.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. First question is from the line of Ashok Shah from Labdhi. Please go ahead.

Ashok Shah: Sir, we have stated that there is a bad debt provisions from our regular customers and distributors. Sir, what's the likelihood of this getting back in next quarter? What's the size of recovery possible or what's the provision made?

Nitin Kulkarni: In the current quarter, we made a provision of about Rs. 1 crore for these doubtful debts. These are our regular parties, but since collections are stuck for a longer period, they have been provided for. However, we have been following up with these parties, and we definitely expect substantial part from this will be collected over next two to three quarters.

Ashok Shah: My second question is regarding our profit has gone down, so what's your specific reason, is it attributed to pandemic?

Nitin Kulkarni: No, so as I said in my opening commentary, basically, Q1 if you look at seasonally for last few years, Q1 is a seasonally weak quarter for us and EBITDA tends to remain in the lower range in the first quarter. And as I explained in my opening commentary, we are making a lot of investment into R&D as well as overall business for development of new products. So, that is definitely impacting the margin. So, to answer your question, since historically Q1 is lower quarter, EBITDA tends to be in this range only.

Ashok Shah: Sir, last year Y-o-Y basis our margins and the profit was very high compared to this quarter.

Nitin Kulkarni: So, YES, as I mentioned, if you look at Q1 of last year, we had a revenue spill over of Rs. 28 crores, which I mentioned in my opening commentary, which came from Q4 of last year to Q1 of 2021. That is the main reason for increase in EBITDA for Q1 of 2020-2021.

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

Vivek Ganguly: My question is regarding your retail business, can you shed some light on your presence in the mobile space? How you all do your sales in that particular sub segment? Is there a revenue that is coming in from there or what is the monetization strategy there? That is one.

The second is, you all have had hires in the enterprise space about a year ago, Mr. Raina came in. So, if you all can help shed some more light on the way ahead and what is it that you all are doing? Or what is it from a product and a sales perspective that's changing to make this a more significant portion of your revenue? Those are the two questions Thank you.

Nitin Kulkarni: So, on the mobile side, yes, there is a revenue traction. But at this point of time, the revenue pie is very insignificant. And yes, we are working on it, but then it will take time to pick up on mobile side. On your question on enterprise side, yes, if you look at enterprise segment revenue and if you compare current year Q1 revenue with last year Q1, we are showing a decent growth of 40%. And we have been saying on last few calls that we are working on products for our larger enterprises, which will get rolled out during the year. So, yes, there is definitely a clear-cut roadmap for our enterprise business and we expect the enterprise business to ramp up as we start launching these products.

Moderator: Thank you. Next question is from the line of Kranthi Bathini from WealthMills Securities. Please go ahead.

Kranthi Bathini: I just want to know about your product domain expertise, as we all know Quick Heal Technologies, basically you are experts in terms of the cyber security domain. But off late, there is a lot of emphasis given towards Internet of Things, digitalization, automation and with respect to cloud computing. But what's your plans? There is a humongous opportunity visible in these areas, you guys are right now in cyber security space, do you have any plans to go into these areas to explore the opportunities there? And these businesses are pretty much high margin business comparatively.

Sanjay Katkar: Yes, we are keeping a track of a lot of changes that are happening in cyber security market. And so, our product management team is selectively approaching products that we plan to introduce in coming years. So, our focus is more towards large enterprises, which is quite steady market in terms of cyber security. And so, we had been traditionally from antivirus and SME business, but we have scaled up our products for large enterprises. And in this quarter, we also launched Hawkk Eye which is a large enterprise related offering, which focuses on threat exposure and threat posture for large enterprises for their infrastructure. And our focus is about introducing more products under this Hawkk umbrella wherein we will be introducing and entering markets like EDR, zero trust, privacy, which is again very fast growing vertical, where a lot of new data privacy laws are being introduced globally including Europe, U.S. and very soon in India as well. So, these laws are going to create an opportunity for certain kinds of products, and we are focusing our efforts towards developing those well in advance. So, these are the areas where we are focused, but these are the products and it takes certain quarters to get launched. And at the same time, we are also scaling up our sales machinery and trying to streamline sales and bifurcate sales among SMEs and large enterprises and government verticals. All these activities are currently underway, and which will definitely bear some good results as the products are launched in the future quarters.

Kranthi Bathini: Because we are sitting on a good amount of cash, which you can take the advantages in the low hanging companies in your domain. Do you have a roadmap to utilize this cash for a better purpose? Or how you are planning in next few quarters? I know you have been traditionally very conservative players in terms of the M&A, but what is your roadmap?

Sanjay katkar: See, we are always looking for opportunities; in fact, we have inhouse M&A cell, where we are evaluating lot of startups and product offerings which are in line with our growth strategy, the areas that we have selected to be present in or address the market. And so as the opportunities arise, we definitely are open for inorganic growth, we have accordingly decided to add products based on the geographical presence as well as the technology that they are into. So, that's one thing for sure. So, that is the end use of the results of one of the things that we have planned. And at the same time, invest into acquiring technologies if there is no option of investment or complete execution, then we can also use these points to acquire technologies which can ramp up our development efforts into those product side.

Kranthi Bathini: Just my final question, just want to know how are you incubating something in terms of the new technologies in house already? Because you have a strong base, you have a strong expertise, are you integrating something which is which going to change the space of cyber security in coming quarters or coming year?

Sanjay Katkar: Yes, in fact, we have always invested into R&D on those lines as well wherein there is a certain teams which keep on working on other verticals, wherein cyber security can be a key investment. For example, like industrial IoT or even connected cars, those are the verticals where we are constantly seeing something that can really bring in some disruptive technology that can help. But at the same time, these technologies are evolving quite fast and we have to understand the market dynamics to ramp up the investments. But YES, we are focusing on those areas. Apart from that, especially what we have seen is, enterprise level spending on cyber security is at a quite steady pace than any other verticals like consumer or governments. So, enterprise related investments are more focused in the current situation. So, as we said, we are launching new products, among them we will be looking forward for some disruptive features and platforms that will be a differentiator among our products. That's the focus for now.

Moderator: Thank you. Next question is from the line of Nikhil from Galaxy International. Please go ahead.

Nikhil: I just wanted to understand what is the outlook curve that the management has for this year? So, despite the first quarter being low quarter due to COVID, do we anticipate significant growth as compared to what we did in last year, especially quarter three, quarter two?

Nitin Kulkarni: So, yes, Q1 is a seasonally weak quarter for us. And secondly, it all depends on how things pan out as far as pandemic is concerned. So, we expect that with the way things are, the lockdown is getting lifted, things are getting relaxed slowly, and we definitely feel that there is a momentum and we should be able to pick up that moment and do better in Q2 and subsequent quarters. So, we already said earlier, and Kailash also alluded to this in his opening comments, whatever we have promised initially, as far as yearly performance is concerned, we should be able to do that in subsequent quarters.

Moderator: Thank you. The next question is from the line of Monika Arora from Wealth Giant Advisors. Please go ahead.

Monika Arora: I wanted to ask that if I see in your books, there is a huge cash and cash equivalents. So, what is the kind of average yield you get on these cash and cash equivalents?

Nitin Kulkarni: So, these cash and cash equivalents, they are parked into fixed deposits and mutual funds. And as per our board mandate, so it is basically SLR, safety first, then liquidity and then return. So, looking at the current scenario, we give top priority for credit exposure, and that's why they are invested into all debt based mutual funds. So, we got about 4% to 4.5% return on our mutual funds. This is a pre tax return in last one year.

Monika Arora: Okay, thank you. And I also wanted to ask what is your view on the antivirus industry from the retail space? Like, how is this growing and what is your views, how it will pan out in future?

Sanjay Katkar: So, in retail space, what we have seen since pandemic, we have seen the growth in PC sales and laptop sales, which actually is something that really helps us in a retail segment. So, accordingly, we feel that retail segment will see a growth of at least single digit to early double digits, 10% to 12% should be there, that's what our expectations are. But what is happening is, apart from the PC sales, the ecosystem also depends on the market availability, in the dealer network, our ability to sell, which is highly impacted because of the lockdown. But if you keep that aside, accordingly, I feel there is definitely a growth that is estimated in retail segment.

Monika Arora: If I could ask the same question for the large enterprises like how are they panning out or what are your plans to specifically reach out to these large enterprises?

Sanjay Katkar: On the large enterprise front, I will divide our market into SMB and then large enterprises, and then government vertical. So, if you see SMBs, again, are very much impacted by the pandemic and the spending on the SMBs, we do see that it has impacted, as we see the sales of server related products or small 20 to 100 endpoints related products were impacted a lot during pandemic. But they again, as the lockdowns are opening, we are seeing good traction in them. But whatever growth we have seen in our fourth quarter in enterprise segment, it is purely a large enterprise segment, because as we have been focusing or scaling up for large enterprises, and some of them are already launched in last couple of quarters, we have started seeing some good results in large enterprises. And there, I feel, we will be able to grab more market in large enterprises. And our enterprises will also cover government vertical, wherein we have seen last year there was a very less focus by government on cyber security spending, which has started changing gradually this quarter end , and we have seen some good inquiries and orders coming from government vertical as well for cyber security products. So, accordingly, enterprise vertical or pie of our sales will grow and will keep growing, and there's a huge potential because we are increasing our market segment by adding more products in to large enterprise. At the same time, as the lockdown opens, SMBs will also start reflecting into traction actually, and the government. So, accordingly, it should give a good result for us in coming quarters actually.

Moderator: Thank you. Our next question is from the line of Namit Mehta from KC Capital. Please go ahead.

Namit Mehta: Just a couple of questions from my side. First one is, if you can just talk to us a little bit about the talent recruitment and retention landscape right now, our understanding is that there's been significant pressure on that across the industry. So, if you can just talk a little bit about attrition and hiring and how that's panning up?

Sanjay Katkar: So, you rightly pointed, we have been facing a lot of challenges in retaining the talent as well as hiring the right talent, especially into R&D, and tech support. But at the same time, as we have seen, it's quite alarming, our HR has been proactive in planning a lot of activities for employees, as well as hiring drives in particular vertical, and we are trying to mitigate the same. And by creating a lot of packages for the R&D, as well as other verticals, and as Nitin said in his speech, last year after pandemic, we have done increments twice, as soon as we start seeing some traction, so that has really helped teams quite well. As well as we do see that we are now able to at least get some talent on board as things are getting underway.

Namit Mehta: That's helpful. Just out of curiosity, how specialized is the software engineer working for you? Can that employee work at any IT services company or is the skill set very specialized for cyber security?

Sanjay Katkar: YES, so for cyber security it is a very highly skilled people that we need and particularly focused towards system developers. And as you rightly pointed, IT services related developers really don't help us in much, apart from certain ancillary development like website or upfronting. But most of our core, we need engineers and architects where they are thorough into their core technology, like OS internals and all. So, YES, it's highly niche. And for many times, we also have to outsource work where on time onboarding is not having and we have to outsource as well a lot of development works as the deadline for products are there.

Namit Mehta: And just one other question. So, obviously, the cyber security industry is a very global industry with a lot of large players involved in spending a lot of money on R&D. I know we are doing that as well, but just given the difference in order of magnitude between our spend and some of the large global players, how do we think about the sustainability of the enterprise business over the longer term given the spends elsewhere?

Sanjay Katkar: So, you rightly said, the competition on the large MNC, have large R&D budgets based on their revenues. So, even if you compare, we are spending quite a bit percentage of our revenues into R&D. But at the same time, looking at our size and potential, what we do is we focus on certain particular areas and not try and do lot of things so that we don't diversify too much of funds. So, our focus is like, where we have the strength, wherein we have the right sales machinery, wherein we have the right partner network, we focus on those products, which can give us results. So, that's how we have been trying to maintain the investments.

Moderator: Thank you. Our next question is from the line of Imran Khan from RatnaTraya Capitala. Please go ahead.

Imran Khan: Sir, I have two questions, one is on the retail side if you can tell us what kind of competition are you facing currently? Because in the past, we have seen a lot of price erosion. So, what is the situation there? And where do you see this pricing per license stabilizing in the retail segment?

Sanjay Katkar: On the retail front, the competition in these days has not changed much. In the sense it is the same competition, most of them is MNCs. In certain pockets there is a regional competition, but most of them is MNCs. The real challenge on the retail front is, because of the liquidity crunch, trying to get the timely payments from the partners and maintain the right stock so that we don't lose on to the others. So, that's the balance we have to maintain. And that's where if there are certain things that are getting delayed, we have to do a lot of incentives to collect the payments which can impact the margins. But overall, I don't see much drop into the margins for at least this year actually.

Imran Khan: And sir, since the ROC's are very, very high in our business, in the area specifically, so the competition to gain market share can actually reduce the crisis further because even, let's say, they sell at just 20%, 25% ROCs, I think it would still be a very good business to gain. So, what is your thought on that side?

Sanjay Katkar: See, cyber security is such a business that we have to continue to invest. So, any price drop by any competition are not long term sustainable. And we do see such activities by certain competitors to disturb the market and our retail team and the ecosystem of partners is now well aware of such things and they don't fall in such traps, we try to maintain good relations with our partners to explain them the dynamics of the investment. And also, mostly, these kinds of activities do happen, but it doesn't impact too much. And like we do keep such scope for disruptions in pockets, but nothing more than that. I mean to say, there is a good enough market for the price points that we sell. And that market is gradually growing.

Imran Khan: Fair enough. And sir, on the enterprise side, on the bigger accounts that you may try to gain going forward with your new product, Hawkk Eye. So, on this side, how do you approach them, because I am assuming these large guys may be MNCs, if I am not wrong, and these MNCs already have tire with bigger companies, not just in India, but across the globe. So, I have an understanding that these guys don't change the vendors when they are in a different country, even though they are based in U.S., if they come to India, they prefer the same partner for security and other things. So, how confident are you to maybe displace some of those big guys and gain these accounts, what is the strategy here?

Sanjay Katkar: Right. See, if you look at enterprises, it's like MNC is one certain segment of the market, but then there are a lot of good enough large enterprises which are headquartered in India and working out of India. So, we have a lot of ground to catch up. At the same time, the products that we are introducing are based on the feedbacks from the partners and the sales guys who really understand the customers, what are the challenges that they are facing with the current product that they are using. And based on that, we are trying to create the differentiators and solve the pain points of the customers. YES, it's challenging to replace the competitor in large enterprises. But gradually, we are able to capture them. And at the same time, this involves bringing on board the right system integrators for selling our products, educating them, training them for the same. So, all these activities are something that we are doing and making sure that we try to replace the competition in these places. So, as we get some traction on domestic large enterprises, those are the good examples and references for us to keep on capturing the MNCs as well. And at the same time, we have operations in Middle East and other countries, like even in Japan, wherein we are able to reach out to the headquarters of certain MNCs and in certain countries as well we are able to start pitching our large enterprise products which have started giving some traction as well.

Moderator: Thank you. Next question is from the line of Avinash as an individual investor. Please go ahead.

Avinash: My first question is, given this first quarter, would we end up the year with a lower revenue run rate and what we did in the last FY?

Nitin Kulkarni: No, so as I mentioned earlier, yes, we will definitely do a lot of catching up in Q2, Q3, Q4. And we are confident that we will be definitely able to keep up the pace and we will try and do definitely better than what we did in the last year. But having said that, it all depends on the pandemic situation, again, if lockdown restrictions are imposed, the third way which we are talking about, so we are quite confident and optimistic about the revenue numbers in Q2, Q3, Q4. We are confident that we will do better than what we did in the last year. But again, as I said, it all depends on how the pandemic is going to plan out. But yes, to answer your question, we are quite optimistic and we will do a lot of catching up in Q2, Q3, Q4.

Avinash: Sir, just one more question, in terms of how you deliver your product to the retail, is it basically through physical stores, people can always download your antivirus, right? So, pandemic would be disruptive if people have the option of downloading our products, so why is there so much disruption because of the pandemic?

Nitin Kulkarni: So, basically, if you look at our product, it is sold on two channels; first is a physical channel, which is through our dealers, distributors, and second is online. In online, there are two ways possible, one is on our own Quick Heal website, and second is through ecommerce portal, which is Amazon and others. So, yes, I think to answer your question, there have been a lot of disturbances because lockdown was imposed in first two months and lockdown started lifting from first June onwards state wise. So, yes, physical sale was not possible, but then we have been able to get good traction on online sales.

Avinash: What percent is online versus physical, that's what I want to know?

Sanjay Katkar: So, if you look at current quarter Q1, online sale, as far as retail is concerned, is about 36%.

Avinash: And historically?

Nitin Katkar: Historically, it has been in the range of 20% to 25%.

Avinash: So, essentially, higher the online growth, any disruption in the form of third wave or fourth wave shouldn't affect the company so materially?

Nitin Katkar: Yes, you are right. So, we definitely have good infrastructure to capture online sales also. So, you are right,

Sanjay Katkar: See, I will address one more section that you are forgetting to look at. One is look, see, when we are saying 36% is our online sale, then that means there is like almost more than 60% of sale has happened offline. And this offline sales has been there for years for us and that ecosystem has been contributing to our revenue. And that percentage is gradually decreasing, but it's taking time. Even though after the pandemic, because of the lockdown, we were able to see good enough growth into online sales, but it's changing to online sales drastically. It's all about mindset and the purchasing. So, it will take time, it's not like if there is a lockdown then online sales will be able to address the situation, but most of our retail sale also goes into really SOHO market wherein there are like small time businessmen where they have two or three PCs. And if these businesses are affected, then the sales will get affected. And at the same time, I am also seeing, because they have to go online to keep their business alive, they are buying more PCs, laptops, this can also have a positive impact. So, we are keeping track, we are making sure that we are available offline as well as we have a maximum share of the online antivirus or internet security that gets sold across India. So, we are making sure that we are available on both the platforms and capture whatever business is happening. So, even we are keeping a track on the market segment that we are addressing. So, the share we have for online sale that we do across India is still again 30% plus on those ecommerce platforms. So, we are making sure that we are not losing on to the share of business.

Avinash: Understood, sir. Last question sir, you said that typically Q1 is your weak quarter, just wanted to understand why that is so?

Nitin Kulkarni : See, 75% to 80% of our revenue comes from retail segment, retail this is basically mostly stock and sale model where Q4 is stronger, and that has some cascading impact on Q1, and that is the reason why Q1 tends to be on lower side, historically.

Moderator: Thank you. The next question is from the line of Jagdish as an individual investor. Please go ahead.

Jagdish V: So, we are into product development company, there is more investments required. And currently, pandemic situation is also there right. But we are more focusing on these buy backs, almost you have spent Rs. 300 crores on the buyback, and also we are giving more dividends and we are also utilizing more cash towards buyback and dividend. So, whatever cash you are having, you are only getting the yield of 4%. So, why don't we come aggressive and invest in M&A and acquisitions? Even acquisitions also we are only investing Rs. 37 crores and also we are going with a very slow pace, this pandemic has given us a lot more opportunities where most of the business was not doing well and IT is south way. So, those opportunities we listed already. And due to this pandemic also, many of the companies are forced to go digital, so which means increasing the cyber security options. So, why aren't we capitalizing on that, maybe why aren't we going aggressive on this front if you can explain?

Nitin Kulkarni: So, basically, your question has two points. So, one is, rewarding shareholders and second is using organic and inorganic opportunities for the cash, using cash for the organic inorganic opportunities for the business. So, point number one, rewarding shareholders, yes, we did buyback two years back, we did it now also, plus we have given a dividend of Rs. 4, this was only to reward the shareholders in the most tax efficient manner. This is on point number one. Now coming to the second point, so yes, as Sanjay mentioned earlier, we are continuously looking for inorganic opportunities. But when it comes to M&A, there are many variables, we have to find the right candidate, which can complement to our existing product line and which can also give additional revenue as well as additional product profiling. So, we are evaluating lots of candidates for M&A. We did two M&A in last one year, we invested in our Israel based L7 as well as we also invested into Ray, Singapore based. In fact, L7, we also did one round of investment a year back. So, we are continuously looking for M&A opportunities. And we are also mindful of this fact that this will definitely give us inorganic growth. But again, we have to get the right candidate, it has to fit into our overall business philosophy, and it should also give some synergic advantage to us. So, that's why these things take time. But we are continuously evaluating the opportunities and we will do M&As going forward, provided we get the right fit.

Jagdish V: Yes, that doesn't answer fully, let me repeat. So, our R&D expense for almost in a quarter 90 crores I believe. On buyback you spent 300 crores. Why don't we increase our R&D spend? Why don't we give more ESOP to employees so that they can be retained with the company? We are a product-based company, right? So, we need to build new product so that we can compete and get more clients. Because there are so many IT companies, we provide solution to them, so they lakhs of employees, so desktop solutions we can do, right? So, why don't we go in that way and aggressively use the money towards that, rather than more focused on giving shareholders buyback in an early stage I am asking, where we have a lot of potential to go there, right? So, we are not like a coal company where we have nothing more to grow where we just need to give a buyback to the user. So, why is the focus more towards shareholder than focusing on growth.

Nitin Kulkarni: Mr. Jagdish, I think we also explained this earlier, Sanjay also made this comment. So, ESOPS, yes, we do have ESPO schemes, we are giving ESOPs to employees, new hires are also getting ESOPs, and ESOP is definitely used as a right measure to retain the talent. Secondly, we are also taking care of our employees, where we gave two increments in last one year. So, definitely we are we are taking care of all these measures. And secondly, on R&D spend, so R&D spent three years back was about 17% to 18%, this year it has gone up to 19.5% in 2021. And if you look at current year, we would end up with about 22% to 23%. As I said earlier, we are making a lot of investment in new products. And this is going to increase our R&D cost. So, all these measures are being taken. So, we also want company to grow at a rapid pace and all these measures are being taken and we are we are on right track.

Jagdish V: Thank you. Just one more question. So, we have strong product development, I believe. So, any updates on that one, what they are focusing on? Already you have mentioned, but still, what is name of the verticals we are the currently we are working on, which can be potentially lead to broader success in near future?

Sanjay Katkar: So, the first investment was, Nitin talked about was L7 defense, and that is into API security, which is a very fast-growing domain and currently Quick Heal is not having products in those lines. So, we really feel that that's the right investment. And so we are seeing good traction there. Since it's a technology that is disruptive, and such technology takes certain time to get acceptance into the market, because it's replacing very large MNC products. And we are seeing good enough interest as we are able to give a lot of POCs and demos to very large enterprises, and there's a good enough understanding of the technology now. But YES, that where the current situation is, and that's why we were very optimistic about the company and we went into the second round of investments with the same company. And other company, which is about Ray, it's about addressing SMB business, particularly through the means of network devices that they are developing. And they are again disrupting the space by having an OS of their own into the router space where in the cyber challenges are in a completely different league, which we are seeing. It's again an expanding market, it's a new to market, which is going to replace older technologies. And we are seeing some traction but it's more towards international, Southeast Asian countries, not in India. So, both the investments are doing good for now at least, and we are keeping watch on both companies.

Moderator: Thank you. Ladies and gentlemen, that would be our last question for today. I now hand the conference over to Mr. Nitin Kulkarni for closing comments.

Nitin Kulkarni: Thank you everyone for joining the call. I hope we have been able to address all your questions and given answers to them. In case if you need any additional information, any clarification, you can get in touch with EY who are our IR advisors. Thank you and thanks a lot.

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

The transcript has been edited for reading purpose.

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