

**Quick Heal**

*Security Simplified*

“Quick Heal Technologies Limited Q2 FY22 Earnings  
Conference Call”

**October 26, 2021**

**MANAGEMENT: MR. KAILASH KATKAR – MD & CEO**  
**MR. SANJAY KATKAR – JOINT MD & CTO**  
**MR. NITIN KULKARNI – CHIEF FINANCIAL OFFICER**

**Moderator:** Ladies and gentlemen, good day and welcome to Quick Heal Technologies Limited Q2 FY22 earnings conference call. We have with us today, Mr. Kailash Katkar – Managing Director & CEO, Mr. Sanjay Katkar – Joint Managing Director & CTO, and Mr. Nitin Kulkarni – Chief Financial Officer.

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

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

**Nitin Kulkarni:** Hello and good evening everyone. I am pleased to welcome you all to our earnings call to discuss our Q2 and H1 financial year 22 results. Please note a copy of all our disclosures are available on the investors section of our website as well as stock exchanges. Please note that anything said on this call which reflects our outlook for the future 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:** Good evening everyone. We had a very successful quarter Q2 with a significant growth in revenue, earnings, and cash flow. Again, despite Covid challenges and considering last year's spillover, H1 results are not comparable but still we had achieved at par results. Nitin will cover the financial details in his commentary.

I am also happy to welcome industrial veteran, Mr. Richard Stiennon to our board. Richard comes with over 2 decades of experience across leading cybersecurity companies around the globe. Quick Heal will immensely benefit from his expertise with his guidance.

On the product front, Quick Heal has recently launched a new version of its flagship retail product to empower the consumers to experience a complete digital freedom without compromising on privacy. We call it as #FreedomWithPrivacy. Among the new features, the primary focus is on safeguarding digital privacy for new-age consumers. The main highlight of this new version is the data breach alert which will provide instant alert to consumers if their personal data like email, password, phone number, IP address is breached online. And we will assist the customers to take corrective measures.

In modern times, consumers dwell more in the virtual world than in the real world sharing personal data with companies for online transactions. However, doing so makes them very more vulnerable to online hackers who are always on the lookout for stealing and selling personal information to third parties.

Quick Heal's new products are designed to enable consumers to take charge of their online privacy and thus provide them with complete digital freedom while they surf on the internet. Products also focus on enhancing consumer security such as webcam protection, anti-tracker, anti-ransom, phishing protection, and much more.

Regarding enterprise products, Seqrite development of new products as mentioned in the past is in full swing under the Hawk series. Seqrite also received recently a top rank certificate from the prestigious institute AV-Test from Germany. Recently, CERT-In which is from India revealed that India witnessed a 300% rise in cyber attacks in 2020. The threat landscape in India is continuously evolving with cyber criminals continuously changing attack tactics. The rise in mobile and cloud application adoption for business operations has further put an organization's sensitive data at risk.

I would like to conclude by stating that demand will continue to remain strong for cybersecurity products and solutions with an increase in sophisticated attacks. With our dedicated efforts into new product development and threat research, we are looking forward to explore further growth opportunities. Now, I would like to hand over the floor to our CFO Mr. Nitin Kulkarni to discuss our financial performance with you.

**Nitin Kulkarni:**

Good evening to all of you. Let me take you through the financial highlights for the 2nd quarter as well as half year ended September 30th 2021. As Kailash mentioned earlier, we were able to deliver good growth in the 2nd quarter in a challenging environment. During Q2 of 2021-22, our consolidated revenue from operations grew by 23% Y-o-Y and stood at Rs. 1,038 million compared to Rs. 844 million in Q2 of last year. 81% of our revenue came from the retail segment and the balance 19% came from enterprise and government. As things have started coming back to normalcy, the sale and demand for higher-priced products in the retail segment have started picking up which is evident from the fact that average realization increased for the retail segment. The same has also gone up for our enterprise segment.

Retail segment revenue has gone up by 18% on Y-o-Y basis. Enterprise business grew by 16% due to a good growth in SME segment. The half yearly results are not comparable as the financial numbers of Q1 of 2021 includes revenue spillover of Rs. 280 million from Q4 due to non-availability of transport facilities due to lockdown. If the revenue spillover of Rs. 280 million in Q1 FY21 is left aside, we have registered a double-digit growth Y-o-Y during H1 of financial year 2022. Even after considering the revenue spillover, we have recorded marginal growth in H1 over the last year's H1.

EBITDA for the quarter was up by 18% Y-o-Y and stood at Rs. 463 million with a margin of 44.6%. PAT stood at Rs. 346 million, up 20% Y-o-Y. Cash PAT stood at Rs. 385 million, up 14% Y-o-Y.

I would like to highlight one important factor on the employee cost. 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 employee cost of Q2 as well as H1 of 2022 had an impact of 2 increments done during the last 1 year resulting in higher overall employee cost compared to same period last year.

In line with our continued focus on R&D and innovation, we increased our investment in R&D by 19% on Y-o-Y basis and it stood at Rs. 201 million compared to Rs. 169 million in Q2 of last year. While employee benefit cost was up due to a mix of increased headcount and change in the pyramid structure of the organization coupled with annual increments as explained above.

Coming to sales and marketing expenses, our sales and marketing expenses increased by 44% Y-o-Y basis to Rs. 204 million from Rs. 142 million in Q2 of last year. Of this, Rs. 12 million is due to increase in employee headcount and other annual increments. As the economy unlocked after the 2nd wave, we also increased our spending on ATL related activities and this has resulted in an increase in sales and marketing cost in the current quarter. With lockdown restrictions getting relaxed during the quarter, there was an additional spend of Rs. 5 million towards marketing travel.

Coming to general and administrative cost, G&A cost has increased by 18% Y-o-Y to Rs. 125 million from Rs. 106 million in Q2 of last year. This is mainly due to increase in employee cost due to salary increase. We also made doubtful debt provision for few of our customers on conservative basis in the current quarter where collections had slowed down. However, we are hopeful of collecting these amounts subsequently. This has also marginally impacted our G&A cost in the quarter. Other Income during the quarter has gone down by 37% Y-o-Y to Rs. 37 million from Rs. 58 million in the last year. This was partly due to reduction in the treasury size. We had a buyback cash outflow of Rs. 1,930 million in the last quarter; and also partly due to fall in the treasury yields. With this, profit after tax for the quarter increased by 20% Y-o-Y to Rs. 346 million. PAT margin for the quarter stood at 33.4%. Cash profit after tax during the quarter increased by 15% Y-o-Y to Rs. 388 million. The effective corporate tax rate for the quarter was at 24.3% for stand-alone and same range for consolidated as well.

Now, coming to the balance sheet items, our overall net working capital days increased to 109 days versus 93 days in September 2020. The increase in working capital days was a result of an increase in the receivable days from 141 days to 159 days.

As you might know, several small- and medium-sized enterprises are currently impacted with lower liquidity due to lockdown restrictions imposed earlier which have severely impacted the businesses. We have taken adequate measures regarding collection and it is to be noted that our receivable days have come down to 159 days as compared to 220 days in the previous quarter as of June 2021.

I would also like to highlight that almost more than half of total receivables are with our top 50 distributors with whom we have been doing business for several years and we are keeping a

close watch on these receivables and we are confident of their collection. We will continue to maintain our financial discipline and expect the debtor days to reduce over the next 2 quarters.

Coming back to cash and cash equivalents, our current cash and cash equivalents stand at Rs. 3,166 million compared to Rs. 4,479 million in September 2020. This is including investment in mutual funds, fixed deposits as well as tax-free bonds. The decrease in cash and cash equivalents is due to deployment of 1,930 million toward share buyback program.

I would again like to highlight that we are cautiously looking for an opportunity to better utilize the cash on our balance sheet.

On M&A, we again remain very cautious and calibrated in our investments and we are looking at smaller- and medium-sized investments. Our current investment in L7 is a testament of the same. We continue to monitor the process of our investee company so far and are quite satisfied with their progress so far.

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

Overall, to sum up, since the Covid second wave lockdown restrictions were lifted, we are seeing a strong recovery in the demand environment and that has been visible in our 2nd quarter numbers. We continue to believe the demand environment to remain strong with the vaccination gaining pace, economic activities gaining further momentum, and as the need for cybersecurity becomes even more evident. Overall, the 1st half has been good and we are well set for the next leg of growth.

With this, we now open the floor for questions.

**Moderator:** We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Kranthi from WealthMills Securities. Please go ahead.

**Kranthi Bathini:** Congratulations for a good set of numbers in challenging times. I just want to check when we have to compare the performance of cybersecurity. The PC sales are also going up. So, the sales have been going with PC sales? also if the company has a benchmark with respect to the number of PCs sold in India?

**Kailash Katkar:** Yes, we are seeing a trend in similar fashion. The PC sales is in upwards, but at the same time, the operations disturbed the market activity. That way, as the relaxations happened, we started seeing good demand for consumer products on all fronts – I mean to say online as well as the offline markets through the dealers and channel partner network.

- Kranthi Bathini:** I just want to know suppose if I have to see Quick Heal as a cybersecurity provider in India, what is the market share of Quick Heal at present? Anything with respect to the numbers just to quantify?
- Sanjay Katkar:** Currently, there are no reports that I can back with but what we get from our understanding is all the figures that we receive through the channel partner network and the sales that has happened throughout the country for other competitions, our share stands around 31% to 32% in consumer segment which is for Quick Heal Lite.
- Kranthi Bathini:** We can say the PC segment is a concern in India?
- Sanjay Katkar:** Yes.
- Kranthi Bathini:** This is my final question. Most of the IT companies are currently facing one of the issues, attrition. Is it the similar case with Quick Heal or how are you facing the attrition and the employee cost?
- Sanjay Katkar:** You are right. We too are facing the similar challenge, especially the highly skilled employees and experienced employees and the attrition is high. We are tackling that by coming out with good schemes for the employees. At the same time, we did increment throughout the organization
- Nitin Kulkarni:** Just to add to what Sanjay said, yes, you are right. This attrition is a problem across the industry and we are no exception to that. So, we are also facing that problem but we have been taking a lot of corrective measures and to an extent, we have been able to arrest it, but yes, there is an overall problem when it comes to attrition.
- Kranthi Bathini:** Any percentage you can give – the percentage of attrition if you have to quantify the numbers currently at present, last quarter at least?
- Nitin Kulkarni:** Basically, attrition is there and I won't be able to give you the exact number on the call, but yes, as I said earlier, we have been facing this problem for the last 6 months or so and this is the problem peculiar across the industry. I won't be able to give you any kind of number on the call.
- Moderator:** The next question is from the line of Chirag from ASSPL. Please go ahead.
- Chirag:** Congratulations for the good set of numbers. I am tracking your company since quite long and what I was seeing is that entire IT industry is booming post lockdown, especially in terms of order booking and all and also the selling of the laptop, tablet, and computers also increased day by day due to work-from-home culture. Where do we see ourselves going forward? I understand that the disturbances of lockdown and all impacted us a lot but now the numbers from this quarter have started somewhat normalizing. Your view on the same?

**Sanjay Katkar:** You rightly said the number of PC sale is increasing and the product sale has also increased. If you look at the item numbers sold, that has increased but people are going for a cheaper version. We have a range of products which start from Rs. 1000 to Rs. 2500. This year what we have seen that the premium product sale has not increased. In fact, that has decreased. But our less-cost products' sale has gone up. But in the last quarter – this Q2 – the premium products sale has again started picking up and the market has started coming back to normal. Second point is, there are cash flow challenges in the market. Some percentage of sales happen through online channel and some percentage happens through retail shops, and the problem is the cash flow among this retail channel partner has hampered because of this pandemic and that is creating a bit of a hurdle to do more stocking into this retail partner. The demand is there but the cash flow has a challenge.

**Kailash Katkar:** To add to that, to give you a picture, you should look at our company as we are targeting different segments. One is the consumers. The other is SMB which is small and medium businesses. With the new products that we launched in the last 3-4 quarters, we are also targeting large enterprises. And each of these segments has a different impact of pandemic. If you see consumers, there is a buoyant mood now. We are seeing more demand from there. SMB has also started picking up as the businesses are opened now. We also consider revenue data shown in SMBs, government sales is also included in that. The government's side demand has also started picking up. So, that segment has also started seeing good results, and I am sure that we will be having similar results in the coming quarters. The large enterprises is a new segment for us, which we have started with our EPS product, scaled up for large enterprises and gradually we are also scaling up our other products like EMM and firewall. That market has little effect of pandemic as they are getting ready for work-from-home culture where their IT spending has gone up and so the cybersecurity spending is going up there. So, we feel that that will be the added revenue to our segment as we keep adding more products to that segment.

**Chirag:** Sir, I have one followup question on what you said. In one of the quarters, you answered that SME and large enterprise, we have developing products and the approval takes time. Any concrete deal which has happened in the last 2 quarters for developing solutions under the R & D department?

**Kailash Katkar:** If I have to tell you about the new product development, as I mentioned that development is in a full swing. The products are yet to release to the market, but if you look at the presentation for whatever we are selling as an endpoint security, the large deal which happened in this quarter and if you compare with the quarter 1, there were 8 deals which happened

**Nitin Kulkarni:** If you see the investor presentation, in Q1, we have added about more than 500 endpoints which we call it as mid-size large customers, about 10 customers on the enterprise side. And in the current quarter, in spite of all the challenges, we have added about 24 customers.

**Chirag:** So, total 524?

**Nitin Kulkarni:** No, 24 customers.

- Chirag:** On large side?
- Nitin Kulkarni:** That's correct.
- Moderator:** The next question is from the line of Rahul from PRP Professional Edge. Please go ahead.
- Rahul Jagetiya:** I want to know how you plan to utilize your investments into mutual funds and government bonds and securities. Any plan about utilizing these funds for business or for shareholders?
- Nitin Kulkarni:** We did a buyback about a quarter back and we returned the cash back to shareholders, but the cash we have and investments in mutual funds, they have been for organic and inorganic needs and we are continuously looking out for inorganic opportunities. That is where we will be utilizing this cash. So, it is mainly for organic and inorganic needs.
- Rahul Jagetiya:** Can you help me with the bifurcation of your receivables that you have into retail and for government – the percentage that is for retail and for government?
- Nitin Kulkarni:** If you look at the revenue split, it is around 80% retail and 20% enterprise. So, roughly you can take the same percentage – a little lower for the enterprise side. Maybe I can say, around 85% for retail and 12% to 15% for enterprise.
- Rahul Jagetiya:** And bifurcation for the government?
- Nitin Kulkarni:** Government is part of enterprise.
- Moderator:** The next question is from the line of Stella D'souza from JK Investment. Please go ahead.
- Stella D'souza:** Congratulations for your great set of numbers. I just wanted to know that our working capital days have gone up compared to last year. Can you throw some color on it and could you provide an outlook for the same?
- Nitin Kulkarni:** As I said in the opening commentary, basically this pandemic has created a lot of pressure on the overall dealer ecosystem and in the last call also, we had mentioned. If you look at debtor days as of June 2021 which was last quarter, debtor days were at 220 days and we have made a significant progress in this quarter and as things have started opening up, things have eased out a little bit. So, we have done a very good amount of collection and in September 2021, debtor days have come down to 159 days. Having said that, there is overall liquidity pressure in the whole ecosystem and we feel that debtor days will remain in this range in the next 1 or 2 quarters.
- Stella D'souza:** Can you help us understand how you do business in the retail segment and what kind of competition are you facing currently?

- Sanjay Katkar:** On the retail segment, I have explained earlier. We are seeing a good amount of traction as we have started seeing shops opening and lockdown restrictions relaxed. We have seen there is a good demand coming from the offline market, non-online, which is our biggest chunk in the retail segment. And we do see that this trend will continue unless we don't see any further new Covid wave. Because there is quite a lot of PC sale that has happened. It should impact the demand there. So, we are expecting good demand from that segment and SME segment as well.
- Moderator:** The next question is from the line of Rahul Talwar from AB Advisors. Please go ahead.
- Rahul Talwar:** My first question revolves around the new enterprise products. Can you please elaborate on them as to which are the products you are planning to launch in next year – the new enterprise products?
- Kailash Katkar:** I cannot give more details but for the recent launch, is about EDR which is endpoint detection and response. We are going to enter that market, which is a logical extension to endpoint security market. Along with that, zero-trust products are planned for the coming future quarters, and something more related towards data privacy and other compliances for organizations.
- Rahul Talwar:** Sir, my next question is, can you throw some light on the provisions that are made towards the debtors?
- Nitin Kulkarni:** In this current quarter, we have made provision of about Rs. 6 million for doubtful debt. Basically, as per our policy, as soon as the debtor goes beyond 365 days, we do a provision, but we do a followup and we collect a significant part out of the provision. So, to answer your question, we have made a provision of about Rs. 6 million in the current quarter.
- Rahul Talwar:** Sir, my another question revolves around the working capital cycle. If you don't mind, can you please throw some light on how the working capital cycle is for retail and the enterprise business? How does it vary? What is the outlook for both the segments?
- Nitin Kulkarni:** Working capital mainly covers debtor days. I talked about this earlier but again I will repeat. The payment terms for both retail as well as enterprise customers, they are more or less similar. It is in the range of 45 to 60 days, but in the case of enterprise customers, generally we get payments on time or with little bit of delay. But when it comes to retail segment, which is more of a stock and sell model, where there are delays in collection. Basically, because of the pandemic in the last 1 to one and half years – since I said earlier also that – there is a huge liquidity pressure on the entire dealer ecosystem. Since the retail is 80% of our business and where we follow the stock and sell model, debtor days are more in the case of retail. If I have to say, , majority of the outstanding is for retail and in the case of enterprise customers, there are a few delays but more or less we have been collecting money on time. Hope that answers your question.
- Moderator:** The next question is from the line of Chirag from ASSPL. Please go ahead.

**Chirag:** Sir, in the last one and half years due to unavailability of raw materials and parts, the entire electronics industries have increased the prices including laptops and computers. Have we taken the same step for our products and services?

**Kailash Katkar:** No.

**Chirag:** But as you answered me in my earlier question that the demand for cheaper version solution is more on the retail side, right? So, why we have not taken such step because entire IT industry has taken a price hike on the equipment side?

**Kailash Katkar:** No, it is not that way. The strategy for product pricing is well designed by a set of people like the sales head, the regional managers, zonal managers, and it is a conscious call which we take. As I told you that in this pandemic situation, the consumers themselves are facing financial challenges and in that, we cannot increase the product prices.

**Chirag:** But even in telecom also due to demand of internet – it is also a kind of service – they gradually inched up their average revenue per user by increasing the internet pack prices slightly let us say in a very small amount but on a longer horizon of 7-8 quarters if you see, it almost increased by 10% to 15% – the recharge pack. Same way like in cheaper version, there is a scope if the demand is more on that side, that's why I was asking that.

**Kailash Katkar:** I understand your point. It also depends on the competition pricing and that's where the regional heads and the sales team take the call. So, it is more of a market-driven price and MOPs driven by all the activity even from the other competition and we are seeing price drops in most of the competition. In fact, Quick Heal has maintained the prices even in these situations.

**Chirag:** In the future, is there any plan to cut the discounts which we offer on bulk purchase like 3-year or 5-year extension?

**Kailash Katkar:** This is not a single person's decision. Strategic decisions are being taken on a quarterly basis. So, no one here will be able to answer in a very correct way about the pricing part of it. And when it comes to the pricing, it is a very sensitive point where a single person cannot take a decision. It is a team decision.

**Moderator:** The next question is from the line of Nikhil from Galaxy International. Please go ahead.

**Nikhil:** Just a couple of points. First is, let us say the new products that we are developing, when do we start to see the launch of the first products? Second is, how many new products are we planning in total and are they focused on the enterprise segment only or do we see anything for the retail side also?

**Sanjay Katkar:** Most of our launches that are planned, which is a couple of products in the last quarter of this financial year. And all our future launches are focused on enterprise segment and particularly on

the large enterprises. Whenever we do a product launch, it takes certain time for a product to get stabilized and get to the level where distributors and partners and pre-sales guys are able to pitch it to the organizations. So, we are already starting the training and education part but dealers and partners or some integrators take time unless they see the product and have hands on. This is the process. It takes at least a quarter or a couple of quarters to start seeing some impact on the revenue, but the product gets matured after the first version and the second version follows. Once the product gets matured, then it becomes a fast revenue adding product. This takes a long time in a product. The products will be launched this financial year and furthermore products will be launched even in the next financial year and we expect these products to get stabilized and start giving revenue – some revenue in the next financial year and much better revenue in the further financial years.

**Nikhil:** If I can just continue on that, I understand that it takes a long time for the products to start giving you revenue. If I take a 3-year horizon, let us say in 2024-25, what percentage of our revenues we can expect or we are targeting to get from these new products that we will launch this year and next year? Any aspirations or any guidance?

**Kailash Katkar:** In the next 3 years, we are planning to have a ratio of 50%-50%. It depends upon the market, acceptance of the product, and the challenges which we are going to come across after the product launch.

**Sanjay Katkar:** Kailash means to say, the enterprise segment which is contributing 20% right now, our focus is to increase that to 50% in the next 3 years and the additional revenue we are hoping from the potential new product launches. And the target are large enterprises so that we will have lesser impact of such pandemic related or any other business disruptive impacts. Because large enterprises' cybersecurity spending remains quite steady throughout.

**Nikhil:** On the margin side, right now, enterprise is 20% and retail is 80%. So, once the enterprise moves to 50% over the next 3 years and retail also grows but will come down overall to 50%, do you expect that the margins will come down on a consolidated basis? In terms of percentage I am saying – absolutely it should increase. And a related question becomes likely that, are our margins in enterprise segment and retail segments different currently or they are roughly similar?

**Nitin Kulkarni:** To answer your last question, in enterprise we are making a lot of investment. So, yes, margins in enterprise segment are lower than retail and retail is having a better margin compared to enterprise. On the first question which you asked, yes, as Sanjay also mentioned that a lot of investment is happening on the enterprise side on this new product development. So, initially there will be impact, but as gradually we start getting monetization from these products which will have a huge upside and that will take care of the margin and will be able to hold on to the same..

**Moderator:** The next question is from the line of Stella D'souza from JK Investment. Please go ahead.

**Stella D'souza:** I just wanted to know what is your view on the antivirus industry in the retail space like how is it growing, what are your views, how do you think it will pan out in the future?

**Sanjay Katkar:** If you are talking about retail, when we are saying antivirus, it becomes a consumer product which we feel that after these events of pandemic we have started seeing good movement in the PC market and laptop market, which has given a good life to this product. So, we do see higher single digit or at least early two-digit growth in this segment. That's the hope. Of course, having offline as one of the major contributors in retail showing depends on the market's openness. Unless there is no further lockdown, it shouldn't be a big challenge.

**Stella D'souza:** My next question is, where do you see this pricing for license stabilizing in the retail segment?

**Sanjay Katkar:** We always play with our product mix. We have products in different ranges. Total Security which is the highest-selling product as well as costliest product. We do try and play the product mix game, try to make sure we get revenue out of the situation. That's what we keep doing to maintain the ARPU at a certain range and that is what we have been able to successfully do over the last 3-4 years. The ARPU has not moved too much, in spite of a lot of competitive price pressure from other competitors. I am hopeful that we will be able to maintain that even in the next couple of years.

**Moderator:** The next question is from the line of Nikhil from Galaxy International. Please go ahead.

**Nikhil:** We have investment in the Israeli security company. If the management can give some view on how the things are progressing at that end. And second question, given that our new products are being targeted towards the large enterprise segments, what gives us and what do we believe is our right to win or let us say the key differentiator which will help us to win the business against the global giants in the cybersecurity space?

**Sanjay Katkar:** To answer your first question, the investment that we did in L7 which is the Israeli company, the investment was done at the stage where the product was still under development and we have been following them quite well. The product is now in the release state. It is coming to release soon. We have already started giving demos of the product to the Indian large enterprises and started seeing good interest from these customers as well. It is at this stage where we have started seeing an interest in the product. As such, this product is particularly for very large enterprises. The deal cycle is bigger for such products. So, it will take some time for us to contribute on the revenue side from these products. But it has progressed, and we have started seeing some customers with these products.

To answer your second question which talks about what is the differentiator that we have for the new products that we are coming up. We have opened up a new product management vertical where they focus on the current products which are there from the competition and what are the missing points and what is it that the enterprises are looking for which are missing in even the large products, and that's where we have developed the differentiators which I cannot explain

technically here but we are working on the differentiators. As the cybersecurity challenge is a fast-moving, it is not the same every year. So, things are changing, and we are trying to cover things which are missed by the competition, and we will be making sure that we have a good differentiator which will help our sales team to take it to the large enterprises in front of the competition. Since we have the product manager, the CTO who is sitting in the US, for these products who are well experienced industry veterans coming from competition and we are quite confident about the products that are going to get released.

**Moderator:** The next question is from the line of Manoj Shah from LaxGov Investments. Please go ahead.

**Manoj Shah:** Can you just comment on the cybersecurity market penetration in retail in the enterprise segment in India? Per 100 PC or laptops sold in India, how many people purchase cybersecurity or the antivirus software? And what is your strategy to expand the market like either by keeping the price at a lower end or what's your strategy so that once the customer is on board, then you expect him to renew the license every year what's your strategy there?

**Sanjay Katkar:** It's a good question. We have been tracking the cybersecurity market globally as well as in India and we are also trying to expand globally. What we have seen is, cybersecurity spending in India is quite low compared to any other developed countries or even certain developing countries. That is where it also points towards the potential that India has. Since in the last 3-4 years, we have improved a lot on digitization, e-governance, and all these things have really brought the cybersecurity to the center stage, and this is where there is no option than for any enterprise to invest in the cybersecurity products. Currently, as you rightly said, most of the organizations are not investing much in the cybersecurity, but this is the trend for SMEs and even on the consumer front. Among all the sectors, BFSI is the only sector which is closer to the western or developed countries' spending on cybersecurity. But then, it leaves with a huge vacuum on the other fronts like telecom or even pharma, manufacturing, and other verticals like even education. We do see that there is a huge scope where this kind of investments will grow as we are seeing more and more attacks as people are going digital. The current situation of work from home and all, every organization has to work on IT or automation and digitization of their business which will bring demand for cybersecurity products. We are trying to increase the cybersecurity awareness by creating a lot of programs and holding a lot of seminars vertical-wise. In fact, I just came from one of the seminars which was targeted towards the rural or smaller banks which are not well protected from the cyber attacks and facing huge losses due to unprotected networks. So, that's what we are trying to do; educate all these verticals, tech seminars, advertise and reach out or send mailers is what some of the activities or steps that we are taking to do the cybersecurity awareness.

**Manoj Shah:** Your R&D spend as a percentage of sales is roughly around 19% for this quarter. What percentage of sales are you targeting for your R&D spend over the next 2-3 years? What ballpark target percentage do you have in mind over the next 2-3 years?

**Nitin Kulkarni:** As Sanjay also said that a lot of investment is getting made, so if I have to talk on annual terms, the R&D spend on an annual basis would be about 22% to 23% of our revenue.

**Manoj Shah:** What strategy in the sense that, what are you experiencing? Is it the mindset since we are more of a retail-oriented company, 80% of your sales is towards the retail rather than enterprise, and enterprise you want to increase it from 20% to 50% as you said, but currently it is mostly retail. So, what's the impediment in the retail segment, what is hindering a customer to purchase the antivirus software? Is it that the cost is high or is it the mindset that he doesn't want to purchase? He wants to spend on a 50-60 thousand laptop but he doesn't want to spend a few thousand rupees on the antivirus software? So, is it the mindset issue or is it the price issue?

**Kailash Katkar:** I think, as Sanjay has also answered this point in the past, we have a range of products. We are catering to all customers. The customers who are more serious about their protection and security, who are ready to buy premium products by spending more, we have a product for them; and for those customers who are more price conscious, and they don't want to spend too much money on the antivirus software, for them also, we have a product with a different layer of protection. So, we are catering to all kinds of customers. It is not that we have only 2 products in retail. We have a range of products in retail. So, we are not losing any part of it. But that doesn't mean that we will be able to cater 100% customers because there are so many products in the market, there is a competition in the market, and there are so many people who don't believe that protection is required. As Sanjay rightly said that we don't have any reports but whatever we have, we are present across India and with the channel partners we are dealing with, we try to get all this information that how much products they have purchased from Quick Heal and how much products they have purchased from the competitor and based on that, what we find out is we are close to 32% to 33%. And what our observation is that people think of antivirus only when they face a challenge, that they are facing some operation challenge, after that they start thinking about security, not at the time of buying. We see that we don't lose any of the market segments. So, on the lower price market segment, we have a product which enters there and then we have a program where we keep following up with the customer to upscale his product. So, at the time of renewal or any challenge if a user faces because of the product he is using which is a lower-cost product and if he is doing a lot of business activity, we pitch him the total security version. Those programs are there. In fact, we are regularly tracking and making sure that we move certain part of lower segment business to the higher cost product and that's how we are able to even gain traction on the higher cost side product as well. And those customers who are with us since years, most of them have moved to Total Security because they have moved to premium products. That's the confidence that shows they have in our product and they realize the importance of security. That's the trend as well.

**Manoj Shah:** Can you just reconfirm – you said 32% to 33% is the penetration level for the cybersecurity software in India? For 100 PCs, 32 or 33 would be buying the cybersecurity products?

- Kailash Katkar:** I cannot comment on that. I just said that whatever we do our own survey with the channel partners. So, there are no figures available. There are different markets. One is, there is a segment which doesn't even buy the product. They go for either OS version antivirus which comes with the OS as a free version or they download certain free available antiviruses unless and until they face a virus challenge or a ransomware challenge which then they realize they need a better protection or a paid protection which is much up to date and then there is a service attached to that. That happens gradually. That's what we have observed.
- Moderator:** The next question is from the line of Rahul Talwar from AB Advisors. Please go ahead.
- Rahul Talwar:** Sir, my first question is just a followup on the previous participant's question. You said that the customers usually consider taking an antivirus whenever they feel the threat, and according to what was said in the initial comments, the cyber attacks have been increased since the Covid has started. So, basically, has the total income increased by 464 as compared to last quarter because of this reason?
- Kailash Katkar:** To answer your question, if you want to see the margin part of it, you can check all the quarter results and ARPU part of it, you will get to know whether the earnings per license has increased or not. The second most important thing is we really don't compare quarter-on-quarter basis, because market and the customer sentiments totally depend upon the market economy. If you see for the last 2 years, the economy of our country, because of this pandemic, people are facing a lot of challenges and based on that, as I said earlier also that in the last one and half years, our premium product sale has gone down and our low-cost product sale has gone up but now in this quarter Q2, our premium sale has started picking up again and coming to the normal situation.
- Nitin Kulkarni:** Just to add to what Kailash said, , for the last one to one and half years, the lower-price products were getting sold and we have seen uptrend in Q2 of current year. You can easily calculate ARPU based on, data on license sold as well as revenue available in the investor presentation. So, ARPU for retail segment in current quarter compared with Q2 of last year has gone up. It is 523 in Q2 compared to 509 and even if you compared on a half yearly basis, it has gone up compared to half year of last year. That is what Kailash just mentioned that we are seeing a bit of uptick in the last 3 to 6 months where the higher-priced products are getting sold more.
- Rahul Talwar:** Last question on the same thing. As in the initial comments itself it was said that considering the increase in cyber attacks since the Covid has started, just wanted to know how often does Quick Heal provide updates for its products if we compare it with its peers such as Kaspersky or Norton? Also, has the probability of providing updates to such products increased since the Covid has started or is it still the same?
- Sanjay Katkar:** The update frequency changes depending on the threats that we see, but on an average, we release 3 updates per day for all our users and sometimes it goes to 5 updates depending on the situation. It is quite comparable, rather much better. But update is not the comparison measure. If you compare Quick Heal's detections and performance, there are international certifications

which keep an eye on all the products and Quick Heal has been one of the products that is kept monitored and Quick Heal was listed as top product again in the last quarter, the tests that were published in Germany. So, the test is about detections, how well proactively we protect our users.

**Moderator:** I now hand the conference over to Mr. Nitin Kulkarni for closing comments.

**Nitin Kulkarni:** Thank you all for joining the call. I hope we have been able to answer the questions raised by you. In case if you need any clarification or any additional input, you can get in touch with EY our investor relations advisor. I wish all of you and your families a happy and safe Diwali. Thank you.

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

The transcript has been edited for reading purpose.

Contact details:

Registered Address: Marvel Edge, 7th Floor,

Office No.7010 C&D, Viman Nagar,

Pune, Maharashtra, 411014

Email: [cs@quickheal.co.in](mailto:cs@quickheal.co.in); [info@quickheal.com](mailto:info@quickheal.com)

Website: [www.quickheal.com](http://www.quickheal.com)

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