

**Quick Heal Technologies  
Earnings Conference Call  
May 06, 2022**

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**Moderator:** Ladies and gentlemen, Good day and welcome to the Quick Heal Technologies Limited Q4 and FY22 Earnings Conference Call. As a reminder, all participants lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “\*” and then “0” on your touchtone phone. I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you, Sir.

**Anuj Sonpal:** Thank you. Good evening everyone and a very warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent the investor relations of Quick Heal Technologies Limited. On behalf of the company, I would like to thank you all for participating in the company’s earnings conference call for the fourth quarter and financial year ending 2022. Before we begin, I would like to mention a short cautionary statement. Some of the statements made in today’s conference call maybe forward looking in nature. Such forward looking statements are subject to risks and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management’s belief as well as assumptions made by and information currently available to management. Audiences are cautioned not to place any undue reliance on these forward looking statements in making any investment decisions.

The purpose of today’s earnings conference call is purely to educate and bring awareness about the companies fundamental business and financial quarter under review. Now let me introduce you to the management participating with us in today’s earnings call and then I will hand it over to them for opening remarks. We firstly have with Mr. Kailash Katkar – Managing Director and CEO, Mr. Sanjay Katkar – Joint Managing Director and CEO, Mr. Navin Sharma – Chief Financial Officer. Without much delay, I request Mr. Kailash Katkar to start with his opening remarks. Thank you and over to you, Sir.

**Kailash Katkar:** Thank you Anuj. Good evening ladies and gentlemen the economy is quickly catching up after COVID impact and I hope the same for you. Thank you for making the time to join us today for the company’s earnings conference call of Q4 and financial year ending 2022. As you must be aware Quick Heal is a pioneer in India in cyber security products and truly Make in India. Quick Heal product are configured to secure individual countries, cities and companies across platforms. We are the undisputed market leader in the consumer segment in India which constitutes about 75% of our overall business. Over the last few years, we have been investing

heavily into enterprise solutions which offer roughly 20 times large market opportunity than the consumer segment. Enterprise cyber security solutions command over 95% share of the total \$150 billion market globally. It is also expected to grow three times faster than the consumer market. Our investment into this space has already caught momentum our enterprise business has been growing by 23% while industry is moving at 11% globally.

At the consumer front we are growing modern channels of online direct to consumers and ecommerce platforms and open up new channels for large format retail stores. Our online direct to consumer business has grown over 11% through the year we have delivered good results despite the year being hit by two waves of COVID impacting our traditional channel distribution network.

We are looking at multifold growth in the years to come through our investment in R&D, sales and marketing, people and global expert. We are developing new lines of enterprise solutions to cater the evolving demand of the industry. We are expanding our footprint beyond India with strong current focus on developing economic countries. We have onboarded global industry expert across functions. We are engaging with one of the top global management consultancy company to fructify our long-term strategy growth plans. Now I request Sanjay to take you through the technology updates and current developed products. Over to you, Sanjay.

**Sanjay Katkar:**

Thank you Kailash and good evening everyone. I am happy to report to you that our enterprise solutions is making great inroads in the SMB and enterprise segment. In Q4 of FY22 our enterprise business showed a strong year-on-year growth of around 33% to reach around 27 crores surpassing the ARR of INR 100 crore. We added more than 30 new customers in the enterprise solution segment during the quarter.

Through the year FY22 we have launched two new enterprise products namely HawkkEye and HawkkHunt which are currently in the beta phase and has been deployed and been tested by our beta customers. HawkkEye is our centralized security management platform offering holistic cyber security posture through a single dash board where the current customers are burdened with multiple products and dash boards and HawkkHunt is our endpoint detection and response product moving beyond our traditional protection capabilities to identify, investigate and respond to cyber threat at scale.

Seqrite also got certified and approved for its endpoint endeavor malware solutions by ICSA Labs in this quarter. Seqrite endpoint security even pass the AV-Test, Jan-Feb test and was listed among the top products in the list of the selected products in the Jan-Feb test of AV-test product. We would continue our efforts towards building new offering to the customers through the next couple of years. In a typical product life cycle the revenue started to flow in post four to six quarters of the beta release. Here I mean to say the initial beta release and then minimum viable product is something that we keep using to our existing and beta test where

it is further enhanced based on the customer feedback so that we start getting and we start competing with the mainstream competition in the same product line.

On the retail business segment for Q4 financial year 22 we had a decline in revenues of 8% against previous year due to lower sales on account of COVID related lockdown in January. Our direct online sales for financial year 22 grew by 11% year-on-year and also faster than other sales channels. We are making continual upgrade to our existing lines of products adding more protection and feature for our customers. I would now request Navin to take you through the financial over to you, Navin.

**Navin Sharma:**

Thank you Sanjay and hello everyone. Let me take you through the financial highlights for fourth quarter and financial year ended 31<sup>st</sup> March 22. For the financial year ending 22 the consolidated revenues stood at Rs. 342 crores which grew by around 3% on a YoY basis after adjusting for spill over of revenue in FY21 the company saw a growth of 10% on a YoY basis. While the retail segment grew by 6% as against industry growth of 4%. The enterprise segment saw a growth of 23% for the full year which is more than double of the global industry growth. FY22 has been a year of our investment for further growth we have invested more than 50% of our revenues towards R&D and sales and marketing program with an increase of around 30% on a YoY basis.

R&D investment for the years stands at 26% while the sales and marketing stands at 24%. EBITDA for the year stood at 31% which is aligned with 30% to 32% EBITDA range in the near term. The net profit stood at about Rs. 83 crores declined by 22% and the net profit margin for FY22 was 24%. Q4 revenue saw a marginal dip of 1.5% largely due to the latest wave of COVID impacting sales in the month of January approximately 77% of the revenue for the quarter came from retail segment whereas 23% from enterprise and government segment. Our balance sheet remains strong with zero debt and cash and cash equivalent of Rs. 359 crores as on 31<sup>st</sup> March 22.

We are committed to driving shareholder value by growing profitably across both of our segment and driving solid unlevered cash flow. Over the last three financial years we have rewarded our shareholders with over Rs. 400 crore through buyback and dividend distribution programs. A dividend of Rs. 4.5 per share was also proposed in the board meeting in line with our dividend distribution policy. In the last call we had mentioned to update you on our three-year roadmap. We have taken significant efforts towards building the same however we would require some additional time.

As Kailash mentioned earlier we are engaging with global experts from top management consulting firm to help us shape and drive the strategic growth plan. We will keep updating you on the developments in the coming quarters. With this, I would like to open the call for question and answer session.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Rushank Mody a Retail Investor. Please go ahead.

**Rushank Mody:** Sir my first question is most IT companies are facing this issue of attrition, so is this an issue that Quick Heal is facing too and if so how are you guys handling the issue along with the rise in employee cost?

**Sanjay Katkar:** So, you are right the entire software development industry is facing a lot of challenge about attrition and we are not different regarding software developing engineers and customers software engineers which is close to 50% of our employees. The attrition rate has gone up in comparison to previous year. So, we are just taking all the measures to make sure to retain the existing strength in engineering as well as support at the same time we are also rolling out lot of things which help us to create more engagement among the R&D engineers and make sure that they are retained. I will also say, but if we benchmark ourselves with the industry which is close to 40% we are better off with our attrition rate close to 29%.

**Rushank Mody:** Sir the next question I have is that sir you are right which is the enterprise products contribute to almost a quarter of the total revenue, sir where do you see this going in the next three to five years?

**Kailash Katkar:** So, yes as you know we are having most of our new investment focused on to enterprise segment. Security is all about our enterprise product offerings and we are having a quite a good pipeline for our products also would plan for marketing and sales of those products. So, our plan is to increase the revenue pie from Seqrite to at least 50% in next three to four years.

**Rushank Mody:** And sir the last question I have is that sir Quick Heal is basically a household so how are you planning to increase the share of revenues from outside of India?

**Kailash Katkar:** Are you talking about consumer product from the outside market.

**Rushank Mody:** Yes sir.

**Kailash Katkar:** For a consumer product from outside market, we are focusing on ecommerce platforms like Amazon.

**Sanjay Katkar:** The major focus is ecommerce platform because the traditional platforms out of India are more costly I mean to say the marketing and branding towards that actually. So, we are gradually expanding our presence of retail front in the countries similar to India if you see we are having a good presence of retail product in neighboring countries across out of India and then certain African countries as well, but at the same time as Kailash said we are focusing more towards capturing the market through ecommerce.

**Kailash Katkar:** I would like to also like to add as Sanjay said that our consumer products are like as you mentioned household name in India. In some countries again it is the same like Bangladesh even in Italy or consumer products are getting sold through the shops. So, some of the countries it is already there like Kenya, Nigeria some of the African countries. So, you will find little boxes in the shops actually.

**Moderator:** Thank you. Our next question comes from the line of Sanjay with Envision Capital. Please go ahead.

**Sanjay:** I just wanted to ask which are the geographies you are focusing as you said that you will be moving ahead with developing geographies, so if you can highlight some names of these countries and are there any other plans to move ahead other than cyber security or the existing products?

**Kailash Katkar:** To answer to your question we are cyber security experts and there is lot many things to do in cyber security itself so we are not going to diversify our business we are going to focus on cyber security part of it and as I said in my speech I am talking about the enterprise solutions which is already there with us and plus what Sanjay has updated you about our new products and solutions in enterprise. We would like to take those products to some of the economically strong and where we feel that market is ready to pay for that products and solutions. So, to those countries we would like to take our products and solutions to those countries like South Africa, African countries, South East Asia countries, some of the Europe countries not all Europe countries where we have a good channel network some of the values in like Korea and all these comes in South East Asia only. So, these are the countries I mean to say.

**Sanjay:** And can you highlight the attrition rate for FY22 if it is possible for you?

**Sanjay Katkar:** So, the attrition rate for this year is around 29% with us which is less than industry average.

**Sanjay:** So, any guidance for FY23 on revenues or EBITDA margin if you can help us with that?

**Kailash Katkar:** Let me tell you we are very much confident about our new products and solutions which are moving to the customer as a beta testing part of it and some of the products have already reached to our customers and we are also very excited and happy to see the customers are happy with what we have developed the production. This is definitely going to generate good revenue in coming years actually.

**Sanjay Katkar:** I can only say that we can see similar growth in enterprise trend the growth this year we have seen almost a 20% growth in enterprise and then on the consumer with now like markets open and hope that there will be no more COVID waves which can disturb the market then this should also help us in bringing back consumer markets or the activations on the consumer front as well actually. So, we hope to have a good year in FY23.

**Moderator:** Thank you. Our next question is from the line of Deshesh Kaswalwal, a Retail Investors. Please go ahead.

**Deshesh Kaswalwal:** So, actually I just wanted to get some idea on the enterprise solution market in India the overall market size on the scope that we have going forward as well as like overall in general who are our key competitors in the space?

**Sanjay Katkar:** On the enterprise front means I will divide the market into two segments and one is SMB then there is a large enterprises and Seqrite has products for both the segments we traditionally started with SMB so we are very strong product offering for SMB segment and then quite sure that we will be able to increase our market share with respect to the SMB markets with respect to our products and on the large enterprise we since couple of years we have been releasing products which are supporting the scale for large enterprises and we have plans for further new products for the large enterprises as I have been keeping announcing and we will be announcing them as and when they are launched. So, that is the plan at the same time if you see your next question was about who is the competition. The most of the competition that we face for SMB segment is from players like Kaspersky and in very large enterprises we do face competition from trend micro and companies like CrowdStrike and Symantec.

**Deshesh Kaswalwal:** And another question that I had was in the retail segment we primarily our entire businesses in India. So, there are many global players like Norton, McAfee who are able to actually sell online. So, because of that there are a lot of sales that can happen outside their individual countries, so what is actually restricting us to do the same thing like can we enter into other markets or is there some type of restriction or some type of strategy that we are following right now?

**Kailash Katkar:** There is no restriction on that front, there is the names that you took the players like Norton and McAfee they are there since this market started actually like more than 30 years and they are global brands which is started in India. So, currently like the market leader in Indian markets, but for global market to capture it takes lot of branding activities and lot of expenses. So, we are gradually doing that based on the countries where we feel that it is the right market for our products because see technology wise product is ready for all the markets, but the developed countries is consumer market and market has move towards premium actually most of the products are having a free products throughout countries like US and Europe, but that is the case in developed countries where the sales is going down, but the countries like middle east or even European countries and the developing countries like India like South East Asia and the markets are growing in single digit. So, that is where our focus is we are focusing in those countries and even focusing through online channels.

**Participant:** So, primarily right now for the next two to three years our main focus will be India and then going forward?

**Kailash Katkar:** India and similar countries like South East Asia and African countries.

**Moderator:** Thank you. Our next question comes from the line of Dhwanil Desai with Turtle Capital. Please go ahead.

**Dhwanil Desai:** So, the first question is I think you mentioned that R&D and sales marketing currently for this year constituted almost 50% of the revenue. So, is this run rate on R&D and sales and marketing likely to continue going forward also if you can elaborate on that?

**Navin Sharma:** As we said, we are at growth phase & we are developing both, new products as well as we are venturing into new markets, and to increase our sales and product presence these cost will be higher. But at the same time we have given this 30% to 32% EBITDA range in the near term & even with the increased trends we will try to deliver above EBITDA margin.

**Dhwanil Desai:** So, the normalize marginal range that we can expect even with this kind of spent is around 32% that is the right way to think?

**Navin Sharma:** But just to give you a caution, since our business has lot of seasonality, In a full year basis you can expect means we are determined and we are working to make sure that 30%, 32% EBITDA ranges on a full year basis.

**Dhwanil Desai:** Second question is slightly more broad based so I was looking at our numbers and almost since 6 years, 7 years we have been in the range of 300 crores to 350 crore revenue, why is the digitalization is growing, the industry is growing so what are the key challenges that we have faced and what will change going forward in next three, four years so that we can let us say let us say 500, 600 crore kind of a revenue?

**Navin Sharma:** If I talk about current year, means in FY22, we have grown on revenue by 10% and first we need to understand it from different segment. Retail segment globally is being growing at 4% run rate and there is some industry analysis which says that from FY20 to FY25 the growth could be in range of 4% only and which is lower single digit and we are at growing at same way. With respect to enterprise while industry is growing at 11% we are growing at double of that growth and we expect to grow in coming years this high double digit. As of now we would not like to give any guidance on exact timeline when we would able to achieve or deliver the 600 crore revenue, but we expect in future also to grow on retail at lower single digit and enterprise segments with higher double digit growth.

**Dhwanil Desai:** Sir the only question is that if you can talk about the challenges that we faced in last four, five years which kind of tampered our growth last year I understand COVID for last couple of years, but even before that we were kind of stagnated around a single number, so is it because of the product mix, is it because of the product readiness if you can expand on that what were the challenges and how are we addressing those challenges?

**Navin Sharma::** Predominantly in earlier years, retail product was our core products and last five, six years there has been several events. One part that industry itself is growing at lower single digit and since we are more focused in India there were two - three India specific events like one demonetization happened second GST. If we are not aware let me help you understand that pre-GST this product used to attract barely 5% to 7% VAT. With GST taxes have increased to 18% and at the end of the day this entire cost of GST has resulted into lower net revenue because the same gross revenue was reduced by 18% tax which was 5%, 6% earlier. In addition to that this COVID has also impacted. This is the main reason that we have increased our focus on enterprise segment which is a high growth business and in last four, five years the business has grown to ARR of INR 100 crore business. In this year itself we have delivered Rs. 82 crore revenue on enterprise. So, broadly we do not expect a major shift in revenue of business in retail that is the large reason why we have increased our focus and in fact the other products which has released in this year are for enterprise business. In similar fashion in coming year also there would be couple of products in pipeline for enterprise business and it will help us in growing our business further.

**Dhwanil Desai:** Last question I think as per your presentation we have distributed 200 crores as dividend and buyback and our cash flows as a company and as a business model will always remain very strong, we have a very strong cash balance, so in terms of capital allocation the incremental capital will return to shareholder in some form or the other is that a right way to think?

**Navin Sharma::** It will be mix of both as earlier in this statement Kailash said that we are working with global management consulting firm who will be helping us in building our strategy and in that strategy whatever allocation required to grow for let us say organic as well as inorganic acquisition that part will be there. Balance money certainly will go to shareholder the way we have distributed in past. In fact in this year also we would be distributing more than 30% of our profit in form of dividend, needless to say that dividend once approved by board.

**Moderator:** Thank you. Our next question comes from the line of Rajiv Pandya an Investor. Please go ahead.

**Rajiv Pandya:** I had a couple of questions and my first question is where do we see our enterprise solution revenue in FY23 and what kind of margins would we make in this business, would it better or similar to the retail or less than it?

**Navin Sharma::** Revenue for enterprise business was Rs. 82 crore on full year basis and margin on retail as well as enterprise business remains in same range.

**Rajiv Pandya:** So, consumer segment has degrown because of the COVID impact, but do you see the retail segment to grow in FY23?

**Sanjay Katkar:** Rajiv unable to hear you probably an echo was there.



**Kailash Katkar:** So, he want to understand how the retail going to grow as Navin had mentioned in this speech when it comes to the consumer revenue we will be growing in a single digit and when it comes to the enterprise solutions we will be growing in a higher double digit?

**Sanjay Katkar:** What he is trying to say in our retail business we would be growing in FY23 we should be growing at lower single digit and enterprise business we should grow at higher double digit.

**Rajiv Pandya:** Can you update about the scenario of the common business as there is a focus on cyber security product and in the government department are we benefitting out of it?

**Sanjay Katkar:** So, these are some confidential things probably it would be difficult for us to answer in this call not only this call it would be difficult for us to answer this question.

**Moderator:** Thank you. Our next question is from the line of Dhwanil Desai with Turtle Capital. Please go ahead.

**Dhwanil Desai:** Sir if you can help me understand how does the pricing part works both on retail side and on enterprise side, so my question is more to elaborate my questions as the volumes grow up and as our products mature do the price go down significantly and how do we ensure that at least we are able to protect pricing at a certain level?

**Kailash Katkar:** See first and most important thing that when it comes to the consumer product and enterprise product we do not have a single version. We have a range of products even in consumer products we have AV Pro, we have internet security, we have a total security. So, total security is a premium product which is at bit higher cost and the AV Pro is at a lower cost. So, it totally depends upon the customer behavior if customer is looking for a low cost product we have the products available and if customer is looking for a better quality protection and multiple layer protection then we have a premium product. So, here the question is like we do not want to lose any customer let it be rich customer or let it be a price sensitive customer we do not want to leave any customer and that is the reason we have a range of products not only in the consumer sector, but even for the enterprise sector the key products which we are talking about endpoint security even in endpoint security we have a range of prices with the layer of protection. So, that is how we take care of the customers without reducing or increasing the price of the product and that is reason you always see that ARPU on quarter-on-quarter basis it keeps on varying because the number of license sold of AV Pro or internet security or total security it vary from quarter-to-quarter actually.

**Navin Sharma:** Just to add exactly what Kailash said that basically price is decided upon multiple factors such as competition, product, etcetera. So, as you must be aware that our products are already priced at premium with respect to competition and we are available in all range of products available in the market while these things are there, but in place of increasing price of any of

the products our larger focus is to shift the market from cost conscious to premium products and this is the way how we would like to drive the market.

**Moderator:** Thank you. Ladies and gentlemen we have reached the end of the question-and-answer session. I would now hand the conference over to Mr. Navin Sharma – CFO from Quick Heal Technologies Limited for closing comments.

**Navin Sharma:** Thank you all for participating in this earnings concall. I hope we have been able to answer your questions satisfactory. If you have any further questions or would like to know more about the company, please reach out to our investor relation managers at Valorem Advisors. Thank you, stay safe and healthier. Thank you.

**Moderator:** Thank you sir. On behalf of Quick Heal Technologies Limited that concludes this conference. You may now disconnect.