

Quick Heal Technologies
Earnings Conference Call
Oct 20, 2022

Moderator: Good day, ladies and gentlemen, and welcome to the Quick Heal Technologies Limited Q2 FY23 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. Please note that this conference is being recorded. I now hand the conference over to Miss Chaiti Gujarati from Valorem Advisors. Thank you and over to you, Miss Chaiti.

Chaiti Gujarati: Thank you. Good afternoon everyone and a warm welcome to you all. My name is Chaiti Gujarati, AVP Operations of 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 today's earnings call for the second quarter and half year ended 30th September 2022. Before we begin, I would like to mention a short cautionary statement. Some of the statements made in today's conference call may be 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 beliefs as well as assumptions made by an information currently available to management. Audiences are cautioned not to place any undue reliance on these forward-looking statements in making any investment decision. The purpose of today's conference call is purely to educate and bring awareness about the company's fundamental results and financial quarter under review. Now I would like to introduce you to the management participating in today's earnings conference call and give it over to them for their opening remarks. We had with us today Mr. Kailash Katkar, Managing Director and CEO, Mr. Sanjay Katkar, Joint Managing Director and CEO, and Mr. Navin Sharma, Chief Financial Officer. Without any further delay, I request Mr. Kailash Katkar, Managing Director and CEO to give his opening remarks. Thank you and over to you, Sir.

Kailash Katkar: Thank you, Chaiti. Good afternoon and warm welcome everyone to our quarterly earnings conference call to discuss the result and business update for the second quarter of financial year 23. India has become an economic powerhouse in the global landscape. Thanks to its unprecedented growth in every sector, especially technology, while this has brought great convenience to the public, but one cannot discount that vulnerability has grown manifold in the rising intensity of the Internet and the growing technology like 5G. As you must be aware, Quick

Heal is a pioneer in Indian cyber security space providing truly make in India products. We are the undisputed market leader in the consumer segment in India which constituted around 70% of our revenue in first half of financial year 23. For the past few years, the company has been investing heavily into enterprise solutions for which market opportunity is roughly 20 times larger than the consumer segment, commanding over 95% share of the total 150 billion market globally. And is also expected to grow three times faster than the consumer segment. In quarter two financial year 23, our enterprise business continue to witness strong and encouraging growth and did cross 100 crore revenue on the trailing 12 months basis for the first time. We won two large government contracts where these organizations have trusted security for their security solutions. Quarter two mark ninth straight quarter delivery year on year growth for this segment. This solidifies our beliefs in the business we incubated from scratch years ago. The consumer business witness declined with the overall market growth being stagnant. The stagnant market can be attributed to the lot of factors. Including, but not limited to lack of customer awareness, lower growth rate of PC inventory and pricing pressure due to the competition. Within this stagnant market, there is a gradual shift happening towards the online channel. We have taken focused initiatives and intervention towards our consumer segment, which is degrowing at 11% to bring it back to the growth path. One of them being increased effort towards online and digital channel to attend our dominant market leadership as in the physical distribution channel. In the last quarter we began our engagement with one of the top Global Management consultancy company to fruitify our long term strategy growth plan which is ensuring right intervention with regards to the strategic direction of the company in an agile manner. We also kicked off flagship initiatives of Cyber Shiksha for Cyber Suraksha and earn and learn which aim to sensitize over 7 lakh students on cyber security across India. Now I request Sanjay to take through the business segment and our strategic direction. Over to you Sanjay.

Sanjay Katkar:

Thank you, Kailash. Good afternoon, everyone. Let me give you some more insights into both the segments of our business. A consumer business which started 25 years ago is the cash cow segment for us. We do see cyclical upside and downside in the business as evident from our financial performance. While we have the dominant market leadership in the physical distribution channel in India, we are also increasing our efforts towards the online ecommerce and direct to customer channels for catering to both Indian and global consumer. Enterprise business in the growth story for us in the last few years and years to come. This is an interesting and exciting phase for us as we are playing along multiple levers for growth in this segment, namely new products, new geography and new customers segment. Our product lines are broadly budgeted into 3 categories. Endpoints, zero trust and data privacy. The financial numbers which we are delivering is primarily driven from the endpoint security product in India where we believe to hold highest market share in the micro customer segment of less than 500 endpoints. We are strengthening our core offerings by complementing it with offerings like EDR and XDR, which adds detection and response layer to the protection for enhanced security. Our immediate key focus and potential in the short term is to move up the customer segment to attain similar share in the mid customer segment or greater than

500 endpoints. In the mid to long term, our liver of new product lines of zero trust and data privacy with geographical expansions in markets similar to India would provide large opportunities for the company. The accelerating growth in the enterprise segment is making our convictions even stronger. We are establishing product market fit for all these products. We are expecting revenues to flowing from H1 of FY24. I would now request Navin to take you through the financials for the quarter. Over to you Navin.

Navin Sharma:

Thank you, Sanjay, and hello everyone. Let me take you through the financial highlights for the second quarter of FY23. The consolidated revenues for the quarter stood at Rupees 101 crores which degrew by 3% on a YOY basis, for H1 FY23 the consolidated revenues stood at Rupees 162 crores, which represents a growth of 2% on YOY basis. The flattish revenues are amount of growth of enterprise business being nullified by degrowth in retail segment. Approximately 70% of the revenue came from retail segment whereas 30% from enterprise and government segment during H1, reflecting on our ongoing strategy towards our revenue mix. We are also closely working towards bringing the consumer business in the growth path as Kailash mentioned earlier. Specific to the consumer business, the stagnancy in the market coupled with low demand pull from the consumer with the liquidity crunch is creating a period of stress in the distribution channel to outside the increasing receivables we are working on strict credit control measures keeping a balance between revenue and the collection. EBITDA margin for the quarter stood at 28% and reasons for decline in EBITDA margins was primarily due to the increased investment and efforts in R&D and sales and marketing as Kailash and Sanjay detailed earlier, R&D investments for the quarter stood at 30% of revenues, while the sales and marketing stood at around 25%. It is important to note that our gross margin for the quarter and half year will continue to remain strong and constant versus previous years at over 95% level. The net profit stood at about Rupees 22 crores. Our balance sheet remains strong with zero debt and cash and cash equivalents of rupees 338 crores as on 30th September 22. We are committed to driving shareholder value by growing profitably across both of our segments and driving solid unlevered cash flow and constantly rewarding our shareholders through buybacks and dividend distribution program. The current buyback period started from October 4 and ended on October 18, 22. The company is on track of completing the buyback process in Q3 amounting to rupees 185 crore inclusive of taxes. 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. The first question is from the line of Manav Kapasi, an individual investor. Please go ahead.

Manav Kapasi:

Wanted to ask that, can you explain in detail as to why the consumer businesses is degrew how much was the industry growth rate and are we losing any market share here?

Navin Sharma:

Basically, the consumer business witnessed a marginal decline with the overall market growth being stagnant. The stagnant market can be attributable to a lot of factors including but not limited to

lack of consumer awareness, lower growth rate of PC sales and pricing pressure due to competition. While within the segment market, there is a gradual shift happening towards the online channel. We have taken focused initiatives and intervention towards our consumer segment which is degrowing at 11% to bring it back on growth path, one of being increased, one of being towards increased efforts on online and digital channel to attain our dominant market leadership, like physical distribution channel. So globally in India the consumer business on market share or let's say on business perspective is stagnant.

Manav Kapasi: OK, understood. And coming to the enterprise business, can you talk about what were the key deal win for us how many as two client projects we were executing, what are the maybe the deal sizes here and what would be the order book for this business as on today Sir?

Navin Sharma: So basically we are into Micro segment where the user size is less than 500/per order. Deal size in the Enterprise side is not that big. We won two big government orders in this quarter and normally in this business we don't operate on order book it's like hunting and winning orders every quarter, but this business is growing with good pace. Last year we grew by 23% even in this year we are growing at 30% rate. This is the first time that in this segment on trailing 12 month we have delivered a revenue of 100+ crore.

Manav Kapasi: OK, understood. And my final question would be that, I think company has hired a management consultancy firm. So can you talk a bit more about this and what are the initiatives and findings of this assignment?

Navin Sharma: Those would be difficult to explain in this call, but lot of initiatives including finding right products, incremental market to grow beyond India etc are being co-created with them. Few of other things which includes going deep into online and digital presence etc have already been initiated. In coming quarters we will keep sharing specific actions we are taking against their suggestions.

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

Vivek Rathi: So couple of questions over here. First one is on management consultant. I've been tracking company for long now, so I remember we had.

Kailash Katkar: Vivek your voice is not that clear. Hope you are using handset.

Vivek Rathi: I'm sorry, I'm just trying to be clear. OK. So how would you think, why would management consultancy, I mean how would you think it will help us because going by the records of many companies not our company, I think it did not create much value instead it was the cash burn that was first question and second one is on the expenses I see expenses have grown to 29 crore from 22 from last quarter. Is there anything, I mean anything specific we are doing this up? Thanks.

Navin Sharma:

Our core purpose of appointing management consultant was to find right growth opportunity for the company. We have appointed this management consultant and they are co creating company strategy with us. In last three, three and half months of our association with them, we have found many great insight with respect to market & products. A combination of which products should go along with our core product and even they are helping us in identifying key features we need to incorporate in our existing products. While at the time of appointing those consultants, we always believe that they would be providing right value for the company, that's why we have appointed them but we will keep evaluating their performance in times to come. You might have seen our financials, we maintain a gross margin of 95%-96%. It means whatever revenue comes that directly flows into bottom line.

Another aspect is enterprise business, which was a miniscule business four - five years ago. If we were not investing in this business in past, probably we would not have achieved the size of revenue what we have achieved today. In trailing 12 month we have delivered 100+ crore revenue and this business is growing at the 30%+ rate against market growth rate of 11% and more so this business is equally profitable the way profits are being generated in, which means this business also comes with 90%-95% gross margin.

From that perspective we are creating similar pipeline for future and we are investing heavily in R&D. Our 30% of total spent for the quarter was in R&D and 25% of the spend equivalent to revenue was in sales and marketing which is required for growth as we are in B2C and our offline channels competition is with online channel where we need to have right digital marketing presence. From these perspectives these two investments will keep happening. For FY23 and even for couple of quarters for FY24, our spent in R&D would be in range of 30% to 32% of our total revenue and our marketing spent would be in similar range. Hope I could able to address your both the questions.

Vivek Rathi:

Thanks for detailed reply. So just one question it will be helpful if you can do some other expenses or at least R&D expenses you can know specify the number like going forward, but again its (Inaudible 21.02) But that's in my opinion. And one last question. So I know many companies or like multinational companies are fired up with the different providers. And I remember we have asked this question even in last week on calls where investors wanted to know the company strategy on are we looking at any tie ups. But just wanted to understand, are we still with this degrow part is filled in the number one pivotal position in India market? And if not I think apart from marketing strategies are we looking at a future where we will mostly be more on the corporate focus then consumer focused, but that's the last one. Thank you.

Navin Sharma:

So if I have understood properly, do you want to know what is our market share in consumer segment in India or are we still market leader?

Vivek Rathi:

Yes. Are you still the market leader, that's what. I wanted to know.

Kailash Katkar:

So let me answer you this question. When it comes to the consumer, we are still the market leader. We are still having more than 35% market share. So it is not something that it is only Quick Heal's consumer business has degrown. If you see the competitors in the market, all of them have degrown there consumer business when it comes to the India part of it. Second part, if I have to tell you about the enterprise part of it, we have major market share in small business sector where again we are at a market leader position and now we are aiming to become a market leader in midsize market also. And then gradually into the large size also. So we wanted to retain our leadership position when it comes to the enterprise in a small business and we wanted to aim our leadership position in the midsize sector maybe after one year we would definitely start focusing on large enterprise also part of it. And consumer, yes, we wanted to retain that leadership positions and we are at leadership position not for last two or three years, it is for almost 14 years actually, more than 14 years, 15 years, we are at a leadership position and we will definitely maintain that and we will put all our hard efforts to retain that leadership position.

Vivek Rathi:

Thanks a lot, I said it was my last question but one more follow up question is there. Which has the highest margin. Sorry I did not get time to look at the presentation but in case. I mean corporate one has a midsize or retail side that's the last question.

Kailash Katkar:

If you are asking this question from a business point of view, the question is right. But when I'm running this cyber security company, so I have to consider I have to think about each and every market even though I have to spend more fund on product development for midsize market, I will have to do that because we can't just focus on a particular small business segment or just midsize business segment. If I have to create the perception about a cyber security expert then I have to be expert in all segments and then spending is going to happen and then when I look at the product development part of it, the same products gets applied to small business as well as midsize business as well as large sized business only the difference is the large size business, they keep on demanding more and more features. So which is already there in our road map. So as and when we complete that those features, the same product will become eligible for the large enterprise customers also.

Moderator:

Thank you. The next question is from the line of Pankaj Jain, an individual investor. Please go ahead.

Pankaj Jain:

I wanted to ask since the substantial top line is coming from the consumer business and today as we see that maximum of the operating systems are coming integrated with their own malware protections and they do not even want third party apps to be installed in there. So does that not bring circumstantial risk given to the going concern of the company? And then sooner or later that will collapse will not the consumer business for apps as well? That is the biggest concern of mine.

Sanjay Katkar:

So when you say that operating systems are coming with their own protections, they're not allowing the apps to install the third party apps, it's not right actually. OK, windows at least I will say which is our major revenue earner and the major share in our revenue. Windows allows all third party

antivirus is to get installed and they do support third party entities as well. Yeah, of course the operating system does come with the basic antivirus as a free for user, but definitely there is little lack of awareness among the consumer which we are trying to create the awareness that operating system only focuses on protecting its own files and environment and it is the basic security that they give to make sure that if the user doesn't have protection, they will give you the free protection. But of course the threads which do come over the means which we see nowadays states that are evolving, they definitely make sure that they pass through all such basic security that there is provided by operating system or even any free product for that matter. I mean it's a basic case, will get protected, but threads are getting advanced, they are evolving. And they're making sure that they victimize, I mean to say if it is a ransomware or if it's a phishing attacks, they do pass through such basic security and that's where there is and there will always be a market for paid security for operating systems and that is what the space we are operating.

Pankaj Jain: OK so this was what I personally felt because I too uninstall my antivirus because they just downgrade the speed of the PC and Windows Defender works well that is why I ask that and sir what is the percentage of the revenue that we're generating from the government businesses?

Navin Sharma: Broadly 20% of revenue in enterprise business came from government business.

Pankaj Jain: OK. So the switch to the government business is because of the downfall of the consumer business or is it at initiative, not because of downfall in the consumer business?

Navin Sharma: No. Regardless government businesses is one of the prime focus in our enterprise.

Pankaj Jain: No, just government enterprise business apart from consumer business.

Navin Sharma: The government businesses is one of the focus thing for us within the enterprise business and this is not the first time we are doing government business. Even last year we were doing government business and with government focused on right R&D spending, etc., we expect this segment also to grow and unlike any other business where this create a receivable exposure, here we do business through right partners that help us in reducing any receivable exposure.

Moderator: Thank You. As there are no further questions from the participants. I now hand the conference over to the management from Quick Heal Technologies Limited for closing comments.

Kailash Katkar: Thank you all for participating in this earnings Concall. I hope we have been able to answer your question satisfactorily. If you have any further questions or would like to know more about the company, please reach out to our Investor Relations manager at Valorem Advisors. Thank you. Stay safe and healthy. Thank you.

Moderator:

Thank you. On behalf of Quick Heal Technologies Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your line.