

**Quick Heal Technologies Limited**  
**Earnings Conference Call**  
**January 25, 2023**

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**Moderator:** Ladies and gentlemen, Good day and welcome to Quick Heal Technologies Limited Q3 FY23 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you, Mr. Sonpal.

**Anuj Sonpal:** Thank you Michelle. Good afternoon everyone and a very warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent the investors 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 call for the third quarter and 9 months ended of financial year 2023. Before we begin, let me mention a short cautionary statement. Some of the statements made in today’s earnings 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 an 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 call is purely to educate and bring awareness about the company’s fundamental business and financial quarter under review. Let me now introduce you to the management participating with us in today’s earnings call and hand it over to them for opening remarks. We have with us Mr. Kailash Katkar – Managing Director and CEO, Mr. Sanjay Katkar – Joint Managing Director and CTO, 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 afternoon and warm welcome to you all to our quarterly earning conference call to discuss the result and business updates for the third quarter of financial year 2023. More than 25 years of our efforts we have successfully being able to build trust by educating and empowering customers to protect themselves through of our offering of Quick Heal and Seqrite. We are the pioneer of Indian cyber security industry while maintaining the market leadership position in the consumer segment for over the decade.

In Q3-FY23 our enterprise business continued to grow sustainably with Q3 marking 10th straight quarter delivering YoY growth for the segment.. We believe to command dominant market leadership in the sub 500 end point market by now. We have on boarded Mr. Venkateswaran as a Senior Vice President to lead the enterprise sales team towards the new leg of growth journey. The consumer business saw a decline in revenue but are more short term in nature. Our key focus during this period is to maintain the market share that we command while developing future levers of growth.

As I have also mentioned in earlier calls, we are increasing our digital effort to cater to the respective customer segments while some of the initiatives we have taken have shown positive early signs we will continue to govern it closely. We are in right industry where the world is in the cusp of massive digital evolution. While some parts of the business might be under stressed in the short term we will continue to invest in R&D and sales and marketing for our long-term success. Through these efforts we have evolved ourselves from the consumer antivirus player to the holistic cyber security player with new age product under umbrella. Now, I request Sanjay to take you all through the business segment and our strategic direction. Over to you, Sanjay.

**Sanjay Katkar:**

Thank you Kailash and good afternoon everyone. Let me give you some more insights into both the segments of our business. FY23 has been a year of attaining product market fit for our new lines of products. Our product lines have broadly bucketed into three categories namely, endpoint, zero trust and data privacy. The financial numbers which we are delivering is primarily driven from the EPS product in India. So, we strengthen our core offering by complementing it with EDR and XDR which as detection and response layer to the protection for enhanced security. In this quarter, we also on boarded five customers for our newly developed EDR/XDR product, which makes us believe that it is now market fit and ready.

We are in the process of attaining a similar product market fit for our zero trust and data privacy products. We are establishing the same for all these products and are expecting revenues to flow in from Q2 of the coming year. And as Kailash mentioned earlier we believe to command a dominant market leadership in the SMB segment. We are consistently delivering over 100 crore revenue on a TTM basis in this segment. The accelerating growth in the enterprise segment is making our convictions even stronger. While we keep investing in new lines of products in the enterprise segment we remain committed to protect our customers in the consumer segment in areas of privacy, protection and performance.

The consumer business which started 25 years ago has been the cash cow segment for us. We are witnessing a downside in the business as evident from our financial performance. While it is too early to make a judgment we are experiencing downside in the market for the short term. We are foreseeing this trend to continue for the next couple of quarters and one of the key priority area for us in the next few quarters would be to drive consumer awareness in the

geography to drive consumption in the cyber security domain. I would now request Navin to take you through the financials of the quarter. Over to you, Navin.

**Navin Sharma:**

Thank you Sanjay and good afternoon everyone. Let me take you through the financial highlights for third quarter of FY23.

The consolidated revenues for the quarter stood around Rs. 67 crores which degrew by 16% on a YoY basis for 9 months the consolidated revenues stood around Rs. 229 crores which represents a degrowth of 4% on a YoY basis. Approximately 68% of our revenue for the quarter came from consumer segment whereas 32% from enterprise and government. The result might not be encouraging, but we are excited. If we look closely, the enterprise business continue to grow sustainably even at the times when the software industry seems to struggle. Revenue for the segment in 9 months FY23 stood at Rs. 76 crores as compared to 59 crore in the same period of the corresponding year up 27% YoY.

As I have mentioned in previous calls, 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. We have taken a balanced approach of billing versus collection in our consumer business to keep our receivables in check. EBITDA for the quarter stands negative owing largely due to the top line degrowth in the consumer business. We will continue to invest for our long-term win as our balance sheet is strong and we are a zero debt company. It is important to note that our gross margins for the quarter and 9 months continue to remain strong and constant versus the previous year at over 95% level.

While the impact of industry headwinds are short term in nature, we are taking corrective actions against our expenses. Our key focus in the next couple of quarters is to revive profitability by trimming down our cost before we start seeing the uptake in the revenues. As we foresee we do expect the next two quarters to be challenging both in terms of revenues as well as bottom line. The Hon`ble Supreme court, vide its judgment dated August 05, 22 has passed order in old service tax matter in companies favor. All the related pending service tax matters in different tribunal amounting to Rs. 161 crores has also been disposed off in this quarter and decided in companies favor. During the quarter we also completed the buyback worth Rs. 185 crores inclusive of taxes.

With this, I would like to open the call for question-and-answer session.

**Moderator:**

Thank you very much sir. We will now begin the question-and-answer session. We have the first question from the line of Samvit Vardhman. Please go ahead.

**Samvit Vardhman:**

I have four questions Quick Heal Technology have a great business model and a good brand name, we are able to maintain 35% to 40% EBITDA margin in our business, majority of our expenses are of fixed expenses like employees cost, R&D and a product development, but on

FY2016 to FY2022 we are not able to grow ourselves what is the reason behind that and what is our future outlook over the period of next 5 to 10 year we are able to deliver 1,000 crores of sales we can easily earn 400 to 300 crore of EBITDA and my second question is what is your trade receivable increasing, is there any particular reason for that?

**Kailash Katkar:** So when we talk about revenue growth part of it we are already working on lot of new product development which is based on next generation cyber security product that is a zero trust part of it and most of these products are going to get release in this year starting from this quarter itself. So, after getting this product release into the market and getting the product stability at a customer level the revenue will start coming to this across this new products

**Navin Sharma:** To the second question with respect to receivable largely the COVID has impacted the receivables because during this period the liquidity so there was this issues with respect to liquidity etcetera, in last couple of quarters we already have started taking right steps and if you have gone through my commentary I have categorically mentioned that we are taking a balance approach between receivables and sales. In current quarter that is Quarter 3 FY23 we have reduced our receivables by 16 days and currently it is at 133 days. In next two to three quarters we would like to bring it below 100 days and in next quarter probably this should be below 120 days hope I could able to address your second part, second part of the question.

**Samvit Vardhman:** What is your future outlook over the period of next 5 to 10 years?

**Navin Sharma:** You yourself said that we are planning to move the revenue from 300 crores, 350 crores to 1,000 crores in next three years. This is what we are aspiring for aspire big.

**Moderator:** Thank you. We have the next question from the line of Karan Bhanushali an Individual Investor. Please go ahead.

**Karan Bhanushali:** So, what is the reason for decline in EBITDA can you please shed some light?

**Navin Sharma:** On a short term, software industry is witnessing sluggish growth due to the contraction in IT spent across the globe. Even though our enterprise business continues to outperform, the consumer business is experiencing degrowth. More so the degrowth in EBITDA in the current quarter is mostly on account of degrowth in revenues which was quite sudden against increase R&D and sales and marketing efforts where were planned and committed already. As I have mentioned in my earlier part of commentary while the impact of industry headwinds are short term in nature we are taking corrective actions against our expenses, our key focus in the next couple of quarter is to revive profitability by trimming down our cost through various aspects before we start seeing the uptake in the revenues. It is important to note that even in spite of all these things we are maintaining a gross margin of 95% which clearly suggest that all that any incremental revenues will directly flow into bottom line.

**Karan Bhanushali:** Are we looking at day off like other IT companies are doing?

**Navin Sharma:** See for cost reduction exercise we are evaluating all cost items under various buckets be it zero base costing, productivity mapping etc., and we already have started taking right actions against that. With respect to layoff, employees are the core of the organization and helped us reach where we are. We do not want to let the short term situations of the market affect the core asset of the company. Putting it simply, we are not contemplating layoff in the organization.

**Moderator:** Thank you. We have the next question from the line of Jatinder Agarwal an Individual Investor. Please go ahead.

**Jatinder Agarwal:** So I just want to understand in terms of now that the product is ready and we have seen some initial gains individually for each of the product which is against your HawkkHunt, HawkkProtect and HawkkScan, could you give some idea as to what type of market size is currently that we are looking to capture maybe you could give that thought process over a three or five year timeframe that should be good?

**Sanjay Katkar:** So, the market potential for the new products is quite good I mean to say there is a gradual transition that is happening in the market as we know that people are moving who are serious into cyber security investment are moving from traditional security to zero trust and platform, but this transition is happening gradually and so if you see HawkkHunt which is our EDR product is already we launched almost two quarters back and it has in this quarter it has achieved market fit by onboarding five new customers. So, this is a quite encouraging for us and we do see that this is the first product of out of our new release products that is going to start pushing revenue into our revenue stream and then the products which you say it further the HawkkProtect and HawkkScan. These are pretty much new and their targeting areas which are yet to start see the demand I mean for example the HawkkScan is all about data privacy and data protection wherein every organization in India and even in government department it has been discussed, it has been talked about, but the regulations are not yet placed and the bill is yet to happen and the investment are yet to start flowing. So, we do see there is a huge potential, but I am not able to put it in figures here because we are seeing quite a good interest from our existing customers as well whereas we are developing this product on our end that is why we are seeing good enough candidate for our beta test for these products and that is where we are hopeful for these products to perform well as and when the demand starts.

**Jatinder Agarwal:** But sir as an outsider so when I look at those presentations that you sent where you mentioned that the global security market is like 233 billion and out of that something close into India which itself is somewhere about \$2 billion to \$3 billion, how do we make a sense out of those numbers, we are running a annual run rate maybe about 100 odd crores even if I exclude retail segment, so as an outsider how do I look at those numbers?

**Sanjay Katkar:** I will give you some clear idea about one is we are targeting a segment of market which is midsized, we had been targeting SMB wherein we are quite comfortably having certain market share and then with these new releases we are targeting midsized organizations. Now the size of the midsized market is further below than what is the overall global market and more investment is done by very large enterprises and for us the right transition is to move towards mid which is we are in that transition and we are very hopeful that we will be successfully doing that and from mid-to-large is our next step wherein our smaller investment and we have already started scaling up products to further large enterprises as well as we are talking to MSSP and getting ready our platform so that these large enterprises will be integrating our products into their platform and pushing it to the larger enterprises so that is the transition that we are into. At the same time we are releasing these products to the mid sized organizations wherein we are trying to capture the feedback as well as strengthen our products with these releases and also start revenue streams for these products. So, we do see that we will be able to capture at least 7% to 10% of the market share at least in next financial year as the product starts capturing at least for HawkkHunt and for HawkkProtect and HawkkScan it should be in the H2 the revenue should start flowing from the H2 of FY24.

**Jatinder Agarwal:** So exactly my question when you are saying that we should get about 7% to 10% market share how big is this market in absolute amount if you could give that answer?

**Sanjay Katkar:** If you see when I am saying 7% to 10% it should be around 40 crores to 50 crores when I am talking about India market where we are having our presence. Revenues from these products should at least be 40 to 50 crores of the market from these products actually.

**Jatinder Agarwal:** So this is over and above the 100 crore run rate that we currently have?

**Sanjay Katkar:** That is right.

**Jatinder Agarwal:** So you mean to say that the market for the new products the total market not just Quick Heal when that is anywhere between 400 to 500 crores, is that correct?

**Sanjay Katkar:** Yeah means of course potential is quite high, but looking at the current range where it is we are just hopeful that it should be at least reached that way.

**Moderator:** Thank you. We take the next follow up question that is from the line of Samvit Vardhman. Please go ahead.

**Samvit Vardhman:** Sir as an investor can you please guide us what kind of products we are launching in FY24?

**Sanjay Katkar:** See our focus for new products has been in the enterprise segment for last at least four, five quarters and we have invested heavily into the Hawkk platform of our products. So, the products that we plan to launch in this coming two quarters is one is HawkkScan which is about

data protection production which is about making organizations ready for data protection bill actually which is about to come in parliament. So, that will help the organizations to follow the regulations, comply to the rules that are going to come. So, this product is all about data, we have facilitate those things through that HawkkScan and HawkkProtect. So, this was all about HawkkScan and then HawkkProtect is about zero trust user access and zero trust network access which makes people or employees from the organizations to connect to the internet and organization platforms through regulated I can say compliances which can be applied and distributed to the devices which can work from anywhere I mean to say it is going to be a replacement of VPN in a much advanced fashion which will be tackling all the current needs of employee working from anywhere and connecting to any device through any network and still having the security compliances followed remotely I mean to say. So, these two products are going to make the organization cyber security poster much easy to maintain and it makes the job much easier after that. So, it is all with size and large enterprises the products are all about.....

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

**Navin Sharma:** Thank you all for participating in this earnings concall. I hope you have been able to answer your questions 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. Happy Republic Day to each of you in advance.

**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 lines.