

Quick Heal Technologies Limited
Q4 FY '23 Earnings Conference Call
April 18, 2023

Moderator: Ladies and gentlemen, Good day and welcome to the Quick Heal Technologies Limited's Q4 FY '23 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. I now hand the conference over to Anuj Sonpal, CEO, Valorem Advisors. Thank you and over to you, sir.

Anuj Sonpal: Thank you. Good afternoon, 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 call for the fourth quarter and full year 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 may be forward-looking in nature. Such forward-looking statements are subject to risks and uncertainties, which could cause action results differ from those anticipated. Such statements are based on management's beliefs, 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 call is really to educate and bring awareness about the company's fundamental business and financial quarter under review.

Now let me 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 today Mr. Kailash Katkar – Managing Director and CEO, Mr. Sanjay Katkar – Joint Managing Director and CTO, Mr. Navin Sharma – Chief Financial Officer. Without any further delay, I request Mr. Kailash Katkar to give his opening remarks. Thank you and over to you, sir.

Kailash Katkar: Thank you, Anuj. Good afternoon and a warm welcome everyone to our quarterly earning conference call to discuss the result and the business update for the fourth quarter of financial year 2023.

Through more than 25 years of our efforts, we have successfully been able to build trust by educating and empowering customer to protect themselves through offering of Quick Heal and Seqrte. Our purpose is clear, simplifying cyber security. This is not only a business objective for us but also a moral responsibility that we carry on our shoulders.

In Q4 financial year '23, our Enterprise business continued to grow sustainably while making a marking 11th straight quarter delivery year-on-year growth for the segment. We believe to command dominant market leadership in this sub 500 end point market segment by now.

Very recently we became the first and the only Indian company to have collaborated with National Institute of Standards and Technologies, that is NIST, which is a US-based National Cyber Security Center of Excellence that is NCCOE for the data classification project alongside technology giants like Google and Adobe. NIST is a US government organization focused on cyber security. This is the remarkable achievement as we take India to this global stage and inspire many other companies to follow through.

Half year two, that is H2 of the year financial year '23 saw a sudden contraction of spend in the IT software category majorly due to instability of macroeconomic variables. The consumer business saw 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 lever of growth.

We are in the right industry where the world is seeking massive digital evolution while some part of the business might be under stress for one more quarter. We will continue to invest in R&D and sales and marketing for our long-term success. Through these efforts, we have pivoted ourselves from the consumer antivirus player to the holistic cyber security players with new age products under our umbrella.

Now I request Sanjay to talk or talk through the business segment and our strategic direction. Over to you, Sanjay.

Sanjay Katkar:

Thank you, Kailash. Good afternoon everyone. The core of our current Enterprise business is EPS as a product for the SMB in Indian geography. We have created a dominant leadership in our core and looking to expand through two levers initially. So, one is like increase wallet share within the consumer, customer, existing customer and expanding the customer segment from flagship EPS achieved perfect score in all six cycles around the year in the areas of protection. Product lines are broadly bucketed into three categories: endpoint, zero trust and data privacy.

We have onboarded more than 20 customers for our newly launched products in the space of EDR and XDR. We are looking to address a large pie of customer needs through these expanded offerings and grab a greater share of wallet within the customers' overall cyber security spend. We are in the process of attending 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 coming year.

And as Kailash mentioned earlier, we believe to command a dominant market leadership in the SMB segment, and we have delivered over 100 crore revenue in this segment for FY '23 growing at over 20% CAGR in the last three years. We are looking at expanding organically in the mid-size Enterprise and government segment, which presents similar opportunity, size individually

for us to cater to. Through both the levers combined, our addressable opportunity increases to five to six times, which we would be looking to capture gradually. 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, and we are witnessing a temporary downside in this business as evident from our financial performance.

I would now request Navin to take you through the financials for the quarter. Over to you, Navin.

Navin Sharma:

Thank you, Sanjay, and good afternoon, everyone. The financial results for the quarter may not be exciting but was expected as we had mentioned on our previous calls. If we delve deeper into both the segments, the Enterprise business continues to be in the growth path delivering Q-o-Q growth for nearly three years now and the consumer business experiencing a temporary contraction.

The consolidated revenues for the quarter stood around Rs. 49 crore, which degrew by 52% on a Y-o-Y basis. For full year FY '23, the consolidated revenue stood around Rs. 278 crore, which represents a degrowth of 19%. Approximately two-third of the revenue for the year came from consumer segment, whereas one-third from Enterprise and government.

As I have mentioned in previous call, the stagnancy in the market coupled with low demand pull from the consumer is creating a period of stress in the distribution channel. We believe this to be temporary in nature and will start to see positive signs starting Q2 of FY '24.

During the period we have been working on improving the quality of revenue in terms of receivable outstanding and cost optimization. We have been able to reduce our receivable by 29 days to 114 days this year and now stands at pre-pandemic levels. With all the cost optimization measures that we have taken in the organization, our total expenditure for the quarter saw a reduction of 12 crore on Q-o-Q basis. We will continue to work on these measures going forward to revive profitability.

EBITDA for the quarter stands negative 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 full year continued to remain strong and constant versus previous year at over 95% levels.

We have proposed a dividend of Rs. 2.5 per share to continue rewarding our shareholders for the trust that they have bestowed on us. 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 Sameer Dalal with Natwarlal & Sons Stock Brokers Private Limited. Please go ahead.

Sameer Dalal: So, actually had a question. You know, you talked about the fact that you had expected the retail side of the business to slowdown, and that is where the problem lies. Can you give us reasonings why you believe that the value you are expecting, one, the retail side to slowdown. And two, what is the reason for the slowdown? Because at the end of the day, you have a yearly renewal kind of a situation. So, are you saying that people are not renewing? So, is your market share contracting? What exactly is going on and why such a drastic drop that is there in this segment?

Sanjay Katkar: This is Sanjay here. We believe that there is a temporary contraction in the market due to lower IT spending across globe owing to like microeconomic worldwide, but this is deemed to revive regarding the market share.

Sameer Dalal: No. But this is a retail segment. This is not the corporate segment. The IT spending reduction you are talking of is on the corporate side. We are talking of retail side here.

Sanjay Katkar: Yes. I can understand. So, the thing is, see, when I am saying overall category, itself has reduced and decline in this spending on PC segment has affected the overall sale of our product. See, even though it is Enterprise category, our consumer product also caters to micro segment wherein there are four, five or eight, nine, 10 PCs, small offices, they still go for consumer product, which has also affected us. And I mean, regarding the market share, there is no data available readily. But I will say, we do still command a market leading position. And it is too early to comment on this, like we are experiencing for the first time, but we have been seeing this from last quarter, and we are taking all the steps to make sure what we can do to overcome this situation.

Sameer Dalal: So, you are saying that even in the renewal side because of whatever difficulties people are using their computers without antivirus is you are saying, the renewals for you have been that low? Is that...

Sanjay Katkar: No, renewals are happening, but renewals are happening in delayed actually, like not immediately after expiry.

Sameer Dalal: Okay. And when do you say you expect this to bounce back? Or do you think that a lot of these smaller businesses now come into your enterprise side, or they will continue to take your retail side? And how does the pricing differ for the two?

Sanjay Katkar: Pricing overall remains the same. In fact, Enterprise is little bit on the pricing is improving the ARPU on the Enterprise side. But the point is, people or businesses which are of the micro size, which are like I will say less than 10 PCs, I don't see they are moving to Enterprise side. They still remain on the consumer side itself because their needs and demand for the future is

basically handled by the individual consumer products actually. And this, I think, we are anticipating this to bounce back in Q2 of this financial year.

Sameer Dalal: So, one more quarter you are going to probably have similar kind of and, I mean, if you can give some thought process on how the first 15 days of the current quarter have gone, are you seeing any change or it's still the same?

Kailash Katkar: Usually, first 15 days you don't see because most of the time March ending, because when it comes to the consumer product, most of it passes from Tier-1, Tier-2, Tier-3. So, there is a shelf life for the product, and most of the buying happens in the quarter like Q4, it has a big buying process. So, immediately after completing the year like, you know, after completing the 31st of March, you don't see any change in the buying. It takes bit time to pick up the sales in consumer market actually.

Moderator: Our next question is from the line of Guneet Singh from CCIPL. Please go ahead.

Guneet Singh: Thank you for giving me this opportunity. So, in FY '23, two-thirds of revenue came from the consumer business. And I just have a concern regarding the direction of antivirus business, because if we look at the technological advancements and like if we talk about the antivirus business 10 years ago, then everyone was familiar with antivirus, and even I was a purchaser of antivirus and used it on the personal computer.

But right now with the kind of updates and if you talk about Windows or an Apple computer, they come up with regular bug fixes and updates. And even if we talk about the Internet Explorer or Google Chrome, they are mostly immune to Internet. So, I mean, for example, if you ask someone who started using computers recently, they would not even be aware of the concert of antivirus.

So, going forward, I think the only major target or the major concern for someone taking up antivirus would be corporate who would want data protection or who would want to protect their data because that is the only target that we see these days. So, I mean, per se, the consumer business looks like it might get redundant in the coming years because of the factors I mentioned. So, I mean, what are your thoughts on this? And what is the way forward for consumer business, because it still contributes two thirds of our revenues?

Sanjay Katkar: Yes. So, you rightly mentioned about the situation that currently the consumer business is going through. But on the future of these, I will say, we have seen this business for more than 25 years now. There is always such cycle where the operating system starts delivering updates and things wherein it makes it more secure. But it's like after certain time, again the threats catch up when they come up with the technology, I mean to say ways to penetrate the well secured OS, and so malware industry keeps on evolving.

So, I mean to say if you see the history, it was earlier there viruses. Then it came to worms. Then started seeing different attacks like phishing attacks, ransomware. And now if you see

there are lot of different kind of threats that are coming up, and this is, I mean to say, we are going through the evaluation phase.

So, it's not going to be like a consumer market will completely diminish. It will evolve into a newer segment or a completely different kind of threats we start seeing. And then, again, operating system protection will still not be enough, because threats are not going to be only towards like protecting the operating system. There will be threats like currently as we see the evolving ransomware attacks are evolving fraudulent activities which are about like scam related things.

So, this will evolve, and products will also evolve. And accordingly, the market will evolve. So, that's what we believe, and we are on to that, wherein we are having good enough research and analysis team, which works on that part of the evolving business and trying to evolve our product line as well to make sure that we remain on top of the threats that are going to come actually.

So, that's what I feel for the consumer market. And at the same time, yes, our enterprise is still a big market for us, and we have a lot to achieve on the enterprise front as there are different segments, and we have more product lines to come out actually.

Guneet Singh:

But my biggest concern is that you spoke about it 10 years ago everyone used to use an antivirus, but right now, I hardly hear someone subscribing to an antivirus subscription, so as, I mean, opting for it. And most of the attacks that we hear cyber security attacks are basically on bigger enterprises only for data which is sold in the black market or like you mentioned, most of the attacks are on big enterprises.

So, I mean, going forward in terms of your revenue contribution, what do you expect the contribution from the consumer business and the enterprise business per se, because even if we look at the growth for Quick Heal, it has mostly been driven by the Enterprise segment. So, I mean, what kind of contribution do you expect going forward?

Sanjay Katkar:

Yes. So, as we are seeing enterprise has been giving us a growth for even last for three years, if you see, it has grown 20% CAGR. So, definitely we see more scope for Enterprise, and that's where in last at least 18 months, we have been investing heavily into Enterprise products, and lot of new product launches we have done in last couple of quarters. And with respect to Enterprise, grabbing more market share from the enterprise, cyber security market and the product lines that we have already launched.

So, gradually, we are seeing products are achieving market fit, and we have started also getting customers on-board for the newer products that we launched a couple of quarters back. And we see enterprise to reach at least 50% or more in at least next four to six quarters tentatively.

Moderator:

Thank you. Our next question is from the line of Aditya Sen from RoboCapital. Please go ahead.

Aditya Sen: Good evening. I just start from the follow-up of the previous question, previous participant asked. So, we'd like to know what would be the net revenue for FY '24 and FY '25, because we have been struggling with the 300 Cr revenue mark since quite a long-time. So, is this the year FY '24 that will see this benchmark crossing 300 Cr?

Navin Sharma: Hi, Aditya. This is Navin. Fundamentally, we don't give guidance on any of the numbers, be it revenue or cost etc. But one thing what I can say that this year H2 particularly, the slowdown was something which was unexpected. It was while we're expecting, but we're not expecting the tune to which the slowdown has happened in H2. Next year would be year of revival and 300 crore certainly it will cross. It will have decent numbers.

Aditya Sen: Thank you for that. And now I would like to come to the research and development expenses, like, obviously, these are investments, and these are CapEx for Quick Heal. So, I assume that once the products are launched, that is all the products will be launched in H2 FY '24. So, post that, what will be the research and development expense in absolute terms?

Kailash Katkar: So, some of the products will get launched in H1, and some of the products will get launched in H2. This is something like 1.0, 2.0 urgent. And to really make product full fledged, you need to keep on adding lot of features to make sure that you are comfortable with the international players. I am talking about the new products which we are developing.

So, we will continue to invest in R&D for all the business directions that we take, that is product, customers, geographies etc. FY '23 was exceptionally due to sudden drop in revenue in H2. We will be looking at R&D spend in terms of percentage of revenue rather than overall spend and would be working to maintain it at level of 25% to 30%.

Aditya Sen: At 25% to 30% looks number for us?

Kailash Katkar: Of revenue actually.

Aditya Sen: Of revenue, yes. Also, like last year in FY '23, we did 125 cr of expenses. So, can you please give us, what are the top three components of this, any broad like broad fields, what are the top three components?

Navin Sharma: Aditya, your voice is not very clear, probably we will need to ask the question, repeat the question.

Aditya Sen: I will fall back in the queue. I will join it later.

Moderator: Thank you. Our next question is from the line of Jatinder Agarwal, individual investor. Please go ahead.

Jatinder Agarwal: Hi. Good evening. So, I have two questions. One, can you quantify in terms of number of corporates that would be there for this SMB business, like you said your target market is around

that 500 endpoints. So, how many such corporates are there in India? And what type of revenue run rate do you get from each of these corporates, at least on average for us as an outsider to understand what type of ticket size do we build on that or individual corporate size?

Kailash Katkar: So, if I have to tell you about the Enterprise product customer size, see, at present. I would say that, you know, as when it comes to the consumer business, we are definitely market leader. But when it comes to the Enterprise business, there is a big potential for Quick Heal to grow. So, a big potential for Quick Heal to grow. And since we have come out with so many different kind of products, we will be able to grab more and more customers on-board. At present I don't have the numbers of total number of customer size actually.

Jatinder Agarwal: So, we are already clocking somewhere about 100 odd crore, right? So, on the Enterprise side, if you could quantify what is the market size for the products that have already been launched and one that you think will come online in FY '24?

Kailash Katkar: So, in the SMB space, actually in the endpoint security space, we are having market share of roughly around 20% to 25%.

Jatinder Agarwal: So, you are saying that the total market is anywhere about 500 to 600 odd crore. Is that a good estimate?

Navin Sharma: That is the SMB part.

Jatinder Agarwal: Yes, the SMB part.

Navin Sharma: And there is still another vertical, which is a mid-size part. And there is a big potential for Quick Heal to grow.

Jatinder Agarwal: Okay, but do we already have products now launched for the mid corporate?

Navin Sharma: Yes. We already have few customers from mid-size onboard.

Jatinder Agarwal: And what is the ticket size, sorry, the endpoint numbers that you are having in the mid-corporate?

Navin Sharma: No, that number's bifurcation, we don't have at present.

Kailash Katkar: 500 to 1,500 roughly endpoints that we can categorize as mid-size market.

Jatinder Agarwal: 500 to 1,500?

Kailash Katkar: Yes. 500 to 1500.

Jatinder Agarwal: 500 to 1500, perfect. And my second question is related to this US where we are one of the corporates that have got selected, and you have other corporates. Can you give us the thought

process how we as outsiders should look at this initiative? Is it something just on the R&D side or is this something which will eventually become monetizable in terms of efforts that you take? It could also over a three-year period even I'm okay with it.

Sanjay Katkar:

No. See, I'll explain. So, NIST collaboration is all about collaborating as a industry-leader onto a segment where this is a US government entity where they work collaboratively with the industry experts and wherein even they take input from industry, cyber security industry to form the best practices and even the form, I mean to say, compliances and laws for the across government as well as the industries and they have invited for such companies who are working in data privacy or data privacy related technologies. And we had a product which we recently launched the 1.0 for our data privacy, which is HawkkScan and which was sent there, and they really liked it.

So, they considered as one of the collaborator for their future discussions on these best practices into the industry. And this will help us in terms of reaching the right audiences and be visible to the industry in different countries, because it's a very known entity which works on different compliance related document, as well as they are the, I mean to say, policy makers for different verticals across the industry. And this will definitely give us a good visibility across different industries, and we are marketing. Definitely we'll try to make use of this opportunity to convert it into a good opportunity to showcase our skills and grab the business actually.

Jatinder Agarwal:

And one very small stupid question to add-on to this. So, this is B2B and B2G also, is it?

Sanjay Katkar:

Right.

Jatinder Agarwal:

Sorry?

Sanjay Katkar:

Yes. That's right. B2B as well as B2G. Right.

Jatinder Agarwal:

Perfect. Thanks a lot.

Moderator:

Thank you. Our next question is from the line of Aditya Sen from RoboCapital, please go ahead.

Aditya Sen:

So, I would like to continue with the research and development part. Last year FY '23, we did 121 crore of research and development expenses. So, what will be the top three components of this research and development expense? Can you please explain this?

Navin Sharma:

Aditya, research and development largely includes manpower cost. Then we have certain technical collaboration charges, and since most of the development happened over cloud, then the cloud costs also is part of research and development. But largely you can say the single largest element would be manpower cost.

Aditya Sen:

Understood. And the last question, how will the sales and marketing cost trend going forward. It should, ideally, we believe that it should increase because the products will be launched and

once the products are successfully placed in the market, then it should decrease. So, is this understanding, correct?

Navin Sharma: Yes. So, basically, it will have two elements. Your understanding for new products is correct, since new products or new thing would require incremental additional effort. Hence, the cost would be higher. But at similar cost, our standard product can be sold higher at, even at our existing cost. So, broadly, what is the spend we have incurred on account of sales and marketing in this year, next year also it will remain similar, but with substantially higher sales number.

Moderator: Thank you. Our question is from the line of Ramakrishnan V from Equity Intelligence. Please go ahead.

Ramakrishnan V: Good evening, sir. So, can you give us a breakup, what is the number of license we have sold and what is the average realization? Is it this volume driven, there is an impact in the volume or is it the impact in the price? And also, in case of this, your enterprise?

Navin Sharma: Hi, Ramakrishnan. So, basically, our ARPU has increased during the year, and it has been increasing substantially, increasing over last few years. But as a matter of practice, we don't share number of licenses or ARPU in absolute term.

Ramakrishnan V: ARPU has increased in case of retail, as well as the enterprise?

Navin Sharma: Yes.

Ramakrishnan V: And what is the cash in the book as of now after the buyback and all that we have done?

Navin Sharma: We have close to 200 crore as cash and cash equivalent in our books.

Moderator: Thank you. Our next question is from the line of Aditya Sen from RoboCapital. Please go ahead.

Aditya Sen: Sir, I would like to understand the revenue composition of 100 crore of the Enterprise segment, like what architecture bring how much revenue? I would like to understand this part.

Navin Sharma: So, Aditya, predominantly (+90%) revenue comes from our hero product, which is endpoint protection.

Aditya Sen: Endpoint protection, okay. Thank you. And one more question, like it's not a question, that's a concern that I would like to share. What we believe is that CD drive from the laptop has now completely vanished I believe. So, I guess pushing the product while the laptop is being sold at the store would be difficult. So, don't you think this is a concern for us for the distribution channel?

And also why I am still emphasizing enough on selling these retail product online because when I Googled, it's I barely find Quick Heal anywhere. McAfee is there and other products are there.

Even fake products are there. But it's difficult to find Quick Heal easily on Internet, like obviously, jump into the website and Flipkart works, but I don't see any other optimization.

Navin Sharma: So, the answer to your second question first that we are fairly available in online be it own website, which is quickheal.co.in, as well as we are market-leader in marketplaces which include both Flipkart as well as Amazon. This is part one.

Second, your first question was with respect to CD Drive. See, with the way everything has digitalized, in similar fashion, our product also get burn basis the available code. So, from that perspective, I don't think that, and in fact none of our competition also provides their antivirus in CDs.

Aditya Sen: So, even we are not providing our products through CDs?

Navin Sharma: No, we are not providing. No one provides.

Aditya Sen: Oh, sorry, my bad time, it's my bad, I'm extremely sorry. So, those were my questions. Thank you.

Moderator: Thank you. As there are no further questions, 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 Con Call. I hope we 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 IR Manager at Valorem Advisors. Thank you. Stay safe and healthy.

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