Quick Heal Technologies Ltd — FY 2024 Annual Report Analysis

Annual Report Analysis (Consolidated)

Source: CRORES. All figures Crores. Pipeline: v5-Gemini — W1a → W3 → W1b+W2+W2F (parallel, notes-injected) → Merge.

Investor Snapshot

#	Analytical Point	Sentiment
1	Quick Heal is transitioning from a legacy consumer security provider to an enterprise SaaS player, with the Seqrite segment now contributing 37% of the revenue mix.	□
2	**Revenue growth remains sluggish at 4.91% YoY (□292 Cr), as the core consumer business commoditizes and fails to provide significant top-line momentum.**	□
3	**Operating margins are under severe pressure with employee costs consuming 58% of revenue and R&D intensity reaching an unsustainable 45.6% of sales (□133.06 Cr).**	□
4	**Earnings quality is poor; core software operations generated only □4.82 Cr in PBT, leaving the company 81.6% dependent on Other Income (□21.39 Cr) for reported profits.**	□
5	**The balance sheet remains the primary strength with a debt-free status (0.0x D/E) and a robust cash reserve of □38 Cr providing a liquidity safety net.**	□
6	**Free Cash Flow generation deteriorated significantly to □12 Cr from □32 Cr, constrained by a high working capital drag and increased capital expenditure.**	□
7	**Capital allocation efficiency is low, evidenced by a 6% ROCE and a total □12.55 Cr write-off of the Israel-based L7 Defense investment.**	□
8	**Asset quality is strained by poor collection discipline, with 25.09% of gross receivables (□44.13 Cr) classified as credit-impaired or disputed.**	□
9	**Governance risks are elevated due to a □1.96 Cr breach of statutory managerial remuneration limits and a qualified audit opinion regarding database-level audit trails.**	□
10	**The appointment of a new CEO and KMP overhaul signals a shift toward professionalization, though legacy promoter compensation issues persist.**	□
11	**Forward visibility is limited by stagnant deferred revenue (□2.10 Cr), indicating a lack of momentum in securing multi-year enterprise contracts.**	□
12	Stance: WATCH; monitor for Seqrite revenue growth exceeding 25% and a reduction in debtor days from the current 165-day level to below 120 days.	□

1. BUSINESS OVERVIEW (In Bullet Points)

- **Segment Mix Shift:** Quick Heal is pivoting from a legacy retail antivirus player to a platform-based enterprise security provider. The Enterprise (Seqrite) contribution grew from 20% (FY21) to 37% (FY24), while the Consumer segment (63%) faces significant headwinds.
- **Revenue Drivers:** Growth is increasingly driven by the Enterprise segment as the retail market commoditizes. Revenue quality is under pressure, with incentives and discounts increasing to 10.50% of gross contracted price (□30.62 Cr) from 7.36% YoY.

- **Cost Drivers:** R&D expenditure is a massive cost driver at **₹133.06 Cr (45.6% of sales)**. **Employee Cost %** remains the primary margin drag at 58.00% of **Sales**, with salaries rising to ₹153.92 Cr.
- **Industry Position:** The company holds a 30% consumer market share in India but faces a "global legitimacy deficit," lacking visibility in Gartner Magic Quadrant and NSS Labs evaluations.
- **Expansion Plans:** Management is targeting international expansion (MEA, Europe, APJ) and has collaborated with U.S. NIST-NCCoE and joined the U.S. AISIC to build global credibility.
- **Product Strategy:** Betting heavily on **Cyber Security Mesh Architecture (CSMA)** and positioning "Data Privacy" tools to align with the **Digital Personal Data Protection (DPDP) Act** for regulatory-led enterprise entry.
- **Capacity & Channel:** Introduced a **Profit-Sharing Program (PSP)** for its 35,000+ dealer network to prevent channel conflict during the push for Direct-to-Consumer (D2C) sales.
- **Geographical Presence:** India remains the dominant market, contributing 93.52% (₹272.84 Cr) of total revenue.

2. MANAGEMENT COMMENTARY & OUTLOOK

- The leadership team has been entirely professionalized with the appointment of **Vishal Salvi (CEO)**, formerly of Infosys/HDFC Bank, alongside a new CFO, CPO, CTO, and Sales heads.
- Management has shifted from a defensive tone to one of "professionalized execution," acknowledging the decline in the consumer business while focusing on "Enterprise SaaS" metrics.
- Strategic focus is on "Horizon 2" (EDR, XDR, ZTNA) and "Horizon 3" (Gen-AI, Threat Intel) products to replace the maturing "Horizon 1" (Consumer AV) cash cow.
- The "Hawkk" nomenclature has been retired in favor of a "Seqrite" tactical reset to simplify market positioning and improve enterprise traction.
- The "Make in India" mandate is a key competitive wedge, particularly for the recently launched On-Prem EDR targeting the government sector where global players face restrictions.
- Management admits that international expansion is hindered by a lack of global analyst recognition, which they are actively seeking to rectify through U.S.-based security collaborations.
- The long-term vision involves transforming into a platform-based security provider, though the company currently operates with a high "Founder's Tax" as core operations struggle to support promoter remuneration.
- **Management Tone: Pragmatic but Strained. Management is no longer sugar-coating the decline in the consumer business and has aligned strategically with modern Enterprise SaaS frameworks. However, the recurring need for special resolutions for promoter pay amidst "inadequate profits" creates a narrative where the professional leadership is doing the heavy lifting while legacy governance friction persists.**

3. FINANCIAL ANALYSIS

3.1 Financial Statements

Source: Screener.in — all monetary values in Crores. Use these numbers directly.

P&L Statement (Crores)

Line Item	Mar 2024	Mar 2023
Sales -	292.00	278.00
Sales Growth %	4.91	-18.66
Expenses -	274.00	276.00
Material Cost % -	2.00	3.00
Raw material cost	5.54	8.94
Change in inventory	1.29	0.39
Manufacturing Cost %	6.00	5.00
Employee Cost %	58.00	56.00
Other Cost %	28.00	35.00
Operating Profit	18.00	2.00
OPM %	6.00	1.00
Other Income -	21.00	22.00
Exceptional items	1.97	7.15
Other income normal	19.10	14.98
Interest	0.00	0.00
Depreciation	13.00	16.00
Profit before tax	26.00	8.00
Tax %	8.00	20.00
Net Profit -	24.00	6.00
Exceptional items AT	2.00	6.00
Profit excl Excep	23.00	1.00
Profit for PE	23.00	1.00
Profit for EPS	24.00	6.00
Profit Growth %	2,668.00	-99.00
EPS in Rs	4.53	1.21
Dividend Payout %	66.00	207.00

Balance Sheet (□Crores)

Line Item	Mar 2024	Mar 2023
Equity Capital	54.00	53.00
Reserves	383.00	367.00
Borrowings -	0.00	0.00
Lease Liabilities	0.00	0.00
Other Liabilities -	76.00	74.00
Trade Payables	40.00	49.00
Advance from Customers	0.00	0.00
Other liability items	36.00	25.00
Total Liabilities	513.00	493.00
Fixed Assets -	117.00	124.00
Land	2.66	2.66
Building	109.49	124.17
Equipments	16.43	16.49
Computers	100.60	105.09
Furniture n fittings	31.14	29.90
Vehicles	1.05	1.05
Intangible Assets	0.00	0.00
Other fixed assets	46.63	32.43
Gross Block	308.00	311.79
Accumulated Depreciation	191.28	187.34
CWIP	3.00	0.00
Investments	190.00	198.00
Other Assets -	203.00	171.00
Inventories	3.00	4.00
Trade receivables -	132.00	123.00
Receivables over 6m	51.00	68.00
Receivables under 6m	125.00	91.00
Prov for Doubtful	-44.00	-37.00
Cash Equivalents	38.00	12.00
Loans n Advances	6.00	6.00
Other asset items	24.00	26.00
Total Assets	513.00	493.00

Cash Flow Statement (□Crores)

Line Item	Mar 2024	Mar 2023
Cash from Operating Activity -	18.00	31.00
Profit from operations	32.24	11.59
Receivables	-16.07	44.31
Inventory	1.70	0.29
Payables	-8.73	-1.08
Loans Advances	0.00	0.00
Other WC items	9.02	-16.30
Working capital changes	-14.08	27.22
Direct taxes	0.03	-8.00
Cash from Investing Activity -	6.00	185.00
Fixed assets purchased	-8.00	-4.00
Fixed assets sold	1.00	5.00
Investments purchased	-280.00	-401.00
Investments sold	291.00	528.00
Interest received	1.00	2.00
Dividends received	0.00	0.00
Other investing items	0.00	55.00
Cash from Financing Activity -	2.00	-212.00
Proceeds from shares	6.15	0.72
Dividends paid	-13.29	-26.09
Financial liabilities	0.00	0.00
Share application money	0.00	0.00
Other financing items	8.74	-186.79
Net Cash Flow	26.00	4.00
Free Cash Flow	12.00	32.00
CFO/OP	102.00	2,064.00

Key Ratios (□Crores)

Line Item	Mar 2024	Mar 2023
Debtor Days	165.00	161.00
Inventory Days	0.00	0.00
Days Payable	0.00	0.00
Cash Conversion Cycle	165.00	161.00
Working Capital Days	88.00	83.00
ROCE %	6.00	0.00

3.2 Financial Analysis Summary

- **Revenue** grew by **4.91%** to **□292.00 Cr**, with India contributing **93.52%** of the total, while **Other Income** of **□21.39 Cr** accounted for a staggering **81.61%** of **Profit before tax**, signaling that core software operations generated only **□4.82 Cr** in pre-tax earnings.
- **OPM %** recovered to **6.00%** from **1.00%** YoY, yet **Employee Cost %** remains the primary margin drag at **58.00%** of **Sales**, driven by a rise in salaries to **□153.92 Cr** and a near-doubling of **ESOP** costs to **□5.10 Cr**.
- **Revenue** quality is under pressure as incentives and discounts increased to **10.50%** of the gross contracted price (**□30.62 Cr**) compared to **7.36%** in the prior year, while **Deferred Revenue** remained stagnant at **□2.10 Cr**, indicating a lack of growth in multi-year service contracts on the **Balance Sheet**.
- **Trade Receivables** (Gross) grew by **10.16%** to **□175.85 Cr**, significantly outpacing **Revenue** growth of **4.91%**, which led to a deterioration in **Debtor Days** to **165.00** and a **□16.07 Cr** cash outflow in the **Cash Flow Statement**.
- **Balance Sheet** quality is impacted by high provisioning risk, with **25.09%** of **Gross Trade Receivables** (**□44.13 Cr**) considered credit-impaired, including **□25.85 Cr** in long-standing disputes aged over 3 years.
- **CFO** of **□18.00 Cr** failed to track **Net Profit** of **□24.00 Cr**, resulting in a **CFO/PAT** ratio of **0.75**, largely due to **□10.23 Cr** of non-cash fair value gains on mutual funds and a **□14.08 Cr** drain from **Working Capital** changes.
- **Free Cash Flow** declined to **□12.00 Cr** from **□32.00 Cr** YoY as higher **Capex** of **□8.00 Cr** for **Fixed Assets** and increased **Working Capital** requirements offset the improvement in **Profit from operations**.
- The company remains virtually debt-free with **Total Debt** at **□0.00 Cr** and **Cash Equivalents** rising to **□38.00 Cr**, supported by **□6.15 Cr** in proceeds from **ESOP** exercises and an **□8.60 Cr** tax refund in the **Cash Flow Statement**.
- **ROCE %** improved to **6.00%** from **0.00%**, but capital efficiency is hampered by a large non-core asset base, including **□190.00 Cr** in **Investments** and a **□12.55 Cr** fair value loss on an Israel-based investment that was routed through OCI rather than the **P&L Statement**.
- **Depreciation** of **□13.00 Cr** followed the conservative Written Down Value method, with **Fixed Assets** decreasing to **□117.00 Cr** as **Accumulated Depreciation** reached **□191.28 Cr** against a **Gross Block** of **□308.00 Cr**.
- **Other Assets** analysis reveals **Prepaid Expenses** rose **47%** to **□5.50 Cr**, likely due to upfront cloud infrastructure payments, while **Other Liabilities** show a sharp drop in **Employee benefit liabilities** (from **□10.85 Cr** to **□0.61 Cr**) which was reclassified to **Employee benefit obligations** totaling **□15.57 Cr**.
- **Other Expenses** of **□98.34 Cr** (34.27% of total) remain high, and a fire incident write-off was offset by a **□1.79 Cr** insurance claim recorded in **Other Income**, which further masked core operational performance.
- **The dominant financial theme of the year is a low-growth core business heavily subsidized by non-operating income, where stagnant cash flows and deteriorating receivable quality reflect significant structural challenges despite a debt-free balance sheet.**

3.3 Contingent Liabilities & Commitments

- **Pending Litigations:** The Auditor's report highlights pending litigations that could impact the financial position; however, the specific aggregated quantum is not disclosed in the summary notes.
- **Bank Guarantees:** Total deposits of **□0.42 Cr** are pledged against bank guarantees, representing restricted cash.
- **Tax Disputes:** While specific amounts are not listed, the high volume of "Disputed Trade Receivables" (□25.85 Cr) suggests ongoing legal/commercial friction.
- **Capital Commitments:** Not specifically disclosed in the provided annual report summary.

3.9 Earnings Quality & Forensic Checks

#	Check	Impact	Status	Evidence	Notes Detail
1	PAT vs CFO trend	Profit ↑ — earnings overstate cash; □10.23 Cr non-cash mutual fund gains inflate PAT over CFO.	□	PAT □24 Cr vs CFO □18 Cr	Gap driven by non-cash "Other Income" items and fair value gains on investments.
2	Receivables & channel-stuffing signal (receivables + inventory build vs revenue)	Revenue ↑↓ — channel stuffing risk; gross receivables grew 10.16% vs sales growth of only 4.91%.	□	Gross Receivables □175.85 Cr (FY24) vs □159.63 Cr (FY23)	Receivables growth outpaced revenue; 25% of gross receivables are credit-impaired or disputed.
3	Revenue timing (unbilled / contract assets + deferred revenue / advances)	Neutral — stagnant contract liabilities; deferred revenue flat at □2.10 Cr indicates no multi-year growth.	□	Deferred Revenue □2.10 Cr (FY24) vs □2.10 Cr (FY23)	Note 23: No significant growth in long-term service contracts providing future visibility.
4	Revenue from related parties %	Neutral — minimal direct revenue impact; RPT receivables are negligible at □0.08 Cr.	□	RPT Receivables □0.08 Cr	Note 16: Promoter holding high at 72.48%, but RPT sales are not a material driver.
5	Inventory vs revenue growth	Profit ↑ — inventory liquidation; inventory decreased by 37% while sales grew marginally by 4.9%.	□	Inventory □2.80 Cr (FY24) vs □4.50 Cr (FY23)	Software-heavy model results in minimal physical inventory; reduction aids cash flow slightly.
6	Inventory valuation method change	Neutral — consistent accounting; no change reported in the valuation of security software or materials.	□	Material cost 2% of sales	Note 3: Standard cost-based valuation for physical components of software kits.
7	Exceptional items in operating profit	Profit ↑ — non-core boost; □1.79 Cr insurance claim from fire incident recorded in other income.	□	Exceptional items □1.97 Cr; Insurance claim □1.79 Cr	Note 24: Fire incident write-off offset by insurance claim, artificially boosting the bottom line.
8	Depreciation rate vs useful life policy	Profit ↓ — conservative accounting; WDV method used with high 63.16% rate for computer equipment.	□	Depreciation □13 Cr; Computer rate 63.16%	Note 3(h): WDV method is more conservative in early years compared to SLM.
9	Provision reversals boosting PAT	Profit ↑ — provision risk; □44.13 Cr total provision exists with □7.15 Cr incremental addition in FY24.	□	Provision □44.13 Cr (FY24) vs □36.98 Cr (FY23)	Note 11: High provisioning for disputed/impaired debts; no reversals, but high stock of bad debt.
10	Tax rate consistency + cash tax vs P&L tax	Profit ↑ — low effective tax; 8% P&L tax rate vs 25% statutory due to refunds.	□	Tax % 8.00; Direct taxes in CFO □0.03 Cr	Cash Flow: □8.60 Cr tax refund received in FY24 significantly lowered the effective tax outgo.
11	CWIP age and stalling projects	Neutral — minimal exposure; CWIP is negligible at □3 Cr with no signs of stalling.	□	CWIP □3.00 Cr (FY24) vs □0.00 Cr (FY23)	Balance Sheet: New capital work in progress initiated, but not material to total assets.
12			□	Tax % 8.00 (P&L)	

#	Check	Impact	Status	Evidence	Notes Detail
	Deferred tax asset recognition adequacy	Neutral — standard recognition; DTA/DTL balances not flagged as aggressive by auditors.			Note 3: Ind AS 12 compliance; tax rate fluctuations driven by refunds rather than DTA play.
13	RPT quantum and trend	Profit ↓ — governance flag; managerial remuneration exceeded statutory limits by □1.96 Cr total.	□	Excess Remuneration □1.72 Cr (SEBI) + □0.24 Cr (Act)	Auditor's Emphasis: Remuneration paid to MD/JMD exceeded limits pending shareholder approval.
14	Dividend paid vs FCF adequacy	Neutral — sustainable payout; □13.29 Cr dividend well covered by □12 Cr FCF and cash reserves.	□	Dividend □13.29 Cr; FCF □12.00 Cr	Cash Flow: Payout is supported by high cash equivalents (□38 Cr) despite thin FCF.
15	Core Earnings Quality	Profit ↑ — core business weakness; Core PBT is only 18.39% of reported PBT.	□	Core PBT □4.82 Cr vs Reported PBT □26.21 Cr	Other Income (□21.39 Cr) masks the extremely thin margins of the core software operations.
16	Audit Trail Compliance	Neutral — regulatory concern; edit log feature not enabled at database level for the full year.	□	Qualified comment under Rule 11(g)	Feature enabled only from April 19, 2024; potential for undetected data manipulation during FY24.
17	Investment Impairment Routing	Profit ↑ — loss masking; □12.55 Cr fair value loss on Israel investment routed through OCI.	□	OCI Loss □12.55 Cr	Routing through OCI prevented a significant hit to reported PAT, though it reduced Total Comprehensive Income.

4. MANAGEMENT & GOVERNANCE

A. Auditor Report & Key Audit Matters * **Audit Opinion Type:** Unqualified (Unmodified) with a specific qualification under Rule 11(g) regarding Audit Trails. * ***Key Audit Matter 1: Revenue Recognition:*** Auditor flagged significant judgment in identifying performance obligations and the timing of control transfer under Ind AS 115. Management uses a "cost plus margin" approach for standalone selling prices when unavailable. * ***Key Audit Matter 2: ECL Provisioning:*** Complexity in estimating future cash flows and customer payment behavior for a large distributor network. Management applied a "simplified approach," but the auditor noted high subjectivity. * ***Audit Trail (Edit Log) Qualification:*** The auditor issued a qualified comment stating the edit log feature was not enabled at the database level for the accounting software for the full year; it was only enabled from April 19, 2024. * **Auditor Fees:** Proposed remuneration of 0.39 Cr for FY25. Fees appear aligned with complexity, but the lack of a service auditor's report for third-party payroll software was noted as a control gap. * **Auditor Tenure:** M/s MSKA & Associates recommended for a second five-year term (FY25-FY29).

B. Related Party Transactions

Party	Relationship	Nature	Amount (□ Cr)	Concern
Kailash Katkar	Chairman & MD	Excess Remuneration	0.24 Cr	***Exceeded Companies Act limits; pending shareholder approval***
Sanjay Katkar	Joint MD	Excess Remuneration	1.72 Cr	***Exceeded SEBI Listing Regulation limits; pending shareholder approval***
Kailash/Sanjay Katkar	Promoters	Final Dividend	7.61 Cr	**Calculated based on 72.48% holding and □3/ share dividend**
Sanjay Katkar HUF	Jt. MD Interest	Lease of Property	0.12 Cr	Fixed lease with promoter entity
Related Parties	Various	Trade Receivables	0.08 Cr	Minimal outstanding balance

C. Shareholding * **Promoters:** 72.48% (Slight decrease from 73.08% YoY) * **FII:** 3.33% (Increase from 2.53% YoY) * **DII:** 3.19% (Decrease from 3.44% YoY) * **Public:** 21.00% * **Pledged Shares:** 0.00%

D. Board Composition + KMP Compensation * **Total Directors:** 7 | **Independent %:** 57.14% | **Women Directors:** 1 (Ms. Apurva Joshi). * **KMP Compensation:** * **Kailash Katkar (MD):** □1.35 Cr (-21.96% YoY). * **Sanjay Katkar (JMD):** □1.31 Cr (-22.02% YoY). * **Family Concentration:** The Katkar brothers collectively drew □2.66 Cr, representing 14.78% of the total Operating Profit. * **Governance Flag:** Despite the YoY decrease, the auditor noted that paid amounts exceeded statutory limits by **□1.96 Cr** due to "inadequacy of profits."

F. Capital Allocation & Capex

Action	FY Current (□Cr)	FY Prior (□Cr)	% of CFO	Signal
Dividends	13.29	26.09	73.06%	□
Capex	8.00	4.00	44.00%	□
Buybacks	0.00	150.00	0.00%	□
Investments (Financial)	280.00	401.00	1,539.31%	□
Impairments / Write-offs	12.55	0.00	68.99%	□

- **CFO Coverage of Capex:** CFO (18.19 Cr) is 2.27x Capex (8.00 Cr). Capex is self-funded.
- **Nature of Capex:** Primarily hardware and office infrastructure; **Capex doubled YoY to □8.00 Cr** while revenue grew only 4.91%, suggesting front-loaded investment.
- **Deployment Efficiency:** Dividend payout (13.29 Cr) consumes 73% of CFO, leaving limited room for aggressive R&D expansion without dipping into cash reserves.
- **Key Takeaways:** The company has halted buybacks to preserve liquidity but faces capital erosion from failed tech investments (□12.55 Cr loss on L7 Defense, Israel).

H. Risks * ***Credit Impairment (High):*** 25.09% of gross receivables (□44.13 Cr) are credit-impaired. Impact: High risk of cash flow leakage and long-term capital lock-up. * ***Audit Trail Compliance (Medium):*** Edit log not enabled at database level for full year. Impact: Potential for undetected data manipulation and regulatory scrutiny. * **Competition & Pricing (Medium):** *Incentives and discounts reduced gross billings by 10.50%. Impact: Sustained pressure on ARPU and margin compression. * Geopolitical Risk (Medium):* **Investment in L7 Defense (Israel) written down to Nil. Impact: □12.55 Cr loss in OCI; signals high risk in international technology bets. *** Operating Leverage (High):*** Employee costs consume 58% of total revenue. Impact: Severe margin collapse if revenue growth stalls due to high fixed-cost base.

5. SCORECARD & VERDICT

Part A: Scorecard

Dimension	Rating (1–5)	Delta	Key Evidence	One-line Rationale
Business Quality	3	→	30% Consumer share; Enterprise 37% of mix	Stable but transitioning; legacy business is commoditizing while new growth is high-burn.
Financial Health	4	→	D/E 0.0x; Cash □38 Cr; CFO > Capex	Debt-free balance sheet and strong cash reserves provide a significant safety net.
Earnings Quality	2	↓	Core PBT □4.82 Cr; CFO/PAT 0.75; 25% Receivables impaired	Reported profits are heavily reliant on non-operating income and non-cash gains.
Management & Governance	2	↓	□1.96 Cr excess pay; Audit trail qualification	Professionalization is underway, but legacy promoter compensation breaches and audit gaps are major flags.
Capital Allocation & Earnings Visibility	2	↓	ROCE 6%; □12.55 Cr Israel write-off; Stagnant Deferred Revenue	Poor returns on tech investments and lack of multi-year contract growth limit visibility.

BUSINESS POSITIVES (for this company this year) * □**Debt-Free Status:** The company maintains a **□0.00 Cr Total Debt** position with **□38.00 Cr** in cash equivalents. * □**Professional Leadership:** Appointment of **Vishal Salvi (CEO)** and a full KMP overhaul signals a shift toward institutional-grade execution. * □**Enterprise Pivot:** Seqrite (Enterprise) segment now contributes **37%** of revenue, up from 20% in FY21. * □**Make in India Wedge:** Strong positioning for government mandates with the new **On-Prem EDR** product. * □**Asset Value:** Investment property fair value of **□65.79 Cr** is significantly higher than the **□31.62 Cr** book value.

BUSINESS NEGATIVES / CONCERNS (for this company this year) * □**Core Earnings Weakness:** Core software operations generated only **□4.82 Cr** in pre-tax profit, with **81.61%** of PBT coming from Other Income. * □**Governance Red Flag:** Managerial remuneration exceeded statutory/SEBI limits by **□1.96 Cr** due to inadequate profits. * □**Receivable Stress: 25.09%** of gross receivables (**□44.13 Cr**) are credit-impaired or disputed. * □**High Burn Rate:** R&D expenditure stands at **45.6% of sales** (□133.06 Cr), which is unsustainable without a revenue breakout. * □**Audit Qualification:** The auditor issued a qualified comment regarding the lack of an **audit trail (edit log)** at the database level. * □**Capital Erosion:** A **□12.55 Cr** fair value loss was taken on the Israel-based L7 Defense investment, writing it down to Nil.

OVERALL SCORECARD SUMMARY Quick Heal is a company in a high-stakes transition, where a robust, debt-free balance sheet is currently subsidizing a low-growth and low-margin core operation. While the professionalization of management is a positive step, earnings quality is poor, characterized by a heavy reliance on non-operating income and significant receivable impairments. Governance remains a concern due to persistent promoter remuneration breaches and audit trail gaps, placing the company on a stable but high-risk trajectory until the enterprise segment achieves meaningful operating leverage.

Part B: Governance Check Matrix

#	Check	Status	Evidence
1	Audit opinion clean?	□	Qualified regarding Audit Trail (Rule 11(g))
2	Promoter pledge = 0?	□	0.00% pledged
3	KMP pay < 5% of PAT?	□	Katkar brothers pay (□2.66 Cr) is ~11% of PAT; exceeded statutory limits
4	RPT quantum < 5% of revenue?	□	RPTs are ~0.70% of revenue
5	Board > 50% independent?	□	57.14% (4 out of 7)
6	At least 1 woman director?	□	Ms. Apurva Joshi
7	No statutory dues outstanding?	□	No material defaults reported
8	No fraud reported?	□	No fraud reported by auditors
9	Audit trail enabled?	□	Not enabled at database level for full FY24
10	Frequent Auditor change	□	MSKA & Associates re-appointed for 2nd term

Total: 7/10 □— Governance Rating: 2

Part C: Investor Verdict

THESIS: A legacy consumer security player attempting a high-burn pivot to enterprise SaaS, currently supported by a large treasury rather than operational cash flow. **OVERALL STANCE:** WATCH **RATIONALE:** The professionalization of management is promising, but the core business is currently "value-trapped" by high R&D costs and poor collection discipline. **RE-EVALUATE WHEN:** Enterprise (Seqrite) revenue growth exceeds 25% YoY or R&D spend drops below 30% of sales. **BULL CASE:** Rapid adoption of DPDP-compliant tools leads to a 50%+ surge in enterprise revenue, achieving operating leverage. **BEAR CASE:** Consumer business declines faster than enterprise grows, leading to cash burn and further capital erosion from failed tech bets. **KEY MONITORABLE:** Debtor Days: 165 days → Watch for reduction below 120 days.

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7. YEAR-OVER-YEAR ANALYSIS

7.1 Changes

Metric / Theme	Summary A Status	Summary B Status	Forensic Takeaway
Capital Allocation	Aggressive cash depletion via ₹150 Cr buyback despite a 92% PAT crash.	Halted buybacks; shifted to absorbing a ₹12.55 Cr impairment on international tech bets.	Management has pivoted from aggressive shareholder returns to capital preservation and loss recognition.
Margin Trajectory	OPM collapsed to 1% as fixed employee costs (56% of sales) overwhelmed falling revenue.	OPM recovered slightly to 6% but remains suppressed by rising employee costs (58% of sales).	Operating leverage remains broken as personnel expenses and ESOPs continue to outpace marginal revenue growth.
Working Capital	Aggressive liquidation of old receivables (₹44.3 Cr) artificially boosted CFO.	Receivables grew 10.16% (outpacing 4.9% sales growth), causing a ₹16.07 Cr cash drain.	The reversal from receivable liquidation to accumulation suggests deteriorating collection efficiency or potential channel stuffing.
Management Tone	Defensive and struggling with operational deterioration and retail cyclicality.	Professionalized execution under a new CEO, focusing on "Enterprise SaaS" metrics and pragmatic resets.	The shift to professional leadership is offset by "Founder's Tax" friction and persistent governance gaps.
Governance & Compliance	Minor breach of remuneration limits (₹0.34 Cr) for Independent Directors.	Significant breach of remuneration limits (₹1.96 Cr) and a qualified audit opinion on Audit Trails.	Governance risk has escalated from minor administrative oversights to material statutory breaches and internal control qualifications.
Earnings Quality	PAT of ₹6.4 Cr was entirely supported by ₹22.13 Cr of Other Income.	Core PBT remains weak at ₹4.82 Cr, with 81% of reported PBT derived from non-operating treasury income.	The company remains a "treasury box" where non-core income continues to mask the fundamental unprofitability of software operations.

7.2 Persistent Patterns

- **Zero Debt Balance Sheet:** The company consistently maintains a **Debt/Equity of 0.00**, providing a massive liquidity cushion that subsidizes operational losses.
- **High R&D Intensity:** Investment in R&D remains structurally high at **43%–46% of sales**, representing a sustained high-burn bet on the enterprise security pivot.
- **Stagnant Deferred Revenue:** Deferred revenue is frozen at **₹2.10 Cr** across both years, signaling a **persistent failure to secure multi-year subscription growth** or forward sales momentum.
- **Severe Receivable Impairment:** Gross receivables consistently show high stress, with **23% to 25% of the book classified as credit-impaired or disputed** for over three years.
- **Excess Promoter Remuneration:** A recurring pattern of **managerial pay exceeding statutory limits** due to "inadequacy of profits" highlights a lack of alignment between executive compensation and shareholder outcomes.
- **Geographic Concentration:** Revenue remains heavily tethered to the Indian market (**93%+**), reflecting a **sustained inability to achieve global analyst recognition** or international scale.
- **Negative Operating Leverage:** The cost structure is dominated by fixed employee expenses (56%–58%), ensuring that **any volatility in the top line results in disproportionate crashes in operating profit**.

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