

Quick Heal Technologies Ltd — Feb 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

The punchline. Read this first — it frames everything below.

Result: Miss One-line: The pivot to Enterprise is finally manifesting in a material "Order Book" (₹7.2 Cr) and "Deferred Revenue" (₹10 Cr), but the core business is bleeding in the interim as legacy Consumer de-growth and high fixed R&D costs pushed EBITDA into the red this quarter.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Prior Quarter	Miss	Revenue (₹70.6 Cr) down 4% QoQ and 14% YoY; EBITDA turned negative (-₹3.8 Cr).	□
Earnings Quality	Low (Provisioning)	PAT of ₹0.1 Cr was only possible due to ₹4.9 Cr Other Income; ₹2.5 Cr provision for doubtful debts hit G&A.	□
Guidance Confidence	Neutral	Management remains "confident of FY26" but admits government orders are delayed/pushed.	□
Management Credibility	Improving	For the first time, provided specific "Order Book" and "Deferred Revenue" metrics to track the SaaS-like pivot.	□
Business Quality Signal	Stable	Maintained 30-40% market share in Consumer AV despite a declining global/domestic market.	□
Key Q&A Exchange	Q# 4 & 5 (Order Book)	Analysts pushed on the math of the ₹7.2 Cr order book; Mgmt clarified this is 1-3 year tenure and over/above BAU.	□
The Street's Primary Anxiety	P&L Burn	Sustaining ₹33.8 Cr/quarter R&D on a shrinking revenue base; Mgmt insists this is "start-up" mode for Seqrite.	□
Capital Cycle Stage	Re-investment	Heavy investment in "Horizon 3" products (SMAP, Threat Intel) while Consumer AV cash flows stabilize.	□
Margin Trajectory	Deteriorating	EBITDA margin collapsed to -5.3% (vs +4.2% in Q2) due to lower revenue scale and S&M spend.	□
Pricing Power	Stable	Holding market share in a de-growing AV market; no aggressive price cuts reported.	□
FCF Conversion & Quality	Distorted	Cash static at ₹190 Cr despite PAT near zero, but doubtful debt provisions suggest collection friction.	□
Competitive Moat Signals	Widening	Launched India's first Fraud Prevention (AntiFraud.ai) and a Malware Analysis Platform (SMAP).	□
Balance Sheet Strength	Strong	₹190 Cr in Cash/Investments; Zero Debt.	□
Working Capital Efficiency	Deteriorating	Management specifically called out a focus on "collections" and made a ₹2.5 Cr doubtful debt provision.	□
Mgmt Guidance Track Record	Mixed	Delivered on Horizon 3 product launches but failed to close government deals on time.	□
Key Vulnerability	Govt. Concentration	20% of Enterprise business is B2G, which is currently "sluggish" and hurting quarterly predictability.	□
Management Tone	Transparent	Sober about Q3 performance ("below par") but bullish on product pipeline and new B2B metrics.	□

Sentiment: Neutral

Key Takeaways: * **Positives:** The Enterprise transformation is becoming measurable; the order book jumped from ₹0.35 Cr to ₹7.2 Cr QoQ, and deferred revenue reached ₹10 Cr, providing future visibility. The launch of **AntiFraud.ai** and **SMAP** (Malware Analysis) expands the TAM from simple "Anti-virus" to "Financial Fraud Prevention" and "Deep Malware Analytics," respectively. * **Negatives:** Operating leverage is working in reverse. A 14% YoY revenue drop against a high fixed-cost base (R&D at 48% of revenue) led to an operating loss. The ₹2.5 Cr provision for doubtful debts indicates that the aggressive Enterprise push is encountering payment delays, likely from government/distributor channels. * **The Street's Concern:** Analysts are fixated on the disconnect between high R&D spend and stagnant top-line. Management's defense is that 10-15% of revenue is now coming from new products, and the R&D burn is "peaking" as they shift from building to selling. * **Forward-looking Watchpoint:** The implementation of the **DPDP Act**. Management expects a ticket size of ₹75 Lakhs to ₹3 Crore per mid-market enterprise for compliance solutions, with RFPs already starting to emerge.

2. BUSINESS PERFORMANCE

2A. KEY METRICS

DATA SOURCE: PPT figures used as primary source. Concall used for Mgmt Commentary.

Metric	Current Qtr (Q3FY25)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (₹Cr)	70.6	↓ 13.8%	↓ 3.9%	↓	Muted performance due to consumer headwinds and delayed govt. orders.
Gross Margin (%)	97.3%	↑ 20 bps	↑ 100 bps	→	Stable; software delivery costs remain negligible.
EBITDA (₹Cr)	-3.8	↓ 132%	↓ 222%	↓	Swing to loss due to S&M for AntiFraud launch and lower revenue scale.
EBITDA Margin %	-5.3%	↓ (19.5%)	↓ (9.5%)	↓	Impacted by high fixed R&D (48% of revenue) and G&A provisions.
PAT (₹Cr)	0.1	↓ 99%	↓ 97.6%	↓	Profitability entirely supported by ₹4.9 Cr Other Income.
Order Book (₹Cr)	7.2	Not in Doc	↑ 1,957%	↑	First time material; reflects 1-3 year enterprise contracts.
Deferred Rev (₹Cr)	10.0	Not in Doc	↑ (8 Cr in 9M)	↑	Building predictability; ₹8 Cr added in 9M FY25.
R&D Spend (₹Cr)	33.8	↓ 2.8%	↓ 0.6%	→	Maintained high intensity; all costs expensed.
Cash/Invest. (₹Cr)	190.0	Not in Doc	↓ (220 to 190)	↓	Used for Capex (Data Center) and working capital support.
Attrition (%)	Low	Not in Doc	→	↑	At an "all-time low," especially in R&D team.

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)*	9M Growth (YoY)	Margin	Trend	vs Co. Avg	Key Development
Consumer	43.1	↓ 1.0%	High	↓	Laggard	Launched AntiFraud.ai to counter domestic de-growth in AV.
Enterprise	27.5	↑ 2.3%	Invest.	↑	Outperformer	Order book reached materiality; launched SMAP and Threat Intel.

*Derived from P&L (₹ 70.6 Cr) using 9M split ratios (62/38).

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	Confident of FY26 outlook; pipeline has doubled.	Needs ~₹95 Cr in Q4 to match FY24 revenue. High risk.	Missed Q3 due to govt delays.	Execution
Guidance	DPDP Act	Guidelines expected soon; RFPs already appearing.	Dependent on Govt. timelines for enforcement.	Ready with products.	Regulatory
Product	SMAP / Threat Intel	Secure first orders for new Horizon 3 products.	Achieved: First Threat Intel order secured in Q3.	Delivered.	Scaling
Financial	Collections	Aggressive focus on collections in H2.	High; necessitated ₹2.5 Cr provision this quarter.	Deteriorating.	Liquidity
Strategy	B2C Pivot	Create a new category with AntiFraud.ai.	High cost: ₹2-3 Cr one-time S&M launch spend.	Delivered launch.	Adoption

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	3.5	Mihir Manohar, Carnelian	Opex Spike	Financials	"Sales and marketing expense that is going to 23.7 crores... have we accelerated the S&M cost?"	Mgmt confirmed a ₹2-3 Cr one-time spend for the AntiFraud product launch was included in this quarter's S&M. This explains the EBITDA miss but suggests a lower recurring opex base for Q4.	None	4.0	Clear & Quantified
3	4.5	Mihir Manohar, Carnelian	Revenue Quality	Financials	"Is Deferred Revenue and Order Book one and the same or are they different?"	Mgmt clarified Order Book is confirmed/ unbilled contracts (1-3 years), while Deferred Revenue is billed but unearned; both are over/ above BAU revenue. This establishes two high-quality lead indicators for the Enterprise business re-rating.	None	5.0	High Transparency
6	4.0	Jalaj, Svan Investments	Pipeline	Mgmt Outlook	"Where are we on those [POCs]... could you give us some quantitative number?"	Vishal Salvi stated the overall pipeline has doubled in the past year and the rate of engagements/ POCs has increased. While not quantified in Rupees, the "doubling" signal	Specific ₹ value	3.0	Directional Only

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						suggests a significant H1FY26 revenue potential.			
8	3.5	Jalaj, Svan Investments	B2G Risk	Business Overview	"Currently on the enterprise, could you give us some flavor as to what sort of revenue does government form?"	Mgmt confirmed that government business historically accounts for ~20% of the enterprise segment but was "sluggish" this quarter. This concentration explains the quarterly volatility and identifies a key external risk.	None	4.0	Specific Split
12	5.0	Navya Gautam, Sicomoro	Governance / WC	Financials	"Increase of 23 percent ROI on general admin expense... major driver in the expense rise?"	CFO revealed a ₹2.5 Cr provision for doubtful debts was made due to "sluggish collections" in the consumer/ retail business. This is a red flag on asset quality and distributor health, though management claims it's just "prudent accounting."	Collection timeline	2.5	Red Flag Flagged
19	4.5	Mihir Manohar, Carnelian	DPDP TAM	Business Overview	"What could be the average deal size that we can	Salvi estimated ticket sizes of ₹75 Lakhs to ₹3 Crore for mid-market	None	4.5	Thesis Catalyst

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
					have for this [DPDP] particular area?"	DPDP compliance, with larger enterprises being even higher. This quantifies a massive cross-sell opportunity for the Seqrite stack once enforcement begins.			

PATTERN FLAGS & SENTIMENT

- **Theme 1: Transition Pain.** Analysts were visibly concerned about the EBITDA loss. Management's posture was one of "strategic patience," framing the negative margin as a deliberate result of expensing R&D for Horizon-3 products (SMAP, AI) rather than capitalizing them. This remains a live friction point until top-line growth accelerates.
- **Theme 2: Visibility Improvements.** The shift toward reporting "Order Book" and "Deferred Revenue" was a tactical move to appease long-term investors. By showing a 1,900% QoQ jump in the order book, management successfully shifted some focus away from the weak Q3 P&L to the strong FY26 pipeline.
- **Theme 3: Collection Anxiety.** Multiple questions touched on the G&A spike and revenue headwinds. The admission of a ₹2.5 Cr doubtful debt provision suggests that the sales cycle isn't just long—it's becoming difficult to monetize. This will likely resurface next quarter as a "Cash Conversion" test.

Analyst Sentiment Verdict: Skeptical on the P&L, but intrigued by the Pipeline. Analysts were unconvinced by the B2C de-growth excuses but found the specific DPDP ticket size (₹75L - ₹3Cr) and the materializing order book as credible reasons to remain in the story. Credibility improved on transparency but deteriorated on operational execution.

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q2FY25)	This Quarter (Q3FY25)	Direction
Enterprise Backlog	₹0.35 Cr Order Book	₹7.2 Cr Order Book	↑ Improving
Core Profitability	+₹3.1 Cr EBITDA	-₹3.8 Cr EBITDA	↓ Deteriorating
Asset Quality	Normal collections	₹2.5 Cr Doubtful Debt Provision	↓ Deteriorating
Product Portfolio	PC/Endpoint focus	SMAP & Threat Intel launched	↑ Improving
Cash Position	~₹220 Cr	₹190 Cr	↓ Deteriorating
Revenue Visibility	Low / BAU only	₹10 Cr Deferred Revenue	↑ Improving
B2C Strategy	Maintaining AV	AntiFraud.ai Category Creation	↑ Improving

STOP.