

## Quick Heal Technologies Ltd — Jul 2022 Quarterly Analysis

### 1. VERDICT & BUSINESS QUALITY SNAPSHOT

**Result:** Inline **One-line:** The thesis remains a high-stakes pivot: management is aggressively liquidating its cash pile (₹150 Cr buyback) and sacrificing near-term margins to transform from a stagnant retail "antivirus" player into an enterprise cybersecurity suite.

| Dimension                    | This Quarter            | Signal / Evidence                                                                                               | Sentiment |
|------------------------------|-------------------------|-----------------------------------------------------------------------------------------------------------------|-----------|
| Beat/Miss vs Guidance        | Inline                  | Revenue ₹61 Cr (+11.5% YoY) aligns with the seasonal low-Q1 profile.                                            | □         |
| Earnings Quality             | High (Core driven)      | No one-offs; PAT reflects intentional heavy R&D (46% of revenue) and S&M spend.                                 | □         |
| Guidance Confidence          | Strong                  | Reaffirmed 50/50 revenue mix target; clear 4-6 quarter timeline for new product monetization.                   | □         |
| Management Credibility       | Strong                  | Following through on shareholder returns (₹436 Cr since FY20) and senior talent onboarding (CTO, VP Marketing). | □         |
| Business Quality Signal      | Improving               | Enterprise growth (+50%) is finally outpacing retail stagnation; first Zero Trust customer secured.             | □         |
| Key Q&A Exchange             | Q2: Enterprise Products | Management provided a granular breakdown of the "Hawkk" suite (EDR, ZTUA, Data Privacy).                        | □         |
| The Street's Primary Anxiety | Margin Compression      | Concern over EBITDA dropping to 1.72% in Q1; mgmt explained this as seasonal revenue vs. fixed cost.            | □         |
| Capital Cycle Stage          | Investment              | Massive R&D pivot; using balance sheet strength to fund the transition.                                         | □         |
| Margin Trajectory            | Deteriorating           | Intentional compression; costs rising 39% (R&D) to build the Enterprise stack.                                  | □         |
| Pricing Power                | Stable                  | Holding 30%+ market share in Retail; shifting to "Enterprise" where value-based pricing is higher.              | □         |
| FCF Conversion & Quality     | Strong                  | Consistent cash generation despite pivot; zero debt maintained.                                                 | □         |
| Competitive Moat Signals     | Stable                  | Retail moat (distribution) is cash-generative; Enterprise moat (product) is under construction.                 | □         |
| Balance Sheet Strength       | Strong                  | Net cash position remains robust even after proposed ₹150 Cr buyback.                                           | □         |
| Working Capital Efficiency   | Stable                  | Inventory/Debtor days not flagged as an issue; industry-standard cycles.                                        | □         |
| Mgmt Guidance Track Record   | Reliable                | Consistent delivery on segment mix targets and shareholder payouts.                                             | □         |
| Key Vulnerability            | Retail Stagnation       | The "Cash Cow" is dying (1% India growth); pivot must succeed before retail fades further.                      | □         |
| Management Tone              | Confident               | Bullish on "Zero Trust" and "Data Privacy" as the next growth vectors.                                          | □         |

**Key Takeaways: - Positives:** Enterprise revenue grew 50% YoY, now representing 36% of the mix. Secured the first customer for Zero Trust (HawkkProtect). Onboarded a new CTO and Marketing Head to drive the technical pivot. Significant shareholder reward via a ₹150 Cr buyback at ₹300 (50% premium to CMP at the time). - **Negatives:** The Retail segment is effectively dead-weight (flat YoY) due to low consumer awareness and poor PC monetization in India. EBITDA margins are highly volatile in Q1 due to seasonality and fixed R&D costs. Attrition, while "lower than industry," remains a structural headwind for product timelines. - **The Street's Concern:** Analysts are worried about the "missing" revenue from the post-COVID PC boom. Management's response was blunt: only 20-25% of Indian PCs use paid AV, and awareness isn't improving, forcing the pivot to Enterprise where awareness and budgets are mandated by threats and regulation. - **Watchpoint:** Commercial revenue flow from the HawkkHunt (EDR) and HawkkScan (Data Privacy) suites, which management expects to materialize by H1 FY24.

## 2. BUSINESS PERFORMANCE

### 2A. KEY METRICS

DATA SOURCE: PPT not available — all numbers sourced from concall transcript.

| Metric                   | Current Qtr           | YoY Change    | QoQ Change   | Trend | Mgmt Commentary                                                    |
|--------------------------|-----------------------|---------------|--------------|-------|--------------------------------------------------------------------|
| Revenue (₹Cr)            | ₹61 Cr                | ↑ 11.5%       | ↓ (Seasonal) | ↑     | Growth driven by 50% jump in Enterprise; Retail flattish.          |
| EBIT Margin (%)          | Not stated            | N/A           | N/A          | ↓     | Margin compression due to 39% increase in R&D spend.               |
| PAT (₹Cr)                | ₹0.2 Cr               | ↓ 95%         | ↓ (Seasonal) | ↓     | Impacted by high fixed costs (R&D/S&M) on Q1 seasonal low revenue. |
| EBITDA Margin %          | 1.72%                 | ↓ (from ~10%) | ↓            | ↓     | Seasonality effect; revenue is seasonal but costs are fixed.       |
| R&D Spend (₹Cr)          | ~₹28 Cr               | ↑ 39%         | ↑            | ↓     | Now 46% of Q1 revenue; vital for Enterprise product dev.           |
| S&M Spend (₹Cr)          | ~₹18.3 Cr             | ↑ 9%          | ↑            | ↓     | Represents 30% of revenue; focusing on digital channels.           |
| Enterprise Revenue (₹Cr) | ₹22 Cr                | ↑ 50%         | N/A          | ↑     | Now 1/3 of total revenue; outperforming 11% industry growth.       |
| Consumer Revenue (₹Cr)   | ₹41 Cr                | → 0%          | N/A          | →     | Market stagnant (1% growth in India); flattish performance.        |
| Attrition (%)            | "Lower than industry" | N/A           | N/A          | →     | Mgmt claims better retention than the 40% industry avg.            |
| Cash post-payouts (₹Cr)  | ~₹200 Cr              | N/A           | N/A          | →     | Post buyback/dividend; funds available for organic/inorganic.      |

### 2B. SEGMENT BREAKDOWN

| Segment              | Revenue (₹ Cr) | YoY Growth | Margin    | Trend | vs Co. Avg   | Key Development                                                |
|----------------------|----------------|------------|-----------|-------|--------------|----------------------------------------------------------------|
| Consumer (Retail)    | ₹41 Cr         | 0%         | High      | →     | Laggard      | Cash cow; pricing pressure and low awareness capping growth.   |
| Enterprise (Seqrite) | ₹22 Cr         | 50%        | Investing | ↑     | Outperformer | Added 36 customers with >500 endpoints; HawkProtect first win. |

### 3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

| Dimension | Category           | Management Target / Claim                    | Required Run-Rate / Feasibility                        | Historical Delivery                       | Risk Flag                         |
|-----------|--------------------|----------------------------------------------|--------------------------------------------------------|-------------------------------------------|-----------------------------------|
| Guidance  | Revenue Mix        | Reach 50/50 mix (Retail/Enterprise).         | High; Enterprise needs 40%+ CAGR if Retail stays flat. | On track; moved from 25% to 36% share.    | High execution risk in large Ent. |
| Guidance  | Product Launch     | H1 FY24 revenue flow from Hawk suite.        | Needs 4-6 quarters of market-fit testing.              | First Zero Trust customer landed Q1.      | Tech obsolescence risk.           |
| Strategy  | Shareholder Return | ₹150 Cr Buyback @ ₹300/share.                | Fully funded by cash on hand.                          | Consistent (₹436 Cr returned since FY20). | Low.                              |
| Strategy  | Talent Acquisition | Onboarded CTO and VP Marketing.              | Critical for technical R&D pivot.                      | Delivered in Q1.                          | Integration risk.                 |
| Macro     | Market Growth      | Enterprise segment 20x larger than Consumer. | Growing at 11% (Industry) vs 1% (Retail).              | Capturing share (+50% growth).            | Global MNC competition.           |

## 4. ANALYST Q&A

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| Q# | Rel. | Analyst / Firm              | Theme Cluster      | Category             | Underlying Concern                                                                              | Management Response & Investment Implication                                                                                                                                                                                                                                          | Evaded / Not Addressed | Credibility | Verdict                   |
|----|------|-----------------------------|--------------------|----------------------|-------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|-------------|---------------------------|
| 1  | 4.0  | Vivek Ganguly / Nine Rivers | Capital Allocation | Capex and Allocation | Would the promoters be also participating in the buyback?                                       | Management confirmed promoters will participate proportionately (approx. 36.4 lakh of the 50 lakh shares). This ensures compliance with the 75% promoter holding limit while signaling confidence in the ₹300 valuation.                                                              | None                   | 5.0         | Specific & quantified     |
| 2  | 5.0  | Vivek Ganguly / Nine Rivers | Product Strategy   | Business Overview    | What is the differential between current enterprise revenue and the new Seqrite Hawkk products? | Mgmt explained current revenue comes from "business as usual" (Endpoint Security/EPS), while Hawkk products (EDR/Zero Trust) are for the new threat landscape. EPS is the current bread-winner, but the Hawkk suite represents the future incremental growth engine starting H1 FY24. | None                   | 4.0         | Directional with evidence |
| 3  | 4.5  | Vivek Ganguly / Nine Rivers | Product Strategy   | Business Overview    | Can you help us understand what role HawkkEye, HawkkHunt, HawkkScan perform?                    | Sanjay Katkar detailed HawkkHunt as EDR for advanced threats, HawkkProtect as Zero Trust (ZTUA), and HawkkScan                                                                                                                                                                        | None                   | 5.0         | Specific & quantified     |

| Q# | Rel. | Analyst / Firm      | Theme Cluster      | Category             | Underlying Concern                                                        | Management Response & Investment Implication                                                                                                                                                                                          | Evaded / Not Addressed | Credibility | Verdict              |
|----|------|---------------------|--------------------|----------------------|---------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|-------------|----------------------|
|    |      |                     |                    |                      |                                                                           | for Data Privacy compliance. This product diversification expands the TAM from basic protection to detection, response, and compliance.                                                                                               |                        |             |                      |
| 4  | 3.5  | Keshav Garg / CCIPL | Capital Allocation | Capex and Allocation | Why ₹300 buyback price when CMP is ₹200? Why not buy more shares at ₹250? | Mgmt stated the board considered multiple factors for the ₹300 price point. This reflects a management view that the stock is significantly undervalued, though it reduces the "EPS accretion" benefit by extinguishing fewer shares. | Board logic details    | 3.0         | Vague but consistent |
| 5  | 4.0  | Keshav Garg / CCIPL | Financials         | Financials           | Will we pass the ₹140 Cr EBITDA of FY21?                                  | Mgmt declined to give a specific EBITDA number, citing massive R&D/ S&M investments and IT cost escalation. Near-term margins are secondary to the goal of high-growth revenue in the Enterprise segment.                             | Specific EBITDA target | 2.0         | Deflected/ hedged    |
| 6  | 4.5  |                     |                    |                      |                                                                           |                                                                                                                                                                                                                                       | None                   | 4.0         |                      |

| Q# | Rel. | Analyst / Firm      | Theme Cluster     | Category          | Underlying Concern                                                                  | Management Response & Investment Implication                                                                                                                                                                                                            | Evaded / Not Addressed | Credibility | Verdict                   |
|----|------|---------------------|-------------------|-------------------|-------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|-------------|---------------------------|
|    |      | Keshav Garg / CCIPL | Business Quality  | Business Overview | Why is the post-COVID increase in PC/laptop sales not reflecting in retail revenue? | Management cited lack of consumer awareness in India, where only 20-25% of laptops have paid AV. This highlights the structural ceiling on the retail business and the necessity of the pivot to Enterprise.                                            |                        |             | Directional with evidence |
| 7  | 4.0  | Jatinder Agarwal    | Geopolitics/ Regs | Business Overview | How does the Russia-Ukraine war and new Indian cyber regulations impact business?   | Mgmt is currently 95% + India-focused, so war impact is nil; however, upcoming Indian Data Protection laws (similar to GDPR) will create massive demand for HawkScan. Regulatory tailwinds are a key "pull" factor for the Enterprise business in FY24. | None                   | 3.0         | Vague but consistent      |
| 8  | 3.0  | Dhairya Visaria     | Market Share      | Business Overview | Are we losing market share in Retail and why are S&M costs high but growth slow?    | Mgmt clarified they are holding 30%+ share in a flat (1%) market. S&M investments in digital/SEO are long-term plays that won't show immediate results in a                                                                                             | None                   | 3.0         | Vague but consistent      |

| Q# | Rel. | Analyst / Firm   | Theme Cluster | Category          | Underlying Concern                                                                  | Management Response & Investment Implication                                                                                                                                                                                    | Evaded / Not Addressed | Credibility | Verdict          |
|----|------|------------------|---------------|-------------------|-------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|-------------|------------------|
|    |      |                  |               |                   |                                                                                     | stagnant segment.                                                                                                                                                                                                               |                        |             |                  |
| 9  | 3.5  | Kaustav Bubna    | Client Mix    | Business Overview | How much revenue comes from private corporates vs government?                       | Management declined to disclose the specific split, citing confidentiality. They did state that growth rates and predominant sales are similar in both segments, keeping the "Govt vs. Private" risk profile opaque.            | Specific Rev Split     | 2.0         | Evasive          |
| 10 | 4.0  | Madhusudan Bohra | Growth        | Mgmt Commentary   | Are you satisfied with the performance given revenue has been stagnant for 5 years? | Kailash Katkar confirmed he is satisfied, noting that current expenses are "investments" in future products. As a major stakeholder, his lack of stake dilution is presented as the ultimate signal of confidence in the pivot. | CAGR Targets           | 2.0         | Deflected/hedged |

**PATTERN FLAGS & SENTIMENT - Theme 1: The Enterprise Pivot.** Analysts are skeptical about the multi-year revenue plateau (₹300-350 Cr). Management is doubling down on the "Enterprise" narrative, moving from simple antivirus to a Zero Trust/EDR suite. The skepticism remains live because the margin compression is visible today, while the revenue "pull" from these new products is still 4-6 quarters away. - **Theme 2: Capital Allocation vs. Growth.** Friction occurred over the buyback pricing and the lack of dividend vs. buyback efficiency. Management's aggressive ₹300 buyback (above market price) is a defensive "value" play, while their R&D spend is an offensive "growth" play. - **Theme 3: The Consumer Ceiling.** There is a realization among analysts that the PC-boom tailwind is a myth for Quick Heal due to low paid-AV penetration. The pivot is no longer an "option" but a survival necessity for growth.

**Analyst Sentiment Verdict:** Analysts are **frustrated but captive**. They recognize the strength of the balance sheet and the logic of the pivot, but the lack of revenue growth over a 5-year period has eroded patience.

Management's credibility is supported by the massive shareholder payout, but they are now under a strict "execution watch" for H1 FY24 product monetization.

## 5. WHAT CHANGED vs PRIOR QUARTER

| What Changed       | Prior Quarter           | This Quarter                    | Direction                |
|--------------------|-------------------------|---------------------------------|--------------------------|
| Enterprise Growth  | 23% YoY                 | 50% YoY                         | ↑ Improving              |
| Capital Allocation | Dividend/Prior buybacks | New ₹150 Cr Buyback @ ₹300      | ↑ Improving (Confidence) |
| Product Status     | Beta/Development        | First ZTUA customer landed      | ↑ Improving              |
| Management Team    | Searching/Interim       | New CTO and VP Marketing joined | ↑ Improving              |
| R&D Intensity      | 26% of Revenue (FY22)   | 46% of Revenue (Q1FY23)         | ↓ Margin Headwind        |
| Revenue Mix        | ~25% Enterprise         | 36% Enterprise                  | ↑ Strategic Pivot        |