

## Quick Heal Technologies Ltd. Q4FY18 Result Update

CMP INR: 324  
 Rating: BUY  
 Target Price INR: 390  
 Upside: 20%

## Improvement in all parameters continues

Quick Heal Technologies (QHTL), after several quarters of consistent flat to negative revenue growth and pressure on margins, has reported a strong recovery both in terms of topline growth and margin improvement. Overall net revenue grew by 29% YoY to INR 119 cr, higher than our expectations of INR 101 cr and highest in last two years. Growth in topline was mainly supported by 33% growth in new license sales whereas realization got impacted due to GST pass on and change in product mix. The company has also taken significant cost rationalization measures in the recent past and due to that EBITDA margin improved to 55% in Q4FY18 as compared to 40% in the corresponding quarter. Supported by higher growth in H2FY18 and huge control on cost, for the full year of FY18 EBITDA margin came at 39% against our expectations of 35%. QHTL, through its' across the value chain product portfolio and extensive distribution network achieved market leadership in consumer security segment and is replicating the model to get success in the enterprise security space. We believe the underlying strength of the business remains strong and reiterate our 'BUY' recommendation with a revised target price of INR 390.

**In Consumer Security space, volumes came back strongly; Realizations impacted by GST**

QHTL's consumer security business (75% of overall revenue in Q4FY18) reported growth of 27% YoY backed by New license sales growth (volume growth) of 32% YoY. Re-stocking at the dealer levels post GST boosted the growth. This is the highest volume growth the company reported in the consumer business since listing. In a market with weak demand sentiment, management has taken the GST affect on them rather than passing it on to the customer and hence consumer product realization decreased by 1% in Q4FY18. The management has taken significant initiatives to reposition the consumer securities business by restructuring the distributor driven model and spend more money on brand building over the last few quarters. We believe, retail business of the company would grow at 12% CAGR over FY18-20E to INR 345 cr backed by 11% volume growth and 1% realization improvement.

**Enterprise Business reported 37% YoY growth; Expected to maintain momentum going forward**

Enterprise business (25% of overall revenue Q4FY18) de-grew by 3% YoY. Although, new license sales grew by 31% YoY; change in product mix affected the realization and that in- turn affected the overall growth. For the full Year of FY18, Enterprise business grew by 14% YoY backed by 23% growth in new license sales. Going forward, management is more confident of growing the B2B business to reach 50% of the overall topline in next three years as compared to 17% in FY17. India has a large base of over 5 cr SMBs and ease of installation, use, and management of security systems are absolutely essential to penetrate them. QHTL, under the 'Seqrite Brand', launched products targeted towards SMBs and emerging enterprises which are cloud enabled and able to fulfill the simple requirement of small companies and partnered with more than 490 system integrators to reach to the masses. With the higher acceptance of Seqrite brand among new age enterprises; QHTL's enterprise segment is expected to grow at 30% CAGR over FY18-20E to reach INR 107 cr in FY20E.

**Strong Cash Profit generation, RoCE came back to 31% in FY18**

With improvement in profitability, QHTL generated Cash profit of INR106 cr in FY18 as compared to INR 90 cr generated in FY17. Overall cash balance, increased to INR 463 cr against INR 384 cr in FY17. Most importantly, core RoCE (without considering the cash balance), after three consecutive years of continuous fall, came back to 30% levels in FY18. Going forward, core RoCE is expected to reach to 34% in FY20E mainly due to growth in profitability and improvement in working capital cycle.

**Underlying Strength of the business remains intact; Reiterate BUY**

At the current market price of INR 324, QHTL is trading at 19x of FY20E expected EPS of INR 17. We reiterate our 'BUY' rating with a target price of INR 380.

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**Bloomberg: QUICKHEA:IN**

52-week range (INR):	404.00 / 172.20
Share in issue (cr):	7.0
M cap (INR cr):	2,396
Avg. Daily Vol. BSE/NSE :('000):	500
Promoter Holding (%)	72.50

Financials	Q4FY18	Q4FY17	%Change	Q3FY18	%Change	FY17	FY18	FY19E	FY20E
Net Revenues (INR cr)	119	92	29%	64	85%	299	316	359	416
EBITDA (INR cr)	65	37	79%	11	471%	97	124	147	175
PAT (INR cr)	49	22	122%	7	640%	64	86	99	120
Diluted EPS (INR)						9.1	12.3	14.1	17.1
Diluted PE (x)						38.4	28.8	22.9	18.9
EV/EBITDA						19.4	15.2	12.8	10.8
ROE(%)						8%	12%	13%	14%

Date: 14th May 2018

## Q4FY18 Result Highlights

	Q4FY18	Q4FY17	%Change	Q3FY18	%Change	FY18	FY17	%Change
Net Revenues	119	92	29%	64	85%	316	299	6%
Direct Expenses	6	6	5%	4	77%	16	22	-24%
Gross Profit	112	86	30%	61	85%	300	277	8%
Operating Expenses	47	50	-5%	49	-5%	176	180	-2%
EBITDA	65	37	79%	11	471%	124	97	27%
Depreciation	7	8	-15%	7	2%	27	31	-13%
Interest	0	0	-	0	-	0	0	-
Other Income	14	6	117%	5	159%	30	28	8%
PBT	72	35	108%	10	630%	127	94	35%
Tax Payment	23	12	84%	3	610%	40	31	32%
PAT Before Extraordinary	49	22	122%	7	640%	86	64	36%
Extraordinary Items	0	0	-	0	-	-8	-4	70%
Reported PAT	49	22	122%	7	640%	79	59	33%
Equity Capital	70	70	-	71	-	70	70	-
No of Shares	7	7	-	7	-1%	7	7	-
EPS	7.0	3.2	122%	0.94	650%	11.3	8.5	33%
EBITDA Margin	55%	40%		18%		39%	33%	
PAT Margin	41%	24%		10%		25%	20%	
Tax Rate	32%	36%		33%		32%	32%	

### Other Key Highlights

- QHTL has active licenses base of 84 lakhs at the end of FY18 as compared to 78 lakhs of active licenses in FY17.
- In the retail segment, the company is now having 21,401 channel partners selling products at different parts of India. In the enterprise segment, the company currently has 527 enterprise partners.
- In the enterprise segment, the company added 5000 new clients in FY18 and currently has 30,000 active clients. The company added more than 100 new customers where average users are more than 500.
- Recenueable days without GST has come to 101 days in FY18 which was lower than the previous years debtor cycle of 111 days.
- R&D spending in FY18 came at INR 57 cr, 11% de-growth as compared to FY17. R&D spending as percentage of revenue came down to 18% as compared to 21% in FY17. Going forward, management is confident of maintaining R&D spending at 18-20% range.
- In the retail business customer retention ratio was 35% whereas for enterprise business retention was 75% in FY18. Management is targeting to improve the retention ratio of enterprise segment to 90%.

## Financials

Income statement					
(INR cr)					
Year to March	FY16	FY17E	FY18E	FY19E	FY20E
Income from operations	302	299	316	359	416
Direct Expenses	28	22	16	19	22
R&D Expenses	59	64	57	60	69
S G&A Expenses	113	117	119	133	151
Total operating expenses	200	202	192	212	242
EBITDA	102	97	124	147	175
Depreciation and amortisation	24	31	27	30	32
EBIT	78	66	97	117	143
Interest expenses	0	0	0	0	0
Other income	10	28	30	31	37
Profit before tax	88	94	127	148	179
Provision for tax	30	31	40	49	59
Core profit	58	64	86	99	120
Extraordinary items	0	0	0	0	0
Profit after tax	58	64	86	99	120
Minority Interest	0	0	0	0	0
Share from associates	0	0	0	0	0
Adjusted net profit	58	64	86	99	120
Equity shares outstanding (Cr)	7.0	7.0	7.0	7.0	7.0
EPS (INR) basic	8.3	9.1	12.3	14.1	17.1
Diluted shares (Cr)	7.0	7.0	7.0	7.0	7.0
EPS (INR) fully diluted	8.3	9.1	12.3	14.1	17.1
Dividend per share	2.5	2.5	2.5	3.0	3.0
Dividend payout (%)	0.3	0.3	0.2	0.2	0.2

### Common size metrics- as % of net revenues

Year to March	FY16	FY17E	FY18E	FY19E	FY20E
Operating expenses	66.3	67.5	60.9	59.0	58.0
Depreciation	7.8	10.3	8.5	8.3	7.7
Interest expenditure	0.0	0.0	0.0	0.0	0.0
EBITDA margins	33.7	32.5	39.1	41.0	42.0
Net profit margins	19.2	21.3	27.3	27.7	28.8

### Growth metrics (%)

Year to March	FY16	FY17E	FY18E	FY19E	FY20E
Revenues	14.5	(1.0)	5.8	13.4	16.1
EBITDA	11.0	(4.6)	27.2	18.7	18.9
PBT	10.4	6.8	34.6	16.8	21.0
Net profit after minority interest	7.7	9.7	35.9	14.8	21.0
EPS	(6.1)	9.6	35.3	14.8	21.0

### Profit & Efficiency Ratios

Year to March	FY16	FY17E	FY18E	FY19E	FY20E
ROAE (%)	12%	8%	12%	13%	14%
ROACE (%)	19%	14%	18%	19%	20%
Debtors (days)	103	116	118	114	111
Current ratio	4.5	7.1	10.6	10.5	10.5
Debt/Equity	0.0	0.0	0.0	0.0	0.0
Inventory (days)	8	10	6	7	7
Payable (days)	64	50	38	35	35
Cash conversion cycle (days)	47	76	87	86	83
Debt/EBITDA	0.0	0.0	0.0	0.0	0.0
Adjusted debt/Equity	0.0	0.0	0.0	0.0	0.0

### Valuation parameters

Year to March	FY16	FY17E	FY18E	FY19E	FY20E
Diluted EPS (INR)	8.3	8.4	11.3	14.2	17.1
Y-o-Y growth (%)	7.7	2.1	33.3	25.8	21.0
CEPS (INR)	11.7	12.9	15.1	18.4	21.7
Diluted P/E (x)	39.2	38.4	28.8	22.9	18.9
Price/BV (x)	3.7	3.4	3.1	2.7	2.4
EV/Sales (x)	6.2	6.3	6.0	5.3	4.5
EV/EBITDA (x)	18.5	19.4	15.2	12.8	10.8
Diluted shares O/S	7.0	7.0	7.0	7.0	7.0
Basic EPS	8.3	9.1	12.3	14.1	17.1
Basic PE (x)	39.2	38.4	28.8	22.9	18.9
Dividend yield (%)	1%	1%	1%	1%	1%

Balance sheet					
(INR cr)					
As on 31st March	FY16	FY17E	FY18E	FY19E	FY20E
Equity share capital	70	70	70	70	70
Warrants	0	0	0	0	0
Reserves & surplus	537	592	653	727	822
Shareholders funds	607	662	724	798	892
Borrowings	0	2	2	2	2
Minority interest	0	0	0	0	0
<b>Sources of funds</b>	<b>607</b>	<b>664</b>	<b>726</b>	<b>800</b>	<b>895</b>
Gross block	206	277	331	371	401
Depreciation	64	92	119	149	181
Net block	142	185	212	222	220
Capital work in progress	55	14	14	14	14
Total fixed assets	197	198	226	236	234
Goodwill	0	0	0	0	0
Non Current Assets	29	41	15	15	15
Current Investments	108	175	451	501	551
Sundry debtors	95	97	103	109	126
Cash and equivalents	269	209	12	14	41
Loans and advances	9	1	1	12	24
Other current assets	9	12	12	14	15
Total current assets	490	495	579	650	756
Sundry creditors and others	68	70	55	62	72
Provisions	41	0	0	0	0
Total CL & provisions	108	70	55	62	72
Net current assets	382	425	524	588	685
Net Deferred tax	0	0	0	0	0
Misc expenditure	0	0	0	0	0
<b>Uses of funds</b>	<b>607</b>	<b>664</b>	<b>726</b>	<b>800</b>	<b>895</b>
Book value per share (INR)	87	95	103	114	127

### Cash flow statement

(INR cr)					
Year to March	FY16	FY17E	FY18E	FY19E	FY20E
Net profit	58	64	86	99	120
Add: Depreciation	24	31	27	30	32
Add: Misc expenses written off	0	0	0	0	0
Add: Deferred tax	-2	0	0	0	0
Add: Others	-9	0	0	0	0
Gross cash flow	70	94	113	129	152
Less: Changes in W. C.	22	36	21	11	20
Operating cash flow	48	58	93	117	132
Less: Capex	36	30	55	40	30
<b>Free cash flow</b>	<b>12</b>	<b>28</b>	<b>38</b>	<b>77</b>	<b>102</b>

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Rating	Expected to
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate between 5-15% over a 12-month period
<b>Reduce</b>	Return below 5% over a 12-month period



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