

# IPO Note: Quick Heal Technologies Ltd.

Industry: Information Technologies Recommendation: Subscribe Date: February 04, 2016

## Issue Snapshot

Company Name	Quick Heal Technologies Ltd.
Issue Opens	February 08, 2016 to February 10, 2016
Price Band	Rs. 311 to Rs. 321
Bid Lot	45 Equity Shares and in multiples thereof.
The Offer	Public issue of 14,057,720* Equity shares of Face value Rs.10 each, (Comprising of fresh issue of 7,788,162 – 8,038,585 Equity Shares (Rs. 250 cr) and Offer for Sale of 6,269,558 Equity Shares (Rs. 195.0 – 201.3 crore) by Selling Shareholder).
Issue Size	Rs. 445.0 – 451.3 Crore
IPO Process	100% Book Building
Face Value	Rs. 10.00
Exchanges	NSE & BSE
BRLM	ICICI Securities Limited, Jefferies India Private Limited and J. P. Morgan India Private Limited
Registrar	Link Intime India Private Limited

## Objects of the Offer

### Offer for Sale

The Company will not receive any proceeds of the Offer for Sale by the Selling shareholder (Kailash Sahebrao Katkar (1,840,000 eq. sh.), Sanjay Sahebrao Katkar (1,840,000 eq. sh.), Sequoia Capital India Investment Holdings III (2,501,984 eq. sh.), and Sequoia Capital India Investments III (87,574 eq. sh.)).

### Fresh Issue

- Advertising and sales promotion;
- Capital expenditure for research and development;
- Purchase, development and renovation of office premises in Kolkata, Pune and New Delhi; and
- General corporate purposes.

## Company Highlights

Quick Heal Technologies Limited, one of the leading providers of security software products and solutions in India with a market share of over 30% in the retail segment according to the Zinnov Industry Report. The Company's end customers include home users, small offices and home offices (SOHO), SMBs, enterprises, educational institutions, as well as government agencies and departments. Its proprietary antivirus technology, which is based on an innovative behavior and threat detection system, works to detect security threats including virus and malware attacks in real time to protect its users, IT assets across platforms, including Windows, Mac, Android, iOS and Linux, and across devices, including desktops, laptops, mobile/ smartphones and tablets, while aiming to ensure resource availability, business continuity and an uninterrupted digital experience. The portfolio includes solutions under the widely recognized brand names "Quick Heal" and "Seqrite" for desktop and laptop security, mobile / smartphone security, endpoint security, gateway security, network security, cloud-based mobile device management (MDM) systems, data loss prevention (DLP) systems and family safety software. Since the company incorporation, more than 24.5 million licenses of its products have been installed and as of December 31, 2015, it had over 7.13 million active licenses spread across more than 80 countries.

The company's security software solutions are structured to be user friendly and can be accessed, installed and used with minimal effort and limited technical knowledge. The Company provides support services to its end users in

## Issue Break up

Issue Size	Allocation	Equity Shares*
QIB	50%	6,950,978
HNI	15%	2,085,294
RII	35%	4,865,685
<b>Total Public</b>	<b>100%</b>	<b>13,901,957</b>
Employee		155,763
<b>Total</b>		<b>14,057,720</b>

\* Based on higher price band @ Rs. 321

English, Hindi and several other major regional Indian languages. The Company takes regular feedback from its large user base which enables them to understand the needs of its users better and helps to innovate and design improved solutions.

The Company sells its solutions directly and through distributors, whom is refer to as channel partners, who in turn distribute its solutions through resellers. The Company has established strong, sustainable and long-term relationships with its channel partners. The company distribution model helps them to deliver solutions to a large addressable market, distributed across a broad geographic spectrum, at low costs. As at December 31, 2015, the company has a network of over 19,000 retail channel partners, 349 enterprise channel partners, 319 government partners and 944 mobile channel partners.

## View

Quick Heal Technologies is a provider of security software products and solutions in India to retail and enterprise, government and mobile platforms. The company categorizes its sales in two segments – retail sales and other sales. Under Retail Sales Network, Quick Heal uses network of retail channel partners spread across the country to cater to home users while other sales refers to sales from enterprise channel partners, government partners, mobile channel partners and sales outside India. As of FY15, Quick heal derived 86.76% and 13.24% of revenue from retail sales and other sales respectively. Geographically, the company derives 97.31% and 2.69% of revenues from India and overseas respectively. Thus, the company is predominantly driven by demand from the retail sales in India where it holds a strong market share of 30%. However, it is also actively trying to diversify in overseas markets in the enterprise business segment. The management has been successful in implementing a successful business model across pan India and creating a brand within this short time frame through a strong network of channel partners. The number of active licenses installed by users increased from 2.5 million as of March 31, 2011 to 7.13 million as of December 31, 2015. This has helped the company to register a CAGR of 21.94%, 13.07% and 8.67% in total revenue, EBITDA and net profit for the last five years. Besides, the company has shown strong cash conversion abilities thus enabling to be debt free over the years.

However, the business dynamics in which Quick Heal operates undergoes sea changes with each passing day and the past performance cannot be taken for granted. Although, India has the fastest growing internet population with low penetration at 18% compared to 49% in China and 87% in the United States, the growth in the future is expected to be driven by mobile platform (led by smart phones) rather than personal computers (PC)/laptops. Besides, the retail segment is expected to witness sluggish growth due to greater use of smart phones. This is expected to intensify the competition in the enterprise segment with MNCs in the likes of Symantec, Intel, Microsoft, Kaspersky Lab etc. In fact, increasing competition has led to higher advertising and sales promotion expenses adversely affecting Quick Heal's operating margins from 53% in FY12 to 32% as of FY15. Besides, the enterprise solutions segment earn lower margins compared to retail sales, which is expected to further impact the operational performance. Moreover, operating systems like Mac (Apple) and Windows 10 (with inbuilt windows defender), will have limited need for an antivirus program as the operating system is less vulnerable than Windows XP. Many enterprises in India are still using Windows XP, however with Microsoft not providing for any updates (on XP) rather offering discounts to upgrade to Windows 10, Windows XP users is expected to decline. Further, in mobile platform, there is limited scope for growth since majority of the users don't use paid antivirus software. So, based on the above factors, we believe there will be changes in the business model in the long run and is expected to lower margins of players like Quick Heal and the players need to adapt to the changing business dynamic.

On valuation front, company has been demanding high premium as the company has no listed peers and has an established brand with more than 30% market share. At higher price band, the company is valued at P/E multiple of ~32x of FY16E EPS of Rs. 9.9 (assuming company earns 35% revenue in H1FY16). However the experienced senior Management Quality, strong financial, healthy cash flow and return ratios together with the expected dividend payout of 25-30% in the future is expected to reward the shareholders in the short run. Hence we advice our investors to **"Subscribe"** the issue for the listing gain.

## Financial Statement

(In Rs. Cr)	FY12	FY13	FY14	FY15	H1FY16
Share Capital	7.6	7.6	61.1	61.1	61.1
Net Worth	210.3	285.0	332.4	331.4	355.8
Long Term Borrowings	-	-	-	-	-
Other Long Term Liabilities	0.4	0.5	-	-	-
Short-term borrowings	-	-	-	-	-
Other Current Liabilities	18.9	28.6	47.3	96.5	47.0
Fixed Assets	42.7	67.4	137.2	184.8	198.9
Non Current Assets	9.1	10.7	19.6	22.6	20.7
Current Assets	177.8	236.0	222.9	220.5	183.3
Total Assets	229.6	314.1	379.7	428.0	402.8
Revenue from Operations	179.0	205.0	242.8	286.1	148.2
Revenue Growth (%)		14.5	18.5	17.8	
EBITDA	95.7	105.2	104.4	91.8	44.0
EBITDA Margin (%)	53.5	51.3	43.0	32.1	29.7
Net Profit	68.2	76.9	58.4	53.8	24.2
Net Profit Margin (%)	38.1	37.5	24.0	18.8	16.3
Earnings Per Share (Rs.)	11.2	12.6	9.4	8.7	3.9
Return on Networth (%)	32.8	27.2	17.7	16.4	-
Net Asset Value per Share (Rs.)	34.0	46.2	54.0	53.8	57.8

Source: RHP, Ashika Research

## Cash Flow Statement

(In Rs. Cr)	FY12	FY13	FY14	FY15	H1FY16
Cash flow from Operations Activities	48.9	67.7	60.7	77.2	34.1
Cash flow from Investing Activities	(52.5)	(62.6)	(59.4)	(52.5)	12.3
Cash flow from Financing Activities	-	(1.3)	(2.2)	(17.5)	(48.5)
Net increase/(decrease) in cash and cash equivalents	(3.7)	3.8	(1.0)	7.2	(2.1)
Cash and cash equivalents at the beginning of the year	6.2	2.5	6.3	5.3	12.5
Cash and cash equivalents at the end of the year	2.5	6.3	5.3	12.5	10.4

Source: RHP

## Comparison with listed industry peers

There are no listed companies in India that engage in the similar line of business. Hence, it is not possible to provide an industry comparison in relation to the Company.

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