

Quick Heal Technologies Ltd: Average Issue

**IPO Note: Reducing EPS, High P/E and High Competition-Expensive Issue
:Ranking****

Quick Heal

Security Simplified

Issue details

| | |
|------------------|-----------------------|
| Price band (Rs) | Rs. 311-321 |
| IPO Opening Date | 08-02-2016 |
| IPO Closing Date | 10-02-2016 |
| Issue Size | Rs. 444.98-451.25 Cr. |

Recommendation

The company has posted an average EPS of Rs. 9.60 (on consolidated basis) for last three fiscals with declining trends in bottom line. Management clarification for this is, they have spent more on new products for enterprise module and mobile securities which has been charged to P & L. These efforts will start yielding rewards in coming years. Company enjoys preferred anti-virus solution provider company status with a market share of 30% in the domestic market.

However, we feel that retail antivirus product segment in India (where 97% of the revenue share) is very low margin business where Quickheal draws its majority revenue from. Without much Intellectual Property (IP) generation, the company runs the risk of margins getting pressurized in future. Enterprise segment where most software product companies generate their highest margins from, is where Quickheal is still trying to get a foothold.

With the expected price band and P/E of 41 plus, we feel it is very expensive issue. With high competition, this issue with thin margin, high P/E and decreasing EPS doesn't make compelling story for long-term investment.

Highlights

- Quick Heal Technologies Ltd (QHT) is one of the leading providers of security software products and solutions in India with a market share of over 30% in the retail segment
- the company has posted an average EPs of Rs. 9.60 (on consolidated basis) for last three fiscals with declining trends in bottom line
- Its revenue consists of 87% retail market and rest from other segments. 97% of its revenue is from domestic market and the rest from exports.
- it had over 7.13 million active licenses spread across more than 80 countries.
- For last three fiscals it registered declining trends in bottom line
- Over the four years its top line grew at a CAGR of 12.36%

Company Introduction Company Profile

Quick Heal Technologies Ltd (QHT) is 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. Its customers include home users, small offices and home offices (SOHO), SMBs, enterprises, educational institutions, as well as government agencies and departments. QHT's 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 users' IT assets across platforms, including Windows, Mac,

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www.quickheal.co.in

Financial Summary (Rs. In Crore)

| Particulars | FY2012 | FY2013 | FY2014 | FY2015 |
|--------------|--------|--------|--------|--------|
| Total Income | 184.65 | 214.75 | 252.63 | 294.33 |
| Net Profit | 68.18 | 76.90 | 58.38 | 53.80 |
| EPS (Rs) | 11.14 | 12.59 | 9.43 | 8.68 |

Source:RHP

RANKING METHODOLOGY

| | |
|-----------|-------|
| WEAK | * |
| AVERAGE | ** |
| GOOD | *** |
| VERY GOOD | **** |
| EXCELLENT | ***** |

Android, iOS and Linux, and across devices, including desktops, laptops, mobile/ smart phones and tablets, while aiming to ensure resource availability, business continuity and an uninterrupted digital experience. Company's product 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 incorporation of QHT, 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 also invests in advertising and sales promotion activities across various media channels that further increase our brand recognition among existing and potential users. First generation promoters have done remarkable job in this field.

IPO Issue Proceed

To part finance its advertising and sales promotion, capex for R&D, purchase, develop and renovate proposed offices at Kolkata, Pune and New Delhi along with general corpus funds, the company is coming out with a book building process IPO consisting of fresh equity issue worth Rs. 250 cr. and offer for sale of 6269558 equity shares of Rs. 10 each from existing stakeholders. Price band for this IPO is Rs. 311-321. Thus the company plans to raise between Rs. 444.98 cr to Rs. 451.25 cr. based on the lower and upper price bands. It opens for subscription on 08.02.16 and will close on 10.02.16. Minimum application is to be made for 45 shares and in multiples thereon, thereafter.

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