



Subex Limited  
Q3 FY2022 Earnings Conference Call

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**MANAGEMENT:** **MR. VINOD KUMAR PADMANABHAN - MANAGING DIRECTOR & CEO**  
**MR. SURESH CHINTADA - CHIEF TECHNOLOGY OFFICER**  
**MR. SUMIT AGARWAL - CHIEF FINANCIAL OFFICER**  
**MR. HIMANSHU SINGHAL - FINANCIAL CONTROLLER**  
**MR. GV KRISHNAKANTH - COMPANY SECRETARY & COMPLIANCE OFFICER**

***Presentation Session***

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**Moderator:** Ladies and Gentlemen, Good day, and welcome to Q3FY22 earnings conference call of Subex Limited. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star and then zero on your touch tone phone. Please note this conference is recorded. I would now like to handover the conference over to Mr. GV Krishnakanth. Thank you and over to you sir.

**G. V. Krishnakanth:** Thank you very much. Good afternoon to everyone who have joined the earnings call for the period ended December 31st, 2021. Now, I would like to introduce the members of the management who are present on the call. Along with me, I have Mr. Vinod Kumar, Managing Director & CEO, Mr. Suresh Chintada, Chief Technology Officer, Mr. Sumit Agarwal, Chief Financial Officer and Mr. Himanshu Singhal, Financial Controller of the company. I would like to start the conference call by going through the safe harbor clause. Certain statements in this call consisting of future growth prospects are forward looking statements, which involve a number of risks and uncertainties that would cause the actual results to differ materially from those in such forward-looking

statements. The risks and uncertainties relating to these statements include, but not limited to fluctuations in earnings, our ability to successfully integrate acquisitions, competition in our area of business and client concentration, liability for damages in our contracts, withdrawal of tax incentives, political instability, unauthorized use of our intellectual property and general economic conditions affecting our industry. With this, now I would like to handover this call to Mr. Vinod Kumar to take it forward. Over to you sir.

Vinod Kumar:

Good afternoon. Thank you all for taking time for this call. I hope all of you and your families are safe and doing well. As you would have seen from the results announce yesterday, the revenue for the quarter stood at Rs. 87.7 crores, EBITDA at Rs. 8.63 crores and PAT at Rs. 2.1 crores. The last quarter was a tough one for a variety of reasons for us but, the good part is that we did quite well around the new areas of Sectrio, our security portfolio and IDcentral, our SaaS based identity solution.

To take a step back, three years back, we embarked on a strategy to expand our offerings from fraud, revenue assurance and interconnect billing products, specifically offered to telco for a wider digital trust portfolio to a multi-vertical market. It was very important for the sustainable growth of the company that we plan this expansion strategy. In line with that, we added our security portfolio, now called Sectrio and identity analytics portfolio, now called IDcentral. Now, these areas were significantly affected due to the pandemic and as most of the new sunrise projects were put on hold. But we used that period to communicate extensively to the market and educate them about the need for such digital trust solutions as you grow the digital account.

On our core, we conceptualized HyperSense platform, that will serve as the base platform for all our products and help us to offer it as an augmented analytics platform to our customers. Now, I also want to remind you all that, ours is predominantly a product business, meaning we need to generate a specific interest on our product for us to get the business from our customers. It is unlike IT services company that can participate irrespective of the nature of IT products the customer might have. Having said this, our effort around these new areas are starting to show dividends.

In the case of Sectrio, we have to quickly add the capabilities to cater to the OT market as we were seeing delays in IoT deployment due to the supply chain and COVID related challenges. This has worked very well and last quarter, we signed up three customers in India, Middles East and Americas. In India, in the enterprise segment we signed up a major manufacturer with

multiple sites. We also won a contract from a major public sector undertaking. These are very critical wins for us and once implemented, these will be key references for us to leverage and grow our security business in India. Similarly, we have three wins in Oman, Qatar and Mexico. These wins clearly prove our ability to compete and win in the operational technology area, along with the IoT technology.

Now, coming to IDcentral, the identity analytics solution, we are only focused on two markets of India and Indonesia. We are onboarded four customers in Q2. In Q3 we onboarded seven customers. The API calls, which is a parameter on which our revenues are dependent on, also have doubled during the course of the quarter. We expect this trend to continue. It is clearly getting into the profile of a fast-growing SaaS business. Unfortunately, the overall numbers are still heavily dependent on our core business and that has not conveyed the progress that we are making in these new areas. Hence, I thought that it was important to provide these details.

Now, coming to the core, we took a very important strategic decision to move towards a subscription-based model, from a license-based model with HyperSense. We hoped that we can easily convert all the upgrade opportunities into subscription model engagement. However, it is clear that we underestimated the challenges of these conversions. Directionally, everybody, including our customers agree that it is the right thing and want to move to this model. But, getting the alignment of procurement, finance and other stakeholders are taking significantly more time. This has resulted in delayed order intake on our core areas and has had an impact on our short-term revenues.

There are some efforts of our Q3 revenues and also have an impact on our contracted backlog. To be clear, we have not lost any deals that we are competing on. In fact, our HyperSense platform has made our position significantly stronger. However, we have a longer process on account of model change and, hence taking additional time. So, this is a temporary situation and once we secure these delayed contracts, the contracted revenues will increase, and we will be able to drive the expected revenues from our core areas.

Let me also cover briefly the security incident that we had in December. There was a breach of our IT perimeter by a ransomware threat factor. We were able to recover almost all data and bring back all the services without any impact to our customer operations. As a breach affected our test and development environment, we had to take some precautionary steps to totally

shut down our infra and sanitize thoroughly. This had some impact on our ongoing projects and its deliveries. Our awareness of this space and preparedness to face such an eventuality enabled us to quickly bring back our operations. So, in summary we were able to overcome this incident with very little impact.

Now, coming to the talent side, we have added some significant capability to our senior management team. Mr. Sumit Agarwal has joined us as our new CFO. His experience of handling both IT and new age businesses would be very beneficial for Subex. We have also onboarded Mr. Vivek Chandok as our Technology Solutions Head, wherein he will lead the new use case development on HyperSense for our customers. We have also onboarded Mr. Warren Dumanski as the head of our North American business. Mr. Warren is very familiar with our domain and has had very interesting stint in product companies, wherein he was instrumental in growing the North American businesses. So, now we have a full team in the senior leadership to drive execution of our growth strategy.

I will now request Mr. Suresh, our CTO to provide you a quick update on the HyperSense portfolio evolution.

Suresh Chintada:

Thanks Vinod. Good afternoon, everyone. Hope everyone is doing well and staying safe. So, what I want to do is give a brief overview of what is happening on the HyperSense in the last nine months. Since our launch over the last nine months, we have crossed several milestones with HyperSense. We continue to add more capabilities based on our roadmap and the feedback we are getting from our customers. Today, HyperSense is fully certified on the Global SaaS platform, and we intend to complete certifications on Microsoft Azure and other platforms in the coming quarters. The API framework is being strengthened to align with the industry standard TM Forum and we have that in our immediate roadmap. And in line with our Digital Trust vision, we have built Explainable AI capabilities into the platform. This makes it easier for business users to understand what decisions are being taken by the ML models that are in the platform.

We recently concluded an initial definition of a trust framework for AI systems by leading the effort TM Forum along with other telco partners. The AI trust framework also won a coveted award at the TM Forum Digital Transformation World Summit last year. And speaking of accolades, HyperSense has seen positive recognition in a very short time that we seen. Beyond the award at the TM Forum, HyperSense has also won the prestigious Pipeline Award for our innovation in AI. So, HyperSense has also been covered significantly across the media and we have also been getting great

response from the analyst's community as well. Of course, for us it is just the beginning of a journey with HyperSense. We have recently launched HyperSense AI studio as a SaaS based offering and today this offering is available for free trial on our website. I am glad to say that several telcos and non-telcos enterprise users are showing interest in trying it out to solve multiple use cases.

HyperSense forms a vital part of our technology roadmap. And we are currently working towards rolling our traditional for management and business assurance solutions on the platform. This migration to HyperSense should unlock tremendous value to our customer base. In fact, the first customer on HyperSense is now live and we plan to launch our full-fledged management offering in HyperSense during this quarter.

So overall, we are confident that we now have a powerful and robust platform to help our customers enhance their decision-making capabilities and solve problems faster. So, Vinod, I will give it back to you.

Vinod Kumar: Thank you. That was a very brief on our business and some of the developments that we have had during the course of last quarter. Now, probably we can move to the question-and-answer session.

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question-and-answer session. The question comes from Mr. Deepak Chokhani from Rade Capital. Please go ahead, sir.

Deepak Chokhani: Hello Vinod and the management team. Thank you for this opportunity. There is a lot of frustration among the retail investors, including me. Every quarter we dial in with a hope, with lots of hope from you guys that next quarter will be good, next quarter will be good. It just doesn't happen. And now you have reached a stage where, forget the top line, even the bottom line is and the EBITDA is taking a beating. While you have very nicely stabilized the company, got it back, repaid the debt and all, but I guess the fire or the basic ingredient should take the company to the next level, is just completely missing. How long will this go on? And is it, and this question I asked last time as well that isn't this the time for us to partner with a bigger company or a group which can take this company to the next level or just completely sell this company to a better kind of corporate or a group which can take it to the next level? How long we as investors, it has been seven-eight quarters, I don't know, it is just zero growth. That is it from my side.

Vinod Kumar:

Okay. Deepak, thanks for that question. Look I think it is fair to say that we had some challenges with our core business this quarter, because of the transition that we are doing. As I had mentioned in my brief, we sort of, I would say that underestimated the challenges of conversion. That being said, as I painted the picture of the new areas, the new areas which we started engagement about three-four quarters back, because of what we had to put a stop to it in the bulk of the last year. Now, that has started showing good results with some of these key wins in these markets which we are focused on. Now, from a change of the mix of the composition, I think that as we start showing you the details of some of the new areas, I am sure that you will get the confidence that some of those new areas are growing nicely into a growing business. Obviously, they are different, the model and the, it is a SaaS based business, so therefore some of the characteristics and some of the way you look at those things are different. But I am sure that you will see that it is growing into a very nice SaaS based business. We had set the expectation that starting by the end of this year, we will add into our presentation the details, some of the specific details or metrics on which we are measuring the progress of those initiatives. And we still feel that we were waiting for that to get to a particular stage for us to provide that view. I think that by the end of this quarter, that is the end of this financial year, we would be able to come back to you with that detail, which will give you the sense that they are growing into a more fast-growing business. Now, with respect to the time, as I mentioned that these are product-based business, obviously the dip in the core is something which we will correct it very swiftly. I think that the incremental growth will have to come from those new areas. So, we are in the right path. It will take a while more. I am not going to give any specific guidance on numbers etc. But, as we set the expectation, we will provide you some of the specifics on the metrics of the new business at the end of this quarter, which will give you a sense of how we are progressing in those areas Deepak.

Deepak Chokhani:

That is pretty useful sir. Honestly, I am not a techie guy to understand these specifics which you just spoke. But can't we do something different apart from, can't we partner with some global majors? Can't we tie-up with someone other than what we are doing existing, just to scale it up? Something different has to be done, I guess.

Vinod Kumar:

I think in the markets that we are operating; we do have the right kind of partnerships. And as I said, this is, the security, identity etc., they are sort of in the markets of India and the Middle East, it is just growing. And we are seeing the tenders coming in. There was a complete stoppage, but we are seeing the two wins that I told in India, both came as a part of RFI. So, we have started seeing the

RFps coming back again for the new areas. This is something which we have been working for quite a while. So, as we go along you will see a lot more, let's say, contribution from the new areas on to our overall revenue. And that is how we will take the company to the next level. So, to answer your question again, we do have the right kind of partnerships in these geographies for us to sustain the business. And, we have signed up with some global partners in some areas. So, for example, our threat intel is a very important piece for us, now we have signed up with almost all the major platforms to carry our threat intel, like Sentinel of Microsoft and there are other platforms that have started carrying our threat intel to their customers to subscribe to. So, both with the specific geographies that we are currently focused on and the global marketplace, we are dealing with both of it. But, as I said, as we go along you will see the contribution of these new areas making some impact to the overall revenue. And by the end of this quarter, we will provide you some metrics which will give you the sense as to what we are talking. We are definitely doubling the number of customers that we are acquiring for these new areas on a quarter-on-quarter basis. These are SaaS based business, so the overall revenue at this point in time is not very sizable. But if we are able to get that quarter-on-quarter growth as we go along, it will get into a very nice subscription-based growth business.

Deepak Chokhani: Agreed sir. Just one last, is this the worst? Is this quarter the worst? I know, you cannot give any guidance. But we as investors, if you can't give the guidance, we need to know, is this the worst? Will things improve from here on?

Vinod Kumar: I think let us put it this way, the investments that we are doing around the new areas will continue to happen. Now, we had a bit of a challenge with respect to conversion of our core contracts. And we hope that, as Mr. Suresh mentioned, new fraud management is being released by the end of this quarter, that will also fast track some of these upgrades that we are talking about. So, I guess that from a contracted backlog, should start going up as we end this quarter based on the order booking that we are expecting this quarter. So, from cost perspective, we don't expect the cost to go up at least in the next few quarters. But, as we start seeing our new business going up, then we will start putting more muscle particularly on the marketing etc. And also, once we get to a particular stage in these markets, we will start expanding to other markets. At this point in time, I said that we are very specific to India, Middle East and America, but there is a lot of market out there, which we want to cater to, which we will slowly do that. So, to answer your question, I think that once we get this conversion sorted out, which is I am talking about converting our existing license-based deals engagement to subscription-based

engagements, things will start stabilizing for our core areas. We are at it. And definitely we will see some progress there in the course of this quarter towards those conversions. And in the new areas, things are looking reasonably well. But it will take its own time for us to grow into a SaaS business, because it is purely a subscription based pure SaaS businesses that we are talking about. So, as with any SaaS business, it will take time. But the good part is that every time that we secure a customer, the monthly revenue keeps on adding and that is a whole way to look at it. So, in that we are building a much more sustainable growing business, from a lumpy license-based business that we are currently.

Deepak Chokhani: Understand sir. Thank you so much. All the best. But I guess if this is, I hope this is the worst and hopefully things will improve. But I guess somewhere then, if not, we should start exploring probably a potential strategic sale of the company to a potential new buyer. Thank you so much.

Vinod Kumar: Thank you, Deepak.

Moderator: The next question comes from Mr. Pratap Maliwal from Mount Infra Finance Private Limited. Please go ahead, sir.

Pratap Maliwal: Hello and thanks for taking my question. I just wanted to ask, in Q2 we had some delays that was reported over a potential software hurdle, vendor who has gone maybe from licensing to open source. Are those delays behind us? And in Q3, the delay that we had, are they related or is there any other delays that we are facing regarding transition of customers? And the second question is that last quarter we had got some color order book that you had in it. It was showing a positive growth. So, can you please shed some color on the order book, just on when we can expect those revenues to start flowing in, if you can please answer these two questions?

Vinod Kumar: Okay, thank you. On the issues with respect to the open-source things, we are pleased to let you know that those things have been sorted out. In fact, we have convinced the customers to move into our HyperSense platform in view of some of the other platforms they were considering. Now, so to clarify that part, that is behind us and we have just started the deployment of some of these things. There is some more work to do with the contracts etc. because we will have to redo the contracts etc., but I think in-principle we have got agreements from all the customers to move in this direction and some of them have already started that. The second question is, if I understand is that the contracted booking has come down and when will it come back? If that is the question, you will see a progress on that coming back to the level it was, near about that



level, we hope to capture on a contracted backlog to the level it was during the course of this quarter. If that was the question, then that is the answer. But, if there is anything else, please come back.

Pratap Maliwal: I was just asking some more details on the order book. But, like last time you had given I believe it was 38% Y-o-Y, so if you can just give us some comparative analysis.

Vinod Kumar: Alright okay. So, this I don't have the comparison, but we will come back to you specifically on that. But I definitely I can clarify that this time. Because, if you see that our contracted order backlog, contracted backlog saw a dip of about, \$6 million. So, that is the tune to which the contracted order backlog has come down from where it was, the level it was. So, we did have a challenge, because all the customers hey do not want to upgrade any more to our old platform, so therefore all of them want to move to a HyperSense platform. HyperSense platform, we are not keen to provide it on a license model. We were insisting that it has to be on a subscription model. Now, we don't want to, again we don't want to take a short-term view and change the model, because this is very, very important for us to get all our customers into a subscription-based model. So, the dip is to the tune of about \$6 million when you look at the overall contracted revenue. And that will be more or less spread as we are going through this quarter.

Pratap Maliwal: Okay. I will get back in the queue. Thank you.

Moderator: Thank you sir. The next question comes from, Mr. Kumar Singh from JM Investment. Please go ahead, sir.

Kumar Singh: I have first question related to other expenses. Every quarter other expenses are going up. What is the reason for that and out of those other total expenses, what is the contribution in that for forex loss?

Himanshu Singhal: Hi Kumar. This is Himanshu. Thank you for the question. So, the other expenses normally stay linear. This quarter we have seen some growth on the other expense side. it has been really increased on account of the travel getting increased, because this quarter as you know travel has opened up. So our salespeople and others are on the field now. So, that is one of the extra things which you will see compared to the previous quarters. Other than that, there are few repairs and maintenance and rental expenses on the server which has gone up. This is on account of the new platform which Vinod and Suresh told. So, there are some levels of investments going on in those fronts, which we have seen this time. So, those are the high-level things. Other than that, we have not seen any major thing. In terms of forex, this quarter we didn't have major

forex gain or the loss. like it was very, very minimal. So, compared to the previous quarter, it was nothing. So, forex there is nothing, no contribution from the forex side.

Kumar Singh: No, I have basic question, your turnover is very meager. Why you are indulging in forex hedging?

Himanshu Singhal: Okay. So, I will answer that. If you see only the forex hedging part, I will be glad to tell you that we have gained through doing hedging. So, hedging is something which gives me a cover over the normal exposure which we have from the forex side. So, on a yearly basis, I have gained, or the company has gained around Rs. 73 lakhs till YTD December. Out of that, the losses for the complete year is somewhere around, for the quarter losses is Rs. 24 lakhs, which is comprising of a gain of Rs. 25 lakhs for this quarter. So, hedging is giving us a benefit.

Kumar Singh: See, what happened, last quarter your CFO told that they have Rs. 2 crores forex loss in other expenses during the investor call. So, if Rs. 2 crores on an EBITDA of Rs. 10 crores is a Rs. 2 crores loss, that means there is no financial control at all.

Vinod Kumar: I think, as Himanshu clarified, this time that on the other expenses, the increase is primarily on account of the increase in travel and some of the server related things on account of HyperSense that we are incurring. There is no impact of whatsoever in the forex loss. We do a very small hedging. It is a very small amount of hedging we started doing recently. And that has so far, we have been very cautious there and it has been positive. Now, with respect to the forex losses that you are talking about last quarter, now that is account on the variations between the Pound, USD and INR, because we do have our offices in UK and some of the money that is received from there are in those entity. And when we convert for reporting purposes, there is an impact of this forex that will come into the picture. So, I think other than that the hedging is a very small portion and so far, hedging has been positive, whenever from the point that we started. The impact of particularly, as I mentioned the total expense, the other expenses is on account of travel and we expect that to slightly go up as we go in the current quarter also, because our teams have started travelling again and probably, we will get into kind of a steady state mode in a couple of quarters when the travel will be on full swing.

Kumar Singh: Okay. My second question is related to ESOP. Is there any possibility to link ESOP to the growth of the company in terms of turnover as well as profit? Because what is happening is your employees are selling ESOP shares left and right and there is no

growth in the company. So, there has to be some link between the growth of the company and ESOP selling.

Vinod Kumar: I think the ESOPs, we allocated the ESOPs way back in 2019 and 2020 that is when the ESOPs were allocated. And today whatever sales that you are seeing is post, it was a vesting of two years. So, I think some of the employees are getting the ESOPs as we talk now and some of them are liquidated for their personal reasons. Now, on the new allotment whatever we are talking about, it is some people who have left, their ESOPs have come back to the pool and that has been reallocated to some key employees, particularly in the operating level. So, at this point of time, we don't have any new pool or anything; it is in the same pool that as you recall we bought something from the market and allocated it at that period of time. We hope to come up with a new ESOP thing and some of these considerations, we will look into some of these aspects that you mentioned.

Kumar Singh: It should be win-win for both, shareholders as well as employees. Otherwise, what is happening? Employees are making money; shareholders are not making money.

Vinod Kumar: That is where I am clarifying, these ESOPs have been allocated in FY2019 and FY2020. Post that we have not had any fresh scheme. The reallocation is only when somebody has left the company, that ESOP has come back to the company, that has been reallocated to some other new people. And the new people at the end of their stint is again, for example, we allocated some portion that came into the pool, we allocated it in the board meeting yesterday and that will get adjusted over the next three years and things like that. So, we have not had any new ESOP scheme Kumar, it is the old one that we are seeing from 2019 and 2020.

Kumar Singh: Okay. Thank you.

Moderator: Thank you sir. Our next question comes from Mr. Aniruddha Jinturkar from HU Consultancy. Please go ahead, sir.

Aniruddha Jinturkar: Thank you sir. So, Vinod my first question is have you lost any customers while transition from license to subscription model?

Vinod Kumar: No, absolutely not. We have not lost. In fact, we have already converted some of them, particularly some groups and some large customers who are already used to doing SaaS based businesses. But you know that we have a very large customer presence in the MEA region, Middle East, APAC etc., and those are the places where we are taking more time. So, to answer your question, we have not lost any customers.

Aniruddha Jinturkar: Okay, thank you. And Vinod if we compare to Subex with some of our competitors, so they run into thousands of customers, while we have only limited 200 plus customers. So, what is the basic reason for such wide difference?

Vinod Kumar: I think if you look at our core products, in our core areas, the only customers that we have is only telco. So, our core products primarily cater to tier-1, tier-II telcos. So, if you look at India, we can only have four customers, Jio, Vodafone and Airtel. So, all the three are our customers. So, on our core products we have about, close to about 200 customers. These are mainstream telcos in about ninety plus countries. Now, for our new products that is IDcentral etc., now we are adding almost four to ten, four customers in Q2, seven customers in the last quarter and there we will have a lot more customer addition. So, in one year if I look at the total number of customers, it will be significantly more than the 200 that we have on the core, because these are SaaS based engagement where we will have, the ticket size is also very, very small compared to our core business. But, the number of customers will be quite large.

Aniruddha Jinturkar: But Vinod, considering the competition in Americas and EMEA region, so will it be possible, how possible it is to keep adding or maintaining the run rate?

Vinod Kumar: So, with respect to our core business, our addressable size, I would put it about, maybe about 600 to 650 telcos. That is pretty much the universe there. And that is where we have some of the other telcos have our competition and the way we grow in our core products is by grabbing more market share. And that is happening. This HyperSense, one more thing that we are doing is that we are able to go and pitch different models which is very different to the model that they have, to our competition accounts as well. So, if you look at our core area, we are talking about customers, addressable customer base of about 600 to 650. And talking about telcos, and there we have, now have the added ability to take in HyperSense augmented analytics platform. Now, for our new areas, which is IDcentral etc., the number of customers would be thousand. Like, for example, security, every enterprise will be a customer for us and there we have taken a very specific decision to address certain segments. So, in India for security, we are looking at very large enterprises, manufacturing and the public infrastructure, critical infrastructure, those are the focus areas for us, the banks, the large banks and things like that. So, I think if you look at the core, that is addressable market, which is telcos and every tier-I, tier-II and large tier-III are our typical customers. And

for our new areas, it is wider segment, much wider segment that we are catering to.

Aniruddha Jinturkar: Okay. So, Vinod, can we expect like in the next three to four years, more than 50% of the revenues coming from the non-telco customers?

Vinod Kumar: Next five years, yes.

Aniruddha Jinturkar: Okay. And last question from my side is, if we compare ourselves to competitors, so competitors have grown significantly due to the inorganic ways. So, are we looking for any acquisition opportunity or something?

Vinod Kumar: Look, our competition has not grown, they have grown as a company, because they have bought into other areas. So, for example if you are looking at fraud and RA, if you look at our fraud and RA business, they have not grown. But suppose if they go and buy an activation or a billing, now that would give us a growth of that company. But, if you look at the domain per se, fraud RA and interconnect domain, I do not think that they have grown just by acquisition. So, as a company, if you look at company, their revenues, their other streams, the other product lines they have launched and those are coming as their revenue. So, that is where we are. So, from competing for a customer standpoint, that is not giving them any advantage, but it is true that they are able to carry a larger portfolio through customer and able to compete in areas where we cannot compete at this point in time, because we don't have that product range.

Aniruddha Jinturkar: Okay. Thank you, Vinod. That is it from my side and all the best.

Moderator: Thank you sir. The next question comes from Mr. Ravi Mehta from Deep Financials. Please go ahead, sir.

Ravi Mehta: Hi Vinod. Just a very basic question. As we are seeing the challenges of moving to the SaaS model in the core business, just on the unit economics, how does it would work? Say, Rs.100 deal split into Rs. 40 license, Rs. 40 maintenance or maybe Rs. 40 implementation and Rs. 20 maintenance. How would that deal convert if we are moving to the subscription model? Just to get some flavor on how the revenue trajectory can be on the core side going ahead as we transform to the SaaS model.

Vinod Kumar: Okay. If you look at the new customer, because new and old are dealt with very differently. If you talk about a new customer, today if you look at the license implementation and then thereafter, we get the annuity on an ongoing basis. Now, the changes for a new

customer is there is no more license and they give us kind of an annual subscription that if I were to equate it, that will primarily cover the support and the license part of it. Implementation, if at all any, based on the effort at actuals. So, there is no change with respect to the implementation side. Now for a new customer, I think the only difference is that in a typical license scheme, the entire revenue of license, the perpetual revenue of license comes in a period of nine months, whereas in this case of the new model, if I equate that it will come over a period of three years. But the advantage here is that, at the end of three years, if the license gets renewed, there is an opportunity for us to resell that part, because it is coming on a continuous basis, whereas in the case of a perpetual license, after three years, then they get the license perpetually. So, in the short term, you will find that there is an impact. If you profile the customers, the same revenue comes over a longer duration. But, in the long term you will find that it helps us to sustain the revenue and there is no lumpiness whenever we get the contract. So, that is when it comes to the new customer. For an existing customer, if you look at it today, what we get is primarily the annuity and the upgrade, the annuity that includes pretty much the license for upgrade, but we will get the implementation revenues. Now, what is the change is that in lieu of the annuity, the subscriber, customer will have to pay a subscription that will be annuity plus license. This is equally applicable for existing customers. So, there is a different pricing when you look at the new customer and an existing customer because the existing customers have already paid up for the license. So, we want to migrate them to this model. However, the big change is not from our angle. From the customer angle also, it moves from a CAPEX line item to an OPEX line item. So, that is something which the customer will have to manage from a budgeting standpoint. So, from our revenue standpoint, I think for new customers definitely there is an impact with respect to getting revenues over a longer period of time. For an existing customer, to an upgrade, the impact is much lesser, because our subscription will more or less match with the annuity that they are paying on an ongoing basis.

Ravi Mehta: Okay. So, for existing customer annuity is equal to kind of your subscription, as you would move them to the subscription model?

Vinod Kumar: It will not be equal to, it will be annuity plus, plus subscription fee, because we are providing some additional value on account of this, because there is no upgrade and things like that. So, it will be annuity plus, plus for our existing customer. And implementation in both cases are at perpetual So, based on the effort and the cost, the implementation will be attached.

Ravi Mehta: Correct. Just a follow up, sorry. So, since the core segment is a matured business, so you would be dealing more with the existing customers, or you are still adding new? Because, in that case, probably the revenue should have not taken a hit as it is looking like?

Vinod Kumar: So, I think it is not the revenues, it is some of the upgrade things. We get an upgrade contract, and an upgrade contract has got two components. It is not the subscription alone. And if you look at our upgrade contract, I am just giving you a sense of that. Our upgrade contract typically will have a clear strategy of about anywhere from \$250,000 to \$0.5 million is the cost of the upgrade, because we have to upgrade their systems, then implementation etc. So, it is not the license part, the implementation part is where it is getting delayed, because the upgrades are not coming through.

Ravi Mehta: Okay. And any reason it is not coming through? Is it because of moving to the...?

Vinod Kumar: Exactly, exactly. It is moving to the subscription model, because it is the contracting and complete procurement will have to be, it is new contracting, so that is taking some additional time. It is not a smooth upgrade, SOWkind of thing. It requires a legal, everybody to get involved to review the contract etc. Now, the big advantage is that, in this new model, if there is an addition etc., the metering will happen. So, if the volume goes up, the metering etc. will go up. So, therefore all these things will have to be brought into the contract. Otherwise, there is no point in just converting AMC into subscription, then there is no point. There are many other things that need to be captured when they move to a subscription, so that if there is any upsides, we get that and that is where it is taking time.

Ravi Mehta: Great. Thanks. I will come back.

Moderator: Thank you sir. The next question comes from Mr. Rattan Juneja from CoValue Technologies. Please go ahead, sir.

Rattan Juneja: Hi Vinod. Thanks for the opportunity. I want to understand the relationship with Microsoft Sentinel, where you are building in threat intelligence through them. I need to understand this opportunity very clearly.

Vinod Kumar: Okay. So, I think let me first tell you what is threat intel. When it comes to IoT, OT, because of the large honeypot or the network that we have, we are generating a lot of threat intel. Now, these threat intel forms a part of our product. It is a core of our product, which is preventing our customers from any threat. Now, we have

had many requests from our customers, some of our customers, partners etc. that they are very keen, because they are accepting their own internal infra etc. So, many of them will subscribe to this threat intel with the intent of strengthening their existing infrastructure. So, we saw an opportunity primarily to engage and to also showcase some of our capabilities and therefore we have started offering this threat intel as kind of a subscription. It is something like, we could call it as a subscription for an antivirus or anything like that. Now, we have started offering it. So, somebody can come onto our website and sign up and they will get the threat intel in a particular split screen, which they can integrate into their entire existing security infrastructure. Now alternatively, some of the other customers also go through platforms or marketplaces to buy such threat intel. So, Sentinel is such a marketplace where many customers go to get different types of threat intel. So, what we have done with Microsoft Sentinel is that we have integrated our threat intel into their marketplace. So, any of the customers who are using the marketplace for Sentinel, going forward will be able to find our Sectrio threat intel suite and can subscribe from that marketplace. So, what this has done for Subex is that it has significantly expanded our reach, because we would have not been able to get to all those customers. But, because of this integration, lot more customers are knowing about our threat intel suite, and they have started subscribing to it. There are other platforms similar to that of Sentinel platform, marketplace platform and we are also working with many of those platforms to integrate our threat intel suite into the marketplace.

Rattan Juneja: Is there any success?

Vinod Kumar: We have, this is a very small subscription fee. We have started getting, it is a monthly subscription I think, starting with individual subscription of around \$500 kind of thing. So, the idea is that it is primarily to increase the visibility more than anything else. So, to that extent it has given us a lot of and there is a trial period as well. So, we have just started. It is not a mainstream revenue at this point in time. It is more for us to promote and more as a marketing channel for us at this point in time. But, once it gets to a particular scale, we will look at seeing whether we need to consider that as a big business. At this point in time, it is done to get a sense of, take some of the intelligence that we have with us.

Rattan Juneja: Second question is, you are presenting a very large opportunity in your presentation \$500 million sector. To address even some small portion of the opportunity, don't you think we need to raise money?



Vinod Kumar: So, there are two aspects to it. That covers the entire market across all verticals. Our current focus, this is for HyperSense augmented analytics platform, our current focus is primarily to telco. And I think that once in the telco, I think we have the reach for us to get to that place and telco, there is no, there are many multi-vertical players, but there is no telco focused player and that is a gap that we are trying to bridge. So, with respect to catering to the telcos we do not think that we will need additional capital but if we want to go a multi vertical big then it comes to 5%, we definitely would need additional capital to grow that growth. So, at this point in time, we are focused on Telcos with HyperSense.

Moderator: Mr. Juneja if you could please come back in the queue sir. The next question comes from Mr. Aditya Sharma from ICICI Prudential Mutual Fund. Please go ahead sir.

Aditya Sharma: I just wanted to understand how we are using that Rs.120 odd crores of cash balance that we have? Is it just sitting somewhere earning us nothing or are we sort of thinking of using it in a much more efficient manner? Thank you.

Vinod Kumar: At this point in time there was an earlier question as to what is the capital requirement. Some of these initiatives are very large and this requires I am talking about the new areas. Once we start getting into a particular level both with respect to product maturity and the product market set there will be a need for us to significantly scale towards that we would need capital. So, I think that we have marked a bit of the capital towards those growth initiatives. We have also started looking at some investments into early technologies which can help us in completion of our digital trust portfolio. That's another thing we are focused on finding technologies which are kind of futuristic which can help us solve the digital trust issues, so that's another area where some of the capital will go and the rest of the capital at this point of time, we are parking in FDs and things like that. Primarily we are looking at the need for our growth both in new areas and some of the investments that will require for us to get preferential access to technology. Those activities are going on and that capital has been earmarked for those purposes.

Aditya Sharma: Thank you Vinod.

Moderator: Thank you sir. Participants are requested to restrict to two questions in the initial round and may join the queue back for follow up questions, thank you. Our next question comes from Mr. Rajkumar Ojha an individual Investor. Please go-ahead sir.

Rajkumar Ojha: Hello, my question is, what holds Subex for not launching IDcentral in other countries? Also please enlighten us the progress of blockchain with partner Tech Mahindra.

Vinod Kumar: With respect to IDcentral I think for us to make a big in-road into the market, there is a lot of pre-integration that we will have to do in individual markets. For example, in the market of India, currently our IDcentral has integrated with most of the data bases, Digi locker and things like that and so we are enabling the customers on on-boarding EKYC and many of those things. So, at this point in time based on the kind of work we have done, we want to be very focused on a few markets; make an impact, make a sizeable impact in those markets before branching into new areas. Otherwise, it will be very difficult because the core of the product can be used but before we launch, we have to do a lot of study of the market and then pick the markets where there is a need and also have the required infra for us to make sense of this digital identity. If we go to a market and there are no data bases and nothing, then this will not be very impactful. So that's the reason but for sure we will start expanding as we go along. So that's point number one. With respect to the blockchain with Tech Mahindra, we had some interactions with our customers, but I think we have not got any commercial success as yet. That is also because of the fact that there is blockchain in the Telcos it's going to be a completely different change altogether because this relationship was primarily for the telcos. Having said that we have made significant progress in moving the block-chain particularly for the partner settlement and such areas. Actually, you would have seen one of our announcements that we are working very closely with Saudi Telecom and in their innovation that we are co-innovating them, we are preparing a solution for them in the blockchain area. Tech Mahindra relationships, we are moving forward but we have not had any success, but we have had engagements with several customer innovation teams, direct customer innovation lapse to look at solving many of their problems in blockchains.

Rajkumar Ojha: Sir how many HyperSense projects presently we are implementing and how many projects you would be implementing in this quarter? This is my last question.

Vinod Kumar: Sure. As of now we are implementing four projects HyperSense and this quarter once we are expecting the fraud management with the full version of the fraud management to be released by March time frame. So we have started the preparation work, but as we end this quarter, we will have almost close to 8 projects that we will be going on HyperSense.

Rajkumar Ojha: Thank you sir.

Moderator: Thank you sir. We have the next question from Amit Mishra, an individual investor. Please go-ahead sir.

Amit Mishra: Good day everyone. Welcome on board Sumit if you are around. First question Vinod, if you can just walk us through the thing you announced in Q2 and recently we received a postal ballot for internal restructuring with the subsidiary but it is already 99% wholly owned subsidiary and there was an amount mentioned there Rs. 95 crores so is it some internal rebalancing of accounts or you had to actually pay someone?

Vinod Kumar: No, no. Sure, I will clarify. If you look at our standalone entity, Subex Limited, you will find that all the businesses are sitting in two LLPs and if you look at the account of Subex Limited, it's not a true reflection of what we are doing. So therefore, it was felt that we will move all the assets from Subex Assurance LLP onto Subex Limited, this will solve many issues for us. So, this is on account of that movement of assets from Subex Assurance LLP to Subex Limited. Technically there will be some cash retained in the system but there is no payment to anybody outside the group company or anything like that. It's just moving of assets.

Amit Mishra: So overall cash will remain the same, yeah with the company?

Vinod Kumar: Yes, that is correct.

Amit Mishra: Okay. Just a question on revenues. Basically, we touched upon through various attendance but three quarters in a row now we have seen year-on-year de-growth. I understand the point that there is issue of conversion from license to subscription-based services but what I don't understand is, you have firm contract in place, you are providing them services and the services attracts fees basically. So, what is actually causing revenue shortfall? Is it you are losing some clients or is it some on-site present issues? Can you just give some more details on why we continue to be on the cycle of de-growth? It is very disheartening for us.

Vinod Kumar: I think if you look at our business, about 60% to 65% of the revenue comes from annuity and managed services and that remains the same. Maybe there will be some movement here and there, by and large it remains the same and it does not have any impact. The impact is more on the rest of the 35% that comes from new projects and new projects are new locals and upgrades and other works that we do for existing customer. Now, the upgrades is where I think ...there is a whole 35% to 40% comes primarily from upgrades and securing new customers and that is where we are impacted.

Amit Mishra: Sorry Vinod, I heard this before but if they don't upgrade, they are still using our services for existing or the previous installation they are still using our services?

Vinod Kumar: Yeah, there is no impact so if the customer does not get upgrade all they have to pay is annuity or managed services. The upgrade is when we upgrade a new version and there is an additional revenue on top of managed services or AMC and that is where getting it is elongated. So, if you look at AMC on managed services, there is no contraction. It is just going on and they are doing the service and it is in our interest to show new features and new capabilities and upgrade the customer to a latest version because there are some changes that happens in the customer environment also to facilitate such upgrades.

Amit Mishra: So, there is no client loss?

Vinod Kumar: No, there is no client loss. They continue to use our existing product, the existing version. It is just that they want to get into a new HyperSense version and that's a new model.

Amit Mishra: Also we are still okay for \$15 to \$20 million top line for new areas you said in two, three years in the last year so that should be in December 2023. So, are you still going with that target or is there any revision to that?

Vinod Kumar: Again, I think, I don't want to give any guidance but as we start giving you the details it will probably give you sense of the growth that we are having in the new area. But, I think, I am quite encouraged with the progress that we have seen last quarter with respect to customer addition in the new areas and in our new products because it's very important for us to get the first customers and convert them. These are large enterprise customers they are competed and won.

Amit Mishra: Can you give a quick breakdown of new areas basically S2 and S3 what they are contributing right now in this quarter?

Vinod Kumar: At this point in time, if you look at our overall number, on our overall value it was contributing about last year it was about \$1.5 million contribution and this year we expect that to grow much higher than that but again I think let's wait for a quarter more when we provide the details so that you can clearly understand that because some of the metrics are very different. For IDcentral and all it is the growth on quarter-on-quarter growth, that will give you a trend of the future rather than the absolute EBITDA and things like that. So, the metrics is different. so that is why we are

preparing. We just want to get the right time to provide that. We will provide you by the end of this quarter.

Moderator: Thank you sir. The next question comes from Mr. Abhishek Kale an individual investor. Please go-ahead sir.

Abhishek Kale: Vinod, one question on the scale of 1 to 10, what's your level of confidence in delivering double digit numbers starting Q4 and the quarters ahead? No further questions.

Vinod Kumar: I think I don't want to give any guidance at this point of time. I just want to stick with that stand. However, as I told you, we will provide you the metrics that will give you the growth that we have on the new areas because it is very, very important for us to understand that the growth of the company will depend on the growth of the new areas and we will have to stabilize once we have the HyperSense coming on board, we will be able to compete in that. But the incremental the breakout growth for the company should happen from the new area. So, my request is that wait for the end of this quarter, and we will provide you the stats on how both IoT and IDcentral and also in the HyperSense things are growing up and that we should be able to guide you from that.

Moderator: Thank you sir. We have the next question from Mr. Mohammad Ashraf , an individual investor. Please go-ahead sir.

Mohammad Ashraf Mr. Vinod I just wanted to know only one thing. From the last three to four quarters, we are seeing that your revenue is simply going down and expenses going up. Second question, How many quarters we have to expect the revenue to improve and profit margin?

Vinod Kumar: As I said, we will start providing you details of all the new areas starting this quarter end and that is when you will be able to size up yourself as to how we are growing and the quarter-on-quarter growth that we are having in the new areas albeit from very small revenue numbers. But I think two things that I want to say is that in our new areas we have started adding customers now. We are sort of almost doubling the customers every quarter. We will continue on the our intent is to focus on this specific market and ensure that that trend continues rather than spreading too thin into different markets. So that will help us to grow our revenues as we go along but the specifics again as you said we will provide you as we end this financial year.

Moderator: Thank you sir. Our next question is from Mr. Ashit Kothi, an individual investor. Please go-ahead sir.

Ashit Kothi: What I would want to ask you I have too many questions, but I will limit only two the first question is with regards to our sales in support people being transferred to Subex. Over there in the comment it is mentioned that only the people, the products are not being transferred. Can you throw some light on that?

Himanshu Singhal: Hi this is Himanshu. I are you referring to the results and the notes wherein the core team has been transferred?

Ashit Kothi: Yeah.

Himanshu Singhal: This is an old event. We had done this last year wherein a strategic move was done. All the support functions when I say support functions, all the non-billable functions were transferred at a corporate level because they were not specific to a particular IP or logo so that's why. Earlier to that they were with the respective LLPs. A strategic decision was taken that they should be catering to the corporate level and that's why these people were transferred from the respective subsidiaries to the parent to the listed entity. That is a standard practice all over and so we followed the same and did that. That was a one-time exercise and after that we are continuing with this.

Ashit Kothi: No, but then what is the value of developed technologies in those subsidiaries currently?

Himanshu Singhal: The developed technology in tangible stands at about Rs. 80 crores in these respective LLP.

Ashit Kothi: The value of the development technology is Rs. 80 crores?

Himanshu Singhal: Correct.

Ashit Kothi: Okay and sir with regards to what Vinodji had said earlier also that. even in the last meeting I had asked this question and sir said that we would be getting back to you. But we never heard about this. With regards to segment wise numbers?

Vinod Kumar: I think I was very clear last time also that we will provide those details by the end of this quarter. It may not be sectoral numbers because some of these new areas their metrics are very different, it may not be revenue alone, it might be API calls and different kinds of metrics are relevant to those sectors. So we will provide those details by the end of this quarter and that's what we have told last time as well and we will provide them by the end of this quarter for IDcentral and each of the new areas the metrics internally that we are tracking because 1 or 3, 4 quarters we have started monitoring

that and we are seeing the growth and that's what we will provide you as you have told.

Ashit Kothi: Now to understand the new regime of subscription. If I buy the license from you sir, after three years that becomes perpetually mine, that's what I think I have understood during the discussion. So if I have bought license worth Rs. 1 crore from you, after 3 years, I would be only paying AMC or something but nothing more than that?

Vinod Kumar: Not even after three years, after year one, immediately you buy the license, and you pay the AMC only from the next year. There is no more license you need to pay because you own the license, right?

Ashit Kothi: So I would only pay the AMC kind of thing?

Vinod Kumar: Correct. AMC you have to pay.

Ashit Kothi: Right. When I am moving from the license to subscription, what impact I would have on my balance sheet as a customer.

Vinod Kumar: I think that is where it is. You have the license; you have the perpetual license, but we are asking them to get onto a new contract of HyperSense which is on a subscription-based model. So, they will continue to own the license. Technically they can continue to own the license, but they will not be using that license. In lieu of that they will be moving into a subscription-based service when he provides the same capability of license and running it. So that's how it is. So, they will continue to own that license, they will not lose it.

Ashit Kothi: I got that sir. So, when I pay one crore, how would you make me whereby what kind of percentage of that Rs. 1 crore I would be paying year-on-year as a subscription?

Vinod Kumar: Alright. Okay, look I think that's something we have not priced we have not exactly tried that way that you are paying one crore and the Rs. 1 crore will come over 3 years, that's not the way it works. We are based on many other dimensions. One dimension is what R&D costs? What is the value that we deliver? What is the other competitors being competitive based on that we have come with a subscription price which takes care of it. If you dissect the subscription price and you will find that within that the technology element and the support included in that. Now, we are not going to split that and show to customers or anything like that. That will get charged month after month as long as the customer uses that service. So, for a kind of a rough estimate, if I look at any its similar to you buy an Amazon web service versus a server, you

will use it for 1.5 to 2.5 years if you paid the monthly charges, you will pay up for the full cost and thereafter you are getting charged again and again. But there are advantages of that. You get all the new versions. You don't have to pay for any new versions. The upgrade is much more smoother. All the capabilities come to you. You don't have to wait for the capabilities. All the capabilities, it's like if any of the updates happens in Google Pay or anything, it automatically comes to you. So, that is a new kind of thing. It is a shift that they have to make. Obviously, it is more progressive, it gives them more capability, but they will have to take that decision to move from a license to a subscription model.

Ashit Kothi: So, sir, correct me if I am wrong. My yearly revenue from Subex, my yearly revenue from the license business would get divided into 2.5 to 3 years or maybe 4 years in subscription model?

Vinod Kumar: That is correct. But the only thing is that paying subscription and paying license can be renewed. We should. we will get the same thing again whereas in the case of perpetual license we don't have that opportunity.

Ashit Kothi: Fine so, basically, I would take an immediate hit on bottom line and top line in terms of value. My clients remain with me but since I am moving from license to subscription one fourth of my revenue would come into my book for the current year.

Vinod Kumar: For a new customer, yes that is correct.

Ashit Kothi: No, I am talking about the old customers.

Vinod Kumar: No in old customers that's not the case. Old customers have already got the license. There is no more license they have to pay. They are paying normally the annual maintenance so in lieu of the annual maintenance they will have to pay the annual maintenance plus the delta on top of it to move to HyperSense.

Ashit Kothi: Okay.

Vinod Kumar: You get me? They don't have to pay any more license. They are paying the annual maintenance which they will continue to pay but for moving into HyperSense for the technology element, they will have to pay a delta on top of that.

Ashit Kothi: Normally the AMC is 15% or 10% of the value of the license?

Vinod Kumar: That's correct. About 15% is an average.



Ashit Kothi: So, my AMC revenue is called out which is getting replaced by subscription fees.

Vinod Kumar: Correct. For an existing customer my AMC revenue will get replaced with subscription and our expectation is that the subscription will be more than the AMC there.

Ashit Kothi: Fair enough sir. I do have a number of questions and possibly I will mail it to the company. If you feel that those are answerable, please let me know.

Vinod Kumar: We will surely do that. Thanks.

Moderator: Thank you sir. Ladies and gentlemen that would be the last question for today. I would now like to hand over the floor to the management for closing comments.

Vinod Kumar: We thank you all for taking time for attending this call and your continued interest in Subex. You can always reach out to us at [investorrelations@subex.com](mailto:investorrelations@subex.com) if you need any further clarification. Thank you, stay safe and take care.

Moderator: Thank you sir. Ladies and gentlemen with this we conclude our conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may all disconnect your lines now. Thank you and have a good day everyone.

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Note: This document has been edited to improve readability.