



“Subex Limited Q1 FY2021 Earnings Conference Call”

August 11, 2020



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Subex Limited
August 11, 2020

Moderator: Ladies and gentlemen, good day, and welcome to Subex Limited Q1 FY21 Earnings Conference Call. 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 “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. GV Krishnakanth – Company Secretary.. Thank you, and over to you, Sir!

G.V. Krishnakanth: Thank you very much. Good evening to everyone who have joined the earnings call for the period ended June 30, 2020. Now I’d like to introduce you to the members of the management who are present for the call. I have Mr. Vinod Kumar Padmanabhan, Managing Director and CEO of the company; Mr. Venkatraman G.S - Chief Financial Officer of the company.

I would like to start the conference call by going through the safe harbor clause. Certain statements in this call concerning our future growth prospects are forward looking statements, which involve a number of risks and uncertainties that could cause 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 an area of business, 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. So, with this, I now hand over the call to Mr. Vinod Kumar to take it forward.

Vinod K Padmanabhan: Thank you, Krishnakanth. Good evening, everyone. It is great to see you all in the call today and sincerely hope that you and your family members are safe and in sound health. I am pleased to inform you that at this point, all Subexians are sound and safe. A handful of Subexians in various geographies were tested positive for COVID-19. Most have recovered and the rest are getting better at their homes. We are extending all possible support for these Subexians and have also launched Subex Aid, which is an internal setup to primarily coordinate and help the Subexians in case someone is not well. Our priority is the safety and well being of Subexians while minimizing the effect of any disruption to our customers. Subexians, who despite these trying circumstances, rallied with commitment and feel to deliver the same level of service and excellence to our clients. Against this backdrop of the pandemic, we had a steady first quarter in terms of our financial performance. The revenue for Q1FY21 was at Rs.887 million as against Rs.790 million of Q1 FY20, which translates to a growth of about 12%. Our EBITDA also increased by 70% and ended at Rs.296 million as against Rs.175 million during the same period last year. Our profit after tax was at Rs.152 million as against Rs.53 million in Q1 FY20.

From an operations perspective, most of our teams are working remotely. However, we have also kept our Bengaluru office open with all physical distancing norms and precautions so that Subexians can collaborate in persons for doing work elements that are difficult to be done remotely. Most of our customer engagements have resumed, albeit with a lot of challenges associated with remote working. Working like this is new for both customers and Subex, and it will take some more time for things to settle. Most of the projects have started remotely but are witnessing delays and stoppages on account of non-availability of hardware and other site readiness due to supply chain issues at the customer end. We have also stepped up our business development activities. For instance, we recently conducted a Virtual Digital Africa Summit, and it was very successful event with about 200 delegates.

Overall, Subexians have stepped up to the challenge and are spending more time than we used to due to various constraints put on us by this pandemic. Our telco customers have started reporting last quarter revenue, with most of them reporting BPS averaging 6% to 10% in various geographies. The EBITDA impact is to the tune of negative 30% to 50%. We expect that this will impact on the prioritization of new projects. They have also reported delays in the rollout of new IoT projects on account of the difficulty in fulfilling contracts due to field movements, restrictions and supply chain challenges like inability to procure smart meters, sensors and other IoT devices. We are closely monitoring the situation and making the necessary adjustments to our operating plans.

Having said this, we assess the long-term outlook on digital trust to remain strong. Therefore, we will continue to stay the course and focus on execution of the 3-horizon strategy to become the leader in digital trust. The investments into R&D continue unhindered, as these are imperative to build capabilities and scale our business. In Horizon 1, that is our core telco segment, we will be adding augmented analytics platform, partner management and capacity management solution to our portfolio this year. The next-generation augmented analytics platform based on open-source components will help our customers to manage large volumes of data and generate meaningful insights. Partner management and capacity management solutions will address the emerging needs of telecom operators in the 5G scenarios, and we will leverage technologies like Blockchain and Machine Learning. We are also very cognizant of the fact that digital trust is a very critical aspect as we go into these areas, and we are leading with digital trust when we talk about this new solution. We believe that these additions will make our solution portfolio extremely interesting to our customers and also will enable Subex to position ourselves as a major partner to the telcos, particularly as we get into the 5G scenarios where telcos will be going after the enterprise segment in addition to the current retail segment.

Horizon 2 continues to be our focus areas for growth, and we are making slow but steady progress. Unfortunately, this also happens to be the area that has been drastically affected due to the pandemic. However, we expect 5G will initiate an explosion in the number of connected devices and along with it the need for IoT security. The current crisis has only exasperated the need for more automation. We are currently deploying our security solution in a 5G Edge cloud setup in APAC and are confident that it will become one of the reference sites for 5G security. Another interesting one is the deployment at a European fuel cell manufacturer, wherein we will be securing all the fuel cells that goes into electric cars made by these manufacturers. Further, we intend to strengthen our go-to-market channel for more strategic partners and OEMs.

Horizon 3, while still early days, we are progressing well on CrunchMetrics and IDCentral. CrunchMetrics our automated anomaly detection solution is focused on solving specific business problems like pricing error, transaction glitches and supply chain issues, IT infrastructure issues in the e-commerce and fintech segment in addition to the telco space. The IDCentral's digital analytics platform soft launched in Indonesia has several data custodians coming on board to achieve about 40% coverage of the population. The total population is around 300 million. So, we have achieved a sizable coverage of the population, and we are able to do very smart identity analytics in that set. We are now in the process of engaging enterprises to solve their digital identity analytics need in that market. As indicated during the last call, we will also be increasing our investment in the training of Subexians, as it will be necessary to navigate and grow our company out of this crisis.

Now coming to the capital reduction exercise. The whole process is progressing as per our plan. After getting the required approval from the shareholders, we have started the NCLT process, and we will keep you updated of the progress.

As we go through these challenging times, we are trying to keep our spirits high. I want to appreciate the effort of Subexians, who despite all these trying circumstances are rallying to deliver the same level of excellence and service to our clients, and lastly, but most importantly, the shareholders' support means a lot to us, and we thank you for all the confidence that you have reposed on us.

With that, I thank you all, and I hand over the call to the operator for the questions-and-answer session.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Raj Kumar Ojha, an individual investor. Please go ahead.

Raj Kumar Ojha: I am Raj Kumar Ojha from Allahabad. Sir, I received the mail from Subex wherein I was informed that when capital reduction would take place, ISIN to be activated by corporate action. Now BSE, NSE and Subex are all corporate entities. My question is, while undertaking activation exercise, would Subex shares would be delisted, and thereafter, relisted, what would be the fair price mechanism? This is question number one. My question number two is regarding CrunchMetrics, whether Flipkart and BigBasket are Subex customers, have we started any commercial activity in fintech? Thank you, Sir.

G. S. Venkatraman: Mr. Ojha, I will take the first question and part of it, I will also ask my colleague Krishnakanth to answer. I think the capital reduction exercise, as you know, what we are looking to do is only reduce the face value of the shares. So that does not change anything in terms of the listing or the delisting level. So, nothing will change so as and when we get the approvals and then we put that effect. The effect will be put in the system, and we will follow the process required, but trading activities will continue, nothing will stop. So, for your specific question on the ISIN. Krishnakanth?

G. V. Krishnakanth: So, As said to you, like on the email. So, we will have a new ISIN by way of a corporate action raised with both the depositories, and once the approval has been given, all the shares in the previous ISIN will be ported to the new ISIN, and there will be no kind of new fresh valuation or an average rate concept here. It is only a reduction in the face value of shares.

Vinod K Padmanabhan: Coming to the question of CrunchMetrics. We are engaged with several customers at this point in time in the fintech and the e-commerce space. It is because of the COVID-19 related things, some of these things have been deprioritized because they had other priorities in place, but we believe that by the end of Q2 and beginning of Q3, some of these POCs will be resumed, and we will be able to come back to you with some specific details. With respect to some of the engagements currently we have. We have not got the specific approval from the customers to go public with it, but I can confirm that we have started engaging with the customers, both in the fintech and the e-commerce space.

Raj Kumar Ojha: Sir, my next question is have we any patents in Horizon 2 and Horizon 3?

Vinod K Padmanabhan: We have started filing patents. We have filed a few patents, both last quarters, and we are also in the process of filing a few patents. This is predominantly in the new areas, yes. I just want to clarify that we just filed the patents. Now it is a process for us to be granted. So, I just want to clarify that.

Moderator: Thank you. The next question is from the line of Kranthi Bathini from WealthMills Securities. Please go ahead.

Kranthi Bathini: Congratulations for a good set of numbers, and Subex has been improving the performance from past couple of quarters. My compliments to all the management. Just want to know whether, how the foreseeable near-term feature in this kind of pandemic times, is COVID is really helping you in terms of your IoT and other platforms? And how the near-term future is looking for Subex?

Vinod K Padmanabhan: Look, I think, as I mentioned, that telcos have been effective, but probably the good thing is that, that segment has been affected much lesser than some of the other segments. So relatively, I think telcos are in a good shape when compared to other things. Having said that, as I mentioned, the reduction in the revenues have translated to a significant EBITDA reduction for some of these customers, and therefore, we are waiting as to what will be some of the impact. For sure, there will be some reprioritization of the new projects, but we still see that the long-term investment of the telcos on account of 5G moving to enterprises and making, getting more digital uses will be there, and therefore, some of our new portfolios that we are aligned with that would be very relevant there.

With respect to IoT, as I mentioned, IoT, a lot of projects coming up, but the execution of the projects are becoming very, very difficult because of the lack of people able to get on to the site because it requires delivering installation of physical devices. So therefore, it has taken a hit with respect to the implementation of some of these projects, but as and when the market starts opening up, we expect those projects to sort of start getting into the deployment and accepting these, and things should also look up good as we go to the quarter 3, quarter 4, Mr. Kranthi.

Kranthi Bathini: Given the kind of heightened activity in telecom, especially in India, what is the kind of opportunities coming for Subex, especially with respect to the geography of India alone?

Vinod K Padmanabhan: Well, look, I think as like any other market, I think India is also, whatever you are seeing in India is a sort of a reflection of what we are seeing across the board. There is a lot of emphasis on data. The business is shifting into data, but I think what we are seeing much more is on the enterprise move. That means that the telcos gearing up to cater as the entire digital provider for the enterprise. So I guess that the scenarios that we are seeing in India is kind of a reflection of what we had across the board, and the same, as I mentioned in the earlier question, as and when they go towards more digital, towards more enterprise segments and start rolling out more 5G solutions, we will be more relevant because we have cutting-edge solutions on the capacity management front, on the security front, on the digital trust front, which, all of them will be very, very important on this journey.

Kranthi Bathini: How would like to, just, this is my final question. How you would like to place Subex is going to play a role, whether it is a telecom company or a technology company, how you are going to place Subex? And what is your vision for Subex in the days to come?

Vinod K Padmanabhan: Our vision is to be the largest provider of digital trust solution to every vertical, including telco. So that is our vision. As probably you would appreciate, trust is a very important aspect as we go into the digital economy where we cannot see many people. We cannot see many enterprises. So how do you establish trust based on which you can transact with one another? Now this will become a very important aspect and will be one of the strongest pillars going forward, and we want Subex to be known as the leader in digital trust. That is what we are aiming for.

Kranthi Bathini: I will take 1 more minute of your time and how the margins are looking forward as there is a lot of cutthroat competition is happening in telecoms and all, how the margins are looking forward?

Vinod K Padmanabhan: Look, these are, particularly on our new areas, I think it is a value-based thing. So, at this, we are, on our core areas, it is a mature space, where I think the margins will probably remain as it is today, but on the new areas is where I think that these are much more value-based selling and where we expect that the margins will be much higher than on our mature areas. So broadly, we think as a company, it should, we do not see any changes on account of some of the COVID-related issues at this point in time.

Moderator: Thank you. The next question is from the line of Jay Daniel from Entropy Advisors. Please go ahead.

Jay Daniel: Yes. Sir, I have some bookkeeping questions. What was the free cash generation in this quarter? What is the cash on books as on quarter end? And what is the order book as on date? That is my first question.

G. S. Venkatraman: Cash end of the quarter, Jay, we had about Rs.114 Crores. The free cash generation was about, give me a minute, I will just give you that number. So, and what is the third question you had?

Jay Daniel: Order book as on date.

Vinod K Padmanabhan: The new order book that we booked in Q1 was the tune of about \$8 million.

Jay Daniel: And you started off with, I think, \$44 million, you would have executed some during the quarter. So, what was it, the pending order book as on end June?

Vinod K Padmanabhan: Look, I think the pending order book, if you look at that way, Jay, it will be, you will have to look at the managed services and the annuity that we have over multiple years. So, the way we look at it as against the \$44 million, which was the order book for the whole year last year. When compared with that, we have booked \$8 million in the last quarter, and a part of that will get executed during the course of this year and a part of it based on the construct of the contract will flow over to next year, Jay.

G. S. Venkatraman: Cash flow is about Rs.17.88 Crores.

Jay Daniel: Rs.17.88 Crores. Okay, my second question, there was a sharp reduction in cost from budgeted levels, is lower by 22%. How much of this is permanent? And can we expect similar cost to trend in the next 3 quarters, as a large part of your costs are fixed in nature?

Vinod K Padmanabhan: Yes. Venky, you want to address that?

G. S. Venkatraman: So, I think, see, if you look at it, I think because of the COVID, our travel costs have been significantly lower compared to what you would have incurred, if business as usual. So that obviously has led to our cost being lower. Apart from that, I think, and some of the other spends also, we have been a little more cautiously in terms of marketing and other related spends in terms of how much we wanted to do given the way the Q1 was. So, I think those were the primary reasons for the cost being lower.

Moderator: Thank you. The next question is from the line of V.P. Rajesh from Banyan Capital. Please go ahead.

V.P. Rajesh: Congratulations for a great set of numbers, Vinod. Just 2 questions. One on the 5G. When do you think that will start in earnest in the U.S, and in Europe, and we start to see some contract wins on that side?

Vinod K Padmanabhan: Okay. Thank you, Rajesh. Rajesh, I think this 5G are in various stages of deployment in both in U.S, and Europe, and now what we also see is the emergence of a new set of private operators, which are not so traditional telcos like Verizons and BTs, but we are seeing the emergence of a new set of operators who are very close to the enterprises, getting into the fray and setting up the 5G network and the connectivity and the associated digitization for enterprise. So, the activities are slowly picking up, and we will see a lot more activity on the calendar quarter 3 and quarter 4 of this year. So, it has already started, Rajesh.

As far as we are concerned, I think that our new solutions, particularly on the partner management front, IoT security and the capacity management thing. These are primarily aimed at the 5G and what comes as the ecosystem post the 5G. So, we believe that we will

see some engagements around this thing in the later part of this year. As I have indicated in my briefing, we already have one project under execution in APAC in the 5G security space, and we intend that to make it as one of the reference sites, not just for us, but when it comes to 5G MEC, mobile edge computing security thing. We intend to make it as one of the reference sites in the region, Rajesh.

V.P. Rajesh: That is great. Just a quick clarification, Vinod. So, you used to have a network management product. Has that been also folded into this partner management? Or that is still a separate product?

Vinod K Padmanabhan: It is a separate product. Partner management, Rajesh, 5G and associated business is all about telcos coming together and partnering with a lot more partners and taking many more solutions than they are currently taking to the market. Now you would have seen in Jio partnering with many of the things to get the entire vertical integration both with partners and themselves so that they can take a bouquet of digital services to around all areas to the customers. Now this is what globally, most of the telcos are partnering with. So now if you look at the number of partners, and these are all different kind of products, different kind of models, they would need a very robust solution, first, which they can trust to the partners, they can transact well, they can settle with. They can construct new bundles and whatnot. So, our partner management solution is around this area. So, this is very different than the network management portfolio, which is a separate portfolio, Rajesh.

V.P. Rajesh: So, in 5G, would you be selling the network management portfolio as well? Or what, if you could just talk about that. I thought as the 5G gets rolled out, you are likely to not only sell the partner management but also a network management product? Or am I mistaken in assuming that?

Vinod K Padmanabhan: No. I think there are 2 aspects. Partner management is one part and the other part is the capacity management. Now capacity management is where I think we are looking at AI/ML-based capability wherein we look at the forecast of traffic and then we imprint that with the network capabilities, and then we will aid the telcos to manage the capacity. Because if you look at 5G plus the virtualization, the number of devices, network devices that are going to be in the network will be 10x or more than what it is today. So, it is important for them to look at based on the traffic condition how to lay this network, where do you build the capacity, and that is what our capacity management solution is in there. So, we are talking about 2 solutions, serving 2 different aspects of the ecosystem post-5G, Rajesh.

Moderator: Thank you. The next question is from the line of Amish Kanani from JM Financial. Please go ahead.

Amish Kanani: Congrats on a good set of numbers. Sir, we understand that a lot of Capex, at least from the Q1 got deferred. My question was on the 5G side more than anything else, new Capex. My question was, Sir, but we understand that telecom as a sector and as a service is much more important in the post-COVID world. So, are we looking at in the scenario where the 5G Capex get deferred, still our clients very likely to do well? Of course, you mentioned that some of the clients have shown a decline in EBITDA. Are you looking at wallet share of their spending remaining same? And hence, say, maybe Horizon 1 products might do relatively okay vis-à-vis, say, earlier, and they may continue to spend on Horizon 1 products versus Horizon 2? Or you see the challenges, if the 5G deployment gets delayed, there will be challenges in, say, running into Q2 and Q3, and of course, I am referring to short term versus long term.

Vinod K Padmanabhan: I think what we are seeing is that there is a big change with respect to the telcos and the traffic and the traffic pattern and whatnot, right? And from that entire traffic has moved from the kind of the industrial clusters to the residential, and it is a big change what they are doing. So, I think at this point in time, I think the telcos have grappled with it, and now they are looking at what more, and that is where, I think, again, I would like to bring the view of these enterprises. Now that is a big market out there, and the expectation is that by 2025, about 45% of the total revenue of telcos will come from the enterprise side. Today, if you look at in excess of 90% of the telco, revenue comes from the retail side. Now this is a big shift, and that will happen with or without 5G.

5G will bring a lot more capabilities to telcos to provide a lot more different services, but even with the 4G, like what you are seeing within India, right? I mean India, suddenly you see that the JioMart that has happened, it started tracking to the small enterprises, and with the cloud offering that they are talking about coming together with Azure and Microsoft. They are trying to make the cloud and other digital offering to the enterprises in India. So similarly, this is what we are seeing across the board with or without 5G, and our solutions around further management and on our core areas of augmented analytics platform. All these things are aimed towards addressing the needs of the telcos going forward with or without 5G. 5G will really make these things much more and lot more new services and lot more new devices will come into the picture. That will be kind of a next scaling, but even if the 5G get delayed on some geographies, the move towards enterprise is real and that is a key segment that we are currently targeting.

Amish Kanani: Okay, and Sir, in that context, last year, we had a good EBITDA margin of 25%, and of course, this year, first quarter may not be a reference point because a lot of cost, as what you say, it may not have been incurred, but it is, which might come back. So, the question is, Sir, on a directional basis, Sir, if I do not know whether you guide or give some indication, is that

for full year, directionally, if the growth, will our operating EBITDA margin will be better than last year, ex foreign exchange? And if at all, you can give some light on that.

G. S. Venkatraman: Yes. Amish, I think it is a little difficult for us to give a guidance for the revenue or the margins at this point in time. As you know, the market is evolving, and I think we pretty much keep getting, give that a fresh perspective of how the things are evolving on a monthly basis. So, at this point in time, it will be a little difficult for us to give you a guidance on either margins or the revenue front, but I think what we are trying to do is run the business efficiently. I think if you really see our Q1 performance, I think we have been extremely cautious in terms of managing our costs prudently, and we will continue to do so, but I think if you ask me maybe as things start improving, we will be in a position to give you a picture on this in the coming quarters.

Moderator: Thank you. The next question is from the line of Ramesh Kasbekar, an individual investor. Please go ahead.

Ramesh Kasbekar: Yes. I am a chartered accountant, so I do not understand much of your IT operations, but I have 2 questions on expenses. One is you have done an expense reduction of Rs.5 Crore in other expenses probably because the traveling costs and the associated costs with that have been curtailed. Now will this continue? Most of your employees are, you say, are operating from remote places. So, will this continue? That is one question.

The other question is, you are saying that the delivery times have to be expedited. So, will the delivery costs go up? And you have also appointed some consultants, I believe they are costly people. They are not something which is available cheap. So how is their pay packet designed? Is it fixed? I mean will it add to fixed cost? Or will it be dependent on deliverables where it is along with the results or maybe it is a combination of both? But I do not know how much is the fixed cost and how much is the variable cost. I have a few more questions but let us first deal with this.

G. S. Venkatraman: Ramesh, this is Venky. I will take the first couple of your questions. I think on other expenses coming down, as you rightly said, yes, travel and some related spends like some of the marketing spends were lower in Q1, which is why you see a dip in cost. How do we see this going forward? I think that is something which will evolve. As things stand now, if you look at quarter 2, I think things have not picked up in terms of business travel becoming more frequent and people starting to travel yet. So I think that has not yet happened as we speak, but we will have to wait and watch if things starts improving dramatically, maybe then we will resume travel because obviously, when people travel, the way some of our opportunities on the table in terms of closures and conversations we have with customers will be far better

than what it is today. So therefore, at this point in time, we see that it is continuing, but we will have to wait and watch to see how it will pan out in the rest of the quarters.

The other question, I think we will have to look at, I do not know what document you are referring to in terms of consultants and other costs. We have given an investor presentation, which is an updated version. I think that is the document you have to refer to and, from that. I think we have not spoken about any consultants coming on board, specifically in our investor presentation. As part of our running business, there will be some consultants and other people who we will engage, and none of them are going to be significantly different from how we would engage with typically consultants who come on board. So that is not going to dramatically change our cost structure in this way, and that is where it will be.

Ramesh Kasbekar:

Okay. The next question is, you must have designed some security measures while people are working remotely. Your own employees working from different corners of the world. You must be having some security solutions in place. I am not an expert on this, and I am asking this question just to know for my knowledge, but if I am, I mean most IT companies, I believe, will have a security solution in place when their employees are operating remotely, and my question is, can this be commercialized? Number one. Means, if at all, you have been successful in putting a security solution in place for your own employees. Can that be commercialized, if at all? Because now I believe this COVID thing is not going to run away. I mean it will continue maybe for a year or two, I do not know. So, if there is a solution like that, which you have tried in your own business, and if it can be commercialized, I think there is a lot of scope there.

The second question, which I want to ask, and I believe in the previous conversation when that voting was to go, I had asked this question that you have positioned yourself very strongly in the telcos segment, but I do not think there is a forward integration with banking. So, I do not know whether that kind of a thing is possible, it has been thought of by your management. So, because that can add to a revenue stream and most of the telcos, which have got relationship, with many large banks can perhaps help you with that, if you have good relation with your telcos. So, these two questions on the business.

Vinod K Padmanabhan:

The first one on the security solution. Look, we have a very strong security solutions leading with IoT security, but I think we have started expanding that. We now have expanded the operational technology, which is primarily the security solutions that are required for the manufacturing thing, and also an integrated solution there. Some of the cyber part is also covered. So, to your question, while we may not be, we are not leading in with work from home or anything, but we have a very strong security portfolio, which we are sort of developing, but our focus is primarily on the manufacturing and IoT and industrial IoT. Those areas. So that is the first question.

Second, with respect to the financial vertical. Now obviously, some of our products can find its place in financial segment. It is a bit, it is a very kind of, if I could use that, like the telcos kind of a legacy kind of setup. So therefore, I think therefore, for us to enter there, it is a lot more difficult than entering some of the new segments like the e-commerce and fintech, which are much more technology-led operations, and that is where we are focused on. Having said that, we are also looking at specific areas or opportunities that we have, we see in the insurance, and on the financial segment, we are looking at how to provide that. So, and at this point in time, we have not firmed up our point of view on those areas, and as and when we are clear, and we have taken a point of view or we have finalized something, we will come back to you on that.

Moderator: Thank you. The next question is from the line of Nidhi Hasija from Alpha Alternatives. Please go ahead.

Nidhi Hasija: Congratulations on the good set of numbers. I wanted to ask 2 questions. Regarding the revenue jump, how much is the revenue from the new clients? And if you could also give a sense of how much of your older clients have renewed the orders with you?

Vinod K Padmanabhan: So, look, I think, typically, if you look at our business, as we add, on a full year basis, we add about 6 to 10 new logos. That is what we add on a yearly basis. So therefore, a bulk of our business comes from the existing telcos. We take new solution to the existing telcos, and therefore, I think I do not fully understand your question in the sense that if you are talking about new products I mean in the new, like IoT and others, we have secured some new customers, and as and when we get the specific approval, we will come back with you the specific names.

But with respect to did we lose any customers? No. I think the transition we managed very well, and we have been able to keep and maintain all of our existing customers at this point in time, and this is a very sticky business, and you know that it is an enterprise software, and of course, there are times when the replacement cycle or, let us say, the refresh cycle comes where once in a while, when there is a group consolidation or a takeover, for example, Idea and Vodafone merged together, and they had to rationalize the portfolio, and we were selected, and we replaced some of their existing vendors. So other than that, these are very sticky enterprise solutions that we have, and we have not lost any customer because of this COVID or anything of that nature.

Nidhi Hasija: Okay. Sir, I wanted to know how many new clients you might have on-boarded in Q1 in the core business area, if you can disclose that.



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G. S. Venkatraman: See, unlike the services business, we do not track this number separately and report it. I think if you are looking for this, like the way the services companies report. We do not report that number, but what we try and do in our business is, if there are significant wins, which we have had with new operators, like if it is in the core business or new customers in the newer investment areas, we then try and call them out. Otherwise, we do not necessarily call out and report new customer numbers on a quarter-to-quarter basis.

Moderator: Thank you. The next question is from the line of Mulesh Ahuja, an individual investor. Please go ahead.

Mulesh Ahuja: What I heard on the call was as part of Horizon 2, on the IoT security that you guys are making slow steady progress on that, and I come from the cybersecurity background. I understand the likes of Microsoft and AWS are spending huge amount of, or the huge investment in the IoT security. So how does this product get placed vis-à-vis some of these offerings with these large cloud companies have to offer?

Vinod K Padmanabhan: Mulesh, based on our assessment, we have created a niche for us where we have a very, very large honeypot network, and we are probably generating a lot of threat Intel, which are specific to the IoT security, and in most of the competitive evaluations, we have clearly come as a clear winner based on the threat Intel that we currently have. Now that is not to say that other large companies have started work on this matter. We think that at this point in time, we definitely have a lead of over some of these other companies when it comes to specific areas like IoT, and that is what we wanted to build on, and to further, we have also carefully sort of expanded our honeypot to research areas in geographies in Europe, Nordics, Dubai and Singapore with primary research centers, which means that whatever some of the research things that they are doing, their test and everything, they have extended of a honeypot there, and that Intel also gets added to us. So, while, we definitely will see competition as we go along. At this point in time, point in time, most of the competitive RFPs are, we are coming on top, and we do not see those kinds of vendors that you talked about this, the big one, Microsoft and all, playing specifically in the IoT or the OT security. They come from more from the security practice and the cyber thing. They might be working on it for sure, but at this point in time, we do not see them competing with us in any of the deals that we are, Mulesh.

Mulesh Ahuja: Sure, and the leading question to that is that are you guys trying to position yourself in some of the Gartner Magic Quadrant and investing money out there?

Vinod K Padmanabhan: Look, we are having routine briefings with the Gartner Analyst, and for instance, recently, we came, we published that. We came up; we were referenced as a sample vendor in the Gartner Augmented Analytics Report based on the briefing that we do. We do briefing on all

of our products, not just security with them. We find that there are others, which are much tracking some of the security much more than that for like 451 securities and things like that. They have covered us extensively in the past. So, we are doing the briefing and Gartner does not clearly tell you how do they create a Magic Quadrant and what are the products they come up with Magic Quadrant, for which product category they come up with Magic Quadrant and etc., but we are doing the briefings with all the analysts, including Gartner.

Moderator: Thank you. The next question is from the line of Sanjay from Alphaline Wealth Advisors. Please go ahead.

Sanjay Shah: I hope all are doing well. Sir, my question is continuation of the last participant who asked about our stand against the global competitor. While we are strong in our core area, but how do you see, how we can see Subex in Horizon 2, Horizon 3, vis-à-vis the competitor in the world?

Vinod K Padmanabhan: See, it is a very large market. It is a growing market, and it is going to be very competitive. Our key at this point in time is to ensure that we have the strategic partnerships in place, which will allow us to significantly expand our reach and also our ability to serve our customers. So, at this point in time, our emphasis, particularly during this period when there was a relatively less market engagement was to work with a lot more partners, strategic partners like the Telefónicas that we announced or similar ones like the fuel cell manufacturer OEM that we have. Now these companies have selected us after very, very thorough evaluation, and they have very, very long cycles of evaluation and long cycles of enablement, right? So I think we believe that this is the right approach for us, and we today have many partners, which we have signed up in various geographies, and therefore, our reach is much more than what we can directly reach the market, and we think that if we continue this with a big support coming from, let us say, from the market because it is so unfortunate that some of the key things have put on hold because of this pandemic, but I guess that it will cross, and as those opportunities come back, we will be in a good position to leverage that. Having said that, this is a very competitive market, and I think that it will only get, the competition is going to be very intense, and we are gearing up for that. We are gearing up both with the technology, with the research capability that we have and having more an AI/ML capability built into the product, and we wanted to differentiate with our product and some of the research that we are able to do in this area. So that is why we have very, very big. Picked up the niche of IoT and OT because that is where we wanted to be very, very prominent in this area.

Moderator: Thank you. The next question is from the line of Rajesh Goenka, an individual investor. Please go ahead.



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Rajesh Goenka: Complements to team Subex for a good set of numbers and for successfully navigating out of difficult times. The capital reduction approval appears to be around the corner, and I feel post this restructuring turnaround and consequent cash generation, this has opened up exciting possibilities like a payment of dividend, buyback, acquisition, expansion, etc. Can you share some thoughts on these aspects? And you feel that the time is now right for rewarding the shareholders in some form?

G. S. Venkatraman: Yes. So I think you are right, Mr. Rajesh, I think definitely, the financial performance and the health of the company has been improving, and there are opportunities which will emerge, but I think as you will imagine, some of these decisions will have to be taken in the context of how we, and where those, the cash is invested and better returns for the shareholders and for the company, and this is something which the Board will have to decide. So, at this point in time, I think it will be premature to talk about it, but yes, we will definitely keep you updated as and when the Board taking calls on some of these areas.

Rajesh Goenka: But do you feel the time is now right or something is around the corner? And in near future, we can expect some reward for the shareholders?

G. S. Venkatraman: See it is difficult to comment on the timing, right, because then I am preempting the decision which a Board is typically required to take. So, we will definitely keep you updated as we get to those points.

Moderator: Thank you. The next question is from the line of Supreet Prabhu, an individual investor. Please go ahead.

Supreet Prabhu: Heartiest congratulations on such a wonderful result. Now are you allowed to name some marquee clients that you have on all across the geographies and especially in India? I am keen to know that?

Vinod K Padmanabhan: Look, I think in our website, we have given a list of customers. So just to let you know, we operate in over 90 countries, and by and large, 75% of the top 50 telcos around the globe are our customers. In India, we work with most of the operators, if not all the operators are our customers. So globally, we have about 220 customers, and as I said, in 90 countries and most of the Tier 1s large telcos are our customers for one product range or rather.

Supreet Prabhu: What about e-commerce companies in India?

Vinod K Padmanabhan: We have just started catering to that segment because we were primarily telcos, telco-specific. So, and our CrunchMetrics product, we have just started engaging with the e-commerce and the fintech segment. So, at this point in time, we are not in a position to announce any of the

engagements that we are having, but we just started about a year back, taken to the market, and it was a new product around augmented analytics. So, it is a new area. So hopefully, we will have a lot more customers in that area, and we should be able to name some of them in the coming quarters.

Supreet Prabhu: Hopefully, we will be waiting for those announcements. Thank you.

Moderator: Thank you. The next question is from the line of Amit Mishra, an individual investor. Please go ahead.

Amit Mishra: Congratulations on the good set of numbers year-on-year, but we saw a decline quarter-on-quarter. Can you please confirm if this is related to COVID, the reduction which we see or is there a seasonality involved in the numbers, quarter-on-quarter?

Vinod K Padmanabhan: Okay. So, we are still heavily a license-based business, and definitely, it has been a trend that our H1, we start low and then we will, our H2 is much higher than the H1. So that is a pattern that we have over the years, and that sort of remains, and COVID did have a bit of an impact as some of the projects that we were not able to execute on time, but I would say that both the parts are right that quarter 1 is relatively a low quarter for us and it grows up as we go into quarter 4, but definitely, the impact of COVID as well.

Amit Mishra: Another question I have is, what is the customer, in marketing general, feedback of CrunchMetrics and IDCcentral, if you can share some details into the feedback you have received. Also, in terms of potential for new deals based on the performance of these products that you have?

Vinod K Padmanabhan: CrunchMetrics, as I said, we are going after this e-commerce and the fintech side, obviously, and from March, it was kind of putting a full break on some of these engagements because they were, everybody was trying to prioritize other things, and some of these new things that we are talking about were put on hold. Those engagements have recently started again, and we are very quite bullish that it seems to be some, our solution seems to be addressing some key areas with that technology, and therefore, we believe that it has got a lot of potential. With respect to IDCcentral, as I updated in my brief, we have sort of soft-launched in one territory of Indonesia, and we have so far have a coverage of about 40% of the whole 300 million population, and that is also looking very promising, and identity analytics is a very, very key aspect and very key aspect for the digital trust. So, we are putting a lot of hope in the coming years on that becoming a very, very strong proposition for Subex, particularly in the digital trust scheme of things.



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Amit Mishra: Just one more question. Jio's recent announcement that they are going in-house with 5G and Athmanirbhar and what not do you see, because last conference call, you said you do not see much scope in India, since then this announcement has happened. So, you think as Jio being your customer, you have good chances to get the bite in the pie.

Vinod K Padmanabhan: Look, I think I would remind that with respect to the, our focus area is supporting them on specifically areas around when they go to the enterprise side with our partner management, risk management with the digital trust with identity analytics, and that is relevant to customers in India as the customers in the developed markets. Developed markets, they are, probably their growth on the retail side is maybe slightly limited and, therefore, they are moving much more faster into those segments, whereas in India, we are still seeing the disruption that the Jio has had and it kind of resettling things, and once that is sort of settled, you will see the movements into the enterprise side. So, I am not saying that India is not a key market for us, but India contributes less than 5% of our market because we are primarily, primarily we cater to the telco segment, and the number of telcos we have here is 4 or 5, right? And so therefore, we do not expect that to drastically change as a percentage, but obviously, we are engaged with all the telcos in the country, in the new areas, and to support them to the best of best that we can.

Moderator: Thank you. The next question is from the line of Mahesh Jagtap , an individual investor. Please go ahead.

Mahesh Jagtap: I have 2 questions. First question is related to the investor presentation. Is it possible for you to include cost structure, revenue trend in last 8 quarters and the order pipeline? Basically, when I say order pipeline, active deals you are pursuing, how many you have won? And how many you have lost? And how many new deals you added in the quarter? That will help us to understand how the business trend is going on. And the second question is related to the IoT security. Subex has implemented one IoT security for town in U.S, and after that, it has also set up center of excellence for IoT security. So, what is next on that front? Are we getting any new town or city-level IoT security deals in U.S, and Europe?

Vinod K Padmanabhan: Okay. All right. On the first question, we will take that as a feedback and come back to you if it is something, which can be done. We will also evaluate from our end, and we will address that. It is about the additions that you requested to the investor presentation. With respect to the IoT security in the town of Florence that implementation we have. Now post that, we have to get certain approvals as an approved vendor for the U.S. government, and that took some time because we were an Indian entity with a U.S. subsidiary. So, we went into a long process for us to get the approval. Now we have got the approval as a sort of an approved vendor for the U.S. government entities, but then the COVID started, and now the priority is towards, all the towns are, looking at the priorities are different, but as and when these things comes

out of this whole COVID issue, particularly in North America, in the U.S. We intend to take this success. It was a hugely successful implementation, and it is one of our most, like the referenceable customer that we have in the town of Florence, and we intend to leverage that and go to other towns and counties there and, to expand our presence there. This is particularly with respect to in North America. So, we are looking at very specific, for the government approach, we are only trying in a few countries. We are looking at in India, we are looking at it in North America, and we are looking at a country in Nigeria, in Africa. So, these are the three countries, which we are looking at governmental business at this point in time because you know that it is a very different than enterprise segment, and we did not want this to spread too thin. So that is our view on this. So as soon as the COVID-related things and the government gets free out of that, we hope to sort of expand our activity there.

Mahesh Jagtap: Sir particularly related to that IoT security for town, a company needs to do a lot of publication so that people will be aware of the product that Subex has built for a city surveillance.

Vinod K Padmanabhan: Sure. We are doing very targeted at this point in time, but as and when we saw more successes, we will start expanding more bandwidth in that area. We just want to be very, very, choose a very specific market. That is why I said we are doing a lot more activity in North America because that was important for us to get this approval in the place, and we are doing some webinars, and a lot of other activities are planned in those geographies. Maybe some of them may not be visible sitting here because it is specific to the North American geography, but for these specific areas, we are, very targeted campaigns are being done at this point in time, Mahesh.

Moderator: Thank you. The next question is from the line of Abhishek Kale, an individual investor. Please go ahead.

Abhishek Kale: So, 56% of your revenue comes from the profits from the LLP business, the partnership that you have. Do you expect this ratio to change in the favor of operations or this is pretty much how things would proceed? And second question is the share of loss from the Digital LLP has increased by 64%, whereas the profit of the Assurance LLP has dropped by 49%. Do you see this changing in the upcoming quarters?

G. S. Venkatraman: I think you are focusing on the Subex limited standalone numbers and many of your questions are and I would recommend that you look at our consolidated financials, which is also available upside. That gives you a full picture of the entire business because the Subex Limited financials are reported the way they are because of the structure which we have in terms of Subex Limited being the listed entity and the LLPs right below that, but as, if you look at the consolidated financials, you will get the complete picture of the company, which

is the total revenue and the total profits across all of these entities. I think it is better to look at it that way because that gives you a whole, a more a realistic and complete view of the business.

Moderator: Thank you. The next question is from the line of Dev Savla, an individual investor. Please go ahead.

Dev Savla: Congratulations, team Subex. So, my question is about the identity analytics. If you could shed some light on how it operates? And what sort of cash flows have you started seeing from this segment? And my second question is, what sorts of revenue top line contribution have you started seeing from Horizon 2 and Horizon 3 products?

Vinod K Padmanabhan: Okay. So first on this identity analytics. You know that we have access to telecom data in over 90 countries. So, the idea is that can we augment this access of data with other source of legitimate data and then provide a lot of identity analytics for digital business. So that is primarily the story here. So, in Indonesia, where we have done, we have several data aggregators that are brought, that are in our platform today. That is on one side, right? I mean they provide data for us to do the analytics. So, once we get a request from a service provider, the service provider could be bank, E-commerce Company, a fintech company, anybody who wants to do a digital business. We get a request for an identity analytics, either when they onboard a customer or do a particular transaction with the customer, and then we take the consent of the customer, and once we get the consent of customers, using the data that we have, we do analytics and provide those, whatever it is required and then it gets into the workflow. So that is the whole thing, and we get compensation from the service provider, then that is shared between the respective data aggregators. Now this is an MVP stage at this point in time, and we have soft-launched that in Indonesia. So, we got, it is a platform. So, in the platform, on one hand, we have this data brokers or data aggregators come on board. So, we have several data aggregators. So, we have about 40% coverage of the whole country today, and we are now in the, we are working with the service providers to tune the use cases so that we can tie them together. At this point in time, we do not have any revenue contribution coming from here. On the revenue contribution, from the new areas is, for the quarter 1 is quite insignificant because it was, a lot of this thing was, affected a lot of our products and execution on the new areas was affected by COVID, but as and when we start seeing that, a sizable number. At this point in time, it is very, very low as a percentage of our total revenue. We will start providing specific breakout of that. Towards, for the whole year, we intend that for the whole year, we should be able to come back to you with what is a contribution from the new areas.

Dev Savla: So, what sort of revenues are we projecting by the end of the current financial year from all these segments, the identity analytics and Horizon 2 and Horizon 3 products?

Vinod K Padmanabhan: No. We did not have any specific guidance on that area, but as and when we have some wins, and again, please understand that these are all SaaS-based business, which is very different than our normal license-based revenue that we have in the telco space. So, we are not even looking at, I mean, for the time being, our focus is to have a lot more customers and partners on the platform and to grow the platform to a sizable number, so that the revenue will be meaningful. So, our current focus is not on the revenue. So even for both, I mean, for IoT is different, but I think I am talking about both CrunchMetrics and ID Central, our current intent is to have a lot more customers on our platform and make the platform very meaningful rather than the revenue focus for this year.

Moderator: Thank you. We take the last question from the line of Mithun Ashwath from Kivah Advisors. Please go ahead.

Mithun Ashwath: Just one other question on, you mentioned Horizon 1, 2 and 3. What is the revenue in each segment currently? And where do you see this mix likely to change over the next 2 years?

G. S. Venkatraman: See right now if you look at the mix, the mix is predominantly in the Horizon 1 areas, and as Vinod has been explaining, I think, Horizon 2, we have these products like the IoT security and our analytics as a service offerings, which are there, which are at different stages of taking to the market, and Horizon 3 is obviously in the investment stage because we are still in the process of rolling out those products. So, if you look at the composition right now, almost 98% of our current revenues will be from Horizon 1. Horizon 2 is a smaller proportion, but I think the idea is this will become a larger share as we go along, and we do want it to become a larger share. Our idea is at least 25% of our business should come from Horizon 2 and 3 areas, but that is a process, and we will have to go, we will have to keep updating you as we get to that.

Mithun Ashwath: Is there any target over the next two, three years when you are going to achieve this 25%? Or it is more like a moving goal post?

G. S. Venkatraman: See, our aspirational goal is to get there in the next maybe two to three years, but I think we will have to keep updating this given the current events and how the business evolves.

Mithun Ashwath: A couple of quick ones. I just wanted to understand, is there any ESOP plan in place? I see about 3%, I think, is held by employees. I just wanted to know what is the management's share in the company so that they are also rewarded with this recovery and improvement in the company. So just wanted to understand there that because you do not have any visible promoter as such.

G. S. Venkatraman: Correct. So, you are right. So, we have created an ESOP Trust exactly for that reason. So, the senior management does have a reasonable number of options, which have been granted to the senior management team and also to other key members in the company. So, the idea is to get the employee holding in the company to about 4% to 5% over a period of time, and that obviously will lead to the employee, the senior management and other key employees in the company having a direct interest in the company's performance being better than what it is today. So yes, you are right. So, the upside of the performance of the stock will also accrue to the people. So, we do have a reasonable chunk of options granted to the senior management. I think you will see that in our annual report of last year, and we will publish it for the coming year as well, for the year before, I am talking about FY 2018 – 2019 , the information is available, and FY 2019 – 2020 , a report also will be available sometime in September.

Moderator: Thank you. I now hand the conference over to the management for closing comments.

Vinod K Padmanabhan: Well, as you can appreciate, we are, definitely, the whole world is going through an extremely challenging situation, and as a team, we are trying to navigate out of this crisis by being agile based on the information that is available to us from time to time. We are confident that we will emerge out of this crisis stronger. As investors, we look forward to your continued support. I request you all to take care and wish you and your family, good health and happiness. Stay safe and thank you very much for attending this call.

Moderator: Thank you. Ladies and gentlemen, on behalf of Subex Limited, that concludes this conference. Thank you all for joining us, and you may now disconnect your lines.