



**“Subex Limited
Q4 & Full Year FY2019 Earning Conference Call”**

May 14, 2019



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Moderator: Ladies and gentlemen, good day, and welcome to the Subex Limited Q4 and Full Year FY2019 Earning 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 would now like to hand the conference over to Mr. G.V. Krishnakanth, Company Secretary of Subex Limited. Thank you, and over to you, Sir.

G. V. Krishnakanth: Thank you. Good evening to everyone who have joined the earnings call for the period ended March 31, 2019. Now I would like to introduce the members of the management who are present for this call. Along with me, I have Mr. Vinod Kumar, Managing Director and CEO; Mr. Venkatraman G. S., Chief Financial Officer; Mr. Shankar Roddam, Chief Operating Officer; and Mr. Khushwant Golechha, Finance Controller.

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 risk and uncertainties relating to these statements include, but not limited to, fluctuations in earnings, our ability to successfully integrate acquisitions, competition in our areas of business, client concentration, liability for damages in our contracts, withholding taxes, political instability, unauthorized use of our intellectual property and general economic conditions affecting our industry. So with this, now I hand over the call to Mr. Vinod Kumar to take it forward.

Vinod Kumar P: Good evening, everyone. Let me start by thanking you for taking time to attend this call, and I also welcome you all to this briefing. Before we go through the details of the financials, I would like to provide an overall update on last year and also our plan for this year and beyond. As some of you who attended the last calls might recall, after I took over last year, we brought the focus to two areas, revenue growth and a vibrant Subex. We rediscovered our purpose, values and set our vision to be the largest player globally in the space of digital trust. This vision was then translated into three horizon strategy wherein horizon 1 consisted of our core areas; horizon 2 consisted of high-growth areas of IoT security and analytics; and horizon 3 consisted of aspirational areas of automated multi-vertical anomaly detection and digital identity.

Both from a strategy and execution front, we did well during the course of last year. And let me provide you a detailed view of how we did in each of these horizons. The market segment of telecom BSS i.e. Business Support Systems software that predominantly covers horizon 1 areas is expected to remain flat till 2021. As a global leader in most of the areas that we operate in this segment, our effort was to perform better by grabbing market share from competition. We embedded purpose built AI/ML into our products, leverage technology like big data to effectively manage the huge data, compute requirements, and thereby created significant competitive advantage during the course of last year. We are competing very well, and all these helped us to



win several large deals and finished last year with a 30% increase in new business bookings over the previous year. The Q4 results reflect the impact of these higher new business bookings.

Horizon 2 being a high growth segment, our intent was to build on the initial advantage that we have from a technology perspective, and also increase the coverage of as many segments as possible. Towards this, the secured customers in the areas of smart city, oil and gas, connected cars, manufacturing and IoT connectivity providers. The honeypot lab has been enhanced, and we have also carefully extended it to top research facilities in Singapore, Dubai and Europe. Our honeypot covers over 4000 devices in over 60 locations around the globe, and this facility is currently attacked over three million times a day. This proactive approach of generating threat signature is becoming a key differentiator of our digital security solution. ACT i.e Analytics Center of Trust, the other product offering in the H2 portfolio has now been extended to two customers. We have become very strategic within these customers, and we hope expand this service to many more customers in the future.

We are also very happy to note that we have met the internal target of US\$5 million contracted business and around US\$1 million revenue in the very first year of operation on horizon 2 products. On horizon 3, which is the aspirational areas, where we are working on much larger use cases, we have launched CrunchMetrics, an AI/ML based multi-vertical anomaly detection in January this year. After successful completion of PoCs, we have now started deployment in two Tier 1 telcos in Europe and APAC. We have also started POC with a large Fintech player in India and hope to get good results soon. The second product in horizon 3 is digital identity, and this product will be ready for launch in this quarter. It is also significant that we have ended this year with nil debt that off any kind. We have thus the necessary capital to invest around our growth areas aggressively.

Moving on to the talent front. We have great addition of talent during the course of this year. We brought a new COO, CFO and Company Secretary. We also strengthened the domain and business consulting side by bringing heavyweights in the industry with over 20 years of hands-on experience. We now have a well aligned team who is committed to drive the growth strategy. We have also executed the first phase of ESOP allocation and have all key Subexians covered. Further we have also recently strengthened our board by bringing in Mr. George Zacharias. He has worked very closely with several SaaS businesses, and his wide and rich experience will be very helpful to us. During the course of last year, we also stepped up the Investor engagement with regular updates. We started with analyst call every six months. Going forward, we intend to do it every quarter, and we will also initiate proactive in-person meetings with key investors in Mumbai and other locations. We have also engaged the IR firm Christensen to streamline and improve our investor engagement.

Now let me talk about our future. Based on the market reaction and general feedback, our growth strategy seems to be right and on mark. Our focus going forward will be on execution of this growth strategy. There are three key global trends that we are tracking and intent to leverage for our growth. These are: one, the increasing importance of digital security, in particular IoT



security; second, the onset of 5G and mobile-edge computing; third, digital identity becoming central to digital economy. With the best technology biggest bank of digital threat signature and extensive coverage, we are very well positioned on digital security. We intend to invest heavily to scale the coverage, both on the technology and market coverage factor.

We will start offering digital security on cloud to reach the long tail and also embrace the partner ecosystem. The growth possibilities are huge in this area. On the 5G and mobile edge computing front, we are making enhancements to our horizon 1 core portfolio. Even though wide commercialization of 5G is expected only by end of 2020, there are areas where we can help our telcos during the rollout phase. We have already started engaging with key stakeholders to create a compelling proposition that will increase our business for horizon 1 core products. Digital identity is expected to be a US\$25 billion space, and there are several large use cases. We are started working on some of these use cases that leverage our strength of global access to telecom data in over 90 countries. We intend to launch this product during this quarter and will provide further updates during the launch.

Another key aspect to note that, our horizon 2 and horizon 3 products are subscription-oriented ones, and as with any subscription or SaaS business, the revenue uptick will be gradual. However, after slow initial years, the ramp-up will be exponential. This is very exciting and will be a game changer for the company. For IoT CrunchMetrics, that is a more anomaly detection solution and digital identity, we resorted to virtual startups within our company. This approach has worked very well, and we intend to continue this to incubate more products and quickly bring this to market. As we expand into new verticals, there will be a constant addition of talents. We take pride in our open culture and many new Subexians find it very attractive. After this, our ability to access global market quickly to our existing sales channels, make the opportunities at Subex very compelling. We will continue with the next phase of ESOP allocation during the course of this year in line with the approval already in place from our shareholders.

In summary, the growth strategy that we are putting in place is working and the initial results are sort of validate it. This year, the focus will be on execution and scaling of horizon 2 and horizon 3 offerings. We want to continue the growth momentum and put the company on an aggressive growth path. We look forward to the continued support of our investors and shareholders. With this, I hand this over to Venky to take you through the financials for the last quarter and last year.

G. S. Venkatraman:

Thank you Vinod. Good evening everyone and thank you for taking time to join this call. I will first start with the performance for Q4. We had extremely good Q4 for the quarter ended March 2019. Revenue for the quarter was at Rs.1019 million as against Rs.823 million in the previous quarter, which was the quarter ended December, it grew by 23.8%. EBITDA for the quarter was at Rs.269 million as against Rs.76 million in the previous quarter, a growth of almost 254%. If we were to look at the EBITDA margins for this quarter, we were running at 26.4% versus 9.6% in the previous quarter.



And moving on to the full year, revenue for the year came in at \$3481 million as against Rs.3243 million in the last year, which improved of about 7.3%. EBITDA for the year is at Rs.514 million as against Rs.508 million in the previous year, a growth of 1.1%. Please remember we have also made investments in the newer areas, Vinod spoke about areas like IoT and analytics. We invested close to Rs.14.7 Crores in those areas. So if we were to look at it on like-to-like basis actually we have increased margins if we were to factor margins, from a reported basis, it is 14.8% versus 15.6% last year. But if we were factored these investments, it would have been at about 19% for the full year. And profit after tax for the year is at Rs.252 million for FY2018-2019 versus Rs.207 million in the previous year, it is a growth about 21.7%. So that is all I had on the numbers. So maybe we will talk about the other parts. Vinod will speak about what we will see next year.

Vinod Kumar P: Okay. So with that, we would probably now take a few questions and then try to address some more specifics as a part of the clarifications around the questions.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. We take the first question from the line of Sanjay Shah from Alfa Line Wealth. Please go ahead.

Sanjay Shah: Good evening gentlemen and congratulations for good numbers. Sir, I have one request, if it is possible next time, can you please upload a presentation so that we can – it is a bit technical technology-oriented company. We need to understand in detail, that presentation will really help us, rather than as we follow by the MD Sir. I need to understand regarding our horizon 2 and horizon 3 between details. Because I think, horizon 1 is what we feel as stagnant ongoing where we have a growth stagnating at these levels, correct me if I am wrong. And that do we see our company from here from next two to three years and which horizon you find it very upcoming fast, like in IoT security or digital analytics or what may be the different verticals?

Vinod Kumar P: Okay. Thank you for the question. on the first part, going forward, we will try to provide more details as a part of a deck, your suggestion is well taken. Now coming to the second question, on the horizon 2 and horizon 3 area, as I told you, when compared to the horizon 1, the market growth expected in horizon 2 and horizon 3 is in multiples when we are talking about a few percentage points for horizon 1. So definitely, I think the near term growth we are expecting from horizon 2, just to understand the difference between horizon 2 and horizon 3. Horizon 2, we have two products that is IoT security and ACT or Analytics Center of Trust. Now these two products have already hit the market. It has been validated in the market segment and by customers. And we expect a near-term growth, breakout growth from the US\$50 million-odd level to happen in the business of horizon 2 areas.

Now for the coming to horizon 3, these are again huge areas. We intend to perform well and make a big impact in those areas as well. However, as I mentioned, these are subscription-oriented business, which would mean that the revenue will be based on the number of subscribers or number of connectivity that we will cover. So the ramp-up will take time, but the growth potential is exponential. So to answer your question, horizon 1, it is not debt. We are intending



that we will grow at a faster than the market. Now this year, whatever growth we had, predominantly came from horizon 1. So because of the progress that we are doing and where we are competing, there would be growth, but it will be a percentage growth as against multiple growth that we are expecting in horizon 2 and horizon 3.

Sanjay Shah: Right Sir, in horizon 3, it is digital identity, which we are going to launch in Q1? Can you a bit elaborate on that to make - what is the opportunity size we are looking at?

Vinod Kumar P : Okay. So the first use case that we are working at is - when it comes to digitalization, there is a need to verify the identity of the customer and also to find out whether the location of that customer is. So let me give an example. Let us say that we are based in India and I travel to London. And then from London, I make a request for a service, let us say, changing the bank password or a very large transaction. Now before initiating the transaction and sending an OTP, many of the service providers would want to verify that this is indeed Vinod, and he is in London. Now that might be quite transparent transparent to the customer or to the subscriber, but this is a big value, both for the service provider and the subscriber. Now these are some of the things, which we are - when we are trying to talk about digital identity and the validity. These are some of the use cases that we will be working out. Now talking about the space, the number of use cases and number of service providers, who we will cater to with this offering will be very large, but we are working on it. And as I told you, we are going to launch this in June timeframe that is by next month. And we will definitely provide you more details at that point in time. But I presume that you got a gist of what we are talking with this example.

What we are going to leverage is that vast access of telecom data that we have in our platforms, roughly about one-fifth of the global telecom traffic passes through our platform, and we have accessed to these in over 90 countries. So we are trying to leverage this and we are trying to figure out with the consent of the consumers and the telcos who we have access to the data, how can we provide a value creation for various stakeholders. So that the opportunity that we are working it, its very exciting and very interesting and we will provide you more details as we launch the product next month.

Sanjay Shah: Great Sir, exciting. I will come in queue for another question. Thank you very much.

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

V.P. Rajesh: Thanks for the opportunity. Congratulations Vinod for a perfect quarter. Just one question on the market side for your horizon 2. Could you just give a little bit more color on what is the market size that you are seeing for IoT security and the Analytics Trust?

Vinod Kumar P: Okay. So as per the various sizing, Rajesh, the market size is expected to expand from about Rs. 100 million, which is currently to over two billion in the span of next 1.5 years to 2 years. Now obviously this is depending upon the uptick in IoT, which we are seeing a significant uptick. If you look at the number of connections of IoT from about 3 billion to 3.5 billion, it is expected to



get to about 10 billion to 11 billion connectivity by 2020 and as we are seeing the digital security in particular, IoT security is becoming very, very critical. So our view is that the market size of \$50 million to \$100 million is supposed to grow about 10 to 15-odd times in the next 12 to 15 months, Rajesh.

Now coming to the other product of Analytics as a service, this is something, which we are creating the Analytics Center of Trust. If you recall, we recently released a press release regarding the engagement that we have with the Econet of Zimbabwe. There, our intention is to work with smaller Tier 2 and Tier 3 operators, and build the Center of Trust who created this capability. This is very central and this is a new offering or analytic consumption that we have sort of promoting. Early days for us, but we are expecting that we are getting a lot of interest from the smaller Tier 2 and the Tier 3 segments, Rajesh. We are not sized up the market, but we still believe that it will be anywhere between \$50 million to \$100 million for next year, or as a total market size, Rajesh.

V.P. Rajesh: Alright and just one question, you said, your horizon 1 new business bookings over 30%. So what kind of growth can one expect from the horizon 1 products in fiscal year 2020?

Vinod Kumar P: My view is that this year, if you consider that around 7% is what we grow, bulk of that came from the horizon 1 product. Our aim is to beat that number, Rajesh. So we are not looking at specific guidance, per se but our intention is to beat that number going into this year. And the fact that we are competing very well, and we have dealt significantly on these competitive differentiator. We are quite bullish that we should be able to get there.

V.P. Rajesh: I will get back in the queue. Thank you.

Moderator: Thank you. Next question is from the line of Krantik B from WealthMills Securities. Please go ahead.

Krantik B: Recently there is one announcement to the exchange, that Subex has won Econet Wireless, a multiyear contract. Just want to know, what is the size of this deal? And how it is going to translate into revenue? And Subex has been winning like this many multi-year deals, but there is nowhere mentioned what is the size of this deal? And how much the revenue impact it is going to have?

Vinod Kumar P: Okay. So because of the way we are structure and confidentiality around this, we are not able to share the details of the volumes because this is something, which is important for the customer's standpoint. So, we are not able to specify the details of it. But from a qualitative standpoint, as I told you, this is a horizon 2 win, where the Analytics as a service, we are setting up a center of excellence there, and this has been signed for the next three years.. We are providing the Analytics to core business where we are trying to help them drive new business, improving customer satisfaction. So, this is very central to them. And as we start expanding, we intend to expand the service to other OpCos within the groups. Econet has a group companies, they have five to six OpCos in Africa. We have implementing this in the first phase in their largest entity in



Zimbabwe. But post our initial space, our intent is that based on the success, we should be able to extend the service to other properties within the group. Now with respect to the revenue, this revenue will come over a period of three years. And as I told you, I am unable to share the specifics of the value because of the confidentiality that we have with customer.

Krantik B: Okay. And just want to know about what is the debt condition on the balance sheet, how we are going to manage the debt?

G. S. Venkatraman: So Krantik this is Venky. I think we do not have any debt on the balance sheet. So even we have the working capital limit, we had it also been paid out. So, there is zero debt on the balance sheet today.

Krantik B: Okay. We can assume that Subex is a debt-free company currently?

G. S. Venkatraman: It is. You do not assume, it is a debt-free company.

Krantik B: Okay. Thank you.

Moderator: Thank you. We take the next question from the line of Tarun P from Chanakya Securities. Please go ahead.

Tarun P: Tarun from Chanakya. I just wanted to get a color on the revenue, very good set of numbers that we have seen after a very long time. First of all, is there any onetime kind of revenue in this, so fairly lower recurring stuff in this, revenue that has been shown in the first quarter?

Vinod Kumar P: Okay. So if you look at the overall revenue numbers, about 70% of our overall revenue comes from an annuity base thing and the 30% comes from new business that we acquire. Of that remains the same this year as well and as we get into a growth phase, we want that revenue to be between 65% and 70%. So the annuity, which would continue every year, we intend - we want it to be between 65% and 70% of that number. There is no change per se. And this quarter it remains the same, Tarun.

G. S. Venkatraman: Tarun, there is another point, I think, given that we are a product company, sometimes our license deals and some of those conversion do get bunched up towards certain parts of the year. So, I think, what is also happened is in the last quarter, we had some of our license deals, which is kind of a little delayed, and those conversions are also happened in this quarter. To that extent the bump-up in revenues you are seeing in this quarter is a function of a little bit of - it has been lower from the previous quarter, which will also come into this year. I think, quarter-on-quarter, if you were to look at these numbers this is not a trend, you have to look at, so I assume that this will continue. But overall, for the year, we still believe our growth momentum will continue.

Tarun P: Okay. And secondly, of what portion of the Q4 number would be, say, revenue coming from this probably horizon 2 services?



Vinod Kumar P: For the whole year, we booked about a \$1 million from horizon 2 that is what we internally set as a target. So about \$1 million, about \$950,000-odd came from horizon 2 product offerings.

Tarun P: And in horizon 2, it is mostly flat based kind of billing which was happening?

Vinod Kumar P: That is correct.

Tarun P: So, the ramp-up will happen over a period of time, not necessarily immediately I think that is the end of serving that client?

Vinod Kumar P: That is correct. But I think even though the ramp-up will happen. But I guess from a growth perspective, unlike the core, we are expecting multiple growths here, in this segment because the market size is huge. And therefore, even the big ramp-up, you are right, as any subscription mode, it will happen gradually. But from an overall business perspective, from the horizon 2, we are expecting multiple growths to happen in that area.

Tarun P: Okay. Just last question in the same thing, the bookings that have been done on the horizon 2 products and whatever interactions we have had initially with the customer? What is your view or whatever existing contacts of the revenue wherever the billing is actually happening that the ramp-up period, will it take two quarters or three quarters, before you see that exponential part that you had mentioned?.

Vinod Kumar P: I will give you an example then probably, that will help you understand. we have announced a deal with part systems with an IoT, and we are now a connectivity provider. Now currently, we are covering them for 250000 devices, for securing 250000 connections. Now that is base revenue that we are now booking every month. Now their internal projection is that the 250000 will go to about million connection as they go into calendar Q4 of this year. Now, every month, we will look at the number of connections, and we will start billing with them so it is a function of the ramp-up of the number of connectivity, a number of devices that gets covered as part of the IoT rollout.

Tarun P: Fair enough that was a very good example. Thank you.

Moderator: Thank you. The next question is from the line of Amal Dwivedi from Alpha Alternative. Please go ahead.

Amal Dwivedi: Congratulations, Sir, on an excellent set of numbers. My first question is on the tax rate, the tax rate of 46% the year seems pretty high. My question is why? And what should we assume for FY2020?

G.S. Venkatraman: In our case, I think, because we went through this restructuring in November 2017 and the way that entities are set up, we have these LLPs and then the LLPs are the subsidiaries of Subex Limited and then if you look at the consolidated numbers, tax rates will be higher; because of the timing differences, we have deferred tax liabilities to be created so that creates the additional tax



line item. And also because we also operate in geographies where we do not necessarily have our own PE's in those areas, so therefore to the extent, there is tax cost on the withholding that is done by many of these countries so if you exclude that tax provisions are not very large, but when you look at all of these numbers together, it will remain high so that number, you can assume that, it will continue to be in the same percentage.

Amal Dwivedi: Okay Sir thank you.

Moderator: Thank you. The next question is from the line of Raj Kumar, Individual Investor. Please go ahead.

Raj Kumar: Good afternoon Sir. This is Raj Kumar, advocate from Allahabad. I invested in Subex. Now my question is regarding revenue assurance. How serious is Subex outside telcos in terms of planning, motivation, exploration, aggression and determination? Has Subex set any target?

Vinod Kumar P: Okay as a part of the strategy that we had, we wanted to focus to start with on Horizon 2 and Horizon 3 offerings, which were outside telcos, but it was not around assurance areas, but it was much larger use cases like security, anomaly and identity. Now that said, on a constant basis, we look at adjacent areas where we can move into and as a part of that effort, there is a constant effort that is happening around exploring adjacent areas around telcos that is utilities, FinTech, etc. We will keep you posted as and when we sort of solidify our strategy on a proper expansion outside that. At this point of time, whatever engagement our project that we are doing are more exploratory in nature. And once we have a firm view on it we will keep you posted so that is where we are on expansion of Revenue Assurance outside telcos.

Raj Kumar: Sir my next question is regarding CrunchMetrics. Pharma research and market share in a particular period as far as research and marketing is concerned, it is very high in pharma sector, like ORG, Marg and here, I personally feel CrunchMetrics is one portal, which has very high growth rate. Do we intend to explore that?

Vinod Kumar P: CrunchMetrics is definitely a multi-vertical solution and based on our assessment, we want to tackle FinTech and e-commerce as two segments to start with outside telco. Now obviously, there are other market segments that are becoming very key. There are some of the other things, like you mentioned the insurances, pharma, retail, stock exchanges. There are many other segments and this would be very key, but because of the fact that we want to be measured with our expansion, we have started looking at two segments that is e-commerce and FinTech to start with and we are doing some POCs at this point in time. Once we have a good hand-in of these things and started executing some projects, we will start looking into other segments because it is very large area and we just want to be measured as how we do not want to be spread too thin on our efforts to create an impact. So that is the approach that we have taken

Raj Kumar: Sir, my very small question any order win after Optus in network asset management solutions?



Vinod Kumar P: We have had some wins on the capacity management front with the group companies. We are not in a position to announce the special deals. But you know that Optus is part of the Singtel group of companies, so we had extended the same network Analytic Solution to other OpCos within the group. And we have also started some POC in South America with a very large group also around this matter so as soon as we are in a position to provide you the specific details with customer information, we will come back to you.

Raj Kumar: Thank you Sir.

Moderator: Thank you. We take the next question from the line of Rishabh Vasa from Almondz Global Securities. Please go ahead.

Rishabh Vasa: Thank you Sir for giving the opportunity and congratulations for a good set of numbers. Sir, my first question is, regarding the order book position so for Q4 and for FY2019? The second question is regarding dollar revenue in Q4 and FY2019? And Sir, our cash on the book is around Rs.46 Crores so how do we propose to utilize this cash for growth going ahead?

Vinod Kumar P: Okay the first one is with respect to the order booking as I have mentioned, we started providing the new business acquisition during the course of the financial year. And to that extent, we have booked \$55 million of order booking as against \$42.2 million of last year so that translates to about 30% more order booking from this current year. Just to qualify that, this order booking does not include any annuity, so to that extent this is net new order booking that we are talking about. With respect to the dollar revenue, for the year, it stands at about \$50 million and the last is with respect to the cash at hand, now we are looking at investing heavily around the Horizon 2 and Horizon 3 and we have an investment plan drawn up to scale both these primarily on market expansion. We also have some moving all our products in Horizon 1 to support cloud and also 5G so primarily most of the cash will be used for investing around the growth strategy and growth opportunities around our Horizon 2 and Horizon 3 offerings.

Rishabh Vasa: Sir, one more question. Regarding the top line, what are we targeting in the next two years, basically? Like, how far we can scale our top line on the current levels of around Rs.348 Crores?

Vinod Kumar P: I mentioned in one of the earliest questions, we are not specifying any specific guidance with respect to the numbers but what we can provide is that on the core area, we wanted to grow faster than what we grew this year so we grew at about 7% on of Horizon 1. We wanted to do much better growth on our Horizon 1 and the Horizon 2, which we did about \$1 million revenue. We wanted to grow in multiples there so that is what we can provide information around on this point in time Rishabh.

G. S. Venkatraman: Your question on Q4 dollar revenue was \$14.4 million and the full year result, \$50 million.

Rishabh Vasa: Sir, by when can we reach \$100 million on the revenue front, basically? Any target we are set up because we are entering into Horizon 2 and Horizon 3, and those are looking quite promising for us?



Venkatraman G S: Yes, Rishabh the idea is definitely there. I think we do not want to put additional pressure on ourselves by giving you a date and then providing you more frequent updates on that but I think the idea is definitely to aggressively grow and that is the plan, but at this point in time, we would like to show execution for a few quarters and then talk about our path to \$100 million.

Rishabh Vasa: Okay Sir. Thank you.

Moderator: Thank you. The next question is from the line of Gopal Organte, Individual Investor. Please go ahead.

Gopal Organte: This question is to Mr. Vinod. First time I am in this call. First of all, congratulations I think your CFO has mentioned that you are a debt-free company, which itself is a very big achievement for the past some years. My one question, which is your key geography? And another question would be, which is the most, I mean, biggest challenge for you to get this revenue for this next financial year's revenue target?

Vinod Kumar P: Okay so from a geography perspective, our strongest geography is EMEA region Europe. in Africa where we drive about 60% of our revenue, 15% of our revenue comes from North America and about 25% of revenue comes from APAC and rest of the world. India is, out of the 25%, India is around 5%, so one could argue that EMEA, Europe, Middle East and Africa is our strongest region and we have very good coverage. both with respect to the customer and also with the network that we have. Now with respect to the challenge or opportunity, how are you see it? What is that on the core area, as I said, we are performing very well and that is well set and we know how to win the business there, and we got that momentum back and there is lot of passion and lot of aggression to go after our competition. Because it is a market share grab, so it is intensely competitive in our Horizon 1.

The challenge would be on for us to scale for the Horizon 2 and Horizon 3 because if you look at the opportunity there and the growth is going to be in multiples. Now this the first time we have started playing in a segment, which are growing in multiples so that presents itself with a lot of challenge, both with respect to the business model that we have to do, we have to be then comfortable with the subscription based business model, forecasting, budgeting, all aspects of that would be a challenge for us. That is some of the reason the addition Shankar came onboard, he has got a lot experience from the SaaS side, we recently have the Board addition with George Zacharias. He comes with a very rich experience and exposure to that areas of that SaaS kind of business so to me, that would be the biggest challenge and opportunity to drive that multiple growth coming from these new horizons, Gopal.

Moderator: Thank you. The next question is from the line of Harish Shiyad, Individual Investor. Please go ahead.

Harish Shiyad: Good evening Sir. This is reference to one of my earlier participant requested for the presentation to be put for layman people like or and you said, "We will try." Why cannot we do for the March



2019 and still put on your website or on BSE, so that we can understand to how will be FY2019 is performed by a way of pictorial presentation and is the way to understand for us?

Vinod Kumar P: Okay. We will look at that suggestions.

Harish Shiyad: Thank you very much and all the best.

Moderator: Thank you. The next question is from the line of Mahesh Jagtap, Individual Investor. Please go ahead.

Mahesh Jagtap: Yes Vinod, I have a question. You have said that you have 30% new bookings so for the financial year 2019-2020, what is the annuity business size? And what is the new business size in terms of dollars? That is one question. Other question is, what is the order pipeline, which you are going to bid? You are not got the order, but you are going to bid. What is that order pipeline size in terms of dollar?

Vinod Kumar P: Okay so coming to the annuity, as I told you, 70% of the total revenue, came from annuity business, and that remains the same for this year as well. With respect to the pipeline, Mahesh, we have a sales stage process of stage 1 to stage 7, so that is what we consider as to our pipeline. There is a stage 0, which is kind of the universe we do not consider. The stage 1 to stage 7, the current pipeline that we have is about \$245 million, is the pipeline that we have.

Mahesh Jagtap: Okay so you are at them now, why I am asking annuity business because this current year, Rs.348 Crores, if you consider 70% as annuity, that also has a new business now that new business will become annuity in the financial year 2019-2020 so that is where I am asking, what is the annuity business size for 2019-2020 in terms of dollar? And what is the new order that you are mentioned 30% new orders, so I think that in terms of dollar?

Vinod Kumar P: Okay so let me explain this. See, when you talk about annuity, there are two components in annuity: one is annual maintenance, and second is managed services, which is recurring year-on-year. Now our view is that, this 70%, if you cut, let us say, it is about \$50 million and if you look at 70% being about \$35 million. Now this \$35 million, unless there is a drop-in customer and a drop-in managed services contract. This should continue year-on-year. Now as we booked new customers or new contracts on new license deals, then the annuity portion of that after the implementation will get added to this \$35 million so the point is that it is not that the new business simply gets added to the annuity, the new business will generate a delta improvement in the annuity by way of increased maintenance. I hope that part is clear for you. Now this 30% order intake or increase in order intake, how that reflects the next year is that, when we are entering with a larger executable backlog than what we entered the last year. the 30% increase in order intake will mean that we are entering into this year with a larger contracted order book so to that extent, if you assume that we have a similar order intake for next year. That should help us in increasing the revenue from over this year based on the higher order intake.

G. S. Venkatraman: Maybe, you should talk about the subscription-based business as well

- Vinod Kumar P:** Okay. Now one thing which I think is the one of the couple of questions we talked about, that the subscription-based business which is primarily H2 and H3, now that was slightly a different revenue stream than what we have or the modeling or the nature of the revenue stream slightly more than what we have in the past. This subscription is very different than the annuity that we used to talk about it so far because so far the annuity is about the software support and the operations. But the new subscription base, which is also a kind of an annuity, but that is very different. It is a capability addition that we are providing, so it is a product instead of license everything, it is all baked in, it is like a salesforce.com kind of model. Now there are two elements to it. There is a stickiness to it in the sense that it is sticky, to that extent, it is a capability addition. But also if you look at largest SaaS businesses, there are also chances that there is a churn that happens there so when you start having a ramp-up of that SaaS based or a subscription base revenue, we will start calling out separately and provide you information about the ramp-up that is happening and also, the churn that is happening, so that is the right way to look at that part of the business. But for our assets or the core business, the annuity continues to be about 70%, that is about \$35 million here and there. And we expect that to continue this year. And the delta of all the new order intake will keep on adding on to that \$35 million.
- Mahesh Jagtap:** Yes. With the subscription base model, even now consumer companies are adopting like Gillette US they give the shaving blade on subscription basis so that is where your finance team has to come up, change the mindset for this new reality of subscription?
- Vinod Kumar P:** I agree with you. That is what I just mentioned that we will start reporting it and providing you more color on what that revenue component is going forward. At this point in time, it is a very small percentage so as we start ramping up, we will provide that specifics.
- Mahesh Jagtap:** Well, the subscription model give the certainty on the numbers?
- Vinod Kumar P:** I agree with you.
- Mahesh Jagtap:** And can we expect...
- Moderator:** Sir I am so sorry to interrupt. May I please request you to rejoin the question queue for your follow-up, as we have people in the queue. Thank you. The next question is from the line of VP Rajesh from Banyan Capital. Please go ahead.
- VP Rajesh:** Vinod couple of clarifications. When you are talking about the investment in Horizon 2 and Horizon 3 products that will mostly come out of your P&L, and your cash balance of the balance sheet should we expect it to grow, right?
- G. S. Venkatraman:** Yes so Rajesh, this is Venky so what you are looking is, yes, we will have surplus cash generated of the business. Obviously, that your investments we will fund from the P&L. And what of a surplus cash we have, I think, that given the rate we are structured, we are multiple entities that the cash so we are looking at all options in terms of how do we consolidate this cash and also



find ways of effectively investing it for the short-term surplus we will have it in any point in time.

VP Rajesh: Right and the second question is that, in terms of the EBITDA margin, do you expect it to expand next year? Or you will just try and maintain this 15% kind of number, and reinvest in your Horizon 2 and 3 products?

G. S. Venkatraman: Yes, as Vinod mentioned, I think, a big trust for this year is going to be the investment we will make in Horizon 2 and Horizon 3 so, therefore, as that investment continues to as we push forward on those investments to that extent, the EBITDA margins are not likely to expand. We are looking to see how we kind of keep it flat the levels where we are today. But I think that will entirely depend upon how do we see the Horizon 2 and Horizon 3 business picking up and if those require more investments, then we would definitely do that because that is what is going to give us the growth in the coming years.

Vinod Kumar P: Rajesh, as Venky mentioned, at this point in time, we do have a plan to invest about \$5 to \$6 million but the key is that if we see an opportunity that a market expansion requires investments, we will not shy away from doing that. Because as you probably we have details that during the last calls also we have a key advantage at this point in time and of our Horizon 2 with respect to the honeypot and the barrier to competition so we want to build on that so if there is an opportunity which we see that, we have to invest for us to build on and leverage that, we will go ahead and do that, Rajesh.

VP Rajesh: Got it. And just finally, is it okay to assume that now that you have achieved Rs.100 Crores plus revenue in a quarter, you would be able to sustain that given the Horizon 1 backlog plus the subscription backlog that you have from Horizon 2 products?

Vinod Kumar P: As Venky clarified, Rajesh, there could be quarter-on-quarter variations because if you look at the subscription component of the revenue today is very limited, so which would mean that about a bulk of our revenues still comes from our core product offering, and that will continue in the coming year so having said that, overall, from a yearly perspective, we definitely think that the numbers will look much, much better than what we grew this year. But from a quarter-on-quarter, there would be variations there and also there is a change with respect to happening, with respect to the regulation, with respect to how the license revenue, etc, can be recognized so we are also factoring some of these things so there could be variations on quarter-to-quarter. But on a yearly basis, we are pretty confident that we will be able to grow significantly more than what we grew this year.

VP Rajesh: Okay thanks Sir appreciated.

Moderator: Thank you. The next question is from the line of Ram Krishan, Individual Investor. Please go ahead.



Ram Krishan: Yes, Sir, one of these approval you have asked for is a guarantee in favor of Axis Bank for working capital facility or well by the subsidiary to the extent of Rs.45 Crores. Can you give me a little bit more detail on that?

Venkatraman G S: As part of our operations, when we renewed our working capital limits. We have taken a lower limit compared to what we had in the past so this is just an enabling resolution that in the event if at all, there were need for short-term funds, we will use that. But right now, there is no intention of using those limits. It is just a enabling resolution which we have sought from the Board.

Ram Krishan: On a stand-alone basis, this receivables Rs.8 Crores from Rs.13 Crores which has come down, but on a consolidated basis that trade receivables only Rs.85 Crores so most of their trade receivables are in the subsidiary company?

Venkatraman G S: Yes because if you look at our structure after the restructuring, a lot of our business is the core business. The Horizon 1 business is done out of Subex Assurance LLP and the newer businesses are carried out from Subex Digital LLP so therefore, you will see all the revenue and the booking happens in the LLPs. And then you consolidate, you will see that all is reflected in the overall numbers.

Ram Krishan: Okay thank you. That is all from my side.

Moderator: Thank you. The next question is from the line of Dev Sawla, Individual Investor. Please go ahead.

Dev Sawla: Good evening and congratulations, Sir. I just like to ask about the point on infotainment IoT security solutions they were providing to a North American manufacturer? Have you started seeing any revenues from there?

Vinod Kumar P: We have not started seeing anything together at this point in time. We are working on the solution. There have been a delay in the launch of the new infotainment platform by our partner. We are expecting that launch to happen either this quarter or the next quarter that is April-June or the subsequent quarter so we will only see the revenues coming from that onve they launch the product. Because yes, we are providing the security for the infotainment platform of our partner, and they have to launch this new platform which will get into all the connected cars, and then we will start revenue. so we will start seeing something happening from Q2 of this FY2020.

Dev Sawla: And what kind of revenues are you looking at from this segment?

Vinod Kumar P: It is called the IoT security, so we have created a security thing so every time the platform is sold to the cars, this particular provider has North American car market, they cater to about 14% to 15% of the total North American car market so as this start selling this infotainment platform, I mean, just to talk about with the infotainment plan everything what you see, all the electronics that you see within any of the major car companies, like BMW, Mercedes. All of them are supplied by one of these infotainment provider so this infotainment provider, which we have



teamed up with, they have about 14%, 15% of the North American market so once they launch the new platform and the new platform gets into various connected cars, then for every car, if we get kind of a subscription base saying that whenever they sell this automobile vehicle, we will get the subscription payment on account of IoT Security.

Dev Sawla: Could you provide some information about the amount of subscription that will be generated?

Vinod Kumar P: We do not have beyond on it. they cater to about 14% to 15% of the total North American car market. Our intent was to be the technology underpinning, which they will provide all the security for the connected platforms so that is what we are doing. All of our report on IoT today is to secure partnerships with all the key providers, so that they are securing their platforms using our technology so the sales of that we will not be involved. Anytime they make a sale based on their sales effort we will get the subscription payment so that is what the model that we have in that.

Moderator: Thank you. We take the next question from the line of Raj Kumar, Individual Investor. Please go ahead.

Raj Kumar: Sir, I would like to ask you, whether Subex has a digital identity wallet, are these two different things? And can you throw some light on Subex wallet? And the next question is, you had talked about in the August con call about customer journey analytics?

Vinod Kumar P: Yes on the Subex wallet has sort of emerged into the Subex identity solution. so we have sort of prioritized identity as the first use case that we will launch. Wallet will be coming as a part of that. I mean it was just a proposition at that point in time. Subex identity is the first part. so if you look at the Horizon 3, there were the large bucket of digital trust and digital identity that you are working. Now in that, we have first initially thought that Subex wallet, we should prioritize that as we start working and we start working to both the telcos who hold the data and service providers, we understood that identity is a much larger use case, which has got an immediate, traction than the overall wallet so we focused on a report on identity. so identity will be the first solution that we will launch. And based on the uptick, then we will look at whether what more use cases that we need to pick up, wallet being one of the use cases.

Coming to Customer Journey Analytics: Customer Journey Analytics is one of the offerings that we are providing as a part of a Horizon 1 offering when we engage with customers. But I think that is just a new kind of new offering or new adjacent offering around of a Horizon 1. But we are not considering that as a Horizon 2 offering because we are at this point in time limiting that to telcos, and it is kind of an incremental sale that we are providing to our existing telco customers, as against a kind of subscription-based exponential growth that we are looking for the Horizon 2 thing.

Raj Kumar: Thank you Sir.



Moderator: Thank you very much. Ladies and gentlemen, that was the last question. I would now like to hand the floor back to the management for their closing comments.

Vinod Kumar P: Thank you. Now as we have detailed, we ended last year on a very strong note, and this has given us the confidence to look at growth more aggressively than what we have done in the past. This year, our focus will be on execution of the growth strategy and scaling our new offerings. This is significant value creation for all of our stakeholders. And as a team, we have well-aligned and motivated to drive Subex to the next phase of growth so we look forward to your continuous support, and we will keep you abreast of all the developments. Thank you again for attending this briefing, and if you have any more questions, kindly direct that to our investor relationship, and we will attend to it as quickly as possible. Thank you, everyone!

Moderator: Thank you very much. On behalf of Subex Limited, we conclude today's conference. Thank you all for joining. You may disconnect your lines now.

