



**“Subex Limited
Q2 FY2020 Earnings Conference Call”**

November 11, 2019



**MANAGEMENT: MR. VINOD KUMAR PADMANABHAN – MANAGING
DIRECTOR & CEO
MR. VENKATRAMAN G. S. – CHIEF FINANCIAL OFFICER
MR. G.V. KRISHNAKANTH – COMPANY SECRETARY &
COMPLIANCE OFFICER**





Subex Limited
November 11, 2019

Moderator: Ladies and gentlemen, good day and a very welcome to the Subex Limited Q2 FY2020 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 the operator by pressing "*" and "0" on your touchtone telephone. 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 the Subex Limited. Thank you and over to you Sir!

G.V. Krishnakanth: Thank you, and good evening to everyone who have joined this investor call for the period ended September 30, 2019. I would like to introduce to you the members of the management who are present for this call with me. We have Mr. Vinod Kumar Padmanabhan, Managing Director and CEO; Mr. Venkatraman GS, Chief Financial Officer.

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 our areas of business, client concentration, liabilities for damages in our contracts, political instability, unauthorized use of intellectual property and general economic conditions affecting our industry.

With this, now I hand over the call to Mr. Vinod Kumar Padmanabhan to take it forward. Thank you.

Vinod Padmanabhan: Good evening, everyone. I welcome you all to this briefing and thank you for taking time to attend this call. As many of you have seen from the release, we have closed the quarter 2 with revenue of Rs.85.7 Crores, up by about 8.6% quarter-on-quarter. The EBITDA for the quarter stood at Rs.18 Crores and the profit after tax for the quarter at Rs.6.3 Crores, again up by about 19% from last quarter.

Now overall, we continued to compete very well, and we also had several key wins, particularly from Tier - Is, during the course of this quarter. Couple of the wins that we had are brand-new logos and others where opportunities that came up from cross-selling and up-selling. As soon as we get the clearances to announce these to the market, we will let you know the specifics.



Now moving to some of the new initiatives that to cover the new initiatives, starting with IoT. We are progressing very well on-boarding new partners in various geographies. If you recall, our GTM strategy primarily is to get partners like connectivity providers that is telcos, the OEM, the large SIs, and the OEMs like Fujitsu, Panasonic, those kinds of partners and lastly, the resellers. So, these are the partners that we are trying to on-board so that we can extend our reach to multisegment in various geographies.

Also, the enablement of these partners are going in full steam. Now having said that, considering the fact that several of these partners are large MNCs, definitely it takes time for us to secure the internal resources and also to reach the larger internal sales team. But with several of them, we have reached a stage where they have started taking our solutions to the market without any direct involvement from our end. That is where we are aiming at, and they are bringing us, once the opportunity is qualified after the first few interactions, to move it to the next stage of sales. So, we are in that process. That is where our focus is at this point in time.

Now from an overall standing perspective, we have also started reaching now to also several governmental organizations across the world because we believe that in the next 3, 4 years, government will continue to be a major procurer of security solutions. So overall, I think we are doing a reasonable job with respect to promoting IoT and also taking a position as a key provider in this space. This is also validated by some of the reports that are coming out, which list Subex as one of the key providers. Recently, Hayden James' is one of the analysts came up with a report, and we were listed in the top 3 IoT security solutions along with BlackBerry and Cisco. So, we are getting the recognition that is quite apt in the sense that we are a technology provider, very specifically focused on IoT and digital risk.

Coming to CrunchMetrics, which is our other new initiatives around anomaly detection, automated anomaly detection using ML and AI, we have completed some of the POC's that we started last quarter. And at this point in time, we are in discussions to conclude the commercial so that we can get them into production. Most of the POCs that we did have been successful, and we are hopeful that during the course of this quarter, that is Q3, we will have several of them into the commercial mode.

We predominantly work with customers in India for POCs outside our core area of telecom, that is e-commerce and fintech, whatever POCs that we are doing with customers in India, but we have started generating interest from markets outside India and will be addressing some of these things or again starting with POCs in some of these markets during the course of this quarter.

Our objective is that, along with reaching the internal financial targets, we also want to ensure that we will have 3 customers in 3 segments outside 3 verticals outside the telco as we end this financial year that is by March 2020, we should have 3 customers in 3 verticals outside the telcos for CrunchMetrics. That is what kind of goals we have other than some internal financial growth. From a qualitative standpoint, this is what we want to achieve so that we will understand those domains and we will have a true spread when we talk about taking these solutions to other markets.

Coming to the other initiatives around digital ID, the product is called ID Central. Now in that, there are 2 areas that we are working on. One is digital on-boarding, where we are on-boarding customers onto digital platform for various enterprises and government entities. The second is identity analytics that is towards digital identity what are some of the analytics that we can provide so that we can validate that digital customer is indeed the one they are intended to serve. So, on the digital on-boarding, we have already launched the solution and we are in advanced discussion with one of the customers. And hopefully, we will have that engagement contract completed during the course of this quarter. The focus of this digital on-boarding is in Africa and Middle East where the digitization is in a phase where lot of enterprises are looking at on-boarding solutions. We are focused on Africa and Middle East as a market for this digital onboarding.

Now coming to identity analytics. This is the place where the digital on-boarding has more or less happened. And then for various digital transactions, they would want to have identity-based analytics. Here, we are focused on markets like Indonesia, Malaysia and Thailand. There, we have launched the platform. And as we talk, we are in the process of getting both on-boarding both customers service providers who are wanting to be in the platform who would be procurer of our services and on the other hand, customers who will be served. And the third entity there would be the custodians of data, that is telcos and other data providers who hold the data. So, this platform, we will leverage the data access that we have and then solve the identity analytics that is required for some of the service providers like banks and other institutions after getting explicit consent from the customer. We are working on these 3 markets, and we expect that we will be in a position to have a sizable clientele in our marketplace from these territories during the course of Q4, post which we will take this GTM to the next phase with a lot of marketing and other aspects. So that is the update on ID Central.

Overall, around the new initiatives, we have enhanced the team size to about 75 members. That is the current team size running after IoT, CrunchMetrics and ID Central. And we intend to add another 25 more people immediately, primarily on geographies outside both to have the reach and support the new partners that we have signed up in these regions.

In summary, I would say that we are competing very well on our core by winning several large deals, and the order book is growing as per our plan. And some of this order book would translate to higher growth in the coming quarters.

Now just to update on the implementation and the project delivery side it is going as per our plan. Some of the very large deals that we have taken around Hadoop infrastructure, if you recall the last call, we did mention that there was some delay in providing the infrastructure from the customer side so that we can initiate those projects. Those bottlenecks are behind us, and we have initiated those projects. And those projects also will get into full steam in the coming quarters. So overall, we expect that in the coming quarters, the growth will be higher than that what we had in this quarter. And we are still hopeful that the objectives that we set for the financial year we would be able to meet.

With that briefing, I would now open the floor for questions.

Moderator: Thank you. We have the first question from the line of Rajkumar Ojha, an investor. Please go ahead.

Rajkumar Ojha: Good afternoon, I am Raj Kumar Ojha from Allahabad, an investor. My question is, Subex and India, Subex and China, your take on the question.

Vinod Padmanabhan: Sorry, can you clarify what exactly are you looking at? as the question is not clear.

Rajkumar Ojha: What I mean to say, what is the progress of Subex vis-à-vis India and what is the progress of Subex vis-à-vis China?

Vinod Padmanabhan: Okay. All right. So with respect to India, as I had mentioned in my briefing, for our new initiatives, we are definitely focusing on India as a market to learn and grow from. So, there are several activities that we are doing. As I said, expansion into Fintech, e-commerce and all other activities that are new initiatives, we are testing and working with customers in India. Also, when it comes to the digital security side, the government has got a very large outlay planned. And also, we are working with all the governmental agencies to understand and participate as and when those requirements crop up. With respect to China, that is not a market that we are addressing at this point in time. So, we do not have any activity whatsoever directly in China as a market.

Moderator: Thank you. We have the next question from the line of Alkesh Jain, an investor. Please go ahead.



Alkesh Jain: My question is to Vinod. Vinod, I would like to ask you that since we have been talking since last so many quarters that we are cost efficient and we are working on the IoTs and the new businesses and all. Why is it not translating into deals and the deals are not translating into revenues? When can we start seeing that?

Vinod Padmanabhan: Okay, on the IoT side; please understand that the whole model is very different. It is a SaaS-based model, very unlike our core business, which is again a license-based model. So, the ramp-up from all our new initiatives in fact, all of the new initiatives are SaaS-based model, where the ramp-up will be slow. But once we get to a critical mass, then based on the incremental addition of customers and devices, there would be a huge sample so while it is true that some of the contracts that we have signed, we took time for us to initiate because it is new areas and the customers also are there and we also will have to tag along with some of the IoT platform rollouts that are happening so there is definitely a delay in that sense. But I think our expectation is that by the real effect on our revenue from some of these new initiatives, you will start seeing starting next year. Now if you recall, last year, we did have revenue of about US\$1 million coming from new initiatives, and we expect that there will be growth in this year as well. So, our projections remain more or less intact. But obviously, the ramp-up we are expecting to happen in the next 18 to 24 months because of the SaaS nature of business.

Alkesh Jain: And further, I would like to say that since our equity base has grown so big, the thing is that we will have to ramp up the revenue very fast and at a very quick pace.

G. S. Venkatraman: Alkesh, this is Venkat. So, I think 2 points. We recognize our equity base being large and that itself posing challenges for us to service that equity base as and when we are able to get to a solution where we are able to wipe out the losses which are there in the listed entity. So that is something we are already looking at, and we will definitely see some action on that in the current financial year. We will be able to provide you updates as we conclude some of the work we are doing on that front. So as far as revenue is concerned, that is definitely something which is faster. But as Vinod explained, in some of the newer areas, while we are making good progress and we are also having contracts signing with some of these newer customers, given the nature of the service, the way these services are being offered, it will take a little while before it starts showing up in the financials.

Alkesh Jain: Okay. It can take another 1 or 2 quarters more or beyond that?

G. S. Venkatraman: Yes, as Vinod mentioned, the impact of the newer initiatives to show up in the revenues will be more than 1 or 2 quarters. It could be about 3 to 4 quarters.

- Moderator:** Thank you. We have the next question from the line of Jay Daniel from Entropy Advisors. Please go ahead.
- Jay Daniel:** Sir, would it be fair to say that we will see growth in sales only from the next year? And this year, on a quarter basis, sales will stagnate?
- Vinod Padmanabhan:** No. So, our expectation is that as we close this financial year, we will definitely have a growth over last year.
- Jay Daniel:** But that will be marginal?
- Vinod Padmanabhan:** Well, last year, we grew 7%. Our expectation is to beat that number.
- Jay Daniel:** Okay. Because your sales have been stagnating around Rs.85 Crores per quarter.
- Vinod Padmanabhan:** Yes. So that, Daniel, we have messaged that in our last call also, you should not look from a quarter-on-quarter basis because our bulk of our business is still coming out from our core where we do have all these new deals that we talked about have license component. So, based on the timing of when we get the order and when we are executing it, meaning when the license delivery happens, there will be that skew from quarter-on-quarter so definitely, if you look at historically, quarter 3 and quarter 4 are significantly higher than the H1 historically. So, we expect the same thing to happen this year as well, Daniel. So, the quarter-on-quarter skew will continue to remain until some of these new initiatives become a sizable portion of our overall revenue. But from a full year basis, we still hope that we will grow significant, I mean, more than what we had growth last year.
- Jay Daniel:** But noticeable growth will come only in next year, right?
- Vinod Padmanabhan:** Well, I feel, our core is not on our core, and that is a core telecom. The market as such is not growing even though we are competing very well, and we are winning deals. So, to that extent, I think the expected growth there will be marginal. But however, in the new initiatives is net new incremental revenue that will add to our overall numbers. Those things and the impact of that you will definitely start seeing from next financial year.
- Jay Daniel:** Okay. So, we will grow but it will be marginally higher than 7% that we reported last year?
- Vinod Padmanabhan:** It will be higher than 7%.



- Jay Daniel:** Okay. And you have got 3 buckets of revenues, Horizon 1, 2 and 3. So could you break it up between the 3? I mean what is the percentage of sales that are coming from these 3 buckets at the moment?
- Vinod Padmanabhan:** Daniel, I think currently bulk of them are coming from Horizon 1, and we do not have a large amount of revenue as a percentage coming from Horizon 2. Horizon 3, we are expecting more on research-oriented POCs thing. We do not have a revenue numbers per se. Our idea is that as we start some like CrunchMetrics currently which is Horizon 3, we will move to Horizon 2, and we will have a specific revenue target. Our intent is that as and when the revenue contribution from Horizon 2 becomes a reasonable or a sizable number, then we will start reporting it. But we will provide you, in any case, a view once we complete the full year, Daniel.
- Jay Daniel:** Okay. So, at the moment, more than 90% of sales are coming from Horizon 1?
- Vinod Padmanabhan:** That is correct.
- Jay Daniel:** That is the one which is, I mean, where you are already a market leader and very little and that market is not growing actually except for you.
- Vinod Padmanabhan:** That market is not growing, but it is a very fragmented market, and because of the technological advances that we have done in the product, we are using that to lead in and grab market share both by displacing them and also looking at more strategic discussions with customers on a much larger trend because also we have moved our offering from a revenue management to a digital trust space. And that is also resonating with some of the key customers. And when we take that position on digital trust, a lot more things are falling into our net than our traditional revenue management thing. So, we are considering as a part of the core. And this is helping us to win large deals. Another important aspect is that the per ticket size or the per deal size also have significantly gone up because of some of these initiatives that we are doing.
- Jay Daniel:** But going forward, the growth driver will be 2 and 3, right?
- Vinod Padmanabhan:** That is correct.
- Jay Daniel:** Where the action is yet to start?
- Vinod Padmanabhan:** The action has started. From a revenue contribution side, it is the ramp-up. You know that it is a digital IoT is just getting rolled out, everybody will need a security solution, and we

have been selected by several of them. Our revenue will start growing as the number of devices covered starts growing.

Moderator: Thank you. We have the next question from the line of V.P. Rajesh from Banyan Capital Advisors. Please go ahead.

V.P. Rajesh: Congrats on improving the EBITDA margin significantly. So perhaps you can just help us understand like on Slide 25, the revenues are down year-over-year, but our margin has expanded significantly. So, what is going on in the base business? Or is it because of the Horizon 2 products?

G. S. Venkatraman: No, Rajesh, this is Venkat. See, 2 things. One, the expansion in margins is largely on account of our core business. The newer businesses are still continued to be on investment mode. So, I think the margin expansion has accounted on 2 fronts. One, as you know, given our business, if there is a revenue growth; a large part of the revenue growth will flow through to the margins because our costs do not necessarily move up linearly when our revenue goes up. So, to that extent, since we have had a decent growth in this quarter compared to the last quarter, that has helped us push up our margins, and we have also been trying to be reasonably efficient with the core business, which is also reflecting these margins.

V.P. Rajesh: Yes. So Venky, I was actually asking you about year-over-year. So last year, you did Rs.88 Crores of revenue versus Rs.85.7 Crores this quarter, yet the EBITDA has gone from Rs. 12.4 Crores to Rs.18 Crores. So that is where I was coming from.

Vinod Padmanabhan: So, Rajesh one more thing this is Vinod here, so one more thing that we are also focused on is all our telco customers are moving into digital side. We have taken a very strong position on our core area like digital, fraud and business assurance and digital assurance and things like that, so all these things are coming with a much larger license component when compared to last year because last year we did not have a lot of new license sales possibility. It was more kind of operations, upgrades, etc. But this year, we have started getting more net new license deals, which will help us in the EBITDA because that license comes with a much higher margin than the implementation and other services.

V.P. Rajesh: That is great. And the margin over 20%, do you think that is sustainable given what you are seeing on the Horizon 1 side and the investments you are making in Horizon 2 and 3?

G. S. Venkatraman: Yes, if you look at what we are looking at as incremental investments for the rest of the year, Rajesh, I think that we will be able to sustain this, may be a little lower, depending on how much investments we will make because we are being little watchful over there. While



Subex Limited
November 11, 2019

we want to make those investments, we are also mindful of the fact that some of the investments we were planning to do were in areas like marketing, but then since the way the product rollouts are happening and way the customers are responding to some of it, we are also kind of holding back to time it in a manner which will give us the best results. So if we are able to keep the investments at the current level, then I think the margins will be more or less in this range.

V.P. Rajesh:

Got it. And then, Vinod, on Page 6, you have given the order book number as \$55 million in fiscal year 2019 or at the end of fiscal year 2019, right? So, what is the comparable number at the end of September?

Vinod Padmanabhan:

Compared with last year, we are marginally higher than last year on a half year basis. And our expectation is that as we close this year, again, there we would definitely want to have a growth over \$55 million. Again, that is a number that we are looking at around \$60 million to \$65 million. But again, that is an expectation. So, we want to finish this year with the order booking of \$60 million to \$65 million, as against the \$55 million that we did last year.

V.P. Rajesh:

Great. And then if you can just provide how much of that is Horizon 1 versus Horizon 2 because I think last year you had a backlog of about \$5 million, if I remember correctly, from the Horizon 2 side out of that \$55 million. So (a) if you can just confirm that is correct? And (b) out of \$60 million, \$65 million, what will be the contribution from the Horizon 2 backlog?

Vinod Padmanabhan:

You are right. Last year from the new initiatives we had a order book of \$55 million out of \$55 million. And this year, our expectation is that we should be at least doubling that number, so anywhere upward of \$10 million is what we are expecting from new initiatives as an order book.

V.P. Rajesh:

And new initiative is all Horizon 2 at this point, right?

Vinod Padmanabhan:

Yes. Mostly Horizon 2. Maybe Horizon 3, as I said, that CrunchMetrics we will have 1 or 2 deals into a commercial engagement, but that will be very marginal kind of thing. So, bulk of it will come from Horizon 2, which is IoT and analytics.

V.P. Rajesh:

Right. Okay. On the last call, right, right around the time there was acquisition then by Mobileum, so any change in the competitive landscape because of that transaction?

Vinod Padmanabhan:

Of course, in some of the bets that Mobileum used to also compete on fraud management space. So, to that extent, I think the market is seeing Subex as probably a much more stable company at this point in time. So that is helping us in some cases. But purely from a



competitive angle, we have not seen anything significant has yet from Mobileum WeDo. We are expecting that they will bring the security and Mobileum had some security products, whereas WeDo have fraud and RA. They will also start messaging similar to what we are messaging around digital trust, security, etc. We have not seen a comprehensive strategy around them as yet, but our expectation is that similar to what we are doing as a big player in the space of digital trust, they might follow soon.

V.P. Rajesh: Okay. And any update on the 5G opportunity in the U.S.? I think last time you said there are going to be some interesting opportunities for Subex, but if any update is available, that would be helpful.

Vinod Padmanabhan: So, we are in the ecosystem. We are discussing, particularly on the network rollout space what are some of the things that we can provide on capacity. We have a new solution in the network side around capacity management, and that we are discussing with some of these Tier 1 operators in North America who are in the rollout phase. But we are just in the ecosystem. It is too early for us to say that we have anything specific going on. But generally, I think we are in the partner ecosystem who is providing this information. And as and when the rollout happens, we hope that we will be called in to provide services around capacity management aspect so that we can help them in rolling out effectively.

V.P. Rajesh: So would you say that the revenue from the 5G related which can potentially increase the growth rate of the Horizon 1 business is likely to be a next year phenomenon? Or it could be back-ended even in fiscal year 2021, let us say?

Vinod Padmanabhan: See, the expectation is that 2020 end is when we see some movement when it comes to the OSS/BSS side for 5G rollout. Today, all the rollouts everything is focused on putting new gears like BTS, etc. So, the impact of that in the OSS/BSS, we are expecting that at least customers to take a position on that by end of 2020 based on market predictions on the rollout and things like that, Rajesh.

V.P. Rajesh: I see. I see. And you mentioned, Vinod, that you are adding 25 people in Horizon 2 and 3 products. So, are you going to be adding them in Bangalore or in India? Or will it be more customer-facing and, therefore, could be potentially abroad?

Vinod Padmanabhan: Out of this 25, 50% of that we will now add in other locations and around 12 to 15 people we will add there. At this point in time for Horizon 2, on the new initiatives, we have 5 people engaged outside and we want to add around 10 more people outside. That means outside meaning put together all geographies, like Europe, North America, Singapore, Australia, all put together, we want to add 10 more people outside, so about 15 people in Bangalore and around 10 approximately outside. That is our current plan, Rajesh.

- V.P. Rajesh:** Got you. And Venky, one quick question on Slide 21. Your finance cost has spiked quite a bit in the first half as well as the depreciation and amortization. So, could you just give some color on those 2 numbers?
- G. S. Venkatraman:** Yes, finance cost is primarily because of the Ind AS 116 reporting we have done, Rajesh. So, whatever used to be rental cost is now moving into the depreciation line, and the portion of that is reported as included in interest cost. So that is the reason the finance cost is showing up a jump compared to this period because we adopted it effectively April of this year. And depreciation and amortization numbers are largely similar.
- V.P. Rajesh:** Sir, actually, last year, for the full year, it was Rs.4.8 Crores, and this year, just for the first half, it is Rs.7.5 Crores. So, is there some capex that you have done in the first half, which is bumping this number up?
- G. S. Venkatraman:** No, no. I think, it is just the period for which it was considered. I think the last year because when we did the amortization, I think only for a portion of the year the cost came in, whereas now for the full 6 months it is coming in.
- V.P. Rajesh:** So, this is the amortization of goodwill, is it?
- G. S. Venkatraman:** Yes, amortization of intangibles.
- V.P. Rajesh:** Intangibles, yes, okay. Understood. All right. And just last...
- Moderator:** Mr. Rajesh, I am sorry to interrupt. But we have participants waiting in queue, sir. We have the next question from the line of Akhil Arora, an investor. Please go ahead.
- Akhil Arora:** My question is related to, again, Horizon 2 products. And I think one of the members have already talked about \$5 million of contracted revenues that we had last year. So, are we on target to have \$5 million of revenues from these products this year, Vinod?
- Vinod Padmanabhan:** No. \$5 million our expectation is that see, last year, we had a revenue of \$1 million and a contracted order booking of \$5 million. This is over multiyears, right? Our expectation is to have both the contracted booking and revenue grow about 2 to 3 times last year number. So again, from the contracted on both parameters, we are on track. But as I mentioned in the call earlier, as we finish this year, we will give you the breakups of how we did in each of the year.
- Akhil Arora:** Okay. Perfect. And on the Horizon 1 product, if I remember, towards the end of 2019, the number that we grow our order book was around 30%, 35%. Is that going to translate to

actual revenues this year or even that is a multiyear number? I mean, the reason I am asking is, I think, the projections were for us to grow by early teens this year and now I am seeing the number around 7%, 8%. So, is there a change in goals? Or are we still on track?

Vinod Padmanabhan: I think we are still on track. Obviously, I mean, if you look at the last call also, we did say that quarter 1, quarter 2 based on the current profiling that we have done based how the projects and closures are expected, we were expecting quarter 1 and quarter 2 to be in line with what we have closed so far, and quarter 3 and quarter 4 will be higher growth than quarter 1 and quarter 2. So, as we finish this year, I mean, we are expecting to have to show a growth, both on the core and also on the new area. Because even if you are looking at a growth, I mean, the overall percentage contribution from the new initiative Horizon 2 will be still significantly small. So, if you are growing, definitely a significant portion of the growth this year should also come because of the growth in core, that is or H1. So overall, H1 and H2, we are expecting growth from last year numbers. H1 will be, of course, percentage growth and H2 will be multiple growth over last year.

Akhil Arora: Okay. And just I question around the number of products that are connected with our IoT. Now I remember specifically with Pod Solutions you mentioned that we have 250,000 devices connected using our products and that number is going to jump in multiple. So, any visibility on where we stand in September 2019?

Vinod Padmanabhan: I do not have the specific number, but I will come back to you on that. I do not have the specific number as to how much the Pod systems have grown. But I just want to tell you that like Pod systems, we have signed up several customers during the course of this year. In fact, that is our overdrive that we have. And at this point in time, our focus on IoT is to sign up strategic deals before other competitors reach out to them. Our competitive situation is also slowly hotting up because the tenders have slowly started coming up, the value of these tenders are high. So therefore, we are slowly seeing competition. So, our objective now is to go and sign up with all key partners, large partners, like large SIs and large telecom operators and things like that. So, post Pod systems, we signed up with Telefónica. Telefónica is again a significantly larger player than Pod systems. And there, we are reaching out to many more customers in multi segments. So overall, things are progressing. I do not have the specific information on Pod systems, but I can come back to you on that.

Akhil Arora: Okay. No problem. And my last question is regarding the cash in hand. So, as you mentioned, we have started to see some competition in these areas. So, what is the plan now of management, like whether we plan to spend this money on beefing up our team and going aggressively after sales? Or we want to return some of this money to shareholders either in the form of buyback so that we can reduce our equity base?

- G. S. Venkatraman:** Yes. So, I think Akhil, I think 2 things. One, we definitely want to address the larger issue, which we have in terms of our size of the equity, which we have on the balance sheet and, of course, the larger goodwill which is sitting there as well. So, as we address that, we will be in a position where we can then start looking at what are the other options available in terms of declaring dividend or any other mode where the investors also get some money back. But at this point, as we work on that once we are able to get to some logical point, that is when we will be able to take those calls. But otherwise, currently, our idea is to use the cash which we have to make investments in the newer businesses and conserve this cash and use it judiciously for the needs of the business.
- Akhil Arora:** Okay. And we are not looking at any inorganic opportunities as of now?
- G. S. Venkatraman:** Not at this point in time.
- Moderator:** Thank you. We have the next question from the line of Sanjay Shah from Alphaline Wealth Advisors. Please go ahead.
- Sanjay Shah:** Sir, we have been investing heavily on newer areas like digital trust, artificial intelligence, deep learning and all. Can you throw us some light on how much we have spent till now and what are the ideas of spending in years to come?
- G. S. Venkatraman:** Yes, see, I think as we had laid out at the beginning of the year, we said we will spend between \$4 million to \$5 million on the newer initiatives, which is the Horizon 2 and Horizon 3 areas. But as I mentioned earlier in the call as well, we have been little mindful in terms of making those investments and the spend. So, while we said that, but as we speak in the first half of the year, we have spent about \$1.3 million, \$1.5 million in those areas. And we will look to accelerate, as Vinod mentioned, that there will be some amount of investments we are making in terms of adding people in those areas, about 25 people between India and outside of India, and then we will look to make those investments as required. At this point in time, you can assume that it will be in the range of about \$1.5 million.
- Sanjay Shah:** \$4.5 million to \$5 million. And sir, it is mentioned in one of the slide of you are incubating some virtual start-up. What that mean? Can you make us understand how it will be helpful to our organization?
- Vinod Padmanabhan:** So, all this IoT and all these digital, ID Central and CrunchMetrics, all of them are incubated separately in our company as a start-up. The reason is that the rhythm at which that they work is very different than what our core area works. So hence it is important for us to maintain it that way because the rate of or, let us say, the process heaviness that we

have in our core area, we do not want those process heaviness to go and effect in the way we are executing some of these new areas. All this, we will continue in Horizon 3, we are continuing to nurture new initiatives. Look, at the end of the day, we are a technology company and as a technology company, we should be growing at a much more faster rate than what we have been growing in the past few years. Now we have made a beginning last year in branching out into some of these new areas. Our intent is that we need to continue to have more IPs, more smart IPs coming out of our company, which then will guarantee a growth in excess of 20%, 25%, which we should be growing ideally as a technology company. So in line with this requirement, we are having several initiatives to nurture new ideas, both internally and externally, and give them the support. And for nurturing this new idea is what we are incubating these some of these areas, as a virtual start-up, we are giving them an autonomy to run within some guidelines that we can work.

Sanjay Shah: So, it works like an R&D center for us?

Vinod Padmanabhan: It is not just an R&D center. It is a very small team which is driven like a start-up, very focused on achieving certain specific things. So it is not anything to do with our existing products comes within our R&D team. It is incubated under our strategy head, but these work as an independent, let us say, units trying to solve those specific use cases.

Sanjay Shah: So, this we open as a separate company, separate subsidiary of ours?

Vinod Padmanabhan: No. These are not opened as a separate company or anything. That is why we sought as a word we used to do is virtual thing. When it comes to a particular stage, whether it demands to be opened or carved-out as a separate company that is a call that we will take at that point in time. At this point in time, all these things are within the same company, maybe we will go out with a different brand. And so if you look at today, we have 2 brands, which are CrunchMetrics and ID Central. If you go out and see the details of it, it is as a separate brand. It is not under the Subex umbrella because there is merit doing this this way, but from an entity standpoint, all these things sit under the Subex umbrella.

Moderator: As there are no further questions, I would like to hand the floor back to the management for closing comments. Please go ahead. I am sorry, Sir, we have 1 participant who just entered the queue. Would you like to take that question?

Vinod Padmanabhan: Yes, please.

Moderator: Sure. We have the next question from the line of Rajkumar Ojha, an investor. Please go ahead.

- Rajkumar Ojha:** Sir, last year, we had won a contract on the connected car segment in North America with one large OEM.
- Vinod Padmanabhan:** Right.
- Rajkumar Ojha:** Has it certified?
- Vinod Padmanabhan:** Because the OEM had a change in the CTO and they are reworking their platform, so on that front, we are just waiting for the platform to launch. But on the segment of connected car, we have several engagements that we are in various phases of discussions. And hopefully, as we end this year, we would have 1 or 2 key deals coming out from the connected car segments.
- Rajkumar Ojha:** Sir, my next question is on the CrunchMetrics side. On all the 3 verticals, how many POCs we are doing at this juncture?
- Vinod Padmanabhan:** We are doing 1 POC on each of those segments because that is what we wanted to only limit with 1. But now that we have completed in the e-commerce space and the Fintech side, we are more clear as to what are some of the use cases to go after, and we are increasing the team size so that we can run more POCs. That is one. Second, the way we are doing POCs also, we are now sort of enabling it on the cloud so that anybody can come into the cloud, download that very easily and run the POCs themselves. So, we are doing both these things, which means that going forward we would be able to cater to more customers on the POC more than what we have done. It was intentionally done because we wanted to learn its nuances of some of these new areas.
- Rajkumar Ojha:** Thank you sir
- Moderator:** Ladies and gentlemen, that was the last question. I would like to hand the floor back to the management for closing comments. Please go ahead.
- Vinod Padmanabhan:** Okay. So, in summary, we are focused on execution of our 3 Horizon strategy and to become a leader in the space of digital trust. From an execution standpoint, we are investing wherever it is required. Some of the marketing investments, we are holding back so that the platforms will be, as I told you, in the Digital ID. The platform needs to be on-boarded with a certain quantity of customers before we can make a big splash around the platform. So that is why we are holding back. Otherwise, we are on track with execution. And we hope that the higher order book that we had in the latter part of last year and the first quarter of this year would translate into higher growth in revenues in the coming quarters. Thank you



Subex Limited
November 11, 2019

again for taking time to coming on this call, and we will keep you posted on the development as we go on. Thank you very much.

G. S. Venkatraman: Thank you.

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

