



“Subex Limited Q4 FY2020 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to this Subex Limited Q4 FY20 earnings Conference Call. As a reminder, all participant lines will be in 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 “*” and then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. GV Krishnakanth – Company Secretary. Thank you and over to you sir.

GV Krishnakanth: Thank you very much. Good evening to everyone who have joined this earnings call for the period end March 31st, 2020. Now I’d like to introduce you to the members of the management who are present on the call. I have Mr. Vinod Kumar Padmanabhan, - Managing Director and CEO of the company and Mr. Venkataraman G.S - Chief Financial Officer of the company.

I would like to start the conference call by going through the safe harbor clause. Certain statements in this call concerning our future growth prospect 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 contract, withdrawal of tax incentives, political instability, unauthorized use of our intellectual property and general economic conditions affecting our industry. So with this, I hand over the call to Mr. Vinod Kumar to take it forward. Thank you everyone.

Vinod Kumar: Good evening, everyone. I am glad to see all of you in the call today and sincerely hope that you and your family are safe and in sound health. The recent crisis due to COVID-19 has led to an atmosphere of uncertainty resulting in disruption that most organizations had not foreseen. At Subex, we are very clear about our priorities in such a situation and that is to ensure the safety and wellbeing of Subexians, while minimizing the effect of this disruption to our customers. I am very happy to inform you that at this point in time all Subexians are sound and safe. So far, only one Subexians was tested positive and another one had shown clear symptoms of COVID. Both these Subexians are based in our regional offices outside India and currently recovering well in their homes.

We have had a robust business contingency plan in place to ensure that the continuity of all critical functions in cases emergencies. This was updated with the relevant standard operating procedure to specifically handle pandemic like situations. Expecting a lockdown, we quickly expanded the work from home capacity and also got the clearances from customers wherever it was required to move to a work from home mode. We then invoked the work from home element of the business continuity plan even before the lockdown was announced, and this allowed us to work through some of the initial hiccups effectively. We also brought back all Subexians who were temporarily at site for various projects back to their base. Our customers have been very supportive and the transition was very smooth without any disruption whatsoever to our customers. We are also very proud to be partners to telecom operators who are playing a

critical role in enabling the society to quickly transition to functioning from home and thereby limiting the spread of the virus.

Amidst all this, we close the financial year FY2020 and overall it has been a good one for us. Before going through some of the financial details, let me give you a brief update on the qualitative aspect of the business. With our purpose of unlocking possibilities and vision to be the global leaders in Digital Trust, we have continued to execute on the 3 Horizon's strategy. On our core, that is Horizon-1, we continue to see interest primarily from Tier-I customers who are refreshing their outdated technologies. The machine learning based packages that we have launched around fraud management solutions have been a big success and enabled us to compete very well in most of the competitive situations in all geographies. Around the core, we started working on three new products, which we intend to launch during this year. The first one is the next generation augmented platforms, analytics platform based on open source components, which will help our telco customers to manage their huge volume of data and drive very meaningful insights out of it. The second is a partner management solution leveraging blockchain and third is a network capacity management to handle the advanced planning needs of 5G deployment.

Coming to Horizon-2, where we have two products offerings. The first one is on IoT security platform, Subex Secure, has been significantly improved from a capacity handling perspective and user experience. We can now handle terabytes per second speed per box when it comes to Subex Secure. This will help us to cater to very large customers with huge data volumes. We have also strengthened honeypot capabilities, wherein we are finding almost three times zero day issues from the previous level. On the business front, we have started deployment of IoT security solution in a 5G edge cloud setup in a major geography in APAC, and we expect to make it into a major 5G security reference site for us. We have also strengthened our go to market channel with more strategic partners and OEMs. On ROC Insights, the second product in the Horizon-2, that's our adaptable analytics as a service offering. We have extended to adjust in verticals of FinTech and mobile money and are currently executing a project in the Southern African region.

On Horizon-3, we have two products, CrunchMetrics, and IDCentral. On both these products, we are in the phase of making necessary adjustments to get the product market fit right. On CrunchMetrics, we have added multivariant capability to our anomaly detection and now are focused on solving specific business problems in the e-commerce and FinTech segment. The areas around business operations like pricing error, transaction glitches, supply chain issues, and on the IT op side like platform and infra issues are our focus areas. When coming to IDCentral, the digital analytics, ID analytics platform, we have soft launched in Indonesia and currently have a coverage of about 40% of the population with five data custodians.

Both from a revenue and new business acquisition standpoint, we experienced delay towards the end of last quarter. Even cases where we have been officially selected, have been delayed on account of lack of people at the customer end available to go through the contracting process. The impact on some of our new business have been even more severe as most of the new projects

have been put on hold on account of this crises. Thing has slowly started to progress and operators have resumed discussions now.

Now navigating such a global crisis is a new experience for everyone. While doing our best to ensure the safety and wellbeing of Subexians, we have been closely monitoring the emerging market situation. The strength of a good balance sheet is helping us to avoid any knee jerk reactions whatsoever and to operate with the right balance between preserving what we have and building the future. Our intent is not to wait for the perfect solution, but to proceed with what appears to be a good one with the open mindedness and willingness to course correct as we go along. Further, setting clear priorities and alignment has become more critical than ever. Towards this, we are implementing the OKR framework that is objective and key results framework, very prevalent in the Silicon Valley and used by most of the successful technology companies. And we hope that this will have a significant impact on our overall performance. Further, we are using this period of relatively low market activities to upskill our team and enhance our Digital Trust portfolio. The intent is to be very well prepared to take advantage of the pent up demand as and when the market reopens in various geographies.

With that, I will hand it over to Venky. Our CFO for an update on our financials. Over to you Venky.

Venkataraman G.S:

Thanks Vinod. So good evening, everyone, and thanks for joining in and I hope you all are safe and working from your respective homes as the respective state regulations that are called out. So coming to the performance highlights for Subex for the financial year ended March 31st, 2020. Our revenue for the year was Rs 3,650 million as against Rs 3,481 million in FY19. We had a decent growth of about 5%. EBITDA, excluding forex for the year was at Rs862 million as against Rs 514 million in FY19. Profit after tax, excluding exceptional items because we did onetime impairment in the last quarter, was at Rs 485 million as against Rs 252 million in FY19.

Moving on to the highlights for the quarter ended March 2020. Revenue for the quarter for March was at Rs 1,043 million as against Rs 961 million in Q3FY20. EBITDA excluding forex for the quarter was at Rs 300 million as against Rs 230 million in the third quarter of FY20. And profit after tax for the quarter was at Rs 320 million as against Rs 49 million excluding exceptional items in Q3FY20. We've also been focusing on managing our liquidity well and ensuring our collections continue to keep up pace. So all that has resulted in generating free cash flows of almost Rs 57.47 crore in financial year 2020. And this has also helped us in ending the year with a healthy cash presence of Rs 90.23 crore. So that concludes the update in terms of financials. Over to you GV Krishnakanth for opening up for the questions.

Moderator:

Sure. Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Sanjay Shah from Alphaline Wealth Advisors. Please go ahead.

Sanjay Shah: Good afternoon gentlemen and Congratulations for great numbers. We saw your support and services in another business growing very well from around 25% to 36% to the revenue, but geography wise we have seen that America is going down and APAC and rest of the world is going up and India being a stagnant. Can you explain why it is so sir when we are growing such fast in India, how do you see that and what is the prospects going ahead?

Vinod Kumar: So, you are talking more from a quarter-on-quarter perspective and on quarter three. So, let me give you a flavor of the North American market first you mentioned. So, this year overall if you look at from a yearly perspective, we had very good growth in North America from a year-to-year basis, obviously there will be variations from quarter-to-quarter because if you look at we are a product organization and as and when we get a new product and we sell this bulk, the big licenses on that quarter you will find that there is a revenue jump, but so far last quarter we did have a new contract in place with a very large license revenue, but from a year-to-year basis North America has significantly grown this year as a region. Coming to India perse, India we have had a steady stream of revenue because here mostly we are in a consolidation phase. So, we are supporting our customers at this point in time. From the percentage of revenue that contributes from the Indian market, it has remained where it is and most of our focus now is to drive business in North America and Europe region where most of the activities with respect to the 5G deployment and other investments are happening. So while you see the difference from a quarter-on-quarter perspective, if we look at from a year-on-year perspective, we have had a good growth in North America.

Sanjay Shah: It's nice. Now, you explained about some new business that is objective and I could not understand that can you elaborate and what is the prospects of that and what money we required to go through that incubating these virtual startups and all, though our cash flow is very strong. How we are going to use that, that was my main question?

Vinod Kumar: So with respect to the projects, new projects that we are looking at, post last year we have had a specific emphasize to expand our presence in the North American and European region both with our existing products and the new versions of our core products when I'm talking about core products, we are talking about fraud management, revenue assurance and partner management from a digital perspective because most of our operators are moving digital. So that's what we have been pushing. Now, in my update, I mentioned about two to three new products that we are working, which is primarily oriented around 5G and related areas. So, again, the developed markets will lead that effort. So therefore, we are focused in that direction. With respect to the capital required, we have sufficient capital required based on the good cash flows that we have to invest around some of these growth areas. So the capital allocation is being done based on the demands of the specific product line and the business line to progress these efforts in those regions.

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

- V.P. Rajesh:** First question is just on the order book, the year-end order book is around US\$ 44 million which is come down quite a bit from the last year's order book. So if you can give some more color around that Vinod?
- Vinod Kumar:** So the like-to-like comparison Rajesh is about as against US\$ 55 million last year. We have done about US\$ 50 million of last year. The reason why we are only showing it as US\$ 44 million because the regulatory business we have decided not to include it as a part of the order book and book it as and when we get the revenue because there is a lot of delay in getting the contract and plan and initiation of the project. If you look at our last year US\$ 55 million, we did have a US\$ 5 million regulatory business. So, the comparable number would be US\$ 55 last year to US\$ 50 million or if you remove the regulatory part, then it will be last year US\$ 50 million. So, towards the end of year, after about 10th of March, we did have a big challenge in getting telcos, most of the telcos were shut. A lot of cases even were we selected got moved out because there were not many people around to close that. So that did affect us both in our core and new area. So, some of those things have hence happened. In fact while in this kind of remote situation, we just closed one of those deals, which was sort of pushed last week, we closed that. So that's primarily the reason. So that's a reason when we have some dip in the order intake perspective, but these are things, it's just kind of a delay on account of people not around in office to close the deals Rajesh.
- V.P. Rajesh:** Okay. So, Vinod since we were disconnected what I understood is that US\$ 55 million became more like US\$ 50 million at the end of fiscal year 2020, is that a right way to understand that?
- Vinod Kumar:** That is correct and we did have an impact of almost about US\$8 million. So what you sort of moved out which we are expecting to close, but people were not there at the customer place to do the paperwork. So we are working through those things during this quarter to get those things in, Rajesh.
- V.P. Rajesh:** Okay. So, what I'm hearing is that, by the end of this quarter it will be back to US\$ 53 million kind of level, is that correct?
- Vinod Kumar:** That is correct.
- V.P. Rajesh:** Okay, alright. And then the second question if you can share with us Vinod, the Horizon 2 year end booking and revenues that will be helpful?
- Vinod Kumar:** So, from a revenue standpoint we booked about US\$ 1.3 odd million in Horizon-2. And the order booking was around US\$ 2.6 million Rajesh. Now where we had the bulk of the movements is happening from this IoT side. That is where we were tracking some very, very large deals from the governmental sector and that just got us moved out. So we ended the year with a order booking of about US\$ 2.6 million, the big chunk of those things which moved out from an order intake, order booking perspective is on IoT.

- V.P. Rajesh:** And if I remember correctly last quarter, your guidance was that this will be closer to US\$ 5 million right. So, from US\$ 5 million it has come down to million?
- Vinod Kumar:** That's correct.
- V.P. Rajesh:** Okay. And do you think this also will come back in this quarter or is it too early to comment on this?
- Vinod Kumar:** Look, it is too early to comment on this. Because I can definitely tell you that telcos have resumed the engagement and I think most of the things which were sort of pending have sort of moved on. But some of the governmental things, their priorities are at this point in time to address this COVID issue. So therefore, we do not know how the things will pan out, Rajesh. So we'll need some more time to figure out how that some of this new project issues, which are sectors outside Telecom that we are focused on, how that will pan out because we are not in a position to take a view at this point in time.
- V.P. Rajesh:** Understood, and then on the implementation revenues. There was a decline of about 16% Q4 over Q4, and is it primarily because of the COVID, that folks were not able to finish the implementation? or was there something unusual in that particular number dropping as much as 15%?
- Vinod Kumar:** 15%, Venky would you have a view on that?
- Venkataraman G.S:** Sorry Rajesh, which revenue are you saying is declined 15%, I missed that.
- V.P. Rajesh:** So if you look at your Q4, slide number #15, Q4 fiscal year 2020 is 36% of implementation, customization and license, which was a year ago was 44%. So that's about a 15% decline. So, I was just trying to understand, was it because there was COVID related delays and that's why some of the projects got pushed out? or there was something unusual in that decline?
- Venkataraman G.S:** No, there is no COVID related impact on this one, Rajesh. I think this is a function of what point in time we will new license implementation deal and what stage of it, it is in terms of our implementation cycle. So, if you look at last quarter Q3 we had some of these implementation picking up and therefore we had a higher share of revenues. But this has not come down because of any particular reason given our nature of the wins at a point in time where this license deals come through, for example last year, last quarter we had one or two big deals, which kind of contributed to that number going up. So this is very episodic it doesn't have any other reason for that drop and that's it.
- V.P. Rajesh:** Okay. And then just in terms of the cost for the coming year, can you share some guidance on the R&D expenses, because obviously for the last couple of years, we had been heavily investing in Horizon-2 and Horizon-3. So any particular thoughts around for R&D expenses in this year?

Vinod Kumar: So, what all the new areas Rajesh, what we are now doing is that we have on an immediate basis, we are investing about a million dollars on around the new areas, primarily on account of beefing up some of the capabilities both in creating the infrastructure required for us to progress some of these business and also bringing the right team when it comes to track researchers and in various geographies, etc. Now, our approach currently is to wait and watch till we have a good ability to look at how the revenue and other predictions can be done and take a year end view. So, immediately we are looking at releasing about a million dollar towards some of these things which are very critical for us to go ahead and do towards scaling the business particularly I'm talking about in the new areas Rajesh.

Moderator: Thank you. The next question is from the line of Rajkumar Ojha and Individual Investor. Please go ahead.

Rajkumar Ojha: First of all sir congratulations for giving such a good number. Profit of Rs 48.5 crore before exceptional item against Rs 25.2 crore in FY19. My question is, IDCentral has not yet seen the light of the day, may be due to COVID-19 in Indonesia and Malaysia. Should we not take the steps and launch the product from India preferably from Bengaluru itself? Number two, are we doing any POCs for CrunchMetrics in FinTech and retail? Have we made any inroads in FinTech and e-commerce? And my last question is, has SEBI delivered no objection to Subex for capital reduction? Thank you, sir.

Vinod Kumar: Okay, let me take the first two questions, and then I will hand it over to Venky for the last one. Now on the IDCentral, our whole business is towards enabling the digital side of the business. And as I indicated, we went to the market and we have are at the stage of doing the used cases that are relevant to the market because we went with a proposition we got more feedback from the market and those changes have been done. And we now, as I told we about 40% of the population covered by about platform meaning we have an ability to do identity analytics around 40% of the population, Indonesia is a very large country. And we are now in the process of reaching out to the service providers who are going to be our paying customers to start using the service. So, I think that our decision of going to the Indonesia and traction there is quite well, quite good. And time that will take is with respect to getting the product market fit right. So that's the first question. So, we still feel that Indonesia will be the right market to start with. There are other countries that we have widened in the pipeline, but India is not there in the top five, first five countries that we are approached based on our assessment. When it comes to CrunchMetrics. Yes, we are doing this POCs both in FinTech and e-commerce. Obviously one of the segment that we were tracking was on the e-commerce travel industry and which had a big impact on the COVID crisis. So unfortunately at this point in time other than the POCs most of the customers are wanting to wait for some of these lockdown situations to be over. Earlier we were doing only POCs in the country now we are generating a lot of inbound interest from North America and Middle East. So we will be slowly opening up doing more POCs in those regions as well. So we expect the things to pick up as soon as some of these markets starts openings up and obviously their priority again, all of them there is some of our customers had

seen a huge increase in the demand and their current focus is to cater to that demand understandably and therefore, some of these projects have been de-prioritized for this time being. We hope that as soon as the lockdown is over, things will pick up and we will have more opportunities not just from India alone from other countries to do the POCs and then convert them into a revenue paying customers. Venky can you take the question on the SEBI approval, Venky?

Venkataraman G.S: So, on SEBI approval - still we are awaiting approval from SEBI, with the COVID situation all these regulators also have only limited number of people coming into offices and working and most of them are working from home. So, that has led to some of these approvals taking longer than usual. So, we are working closely with the regulators and we will give you an update once we receive the approval from SEBI.

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

Jay Daniel: Earlier our plans were for FY21. That is the current year to be the growth year, Horizon-2 and Horizon-3 kicking in. So now with a change situation, how do you see growth for the current year?

Vinod Kumar: We are unable to make any view at this point in time. The fact is that we have closed last year with a good backlog means that we are able to focus on delivering the projects that we have won and we mentioned earlier, we have won and a lot of new projects during the course of quarter two, quarter three and quarter four of last year. So, we are focused on delivering the backlog at this point in time on this new mode of completely delivering from a remote kind of operations. Now, with respect to taking a giving a full view of how the year will be and the growth it is extremely difficult at this point in time, so, we are unable to take it and give you any guidance on that matter. I hope you appreciate that, our belief at least our view is that during the course of our telco operators are also looking at how the revenue pans out during the course of this quarter because this quarter revenue for our telco customers will give them a good view of the impact of the COVID on their revenues and cash flows and thereafter, we will get something definite from them. But by and large at this point in time, the telcos their long term investment plan remains same, but based on the revenue trend and cash flow, it is possible that some of the phasing or the reprioritization of projects might happen. But we are not able to give a view about that at this point in time. Jay.

Jay Daniel: Okay. Are you seeing any pushback on pricing and debtor collection?

Vinod Kumar: Not in a major way, one or two customers requested for some relief while they were in during a lockdown phase, but by and large, we have not seen the issue coming from that. But we do expect from some geographies like Middle East and Africa to get some requests for some relief by-and-by but as of now, we have not seen as a trend as yet, Jay.

Jay Daniel: So this DSO 103 days, will it standard or it will marginally go up for the year?

- Vinod Kumar:** Our plan is to maintain it. If not slightly bring that down during the course of this year. That's our plan. We'll have to wait and see how that pans out.
- Jay Daniel:** Actually telecom is one vertical that's been quite stable in fact, it's done well in this pandemic. So how has been this, you are nearly halfway through the current quarter. So what has been your experience till now on a general basis, if you can share that?
- Vinod Kumar:** Yes. So in the last 2 - 3 weeks we have seen a renewed engagement from the customers most of the customers are engaging with us. Obviously, there are big changes that have happened. The work from home is a major trend that has happened which means that from an industrial cluster most of the traffic and the data usage is happening on the residential cluster. So there are things that operators are looking at, they don't know they are not able to figure out whether they need to do change the configuration because will it be permanent, or will it come back. So, I guess that they are also in a by-and-by wait and watch mode. But those projects that have been already kicked or let's say started, have started progressing because there is nothing like a stoppage of all the projects or anything like that, like you said that telcos are relatively less affected. But again, the context, the country, the coverage, the dynamics of the population all of them play very differently on the response to the COVID and how the revenue impact of the COVID situation is on the operator. So, but by and large, we have started seeing the engagement picking up for the last 2- 3 weeks, Jay.
- Jay Daniel:** Okay. And this US\$44 million of order book is executable in the current year?
- Vinod Kumar:** No, all of them the executable backlog that we started with is in excess of about US\$40 million.
- Jay Daniel:** So, US\$40 million if all goes fine should be executed in the current year?
- Vinod Kumar:** That's correct.
- Jay Daniel:** Okay, sir. And as regards to your, you had an earlier plan to declare a dividend in the current year if the capital reduction goes through. So what is this thinking on that as of now?
- Vinod Kumar:** I don't think that we have ever said that there is a plan to declare the dividend. Probably the clarification was that if the restructuring goes well, and if the company decides there is a capability for us to declare it if you have the resources, we have a capability to declare the dividend but we didn't have any, at any no point in time Jay we take given indication that there is any declaration of the dividend going forward. So as and when the restructure is over. We do have the ability, if we require but again, that is a decision that probably we will take when we get there based on the situation, Jay.
- Jay Daniel:** Okay. And EBITDA margins will be able to sustain at current levels?

- Vinod Kumar:** Again it is a forward looking thing, we are unable to take a view at this point in time Jay. But, our current focus is that the whole aspect of digital trust our portfolio and the proposition around digital trust is resonating well, particularly with a larger operators, Tier-I operators and we believe that as we get more and more digital, this COVID crisis post that crisis, it will again push most of the enterprises to go digital so therefore, this whole aspect of digital trust will be more important. So our current focus is to look at how do we make and scale the whole portfolio both from a portfolio coverage perspective and the growth perspective, Jay.
- Moderator:** Thank you. The next question is from the line of Keshav Garg from Counter Cyclical Investment Advisory. Please go ahead.
- Rishabh Garg:** Sir, I want to understand that whatever revenue and EBITDA we did in FY20 is the same that we did five years back in FY15. And it is significantly lower than what we did nine years back in FY11. So, can you explain to us and so this is in nominal terms, if we adjust for inflation, then we are way down our performance is actually in real terms we were way short of where we were five years and nine years back. So, what's the reason for this?
- Vinod Kumar:** Okay, when we look at a nine years back just from a product standpoint, we did have another stream of revenue from an activation product, which was subsequently we offloaded that product, because of the situation of the company at that point in time. And then probably some of you who have been invested for a long time understand that we went through a problem for the company from a capital structure problem for the company for a relatively long period of time, and we got out of that only by FY17. During that period, we did have a lot of constraints as to what we could do towards enhancing our portfolio etc.. So, most of these activities towards enhancing and looking outside of our code, they are all started sometime during the FY17, kind of time and then FY17 and FY18, where we completely got out of all the debt situation and we were able to compete well with our new product range. So, that was a period where after 2008 timeframe, we were in a sort of a difficult mode for a long period of time and be got out only by about FY17 kind of time. So the whole aspect of this technical debt that we had, because of our inability to invest after on this thing allowed us not to compete at all, we lost some of the market, not just a market share alone, but we were not able to bring anything new as a product to the company, product to the market only now in the last couple of years, we have had some of these new things in the products. So we hope that these new products will go up and our revenues will start going up.
- Rishabh Garg:** So sir even if we look at a FY17 number, so we flat basically we are in FY20 we did whatever we did in FY17. So basically what I'm trying to understand what is past is past, question is that in future when do you expect us to break out of this range that we have stuck in for whatever reason, since a long time?
- Vinod Kumar:** Correct. So, I think in the core, if you look at our core where we are driving bulk of revenue as a market the telecom BSS or OSS market which we are playing in, is relatively flat, and the only way we are now doing well is we were competing well and we are gaining market share slowly

though, because the replacement cycle kick in a particular point in time and we are preparing ourselves so that we expect that with 5G there will be a replacement cycle coming in and therefore, we will have an opportunity to replace some of the existing vendors and improve our market share. So, in our core area, the market is not growing. So if we have to get the breakout growth, our Horizon-2 and Horizon-3 products, which I have provided an update earlier, should start doing well and that's why our focus and investment is around making those products work for us.

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

Sanjay Shah: Sir, what was the idea behind writing off the accumulated losses against the current paid up equity reduction and what will be the post impact and what is the idea behind doing that?

Venkataraman G.S: So, the idea of doing that was if you look at the listed entity because they've been carrying these accumulated losses, (a) if you look at the size of the balance sheet, given size of our business, the size of balance sheet is way too large and that is because of the historical reasons of how the company has gone through the years. So we wanted to address the size of the balance sheet to make it, bring it down so that we are able to manage it in line with the size of the business and also service it on an ongoing basis number one. Number two, the fact that we have accumulated losses in the listed entity. If you want to look at any form of potential dividend and supply it in the future, until you wipe off these accumulated losses, you will not be in a position to declare a dividend if at all whenever the board chooses to do so. So these are the two factors which we were looking at. And thankfully for us, we were able to address that both along with the impairment which we took last quarter. So the idea is now with all of these things, the size of the balance sheet becomes smaller and we're also in line with the size of the business and will help us manage our business more efficiently going forward.

Sanjay Shah: So, Venky what will be our equity and accumulated loss will be completely zero?

Venkataraman G.S: Yes, once the approval comes through the size of the equity will come down by half, so from Rs 56 crore it will become Rs 28 crore, and the accumulated losses will get wiped out.

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

V.P. Rajesh: Vinod, you mentioned that US\$ 40 million of order book will be executed in this year. So, should we assume that US\$ 40 million also includes US\$ 2.6 million of Horizon-2 or that Horizon-2 could be going beyond one year?

Vinod Kumar: So a part of, about the Horizon-2 component of the US\$ 40 million is about US\$ 1.5 million Rajesh.

- V.P. Rajesh:** Okay. And the other thing is, most of this is going to be managed services and the support services is that right, that's the way to think about this US\$ 40 million?
- Vinod Kumar:** No, there is about, I would say that about the has got a sizable implementation component as well. So that construct of the US\$ 40 million pretty much flows the construct of our revenue by types, because we won a lot of contracts in Q3 and Q4 of last year, and typically it gets deployed over a period of nine month's timeframe. So there's a lot of projects that we have won which are under execution and revenues for those will come in the subsequent quarters, Rajesh.
- V.P. Rajesh:** Okay. And Venky just on the restructuring side. So once this is done, how much of goodwill will still be on the balance sheet and secondly, does the capital restructuring process moves you from, let's say doing a stock buyback?
- Venkataraman G.S:** Sorry, repeat the last part Rajesh, that capital restructuring process?
- V.P. Rajesh:** Will it includes you from doing a stock by back and where I am coming from is that we sitting on Rs 90 crore of cash. Our market cap is around Rs 220 crore. So could you potentially could the board decide to do a buyback while this capital restructuring is going on or because this capital restructuring is going on you can't do a buyback?
- Venkataraman G.S:** Okay. So the goodwill is already reflected Rajesh, if you look at the balance sheet we will have about Rs 344 crore of goodwill, so the impact of this is already reflecting the financials. Once the approval comes you'll just see the line items move. So you'll have the equity share capital coming down when the capital reduction approval comes. On the second part of the question, once there is a pending application with the NCLT then no other such transaction like buyback will not be able to complete until that process is complete. So to that extent to your point should there be a situation like that and suppose it is consider then until this is complete it cannot be taken out.
- V.P. Rajesh:** Okay. So, if I heard you right on the goodwill you're saying Rs 334 crore of goodwill will continue after this capital restructuring process is over. Is that right?
- Venkataraman G.S:** Yes, Rs 344 crore so, in a way what has happened Rajesh is, in December when we did the impairment, the goodwill is already brought down to the extent otherwise we were running at about Rs 658 crore earlier. So that has now come down to Rs 344 crore.
- V.P. Rajesh:** Right, so that Rs 344 crore is going to continue in the future years, right that's the way to think about?
- Venkataraman G.S:** That's correct.
- V.P. Rajesh:** Okay, and then CAPEX this time was Rs 9.6 crore, which is significantly higher compared to the last few years. So any particular big one time thing in this?

- Venkataraman G.S:** No, our laptops which are used by Subexians come through their annual refresh process. So we had a bunch of them getting refreshed in this year. So no other specific unusual thing which has led to the higher CAPEX.
- V.P. Rajesh:** Okay. And last question on the cost side Venky, so we did tremendous cost reduction from Rs 296 crore of cost last year to now Rs 278 crore. So, my question is, what do you expect in the current year. Do you think Rs 278 crore is a very good number or you think they'll be, some cost inflation, what are you thinking about the wage increases, etc. ?
- Venkataraman G.S:** We have not yet framed up our mind on the wage increases yet, Rajesh. So, what we want to do is wait and watch, and then take a call on that one. So we want to see how the business is coming through in quarter one and then we will make a decision in terms of when and at what point we will make those increases. In terms of overall costs, I think there have been some benefits we have got in the current year because the way we true-up our sales commissions and other stuff for people based on achievement. So there have been some reduction we've been able to achieve over last year because some people just because we have done the actual true up of those payable based on our performance have happened. So to that extent there could be so that has also helped us depress costs in the current year in terms of how it will look next year we are not planning to do anything unusually different next year except for the newer investments which Vinod has called out, but you know our business right? it's the function of how the revenues pan out. So our cost is another necessarily move linearly based on how the revenues grow so, therefore we are not planning anything unusual apart from the newer investment which Vinod called out.
- Moderator:** Thank you. We move to the next question from the line of Amit Mishra an Individual Investor. Please go ahead.
- Amit Mishra:** Hello, Congratulations on good set of numbers, I just have one question the other questions are answered by other participants. India business is quite small for us. Well, lot of activities happening here. So one part of the question is like, do you see in future the business growing proportionately or whatever and the other question is what is your engagement with you and the major telecom operators what sort of engagement? what is the kind of business you're doing and what are the scale up potential, that's it?
- Vinod Kumar:** So, first question with respect to India, it would remain well. We expect it to be relatively similar to what it is current. With respect to the customers we don't want to get in the details of what the customer, let's say engagement is, but if we can confirm that all the operators are in India other than government to one that is a BSNL and our customers at this point in time and we have good level of engagements with them. So that's how I would put around the thing, but the amount of business that we expect is going to be in line with what we have in the previous years.
- Amit Mishra:** Right, okay. So you don't think that the percentage of business in India will increase tremendously in coming years?

- Vinod Kumar:** All right. So for our new area, like new areas like IoT, CrunchMetrics, obviously there the business from India will be significant because we have now for the IoT, we're working on two governmental sector, one of the governmental sector is in India. So therefore, the engagements there are, you expect that area to grow so out of the core which is the telecom side, the percentages would be similar to what we have, on the new areas we expect India to be significantly more than what it is currently.
- Amit Mishra:** And then in Subex, your new area where you're trying to extend, FinTech and e-commerce. Are you going to look that expansion something, what Jio is doing with Facebook I'm just trying to, I'm just mixing up each, things happening in India. Is Subex is well placed to take some benefit out of that deal or similar deals in future telecom players or new players if they are going out in this stream and can Subex can come in into this picture or?
- Vinod Kumar:** So, one of the things that the globally the telecom operators are looking at is the enterprise side of business. And same is the case with Jio as well so as and when that happens, we will have a strong portfolio that can support that movement of Telcos from a retail to enterprise heavy business, and in line with that we will get benefited because we have a very strong portfolio to that. But, to answer your question on the FinTech, of course, the FinTech industry in India is very, very robust. So a lot of activity is happening in FinTech in this area. And we definitely want to leverage that and particularly around other new areas, but on the core as and when the business enterprise business gets ramped up. That's what the Jio is planning with the relationship with Microsoft and others. Definitely, we will have play there.
- Amit Mishra:** With Facebook you mean?
- Vinod Kumar:** Sorry, I didn't hear that, can you come again?
- Amit Mishra:** Jio is planning, you said Microsoft but it's Facebook right?
- Vinod Kumar:** Facebook made an investment, but they had made a strategic relationship with Microsoft, Azure platform. So that happened about a month back which happened so that was towards after the enterprises.
- Amit Mishra:** Yes, the Facebook investment we were given to understand that Jio will exploit WhatsApp application for their e-commerce business side of thing. How the Subex is going to leverage?
- Vinod Kumar:** So we don't have a direct play there. But some of that, if you look at we are doing around areas analytics and we will manage things like that. So we will have a coverage of that area. But the big change will be when they are talking about going to the enterprise customers in a much bigger way. And globally the telecoms are expected to drive upwards of 40% of the revenue by 2025 from enterprise business. So it's a big push for globally, all telecom operators to start offering enterprise side and that is where our play would be much more prominent.

- Amit Mishra:** Yes, I was guess that. So thanks for confirming that.
- Moderator:** Thank you. The next question is from the line of Mahesh Jagtap an Individual Investor. Please go ahead.
- Mahesh Jagtap:** Yes, my question is to Mr. Vinod. Are we focusing on consumer IoT or industrial IoT in Europe and if it industrial IoT, I have not seen any partnerships with industrial IoT platform companies?
- Vinod Kumar:** Okay, so, our focus is definitely on industrial and that is the operational technology IoT OTIT where there is a convergence between OT and IT, OT means operational technology where large industries use that's where we are focused on at this point in time and we have several OEMs that we are working with at this point in time creating unique propositions on that area. So, they are not announced at this point in time because we have not gone to that phase as yet but just to pre-confirm that, we are focused on the OTIT convergence with our IoT security and we have several OEMs that we are working with in this area.
- Mahesh Jagtap:** Okay, so in Europe, you are mainly focused on industrial IoT?
- Vinod Kumar:** Not just in Europe, but I am talking about globally we are talking about industrial IoT, even if I talk about industrial it is also anything to do with a large operation technology, so in fact utilities, water power plants anyone who has got a large operational technology industries are manufacturing, pharmaceuticals, all those countries, all those entities who are doing have a large operation technology, who is now in the verge of deploying the industry the 4.0 where they are bringing the OT and IT together that is where you have a larger issue of cyber security and IoT security which we are trying to address.
- Mahesh Jagtap:** But I have not seen tie up with any of the major player like ABB, Honeywell, Bosch or Siemens?
- Vinod Kumar:** we are working with some of them already. We are not in a stage where we can announce a partnership but we are in various phases of discussion with many of the OEMs around that.
- Mahesh Jagtap:** Okay, now coming to the digital identity service. Do you foresee usage of this digital identity service in JioMart platform for digital onboarding as well as identification of the kirana stores?
- Vinod Kumar:** There is definitely a utility for those kind of applications, but as I told you, at this point in time, we are not focused on the Indian market. So to answer your question, digital identity verification and analytics will be key for any player who is in the digital and e-commerce space. And that is a big problem area, but we want to drive our strength from some of the experience that we are doing this, India is very large market with a very large operators. So therefore, we want to ensure that we do well in some of the emerging markets where the appetite is even more, and that's why we picked up Indonesia. So once we have our platforms working in a few countries and we have some large customers already supporting us and using our platforms we will bring back to India.

- Mahesh Jagtap:** Okay, how many virtual start-ups you have integrated in the company till now?
- Moderator:** This is the operator. Sir that was the last question we took which was your question.
- Vinod Kumar:** So, we have today, we have three in the new areas that is IoT, IDCentral, and CrunchMetrics. And in the core area we are talking about two, one is on capacity management and other one is partner management and blockchain. So three new areas and two on our core area. So five virtual startups is what we have currently.
- Moderator:** Thank you. Ladies and gentlemen, this was the last question for today. I now hand the conference over to Mr. Vinod Kumar Padmanabhan for closing comments. Over to you sir.
- Vinod Kumar:** Thank you. Now as probably you can appreciate, these are special situation that will definitely test our resolve. And we are confident that with adequate precaution we will overcome this crisis and even emerge much stronger. Now as we gear up to handle any eventuality, we look forward to the continued support of our investors and shareholders. And thank you all for attending this call. And I request all of you to take care and wish you and your family, good health and happiness. Stay safe and thank you very much.
- Moderator:** Thank you. Thank you very much members of the management. Ladies and gentlemen, on behalf of Subex Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.