



“Subex Limited Q2 FY2021 Earnings Conference Call”

November 10, 2020



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Moderator: Ladies and gentlemen, good day and welcome to the Subex Limited Q2 FY2021 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 now hand the conference over to Mr. GV Krishnakanth - Company Secretary. Thank you and over to you, Sir!

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

I would like to start the conference call by going through the safe harbor clause. Certain statements in this call concerning our future growth prospects are forward-looking statements, which involve a number of risks and uncertainties that could cause actual results to differ materially from those in such forward-looking statements. The risks and uncertainties relating to these statements include, but not limited to fluctuations in earnings, our ability to successfully integrate acquisitions, competition in our areas of business, client concentration, liability for damages in our contracts, withdrawal of tax incentives, political instability, unauthorized use of intellectual property and general economic conditions affecting our industry.

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

Vinod Padmanabhan: Thank you Krishnakanth. Good evening, everyone. Wonderful to have you all in the call today and hope that you and family are safe and in sound health. We continue to be in a challenging period with COVID infection threat going up again in several geographies that we operate. It is very satisfying for me to inform you that at this point all Subexians are sound and safe. About 25 Subexians in various geographies were tested positive COVID. Most of them are completely recovered, and the rest are at homes and getting better.

Now despite the challenges, we have had a good Q2 in terms of our financial performance. The revenue for FY2021 Q2 was at Rs. 933 million as against Rs. 857 million of Q2 last year. This translates to a growth of about 9%. Our EBITDA increased by 23% and ended at Rs. 254 million as against Rs. 207 million during the same period. Our profit after tax was at Rs.123 million as against Rs. 63 million in Q2 of FY2020. The capital reduction exercise that we embarked post approval of our board and shareholders have also been completed with relisting of our shares with face value of Rs. 5 last week. It was a very elaborate and



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complex process, and we are very glad that we have been able to complete at ahead of the timelines that we are originally estimated.

From an operation perspective bulk of our change are working remotely. The managed services and the support operations are progressive quite well. However, on the project delivering we are seeing delays on account of challenges of remote working with customer tails particularly when we have to integrate with multiple system within customer environment. As you can appreciate project deliveries used to happen with a substantial onsite presence and many customer environments, we do not have the detailed documentation of internal processes and systems. So, getting all these things remotely stand consuming and contributing to the overall delays in project delivery. It will take a while for both sides to get accustomed to the new mode of working. We are making progress but definitely there is a lot more effort and challenges and getting these done on a remote basis.

At the business acquisition front, we are seeing telcos tightening their purse particularly after the end of last quarter and postponing some of the projects particularly most of African North American and European and markets. A priority from our customer seems to be streamlining their existing operations to adjust to the remote working of both their teams and even their customers. So, overall, there is also an effort to look at cost reduction and towards this that they are exploring rationalization of multiple systems and things like that. However, the long-term investment and exploration on 5G, IoT are progressing, albeit with some reduced speed but I guess that they have retained their commitment. Most of the telcos have retained the commitment to some of these investments as a long-term basis obviously with some prioritization based on the supply chain and some of their cash flow concentrations.

On the IoT security side, we are seeing resumption some of the discussions that has been tied up earlier this year, I mean, I am talking about after the March we had lot of these projects but on hold because they were on other priorities, the factories were shut and what not, so, the good thing is that most of those discussions have started resuming. Now, we are closely monitoring the situation and making assessments to our operating plans aligning with where the customer is spending and also making the changes wherever the delivery model demands that.

Our focus continues to be on the Digital Trust as some of you would have seen we have augmented our management bandwidth by bringing in Suresh Chintada, as our new CTO and he will spear ahead effort to enhance our digital trust portfolio.

To start with, we are establishing a Digital Trust lab and this lab will look at new technologies like post quantum cryptography, homomorphic encryption which will the key

technologies and very relevant in the coming days when we talk about security and also there are trust based technologies like Blockchain something which we have already started working on but we want to do really fast track start on the top of this lab. So, idea here is to work at a lot more partner, academia, and customers to look at used case that are relevant for the emerging digital world with specific focus on a wider 5G and IoT adoption. Now this remote working is going to be a path of the new normal overall and towards this, we are taking adequate steps in training, management, and data security to fully embrace this change. We believe that even post this pandemic some of the advantages that they have with respect to work from home, it is good to sustain it, it is not going to deal like what we have to do with complete work from home but it would be a kind mix model and therefore how to enable that is something which we are looking at and we have started working ahead of it and to look at what are some of the changes that need to happen in the system side, in the training side and on the IT side so that we can completely embrace that.

We will also be increasing our investments in the training of the Subexians. We have already undertaken that, and we are continuing that and as we believe that will be necessity to navigate and grow our company out of it. As you can appreciate the lack of socializing and challenges of virtual collaboration is quite tiring, we are trying our touch to engage the teams and keep the spirit high,

I am sincerely hoping that we can see the end of pandemic soon and get our teams together and also be in front of our customers and yesterday the news about the vaccine is encouraging and hopefully by Q4 we could at least have a better interaction with the customers at least to start with them. Today most of the customers, even if we are willing to visit most of them, they do not entertain because of the considerations and some other policies they have. So we are hoping that Q1 of next year, some of these things will relax and also because of the renewed confidence some of them will start aggressively looking at some of the products which have taken a back seat because of some of these adjustments they are doing to their operating plan.

So till then, we have to be agile and manage the situation as it evolves. That is what we are doing currently. So, the continuous support of our shareholders means a lot to us and we thank you for all the confidence that you are reposed on us. Thank you very much and probably we can take some questions now.

Moderator:

Thank you very much Sir. Ladies and gentlemen, we will now begin the questions and answer. The first question is from the line of Amit Mishra, an individual investor. Please go ahead.

Amit Mishra:

Firstly, congratulation to whole management team on completion of share capital reduction. Good set of numbers and business momentum as we have seen in Q2 presentation and recent press releases. So, I have three questions here. Firstly, it relates to the recent deals which we came to know through press releases which I mentioned over here, so can you take us through the one with Telefonica and Tech Mahindra? specifically I am looking for nature and size of deals, we are looking at. Also when these deals can fructify in terms of revenue recognition? My understanding with Tech Mahindra deal is like you are going to put out Subex layer in their products with Telco's around the world, so is it something going to be bundled automatically in this product or Tech Mahindra needs to pitch this additional layer to its clients before it's getting into it, so that is my first question?

Vinod Padmanabhan:

Let me answer that. Thank you. Now this deal is on partnership that we have signed with Tech Mahindra, I will first cover that and then go to Telefonica. Now we have decided to cooperate in the area of blockchain. We have identified a specific use case around blockchain that sits well with our digital trust domain. These are areas with respect to the settlement, with respect to after fraud management related aspects and these are the two areas where we will be participating to start with, with these use cases. Of course, Tech Mahindra has a platform, and we would be covering used spaces around the digital trust area with our blocking solutions. Now how will be taken to the market? we are jointly taking that solutions to the market and we are quite bullish about it, obviously these are new areas where the customers are kind of embracing as they move into the new, particularly when they start moving into the enterprise side of business. I am talking about Telco customers, that is where we are hoping that most of this engagement will translate into revenue. So I will not be able to give you size of the deal etc. at this point of time but we are very, very happy with the progress that we are making with the integration that we are doing with their platforms and how we have agreed to joined take that to the market.

The story is slightly different when it comes to the Telefonica. Telefonica, the engagement is specific to IoT security where we have been selected as their partner to provide IoT security to their customer, so they have created a security offering I mean they have a large security business under the ambit of Telefonica tech. They do close to a billion dollar around Telefonica tech and they did not have an IoT specific security practice, so they created that practice underpinning our technology and they have started carrying that to the market. So, both these things are strategic in nature and we expect that in the months to come we will have some joint successes that we can talk about it.

Amit Mishra:

Great. The new areas that we discussed during your opening speech Vinod, it is something that we discussed before as well in previous engagements, can we please throw some light on these labs, on some progress in this area and how much company is investing in this?

And total number of employees working for these labs? That is my second question. On this share capital reduction that is massive for all of shareholders complete and we have been waiting patiently for last three to four years because that has been big commitment from company, it never realized all the time, besides the stated objectives in the presentations, share capital being commensurate to the business in key ratios and allowed company to pay dividends to shareholders, what is next steps because we still have large number of shares 56 Crores and it is quite big number for company of our size, so that is my third question. If you can dissect on that, we have good cash balance if we are considering buyback or something like that?

Vinod Padmanabhan: First on the Digital Trust lab, so I think this is something they are completely new thing which we have thought for now and probably you are confusing that with the AI labs that we have been having for quite a while. Now AI labs is, I mean that is an integral part of our operations for quite a while, we give a lot of emphasis to it and that is providing a lot of cutting-edge capabilities to our products, so that is what we have probably in the past calls that I have talked about. The Digital Trust lab is something which we are setting up as we talk now, we are just putting our plans together and this is primarily looking forward on new technology and things like that, so this is something new. So that we will elaborate as we come up, we have completely thought through that. At this point of time this is getting incubated under CTOs organization.

Coming back with the second part of question, I think we have right size of capital etc., our current focus is to look at how we can invest in some of our new areas because as you can appreciate that this year has been quite tough one for us as some of the things that we want to do and the market side, for some of these new products we could not do it because of the particular situation. So the company's focus will be to look at the new green shoots and look at how we can support that fully, based on how our ability to do that much more than what we used to do before, so that is our priority. With respect to of course, with this capital reduction and this balance sheet restructuring exercise that we have done, we do have an ability to look at our options but that is not something which we have considered at this point of time and as and when the timing is right we will reflect on that. Once the board takes a decision, we will let you know but our current focus solely is on looking at all the new areas that we have identified and how to support them with all that is required - capital, talent, technology, partnerships, so that they can take it to the very next stage, that is our focus.

Amit Mishra: Yes, fully understand. Thanks a lot for answering all the questions. I have few questions, but I will queue off, so others will...



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

Sanjay: Good afternoon gentlemen. Congratulation for good numbers and with you good health. My two questions are, the first one related to the blockchain new partnership you have done with Tech Mahindra as we are very bullish, can you elaborate have we done any testing on that or how capable we are to do that on still with an incubation stage with our digital trust lab?

Vinod Padmanabhan: Okay, so we have been working on this blockchain based, on some of the specific use cases as we mentioned the earlier answer to Amit call on the fraud and partner management for quite a while. We have done a few of those with our customers, we do not have any deployment as yet but we have done POCs with a Tier-1 customer, so to that extent we are in MVP stage, Minimum Viable Products stage, and what we intend to do is that we would want to take this now aggressively with this partnership to our customers, broaden the things because as you can appreciate that Tech Mahindra would be looking at a much wider spectrum than the narrow spectrum of digital trust that we are looking but this is not in an incubation stage, it is MVP stage, a Minimum Viable Product, has been created and if today customer wants to do a POC, we are in a position to do a POC or a pilot, so that is the stage where we are at on the blockchain. Specifically on the used cases under the habit of the digital trust labs what we are trying to do is that we are taking more use cases because we have focused on two use cases now settlement and fraud but there are several use cases around this whole area digital trust which we can put use of this technology and those are the things that we will explore under this ambit of digital trust lab.

Sanjay: That is great Sir, my second question is we have addition in our ESP portfolio that is partner eco-system management. Can you elaborate on that what are we doing there and what is the opportunity lying that side?

Vinod Padmanabhan: The partner ecosystem management is a solution that will help our Telco customers to start with it can be extended to other vertical also but any enterprise like a Telco customer to manage their set of partners. As you can appreciate, already with the 4G there is a lot of partners the Telco's work with, so if you look at any of the customers in the Indian context any of our operators they are now bundling and given Netflix, Amazon Prime and what not. So, these are all partners, there are large partners, there are small partners, there are content integrators, plenty of them. Now, if you move into the 5G scenario, they will have the addition of partners would be in the tune of times we are talking about 10 times to 20 times at a minimum to start with the partners we are going to add. So, they need a robust system for to manage these partners end to end that is staffing is can get in the partners on boarding

the partners and creating the ability for partners to co-create portfolio together so, they need a system to do all these things and which is non-existent for the Telco space at this point in time. So, we have been working in the space of interconnect billing for a long time and that is a natural transition for us to scale up from whatever we have been doing and look at these overall aspect of partner management which will be very critical for Telco's and many other partners. We are starting with Telco's but this will be applicable to any organization that has got a lot of partners to manage with, starting it on-board in creation of portfolio, management of the portfolio, settlement at the end of the then cash flow manager, the payment management, on-boarding, off- boarding all of them, we are creating a platform and that is what the partner management is, so we are quite bullish and quite excited with the progress that we are making there.

Sanjay: That is great Sir, good luck to you. I will come back in the queue for more questions and wish you happy Diwali to all of you.

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

V. P. Rajesh: Thanks for the opportunity and congratulations for fantastic set of numbers, just wanted to know what is the pipeline looking like for the Horizon 2 products?

Vinod Padmanabhan: Thank you Rajesh. With respect to the Horizon 2 and Horizon 2 Products , as I told you during the last call it was quite a difficult period the first two quarters particularly on account of most of the projects have been put on hold because all the new projects have been put on hold by the customers not just Telco's but even industries and things like that. We have started seeing resumption of that some of things that we have been selected and has been put on hold some of things which they had an RFP put on hold. We are seeing slowly things started, those engagements sort of coming back, Rajesh. So, we believe that during the course of this quarter some of those engagement should move forward and we should be able to probably come back to you with some good details around some of the specific progress or let us say the deployment that we are doing during the course of this quarter, Rajesh. So, quite encouraging to see the reengagement from some of these customers go up put their projects on hold with the advent of COVID in the March-April timeframe, Rajesh.

V. P. Rajesh: Just housekeeping question, so our goodwill of Rs. 34 Crores or thereabout, that's is going to be static or will that get further reduced, given the capital reduction exercise?

Venkatraman G.S: Sorry, I missed that part what Rs. 34 Crores that are?

- V. P. Rajesh:** Sorry, not Rs.34 Crores. The goodwill that we are showing on the books Rs. 344 Crores that will now remain same or because of this capital reduction, this will go down further. I do not know whether your capital reduction process got completed by September 30th or not so that is why I was just trying to understand?
- Venkatraman G.S:** Sir, that has been completed. So the accounting entry for the capital reduction have been through during the September quarter. So, there is no further change which you have seen will remain and that anyways since we have taken the impairment in December that means the reflection of what we see the goodwill as given our current projections for the business.
- V. P. Rajesh:** Okay, got it. Thank you. That is all I have.
- Moderator:** Thank you. The next question is from the line of Amish Kanani from JM Financial Services. Please go ahead.
- Amish Kanani:** Sir, congrats on a relatively good set of numbers. Two questions from my side, one is we understand that in Q1 you had eluded to some savings that happened because of which there was a good, despite slightly lower revenue we had a good EBITDA margin. So, this quarter there is some decline there vis-à-vis QoQ in the margin terms. I understand that Q4 for us is a relatively big quarter given some licensing income that we get. So, I just wanted to understand from cost perspective how are the costs moving and, in that context, how should we look at second half margin, I know we do not guide but directionally how should we look at?
- Venkatraman G.S:** Amish, from a cost perspective if you see there is one big cost item which is not being there in the current both quarters, Q1 and Q2 is travel spend. That is the reasonable component of our spends and given COVID, a travel spends are not happening which has obviously helped us. If you compare between QoQ last quarter and this quarter because we have got forex loss, last quarter we had a forex is about Rs.1.89 Crores at a consolidated level versus we have a loss of Rs.4.38 Crores this time. So that is why there is movement at operating margins level and that is primarily because of the movement between GBP-Dollar and Rupee-Dollar, so that has led to the margins coming down a little bit. But apart from that operationally, our costs have been in line and we have not had any major changes and for rest of the year, as you rightly mentioned, we do not guide from our margin perspective but we do not see any significant changes to our cost structure. But yes, there will be increments which will kick-in in the second half of the year because given the general uptick in the demand for good people, we will need to give increments to our people. So therefore, to that extent, there could be increase in our cost but apart from that operational cost we do not see any significant changes..



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Amish Kanani: We can expect that Q4 seasonal upturn in terms of licensing income that we should continue to assume to be in the trend line?

Venkatraman G.S: Amish, that is the function of the deals we close. Typically, the license revenue which we book, is a function of deals we closed in that quarter or the previous quarter and the kind of contracts we have with customers because some of them are such contracts where the whole implementation is linked to multiple deliverables in such cases then the license revenue also gets recognized over the duration of the contract. But, there are some where there are very specific deliverables which you can deliver to the customer which helps us in recognizing the license revenue upfront. So, it is difficult to corner out right now. While historically, we have had better fourth quarter's as you rightly mentioned, but to me, to call it now will be difficult because it is a function of the kind of deal we close and how those contracts would structure.

Amish Kanani: Okay, and second question I wanted to understand that taxation part I saw two items on the tax, so we do not pay tax probably because we used to take the goodwill write off but we have these withholding taxes plus before tax and as a result we have both the tax put together we pay 40%-45% at least we provide for, of course on the tax side. If you can just help us understand what are these two items and having written off the goodwill, are we changing those things and how should we look at the tax rate in future? Thanks.

Venkatraman G.S: The tax numbers if you see here, particularly withholding, is a function of because Subex is operating at 90 countries, we have to provide services to customers in 90 different countries and many of these countries we do not necessarily have an operating company in each of these countries because it is in a way not really required. So, in geography where we do not have a physical presence, in those countries each of these customers deduct withholding taxes based on the regulations in the specific countries. So, therefore that withholding tax line item which you see are deductions made by customers for payments which they make to us from these geographies. So, that is the cost of doing business in these countries because the cost of setting up an entity and then running that will be even more expensive for us that is one aspect.

So far as the deferred tax line item, if you see as you already said, it is not a cash charge, it is a function of the mismatch between my tax books and the benefits which we will get over a period of time because of the restructuring which we did three years ago, because we have these LLP structure, where there are tax benefits available to us. So, that mismatch has to be in line, therefore we have this deferred tax liabilities which we have created. Given the structure which we have this will continue, unless we do something significantly with our structure, these line items you will continue to go forward as well.



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Amish Kanai: Okay, thanks.

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

Kranthi Bathini: Congratulations for a good set of numbers. Just want to know India is very significant market for the Telecom business, but whereas if you see that geography wise revenue with respect to Subex is concerned it is not improving. Any specific reason and also what are the plans to improve the business domestically?**Vinod Padmanabhan:** Traditionally, if you look at our portfolio, we cater primarily to the telecom operators the major telecom operators and we provide them solutions on specific areas. If you look at the Indian market most of the operators are our customers for our range of products and once, we have some products the way we have our business staff, we have an ongoing business on supporting them that is the annual maintenance and then the change request and upgrade and things like that. So, if you look at the world over definitely whenever there is a new opportunity there as new operator coming on board, we have had that increase in this thing, we are seeing on the other hand there are consolidation happening. We do not expect that margin of Indian business is a percentage of our overall business to go up in the short-term because most of the activity is around 5G and some of the enterprise movement are happening in the western geographies and that is where we are focused for some of our new products. But we expect that the model business to remain particularly stable, obviously when let us say the 5G gets rolled and things like that there will be opportunity for us to go back for more products. So, it is not that we are not focused on this market but opportunities for us on some of these new areas are presenting much more in other geographies like Europe and MEA as a whole and North America and those regions.

Kranthi Bathini: Okay, and how do foresee the opportunities with respect to India because of so much of talk goes with respect to Jio and the other telecom operators and India is one of the key markets in terms of the telecom lines or telecom size is concerned?

Vinod Padmanabhan: That might be from a number of customers perspective but that might be, but as I told you we have already provided our solutions to them and the next wave will happen then there is a technology change that happens or we come with a new product like for example, when once Indian operators start exploring the enterprise business then definitely that will be an opportunity for us to go and sell our new products. So, I guess that when 5G and those things gets rolled out that is when probably we will have more business coming out from the Indian operators, let me put it that way, but otherwise for our existing, our current things the revenue will remain at the current levels.

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

Ramesh Kasbekar: Good afternoon Mr. Vinod Kumar and your team. Congratulations on good set of numbers. Now basically I am an accountant, so I do not understand much of the IT strategy and the technicalities and the details which you explained. But basically, when I look at the numbers, it looks to me that your turnover or the income has gone up by about Rs.18 Crores in six-months' time and EBITDA has gone up by about Rs.25 Crores. This is as a result of contraction in expenses by Rs.15 Crores in other expenses, which if you net off which your employee cost increase of Rs.5 Crores gives you a net expense reduction of Rs.10 Crores. The balance, I would like to know, out of that turnover of Rs.18 Crores increase, is there pricing power or is there any new business? What I mean by new business is new client, new products and things like that or it is just pricing power to the existing customers you have a monopoly once you sign up for a security contract people cannot just go away as I understand. So, how much of this is pricing power and how much of it is the new products or new businesses?

Vinod Padmanabhan: There is no pricing power that we have. It does not exist in the market. We play in very mature markets that being said once we are in a customer, we will be there at least for 10 year to 15 years because it is not that easy for customer to swap us off because we are very well integrated of that. So, the revenue increase that happens is primarily because we are providing more services, either we sign more projects or more new customers and it is primarily new business from existing customers or new customers, there is a mix of that, there I would say that about 75% of our business comes from our existing customers, new business from our existing customers and about 20%-25% will be one of new logos put together. The cost, as Venky clarified, this year we had because of the COVID the travel line item of expense have been very low and that is coming into the numbers but otherwise from a cost has finally the more lasting in line with what we normally have.

Ramesh Kasbekar: Thank you. The other question is you have added up of about 100 numbers in headcount which in this quarter has resulted may be Rs.5 Crores extra increase and annualized should result into may be Rs.13 Crores to Rs. 14 Crores increase. Now, is this for new products and new businesses or is it for sustaining the existing operations?

Vinod Padmanabhan: It is a mix Sir. We have added some delivery capacity, if you see our numbers also, the delivery component of our business is going up and therefore we increased our delivery capacity to drive more revenues so that is point number one, some part of it has gone into new areas in the new initiatives and we have also on boarded few freshers so that on an ongoing basis we treat them, we train them and that is probably will be used to backfill

some of that attrition that we have during the year. So, it is a combination of that, you are right in that sense Sir, we have increased the delivery capacity to drive more revenue.

Ramesh Kasbekar: So, ideally should result into a better business?

Vinod Padmanabhan: That is correct.

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

Deepak Sukhani: We saw that you have a pretty decent cash balance of around Rs. 140 Crores which is going to increase every quarter, so what is the plan and the strategy to utilize that I mean as one of the gentlemen asked will there be any plan for buy back, will you start giving dividends, or you are planning for any acquisitions, because I believe by the end of the year this Rs. 140 Crore will become Rs. 200 Crore and keeps going up so what is the management plan regarding that?

Vinod Padmanabhan: As I have clarified on that, our current focus is on growth and we will use the capital for fueling the growth, all options are being explored, obviously as you can appreciate we have held back on some of the investments because of the market situations that we are in, we are slowly bringing those investments up in the new areas and we are also looking at primarily, when we look at digital trust and for us to plug the holes the digital cashflow portfolio or augmented things we are also looking at what is the right technology partnership that we should do so primarily our current focus is to use those capital to drive our growth. No other decisions have taken at this point of time and neither considerations have been done because we have just completed the whole restructuring exercise and as I said our current focus is, the similar focus of driving revenue with all the resources that we have.

Moderator: Thank you. The next question is from the line of Shreyas from Dura Technologies. Please go ahead.

Shreyas: Good evening everyone. Sir, could you explain to us like what are your main earnings from various geographies and the revenues going forward Q3 and Q4, will there be any variations compared to Q1 and Q2?

Vinod Padmanabhan: Venky, can you provided we have already provided that.

Venkatraman G.S: If you look at our geography mix, I think we have shared that in our investor deck as well, so I think that mix is not going to dramatically change in the rest of the year, so if you see we have about 17% to 20% of our revenues coming in from Europe and we have a large

share of revenues coming from the Asia Pacific geography so I think when you mix it is not going to dramatically change by geography.

Shreyas: Okay and in terms of revenue compared to Q1 and Q2 will the numbers be almost the same or is there any chances of increase to Q3 and Q4 going forward?

Venkatraman G.S: Sir, we do not give a specific guidance on our future quarters as you know, so I think obviously the idea is that we will do all that it takes to drive the revenue growth going forward in Q3 and Q4 but we do not share a specific guidance number. So I will not be able to give you any further insights on that.

Moderator: Thank you. We take the next question from the line of Hemish Shah from Yes Bank. Please go ahead.

Hemish Shah: What is your hedging policy? What I wanted to know because there is lot of volatility in the bottomline when we have it on Rs. 50 Crores to 85 Crores of revenue, but even to have Rs. 5 Crores or Rs. 4 Crores of profits turnovers, that will make the bottom line look very volatile?

Venkatraman G.S: So, we do hedge currently I think right now we are hedging about 20% to 25% of our net exposure as we speak but some of the volatility you are seeing is on the balance sheet items which you need to revalue end of the quarter and since we also have Subsidiaries outside of India, like in UK where the reporting currently is GBP and they also have rather currency exposures so some of these exchange gave some losses come through because of that so while you recognize the need for hedging and if you do that so that is addressed partly but some of the losses you are showing is function of the movement in the different currencies in the various operating subsidiaries which we have.

Hemish Shah: Okay and one question was that we have Rs. 140 Crores of cash and as you said that we can use that for growth purposes , so are we looking at any inorganic opportunities like have you spotted any inorganic opportunities.

Venkatraman G.S: Yes, Sir, we continue to evaluate the number of opportunities, so that is ongoing obviously we will be in a position to make announcement as we get to a point where something is concluded, but yes there are number of opportunities where we are evaluating on an ongoing basis.

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

- Amit Mishra:** Vinod. Just wanted to understand on what the progress related to patent. I think there was a patent outstanding in our system for revenue maximization in a communication network, is it true or is it still under progress?
- Vinod Padmanabhan:** We had indicated that we had filed for two, both of them are in progress and obviously it will take a while, it is going through the process, Amit. So it will take a while, we have filed both of them and it is ongoing through the process.
- Amit Mishra:** What is the cycle life, means how long it will take of course they have to do the due diligence but?
- Venkatraman G.S:** Patent filings are fairly long Amit, so because depending on the which geographies you have filed them, say if do it in US or Europe, some of them can take as long as five years to six years. So it is a fairly slow and long process but the fact that your patent application has been accepted itself is a good first step, but then it goes through their process before they clear it.
- Moderator:** Thank you. The next question is from the line of Chetan Laddha, an individual investor. Please go ahead.
- Chetan Laddha:** Congratulations on the numbers. The question is more towards the products size from my side, the thing is we are talking about all these products like we are taking it to the markets, some of them are in the POC stage, so as a business from our team has there been some assessment on the risk mitigating front in the sense you definitely must be having some of the competitors and considering these are very disruptive technologies who are also on speed to develop similar kind of products and taking it to the market with a bigger executing capabilities, so what are the mitigations steps? Or what is the plan of action? And some competitors that we have thought of or have we thought of in those terms, while taking the products having more adoptions towards the products that we are supporting as a POC or taking it to the market?
- Vinod Padmanabhan:** Depending upon which product that we are talking about we have been very conscious about how we can create a note or differentiator based on our current capabilities, so if you look at the identity management or the IDcentral product that we have created now there we have taking the advantage that we have access to operate in 90 countries so that is an advantage that probably some or others will find it difficult, there might be others trying to solve the problem but they might be not having this advantage, so in every product that we are trying to do that is a conscious effort for us to look at creating a mote for our offering that has been said it is too early days and that is hypothesis at this point in time that these things will work as we get into the market and product market sort of established and that is

when we start fueling the investments to scale that up, the only things that passed out stage at this point in time is IoT security where as you know that we have gone through detailed evaluation on a global basis and the technology has been selected based on some of the clear differentiation and modes that we have built, also as I told we are working with the high processes and as soon as the product market is fit, it is sort of established we will invest behind that so others are working but we have our own strength which we are building on this.

Chetan Laddha: Thank you so much Vinod for the clarification. The second question is in terms of the travel as I understand that the travel onsite is resumed with respect to the other companies when we read about their results in their commentary, so is it that for Subex we have a complete hold baked upon the internal policy for travel onsite or is it completely zero and we have not even started resuming sending resources onsite?

Vinod Padmanabhan: At this point in time the resources are not on the site, it is not just an internal thing, we have not resumed travel in general, we are making some travels here and there but people sending on the site it is something which our customers are not completely open at this point in time so we are not enabled most of our target so it will have to wait till that. Some of the cases where, some of the critical managed services resources which have been on the onsite that has sort of resumed, some of them for example, in some of the Middle East countries they have resumed because they have been living there for a while, they kind of exited and they are going back and living their but for the delivery projects which used to happen for short instead you have to be in the site for three months or six months delivering those things have not resumed most of them are happening offsite from remotely at this point in time, not just because of our consideration, customers have also not opened up that any for us now.

Chetan Laddha: That answers it. Thank you, Vinod and thanks, everyone from the management team for good results. Thank you.

Moderator: Thank you. The next question is from the line of Bharat from Manthan Research. Please go ahead.

Bharat: Congratulations on good set of numbers. I have two questions. First on the order book. I did not get the order books numbers from either the presentation or the press release as well. Could you just tell me what was the order book as on Q2 2020 ending?

Vinod Padmanabhan: Look, I think we have started changing the order book and how we are reporting it based on some of the feedbacks that we have done so we have not made any specific report to that, our order book for this first half year is in line with what we had last year so it was around I

mean these are the orders that have come in during this H1, it is not the backlog of revenue just to clarify that, I will be confused if I give you that but receive the both the details but we will bring it into our investor presentations in appropriate time but our order book was in the range of \$15 million in H1.

Bharat: Right and second question I had on this balance sheet, there is one contingent liability from tax demand which you talk about in the annual report, could you throw some light on it?

Venkatraman G.S: So, if you see our contingent liabilities, if you compare the contingent liabilities between March 2020 and March 2019 that number has come down significantly. I think, so these are all income tax related cases which are at various stages of appeal and in all of them we are reasonably confident that we have a good case just that because these are not been finally closed these cases have not been closed and either we would have won it and then the department would have gone to the higher court for further appeal, so it is at different stages. So therefore these are reported as continuous liabilities, wherever we have got favorable orders we were able to bring that numbers once again, we almost reduce it by almost Rs. 100 Crores to Rs. 120 Crores between March 2019 and March 2020 and we will continue to track it. So we are comfortable with all the positions that we have taken on those cases, that is why we are appearing as contingent liabilities and not as provisions as mentioned.

Bharat: So, do you plan it to settle it using the Vivad Se Vishwas Scheme?

Venkatraman G.S: It does not make sense for us to avail the Vivad Se Vishwas Scheme in these cases because it will be unfavorable to the company. So that is why we have chosen not to use it wherever it was required we have done that, there were some cases which we thought it makes sense and we have done that but for the once which I have seen is part of the contingent liability at the end of March 2020, we have not chosen to use that.

Moderator: Thank you. We take the next question from the line of Rajkumar Ojha, an individual investor. Please go ahead.

Rajkumar Ojha: Sir, my question is Subex Assurance operates in mature market with limited growth prospects, when will Subex Digital overtake and also respectable sales against Subex assurance, this is question number one. Now, my next question is one of the previous concall you had said Subex is the product company and the services are around the product and you also said that it was 5% to 30% whereas in our case the growth is somewhere either 10% or below, I can understand because of the previous balance sheet problem that we had now you present outlook on the present situation? Thank you.

Vinod Padmanabhan: Thank you for the question. So, on our Subex Digital is where we are housing all the new initiatives, new initiatives as I had detailed in one of the earlier questions, we have had continued on a path particular on the security, our security sides things were looking quite promising and it has come to an complete grand halt when the COVID stepped in because we were trying to address some of the sectors which got badly affected so the things have started happening, now when will it overtake it will be a quite a while but at least we believe that in the next few quarters we would be able to come to some significant wins that we have had which is in strategic in nature also bear in mind that the revenue model there is very different, it is a subscription based model which means that it will take time for the ramp up to happen but probably you based on the kind of contracts and some of the volumes you can probably understand the strength of some of those subcontract so that is completely different type of business, so apple-to-apple comparison may not be possible. On the overall growth kind of thing, as we said, we are going through a very difficult period and I think probably most of our customers are putting off new projects on hold and very careful in how they are going about it. At this point of time, our focus is to ensure that two things, the revenue and the expenses on our core areas to how much extent possible based on the realities that we face the ground while at the same time push forward with digital trust story, we believe that we are on the right path based on the interest that we have been able to generate from both customers and also from the strategic partners and that is how we will grow there. So, for the H2 to overcome or as they come to the level of assuring it will be a while but we hope that in the next few quarters we should be able to rather you will be able to see the numbers from those things contributing to a decent percentage of an overall revenue,

Moderator: Thank you. We take the next question from the line of Dinesh Kabra from Seven Hill Investments. Please go ahead.

Dinesh Kabra: Vinod, I somewhere read that Deloitte 2019 Blockchain survey referred that 83% of the large core companies see a strong case for a Blockchain solution, now Subex there the tie up is we have done with Tech Mahindra, does it refer to only telecom or other industries as well?

Vinod Padmanabhan: It is predominantly focused on the telecom side and that is where we are focused on with that partnership.

Moderator: Thank you. We take the next question from the line of Meet, an investor. Please go ahead.

Meet: Just wanted to understand if there is any kind of provisioning that is going to take place for H2 for any deferrals that are expected from any clients and because the revenue is expected

to fall down that something of those sorts is expected for the payments as per the order book is expected and is expected to fall as expected?

Venkatraman G.S: So, I think size in the business in H2 right now is fairly small given our current mix of revenues, so if you look at almost 95% to 97% of the revenues is coming from the core, which is H1, so H2 revenues are extremely small and we do not anticipate any such need to provide for our additional provision to be made for those revenues or payments so there is no such expectation or need.

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

V P Rajesh: Vinod can you give more color on the progress we have made on the Digital Trust product side?

Vinod Padmanabhan: Rajesh I think if you look at the Digital Trust right, Digital Trust is a set of portfolios and we see the digital trust sort of coming together in three layers. Now, the fundamental layer is one of risk management and this is what if we look at, we have been focused on the last two decades around providing that, so fundamental layer of this Digital Trust is risk management layer. Now, come to the next layer is one of security and the identity. Now, these are the mandatory ones or the ones that are required for sustenance of any business so here we have if we look at the two products that we have, we have products one is around the security side and on the identity side we are creating a product on ID central and we have more thoughts on coming with expanding that to other radius. So, that is a second layer. The third layer is a one which provides a strategic element thing like brand, real time insights, predictability, customer experience so some of these things which are relevant comes as the strategic layer or the third layer. So, if you look, Rajesh at our current portfolio or we have products across all these three layers and depending upon the verticals that you operate there would be slices that are applicable for us.

So, let me take one case at the telecom side, telecom which is probably our strongest vertical today so if you look at telecom, we have a comprehensive solution covering all the three areas so risk management that today we have an end-to-end risk management in telecom environment which we can offer that. Security, we have an IoT security that we are working with them, ID Central we have already started working with Telco's to onboard done and create value. If you look at the strategic layer all our analytics, the capacity management solution, some of the things that we are doing on the crunch matrix all of them are providing the strategic element of it. So, we have a complete thing.

Similarly, we are creating teams for each of the verticals around this and all these three layers and taking back in the market Rajesh. So, the story is sort of coming together and I am also very glad to say that we are also seeing the market traction coming in, there are more consultants and analysts talking about the Digital Trust as an important thing. Pretty soon you will see some of the large vendors taking a position on this matter. So, this whole area is getting quite strong and we are also trying to build on whatever we have and try to figure out what adjacent things that we can cover so that we can improve the holistic nature of our solutions on this whole Digital Trust evaluation.

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

Amit Mishra: I was just going through the previous concall, we touch more on our leverage, the access to data we have with our Telco partners around the world, just wanted to understand how far we can leverage it given the privacy terms and conditions that Subex might have contract with these Telco's like for example if a particular Telco closes the contract, goes out of the business or something what happens to the access to that data, does it cease to, you are not allowed to leverage it in your products, so how does it?

Vinod Padmanabhan: Just to clarify that point again please realize that we have access to our data, we do not own the data. Telcos currently are having the data custodian, in many geographies they do not own it, but they have a data custodian. The advantage that we have is that most of the data is within our system considering though it is a custodian of the data, in Telco's we have access, easy access. Now, if you look at any Telco's of very large and very complicated set up and even, they want to have an interface to get all the data is a very difficult process and that we have already solved. So, our practice session today is that if we get the customer consent for doing various analysis, we only do it with customer consent that we are very clear. So, once we get the customer consent to look at his data, then we look at the data after getting let us the Telco's into the picture, we are not doing anything without the knowledge of anyone. We are at clear understanding with the telco that if get the customer consent we look at the data and we create some intelligence out of that and we provide to entities like service providers, insurance, banks, internet companies, etc., to solve that particular problem for example let me given an example that accounts the frame. Now, let us take an example that the banks want to send an OTP to all of us, we all receive OTP and let us say that in the bank there is lot of fraud that happens and banks wants to say that before we send an OTP for certain kind of transactions, for example if you are looking for passwords, change of password and they want before you give that OTP to that person you want to do a check whether the person is in which location and whether the person has changed the mobile phone for certain time and things like that so these are some of things that would



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want to do and as a customer you would want those things to be done so these are the automatic checks, like Rajesh had gave an example of this so if I am travelling to UK and I have requested for a change in my bank password they will quickly look at our system and if we have everything in shape they can find that okay this particular gentleman has gone to UK and requesting a password reset. So, they will take a different workflow rather than sending a password to you, they will first call you up and they will do some verification to ensure that you are indeed a person before sending the OTP. So, this is just a used case, where the hundreds of used cases around this whole identity because the whole problem is that with the whole digitization you do not know what is the verification of the other, who is the person or the entity on the other end. So, the challenge is that how do you ensure that the entity that you are talking on the other end is indeed the true entity and that is the whole idea of this identification analytics that we are talking about. So, we are taking the consent of the consumer to do these analysis because there is value for him because he gets better benefit if the service provider knows that so it is a value based play and everybody gains with the whole thing, it is a platform that we are creating, potentially it is huge of course the challenges are huge, we have to convince a lot of people etc., so that is the story, it is not that we are dependent on Telco's, the Telco's is such one source of data, we are also linked up with many other sources of data and all these data is coming together to do some identity analytics to solve specific problems.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.

Vinod Padmanabhan: We thank you all for taking time for attending this call and your continued interest in Subex. Let me also take this opportunity to wish you and your family a very Happy Diwali. Stay safe and let us hope for a very bright and happy times. Thank you once again and take care.

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