Subex Limited
Q1 FY2022 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day, and welcome to Q1 FY2022 Earnings Conference Call of Subex Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. G. V. Krishnakanth. Thank you and over to you, sir.

G. V. Krishnakanth: Thank you very much. Good afternoon to everyone who have joined the earnings call for the period ended June 30, 2021. Now, I would like to introduce the members of the management who are present on the call. Along with me I have Mr. Vinod Kumar – Managing Director & CEO; Mr. Venkatraman G. S. – Chief Financial Officer of the company. I would like to start the conference call by going through a Safe Harbor clause. Set of 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 includes but not limited to fluctuations in earnings, our ability to successfully integrate acquisitions, competition in our area of business, client concentration, liability for damages in our contracts, withdrawal of tax incentives, political instability, unauthorized use of our intellectual property, and general economic conditions affecting our country. So, with this, I now hand over the call to Mr. Vinod Kumar to take it forward. Over to you, sir.

Vinod Kumar: Thank you, Krishnakanth. Good afternoon, everyone. Thank you all for taking time for this call. I hope all of you and your families are safe and doing well. We have faced tremendous challenges in some form or other during this pandemic. After going through a very difficult period, with about 150 Subexians infected and out of action for the bulk of Q1, things have definitely settled down. Most of them have recovered completely and resumed work. We also have over 60% of our teams based out of India fully vaccinated. We hope that the rest of the team members will also get the vaccinations done and complete both doses during the course of this quarter.

As you would have seen from the results announced yesterday, we reported revenues of Rs. 80.6 crores, EBITDA of Rs. 16.2 crores and PAT of Rs. 13.5 crores. While traditionally, Q1 tends to be lower than the average quarterly revenues, the delays on account of project deliveries caused by pandemic negatively affected our Q1 revenues.

Talking about the project delivery delays:

The main reason was that several of our key team and managers were out of action almost for four to eight weeks. Further, we could not start some new projects in certain geographies due to COVID related lockdowns and customer non-availability. We also had a couple of cases where the customers who recently placed the order on us wanted to migrate to HyperSense platform and hence we had to redo the SOW which again took time and therefore delay in initiating the project. The good part is that things have streamlined, and starting July, deliveries are happening in full swing.

HyperSense continued to create momentum. And as we talk, we have three customers where the HyperSense platform is under implementation. The AI Studio, which is a very key component of the HyperSense is particularly generating a lot of interest as it provides customers a tool to fast-track AI/ML deployment and adoption within their organization. Internally, the activity both in Fraud Management and Revenue Assurance product on to HyperSense platform is also progressing well. We expect all upgrades and new customers going forward will be on our new HyperSense platform.

Coming to the new areas:

The new GTM approach of going via distributors and channel partners has significantly increased our reach when it comes to IoT/OT security. We are focusing primarily on the critical infrastructure and manufacturing industrial segment based on the current hype of cyber activities, cyber threat and cyber activities that we are seeing in those segments. The implementation cycles are much faster compared to our traditional project timelines and post successful implementation of the initial phase, we intend to extend the footprint of coverage in every customer that we are currently engaged in. For instance, we recently announced a deal in the Middle East oil & gas sector, very pleased to let you know that we have already implemented, and the system is in production and that gives us an opportunity to showcase those implementations and spread the footprint to other parts of the same organization or different sides of the same organization.

Coming to identity analytics, IDCentral:

We have on boarded customers, both from Indonesia and India, the two markets that we are currently focused on. After the product market set we have identified on two areas, one is the eKYC followed by the transaction monitoring, these are two specific aspects that we are focusing on IDCentral. And the target segments here as crypto exchanges, e-wallets, lending, gaming, banks, NBFCs, brokerage, trading, payment gateways, etc, primarily the new age, ecommerce-based organizations. In India particularly we are seeing very good transactions and we have several customers several POCs that we are currently driving at this point in time.

Now, coming to the addition of key talents:

We have on boarded Asha Subramanian as the new Head of HR. She will be spearheading our talent acquisition and management and will bring her rich experience from organizations like Goibibo, where she was part of the journey right from the startup to when they achieved scale. We intend to energize the team in the new hybrid mode of working, which has become mainstream. We have our offices open for those who want to come and work from office. So, pretty much it's a hybrid situation of working that we have at this point in time.

Now, even though the Q1 revenues were slightly lower than normal trend of Q1 that we are having from years, we are confident that as we move forward, we will bring back the growth that we have set as an expectation in the previous calls. Also, as we move forward, we stand strong in our vision to make the digital world trustworthy; and therefore, unlocking possibilities for all of our stakeholders. We will continue to work hard, innovate and invest in the right technologies to overcome challenges and deliver value to our customers, investors and Subexians.

With that briefing, I will probably now hand it over to the operator to go through the questions and answers.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Paras from SR Capital. Please go ahead.

Paras: I have two quick questions. So, my question is, how many new customers are translated to revenue during the Q1? And what is the quantum in top line and EBITDA or the percentage share in revenue and EBITDA of the new customers in Q1?

Vinod Kumar: Okay. So, just based on our business that we have, about 75% of our business, both new and old, come from our existing customers, because we have almost 200 customers so primarily we generate more revenue from the same customers. Having said that, during the course of this quarter, we have added three new logos in addition to getting additional business from the existing customers, we have added three new logos which are net new customer additions. I don't have a view of what is a specific revenue that added, because some of these revenues will come in subsequent quarters as we start and execute on these projects. So, we don't have a particular tracking of what is a new customers booking. Typically, the revenue will start coming from the subsequent quarters, because this quarter we will make the booking and then once we have the data gathering etc started and starting the project, typically the revenues from this quarter OI will start coming in subsequent quarters.

Paras: Okay, thank you for your answer. And for my second question would be on the similar lines. So, for FY 2022 estimates, how many new customers you will be onboarding, do you have any estimate what would be the share or quantum of the revenue?

Vinod Kumar: Okay. So, let me qualify one thing, so I should have qualified that. So, when I talked about adding three new logos, this is for our core products, if you look at our new product range, which is primarily the IoT, security and IDCentral, then all the customers that we have added are new customer, it's a SaaS based thing so I guess new customer addition there may not be the right metric there, because every customer is a new customer that we are adding. Now, we do not have a measure of how many new customers that we have to add because it is a nature of how the projects and the budgets are available for each of the customers. But having said that, our intent is that, at least we should add in our core business, if we can add anywhere close to seven to eight new logos, it will be a very good scenario, considering the fact that it's a mature segment and there, I think it's primarily about, most of the operate are customers for our one range of product or another. On the new areas, it's a SaaS based thing and these are very, very smaller

MRC numbers which we are talking about. And there probably the addition of customers will be in hundreds, so therefore that's again not a new metric that at this point in time we are looking at adding. We are looking at MRC addition for the new areas. And for the old areas, as I said, if we get about seven to eight customers, it will be a very good situation.

Paras: Okay. And do you have any quantum of EBITDA share or revenue share for the new segments or the customers for FY 2022, estimated?

Vinod Kumar: It will be on the same margin profile, so are we have set expectation that our overall EBITDA on a steady state basis will be around 20% to 22% on the steady state basis, and we expect the same from new customers as well, there's not too much of a variation between old and new customers. Because all these are new projects, I mean, from the existing customers. For example, if it is a very large customer for us and if there is a new project, now, I think that margin profile will be pretty much similar to a brand-new logo that we are acquiring.

Paras: Thank you. And my last question. So, when are the contracts signed with Telefonica and Snowflake are expected to be started?

Vinod Kumar: The contracts that have signed with Telefonica already the execution has started. Snowflake is a partnership where we have announced a partnership where we are building, we have connected, we are integrating the products and the GTM will start very soon. So, at this point in time we have integrating both the products and some limited GTMs have happened, but we expect the GTMs to happen in the subsequent months when the integration of the two products are completed.

Paras: Okay. Telefonica's revenue has been reflected in the Q1?

Vinod Kumar: Some part of the revenue, these are very large projects, these are multiple country projects, so one country we have started and I would want to believe that some small revenue from those projects; it's a project that is running into multiple countries and one country we have started the project in quarter one.

Moderator: Thank you. The next question is from the line of Nilesh Shah from Envision Capital. Please go ahead.

Nilesh Shah: Congratulations to the team for the journey so far. Vinod, my question is around, given our performance for the first quarter and given that we are expecting double digit growth for this financial year, are we confident about our growth for the next three quarters, given that now the run rate in a way what we need to achieve our guidance, our expectation goes up quite significantly? I mean, just very ballpark calculation suggests that we will have to grow 18% year-on-year for the next three quarters to basically even achieve a very low double-digit kind of a growth rate.

And if I were to kind of look at the order backlog which is there of about $43 million, $44 million, which has to be executed over the next 12 months, and prorated for three quarters, even then the ask goes up quite substantially versus the kind of order backlog that we have. So, basically, I just want to understand if our confidence in still being able to register a double-digit growth rate for the financial year, does that still hold?

Vinod Kumar: So, the answer is yes, we are still holding that double digit growth. And talking about the backlog, Nilesh, our plan is that by the end of quarter two, that is by end of September, we will have all the backlog that is required for us to achieve that double-digit growth. Subsequently, what our focus will have to shift to the execution of this contract, so we have also built a capacity that is required to drive additional revenues that is required for us to get to that growth level. So, based on the current situation backlog that we had in Q1, and what we expect to add in Q2, we will be in a comfortable position with the backlog to drive the double-digit revenue growth that we have referred to, Nilesh.

Nilesh Shah: Great. The second question which I have is around, this quarter we have experienced a sharp increase in our employee cost, and this is not withstanding the fact that we have had some write back in provision for the sales commissions and all of that. So, I just have two questions, one is, why such a big increase in employee cost for this quarter? and I am comparing this on a year-on-year basis.

And the second is that, given that this is just the start of the financial year, this is the first quarter, how come we have provisions left which have to be returned back, I presume that in the first quarter of the financial year you would not have excess provisions on that front. So, I just wanted to understand from an accounting point of view as well.

Vinod Kumar: So, let me address the first one and then I will hand it over to Venky to address that reversal part. With respect to the addition of the team, this has been done primarily, as I told you, to increase the capacity so that we can drive higher quarterly revenues. You know that as per the new accounting regulation the revenue recognition is based on the POC and the percentage completion of the project, which again have a bearing on how many resources are there for us to deliver these backlogs. So, considering the fact that we have to drive higher quarterly revenues to get to the growth that we are expecting, we have to add more capacity to the delivery teams. So, this is one part, a significant part of the addition has gone to the delivery side. We also have had some addition into the new areas where we are scaling up, particularly in the sales and marketing areas for IoT and OT security. And that again is coming in, I mean, this addition has happened in the in the sales and business development in North America, the Middle East, and Europe. So, therefore, that again contributed to the increase in the employee cost. Venky, you want to take that query on the reversals?

Venkatraman G. S.: Nilesh, the reason for the higher reversal in the current quarter is because we do the true-up for the last financial year payouts in terms of what are the actual commission payouts in the first quarter. While a lot of it is estimated into the quarter, but there are some portions or the components of the incentive payouts which is linked to a number of other factors which is not completely accurately available as we close the year. So, do those true ups happen in the current quarter and that has led to the reversal which you are seeing in the current quarter. These are not related to the current quarter, these are some parts relating to the last financial year, which got reversed in the current quarter.

Nilesh Shah: So, Venky, would this kind of even go on in the future? Or is it like kind of going through a learning curve where we would be able to reasonably accurately be able to kind of, in a way, ensure that on our every quarterly basis we have the right employee expenses, this is something which will basically continue even going forward?

Venkatraman G. S.: No, no; see, there will be some bit of reversals which will be there depending on how the provisions happen. Because if you look at in our business, unlike a typical services model, a lot of our sales commissions are payable, people have the ability to earn those commissions through the year. Which means somebody misses a target for the quarter and then they catch up in the next quarter, they have the ability to earn the commissions which they missed out in the subsequent quarter if they catch up and they are able to close the orders. Because the nature of the business is such that you have orders which are bulky and they come in as in closures happen. And we do provide the opportunity for people to earn them back even as the year progresses. To that extent, we do hold back provisions depending on how we see visibility of closures which are happening for the sales guys. So, that leads to a little bit of such plus/minuses happening. But yes, we are also continuously looking at our processes to see how do we improve this further and keep such reversals to the minimum.

Nilesh Shah: Yes. Because Venky, what happens is if I just look at the reversals in provisions for the last two quarters, March and June, they add up close to about Rs. 13 crores which on a revenue base of Rs. 373 crores that works out to kind of in excess of 3% to 3.5% of the revenues, I mean, that's quite significant because it has some implications in terms of margins, and it just creates volatility in the margin. So, I think as investors, it becomes very difficult for us to every quarter kind of look at and track how the margins are moving. So, maybe it is just a suggestion that if you can do something about this,

Venkatraman G. S.: Sure. That's a valid observation and that's something which we are aware of, and we are working to improve that further as well.

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

Amish Kanani: Sir, the question is, we have shared the contract backlog, which is $111 million, and 12 months being $42 million, and Nilesh bhai also alluded to the fact that now the ask rate is higher, which is reflected partly in the backlog of orders. The question is, even the total contracted backlog also is not increasing, so the question is, is there attraction that we are seeing in the new products that we have launched, Horizon 2 & Horizon 3 ? What are the typical ticket size that we are getting, because it's not reflecting even in the total order backlog?

And two, you said that the implementation cycle is little, shorter, so if you can give us some sense of what are the, say, giving an example of oil & gas contract that we had, how are we getting it? And you also mentioned it is CRR based, so if you can elaborate a bit there. And in that context, our expectations of US$20 million from the new revenue, new Horizon product, does it look on track or maybe we will have a surprise on the upside? Thanks.

Vinod Kumar: Yes. So, so first, on the on the contracted backlog, I think we have a reasonable quarter one, when it comes from an order booking perspective, it is significantly higher than the normal quarter one that if I look at the last three, four years, the quarter one booking has been probably one of the best quarter ones that we have from an order booking perspective. But having said that, again, like the revenues in quarter three and quarter four, there's a significant skew upwards when it comes to order booking as well. So, I think the good part is that we have replenished all the things that we have used up. And I said, by the end of quarter two, we expect to have all the backlog that is required for us to drive revenues for this financial year.

Now, coming back to your question on the Horizon 2 and Horizon 3, now there are two products, security and security product which is Horizon 2; and Horizon 3 is kind of the identity analytics. If you look at identity analytics, the average MRC that we are talking about for eKYC will be around US$500 to US$1,000. I am just talking about average, broad basing around a large set of customers, the average will be about US$500 to US$1,000 per month, and that will go up to US$5,000 per month once we add the transaction monitoring. So, the number of customers will be several, I mean, even if you look at customers as against core, we have addressable market of 700 to 800 customers, but here the addressable market will be thousands, maybe in India itself if we take that, there will be at least hundred thousand customers that will require the identity analytics.

When it comes to our IoT security, there are two sectors that we are catering to, one is the enterprise segment which is again the SaaS based things which we are expecting an average revenue about US$7,500 to about US$10,000 per month is the average revenue that we are expecting from one site, one location; again, this can vary differently based on the number of elements that we are covering. So, that's one segment that we are covering. And then you have the large governmental and the large enterprise segment where it will be a multi million dollars. So, currently where we are, we are addressing some of the contracts that we have won our large conglomerates or large MNCs which have got multiple sides, multiple country installations. And currently our focus is to implement the first site, like I mentioned in the Middle East oil & gas situation. Take another example, we have implemented manufacturing setup in Asia in the APAC region and that's a global company and we are now expanding it to the next country.

So, I guess the new areas or ticket size, you get the range of MRC. But it is number of customers are significantly more catered through both channels, distributors and things like that. So, the business is very different. But there is a part of the business which is at least large enterprises as well similar to the telcos etc. And there probably the profile will be something similar to what we are used to in our core area. But the real growth and number of customers we are expected from smaller customers paying smaller MRCs, but a large number of ones similar to the SaaS based companies that are used to. So, to answer your question on the US$15 million to US$20 million ARR, we are still confident based on the current things that we will get.

Amish Kanani: And sir, the second part of the question is, you mentioned EBITDA margin more in the range of 20%-22%, but that is more of a Q1, whereas annual last two years average has been more like 25%, 26%. So, are we being conservative there? Or based on the costs that we have kind of upfronted maybe on the employee side, and also maybe expected cost that might incur again when the people start travelling, we are kind of guiding that range of margin?

Vinod Kumar: It is primarily due to travel and the marketing which we expect that will slowly pick up, because last year we did not have those two expenses. So, marketing for sure started picking up, and travelling, we expect that from the December timeline in Europe and USA people have already started travelling. But I guess the travel will start picking up. That's why I mentioned the steady state will be around 22%.

Venkatraman G S: And another point is on the investments in the newer areas continue, right, I think those will take some time to ramp up, so that will also impact the overall margins, because you talk about company level margins in 20%-22%.

Vinod Kumar: That's correct. So, when we talk about that margin, we have factored in the investments that we have currently planned for the new areas as well.

Amish Kanani: Sure. And sir, if you can share also, maybe if not now, late in the call, total contracted backlog as of last year this time? Thanks.

Venkatraman G. S.: Okay. We don't have that ready right now, we will come back to you. Because we have been originally reporting OI numbers, and we have moved away from that to start presenting the total contract value numbers. So, we would like to come back to separately on what it was last year.

Vinod Kumar: Yes, so while we were not reporting that OI backlog, but if you look at the comparable number, we talked about the OI backlog last year, we have almost doubled from whatever it was last year, from a Q1 OI perspective. But again, I don't want to confuse you with giving another number, so the backlog is much more meaningful so therefore we have started reporting in the backlog.

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

VP Rajesh: Just a question on the Horizon 2 and Horizon 3 products, what is over MRR or ARR at the end of the June quarter?

Vinod Kumar: So, Rajesh, we drove overall revenue of $0.5 million, just under $0.5 million is what we drove. I don't have the breakup from an ARR, MRR perspective, but I think bulk of the revenues come from that range, but about $0.5 million is what we drove from that happened in Q1, Rajesh.

Moderator: Thank you. Our next question is from the line of Deepak Chukani from the Rade Capital. Please go ahead.

Deepak Chukani: Would management like to give any insight on the revenue expansion for FY 2023? I know the management has guided in teens for this year, but any insight for FY 2023?

Vinod Kumar: No, I think at this point in time, we do not want to give anything, because our focus this year is to get to growth that we have suggested. But I guess overall, as I said, particularly on the new areas we still want to see that within the three years' timeframe, we definitely will get to this US$15 million to US$20 million ARR that we are talking about.

Moderator: Thank you. The next question is from the line of Ashit Koti, an individual investor, please go ahead.

Ashit Koti: I have two questions; one is with regards to the subsidiaries. We have listed approximately around seven, eight subsidiaries, can we get the performance breakup of these subsidiaries and how much they are actually contributing on the revenue as well as the profitability? That is one.

Second, earlier also I had asked for like each new area we are venturing into, who are the top players in the same field in the world as well as within India.

Venkatraman G. S.: Okay. So, on the subsidiaries performance, I think we have a number of subsidiaries. And of this, Subex UK is the largest one among the subsidiaries, other ones are smaller one. So, a significant portion of our business comes from LLPs and that is anyway part of the consolidated numbers which we report. And if you look at our annual report for last year, we will have the breakup of how each of these subsidies have performed. On a quarterly basis, we don't disclose how each of these subsidiaries have performed because it is a lot of work to compile and present it at that level. So, on an annual basis, you can look at our annual report and you can have that information.

Vinod Kumar: Okay. Coming to the competition, when it comes to IoT/OT security, particularly on the OT security we have two companies, one is Clarity and another one is Nozomi, both of them are U.S. based organizations that are competing with us globally, we do not have any local competition per se. When it comes to the identity analytics, there are not, again, there are a lot of solutions which is broadly in this space, other competitions are doing some fraud management, things like that. But specifically offering eKYC and the transaction monitoring, we don't see that as yet. But we are expecting as this is early range for us, as we start getting it we will definitely find some competition and we will report that. At this point in time, I cannot name one global competitor that we have around this product line at this point in time.

Ashit Koti: Within India, sir?

Vinod Kumar: Within India, we don't have anybody. I mean, these strong competitors play an Indian market as well, but they don't have anybody from India. No Indian company is competing with us, that's the point that I was trying to make. These are global companies which will compete globally. Like we are competing globally, these companies are also competing globally.

Ashit Koti: Infotech, their blog, and I think they are all already in to cyber security. So, I was wondering.

Vinod Kumar: No, we are not in the cyber security, our focus is OT, operational technology security. So, there are hundreds of players in the cyber security space, there is IT security, but we are focused on OT, operational technology security, which is important for critical infrastructure; Industry 4.0, IoT and things like that. That is a very specialized space which is evolving within the overall domain of cyber security. And there the players that I just said, they are more players. Now, there might be lot of service providers offering these services, and they will work with one of the OEMs like ourselves to provide the technology. They might provide it as a security solution underpinning one of these technology or IP from one of the OEMs like ourselves.

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

Mahesh Kumar: I have two questions, first question is, why we are not increasing our market share in our core telecom business so that we can reduce the competition and increase the margin? Second, we are announcing multiple partnerships for joint ventures, what is contribution of those joint ventures in terms of revenue? Or what POCs we have done? Recently we have done announcement of Skylab, so what is happening on that? And smart city security, that we have announced two years back, so what is the progress, are we getting any new smart city orders based on that reference? Thank you.

Vinod Kumar: Okay. First on the question of increase in the core, definitely we are competing well in the core, obviously, you can appreciate the fact that post this market pandemic situation, most of our telco customers have been quite, they have increased their rigor on which they are spending, there's a lot of cost optimization that they are looking at. Having said that, wherever there is an opportunity in our core areas, we are competing, and we do have plans to expand into areas that do have a competition that counts and things like that. So, that's a constant area that we are focused on.

Coming to the joint ventures and what we are doing, as I told you that joint ventures, like you talked about Skylab, through Skylab we have already secured the maritime deployment in the shipping, the shipping industry has been done through this Skylabs. We have also deploying a 5G operations in Singapore through them. So, there are there are many things that are happening through the partnerships by us. And please also realize and understand that this is the only way we can increase the reach, so partners and distributors are a key aspect. And many of them we are doing several POCs along with our partners as well, so I think we are very, very happy with some of the way we have gone about it is with the GTM along with the partners. Otherwise, we would have never reached many of the sectors that we are currently engaged with, if he had tried to approach it directly.

Mahesh Kumar: What happened to the smart city security? We have done one implementation in USA. Any follow-up order after that?

Vinod Kumar: Yes. So, the smart city implementation, we have done one in USA, and post that we had to get an approval from an association so that we will be approved to deploy in any of those, or any of the other counties can approve that. We have recently got that. Post that the priorities have been, I mean, the overall the investment from smart cities around this area has been quite muted, as most of the city or government level funds have gone into COVID related things. With the recent cyber attacks, there has been a renewed effort, starting with a critical infra, so currently the U.S. Government has requested a critical infra cyber security to be strengthened. We expect that post that it will come up to the city level administration and there we will see an increased opportunity. So, we are in touch with them, but we have not been able to secure because we had to wait for the approval to come for us to directly pitch it. The first one was we were a part of the consortium and we got that thing. But to answer your question, that is a very satisfied customer and it's a good reference for us in the city of Arizona. So, we hope that we will come back to you with some progress there in the coming months.

Moderator: Thank you. Next question is from the line of Aatish Bhachech, an individual investor, please go ahead.

Aatish Bhachech: To be very specific on the quarter the results announced yesterday, as per the earlier guidances, our company was to deliver double-digit growth, but results certainly don't reflect the same. So, can you please share the view on how we are going to really improve ahead also, and simultaneously what actually went incorrect in the last quarter basically?

Vinod Kumar: Okay. The first point is that, when you talk about the double-digit growth, my request, as we have been talking in earlier analyst call also, our business at this point in time should be monitored on a year-on-year basis, because even today the bulk of our business is coming from the core areas which is which has got the lumpiness based on when we secure the contract and when we start implementing it. So, there is a lumpiness that happens from quarter-on-quarter, that is something that you will have seen. If you look at our quarterly revenues, that was kind of quite evident. And we expect that it will go away as we move into more and more subscription-based business. But at this point, even the excess of 95% of the business comes from the traditional mode of business.

Second, I have already clarified in my earlier briefing, the primary reason why probably our revenues came down is because of the concerns that we had with respect to initiating and delivering the projects on account of almost about 150 people down with COVID during the

April-May timeframe where we had to talk to your customers and secure their support and delay in the projects etc, because we didn't have an ability to execute, the people were down and they were out of action. So, that's a primary reason. But as I clarified to an earlier question of Nilesh, we are quite confident that we will bring back the revenues to meet the growth forecast that we have already suggested and expect, I mean, as we have set the expectation in the last call.

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

Jeevan: So, I have one question with the management of Subex. So, we all know that now due to pandemic almost 70% to 80% industries are online. And on the other hand, this online security relate concern has increased, so how we are dealing with this? And what is the strategy behind strengthening our company? And is there anything which we are asking to come on board and take it forward? Or we continue with current what we have now? Because this is the right time, we have a demand, and we have to grab as much as we can in market share. So, what is your views here?

Vinod Kumar: So, I think your point is primarily on the cyber security side of it.

Jeevan: I am talking actually on everything, not cyber security, IoT security or anything with data related or something, like that

Vinod Kumar: Yes, so I think there are two distinct areas, on the core areas it's a traditional products for telcos and their I guess what we are seeing is that all the existing projects that were put on hold, we are seeing the emergence of it and some new projects. And that's why I told you the acquisition of three new customers on the core area is also very significant because one is to close the projects that were put on hold and initiated before the lockdown, and the pandemic etc. But getting new logos, which we initiated during the course of this pandemic, that is even significant because we had to learn the whole way of engaging completely remotely and winning the new deal, right? So, that's significant.

To your point of the security side of these things, we are focused on two specific areas at this point of time, OT security, that is operational technology, which is relevant to critical infra industries, etc., and IoT security. What we are seeing as the major requirement from the market at this point in time is on the OT side. Why? Because OT is where I guess we are seeing a lot of attacks that are happening. And therefore, there is an urgent need and they wanted, also because of their needs to move into a work from home mode for the industries etc, they will have to also strengthen the security which was in the case earlier. So, that's where our current focus are.

With IoT security, IoT security, by and large, there have been a delay in the rollout of IoT because of the field issues, because most of IoT deployments from the operators etc will require people to go on the ground and install IoT devices, etc. So, there has been a delay because of lockdown and things like that. So, therefore, as and when that picks up, we see the security will come, the requirement will go hand in hand when the IoT rollouts happen. But our current focus is on the industrial side, where we are seeing an increased demand. And precisely like what you mentioned, that's what we are trying to take advantage of as you talk.

Jeevan: Yes, because I track this industry from last 17 years, I have not seen the investment like this from any company in security area, so this is the right opportunity. And we should go for gold medal not for the bronze one. Because we will not get this time a win in future.

Vinod Kumar: Absolutely, yes.

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

VP Rajesh: So, I was just talking about understanding the ARR for the Horizon 2 and Horizon 3 products. And I heard you say that the revenue was US$0.5 million. So, you are saying, in this quarter we got US$0.5 million of revenue for, let's say, the backlog we had at the beginning of the quarter? Is that sort of what you are saying?

Vinod Kumar: Yes, well, I mean, during the course of this quarter we also initiated some commercial engagements with the customer. But Rajesh, as I told you, the average addition for our IDCentral customer is about, as I told you, for the eKYC is about US$500 to US$1,000, and for the transaction monitoring is about US$5,000 on average. And for the IoT/OT security per sites, the average site will be about US$7,500 to US$10,000 per month. So, I guess, from a run rate basis, $0.5 million is much significantly higher than what we have done last year. But again, as we go along, I think every month MRR is going to add on top of it, and you understand how they MRR works. So, that is where. We will start providing details going forward. But overall, from the new areas, we drove around US$0.5 million in this quarter.

VP Rajesh: Okay, understood. And last year, we were talking about ramping up these two groups to, let's say, US$15 million, US$20 million of revenue in the next two, three years. So, if you can just comment on where we are on their journey.

Vinod Kumar: See, Rajesh, the scale at which this can grow is enormous, because as I told you, the example that I gave is that one of the multinationals that we are working with, we have just installed in the one plant in APAC country, and they are a global company and the plan is to expand through all the countries where they have operations. And we are talking about in another 60 to 70 countries and each country having three or four industrial factories they have. So, I guess just about everywhere we are talking about the scale is similar, we start small, once we prove the value, it gets expanded to other areas. So, currently, our focus is on to close on strategic partnerships and key customers, key MNCs that we are working with. And in between there are some large deals on the large enterprise and the government side that could be very, very large deal similar to or even larger than our core business deals that we are typically talking about. So, put together, as we stand today, we are still bullish that we will get to that projections that we are talking about, Rajesh.

VP Rajesh: Wonderful. And just one housekeeping question for Venky. I missed the number for the provision that you wrote back in this quarter in the employees expenses, what was that number?

Venkatraman G. S.: Rs. 7.86 crores.

Moderator: Thank you. The next question is from the line of Vineet Sagar from Venture Garage. Please go ahead.

Vineet Sagar: So, it seems that all of us are excited about the opportunity in the Horizon 2 and Horizon 3 areas, because those are the growth areas for the business. Now, you also mentioned that for the IT security and our SaaS product, the ticket sizes could be low, but the potential customer base is very, very large, right. So, what I am trying to understand is, how scalable is our model in terms of selling to our clients, deploying at our client locations, and being able to service this? And how do we intend to squeeze these timelines in order to create a scalable approach?

Vinod Kumar: So, in these new areas, the deployment cycles are much much shorter. So, for example, in the case of IoT security, we are talking maybe about four weeks, five weeks implementation as against a 9 to 12 months on our core areas. And when it come to IDCentral, identity analytics, it will be even much shorter, once we kind of get to a scale we are expecting that we should be able to turn up the service under one week or maybe 10 days. Now, the reason why it is because both of them are SaaS based offering and it's all API based thing, they just dropped to API or they just connect up to the API and things go live. So, we have factored in both in the engineering side of it. At this point in time, our focus is to get the customers to ensure that all the things that the customer wants and the customers from an integration point, everything is working well, once we get that part clear, then we will figure out how to scale that. Then at this point in time, we fully understand how that whole thing works. So, from a deployment perspective, that might be we don't have a challenge based on architecture etc. Where we will have the challenge will be on the GTM side, because this is multi vertical and this is applicable to just about every segment that you are talking about, that will be a challenge for us to look at identify the segment to go after, identifying the partners to go after new segments. And that is where probably we will have to do a lot more going forward. Once we get the customers, I think the scalability is something which we have managed for our telco customers as well from a pure engineering standpoint, we are quite confident. GTM is the other verticals is where probably we like to figure out many more things as we go along.

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

Rajkumar Ojha: Sir, my question is regarding India. Besides core one, have we penetrated in Horizon 2 and Horizon 3 in India? Because the sales do not reflect our very strong presence in India. Do we have any plan to jack up the investment so that the sales come up?

Vinod Kumar: Yes. So, I think Horizon 2 and Horizon 3, we have definitely started focusing on India. IDCentral is something which we started about two or three months back with focus in India, we have onboarded the first two customers and we have a very, very strong pipeline from India. When it comes to IoT/OT security as well, we have brought in the team, we have invested, and we have a specific team focused on the Indian market. And we have also seen very good pipeline generation and POCs happening at this thing. So, for both IoT/OR security and IDCentral India is a focused market, and we will see a lot more contribution coming from the Indian market from an overall revenue standpoint going forward.

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

Amit Mishra: Just one question. What was the cash flow for quarter one and the cash in books? It's missing from the presentation, we had in previous quarters' Q2, Q3, Q4 these numbers mentioned, so if you can just let me know, please.

Venkatraman G. S.: Yes. So, we have about Rs. 145 crores of cash in the end of June 30, 2021. And I think our operating cash flows have been strong and DSO is about 89 days. I will check what happened to the cash number, I think it is still there.

Amit Mishra: It gives FY 2021 number but not for Q1.

Venkatraman G. S.: Fair point. We will update that in the coming quarters' presentation.

Amit Mishra: Okay. And the other thing was in the presentation, I noticed, you provided a very good table, USD basis for guidance for the full year, and you had all revenue, EBITDA what you are going to achieve, in addition to the order backlog. Can you reinstate that table? It is quite a good table for us to follow. It was in dollar terms.

Venkatraman G. S.: Yes, I know what you are referring to. But I think that was a one-off thing which was intended for a different purpose. But I think, as you know, we have been giving a broader guidance in terms of our revenue numbers of what we see as growth for the coming year. And we have also been guiding a range in terms of how our profitability are going to be. I think, given the nature of the business and the way this year has panned out or the last year for that matter with the pandemic, we just wanted to get a little more stability and predictability to the business and then we will start providing more detailed projections on the lines you have asked for. So, at this point in time, we will kind of continue with this current model of giving a range in terms of how we see the full year likely to be; and of course, range in terms of margins for the full year.

Amit Mishra: Vinod, can you please give some color on, like we talked before about defense opportunity in India, is it really a good area where we can make some difference? Or it's just you are testing the waters?

Vinod Kumar: Okay. Look, I think we are looking at the industries very specifically, and some large governmental things there is definitely there. But we are not betting on that, we do have a team who is focused on there, but you know the incidence of that, the dependability, I mean, there are a lot of dependencies there. So, we are not betting our farm on that segment on the governmental segment. But having said that, we are participating in a few areas, few tenders for us to test the waters. Our focus is more on the industries, on the enterprises, enterprise segment which we are focused on the three markets of India, Middle East and North America.

Moderator: Thank you. We will take one last question, which is from the line of Mahesh Kumar, an individual investor Please go ahead.

Mahesh Kumar: My question is to Vinod Kumar. In India two groups are working on building indigenous 5G technology, one is driven by Reliance Jio and other is driven by Tata Group plus Bharti Airtel as their probable customer. So, is Subex working with any of them to build indigenous 5G technology? Because we have a tie-up for open RAN.

Vinod Kumar: Yes. So, at this point in time, we are in discussions with them, but I wouldn't call that we have any tie-ups etc. Our focus is to participate more on the open RAN and contribute there so that any stack that is developed based on the open RAN, they can adopt our components very, very easily. So, that's our approach currently that we will fully support the open RAN stack so that anybody who's developing either themselves or with a combination of components, they are developing their stack and use for our products, our IPs, Mahesh.

Mahesh Kumar: Okay. And in industrial IoT, are you having exploring tie-ups with some industrial OT technology companies in U.S.?

Vinod Kumar: Look, I think there are two ways to it. So, there are large OT companies like Schneider, ABB, etc, they are large industrial companies, they have their own security, and to an extent, we are sort of competing with them in that sense, because customers are not happy with providing the security from them. But there is a segment which is just below them, which is also very prominent and very, very widely spread. We are working with that OEM, that segment of OEMs to provide security to them directly as a part of their deployment or post their deployment. So, to answer your question, with certain segments of the large OT providers, we are working with.

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

Vinod Kumar: Okay. So, we thank you all for taking time for attending this call and your continued interest in Subex. You can always reach out to us at investorrelations@subex.com, if you need any further clarifications, or if you have any other suggestions. Thank you again and stay safe and take care.

Venkatraman G. S.: Thank you.

Moderator: Thanks. On behalf of Subex Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.