



Subex Limited

Q2 FY2023 Earnings Conference Call

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MANAGEMENT: **MR. VINOD KUMAR PADMANABHAN - MANAGING DIRECTOR & CEO**
MR. SUMIT KUMAR – CHIEF FINANCIAL OFFICER
MR. GV KRISHNAKANTH - COMPANY SECRETARY & COMPLIANCE OFFICER

Moderator

Ladies and gentlemen, good day and welcome to Q2 FY23 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 * and then 0 on your touch tone telephone. Please note 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 quarter ended September 30th, 2022. I would like to introduce some members of the management who are present for the call. Along with me, I have Mr. Vinod Kumar, Managing Director and CEO, Mr. Sumit Agarwal, 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, earning our ability to successfully integrate acquisitions, competition in our area of business, client concentration, liability for damages in our contract, withdrawal of tax incentives, political instability, unauthorized use of our intellectual property and general economic conditions affecting our industry. So, with this, I handover the call to Mr. Vinod Kumar to take it forward. Thank you.

Vinod Kumar

Good afternoon everyone. Thank you for attending this call. As we have announced day before yesterday the financial results for Q2, the revenue for Q2 of FY23 stood at about Rs. 74.5 crores. This is a drop from the Q1 level of around 10%. The EBITDA was marginally positive, but we also have a loss after tax for Rs. 5 crores. So overall, it was a difficult quarter. What is in line with our expectation is that the full impact of the license to subscription model changes flowing into this number. But what was not expected is some additional headwinds regarding the budget schemes and some service reduction requests from our customers, which I will elaborate as we go through the course of the briefing. But before we discuss the core business, I wanted to cover the progress that we are making on the young and growing part of our business.

Let me start with IDcentral. As probably some of you would have seen from our investor presentation, we have added 11 more customers to IDcentral range of products and currently the total number of customers that we have is about 33. Now we have made significant improvements to the products, and also have managed to reduce the cost of our service and better deals with our partners, we have passed some of these savings to our customers. And all these reasons have resulted in an increased number of pull up for API and from start to date in this quarter we have crossed 10 million API pulls on our platform.

What is also significant is that we have launched a face matching feature wherein with a of list of let's say defaulters, or fraudulent customers with photos we are able to match the new applicants and even if they're let's say data are different, like name etcetera are different. If there is a match in the photo with a very high degree of accuracy, we are able to detect them and thereby preventing these fraudsters or defaulters getting into the platforms again. So, this is definitely a improved capabilities that we're brought into the market.

So overall, I think if you look at both from the API pulls and the number of customers, it is getting into a good profile of that growing SaaS business and we expected this growth to continue in the quarters to come. Now, let us move to sectrio the IoT OT security portfolio. The major update is that we have won our first electric utility in the country, we have won the deal from BESCO. Now, this is a very, very important sector for us with the kind of digitalization that is happening and the exposure that we are seeing of the sector in the cyber threat etcetera.

This is a very important sector that we are focused on and this particular win will help us to significantly improve our positioning in this segment, we are also making good progress in the manufacturing in critical infrastructure areas in the UAE and Mexico, which are the two other markets that we are currently focused, in addition to India as a market for sectrio. With Hyper Sense AI, our augmented multi personnel AI ML platform, in addition to EMEA where we have a strong preference in the telco area, we have also a specific focus to get through to the North American market and in line with that there are currently two POCs underway the tier one operators in North America. And we hope to complete these in the next quarter.

So overall, for Hyper Sense AI, which is our multi personnel AI ML platform also, the progress have been good and we have several POCs going on. And we expect and these are at this point that we are only focused on telco segments, and POCs and the contracting telcos take time, but I guess we are quite hopeful that some of these POCs, we will be able to conclude quickly and convert them into commercial success. So overall, I guess that's the new areas, we have started

adding customers and growth is also in line with our expectation, and our overall expectation is that as we end this year, the new part of the business grows about 3x of what it was last year.

Now, let me come to the core where we have a bit of a challenge. As I mentioned, on account of the inflationary pressures in various markets, we are seeing some headwinds whereby there is budget squeeze from some of our customers that resulted in some requests for reduction of some of the services, particularly the managed services that we are offering these reductions on like, movement of some on-site resources to offshore and moving some 24/7 operations to 7/5, and things like that. So, this has definitely resulted in a dip in our revenue, and it will at least take two three quarters for them to streamline and get back to the service levels that we were offering them till last quarter.

Now in addition to that, as we have been communicating, on account of all of our products moving to Hyper Sense platform, we are fundamentally changing the business model from a license plus implementation to a subscription-based model, and the full impact of this license schemes, subscription changes flowing into our financials at point in time. So, but this was expected, and we have been communicating for the last couple of quarters that we will have this therefore a small dip because we whatever we are executing and recognizing the revenue over 12 to 15 months will get actually will get recognized over a larger period of maybe three to five years, the advantage being that we will be able to secure a lot more customers and also convert some of the competition.

So, I guess that's the impact of this change is flowing into our financials plus this headwind of some reduction of services has resulted in a lower overall revenue for this quarter. However, I think it's important for us to see our business going forward as a subscription-based business. And therefore, the construct of our business would be MRR, which is Monthly Recurring Revenue, and One Time Revenue. So, I just wanted to provide you a baseline as to where we are today with respect to both the monthly recurring revenue and one time revenue backlog. Our Monthly Recurring Revenue, as on September ends to that USD 2.3 million, which means that then if you look at from a quarterly standpoint, it should be something like 2.3×3 times, that's almost close to US\$7 million, will be the quarterly recurring revenue.

And our backlog for one-time revenues stood at US\$14.7 million. So, this US\$14.7 million will get executed as we implement these projects. These are primarily the implementation change requests and things like that, which will get executed and maybe 3 to 4 quarters. So, our intent is that a US\$ 2.3 million MRR, Monthly Recurring Revenue is something which we will start reporting QoQ and our intent will be as we grow the subscription business, this US\$ 2.3 million MRR will grow from that level going forward. So that's our expectation. So, in line with some of

the reduction of services that we faced this quarter, we have been able to redeploy our talent against open headcount against attrition and such things.

And therefore, you will notice that even with the yearly increments, which we typically given Q2, our overall employee cost, pretty much remained at the pre increment level. So, we have been swift to reallocate these resources against attrition and therefore, maintaining the employee cost at the Q1 level, even post increment. Coming to talent people side like what we are seeing in business is overall as an industry, we are seeing a higher than usual attrition levels and our focus is to retain our key talent. It's not easy, but what is helping us is the work that we are doing leveraging cutting-edge technology like AI and ML and etc.

So, in summary, the revenue dip for the last quarter to this quarter is on account of the impact of license to subscription model change fully flowing into the financials and also the reduction on account of headwinds that we talked about where some MS services have been reduced on account of budget squeeze that operators are doing This budget squeeze. Just to clarify is not on our products, it's across the board they are looking at this budget squeeze, the next aspect is that as we convert to a subscription-based business, it's important to see our overall business constituting of a monthly recurring revenue and a one-time revenue and our current monthly recurring revenue is about US\$2.3 million per month, and the one-time revenue backlog stands at about US\$14.7 million.

The intent is to have this monthly recurring revenue grow on a QoQ basis, as the new areas have started clocking decent growth and we expect this to continue. I know that the results are not what you're expected but we are taking all the necessary steps to ensure that we are getting a steady growth path. We request your patience and also, I thank you for your support and we will need a lot of them as we go through this transition and ensure that the company is taken to the next phase of growth. With that, I would open to the questions please.

Moderator

Thank you, Sir. Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again. Participants are kindly requested to ask two questions in the initial round and may join the queue for more questions. We will wait for a moment while the question queue assembles. The first question comes from Pratap Maliwal from Mount Infra Finance. Please go ahead.

Pratap Maliwal

Hi, am I audible please?

Vinod Kumar

Yes, Pratap. Go ahead.

Pratap Maliwal

Sir, just wanted to ask regarding the Hyper Sense transition, we mentioned we're doing two POCs in North America, so are these for existing customers or are these entirely new customers that we're targeting.

Vinod Kumar

These are with existing customers, but our new areas, this is not for our core products, but this is for the new platform Hyper Sense AI ML platform. So, we are doing a POC for use cases which are AI ML specific, nothing related to fraud, RA etc., which is our core area. So, these are with our existing customers on new areas.

Pratap Maliwal

Okay, and I think in the recent past, we had called out a high percent deal for fraud management to be in the area for US\$3.5 million. So just wanted to understand had the deal been for a traditional license implement support model, then what would have been the deal size just trying to get the Delta that we get from the transition from the traditional to the new model to Hyper Sense? What percent the deal size would be.

Vinod Kumar

So, the deal size would have been let us say maybe it would have been around US\$2.5 odd million that would have been recognized, I'd say over a period of 18 months or so. But what we do with this is that this is over a larger period, however, we have the ability to, if you look at the original construct US\$2.5 million and thereafter, we get probably an annuity of say 200K per year or something of that nature. But in this case, once the implementation has happened, and we are expecting the implementation to get completed by March timeframe. From then onwards, on an

ongoing basis, we will start getting the MRC starting then till we continue the service. So that's the advantage that we have, and the second advantage is that, now that they have the Hyper Sense platform, we can also start moving additional use cases on top of the platform, which will come with an increase in the monthly recurring chances.

Pratap Maliwal

Okay, Sir. Thank you, the number of customers that you transition to HyperSense, I believe, it was seven customers in Q1, what is the number? Any update on that Sir?

Vinod Kumar

So, we have signed up another three more at this point in time. These are primarily for the conversion of our existing ROC platform into Hyper Sense platform. But I think along with that, as I told you, we also have several POCs going on for Hyper Sense AI, like the two North American POCs I was referring to, those are independent of these conversions of ROC to Hyper Sense platform, that we clarify.

Pratap Maliwal

Okay. And just one final question from my side, please. Last quarter, we had made provision regarding 86.6 million regarding a customer. So, have you started recovering on that part?

Vinod Kumar

Not as yet, we are still working on it, there is a region and some of the Forex challenges are not allowing us to make progress, but we are expecting that we would make progress some progress during the quarter, during the course of this quarter.

Pratap Maliwal

Okay, Sir, that's it. Thank you, I'll get back in the queue.

Vinod Kumar

Thank you, Pratap.

Moderator

Thank you. Next question comes from Mahesh Kumar, an individual investor. Please go ahead.

Mahesh Kumar

Yes, good afternoon to Vinod and CFO. My first question is related to the cash in the balance sheet. The announcement given to the BSE on 14th November, page number 11, says cash in the balance sheet as on 30th September, is Rs. 54 crores. Whereas your presentation which is submitted to the BSE yesterday, says total cash in the balance sheet is Rs. 85 crores. Which is the correct number?

Sumit Kumar

So, Sumit here. So, we do have money sitting into the investment accounts, which is highly liquid cash. It's in the form of Mutual Funds and FD. So, what we reported in the balance sheet if you see as per the statute books of account that is shown under the investment line, which is highly liquid. So, what we reported is the consolidated cash balance is Rs. 85 crores though the cash and cash bank is Rs. 54 crores as you rightly pointed out, so both are considered as a liquid cash.

Mahesh Kumar

So, what is the reduction in cash in this quarter? See last quarter there was Rs. 17 crores reduction in the cash, what is the reduction in this quarter?

Sumit Kumar

So, this quarter, obviously, there's a loss which is translating down to the cash loss which is represented in the cash flow as well. And plus, there is a delay in the collections as well, which is like money has been piled up into the working capital due to some challenges around on delaying connections and things. So that is largely the thing more on than the business loss plus the amount slightly went into the working capital. If you see our DSO is also slightly increased. And the whole idea is this quarter we are just working out more things to get this back to the normal.

Mahesh Kumar

No, all these finances are going haywire. Is it due to poor financial control or lack of talent in the finance department?

Vinod Kumar

So, I think that the two aspects as Sumit mentioned there is our revenues have come down. So, if you look at from a cost perspective, if you look at the increase and typically if you look at the historically Q1 to Q2, there is a in line with the increase of the overall increment that is SUBEX expense is go up. So, I think that around.

Mahesh Kumar

No. I'm not asking about that. My question is very pointed. DSO is going higher; it is 111 days. See, this all reflects poor finance control, or the finance department doesn't have the required talent to drive that business, which is the correct situation?

Vinod Kumar

Okay, so I think it's got nothing to do with the talent that we have the finance department, it is the DSO of 90 days, it is not that DSO has gone very bad, it has gone from 90 to 100 days. And this is also a bit of a timing issue on that when we completed the project and then we could get this money in and things like that, as Sumit clarified, this quarter, we are expecting the collections to be more than the billing, because some of the collections that did not come in quarter by September has already been collected in October. So, I think that we will be back on track and you will see that as we end the quarter in December, we are expecting our balance cash position to improve from Rs. 8-to-5 crore level.

Mahesh Kumar

See Vinod, every quarter you are telling these things, next quarter, we will be on track, but we are not coming on track for last 8 quarters.

Vinod Kumar

So, I think Mahesh, if you looked at what we have been communicating is that there is a change in the business model. And therefore, there will be a kind of as we have seen that every company that have gone through that transition, there would be an adjustment of the revenue and it will and

that is why I think that we are currently reached the baseline position where we are able to report that this is our baseline sort of MRR, and we expect to grow from there. Now, what has happened as a bit of a unexpected thing this time, as I mentioned, is some reduction of services.

That's not something when we are delivering about 100% SLA compliance, that's not something that we expected, but these got hit on us, and we are now trying to see that even with that, we are trying to swiftly move the cost to the appropriate areas, and thereby manage the situation. So, I can say you from a qualitative standpoint, I've already mentioned, we are giving you much more facts at this point in time and the customers that we are adding the MRR's that we are booking and I understand that you have been very patient and it has taken more than what we expected. But that's where we are Mahesh. I hope that it is not pointing to anything, but in some of these challenges that we just.

Mahesh Kumar

No, see what my suggestion is, either you get a good talent from outside abroad, so that they will drive the business properly; see what is happening every quarter, you are coming up with new excuse, which is not correct. See, we have been waiting for the last 12 years in SUBEX. So, every quarter coming up with new excuse is not correct, that actually diminishes the credibility of the management.

Vinod Kumar

So, I understand your feelings, but I think, what we are telling is not excuses per se, we have been as transparently communicating the facts.

Mahesh Kumar

That is okay. Transparently you are communicating, but we should anticipate problems in advance, that is what is management.

Vinod Kumar

So, look, I think that is what I'm saying that we are now in a position to say that this is the baseline MRR that we have and therefore I think we are reasonably confident going forward we will be able to sort of show the QoQ growth, I would not say the full impact of the license to subscription has been has flown into record we are still continuing that conversion. But by and large we are

now have the growth in the new areas and Hyper Sense etc. And we are reasonably confident that we would be able to mitigate some of the conversion related issues conversion meaning model related issues on an ongoing basis for the QoQ things. So, I request a bit more patience from your end. I understand the feelings behind your question, but I am requesting you to be a bit more patient so that we can show this QoQ MRR growth, Mahesh.

Mahesh Kumar

No, we can wait, we have already waited for 12 years. So, you can give, wait for one quarter, wait for two quarters; coming up every quarter with new excuse is not correct actually.

Vinod Kumar

So, I understand I don't know what more to explain it to you, but I guess that I understand where you're coming from, but I guess that as I told you here we are taking this as a baseline MRR. So, from there onwards we should be able to start showing a growth Mahesh and we are overall from a revenue expectation let me also take this opportunity set expectation we are not saying that the revenue will come up very quickly but I guess that from now onwards we will see the MRR gradually going up as we start completing this implementation.

So, for example, the deal that the earlier Pratap mentioned now that revenue has yet to flow into the financials even though it's a large game, so, I guess it will start happening from March kind of timeframe. So however, we are executing at full throttle. So that's why I think I'm still confident that we will start slowly slowing the growth, but I fully understand the sentiment behind your question Mahesh.

Mahesh Kumar

Okay, so the actual cash is Rs. 85 crore

Vinod Kumar

That's correct.

Mahesh Kumar

Okay. Thank you.

Vinod Kumar

Thank you, Mahesh.

Moderator

Thank you. Next question comes from Mahesh Jagtap, an individual investor. Please go ahead. I repeat, the question comes from Mahesh Jagtap, an individual investor. Please go ahead.

There is no response. Next question comes from Rohan Kamat from Rohan Finance Capital. Please go ahead.

Rohan Kamat

Hello.

Vinod Kumar

Yes.

Rohan Kamat

Hello, Vinod. I want to know about, why here promoters are not holding any single share means a day by day you are selling only the shares in the and there is a yes you saw also means employees know that you will bring wrong results.

Vinod Kumar

So, on the promoter side, I think the promoters exited in 2012. So, I guess if you're referring to the reason, the classification, it is just a technical aspect. But the promoters of the company literally liquidated everything around the 2012 timeframe. Regarding the ESOP aspect. Let me just clarify that part again. The ESOP has been allocated in FY2018 and FY2019 timeframe and that got vested, and those vested during a period of time and then there is an exercise period on people based on the cash flow etc., are liquidating, are kind of exercising that share with respect to the liquidation there are two aspects for it, of course, based on cash flow.

Some selections have liquidated, but also please understand that we have a lock in period of six months and therefore, even though some of the Subexians have already left SUBEX, but because

of the six months thing, they are a related party, and then we keep reporting their exits for a period of six months. So, some of the recent things that we are seeing as a ongoing listing is not from existing Subexians, they are from past Subexians and they are exiting because like they are rather we are reporting because of the related party, but by and large, it has got a cash flow.

From a compliance standpoint; we have completely compliant on that aspect. And at least me along with my core team are quite bullish on the opportunities in front of us and we are driving this and probably some of the progress even though qualitative we are making, which I just explained, it should give you the confidence that we are fully behind believing, some of this new opportunities and our portfolio and we are going ahead with that.

Rohan Kamat

Even I want to know about recently about Jio deal. You have won the Jio deals, but there is no performance in the financial growth still now.

Vinod Kumar

Jio is a partnership engagement, it's not a deal in the sense, we are engaging with that partnership to take the product to the market, we are in the phase of putting the products together and creating the common portfolio etc. So, it's not a deal where we execute and get the revenue, it was a partnership deal. And as I said, we have a lot more partnership deals that we are working on. But as we go along with the improvement in the MRR, the monthly recurring revenue as I have clarified in the earlier question.

Rohan Kamat

Recently you have done that Jio deal how much amount of you deal have you had done that means which you have partnered? You have partnered with many things, but you are not disclosing that how much crores you have on that deal.

Vinod Kumar

We. I don't think that those are things that we intend to provide specific sort because that we have confidentiality that does not allow us to go into the specifics of those aspects, but I can tell you that almost all the new areas that we talked about, IDcentral, Sectrio and HyperSense AI, our go

to most of the revenues or large part of the revenue that we are talking today is coming through partners one way or other. So, partnership is our main go to market for these new products.

Rohan Kamat

Even you have shown that in a presentation, it is your IDcentral's are growing, but here it is lack of consistency quarterly to 8 quarter, said as Mahesh said that, there is no performance in this company and we are still struggling for this because we have bought around a very high level but the companies are, still you are hoping us that QoQ, but there is no growth in this company. And as I said, all the IT companies are growing but this company, I have seen that there is no growth in this company. Please let me know about it.

Vinod Kumar

So, this is a product business, these are new products. So, I think it is, it will take some time for us to establish this as a business and we are also going through this transformation as I mentioned. So, you should expect that because of the little change in the model, it will have a dip in our revenue and then we'll start going in and as I mentioned, we are now reporting that there is a base MRR of US\$2.3 million and we are reasonably confident that going forward, we will start growing from that level of monthly recurring revenues.

Rohan Kamat

In each and every quarter, you are saying that we are growing from the QoQ, but there is no growth. But I still we are facing the struggles in this company. I think there is some issue in this new placement. I think there is a good chance of a abroad power center to replace here, I think.

Vinod Kumar

Okay, I hear you. But as I said, I don't know, how can respond to that question. But I guess that what I clarified is our current plans and our thoughts on this matter.

Rohan Kamat

Better luck Vinod for the next time.

Vinod Kumar

Thank you, Rohan.

Moderator

Thank you. I request the participants to ask two questions in the initial round and join back the queue for more question. Next question comes from Abhishek Kale, an individual investor. Please go ahead.

Abhishek Kale

Hi Vinod. Am I audible?

Vinod Kumar

Yes. Abhishek, go ahead.

Abhishek Kale

Vinod in the past conference calls right. You had mentioned that we have installed Sectrio on 500 devices of SBI, have we made any further progress in that regard?

Vinod Kumar

No, we have, they have not because we are now working. Okay. Now it being such a thing. I'm not able to speak the specifics of it. But we are working on the redundancy site at this point in time. And once the redundancy site is complete, we will look at expanding to other, expanding to further devices.

Abhishek Kale

Okay. And one more thing Vinod, this is more of a comment. But it seems like the board chairman has probably lost interest in the company because of the immense amount of selling that we have seen from Anagha Investment advisory or ICAN both are controlled by Mr. Singhvi. Right. So, I

mean, it's phenomenal to see that retail investors are holding on, and the Chairman has probably lost confidence in our abilities to deliver. I mean, I don't know what to make out of it.

But if you, as in the current management feel is so strong and it's so bullish about our products and everything that we are doing, right, then why is it not translating into people holding on to the company share that they have at least the SUBEX employees am not talking about the people who have left the company and whom you are reporting as related party transaction. I'm talking specifically about the people who are still working for the company. So I mean, I don't know what to make out of it, your comments on this please.

Vinod Kumar

Look, I think with respect to our engagement that the board and Chairman is fully on, it just came out of there two days or intense exercise of looking at all aspects of the business and all aspects of this transformation. So, I can very, very with lot of conviction say that the board is fully engaged, because this is a very big transformation that we are trying to do and new stack, new platform some of the things we are doing for the first time. So, there's a lot of guidance that we need. And so, we have very, very taken in engagement with the board and the Chairman on this matter with respect to the ESOP etc. as I clarified it is purely on the cashflow requirement and things like that, for Subexians who are existing, the Subexians, please understand that you would also see a similar buy happening in many cases, that is because some of them are exiting to exercise towards the end of the exercise period, they are liquidating some to collect money to generate money to exercise more so. So, I think by and large, you will see that Abhishek the team has stuck on and it's not that in this market, there are no other options, because all of us believe that this is a huge opportunity that we have HyperSense AI and the digital trust portfolio that we have created Abhishek.

Abhishek Kale

Vinod if I may ask one more question. Sorry if I am exceeding.

Vinod Kumar

Go ahead Abhishek.

Abhishek Kale

Okay. So, what is the ballpark timeframe that you think the company will need to have things fall in place in the way you have envisioned them? Is it 12 months or 24 months?

Vinod Kumar

So, I think we will have the revenues, the MRR and the one-time revenues around the slight growth from the current quarter for the next couple of quarters. And thereafter by February, March timeframe, some of the new deals MRC will start kicking in and therefore, you will see a significant increase from the MRC for the current level starting March kind of timeframe. So, if you compare the current MRR of USD2.3, that we reported as end of September verses what at MRC that we would get to by the end of March, you would find that there is a significant increase, and assuming that MRC there is always little, slight contraction, but that will be augmented with addition.

So, if you can take a view that the March MRC is something which we can carry forward, and there is a growth from 2.3, to what we are going to report in March on the MRC. That should be a validation that the new business model and the new revenue streams are kicking in, Abhishek. So, that's the time that, I would say, that overall revenue will be pretty much in line with what we are reporting now. But if we look at the MRC revenue in itself, which is what is the most important metric as a subscription-based company, you will see that there will be a significant increase on the MRR that we report by March 23.

Abhishek Kale

So, Vinod if I've understood it correctly, you're asking us to consider having patience for two quarters, right. And then we will start to see improvements in our numbers. Am I right for understanding? Sorry.

Vinod Kumar

That is correct.

Abhishek Kale

Thanks a lot, that's all from my side. Appreciate it.

Vinod Kumar

Thank you, Abhishek.

Moderator

Thank you. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. Next question comes from Nishith Mavani, an Individual investor. Please go ahead.

Nishith Mavani

Hi Vinod, how are you?

Vinod Kumar

I'm good. Thank you.

Nishith Mavani

Vinod, I have a one question basically, your, the revenue this quarter, the income was about 75 to 80 crores something like that. And employee benefit expenses, which are about 52 crores. Is there any possibility of reduction in employee benefit expenses, because ultimately, we are showing loss in consolidated or is it going high or something like that which is uncontrollable by the management team or something like that? Because I find that if 52 crores is quite physic is okay if your revenue is about 150 crores or 120 or 200 crores, but 50 crores with 75 crores. So your margin is your employee benefit expenses, what does that include as well? I just wanted to know about it.

Vinod Kumar

Yeah, so I initially overall explain and maybe I'll give it Sumit to explain the specifics. So, we are a product entity. So, what you would see that our large cost, the engineering cost and our relative level support cost is pretty much static, and it doesn't vary widely with respect to the revenue obviously, if the revenue goes up significantly, then I think we may have to add the support costs. So, but the bulk of the cost that we have is on the engineering and the creation side of this as a product company, it is pretty much static.

So, I guess the issue today is not with respect to the costs, because I guess that cost is by and large optimized, it is due to the lack of the revenue thing. So, my view is that even if you see the revenue growing at 200 crores from the 75, the increase that you'll see from our employees cost from the 52 level, will not be in the linear to the growth in the revenues that we will have. Now, that is the overall thing, because the product companies' scenario but on specific is what are consists you, constitutes the employee, that line item I'll ask Sumit to clarify.

Sumit Agarwal

Thanks Vinod. So basically, employee benefit expenses largely comprises of the cost associated to the employee salaries plus it has the cost associated towards the stock options and other things, which is the P&L charge. Having said that, just to add on Vinod's thing, if you see year on year number, there is a reduction in the employee costs. And the largely as Vinod has mentioned, the bulk of this employee costs belongs to on the product side or the team side to that so, there is a reduction though there is a cost inflation or in the increments which is comes in, we are able to control or contain the cost in the line of revenue reduction and all So, that is what I can just say definitely there will be always a scope of improvement, which we are closely monitoring it. And just to ensure the, our bench utilization to the extent is high to control the cost.

Nishith Mavani

Okay. My second question to Vinod is, are we looking for any investors? Because out in 2020, we were looking for investees.

Vinod Kumar

So, we have addressed, we are engaging the investors with the intent to bring in the investors or institutional investors and likes of them. But again, I guess that is not our top priority at this point.

And our priority is to bring built all the effort on getting the Hyper Sense AI, and once we start driving on that, and just to add to that this few areas that we talked about are high growth, large areas, that space is very big, and it's high growth. And our belief is that once we start executing, and the numbers are flowing, I mean today at this point in time, the overall contribution is about more we'll be around under 10%. Even as we end this year, but once we start getting much closer to 10-15% of our overall revenue, I definitely think that we will get a lot more attraction from some of these investors, we are having a reasonable involved on and we are engaging with them. But that is a business-as-usual thing, but this specific effort we would hold on till the start really firing on all these three new areas.

Nishith Mavani

Okay, thanks Vinod.

Moderator

Thank you. Next question comes from Sanjay K an Individual investor. Please go ahead. Mr. Sanjay, please go ahead Sir.

There is no response. Next question comes from Amit Mishra an Individual investor. Please go ahead.

Amit Mishra

Hello. Good evening, everyone. I've been going through the presentation. I couldn't find this time the order book and 12-month order backlog. If you can just tell, what is the number for them?

Vinod Kumar

Amit the reason why they have removed that because it's no longer relevant for the new thing. And the way we should look at is that you have the MRR that we mentioned that we are currently saying that our MRR of sector by the end of September is US\$2.3 million and the contracted backlog is around US\$14.7 million.

Amit Mishra

Right. So, you're covering that in the MRR, in the legacy business on and also the new areas, right?

Vinod Kumar

That's correct. All the MRR because our going forward we are seeing our business of subscription business there the overall total contracted backlog does not make sense, this is MRR, ARR, as a one-time revenue.

Amit Mishra

Yes, makes sense. What was the free cash flow for H1?

Sumit Kumar

For cash balance.

Amit Mishra

No, free cash flow.

Sumit Kumar

So, if you see the obviously because of the losses around, our operating cash itself is a negative. So, I'll not say that there is free cash flow per se.

Amit Mishra

Right. So, one question on the business side Vinod. So, we were having this difficulty on the upgrade side of the business on the legacy, because we were moving to Hyper Sense. How's it coming along, because we were having an issue like clients trying to save or not moving to Hyper Sense because there were saving on trade with mid side and also not moving to the, if you can give sense where we are heading and in the legacy business?

Vinod Kumar

In the legacy side, initially, we had some challenge with respect to convincing them on the subscription model, it is not that the challenge was not the convention, the value proposition of Hyper Sense was primarily the revenue model. I guess by and large, we're not seeing that because

one of the trends that we're seeing globally is a massive adoption of moving into the cloud adoption and telco. And in fact, this is perfect and they are probably the only ones today in the market in our core domain which is offering a fully or fully integrated cloud solution.

So, therefore, I don't see that we are seeing much, any more than a very small footprint customers here and there we hear that but our focus now is on tier one, tier two and then we are selecting the customers at this point and where we are pursuing.

Amit Mishra

Sir, why am I asking this because this has completely destroyed our top line, because 30% of the legacy business you advise earlier comes from the upgrade business and see only the Q1 is kind of seasonally glorious quarter and we see some uptick in Q2 and Q3, Q4 being the best. So, I understand that because now we are moving to subscription base business, is going to change, the profile will change a little bit but how we are going to make up for the lost business for, on the upgrade side, are the new contracts which you are getting on Hyper Sense. They are sort of compensating it's all encompassing, in terms of the scale of the contract, is it more, is it less, so because this is a transitory phase, so we cannot read what's going on, so can you please explain?

Vinod Kumar

So Amit, our clear view is that it will compensate and we will have a lot more engagements both with our existing customers new areas as I told you, we have opened up to new POCs a new area through last year one North American customers and that these are in brand new areas which we've never had and that's a capability that we have as a company at this point in time that beyond fraud RA and partner billing we have an ability to engage with the customer on brand new areas like marketing, networks, prediction, digital side, because everywhere there is a requirement for AI and ML we can change that too. So definitely our view is that once we, as we are baseline this MRR, it will grow and by Q4 end MRR that will be pretty much, we believe that some of the resetting that the dip will kind of streamline and from there onwards we should be able to see the month-on-month growth and which will translate to QoQ growth, Amit.

Amit Mishra

This is the last question, Vinod. Are we happy with our portfolio? Are we or are we working on more products, we have cash in books, any acquisitions or new products that you have in mind, or working upon?

Vinod Kumar

At this point in time, we are focused on these products and we have an opportunity, if you look at sectors, we are focused on three markets and the next step is for us to expand into other geographies when it comes to sector, same is the case with identity analytics, we are focused on only India, because the Indian opportunity is very large. Now, the next opportunity is for us to expand to other areas, when it comes to Hyper Sense. We are, why we are currently started the telco, there is an opportunity for us to immediately the product can immediately cater to markets outside telco like gaming, for example.

So, we already do talk to some gaming companies that are interested in working with us. So, I guess that there's a lot of opportunity for us to expand the new portfolio both into new geographies and new verticals. And that will be our near-term focus. And even if you have to do some strategic things, it would be more around these areas rather than absolutely new products.

Amit Mishra

This is the very last question Vinod, sorry to add one more if I can, the equity base is quite high for SUBEX, is the board concern about this or we have some plans in future to restructure somehow this thing, for the revenue?

Vinod Kumar

Yeah, so I think nothing, no plan, nothing that we have discussed or nothing that can be shared at this point in time. As we start executing, I'm quite confident that we will have a lot more interest from key investors to come and all the larger portions of our company. So I guess that we are continuing engaging and that's the business as usual thing, but nothing, no specific restructuring or anything that we have planned at this point in time, Amit.

Amit Mishra

Okay, thanks very much for answering my questions, Vinod. Good luck for the rest of the year.

Vinod Kumar

Thank you, Amit.

Moderator

Thank you. Next question comes from Aishwarya Gupta, an Individual investor. Please go ahead.

Aishwarya Gupta

Hi Vinod. Am I audible?

Vinod Kumar

Yes. Aishwarya, go ahead.

Aishwarya Gupta

Hi. Vinod, on slide number 27, you've mentioned that you've applied for two patents in the US. I wanted to ask, when did we apply? What's the date of application? And when do we expect a response?

Vinod Kumar

So, I don't exactly remember the date, I think we have applied during one last year and one early this year. At this point in time, we are having what we call as an office action where we get some queries and that getting clarified and things like that. So, we are in that phase. We don't have a particular timeline as to when we get it. But at least office action has started where we are getting some queries, and that has been responded at this point in time. And both of them are related to the AI, ML space that we're working on.

Aishwarya Gupta

Thank you. My second question is on liveliness detection. So, I see many people also do that liveliness detection. And one of the my patent is regarding liveliness detection. So, I want to ask you, how is it different from others? And what are we trying to tell by the speak end, and how is it helping us?

Vinod Kumar

So, I presume that you understand liveliness detection but for the benefit of others, that it is to ensure that they just speak and by even, typically you see that are people asking you to read something etc. So, our intent is that we would, we don't want to do that, we just take a photo and from that photo by understanding some of the specific aspects, we are able to detect that, at this point in time based on what we understand from the market, our accuracy is fairly high. And we are, I would say that we are one of the best in the market today. At least when it comes to India.

We are one of the best when it comes to liveliness detection, some of the new things that we have getting liveliness detection and the face match, these are the two things that we are differentiating. And most of the customers that we have secured this quarter we have secured about 11 this quarter all of them are from existing user. So, we have swapped out competition or we have been inducted into that with an existing competition. So, we have quite high with respect to the accuracy, the specific technical aspects of how we are differentiating, if your are keen, you can send that out to us and we can share that it is a assured.

Aishwarya Gupta

Thank you. Last question, if I may, you said in the con call that there are some people leaving the company and we understand that product companies and especially in the domain of product upgradation we need talent, right. So, how are we internalizing this problem?

Vinod Kumar

Okay, so look, I think based on where we are in the from the market's parity extract standpoint, we have a fair, I would say that we have focused our full effort to ensure that the key talent and exceptional performers is where we are focused on, that is not to say that we are not keen on stopping efficient, but it's not practical to stop all attrition. So, therefore, our focus is on the key and exceptional performers. That said, they have also started the intern program, BITs and some IITs, so that we have increased the intake at that level.

And we have also streamlined our training set up so that we can bring them into a productive nature much faster than what we used to do in the past with the work, I mean, when it comes to Hyper Sense, we are trying to develop a community. And therefore, we spend a lot of effort in creating the training, etc., so that we can develop the community. And that is also helping us to internally

bring up the people up to speed. I'm not saying that it's a happy situation to manage attrition, but I guess that it's a reality has become a reality. And we are just focusing our efforts on holding on to the key and talented people.

And once we have good intake of good freshers coming in with these experience people, we are trying to bring them up to speed. It's not an easy task. But that's the approach that we are currently taking. Also, I will say that we are lucky that we have a very good content of work that we can offer because we are working on some of the high end of technology, and we're doing some good ones with respect to platform, cloudification and whatnot, which is a flavor of that they're telling. So, I think those are benefits that we are articulating to some of these talents.

Aishwarya Gupta

Thank you, Vinod and good luck.

Moderator

Thank you. Our next question comes from Ravi Kanth, an Individual investor. Please go ahead.

Ravi Kanth

Hi Vinod. Am I audible?

Vinod Kumar

Yes, go ahead.

Ravi Kanth

Hi Vinod, I have one clarification and two questions, regarding the contractor backlog of US\$14 million, what is the timeframe during which this will be executed?

Vinod Kumar

Okay, the timeframe will be about three to four quarters, again it depends on the execution and execution depends on the customer and things like that, but by and large we would within four

quarters we should be completely executing the current backlog maybe about bulk of it was getting executed by in three quarters and as some portion maybe 10% also will go into the Q4.

Ravi Kanth

Okay. So, we can say that US\$2.3 million of MRC and approximately \$3.5 million of contracted backlogs, that should be our revenue for the next three to four quarters?

Vinod Kumar

By and large. But except for as I said, at this point in time, we are finding big other customers are finding it very, very difficult for them to procure and provide the hardware for some of these new projects. But that is a dependency that we are seeing because of supply chain, overall supply chain issues. That's only dependency that we have otherwise your assessment is right.

Ravi Kanth

Okay, thanks for the clarification, Vinod, I have two basic questions. We understand that the company has been going through a huge transition and as you have explained, that is one of the reasons why revenues are also going down. What I want to understand is, during this process, have we created any technological or business modes that will help us stand vis-à-vis competition. Because what I understand is that we are a very small company and we have very small marketing budget, vis-a-vis competition. So, what are the modes that we have created during this process, which will help us stand the competition in future?

Vinod Kumar

So, the mode that we are creating is on the product itself, where we are taking a lot of focus on having ease of use as our very important aspect. While you might see that is ease of use in mode, at least in the enterprise business that we have, it is, it definitely is. And we have worked over the last two years to take that perspective, look at what is the market solutions out there and bring that as a differentiating advantage. So, that's where I think it's not to say that competition is valid, or other competitors will not or cannot catch up. But we definitely think that's an advantage and to your advantage at the very least that we have. And that's where I think the execution during the course of the next 12 months will be very, very key.

And as we start and other aspects, as I mentioned, is the kind of community development that we are doing in our segment. And with this fresh move more advantage in our space, our intent is also

to develop a community around it so that it feeds on itself. And we could create a library of some of the controls etc. So that first more advantage, we can translate that into a significant mode to start with, it will be the ease of use. But as we start acquiring customers, that community and some of the shared library, etc., will also act as a mode, Ravi.

Ravi Kanth

Okay, Sir, my final question is a very basic question. Sir, and that is the reason why all the investors and analysts are here, Sir how do we value our company? See, the problem is for the valuation exercise to be done, we need to have a revenue guidance, we need to have a growth rate, or we have to have some complete timeline. And the management is reluctant to share any of those. Even your predecessor Sir, Mr. Surjit Singh in 2015, he used to give a complete deadline that by 2017, we will achieve \$50 million in revenue, with the company still struggling to achieve that.

So, Sir, I would just like to know, can you give us some ballpark figure of the vision you have for three years down the line for FY25. What is the kind of revenue that you're envisioning or per se FY15. So at least, we know that, even if you can't give us a very specific pointed direction, due to the business agencies or compulsion, at least we have a broad direction, but at least we can base our valuations on, based on, we need some foundation to base our valuations upon.

Vinod Kumar

Yeah. Ravi, I appreciate where you're coming from. And I guess that give us some more time because as you said that we have not value, we're figuring out to the transition and we are trying we are, we believe that we have got to a baseline thing and I said the give at least time till March by that timeframe, we should have a kind of predictable growth of MRR and thereafter our also effort is that at least tune up to two, three quarters, we should be able to clearly articulate that this is what MRC that we can commit to or at the bare minimum. So, I think give us time till March and I'll probably revert to you Ravi.

Ravi Kanth

I beg to differ Sir, even in your March con call, you had said that by the end of September quarter, we will be in a concrete position to share the future guidance.

Vinod Kumar

No, let me clarify that I don't think that I have mentioned that. What we mentioned was that by beginning of this year, we will provide your stats with respect to that new areas. And we have started providing the stats with respective and new areas. Now, what we are seeing is that now we have started providing for our core area also what is the subscription? What is the MRR? And what is the one-time revenue we're looking at?

And what I'm saying is that by the December timeframe looking at from now to December, we would completely, we can identify all other nuances of this new subscription business. And I think that we will be, I believe that based on if you execute and we get things go as far as plan we will be in a better position to size that up and let me come back to you during that quarter. But at this point that it will be very, very difficult for me to give that guidance Ravi.

Ravi Kanth

Okay, Sir, can you please share us with a broad vision that you have where you see the company in FY25 or FY30 in terms of revenue?

Vinod Kumar

Look, I think what I could, see I can say is that our core will be around this area. So, we are talking about core being the three plus three products that we brought business assurance and a partner billing will be pretty much in the ballpark area that we are having it currently there. And the incremental growth will happen about new areas, new areas getting Sectrio, IT Central, and mainly Hyper Sense AI. Hyper Sense AI is probably the, I had, personally am very, very encourage, I have put my integrity, if I put my entire back on, I present there, because the next decade, I believe will be that more AI.

And we have created a platform which think that we can compete with a global space. And I guess it's led this area able to convert some of its POCs in the Tier – 1 markets in North America, that will be a validation as well. So, I think by in another three years' time, my objective would be to say that SUBEX will be a fast-growing AI ML platform company, that will take us to a very good revenue size and also a very good overall market capitalization as well.

Ravi Kanth

Sir, what would be defined as fast growing?

Vinod Kumar

Well, again, you're asking the same question, multiple ways.

Ravi Kanth

Sir, I am not getting any number to get my values in the form.

Vinod Kumar

So, I understand. So that is why I'm saying that information, give us time till March. And probably will come back to you. I'm not saying that. We will give it. But I think we will be in a much better position to take it beyond that, which at this point in time, this is difficult for us, because we are just, going through this transition. And we already have some, difficulties the last two quarters. But I guess that we have a baseline now. So let gives us some more time for us to get into as a rhythm and then we'll start communicating that.

Ravi Kanth

Sir, I understand your point, I understand your compulsion. But I would also like the management to empathize with the investors. The issue is we don't have clarity for another six months and given the volatile state in which the markets are it can create mayhem for the portfolio. The portfolio of the investors who have been invested for the company for a long time. In particular case, I have been with the company for five years. And prior to that I had been with the company for 15 years.

Vinod Kumar

No, I understand Ravi. So, I think, while I appreciate where you're coming from, we have some difficulty at this point in time. So, as I said, like at least now we have clarifying the MRR.

Ravi Kanth

Sir, because it was the very purpose of organizing this con call is to address the concerns of investors.

Vinod Kumar

No, I hear you, I'm just saying that give us some more time. So that we can also find, because we also don't want to make a mistake of setting the wrong expectation Ravi, so appreciate our from our side as well, because we are going through this transition. So I guess that we will, now that we have started communicating the base metrics, we will continue to communicate the growth that, we are doing that should be the foundation is some indication, but on the future prediction, at least at the very least you should give us time till March to come back on these, some of these new metrics that we're talking Ravi.

Ravi Kanth

Okay Sir, thank you very much, and I wish you all the best.

Vinod Kumar

Thank you, Ravi. Thank you.

Moderator

Thank you, Sir, that would be the last question for the day. Now, I like to hand over the floor to Mr. Vinod Kumar for closing comments.

Vinod Kumar

Okay, thank you, I thank all the investors and analysts who have participated in the call and thank you for your continued interest. As I said, this is a very interesting period and we are quite challenging, but we are fully seeing the opportunity in front of us and we are pressing ahead with a strategy and execution of our digital strategy and we will keep you posted and there as we and if you have any further clarifications kindly reach out to us as investorrelations@subex.com and we will provide clarifications as required. Thank you very much again.

Moderator

Thank you, Sir. Ladies and gentlemen, this concludes the conference call for today. Thank you for your participation and for using Door Sabha Conference Call service, you may disconnect your lines now, thank you and have a pleasant evening.

Note: 1. This document has been edited to improve readability