



Subex Ltd
Earnings Conference Call

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CORPORATE PARTICIPANTS:

Ms. Nisha Dutt

Managing Director & CEO

Mr. Sumit Agarwal

Chief Financial Officer

Mr. Avik Chakraborty

Manager – Corporate Secretarial

Q&A PARTICIPANTS:

- | | |
|---------------------|--------------------------------------|
| 1. Mahesh Kumar | : Individual Investor |
| 2. Ravikant Agarwal | : Individual Investor |
| 3. Sanjyot Khare | : Individual Investor |
| 4. Abhishek Kale | : Individual Investor |
| 5. Satish Vippala | : Individual Investor |
| 6. Manoj Bhura | : Adinath Financial Services Pvt Ltd |

Moderator

Ladies and gentlemen, good day and welcome to Q2 FY25 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 a Moderator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Avik Chakraborty. Thank you, and over to you, sir.

Avik Chakraborty

Thank you very much. A very good afternoon to everyone who has joined the earnings call for the quarter and half year ended September 30, 2024. Now I would like to introduce the members of the management who are present for the call. Along with me, I have Ms. Nisha Dutt, Managing Director and Chief Executive Officer, and Mr. Sumit Kumar, Chief Financial Officer of the company.

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

With this, I now hand over the call to Ms. Nisha Dutt to take it forward. Over to you, Nisha.

Nisha Dutt

Thank you, Avik. Good morning, everyone, and welcome to Subex's investor call. We are delighted to have you with us today and I share -- as I share important updates for Q2. So, let's start by reflecting on our performance this year and my perspective on the business. So, while we achieved QoQ growth of about 9%, and I would say our order intake has also grown substantially compared to Q1, I think that the growth rate could have been better. Our targets were ambitious and from that perspective, this growth seems muted. However, we have managed to improve our bottom line with a cost reduction of about 9% on YoY basis. And we have turned PAT positive after 7 quarters.

In 3 of the last 4 quarters, our EBITDA has been positive. And I would say that this success is due to our unwavering focus on making the right capital allocation decisions. That's why you also see PAT positive quarter. Divesting IDC has given us significant uplift and our continued focus on gross and operating margin improvement through specific initiatives is now bearing fruit. So, we'll continue to make these decisions as appropriate for the business. And so let me also talk you through what are the specific reasons for our muted QoQ growth. Firstly, there is an overall slowdown in telco investments due to the continued lack of 5Gs use cases materializing, which impacts their decision making on new software projects. So, most of the telcos did a lot of CapEx spend on 5Gs, but they are not really able to monetize these use cases.

So that -- so now what's happening is that they are also holding back on some of the other decisions now while they wait for monetization opportunities. Secondly, we are facing a tough geopolitical climate in some of our key operational geographies. So Middle East region is currently very fragile and volatile, which is causing telcos and other businesses to delay their decision making. Similarly, we have seen some unrest in some of the countries in APAC region as well, Asia Pacific. And as you can see from our investor deck, you will see that we have significant exposure to Middle East right now. So, additionally, the U.S. elections, which just concluded, has caused a lot of spending to be on hold. People were in, you know, hold and watch mode.

So now that they have concluded, we hope that, you know, the pace will pick up again in some of the, at least, developed geographies. So, these events, as you can imagine, are beyond our control. But what happens is that they do end up significantly impacting our business. So, despite these challenges, I want to assure everyone that our business fundamentals remain strong. We have retained our clients very well. So, in fact, I would say that we have converted every single renewal opportunity, and we even managed to acquire a competitor account in this quarter. So, our core business remains healthy despite the setbacks. And in this muted environment, because we are seeing some of the decisions being put on hold, what we decided to do was we started refocusing on bringing Subex back to profitability to create an engine of reinvestment in growth.

So, since top line is getting muted, we said that at least we need to go and create the bottom line. So, this is what we have been spending a lot of time on. I believe that we have the right strategy in place. We are focusing on long term sustainable growth rather than quick fixes. So, our multiyear transformation journey emphasizes market expansion, product expansion and cost efficiencies. These are things that I'm still working on and these remain my core focus. Our AI investments that we have been making have also led to a higher contracted order book of AI model to be delivered to the clients. This is replacing the traditional rule-based models that we were selling to the clients earlier.

So, while this may not immediately reflect on the top line, the good thing is that the internal composition of revenue is significantly changing for me. So, AI is actually taking the bigger piece of our revenue mix now, which is where we really want to be as a company. And as fraud becomes more complex, we think that AI is the only way to tackle it. And I've said this earlier in calls as well. So, this momentum gives me confidence that we can actually transform into a telco AI company. There is positive movement on the revenue. The revenue composition is changing. So, this actually positions us very well to be the actual telco AI company.

The other thing to note is Subex generates 99% of its revenues from telcos in global geographies. We are an Indian listed company, but our revenues are quite global actually. So, I do a clear comparison, with telco vendors who have a similar profile. And if I do comparison of the vendors today, I have seen that on a TTM, a trailing 12-month basis, we have delivered 16% growth, which is significantly higher than many of our peers in the market today. So, my focus remains on delivering value to you even in slower periods. I think I have the right team with me to navigate these challenges and we have the right strategy. It might be slow, but we will prevail, I think, and we will create immense value here. So, I urge all of you to stay with us on this journey and have faith, despite the frustrations that I actually shared with you.

So, while challenges may temper our short-term results, but I think we are building foundation here for sustained success, and that's important. I always think about this, you know, as the saying goes, the only way out is through. We have to go through this. That's the only way out for any of us. So, thank you once again for your trust in standing with us as we work to emerge stronger on the other side.

I will quickly read the financial results, which I'm sure all of you have already seen. But, for performance highlights for the quarter that ended on September 30, 2024 compared to the previous quarter that ended on June 30. Revenue for the quarter stood at INR 74.16 crores as against INR 68.2 crores in the previous quarter. EBITDA for the quarter is at a positive INR 1.89 crores as against negative INR 6 crores for the quarter that ended previously in our previous quarter. And PAT is at INR 62 lakhs, which is positive compared to negative INR 11.21 crores for the quarter that ended on June 30.

So those are the performance highlights. As you can see that we are shrinking our losses. So, thank you for your constant support, and now I'm happy to take questions from you.

Question & Answers

Moderator

Thank you, ma'am. 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 a question. If you would like to withdraw your request, you may do so by pressing * and 1 again. Our first question comes from Mahesh Kumar, an Individual Investor. Please go ahead.

Mahesh Kumar

See, 4 years back, when Vinod Kumar took over as the MD of the company, he told in multiple investor calls that since telecom market is saturated, we are venturing into other areas like IoT security and identity verification. After you took over, you told you are not going to focus on that area, Telcom itself is a big market for AI and all that, and so you are divesting in all those areas. Now what is happening -- and when Vinod Kumar announced this strategy, that time you were on the Board of Directors.

Nisha Dutt

That's correct.

Mahesh Kumar

Okay. So, you also give concurrence for that strategy.

Nisha Dutt

Correct.

Mahesh Kumar

Now you are doing flip flops on all the strategic basis. And what is happening on that front due to that, there is no growth in the company. See, the IoT security, Vinod Kumar was highlighting that we are next to Cisco. Why we are not able to grow that market? That is my first question. Second, why you are doing flip flop in the strategy? Since when the company has decided strategy 4 years back, all investment were done in that direction. IoT security products was built. ID Central was built for identity verification. And

now you are saying those strategic -- those investments are wrong investment because you want to do capital allocation.

Nisha Dutt

Correct.

Mahesh Kumar

So why this flip flop is happening on strategy? You were on the board on that time. You could have resisted that time. You should not venture into this area.

Nisha Dutt

I agree. Okay. So, is that your question? Right? Okay. So, Mahesh, here is the thing. Right? I completely agree with you. I was on the Board, and we had concurrence when Vinod wanted to do Sectrio and IDC. We were with him Yes. Actually, on this. Yes. And I think, this was and that was, you know, correct at that point of time. But when you take a...

Mahesh Kumar

Now also it is correct. IoT security is now also correct.

Nisha Dutt

Yes. It is. If it is IoT...

Mahesh Kumar

But you people are not focusing on that area, and you are running behind AI where you don't have any core strength at the moment.

Nisha Dutt

No. No. I will tell you. So, there are 2 things. Right? One is, let me break this question down into two parts. One, I will agree with you that I was on the Board, and this is something that, you know, we had concurrence from the board that we will take some bets in non telco areas. So that was the right bet to take at that point of time. Now whenever you take a bet, right, there is a business case with it, and the business case of a bet that you take has to pan out. It has to pan out in terms of there is only a certain amount of investment that at Subex I can put in an initiative and it has to generate a certain top line and certain profitability profile. Forget about profitability. At least it has to generate a certain top line for me. And what happened was that, that business case did not pan out actually for us.

Mahesh Kumar

See, when it was not panning out.

Nisha Dutt

The business case is not no. So that is the reason. See, otherwise, there is no reason for that.

Mahesh Kumar

I'll tell you. Multiple investors call.

Nisha Dutt

Why did I come and kill it? Right? I mean, think about it from my perspective, why would I change or divest IDC? If it was generating revenue, if it were doing well for me, why would I change the strategy? In my it's in my interest to keep it going. The strategy, re decision, or, you know, a relook happens when something is not working as expected. And in this case, I found that they were way behind targets. They were nowhere close to what the targets of the business case were, and it was burning my cash.

Mahesh Kumar

You don't give targets; you are not giving targets to investor also?

Nisha Dutt

Investors don't know, but I definitely knew the targets that they were carrying. But I can tell you that they were burning cash. It's good cash. So, see, I have 2 choices. See, we are also a company with limited resources. Right? So, I need to now know, can I keep burning cash in chasing something that might work, which has not worked so far with significant investments or do I save myself, you know, some cash and focus it on core business? Because telco, I know how to do. For 30 years, I've done telco. I know how to do. IDC was focused on BFSI sectors, not fintech, BFSI. BFSI as a sector is not something that Subex understands actually or ever understood, I think. The assurance was always that we would have domain experts and all that. But when I came in, there were, you know, there were losses. Right? Let's be honest. You guys have seen the numbers. There were losses.

Mahesh Kumar

But you never give break up. Never gave breakup of ID central or Sectrio. What is the revenue? what is the investment? What is the loss.

Nisha Dutt

So, for how long the budget is how long --Right? No. No. See, also, IDC became, you know, very specific to document identity in the country, and it was not broad based. So, it's not like I was able to take IDC offering to other telcos globally. As I said, 99% of my business is outside of India. So, it's not like, you know, I could take that product and quote it to my other clients. So, my hands are tied. Okay? If there is an initiative that's not working as I want. It is burning my cash. It's also not something that I can take to my

other telco clients in other geographies and make money off of. So, if you think about it, my hands are tied from outside. And I have, you know, resource constrained environment. So, I have to make the right call at that point. So, for IDC, I will tell you what to do. Right?

Mahesh Kumar

I'll tell you one thing when Vinod Kumar has an investor call and he mentioned about all these ideas, I told him categorically, either you get a consultant from U.S. who is a technology management professor or somebody industry expert. Either you take him as a consultant or you take him on the Board. So, you are having on the board people who are not adding any value.

Nisha Dutt

No. No. To give, so to give Vinod credit, he did, I think, onboard some SME's and all that in domain. See, the issue is that and so let's say that if I do so you are saying why AI against IDC, for instance. Right? AI in my Telco...

Mahesh Kumar

No, no, I'm not saying AI. I am saying strategy flip flop you are doing. I also agree....

Nisha Dutt

No. We are not strategy flip flop. I am very clear. There is no flip flop. I am very clear. Anything that does not generate...

Mahesh Kumar

Then why you are not focusing on IoT security?

Nisha Dutt

Because our product, Sectrio, is not an IoT product. I have said it many times on the call, and I want to clarify it again.

Mahesh Kumar

It is for industrial IoT.

Nisha Dutt

No, Mahesh, it's not an IoT product as you understand it. It's not an IoT product. It's an OT security product. It's very different from IoT.

Mahesh Kumar

Is it industrial IoT?

Nisha Dutt

So, we are an OT product company. Sectrio is OT. It's not IoT. I don't even have an IoT product.

Mahesh Kumar

It is industrial IoT.

Nisha Dutt

No. It's not IoT. Actually, Sectrio pivoted 3 years ago to OT security. All their clients today so if I talk about their client base, which we have also said in past. Right? Coke. Coca-Cola. It's not an IoT business. They are securing their factories and plants. It's an OT. It's an industrial security business. It's not...

Mahesh Kumar

So that is what I am saying. It is industrial IoT.

Nisha Dutt

Correct. It's industrial IoT. And industrial IoT so, look, there is an offering and it is you know, we have to make sure that look, again, you know, the point is, Mahesh, is a decision that was made in past still is good decision to carry forward. I have carried forward all those decisions of Vinod, where I felt that they were good decisions. But wherever I felt that decisions had to be revisited, we have revisited those decisions. And I think that is what we need to do on a consistent basis. We should not get married into decisions because we did something once, we are married to...

Mahesh Kumar

What is the targeted addressable market for this, OT security?

Nisha Dutt

Target addressable you mean the TAM? The total addressable market?

Mahesh Kumar

Yes.

Nisha Dutt

I don't have the number, but it is a few I'm sure it's a few 100 million for sure.

Mahesh Kumar

You see the report generated by Gartner and all that? It goes into the billions of dollar.

Nisha Dutt

It could be a 1 billion -- it could be. It's a huge tab. See, there is a market opportunity, and there is your ability to tap into that market. Right? There are 2 those are 2 different things. Everyone started a business in IoT market, everyone will grow. That's not the case. Right? Every company.

Mahesh Kumar

In multiple investor calls. I have told Vinod that your salespeople are not able to target that market. You need to change the salespeople and get somebody who has experience in selling such products.

Nisha Dutt

Well, I can also tell you that the sales team has turned over twice. Twice over, we have changed the sales team in that business. It's not like so, Mahesh, you see, it's there is something happening. Right? We are most bothered by it. Right? We are changing sales team. We are changing product mix. We have gone to Middle East we've gone to US and we have done everything. It's not that we are sitting. We have done everything despite that if the business does not yield value for you. Then we must make it...

Mahesh Kumar

I have personally interacted with your OT security person.

Moderator

Mahesh, sir, I'm so sorry to interrupt you, sir. Could you please join back the queue for more questions?

Mahesh Kumar

No, let me complete this question.

Moderator

Okay, sir. Please go ahead.

Mahesh Kumar

See, I have personally interacted with your OT sales team salesperson, and he has no idea about this.

Nisha Dutt

Who would that be? Are you talking about, Kiran or Suraj? I mean, who are you talking about?

Mahesh Kumar

That name, I don't want to disclose on the investor call. And he also told me one of the European electric vehicle companies using your Sctrrio product. That's why I written in the mail to you before this call.

Whether any EV companies using? Because previous investor call, you told you don't want to target automobile market.

Nisha Dutt

Yes. It's not true. It's not none of the see, we do target, but the conversion hasn't happened. So, I am not sure who told you this, but I can confirm that's not true. We are not working with any EV company right now. I can confirm that.

Mahesh Kumar

That is.. Employees are giving false information.

Nisha Dutt

It's not the Sectrio product, we will not work for EV, by the way. So, it won't work for EV. It's not built for it. So, the product itself is not built for it, and it will not work. It will require a lot more product investment for us to make it first.

Mahesh Kumar

First announcement for Sectrio was a car company from U.S. partnership. That was happened when, Vinod took over immediately after that. And he announced that in Investor Call.

Nisha Dutt

Okay. I honestly, I do not -- I'll have to go back and look, Mahesh, but I can confirm today that currently I do not --

Mahesh Kumar

I am again telling you, you need to change the board, get somebody technology management guru as a on the board. See, stock traders and punters on the board is not helping company, neither it is helping investors.

Nisha Dutt

Right.

Mahesh Kumar

You have to bring some seriousness. It is a shareholder's money.

Nisha Dutt

I'll take your point, and I you know, we are -- we will work on doing a better board constitution. So, I'll take your point.

Mahesh Kumar

Vinod, first investor call, I told Vinod Kumar get Professor Vijaya Govindrajan, who is a technology management guru, and he is giving advice to Fortune 500 companies. Which technology work, which technology will not work because he has seen the global market. He knows which technology work, which will not work. Now HyperSense, Vinod Kumar told it is a gold mine. Now it is not even generated revenue for the company.

Nisha Dutt

No. No. It has generated. I can confirm that for sure. See, HyperSense is our core product. Right? So, there were 3 big bets we took in this company, IDC, Sectrio, and, HyperSense. HyperSense has actually generated revenue. It does generate revenue. I mean, in fact, that is what we sell to our, you know, legacy customers as upgrade. So, it does generate revenue. So, I can definitely you know, that's true. I mean, Vinod was not wrong about that. It has generated revenue.

Mahesh Kumar

See. There was announcement about growth.

Moderator

I'm so sorry to interrupt you, sir. Could you please come back in the queue, sir, for more questions?

Mahesh Kumar

Ok.

Moderator

Thank you so much, sir. Ladies and gentlemen, if you have a question please press * and 1 on your telephone keypad. Ladies and gentlemen, you're requested to ask 3 questions in initial round and you may join back the queue for more questions. Our next question comes from Ravikant Agarwal, an Individual Investor. Please go ahead.

Ravikant Agarwal

Congratulations on the operational front. At least we have turned cash positive. So, I have 3 questions. One is a basic query, the sale of this unit that INR 4.22 crores, does it refer to the sale of ID Central?

Nisha Dutt

That's correct. Yes, it does.

Ravikant Agarwal

Okay. So that is the profit we have made on the sale of ID Central, but no cash has accrued to the company because we have taken equity against it?

Nisha Dutt

That's correct.

Ravikant Agarwal

So, in that case, we would have paid capital gain in cash to the Government of India.

Sumit Kumar

We have a carry forward losses. So, there's no like a capital gain per se, but there's no cash outlay for the gain. It's a definitely, there's a gain.

Ravikant Agarwal

So, there is no cash outgo aspect in the transaction?

Sumit Kumar

That's right.

Ravikant Agarwal

Okay, ma'am. My next two questions are more of observations than concerns. So just hear me out and address it the way you deem fit. In the last Con call, when the revenue number fell from INR 83 crores to INR 68 crores QoQ, we were asked to compare YoY numbers as there is seasonality involved, right?

Nisha Dutt

Correct.

Ravikant Agarwal

But in the Q2 investor presentation, revenue numbers are being compared QoQ highlighting a growth of 9% in revenues, when in fact they have gone down by 3.5% to INR 74 crores from around INR 77 crores in the previous year. Now subsequently in the efficiency section, cost reduction of 9% has been again shown YoY, which of course is commendable. But the basic question remains is how can we use 2 different time periods to compare 2 different parameters under the same set of results. So, what is happening is the result is that the presentation is not correctly highlighting the challenge of revenue growth that our company constantly faces.

Rather, it should have provided a context on why the management thinks despite the degrowth YoY, it's a good number and how it paves the way for further growth going forward. So, if you could please further

throw some light upon it. I think that means the present -- my basic issue is the presentation is not contextual. It should have been in the right context and then it should have provided a management perspective. So now if you could please throw some light on it.

Nisha Dutt

Okay. So, see, our attempt or at least we always do QoQ and YoY. We don't do just 1 item....

Ravikant Agarwal

Ma'am, here, we are doing a mixture. On one parameter, we are comparing QoQ...

Nisha Dutt

QoQ or another, we are doing YoY. So, you're saying cost, YoY and top line QoQ. That's the concern. Correct?

Ravikant Agarwal

Yes. Yes. And we were categorically told in the last con call that we should compare YoY because there is seasonality involved. So, you cannot compare QoQ number. You should rather compare YoY numbers.

Nisha Dutt

That's correct. And I can do that because I you know, it's not like the numbers are hidden or you will forget about it. So that's not really the idea. If, that is confusing, we can go back to doing corresponding quarters and corresponding years. So, that's fine. We can do that. No. But I think, in terms of muted numbers, I just spoke about it. Right? That we are seeing that the market is muted.

Ravikant Agarwal

Ma'am, actually, I was facing some login issues. So, I missed initial 2, 3 minutes.

Nisha Dutt

Okay. So basically, the market is a little muted right now. So, I was saying initially in the call as well that, look, we from the investor presentation, you can tell that we have exposure to APAC and Middle East. Middle East is, quite fragile as a continent. You know, as a geography right now, it's really fragile. So, what we are seeing is that a lot of decisions are on hold. So Middle East telcos are not making the decisions that, obviously, the region is a little bit unstable right now. And we have exposure to Middle East.

APAC also, some of the countries have not really been stable. So, all our contracts that we were talking about there, they are on hold. The U.S. election, there are markets -- developed markets that put, you know, their decisions on hold looking for the outcome of US elections, actually. So, it's almost like a perfect storm for us. So, there are 2 geographies where we have unstable. There is a whole Middle East region which is unstable. There is APAC where there are some countries where we have key exposure where, you know, there was quite a bit of stability issues, and we continue to have stability issues. And then there

was this, you know, U.S. election. This was almost like a perfect, you know, trisecta of, things that happened.

People were putting their spending on hold. So that is why I actually, I'm the first one. I was also reflecting. See, there is a seasonality in the business, which is true. But it's also true that this could have been better. This result could have been better. I'm the first one to say that. That despite seasonality, we this is still muted, even from that perspective, these results are muted on the top line. So how do I, you know, so what are the reasons? Right? So, we started doing RCA. It's almost like root cause. What is really causing this decline? And it has come down to that. So one is, you know, there's a geographical, geopolitical risk that we are faced with.

The other is that the telco industry itself is muted right now. So, if you look at that's why I said that. If you look at TTM basis, trailing 12 months basis, we have performed much better compared to the peers, right, because I also do peers set comparison. The whole industry is actually muted right now.

Ravikant Agarwal

So, ma'am, for the going forward for the second for the H2, since the expenses from the customers have been deferred, they have definitely not been canceled, they cannot do it. So, can we look at a more optimistic H2 going forward? And I mean, how soon can we achieve that internal target of 100 CR per quarter that you have?

Nisha Dutt

So that is my, see, that is that's where my challenge today is, right? So, what has happened is that, see, should we do better in H2, I would, you know, my guess today, sitting where I am, I think yes. But the point is that will we get to where I wanted to get to? I am not so sure because Middle East condition has not changed significantly. And it does not show that, you know, this will resolve itself in the next 6 months and all that. So, what happens is that I'm recalibrating internally. Right? So, there are 2 recalibrations that I'm doing internally. 1 is taking more exposure in geographies that are more stable, which obviously, as you can imagine, pipelines have to be built and business has to be generated.

Although we are present in all geographies, but we are sort of pivoting away from some of the geographies. Even in Asia Pacific, we have countries where we have trouble. So that's one issue. The second one is that given the situation that I'm seeing that, you know, this is happening, we have started, you know, taking cost corrections and taking measures on the bottom line. So, let's say that, you know, if the top line doesn't go to where I want it to be, can I at least generate a profitable scenario still for investors and can still -- can you still make this a little bit win-win situation for everyone? So, I have also kind of refocused my thinking and that's why you see these losses coming down and all that. This is a lot of effort on the bottom line that we are putting together today.

So, this is what we are doing. So, if I see that the situation is a little bit uncertain for me, what can I do which is within my span of control? And at least the cost element is more within my span of, right? So, we are acting on that aspect at least. While we recalibrate and do exposures in different geographies, while we take stock of, how do we pivot away from some of the geographies for temporarily at least. So, I think, that's the thing that's happening, but as you can imagine, right, these things take a little bit of time to pan out. You can't overnight, like, if Middle East gives me a certain, like a few millions of dollars of pipeline,

that cannot suddenly get shifted to Europe overnight. It does not happen. Business doesn't work like that. So, we are shifting away. But again, these are things that take time.

Ravikant Agarwal

So, ma'am, going forward, geopolitics is the key determinant?

Nisha Dutt

It is going to be I think it's not just for us. That is for every business you will see that all the businesses that have exposure in Middle East, they are suffering a little bit right now.

Ravikant Agarwal

Okay. At least, can we say that, whatever could go bad has already gone bad in H1. So, can we say that at least with some confidence that H2 is at least going to be better than H1?

Nisha Dutt

I hope it's certainly so. I mean, hope is definitely that and effort is definitely there.

Ravikant Agarwal

Okay, ma'am. My last query is regarding, this is an observation from the annual report that we have received. So, ma'am, in annual report, we have mentioned that we are spending some USD 4.7 million on R&D. So that is roughly around 12-13% of our revenues. So, under key risks and concerns, there are a few things which have been mentioned. So, like adequately protecting our intellectual property may not be possible because despite having patent, enforcement is a challenge in some geographies. Then what is more alarming is under departure of employees, especially to a competitor, it goes on to mention, and I quote, we generally require all employees and advisers to sign agreements which require that our information be maintained as confidential during and after the employment engagement.

These agreements also assign or otherwise best right in the intellectual property developed by these employees and advisers to the company. Even so, these agreements may not be effectively -- may not effectively prevent disclosure of our information or effectively assign right to us. Ma'am, now this is really alarming. The company has been candid enough to put it out in black and white, but nothing even if the employee goes and if he violates the non-disclosure agreement, there is not much that you can do about it. But nothing has been mentioned to allay the apprehensions and concerns that arises in the mind of investors after reading this disclosure.

Rather on a lighter note, we are making an open declaration to all the employees who depart that even if you violate the NDA, there isn't much we can do about it. Ma'am, I would like to have your take on it.

Nisha Dutt

No. So, first of all, all employees actually sign an IP agreement. So, it's a part of our employment contract. Our employees have to sign IP agreement. Any patent that's filed when you are an employee, the assignment is to the company. It's not to the employee. Just like it's in any other corporate. So, our

agreements are same and, you know, in standard as peers. The only thing is that, let's say, that there is an employee who has developed a key piece of code. I have an IT agreement with it. I have noncompete.. I mean, you know, I have confidentiality, noncompete. We have everything in place. But if he -- and there are, but I cannot stop him from going and joining a competitor because our employment agreements don't actually talk about that, and it's not allowed by law. I cannot stop someone saying that you cannot join a competitor.

Ravikant Agarwal

But ma'am, can't we definitely incorporate a cooling off period before they join any competitors?

Nisha Dutt

It's there. That is there, actually. We have some cooling off period, but it's only for key employees. It's not for all employees. So, it's not for all level of employees. It's for senior management usually, that, you know, you cannot go and join xyz.

Ravikant Agarwal

Yeah. That's fine. Because my concern comes from the fact that both, Mr. Vinod and Mr. your previous CTO, I don't remember his name, Mr. Chintada. Both of them have joined some AI -- they have both of them have joined AI startups, though right now they are not into a similar line of business. So, but since they are in the same space of AI and that, their core competence lies in this this field, that is where my concerns were coming from and when I went to the annual report. So, it was like in the company doesn't have any safeguards as such.

Nisha Dutt

No. We do, actually. So, for instance, Vinod could not have joined the core direct competitor at all. In fact, there are there was a negative list for Vinod, which he cannot go and join. But Vinod joining an AI startup that does HR kind of work is allowed, because, I mean, today, you would be hard to find a company that is not doing something in AI. Correct. That's like me telling Vinod that you cannot do anything in India or any company in Bangalore. Almost everybody is doing something in AI. So that's too much of a blanket thing. AI is a whole problem.

Ravikant Agarwal

And same as with Mr. Suresh

Moderator

Ravikant sir sorry to interrupt you, could you please join back the queue for more questions.

Ravikant Agarwal

Let me finish the query. This is my 3rd query. This is let me finish it, and then I'll come back.

Moderator

Sure, sir. Please go ahead.

Ravikant Agarwal

Please, ma'am, you were saying something?

Nisha Dutt

No. No. So, I was saying, Suresh, I am, I honestly, I'm unsure about what he's doing, but, the last I spoke to him, he was thinking of doing a startup, actually. So, it has nothing to do with so there is no competition with our core products and all that. And every time a senior person leaves, we also mention it in their exit letter. I remind them of their obligation to the company that, you know, you have noncompete. You have all these things. So please be mindful of that. And every single time we have found people they respect that actually. There is a cooling off. They respect that. I have not found violations in that case. And, of course, we have recently seen also given a patent for methods and systems for correcting Skew in images.

So, there is a patent that we have filed recently. So, this helps with our contract assurance. I mean, so this is what's going on.

Ravikant Agarwal

Ok ma'am. Thank you so much and wish you all the best.

Nisha Dutt

Thank you.

Moderator

Thank you, ma'am. Our next question comes from Sanjyot Khare an Individual Investor. Please go ahead.

Sanjyot Khare

Hi, Nisha. First of all, congratulations on a good operational result. Definitely, the market conditions are not good and company is really doing well from the managing operations. My questions are, is related to, one is like, yes, ID Central is already sold out. And so, what's the plan for Sectrio? Are you seeing the Sectrio is having good potential? And how many -- what's the revenue and how many employees are really working in Sectrio? Because that information is they are not visible much anywhere on that.

Then the second question is about in the presentation, it's mentioned that there is a co-creation of product through users meet something like. And then so what does that mean? Like what is that company is doing and whether what kind of revenue or business you can see through it on that. These are 2. I will ask that question later.

Nisha Dutt

Okay. So, the first one on, Sectrio, we have about, I think, 56 people. That's the headcount in Sectrio. Or I think maybe around 60, 56-60. Okay? So, it's in that range for sure. So those are the number of employees we have in Sectrio. Sectrio also, we are I mean, I'm taking a hard look at that business and the metrics, that they're doing. I can't make a forward-looking statement, but rest assured, we are looking at, you know, what would be the appropriate course of, course for Sectrio actually. So, this is something that is getting debated and decided upon internally. I can't unfortunately give you more information. Hopefully, we should be able to speak more about it in the coming quarters.

But right now, I'm not able to say much. But at least, we are going through a decision process right now. In terms of the cocreation event, that's a user meet that we do. So Subex does this user conferences or user meets. I would say, we try to do at least 1 every 6 months or every quarter, which is where we do formal voice of the customer. Right? So, whenever I build products, I want to make sure that we don't build something that customers don't want or will not buy from us. So, we do user conferences to capture voice of customer recorded, to understand what is their need exactly, how do they use our product, how do they interact with our product, what else can I add in the product, what is missing, and what enhancements are required?

So, we use this as sort of working sessions where we cocreate products with them. And if they like it, then we go and come back to the office, build it, and take production versions to them. So, we are literally iterating with the customer. So, we so, you know, we are sure that when we build it and spend all the R&D effort in it, at least there is a buyer at the end of it. So, we do regional UC. So, for instance, this one was done in Bali where we got all the APAC customers into a room. And they are customers of different Malaysia, Indonesia, Philippines, all of them showed up. And all of them, you know, see our products, we show them what the road maps is -- road maps are. We ask them how they interact. Do they like our products? Would they buy it again?

So, we do some candid conversations, and we cocreate products with them. So, this is what we have been doing. And they also tell us what are the new product features they want to see. What are new frauds I'm facing in my business? Like, WhatsApp fraud came up as one of the things. That Subex should solve WhatsApp fraud for me. So, we also get a lot of feedback on the product and the areas that we should be working on internally. So that's how we use our user mix actually.

Sanjyot Khare

Sure, sure. Thank you for that. And the third question is about you mentioned about the Middle East struggling and there is an issue probably in the growth in that area. And we are not seeing much business happening in India, though like India is still having a good telecom growth, whether it's Airtel or Jio and things. So, what are you guys looking India as a market or right now, it's completely you guys are not looking India as a market. And about the partnership, like I think you had some partnership with Tech Mahindra, the telecom companies are focusing on that. So similar to that, like are you looking into partnerships where you can really because your product and your specialty is in telecom AI, which is really niche, and I'm sure like many companies have been interested in partnering.

So, like that, are you looking into partnering any of these companies? Because last partnership we heard about one is like technology partnership with Google. But like that, are we looking into partnership with NVIDIA or any other SIs or companies to grow our business?

Nisha Dutt

So, we do actually so partnerships come for us in 2 ways primarily. 1 is, I would say, the go to market partners. These are people we work with. They may help us crack a client account. Let's say that, you know, if I don't know a customer and like my go to partner, that's a big four. Right? They are in all customers. Usually, they are either their auditors or consultants. So big 4 have a great reach that way. So, there are a lot of big 4 companies that we work as GTM Partners, actually. So, we go to market with them. They open the door for us. They do their consulting bit, and then we go and do our product implementation. So, we work with almost all big 4 right now. So that those are my go-to market partners.

Then there are SI partners. Now SI partners are the ones like TechM and others, where we jointly go and say that some part of my implementation revenue, I will do a revenue share with the SI partner, which you have to do if you go with SI. So that's another kind of partnership that we strike. And that's a partnership bug market that we keep expanding actually. So TechM and we work with many others also. NVIDIA, we use. We don't have a partnership with them. We use. And the 3rd kind of partnership that we look for is product partners. So, are there products that are complementary to my product? So, if there are products that are complementary to my product and that product company does not have reach into telco, then I will do a revenue share with them, and I will take them into my client base.

So, we do product partnerships as well. So, partnerships are a key I would say it's almost like, it's a key growth driver for us, and it's a key cornerstone of our strategy. So, partnerships are something that we are very, very focused on. And we do all the 3, SI, go-to-market, GTM partnerships, and product partnerships. So, all the 3 we do, actually, all the time. So, this is we may not announce it all the time, but I can assure you, we work with all, you know, we work with all the big 4s. We work with some of the biggest SIs. We have a lot of product companies that we work with. That, you know, we bolt-on their product to our product suite and take it to market. So, we do that. That's something that's an ongoing activity for us.

In terms of India market, we actually, we don't do much work in India. I think it's also because of the players in India. I think they're trying to build a lot themselves actually. So, a lot of insourcing is happening in, for instance, in Airtel and Jio. A lot of our understanding is that they want to build platforms themselves and actually roll it out. So that's one of the reasons why we are focused a lot more outside. Although we are, like I said, we are an Indian company, but then 99% of my revenues are coming from outside of India right now. That's not to say we don't look for opportunities to work with Airtel, Jio. We do look for opportunities. But as things stand, we feel that our focus is better off being outside right now, even from a margin perspective.

Sanjyot Khare

Thank you, Nisha. And just update from the CFO about any of the latest update on the income tax refund of INR 8 crores from the government? When is it that expected?

Nisha Dutt

We have not gotten the income tax, right, Sumit?

Sumit Kumar

Yeah. Yeah. So, this quarter, we did, so these 8 crores which we filed to, the stock exchange, it still has not been received and we are continuously in touch with the department. And we are just working. So, the update is it is still not in the bank.

Sanjyot Khare

Okay. Any estimation? I mean, when it would be in 1 quarter, 2 quarters, any idea?

Sumit Kumar

Difficult to say that around because it's very difficult, but we are in touch with the respective authorities to get this money released.

Moderator

Ladies and gentlemen, if you have any question please press * and 1 on your telephone keypad. Our next question comes from Abhishek Kale, an Individual Investor. Please go ahead.

Abhishek Kale

Nisha, a couple of things, if you may want to share the details. I think in the deck we have shared that we have had some deal wins, right, in the past quarter. Would you be able to spill out the ticket size and the nature of these wins?

Nisha Dutt

We are actually working on these disclosures right now, Abhishek. So, you should be having a ticket size. So, when we do a disclosure to the stock exchange, we have to, anyways give the ticket size and the duration for which we have won. The reason why we have not gone with the formal disclosure right now is because we are working on the client side to get their approvals and all that in place because this has to be bilateral. Right? They have to be agreeable for us to disclose their name and be able to do sort of disclosure. So, we are working on that. You should know it shortly. It will come.

Abhishek Kale

Perfect. Okay. No problem. I'll wait for that disclosure then. Another thing, in the last quarter, I think you mentioned it that we had some revenues spillover, that is we did the work, we got the money, but because it was past 30th of the month close-up quarter, right, we could not show that money as from Q2, right -- from Q1, sorry. So, how much was that amount that has contributed in our Q2, and do we see something of the same nature happening in Q3 as well? I mean, a couple of percentage points I understand, but if it is significant, then would that alter my revenue mix?

Nisha Dutt

It's I mean, it's not significant usually. It will be less than, like -- yeah. It's not significant. So what's happening when we are not able to because we have a hard stop on the very close quarter. Right? So, our auditors have to come in and start doing their work. So, we close we always have a hard stop on every quarter. So, anything that has happened a little bit even after that is taken in the next quarter. We just move it to next quarter because we have to close our quarter. Yeah.

Abhishek Kale

Another question....

Nisha Dutt

No. Maybe, Abhishek, you're confused on the revenue and OI. OI, there is there are spillovers. So, when I spoke last time, OI moved. So, for instance, like I said that, we have not lost any contract. It's getting shifted. And, some of the things...

Abhishek Kale

No no, I think we clearly mentioned, Nisha, sorry to interrupt you. But...

Nisha Dutt

Okay. I got it, sir. Okay. I remember now what you're talking about. Yeah. Yeah. I got it. Yeah. I got it. Okay. I understand.

Abhishek Kale

No worries, because I'm seeing the earnings transcript from the previous call. That's why I didn't call you....

Nisha Dutt

I'm sorry, because I remember OI is also, because last quarter when OI was getting shifted or our orders were getting shifted, I said that, you know, we didn't lose it. We should get it. But, in some geographies, decisions are still on hold. So, what do we do?

Abhishek Kale

No worries. Okay. Next question, like you mentioned, the appraisal cycles are done. How do you see that impacting our employees' cost, because that is the most significant cost that we have? I mean, by no means, I would like our top talent to go away, rather they should all stick with us. But what would be the impact in terms of the remuneration and the cost on our expenses?

Sumit Kumar

So, we have completed the appraisal cycle effective from 1st July. So, the entire impact is already buried in this quarter on a quarterly basis. So, to be very honest, we don't see from now the cost increases on the personal cost because we have completed. And we did mention also that -- to be very honest, with this cycle, we are not seeing much of attrition issues also. So, it has kind of been taken. And so don't feel -- don't see there is a major impact of a cost increases from now. Yeah. At least for this year.

Nisha Dutt

And I think, generally, the raises were quite muted in the industry then. Yeah. So, we didn't see any attrition also. So typically, if the increment that you're giving is lower than the industry standard, then we expect to see a lot of attrition, which didn't happen actually this time. And we have also, you know, done a comp and ben recently. So, we have to do C&B every few years, we must do. So, we know where we are losing people to, who do we hire, where do we hire from, how off are we from the market. So, we have been doing comp and ben as well. So, we are sort of recalibrating. But like Sumit said, all of it is the whole impact is already there in the numbers in front of you. So, it has not gone up that much actually.

Abhishek Kale

Perfect. Thanks, Sumit. Thanks, Isha. One more question, if I can squeeze that in. I think in the deal when you said you were able to land grab a contract from a competitor, I mean like we come down heavily in terms of criticism on not being able, company not being able to deliver on certain things. But I would like to, like you guys to kind of share more about probably a story as to what had happened. I mean that builds more confidence on the sales, right, that we have got our act together. So, if you can speak for a couple of minutes on that, that would be really appreciated.

Nisha Dutt

So, what had happened there was that -- so basically, see, there was a merger happening in APAC, like Telco consolidation is happening right now. So, there was one entity that was taking over another entity. And we were already incumbent. So, we were serving one of the entities, but, the merger, right, the second part of the entity was being served by a competitor.

So, when, mergers are happening, we have seen, in consolidation, usually, the M&A team say that, you know, which is going to be the survivor platform. So, they call this, you know, the survivor platform concept. And that's where you have to fight really hard because then your competitors are also on there because the pie is much larger. Obviously, I was serving 1 now. There are 2 after the merger. So, the pie is much larger. The contract size increases. So, the fight becomes really intense. And I think, in that, we actually prevailed over the our competition. That's our direct competition. We were the survivor platform that was chosen.

So, I think in that sense, that gives us a lot of confidence in our technical capability, and, you know, the customers that we have cultivated for a period of time that they went with us. So, it's not just technical. Right? Sometimes it's also the relationship. It's, you know, how you have delivered to them in past. So, a lot of things come into play. So that and it's a Tier 1 in Indonesia. So it was, like, amazing, actually. It was a -- so these are some wins that you get and then there are some wins which, you actually feel that, you

know, I did something here. And I think this was one of those wins for us, and it's sizable also. Just from, you know, my average ticket size, it's much greater than that.

So, everything was it's almost like, you know, there is a deal that checks all boxes. This was a deal that checks all boxes for us. So that's why I even spoke about it that, it's a land grab actually for us. To be chosen as a platform for them to, you know, retain us and for us to get larger contract at the back of it. I think that was kind of you know, I would say it's a great moment also because it's a T-1. It's a Tier 1 Operator. It's not like a small Opco. It's a very -- it's a very big Opco. So that's what gives us confidence that we know how to do this.

Abhishek Kale

So, Kudos to the team. Wonderful effort. I hope that we continue on this path. Last question, if I may squeeze it in. Like ID Central, do we have any divest areas which the team might be looking at? Because I think you clearly mentioned in the last call that we are going to focus on one of our key areas. I mean, that's where we are making that's what is bringing in the biggest bang for the buck. We will focus on that area. So, are there any divest areas or are we looking at something of that sort?

Nisha Dutt

So, I can't obviously, Abhishek, make any forward-looking statement, but I can tell you that this is something that -- so for me, it's a very, see, the business case even I said last time, right, your ROI has to be greater than my cost of capital. That's the first benchmark. You know, that's the first step. If that you know, if any investment we have made, it does not pass that test. That's like the smell test for me. It does not work, then it has to get the axe. That's it. There is no question. Because that business, you are not going to make money in. So, I think somewhere, some sort of very -- I would say analytical, fiscal decision making happens. Right? I mean, in some of these things, we can't be emotional. We have to be very, very practical about because, you see, my degrees of freedom in this company are very few. You guys know.

You have been with us for a long time. You know how much cash I have in the bank. You know how much of reinvestment capital I have with me. I have to keep talent in value market. I have very huge degrees of freedom. So, I have to make and I know some people don't like my saying that, but I have to make I think if I have to do justice to shareholders and everyone, I have to make the right capital calls. That's my number one job here. So, anything that does not pass the smell test has to go, actually. And that's an evaluation I keep doing. I think we have to be a little bit more brutal in these things. And that's ROIC is the only metric. Right? That's the only metric that really matters at the end of the day. And we have to be very, very you know, I mean, everything has to pass that test. That's all I can say.

So, we -- I'm always putting every business under that scrutiny. Right? If it works, it works. Do we carry it for some more time, or do we not carry it? At what point do you cut your losses? That's the question that we are always asking. Is there a better business that I can go after and especially, you know, I really want to rebuild core. I'm very clear. I really want to rebuild because that's where I think our biggest bang for buck is. That's where we are that's what we are known for. That's where my domain knowledge is. That's where my network is. My logos are there. Everything is there. So, for me, it only makes sense that's my cash cow. I have to feed my cash cow.

Abhishek Kale

So right. So, in my trader....

Moderator

Abhishek sir, I'm sorry to interrupt you, sir. Can you please...

Abhishek Kale

No problem. I'll come back in the queue. Thank you. All my questions are answered.

Moderator

Ladies and gentlemen, you are kindly requested to ask 3 questions in the initial round and you may join back the queue for more questions. Our next question comes from Satish Vippala, an Individual Investor. Please go ahead.

Satish Vippala

Coming to that Sectrio, regarding the confidential information, regarding the banking sector, can I ask that?

Nisha Dutt

Sorry, I didn't follow. Satish, can you ask me that? Can you please repeat the question?

Satish Vippala

Regarding the Sectrio, revenues from banking sector. From I could see that there is a client from SBI as well as where the Sectrio website. So how the revenues are happening? Even I came to know that as per the research, there are multiple clients in Europe as well as America. So, what the future revenues and are the contract has been canceled or upcoming deals are held there or not?

Nisha Dutt

So, see, Sectrio has done work in past with SBI. We don't have a current ongoing contract with them. So that's number 1. Only we have a contract.

Sumit Kumar

So, ma'am, so we are running the SBI contract. It's currently into the support. It's in the support. There's no new implementation per se. And the revenues are also is not sizable. So, it is running and that is the only BFSI segment we are into Sectrio. Apart from that, then we've pivoted out to the OT or industrial security side, which Nisha just mentioned, like our customer like Coca-Cola and other are more about the OT industrial side.

Satish Vippala

Okay. How come about the Americas and Americas region as well as Europe region? So, it's the same case?

Sumit Kumar

So, Europe region, we don't have a business. We do have a business into Middle East and Americas region. That is largely the business which we have in Sectrio, yes.

Nisha Dutt

It's South America.

Satish Vippala

Yes. Thank you, Nisha, and thank you. And coming to the airport, that is in Oil and Industries and Manufacturing. So, are we still into an implementation stage or are we done with the contract?

Sumit Kumar

No. So we do have a contract that is running there. So, the Sectrio product like our solution has been uploaded and the revenues are coming. So there are so major of the customer is already either the live status or it is some of the it is in the work in progress. But we are already serving them, yes.

Satish Vippala

Okay. Thank you. Thank you for your time. All the best for the future in U.S. Nisha and everyone.

Moderator

Our last question comes from Manoj Bhura from Adinath Financial Services Pvt Ltd. Please go ahead.

Manoj Bhura

My question was regarding the revenue. When can we expect to have a revenue of around INR 100 crores? In which quarter? How many quarters you think we can reach that figure?

Nisha Dutt

I wish it for this quarter. Honestly, this is a goal I even articulated to everyone on a call. This is something that it's as much my aspiration and drive as much its yours. Actually, this is something that I want to see as well. But the market is a little bit muted right now. So, there are, you know, growth challenges. Only and but I believe they are temporary. Right? Some of these issues will resolve, actually, over a period of time. So, am I able to tell you exactly in which quarter we will get there? I am not sure. I can't give you that, but I can definitely tell you that that's absolutely a 100% my goal, actually, to get to a INR 100 crore quarter. I want to see it along with all of you. And, definitely, I definitely want to do that. I'm not able to say more than that. But yeah.

Moderator

Thank you so much, ma'am. That was the last question. Now I hand over the floor to the management for closing comments.

Nisha Dutt

Thank you all for taking the time. This is, like, you know, always, if you have any other follow-on questions or if you didn't get a chance to ask today, you know where to reach us. So please feel free to call, you know, write to us at Investor Relations or write to me, whichever way. We are happy to answer questions wherever we can. So, we commit -- I'm always committed to full transparency. As much transparency as I can provide, I will always give you the answers. So please feel free to reach, and thank you again for staying with us. Thank you for being on the call today. Thank you so much.

Moderator

Thank you so much, ma'am. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may all disconnect your lines now. Thank you, and have a pleasant day.

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- Note:**
1. This document has been edited to improve readability
 2. Blanks in this transcript represent inaudible or incomprehensible words.