



“Subex Limited Q1-FY19 Results Conference Call”

August 1, 2018



**SUBEX MANAGEMENT: MR. VINOD KUMAR PADMANABHAN –
MANAGING DIRECTOR & CEO
MS. MEHERNAZ DALAL – CFO
MR. G. V. KRISHNAKANTH, COMPANY
SECRETARY**



*Subex Limited
August 1, 2018*

Moderator:

Good Day Ladies and Gentlemen and a very warm Welcome to the Subex Limited Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the commentary by the Managing Director & CEO concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I am now glad to hand the conference over to Mr. Vinod Kumar Padmanabhan, Managing Director & CEO of the company. Thank you and over to you, Mr. Vinod.

Vinod Kumar P.:

Good Evening every one, this is Vinod Kumar here. I am joined from the company by Mehernaz Dalal who is our CFO, and G. V. Krishnakanth, who is our Company Secretary. A Warm Welcome to all our analyst and investors. We are doing this call after a period of time and we intend to have this to start with on a biannual basis before moving to a quarterly call. I hope that you have all seen the financials that we released yesterday, I will cover some of the key aspects from that Financial Results for the Quarter-1 of 2018-19. The revenue for the quarter was 75 crores 91 lakhs as against 76 crores 18 lakhs of June 13, 2017. The net profit before tax was 8 crores 24 lakhs as against 1 crore 51 lakhs last year. The net profit for the period was 3 crores 95 lakhs as against a loss of 1 crore last June. From a debt situation, the overall debt that we carry currently is about 24 crores as against the cash that we carry of 35 crores. Some of the other aspects that I want to highlight as part of the quarter is a large deal that we won from Optel which is a Tier 1 operator in Australia regarding the network asset management solution which is a new offering that we had last year. This is a multi-million order and this is also quite strategic in the sense that we are, Optel is a part of the SingTel Group and once we have a successful implementation, it gives us an opportunity to work with other operators within that group.

One of the product that we launched last year was a multi-vertical IoT security solution which is a very promising and from a market standpoint also we are, the market is witnessing a large expansion of multifold. In the IoT area as well, we have two important developments during this quarter. The first one was a collaboration that we signed with an OEM provider in North America in the infotainment segment of connected cars and here the objective is to come with a solution for the OEM around IoT security and we intend to launch that together to the market during the third quarter, that is, the October-December of this year. The other important development is that we have signed the first contract for IoT security from a smart city in North America. We will provide the specific details of that once we get the clearance from the customer to go to the market with us with the details, but this is the first contract that we have signed and this is again a very, very key segment that we intend to address going forward.

Now, before I take some specific questions regarding the financial and other matters, I also want to give a brief look into how we are seeing the future and what is our strategy. As you would probably understand for the last few years, we have been on a mode of preservation and clearly we recognize that at this time that we get into an aspirational mode. We intend to make Subex a vibrant and grow revenue from our current levels. I do have the benefit of being part of Subex through various stages that is the start-up, the growth, then the decline, and then the stability



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period which we were in the last few years. While the success looks very different now than what it was earlier, it is very clear that there are elements internally that we need to rekindle that as quite similar to that of a start-up phase. In line with this, we had to rediscover and redefine our purpose and values. We had it together and now defined our purpose as to experience the thrill of unlocking possibilities, unlocking possibilities for all stakeholders as our customers, investors, and employees. We also agreed on five values that define how we will conduct and to create the right culture within this organization. These are think customers, make it happen, deliver value, be open, be fair, and win together. Now, these values will be the arbitrator for all our decisions.

We also defined what we will do as a vision. The vision is unlocking possibilities to be the world leader in digital trust. Currently, we are in the business of revenue optimization for telecom segment and we do a good job in risk management and revenue optimization. Now, leveraging our strength and also adding some more capabilities, we want to play in this emerging space of digital trust, which is quite large. Digital trust will entail providing confidence in data and the insights from those data, security, privacy, integrity, risk management, and predictability. Digital trust is supposed to be the fundamental need of digitization and will enable quick adoption among the masses. We intend to drive the team around these values, purpose, and vision, and hope to make Subex one of the largest and more trusted players in digital trust as measured by the number of devices, users, and amount of data transaction. Now, in line with this vision, we foresee the growth of Subex in three horizons.

Horizon One will focus on short-term and objective here is to perform in our core business of fraud management, revenue assurance, and partner billing. We will continue to evolve these products, improve operational efficiency, and primarily grab market share. The market by itself of these areas are not growing, so the opportunity is predominantly to grab market share. Incidentally, this is also a market which is quite fragmented with the top three players only accounting to about 30% to 35% of the total market size. Horizon Two will cover our new areas of multi-vertical IoT security and network asset management. This will provide a near-term growth for the company. These products have already hit the market and we are seeing reasonable traction. The IoT security market is expected to grow multifold and we intend to capture a portion of this market expansion. Horizon Three will consist of our long-term growth initiatives in emerging areas. We plan to launch two new products this year. The first one is Subex wallet around digital trust. The second product is a deep learning based anomaly detection. Both these will be multi-vertical offerings and will leverage the large access that we have of global telecom data. As you will appreciate, all these requires a different mindset and it was a key consideration when put in together the new management team. The team is aligned on the growth initiatives and the strategy and is also a well-balanced one with a good mix of experience and talent from both within and outside Subex. The opportunity that lies ahead for Subex is enormous and the ability to lead it to the next phase is quite exhilarating to me.



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Our global customer base and a set of deeply committed Subexians and the support that we are getting from the investors give us the confidence that we have a good future ahead. We are also mindful of the fact that the FCCB resolution resulted in a significant equity dilution and had its impact. We are indeed thankful to all our investors' continued trust and patience, and we also firmly believe that the growth strategy will enhance the company's value, and therefore, will benefit all stakeholders. We are quite motivated and committed to make it happen and we look forward to the continued support of our investors. Now, with that probably I will answer some specific questions that you have around our financials and the strategy.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Sanjay Shah from KSA Securities. Please go ahead.

Sanjay Shah: Sir, thankful to you for coming back to explain your shareholders and giving a nice presentation and briefly making understand about the company. Sir, I would like to ask you that since last five years, we have not been growing much. Our revenue has not grown in the last five years, so should hopefully we start seeing upward tick from here onwards now with the new product launch and new technology what you have talked about?

Vinod Kumar P.: Thank you. As I provided in my commentary that is indeed one of key consideration as to how do we grow the revenue from the current levels and on the Horizon One which is our core, we are looking at a modest growth in that segment, some of the new initiatives that we are doing particularly around Horizon Two which is the IoT security is expected to provide us the short-term revenue growth, which will help us to get or break out from the revenue levels that we have been operating for the last three to four years, so definitely our intent is to grow from this level and leveraging some of the new things that we are doing.

Sanjay Shah: Sir, can you elaborate on this IoT security, what is the market and how we look as a part of that and what portion we can get it from there?

Vinod Kumar P.: This is something which we started sort of incubating in a very small manner about a couple of years back and what we have done during the last two years is that we have laid out one of the largest honeypot IoT network that is out there. Today, we have an ability to deploy about 350 way IoT devices like drones, cameras, sensors, and many other devices across about 100 locations around the world and these honeypot what happens is that they are provided with vulnerabilities which get attacked and we capture those threat signatures, because of the early work that we have done, we believe that we have bought 30% more IoT threat signature than any other players out there in the market and this provides a significant competitive advantage to us. Now, the market size currently for our range of products for IoT security is estimated about \$ 100 to \$ 150 million and this is talking about endpoint security and the gateway security, we are providing primarily the gateway security that segregation of that is not available at this point in time, but overall the market is expected to grow 15 to 20 folds to about 1.5 to 2 billion by 2019-2020, and our intent is to capture a portion of this market expansion. Now, this is slightly different business model than what we are used to in our core. This is more SaaS based business

and while as I mentioned, we definitely will announce some few strategic partnerships and wins this year. The uptick of revenue on account of this IoT revenue you will see come into the books starting next year, so definitely IoT security is something which is we are quite bullish on, the prospect and the market is growing and as I indicated we hope to capture a part of that market expansion.

Sanjay Shah: Sir, have we done any proof of concept on that?

Vinod Kumar P.: We have done several proof of concept, we have several partnerships we have already signed and as I told you after the proof of concept, they have also signed the first smart city contract from a smart city in North America.

Sanjay Shah: Sir, balance sheet related question, we are generating good cash flow, cash generation is improving in our balance sheet, but consolidated it drains because of bloating goodwill what we provide, can we provide it ideally in one year, one time itself?

Mehernaz Dalal: Goodwill is measured more from the fact that how is the product with respect to the future cash flows of the company, future cash flows coming out from that product, so the goodwill which we have on our balance sheet is basically of our core business which is RA and FM, and we are expecting that to grow at least in the next few years by at least 15% year-on-year, so if we impair the goodwill today or take a one shot hit actually saying that today that goodwill is not generating revenue for us would be incorrect

Sanjay Shah: So what will be that total amount?

Mehernaz Dalal: The goodwill which is sitting on the balance sheet is about Rs. 650 crores and which is a sustainable number looking at the future cash flows coming out from this business, so there is no trigger for us to impair this goodwill at this point of time, What do u mean by cash drain out by goodwill?

Sanjay Shah: Cash has not drained out, the profit figure what we see, I appreciate that cash is not drained out, it is already been used and we are just accounting purpose I was talking about.

Moderator: Thank you. The next question is from the line of Sumit Kumar, an Individual Investor. Please go ahead.

Sumit Kumar: Sir, I would like to ask you questions about Subex, for many years the promoter stake in the company is only 0.17% and why it is so much low, I want to know what the company is doing for getting the promoters from different countries? My next question is, Sir, is the company getting acquired by any other IT company, I have heard the rumors that is why this question arises? My third question is, Sir, what is the management doing for growth of the share price, the share price is going down by down from last many years, means investors are not getting

anything from the share price, we are holding it from many years but not getting anything, so these are my three most important questions?

Vinod Kumar P.:

The first question regarding the promoters, the promoters moved out of the system about five years back, so at this point in time we do not have a specific promoter per se, it is quite widely held. Now, the second question whether we are getting acquired, as I have laid out before, the current objective of the company is to grow the business and we are singularly focused on that aspect. I will not respond to any specific rumors, but as I said it is absolutely clear that our current focus is to grow the company and as I said starting April we have been working on how to identify new areas, which has been completed and we are now going into the execution mode of both Horizon 1, Horizon 2, and Horizon 3, and you would see more activities from the company on launching new products and announcing new partnerships etc. in the coming months. With respect to the share price, again that is something which probably we have been in a mode of preservation for the last few years, so it was important for us to hold our customers and our revenue at the current levels till we address some of the balance sheet issues that we had, I think that is what our focus was in the past few years and now with some of those issues behind us, we intend to grow the company and we believe that once we have some of these growth strategy in place and once we start executing it, you will see the top line growing. With respect to the specific movement of the share price etc., that is something which we will not be able to comment on, but probably from the company standpoint, we are looking at growing the company and some of the new initiatives that we have listed is where we are focused.

Moderator:

Thank you. The next question is from the line of Mahesh Kumar Jagtap, a Retail Shareholder. Please go ahead.

Mahesh Kumar Jagtap:

I have a question to MD and CEO of the company, I have gone through the annual report 2017-18 and there is a mention that high-growth areas, one is the customer journey analytics, so can MD elaborate on this particular point, what are the products that you are planning to build in this area, digital identity, you have, already mentioned about Subex wallet and trust, anomaly detection is basically going into the network security, and the other point which is mention in the annual report is that you are entering into other verticals apart from telecom for the assurance offering, so which are those verticals?

Vinod Kumar P.:

You mentioned three or four points, let me try to cover one by one. First, let me talk about the anomaly solution. Anomaly solution is not a network analytics, it is different than that, it is a standalone offering that we have now developed based on the AI and the deep learning capabilities that we have built within Subex and we would be launching this as a multi-vertical solution trying to find out insights based on deep learning. Now, some of the verticals that we have identified to go after our are Fintech, e-commerce, and insurance other than the telecom side. This is something which as I told you before, we intend to hit the market during October-December timeframe of this year. Now, the second point which you mentioned with respect to the customer journey analytics, now the customer journey analytics is again a kind of adjacent solution that we have developed and that is something which we plan to take it to the Telco

market to resolve some of the issues that our key customers have told us as a major problem area. Now, at this point in time Telcos are going omni-channel, they are using multiple channel to reach out to customers and today there is not a centralized visibility as to how each of the channels are working, so for instance you might go into a website and try to evaluate a product, but halfway through you just abort because you are not able to get the right information or you are not clear on it, and then probably you might or you may not call up the customer care asking for the product, but from a Telco standpoint, they do not have any visibility as to what happens, so our intent is that based on the technology that we develop, we bring in all the data and provide this visibility which will help the customer to understand various channels and thereby increase the conversion rate, which they have which is of significant value, so this is the aspect of customer journey analytics.

On the multi-vertical, we have already started multi-vertical with our IoT security solution. We are targeting a large connected car segment, smart city, and defense and the large OEMs, these are the four segments that they are currently started because it is a very large segment just about every vertical is deployed in digitization and IoT, but we are focused on this based on the early traction that we are getting. The new products of anomaly and the digital trust, they are also multi-vertical. Again, the front-runners there are as I mentioned Fintech, e-commerce, and insurance, but we will firm that up. We are doing some POCs and trials at this point in time, but once we evaluate the traction we will take up a firm position on which verticals to address, so there is a bit more work need to be done before we solidify our thoughts on which is the one to go after.

Mahesh Kumar Jagtap: Now, coming to the question again from the annual report, it is mentioned that we have been investing in mid-term and long-term growth areas, so from where you are going to get the money because at the moment you may not be having much money to invest into new products?

Vinod Kumar P.: I think that is not the case, so we do have the initial investments that are required for the both on Horizon 2 and Horizon 3 initiatives. We are able to internally fund it from our P&L itself.

Mahesh Kumar Jagtap: Now, another question is will it be possible for the management to share the product technology roadmap for the next five years as well as top line and bottom line roadmap?

Vinod Kumar P.: With respect to the product roadmap, I think broadly what we are looking this Horizon 1, Horizon 2, Horizon 3 products are broadly what we are looking at from a two to three year timeframe. Now, specific roadmaps of the individual ones probably if you are interested then that is something which we can, it is very detailed it is something which we can suggest whatever it is public domain which we share with our customers etc., that is something which we can provide to you. With respect to bottom line and the top line that is something as a guidance we do not provide anything, but that is why we said the detailed the specific areas and also we clearly laid out what is the market opportunity, so that is what we are able to provide at this point in time.

Mahesh Kumar Jagtap: See what happens, we are in the growth space we will have the target for internal team also to what they should achieve every quarter and every year. On the basis of those targets, only you will evaluate the performance of the employees and the company, so what are those targets because as an investor I am not getting visibility what is going to happen next two years, and which benchmark I should evaluate the performance?

Vinod Kumar P.: I understood, again we are coming to that same aspect of the guidance aspect, so at this point in time we are unable to provide that, but I said just again to provide you a flavor of where we are on our Horizon One which is predominantly 95% of our current revenue is coming from. The growth is expected to be about around 5% to 10% is what we are expecting growth. On the Horizon Two which at this point in time, it is a very small fraction that market is exploring, it is a matter of us executing that. We do have some internal targets that at least at 10% of the new order booking, new contracted bookings should be from these new areas that is the Horizon 2. On the Horizon 3, it is too early for us to predict because it is really emerging markets with huge potential, probably the guidance both on respect the market size, the possibilities probably we will try to provide you during our next call because it is very early, we have validated some of this proposition with the customers, but it is a bit more work for us to do on the Horizon 3 market sizing and opportunity.

Mahesh Kumar Jagtap: Last question, all this your existing technologies operate at revenue assurance, fraud management, and network asset management, they have usage in the military communication, so why the company is not targeting military communication in US, Europe, and Indian market?

Vinod Kumar P.: This is something that we discussed when we decided how we want to grow. Now, on the Horizon 2 and 3, there were huge opportunities which were significant growth opportunities like IoT security, digital trust anomaly, so we had to focus on one or two, we could not do all of them and expansion into any new vertical is also a significant effort, so we decided that it is better that we focus based on our current strength to branch out on some of these new areas which are significant growth areas and where we also have some core competencies which we have built around AI and deep learning over the period and the huge access to the data that we have, so we thought that these are much better opportunity for growth rather than a vertical expansion of revenue assurance and fraud management, so that was the consideration and the decision criteria.

Mahesh Kumar Jagtap: The existing technology has usage in defense network and defense communication?

Vinod Kumar P.: Of course, the technology can be ported with slight changes and also of course lot of subject matter expert needs to be added, so that is a possibility, but as I said we have to decide a couple of them which we have to do to grow out of the current levels and we decided that it is better for us to focus on some of these high-growth areas.

Mahesh Kumar Jagtap: Now, in all these high-growth areas, are your sales and marketing team geared up to address them because these are new markets, we may not have the experience in marketing and selling them, so how that gap will be filled up?

- Vinod Kumar P.:** Some of these things, you are right in the sense that these are new areas, so we are slowly developing that capabilities. Wherever possible, we are leveraging this, we have a very experienced sales team which is well spread in various geographies and also we have a very good set up of channels, that is local partner, so we have in several countries we have local partners who help us on account management and other matters and these local partners are multi-vertical, so they are not only doing one vertical, so we will leverage all of them but to your specific question, we do have to bring in some capabilities and some strength that is being done as and when we execute this various plans.
- Mahesh Kumar Jagtap:** It will be better to get some Professor from US on account technology management background as an advisor on the board, so that he has seen the multiple markets across the world and he will be able to give you some insight on how to position the products, and services, do we have that option open?
- Vinod Kumar P.:** Just to address that point, we already have an advisory setup for the company and we have already have one advisor already brought in for the security side of business, IoT security, who is a veteran who is based in Europe, so he is advising us as of now, so we are already doing that, though this is not at the Board level this is an advisory for the company for the management and we are working with some of these advisors and we will add more in some of these new areas as and when the need is identified.
- Mahesh Kumar Jagtap:** Yes, getting somebody on the Board like some Professor from US who are already on multiple Fortune 500 companies and they are from Indian origin, getting them on the Board will add value to you because these new areas we do not know how they can evolve in future and since this people have seen multiple markets across multiple countries, so they can see some early signs, which product may succeed and which may fail, so that maybe good input for the Board to decide the future roadmap?
- Vinod Kumar P.:** Okay.
- Mahesh Kumar Jagtap:** So that is where you can actually look into getting some Indian origin Professor from technology management or digitization management background as advisor on the Board.
- Vinod Kumar P.:** Okay, thank you, Mahesh.
- Moderator:** Thank you. The next question is from the line of Ravi Nagdha, an Individual Investor. Please go ahead.
- Ravi Nagdha:** Sir, I want to know that in India, do you have Jio as your customer or not?
- Vinod Kumar P.:** Jio is one of our customers, they are one of our largest customers.

- Ravi Nagdha:** Sir, you have said that in US you have that smart city project, are you trying that sort of thing in India because 100 smart cities are announced and are you targeting any big order from India or not?
- Vinod Kumar P.:** We have started that, yes, but our pipeline is quite strong in North America when compared to other markets, so this is a new area so for sure we will target other markets like India, but I think we wanted to start with some of the counties or cities that already have made significant progress on smart city, so some of the smart city contract that we have already secured, they already have several components already in the digital side, so they have found a big need for security which we have maintained, so to answer your question, yes, the Indian market is also something that we will start catering to.
- Ravi Nagdha:** Sir, my final question is that, have you bid for any defense contract?
- Vinod Kumar P.:** Not in the country, we are doing some early POCs on IoT security with some other country, not within India, we do not have any engagement within India.
- Ravi Nagdha:** Have you won any order?
- Vinod Kumar P.:** We have not won the order, we have done some proof of concept, some trials are being done at this point in time.
- Moderator:** Thank you. The next question is from the line of Hruday Burma from KSA Securities. Please go ahead.
- Hruday Burma:** I had a first question regarding QVT, can you explain what kind of role they are playing today in the company?
- Mehernaz Dalal:** QVT has no role in the company, they just hold some shares which got allotted to them as a conversion of some debt by allotment of preference shares last year, which is that is their only holding, so they are like any other shareholders of the company.
- Hruday Burma:** Now, coming to your plan to increase your revenue, I am assuming this year will probably remain in the same range of Rs.320 Crore to Rs. 350 Crore since you said the Horizon 2 strategy will start playing out from FY '20, am I correct on that front?
- Vinod Kumar P.:** That is correct.
- Hruday Burma:** What are the margins that you are targeting for this year?
- Vinod Kumar P.:** Margins will also be on the same levels that we are currently having.

Hruday Burma: Also, could you give us the rationale behind the restructuring of the company into these two separate segments that you did, what was the concept behind this?

Vinod Kumar P.: I will provide the business then I will hand it over to Meher. Primarily, one key objective that we have is that to attract more talents and partners. It is very important that we have the segregation. In fact, probably some of these new areas like IoT security and all are high-growth, high-value area when compared to some of our core products and if we have to bring in some strategic investor, when I am talking about strategic investor or partner, these are partners who will help us to take the business to the market, so for example we are talking about these particular partnership that we now have with this connected car infotainment provider, it is a very large provider which has about 14 % of the North American market, so it is very important for us to appeal to them and to have a joint proposition, and therefore, it was felt that it is an important aspect. Now, with the other aspect, I will also request Meher to address.

Mehernaz Dalal: As continuing from what Vinod had said, also the LLPs or the structure below also gives us access to equity capital or some partnership as Vinod mentioned, so if we need some funding etc., it is easier to attract funding at a lower level or at the subsidiary level and also compartmentalizing our products also gives us a differentiator in branding in the market as Vinod mentioned. By doing this, it also gives us some other tax benefits which we could unlock based on the structuring.

Hruday Burma: Now, coming to the equity base which is fairly bloated now, now that we are generating close to 50 odd crores of free cash every year last few years and now that the debt has been taken care of, is there any plan to return the cash via either a buyback or dividend, what is the plan with the free cash that we are generating now?

Vinod Kumar P.: As I covered in the initial part, the current objective is to put the company on a growth track and ensure that the top line starts moving, we start executing on some high-growth areas, high-growth and high-value areas. Now, on the mid- to long-term, we will start looking at these aspects but at this point in time, we are squarely focused on improving the top line and taking the company to some of the high-growth, high-value areas.

Moderator: Thank you. The next question is from the line of Sumit Kumar, an Individual Investor. Please go ahead.

Sumit Kumar: Sir, last time I have asked about the promoters, why promoters are not there in the company and decreasing day by day, only 0.17% promoters are there, I would like to ask you what is the company doing for increasing the promoters stake in the company, that is the main issue. If this issue will be solved, then something good will happen for the company, what is the management doing?

Vinod Kumar P.: In the short-term all what we are doing is looking at growth from a top-line prospective and getting the company to high-growth area, that is what we are focused on. On mid- to long-term,

once we have started executing these things then there are more possibilities around some of the areas and some of the concerns that you have mentioned we will look at addressing, but for the time being we are solely focused on growing the top line and also taking the company into some new areas which are high-growth, high-value.

Sumit Kumar: My next question is, Sir, you have generated this new technology, which other companies are in India and in foreign, which are other companies competitor to this new technology, specifically in India which are the companies?

Vinod Kumar P.: With respect to IoT security, I do not think that we have any competitor. Globally, there are some, again none of the engagements, we have in a competition kind of mode because the market is very hugely increasing. For sure, there will be competition that we will be having, but at this point in time there are couple of companies, small companies from Israel that we hear have a similar technology. There are lot of security companies or cyber security companies, but we are very focused on IoT security and as I mentioned earlier, we have a big advantage that we have the largest honeypot and as we start covering more and more equipments, the number of threats, and therefore, the threats that we handle and therefore the threat signature, the threat intelligence that we have, that bank increases, so I think at this point in time we do not have any specific competitor from India. There are few competition that we are hearing not too much of details out from Israel, but obviously there will be more competition as days go, but our current Intel is to ensure that we are based well into most of the ecosystems, that is what we are doing like partnerships we are now working also very closely with several OEMs, so that we get into their ecosystem and into their stack, so that is what we are doing. At this point in time, we do not have a clear competition for some other new areas. On the Horizon Three areas, it is brand-new so probably we are again, we do not have anybody talking about some of these things at this point in time.

Sumit Kumar: Okay Sir, good to hear that there is no competitor in India, my last question, in 2005 in Indian market bonus was issued for Subex and from that 2005 till now, no bonus has been issued and now one of my colleague had asked you that whether company will give dividend or bonus, you have said that you will not give any bonus and dividend, but I want to know that whatever the profit you have got this year, is that sufficient for implementing this new technology or you will have to take more loans, in further year will you have to take more loans for this implementation of new technology?

Vinod Kumar P.: We don't need to raise any loans or anything to support all these initiatives, sometime in the near future maybe we might look at some smart capital, the smart capital meaning this is not from a capital standpoint, but if there is an opportunity where we can bring in a very large big brand as one of our investors and if that significantly helps us generating more traction in the customer side that is something we might look, but for us to kick start and take this initiatives to market, we do have the capital and we are funding it within the P&L itself.

- Moderator:** Thank you. The next question is from the line of V. P. Rajesh from Banyan Capital. Please go ahead.
- V. P. Rajesh:** Quick follow up question on the margins, you said Vinod, in terms of the guidance how should we look at your EBITDA margin, is it before Fx or after Fx and you know what is the numbers percentage margin that one should be thinking about for this year?
- Mehernaz Dalal:** You should look at the EBITDA margin on a whole year basis, not on a quarterly basis because our quarter revenue is not the same, it spikes up in Q3 and Q4, but our cost is pretty flat, so EBITDA margin you should look at before FOREX, because FOREX is something we cannot control. We should look at as last year and the year before last, I think the overall EBITDA margin is between 18% to 22% give-and-take.
- V. P. Rajesh:** The second question what is the backlog that we had in June quarter if you can just comment on that?
- Vinod Kumar P.:** I will provide you the view from a comparative standpoint last year and this year as well, so last year FY '18, I am talking about so we had an opening backlog of \$ 37 million to be executed in FY '18, so this is not the total backlog that we have for multiple years, but specifically for last year when we opened the last year that is in April 2017 for execution in 2017-18, we had 37 million as the backlog and we had about through the year there was some contraction on account of movement into subsequent years, so from the original backlog it came to about 34.5 million, about \$ 2.5 million moved out into current year, so we had \$ 50.5 million revenue which meant that from the order booking that we did, we converted about \$ 16 million. Now, last year we had an increased order booking than the previous year and therefore the starting backlog that we have for this year is about 39 million as against 37 million of last year. Now, typically the new contract booking last year we had was about 46 million that is the new contract booking that we had and this year we are expecting at least to book about 10% more at least, so in line with that, the Quarter-1 we did have about 11 million booking already done that is almost 22% if you look at 50 million as the new contract booking, so to answer your question for the year we started with a backlog of about 39 million, which is about 2 million more than what we had last year and even though we had a 6.5 million more booking for the whole year, obviously it is for multi-year, so if you look at for one year perspective, it translated to an increase of \$ 2 million in the opening backlog.
- Moderator:** Thank you. The next question is from the line of Mukesh Kumar Verma from Barclays. Please go ahead.
- Mukesh Kumar Verma:** Sir, my question is when should we expect the revenue to be cross Rs. 100 crore on a quarterly basis and the second one is should we expect the impact of this new order you have won from Optus in next quarter is it?

Vinod Kumar P.: Currently, if you look at our last year we had \$ 50 million revenue, sorry, I will talk in million dollar revenue so that is easy for us to cut through the FOREX and others, so we have US \$ 50 million revenue that is what we had last year which means that on average the quarterly revenue is about 12.5 million. Now, obviously the Q1 as Meher mentioned, Q1 and Q2 are relatively low and it goes up to something like about 13 to 13.5 towards Q3 and Q4, so overall we talk about 50 million, that is what we did last year. Now, for sure the intention is for us to slowly bring that up, now again we do not want give a specific guidance, but I guess for some of the initiatives that we are doing you should see the results of that starting Q4 of this year. It should trend towards 13 to 14 million that is what we are expecting and it should stabilize there. One more thing which I want to mention is that for the last few years we have started moving lot of our business engagement into managed services mode and that is definitely giving us a lot of stability so that the swing that we have from quarter to quarter has come down to just about a million to million-and-a-half and that is something which we will continue to do and the good thing is that on a yearly basis if you look at 39 million, one of the things that we are looking from an operating standpoint is to ensure that we start the year with the backlog for that year which covers our entire cost, so to that extent I think to answering your question again from starting this Q4 you would see revenue ticking up from the average quarterly revenue that we have had last year and the year after.

Moderator: Thank you. The next question is from the line of Ravi Nagdha, an Individual Investor. Please go ahead.

Ravi Nagdha: Sir, one question I want to ask is whether do you have any patent of any product or technology?

Vinod Kumar P.: Yes, we do have, we have been granted patent, we have eight patents, we have already started filing patents for some of the new areas. We have filed two of them last year, which is under process and for some of the new areas as and when some of the AI and deep learning models are evolved, we intend to patent it.

Ravi Nagdha: Sir, these products which are granted patent, this will yield high margin or not to your company?

Vinod Kumar P.: Yes, the eight patents that are already granted, they are on our core areas. The new patents that we have filed last year is around new areas and all our new areas are definitely high growth, high margin areas.

Moderator: Thank you. The next question is from the line of Mahesh Kumar Jagtap, a Retail Shareholder. Please go ahead.

Mahesh Kumar Jagtap: I want to know are you doing FOREX hedging on yearly basis or a quarterly basis?

Mehernaz Dalal: As of now, we are not doing any FOREX hedging either quarterly or yearly. We will look at it, right now anyways nobody really has a view on how the foreign currency is moving around. We had done some hedging years ago, but it was not in good favor of the company, so therefore the

Board had decided not to do any hedging because we also have a natural hedge because 50%-60% of our cost is in foreign currency, so we kept our position open as of now, but we will look at doing some part of hedging going forward and seeing on what the Rupee view is.

Mahesh Kumar Jagtap: Last 10 years, the top line has stagnated, what are the measures company has taken to actually reduce the cost, so that bottom line can improve?

Vinod Kumar P.: I think we are operating at a healthy level when it comes to with respect to EBITDA and I think while the top line has not grown and there is a lot of things that we have to do to sustain that level of business and EBITDA, constantly we are looking at avenues where we can improve the efficiency and once we start embedding more and more AI into our products, we will definitely be able to improve some of the efficiency, but otherwise from a normal operations based on the current engagement, we do not see any major opportunity for us to improve their efficiency.

Mahesh Kumar Jagtap: Now, coming to one of the comments you mentioned that I do not want to comment on the share price, but what happens share price is actually the barometer of the performance of the company. If the performance is good stock price always goes up, so the management should give commitment that performance will improve which will drive this stock price?

Vinod Kumar P.: I think that is your point of view, we appreciate that, as I said we have not been growing our top line for a few years now. Of course, we had a larger issue of balance sheet which got addressed, I hope you appreciate that, that was a significant effort from the company's end to ensure that from a balance sheet standpoint where we were really in a very bad situation three to four years back, today we are in a situation where we have reduced the debt and we have cash surplus. Now, the next phase is to grow the company and we believe that once we start the top line starts growing that will reflect on all our aspects including the share price.

Mahesh Kumar Jagtap: I do appreciate that even in the crisis, your key employees have remained with the company that is a very good sign and now when they are going into high-growth areas, there will be lot of uncertainty and risk associated, so how we are going to hedge all those risks and uncertainties associated with the growth?

Vinod Kumar P.: One aspect, you mentioned about the long-term employees. We do have that benefit and we are very proud of the fact that we have been able to hold some of the key members together. One of the things that also yesterday which we took it to the shareholders for their approval is for the creation of the ESOP scheme where we are buying from the secondary market, so there is no dilution, but we also want to ensure that some of the employees who are contributing significantly also have a skin in the game, so there is a common benefit of ensuring that the value of the company goes up and that is one of the reason we have also started looking at some of these aspects like ESOP, so to your point probably we have never had such initiatives in the last few years because the priority was different. As we move from a preservation to an aspiration mode, all aspects of an aspiration we need to address, so we are addressing one by one. We have a strategy which is growth strategy, we are trying to align some of the other aspects with respect



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to internal compensation, bonus plan, ESOPs everything that are aligned to the growth, so all the things that are required are being addressed one by one. Now, other than the specifics of the revenue guidance which we as a practice we do not offer, all other aspects we are doing and we can provide sufficient clarity what we are doing in those areas.

Mahesh Kumar Jagtap: Finally, I just have one suggestion, see IoT has huge potential in the future, the amount of business it is going to generate is huge, it will go into billions of dollars, so please do not sell company at a throwaway price because this is going to be a growth engine for the Subex IoT, so please do not sell at throwaway price.

Vinod Kumar P.: Appreciate that view.

Moderator: Thank you. The next question is from the line of Rajesh Goenka, an Individual Investor. Please go ahead.

Rajesh Goenka: This restructuring of our company has led to expansion of capital and that is a good thing that has been done, now that this part is complete and some cash flow is being generated, is there anything on the agenda to buy back shares in future or in currently or you feel it is a good idea at the right time you should buyback some shares and reduce the equity?

Vinod Kumar P.: There is no specific discussion that we have done and nothing that we can discuss at this point in time. As I mentioned, our short-term objective was to look at two aspects, how do we improve the top line and also move the company into some high-growth, high valuation area. In the mid-to long-term, there are matters like what you mentioned about the large equity base, those are items that we will pick up for to evaluating what are some of the best things to be done there.

Moderator: Thank you. The next question is from the line of Tarun Sisodia from Chanakya Niti Consultancy Private Limited. Please go ahead.

Tarun Sisodia: As I understand the traditional business which was primary targeting the telecom sector had a run rate of about \$ 65 to \$ 70 million about couple of years back, now it is at about \$ 45 million just about, is that correct?

Vinod Kumar P.: That is correct, but when we had the \$ 65 million revenue, they were also some other portfolio which we divested. If you recall, we did have an activation portfolio which we divested to Netcracker, but you are right in the sense that there has been a market contraction on our core.

Tarun Sisodia: That traditional business, it has been stable at about \$ 45 odd million or is there a scope of growth out there, how do you see further degrowth happening in that segment?

Vinod Kumar P.: If you look at our \$ 45 million, luckily for us about 75% of that is coming as an annuity, and therefore, for us to maintain that level, obviously a lot of things need to be done, but we do not see a challenge of maintaining that and that is coming down, however, as I mentioned earlier, it

is a very fragmented market and half the market is not growing, some of the very small players compared to what we are, they will have a challenge and one of the opportunity that we are now exploring and planning to execute is a replacement opportunity for some of this smaller players, so market by itself is not growing, but the opportunity is to gain market share from some of the smaller players and if we are able to execute on that well, we would see an upward trend from the \$ 45 million, but still it is not a high growth area like compared with IoT are some of the new areas that we discussed.

Tarun Sisodia: The current margin is about 15%-odd kind of level the cost base is fairly pertaining to this old business or there is certain amount of cost which is related to the new businesses which is effecting the revenue?

Mehernaz Dalal: Most of the cost, yes, it does relate to the old business but last year and also current quarter, we do have cost of IoT that we spent about a million, million-and-a-half last year which is also embedded into the cost.

Tarun Sisodia: I assume that you had indicated that from third quarter, December ending quarter is when you expect some revenues to come in from the new business, right?

Vinod Kumar P.: For sure there will be revenues coming from new business, but as I told you it is a SaaS based model, so the kick-off will only start towards next year, but for sure there will be definitely contract from a new order booking perspective, there will be at least 10 % booking of the total should be around new areas and the revenue will be much smaller portion, but there will be some revenue for sure.

Tarun Sisodia: As and when that revenue starts flowing in, will there be any kind of substantial one-time jump in cost structure or the current cost will remain as it is?

Vinod Kumar P.: With respect to the IoT, we do not expect any significant increase in the cost, it will sort of grow in line with what the revenues are, but again it is not a linear growth in line with revenue because it is a product business, so it is not kind of the cost does not grow linearly with the revenue, but having said that it is investment for us, so probably the next 12 to 18 months, we would definitely spend more than what we normally spend around marketing and others to gain a leadership position in some of the new areas.

Tarun Sisodia: I heard something in one of your conference that as the compensation structure, you are looking at ESOP and you have already bought some shares from open market, is that what I understood?

Vinod Kumar P.: We have not, we have got shareholders approval yesterday, it was an agenda item in our AGM yesterday, as we get the approval we will go ahead forming the trust and getting the shares from the market, so at this point in time nothing has been done, but we have just sought and we have got approval from the shareholders.



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- Tarun Sisodia:** What is the quantum of fund which will be involved for this whatever shares you intend to purchase in the market?
- Vinod Kumar P.:** The statutory limit is 2%, that is the statutory limit of acquiring in one financial year, we can only acquire about 2%.
- Tarun Sisodia:** 2% of the outstanding equity?
- Vinod Kumar P.:** That is correct.
- Tarun Sisodia:** How does the accounting treatment happened for this particular purchase?
- Mehernaz Dalal:** It is not a cost to company because it will be in the trust. The company would give a loan to the trust either interest-free loans for the trust to acquire the shares and as and when the employees exercise the shares, the trust will basically repay the loan.
- Moderator:** Thank you very much. That was the last question, I now hand the conference over to Mr. Vinod Kumar Padmanabhan for closing comments.
- Vinod Kumar P.:** Thank you all for coming on this line, and as I mentioned we would have this call starting on a biannual basis, so probably we would look at having this call in January post-our results and then slowly move to a quarterly basis. Thanks again and looking forward to your continued support. Thank you.
- Moderator:** Thank you very much. Ladies and Gentlemen, on behalf of Subex Limited, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.