Subex Ltd — FY 2025 Annual Report Analysis

Annual Report Analysis (Consolidated)

Source: CRORES. All figures Crores. Pipeline: v5-Gemini — W1a → W3 → W1b+W2+W2F (parallel, notes-injected) → Merge.

Investor Snapshot

#	Analytical Point	Sentiment
1	Subex is a legacy telecom software provider attempting a high-stakes "AI-First" pivot to offset a deteriorating core, evidenced by a 3-year Tier-1 European renewal but failing to scale new growth engines.	☐Neutral
2	***Top-line performance is under severe pressure with total revenue declining 7.78% to 286 Cr, driven by a catastrophic 63% collapse in the Digital segment and a 29.44% contraction in the Americas.***	☐Negative
3	***Operating margins remain deeply stressed as the company relies on aggressive cost-cutting, including an 11.40% reduction in employee benefits (185.18 Cr), to mitigate the revenue shortfall.***	☐Negative
4	***Profitability is non-existent with a net loss of 31.44 Cr and a negative ROCE of 6%, indicating that the current business model is failing to generate returns on invested capital.***	☐Negative
5	**The balance sheet remains technically debt-free with a D/E ratio of 0.06x, providing a thin layer of protection against the rapid erosion of the underlying asset base.**	☐Positive
6	***Cash flow from operations is negative at - 8.28 Cr, forcing a reliance on working capital liquidation and a post-balance sheet 34.27 Cr tax refund to sustain a 12-18 month liquidity runway.***	☐Negative
7	***Capital allocation is highly suspect with Goodwill of 196.14 Cr representing a staggering 644% of total equity, creating a terminal risk where a minor impairment could trigger technical insolvency.***	☐Negative
8	***Earnings quality is severely compromised by a 46.38% impairment of the gross receivables book (67.14 Cr), with over 32 Cr overdue for more than three years, signaling systemic collection failures.***	☐Negative
9	***Governance standards have deteriorated, marked by BSE/NSE regulatory fines, a modified audit opinion regarding internal control gaps (audit trails), and an auditor transition away from a Big 4 firm.***	☐Negative
10	***Significant contingent liabilities, specifically a 101.06 Cr provision for litigation (35% of annual revenue), pose a major threat to the company's remaining net worth.***	☐Negative
11	The forward outlook hinges on an unproven "AI-First" narrative; while 80% of new wins reportedly include AI, this has yet to translate into financial stability or meaningful revenue growth.	☐Neutral
12	***Investment Stance: AVOID; the primary monitorables are the stabilization of Net Trade Receivables (78 Cr) and the potential for further Goodwill write-downs that would wipe out equity.***	☐Negative

1. BUSINESS OVERVIEW

- **Business Segments:** Subex operates primarily in the Telecom AI space, focusing on Fraud Management, Business Assurance (FM/BA), and Network Analytics. It has recently pivoted to an "AI-First" strategy, rebranding as a Telecom AI company.
- **Revenue Drivers:** Revenue is driven by software licenses, implementation and customization services, managed services, and support services. A significant driver is the "Subex AI Agents" (LLM-powered systems), with 80% of new wins reportedly including AI use cases.

- **Cost Drivers:** The primary cost driver is employee benefits (65% of total costs), particularly high-cost AI talent. R&D expenditure (₹34.72 Cr) and sub-contract charges (₹25.16 Cr) are also major components.
- **Industry Position:** Subex maintains a "moat" in legacy revenue protection for large Tier-1 carriers, evidenced by a 3-year renewal with a major European operator. However, it faces intense competition in the "new-age" digital and AI segments.
- **Expansion Plans:** The company is focusing on its "AI 25" initiative, aiming to integrate GenAI across its product suite.
- **Acquisitions & Divestments:** The company completed a slump sale of its "ID Central" business unit to Handy Online Solution (OnGrid) for a 0.75% equity stake. It also liquidated its Account Aggregator project to focus on the core business.
- **Segment Performance:** The "Digital" segment (Subex Digital LLP) collapsed, with revenue dropping 63% to ₹17.34 Cr. The Americas region also saw a 29.44% revenue crash.
- **Geographical Presence:** High concentration in the EMEA region (58.94% of revenue), followed by APAC (28.21%) and a shrinking presence in the Americas (12.85%).

2. MANAGEMENT COMMENTARY & OUTLOOK

- Management has pivoted the corporate identity to an "AI-First" Telecom AI Company, promoting "Agentic AI" and "Subex AI Agents" as the core growth engine.
- Strategy has shifted from "strategic recalibration" to "focused execution" following the massive impairments of FY24.
- A key KPI highlighted is that 80% of new contract wins now incorporate AI use cases, though the margin profile of these wins remains to be proven.
- The 3-year contract extension with a Tier-1 European operator is cited as a signal of product stickiness and the strength of the legacy revenue protection moat.
- Management claims engineering productivity gains are being realized through the use of GenAI-based code co-pilots.
- The company is aggressively cutting "hobby" projects, such as the Account Aggregator, to consolidate resources around the core AI-led turnaround.
- There is a structural shift in the cost base toward high-cost AI talent, which management views as necessary for the long-term vision despite current margin pressure.
- The receipt of a ₹34.27 Cr Income Tax refund in FY26 is viewed as a critical liquidity lifeline to fund the "burn runway" for the AI pivot.
- Management Tone: The tone is defensively visionary. While using high-signal buzzwords like "Agentic AI" and "GenAI" to paint a picture of industry leadership, the narrative is forced to reconcile with a net loss position and a collapsing Digital segment. There is an underlying sense of urgency to prove the "AI-led" turnaround before cash reserves deplete further. The verdict on management tone is one of **cautious optimism masked by aggressive rebranding to distract from legacy structural weaknesses.**

3. FINANCIAL ANALYSIS

3.1 Financial Statements

Source: Screener.in — all monetary values in Crores. Use these numbers directly.

P&L Statement (Crores)

Line Item	Mar 2025	Mar 2024
Sales -	286.00	310.00
Sales Growth %	-7.78	11.13
Expenses -	300.00	325.00
Manufacturing Cost %	16.00	19.00
Employee Cost %	65.00	68.00
Other Cost %	23.00	19.00
Operating Profit	-15.00	-16.00
OPM %	-5.00	-5.00
Other Income -	11.00	-141.00
Exceptional items	4.49	-147.36
Other income normal	6.58	6.13
Interest	2.00	3.00
Depreciation	14.00	16.00
Profit before tax	-20.00	-175.00
Tax %	59.00	10.00
Net Profit -	-31.00	-192.00
Exceptional items AT	4.49	-139.69
Profit excl Excep	-35.93	-52.04
Profit for PE	-35.93	-52.04
Profit for EPS	-31.44	-191.73
Profit Growth %	30.96	-0.33
EPS in Rs	-0.56	-3.40
Dividend Payout %	0.00	0.00

Balance Sheet (□Crores)

Line Item	Mar 2025	Mar 2024
Equity Capital	281.00	281.00
Reserves	23.00	53.00
Borrowings -	19.00	28.00
Long term Borrowings	0.00	0.00
Short term Borrowings	0.00	0.00
Lease Liabilities	19.38	28.16
Other Borrowings	0.00	0.00
Other Liabilities -	163.00	167.00
Trade Payables	21.00	24.00
Other liability items	142.00	143.00
Total Liabilities	487.00	528.00
Fixed Assets -	217.00	228.00
Building	41.00	48.00
Equipments	1.00	2.00
Computers	25.00	39.00
Furniture n fittings	0.00	0.00
Vehicles	0.00	0.00
Intangible Assets	196.00	344.00
Other fixed assets	0.00	0.00
Gross Block	264.00	434.00
Accumulated Depreciation	47.00	206.00
CWIP	0.00	0.00
Investments	22.00	9.00
Other Assets -	248.00	292.00
Trade receivables -	78.00	102.00
Receivables over 6m	73.00	56.00
Receivables under 6m	72.00	92.00
Prov for Doubtful	-67.00	-46.00
Cash Equivalents	78.00	101.00
Loans n Advances	10.00	6.00
Other asset items	82.00	83.00
Total Assets	487.00	528.00

Cash Flow Statement (Crores)

Line Item	Mar 2025	Mar 2024
Cash from Operating Activity -	10.00	-8.00
Profit from operations	10.64	-4.49
Receivables	4.09	-19.59
Payables	-4.63	12.82
Loans Advances	-1.70	0.40
Other WC items	9.91	16.51
Working capital changes	7.67	10.14
Direct taxes	0.00	0.00
Advance tax	-8.56	-13.93
Cash from Investing Activity -	-15.00	34.00
Fixed assets purchased	-2.41	-2.73
Fixed assets sold	0.08	0.09
Investments purchased	-7.78	0.00
Investments sold	0.00	5.51
Interest received	3.50	4.14
Other investing items	-7.96	27.46
Cash from Financing Activity -	-12.00	-9.00
Proceeds from shares	0.00	2.03
Proceeds from borrowings	0.00	0.00
Repayment of borrowings	0.00	0.00
Interest paid fin	-1.96	-2.41
Dividends paid	0.00	-0.01
Financial liabilities	-10.09	-8.95
Other financing items	0.00	0.00
Net Cash Flow	-17.00	17.00
Free Cash Flow	7.00	-11.00
CFO/OP	-126.00	-36.00

Key Ratios (₹Crores)

Line Item	Mar 2025	Mar 2024
Debtor Days	99.00	120.00
Inventory Days	0.00	0.00
Days Payable	0.00	0.00
Cash Conversion Cycle	99.00	120.00
Working Capital Days	25.00	44.00
ROCE %	-6.00	-5.00

3.2 Financial Analysis Summary

- **Revenue** from operations declined by **7.78%** to **₹286.00 Cr**, primarily driven by a **15.40%** collapse in **Implementation & Customisation** revenue (**₹80.48 Cr**) and a **29.44%** revenue crash in the Americas region, leading to a negative **Operating Profit** of **-₹15.00 Cr**.
- The company's **Net Profit** loss of **-₹31.00 Cr** was exacerbated by a **₹21.10 Cr Impairment of Trade Receivables**, which represents **7.39%** of **Revenue** and signals a severe failure in historical collections, further evidenced by **Prov for Doubtful** debts rising to **₹67.00 Cr** on the **Balance Sheet**.
- **Employee Benefit Expenses** were reduced by **11.40%** to **₹185.18 Cr** as a cost-containment measure, yet the **OPM %** remained stagnant at **-5.00%** due to the surge in impairment charges and high **Other Expenses** including **₹25.16 Cr** in sub-contract charges.
- **Trade Receivables** (Net) fell to **₹78.00 Cr**, but the underlying asset quality is critical as **46.38%** of the **Gross Trade Receivables** (**₹144.76 Cr**) are credit-impaired, with **₹32.08 Cr** overdue for more than 3 years, indicating that the reduction in **Debtor Days** to **99** is driven by write-offs rather than improved collections.
- **Cash from Operating Activity** turned positive at **₹10.00 Cr** despite the **Net Profit** loss, largely supported by a **42.71%** liquidation of **Contract Assets** (Unbilled Revenue) to **₹18.47 Cr** and a **₹4.09 Cr** inflow from **Receivables** movement, suggesting the company is aggressively billing milestones to maintain liquidity.
- **Intangible Assets** of **₹196.00 Cr** dominate the **Balance Sheet**, representing nearly **65%** of the **Net Worth** (**₹304.00 Cr**); these assets are tested for impairment using a high discount rate of **16.63%**, posing a massive future write-down risk if **Revenue** growth targets continue to be missed.
- **Total Debt** is comprised entirely of **Lease Liabilities** (**₹19.38 Cr**), which decreased by **31.18%** YoY as the company reduced its physical office footprint, leading to a low **Debt/Equity** of **0.06** but a poor **Interest Coverage** of **-7.50** due to negative **EBIT**.
- **Free Cash Flow** reached **₹7.00 Cr** as **Capex** was restricted to a minimal **₹2.41 Cr**, but this self-funding capability is threatened by a massive **Provision for Litigation** of **₹101.06 Cr**, which represents a significant contingent cash outflow risk equivalent to **35%** of annual **Revenue**.
- **Other Income** of **₹11.00 Cr** included a non-cash exceptional gain of **₹4.22 Cr** from the slump sale of the "ID Central" business unit, which artificially improved the **Profit before tax** to **-₹20.00 Cr** but did not contribute to **CFO**.
- **Other Assets** are impacted by **Income Tax Assets (Net)** of **₹39.00 Cr**, representing advance tax paid; however, the sharp decline in **Contract Assets** (Unbilled Revenue) to **₹18.47 Cr** indicates lower project activity or accelerated billing.
- **Other Liabilities** are dominated by **Deferred Tax Liabilities** of **₹70.54 Cr**, primarily a non-cash liability from past restructuring, while **Unearned Revenue** of **₹22.84 Cr** shows a slight increase in future service billings.
- **Other Expenses** are heavily weighted by the **₹21.10 Cr** impairment allowance and **₹15.18 Cr** in **Legal & Professional Fees**, the latter remaining high due to ongoing litigations.

- **ROCE** remained negative at **-6.00%**, reflecting the company's inability to generate returns on its capital base, while the non-recognition of **Deferred Tax** assets on carry-forward losses confirms management's lack of certainty regarding near-term profitability.
- The dominant financial theme of the year is **liquidity preservation through working capital liquidation and aggressive cost-cutting, while the balance sheet remains structurally fragile due to massive credit impairments and a looming litigation overhang.**

3.3 Contingent Liabilities & Commitments

- **Provision for Litigation:** ₹101.06 Cr (approx. 35% of annual revenue), representing significant ongoing legal or tax disputes.
- **Service Tax Provision:** ₹2.67 Cr held against receivables from 2004-2008, indicating long-stalled recovery efforts.
- **MAT Credit Provision:** ₹5.61 Cr fully provided for due to uncertainty regarding future utilization and profitability.
- **Capital Commitments:** Minimal, as the company has restricted capex to maintenance levels (₹2.41 Cr).

3.9 Earnings Quality & Forensic Checks

#	Check	Impact	Status	Evidence	Notes Detail
1	PAT vs CFO trend	Profit ↓ — earnings overstate cash; □31.44 Cr loss vs □8.28 Cr CFO burn indicates unsustainable operations.	□	PAT: -□31.44 Cr; CFO: -□8.28 Cr (p.198)	Company is burning cash at the operational level despite cost-cutting; high risk for sustainability.
2	Receivables & channel-stuffing signal (receivables + inventory build vs revenue)	Revenue ↑↓ — poor collection quality; gross receivables of □144.76 Cr exceed 50% of annual revenue.	□	Gross Receivables: □144.76 Cr; Sales: □286 Cr	46.38% of gross receivables (□67.14 Cr) are credit impaired; □32.08 Cr are overdue >3 years [Note 8].
3	Revenue timing (unbilled / contract assets + deferred revenue / advances)	Revenue ↓ — slowing pipeline; contract assets fell 42.71% suggesting aggressive billing or fewer milestones.	□	Contract Assets: □18.47 Cr vs □32.24 Cr	Sharp decline in unbilled revenue indicates a slowing project pipeline or accelerated billing to support cash [Note 23].
4	Revenue from related parties %	Neutral — internal value shifting; royalties paid to 99.99% owned LLPs for IPR usage.	□	Subex Assurance/ Digital LLPs (99.99% interest)	Holding company pays royalties to LLPs; material restructuring involved □92.29 Cr asset transfer [Note 1(b/c)].
5	Inventory vs revenue growth	Neutral — service model; company maintains zero inventory as a software/IT services provider.	□	Inventory: □0.00 Cr; Sales: □286 Cr	Not applicable for the IT sector; revenue is driven by services and software implementation.
6	Inventory valuation method change	Neutral — no inventory; accounting policies focus on revenue recognition and financial instruments.	□	No inventory reported on Balance Sheet	Accounting policies [Note 2] confirm no inventory-related valuation risks.
7	Exceptional items in operating profit	Profit ↑ — non-cash gain; □4.22 Cr profit from slump sale of ID Central unit.	□	Exceptional Items: □4.49 Cr (P&L)	Profit on sale of business unit (□4.22 Cr) was a non-cash gain settled via equity shares [Note 7].
8	Depreciation rate vs useful life policy	Profit ↑ — potential under-depreciation; Goodwill of □196.14 Cr not impaired despite 7.78% revenue decline.	□	Intangible Assets: □196.14 Cr; Equity: □30.45 Cr	Goodwill is 644% of equity; management uses high discount rates (16.6%) but avoids write-downs [Note 2(e)].
9	Provision reversals boosting PAT	Profit ↑ — litigation stability; □101.06 Cr provision for litigation remains a massive overhang.	□	Provision for Litigation: □101.06 Cr	Litigation provision is ~35% of revenue; any reversal would boost PAT but represents high legal risk [Note 22].
10	Tax rate consistency + cash tax vs P&L tax	Profit ↓ — tax asset write-off; 59% effective tax rate due to non-recognition of MAT credit.	□	Tax %: 59.00; MAT Provision: □5.61 Cr	Entire MAT credit provided for due to uncertainty of future taxable profits [Note 13].
11	CWIP age and stalling projects	Neutral — no CWIP; focus is on intangible assets and goodwill carrying values.	□	CWIP: □0.00 Cr	No capital work-in-progress reported; development costs likely expensed or capitalized as intangibles.
12	Deferred tax asset recognition adequacy	Profit ↓ — conservative stance; DTA not recognized	□	DTL: □70.54 Cr; No DTA on losses	Management appropriately avoids recognizing DTAs on

#	Check	Impact	Status	Evidence	Notes Detail
		on carry-forward losses due to lack of visibility.			losses given persistent loss-making status [Note 2(s)].
13	RPT quantum and trend	Neutral — restructuring focus; □92.29 Cr transfer of assets/liabilities from Subex Assurance LLP.	□	Restructuring: □92.29 Cr; Slump Sale: □5.26 Cr	Significant internal restructuring to integrate operations; slump sale involved non-cash equity consideration [Note 1/7].
14	Dividend paid vs FCF adequacy	Neutral — no dividends; zero payout consistent with negative earnings and cash burn.	□	Dividend Payout: 0.00%; FCF: □7.00 Cr	No dividends paid; FCF of □7 Cr is insufficient to cover historical losses and high litigation risks.
15	Audit Trail Compliance	Profit ↑↓ — Risk of unauthorized manual overrides of financial records.	□	Rule 11(g) Modified Opinion	Auditor noted audit trail feature was not enabled for privileged/ administrative access rights (p.190).
16	Revenue Recognition Subjectivity	Revenue ↑ — Potential front-loading of profits in multi-element arrangements.	□	Residual Method [Note 2f]	Use of residual method and POCM requires significant management estimation of "efforts to completion."

4. MANAGEMENT & GOVERNANCE

A. Auditor Report & Key Audit Matters * **Audit Opinion Type:** Unqualified Opinion with a **Modified Statement** on Internal Financial Controls. * **KAM 1: Impairment of Goodwill:** Auditor flagged the carrying value of □196.14 Cr as a material risk. Testing involves complex judgments on future revenue growth and margins. There is a significant risk of future write-downs if the "AI-led" turnaround fails. * **KAM 2: Evaluation of Tax Matters:** Challenges regarding transfer pricing and indirect taxes across multiple jurisdictions. Management judgment is critical in assessing uncertain tax positions. * **KAM 3: Revenue Recognition (POCM):** Complexity in "over time" recognition for implementation services. Underestimating costs leads to front-loading profits. * **Modified Opinion (Rule 11(g)):** The auditor noted that the ***audit trail feature was not enabled for certain changes made using privileged/administrative access rights*** (p.190). This is a significant internal control deficiency. * **Auditor Change:** S. R. Batliboi & Associates LLP (Big 4) is exiting; M/s. M.S.K.C & Associates LLP (BDO affiliate) is proposed for a 5-year term.

B. Related Party Transactions | Party | Relationship | Nature | Amount (□Cr) | Concern | |:---|:---|:---|:---|:---| | ***Subex Assurance LLP*** | Subsidiary | Internal Asset Transfer | 92.29 Cr | ***Massive internal restructuring of IPR/Assets (Note 1c)*** | | ***Handy Online Solution (OnGrid)*** | Investee | Slump Sale of "ID Central" | 5.26 Cr | ***Non-cash transaction; received 0.75% equity instead of liquidity (Note 7)*** | | Subex Assurance/Digital LLP | Subsidiaries | Royalty Payments | Not disclosed | Potential internal profit shifting via IPR usage (Note 1b) | | ***Nisha Dutt*** | MD & CEO | Remuneration | 4.00 Cr | ***High fixed cost despite 31.44 Cr Net Loss*** |

C. Shareholding * **Promoters:** 0.00% (Professionally managed). * **FIIs:** 0.04% | **DIIs:** 0.04% | **Public:** 99.92%. * **Pledged Shares:** 0.00%.

D. Board Composition + KMP Compensation * **Total Directors:** 6 (as of May 2024). **Independent:** 50%. **Women:** 3. * ***Regulatory Penalty:*** Fined by BSE and NSE (□6.50 Cr each) for failing to maintain mandatory board strength between Sept 2023 and May 2024. * **KMP Compensation:** MD & CEO Nisha Dutt received □4.00 Cr (including □2.00 Cr variable proposal) despite a **Net Loss of □31.44 Cr** and **Operating Loss of □15.00 Cr**. CFO Sumit Kumar received □1.00 Cr. No KMPs share the same family name.

F. Capital Allocation & Capex | Action | FY Current (□Cr) | FY Prior (□Cr) | % of CFO | Signal | |:---|---:|---:|---:|:---| | ***Dividends*** | 0.00 | 0.00 | 0.00% | Neutral | | **Capex** | 2.41 | 2.73 | N/M | **Value-neutral** | | ***Impairments / Write-offs*** | 21.10 | 147.95 | N/M | | | ***Net Debt Change (Leases)*** | -8.78 | -5.23 | N/M | | | ***Working Capital Investment*** | 7.67 | 10.14 | N/M | | | **Asset Sales (Non-cash)** | 5.26 | 0.00 | N/M | □|

- **CFO Coverage of Capex:** Negative. The **CFO of -□8.28 Cr** cannot fund the **□2.41 Cr capex**, bridged by depleting cash reserves (□101 Cr to □78 Cr).
- **Nature of Capex:** Maintenance-focused; **□34.72 Cr** spent on R&D (largely capitalized/expensed people costs).
- **Deployment Efficiency: Revenue declined by 7.78%** despite R&D spend, suggesting failure to translate investments into growth.
- **Key Takeaways:** The company is in a "liquidation-lite" mode, selling units for equity and cutting lease footprints. **46.38% of receivables are credit impaired.**

H. Risks * ***Receivable Quality:*** **□67.14 Cr** (46% of book) is credit impaired. Impact: Direct hit to liquidity and terminal loss of value. (High) * ***Litigation Overhang:*** **□101.06 Cr** provision. Impact: Potential cash outflow equal to 35% of revenue. (High) * ***Audit Trail Failure:*** Rule 11(g) non-compliance. Impact: Risk of unauthorized manual overrides of financial records. (High) * ***Goodwill Impairment:*** **□196.14 Cr** (644% of Equity). Impact: Any write-down wipes out net worth. (High) * ***Geographic Risk:*** **58.94%** revenue from EMEA. Impact: Exposure to regional geopolitical/currency volatility. (Medium)

5. SCORECARD & VERDICT

Part A: Scorecard

Dimension	Rating (1–5)	Delta	Key Evidence	One-line Rationale
Business Quality	2	↓	Revenue -7.78%; Digital segment -63%	Legacy moat holds, but new growth engines are failing to scale.
Financial Health	2	→	D/E 0.06x; CFO -□8.28 Cr; ROCE -6%	Debt-free but burning cash with negative returns on capital.
Earnings Quality	1	↓	46% Receivables Impaired; Audit Trail Flag	Massive credit impairments and internal control gaps signal poor quality.
Management & Governance	2	↓	BSE/NSE Fines; Auditor Change; High CEO Pay	Regulatory lapses and high compensation despite losses are red flags.
Capital Allocation & Earnings Visibility	1	↓	Non-cash slump sale; Goodwill 644% of Equity	Value-destructive allocation with massive impairment risks ahead.

BUSINESS POSITIVES (for this company this year) * □**Tier-1 Retention:** Secured a 3-year renewal with a major European operator, validating legacy product stickiness. * □**Cost Rationalization:** Reduced employee benefit expenses by 11.40% (□185.18 Cr) to mitigate revenue decline. * □**Liquidity Lifeline:** Post-balance sheet receipt of □34.27 Cr tax refund provides a temporary burn runway. * □**AI Traction:** Management reports 80% of new wins include AI use cases, signaling a pivot in market interest.

BUSINESS NEGATIVES / CONCERNS (for this company this year) * □**Revenue Collapse:** Total revenue fell 7.78%, with the Digital segment plummeting 63% and Americas down 29.44%. * □**Asset Quality Decay:** 46.38% of gross receivables (□67.14 Cr) are credit impaired; □32.08 Cr are overdue >3 years. * □**Governance Red Flags:** Fined by BSE/NSE for board composition; Auditor modified opinion on lack of audit trail. * □ **Terminal Balance Sheet Risk:** Goodwill of □196.14 Cr is 644% of total equity; any impairment wipes out net worth. * □**Litigation Overhang:** Provision for litigation stands at □101.06 Cr, representing 35% of annual revenue. * □**Negative Cash Flow:** Reported a CFO burn of -□8.28 Cr, indicating operations are not self-sustaining.

OVERALL SCORECARD SUMMARY Subex is in a precarious state of "watchful avoidance." While the company is debt-free, it is burning cash operationally and relies on working capital liquidation and tax refunds to survive. Earnings quality is severely compromised by a 46% impairment of the receivables book and a significant internal control failure regarding audit trails. Governance is weakened by regulatory fines and a transition away from a Big 4 auditor following massive write-downs. Consequently, the business is on a deteriorating trajectory where the "AI-First" narrative has yet to translate into financial stability or value creation.

Part B: Governance Check Matrix

#	Check	Status	Evidence
1	Audit opinion clean?	□	Unqualified but modified for Internal Financial Controls (Audit Trail).
2	Promoter pledge = 0?	□	0.00% (Professionally managed).
3	KMP pay < 5% of PAT?	□	PAT is negative; CEO pay is □4.00 Cr.
4	RPT quantum < 5% of revenue?	□	Internal restructuring (□92.29 Cr) is ~32% of revenue.
5	Board > 50% independent?	□	50% (3 out of 6).
6	At least 1 woman director?	□	3 women directors.
7	No statutory dues outstanding?	□	No major defaults reported.
8	No fraud reported?	□	None reported in the annual report.
9	Audit trail enabled?	□	Specifically flagged as NOT enabled for admin access.
10	Frequent Auditor change	□	Changing from Big 4 to BDO affiliate at end of term.
Final line: "Total: 5/10 □— Governance Rating: 2"			

Part C: Investor Verdict

THESIS: Subex is a distressed legacy telecom software provider attempting a high-risk "AI-First" pivot while battling severe asset quality decay and governance lapses.

OVERALL STANCE: AVOID

RATIONALE: The combination of negative operating cash flows, a 46% impaired receivable book, and a goodwill-to-equity ratio of 644% creates a terminal risk profile that the current AI narrative cannot offset. RE-EVALUATE WHEN: Consolidated OPM turns positive (>5%) and Gross Receivables Impairment falls below 15% of the book. BULL CASE: Rapid scaling of high-margin AI licenses leading to a 20%+ revenue surge and successful resolution of the □101 Cr litigation without significant cash outflow. BEAR CASE: A further 10% impairment in Goodwill or a loss in major litigation wipes out the remaining □30 Cr net worth, leading to technical insolvency. KEY MONITORABLE: Net Trade Receivables: □78 Cr → Watch for further spikes in Provision for Doubtful Debts (>□80 Cr).

7. YEAR-OVER-YEAR ANALYSIS

7.1 Changes

Metric / Theme	Summary A Status	Summary B Status	Forensic Takeaway
Asset Quality (Receivables)	31.19% of gross receivables (₹46.04 Cr) were credit impaired.	46.38% of gross receivables (₹67.14 Cr) are now credit impaired.	The rapid deterioration of the debtor book suggests a near-total breakdown in collection efficiency or the fallout of aggressive historical revenue recognition.
Revenue Trajectory	Consolidated revenue grew by 11.13% to ₹310 Cr.	Consolidated revenue declined by 7.78% to ₹286 Cr.	The reversal of growth momentum, particularly the 63% collapse in the Digital segment, indicates that the company's diversification strategy has failed.
Governance & Controls	Statutory non-compliance regarding physical server backup locations.	Modified audit opinion specifically flagging the lack of an audit trail for privileged access.	Internal control environments are weakening, increasing the risk of unauthorized manual overrides of financial records.
Capital Allocation	Recognized a massive ₹147.95 Cr goodwill impairment.	No further goodwill impairment despite a revenue decline and negative ROCE.	Management is avoiding further necessary write-downs despite goodwill now representing an unsustainable 644% of total equity.
Liquidity Sourcing	Relied on cash reserves to bridge a -₹11 Cr Free Cash Flow.	Relied on a post-balance sheet ₹34.27 Cr tax refund to provide a "burn runway."	The company has transitioned from being self-sustaining to relying on one-time statutory windfalls to fund its operational losses.
Auditor Relationship	Audited by Big 4 firm S. R. Batliboi & Associates LLP.	Big 4 auditor is exiting, replaced by a mid-tier BDO affiliate.	The departure of a Tier-1 auditor following massive impairments and internal control flags is a classic forensic red flag for heightened reporting risk.

7.2 Persistent Patterns

- **Negative Operating Cash Flow:** The business consistently fails to generate cash from its core operations, reporting a CFO burn in both consecutive periods.
- **Management Compensation Disconnect: Executive pay remains high and rigid (₹4.00 Cr for the CEO) despite cumulative net losses exceeding ₹220 Cr over the two-year period.**
- **Structural Cost Rigidity:** Employee benefit expenses persistently consume between 65% and 68% of total revenue, leaving no room for operating leverage.
- **Geographic Concentration Risk: The company remains structurally dependent on the EMEA region for over 55% of its revenue, maintaining high exposure to regional volatility.**
- **Aggressive Revenue Accounting:** Continued reliance on the "Percentage of Completion" method and high levels of unbilled revenue (Contract Assets) creates recurring earnings quality concerns.
- **Debt-Free (Bank) Status: The company maintains a clean balance sheet regarding formal bank borrowings, with liabilities restricted to leases, which remains its only financial silver lining.**
- **Litigation Overhang:** A massive provision for litigation (exceeding 30% of revenue) persists across both years, representing a permanent threat to the remaining cash balance.