**Subex Ltd — FY 2025 Annual Report Analysis**

# Annual Report Analysis (Consolidated)

## 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

### P&L statement (□Cr)

| Line item | Mar 2025 | Mar 2024 |
|---|---|---|
| Sales | 286 | 310 |
| Sales Growth % | -7.78 | 11.13 |
| Expenses | 300 | 325 |
| Manufacturing Cost % | 16 | 19 |
| Employee Cost % | 65 | 68 |
| Other Cost % | 23 | 19 |
| Operating Profit | -15 | -16 |
| OPM % | -5 | -5 |
| Other Income | 11 | -141 |
| Exceptional items | 4.49 | -147.36 |
| Other income normal | 6.58 | 6.13 |
| Interest | 2 | 3 |
| Depreciation | 14 | 16 |
| Profit before tax | -20 | -175 |
| Tax % | 59 | 10 |
| Net Profit | -31 | -192 |
| 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 (□) | -0.56 | -3.40 |
| Dividend Payout % | 0 | 0 |

## Balance sheet (□Cr)

| Line item | Mar 2025 | Mar 2024 |
|---|---|---|
| Equity Capital | 281 | 281 |
| Reserves | 23 | 53 |
| Borrowings | 19 | 28 |
| Long term Borrowings | 0 | 0 |
| Short term Borrowings | 0 | 0 |
| Lease Liabilities | 19.38 | 28.16 |
| Other Borrowings | 0 | 0 |
| Other Liabilities | 163 | 167 |
| Trade Payables | 21 | 24 |
| Other liability items | 142 | 143 |
| Total Liabilities | 487 | 528 |
| Fixed Assets | 217 | 228 |
| Building | 41 | 48 |
| Equipments | 1 | 2 |
| Computers | 25 | 39 |
| Furniture n fittings | 0 | 0 |
| Vehicles | 0 | 0 |
| Intangible Assets | 196 | 344 |
| Other fixed assets | 0 | 0 |
| Gross Block | 264 | 434 |
| Accumulated Depreciation | 47 | 206 |
| CWIP | 0 | 0 |
| Investments | 22 | 9 |
| Other Assets | 248 | 292 |
| Trade receivables | 78 | 102 |
| Receivables over 6m | 73 | 56 |
| Receivables under 6m | 72 | 92 |
| Prov for Doubtful | -67 | -46 |
| Cash Equivalents | 78 | 101 |
| Loans n Advances | 10 | 6 |
| Other asset items | 82 | 83 |
| Total Assets | 487 | 528 |

## Cash flow statement (□Cr)

| Line item | Mar 2025 | Mar 2024 |
|---|---|---|
| Cash from Operating Activity | 10 | -8 |
| 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 | 0 |
| Advance tax | -8.56 | -13.93 |
| Cash from Investing Activity | -15 | 34 |
| Fixed assets purchased | -2.41 | -2.73 |
| Fixed assets sold | 0.08 | 0.09 |
| Investments purchased | -7.78 | 0 |
| Investments sold | 0 | 5.51 |
| Interest received | 3.50 | 4.14 |
| Other investing items | -7.96 | 27.46 |
| Cash from Financing Activity | -12 | -9 |
| Proceeds from shares | 0 | 2.03 |
| Proceeds from borrowings | 0 | 0 |
| Repayment of borrowings | 0 | 0 |
| Interest paid fin | -1.96 | -2.41 |
| Dividends paid | 0 | -0.01 |
| Financial liabilities | -10.09 | -8.95 |
| Other financing items | 0 | 0 |
| Net Cash Flow | -17 | 17 |
| Free Cash Flow | 7 | -11 |
| CFO/OP | -126 | -36 |

### Key ratios

| Line item | Mar 2025 | Mar 2024 |
|---|---|---|
| Debtor Days | 99 | 120 |
| Inventory Days | 0 | 0 |
| Days Payable | 0 | 0 |
| Cash Conversion Cycle | 99 | 120 |
| Working Capital Days | 25 | 44 |
| ROCE % | -6 | -5 |

## 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 | Notes detail |
|---|---|---|---|---|
| 1 | PAT vs CFO trend | Profit ↓ — earnings overstate cash; □31.44 Cr loss vs □8.28 Cr CFO burn indicates unsustainable operations. | — | 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. | — | 46.38% of gross receivables (□67.14 Cr) are credit impaired; □32.08 Cr are overdue >3 years. |
| 3 | Revenue timing (unbilled / contract assets + deferred revenue / advances) | Revenue ↓ — slowing pipeline; contract assets fell 42.71% suggesting aggressive billing or fewer milestones. | — | Sharp decline in unbilled revenue indicates a slowing project pipeline or accelerated billing to support cash. |
| 4 | Revenue from related parties % | Neutral — internal value shifting; royalties paid to 99.99% owned LLPs for IPR usage. | — | 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. | — | 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. | — | Accounting policies 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. | — | Profit on sale of business unit (□4.22 Cr) was a non-cash gain settled via equity shares. |
| 8 | Depreciation rate vs useful life policy | Profit ↑ — potential under-depreciation; Goodwill of □196.14 Cr not impaired despite 7.78% revenue decline. | — | Goodwill is 644% of equity; management uses high discount rates (16.6%) but avoids write-downs. |
| 9 | Provision reversals boosting PAT | Profit ↑ — litigation stability; □101.06 Cr provision for litigation remains a massive overhang. | — | Litigation provision is ~35% of revenue; any reversal would boost PAT but represents high legal risk. |
| 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. | — | Entire MAT credit provided for due to uncertainty of future taxable profits. |
| 11 | CWIP age and stalling projects | Neutral — no CWIP; focus is on intangible assets and goodwill carrying values. | — | 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 on carry-forward losses due to lack of visibility. | — | Management appropriately avoids recognizing DTAs on losses given persistent loss-making status. |
| 13 | RPT quantum and trend | Neutral — restructuring focus; □92.29 Cr transfer of assets/liabilities from Subex Assurance LLP. | — | 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. | — | 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. | — | Auditor noted audit trail feature was not enabled for privileged/administrative access rights. |

| # | Check | Impact | Status | Notes detail |
|---|---|---|---|---|
| 16 | Revenue Recognition Subjectivity | Revenue ↑ — Potential front-loading of profits in multi-element arrangements. | — | 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***. 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*** | | Handy Online Solution (OnGrid) | Investee | Slump Sale of "ID Central" | 5.26 Cr | ***Non-cash transaction; received 0.75% equity instead of liquidity*** | | Subex Assurance/Digital LLP | Subsidiaries | Royalty Payments | Not disclosed | Potential internal profit shifting via IPR usage | | 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 |
|---|---|---|
| 1 | Audit opinion clean? | — |
| 2 | Promoter pledge = 0? | — |
| 3 | KMP pay < 5% of PAT? | — |
| 4 | RPT quantum < 5% of revenue? | — |
| 5 | Board > 50% independent? | — |
| 6 | At least 1 woman director? | — |
| 7 | No statutory dues outstanding? | — |
| 8 | No fraud reported? | — |
| 9 | Audit trail enabled? | — |
| 10 | Frequent Auditor change | — |

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.