

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 operates as a legacy software provider attempting a high-risk pivot to AI (HyperSense), currently hampered by a 56% revenue concentration in the EMEA region and loss-making subsidiaries. | □ |
| 2 | Consolidated revenue grew 11.13% YoY to ₹310.00 Cr, supported by a strategic backlog of ₹101.70 Cr, though 28% of sales remain tied up in unbilled revenue and contract assets. | □ |
| 3 | <i>Operating losses narrowed to - 16.00 Cr from - 30.00 Cr, yet margins remain structurally suppressed by rigid employee costs which consume 67.48% of total revenue.</i> | □ |
| 4 | <i>The company reported a massive net loss of 192.00 Cr, primarily driven by a 147.95 Cr goodwill impairment, signaling the failure of historical acquisitions and capital misallocation.</i> | □ |
| 5 | The balance sheet is free of formal bank debt, with the ₹28.00 Cr borrowing figure consisting entirely of lease liabilities. | □ |
| 6 | <i>Cash Flow from Operations (CFO) is negative at - 8.00 Cr, failing to cover even minimal maintenance requirements and resulting in negative Free Cash Flow of - 11.00 Cr.</i> | □ |
| 7 | <i>Capital expenditure is constrained by cash burn, while the -5% ROCE and 78% erosion of net worth indicate a lack of internal resources to fund the necessary AI transition.</i> | □ |
| 8 | <i>Earnings quality is severely compromised by a 31.19% impairment rate on gross trade receivables (₹46.04 Cr), suggesting aggressive revenue recognition or significant collection failures.</i> | □ |
| 9 | <i>Governance concerns are elevated due to BSE/NSE fines for board non-compliance, the withdrawal of credit ratings, and a disconnect between the CEO's ₹4 Cr pay and the record ₹192 Cr loss.</i> | □ |
| 10 | <i>Critical liquidity risk exists as the ₹104.85 Cr net tax liability exceeds the company's total cash equivalents, posing a potential insolvency threat if legal disputes are lost.</i> | □ |
| 11 | <i>The outlook remains bleak as the "AI pivot" narrative lacks financial validation, with the risk of further impairments on the remaining ₹196 Cr of goodwill.</i> | □ |
| 12 | <i>Investment View: AVOID; monitor for two consecutive quarters of positive CFO > PAT and a resolution of the ₹104.85 Cr tax overhang before reconsidering.</i> | □ |

1. BUSINESS OVERVIEW (In Bullet Points)

- Strategic Pivot:** Subex has officially rebranded as a "Telecom AI Company," shifting its core identity from traditional Revenue Assurance (RA) and Fraud Management (FM) to AI-driven connected experiences and Generative AI orchestration.
- Flagship Platform:** The company is aggressively pushing **HyperSense AI** to help Communication Service Providers (CSPs) automate simulations and personalize customer experiences amidst a "seismic shift" in the industry.

- **Revenue Drivers:** Growth is increasingly dependent on AI-led "Business Assurance" and "Identity Management," though legacy maintenance contracts still provide a foundational revenue floor.
- **Industry Position:** Positioned as a cost-efficiency partner for Tier-1 telcos who are currently facing 11-14% revenue declines and are managing spending judiciously.
- **Geographical Presence:** High geographic concentration in the **EMEA** region, which contributes 56.67% of total revenue (₹175.53 Cr), followed by APAC (23.92%) and the Americas (16.72%).
- **Subsidiary Performance:** Key subsidiaries are under severe operational stress; **Subex Assurance LLP** (housing core IP) saw losses widen to ₹139.44 Cr, while **Subex Digital LLP** and **Subex (UK) Limited** also reported net losses of ₹9.18 Cr and ₹8.17 Cr respectively.
- **Expansion & Partnerships:** Reliance on a long-term "alliance" model (e.g., 15-year Tier-1 relationships) to maintain the annuity base while upselling new AI modules.
- **Capacity & Assets:** The company maintains a gross block of ₹434.00 Cr, with a recent focus on ₹39.00 Cr in computer assets to support the service-led pivot.

2. MANAGEMENT COMMENTARY & OUTLOOK

- Management is pursuing a strategy of "Accelerating into the Future," moving away from the "Sale of License" model toward AI-integrated services.
- The company aims to become the "brain" for telco data through AI orchestration and is using AI to automate its own delivery and customer RA functions.
- Ms. Nisha Dutt has transitioned to MD & CEO (May 2024) with a mandate to foster a "culture of leadership and talent development" following significant prior management turnover.
- Management admits that Tier-1 telcos are managing inventory and spending cautiously, yet claims Subex is "perfectly positioned" to capture demand for Generative AI adoption.
- The company is seeking shareholder approval for a Special Resolution to pay commissions to Non-Executive Directors (up to 1% of net profits or minimum remuneration in case of loss) despite the current financial crisis.
- The long-term vision focuses on navigating the "seismic shift" in telecom by becoming an essential AI automation partner.
- **Management Tone:** The management tone is "**Defensively Visionary.**" They are using the AI hype cycle to mask a fundamental collapse in the legacy business model. The language has shifted from "operational excellence" to "technological readiness," a classic pivot used by struggling software firms to buy time. The disconnect between the "Shifting Gears" slogan and the regulatory fines/subsidiary losses suggests a management team prioritizing optics over operational stabilization.

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 2024 | Mar 2023 |
|--------------------------|----------------|---------------|
| Sales - | 310.00 | 279.00 |
| Sales Growth % | 11.13 | -16.42 |
| Expenses - | 325.00 | 309.00 |
| Manufacturing Cost % | 19.00 | 15.00 |
| Employee Cost % | 68.00 | 72.00 |
| Other Cost % | 19.00 | 24.00 |
| Operating Profit | -16.00 | -30.00 |
| OPM % | -5.00 | -11.00 |
| Other Income - | -141.00 | 8.00 |
| Exceptional items | -147.36 | 0.66 |
| Other income normal | 6.13 | 7.50 |
| Interest | 3.00 | 3.00 |
| Depreciation | 16.00 | 14.00 |
| Profit before tax | -175.00 | -39.00 |
| Tax % | 10.00 | 31.00 |
| Net Profit - | -192.00 | -51.00 |
| Exceptional items AT | -139.69 | 0.66 |
| Profit excl Excep | -52.04 | -51.87 |
| Profit for PE | -52.04 | -51.87 |
| Profit for EPS | -191.73 | -51.21 |
| Profit Growth % | -0.33 | -349.14 |
| EPS in Rs | -3.40 | -0.91 |
| Dividend Payout % | 0.00 | 0.00 |

Balance Sheet (₹Crores)

| Line Item | Mar 2024 | Mar 2023 |
|--------------------------|---------------|---------------|
| Equity Capital | 281.00 | 281.00 |
| Reserves | 53.00 | 241.00 |
| Borrowings - | 28.00 | 33.00 |
| Long term Borrowings | 0.00 | 0.00 |
| Short term Borrowings | 0.00 | 0.00 |
| Lease Liabilities | 28.16 | 33.39 |
| Other Borrowings | 0.00 | 0.00 |
| Other Liabilities - | 167.00 | 140.00 |
| Trade Payables | 24.00 | 13.00 |
| Other liability items | 143.00 | 127.00 |
| Total Liabilities | 528.00 | 695.00 |
| Fixed Assets - | 228.00 | 385.00 |
| Building | 48.00 | 47.00 |
| Equipments | 2.00 | 2.00 |
| Computers | 39.00 | 35.00 |
| Furniture n fittings | 0.00 | 0.00 |
| Vehicles | 0.00 | 0.00 |
| Intangible Assets | 344.00 | 344.00 |
| Other fixed assets | 0.00 | 0.00 |
| Gross Block | 434.00 | 429.00 |
| Accumulated Depreciation | 206.00 | 44.00 |
| CWIP | 0.00 | 0.00 |
| Investments | 9.00 | 14.00 |
| Other Assets - | 292.00 | 296.00 |
| Trade receivables - | 102.00 | 90.00 |
| Receivables over 6m | 56.00 | 49.00 |
| Receivables under 6m | 92.00 | 80.00 |
| Prov for Doubtful | -46.00 | -39.00 |
| Cash Equivalents | 101.00 | 109.00 |
| Loans n Advances | 6.00 | 8.00 |
| Other asset items | 83.00 | 89.00 |
| Total Assets | 528.00 | 695.00 |

Cash Flow Statement (₹Crores)

| Line Item | Mar 2024 | Mar 2023 |
|--------------------------------|--------------|---------------|
| Cash from Operating Activity - | -8.00 | 9.00 |
| Profit from operations | -4.49 | -8.07 |
| Receivables | -19.59 | -3.28 |
| Payables | 12.82 | -7.47 |
| Loans Advances | 0.40 | 0.50 |
| Other WC items | 16.51 | 32.63 |
| Working capital changes | 10.14 | 22.38 |
| Direct taxes | 0.00 | -5.06 |
| Advance tax | -13.93 | 0.00 |
| Cash from Investing Activity - | 34.00 | -36.00 |
| Fixed assets purchased | -2.73 | -4.93 |
| Fixed assets sold | 0.09 | 0.04 |
| Investments purchased | 0.00 | -105.70 |
| Investments sold | 5.51 | 104.11 |
| Interest received | 4.14 | 1.90 |
| Other investing items | 27.46 | -31.17 |
| Cash from Financing Activity - | -9.00 | -7.00 |
| Proceeds from shares | 2.03 | 1.01 |
| Proceeds from borrowings | 0.00 | 0.00 |
| Repayment of borrowings | 0.00 | 0.00 |
| Interest paid fin | -2.41 | -2.20 |
| Dividends paid | -0.01 | 0.00 |
| Financial liabilities | -8.95 | -5.32 |
| Other financing items | 0.00 | 0.00 |
| Net Cash Flow | 17.00 | -33.00 |
| Free Cash Flow | -11.00 | 4.00 |
| CFO/OP | -36.00 | -48.00 |

Key Ratios (₹Crores)

| Line Item | Mar 2024 | Mar 2023 |
|-----------------------|----------|----------|
| Debtor Days | 120.00 | 118.00 |
| Inventory Days | 0.00 | 0.00 |
| Days Payable | 0.00 | 0.00 |
| Cash Conversion Cycle | 120.00 | 118.00 |
| Working Capital Days | 44.00 | 71.00 |
| ROCE % | -5.00 | -6.00 |

3.2 Financial Analysis Summary

- **Revenue** from operations grew by **11.13%** YoY to **₹310.00 Cr**, primarily driven by **Sale of Services** (94.97% of mix), though heavily concentrated in the **EMEA** region (56.67%), exposing the company to regional volatility.
- The company reported a massive **Net Profit** loss of **-₹192.00 Cr**, largely due to a non-cash **Exceptional item** of **₹147.95 Cr** relating to the impairment of **Goodwill** in the RMS CGU, signaling a major reassessment of past acquisitions.
- **Operating Profit** remained negative at **-₹16.00 Cr**, with **OPM %** at **-5.00%**; profitability is severely constrained by a rigid cost structure where **Employee Benefits Expense** consumes **67.48%** of **Revenue**.
- **Other Expenses** of **₹116.38 Cr** include a significant **₹19.91 Cr Allowance for ECL / Bad Debts**, which directly impacted **EBITDA** and reflects deteriorating asset quality.
- **Trade Receivables** increased to **₹102.00 Cr**, with a concerning **31.19%** (**₹46.04 Cr**) of gross receivables classified as "credit impaired," leading to high **Debtor Days** of **120.00** and a direct drag on **CFO**.
- **Working Capital** management is under stress as **Receivables** movement resulted in a **Cash Flow** outflow of **-₹19.59 Cr**, while **Unbilled Revenue** (Contract Assets) stands at **₹53.95 Cr**, indicating heavy reliance on milestone-based recognition.
- **Cash from Operating Activity (CFO)** was negative at **-₹8.00 Cr**, failing to cover even the modest **Capex** of **₹2.73 Cr**, resulting in a negative **Free Cash Flow (FCF)** of **-₹11.00 Cr**.
- **Total Debt** of **₹28.00 Cr** consists entirely of **Lease Liabilities**; however, high interest rates (up to 10.26%) contribute to a **Finance Cost** of **₹3.00 Cr** that cannot be covered by operations, resulting in negative **Interest Coverage** of **-10.67**.
- **Net Worth** eroded significantly from **₹241.00 Cr** to **₹53.00 Cr** due to heavy losses, leading to a deeply negative **ROE** of **-57.49%**.
- **Other Assets** include **Contract Assets** of **₹32.24 Cr**, while **Other Liabilities** are dominated by **Statutory Dues** of **₹28.24 Cr** and a massive **Income Tax Liability** of **₹104.85 Cr**, posing a major liquidity risk.
- **Depreciation** and amortization of **₹16.00 Cr** is stable, but **Accumulated Depreciation** jumped to **₹206.00 Cr**, reflecting the impact of impairment charges on the **Gross Block**.
- **Cash from Investing Activity** was positive at **₹34.00 Cr**, primarily due to "Other investing items" of **₹27.46 Cr** and **Investments sold** of **₹5.51 Cr**, providing a temporary liquidity cushion.
- **Other Expenses** were further impacted by a **45.7%** YoY spike in **Consultancy charges** (**₹18.15 Cr**) and **Sub-contract charges** of **₹25.74 Cr**, indicating high reliance on external labor.
- **Other Assets** quality is weakened by the reversal/charge-off of **₹7.02 Cr** of **Deferred Tax Assets**, as management no longer expects sufficient taxable profits to utilize carry-forward losses.

- The dominant financial theme of the year is "**Fundamental Distress Masked by Accounting Realignment,**" where marginal revenue growth is completely negated by massive asset impairments, negative cash generation, and a precarious tax-driven liquidity profile.

3.3 Contingent Liabilities & Commitments

- **Income Tax Liabilities (Net):** The Group carries a massive ₹104.85 Cr balance (up from ₹85.77 Cr in FY23). This includes provisions for foreign income taxes and withholding taxes, flagged as a Key Audit Matter due to multi-jurisdictional complexity.
- **Service Tax Dispute:** A long-standing dispute (FY 2004-2008) persists for which the company carries a provision of ₹2.67 Cr.
- **Provision for Litigation:** Reduced to ₹0.00 Cr in FY24 from ₹1.02 Cr in FY23 following a reversal.
- **Capital Commitments:** While not explicitly totaled, the company continues maintenance-heavy capex on computer assets to support its service pivot.

3.9 Earnings Quality & Forensic Checks

| # | Check | Impact | Status | Evidence | Notes Detail |
|----|---|---|--------|--|---|
| 1 | PAT vs CFO trend | Profit ↓ — earnings overstate cash; ₹192 Cr loss vs -₹8 Cr CFO shows non-cash impairment masking cash burn. | □ | Net Loss ₹192 Cr, CFO -₹8 Cr (FY24). | Gap primarily due to ₹147.95 Cr non-cash Goodwill impairment; core operations still cash-negative (Note 5). |
| 2 | Receivables & channel-stuffing signal | Revenue ↑↓ — collection risk; receivables grew 12.4% vs sales 11.1% while 31% of gross book is impaired. | □ | Receivables ₹102 Cr vs Sales ₹310 Cr; ₹46.04 Cr credit impaired. | Gross receivables are 47% of revenue; high impairment (31.19%) indicates aggressive past recognition or poor collection (Note 8). |
| 3 | Revenue timing (unbilled / contract assets) | Revenue ↑ — aggressive recognition; unbilled revenue and contract assets total ₹86.19 Cr (28% of sales). | □ | Unbilled ₹53.95 Cr + Contract Assets ₹32.24 Cr vs Sales ₹310 Cr. | POCM method used for implementation; significant reliance on management estimates for "efforts to completion" (Note 2f, 23). |
| 4 | Revenue from related parties % | Neutral — internal restructuring of ₹92.29 Cr is consolidated-neutral but shifts IPR internally. | □ | RPT quantum not disclosed as % of revenue in summary. | Internal transfer of assets from Subex Assurance LLP to Holding Company for operational efficiency (Note 1c). |
| 5 | Inventory vs revenue growth | Neutral — software sector profile; company holds zero physical inventory. | □ | Inventory ₹0.00 Cr in FY24 and FY23. | Business model is service and license-based; no physical goods held (Balance Sheet). |
| 6 | Inventory valuation method change | Neutral — no inventory held; policy not applicable to current operations. | □ | No inventory reported on Balance Sheet. | Accounting policy for inventory not a material driver for this IT services entity. |
| 7 | Exceptional items in operating profit | Profit ↓ — non-cash charge; ₹147.95 Cr goodwill impairment signals failure of past acquisition strategies. | □ | Exceptional item ₹147.36 Cr (P&L) / ₹147.95 Cr (Notes). | Impairment of RMS CGU driven by longer conversion cycles and high investment needs in telecom (Note 5). |
| 8 | Depreciation rate vs useful life policy | Profit ↓ — accelerated cost; depreciation increased 14% despite massive asset impairment. | □ | Depreciation ₹16 Cr (FY24) vs ₹14 Cr (FY23). | Accumulated depreciation jumped to ₹206 Cr from ₹44 Cr, reflecting major write-downs and asset reassessment (Balance Sheet). |
| 9 | Provision reversals boosting PAT | Profit ↑ — non-core boost; ₹1.02 Cr litigation provision reversal provides minor non-operating gain. | □ | Provision for Litigation ₹0.00 Cr vs ₹1.02 Cr (FY23). | Reversal of legal provisions helps optics but does not reflect improved operating performance (Note 22). |
| 10 | Tax rate consistency + cash tax vs P&L tax | Profit ↓ — liquidity risk; ₹104.85 Cr tax liability vs ₹101 Cr cash indicates potential cash crunch. | □ | Tax % 10.00; Net Tax Liability ₹104.85 Cr. | Auditor highlighted "Evaluation of key tax matters" as KAM; massive liability relative to cash (Note 22, KAM 2). |
| 11 | CWIP age and stalling projects | Neutral — clean balance sheet; no capital work-in-progress reported. | □ | CWIP ₹0.00 Cr in FY24 and FY23. | No evidence of stalled internal capital projects or capitalized R&D in CWIP (Balance Sheet). |
| 12 | Deferred tax asset recognition adequacy | Profit ↓ — conservative shift; ₹7.02 Cr DTA write-off signals lack of future profit visibility. | □ | DTA reversed/charged off ₹7.02 Cr. | Management no longer expects sufficient taxable profits to utilize carry-forward losses (Note 13, 22). |
| 13 | RPT quantum and trend | | □ | Treasury shares reduction ₹4.32 Cr. | |

| # | Check | Impact | Status | Evidence | Notes Detail |
|----|---------------------------------------|---|--------|-------------------------------------|---|
| | | Neutral — structural focus; ESOP trust consolidation reduces equity by ₹4.32 Cr. | | | ESOP Trust is consolidated; treasury shares held are deducted from Other Equity (Note 1c, 32). |
| 14 | Dividend paid vs FCF adequacy | Neutral — prudent retention; zero dividends paid during period of negative FCF. | ☐ | Dividend Payout 0.00%; FCF -₹11 Cr. | Company correctly suspended dividends given negative free cash flow and operating losses (Cash Flow Statement). |
| 15 | Auditor KAM: Goodwill Impairment | Profit ↓ — valuation risk; ₹147.95 Cr impairment confirms over-optimistic historical assumptions. | ☐ | KAM 1 (p.188); Note 5. | Auditor flagged recoverability risk; impairment validates skepticism of terminal growth assumptions. |
| 16 | Auditor KAM: Revenue Recognition | Revenue ↑↓ — estimation risk; reliance on POCM "efforts to complete" for fixed-price contracts. | ☐ | KAM 3 (p.189); Note 2f. | Management subjectivity in estimating progress directly impacts timing of revenue. |
| 17 | CARO Qualification: Cash Losses | Neutral — liquidity warning; Holding Co and subsidiaries incurred cash losses in FY24. | ☐ | CARO Clause (xvii) (p.192). | Confirms core operations are burning cash, independent of non-cash impairments. |
| 18 | Statutory Non-compliance: Data Backup | Neutral — regulatory risk; software backup not maintained on Indian servers daily. | ☐ | Note 43 (p.191). | Violation of Companies Act requirements regarding physical location of server backups. |

4. MANAGEMENT & GOVERNANCE

A. Auditor Report & Key Audit Matters

- **Audit Opinion Type:** Unqualified Opinion.
- **KAM 1: Impairment of Goodwill:** Auditor flagged recoverability as a significant risk due to complex "Value-in-Use" models. Management recognized a ₹147.95 Cr impairment in FY24, validating prior skepticism.
- **KAM 2: Evaluation of Key Tax Matters:** Significant judgment required for uncertain tax positions across multiple jurisdictions (Transfer Pricing/Indirect Tax). Group carries a net tax liability of ₹104.85 Cr.
- **KAM 3: Revenue Recognition (POCM):** Focus on management's estimation of "efforts to complete" for fixed-price contracts, impacting revenue timing.
- **CARO 2020 Qualifications:**
 - **Clause (xvii):** Holding Company and subsidiaries (Subex Technologies, Subex Account Aggregator) incurred **cash losses**.
 - **Clause (iii):** Observations regarding investments and loans made by the company.
- **Statutory Compliance Issue:** Note 43 reveals backup for application software was not maintained on servers physically located in India daily, violating Companies Act requirements.

B. Related Party Transactions

| Party | Relationship | Nature | Amount (₹Cr) | Concern |
|----------------------------|----------------|-------------------------|---------------|---------------------------------|
| Nisha Dutt | KMP (MD & CEO) | Remuneration (Proposed) | 4.00 Cr | High pay vs 192 Cr Loss |
| Subex Assurance LLP | Subsidiary | Internal Asset Transfer | 92.29 Cr | Significant IPR movement |
| Subex Assurance LLP | Subsidiary | Royalty Expense | Not disclosed | Potential tunneling of profits |
| Various Subsidiaries | Subsidiaries | Sub-contracting | Not disclosed | Transfer pricing risk |

- **Internal Restructuring:** Transfer of ₹92.29 Cr in assets/liabilities from Subex Assurance LLP to the Holding Company to "achieve operational efficiency" signals major internal shifting of IPR/R&D units.
- **ESOP Trust:** Holds 7,777,049 shares (₹4.32 Cr value) deducted from equity, reducing public float.
- **RPT Verdict: Governance Concern** ☐— The disconnect between a ₹192.00 Cr net loss and the approval of a ₹4.00 Cr KMP package indicates a lack of alignment with shareholder value.

C. Shareholding

- **Promoters:** 0.00% (Professionally managed).
- **FIIs / DIIs:** 0.04% each (Negligible institutional interest).
- **Public:** 99.92% (2,13,854 shareholders).
- **Pledged Shares:** 0.00%.

D. Board Composition + KMP Compensation

- **Board Composition:** 6 Directors (as of May 2024); 50% Independent; 2 Women Directors.
- **Regulatory Lapse:** The board had only 5 directors from Sept 2023 to May 2024, resulting in **finest of ₹1.66 Lakhs each** from BSE and NSE.
- **KMP Compensation:**
 - **Nisha Dutt (MD & CEO):** Proposed ₹4.00 Cr (₹2 Cr Fixed + ₹2 Cr Variable).
 - **Sumit Kumar (CFO):** ₹1.00 Cr (11.1% YoY increase).
 - **Analysis:** Aggregate KMP pay is rising/maintained despite a **₹192.00 Cr Net Loss** and **-₹16.00 Cr Operating Profit**. The median employee remuneration decreased by 2.3%, widening the gap during a financial crisis.

F. Capital Allocation & Capex

| Action | FY Current (₹Cr) | FY Prior (₹Cr) | % of CFO | Signal |
|-----------------------------------|------------------|----------------|----------|----------------------|
| Dividends | 0.00 Cr | 0.00 Cr | 0.00% | plain |
| Capex | 2.73 Cr | 4.93 Cr | N/M | Value-neutral |
| Impairments / Write-offs | 147.95 Cr | 0.00 Cr | N/M | |
| Net Debt Change (Leases) | -5.23 Cr | 14.68 Cr | N/M | |
| Working Capital Investment | 10.14 Cr | 22.38 Cr | N/M | ☐ |

- **CFO Coverage of Capex:** Negative. **CFO of -₹8.00 Cr** cannot fund the **₹2.73 Cr capex**, bridged by cash reserves.
- **Nature of Capex:** Maintenance-heavy, focusing on **₹39.00 Cr Computer assets**.

- **Deployment Efficiency:** Revenue grew 11.13%, but the ₹147.95 Cr Goodwill Impairment confirms a permanent loss of capital from prior acquisitions.

H. Risks

| # | Risk | Category | Description | Potential Impact | Severity |
|---|---------------------------------|-------------|--|---|----------|
| 1 | Tax Litigation | Regulatory | ₹104.85 Cr in net tax liabilities and ongoing disputes. | 37% of Equity Capital could be wiped out; severe liquidity strain. | High |
| 2 | Asset Quality | Financial | Remaining ₹196.00 Cr Intangible Assets after impairment. | Further write-downs if 3% terminal growth is not met; hits reserves directly. | High |
| 3 | Receivables Stress | Operational | 31.19% of gross receivables (₹46.04 Cr) are credit impaired. | Cash flow leakage; high ECL provisions hit OPM. | High |
| 4 | Cash Losses | Liquidity | Holding company and subsidiaries incurred cash losses in FY24. | Reduced ability to fund R&D; potential going concern pressure. | High |
| 5 | Geographic Concentration | Market | 56.67% of revenue from EMEA region. | Exposure to regional instability and currency volatility. | Medium |
| 6 | Unbilled Revenue | Forensic | ₹53.95 Cr (36.55% of receivables) is unbilled. | Revenue reversal risk if milestones are not accepted by clients. | Medium |

5. SCORECARD & VERDICT

Part A: Scorecard

| Dimension | Rating (1-5) | Delta | Key Evidence | One-line Rationale |
|--|--------------|-------|---|---|
| Business Quality | 2 | ↓ | 56% EMEA concentration; loss-making subsidiaries. | Pivot to AI is unproven while legacy business and subsidiaries are bleeding. |
| Financial Health | 1 | ↓ | CFO -₹8 Cr; Tax Liability ₹104.85 Cr > Cash. | Negative CFO, eroded net worth, and massive tax overhang create insolvency risk. |
| Earnings Quality | 1 | ↓ | 31% Receivables impaired; ₹147.95 Cr impairment. | Massive non-cash write-downs and poor collection quality signal low-quality earnings. |
| Management & Governance | 2 | ↓ | Board vacancy fines; ₹4 Cr CEO pay vs ₹192 Cr loss. | Regulatory non-compliance and pay-performance disconnect signal poor alignment. |
| Capital Allocation & Earnings Visibility | 1 | ↓ | ROCE -5%; ₹147.95 Cr Goodwill write-off. | Value-destructive historical acquisitions and negative FCF limit future visibility. |

BUSINESS POSITIVES (for this company this year) * **Revenue Growth:** Consolidated revenue grew 11.13% YoY to ₹310.00 Cr, showing some resilience in service demand. * **Operating Improvement:** Operating Loss narrowed from -₹30.00 Cr to -₹16.00 Cr, indicating some cost-containment efforts. * **Debt Profile:** The company remains free of formal bank debt, with **Borrowings (₹28.00 Cr)** consisting entirely of lease liabilities. * **Strategic Backlog:** Performance obligations of ₹101.70 Cr provide some near-term revenue visibility.

BUSINESS NEGATIVES / CONCERNS (for this company this year) * **Massive Net Loss:** Reported a ₹192.00 Cr loss, driven by a ₹147.95 Cr Goodwill impairment admitting past acquisition failures. * **Cash Flow Stress:** CFO was negative at -₹8.00 Cr, resulting in negative Free Cash Flow of -₹11.00 Cr. * **Asset**

Quality: 31.19% of gross receivables (₹46.04 Cr) are credit impaired, indicating severe collection issues. *
Liquidity Risk: Net Tax Liability of ₹104.85 Cr exceeds the company's cash equivalents, posing a major threat if disputes are lost. *
Governance Flags: Fined by BSE/NSE for board composition violations; **Credit Rating** was withdrawn at the company's request. *
Subsidiary Distress: Core subsidiary **Subex Assurance LLP** lost ₹139.44 Cr, suggesting a collapse in internal margins.

OVERALL SCORECARD SUMMARY Subex is in a state of severe financial and operational distress, characterized by negative cash generation and a total erosion of net worth (down 78%). The massive goodwill impairment is a "confessional" accounting event that confirms years of capital misallocation, while the high level of impaired receivables suggests poor earnings quality. Governance is a significant concern due to regulatory fines, the withdrawal of credit ratings, and a stark disconnect between executive compensation and shareholder value destruction. The business is on a deteriorating trajectory where the "AI pivot" appears more as a narrative shield than a financially viable turnaround.

Part B: Governance Check Matrix

| # | Check | Status | Evidence |
|----|--------------------------------|--------------------------|--|
| 1 | Audit opinion clean? | <input type="checkbox"/> | Unqualified opinion provided. |
| 2 | Promoter pledge = 0? | <input type="checkbox"/> | 0.00% (No promoter group). |
| 3 | KMP pay < 5% of PAT? | <input type="checkbox"/> | N/M (Company in loss; CEO pay is ₹4 Cr). |
| 4 | RPT quantum < 5% of revenue? | <input type="checkbox"/> | KMP pay is ~1.3% of revenue. |
| 5 | Board > 50% independent? | <input type="checkbox"/> | 50% (3 out of 6). |
| 6 | At least 1 woman director? | <input type="checkbox"/> | 2 Women Directors. |
| 7 | No statutory dues outstanding? | <input type="checkbox"/> | ₹28.24 Cr in statutory dues; ₹104.85 Cr tax liability. |
| 8 | No fraud reported? | <input type="checkbox"/> | No fraud reported in CARO. |
| 9 | Audit trail enabled? | <input type="checkbox"/> | Technical non-compliance on server backup location. |
| 10 | Frequent Auditor change | <input type="checkbox"/> | S. R. Batliboi & Associates LLP since FY21. |

Final line: "Total: 7/10 — Governance Rating: 2"

Part C: Investor Verdict

THESIS: Subex is a governance-strained legacy software firm attempting a high-risk AI pivot while facing negative cash flows, massive asset impairments, and a precarious tax liability overhang.

OVERALL STANCE: AVOID

RATIONALE: The combination of negative CFO, 31% impaired receivables, and a tax liability exceeding total cash makes the risk-reward profile extremely unattractive. **RE-EVALUATE WHEN:** CFO turns positive and remains > PAT for two consecutive quarters, and the ₹104.85 Cr tax liability is resolved. **BULL CASE:** Rapid adoption of HyperSense AI by Tier-1 telcos leading to 25%+ revenue growth and OPM expansion to 15%+. **BEAR CASE:** Further goodwill impairments of the remaining ₹196 Cr and unfavorable tax rulings leading to a liquidity-driven insolvency. **KEY MONITORABLE:** Credit-impaired receivables %: 31.19% → watch for increase > 35%.

7. YEAR-OVER-YEAR ANALYSIS

7.1 Changes

| Metric / Theme | Summary A Status | Summary B Status | Forensic Takeaway |
|--------------------------------------|--|--|--|
| Capital Allocation (Goodwill) | Stagnant at ₹344 Cr (49.5% of assets) with zero impairment despite -6% ROCE. | Recognized a massive ₹147.95 Cr impairment, admitting the failure of past acquisitions. | Management finally capitulated to accounting reality after years of maintaining an inflated balance sheet. |
| Margin Trajectory | OPM at -11% with a collapse in high-margin license revenue. | OPM improved slightly to -5% as the business pivoted toward a service-heavy model. | While operating losses narrowed, the shift to services has not yet established a path to bottom-line profitability. |
| Working Capital (Receivables) | Credit-impaired receivables doubled to ₹38.97 Cr; collection lag evident. | Credit-impaired receivables rose to ₹46.04 Cr, representing 31% of the gross book. | Chronic collection failures suggest either aggressive historical revenue recognition or a severely distressed client base. |
| Management Tone | Focused on fundamental contraction and reliance on cash reserves. | "Defensively Visionary" tone using an "AI Pivot" narrative to mask operational distress. | The shift in language appears to be a strategic attempt to buy time from investors during a period of net worth erosion. |
| Liquidity & Tax Risk | Contingent tax liabilities represented 20% of total net worth. | Net tax liability of ₹104.85 Cr now exceeds the company's total cash equivalents. | The tax overhang has evolved from a contingent risk into a potential insolvency event. |
| Governance Compliance | Shareholder friction evidenced by the rejection of the COO's re-appointment. | Fined by BSE/NSE for board composition lapses and withdrawal of credit ratings. | Governance quality is deteriorating further as regulatory non-compliance and rating withdrawals signal internal instability. |

7.2 Persistent Patterns

- **Negative Cash Flow Generation:** The company consistently fails to generate positive free cash flow, remaining reliant on dwindling cash reserves to fund operations and maintenance capex.
- **Rigid Employee Cost Structure:** Employee benefits persistently consume 67-72% of total revenue, preventing any meaningful operating leverage.
- **Aggressive Revenue Recognition:** Continued heavy reliance on the "Percentage of Completion" method and high levels of unbilled revenue (Contract Assets) creates recurring earnings quality risks.
- **KMP Pay Disconnect: Management compensation remains high and rising (Proposed ₹4 Cr for CEO) despite record-breaking net losses and shareholder value destruction.**
- **Geographic Concentration:** The business remains structurally dependent on the EMEA region for over 55% of its revenue, exposing it to sustained regional volatility.
- **Zero Formal Bank Debt: The company maintains a debt-free balance sheet regarding bank borrowings, with liabilities restricted to leases, which remains its only significant financial buffer.**
- **High Asset Impairment Risk:** Even after the FY24 write-down, the remaining ₹196 Cr in intangible assets remains vulnerable to further impairments if the AI pivot fails to meet optimistic growth targets.