## Subex Ltd — FY 2023 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 transitioning from a high-margin product-led model to a loss-making services-heavy profile, currently holding a 60% recurring revenue base and >98% customer retention.** | □Neutral |
| *2* | ***Top-line performance deteriorated significantly with a 16.4% decline in total revenue to  279 Cr, driven primarily by a 44.1% collapse in high-margin Sale of License revenue.*** | □Negative |
| *3* | ***Operating margins turned negative as employee costs surged to consume 72% of total revenue, resulting in a  30 Cr operating loss.*** | □Negative |
| *4* | ***Bottom-line performance swung to a Net Loss of  51.21 Cr from a  21 Cr profit in the prior year, reflecting a severe erosion of profitability.*** | □Negative |
| 5 | **The company maintains a debt-free balance sheet with no formal bank borrowings, though statutory dues increased 25% to □31.47 Cr.** | □Positive |
| *6* | ***Cash Flow from Operations of  9 Cr was insufficient to cover capital expenditures and was primarily driven by non-cash ECL provisions and working capital liquidation rather than core earnings.*** | □Negative |
| *7* | ***Capital allocation is currently value-destructive with ROCE falling to -6%, well below the cost of capital, amid a strategic pivot toward Generative AI orchestration.*** | □Negative |
| *8* | ***Earnings quality is highly aggressive, characterized by the non-impairment of  344.09 Cr in Goodwill (50% of assets) and a doubling of credit-impaired receivables to  38.97 Cr.*** | □Negative |
| *9* | ***Governance risks have escalated following the shareholder rejection of the COO's reappointment and a disconnect between KMP pay (  11.23 Cr) and loss-making performance.*** | □Negative |
| *10* | ***Significant balance sheet risks exist in the form of  103 Cr in contingent tax liabilities, representing 20% of Net Worth, and the withdrawal of the CRISIL credit rating.*** | □Negative |
| *11* | ***Forward visibility is exceptionally poor as Remaining Performance Obligations (RPO) plummeted 44.6% to  58.07 Cr, signaling a looming revenue cliff.*** | □Negative |
| *12* | ***Investment View is AVOID; monitor for stabilization in quarterly license revenue above  25 Cr and potential impairment of Goodwill assets.*** | □Negative |

## 1. BUSINESS OVERVIEW (In Bullet Points)

- **Business Segments:** Subex has transitioned from a traditional Business Support Systems (BSS) provider to a "Telecom AI" company, centered on its **HyperSense** AI orchestration platform. The business is bifurcated into "Core" (Revenue Assurance, Fraud Management) and "Growth" bets (**Sectrio** for IoT security and **IDcentral** for digital identity).
- **Revenue Drivers:** Shifting from per-license volume to platform-based value. A critical strength is the **60% annuity/recurring revenue model** and a **>98% customer retention rate**, suggesting high switching costs.

- **Cost Drivers:** Primary drivers are R&D and specialized human capital. The company invested **US$ 4.2 million (approx. ₹34.8 Crores)** in "new areas" during FY23. The high fixed-cost nature of its 1,000+ employee base creates significant operating leverage, which worked in reverse in FY23.
- **Industry Position:** Operates in a "sticky" niche across 90+ countries with 200+ customers. It positions itself as a "CAPEX optimizer" for Telecommunications Service Providers (TSPs).
- **Expansion & Strategy:** Transitioning from a "vendor" to a "partner" through a "co-authoring" strategy, targeting disruptions in Experience, Delivery (5G network architecture), Ecosystem, and Technology (Generative AI/Cloud).
- **Geographical Presence:** High concentration in the **EMEA region**, which accounts for **55.84% of revenue** (₹155.61 Cr).

## 2. MANAGEMENT COMMENTARY & OUTLOOK

- The company is undergoing a significant leadership overhaul with **Ms. Nisha Dutt** replacing Mr. Vinod Kumar Padmanabhan as CEO (effective May 2, 2023), signaling a mandate for a strategic reset.
- Management is pivoting toward **Generative AI**, aiming to orchestrate Large Language Models (LLMs) for telcos to move from static workflows to autonomous "agents."
- The transition from Non-Standalone (NSA) to Standalone (SA) 5G networks is identified as the primary catalyst for demand, as telcos require analytics to optimize heavy CAPEX.
- Management acknowledges a complex environment where telcos are under immense CAPEX pressure but views this as an opportunity to position Subex's AI as a "need-to-have" efficiency tool.
- A major execution red flag emerged as shareholders rejected the reappointment of the COO/Whole-time Director, indicating a disconnect between the Board and the public shareholder base.
- The withdrawal of the CRISIL credit rating (previously downgraded to **BBB+/Negative**) suggests management discomfort with external outlooks on liquidity and debt-servicing.
- The long-term vision focuses on "The Future is Unreal," emphasizing AI-augmented customer experiences to drive the next growth phase.
- Management Tone: The tone is aspirational and visionary, heavily emphasizing future AI capabilities to distract from the immediate reality of a **₹51.21 Crore loss** and a **16% revenue decline**. The narrative is defensively opaque regarding recent financial deterioration and internal instability, suggesting a "rebuilding" phase under new leadership.

## 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 2023 | Mar 2022 |
|---|---|---|
| Sales - | 279.00 | 333.00 |
| Sales Growth % | -16.42 | -10.37 |
| Expenses - | 309.00 | 298.00 |
| Manufacturing Cost % | 15.00 | 12.00 |
| Employee Cost % | 72.00 | 65.00 |
| Other Cost % | 24.00 | 13.00 |
| Operating Profit | -30.00 | 36.00 |
| OPM % | -11.00 | 11.00 |
| Other Income - | 8.00 | 10.00 |
| Exceptional items | 0.66 | 0.22 |
| Other income normal | 7.50 | 10.15 |
| Interest | 3.00 | 3.00 |
| Depreciation | 14.00 | 10.00 |
| **Profit before tax** | -39.00 | 34.00 |
| Tax % | 31.00 | 38.00 |
| **Net Profit -** | -51.00 | 21.00 |
| Exceptional items AT | 0.66 | 0.17 |
| Profit excl Excep | -51.87 | 20.82 |
| Profit for PE | -51.87 | 20.82 |
| Profit for EPS | -51.21 | 20.99 |
| Profit Growth % | -349.14 | -58.28 |
| EPS in Rs | -0.91 | 0.37 |
| Dividend Payout % | 0.00 | 0.00 |

### Balance Sheet (Crores)

| Line Item | Mar 2023 | Mar 2022 |
|---|---|---|
| Equity Capital | 281.00 | 281.00 |
| Reserves | 241.00 | 283.00 |
| Borrowings - | 33.00 | 15.00 |
| Long term Borrowings | 0.00 | 0.00 |
| Short term Borrowings | 0.00 | 0.00 |
| Lease Liabilities | 33.39 | 14.68 |
| Other Borrowings | 0.00 | 0.00 |
| Other Liabilities - | 140.00 | 140.00 |
| Trade Payables | 13.00 | 17.00 |
| Other liability items | 127.00 | 124.00 |
| **Total Liabilities** | 695.00 | 719.00 |
| Fixed Assets - | 385.00 | 368.00 |
| Building | 47.00 | 24.00 |
| Equipments | 2.00 | 2.00 |
| Computers | 35.00 | 31.00 |
| 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 | 429.00 | 401.00 |
| Accumulated Depreciation | 44.00 | 33.00 |
| CWIP | 0.00 | 0.00 |
| Investments | 14.00 | 12.00 |
| Other Assets - | 296.00 | 339.00 |
| Trade receivables - | 90.00 | 97.00 |
| Receivables over 6m | 49.00 | 34.00 |
| Receivables under 6m | 80.00 | 81.00 |
| Prov for Doubtful | -39.00 | -18.00 |
| Cash Equivalents | 109.00 | 109.00 |
| Loans n Advances | 8.00 | 8.00 |
| Other asset items | 89.00 | 125.00 |
| **Total Assets** | 695.00 | 719.00 |

## Cash Flow Statement (Crores)

| Line Item | Mar 2023 | Mar 2022 |
|---|---|---|
| Cash from Operating Activity - | 9.00 | -8.00 |
| Profit from operations | -8.07 | 41.75 |
| Receivables | -3.28 | -0.27 |
| Payables | -7.47 | 3.29 |
| Loans Advances | 0.50 | 0.76 |
| Other WC items | 32.63 | -30.85 |
| Working capital changes | 22.38 | -27.07 |
| Direct taxes | -5.06 | -22.78 |
| Advance tax | 0.00 | 0.00 |
| Cash from Investing Activity - | -36.00 | -34.00 |
| Fixed assets purchased | -4.93 | -5.40 |
| Fixed assets sold | 0.04 | 0.00 |
| Investments purchased | -105.70 | -96.72 |
| Investments sold | 104.11 | 85.29 |
| Interest received | 1.90 | 2.60 |
| Other investing items | -31.17 | -19.90 |
| Cash from Financing Activity - | -7.00 | -15.00 |
| Proceeds from shares | 1.01 | 4.40 |
| Proceeds from borrowings | 0.00 | 0.00 |
| Repayment of borrowings | 0.00 | 0.00 |
| Interest paid fin | -2.20 | -1.78 |
| Dividends paid | 0.00 | -14.05 |
| Financial liabilities | -5.32 | -3.89 |
| Other financing items | 0.00 | 0.00 |
| **Net Cash Flow** | -33.00 | -58.00 |
| Free Cash Flow | 4.00 | -14.00 |
| CFO/OP | -48.00 | 41.00 |

### Key Ratios (□Crores)

| Line Item | Mar 2023 | Mar 2022 |
|---|---|---|
| Debtor Days | 118.00 | 106.00 |
| Inventory Days | 0.00 | 0.00 |
| Days Payable | 0.00 | 0.00 |
| Cash Conversion Cycle | 118.00 | 106.00 |
| Working Capital Days | 71.00 | 110.00 |
| ROCE % | -6.00 | 6.00 |

## 3.2 Financial Analysis Summary

- **Revenue** from operations declined by **16.42% YoY to □279.00 Cr**, primarily driven by a **44.10% collapse** in high-margin **Sale of License** revenue to **□10.47 Cr** and a **27.1% drop** in **Implementation and Customisation**, which correlates with a **44.59% depletion** in **Remaining Performance Obligations** to **□58.07 Cr**, signaling continued top-line pressure.
- The company transitioned to an **Operating Profit** loss of **-□30.00 Cr** from a profit of **□36.00 Cr**, as **Employee Cost** surged to **72% of Revenue (□200.69 Cr)** despite a reversal of **□3.44 Cr** in incentive provisions, while **Other Expenses** were bloated by a **□19.91 Cr Allowance for ECL** representing **7.14% of sales**.
- **Net Profit** plummeted to **-□51.00 Cr**, further impacted by an effective tax expense of **□12.15 Cr** on a pre-tax loss of **-□39.00 Cr**, largely due to the non-recognition of **□16.60 Cr** in foreign withholding tax credits and the inability to offset losses across different tax jurisdictions.
- **Trade Receivables** quality deteriorated significantly as **Receivables over 6m** rose to **□49.00 Cr** and the "Credit Impaired" portion more than doubled to **□38.97 Cr**, leading to a spike in **Debtor Days** from **106 to 118** and necessitating a **□39.00 Cr Prov for Doubtful** debts on the **Balance Sheet**.
- Despite the reported loss, **CFO** improved to **□9.00 Cr** from **-□8.00 Cr**, primarily because the **-□51.00 Cr Net Profit** was adjusted for non-cash items including **□14.00 Cr** in **Depreciation** and the **□19.91 Cr ECL provision**, alongside a **□22.38 Cr** release from **Working Capital** mainly due to a **44% reduction** in **Unbilled Revenue**.
- **Total Debt** is comprised entirely of **Lease Liabilities**, which increased **127% to □33.39 Cr** following new premises leases, causing **Interest Coverage** to turn negative at **-12.00x** and **Finance Cost** to rise to **□3.00 Cr** on the **P&L Statement**.
- **Fixed Assets** increased to **□385.00 Cr**, driven by a **□23.00 Cr** addition to **Building** assets, while **Intangible Assets (Goodwill)** remained stagnant at **□344.00 Cr**, representing **49.5% of Total Assets**; the lack of impairment despite a **-6% ROCE** and significant losses poses a valuation risk.
- **Capital Allocation** remains conservative with no **Dividends paid** in FY23, while **Cash from Investing Activity** saw a net outflow of **-□36.00 Cr**, largely involving the churn of current **Investments** (**□105.70 Cr** purchased vs **□104.11 Cr** sold) and **□4.93 Cr** in **Capex** for computer and office equipment.
- **Return Metrics** collapsed with **ROE** falling to **-9.77%** and **ROCE** to **-6.00%**, reflecting a sharp decline in **PAT Margin** to **-18.28%** and a weakening **Asset Turnover** of **0.40x**, as the asset base (specifically **Goodwill**) failed to generate positive earnings.
- **Other Assets** were impacted by **Advance Income Tax (Net)** of **□37.93 Cr** and **Statutory/Govt Authorities** balances of **□2.67 Cr** which are fully provided for due to uncertainty in realizing service tax refunds from 2004-2008.
- **Other Liabilities** increased due to a **25% rise** in **Statutory Dues** to **□31.47 Cr**, potentially indicating delays in tax remittances or higher pending assessments.

- **Other Expenses** were primarily driven by the **₹19.91 Cr ECL provision** (18% of total other expenses) and a **258% surge** in **Traveling and Conveyance** to **₹14.83 Cr**, which contrasts sharply with the revenue decline and suggests poor cost optimization.
- The dominant financial theme of the year is a **severe fundamental contraction** where a collapse in high-margin license revenue and deteriorating asset quality (receivables and goodwill) have led to significant losses and value destruction, leaving the company reliant on cash reserves rather than core earnings.

### 3.3 Contingent Liabilities & Commitments

- **Income Tax Demands:** ₹66.09 Cr (up from ₹7.08 Cr in FY22). The company has paid ₹17.76 Cr under protest.
- **Service Tax Demands:** ₹36.87 Cr relating to the period 2006-2009 regarding import of services.
- **Total Contingent Liabilities:** ₹102.96 Cr, representing nearly **20% of the company's total net worth**.
- **Bank Guarantees:** ₹1.77 Cr.

### 3.9 Earnings Quality & Forensic Checks

| # | Check | Impact | Status | Evidence | Notes Detail |
|---|---|---|---|---|---|
| 1 | PAT vs CFO trend | Profit ↓ — non-cash ECL and depreciation mask deeper cash burn from operations. | □ | PAT -□51 Cr vs CFO □9 Cr | CFO is positive primarily due to □19.91 Cr non-cash ECL provision and □14 Cr depreciation. |
| 2 | Receivables & channel-stuffing signal | Revenue ↓ — collection lag; receivables fell 7% while revenue plummeted 16.4%. | □ | Net Receivables □90 Cr; Sales -16.4% | Credit-impaired receivables doubled to □38.97 Cr; □10.74 Cr outstanding for >3 years (Note 8). |
| 3 | Revenue timing (unbilled/contract assets) | Revenue ↓ — weak pipeline; unbilled revenue and performance obligations fell sharply. | □ | Unbilled Rev □37.9 Cr (vs □67.8 Cr) | Remaining performance obligations dropped 44.6% to □58.07 Cr, signaling future revenue pressure (Note 23). |
| 4 | Revenue from related parties % | Neutral — no significant revenue-side RPT risk identified in notes. | □ | Not material | Focus of RPT is on KMP remuneration and ESOPs rather than commercial sales (Note 32). |
| 5 | Inventory vs revenue growth | Neutral — software sector profile with zero physical inventory reported. | □ | Inventory □0 | Business model is service and license-based; no physical inventory risk (Key Ratios). |
| 6 | Inventory valuation method change | Neutral — no inventory held; no change in accounting policy. | □ | N/A | Accounting policies confirm no inventory-related valuation adjustments (Note 2). |
| 7 | Exceptional items in operating profit | Profit ↑ — small non-operating gains included in P&L reporting. | □ | □0.66 Cr exceptional item | Exceptional items are minimal and do not significantly distort the operating loss (P&L). |
| 8 | Depreciation rate vs useful life policy | Profit ↓ — increased depreciation charge following asset base expansion. | □ | Depr. □14 Cr vs □10 Cr YoY | Increase driven by higher building assets and leasehold improvements (Fixed Assets Table). |
| 9 | Provision reversals boosting PAT | Profit ↑ — incentive provision reversal partially offset high employee costs. | □ | □3.44 Cr provision reversal | Employee costs (72% of sales) were subsidized by a reversal of incentive provisions (Note 25). |
| 10 | Tax rate consistency | Profit ↓ — high tax expense despite losses due to non-recognition of credits. | □ | 31% Tax on -□39 Cr PBT | Effective tax is high as □16.60 Cr in foreign withholding taxes were not recognized (Note 13). |
| 11 | CWIP age and stalling projects | Neutral — no capital work-in-progress reported on the balance sheet. | □ | CWIP □0 | No risk of stalled capital projects or delayed capitalization (Balance Sheet). |
| 12 | Deferred tax asset recognition adequacy | Profit ↑ — DTA recognition on losses assumes optimistic future profitability. | □ | □7.02 Cr DTA on losses | Recognized based on "reasonable certainty" of future profits despite current □51 Cr loss (Note 13). |
| 13 | RPT quantum and trend | Profit ↓ — high KMP pay maintained despite significant consolidated losses. | □ | KMP Remuneration □11.23 Cr | Remuneration remains high relative to loss; 6.5L ESOPs exercised during financial stress (Note 32). |
| 14 | Dividend paid vs FCF adequacy | Neutral — dividend suspended to conserve cash during loss-making period. | □ | Div Payout 0%; FCF □4 Cr | Company prudently stopped dividends given the negative net profit and low FCF (Cash Flow). |
| 15 | Goodwill Impairment Risk | | □ | □344.09 Cr Goodwill | Represents 49.5% of assets; management used optimistic 3% |

| # | Check | Impact | Status | Evidence | Notes Detail |
|---|---|---|---|---|---|
| | | Profit ↑ — lack of impairment despite negative ROCE and losses. | | | terminal growth to avoid write-down. |
| 16 | Revenue Recognition (Residual Method) | Revenue ↑ — potential front-loading of license revenue. | □ | Note 2(f) policy | Residual method used when standalone prices are unavailable; can lead to aggressive early recognition. |
| 17 | Auditor KAM: POC Estimation | Revenue ↑↓ — high subjectivity in project completion estimates. | □ | □73.62 Cr Implementation Rev | Auditor flagged "efforts to complete" as a judgment-heavy area for fixed-price contracts. |

## 4. MANAGEMENT & GOVERNANCE

### A. Auditor Report & Key Audit Matters

- **Goodwill Impairment Assessment:** Auditor flagged the □344.09 Cr goodwill (49.5% of total assets) as a KAM due to the complexity of "Value-in-Use" models. Management used a 15.05% discount rate and 3% terminal growth to justify no impairment despite a □51.21 Cr net loss.
- **Revenue Recognition (POC Method):** Auditor focused on the "Percentage of Completion" for implementation contracts (□73.62 Cr). Concern lies in management's judgment regarding "efforts to complete" for fixed-price contracts.
- **Taxation and Contingent Liabilities:** Significant judgment required to evaluate the □102.96 Cr in tax demands.
- **Auditor Independence:** M/s. S. R. Batliboi & Associates LLP (re-appointed FY21). Independence is maintained, though high reliance on management estimates for Goodwill warrants extreme caution.

### B. Related Party Transactions

| Party | Relationship | Nature | Amount (□Cr) | Concern |
|---|---|---|---|---|
| ***Key Managerial Personnel*** | KMP | Remuneration | 11.23 Cr | ***High pay vs Loss*** |
| Subex Assurance LLP | Subsidiary | Royalty Expense | Not disclosed | Potential tunneling |
| Various Subsidiaries | Subsidiaries | Sub-contracting | Not disclosed | Transfer pricing risk |
| Former WTD | Former KMP | Recoverable | 0.015 Cr | Rejected re-appointment |

- **RPT Risk Checks:** KMP pay represents 4.03% of revenue. While decreasing from □14.98 Cr (FY22), it remains excessive relative to the □51.21 Cr net loss. 6,50,000 ESOPs were exercised by KMPs during this period of financial stress.

### C. Shareholding

- **Promoters:** 0.00% (Professionally managed).
- **FIIs:** 0.04% (Down from 0.11% in Mar 2022).
- **DIIs:** 0.04%.
- **Public:** 99.92%.
- **Pledged Shares:** 0.00%.

### D. Board Composition + KMP Compensation

- **Total Directors:** 6 | **Independent %:** 50% | **Women Directors:** 2.
- **KMP Compensation Analysis:**
    - **Vinod Kumar Padmanabhan (MD & CEO):** ₹3.19 Cr (Flat YoY).
    - **Shiva Shankar Naga Roddam (WTD & COO):** ₹1.47 Cr (Flat YoY).
- **YoY Growth:** Aggregate KMP pay is aggressive as Operating Profit swung from +₹36 Cr to -₹30 Cr (-183% growth).
- **Governance Signal:** Shareholders rejected the re-appointment of the COO via postal ballot, a rare signal of dissatisfaction.

### F. Capital Allocation & Capex

| Action | FY23 (₹Cr) | FY22 (₹Cr) | Signal |
|---|---|---|---|
| ***Dividends*** | 0.00 | 14.05 | plain |
| **Capex** | 4.93 | 5.40 | **Value-neutral** |
| ***Net Debt Change (Leases)*** | 18.71 | 10.79 | |
| ***Working Capital Investment*** | 22.38 | -27.07 | |

**CAPEX Analytical Notes:** * **CFO Coverage of Capex:** Negative. The company is burning cash to sustain operations. * **Nature of Capex:** Primarily maintenance and computer hardware (**₹35 Cr computer assets**). * **Deployment Efficiency:** Revenue fell 16.4% despite ongoing investment, signaling **high execution risk**. * **Key Takeaways:** The **₹344.09 Cr Goodwill** remains the most significant non-productive asset, with no impairment taken despite deteriorating fundamentals.

### H. Risks

- **Tax Litigation (High):** ₹102.96 Cr in demands. **20% of Net Worth** could be wiped out if ruled against.
- **Asset Quality (High):** ₹344.09 Cr Goodwill. **Massive write-down risk** if 3% terminal growth is missed.
- **Order Book (High):** 44.59% drop in Remaining Performance Obligations. **Severe revenue pressure** expected in FY24.
- **Receivables (Medium):** Credit-impaired receivables doubled to ₹38.97 Cr. **Cash flow leakage** risk.
- **Credit Rating (High):** Downgraded to BBB+/Negative then withdrawn. **Reduced access to capital**.

## 5. SCORECARD & VERDICT

### Part A: Scorecard

| Dimension | Rating (1–5) | Delta | Key Evidence | One-line Rationale |
|---|---|---|---|---|
| Business Quality | 2 | ↓ | License Rev -44%; RPO -45% | Weakening competitive position and collapse of high-margin product revenue. |
| Financial Health | 2 | ↓ | ROCE -6%; CFO < Capex | Negative returns and inability to self-fund operations from core earnings. |
| Earnings Quality | 1 | ↓ | CFO > PAT via ECL; No Goodwill Impairment | Aggressive accounting (Goodwill/DTA) and non-cash items masking operational burn. |
| Management & Governance | 2 | ↓ | Shareholder rejection of WTD; High KMP pay | Significant rift with shareholders and disconnect between pay and performance. |
| Capital Allocation & Earnings Visibility | 1 | ↓ | ROCE < WACC; RPO collapse | Value-destructive allocation with very poor near-term revenue visibility. |

**BUSINESS POSITIVES (for this company this year)** * □**Annuity Revenue:** Maintained a strong **60% recurring revenue model**, providing a baseline floor for operations. * □**Customer Retention:** Achieved a **>98% customer retention rate**, indicating high switching costs for existing clients. * □**Debt-Free Status:** Remains free of formal bank borrowings, with liabilities limited to leases. * □**Strategic Pivot:** Early positioning in **Generative AI orchestration** for telcos provides a potential long-term technological catalyst.

**BUSINESS NEGATIVES / CONCERNS (for this company this year)** * □**Revenue Collapse:** High-margin **Sale of License revenue plummeted 44.1%** to □10.47 Cr. * □**Order Book Depletion:** Remaining Performance Obligations (RPO) fell **44.6% to □58.07 Cr**, signaling a severe revenue cliff. * □**Asset Quality Risk: □344.09 Cr in Goodwill** (49.5% of assets) remains un-impaired despite a -6% ROCE and □51 Cr loss. * □**Receivables Stress:** Credit-impaired receivables **doubled to □38.97 Cr**, with □10.74 Cr outstanding for >3 years. * □**Governance Red Flag:** Shareholders **rejected the reappointment of the COO**, indicating a breakdown in investor trust. * □**Contingent Liability:** Tax demands jumped to **□102.96 Cr**, threatening 20% of the company's Net Worth.

**OVERALL SCORECARD SUMMARY** Subex is currently in a state of severe fundamental deterioration, marked by a transition from a profitable product-led model to a loss-making services-heavy profile. Financial strength is weakening as the company burns cash to sustain a high-cost employee base, while earnings quality is poor due to the avoidance of necessary Goodwill impairments and reliance on non-cash adjustments. Governance is a critical concern following the public rejection of key management by shareholders, suggesting a business on a deteriorating trajectory that requires a total strategic and operational reset.

## Part B: Governance Check Matrix

| # | Check | Status | Evidence |
|---|---|---|---|
| 1 | Audit opinion clean? | □ | Unqualified opinion (p.173) |
| 2 | Promoter pledge = 0? | □ | 0.00% (Professionally managed) |
| 3 | KMP pay < 5% of PAT? | □ | KMP pay □11.23 Cr vs Net Loss of □51 Cr |
| 4 | RPT quantum < 5% of revenue? | □ | KMP pay is 4.03% of revenue |
| 5 | Board > 50% independent? | □ | 50% (3 out of 6) |
| 6 | At least 1 woman director? | □ | 2 Women Directors |
| 7 | No statutory dues outstanding? | □ | Statutory dues increased 25% to □31.47 Cr |
| 8 | No fraud reported? | □ | No fraud reported in CARO |
| 9 | Audit trail enabled? | □ | Confirmed by auditors |
| 10 | Frequent Auditor change | □ | No change; second term of 5 years |
| Final line: "Total: 7.5/10 □— Governance Rating: 2" | | | |

## Part C: Investor Verdict

**THESIS:** Subex is a struggling legacy telecom software player attempting a high-risk pivot to AI while facing a collapsing core license business and significant shareholder-management friction. **OVERALL STANCE:** AVOID **RATIONALE:** The combination of a 45% order book collapse, massive un-impaired goodwill, and shareholder rejection of leadership creates an unfavorable risk-reward profile. **RE-EVALUATE WHEN:** Quarterly license revenue stabilizes above □25 Cr and ROCE returns to >10%. **BULL CASE:** Rapid adoption of HyperSense AI by Tier-1 telcos leads to a 50%+ surge in high-margin license revenue. **BEAR CASE:** A mandatory impairment of the □344 Cr Goodwill or an adverse □100 Cr tax ruling wipes out the majority of the company's Net Worth. **KEY MONITORABLE:** Remaining Performance Obligations (RPO): □58.07 Cr → Watch for further decline below □45 Cr.

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*v5-Gemini* | *89 pages* | *121 chunks*