Subex Ltd — FY 2023 Annual Report Analysis

Annual Report Analysis (Consolidated)

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 Cr)** 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 Cr 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

P&L statement (□Cr)

Line item	Mar 2023	Mar 2022
Sales	279	333
Sales Growth %	-16.42	-10.37
Expenses	309	298
Manufacturing Cost %	15	12
Employee Cost %	72	65
Other Cost %	24	13
Operating Profit	-30	36
OPM %	-11	11
Other Income	8	10
Exceptional items	0.66	0.22
Other income normal	7.50	10.15
Interest	3	3
Depreciation	14	10
Profit before tax	-39	34
Tax %	31	38
Net Profit	-51	21
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 (□)	-0.91	0.37
Dividend Payout %	0	0

Balance sheet (□Cr)

Line item	Mar 2023	Mar 2022
Equity Capital	281	281
Reserves	241	283
Borrowings	33	15
Long term Borrowings	0	0
Short term Borrowings	0	0
Lease Liabilities	33.39	14.68
Other Borrowings	0	0
Other Liabilities	140	140
Trade Payables	13	17
Other liability items	127	124
Total Liabilities	695	719
Fixed Assets	385	368
Building	47	24
Equipments	2	2
Computers	35	31
Furniture n fittings	0	0
Vehicles	0	0
Intangible Assets	344	344
Other fixed assets	0	0
Gross Block	429	401
Accumulated Depreciation	44	33
CWIP	0	0
Investments	14	12
Other Assets	296	339
Trade receivables	90	97
Receivables over 6m	49	34
Receivables under 6m	80	81
Prov for Doubtful	-39	-18
Cash Equivalents	109	109
Loans n Advances	8	8
Other asset items	89	125
Total Assets	695	719

Cash flow statement (□Cr)

Line item	Mar 2023	Mar 2022
Cash from Operating Activity	9	-8
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	0
Cash from Investing Activity	-36	-34
Fixed assets purchased	-4.93	-5.40
Fixed assets sold	0.04	0
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	-15
Proceeds from shares	1.01	4.40
Proceeds from borrowings	0	0
Repayment of borrowings	0	0
Interest paid fin	-2.20	-1.78
Dividends paid	0	-14.05
Financial liabilities	-5.32	-3.89
Other financing items	0	0
Net Cash Flow	-33	-58
Free Cash Flow	4	-14
CFO/OP	-48	41

Key ratios

Line item	Mar 2023	Mar 2022
Debtor Days	118	106
Inventory Days	0	0
Days Payable	0	0
Cash Conversion Cycle	118	106
Working Capital Days	71	110
ROCE %	-6	6

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	Notes detail
1	PAT vs CFO trend	Profit ↓ — non-cash ECL and depreciation mask deeper cash burn from operations.	—	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%.	—	Credit-impaired receivables doubled to ₹38.97 Cr; ₹10.74 Cr outstanding for >3 years.
3	Revenue timing (unbilled/contract assets)	Revenue ↓ — weak pipeline; unbilled revenue and performance obligations fell sharply.	—	Remaining performance obligations dropped 44.6% to ₹58.07 Cr, signaling future revenue pressure.
4	Revenue from related parties %	Neutral — no significant revenue-side RPT risk identified in notes.	—	Focus of RPT is on KMP remuneration and ESOPs rather than commercial sales.
5	Inventory vs revenue growth	Neutral — software sector profile with zero physical inventory reported.	—	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.	—	Accounting policies confirm no inventory-related valuation adjustments.
7	Exceptional items in operating profit	Profit ↑ — small non-operating gains included in P&L reporting.	—	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.	—	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.	—	Employee costs (72% of sales) were subsidized by a reversal of incentive provisions.
10	Tax rate consistency	Profit ↓ — high tax expense despite losses due to non-recognition of credits.	—	Effective tax is high as ₹16.60 Cr in foreign withholding taxes were not recognized.
11	CWIP age and stalling projects	Neutral — no capital work-in-progress reported on the balance sheet.	—	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.	—	Recognized based on "reasonable certainty" of future profits despite current ₹51 Cr loss.
13	RPT quantum and trend	Profit ↓ — high KMP pay maintained despite significant consolidated losses.	—	Remuneration remains high relative to loss; 6.5L ESOPs exercised during financial stress.
14	Dividend paid vs FCF adequacy	Neutral — dividend suspended to conserve cash during loss-making period.	—	Company prudently stopped dividends given the negative net profit and low FCF (Cash Flow).
15	Goodwill Impairment Risk	Profit ↑ — lack of impairment despite negative ROCE and losses.	—	Represents 49.5% of assets; management used optimistic 3% terminal growth to avoid write-down.
16	Revenue Recognition (Residual Method)	Revenue ↑ — potential front-loading of license revenue.	—	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.	—	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
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: 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.