

Rating Advisory

September 22, 2022 | Mumbai

Subex Limited

Update as on September 22, 2022

This rating advisory is provided in relation to the rating of Subex Limited

The key rating sensitivity factors for the rating include:

Upward Factors

- Improvement in turnover by 30 percent while sustaining operating profitability at around 20 percent
- Sustenance of strong financial risk profile

Downward Factors

- Impact on business profile, resulting in a decrease in cash accrual to less than Rs.30 crore
- Any large debt funded acquisition impacting the financial risk profile

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL Ratings is yet to receive adequate information from Subex Limited (SL) to enable it to undertake a rating review. CRISIL Ratings is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL Ratings views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings' criteria available at the following link, https://www.crisil.com/content/dam/crisil/criteria_methodology/basics-of-ratings/assessing-information-adequacy-risk.pdf)

If SL continues to delay the provisioning of information required by CRISIL Ratings to undertake a rating review then, in accordance with circulars SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016, SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 and **SEBI/HO/MIRSD/CRADT/CIR/P/2020/2 dt January 3, 2020** issued by Securities and Exchange Board of India, CRISIL Ratings will carry out the review based on best available information and issue a press release.

About the Company

SL is a technology company listed on the National Stock Exchange and BSE Ltd. Subex Assurance LLP is a wholly owned subsidiary of Subex Limited. The group provides business support systems to telecommunication companies, which improves their revenue and profits through the identification and elimination of leakages in their revenue chain and includes fraud, revenue assurance, analytics, partner management, cost management and credit risk management.

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Rating Rationale

October 18, 2021 | Mumbai

Subex Limited

'CCR A-/Stable' rating assigned

Rating Action

Corporate Credit Rating	CCR A-/Stable (Assigned)
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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its **'CCR A-/Stable'** corporate credit rating to Subex Limited (SL; part of the Subex Group)

The rating reflects the established market position with strong client relationship in telecom software service segment, an experienced management team and strong financial risk profile. These strengths are partially offset by the group's customer and end user industry concentration in revenue profile and moderate scale of operations.

Analytical Approach:

For arriving at the ratings CRISIL Ratings has consolidated the business and financial risk profiles of SL and its subsidiaries Subex Assurance LLP; Subex Technologies Limited, Subex Digital LLP, Subex Americas INC, Subex UK Limited, Subex Middle East Limited, Subex Bangladesh Private Limited, Subex Asia Pacific Pte Limited and Subex Inc, collectively referred to as the Subex group

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Established market position with strong client relationship in telecom software service segment**

The Subex group provides revenue assurance and fraud management software solutions to its customers amongst other products; which are of critical importance to the customers in the telecom segment. With its ability to meet changing requirement of customers and provide robust support services, the group has been able to secure repeat contracts from its key customers like British Telecom Limited, Telstra International Limited, Optus Systems Private limited etc. CRISIL Ratings believes the group shall benefit from its strong client relationship in the telecom segment over the medium term.

- **Experienced Management team**

The group is managed by Mr. Vinod Kumar who have an experience of more than 4 decades giving strategic direction and turning around entities. Additionally, Mr Vinod Kumar along with his core management teams, have a strong domain knowledge and understanding of software requirements for various end-users, which benefits the group.

- **Strong financial risk profile**

The financial risk profile is strong marked by a comfortable capital structure and robust debt protection metrics. Due to absence of external debt, the capital structure remains strong and is expected to remain so over the medium term. The group is likely to fund its incremental working capital requirements and capital investments through its internal accruals and cash balances Further debt protection metrics are strong marked by an interest coverage of around 29 times for fiscal 2021; the interest component primarily being finance lease charges. Supported by absence of debt funded acquisitions and capital expenditure, the financial risk profile is expected to remain strong over the medium term.

Weaknesses:

- **Moderate scale of operations**

The scale of operations is moderate as reflected in revenues of around Rs.340-370 crore over the last 5 fiscals ended March 2021. Further there are players who are building core competencies around several products/services which overlap with that of this group's offerings, thereby, exposing Subex group to competition. The moderate scale of operations shall continue to constrain the business risk profile over the medium term.

- **Customer and end user industry concentration in revenue profile**

Revenues of the group from top 10 customers increased to 42 percent in 2021 as against 30 percent in fiscal 2020. Further the group derives almost its entire revenues from the telecom segment. Any slowdown in the telecom segment could adversely impact the group's ability to add new customers and add new projects from existing customers. This is partially mitigated by launch of new products to other end-user segments like banking and financial institutions. However revenue contribution from these products are currently low at around 5% of the overall revenues. Diversification in end user industry and customer profile resulting in an improvement in revenues shall remain a key monitorable.

Liquidity: Strong

Liquidity remains strong supported by large cash and equivalents and absence of debt. The group is expected to generate cash accrual of around Rs.45-55 crore annually against no major repayment obligations. Liquidity is further supported by unencumbered cash and bank balances of around Rs.140-150 crore to be maintained at any point in time. This is likely to support the group's incremental working capital requirements. The group does not have any debt funded capital expenditure/acquisition plans over the medium term supporting the liquidity. Contingent liabilities comprising of income tax and service tax disputes were at around Rs.100 crore as on March 31, 2021. Crystallization of these liabilities and its impact on the liquidity shall remain a key monitorable. The group does not have any fund based working capital limits.

Outlook: Stable

CRISIL Ratings believes SL shall benefit from its established market position over the medium term.

Rating Sensitivity factors

Upward Factors

- Improvement in turnover by 30 percent while sustaining operating profitability at around 20 percent
- Sustenance of strong financial risk profile

Downward Factors

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About the Company

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Key Financial Indicators

Particulars	Unit	2021	2020
Revenue	Rs.Cr	372.99	369.05
Profit After Tax (PAT)	Rs.Cr	53.19	-268.14
PAT Margin	%	14.3	-72.7
Adjusted Debt/Adjusted Networkth	Times	0.03	-
Interest coverage	Times	27.95	16.62

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Cr)	Complexity Levels	Rating Assigned with Outlook
NA	NA	NA	NA	NA	NA	NA	NA

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Subex Limited	100%	Parent company
Subex Assurance LLP	100%	Subsidiary

Annexure - Rating History for last 3 Years

	Current	2021 (History)	2020	2019	2018	Start of 2018

Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Corporate Credit Rating	LT	0.0	CCR A-/Stable		--		--		--		--	--

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria
CRISILs Bank Loan Ratings
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
CRISILs Criteria for Consolidation

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