

'Difficult for telecom service providers to increase cost'

Subex Systems started a hardware company and later transformed itself into a software company in the telecom sector. With names like BT, Verizon, AT&T and Swiss as its clients, the company sees a lot of opportunity with the roll-out of third generation (3G) services. In an interaction with Pradeesh Chandran, Subex's founder-chairman and managing director, SUBASH MENON, explains his vision. Edited excerpts:

Q&A

SUBASH MENON,
CMD, Subex Systems

Telecom services are fiercely competitive. What role does Subex play in improving cost?

The sector is undergoing a huge transformation and is witnessing a tough climate across the globe. Services are slowly getting commoditised and it will create a huge impact on the revenue of service providers. Our products basically help telecom companies improve their operational efficiency by reducing leakages and cutting operational cost. A major challenge faced by telecom providers is that they can't increase the cost of services.

How do you see the future demand? Will the developing market be your growth driver?

We have customers from both de-

veloped and developing markets. Our major customers include global giants BT, Verizon, AT&T, Swiss Telecom, and Indian service providers like Aircel, Airtel and Idea, among others. We have our presence in almost all geographies, including the Americas, Europe and Asia. The needs of both developing and developed markets are different and our products can address both. We are bullish about our growth.

But you have no exposure in Japan and Korea in the Asia Pacific region. Any plan for these?

Asia Pacific is a fast-growing region for almost all businesses. Our presence in the Japanese and Korean market is zero as we have not targeted these countries. The main reason is the telecom technology used in Japan and Korea was different. Japan was using different technology and Korea was completely on CDMA. These were not our focus. We also don't sell in China. Second, these are closed markets; they always go for domestic play-



ers. We are not planning to enter these markets in the near future.

What will be your role in the Indian market after the 3G roll out?

Third generation technology will also result in predatory pricing or commoditisation of services, and India will also see the same scenario that happened in some of the developing markets. 3G is all about data and telecom service providers should come out with differential pricing for data if they want to optimise their revenue. With our

products like Revenue Operations Centre, we can help the service provider to measure their profitability for each packet of data consumed.

You started as a hardware business and later moved to software products. In the future, do you see potential in the hardware business?

In a market like India, dominated by Chinese players and other giants like Alcatel-Lucent, Nokia Siemens Networks, etc, I don't think there is an opportunity for telecom hardware business. That's the reason why we moved out of the business.

Are we seeing more start-ups getting into the software product business in India?

I don't think the ecosystem in India has really grown for product companies. Nasscom (the information technology industry association) has a big role to play in creating it but, unfortunately, the process of ecosystem building is not happening.

How important is the managed service business for you in the new business condition?

Managed services' models help telecom companies to change their capex to opex. This is part of our revenue optimisation centre offering. We are

seeing traction for such a service from both customers from developed markets as well as Indian customers. It is a key area for us; it is expected to contribute around 15 per cent of our revenue this year. We expect the momentum to continue and expect managed services to contribute around 25-30 per cent of our overall revenue in a couple of years.

What about the restructuring of Foreign Currency Convertible Bonds (FCCBs)? Any further issue offer?

We issued FCCBs to raise \$180 million in 2007 for an acquisition. Subsequently, share prices crashed and we were nowhere near the conversion rate. As the bonds lost their value and were due for redemption in March 2012, we went for restructuring to overcome the situation. Around 78.3 per cent of bonds were restructured and about \$141 million was slashed to \$98.7 million.

As a result, the conversion price came down to ₹80 per share, pretty close to our current value. If the macroeconomic situation remains fine, we are confident about paying back the balance \$39 mn that will come for redemption in March 2012. We don't have any plans for fresh FCCBs in the near future and we are not planning for any acquisitions.