

NW18 INTERVIEW: SUBEX CMD SEES MANAGED SERVICES LIFTING FY12 REVENUE 20%

- Sees FY12 revenue up over 20% from 4.8 bln rupee FY11
- Sees FY12 EBITDA up 35% from 1.41 bln rupees FY11
- Seeing traction for managed services across countries
- Gets 40% of revenue from managed services operations
- Investing "heavily" to improve managed services offerings
- To repay \$39 mln FCCBs by Mar via internal funds, equity
- Sees FY12 order inflows up 35-40% on year
- Current client budgets firm

By Dhvani Pandya and Itika Sharma

MUMBAI - These are times when companies across industries have to look at new growth models to stay ahead of the curve, and Subex Ltd is seeking its opportunity in managed services business.

So much so that the information technology company expects over 20% growth in revenue in 2011-12 (Apr-Mar) to be led by managed services. "There is traction across (geographies) because of the fact that we are really focused on what's called managed services," Subex Chairman and Managing Director Subash Menon told NewsWire18 in a telephonic interview. Several clients are now shifting from the licence model to the managed services one for their information technology needs, Menon said.

This move has gained momentum since the global economic slowdown as it allows clients to drastically cut expenses on software solutions and manpower. Managed service providers streamline functions of clients by managing their day-to-day information technology operations, in turn allowing them to focus on their core business. The segment comprises 40% of the company's total income now against 7-10% until three years ago, Menon said. Since April, Bengaluru-based Subex, which services only the telecom sector, has announced three order wins in the managed services segment--one each from a West Asian telecom company, a European mobile solutions company, and Econet Wireless' Africa operations.

Subex is investing "heavily" in improving managed services capabilities and plans to recruit more people for the same, Menon said, without detailing the company's hiring plans. The company's operating profits for 2011-12 is seen up 35% from 1.41 bln rupees last year, Menon said.

Even as most Indian software majors have been expressing concerns over slow recovery in developed markets, the focus on managed services has helped Subex witness traction across geographies. "America (US), Europe, Middle East (West Asia), Africa or Asia Pacific, all of them are doing reasonably well for us," he said. Subex currently has presence in nine countries.

He said client budgets have also remained firm for Subex across geographies. During Apr-Jun, majority of the company's revenue was derived from Revenue Operation Centre--orders for which rose 66% to 23 mln from \$14 mln a year ago. Revenue Operation Centre is a software platform that helps telecom companies monitor business operations on a real-time basis, and helps in checking frauds. The growth in orders was driven by the managed services segment, he said. "For the whole year we are expecting an order intake growth of 35-40% (for Revenue Operation Centre)," Menon said, adding the company gets 0-45% of its total revenue from a multi-year order every year.

TURNAROUND

Subex, which incurred huge losses and was almost bankrupt after acquiring Canadian telecom software firm Syndesis for \$164 mln in 2007, is now back on track as the company did some restructuring of funds.

"Our P&L (profit and loss account) is in great shape now and we still have some work left on the balance sheet, we are at it. And we will have a full solution for that in the next few months time," Menon said. Subex had raised \$180 mln through foreign currency convertible debentures maturing in March 2012 to fund the Syndesis acquisition, its seventh buyout. However, the acquisition turned bad due to the financial crisis in 2008, as Syndesis failed to generate funds as was estimated.

The company's share, which was trading around 803 rupees in January 2008, fell to 18 rupees by March 2009. The FCCBs were to be repaid quarterly at the then prevailing dollar rate. "In the past, many a times rupee was depreciating and that was impacting our numbers," Menon said.

However, the company was able to gradually trim losses by restructuring its debt, and saw net profit grow a whopping 424.5% on year to 132.3 mln rupees in Apr-Jun, despite lower net sales, as exceptional losses declined to 9.33 mln rupees from 145.13 mln rupees. The company's net sales in Apr-Jun were down over 7% at 1.10 bln rupees. The company now has FCCBs worth \$94 mln outstanding on its books, of which it plans to repay \$39 mln by March. The remaining \$55 mln will be rolled over. The company has not yet finalised a plan for repayment of the first lot of FCCBs, but Menon said it would mostly be through a mix of internal accruals and equity. Shares of Subex today ended down 5.96% at 52.90 rupees on the National Stock Exchange.

Edited by Namrata Bhatia