



“Subex Limited Conference Call”

August 17th, 2012



SPEAKER: Subash Menon, Founder, Managing Director and CEO



Moderator:

A very good afternoon, ladies and gentlemen. I am Souradeep Sarkar, the moderator of this call. Thank you for standing by and welcome to the Subex Financial Results Conference Call presented by Mr. Subash Menon, the Founder, MD and CEO, Subex Limited. For the duration of presentation, all participants' line will be in the listening-only mode and we will have a Q&A session after the presentation. I would like to now hand over the conference to Mr. Menon. Over to you, sir.

Subash Menon:

Thank you. Good evening, everybody. As has been indicated to you, this is the FY13 Q1 results call and you have already received a presentation from us. I will be taking you through the presentation. If you do not have the presentation with you, that's not a problem. I will be reading out all the details. So after the forward-looking statements, the first slide is actually the status. As you all are aware, the FCCB restructuring is complete in all respects at this point in time. Out of the total \$131 million worth of FCCBs that were outstanding. I'm rounding off the number here of course. 36 million worth has been converted to equity at Rs. 22.79 per share resulting in 89 million shares. So to abate our 70 million shares, 89 million shares have got added and \$92 million worth have been converted into new bonds which will have a tenure of five years, and that's convertible at the same rate of 22.79.

There is a small amount of [Unclear] [0:01:45]. Basically what happened was we had about 97% of bond holders in bond one and bond two participating in the exchange offer. So the balance is still outstanding as the original FCCB 1 and FCCB 2. That is what is now remaining as a [Unclear] but they have also been kind of rolled over for a five-year period. However, the conversion price for those will remain the same at Rs. 80 and Rs. 656. So that is the current status of all the FCCBs. There are three lots now. One lot is of course converted into equity form. The second lot is fresh bonds valid for five years convertible at Rs. 22.79 per share. And another lot which is the old stuff which is discontinuing at Rs. 80 and Rs. 656 conversion price for another five years.



So in short, we have completely addressed the FCCB issue which was a major concern for everybody across and there was even worry about defaulting and stuff like that. So all that is behind us and we have got fresh lease of life and we can look at business and move forward. So that is the status with regard to FCCBs, and now we move to the next slide which is about the Q1 financial results.

On the Q1 financials front, what has... on the FY13 Q1 financials itself on the slide, you will see that the business environment in general has been quite... as we know that business environment across the world is not good. There are plenty of issues and that seems to be impacting us as well as this point in time. So order intake is also because of lengthening sales cycle. It was at about \$14.03 million. There is a wait and watch mode with regard to certain customers. So on the whole, there is more analysis, there is more evaluation etcetera, etcetera.

Continuing product business has shrunk because of that, because of the slower order intake and also because of the fact that the contract conditions are also undergoing a change of late. People are looking at stretched payment terms. People are looking at more checks along the way, more documentation along the way before something accrues and is due and payable and things like that. So continuing product business has definitely shrunk. And because of that, even our revenue recognition had to kind of be modified to be in line with the contract conditions that have changed. We believe what we have seen. Almost \$3 million of revenue which we could have otherwise recognized have kind of pushed into the future quarters and that exactly was the reason why our revenue this quarter is low. And as we know, our bid is very, very non-linear. So what happens is that when revenue comes down, that completely impacts the bottomline quite straightaway and that happened this time as well.

So there are really two reasons here. One of course is that the business climate is tough and that has impacted the business, no doubt. But even bigger issue at this point in time is the fact that we had to modify our recognition to be in line with some of the changing contract conditions and that has resulted to almost \$3 million getting pushed to



future quarters resulting in a lower EBITDA of only 8%. But for that push of \$3 million worth of revenue, we would have ended up with almost 25% of EBITDA, but instead we ended up with 8% EBITDA. So that's on the financials front.

Looking at the product revenue by string, license is slightly lower this time. This is directly because of the fact that a lot of revenues have got pushed. Support is continuing to be quite strong and even managed services is continuing to be strong. So this is one of things that is definitely happening with the organization. Managed services is definitely coming to the fore. This has been happening for some time and that's coming to the fore at this point in time.

Coming to the product revenue by geography, EMEA continues to be quite strong as has been in the past. Almost 60% of revenue is coming from EMEA. And Americas and APAC being again similar kind of situation as in the past. Americas is between 20 and 30% and APAC at about kind of 14-15%. So that's from the geography. I would say that from the geography perspective, things have not really changed much. That brings me to the summary slide.

We believe that going forward the revenue will definitely increase because the changes that we have brought in would naturally impact the most in the first quarter and that's what we have seen. In the coming quarters, there will be evening out of the revenue. And we believe that by the time we end the full year, we continue to expect to have 25-30% of EBITDA. So on a full-year basis, I don't think EBITDA will get impacted though on a quarterly basis there is definitely impact as you have seen and some impact would be there in the second quarter. So from third quarter onward, we would have things coming back in a very positive manner.

On the whole, our revenue definitely subdued because of the environment, because of the climate, and the fact that there is a little bit of contraction on the order intake front, consequent to the business environment. The current pipeline is, we have definitely looked and have taken a very, very serious look at our pipeline and what is probably not worth has been pruned and it has been cut out. We are



looking at the current pipeline of \$356 million. So assuming our normal conversion rate of about 20-25%, we should still end up with a pretty decent order intake at the end of the day. However, the first quarter has started in a bit slow manner.

So that's the summary. That's the overall situation with regard to the business. Definitely it's a tough climate, no doubt about it. We have seen that impacting our order intake. Revenue has come down because of that. Being a non-linear business, our quarter one got impacted quite significantly. Notwithstanding all these, we still believe that for the full-year we should end up with 25-30% of EBITDA, which would be reasonably strong. So that's the overall picture at this point in time. I would like to throw the floor open for questions now.

Moderator:

Thank you so much, Mr. Menon. With this we are going to start the Q&A interactive session. So I would request all the attendees and the participants, if you wish to ask any question, please press "0" and "1" on your telephone keypad and wait for your name to be announced. I repeat participants who wish to ask any question, please press "0" and "1" on your telephone keypad and wait for your name to be announced. I would like to repeat once again to all the attendees and the participants, if you wish to ask any question, please press "0" and "1" on your telephone keypad and wait for your name to be announced.

Well, the first question comes up from V.T. Rajesh from Berean [phonetics] Capital. Mr. Rajesh, you can go ahead and ask your question please.

V.T. Rajesh:

Thanks for taking my question. Mr. Menon, you commented a little bit more about the situation in Europe and given what you are saying is tough environment, do you see it getting worsened from here or do you see it stabilizing in terms of the order intake and the managed services piece?

Subash Menon:

I would think that from the order intake perspective, this is pretty much the bottom. On a quarterly basis, I don't think we will ever have this bad a quarter from order intake perspective. So we definitely expect that to improve. So



that's what I meant by... we have got a \$356 million kind of pipeline. So 20-25% kind of conversion rate is what it is hoped for. So we should have better quarter going forward on the order intake side. With regard to managed services, that's the function of the order intake anyway. So once the order intake improves, managed services business will improve as well.

V.T. Rajesh: Right. And then the second question, as you see the business from the European guys what's your customer concentration there? 60% is coming from Europe but how many of them is coming from a handful of customers, if you can comment on that?

Subash Menon: Okay, you are talking about of concentration of customers, right?

V.T. Rajesh: More in Europe, yes, than in any other place.

Subash Menon: No, we do not have except for BT or... By and large, just BT. Customer concentration is actually very low. So I wouldn't say there is too much of concentration at all.

V.T. Rajesh: Okay. And then you talked about the orders getting pushed into the next quarter and we are sort of half way through this quarter. Have those orders been realized that were pushed from the previous quarter?

Subash Menon: It's not really order getting pushed. Orders have been booked. It's the revenue which has got pushed, and definitely we are seeing those revenues coming in this quarter and next quarter and so on.

V.T. Rajesh: Okay. And the other question is, it sounded like from your comment you were saying this quarter also is not going to be that good. Is that the correct inference from your comment or did I misread into your remarks?

Subash Menon: Q1 of course is the worst in that sense and Q2 would be better but if you have to come back to the full, a very good situation will probably be by Q3 but Q2 will definitely be better than Q1 but still a bit subdued. Q3 is when we are expecting this whole thing to even out completely.



- V.T. Rajesh:** I see. I will ask one more quick question. In terms of the interest cost, what is your blended interest cost that we should be assuming going forward given that there is a large chunk of FCCB has been converted into stock now?
- Subash Menon:** Well, interest cost is not just a function of FCCBs. We also have bank interest and stuff like that. If you look at FCCB, basically our rate on that is 5.7% on the \$92 million outstanding and 2 and 5% on the other small amounts that are outstanding. If I look at the overall finance interest cost, that would be in the region of somewhere in the \$9 to 10 million number for the year.
- V.T. Rajesh:** \$9 to 10 million total interest expense?
- Subash Menon:** Yes.
- Subash Menon:** Okay. Sorry, I will ask one more quick question. In terms of the order backlog of this 350 million or so, is there any concentration, i.e. a big chunk coming from a handful of customers and obviously you have generally large orders but I am just trying to get a feel for it if any of the orders are out of ordinary in terms of their size and any bookings on that side could get further delayed given the environment there?
- Subash Menon:** Not in the \$14 million that we have had in quarter one.
- V.T. Rajesh:** Okay. All right, thank you.
- Subash Menon:** Thank you.
- Moderator:** Thank you, Mr. Rajesh. I would like to repeat once again all the attendees and the participants, if you wish to ask any question, please press “0” and “1” on your telephone key pad and wait for your name to be announced. I repeat, participants who wish to ask any question, please press “0” and “1” on your telephone keypad and wait for your name to be announced.
- Sir, there are no more questions in the queue. Over to you, sir.



Subash Menon:

Thank you very much. I will summarize by stating that it has been a pretty tough quarter, the first quarter. We expect things to improve over the next couple of quarters and even out over the year. Definitely that's on track. FCCB is completely addressed at this point in time. There is absolutely no issue on that. That's totally behind us. We are upbeat about the possibilities going forward. There is work to be done still, no doubt about that, and we are at it. Thank you very much. Have a great evening. Bye-bye.

Moderator:

Thank you so much, sir. With this, we conclude the conference for today. Wish you all a great weekend ahead. You all can disconnect your line. Thank you so much.