

# Subex says it's two years away from acquisitions

*Before disaster struck telecom software product and services firm Subex in the form of its inability to meet its commitments of a foreign currency convertible bond (FCCB), it was tipped to be one of the most promising tech companies in India. Subash Menon, founder chairman, managing director and CEO of Subex, told Suparna Goswami Bhattacharya and Praveena Sharma, that the psychological scars from the traumatic experience of 2009, when investors turned hostile, are yet to erase, but said his company is back on the growth track. Excerpts from the interview:*

## **It's been almost a year since you began the process of fixing your balance sheet; is your turnaround plan on track?**

The turnaround is definitely going very well. First we fixed the balance sheet and now we are fixing the P&L. That's where the business turnaround is happening. If you were to look at the last three quarters, you'll see that things have really improved on the revenue front. On annual basis, we are looking at a 15% growth (in dollar terms) and even better on the profit front. Earnings before interest, tax, depreciation and amortisation (Ebitda), which was at 23.8% last year, is going to be around 34% this year. That's a dramatic improvement for us. I would say from a turnaround perspective it's complete.

## **Would you say you are completely out of the woods?**

Yes. Does that mean we'll not have further improvement? That's not so. We will have further improvement.

## **What are challenges ahead for Subex?**

Now, the challenge is additional business and delivering on that. We have two very critical pieces — software product Revenue Operations Centre (ROC) and managed services. The challenge is to scale up to that level to be seen as a significant player in these two areas. Because it is one thing to sell a point solution to somebody, it's a totally different thing to sell a platform to them and it's even more complicated when you are talking about handling their entire operations. You need to build credibility for that.

## **There was a time when you had this huge appetite for acquisitions and went on an acquisition spree, buying as many as seven companies in less than the five years. Some of them even brought you to the brink of bankruptcy. Through all this, have you lost the appetite for acquisition?**

No (I haven't lost the appetite for acquisition). When your house is not in order, you put your house in order before you do anything else. That's the primary reason why we are not doing it. Once that is done, and we are ready, we'll absolutely go back to that (acquisition) because for a (software) product company acquisitions are essential. When is the question, and that's going to be later. Not today. When you have had a traumatic experience, psychologically people have to recover from that. We are two years away from any serious acquisition. We are just back this year and next year will be one of consolidation, where we will improve our margins a little bit. We'll show the world that we are indeed growing as we expected to grow.

## **Telecom industry is on a rebound, how is Subex looking to gain from this?**

I don't think the telecom industry slowed because it had problems. It slowed because the rest of the world slowed down and they were just being cautious. If you go through the balance sheets and P&Ls of the telcos, throughout the bad patch when the world was supposed to be recession, they were doing well. If they were not spending, it was not because they did not have the ability to spend. They were just being cautious. If you look at 2002-03, that was when the telecom industry had collapsed and they could



## **Q&A**

Subash Menon

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not spend because they did not have the ability to spend. This time around, it was not that — they did not want to do it (spend) because they were really worried. That is changing now. They are starting to spend.

## **What is the trend in licence revenue growth?**

Licence revenue is growing decently but managed revenue is growing at a much faster clip. One (licence revenue) is getting eclipsed by the other (managed services revenue). Managed services growth in percentage terms is eclipsing the growth in licence revenues. So relative terms, it looks like licence is going down but in absolute term it is growing as well.

## **Do you think, over time, managed services will overtake licence revenues?**

No, we don't in the near future. In the next 2-3 years, we expect to see managed services at 25% of the revenues, support at 30% and licence at 40%.

## **In what shape is your balance sheet today? Do you feel confident about repaying the \$53 million to the FCCB investors by March 2012?**

We will have a little bit of gap (shortfall for repayment). That would be about \$20 million or something like. We will meet this shortfall though debt. Little over a year ago, we had about \$20-21 million debt, which we have almost paid down. So, when during bad times you could get that debt and pay down. During good times, we will definitely be able to raise that (debt).