

Forex loss spoils show for healthier Subex

Strong Recovery Seen In Operations And Order Size

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THE stock of Subex fell nearly 5% on Thursday after the small-sized IT company reported a sharp drop in its net profit during the December 2010 quarter. Net profit suffered due to the reported loss on its foreign currency borrowings. Barring this, the company posted a strong recovery in its operations. The momentum is likely to continue given the increasing size of its deliverables and streamlining of its foreign debt.

The Bangalore-headquartered, Subex, provides solutions across revenue assurance and fraud prevention to global telecom players. It has also increased its focus on managed services encompassing network monitoring and analytics. It earned Rs 490 crore in revenue in the four quarters ended December 2010.

In the last eight quarters, Subex has posted a range-bound performance due to slack in the global telecom sector. Its quarterly revenue hovered between ₹93 crore and ₹107 crore during the period. While its revenue is still stagnant, operating profitability

has rebounded in the last six quarters. The ratio of earnings before interest, depreciation and taxes (PBDIT) to sales has improved from 15.5% in the September 2009 quarter to 30.5%. Subex has also reported a gradual increase in its order size. It expects the proportion of order worth \$ 5 million or more to increase in the near term helped mainly due to the extension of its deliverables in the managed services category. This will also support its profitability.

A year and half ago, the company had restructured its foreign currency loan convertible into equity. This reduced its interest outgo relative to sales by nearly 200 basis points to 8.5% since the September 2009 quarter. This is expected to halve by FY12 given the company's plan to pay a major chunk of the loan through internal accruals.

All this is likely to improve its performance in two years. However, currency fluctuations will play a crucial role as they did in the December 2010 quarter. Its profit before tax rose 15% sequentially for the quarter but it fell 29% after including the currency impact.

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