



“Subex Limited Conference Call”

January 31st, 2012



SPEAKERS: **Subash Menon, Founder, Chairman, MD and CEO**
 Sudeesh Yezhuvath COO and Wholetime Director
 Ramanathan J, Vice President, Finance and
 Company Secretary Finance



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 Analyst Result Conference Call presented by Mr. Subash Menon, the Founder Chairman, MD and CEO, Subex; Mr. Sudeesh Yezhuvath, COO and Wholetime Director, Subex; and Mr. Ramanathan J., Vice President, Finance and Company Secretary, Finance, Subex. At this time all participants' lines are in a listen-only mode. There will be a presentation followed by a question and answer session. Please be advised this conference is being recorded today. I would like to hand over the conference to Mr. Sudeesh Yezhuvath. Over to you, sir.

Sudeesh Yezhuvath:

Hello, everybody, good evening. Welcome to the result call. By now we would have sent the presentation to you all but today there was a bit of a delay and we have just sent it to the Stock Exchange. We were not able to send it to you. Sorry about that. The presentation will be up on our website in a few minutes, probably in the next 10 or 15 minutes. In the mean while, since we have already started the call, I will take you through the numbers and for that I would like to have Ramanathan here and Sudeesh also to answer questions. So I will hand over to Ramanathan who heads the finance at this point in time for him to take you through the numbers and then we will have questions and answers.

Ramanathan J.:

Good evening, everyone. The order intake for the quarter has been very healthy. We are done for 23.1 million dollars of order intake for the quarter. In fact, with the presentation when you see it, we will now see the continuing business only. For H1 we are done about 43 odd million dollars of order intake. Cumulatively it is 69.6 million dollars of order intake. We have seen a lot of traction from managed services in the order intake. In Q3, we tracked about 34% of the order intake as managed services deals. So clearly we are seeing managed services having a larger share in our order intake going forward as well.

If we look in the Q3 financial, continuing product business revenue has grown over 8% sequentially and 20% year-on-year. Product business EBITDA is now at 37% for the



quarter. This is on the continuing business. A couple of revenue contracts have not come in so that this has not resulted in recognizing those revenues; however, the cost has been incurred had these conducts of account are... EBITDA would have been upwards of 40%. EBITDA for the overall company is at 443.8 million dollars as against 386.53 million dollars for the quarter which is a growth of 15%. And if you look at the PAT line, what we call the operational PAT excluding the exceptional items for the company stands at for the quarter over Rs. 285.38 million as compared to Rs. 248.67 million in FY12 Q2 and Rs. 240.4 million in FY11 Q3. So that translates to a sequential growth of about 15% and a year-on-year growth of 19% on the overall PAT.

On the product revenue, if you look at the stream composition of the revenue, our license still leads the PAT with about 50,000 percentage overall revenue. Annuity is at 36% for the quarter and other revenue streams like customization add up to 7% of the total revenue. And if you look at the geographical spread, EMEA continues to be the leader in terms of geographical spread. It continues to be at 50,000 percentage of our total revenue, followed by America at 28% and then followed by APEC at 14%. I now hand over the call to Subash for a closing summary on the call.

Subash Menon:

So as we heard from Ramanathan, we have seen that our order intake has progressed quite well. If you are to compare this with order intake of the last financial year, for the whole of the last financial year, we had 74.5 million dollars of order intake from this particular business segment which is business optimization which is our continuing business. So if one were to compare like for like, one should say that for the first three quarters of this financial year, we have booked almost 70 million dollars of orders as compared to 74.5 for the whole of last year. So that clearly shows the momentum that we are experiencing in our business. The colour of this particular order intake is also changing. As against in the region of about 15-20% of the order intake coming from managed services, this year we are talking about upward of 30% of our order intake coming from. So I think probably we will end the year with 30-35% kind of number the order intake coming in



managed services. That's the significant change in the nature of the orders that we are booking and that would then have significant impact on the revenues going forward in the long term, in the visibility and stability and things like that. So that's a very interesting and happy change of situation, change of colour of the order intake. We have been working towards this and we will continue to work even more towards that. This is definitely a very, very positive development for the company as a whole.

On the EBITDA side, we just heard that 37% that we have recorded for the quarter from the product side, our target is 40% and we would have stopped there had it not been for a couple of contracts. As I have explained in the past, we have revenue milestones and we expect to have proof from customer for pretty much every milestone before we recognize that. So even if we have reached the milestone, if you have not got the proof from the documentation from the customers and we can't take the revenue in. So there are a couple of cases like that in this particular quarter. However, the costs for those have already come in. We can't apply the matching concept here because the revenue milestone vis-à-vis documentation has not happened. If the revenue were to come in, there would not have been any additional cost and we would definitely have got 40%. So currently it is at 30% in this particular quarter and the qualified pipeline is about 432 million dollars.

So if I have to look at this whole thing from a qualitative standpoint, what are we seeing in this business? The continuing business which is what our focus area is the continuing product business which is business optimization clearly has shown a very strong potential to grow. It has shown a significant momentum towards managed services as an area. If you look at the split of the revenue into license and managed services and support and all that, you will see that managed services as a percentage has gone up quite nicely. And that's exactly the end of run and we see as a whole in the region of almost 36%. That's what annuity is in this quarter. So our endeavor is to get as much as possible from managed services because it's quite repeatable, is very long term and it's quite profitable in the long run. So that is what is happening with this company. The problems of the past because of the activation business



being there have indeed become problems of the past. They are not existing at this point in time. That's history as far as we are concerned and we are moving forward with good order intake situation and a good profitability EBITDA situation at this point in time.

Even when you look at the operational PAT be it from a sequential quarter or from year-on-year basis, you would see there's a lot of improvement that we have been experiencing. We have been talking about 15% plus kind of growth in revenue and that seems to be happening. We have been talking about 40% EBITDA business. We are very, very close that. We have been talking about the momentum in our intake. We are seeing that happening. That's the scenario at the end of quarter three. We are done with the presentation at this point in time. And we are open to questions.

Moderator:

Thank you so much, Mr. Menon, Mr. Sudeesh, Mr. Ramanathan. We are going to start with the Q&A interactive session. So I would request the participants who wish to ask a question, please press "0" "1" on their telephone keypad and wait for their name to get announced. I repeat, participants who wish to ask a question, please press "0" "1" on their telephone keypad and wait for your name to be announced. Thank you. As there are no questions in the queue, I would request once again that in this please "0" "1" to ask questions. Yes, Mr. Manish Gupta from Personal Investor would like to go for the first question. Mr. Gupta, your line has been unmuted. You can go ahead and ask your question, please.

Manish Gupta:

Hi, Subash. Could you give us an update on where we are on the SECB?

Subash Menon:

Hi, Manish. Sure, we are certainly in discussion with a variety of parties including the bond holders and we are very, very close to a solution. We are hoping to announce it today but it is not completely concluded, I must say. So we should have something ready for announcement in the next few days, maybe in a week's time or something like that. We are progressing very well on that front and we definitely will have a solution well in time.



Manish Gupta:

Okay. The other question was on about the fact that your EBITDA is 37 and not 40 because you have incurred the cost and you have not reached to a revenue milestone. Why the expense coming into the P&L account? Shouldn't it be like a work in process till the revenue milestone has been reached because I thought the percentage of completion accounting works like that?

Ramanathan J.:

Hi, Manish. This is Ram here. Manish, there are two ways especially on the completion matter. One is the input method; one is the output method. We follow the output method wherein we defer the revenue, and not the cost. It has been the practice of the company consistently for quite some time and many, many years for now.

Manish Gupta:

Okay, cool. Last question was, how much cash did we generate in this quarter on a free cash flow basis?

Ramanathan J.:

This quarter, we had a breakeven situation in terms of cash.

Manish Gupta:

Why is that? I mean, if we are doing so much of EBITDA, why aren't we generating cash at least on the operating cash flow level?

Ramanathan J.:

A significant amount of our revenues are yet to be billed to the customers, which we will get billed and collected over the coming quarter. So there has been an increase in UBR which is essentially a working capital. So that's the real reason for the quarter.

Manish Gupta:

Okay. Since we don't have the financials, is it possible to just give the financial numbers once again, Ram, please?

Ramanathan J.:

Which number do you want?

Manish Gupta:

How much Q-o-Q growth did you have in dollar terms?

Ramanathan J.:

In dollar terms, it is about 3% to 5% quarter-on-quarter.

Manish Gupta:

Okay. And year-on-year?

Ramanathan J.:

It's about 10%.



Manish Gupta:

Okay. Ram, how do you see the company generating cash? Your unbilled revenue issue, even at 5 to 10%, how do you ensure that all the EBITDA you are generating is resulting in cash flow for you? Are you saying that this is going to result in a significant cash flow in the next quarter because the next quarter you could have the same issue? Right?

Ramanathan J.:

We do fundamental [indiscernible] [0:13:42] on account also because the managed services wherein contracts are pretty much long term and billability and all the gaps put over time whereas some of the Q1 revenue would be deepened because there is a license in that. This essentially would mean that this revenue would be recognized because there is a license component whereas the customer would be paying for it as an annuity so that cash flows would come in much later.

Manish Gupta:

So what should be the typical networking capital one should assume for the company?

Ramanathan J.:

For the whole of this year, we are expecting it to be in the region of about close to 30 million dollars.

Manish Gupta:

How much would that be in terms of number of days?

Ramanathan J.:

No. I am talking about net working capital in terms of number, what needs to be funded by working capital.

Manish Gupta:

How much? 130 million dollars?

Ramanathan J.:

No, 30 million dollars.

Manish Gupta:

I am not sure I understand you.

Ramanathan J.:

Working capital usage in the business, to that extent of revenue minus cash would be that kind of gap. We will take it offline.

Manish Gupta:

I am done. Thanks.

Moderator:

Thank you, Mr. Gupta. As there are no further questions in the queue from participants, I would repeat once again, if they wish to ask a question, please press "0" "1 you're your telephone keypad and wait for your name to get announced.



Sir, there are no further questions. Yes, Mr. Vasant Kumar would like to go for a question. Mr. Kumar from UTI Ventures. Mr. Kumar, your line has been unmuted. You can go ahead and ask your question.

Vasant Kumar: Good evening, Subash. How are you?

Subash Menon: Hi, I am good. Thanks. How are you?

Vasant Kumar: Fine, Subash. What's your outlook for next year, Subash?

Subash Menon: We are not giving any guidance specifically at this point in time. What we are saying is, our top line should grow in the region of about 15% plus.

Vasant Kumar: How do you see the market place like?

Subash Menon: The market is okay, holding up at this point in time. We are definitely seeing lengthening sales cycles to some extent and a general concern among customers but that has not come into order as yet. We are hoping that this growth will be possible.

Vasant Kumar: So if Europe market would be at this point in time or the US?

Subash Menon: Well, Europe is very diverse as far as we are concerned. We do have UK which gives us a significant chunk of our revenues. So I wouldn't say this way or that way. Both of them are looking equally promising or challenging in the way we look at it. So I wouldn't say one is much more than the other. They are kind of similar, I would say.

Vasant Kumar: Okay. Thanks a lot.

Moderator: Thank you, Mr. Kumar. I repeat, attendees, if you wish to ask a question, please press "0" "1" on your telephone keypad and wait for your name to get announced. Sir, there are no further questions in the queue. I would like to hand over the floor back to the panelists for the final comments. Thank you.

Subash Menon: As we stated initially, we are seeing continuing traction particularly on the managed services side and we expect



that to continue resulting in the growth as what we have been talking about. From a profitability standpoint, it's still going strong despite the fact that there was 37% this quarter. We do see a good number happening going forward. So on the whole, we are seeing that the business has really turned around quite nicely, and on the SECB front we will have a solution in the next one month before the due date of March 9, 2012. Thank you very much. Have a great evening. Bye, bye.

Moderator:

Thank you, Mr. Menon, and thank you all the members. That concludes the conference for today. You all can disconnect your line. Have a pleasant evening ahead. Good bye.