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CARE ASSIGNS 'BBB-' & 'PR3' RATING TO BANK LOAN FACILITIES OF SUBEX LTD.

CARE has assigned a **'CARE BBB-' (Triple B Minus)** rating to the Long-term Bank Facilities of Subex Ltd (Subex). This rating is applicable for facilities having tenure of over one year. Facilities with this rating are considered to offer moderate safety for timely servicing of debt obligations and carry moderate credit risk. CARE assigns '+' or '-' signs to be shown after the assigned rating (wherever necessary) to indicate the relative position within the band covered by the rating symbol. Also, CARE has assigned **'PR3' (PR Three)** rating to the Short-term Bank Facilities of the company. This rating is applicable for facilities having tenure up to one year. Facilities with this rating would have moderate capacity for timely payment of short-term debt obligations at the time of rating and carry higher credit risk as compared to instruments rated higher. The above ratings are assigned to both long-term/short-term bank facilities of the company aggregating Rs.116 cr.

The ratings factor in the experience of promoters and management in the software product development business, wide product range with high market share in revenue maximisation area, large client base with global presence, high business growth in the last two years which was mainly contributed by acquisitions and marginal improvement in the financial performance during H1FY09. The ratings are constrained by problems relating to integration of acquired subsidiaries leading to substantial increase in personnel cost, thereby affecting the financial performance, presence of loss-making subsidiaries, deteriorating operating environment, relatively higher gearing level mainly due to the Foreign Currency Convertible Bond (FCCB) issue. Further, uncertainty regarding the conversion of FCCB and the ability of the company to repay the same and competition from other players are the other constraining factors.

Subex was founded originally as Subex Systems Ltd. in 1994 by Mr.Subash Menon. Subex offers software products and services to telecom customers in Revenue Maximisation and Service Fulfillment area. Subex has six products for revenue maximisation solutions and seven for service fulfillment solutions. It has sales and support offices in the US, Canada, UK, UAE, India, Singapore and Australia. Subex is an ISO 9001:2000 certified company and has three wholly-owned subsidiaries, namely, Subex Technologies Ltd, Subex (UK) Ltd, Subex Americas Inc., which in turn have eleven wholly-owned subsidiaries. During the last nine years, Subex has made six acquisitions so as to increase the product portfolio in the existing business areas and offer products and solutions in new business areas. Of these, two acquisitions were large involving a consideration of Rs.646 cr and Rs.775 cr.

Subex's revenue is increasing from the products business which accounted for 75% of the total sales in FY08 (67% in FY07). The balance revenue (25% in FY08) was contributed by software services, under which the company provides on-site consultancy services for carriers and vendors in the telecom sector of the Americas region.

Net sales of Subex (consolidated) grew at a healthy Compounded Annual Growth Rate (CAGR) of about 61% during FY05-08 period with y-o-y growth of 43% to Rs.486 cr in FY08, mainly contributed by the products business. PBDIT, which grew by 8% in FY07, turned negative in FY08 mainly on account of increase in personnel costs. Consequently, Subex registered a net loss of Rs.68 cr in FY08. Its profitability margins declined in FY07 and FY08 mainly due to increase in personnel costs and change in revenue-recognition policy. The overall gearing increased from a low 0.01x as on March 31, 2006 to 1.26x as on March 31, 2008 on account of the FCCB issue, term loan borrowing and increase in working capital borrowing.

For the half year ended September 30, 2008, the company's net sales increased by 18.5% to Rs.278 cr over the corresponding period in the previous year. PBDIT margin improved to 11.50% mainly on account of reduction in personnel cost as a result of off-shoring processes to India.

Subex has grown both organically and inorganically over the years, thereby building its product portfolio and expanding its customer base. The extent of synergies that will be derived from the two major acquisitions would be critical to the growth and financial prospects of the company. Personnel cost, which increased initially on account of these acquisitions declined in H1FY09, leading to improvement in financial performance of the company. It is expected to decline further as a result of off-shoring processes to India. Subex's ability to sustain the improvement in margins witnessed in H1FY09 particularly in the light of challenging operating environment, manage foreign exchange risk and successful discharge the FCCB liability, which is due in March 2012 if not converted, would remain the key rating sensitivities.

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