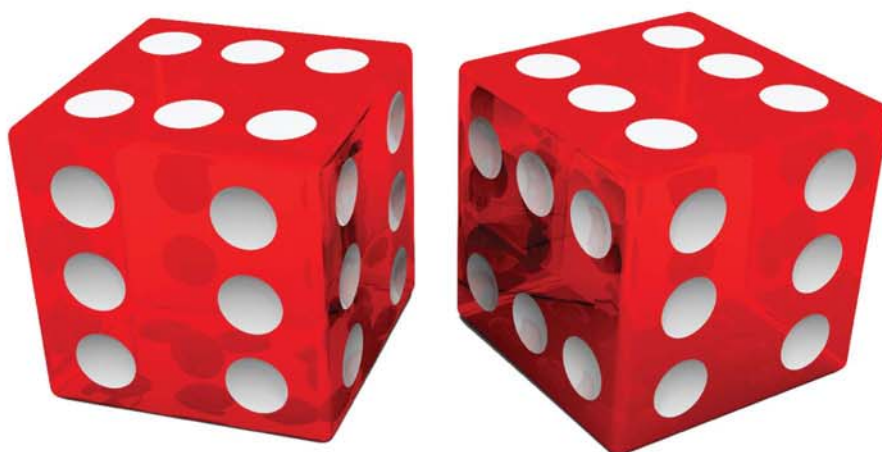


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# key financials

## the key financial ratios of the year

### Particulars (Consolidated)

### Figures in Rs. Million except Key Indicators

Total Income	6,034.80
Export Sales	2,233.06
Operating Profits (EBITDA) Before Exceptional Items	971.30
Depreciation & Amortization	228.83
Profit/(Loss) Before Tax & Exceptional Items	307.66
Profit/(Loss) After Tax & Exceptional Items	(1,883.63)
Share Capital	348.47
Reserves & Surplus	3,464.34
Net Worth	3,844.51
Gross Fixed Assets	1,746.33
Net Fixed Assets	306.65
Total Assets	15,902.45

### Key Indicators

Earning Per Share (Year End)	Rs. (54.05)
Cash Earning Per Share (Year End)	Rs. (2.12)
Book Value Per Share	Rs. 110.33
Debt (Including Working Capital) Equity Ratio	2.83
EBITDA / Sales - %	17.39%
Net Profit Margin - %	(33.73)%
Return On Year End Net Worth %	(49.00)%
Return On Year End Capital Employed %	(12.78)%

# chairman's letter

After a disastrous FY08, the just concluded financial year, FY09, has been a year of turn around. I had written last year that our endeavour in FY09 will be to turn the tide. It indeed gives me immense pleasure to report that the company has turned the corner completely and that is amply demonstrated in the financial figures recorded for FY09. Let us take a look at those numbers.

While the total revenue of the company increased by 15% to reach Rs.5584.89 million, product revenue recorded a growth of 21% in Rupee terms. The contribution of products to the total revenue stood at 79% and the company made a net profit (excluding Exceptional Items) of Rs. 143.20 million. In FY08, Product EBITDA was negative Rs. 803.21 million (-22%) and in FY09, that changed to positive Rs. 848.44 million (+19%), a swing of Rs. 1,651.65 million. More importantly, the company reported positive EBITDA and positive Profit After Tax. While the profitability is still quite low, the significant point is that we have turned the company around.

## THE TURN AROUND

A pertinent question at this juncture is how the turn around was achieved. In order to understand that fully, we need to first recollect the reasons behind the downfall. The two fundamental issues was a reduction in sales from the expected level and a dis-proportionate quantum of cost. There were several reasons behind the latter. One was the technological challenges faced during the integration of Syndesis with the rest of the business in India and the consequent escalation in cost. Once these challenges were identified and understood, we could fix them thereby containing costs on that front. The second element was the cost efficiency of the organisation. Due to the fast growth of the yester years coupled with a series of acquisitions, our cost structure had ballooned. Cost per Subexian, the most critical element in cost due to the fact that Personnel cost is the largest head, had increased from an average of US\$ 38,000 per annum prior to the acquisition of Syndesis to US\$ 55,000 per annum in FY08. This has since been brought down to US\$ 42,000 per annum. Needless to say, this one metric has had a salutary effect on the cost of operation. It is worth noting that such reduction in

personnel cost was achieved while revenue moved north. This reduction was achieved by adopting a two-pronged approach. We shifted additional work from high cost geographies in India on one hand while improving the operational efficiency resulting in lower number of personnel for a higher quantum of work, on the other hand. The latter had a knock on effect on recruiting and training cost. Further, other operating costs like travel, communication etc. were reined in. Thus, total cost of operation was reduced by almost 15 to 20% in FY09.

The next issue was revenue. Here the key metric is Revenue per Subexian. Unlike cost, which is easier to handle, revenue takes longer to correct as it depends on several external agencies. The downturn in the economy also took a toll on that front. Notwithstanding the challenges being faced by the global economy, we managed to increase the Revenue per Subexian from US\$ 76,000 in FY08 to US\$ 90,000 in FY09. This was achieved through increased focus on specific sales opportunities and by launching a variety of new offerings. The latter included new offerings for the mobile markets in the Fulfillment space, Data Integrity Management to improve the quality of network inventory database, bundled solutions for Tier 2 and Tier 3 service providers, an expanding and deepening Revenue Operations Centre etc. Despite the lengthening sales cycle, revenue increased by about 3% in constant currency US Dollar terms, as compared to FY08.

## SUSTAINING THE TURN AROUND

Now that a convincing turn around has been accomplished, an even more pertinent question is the sustainability of this progress. Let me explain why I believe that this turn around will not only be sustained,

but will actually be improved upon in the new financial year. On the revenue front, we have re-built the order backlog which had collapsed owing to the drop in sales in the Fulfillment and Assurance Solutions Business Unit after the Syndesis acquisition. Our focus on certain products and target market segments is the reason behind this improvement. Given the expected growth in the targeted markets and the significance of the products to the telcos, we believe that the current pipeline will continue to grow at a steady pace and conversion to orders will improve. Some offerings like Moneta Revenue Assurance solution and True Source Data Integrity Management solution are quite critical for the service providers in the current economic climate. These solutions help the telcos to improve their operational efficiency and to reduce cost while improving profitability. Further, we have stepped up our efforts in the Managed Services area resulting in an increase in the number and size of the contracts for that offering. Most major telcos have started exploring Managed Services as a way to align their cost structure with the realities of the market. We expect to maintain our leadership in Business Optimization through a combination of advanced technology, an innovative delivery model and world class offerings leading to higher Revenue per Subexian.

On the cost front, while substantial progress has already been made, there is further scope for improvement. SG&A costs are being pruned and the current delivery model is being overhauled to reduce cost of delivery while ensuring superior quality. These efforts will result in an even lower Cost per Subexian. The combined effect of higher Revenue per Subexian and lower Cost per Subexian will be enhanced profitability in the products business.

## THE FUTURE

Adversity is a great opportunity to introspect and improve. I am glad to report that we have not wasted the past two years of trials and tribulations. On the contrary, we have re-structured the operations in every aspect including product offering, cost structure, delivery model, operational efficiency, sales process etc. with a view to create a vibrant business. We are quite confident of achieving our objective of building a strong company with an unbeatable business model in the telecom OSS/BSS space. You will witness this in the new financial year, FY10, and in the years to come. I thank every one of you and my colleagues for supporting the company. Aristotle said that "The future is not something true men enter. The future is something they shape with their own hands". Subexians are building that future for themselves and for our shareholders.

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**SUBASH MENON**  
Founder Chairman, Managing Director & CEO



# business optimization

The mantra for most business organizations is to maximize revenue and profits – with a corresponding minimization of costs. To maximize profit, operators need to utilize the network well, select the best inter operator carriers, offer good products to the customers, ensure correct revenue, ensure there is no loss of revenue etc. And most vendors offer software products and/or services that help to do it.

*“Currently the Business Optimization space is full of solutions which are reactive. Subex product suites are already thinking in terms of being proactive and predictive”*

What is the reality? Most of them who deliver solutions are rather simplistic – i.e. they provide solutions that are correct but are also sub-optimal. Most of these solutions consider only the business processes, financial aspects as reflected in the P&L statements or the balance sheets – in terms of capital, spend, and other fixed costs and the revenues earned thereof.

They miss out on the heart beats and pulse – the network itself.

## THE ANSWER: BUSINESS OPTIMIZATION

In squeezing the last dollar out of the current network – by optimizing business and financial process, and maximizing network utilization under the constraints of capacity, price, and quality.

## BUSINESS OPTIMIZATION – THE NEED

This has been a perennial need – yet brought out into full focus by the current global recessionary crisis. With reduced buying power, customers are hard to come by. The major problem that Telcos need to answer is – How can we offer optimal solutions to our customers – maximizing utilization of existing assets, delivering quality without burning a hole in their pockets – and yet derive decent profitability?

## THE ART AND SCIENCE OF BUSINESS OPTIMIZATION

Deriving optimal solutions is a very complex task indeed. On the one hand, it involves the science of building accurate models and extensible architecture. On the other, it requires in-depth understanding of customer specific data and constraints – and

the judgment to blend them into solutions that deliver. There is no ONE size that fits all.

### **SUBEX PORTFOLIO FOR BUSINESS OPTIMIZATION – A BLEND OF SCIENCE AND ART**

- **The Science:** Subex has an entire suite of specialized products that are built on science of optimization – on the foundations of network modeling. These products cover the entire spectrum of the telecom revenue life-cycle – from provisioning of a service to its eventual billing and revenue collection. Since the products have all data, be it call records or be it subscriber information or be it processed information, Subex is best poised to offer a holistic solution than the point solution. ROC ensures that it solves the blend of many sub problems which are offered as point solutions by competition. The understanding of network and what is happening in the operator network is a key to providing the holistic solution. In addition the science behind Engineering ensures that the solutions are robust and scalable. The optimal utilization of HW to provide solutions which perform at all loads.
- **The Art:** Subex brings its immense domain and customer experience in offering consultative offerings that help to tailor the products to the specific needs of different customers – thereby offering true solutions for Business Optimization.

Currently the Business Optimization space is full of solutions which are reactive. Subex product suites are already thinking in terms of being proactive and predictive. This in turn means that there is a union of Business Intelligence with the Revenue maximization aspects.

The Business Intelligence aspects here can be harnessing the data, applying models and techniques for forecasting and “what-if” analysis, giving data points to aid decision making etc. This would also mean doing a significant amount of analysis of the traffic data and the patterns thereof. Harnessed data could also point to area of under utilization vis a vis demand and thereby maximizing the revenue.

Subex, with its revolutionary path of addressing the needs of Business Optimization on a holistic front – from networks to processes – is a pioneer indeed. As evidence, Subex has been named as the market leader in the area of Business Optimization as per the OSS Observer’s recently released report titled Billing and Customer Care Market Review 2008.



**Anuradha**  
Senior Vice President - Engineering



# the downturn and beyond - continuous business optimization within service providers

The telecoms industry is going through a dual transformation. One, a capital intensive transformation from the aging switched telephone network into a high capacity, flexible IP network capable of transporting the entire gamut of current and future digital services.

Second, an operations expense intensive transformation of the organization structures, business processes, skill sets and systems to provide these new residential and enterprise services. These transformations need to happen 'live' with no pauses or stopping of the global communications network, no interruption of business operations and no material impact to customers.

So how does the industry achieve this undertaking? From a financial perspective, the goal is to generate the maximum free cash flow from existing businesses that will fund an ideally accelerated transformation. Profitable revenue, managed costs and healthy returns on investments need to be keenly addressed while simultaneously managing two different business models - a high capital velocity retail business and low capital velocity infrastructure business. From an operational perspective this means transforming while optimizing existing operations and maximizing profitable revenue. From a customer perspective, the experience they receive should be second-to-none; building trust and loyalty, reducing their propensity to churn, while also creating a level of tolerance for the evitable service hiccups that will occur as a result of the transformation. This is a phenomenal undertaking for the world's largest and most complex man-made machine that will require the cooperation of service providers, their partners, suppliers, customers and their governments.

To make efficient, a detailed understanding of the current state is required. To make better or optimize, an understanding of the improved end-state and what has to be changed in order to get there is also required. In a service provider's operational environment, those 'understandings' are difficult to achieve due to the following reasons:

- 1 Large, function-based versus process-based organization structures supporting many diverse retail and infrastructure operating processes
- 2 Significant numbers of legacy systems and processes that manage up to 90% of revenue and costs

3 Multiple, and in many cases, separate operating entities due to mergers and acquisitions

4 A changing operations landscape as new products and technologies are introduced and old ones retired.

Given the complexity, service providers not only need to develop a comprehensive enterprise-wide approach but also break it down into incremental initiatives and projects that work towards the overall goals.

Subex has responded to this challenge with an industry-wide initiative called the Revenue Operations Centre or the 'ROC'. This a centralized function where service providers gauge the health of their end-to-end business operations in financial terms such as revenue, cost, and ultimately profit, as well as value drivers such as customer satisfaction, quality and innovation. Simply put, in a complex operational environment spanning large function-based departments and third parties, the ROC enables the service provider to answer the question, "How are we doing today, this week, this month?" and related questions regarding profit levels, risks to the revenue chain, cost overruns, operational process problems and so on. The ROC is not just a reporting tool. It goes beyond reporting status, performance indicators and measures. It identifies problems rapidly - allows efficient root-cause analysis to determine the cause of the operational issue - enables a rapid fix such that the operational issue does not escalate or become a crisis - and coordinates a system or process change such that the issue does not arise in the future. Finally, based on the unique end-to-end business process understanding and operational intelligence housed in the ROC it enables business optimization with significant focus on the operations level.

Departments such as fulfillment, billing, customer care, workforce management and dispatch manage their systems, processes and



people today very effectively. They have volumes of accurate operational intelligence from complex analytical platforms. Their people are well trained and manage tens of millions of subscribers, thousands of products and services and hundreds of thousands of network devices. These strengths are also the reason the ROC is required. Operational processes traverse those departments and require significant coordination across the many existing systems and work groups. However, each handoff is prone to error due to cross-department data inconsistencies and systems integration issues. In addition, as each department has a detailed understanding of its piece, it is difficult to get an independent, 'bird's eye view' of the end-to-end process – this, the ROC provides. It has an understanding and model of what the end-to-end process should be and gathers information from strategic control points embedded in each department's systems and databases such that it can monitor progress and identify issues rapidly. It is staffed either virtually e.g. secondment or physically with employees transferred from the various departments such that it houses valuable cross-department and cross-function expertise. In effect, the ROC assures end-to-end operations i.e. it provides an independent operational assurance and governance capability.

Profit and customer satisfaction are a few results of well-coordinated underlying functions. Operational assurance aims to understand the effects that all functions and processes have on a company's finances. It then distils the data into information that's actionable at multiple levels. 'Actionable' in operational parlance can mean many things. However, from Subex's perspective it means the early identification of operational issues, their rapid diagnosis, and timely correction (ideally before the customer even knows). In this sense, it's appropriate to consider operational assurance as an extension of business intelligence and analytics, albeit with one important distinction. Operational assurance in service providers makes data and KPIs available in real-time or near-real-time. This eliminates

the need to rely on old, questionable or high-level information that might not paint a true picture of current operational processes. Diagnosing and fixing need to be highly accurate and that can only happen with accurate and timely information; if we are fixing issues from one of today's billing runs or fixing an issue associated with a 39 minute-old complaint from a high-value customer, data needs to be current.

The principle of operational assurance promises to evolve a ROC in many directions, touching virtually every aspect of fulfillment, assurance and billing. Safeguards in the order-to-cash process identify any bottlenecks that threaten service revenue. Similar safeguards in the trouble-to-resolution process identify issues that may prevent a customer from getting the service they expect and threaten customer satisfaction. This is where the 'live' or 'real-time' aspects of the ROC concept are most valuable.

For the modern communications service provider, the need for a holistic enterprise-wide operational view supported with timely and accurate data has never been more critical. Service providers need new levels of operational assurance so they can beat the competition, take advantage of new market opportunities and keep customers via excellence in their experience. Building a ROC helps accomplish that mission.



**Mark Nicholson**  
Chief Technology Officer

# oss transformation gets pragmatic

OSS Transformation is about completely optimizing the way service providers create, fulfill and assure telecom offerings. Benefits of this optimization are enormous and include long term differentiation through rapid time to market of new products and services, a much greater degree of back-office automation and higher customer satisfaction.

The question remains, with such strategic benefits, why haven't all service providers globally already transformed and optimized their OSS? The reality remains that service providers have hundreds, if not thousands of OSS systems, each oriented for their own silo function and often integrated together through custom interfaces and/or manual processes. Many transformation projects that have started are multiple year, massive IT projects in the \$100M range that often end up partially implemented and over-budget due to the complexity of the challenge.

As the global economy worsens, service providers are re-focusing on today, conserving cash, cutting operational and capital expenses and attempting to drive every bit of revenue out of existing service offerings. New money is spent on new products and services that show a rapid return on investment.

Service provider executives are faced with that age-old question: how do I balance meeting the challenges of today while still enabling strategic differentiation in the future? Even in these difficult economic times, transformation cannot be ignored. Instead transformation needs to get pragmatic.

Pragmatic transformation is all about incremental evolution and optimization of OSS versus wholesale system replacement. Each step of the transformation process offers an immediate return on investment and optimizes a critical part of the back-office systems while step-wise leading the service provider towards a transformed target state. The sections below describe key pragmatic strategies that service providers should adopt to

optimize today while still enabling strategic differentiation into the future.

## 1.OPTIMIZE MOST CRITICAL FUNCTIONS FIRST

Ultimately the needs of the business should drive the OSS evolution. Often introducing a new product that increases ARPU and subscriber loyalty derives the most immediate and significant return on investment. It is critical that fulfilling these offerings is not put on hold due other longer-term initiatives such as a major Inventory consolidation heart transplant. Successful strategies enable the needs of the business while working in tandem with other transformational objectives.

## 2. DON'T CREATE THE OSS SILOS ACROSS NEXT GENERATION NETWORKS AND SERVICES

As service providers deploy fulfillment solutions for next generation services over IP such as IP-VPN, Voice over IP and IPTV, it is vital that they implement a platform that can support any service over IP. In the future, service providers will offer hundreds of content-based applications over IP and if not implemented correctly next-generation OSS silos could lead to an inability to get these new services to market and a crisis of complexity. Decisions made today on the OSS infrastructure for these next generation networks and initial IP-based services will set the stage for the transformed OSS of the future.