

Sasken Communication Technologies Ltd.

Investors/Analysts Conference Call

October 15, 2007

Moderator

Good evening ladies and gentlemen, I am Pratibha, the moderator for this conference. Welcome all to the Q2 earnings call of Sasken. For the duration of the presentation all participants' lines will be in the listen-only mode. After the presentation a question and answer session will be conducted for participants at the WebEx International bridge followed by Q&A session for participants connected to the India bridge. I would now like to hand over to Mr. Rajiv C. Mody, Chairman and CEO of Sasken. Mr. Mody will take you through the financials and the highlights of the quarter followed by the Q&A. Over to you sir.

Rajiv C. Mody

Thanks Pratibha for the introduction. Ladies and gentlemen, good evening to all of you. It is my pleasure to welcome you to the conference call to discuss the business performance of the Sasken group for the second quarter ended 31st September 2007.

Before we begin we must point out that certain statements made during the call concerning our future growth prospects may be forward-looking statements. Please read the safe harbor clause in the second slide of our presentation for full details. My colleagues Srikanth Kannankote (President and COO) and Dr. G. Venkatesh (Executive Director of the Board and Chief of Strategy and Technology) are joining me on this call. I am also joined by Mr. B. Ram Kumar and Mr. Rajesh Maniar who will be standing in for Neeta Revankar who is at the Harvard Business School attending the advanced management program.

Let me begin by summarizing the financial results for the second quarter. The consolidated revenues for the second quarter of the fiscal 2008 stood at Rs. 143.2 crores which is US \$35.4 million. This represents an increase of 21.9% from Rs. 117.5 crores in Q2 of FY07 and an increase of 12% from Rs. 128.3 crores in Q1 of FY08. In dollar terms we have grown 37% year-on-year. The sequential quarter growth in dollar terms is 12.8%. The consolidated EBITDA for the company stood at Rs. 23.5 crores, which is a 16.4% increase in terms of margins. The profit after tax is Rs. 14.3 crores, an increase of 13.7% year-on-year and 124% quarter-on-quarter. The basic earnings per share stands at Rs. 5.03 for the quarter. The consolidated revenues for the second quarter includes the compensation provided by one of our tier one customers.

The services business of Sasken grew 12.4% in dollar terms sequentially to reach 32 million. The EBITDA in the services business stands at 20.0% this represents an increase of 7.6% from the previous quarter. This improvement has been achieved in spite of a 1.2% exchange rate impact. The improvement in EBITDA has been possible through a combination of improvements in utilization as well as new customer acquisitions.

The quarter saw us adding 9 new customers taking the number of active customers in the trailing 12 months to 89. Our endeavor to grow existing tier one customers and bring in new customers has started yielding results. Our top 5 customers currently constitute around 85% of our revenues as compared to 88% from the previous quarter. We have also seen four customer transitions into greater than 1 million range and one customer move into 3 to 10 million range.

On the product side our Q2 revenues were Rs. 10 crores or \$2.5 million. Of this royalties were Rs. 1.5 crores. We had two key wins for our product last quarter. The first and quite exciting for us is in the satellite communication space involving providing essential software for the design of the next generation dual mode satellite and GSM mobile phone for Inmarsat. Sasken will be providing the GSM GPRS protocol stack, Application Framework and user interface for integration into the phone. The other key win is with the tier one European OEM for our multimedia subsystem.

We continue to see good traction with our tier one handset OEM. We expect two new models to start shipping in Q4 of FY08, these models are an evolution of the models that are currently shipping with our multimedia subsystem. There have been some delays in the shipment of phone with our 3G protocol stacks. While the expectations was that shipment would commence around Q3 FY08 they have now moved to Q4 of FY08. As we have reiterated before, while we continue to track and support the OEMs and ODMs the final shipment dates are controlled by a host of factors not entirely in our control. The tentative phones schedule launch for all our products is given in the relevant slide in our presentation.

On the Sasken application framework we are continuing to work with silicon partners towards an objective of making Sasken software default on chip sets. While the shipment date for the Lenovo phone looks uncertain at this point, we continue to track this closely and I will update you with any developments as they happen.

This was the summary of our performance in Q2.

Our Analyst Day provided a good opportunity for the Sasken management to interact with most of you and share with you our thoughts and plans for each of the business verticals we operate in. I would like to reiterate the key message from our discussions. In the R&D services market that we operate in the key challenges for our customers are reduced time to market and pressures on their R&D spend, while our customers will continue to focus more on their R&D they will at the same time need to focus on achieving this with the same or reduced R&D spends. This will require the transition of the core R&D work to low cost locations.

We believe that we are well positioned to take advantage of this transition due to the sharp focus on the communications market place along with the strong management team with experience in handling large and multi faceted projects. Our growth initiatives will be differentiated offerings, delivery excellence and management of our talent pool.

On the operations front some of the initiatives started during Q2 have started yielding results. This is reflected in the improved utilization figures. It is encouraging to note that the improvement in the utilization has come about in spite of the vacation period in Finland, which is traditionally in the month of August. We are also looking into opportunities such as differentiated pricing and migration to fixed price projects wherever

possible. In our endeavor to build a world class competency center we continue to face challenges in the form of exchange rate and attrition. We continue to monitor this closely and are confident that we can address these issues over the next couple of quarters. For the full year FY08 we are maintaining our earlier guidance to grow our services business at 20 to 25% in dollar terms on the base of our Q4 run rate which was about \$110 million.

It gives us great pleasure that Sasken has been chosen by the Department of Scientific and Industrial Research, Ministry of Science and Technology as one of the 9 companies in India for outstanding in house R&D achievements for 2007. This award is for design, development and optimization of multimedia subsystem. This is a great distinction for us and we are proud to be one of the companies chosen for this honor.

Thank you and over to the moderator for Q&A.

Moderator

Thank you very much sir. At this moment, I would like to hand over the proceedings to Frederica to conduct the Q&A session for participants at the international bridge. Over to you Frederica.

International Moderator

Thank you moderator. We will now begin the Q&A session for participants connected to the WebEx international bridge. Please press *1 to ask a question. At this moment there are no further questions from participants at the WebEx international center. I would now like to hand over the proceedings back to the India moderator.

Moderator

Thank you very much Frederica. We will now begin the Q&A interactive session for participants connected to WebEx India bridge. Participants who wish to ask questions please press *1 on your telephone keypad. On pressing *1 participants will get a chance to present their questions on a first-in-line basis. Participants are requested to kindly use only handsets while asking a question. To ask a question please press *1 now.

First in line we have a question from Mr. Rishi Maheshwari of Networth Stock Broking.

Rishi Maheshwari

Hi congratulations on a good set of numbers.

Rajiv Mody

Thank you Rishi.

Rishi Maheshwari

Question was generally regarding your Sasken Finland operations how is that shaping up, what are the number of additions there, what are the revenues that have been contributed from Sasken Finland and what are the margins there, special focus on the

utilization which I thought in the testing division was slightly lower, if you can highlight that has improved.

Male speaker

This is Sri, Rishi how are you?

Rishi Maheshwari

Very nice, thank you.

Srikanth Kannankote

In terms of Saskaen Finland our objectives were to do a couple of things; one, to increase our presence within Nokia and then across board not just in Finland but in few other places, and the second one was to take the competency that we have had in terms of Saskaen Finland and see how we can apply to other tier one customers. In that perspective I think we are doing quite well. The expansion of the Nokia account continues for us in other locations and then Finland and also some of the things that we are doing in terms of their competency has been taken to other accounts and there are some real good traction for us in terms of the opportunities that exist for us, so we are quite happy in terms of that.

As far as utilization is concerned this quarter for Saskaen Finland is the vacation quarter, I think we told you many times that summer is the real precious time for Europeans and then they tend to take some time off and that has had some impact in terms of revenues, so normally we would expect utilization at about normal utilization of about 73 to 74%. I think we probably are down by about 15 points this time from that one and that is reflected in the revenues, so from a revenue perspective Saskaen Finland is at \$6.3 million this quarter, so that is a drop from Q1 and it is basically not because of business it is basically because of vacations and utilization, so that should come back as well as we move into non vacation quarters.

Head count wise we are at about 328 in Finland, and that is an increase, and then we will continue to increase head counts in Finland but we will also continue to increase head counts for Finland based businesses and other Nokia based businesses in other low cost locations, and then Mexico and India would be the two locations that we will be targeting for that.

Rishi Maheshwari

Right, thanks and also what is the Mexico head count right now?

Srikanth Kannankote

Mexico has crossed over a 100 in terms of head count, to be exact with you it is an auspicious number it looks like, it is 111, that is where we are. We continue to grow in semiconductor business in Mexico quite well and then our objective was always to make Mexico multifaceted and then we are beginning to see some traction outside of the semiconductor.

Rishi Maheshwari

And this is the second customer that we already have in Mexico, anything beyond that?

Srikanth Kannankote

What we want to do with Mexico is two fold, we want to increase our presence in the handset business in Mexico other than semiconductor, of course, we recently told you that in Mexico we work for one of the tier one semiconductor customers who has recently awarded us with the best ramp up and best performance company in Mexico, so we are pretty pleased with that, so the semiconductor industry continues to be quite robust for us in Mexico. The second area that we were looking at Mexico was to enter into the handset business and I think we have made some progress on that, I think we told you that during the Analyst Day as to what we have done there, and the third thing we want to see is now look at some opportunities that we have on the network infrastructure and network services side and see how we can utilize Mexico to provide some onsite services in North American space.

Rishi Maheshwari

Right, and just one last one on the pricing that you see across for your services business, how is that shaping up, do you see a pricing increase from your customers?

Srikanth Kannankote

I think I told there was nothing which was due in terms of last quarter, so it is status quo in the handsets that we are currently, we are going to be talking for this quarter will tell us to where we are, we are pretty confident as what we had told you before that we will probably see price increases in the lower single digit numbers that we have seen and I think that will continue to be the case and especially given there is pressures of cost that is happening in the network infrastructure side.

Rishi Maheshwari

Right, thank you so much.

Moderator

Thank you very much sir. Our next question comes from the line of Ms. Mythili Balakrishnan with JP Morgan.

Mythili Balakrishnan

Good evening and congrats on a great quarter. I have a couple of questions. First was on the guidance; we are meeting our guidance of 20 to 25% on the services growth, could you give any commentary on the margin?

Rajiv Mody

We stay on course in delivering 15 to 17% at the EBIDTA level in our services business.

Mythili Balakrishnan

This quarter this time included some one-time compensation from client, has that sort of impacted the margins positively and you do not expect that impact in the next quarter, is that right?

Rajiv Mody

That is correct.

Mythili Balakrishnan

Alright. The second question which I have is basically in terms of the capital structure which we are having right now, you know the cash position have sort of come down to now Rs. 53 odd crores, which is roughly around 10% the run rate of sale. Are we comfortable at these levels or is there something that we are looking at in terms of increasing debt or any other such thoughts which you have?

Rajiv Mody

Yeah we already have working capital debt arrangement with the banks for working capital requirement as well as for capital purchase. So, if and when required I am sure we can count on and get that money from the bank, so overall I am not too bothered to be honest in term of cash position that we have in our balance sheet and we believe that we will be able to meet our cash requirements for the growth and the investments that we are targeting in the foreseeable future.

Mythili Balakrishnan

Okay, and my last question was basically along the share dilution, we saw around rough 3% kind of share dilution around this time, could you tell us something about the kind of ESOPs that we have outstanding and what is the kind of dilution that you expect going ahead? That is all from me. Thank you.

Rajiv Mody

Mythili I think we may need to do some calculation, just hold on, we need to do some calculation on the outstanding ESOPs that we have. We will work on this and come back in the next half an hour. We will answer your question while the work is happening.

Mythili Balakrishnan

Okay sir. Thank you. That is all from me.

Moderator

Thank you very much mam. Next question comes from the line of Mr. Kunal Sangoi with Edelweiss Securities.

Kunal Sangoi

Yeah thank you. Thank you for taking my question, and congrats to management on a good quarter. Sir my question is pertaining to in your product side you did mention that we have won couple of deals, one from satcom and other from tier one European player, so you know it would better if you could give us some more details as to how much or what kind of license fees we will get from you know initial round what would be the amount of license fees coming through them?

Rajiv Mody

It is very hard for us to give those numbers because it is the confidential information, a competitive information that we cannot share, and that also has customer confidentiality into it because the contract that we signed we do not expect our customers also to disclose to anyone. Specifically, it is very difficult for us to tell you the numbers. We may be able to give you just in terms of what is the tier one and what is the state it is in and what kind of products we have licensed.

Srikanth Kannankote

But what we can tell you is business models were pretty similar to the kind of business models that we have used. It has the licensing component and it has the customization component. It has got a royalty component and it has got a services component, and then over the next 18 months you will see these revenues formulated into our results, so we are pretty excited about this, pretty excited about the market and also a validation I would say for our application framework in terms of where we are looking at you know the kind of products that we have and then look at it and taken a decision that it is something which is useful for them. So from a validation perspective we are excited. From a market perspective it also opens up a new market as you can see that we are doing more satellite and we have some GPRS phones probably offered by Inmarsat may be the first and there may be others and so it will give us some leading edge in terms of market.

Kunal Sangoi

Okay, should we expect revenues from that particular deal to may be come in following quarters in terms of license fee at initial stage?

Srikanth Kannankote

Yeah some of the license fees were recognized this quarter and then you will see some of the NRE stuff coming over the next 18 months and you will also see some of the services extension work coming in next 18 months. The actual royalty can only happen after the post 18 months when it is ready to be launched.

Kunal Sangoi

Okay that is helpful. Secondly, you just mentioned that pricing increase has been low single digit, but if I just try to calculate on a rough cut basis from current quarter and previous quarter broadly I get a pricing increase of about 6.6%. I just wanted your comment is the number that I am getting is correct or broadly in line?

Srikanth Kannankote

I think what you may have calculated is volume increases which was about 5 - 6% so we may have seen that as the thing that is impacting, but generally I would still stick to my earlier guidance around low single digits.

Kunal Sangoi

Okay, also that you know in the current quarter the R&D expenditure has come down significantly, probably from Rs. 9 crores in the earlier quarter to Rs. 5 crores, so is there anything one time that has been included this time or this will sustain going forward as well?

Srikanth Kannankote

It is something that we sort of look at some of the products that has gone from development phase to support phase and then as you know that one of the contracts we have also have support revenues, so the cost really hasn't gone away the cost had moved from R&D to cost of revenue.

Kunal Sangoi

Okay, great, and lastly one last question from my side, what is the compensation that we received from this tier one vendor during the quarter?

Rajiv Mody

Yeah this compensation relates to a contract with the company for the services that we provide. Contract included a minimum order commitment that has not been met and resulted in a compensation provided by the customer.

Kunal Sangoi

Okay.

Rajiv Mody

This customer continues to be our strategic partner and the key account and we do not expect any change in the business overall from this company on account of this.

Kunal Sangoi

Okay, sir if you could give me the number, the amount that we received from this customer?

Rajiv Mody

Yeah the amount that we received was Rs. 10.5 crores.

Kunal Sangoi

Rs. 10.5 crores okay, thanks a lot and all the best for the future.

Rajiv Mody

Thank you Kunal, and Mythili the outstanding ESOPs is 938,000 shares.

Moderator

Thank you very much sir. Next question comes from the line of Ms. Parul with ASK Securities.

Parul

Good evening sir. Sir this is with regards to your services business, how far are we from the target date that your services business will be that nimble footed that it we will be able to sustain EBITDA margins of about 22 to 23%. And my second question is this is the first time your automotive division with regard to telematics has posted revenues of 1.5 lakhs, could you give us your perspective of the embedded potential in this space? And after this I will ask two more questions. Thanks.

Srikanth Kannankote

I will answer the first piece and then I will have it passed it onto GV to answer the second piece. In Q1 the EBITDA for services was at 12.4% and then for the year we are you know giving you guidelines around 15 to 17% and we are quite confident we are going to hit that. The goal at the exchange rate of 40 is to get 21 to 22% which is what we were at from an EBITDA perspective and my sense is it will take another couple of quarters after that, so is that too far away that we will be getting at the exchange rate of 40 we will be getting the benchmark that we have set 21.2% from an EBITDA perspective, so that is our current plan and we feel quite confident that we can you know apply the right kind of levers to be able to get there. In terms of the automotive stuff I will hand it over to GV.

Dr. G. Venkatesh

I was saying basically that we got our first revenue in the last quarter. It was from our ConnectM subsidiary that we created the joint venture with IDG, but it is too early at this point to give any projections of what kind of revenues we can expect from here because both the companies that we have created are in formative stage, and as we go forward we will be giving you more information on how these companies develop.

Parul

Sir I have two more questions; one is on your product slide you mentioned about the Lenovo mobile shipping date being uncertain, now given the recent factors where the Made in China brand has really not gone down well with especially with the toys recall happening, how comfortable are you dealing with Lenovo amidst this backdrop. And secondly, we have just you know with the Apple iPhones really being a run away hit and the fact that the rest of the players too are going to launch their own operating systems, I mean how would you fit in these scheme of things, aren't you worried about both these factors?

Dr. G. Venkatesh

Now on the first one which is the Lenovo phone we are really targeting at least with Lenovo we are targeting the China market not the global markets, and so really in the China market the factors that play out are quite different from those factors that you might have seen with the toy situation in the US and recalls and so on, and really we do see both China and India are rapidly growing markets for the feature phone segment and that is the market that we really want to play in with our application framework product. We don't really see an impact on some of these global recalls of Chinese products or whatever over there. Now the second one which is on the iPhone product, it is a very specific product that is at the very high end of the smart phone category and in the smart phone category our primary product really is the multimedia application suite which principally can also be offered on phones like iPhone though we are not targeting it at this point in time. We are primarily targeting the Symbian based phones at this particular moment.

Parul

Alright, thank you so much and all the best.

Rajiv Mody

Thank you.

Moderator

Thank you very much mam. Next question comes from the line of Mr. Sujit Joshi with Irevna Research.

Sujit Joshi

Good evening guys and good set of numbers. I have a couple of questions regarding your utilization number that you have given out I assume is including the Sasken Finland utilization.

Srikanth Kannankote

Yes.

Sujit Joshi

Yeah that includes Finland.

Srikanth Kannankote

Yes.

Sujit Joshi

Okay and your offshore revenue percentage is up significantly by about 500 basis points I mean I wanted to know how much of this is fixed price contribution if it is possible for you to indicate. The offshore including FPP I guess it is around 71.3% so.....

Srikanth Kannankote

Can you repeat that question please so if I get the right question so I can answer it properly?

Sujit Joshi

Yeah the question is your offshore including FPP contribution to revenues is about 71.3% this quarter which is up about 500 basis point QOQ, so I wanted to know how much of this is included I mean is due to FPP contribution alone?

Srikanth Kannankote

FPP business has gone from 5% so as a mix.

Sujit Joshi

Pardon, it is fading, could you just be a little louder.

Srikanth Kannankote

The FPP business you know we have told that even at the Analyst Day conference that FPP business is a critical business for us and we wanted to see how we can increase the content of FPP business because of the kind of margins that we can generate from that. Last quarter you know trend was in the right direction, it used to be 3% of our total revenue, it has gone to about 5% of the total revenue in terms of the FPP business, and obviously it will have some impact in terms of the margins you know whether it is all of the realization was from FPP or not we will have to look into it.

Sujit Joshi

So this quarter it has been about 5% you are saying, the FPP business.

Srikanth Kannankote

That is correct.

Sujit Joshi

Okay and one more question sir regarding your hiring plans for this year end, do they stay on target, I guess you have put in about number of 700 and 800 for the year end so.....

Srikanth Kannankote

We have set 700 to 800 odd this was when we were running at about 72% utilization, and now we are looking at running at this quarter is 76% and then we are trying to see

what is the theoretical maximum that we can run. We think that we can run somewhere between 77 to 80% from a utilization perspective, that will definitely have some impact in terms of how many people do we have to hire and then how many people we can keep on the bench. My guess is that we have added about a 143 net ads this quarter in terms of people and we anticipate doing somewhere around 500 you know in terms of the year and it is basically because of the attrition seems that we would want from an organization perspective. We also by the way hired 180 freshers this quarter and then plan to hire another 100 freshers in the next quarter.

Sujit Joshi

Okay so this 500 is for the remaining two quarters I guess.

Srikanth Kannankote

That is our anticipation at this point looking at it.

Sujit Joshi

Okay, thanks a lot.

Moderator

Thank you very much sir. Next question comes from the line of Mr. Ruchir Mehta with HSBC.

Ruchir Mehta

Hi good evening. Just a small clarification, you mentioned that the one-time revenue that you got from your customer was Rs. 1.5 crores or Rs. 10.5 crores.

Rajiv Mody

It is 10.5 crores.

Ruchir Mehta

Okay, would there have any cost associated with that or has this straightly flown to your bottom line?

Rajiv Mody

There would not have been any direct cost, there will definitely be some taxes related to it, which could come in.

Ruchir Mehta

So if you adjust for that and your services business has grown about 3% sequentially, why this slackness in revenue growth here?

Srikanth Kannankote

3.7% is the growth in services without this and then we earlier talked about Botnia and the utilization in Botnia for the quarter and then it would probably have had at least 2-3 points from an impact perspective in terms of growth, so if you sort of normalize that you would see the growth in line with what we had projected as to where we would be from a guidance perspective.

Ruchir Mehta

Okay, so it is about volume growth actually that you had, then you had the rupee impact and then Botnia utilization lower, which is why you are about 3% rupee revenue growth.

Srikanth Kannankote

3.7% yes.

Ruchir Mehta

Okay and just in terms of your products business, you have given that Lenovo and whatever, when do we see now breakeven happening for the products business?

Rajiv Mody

Like we had said in the beginning of the year that our goal target is to have the products business EBITDA neutral at the end of the year, and that goal target still remains the same and to achieve that we definitely are looking at revenues getting generated out of licensing as well as NRE that we get plus the royalties. We seem to have a visibility of about 85-90% to achieve that goal that target. However, there are dependencies on deliverables and all. So just to give you the context and the background and reiterate the fact that we still are working, our goal is to have it EBITDA break even for the products business.

Ruchir Mehta

So that will be EBITDA breakeven for the full year or you would expect it just for the Q4 fiscal 08.

Rajiv Mody

For the full year.

Ruchir Mehta

For the full year okay, so therefore you expect a ramp up in the license revenues to come in the next two quarters.

Rajiv Mody

That is correct.

Ruchir Mehta

Okay, and sir there was capex plan for year, how much are we looking at spending in total.

Rajiv Mody

Rajesh Maniar would answer that question.

Rajesh

So far during the current year we have spent around Rs. 10 crores of capital spend that is largely with respect to Botnia, with respect to Mexico space and equipment expansion. On the net capital expenditure basis we have spent around Rs. 3 crores net of depreciation. For the balance part of the year, we don't expect a significant amount of additional capital spend. I mean whatever is going to be the capital spend will be in two areas, one is in Mexico and some expansion of capacity in Botnia.

Ruchir Mehta

So total for the year would be somewhere around Rs. 20 crores.

Rajesh

Yeah that would be around the maximum.

Ruchir Mehta

Okay, just in terms of the hiring outlook, what is total hiring plan for this year, if you could share that please?

Srikanth Kannankote

I had just earlier mentioned that we hired 143 people this quarter, net ads, 180 were freshers for his quarter and then we are going to also add another 100 freshers in next quarter, and our anticipation in the coming quarter and the next quarter there would be about 500 people that we would add.

Ruchir Mehta

Okay total of 500 odd people, 500 freshers.

Srikanth Kannankote

Total of 500 including the 143.

Ruchir Mehta

This includes freshers as well for the full year?

Srikanth Kannankote

Correct.

Ruchir Mehta

Okay, thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Ruchir Desai from Pioneer.

Ruchir Desai

Hi good evening, congrats on the number. Just a couple of questions on the product side. You mentioned certain delay in certain of your products, more with respect to the Lenovo shipment, you know the shipment day is uncertain, could you give the reasons behind this uncertainty, what is the scenario and what has changed last quarter that has made the shipment uncertain?

Srikanth Kannankote

Okay, I think you know that from our perspective we cannot control some of these things and then it always is a decision between the chipset vendor as well as the Lenovo as to whatever the issues that they have, they have to resolve from our perspective, we have our product working, and then when they decide to come to conclusion is when we expect the shipment. So in some ways I can say that it is an issue that we are not in control, it is an issue between the chipset vendor and telephone manufacturer.

Ruchir Desai

Right and also regarding you product breakeven business target of FY08, I mean over next two quarters do you expect the ramp up to come in from your more license fees or do you expect significant improvement in you royalties in terms of volumes in product shipments.

Rajiv Mody

This is Rajiv here, continuing on what Shri left, there are also certain confidentiality involved in this whole thing which we cannot discuss because we are bound by the agreements that exists between various customers that we work with. And coming to your next question on where do we expect, we do expect revenues to come in from licensing, NRE, as well as royalties for the remaining two quarters.

Ruchir Desai

If you look at the last couple of quarters you know product revenues have grown primarily due to license fees increase not due to increase in shipments of royalty bearing phones, so what is the kind of market dynamics currently going on that is not leading to significant increase in product shipments or royalties even though there has been fair number of increase in royalty bearing phones from the beginning of this year?

Srikanth Kannankote

There are actually two factors that if you are referring to the royalty number from last quarter to this quarter that gets effected, one of course is something which is totally, I mean both factors I would say is something that we just have to live with as to how it goes, one is around shipments of the phone itself and then you know not in our control as to who ships and how much do they ship, when do they ship, and how do they price it and all those things. So that is something that we have always said that it is going to be the case then and hence it is going to be very difficult for us predict as to what the royalty number is going to be. The second piece of this stuff is also the kind of reporting that we get from our customer as to what they have shipped and when they have shipped, sometimes we get the reports on a monthly basis, sometimes on a quarterly basis, so this quarter we have recognized less royalty because we have got it on a quarterly basis and not on a monthly basis, so it is really I think we have missed about a month's worth of royalty just because of the way the information flow works and hopefully you will see that kind of things reflected over time. So really two factors that affected and you know we just have to live with it.

Rajiv Mody

Also more licensing leads to more future potential royalties as the volumes starts shipping.

Ruchir Desai

Okay thanks and all the best. I will come back later with any followup questions.

Moderator

Thank you very much sir. Next question comes the line of Mr. Pratish Krishnan with DSP Merrill Lynch.

Pratish Krishnan

Yeah hi, congratulations. This is on your Lenovo deal, I mean you have mentioned that this is uncertain, and also mentioned there are some issues between the semiconductor and Lenovo. Do you expect any shipment to happen by FY09 or this can get delayed even beyond that?

Rajiv Mody

We would not want to comment on that and make any commitments because unless things get sorted out it would be foolhardy for us to even to commit that it would start shipping in '09. We will come back to you as and when we get our clarity with them.

Pratish Krishnan

Okay, secondly may be because of this uncertainty, I mean do you see any change in your amortization schedule or the investment incurred in that framework?

Rajiv Mody

No, we continuously look for the impairment on these software that we have capitalized and that gets reviewed at the audit committee regularly and we have enough visibility and confidence to be able to have the net present value greater than the money that we spend in the capitalized software that is lying on the books.

Pratish Krishnan

So the current 3 year amortization schedule remains?

Rajiv Mody

That is correct.

Pratish Krishnan

Okay, just lastly I mean the attrition rate seems to have gone up further in this quarter, may be you can just explain a bit in terms of.. I mean was this involuntary, was this voluntary?

Srikanth Kannankote

I think if you take a look at the attrition rates, we were sort of hovering around 22-23 points in terms of the last 12 months, we are not happy with that, and the reasons are many and then I think we have a good handle on what it is and then we continually work with what we had said before in terms of more touch time with employees and then as we may begin to win more successful and challenging projects we see that this would come down, our goal of course is to come back to the industry level of 15, 16, 17%. The other part that we include in our attrition that you have to be aware of is we include our SNEL business which generally is compared to the BPO kind of business and which has got higher attrition normally from an industry perspective, so that sort of skews our numbers. If you take a look at the R&D in terms of the last 12 months, I think we will be more or less in line.

Pratish Krishnan

Just lastly on the compensation cost, do you expect any more compensation cost from the same customer or any other clients?

Rajiv Mody

You are asking whether we expect any further compensation?

Pratish Krishnan

Yeah, it is like you know may be for one more quarter is there is chance of recurring kind of thing.

Rajiv Mody

See it is hard for us to predict that, because these are one time items and depending upon the contract that you have signed with the customer they get invoked, and they are

based on performance and performance based deliverables and everything. So very hard for us to predict and say confidently to you that we wouldn't see anything in the next two quarters. I would say that as and when it happens we will bring to your notice.

Pratish Krishnan

Thanks a lot.

Moderator

Thank you very much sir. Next in line we have Mr. Anurag Purohit from Religare Securities.

Anurag Purohit

Good evening gentlemen and congratulation on good quarter. Is it possible for you to break up the margin expansion in the quarter into various parts like how much rupee contributed, offshore as well as the rest of business contributed on margin expansion?

Srikanth Kannankote

It will be from 12.4 - 20 points from an EBITDA perspective, is what you are talking about?

Anurag Purohit

Yeah, I mean how much billing rate contributed and how much higher offshoring contributed.

Srikanth Kannankote

Volumes of course contribute quite a bit in terms of the EBITDA itself, because our SG&A as you have seen is flat compared to last quarter and then we tried to hold in terms of that one, and then there was one time thing that we talked about that has got an impact on that. On the negative side of course the rupee appreciation was at 1.2%, so that will have a negative impact, and then we have another element which is the Botnia utilization stuff that will have a negative impact on the margins. So the two negatives are rupee appreciation and the Botnia margins, the two positives are increases in revenue and then gain in SG&A, and I think we had about 2 points gain in terms of SG&A.

Anurag Purohit

Okay and also the R&D expenses has decrease in the quarter, so what would be your future outlook on this front? How much would be your full budget for R&D now?

Rajiv Mody

I think the R&D expenses that we have reflected in the current quarter is in line and reflective probably of what you would expect to see going forward, and if there is any change due to any specific events that require us to spend more, we will come back to you.

Srikanth Kannankote

There is just one more point I wanted to add is that the utilization is the 3 points gain in terms of utilization is also positive from a EBITDA perspective. So you see the positive sides and the negative sides.

Anurag Purohit

Great, thanks and all the best for future.

Rajiv Mody

Thank you.

Moderator

Thank you very much sir. Our next question comes from the line Mr. Hiren Dalal with Kotak Securities.

Hiren Dalal

My question relates to the operating margins on the services business. The first quarter the margins were about 12.4% and they improved if one you know takes into account the compensation one time aside the operating margins for the services business is 13%. Correct us on this, you said the operating margins on the services business for the entire year would be in the region of 15-17%, if that so does that means that the 3rd and the 4th quarter has to be significantly higher in terms of margins and would you be able to do it?

Srikanth Kannankote

It is 12.4% if you take out the one time compensation, it is 13.4% in terms of the margins. Of course we said a couple of things, one thing we said was really the utilization in Finland and I would say that the utilization in Finland and the revenues that we got in Finland would contribute to about 2.5 to 3 points normalized in terms of EBITDA. So you will have to factor for that as you go forward. So our anticipation is that when Finland comes back from vacation the revenues would be higher, the utilization will reach the 75-76% range, and then we will be able to recover that. So that piece of it which is a good chunk of it is not really any operational improvement that we have done, it is just a matter of timing. So we are pretty confident still in terms of 15-17% that we will have to do in services.

Hiren Dalal

But you said that overall year will be about 15-17, so even if you reach 15-17 in the next couple of quarters your overall year will not end up at 15-17.

Srikanth Kannankote

We will do more than 17 in Q4. It is very simple as far as I am concerned, if you do nothing out and then just bring Botnia to where the utilization is, we will be running somewhere 17%, and then our utilization is at 76%, we continue to tighten our utilization and then hit to about 78-79% from a utilization perspective that gives you addition. As volume grows you SG&A remains constant, so you will pick up some numbers from that. So I think we are pretty comfortable once again with the 15-17% EBITDA that we have set for the year.

Hiren Dalal

Right. Also on you product side you said for the full year you will breakeven and in order to achieve that obviously you revenue is in Q3 and Q4 from the product side have to move to that 14 -18 crores sort of quarterly level, and from whatever targets that you have shown us there are not really too many shipments in the next couple of quarters. So what is likely to happen in the next couple of quarter for you to achieve those numbers and how confident you are on those?

Rajiv Mody

Like I said earlier our goal target is to run at the EBITDA breakeven and today we have good visibility to give us the confidence in the form of either NRE or licensing or royalties with the customers that we work with or the potential deals that we are discussing and we stand committed towards that goal today.

Hiren Dalal

Overall for the full year the EBITDA will be breakeven or for the next couple of quarters you will breakeven?

Rajiv Mody

For the full year that we are looking at a breakeven at the EBITDA level.

Hiren Dalal

You would make profits next two quarters, let us put it that way.

Rajiv Mody

You can infer it that way.

Hiren Dalal

Okay and the other question what happened on the Motorola front?

Rajiv Mody

We had a phone that is shipping, we have royalties in Q2 quarter, we can not disclose how much, and rest I think you folks would know more than we know based on the reports that you read about that product in market.

Hiren Dalal

So Q2 the shipping has already started on the Motorola.

Rajiv Mody

Q2, we have recognized the royalties that we derive from the shipments that the customer has shipped during the quarter.

Hiren Dalal

Okay, and what sort of initial response you think the phone has had, is there going to be likely good growth in the next couple of the quarters from the Motorola side?

Rajiv Mody

I think you folks would know better than me, you would be tracking more than I would.

Hiren Dalal

Right, but say if some people are not tracking it, would you know?

Rajiv Mody

Then both of us should go look out and check what is happening over there. To be very honest I have not tracked how is it doing in the market and all. We can only say that we are plugged in to that Symbian phone business with Motorola and continue to make headway on other models as we go forward.

Hiren Dalal

But do you think this phone can significantly contribute in terms of royalties?

Rajiv Mody

We don't know, I mean it is very hard for me to give a binary answer yes or a no, because it all depends on the volume shipments and whether it becomes a hit based on whatever parameters that the market the consumer product become a big hit.

Hiren Dalal

I am just saying the initial response, because obviously in your budgets if you don't know what the outlook is for the phone how do we know really and how to estimate your numbers for the full year?

Rajiv Mody

We also don't estimate it because it is difficult for us to estimate on a product line unless we have seen some prior history which gives us the confidence, if you ask me I can with about 80% certainty kind of tell you that what the volume can potentially be from a NEC or a Panasonic phone because we have been in them over the 2-3 years now.

Hiren Dalal

Okay so you have not really factored in any growth from this?

Rajiv Mody

You can take that.

Hiren Dalal

Okay, thanks a lot.

Moderator

Thank you very much sir. Participants are requested to kindly use handsets while asking a question. Next question comes from the line of Ms. Divya Nagarajan with Motilal Oswal.

Divya Nagarajan

Yeah hi, most of my questions have been answered. Thanks, and all the best for the rest of the year.

Rajiv Mody

Thank you.

Moderator

Thank you very much mam. Next in line we have Mr. Srivatsan from Spark Capitals.

Srivatsan

My question is on your hedging, you have reported that you have about \$46.6 million of hedged position as of September, could you tell me till what time that is, you are hedged till when?

Rajiv Mody

Yeah Ram Kumar will answer that question.

Ram Kumar

We are covered till next 1-1.5 quarters and we have about \$46.6 million USD of hedges at an average rate of Rs. 43.02.

Srivatsan

Okay, on a slightly broader perspective, if you eliminate the Rs. 7 crores forex gain you have had, you are looking at margins which are still pretty much in the single digit and

probably less than 5%, considering this why are you looking at offshoring business from your Botnia acquisition which is at 20% margins to India where your margins are far lesser?

Rajiv Mody

Pardon, can you repeat the question?

Srivatsan

What I am trying to say is your margins in domestic business or your business delivered out of India seems to be much lesser than your Botnia acquired company's margins, so why are you looking at offshoring business from there to India?

Srikanth Kannankote

Really first of all where we are at Botnia is somewhere around 18% EBITDA for the Botnia business, and then where we are looking at in terms of Q3 for India offshore business would be pretty close to that, somewhere around 17-18%. The idea is if you can put together a mix of people on projects which are India cost oriented and Finland cost oriented on a Finland price you would do that, would you not? I mean that would only increase your margins. So the idea is not substitution of business from Botnia to offshore, the idea is to really maintain the pricing in terms of how we deal with our customers and then work on the cost side in terms of having a mix of people who are both Finnish people as well as the Indian people, and that has always been the plan in terms how we would take these two entities forward, and so I think it is a pretty positive move from a profitability perspective.

Rajiv Mody

Also to add to it we have a fixed price project in Finland executing partly out of Bangalore would only improve your profitability.

Srivatsan

Okay fine, thank you.

Moderator

Thank you very much sir. Next question comes from the line Mr. Vijay with UTI Mutual Fund.

Vijay

Sir most of my question have been answered. Only just a question on product, you are saying that you will breaking even on a absolutely basis by the quarter end this year. So how robust is your pipeline in terms of if you just say some word on product business.

Rajiv Mody

Let me make sure I repeat one more time, I said that our goal to see that we are EBITDA neutral at the end of year and for the full financial year, and I have also reiterated that looking at all the expenses we have a good pipeline and good visibility of about 80-85% for the entire year, so we are working towards and we believe that we will achieve that goal of being EBITDA break even for the products business for the entire year.

Vijay

Okay sir, thank you very much. That is it.

Moderator

Thank you very much sir. Our next question comes from the line Mr. Madhu with Sinclair Securities.

Madhu

Sir how is the spending environment in the NEM segment after the consolidation process, is it still going on the consolidation process?

Srikanth Kannankote

Consolidation goes on, this quarter if you were to sort of look at quarter-over-quarter growth the networks business actually it has shown close to 5% increase, but this is considering that it was negative two quarters ago and flat last quarter. So I am not going to make a statement based on one quarters worth of data but I certainly see as I had said before a light at the end of tunnel in terms of this and we still are sticking to our prediction that it is going in 5-10% range in terms of the growth for this piece of business, but our expectation is that this business will bounce back and then I would say we are cautiously looking at may be the next 2 quarters may give us information as to how it goes. Certainly the number of inquiries are beginning to trickle in.

Madhu

Okay sir, are we seeing any pricing pressure because of this consolidation, any pricing pressure we are seeing?

Srikanth Kannankote

My pricing statement stands as to what I had earlier said in terms of I mean the single digit and then low single digit is what I have seen, and I think there is always going to be pricing pressure, it is for us to demonstrate our value and then continue to work for that.

Madhu

Okay sir, thanks.

Moderator

Thank you very much sir. Our next question comes from the line of Mr. Saurav with Kotak Securities.

Saurav

Thanks, my questions have been answered.

Moderator

Thank you very much sir. Next is a followup from Mr. Sujit Joshi of Irevna Research.

Sujit Joshi

I have no followup questions, thanks a lot.

Moderator

Thank you very much sir. Next a question from Mr. Ruchir Desai of Pioneer.

Ruchir Desai

Hi thanks for taking my question, you know regarding the compensation you received from a tier one vendor, was it an NEM client if you can disclose that?

Rajiv Mody

I cannot disclose anything related to this particular transaction.

Moderator

Is your question answered Mr. Desai?

Ruchir Desai

Yes.

Moderator

Thank you very much sir. Participants who wish to ask questions may please press *1 now. Our next question comes from the line Mr. Anoop Upadhyay with SBI Mutual Fund.

Anoop Upadhyay

Sir according to certain market research reports the semiconductor business witnesses a certain cycle and that cycle is supposed to peak in this year. Do you agree with this and do you think that in the coming few years the semiconductor market overall could see any flat growth or de-growth?

Dr. G. Venkatesh

The semiconductor cycles are really related to the fab investments that the semiconductor companies make and not so much to the R&D spends, so by and large

where we play is really in the R&D spends of the semiconductor companies which are related to in some sense the kind of design starts we do and primarily most of the revenues that we make from semiconductor companies is with the cellular chipsets today and also they are broadening into consumer electronics and little bit into the automotive space, but it is mostly in the cellular chipset space, we don't really see any cyclicity in this segment that is going to happen in next couple of years.

Anoop Upadhayay

Okay thanks.

Moderator

Are you done with your question Mr. Upadhayay?

Anoop Upadhayay

I am done.

Moderator

Thank you very much sir. Once again participants who wish to ask questions may please press *1 now. At this moment there are no further questions from the participants. I would like to hand over the floor back to Mr. Modi for final remarks.

Rajiv Mody

Thank you for participating in the conference call for the quarter ending September. Thank you.

Moderator

Ladies and gentlemen, thank you for choosing WebEx conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.