

SASKEN COMMUNICATION TECHNOLOGIES LTD

Third Quarter Earnings Conference Call

January 25, 2007; 10:30 AM

Moderator

Good morning ladies and gentlemen. I am Rita, the moderator for this conference. Welcome all to the Q3 earnings call of Sasken. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will now hand over to Mr. Rajiv Mody, Chairman and CEO of Sasken. Mr. Mody will take you through the financial and the highlights of the quarter followed by a Q&A. Over to you sir.

Rajiv Mody

Thank you Rita. Ladies and gentlemen, good morning to you all. It is my pleasure to welcome you to the conference call and discuss the financial performance of the Sasken group for the third quarter and 9-months ended December 31st 2006.

Ladies and Gentlemen, good morning to all of you. It is my pleasure to welcome you to the conference call and discuss the financial performance of the Sasken Group for the third quarter and nine months ended December 31, 2006. Firstly, let me wish you all a very New Year 2007 and all success in this year

Before we begin, we must point out that certain statements made during the call concerning our future growth prospects are forward-looking statements; please read the safe harbor clause in the second slide of our presentation for full details.

I am joined on this call by my colleagues, Srikanth Kannankote, President and COO, Dr G Venkatesh, member of the Board of Sasken, Ms Neeta Revankar, Chief Financial Officer, Mr Kumar Prabhas, President (Services) and Mr Poonacha Machaiah, who has joined us as Head of Worldwide Sales.

Let me begin by summarizing the financial results for the third quarter

The consolidated revenues for the quarter ended Dec 31, 2006 stood at Rs 131.02 crore, in comparison to Rs 75.94 crore for the same period last year, registering a growth of 73%. The revenue growth on a sequential basis was 11% in rupee terms and 14% in dollar terms versus Q2 FY07.

Looking at the revenue picture for the first nine months, we have reported 48% growth over the same period last year.

At the Net Profit level, our PAT stood at Rs 11.87 crore, a corresponding quarter growth of 71%, excluding the exceptional item last year.

For the first nine months of this year, the Sasken group has delivered a Net Profit of Rs 32.41 crore, a growth of 95% over last year, resulting in an YTD EPS of Rs 11.56/-.

Now, let me take you through the two major segments of our business.

Let me begin with Services. Over the last two years, our services business has been growing at a CAGR of 58%. We set out at the beginning of the year to achieve a growth of 30~35% on an organic basis, while maintaining our margins at between 20 and 23% in our services business. We are well on track to achieving both these milestones. On an YTD basis, services revenues have grown 57%, and EBITDA margins have been greater than 23%. On an YTD basis, the services business has delivered an EPS of Rs 19.55.

In Q3, services revenues have grown sequentially by 14% in rupee terms and 17% in dollar terms. Our inorganic strategy is also starting to pay off, as we consolidate Botnia and look at avenues to generate synergy revenues going forward. One Tier 1 account, a global handset manufacturer has crossed \$10M in trailing 12 months' revenues; on a run-rate basis, we have 3 accounts greater than \$20M. In fact, our top customer has crossed the milestone of \$30M for trailing twelve months

Services EBITDA has held steady and recorded 22.9%, despite 3% adverse currency impact.

Our Mexico centre continued to grow this quarter. The centre also turned cumulatively profitable for us for the first nine months of this year.

Our multi-shore strategy combined with an expanding offering portfolio positions us strongly with all leading players in the communications ecosystem.

On the services side, we are focused on entrenching our relationships with all our key customers, and continue to receive favourable responses from them.

On the products side, we had one design-in last quarter with a Taiwanese semiconductor manufacturer for our "M-Series", which is our wireless modem sub-system offering.

On the multimedia side, or the S Series as we call it, we had a new phone model that our Japanese Tier 1 customer has started shipping since November, and these royalties will start showing up in Q4 (for the period from launch to Dec 31), and scale from Q1 onwards. On the other S Series phones, we expect a global tier 1 vendor will start shipping in March 2007. Another Japanese Tier 1 customer and our ODM customer, Wistron will both start shipping royalty-bearing phones from Q1 FY08. We

do believe that multimedia and smartphones will drive future handset growth across the world, and we are strongly positioned here.

Our application framework product is fully integrated with the Texas Instruments (TI) Locosto chipset, which we had announced earlier in the quarter. We are also focused on getting a sign-up for this product from a handset customer, and working towards achieving that milestone in Q4. We also have an encouraging pipeline for this product line from other customers.

We continue to be on track to achieve milestones in the products business, and look ahead to scaled shipments of royalty-bearing phones happening in the near future.

From a people perspective, we had a net total of 139 people joining us in Q3. The gross adds were 350, taking our total strength to 3,512 people as on December 31, 2006. We plan to keep the momentum on the recruitment front. We had indicated at the beginning of the year that we would be adding approximately 700 people on a net basis, and we have added around 550 people for the first nine months.

We had 21.3% attrition last quarter, which is down from the previous quarter. We have been trying to identify some of the underlying causes for attrition and breaking it down into manageable parts. Specifically, the entire senior management has been spending more time face-to-face with the rest of the organization and meeting people in smaller groups. We are working on clarity on career path and skills enhancement for our people through a structured initiative. We have also begun work on reviewing compensation and performance-based rewards.

As we go towards the next orbit of growth, we are cognizant of the need to have high quality management expertise to steer us there. With this perspective, we have inducted some senior people into our management team. We have a new head of Worldwide Sales, an expanded Sales team and a new business CTO, all of whom come from global communication majors. I am happy to welcome them on board and be a part of the Sasken journey.

We continue to receive the right directional signals from all our customers, especially the Tier-1s, and are confident of meeting our set targets for the next quarter and the next year.

Thank you so much for your patient hearing, and my colleagues and I will now be happy to answer any queries that you may have. Over to the moderator.

Moderator

Thank you very much sir. We will now begin the Q&A interactive session for the participants connected to WebEx International bridge. I would like to hand over the proceedings to Ms. Kamisha. Over to you, Kamisha.

International Moderator

At this time I would like to inform everyone if you like to ask a question please press *1 on your telephone keypad. At this time participants if you would like to ask a question via the telephone, please press *1. At this time I would like to turn the call back over to the moderator. There are no questions.

Moderator

Thank you Kamisha. We will now begin the Q&A interactive session for the participants connected to India bridge. Participants who wish to ask question, kindly press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their question on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, kindly press *1 now. First in line we have Ms. Divya from Motilal Oswal. Over to you mam.

Divya

Hi. Could you throw some light on the services business growth in the quarter, what has been Botnia's this contribution for the full quarter and underlying volume growths in this quarter?

Prabhas Kumar

Services business between Q2 and Q3, if you remove Botnia from both the quarters, it has been very marginal 1% growth in dollar terms, and due to rupee appreciation a couple of percentage points dropped in rupee term. That is in terms of revenue without Botnia. If you look at volume, there is a trend in favor of offshore and hence from a volume perspective, there is a marginal sequential growth. The billing rates have remained stable between the two quarters. If you include Botnia for the growth, it is as declared here which is 14% in rupee terms quarter on quarter. As Botnia contribution to the services revenues, they are slightly over 20% at the moment.

Divya

I did not get that please.

Prabhas Kumar

Slightly over 20% at the moment, contribution of Botnia revenues to overall services revenues.

Divya

Right. What is the impact of the rupee on services margins during the quarter?

Neeta Revankar

There was 3% impact on EBITDA on the company itself because of the exchange fluctuation. The fact that because it is ahead at this level, we have covered up pretty much everything. So, at net margin, it has not been impacted.

Divya

Thanks. Prabhas, if you could just give us an idea of 2006 is over you must have had some idea of the services budgets in the top clients, while I understand that this was the budgeting quarter so there was some flat growth in the organic business. How do you see FY08 panning in terms of IT projects and offshoring projects?

Srikanth Kannankote

Consolidation is happening in the industry. So, as you begin to see the major customers especially in the phone manufacturing as well as the handset OEMs, there has been a lot of rationalization that is taking place. We consider this as an opportunity. The indications as Rajiv had said earlier from major tier-1 vendors that we talked to, it is consistent with what we had given as part of our growth targets this quarter. So, I think from a growth perspective, you know organic growth perspective, we see something similar to what we have done this year and then I think as you will see the expenses of these customers of ours is going to come under pretty tight scrutiny, that is an opportunity for us also from a growth perspective. So, we are quite confident in terms of services business continuing the fact that we have continued also looking at the same kind of guidance from an EBITDA perspective.

Divya

Right. That is helpful. In terms of products, could you give us an idea of how the shipments that you were talking about we have heard that one product launch in November; how has the initial response to that been, and product margins during the quarter have taken it a hit, are we still on track with breaking even some time next quarter in FY08. Could you give us some sense there?

Prabhas Kumar

We had one phone in the Japanese market that was launched as our S-series product, the multimedia product in November. We still have not got any shipment details for the quarter and usually we get it only at the end of the first month of the next quarter, that is kind of this month, we still do not have any indication of how that phone is doing. That is about the launches to date. In terms of breaking even for this quarter, that is the quarter four, it is contingent on, as we have explained, our signing up a couple of E-series customers and we are on track to doing that, but it is really contingent on that event happening.

Divya

Right, but for the full year FY08, are we still on track on achieving breakeven there?

Srikanth Kannankote

Let me take this question. We can only say about FY08 from a design wins and design in perspective rather than, because that is under our control and that is how we measure as to how successful we are. Our design ins and design wins as far as we can see, we are on target, and we have also given you some ideas of the shipment in one of the presentation material as to what is going to ship, at least our estimation of what is going to ship and when it is going to ship, and then our ODMs and OEMs sticking to that, and then the volumes that they achieve will drive our FY08 numbers, but from a design in and a design win perspective, we are still pretty confident that we can get to wherever we need to get to.

Divya

Right. Just one last question before I come up for a follow-up. The JV that you have recently announced, could you give us some details? You have said it is automotive electronic space. What would be the target within that space, what kind of products are you looking at, investments expected, could you give us some color there please?

Rajiv Mody

The theory that we are forming with Tata Auto component is to address the end automotive electronic products market primarily in the area of telematics and infotainment within the automobile and then expanding it further into all the core electronics which controls and governs the engines and all the other parts of the automobile. So, first emphasis is going to be in the area of telematics and infotainment. The investment that we have envisaged over a period of three years is round \$5 million.

Divya

That would be in product development?

Rajiv Mody

That would be in end product development for the local and for the global market.

Divya

And what is the targeted customer, presently would you be working along with Taco in this space, and how will the approach to market be in this case?

Rajiv Mody

They would bring in the market know how and knowledge and we bring in the technology and the product development know how and knowledge. Combining the two together, we are creating a separate entity with entirely separate teams and that team is responsible for bringing the end product into both the local market as well as the global markets, the target is both OEMs as well as the end market of the market products.

Divya

That is it. Thanks and all the best.

Rajiv Mody

Thank you.

Moderator

Thank you very much ma'am. Participants are requested to restrict only on one question at the initial round of Q&A. Follow-up questions will be taken later on. Next in line we have Mr. Anurag Purohit from Brics Securities. Over to you, sir.

Anurag Purohit

Good morning gentlemen. My question is regarding cost of revenue, which has increased significantly in the quarter, and also if you could elaborate a little bit on the increase in R&D expenses in the quarter and what should we expect in the coming quarters as such?

Neeta Revankar

The increase in cost of revenue, we have to consider that for this quarter we have Botnia for the full quarter, three months. That is the significant reason for the increase in cost of revenue. R&D expenses have gone up because of couple of reasons. We have started development on the next series of multimedia products and we have also had a lot of activity as far as our patent filing is concerned. So, that has contributed to the increase in R&D.

Anurag Purohit

Could you quantify the impact of Botnia as such and how much work from Botnia could be offshored to India?

Prabhas Kumar

The existing work that we do at Botnia, we are not looking to offshore any of that work, because the nature of that work is pretty much driven by the proximity to the customer. But what we are going to leverage on is the relationship that Botnia brings in with one of the key customers which is now by the way at a run rate basis is one of our more than \$20 million account, and that we will basically leverage the global delivery model that we have at Sasken as a group. And combining that with the relationship with the customer, we expect to drive one of the synergies, which will increase the volumes with that customer, but the existing work that we do at Botnia, all of that are proximity centric and we don't intent to offshore that.

Anurag Purohit

One last question is like we are associated with low-cost platforms. Does it by default also allow us an opportunity to get into eCosto and can we avail the Indian opportunity at such kind of low-cost phones also?

Dr. G. Venkatesh

The arrangement we have with TI includes eCosto as well, not just low-cost. So we are working on all the TI platforms. Indeed, India is also a potential market for some of the phones that are going to be made.

Anurag Purohit

Thanks.

Moderator

Thank you very much sir. Next in line we have Mr. Pratish Krishnan from DSP Merrill Lynch. Over to you, sir.

Pratish Krishnan

Hi, this is Pratish here. I wanted to know if you could just update us on the progress in marketing the E-series in terms of when can we expect a design in and what is the profile of this client with whom we are discussing, and finally in terms of shipments on the E-series side, what actually can be potential from the shipment side?

Srikanth Kannankote

The current design in that we are working on E-series, one of them is a North American customer and one of them is a customer in China. So, as far as the details of the shipment, that is one thing that is pretty difficult to dictate. If you take a look at what we have done given to you by series as to what the handsets are and then what the potential shipment dates are, as you probably can understand that the forecasting of as to how much goes into the market and what models and how successful they are is all dependent on the ODMs and certain OEMs. Our expectation is, if it is successful we will ride along pretty well. So, the idea here is that is one of the reasons that we sort of want to shift the focus away in this business from our quarterly perspective to a yearly perspective, that gives us a longer frame of time in terms of measuring our success because choppiness is still high, it depends on what models get released, when do they get released, when will they hold off on some of these things. So, not to make some predictions as to the number of shipments, but I would rather stay away from it at this time until we really get closer to the dates when the phones get shipped.

Pratish Krishnan

When do you expect the design in to be?

Srikanth Kannankote

As I said you know this quarter is when we want to get two design ins and that is what we have been working on and that is what we have been saying for the last two quarters, and we are working aggressively with our customers. I would like to say that we can get it done, but it is not over until it is over, until the customer signs it and you will be the first one to know, and for this quarter is our target.

Pratish Krishnan

Sure. And in terms of you know, the capital expenses and product expenses, we have seen some downside there. What is the estimate? Do you see that increasing or probably at the end of it?

Neeta Revankar

What has really happened is that during the quarter, the product is nearing the milestone of generic commercial release. So, that is why the expenses have actually gone down during the quarter. We have actually reached the stage where we have made the alpha release already and so capitalization has stopped as we see.

Pratish Krishnan

From a modeling perspective, should we factor in any other capitalization for any other product series or . . . ?

Neeta Revankar

There is nothing in the horizon that we expect to capitalize.

Pratish Krishnan

Last one on the product side again. What is the status in terms of your strategy on the tier-1 vendors from products? Do you see any break through if at all coming from the Nokia side also?

Dr G Venkatesh

We are actually working with all tier-1 because we are increasingly consolidating markets in the handset space, engagement with tier-1 has become very necessary in products too. So, we are very actively engaged with all the tier-1 and we have at least in both the 3G M-series and S-series space we are going to be launching with the tier-1 in the coming quarter, and we keep working with the tier-1.

Pratish Krishnan

Okay, this is incremental to already 7-8 designs you already have?

Dr G Venkatesh

We have actually mentioned in our sheet what tier-1 engagements that we have. So, other than that we have nothing further to announce at this point in time.

Srikanth Kannankote

Some work we are doing, but announcement will be done when we sign the contract.

Pratish Krishnan

Sure. In terms of Botnia probably we had some lower margins in Botnia this quarter. Any reasons for this or how do you expect this to shape up probably next two to three quarters down the line?

Prabhas Kumar

Botnia has seen lower margins in the previous quarter, that is true, and that is primarily on account of seasonality in the utilization levels, particularly in the month of December, which is probably a good part of that is the holiday season. So, our model of billing in Botnia is such that these do impact the billing and revenues, and hence margins. In Q4 we do not expect that seasonality to continue and hence the utilization numbers will be higher.

Srikanth Kannankote

If I may add from a modeling perspective, Europe is the place where you will have dips in utilization in summer, because mostly vacation, and then December is another month. So, you will have to factor the utilizations of Botnia and then take into these natural considerations into your models.

Pratish Krishnan

Finally on the capex plan, what are the capex plans on service side and how do you foresee the fund raising plan there?

Neeta Revankar

Both the capex plans and the fund raising plans are on the drawing board right now. Really the capex will depend upon what is the kind of facility we put up and that decision will be taken during this quarter. So, when we talk to you next time, we will have a clearer picture.

Pratish Krishnan

Is there any number that we should take into the estimates for the capex for next year?

Neeta Revankar

We have been talking with the thumb rule of roughly \$7000 per person added. May be we should just stay with that for now until we have some better numbers to give you.

Pratish Krishnan

Sure. Thanks a lot.

Moderator

Thank you very much sir. Next in line we have Mr. Hitesh Zaveri from Edelweiss Securities. Over to you, sir.

Hitesh Zaveri

Thank you. Hi. My question is about the smart phones. GV, if you could discuss that when you speak to your customers about the relevance of M-series, S-series, and E-series products, is there some sense do you have about where the product development is going in each of these phones where the applicability is on, especially for those models which are to be launched in calendar 2008 and calendar 2009, and by that the trend in the smart phone evolution are going as this products have relevance or do you think there are some new opportunities coming in here?

Dr. G. Venkatesh

The entire area of smart phones, Hitesh, is something that is gaining importance as we speak. We all know, basically, smart phone is growing at about 30% to 40% annual CAGR, and it is the most important segment that tier-1 are focused on primarily because it is also a segment which can potentially produce the profits for them. So, I think we are well positioned with smart phones at this point in time because of S-series product that we have, which is rated as smart phone, and if you look at most of the smart phones, they either sell into the enterprise space, the key value proposition there being email clients like Blackberry or something like that or it is positioned around multimedia experience, and it is around the multimedia and features experience that they have built our S-series product and we see a very strong traction here. There is a lot of interest in our S-series product that we see, a number of customers we are talking to, and the pipeline is great.

Hitesh Zaveri

Sure. Is there any risk of having any kind of mismatch in the product profile versus the development plans, especially the kind of features that are being envisaged for calendar 2008 and calendar 2009?

Dr. G. Venkatesh

There are mismatches. As you go along you keep finding mismatches, but by and large we work very closely with our semiconductor partners and our customers, tier-1 handset customers, that we are able to in some sense get a good handle on the kind of phones that they are developing well in advance. So, usually it is all done to a plan of the customer's future phone launches. So, there is a very detailed planning process that goes in here in terms of engaging customers or engaging our partners in terms of figuring out the features

that will go into our future products. Usually we are at least a year ahead in terms of the features that we will be putting into the phone.

Hitesh Zaveri

I know you did mention 2.5 G-series product a couple of times. Could you give some more sense about the first shipment that is already in whether that was a kind of base version of E-series or is it a fully loaded situation and for the other two or three hot leads that you have whether it is going to be fully loaded or stripped down version?

Dr. G. Venkatesh

When you are referring to the design ins in the E-series that they are expecting to have this quarter? They are for the entire ARIA platform that we have, it is for the full software. It does not stripped down or anything like that, it is for the full ARIA software that they have, the entire E-series.

Hitesh Zaveri

And one last question from my side, any competition emerging on the product side of the business that probably was not as serious may be six months or 12 months ago?

Dr. G. Venkatesh

Nothing new right now, I mean nothing that has come that has happened in the last six months, but going forward the consolidation is going to create certain new competition because there will be companies that will fall by the wayside and it is quite possible that their software teams get loose and they start a competing company. We have to always anticipate going forward that there will be competition that will come up, but so far we have not seen any new competition coming in.

Hitesh Zaveri

That is really useful. I have a couple of more questions, may be I will wait my turn for a later opportunity. Thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Dipen Mehta from Dipen Mehta Stock.

Dipen Mehta

I just wanted to understand the trading report you have given the guidance for the earnings per share, is that correct, something Rs.17 to Rs.18 or something like that. Also, you mentioned about some earnings per share for the services business, if you could you just reiterate please?

Rajiv Mody

Let me answer the first question that was part of the CNBC interview. The question was asked, the market is expecting Rs.16 to Rs.17 earnings per share, and my answer to that was that indeed this is what we are working towards making happen, but that is in no way giving any guidance.

Dipen Mehta

That is for the current year or . . . ?

Rajiv Mody

This was for the current year. And the number that we said with you regarding the EPS for services business alone was Rs.19.55.

Dipen Mehta

That is for the current year what you are expecting?

Rajiv Mody

No, that is for the first three quarters only.

Dipen Mehta

It is Rs.19.55 annualized for the first three quarters or non-annualized?

Neeta Revankar

No, Mr. Mehta, it is Rs.19.55 from the services business alone for the first nine months.

Dipen Mehta

So, it is not annualized?

Neeta Revankar

No, it has not been annualized.

Dipen Mehta

Okay. Also, you mentioned something about the growth in the organic services business to be flat. Is that correct situation? Excluding Botnia, what was the growth in the services business quarter on quarter please?

Prabhas Kumar

Q2 to Q3?

Dipen Mehta

Yes. Q3 over Q2?

Prabhas Kumar

Yes, the sequential quarter services business volume growth, there was marginal growth resulting in about 1% growth in dollar terms, but because of rupee appreciation the organic part went down by a couple of percentage points in rupee terms.

Dipen Mehta

And sir, what is the reason for this slower growth at the organic level as far as the services business is concerned?

Srikanth Kannankote

It is historical, if you take a look at Q2 to Q3, it has always been like that, and one major reason is because most of our customers go through their planning and budgeting period and that is their Q4. So any new things will not be released in this quarter because they go through some rigorous planning to establish budgets for next year, which is the reason that you always see that our Q1 is when you begin to see the impact of their budgets. So, Q1 and Q2 is when we see big growth, Q2 to Q3 is always going to be either a very marginal growth or flat, and that is just the way it works from a cyclical perspective because of the budgeting cycle through coordination.

Dipen Mehta

Okay, thank you. I have some more questions, I will reserve it for later. Thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Shekhar Singh from ICICI Securities. Over to you, sir.

Shekhar Singh

Hello, sir. Basically, like say Q3 to Q2 organic growth being slow, possibly can be explained by historical patterns, but one thing which I have noticed is like starting from Q2 FY06 number of clients billing more than \$1 million has remained flat at five clients. From Q2 FY06 to Q3 FY07, the number of clients with more than \$1 million is actually not increasing.

Prabhas Kumar

The reason for that is if you look at the 3-key segments that we operate in as of today, which are semiconductors, handsets, and network OEMs, when we say we have 18 or 19 tier-1 customers, we pretty much have all the tier-1 customers that we want to work with in these three segments, barring one or two. That is why, unless we add the focus to service providers, which we are as we speak, you will not see a major shift in number of tier-1 customers that we work with and that is by design.

Shekhar Singh

Sir, but at your size even if you look at tier-2 customers, they will also be big enough for you to target. So, just targeting tier-1 customers is it basically like, because we are not very big, we are still very small in size.

Prabhas Kumar

When we are reporting this tier-1, these are our tier-1 customers. It does not mean that we do not sell in to tier-2 customers.

Shekhar Singh

But the number of clients that are billing more than \$1 million still is five. What I mean to say is even if you target tier-2 customers, most of the tier-2 customers can also give you business more than \$1 million on a quarterly basis.

Prabhas Kumar

Yes, absolutely. But the five numbers that you speak here is only applicable to the tier-1 customers. It does not include the other customers who may be tier-2 and are billing more than \$1 million, and the whole chart is worked around the seven customers only.

Srikanth Kannankote

So, ideally you have to look at it from two perspectives. The first perspective you look at is how well are you growing in the top five accounts, because at the end of the day they are the ones who spend a lot of R&D budgets and they are the ones who will have some sustainable products. If you want to have a sustainable business, you have to really lock in the top five customers, so our strategy has been to say, we will go with the top five, we will make sure that we work with their winning product lines, and then we continue to sustain that kind of business. The second thing is when we sort of once you get that locked in then you go into the next set of customers, and which is one of the reasons we also as Rajiv said earlier, we have got in a worldwide sale team. It is all about taking the competencies that we have and then selling it to the next set of customers. So, our focus has been really to slow up the finer correction in the top five, and then secondly now that we have got it, now we will go after the next 15 accounts, and then our anticipation by bringing some of the, as Rajiv said, industry majors, is really the relationship that we will have from those accounts and then try to take that and then build on it.

Shekar Singh

Okay, sir secondly like, I just wanted to know this Rs.16 to Rs.17 EPS that the company is working towards, does it take into account the capitalized cost or is it post-adjusting for the capitalized costs?

Rajiv Mody

Neeta has explained that we have stopped the capitalization process for our E-series starting early January and we do not have anything in the horizon which we are planning to capitalize. So, anything that we are talking is in the context of after factoring all these things.

Shekar Singh

Thank you sir, and best of luck.

Moderator

Thank you very much sir. Next in line we have Mr. Shailesh Dhamankar from JM Mutual Fund. Over to you, sir.

Shailesh Dhamankar

Good morning. I wanted to know in absolute terms what has been the size of the Nortel account on quarterly basis?

Rajiv Mody

We do not share that information at all.

Shailesh Dhamankar

So, on annual terms?

Rajiv Mody

Annual also we give you an overall thing and I think we say it in context of what is the yearly, how many customers we have more than \$20 million. We can say that much that Nortel is one of them.

Shailesh Dhamankar

Any updates on the TDSCDMA front?

Dr. G. Venkatesh

The license situation in finance still remains fuzzy at this point in time. The general expectation is that by second half of this calendar year, we know basically that there are some files going on in a number of studies, and general expectation is that by the second half of this calendar year, we should see the TDSCDMA roll out, but at this point in time there are no clear signs and no announcements that have been made yet.

Shailesh Dhamankar

Okay. Rest of my questions have been answered. Thank you very much.

Moderator

Thank you very much sir. Next in line we have Mr. Anurag Jain from Kotak Mutual Funds. Over to you, sir.

Anurag Jain

Congratulations. This question might be a repeat, but what is the reason for spike in loss in the product division for this quarter and it has almost doubled sequentially?

Dr. G. Venkatesh

The main reason is that we have had lower revenue compared to the previous quarter and the revenues in the product business right now is based on milestones and we just did not have those milestones in this quarter.

Anurag Jain

If I add product revenues and EBITDA, it normally remained constant at about Rs.10 crores, and this time it spiked up, even that has spiked up. So there has been some extraordinary cost out there or some new cost has come in?

Neeta Revankar

As we mentioned that R&D expenses have also gone up because of the work that we are doing on the development of a new series of multimedia products, that is one. The other is that there has been one bad debt in product. These are the couple of large reasons why.

Dr. G. Venkatesh

The cost on our P&L plus the capitalization costs, if we add those two numbers, you will find that is the same between Q2 and Q3. Roughly the engineering expenses are flat there, account is flat, engineering expenses are roughly constant. You will have look at the capitalization costs that we are showing in our sheet, plus what costs we show in our P&L and if you add those two.

Anurag Jain

So, basically expenses in the products business will remain at these levels. Expenses will be roughly Rs.13 crores odd per quarter.

Dr. G. Venkatesh

That is right.

Neeta Revankar

Actually, if you add the amounts capitalized, then it is about Rs.17.5 crores and it should go down marginally as we go forward.

Anurag Jain

So, we have stopped capitalizing something. Is that what you are saying?

Neeta Revankar

That is correct. We have no products related to which we are capitalizing expenses now.

Anurag Jain

Okay. And a question on the services side, we have added 11 new customers this quarter. What is the potential there? Are there any more tier-1 there or how does that look like?

Prabhas Kumar

One of the customers of the 11 is a tier-1 customer in the operative segment and that of course has a very large potential. The other 10 customers are mostly from tier-2 and lower categories and they are mostly in the areas of our network OEM business as well as our handsets business.

Anurag Jain

Okay. Thanks a lot and all the best for the future.

Rajiv Mody

Thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Surendra Goyal from Citigroup. Over to you Mr. Goyal.

Surendra Goyal

Good morning everyone. Just one small question. Revenues from US saw a decline quarter on quarter almost 10% kind of decline. Any specific issues, any client related issues out there?

Prabhas Kumar

There are no client related issues. There are three reasons why the North American revenues have declined in absolute in absolute terms. One is that one of our key customer, while the volume has remained the same, it has shifted either to Mexico, which is a lower cost location or lower revenue location compared to US, and also partly shifted back to India. So while volume in that customer has remained the same, the revenue has declined. The second reason of course is the rupee appreciation is one contribution to this stuff. And finally, the product revenues declined as you see, a lot of it is actually coming from North America.

Surendra Goyal

Okay. Thanks a lot.

Moderator

Thank you very much sir. Next in line we have Mr. Rishi Maheshwari from Networth Stocks. Over to you, Mr. Maheshwari.

Rishi Maheshwari

Good morning to the management. I wanted to know as you also mentioned is the budgeting and capital cycles for most of your customers. A few contracts were on renewal in January. Do you see any uptake in the billing rates in those contracts?

Prabhas Kumar

Yes, we do see some uptake in billing rate for Q4 for our services business and yes couple of our large customers are going through that. Overall impact if I have to take that increase and spread it across all of the business, at an overall level we do expect a couple of percentage point improvement in billing rates in Q4.

Rishi Maheshwari

Okay, thank you. Besides which I also wanted to know your initiative in the pre-confirming test lab in this quarter. What was the revenue from there and has that been extended for any other customer than the current customer that it is currently catering to?

Prabhas Kumar

From a revenue perspective this is primarily relying in this initiative with one customer which we had signed up as a lead customer before, but from a sales pipeline perspective, we have three more customers in advanced stages of discussion and we actually expect that at least one of those customers will start generating revenues in Q4.

Rishi Maheshwari

But you had registered certain revenue from this in Q2 itself, right?

Prabhas Kumar

Yes.

Rishi Maheshwari

And what was the revenue in this quarter?

Prabhas Kumar

That revenue is from the same lead customer, it is flat. It was \$135,000 in both the quarters.

Rishi Maheshwari

And regarding initiative in Mexico, how many employee additions have been made over there and has that association gone beyond Texas Instrument or is it still catering for Texas Instruments?

Prabhas Kumar

Well, we have not shared the name of the customer as Texas Instruments, but answering your real question, the lead customer that we acquired for Mexico, of course we focus on ramping up that quarter first and then last quarter we pretty much spent on focusing on deliveries by the lead customer. So, in terms of head count addition, we did not add any head count in Mexico last quarter, but now that we have a pretty good comfort in terms of our delivery capability there, there are good responses from the customer, we are looking in fact we have confirmed orders now further for Mexico and you will see Mexico ramping up further towards the end of Q4 and then at a pretty good rate in the rest of next year.

Rishi Maheshwari

And just one question on Botnia. What was the utilization, if you can quantify that in December, as well as what do you expect to be in the summers when you say that utilization will be down? And what could be the utilization when you have normal period?

Prabhas Kumar

You have to look at it slightly differently from rest of our business. Botnia, most of their deliveries right now happen from Finland and in some sense it is a high cost location. So the utilization numbers that we want to drive in that location is not going to be comparable ideally with offshore low-cost location. The actual utilization number in Botnia for Q3 was more or less in line or marginally lower than rest of the business, which as you know is around 73%, but that is not what we strive to achieve in Botnia, we actually want to run it at low 80s, and that is why the difference is. Specific question about Q3, well Q3 do expect 73% to 76% range from Botnia in current utilization. But next year onwards we would like to get coming closer to high 70s or almost 80%. In summer, particularly in the month of July, yields the lowest utilization, and we would expect Q2 utilization in the range of 65% to 70%, but rest of the year we would run it at 85% to 90%.

Rishi Maheshwari

Thank you so much. That is all from me.

Moderator

Thank you very much sir. Next in line is Mr. Srivatsan from Spark Capital. Over to you, sir.

Srivatsan

What is the attrition level for this quarter?

Hari Iyer

We were 23.2% last quarter, we have come down by about 2 percentage points this quarter, that is 21.3% is what we are.

Srivatsan

What is the operating margins we have in Botnia? Last quarter it was 22% for one month.

Neeta Revankar

Operations margin as Prabhas mentioned have declined marginally because of the seasonal drop in utilization, so to the same extent there is about 4% drop in the operating margin for the quarter.

Srivatsan

Okay. Thanks.

Moderator

Thank you very much sir. Next in line we have Mr. Karthikeyan from Stratcap Capital Strategies. Over to you sir.

Parul

Good morning sir. I am Karthik's colleague, Parul. This is one question on your product side. You mentioned most of your products the software would be used mainly for smart phones. I was just reading an article, which talked about low-cost phones being the dominant category in the mobile handsets space globally. In fact they say in the next four to five years, low-cost phones will form over 50% of the total space. So, why are not you targeting that space, mostly active potential smart phones?

Dr. G. Venkatesh

I think we have three product lines and we call them M, S, and E-series. So, the smart phone is the S-series product line. That is the space, the smart phone space the one that is growing and we target it with our multimedia product called SE. If you look at our M-series, it targets pretty much all the phones including the low-cost phones. And if you look at E-series, they are really targeted for low-cost phone space or the feature phone space. So, we do have products that cover all the segments of the market, including the low-cost phones, we are not missing it out.

Parul

Sir, one more question. You also mentioned during the conference call about the Taco joint venture that you would be investing about \$5 million over the next three years. When do you see the first kind of revenues kicking in over this period and what kind of investment are you looking from the Taco group side?

Rajiv Mody

Honestly, I would not like to disclose any of those things because it is a joint venture and it is a private company and it has its own direction and the business plan that they are going to execute on. All I can share with you primarily is the market and the reason why we have gone in and invested into it and what we expect to do kind of details, and our investments what we are planning to make over a period of next three years.

Parul

Thank you so much sir.

Moderator

Thank you very much sir. Next is a follow-up question from Mr. Dipen Mehta from Dipen Mehta Stock.

Dipen Mehta

Generally the feedback we are getting from the industry is that the telecom vertical is one of the fastest growing vertical and there is evidence, competition, 10% to 11% volume growth, I wouldn't like to name the companies. Then, why the flat kind of volume growth? I know you may say historically it has been, I got your explanation on that count, but still I was generally disappointed with the flat kind of volume growth given the kind of vertical you are in, you know where there is an explosion of demand and the fact that it is one area where there is a lot of offshoring taking place and there are phenomenal opportunities. So, if you could explain a little bit more as to why this kind of flat growth and we were always under the impression that the company's growth rate quarter on quarter, year on year, would be higher than the average industry growth rates purely because of its positioning and that does not seem to be so. So, I just like your comments on that.

Srikanth Kannankote

Let me take this question head on. If you take a look at our mix of business, it comes from the infrastructure guys and then we have our products business, which maps the handset guys. We have our testing business, which maps the handset guys, and then we have semiconductor customers, I mean one of the markets, which is also growing fast as the service provider. So, even within telephone industry you have to sort of take it as four different segments. And then the infrastructure guys are not in consolidation with the amount of competition in the market. They are going through tremendous amount of product rationalization. So, the last two quarters they are doing nothing but taking a look at what products that they have to be continue to put in terms of R&D and what products they need to sell. And from that perspective, once they decide that you know two things happen to us. One, the project goes on hold because they have not made the decision as to whether to continue some product or not. And two, they are prioritizing as to what products to continue and what they should discontinue. So, for us the decisions of them have to be made before their budget cycle closes, and the month of January is generally their budget cycle closes.

Dipen Mehta

Just for the infrastructure providers, is it with equipment manufacturers?

Srikanth Kannankote

On the handset side, basically what we are talking about is scaling of the revenues for us from the handset guys depends on how well our product comes in and then what models do our products get designed in and then when do these products ship. As we see next year going into some of the design wins and the product gets shipped as we have shown in one of our presentation slides, you should expect to see our growth. Having said all those things, our Q1 growth was 14%, our Q2 growth was 15%. So, Q2 to Q3 is a normal trend because of what I told you and then the combination of the revenues that we have in the infrastructure space. One more thing, the service provider space is a space which is quite attractive to us both from testing services as well as other services, and I think that is the market where there are still knowledge that you just enter that market, and then as we begin to anchor customers in that area you will begin to see the growth. We have to have mix of business that is sort of how is your platform is right.

Dipen Mehta

By infrastructure space you mean the equipment providers, am I right?

Srikanth Kannankote

Yes, these are people who make base stations, towers and switches.

Dipen Mehta

Telecom equipment providers.

Srikanth Kannankote

Correct.

Dipen Mehta

I just want one quick response, Rs. 19.55 is for three quarters earnings per share, what was for Q3 and if you can even give the breakup Q1, Q2, that would be ideal.

Neeta Revankar

For services total, Q1 was Rs. 5.59, Q2 was Rs. 6.26, and Q3 was Rs. 7.70.

Dipen Mehta

Thank you. Thank you very much.

Moderator

Thank you very much sir. Next is a follow-up question from Mr. Hitesh Zaveri from Edelweiss Securities. Over to you, sir.

Kunal Sangowi

Hi. This is Kunal Sangoi. Neeta you did mention that there was a bad debt in product. If you could give the quantum of the same?

Neeta Revankar

It was Rs. 4.2 million.

Kunal Sangoi

Rs. 4.2 million. Okay, and that was on account of what?

Dr G Venkatesh

Actually, a provision we have made because of our Chinese customer that we engaged which we had build a quarter ago.

Kunal Sangoi

And second is, if you can share the margins in Botnia and the margins with the organic services business.

Neeta Revankar

Botnia, we did mention that there has been a 4% fall. So, EBITDA from Botnia has been at 17.5%, and Sasken we said is at 22.9%.

Kunal Sangoi

Okay. That is for the company as a whole including Botnia. So Sasken organic is also 22.9?

Prabhas Kumar

Overall Sasken is 22.9%, Botnia is at 17.6%. So, if you look at overall services, it is 22.9, 20% of the revenues roughly come from Botnia, which is at 17.5%. So, rest of it you can derive, but it should be around, yes 1% higher, somewhere around 24%.

Kunal Sangoi

Okay. And where do you see the Botnia margins settling?

Neeta Revankar

As we explained, this was a seasonal drop. So, we do expect their EBITDA in line with Sasken EBITDA.

Kunal Sangoi

Okay. Thanks a lot. That was very helpful. Thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Pankaj from DSP Merrill Lynch.

Pankaj

Good morning gentlemen.

Rajiv Mody

Good morning

Pankaj

Just wanted some update on the product side. As you mentioned Rajiv, initially to start with that we have one royalty-based phone shipping in Japan from November. We are expecting one more on that side. So, when does the shipment start for that market, one. And we already have one more design in for S-series with a European major. So, when do we see design win for that, if you would share some perspective?

Dr. G. Venkatesh

If you look at the slide #14 in the presentation that we have put up in our web site, on the S-series basically we are expecting a global tier-1 to start shipping in Europe in March 2007, which is our S-series product. There is this Japanese tier-1 that is shipping and started in November, and we have a second Japanese tier-1 that will start shipping in Q1 of FY08. This is going to be in the April timeframe.

Pankaj

Okay. And just to get some more perspective on the design wins like we have had couple of design-ins on the dual mode M-series as well. So what is the schedule that we look for design wins on that side?

Dr. G. Venkatesh

It is the 3G you are talking about?

Pankaj

Yes.

Dr. G. Venkatesh

In 3G, you know we are engaged with a global tier-1 semiconductor company and also with a global tier-1 handset manufacturer. Basically, the phone is expected to ship in the Q1, Q2 FY08 timeframe.

Pankaj

Q1, Q2?

Dr. G. Venkatesh

Yes, somewhere in this border of Q1 and Q2 of FY08.

Pankaj

And, more from an accounting perspective, as we are doing this quarter, is that the policy that we want to follow where we want to account for the royalties in the subsequent quarter for the shipments which are made in the previous quarter as we are going ahead with this one?

Neeta Revankar

See, this has less to do with accounting policy and more to do with the way our contracts are written. What we are trying to do is have a contract written in such a way that we get information in time about shipment, but until we get there, there will be this one-quarter lag.

Pankaj

Meaning, are we trying to work with our customers in terms of getting that information?

Neeta Revankar

Clearly we are.

Pankaj

Thanks a lot gentlemen.

Rajiv Mody

Thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Ruchit Mehta from HSBC. Over to you, sir.

Ruchit Mehta

Hi, good morning and congratulations on the results. I was just wondering if you could give us some details on the JV with Tata Autocom in terms of what will be your shareholding in that entity?

Rajiv Mody

I think that information has been put out. I am sorry, about the shareholding, I am not sure if that information has been put out. We do not want to disclose that what is going to be the shareholding in that space.

Pankaj

Will you be a majority shareholder?

Rajiv Mody

I cannot answer that.

Pankaj

Okay. In essence when do we expect the JV to actually start operations on ground?

Rajiv Mody

It is expected to start operations on ground starting this month. It has already started operations. The CEO has been identified. He is expected to join end of this month.

Pankaj

Okay. But, I just wanted to understand would you be a majority shareholder in the company because obviously you will look at what the financial impact could be on the company in terms of revenues or profits or losses?

Rajiv Mody

Well, it is not just majority shareholding alone, it is also what do you call, what is the impact at the board level and all those things which will impact whether you consolidate or not. So, I understand where you are coming from. May be we will give you more information about this in the next quarterly call.

Pankaj

Okay. I appreciate that. Thank you very much and wish you all the best.

Rajiv Mody

Thank you.

Moderator

Thank you so much sir. Next is a follow-up question from Mr. Dipen Mehta from Dipen Mehta Stock.

Dipen Mehta

This relates to the debt, which the company has on the books of about Rs. 88 crores or so, and we have an interest charge of Rs. 1 crore. So, assuming that the debt remains at these levels, should we be factoring in kind of Rs. 1 crore or little bit higher interest expense?

Neeta Revankar

Yes, this is it. I mean the debt that we have taken is largely for our Finland operation, so I think you can expect this to continue and we are looking at raising some working capital debt as we go forward.

Dipen Mehta

That means the interest cost could go up in the future quarters.

Neeta Revankar

Yes, that will largely depend on how we firm up our funding plans during the quarter. So, I think next quarter is a good time to estimate that, but until then I think it is good to expect the current trend to continue.

Dipen Mehta

And all in all what is the total expense of the product business given that is the kind of overhead cost including the depreciation and interest if any, not that you are trying to give us separate numbers for both divisions?

Neeta Revankar

See, expenses for products, all told before capitalization, are roughly in the range of about Rs. 65 crores per year. We do expect them to go down in the next year, but by how much and things like that, we get clear as we go forward.

Dipen Mehta

Okay. Thank you.

Moderator

Thank you very much sir. Participants who wish to ask questions, kindly press *1 on your telephone keypad. I repeat, participants who wish to ask questions, kindly press *1 on your telephone keypad. At this moment, there are no further questions from participants. I would like to hand over the floor back to Mr. Rajiv Mody for the final remarks. Over to you, sir.

Rajiv Mody

Once again, thank you all for joining in on our quarterly results call and I look forward to bringing you back the results and going through the same in the next quarter. Once again thanks a lot.

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.

ENDS
