

Sasken Communication Technologies Ltd.
Q3 Earnings Call
January 21, 2008

Moderator: Good morning ladies and gentlemen. I am Rita, the moderator, for this conference. Welcome all to Q3 earnings call of Sasken. Before we begin, we must point out that certain statements made during the call concerning Sasken's future growth prospects may be forward-looking statements. Please read the safe-harbor clause in the presentation for full details. For the duration of the presentation, all participants' lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for participants connected to WebEx International. After that, the question and answer session will be conducted for the participants connected to India. I would now like to handover the floor to Mr. Rajiv Mody, Chairman and CEO, Sasken. Mr. Mody will take you through the financial and the highlights of the quarter. Thank you and over to you Mr. Mody.

Rajiv Mody: Thank you. Ladies and gentlemen, good morning 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 third quarter ended December 31, 2007. My colleague Dr. G. Venkatesh, Executive Director of the Board; Kannankote Srikanth, President and COO; Neeta Revankar, Chief Financial Officer; and Hari Iyer, Senior Vice President Human Resources join me on this call.

Let me begin by summarizing the financial results for the third quarter. The consolidated revenues for the third quarter of fiscal 08 stood at Rs. 141.3 crores which is US dollars 35.7 million. This represents an increase of 8% from Rs. 131 crores in Q3 of FY07 and a decrease of 1% from Rs. 143.2 crores in Q2 of FY08. In dollar terms, we have shown a sequential quarter growth of 1% and a year-on-year growth of 22.7%. This should be seen in context of the one-time revenue that was realized last quarter. If this is not considered, revenues have grown in rupee terms by 8.8% on a quarterly basis. The consolidated EBITDA for the companies stood at Rs. 15.9 crores which is 11.3% in terms of margins. The profit after tax is Rs. 3.8 crores and the basic earnings per share stands at Rs. 1.35 for the quarter. The services business of Sasken Group 1.2% in dollar terms sequentially to reach 33.3 million. The EBITDA for the services business stands at 14.7%. This represents a decrease of 5.3% from the previous quarter. Again if the one-time revenue for the second quarter of

FY08 is not considered, our EBITDA has grown by 1.5%. This is notwithstanding the rupee appreciating at 2.3% against the US dollar from Q2 to Q3.

The quarter saw us adding 7 new customers taking the number of active customers in the trailing 12 months to 91. Our top 5 customers currently constitute around 77.5% of our revenues as compared to 74.2% for the previous quarter. On the product side, our Q3 revenues were Rs. 9.5 crores or 2.4 million dollars. Of this, royalties were Rs. 1.2 crores. The recently concluded Consumer Electronics Show at Las Vegas saw the launch of the new model based on the Symbian UIQ platform from a leading handset OEMs, that is from Sasken's Multimedia Subsystem.

As we have been communicating consistently, our products business is choppy in nature. This is due to the fact that our product solutions inherently have a large selling cycle before reaching a point of predictability. Even this nature of the business, the management of this company has decided to reexamine the product portfolio and align it with market reality. The flagship product line S-series continues to see good market traction given the increased data communication capability of wireless network which in turn is driving the growth of Smart Phones which has at its core rich multimedia capabilities. The M-series product line has now reached a mature phase in its technology cycle. Therefore, while we continue to support our ongoing contract, we are looking to explore new business model that can leverage the expertise that has been built over the course of this program. The E-series product line was created to capitalize on the volume, growing volumes in the market share of Chinese OEMs and ODMs. While this has indeed proven to be true with more than 200 plus million phones being made and sold in China by their OEMs and ODMs, the deeply entrenched power of regional suppliers have increased the difficulty of Sasken successfully pursuing a displacement strategy. Therefore, in the coming quarter, the management will take a view on the risk profile of this product line and take appropriate actions thereafter. This was the summary of our performance in Q3.

On the business environment, the NEMS infrastructure space continues to remain sluggish, the effects of consolidation still playing out; however, it is evident that enterprise and data communication needs and emerging technologies like femtocell WiMax and 3G LTE will fuel the growth in this segment. We are also seeing growth opportunities with the service providers in the North

America market. The semiconductor industry is going through a phase in which traditional silicon vendor is looking to add more value through software. Sasken through its expertise in the embedded space and partnerships with silicon vendors is well placed to take advantage of this. There are, however, challenges in terms of the number of designs starts projected to reduce over the next 1 or 2 years. The communication segment in this industry is showing reasonable momentum due to increased application of semiconductors in several consumer electronic segments including digital lifestyle, and near field communications, etc. The mobile handset market has continued its trend of market share dominance by the top 5 OEMs. This coupled with the fact that Sasken today engages in its integration services business with all of them is driving volume growth in this vertical across all locations. We are planning to add an SEZ space in Chennai and Bangalore. The current estimate for the completion of these facilities is first quarter of fiscal 09.

On the attrition front, the numbers for Sasken Communication Technologies Limited stood at 24.35% on an LTM basis. Several HR practices introduced in the preceding three quarters are beginning to show results, and we believe that attrition levels will be no more than industry average in the coming quarters. The gross at YTD is 903. Recognition and appreciation from our customers is always a great motivator, and we are pleased that one of our largest handset vendors has recognized us as a preferred vendor. Our Mexico center also was recognized as the best supplier to one of our semiconductor customers. We continue to drive operational excellence measures through the company and having placed several initiatives to ensure fiscal discipline. Our planning process for the next fiscal will commence this quarter during which we will set in place our quarterly goals. I would like to handover this to the moderator for the Q&A.

Moderator:

Thank you very much sir. At this moment, I would like to handover the floor to WebEx International moderator to conduct the Q&A session for the participants connected to WebEx International. After this, we will have a question and answer session for the participants connected to India. Thank you and over to you April.

International
Moderator:

Thank you Rita. We will now begin the Q&A session for the 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 like to handover the proceedings back to Rita.

Moderator:

Thank you April. We will now begin the Q&A interactive session for participants connected to India. Participants who wish to ask questions, kindly 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 use only handsets while asking a question. To ask a question kindly press *1 now. First in line, we have Rishi Maheshwari from Network Stock Broking. Over to you sir.

Rishi Maheshwari:

Thank you. Good morning. Just one question. If you look at our net adds today the number of employees that stands as of Q3 FY08 at around 3602. It is slightly lesser than what it stood at FY07 end. If you look at the attrition, probably it is the highest in the last eight quarters. Despite the highest utilization, our revenues have still not picked up. The product story for that matter has not risen as of now. I just wanted to understand where is the business going right now and how do we tend to improve this going forward ?

Rajiv Mody:

Yes, let me answer your last question first and then the specifics, we will go in to the details on that Rishi. We see a good traction in the market place when it comes to both our handsets as well as semiconductors. In that order, handsets look very good and promising while semiconductors also looks good, and we are growing in that. A big challenge for us comes today in our networks equipment business because we were expecting that this would turn around in some manner at an appropriate time, but seems like it is taking significantly longer for us to see any traction in that. So, we do see a growth coming both from our handsets side as well as from our semiconductor side world over be it in India, be it in Finland, be it in Mexico. As far as our product side story is concerned, we are seeing that our M-series as well as our S-series would be EBITDA positive for the full year this year. The challenge definitely remains in our E-series, and as we said that as management, we are going to review it and take appropriate things during the current quarter, and having said that, so this is the scenario that we are operating under. Now, add to that also is the fact that the rupee continues to appreciate on a sustained ongoing basis, and we definitely are focusing on to see how we improve our operational aspects to adept ourselves to the new realities. If you remember at the beginning of the year, we had said that we would see about 20% to 25% growth in our services business on a base of 110 million

dollars. We stand by this, the low-end water mark or the bench mark on that, we can say that we would show that growth in spite of some of the challenges that we have experienced both in our network side business as well as if you look at the product side. Now, on the specifics question that you have raised on the net adds and the attrition and all, I would request Sri to give a view in terms of what those specifics are.

Kannankote Srikanth:

I want to echo a couple of things. One that the area of growth we are seeing is fairly in the handset market. The network market is somewhat stagnant but as we take that question that you had around people, we sort of if you look at the number of people that we had and the net adds that you see combines to say that we have a flat in terms of these head count from the end of last year through where it is now. So, the utilization has gone up from I think it was about 74% utilization for the year last year, it has gone up to about 79.3. To us, this is reality. We have to really get more efficiency in the organization, and we have to increase our revenues per person you know. Given that you know our cost go up, given that the rate increase that is going to be in the low single digit, we have to really tighten the efficiency in terms of how we add people and how we take it upwards terms of buffers and you know I mean how we manage our utilization. I think as you will begin to see the head count, the utilization, as well as the revenue numbers should be taken in context. So, if you were to take the one-time revenue away in Q3, we said that quarter-over- quarter, we have grown by 8% and then year over year you know that is the low end of the 20% that we are saying is the growth of 30% growth year over year. So the revenues are growing, currency is having a great impact on us. Operations have got to be efficient. We have to increase utilizations. We have to be very careful as to when we add, how we add, but really all those factors go towards this model of, you know, how you manage your buffers and how you plan for what size of business you get and how you manage the fulfillment of the head count to the size of the business that you get.

Rishi Maheshwari:

Just a follow up to that. Would you believe the integration process of the conglomerates that are happening across the world, will that seize away and will you see some kind of increased traction probably next quarter or next to next quarter onwards.

Rajiv Mody :

Yeah. The integration of the businesses is going well. I believe that is the question which you are asking, we have re-vectored. Are you talking about the market side or you are talking about the customer side ?

Rishi Maheshwari: This is for your client side. Say Lucent- Alcatel, will they consider now spending more on the offshore R&D spend, and if so, then will they will be looking towards Sasken and if not Wipro ?

Rajiv Mody: Yeah. I mean, let me answer that question. It is very difficult for us to kind of answer categorically, saying they will only look at us and not our competitors because definitely all vendors do look at multiple suppliers to see how they can benefit from the whole thing, but having said that, we have in the past told you that we will see some movements and some change in it, but we have not been able to see that up till now. So, it is very hard for us to predict as well as very hard for us to give you also a qualitative answer on it, so I would honestly refrain from even making a qualitative statement, when, if such things will start happening. I mean the overall premise still holds that the R&D cost needs to be brought down, and definitely, we are well positioned to take advantage of that, but extremely difficult in the past and we have failed, and I would hesitate to make any specific statement which will happen next quarter or the quarter after that.

Rishi Maheshwari: Alright, thank you so much and all the best.

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 gentlemen. I just wanted to understand one thing. If you look at your product side of the portfolio you said that the E-series will actually get reviewed in this quarter, so are we to assume that probably the possibility does exist that you may discontinue the product per se ?

Rajiv Mody: It is very early for us to make any such statements, and that is why, we would like to take a decision on anything if at all during this quarter and come back to you.

Ruchit Mehta: Okay, and you also mentioned that there was quite significant enough, you know, pricing pressure from the Chinese manufacturers, so could you give us a sense of you know how bad it is or what sort of pricing pressures are there in the system ?

Rajiv Mody: You are specifically asking for the E Series right?

Ruchit Mehta: Yes sir.

Rajiv Mody: Yeah on that one, what we would like to highlight again is that from our preliminary investigations we have seen that the pressures are significant in terms of the price point that which they are willing to sell the overall handset in the market, that is one. The second also is the fact that in this whole business for us to succeed it is very critical for us to build out a tier one strategy because if it is not a tier one strategy it is not something that we feel comfortable and confident about. Let me contrast it to our E-series that we have rolled out over a period of time where we have built our relationships with the tier ones in a sustained manner over the last few years. I am sorry, the S-series.

Ruchit Mehta: Okay.

Rajiv Mody: And we were expecting and we were targeting to build that kind of a trajectory relationship also in the E-series and that is the context when we say that we will give you the entire thing during this quarter and come back to you.

Mr. Ruchit Mehta: And would it be fair to say that there could be some sort of pricing pressure also on the M-series and S-series as well or that is relatively, you know, a stable market ?

Rajiv Mody: On the M and the S-series if you are selling to them something that was sold say 2 years ago, that definitely is a pricing pressure component, but as we are adding new things to it, we are saying that there are additional revenues for the newer things that we are supplying to the same market. Sri, anything that you would like to add to that ?

Kannankote Srikanth: I think that one thing that we have to understand is that there are three components of revenues that we get in the product business, the license fee, the royalty fee, and then what we call as customization fee. So, I think when you look at the pricing pressures, we have to look at those three components. On the S-series you know where we have entered in the past and then we have quoted certain prices, if there is customization that gets involved and you can see bigger. So, you know, you can see the pricing rising forward. You know, just on a pure royalty basis, as volumes increases, of course everything is going to be based on how much volumes you have and then how your royalties go out based on volumes. So, it is really a volume game. I mean if the volumes are low, they start up in the higher royalty. As they pick up in terms of volumes, you know, you will see the rates come down. Fundamentals of that model still exist.

Rajiv Mody: One more thing I can add also. I have made a statement that we see the M and S-series being EBITDA positive that will sustain and continue provided we see volumes being shift containing those pieces of software in the handsets, so that there are revenues not just from licensing and customization alone but significantly from the royalty.

Ruchit Mehta: Okay, and will it be fair to say that now if one where to look at the product business as a whole, do you see breaking even in fiscal 09 at some point in time ?

Rajiv Mody: I would refrain from making comments. Let us come back to you like we have said that we can relook and then come back to you during this quarter.

Ruchit Mehta: Okay and on the services side of the business when do you see, you know, the margin improvement and the growth coming back up to normal levels ?

Neeta Revankar : It really depends on what you call normal levels, Ruchit.

Ruchit Mehta: The industry growth rate of about 25-30 odd percent that one has seen on a year-on-year basis.

Neeta Revankar: I am sorry, you are talking about growth of 30-35% year-on-year.

Ruchit Mehta: Yeah, around 25-30 odd percent that, you know, that one was expecting over the period of time.

Neeta Revankar: Yeah, I think we are on track to deliver close to this level of growth from last year to this year in our services business.

Ruchit Mehta: Okay, and overall on the services side, is there any pricing improvement that you are expecting or are you able to see pricing improvement from the customers?

Neeta Revankar: That is true. Actually, we already have seen improvement from two of our tier one customers in the quarter that has just gone by.

Ruchit Mehta: Okay.

Neeta Revankar: It is in low single digit, and we are in the midst of negotiations for few more of the tier ones which we expect to conclude in this quarter.

Ruchit Mehta: Okay.

Neeta Revankar: So, we should see some lower single digit improvement in the bill rates.

Ruchit Mehta: Would that just help mitigate, you know, cost pressures in terms of wages or will that actually help improve margins as well ?

Neeta Revankar: Yeah, actually what we have to do in terms of wages is not yet certain right now. We are at the drawing board on that right now.

Ruchit Mehta: Okay.

Neeta Revankar: It is difficult to state that, but it is very clear that we do have to work on improving operating efficiencies to get our margins up.

Ruchit Mehta: Okay, thanks.

Rajiv Mody: And just one more thing to add. When we say that we have seen price increases in the lower single digit, it is for all our T&M contracts.

Ruchit Mehta: Okay.

Rajiv Mody: So, when we say price increase, we say in terms of this, time and material contract that we have with our customers.

Ruchit Mehta: Okay. Thank you.

Rajiv Mody: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Nitesh Punjabi from Religare Securities. Over to you sir.

Mr. Anurag: Good morning sir. This is Anurag here. My question is regarding the margins because the margins have witnessed a significant dip in the quarter. If you could just take us through what has contributed, how much in terms of margin contraction ?.

Rajiv Mody: Neeta.

Neeta Revankar: If you compare the previous quarter to the current quarter, quarter two of the financial year to quarter three, quarter two, we have reported EBITDA 20%, and in this quarter we reported EBITDA 14.7%. If we look at the previous quarter without the one-time item that really contributed to that EBITDA of 20%, then we are really comparing 13.2% EBITDA in quarter two with 14.7% EBITDA in quarter

three. Now, this 1.5% improvement in EBITDA has come about on account of two reasons mainly, one some improvement in bill rates as I just mentioned and secondly there has been an improvement even in utilization. So, these are two reasons significantly contributing in this quarter.

Mr. Anurag: Also, the onsite component has gone up significantly in the quarter, so what should we expect as a trend going forward ?

Kannankote Srikanth: The onsite component has gone up basically because of Finland revenue. If you take a look at the quarter that was the Q2 quarter, Finland takes a lot of leaves, vacations. So, in Q3, they come back from their leaves, so the utilization there improves. So, the trend of onsite versus offshore is actually sort of normalizing over a year and take it on that probably gives you the best view as to how it is going to continue.

Mr. Anurag: Okay.

Kannankote Srikanth: One other factor is given that Finland is also in the handset areas, so you will begin to see some growth in that area also in Finland.

Mr. Anurag: So, talking about the products revenue, especially the royalties you were expecting that the phone launched by one of our tier customers in Europe and the pipeline that we had in terms of phones being launched by our customers, you are expecting a royalty jump in quarter three onwards which we have witnessed not in this quarter, so any view on this sir?

Kannankote Srikanth: One thing we have already said was that it is really, really difficult to predict the models, their launches, their prices, their positioning, their success. You know, obviously, we would like to see them successful, that is our hope, but what we can only do and then we continue to do is to ensure that we have lot more design ins and design wins on the newer models. So, I think from that perspective, we are seeing that we are making progress, but to be able to say that royalties will increase from this quarter to next quarter, we do not agree. We cannot tell you, I mean, because we do not know how they introduce their products, when they introduce their products, and how successful this would be?

Mr. Anurag: Thank you and all the best.

Kannankote Srikanth: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Nikhil from Edelweiss. Over to you sir.

Mr. Kunal: Hi, this is Kunal. Just wanted to understand given, you know, just looking at the royalty numbers of the last three quarters, this has been despite one of the phone launches which was expected to be a mega royalty driver from our tier one customer that is Motorola. Sir, if you can comment on some of the shipment numbers what we have seen from them and how do you see it going forward. Second is, what are the few variants that we have been working on. I understand that since the NRE fees are 6 crores during this quarter, we have been working on another two to three variants that we have been together for launch, so when is that expected and how do you see that ?

Kannankote Srikanth: First of all, I am not even too sure that if Motorola gives out their ship numbers, so you know what we get is really from them and then what we see are the numbers that are reflected here. So, I really do not want to or cannot comment on the shipments of their first release of their Symbian UIQ phones. I think that when we announced our agreements with Motorola, we said that we will be the multimedia choice for their UIQ phones and then what we see are them introducing multiple models in that area and then as they begin to introduce that, we of course will be bundled as part of that. We have now seen as Rajiv was saying in his opening speech that since they have announced the second version of their model and then you know it is obviously, you know, that is the second model for us as that goes to the market. We continue to be optimistic as they release their product pipeline and their product plans and their introductions as part of that.

Mr. Kunal: Okay. Second is if you can comment a few things on the billing rates. Basically, we have seen that last time when we had the discussions on these, you were saying that we are growing aggressively after billing rate increases of about 8-10% for customers and testing them out, if you can, you know, just comment on the progress whether what has been the acceptance ratio from the customers ?

Kannankote Srikanth: I think we have always said that the billing rates would be in the lower single digit. I think the other thing we have also said is that we will go after some certain fixed price type of projects to extract value, and I think we are making progress on that area and the billing rate is really you know as we begin to negotiate with tier one guys you know then

as majority of these guys are in the network industry or in the software industry, I think that where we have said that we will get is what we are going to get you know in terms of billing rates. Of course, we have talked about blended versus differentiated pricing. So, we will continue to negotiate with our customers across the board like that. I think that you know we have to consider that as one element of our operation efficiencies for the utilization being the second lever and then we also see this whole question of how do we profile our teams and how fast ACCs are in line with our customers' requirements. So, we are sort of continually addressing these things and that is one of the reasons that you are seeing some improvements in terms of margins in terms of EBITDA from 13.2-14.7%.

Mr. Kunal: Utilization you know it is already at 79%. How much ahead we can take or how much increase you know in utilization we can afford

Kannankote Srikanth: Utilization is actually a function a growth, you know, so as we being to see growth in the business, we will, I think, we will have to go down in that we have to go hire, train, staff up people, and then my suspicion is that theoretical maximum is around 79.33%. You know I think, as we begin to show growth, you see that come down a little bit and the volume should increase.

Mr. Kunal: So, we are running already at the maximum end of the utilization ?.

Kannankote Srikanth: I would say that we are reaching that, and of course, if there any thing more to this business then we would re look

Rajiv Mody: Also just to give a contest, what you call, there are certain, say for example, networks, we are not seeing much. We may run at much higher utilizations than what we state, other businesses, we may run on the lower side, but what we can say that this is a combination of numbers thereof.

Mr. Kunal: Okay. This question is to Neeta ma'am. If you can just, you know, decouple the growth of 8.8% that we have spoken in the release in dollar terms, how much is because of volume on the services side and what is the pricing increase?

Neeta Revankar: We have mentioned that the pricing increase is lower single digit, the rest of it is entirely volume.

Mr. Kunal: So, 8.8% is mainly volume?

Neeta Revankar: Exactly.

Mr. Kunal: Okay. Rajiv, if you could offer some comments on the pipeline of deals that we have on the services side, what do we see going forward?

Rajiv Mody: Like I said, we see the sluggishness to continue in the network equipment side market place, but we definitely see good growth, and when I say good, I am referring to about 20-25% growth in the handset side as well as on the silicon side. We have entered into the service provider space in the last two quarters, and we are slowly making progress into that, and we will bring it your notice when it reaches a critical size at an appropriate time.

Mr. Kunal: Okay. Just last question from my side. I have one data point which is 1.5 million dollars of cost on E-series per quarter. Just wanted to verify, is that number correct?

Neeta Revankar: It is correct historically. Going forward, we have to see how it changes.

Mr. Kunal: Okay. What has been the head count change on the E-series side quarter-on-quarter?

Neeta Revankar: There has not been any change thus far. We continue to invest.

Mr. Kunal: Okay.

Kannankote Srikanth: Interesting, meaning, if you are asking question that we moved any thing out of this to others, the answer is no. We have captured the full cost of development for the quarter ending December.

Mr. Kunal: Sure sir. Okay. Thanks a lot and all the best.

Moderator: Thank you very much sir. Next in line, we have Mr. Joshi from Irevna Research. Over to you sir.

Mr. Joshi: Good morning gentlemen, one or two question on your Sasken Finland revenues, how much did they contribute to the company ?

Neeta Revankar: Sasken Finland contributed about 8.6 million USD.

Mr. Joshi: It is not clear. Can you repeat the number, hello ?

Neeta Revankar: The number is 8.6 million.

Mr. Joshi: 8.6. Okay, and this quarter we have seen that in the products business, there has been kind of lumpiness in term of the way it is split across, license fees and customization. So, how do we see going forward, I mean, we would continue the up and down going forward or is there some sense of a linearity there?

Kannankote Srikanth: I think it is sort of a lifecycle, if you see customization revenues go up, if you see us working on some of the newer models, as you have more models shipping, this would be more increase in terms of license fee and royalties. So, as we go forward, you know, those kinds of things will dictate us to what the mix would be.

Mr. Joshi: Okay and in particular to network equipment business that you had mentioned that you are going to see stagnant growth, how much of it would be impacting the services side and how much would be the product side influence ?

Kannankote Srikanth: The infrastructure network business is much of services businesses. So, any impact in terms of the growth in the network equipment business would be on the services side and then having said that we are holding it in spite of the trouble in the industry and but hopefully you and I would want it loosen up.

Mr. Joshi: Okay. That is it from my side. Thank you very much.

Moderator: Thank you very much sir. Next in line, we have Mr. Desai from Pioneer Intermediaries. Over to you sir.

Mr. Desai: Hi, good morning. Just a question again on the products side. Last quarter you had mentioned that the 85% to 90% visibility over revenues in the next two quarters to make it break even. You mentioned that you know, you expect to breakeven, you would talk about it after the review of the products business, but how much as a percent change in this; how much have we gone done by, with respect to visibility?

Dr G Venkatesh: If you look at the constitution of revenues in the product business, it is different from what we had predicted at the beginning the year. We are seeing a significant amount of revenues coming from customization revenues, a bit from licensing revenues and our royalty revenues have not really taken off the way we had predicted at the beginning of the year. Having said that, I mean we do not guidance for the quarter, but we are really looking at the product business. I mean, we had said earlier that we would break even at EBITDA level for the product business, but we are not going to get there for the year.

Mr. Desai: Alright, and also you know, that leaving apart the E-series last quarter, you had mentioned that a couple of shipments which would begin in this quarter as well as the next quarter for the S-series and the M-series. Are those shipments on track or has there any postponement in those shipments dates?

Kannankote Srikanth: I think there is one thing to note is that, from last year to this year there is double, the doubling of revenues on our products business, so though we are seeing certain, large increases. As far as the shipments are concerned, you know, what we can tell you is what happens in the market, and what we have told you now is that, there is one more model announced in terms of the Symbian UIQ space. As we get to know the handset manufacturer shipments, we will be the first one to know.

Mr. Desai: And, if you can provide some comments on the R&D budgets of the semicon and the NEM vendors. Has there been any finalization or as per talks what that could be, could you provide some comments on that ?

Dr G Venkatesh: On the semicon end ?

Mr. Desai: The network equipment manufacturing side.

Dr G Venkatesh: Network equipment R&D trends continued to remain the same, but internally their consolidation exercise is still going on.

Mr. Desai: Okay.

Dr G Venkatesh: And, overall, the decision making process in the network equipment manufacture is very slow at this point in time. So, we are not in a position to predict when they will start pushing out, out sourcing in a major way again. Semiconductor on the other hand is I mean, there have been some consideration especially in the wireless semiconductor business. They have seen a lot of movement there, but that part of it has stabilized, and we are starting to see some movement again in terms of decisions being made the outsource.

Mr. Desai: Alright. Thanks a lot sir.

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

Satish Krishnan: Hi, this is Satish here. This is from your E-series, you had one deal, you know, which you said in last quarter was uncertain in terms of shipment, what is the status on the, you know, shipments from Lenovo ?

Dr G Venkatesh: Lenovo has decided not to ship that phone. So, that is pretty much negative as far as Lenovo is concerned.

Satish Krishnan: And you also were, you know, talking to probably one you know, semicon for embedding this in their system. Any update on that?

Dr G Venkatesh: That is one of the items that we will be progressing this quarter, and we will have to review where we stand with respect to that in this quarter.

Satish Krishnan: Okay, and in the event that you know, you decide probably to discontinue this product line. What would happen to the amortization schedule?

Neeta Revankar: It is probably early to talk about that right now. We will have to determine the future of this product line first and then think about it. I do not think we are looking at anything very drastic.

Satish Krishnan: Yeah. Rajiv, I just want to understand what can change as even the Lenovo deal is gone, and you know, from here on to the next quarter what can change in the E-series on the review point of view?

Rajiv Mody: I would request you to hold back and we are evaluating all possibilities, and we will come back to you after reviewing it during this quarter.

Satish Krishnan: Okay, and any new design ins for design wins that you had in this quarter ?

Rajiv Mody: In the E-series?

Satish Krishnan: No in the M-series or the S-series.

Rajiv Mody: There are no new design ins there both for M-series or the S-series. There are no new design wins. There are continuing new model wins on the S-series on the UIQ Symbian platform.

Satish Krishnan: Okay, and for next year

Rajiv Mody: I am sorry, and that is reflected in some ways on the NRE's increases that you see.

Satish Krishnan: Sure, and in term of next year like any new investments that you probably have, you know, in terms of the product line, the way that you had in E-series a couple of quarters back ?

Rajiv Mody: We right now are not contemplating, but having said that, it is too early for us to make any comments on our next years' plan, and we would come back to you in the month of April.

Satish Krishnan: Sure, and finally, I think Nokia actually spoke about, you know, selling the R&D unit in Germany and they also referred that they are discussing with Sasken. What is your take on that?

Kannankote Srikanth: It refers to their third party business. Yes, we entered a nondisclosure with them, so you know, it is first of all, it is them who had decided to make the announcement, so we can only tell you very limited amount, that it is a German based, it is a connectivity software based and then it could be in the Bochum area of approximately between 30 to 40 people, but it is still, so there has to be, there is a long process in terms of these things, especially in countries like Germany where we have to go to workers council, and then negotiate with workers council which is Nokia's responsibility, and then we have to work with the employees to get the employees to decide and vote for us. Having said that, we are pretty excited that they have selected us and then they had announced that because I think it gives us a whole new market opportunity in terms of their significant platform.

Satish Krishnan: Sure, fine. Yeah, Thanks a lot.

Kannankote Srikanth: Thank you.

Moderator: Thank you very much sir. Next in line, we have Ms. Subhashini from JM Financial. Over to you ma'am

Ms. Subhashini: Good morning. Most of my questions have been answered, just one question. How many employees that we have in the products business as on third quarter?

Neeta Revankar: We have about 250 employees in the product business.

Ms. Subhashini: Okay, and just another confirmation. We were talking about a 15% to 17% EBITDA margin in the services business for 08, so are you still going by that ?

Neeta Revankar: That's correct.

Ms. Subhashini: Okay.

Neeta Revankar: We expect it to be in that way.

Ms. Subhashini: Okay, thank you.

Moderator: Thank you very much ma'am. Next in line, we have Mr. Nithin Kumar from Nomura. Over to you sir.

Nithin Kumar: Hi. Good morning. Actually my questions have been answered, but I would like to check one thing with you. Could you please tell as to how many current designs are in the market in terms of both S and M-series ?

Rajiv Mody: At this point, we are enumerating, and letting you knowing in the next couple of minutes. We have close to about eight design ins on the S-series and about three on our M-series.

Nithin Kumar: Okay and these are designs which are in the market right now.

Rajiv Mody: Design in means is where the solution is getting created before it is launched in to the market. So, the risks associated with the market launch are not yet overcome.

Nithin Kumar: Okay, and on the E-series part, you said that you will be reviewing it. I understand that we have tried to ask lot of questions there. Just wondering as to, other than pricing was there any other factor which you are looking at as being challenging?

Dr G Venkatesh: On the E-series?

Nithin Kumar: Yeah, on the E-series sir.

Dr G Venkatesh: We have to have an appropriate business model with your partners to address the China market, so that's another challenging factor, because the China market at this point in time is going through consolidation and fair amount of turn.

Nithin Kumar: Okay.

Dr G Venkatesh: So, unless you can stabilize a working business model for a reasonable period of time, that is another challenge.

Nithin Kumar: That is another challenge and does that require you to set up operations there or is it something that you are working on right now ?.

Dr G Venkatesh: Those are some of the factors, but there are several others.

Nithin Mody: Okay, I understand sir. Thank you very much sir. That will be all from me.

Moderator: Thank you very much sir. Next in line, we have Mr. Srivatsan from Spark Capital. Over to you sir.

Mr. Srivatsan: Hi, my question relates to the increasing cost of revenues. If you look at what it was in first quarter, you were at around 66%. Now, it has gone up to 69% in spite of improvements in utilizations, billing rates. What is the underlying reason for such a steep increase in the cost of revenues ?

Neeta Revankar: Couple of things, one of them is that in Finland, we have an increase in cost in this quarter because of the there is lot of leaves that they has taken in quarter one and quarter two which leads to reduction in Finland cost, that actually constitutes about 4% of the increase in the current quarter.

Mr. Srivatsan: Okay.

Neeta Revankar: The other thing is that we had strengthened management in one of the business unit significantly and that has also constituted some increase. There is also some onsite business that we did in our network engineering space. So, all of these three together constitutes the increase in the cost in revenue.

Mr. Srivatsan: Okay, my next question relates to the M-series. As in like WCDMA protocol that we had an design-in with NXP for Samsung, any update in this ?

Dr G Venkatesh: We are in the final phases of testing and verification of that product, but the shipment dates are still not completely frozen. So, we are not in a position to actually exactly tell you when they are going to ship that phone.

Mr. Srivatsan: Okay, fine. That is it from me. Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Rathod from UTI Mutual Fund. Over to you sir.

Mr. Rathod: Hi Rajiv.

Rajiv Mody: Hi.

Mr. Rathod: This question is more on structural, like rupee appreciating and the telecom equipment providers the business is not flowing. What kind of structural change will bring in the business in the next one and half year or two years that we start seeing 7% to 8% quarter-on-quarter growth rate in dollar terms or year-on-year growth rate of 20% to 25% at least in the next two years ?

Rajiv Mody: Like Neeta had said earlier in the call, we will demonstrate about 30% to 31% growth in our services business year-on-year in this environment as we are speaking, and if you take the run rate also, we had said at one point that we can take a run rate of about 110 million dollars because we would not have consolidated for five months of Finland in the previous financial year. We still are holding on about 20% growth in our services business for the full year. So, having said that we are like I said, we have seen growth coming in from our handset business as well as from our semiconductor silicon business. It is network which is kind of pulling us down and by the way we have not seen negative growth year-on-year in network business. It is just that it is not growing as fast. There is growth, but it is low single digits and that is what is the cause for concern for us, but having said that, we see the environment whereby we can deliver about 20% to 25% growth overall in our business in the coming years, and we will come back with the exactness of the whole thing because it is like we said that it is work in progress as we are speaking. We are going to the planning process, and in the April call, we will give you all the necessary details of that. Appreciating rupee definitely is a big challenge quarter-on-quarter. Like we said, quarter on quarter the rupee has appreciated by 2.1%, but overall I think, that is the reality one needs to embrace and plan for and see that in spite of that how do we still continue to deliver the stated 15% to 17% EBITDA margin growth that we have stated in the beginning of the year.

Mr. Rathod: Okay, is there any change in the thought process, like last time when we met, you were not that open to taking up R&D teams, but now that Nokia has come out with it, considering that you were supposed to take some kind of R&D because of that. So, has the change in the thought process has come in the company on this side whereas on the product side, are we trying to see some kind of tie-up or something like that as we are seeing in the services with Nokia ?

Rajiv Mody: As we had talked at that time, we always look for the fact that it has to make an overall business sense for us to take these kinds of decisions. So, like Sri was mentioning, this is a team which has deep know-how in the connectivity side for the core key Nokia's product line.

Mr. Rathod: Yeah.

Rajiv Mody: And this one we cannot share at this time because we are under nondisclosure as Sri had mentioned. So, that is why it makes it little interesting and attractive for us, this is not something which is a product that is dying and the capabilities is extremely, extremely good and talent is very good and we have evaluated also and ensured that it does make business sense. So, we are open to such things. So, what it means, two things, one, of course business sense and second is something which is futuristic rather than something which had completely a sense that paying for which we find it difficult even to re-vector the people.

Srikanth Kannankote: And one, just to add, to that. It has to not only make sense for us within that segment, but it also has to add some adjacent businesses, you know, in terms of going after markets which are beyond what would have addressed, you know, in this space. You know, there is a relationship between this kind of a business as well as semiconductor business and so I think that that works well from a business perspective. The second point is that we have told that there are a couple of things were to look at this :stuff in the network infrastructure space that we are dealing with, that had a little bit of a different business model where we had to pay for acquiring people and assets and those kinds of models we sort of not look at it too favorably from a business model perspective. So, this thing will significantly hit the business model and the kinds of criteria that we wanted, so we are going forward.

Mr. Rathod: Okay, that is from my side. Thank you.

Moderator: Thank you very much sir. Participants who wish to ask questions, kindly press *1 on your telephone keypad. Next in line, we have Mr. Agarwal from IL&FS Investsmart. Over to you sir.

Mr. Agarwal: Yeah, I have one question, just one question. Why were tax rate increased so much, effective tax rate ?

Neeta Revankar : See that line actually has to be decomposed into two parts, there is FBT and there is income tax, and in this quarter the FBT is larger because of FBT on ESOP Now, somewhere else, in other incomes, there is a small amount

which shows recovery of FBT. So, effective tax rate from previous quarter to this quarter has not changed, and as we said, tax rate and the percentage of revenues in our services business is somewhere in the range of 2.5% to 3% that is continuing.

Mr. Agarwal:

Okay, thanks.

Moderator:

Thank you very much sir. Next is a follow up question from Mr. Joshi from Irevna Research. Over to you sir.

Mr. Joshi:

Hi, just one quick followup question. Last time, you had talked about hiring 500 for Q3 and Q4 of 08. Would you stand by that number and what is the update on that ?

Kannankote Srikanth:

The gross add, if you look at the gross add, Q3 we had about 228 plus, from the Q4 we probably have about 200 plus, so we probably have been close to what we have told you in terms of percent.

Mr. Joshi:

Okay, thank you.

Moderator:

Thank you very much sir. 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 handover the floor back to Mr. Rajiv Mody for the final remarks. Over to you sir.

Rajiv Mody:

Thank you once again for joining us on the call and giving us the opportunity to explain to you our performance for the third quarter and also explain to you what we see our business going forward. We look forward to seeing you again in April where we would be discussing not just the fourth-quarter but full year plus the plans for the coming year. 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 line. Thank you.