

Sasken Communication Technologies Limited  
Quarter One Earnings Conference Call, Financial Year 2008-2009  
July 21, 2008

Moderator: Good morning ladies and gentlemen. I am Sandhya, the moderator for this conference. Welcome all to the 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. I will now hand over to Mr. Rajiv C. Mody, Chairman and CEO, Sasken. Mr. Mody will take you through the financial and the highlights of the quarter, followed by Q&A. 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 participants in India. I would like to hand over to Mr. Rajiv Mody. Thank you and over to you sir.

Rajiv C. Mody: Thank you Sandhya. 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 first quarter ended June 2008. 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 in the second fly of our presentation for full details. I am joined on this call by my colleague Neeta Revankar, CFO; Sri Kannankote, President and COO; Dr. G. Venkatesh, Chief of Strategy and Executive Director of the Board; and Hari Iyer, Head of HR. Let me begin by summarizing the financial results for the first quarter ended June 2008. The consolidated revenues for the first quarter of fiscal 09 stood at rupees 168.14 crores. This represents an increase of 7% over the previous quarter and an increase of 31% over the corresponding quarter in the last financial year. The services side of the business contributed rupees 149.8 crores with a quarter-on-quarter growth of 7%. The products business contributed rupees 18.33 crores for the quarter, more than doubling in revenue terms over the corresponding quarter in the previous financial year. In dollar terms, Sasken Services grew by 1.9% over the previous quarter and 21.6% over the corresponding quarter over the previous year. On a consolidated basis, Sasken revenues grew by 1.2% over the previous quarter and 27.1% over the previous year. The first quarter EBITDA margins for the company stood at 22.9%. The consolidated services EBITDA margins are at 20.9% while the products division contributed rupees 7.1 crores in EBITDA at 39%. The profit after tax is rupees 13.7 crores for the quarter. The basic earnings per share for the quarter is rupees 4.8. Earnings

per share for the services business stood at rupees 4.82 for the quarter. We added five new customers this quarter taking the total number of active customers to 86.

On the networks business front, we are pursuing several large opportunities and are witnessing protracted sales cycles. There are some short-term challenges on the networks business front, although evolution of wireless networks to 3G/4G and WIMAX, etc., continues to be attractive for potential business opportunities in the near to medium term. Three customers are moving towards increased offshoring of R&D services and the deal sizes and complexities are increasing. Over the last year or so, we have observed that the nature of the outsourcing deal has changed considerably and customers are increasingly expecting us to work in a partnership model. A North American service provider is planning to roll out WIMAX services and this presents opportunities for us in the network engineering services space.

On the handset business front, we have successfully completed the acquisition of the 36-member R&D team based in Borkum, Germany. All the team members have come on board Sasken's roll effective 1<sup>st</sup> of June 2008 and continue to service the tier I account as before. We endorse the proposed formation of the Symbian foundation and as a long standing Symbian ecosystem member, we are confident that this initiative will bind the community and enable Sasken to serve its customers even better. Our center in Beijing, China became operational this quarter with a lead customer. This center will act as a near-shore center to our customers operating in that region.

On the semiconductor business front, we have acquired a tier I account and migrated one of our existing relationships to a full-fledged offshore development center. We continue to make progress on partnering with leading semiconductor vendors who is an integral part of an open industry alliance that is driving distribution of digital video and entertainment through existing coaxial cables. This relationship allows Sasken to leverage its well-acknowledged leadership in the multimedia applications services domain and demonstrates our ability to cross-sell across our offerings.

In terms of business growth, our ability to deliver the guidance range of 8% to 10% on a network side is contingent upon our ability to win one or more large deals that we are actively pursuing. However, in our handset and semiconductor business, we will meet the guidance that we have provided earlier this year. Traditionally, in the second quarter of the financial year, revenues from our European operations reduce on account of annual vacations. As a result of this, we see similar growth during Q2 as observed in Q1. On the products side of the business, our customers, key Japanese and North American OEM are launching

handsets incorporating our products and we continue to build on design ins with customers. We continue to build on our success in Japan market and our models are the latest in the line of rich media phones which have been well received by the discerning and demanding Japanese consumers.

One of our semiconductor partners engaged with a tier I handset vendor will start shipping this quarter. Our engagements with a leading satellite vendor has moved to the next level. From a people's perspective, our total strength stands at 3495 as of June 30, 2008.

Thank you and over to the moderator for the question and answers.

Moderator: At this moment, I would like to hand over the proceedings to WebEx International moderator to conduct the Q&A for participants connected to WebEx International. After this, we will have a question and answer session for the participants connected in India.

International Moderator: We will now begin the Q&A session for participants connected to the WebEx International bridge. Please press \*1 to ask a question. At this moment, there are no questions from participants at WebEx International Center. I would like to hand over the proceedings back to India moderator.

Moderator: Thank you very much Zarina. We will now begin the Q&A interactive session for India participants. Participants who wish to ask questions, please press \*1 on your telephone keypad. On pressing \*1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, kindly press \*1. First question comes from Ms. Divya Nagarajan from JM Finance. Over to you ma'am.

Divya Nagarajan: Hi, this is Divya Nagarajan. Just missed your earlier comments. Could you just give a color what is happening on the services space and then your expectations on meeting the full year guidance for this year.

Rajiv C. Mody: Yeah, what we are saying on the services side to meet our expectation on the guidance for the full year is dependent on meeting our 8% to 12% growth in the networks side business which again is dependent our ability to win one or more large deals, which we are actively pursuing.

Divya Nagarajan: Right. And on the handsets and semiconductor side, are we on track to meet the guidance in those service lines?

Rajiv C. Mody: That is correct. We are saying that we will meet the guidance that we have provided earlier this year. Just for reiteration, we have said that in the handset side, we should see about 30% to 40% growth in dollar terms. On the semiconductor, we should see about 20% to 30% growth in dollar terms and we had said that on the network side, we would see about 8% to 12%, that is where we see a challenge coming in at this time.

Divya Nagarajan: Okay. Assuming that this deal win might not happen, in which case what does your guidance for the full year come to?

Rajiv C. Mody: In that case, we expect the guidance to be anywhere in the range of 17% to 20%.

Divya Nagarajan: Versus 20 to 25 that you had guided earlier.

Rajiv C. Mody: That is correct. And this is all in dollar terms. In rupee terms, because of the appreciation of the dollar against the rupee, this will make it up.

Divya Nagarajan: Could you also give us a sense on what is happening in the, you know, semiconductor business, are you hearing a lot of activity happening on the captive side. Are we looking at business coming in through the captives for us?

Srikanth Kannankote: This is Sri Kannankote. I think in the semicon segment, you know, there is the whole shift towards providing total solutions including embedded software continues to increase. So, the handset business models get challenged, as such we are looking at getting full solution from these semicon vendors. So, every tier 1 customer, semicon customers that we work with which is about 7 out of the top 10, they are all looking at us to work with them and as the software value increases, it provides us with opportunities to work with them much more closer. So, I would say that that is why we have kept the guidance as to where we have kept and we see it as we talk to our customers that the software component is increasing and then they are coming to us with more...more that way. So, did I answer your question.

Divya Nagarajan: Right. Just...if I read from the call, just a comment on your headcount additions for the year and do you see this negative trend in headcount continuing for the next couple of quarters this year?

Hari Iyer: We believe that we will move from what we had initially said, 500 to 700 people that we will add for this year. We would now be adding about 500 people for this year, of which 300 will be freshers and 200 will be lateral.

Divya Nagarajan: Right. And this reduction in your outlook is also commensurate with lower expectations of growth for the full year?

Neeta Revankar: Not really actually. If you notice, there is a lot of revenue growth that is coming in, both from the European region, thanks to the addition of this center in Germany, and there is significant growth from Mexico too. So, as of now, these revised headcount numbers do not immediately reflect any reduction in guidance.

Divya Nagarajan: Right. Neeta, what are your expectations on margins now for the full year with the rupee being where it is?

Neeta Revankar: Yeah, see we have spoken about a few things in the last call. Our efficiency improvements, we are on track with all of them, what has really happened is that the weakening rupee has allowed us to relax a bit on the salary increases that we can give. So, what we will be doing is using the weakening rupee to give better salary increases in the organization.

Divya Nagarajan: So, what is the range?

Neeta Revankar: About 15% is the expectation.

Vidya Nagarajan: Right.

Neeta Revankar: And in spite of that, we will be on track to meet the EBITDA guidance that we have given in the range of 19% to 21%.

Rajiv C. Mody: And that also on a full year basis.

Divya Nagarajan: Right.

Neeta Revankar: That's correct. There will be these quarterly changes in EBITDA as we have always been seeing because we do find that quarter two of our financial year, there are some...there is vacation in the European region, so, you know, quarterly there could be changes, but we are on track to deliver the annual EBITDA.

Divya Nagarajan: Right. And on the products side, we are sticking to our EBITDA and our full guidance right?

Srikanth Kannankote: Yeah. What we have said in the product side is that, we will be EBITDA neutral just taking the licensing, revenues EBITDA neutral without any royalty revenues and we will stick to that.

Vidya Nagarajan: Alright. Thanks, all the best.

Srikanth Kannankote: Thank you.

Moderator: Thank you very much sir. Next question comes from Mr. Sanghoi from Edelweiss. Over to you sir.

Rajiv C. Mody: Yeah Kunal.

Moderator: Mr. Sanghoi, you can go ahead with your question, your lines are open.

Kunal Sanghoi: Yeah, hi sir. Congrats on a good quarter. Sir, my question is with regards to this guidance. Last quarter, we had guided to 25% to 29% services dollar growth rate. Just trying to understand, you did mention that 8% to 10% on a network engineering side is dependent on a deal. If I just work out the numbers, it would mean that probably on a year-on-year basis, network revenues will go down, am I correct?

Rajiv C. Mody: That is correct. We have seen a degrowth in our networks business from Q4 to Q1...

Kunal Sanghoi: Okay.

Rajiv C. Mody: ...and that area continues to remain a challenge, and I would like Sri to take you through more details on what are the issues over there and how do we plan to mitigate over there.

Kunal Sanghoi: Sure.

Srikanth Kannankote: See, the top five network equipment manufacturers constitute quite a bit of revenues for us and the kinds of deals that are coming through would be what I would call as large deals from them. The space seems to be sluggish, you know, and then we don't know what the consolidation is and how it is going to clear out. The enterprise and data communications needs as well as emerging technology needs are increasing whereas the traditional technologies, you know, is looking towards the bend of the knee, so to say. So, we are being...when we see the deals, these deals are generally for larger, larger components along with the different business models than the traditional...traditional project-based or resource-based kinds of, you know, kinds of deals that come our way and generally these are a longer sales cycle than shorter sales cycle. So, as we begin to see this space, we initially said 8% to 12% as our growth, but we see that, you know, we truly cannot come out and say that we can stick to that as these deals are taking longer times in terms of coming to conclusion and the space itself is quite challenging, right. So, from that perspective, you know, these deals could be considered as binary deals in terms of win or loss and then many times when something is binary, we don't want to take that as part of our guidance.

Kunal Sanghoi: Sure. My question is with regards to the existing revenues from these sides, network engineering, whether that is at any kind of risk, should we see or could be there some surprise with regards to decline in these revenues.

Srikanth Kannankote: I would say they are more or less stable, I mean there you may see things coming down, maybe in smaller components and smaller projects. So, when we say degrowth from Q4 to Q1, we are not talking about big projects degrowing, but we are talking about these smaller projects where there is discontinuation of some projects basically because, you know, our customers themselves may take some issues around accumulation of that given the R&D focus that they may want to take. So, you know, we are not talking in terms of degrowth in a big capacity, we are talking about smaller performance.

Kunal Sanghoi: Okay. Second question is with regards to this attrition, we have seen this has been, you know, one of the highest in the industry, almost 30%. What could be the reasons for that.

Hari Iyer: There are two basic reasons that I believe that this time we had a spike in the attrition. As Sri and others have said that our network business has had a degrowth kind of thing, so we saw a lot of people we lost in the networks business area. Second thing, of course, we had kind of postponed our salary review process from April to June. So, we also saw some of the those people leaving because of that and there was also this, what we call as expectation that there may not be a big increase in the sal. So, we have reviewed that and come back with trying to work out on the rupee depreciation that has happened and we have increased our salary range from 10% to 15% and we hope to see some betterment happening this quarter on that, but these are basically the reasons, the degrowth in our network as well as the delay in our salary review cycle by about a quarter.

Kunal Sanghoi: So, we are planning to give about 15% wage hike this year?

Hari Iyer: That is our expectation.

Kunal Sanghoi: Okay. The other question that I had is with respect to the, you know, total SG&A spend. We have seen that SG&A spend has more or less remained constant in absolute terms. Would I say this is very tightly managed and not sustainable, is it fair to assume that?

Neeta Revankar: This is definitely sustainable.

Kunal Sanghoi: Okay.

Neeta Revankar: We don't see any issues. Yeah, if you are expecting it to remain flat forever, no, it will not remain flat. There could be marginal increases, but what we are saying is that there should be the scale impact on SG&A. So, as business grows, SG&A as a percentage of revenues will decline at a steady pace.

Srikanth Kannankote: It is also fair to say that what we will look at is last...what we will look at is to really carefully on the customer pacing for, you know, the SG&A. So, we want...none of this reflects the fact that we are not going to add sales people or marketing people, so we will look at the customer pacing elements and also certain basic things that we would need from the business, but obviously, we will manage it tightly but not towards the customer and revenues affecting any of this

Kunal Sanghoi: Okay, alright. Neeta, one question, what is the current hedge position?

Neeta Revankar: We have about 49.5 million dollars of hedges...

Kunal Sanghoi: Okay.

Neeta Revankar: ...at an average exchange rate of 40 rupees 80 paisa.

Kunal Sanghoi: Okay. Rajiv sir, one question with regards to this buyback, whether have we taken this on agenda to look at?

Rajiv C. Mody: Do you have any specific question on that because the, I mean the thing on buyback is we are in discussion with SEBI at this time.

Kunal Sanghoi: Okay. So, any probably communication from SEBI with respect to when it can go through or any...

Rajiv C. Mody: No, we cannot predict that with greater accuracy than the fact that we are discussing with SEBI on some of the clause agreements, overall.

Kunal Sanghoi: Okay, alright. Last question on ConnectM, how do you see...could you just give us an update and how is the pipeline there?

GV: Yeah, this is GV.. Pipeline is pretty...building up pretty nicely. We have a few customers primarily from industrial segments and we have started to take it also to the medical electronics and the utility segment, so that is where we are, but it will continue to be in investment mode pretty much through this year.

Kunal Sanghoi: Okay, okay, thank you and all the best.

Rajiv C. Mody: Thank you.

Moderator: Thank you very much sir. Next question comes from Mr. Ruchit Mehta from HSBC. Over to you sir.

Ruchit Mehta: Yeah, hi, good morning. Can you just, you know, last year I think on the services front, we did about 135 odd million dollars if I am



not mistaken in revenues and out of that, if you can break it up between, you know, three major verticals, you know, essentially on the network side, the handset front and the semicon front please.

Srikanth Kannankote: I think it was...while Neeta is looking at it, 30 million was in the semiconductor area

Ruchit Mehta: Okay.

Srikanth Kannankote: Around 47 to 48 million dollars would be from the handset for the year, right, for the last year, and then about 53 million from the network segment.

Ruchit Mehta: Network spaces. Hello...

Srikanth Kannankote: Yeah.

Ruchit Mehta: Okay. And on this, you know, the large deal that you are chasing it is essentially to grow the business by 8% to 10%, how prolonged is the sales cycle and, you know, when do you expect will get a, you know, good enough clarity on that, would be say the end of this quarter or it may take all the way up to the end of the third quarter as well?

Srikanth Kannankote: It is tough to predict, I mean some of the current deals that we are working on have been spanned over a couple of quarters.

Ruchit Mehta: Okay.

Srikanth Kannankote: And these are also deals of different partnership models, business models, so I would give an 180-day sales cycle as a norm in this kind of thing.

Ruchit Mehta: Okay, okay. And also on the wage front, when exactly do you take the wage hike, I mean in which particular quarter?

Hari Iyer: It is going to taken this quarter.

Ruchit Mehta: Q2?

Hari Iyer: Q2.

Ruchit Mehta: Okay, great. And also on the products front, you know, you were mentioning that you will essentially be EBITDA neutral assuming there is no royalty. So, if one were to strip off the royalty, essentially make ballpark breakeven kind of numbers.

Srikanth Kannankote: Right, correct.

Ruchit Mehta: Okay, but, you know, if you look at this quarter's disclosed EBITDAs, I mean they actually were, you know, about 7 odd crores of EBITDA where royalty and everything was just about 3 odd crores. So, is there an improvement in the underlying business over there and should we actually anticipate that even without any royalty, there would be some, you know, positive profit margins.

Srikanth Kannankote: You know, there are three components to our products revenues. One is the customization or the license fee interest. The tough one to predict is the royalty fees. The second tough one to predict would be the customization fees. The licensing is too much to predict. So, I think we would at this point stay at the EBITDA neutral without any royalty that we are just taking into consideration.

Ruchit Mehta: Okay, great. And just a couple of things on your PL, can you tell me what is the tax rate going to be for the full year because...I mean considering this quarter, it was just about, you know, 30 odd percent, so...

Neeta Revankar: Yeah, taxes should be at a similar range through the year, 2.5% to 3 to 3.5%.

Ruchit Mehta: Hello...could you...

Neeta Revankar: Taxes will be in the range that we have seen in quarter one.

Ruchit Mehta: Okay, 30% of PBT.

Neeta Revankar: Yeah, pretty much.

Ruchit Mehta: Any reason why it is so high...

Neeta Revankar: See, we have been saying this repeatedly, taxes is really a function of the way our revenues are distributed.

Ruchit Mehta: Okay.

Neeta Revankar: We have 24% of our revenues coming from India-based businesses.

Ruchit Mehta: Okay.

Neeta Revankar: So, that is entirely chargeable to tax.

Ruchit Mehta: Okay.

Neeta Revankar: Licensing and royalty attract the pooling taxes.

Ruchit Mehta: Okay.

Neeta Revankar: And onsite, we have a Germany center where taxes are 45%.

Ruchit Mehta: Okay.

Neeta Revankar: We have profits from Finland where taxes are in the high 20%, 28% or 29%.

Ruchit Mehta: Okay. So, essentially, overall it is sort of high taxes or any which ways.

Neeta Revankar: That's correct.

Ruchit Mehta: Okay, great. And just on your hiring front, I missed out on the figure, I mean I believe we were looking at hiring 700 people, is there any revision to that figure.

Hari Iyer: We had said that we would have about 700 people additions when we talked about at Sasken.

Ruchit Mehta: Okay.

Hari Iyer: We believe that we will go up to 500 only. Now we are revising it to 500.

Ruchit Mehta: Okay.

Hari Iyer: Yeah.

Ruchit Mehta: This is on back of the slow growth in the network side that you are expecting?

Rajiv C. Mody: You are right and also the revenues coming from...high revenue areas like Finland and Germany, etc.

Ruchit Mehta: Okay, great. And just on the CAPEX front, how much are we looking to spend this year?

Neeta Revankar: Through the year, we will spend about 45 crores. We have spent about 6 crores already in the first quarter.

Ruchit Mehta: Okay, great. And finally, what is the total cash and cash equivalents of the balance sheet as of June 30<sup>th</sup>?

Neeta Revankar: We had about 76 crores of cash.

Ruchit Mehta: Okay.

Neeta Revankar: We actually generated about 22 crores from operations.

Ruchit Mehta: Okay, thank you so much.

Rajiv C. Mody: Thank you.

Moderator: Thank you very much sir. Next question comes from Mr. Prateesh Krishnan from DSP Merrill Lynch. Over to you sir.

Prateesh Krishnan: Hi, good morning. Just want to understand the guidance once again. What you are saying is that on the network side, there is a large deal that you are chasing and in case you win the deal, you could probably, you know, increase revenues by 8% to 10%, but if you just, you know, the sort of binary kind of deals, if you lose the deal, I mean what happens.

Sri Kannankote: There is greater than one. I mean there are multiple large deals and each one these deals are, you know, different deals than traditional deals. There are fixed price projects or resource increasing kind of a deal. These are partnership kinds of deals and the reason we are saying binary deals are because, you know, we cannot predict as to, you know, what kinds of terms can we ask for and then, you know, what kinds of financials would come into play in terms of the deals and then we felt that it was best for us to keep them as binary deals.

Prateesh Krishnan: Okay.

Sri Kannankote: It is definitely more than one, and we wanted to keep it conservative in terms of the way that we look at it and then that is why we are saying what we are saying about the networks business.

Prateesh Krishnan: Okay. So, just in case, you know, if you lose the deals, I mean should we assume a flat kind of revenues or should we assume that revenues probably can decline also.

Sri Kannankote: We have said that in Q1, there is some degrowth, you know...

Prateesh Krishnan: Yeah.

Sri Kannankote: ...I am not saying big degrowth of any major project, but I am saying component-wise degrowth of business and if some of these deals may not come through, there may be some degrowth in terms of the networks business.

Prateesh Krishnan: Okay. And just on the products business, I mean, just want to understand, you know, what percentage of your product revenues, you know, do you realize in US dollars or probably in Euro?

Rajiv C. Mody: I think, you know...

Neeta Revankar: Most of revenues from products are in US dollars actually.

Prateesh Krishnan: In US dollars?

Neeta Revankar: That's correct.

Prateesh Krishnan: Yeah. So, it will be fair to assume that, you know, even in this quarter, you know, given the rupee depreciation in dollar terms probably, you know, the product revenues would have declined sequentially or...

Neeta Revankar: That's correct. They have declined by 3% sequentially in dollar terms.

Prateesh Krishnan: Okay. And, you know, finally coming to the attrition, like attrition levels are clearly, you know, increasing, I mean any reasons as to why, you know, the attritions are so high for you?

Hari Iyer: See, as I told before that we had these two things that contributed to our attrition. One is see we had a large number of people working in our networks area, I mean as they have not seen growth and actually there has been a degrowth, so lot of people left. So, that was one of the reasons for our attrition. The second one of course we had kind of changed our cycle, salary review cycle from April to July, right.

Prateesh Krishnan: Yeah.

Hari Iyer: So, that also created some amount of attrition in the system. Now that we have reworked our numbers and said from 10% we are going to go to 15% in terms of salary, we will see some reduction in our attrition.

Prateesh Krishnan: Sure. And the employee numbers you are talking about 500, this is at the gross level, right.

Rajiv C. Mody: This is at the net level.

Prateesh Krishnan: Net level.

Rajiv C. Mody: Yeah.

Prateesh Krishnan: Okay, yeah, thanks a lot.

Rajiv C. Mody: Yeah.

Moderator: Thank you very much sir. Next question comes from Ms. Mythili Balakrishnan from JP Morgan. Over to you ma'am.

Mythili Balakrishnan: Hi.

Rajiv C. Mody: Hi.

Mythili Balakrishnan: Just a couple of questions, of the telecom handsets, could you just comment on what is the environment that you are seeing currently because that has seen at least on the mid and high range set of phones, there has been some deal of weakness which has been seen by most of the vendors.

Rajiv C. Mody: The handset market for us is where we work with the top five, each of the top five handset manufacturers. So, you see changes there in terms of the rankings between one and five, but the top five remains top five and we also are looking at working on, you know, some of the high-end phones. The indications from what we see is really quite what we assumed in terms of our guidances. We continue to see some good traction from, you know, from these...from the market, from these guys, yeah, albeit, it may balance off one way or another given that we work with all the top five, we still continue to be pretty much on track in terms of what we told you from a growth perspective.

Mythili Balakrishnan: Okay. In terms of the German unit which you had acquired, what was the contribution during the quarter?

Neeta Revankar: We had a little below a million dollars of revenue from Germany.

Mythili Balakrishnan: Okay, thank you.

Moderator: Thank you very much ma'am. Next question is a followup from Mr. Sanghoi from Edelweiss. Over to you sir.

Kunal Sanghoi: Yeah sir, one question with regards to this licensing and customization, if you can give, you know, broader outlook with respect to these revenue streams?

Sri Kannankote: Yeah, it is a tough, it is a tough, you know, wish I could, I mean it is a tough thing to tell, in terms of even customization, there are two elements that can really, really impact that. One is what we call is, you know, modification of our roadmap for features, customers may say that this feature is important for me, accelerate it, things like that, that sort of takes our priority changes and then we have to work. The second thing is derivatives. They may have certain, you know, functionalities that we have may done for them licensed it and they may ask us to do modification so that it would fit into the new derivatives or the new models that are being implemented. The amount and the numbers and the changes are pretty dynamic, you know, so...and that is why you sort of see, you know, customization revenues go up. One quarter reduces, another quarter licensing increases, so I think it suffices to say that we have, you know, sufficient handle on the streams and revenues to say that we will be EBITDA breakeven just...without considering any royalty, you know. Anything beyond

that would be speculative from our perspective. So, you know, I would rather stay not saying anything.

Kunal Sanghoi: Yeah, I appreciate it. Thank you.

Moderator: Thank you very much sir. Next question comes from Mr. Krudant from Valley Quest Research. Over to you sir.

Mr. Krudant: Hello...

Rajiv C. Mody: Hello...

Mr. Krudant: Sir, you have hedged 48.5 million dollars at what price?

Neeta Revankar: At 40 rupees 80 paisa.

Mr. Krudant: And it will cover how many quarters?

Neeta Revankar: See, our policy is to hedge 12 months forward net receivable...

Mr. Krudant: Okay.

Neeta Revankar: ...to the extent that we have contracts in hand.

Mr. Krudant: Okay, that's fine, thanks. Sir, you said you are facing short-term challenges in network business, so can you give some details about the same?

Sri Kannankote: I think the whole network segment, you know, is continues to remain sluggish and the top five, you know, may be other than one or two, in the top five, there is some, you know, relook at their product portfolios, what they want to be, what they want to do with their R&D and there is also some relook that we see in terms of the business model, and the way they engage with their offshore partners. So, that means what we are seeing is some larger deals, you know, in terms of business models which could be quite challenging from both our customers and ourselves. So, we have sort of taken that into consideration that we had given a guidance of 8% to 12% in the network space and then now we are sort of being cautious about that and then given that way may or may not win these deals, you know, they even have some small element of degrowth in that business.

Mr. Krudant: Sir, you are saying that there would be a wage hike of around 15%, so would your EBITDA margins remain same or would they go down?

Neeta Revankar: See, there could be some, you know, dip in some quarters in EBITDA, but we are committed to delivering on our EBITDA guidance for the whole year.

Mr. Krudant: Okay, thanks a lot.

Moderator: Thank you very much sir. Next question comes from Mr. Shrivatsan from Spark Capital. Over to you sir.

Mr. Shrivatsan: Hi. Just looking at the metrics, this quarter the revenues from India has increased sharply. Is it more due to a good traction in the SNEL business or is it because of outside business billed through India entity?

Sri Kanankote: I think there are some increases in revenues from our Indian customers and then I think there is also the SNEL business seems to be...it is down, so it is not the sell business, so our R&D business is the one that is causing for the increase.

Mr. Shrivatsan: Okay. And then the R&D expenses have fallen quite significantly, my guess is it is more due to the policy we have taken on the products business, do you see R&D continuing on sort of a similar range of about 1.5 to 2 crores for the year. Last year, we have taken an average of 5 crores for a quarter, about 22 crores for the whole year, whole year investment, what has been about 1.5 crores so far. So is it something that is a trend that you can expect to continue.

Rajiv C. Mody: Yeah, at present, the R&D investments we are making are primarily directed towards our S series and our M series and part of it is also due to the continued small team that is working on the E series. So, that kind of 3625 summarizes the cost that we are incurring on the R&D side. We also have, as we had explained earlier, some of the R&D, we are getting reimbursed by our customers in the form of NRE and that is the change in the model that we are executing on. So, those things would go in cost revenues and not show in the R&D segment, but having said that, we are ensuring that we are ahead of the curve as much as we require from the market perspective on the S series on an ongoing basis because we are committed to seeing that our products business remains at EBITDA neutral level for the full year. That doesn't mean we are not investing in the R&D side, on the services side too. We do that, but we kind of factor it as towards cost of revenues because that is where it belongs.

Sri Kannankote: Okay. Just would like to have an update on the products business. If I remember correctly about the...as of now we are using royalty revenues only on the multimedia protocol and we are not receiving royalty revenues in any other protocol. With another tier I vendor expected to ship, is it something that we are talking about the WCDMA protocol.

Rajiv C. Mody: That is correct. We expect that shipment to start in this quarter, so we are keeping our fingers crossed. There are multiple models being launched and depending on how successful they are, we



should start seeing royalty streams coming in and hope that it remains in a sustained manner. Yeah, Sri...

Srikanth Kannankote: Just one more addition to that. There are about five to six models that bear royalty in the multimedia space. So, it is just not the protocol space that bears royalties.

Mr. Shrivatsan: Yeah, the multimedia has a few NECs, Panasonics, and the Motorolas from what is observed.

Rajiv C. Mody: That is correct.

Mr. Shrivatsan: Neeta, just want to have an understanding of the Forex, assuming rupee continues at similar level, my guess we will end up having a small Forex loss because of the hedge at 40.8. Is this understanding correct?

Neeta Revankar: Not really, we have mark to market everything already.

Mr. Shrivatsan: Okay. So, the 7 crore loss that we see in the penal is more because of the mark to market of these hedges.

Neeta Revankar: That is correct. 5 crores of that is because of mark to market beyond debtors.

Mr. Shrivatsan: Okay. And then is there any loss due to reshipment of the Euro loan that we had taken for Botnia acquisition?

Neeta Revankar: No, none at all.

Mr. Shrivatsan: None at all, okay, thank you.

Moderator: Thank you very much sir. Next is a followup question from Mr. Ruchit Mehta from HSBC. Over to you sir.

Ruchit Mehta: Yeah, hi. Just on the margins I just want to clarify, you know, assuming that, you know, the network side the business doesn't win those accounts that we are gunning for and the revenues remain say flat, would you still be able to hit the 19% to 20% margin that you have guided for?

Neeta Revankar: Absolutely. As I mentioned, we are on track at all other efficiencies.

Ruchit Mehta: Okay. And only risk could be if it degrows in the quarter, I mean degrows in the year?

Neeta Revankar: I am sorry...

Ruchit Mehta: Only risk could be if it regrows.

Rajiv C. Mody: If it remains flat from what levels it is in Q1, we still are confident of meeting the EBITDA guidance that we are giving.

Ruchit Mehta: Okay, just a clarification, in FY 09 could you give us the US dollar figure for these, I mean services business and the split between the networks, handsets, and telecom equipment.

Neeta Revankar: We don't normally share this information.

Ruchit Mehta: Okay, not a problem, thank you so much.

Moderator: Thank you very much sir. Participants who wish to ask questions, may kindly press \*1 on the telephone keypad. Next in line, we have Mr. Ruchir Desai from Pioneer Invest. Over to you sir.

Ruchir Desai: Hi, good morning. Just a question on your products business, what is the outlook for the E series platform which you spoke about that you have frozen investments on that and what has happened with capitalized software expenses which you capitalized for this, want the outlook on that.

Rajiv C. Mody: The outlook on the E series remains the same as what it was in the last quarter as we had said. We have a small team working on it, maintaining it. We are looking at alternatives for the E series itself and we plan to take a decision on the capitalized software by end of this quarter and how to deal with it.

Ruchir Desai: Alright. Just back to the guidance again, you seem pretty confident to achieve the guidance in the handset and the semicon space, so does that imply that your visibility over these revenues would improve as compared to when you spoke to us last quarter, can you just comment on that.

Rajiv C. Mody: That is correct and I would like Sri to comment in more detail on both semiconductors and handsets business, the visibility improvement.

Srikanth Kannankote: I think the semiconductor industry is where we will see some demand would be on the software side because of the nature of the changes in terms of the kinds of solutions that they have to offer to their customers and in the handsets space, you know, since we work with the top five OEMs and then today we are engaged both in terms of integration services as well as professional services with them, we feel confident to say that the guidance that we have provided, the 30% to 40% guidance as well as the 20% to 25% guidance in the semicon industry is doable.

Ruchir Desai: Great. Just the last question, what will be the onsite wage hikes for next quarter, you mentioned offshore it is 15, what will be onsite?

Hari Iyer: Onsite wage hike, we normally have 3% to 4%, but if at all there are areas that we need correct, we are willing to do that.

Ruchir Desai: Alright, great. Thanks and all the best.

Rajiv C. Mody: Thank you.

Moderator: Thank you very much sir. Next question comes from Mr. Abhishek from ENC. Over to you sir.

Mr. Abhishek: Hi, good morning.

Rajiv C. Mody: Good morning.

Mr. Abhishek: First of all, congratulations on a great show in the last quarter. Well, I have a couple of questions, first of all regarding the buyback, what are the exact reasons given by SEBI for, you know, the approval...the delay in approval.

Neeta Revankar: I am sorry, could you just repeat the question please.

Mr. Abhishek: Sure....you are still in talks with them...

Neeta Revankar: Yeah.

Mr. Abhishek: ...the reasons for the delay, it has been say almost three months now.

Neeta Revankar: See, the situation is this, when we took the decision to go ahead with the buyback in April, that was based on existing practice relating to buybacks, but after we made our public announcement and submitted the documents in SEBI, SEBI required just to make a few changes to the way we go about the buyback. Now, that would actually change things and probably change the entire rationale based on which we had announced the buyback, but since they are so critical to our decision, we are talking with SEBI and trying to get them to remove those restrictions because in our view complying with those requirements of SEBI could actually negatively impact our shareholders in the long run.

Mr. Abhishek: Okay. So, are there any changes of cancelling the buyback?

Neeta Revankar: It is really very early to comment on that. I don't think that is the path on which we are headed right now.

Mr. Abhishek: Okay. And, you know, based upon the deals which are in the pipeline, where do you see your, you know, EPS and the share price by next quarter, if I can get a sense of....

Neeta Revankar: We actually don't give any EPS guidance.

Mr. Abhishek: Okay. And any certain target...

Neeta Revankar: Sorry, you are breaking up completely.

Mr. Abhishek: I am saying that what are the price targets you have internally for the share price for the end of the year?

Neeta Revankar: We don't take any share price targets, that is what you guys determine.

Mr. Abhishek: Thank you and best of luck.

Rajiv C. Mody: Thank you.

Neeta Revankar: Thanks.

Moderator: Thank you very much sir. Next question comes from Mr. Nandan Sarkar from BNK Securities. Over to you sir.

Nandan Sarkar: Sir, I wanted to know what is happening on the products front, we have had two consecutive very good quarters and are we really going to ramp down investment in the product business or we continue with the same or maybe increase it too. I also wanted to know the number of people in the products business in the last two quarters.

Rajiv C. Mody: I think if you heard from Sri that we have seen progress from our products business both in terms of licensing and newer models getting shipped and things of that nature and you also heard Sri say clearly that at the EBITDA level we are committed to running it on a EBITDA neutral basis on a full-year basis. We are continuously waiting and watching in terms of what are the phones that ultimately are reaching the market which are growing in revenues on royalties because as you know while we have revenues come in both from NRE as well as licensing, the big kicker comes in when those models hit the market and become big successes and that is where we have been saying that there is no way for us to predict it. So, we are waiting and watching and we are making appropriate investments also as we go forward, but within these constraints, these bounds that we have set ourselves for.

Nandan Sarkar: Okay. Sri, why don't you add more to it.

Srikanth Kannankote: The only think I will add to what Rajiv said is we have approximately around 300 people that work in our products business. So, there is a substantial amount of investment that continues to happen such as this and then as we said that we have reached a steady state in terms of M series and then we continue to invest based on our specific customer requirements and then what are the, you know, we had a design win, I mean a

design win this year, this quarter from one of the tier I centers that we talked about and the design in with another one, even in the M series. So, as we talk about S series, you know, we have been progressing our M series.

Rajiv C. Mody: And we expect the M-Series, the wideband CDMA protocol stack on which we have been working on for almost last three years to see the shipments happening starting this quarter.

Nandan Sarkar: Okay, thanks a lot sir.

Rajiv C. Mody: Thank you.

Moderator: Thank you very much sir. I repeat, participants who wish to ask questions, may kindly press \*1 on the telephone keypad. Next question comes from Mr. Akshay Kiran from Span Capital. Over to you sir.

Akshay Kiran: Hi, good morning.

Rajiv C. Mody: Good morning.

Akshay Kiran: Let me congratulate you for good set of numbers. Can I get the numbers of debtor days...hello...

Rajiv C. Mody: Yeah, yeah.

Akshay Kiran: Can I numbers of debtor days?

Neeta Revankar: Debtor days.

Akshay Kiran: Yeah.

Neeta Revankar: That would be about 99 days.

Akshay Kiran: And can I get the numbers of cash flow?

Neeta Revankar: You want the breakup on cash flow from operations, we made about 22 crores from operations.

Akshay Kiran: 22 crores from operations.

Neeta Revankar: That's correct.

Akshay Kiran: Okay, thanks...thanks.

Rajiv C. Mody: Thank you.

Moderator: Thank you very much sir. At this moment, there are no further questions from the participants. I would like to hand over the floor back to Mr. Rajiv Mody for final remarks.

Rajiv C. Mody: Once again, I appreciate, thank you all for joining in on the call and we look forward to coming back and discussing our performance at the end of the second quarter. Thanks a lot to all of you.

Moderator: Thank you very much sir. 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 and have a nice day.

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