

Sasken Communication Technologies Limited
Quarter One Earnings Conference Call, Financial Year 2010
July 20, 2009

Moderator: Good morning ladies and gentlemen. I am Sandhya, the moderator for this conference. Welcome all to the Q1 FY 2010 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 financials 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. Now, I would like to hand over to Mr. Rajiv Mody. Thank you and over to you sir.

Mr. 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 30th 2009. I am joined on this call by my colleague, Neeta Revankar, CFO and HR Head; Dr. G. Venkatesh, Head of Worldwide Delivery and Executive Director to the Board of Sasken; and Dr. T. K. Srikanth, Vice President and Head of Business Development and Portfolio; and Rajesh Maniar, Vice President, Finance.

Let me begin by taking you through our financials for the first quarter ended June 30th 2009. The consolidated revenues for the Sasken Group for the first quarter declined by 17% over the corresponding quarter in fiscal 09 and 17% over the previous quarter to rupees 139.5 crores. Earnings before interest, depreciation, taxes, and amortization cost for the first quarter FY10 was at rupees 34 crores, a decline of 45% over the previous quarter and 34% over the corresponding quarter in the previous financial year. Consolidated PAT for Q1 FY10 was at rupees 20.2 crores, higher by 423% over the previous quarter and up by 47% over corresponding quarter in the previous year. PAT margins for the quarter was at 14.5%.

Software services revenues for Q1 dropped 12% in rupee terms over the previous quarter to 138 crores and 8.5% in USD terms. EBITDA margins for the services business for the quarter contracted to 18.6% primarily due to volume and bill rate reductions and exchange rate movements. The consolidated earnings per share for the first quarter was rupees 7.5. The services business delivered an EPS of rupees 8.1 for the quarter.

Cash and cash equivalents as on June 30th 2009 was rupees 165 crores as compared to rupees 132 crores at the beginning of the year.

The consolidated Sasken headcount as of June 30th 2009 stood at 3,191.

We added 4 new customers taking the total number of active customer to 94. Due to the vacations in Europe, traditionally we see a volume drop in our second quarter and we expect that to continue this year as well and this is in the range of about 8% to 10%. On the business front, opportunities are opening up in the semiconductors and the handset space. We have added customers with projects in new technology areas including Bluetooth, mobile internet, and web runtime, antenna design and Android platform while continuing to strengthen our position in satellite communication segment, given our IP and expertise in the mobile handset space. The Semiconductor Industries Association reported that worldwide sales of semiconductors rose 5% in the month of May and this was the third consecutive month of growth for the industry. We have also seen up-tick in the semiconductor segment and 3 new accounts that we penetrated in the last financial year have quickly scaled up to greater than 1 million accounts on a run rate basis.

We added a few key customers in North American region which are expected to become large, long, ongoing partnerships for Sasken over the next several quarters. R&D outsourcing market in the handset segment is expected to grow at approximately 15% and we believe that the capabilities across the R&D value chain, we are in a prime position to serve this market. Outsourcing of application, user interface solutions, and testing of different elements at units, system and field testing levels will continue to grow as OEMs and operators look to move activities to third parties located in low-cost locations such as India and China. The networks business continues to remain a challenge, but certain large opportunities have emerged during the last quarter and we are gaining some traction with leading satellite communication companies providing network infrastructure solutions. We continue to make investments in 4G technologies like LTE, which we believe is the growth area in the network space.

We believe we have taken adequate measures to protect the company in the tough environment and are now preparing for the next growth cycle. To conclude, I would like to reiterate that we continue to work closely with our customers, sensing their expectations and exceeding them, thereby strengthening the foundation of our business with the twin objective of achieving profitable growth and sustained value generation for all our stakeholders.

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

Moderator: Thank you very much sir. 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 participants at India Bridge. Thank you and over to you Geisha.

International Moderator: At this time, if you would like to ask a question, please press * and the number 1 on your telephone keypad; press * and the number 1. At this moment, there are no questions at this time.

Moderator: Thank you very much Geisha. 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, please press *1 now. First in line, we have Mr. Prashant from Retail Investor. Over to you sir.

Mr. Prashant: Hi. This is a question for the CFO. Now, I am seeing that the cash levels of the company have gone down in this quarter. So, can you please throw light on the operating cash flows, investment cash flows, and the financial cash flows?

Ms. Neeta Revankar: Actually, cash levels have increased if we look at cash and cash equivalents and the investments that we have made. Even in the opening remarks, Mr. Mody has mentioned that the cash balances have increased from rupees 132 crores to 165 crores, yeah. So, if you want to look at cash from operating activities, we have generated about 42 crores from operations. We have invested in mutual funds and fixed deposits and our own CAPEX, about 50 crores, and we have repaid loans of about 6 crores.

Mr. Prashant: Right. How much would you say you have cash in hand to support your...how many months need of sustenance, shall we say the working capital?

Ms. Neeta Revankar: Cash in hand that we have is about 165 crores, should take us about...it is roughly four months expenses for us.

Mr. Prashant: Did you say six months?

Ms. Neeta Revankar: Four months.

Mr. Prashant: Okay, right. Great, that was all from my side. Thanks a lot.

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

Mr. Ruchit Mehta: Yes sir, in terms of the quarterly revenues, could you just...what was the dollar figure?

Mr. Rajiv C. Mody: Yeah, in dollar terms, we have done total of 28.9 million dollars.

Mr. Ruchit Mehta: Versus last quarter was how much?

Mr. Rajiv C. Mody: Last quarter was 33.44 million dollars.

Mr. Ruchit Mehta: Okay. And you also mentioned that Q2 also is seasonally weak for services, about 8% to 10% volume dip you expect?

Mr. Rajiv C. Mody: That is correct.

Mr. Ruchit Mehta: And concerning, you know, whatever has happened in Q1 and also the outlook for Q2, how do you services now panning out for the, you know, entire year, I mean, given the various components that you have of both, you know, semi-con, handset, and network space?

Mr. Rajiv C. Mody: We are expecting starting Q3 the increase in volume to happen. However, let me assure you that the environment is challenging and tough. As you know, we have Nortel as our customer and we continue to serve them and they are going through their restructuring and those aspects, so it is difficult for us to predict the outcome. However, we have enough and more indications to point to the fact that we continue to be core and critical part of whatever we deliver to them and to their customers, but net-net we are expecting starting Q3 the volumes to start showing up on the services side. And Q2 is primarily because of the vacation period that traditionally happens in Europe.

Mr. Ruchit Mehta: And this would be year-on-year volume drops or, you know, quarter-on-quarter volumes will drop off?

Mr. Rajiv C. Mody: From Q1 to Q2, we are saying that there will be a volume drop from Q1 to Q2.

Mr. Ruchit Mehta: Okay. And just in terms of getting a sense of the Q1, you know, the services side of the business, what, I mean, the 12 odd percent degrowth that we have seen, you know, what actually went through and any major customer ramp-downs or loss of accounts because, you know, Nortel to some extent is something known and we have rated and there is no great issue there. So, just want to get some better sense of what happened in the quarter really.

Mr. Rajiv C. Mody: Primarily we have seen some ramp-downs in certain areas where our customers have decided not to continue, but we have not lost any customer per se from Q4 to Q1.

Mr. Ruchit Mehta: Okay.

Mr. Rajiv C. Mody: Essentially we have seen a 8.5% drop in volume terms from Q4 to Q1.

Mr. Ruchit Mehta: Okay, okay. And which base would this...within semi-con, handset, and network, where would the maximum impact have been?

Mr. Rajiv C. Mody: We have seen impacts on both the semi-con side as well as on the handset side. So, that is when we look at Q4 and Q1.

Mr. Ruchit Mehta: Okay.

Mr. Rajiv C. Mody: However, we are starting to see growth coming from both of them going forward.

Mr. Ruchit Mehta: Okay, okay. And also in terms of the margin, I mean, considering the dropoff in volumes that we have, you know, factored in for Q2 as well, on an overall basis, you know, we had been looking at, you know, maintaining service margin around 20-22% levels. For this year as a whole, can we get back to those levels, I mean, year as an average, by Q4 you will be back to the 20-22 range?

Mr. Rajiv C. Mody: Yes, we expect that we will be in that range provided the exchange rate is somewhere around 48 rupees to a dollar.

Mr. Ruchit Mehta: For the full year or just for by the end of the fourth quarter?

Ms. Neeta Revankar: For the year, we expect that we will average out EBITDA in the range of 20% to 22%.

Mr. Ruchit Mehta: 20% to 22%, okay. Thank you.

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

Mr. Srivatsan: Yeah, hi. Just wanted to understand what is happening in the product space because there has been a significant drop in terms of revenues in all forms. Just wanted to know is that something that we should look out for or what should we be looking at going ahead?

Mr. Rajiv C. Mody: In the products thing, what you should be looking at is the revenues that we generate out of royalties from the existing signed deals both on the media side as well as on the protocol stack side. When you look a comparisons between Q4 and Q1,

there is a drop primarily because of the fact that we have not recognized any royalty revenues out of our product sale in Q1 over Q4 because we didn't receive any reliable reports that would make us comfortable to recognize any revenues from the royalties, but we can assure you that the products that are embedded inside the phones both with NEC as well as with SB Electronics, they are shipping and we expect the royalty revenues to start showing up in this quarter.

Mr. Srivatsan: Okay.

Mr. Rajiv C. Mody: But impact could be there because of volumes and all which are market led for which we have no control over.

Mr. Srivatsan: Sure, sure, sure. Because I was surprised to see no royalty revenues.

Mr. Rajiv C. Mody: No, no, because we didn't receive any reliable reports from our customers, we have not recognized any revenues.

Mr. Srivatsan: Okay. In terms of the overall EBITDA margins that you are talking about because next quarter you are talking about a volume drop, so I would suspect an improvement in EBITDA margin over the next quarter also would be tough and you are so confident that in the last two quarters you can catch up on the EBITDA margin because this quarter we had about 18% EBITDA, I mean, next quarter if volume drop is going to be of 8% to 10%, sustaining EBITDA itself would be the best possible. In the second half, you are factoring in that pricing or volume could drive up EBITDA to such an extent?

Ms. Neeta Revankar: That's correct. We don't expect a very significant fall in EBITDA in quarter two.

Mr. Srivatsan: Okay.

Ms. Neeta Revankar: Which is why we don't expect the catch-up to be very significant in quarter three and quarter four.

Mr. Srivatsan: Okay, okay.

Ms. Neeta Revankar: Yeah, so exchange rate movement is something which can cause this to go beyond our range.

Mr. Srivatsan: Okay. In the current quarter's exchange gains, I have just split it up into the gains on which you are basically writing them for mark to market provision and what would be due to the later restatement?

Ms. Neeta Revankar: Actually, we booked mark to market gains of about 13.4 crores during this quarter.

Mr. Srivatsan: Okay.

Ms. Neeta Revankar: Yeah, so essentially all the losses that we had booked on mark to market to date have all been reversed.

Mr. Srivatsan: Okay. And what is the current hedge book position average rate?

Ms. Neeta Revankar: We have 58.7 million dollars of hedges and average rate is 48 rupees 11 paisa.

Mr. Srivatsan: Okay, great. Thanks a lot.

Ms. Neeta Revankar: Thank you.

Mr. Rajiv C. Mody: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Madhu from Systematix Shares. Over to you sir.

Mr. Madhu Babu: Yes sir, what is the provision for bad and doubtful debt for this quarter?

Ms. Neeta Revankar: Actually, we have not made any provisions for bad and doubtful debts this quarter.

Mr. Madhu Babu: Okay, thank you.

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

Mr. Kunal Sangoi: Yeah, thank you. Rajiv, you did mention about, you know, semiconductors and handset side you did see some drop this quarter and probably you are saying that, you know, that is looking up going forward. Could you tell us what is the mix currently with regards to the network, semi-con, and the handset on the services side?

Mr. Rajiv C. Mody: See, Kunal, we don't disclose that breakup in terms of the split between networks, handsets, and semiconductors. However, we can say that we see...whatever worse we have had to see, we saw in Q3 of FY09, Q4 of FY09, and Q1 of FY10. Q2 is a traditional slowdown because of the vacation period in Europe, but now we are starting to see traction with significant customers of ours in areas which are growth led and very core and critical to our customers' success.

Mr. Kunal Sangoi: Okay. Then, let me ask you this thing that after Q2, you know, when you are guiding to 8% to 10% decline in volumes, what makes you confident that, you know, it may not drop further?

Mr. Rajiv C. Mody: Well, to be very honest with you, the environment that we are operating, it is difficult to kind of say with absolute certainty. The only thing that we are watching at this point in time is ensuring the quality of business that we are engaged with our customers and those engagement seem to be core and critical to the needs to our customer success in the market place.

Mr. Kunal Sangoi: Alright. And Rajiv, on the product side, if you could...you commented on the royalty side, but on the NRE side and the license side, do you see any, you know, revenues because I think, you know, this quarter it has been a sharp drop. So, what is happening there and is it that, you know, this is a defocus area for us or you would continue to look at it as a revenue generating or a cash flow generating business?

Mr. Rajiv C. Mody: See, right now we are not investing any more in any of the new product development activities because we are waiting and watching in terms of what are the new areas and what are the potentials over there before we embark into it. So, today, we are in a mode where we are investing more in areas which have potential for immediate revenue generation and that is where the focus is. However, having said that, we continue to watch and see whether the opportunities are there and then appropriately make the call.

Mr. Kunal Sangoi: Sure. How many people would be involved in this business now?

Ms. Neeta Revankar: About 64 people are in this products business as at 30th.

Mr. Kunal Sangoi: Sure. Alright, thanks a lot.

Mr. Rajiv C. Mody: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Ritesh Khanna from B&K Securities. Over to you sir.

Mr. Ritesh Khanna: Good morning sir. I just wanted to understand can you just break up the 17% decline in your net sales in terms of volume and pricing?

Ms. Neeta Revankar: So, you are talking about decline in revenues from same quarter previous year?

Mr. Ritesh Khanna: No, Q on Q.

Ms. Neeta Revankar: Yeah, so Q on Q, there is a 6.5% decline in volumes.

Mr. Ritesh Khanna: Okay.

Ms. Neeta Revankar: And there is a 2% decline because of bill rates and then roughly 4% on account of exchange.

Mr. Ritesh Khanna: Okay. And talking about the EBITDA margins in the services division, can you also break up in terms of what exactly led to such a high fall in EBITDA margins for services?

Ms. Neeta Revankar: Well, basically two significant matters. One was the exchange rate again which contributed to about a 2% decline and the other 2% was on account of the billing rate reduction. Now, we did have a number of efficiency improvements that happened during the quarter and they were also compensated by a few additional costs that we had to incur. So, net-net, I would say that is largely exchange rate and bill rates.

Mr. Ritesh Khanna: And what are the additional costs that you incurred this quarter?

Ms. Neeta Revankar: They would be on account of things like retiral benefits for employees. In the fourth quarter, we had take some actions which led to a significant write-back and that was not there this quarter. That was one of the significant reasons why we saw cost increasing in the first quarter.

Mr. Ritesh Khanna: Okay. And I just wanted to get a feel like Accenture has acquired Nokia's Symbian services unit recently. So, how does that impact...does that have any impact or what would be the outlook of yours on that?

Mr. Rajiv C. Mody: We continue to serve various customers on the Symbian platform as of today and we have built over a period of time significant expertise in the area of Symbian and Series 60 which is a platform used by many handset customers. So, from a know-how technology perspective as well as from customer engagement perspective, we don't see much of an impact coming to us because of that.

Mr. Ritesh Khanna: Okay. That's it from my side, thanks.

Moderator: Thank you very much sir. Participants who wish to ask questions, please press * followed by 1 on their telephone keypad. Next, we have a followup question from Mr. Prashant from Retail Investor. Over to you sir.

Mr. Prashant: Hi. Again a question for the CFO. I see that there is gain on the currency, there is an income booked against for the gain in currency. Now, last quarter, we were given to understand that the dollar-rupee was hedged at 46 and it has not come below that. So, how was it that the gain has been booked?

Ms. Neeta Revankar: See, we had about 43 million dollars of forward contracts that were open and for those forward contracts, the rate was 49.50 whereas the closing rate for dollars was 47.90. So, this resulted in a gain of 10.4 crores.

Mr. Prashant: Okay, great. And one more...one question for Rajiv. Rajiv, what radical things are you planning to do which can take the company to a next level because it seems to be, you know, to use some harsh words, getting stuck and it is not being able to somehow move to the next level which is the expectation of the investors and the market and all the stakeholders?

Mr. Rajiv C. Mody: Definitely. I think we are looking at...first of all, let me assure you that your company has adapted itself to the changing market conditions and realities being a single vertical-focused company. However, having said that, we are seeing tremendous, I mean, we are seeing opportunities coming our way in this tough environment also, primarily because of the fact that we are able to provide in a focused way lot of value to our customers. So, there is a sword that kind of acts both ways in this environment where if you are single vertical focused, then it may benefit you in some ways, it may not benefit you in some ways. Having said that, we are, as you know, focusing on more of other areas where our core knowledge and capabilities can be utilized particularly in the areas of automotive, what do we call, the other one is consumers, and we have created a separate entity to look at machine to machine communication. So, we are continuing and see that as an opportunity. So, we will come out of this much stronger, yes, we believe. The tough times were there and we have kind of handled it. If you ask me, my feeling, gut feel says, however, it cannot be substantiated any other way that probably the worst is behind us and we are now systematically building from here. This, I would like G. Venkatesh to add to it also.

Dr. G. Venkatesh: Yeah, this is GV. Basically, you know, if you look over the last couple of quarters, we have seen our customers consolidate their suppliers quite a lot and as part of this activity, they have also requested their suppliers to make some concessions in terms of reducing the billings rates, so we have accommodated compared to levels of about 5% for most of our big customers and now that is behind us. Most of their, in some sense, restructuring inside their own companies have been done, we now see...we are waiting basically to see how the consolidation will start to benefit us. In fact, actually in some of the large customers, they are already seeing the benefits of vendor consolidation where they are reducing work from some of their very small suppliers and move that work to us. So, as we go into the second half of this year, we expect to see basically the benefit of vendor consolidation coming to us with our large customers who fortunately for us, they have continued to keep us as one of their preferred suppliers.

Mr. Prashant: Okay, great. So, that sounds like a bullish outlook and I wish you all the best.

Mr. Rajiv C. Mody: Thank you so much.

Moderator: Thank you very much sir. Next in line, we have Mr. Dinesh from Anu Shares and Securities Limited. Over to you sir.

Mr. Dinesh: Hello, good morning sir.

Mr. Rajiv C. Mody: Yeah, hi, good morning.

Mr. Dinesh: Can I get the outstanding hedges, amount of hedges sir, at the average rate and the tenure of the hedges?

Ms. Neeta Revankar: We have about 58.7 million dollars of outstanding hedges.

Mr. Dinesh: Can you talk a little bit louder ma'am.

Ms. Neeta Revankar: 58.7 million dollars of outstanding hedges...

Mr. Dinesh: Okay.

Ms. Neeta Revankar: ...as an average rate of 48 rupees 11 paisa.

Mr. Dinesh: 48 point?

Neeta Revankar: 11, 48.11.

Mr. Dinesh: Okay.

Ms. Neeta Revankar: And the tenure is normally 12 to 15 months.

Mr. Dinesh: 12 to 15 months from here?

Ms. Neeta Revankar: Yeah.

Mr. Dinesh: Okay. Thanks a lot ma'am. That's all from my side.

Moderator: Thank you very much sir. I repeat, participants who wish to ask questions may kindly press * followed by 1 on their telephone keypad. Next in line, we have Mr. Ritesh Khanna from B&K Securities. Over to you sir.

Mr. Ritesh Khanna: Ma'am, in this quarter again, there is an amortization expense of 3.4 million and since last quarter, we had booked majority of the expenses. Just wanted to understand what was this expense for?

Ms. Neeta Revankar: This is regular amortization that happens in our business. There could be intangible assets that we acquired as we go along. There is nothing significant or different about this.

Mr. Ritesh Khanna: Okay. And ma'am, coming back to the fall in EBITDA margins, you just mentioned that there is some retirement benefits which you have given out for the employees during this quarter.

Ms. Neeta Revankar: That is not correct.

Mr. Ritesh Khanna: Pardon me.

Ms. Neeta Revankar: That is not a correct understanding. What I did mention was that in quarter four, we had some reversal because, for example, some of the actions we took resulted in reversal of expenses, okay. For example, leaves, employees surrender some part of their leaves in the fourth quarter, so we had a reversal in the fourth quarter last year, but there was no such thing this quarter. As a result, you will see expenses increased. We have not given employees anything new this quarter.

Mr. Ritesh Khanna: Okay. Right, thanks ma'am.

Moderator: Thank you very much sir. At this moment, there are no further questions from the India Bridge. I would like to hand over the proceedings back to International moderator. Over to you Geisha.

International Moderator: At this time, I would like to remind everyone in order to ask a question, please press * and then the number 1 on your telephone keypad, that is * and the number 1. At this moment, there are no further questions.

Moderator: Thank you very much. Sir, we do have a question at India Bridge. Can we go ahead with that?

Mr. Rajiv C. Mody: Yeah, please go ahead.

Moderator: Sure sir. We have a question from Ms. Bindal Totlani from Dolat Capital. Over to you ma'am.

Ms. Bindal Totlani: Sir, just wanted to know what is the position of the receivables from Nortel, which you had stated in the previous quarter around 24 crores?

Ms. Neeta Revankar: We have about 15.5 crores outstanding from Nortel as at 30th.

Ms. Bindal Totlani: Okay. And is Nortel holding any percentage stake in Sasken?

Ms. Neeta Revankar: That is correct. They hold a stake in Sasken.

Ms. Bindal Totlani: And that is how much?

Ms. Neeta Revankar: It is a little under 10%.

Ms. Bindal Totlani: Okay, okay. Thank you so much.

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

Mr. Rajiv C. Mody: Thank you all for joining in on the call today and we look forward to sharing our outlook at the end of this quarter early following quarter. Thank you once again. Thank 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 lines. Thank you and have a great day.
