# "Q1 FY2013 Earnings Conference Call of Sasken"

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**Moderator** Ladies and gentleman good day and welcome to the Q1 FY2013 earnings conference 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. As a reminder for the duration of this conference all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call, please signal an operator by pressing * and then 0 on your touch tone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Rajiv C. Mody – Chairman and CEO, Sasken. Mr. Mody will take you through the financials and highlights of the quarter followed by Q&A. Thank you and over to you sir.

**Rajiv C. Mody** Thank you Mohsin. 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 30, 2012. Before we begin, we must point out that certain statements made during the call concerning our future growth prospects are forward looking statements. Please read the safe harbor clause in the second slide of our presentation for full details.

I am joined on this call by my colleagues Neeta Revankar, CFO and Global Head – HR, IT and Administration and Executive director to the board of Sasken, Dr G Venkatesh, CTO, CSO and Executive director to the board of Sasken, Rajesh Maniar, Vice President, Finance, Ramesh S, Vice President HR and Ravi Raman, Senior Vice President and Head – Worldwide Sales.

Let me begin by walking you through our financials for the first quarter FY 2013.

In the first quarter of FY 2013, the consolidated revenues for the Sasken group grew by 1.9% over the previous quarter to ₹.132.71 crores. Consolidated Earnings before Interest, Depreciation, Taxes and Amortization costs for the first quarter FY 2013 were ₹.14.01 crores, a de-growth of 44.7% sequentially over the previous quarter. Consolidated PAT for Q1 FY 13 was ₹.14.18 crores, down 20.2 % over the previous quarter. PAT margin for the quarter was 10.7 %. Software services revenues for the quarter were ₹.119.83 crores, increased by 3.4 % over the previous quarter. Software product revenues for the quarter were ₹.12.29 crores, a decrease of 7.9% over the previous quarter. Services EBIDTA margin for the quarter was at 5.6 %. Products EBIDTA margin was at 64.3 %. The consolidated earnings per share for the first quarter were ₹.5.46. Cash and cash equivalents were ₹.194.15 crores as of June 30th 2012.

I will now take you through some of the key business highlights for the quarter. The forces of change in our industry due to rapid evolution of technologies particularly in the mobile devices space combined with uncertainties in the Euro zone have resulted in a challenging business environment. Last year we demonstrated resilience in weathering ramp downs from one of our key customers. We took all action possible within our control to retrain our engineers and address the needs of opportunities from the Android ecosystem. However, as indicated in the previous call, ramp downs from this customer are likely to continue this financial year as well. Notwithstanding these challenges, we remain a valuable partner to our other marquee customers who have consistently been partnering with us and view us as a strategic vendor integral to their product life cycle management.

Our outlook for our Semiconductor business follows:

We take pride in our successful execution of first of a kind project that enabled a leading semiconductor vendor to provide Android upgrades to its handset OEM customers. We were able to capitalize on our experience to enable porting of Ice Cream Sandwich on existing phones which were limited by the availability of a 512 MB memory as against the specified requirement of 1 GB memory. In the process of executing this upgrade, our engineers ensured support for new features, improved multimedia performance at low power thereby extending usable battery life. This project was successfully executed by us in an ownership mode and is a testimony to our leadership in providing services around the Android operating system.

Since the inception of Android, we have rendered a vast array of services including bring up, base port, connectivity solutions, upgrades, enhancements and testing. Our familiarity with Android started with Cup Cake and includes all variants like Doughnut, Éclair, FroYo, Ginger Bread, Honey Comb and Ice Cream Sandwich. Our engagements have been on all leading silicon platforms on which Android devices are built and have been provided to four out of the five top device OEMs. In addition, we have worked on various device form factors like smart phones, tablets and set top boxes. Our work also includes providing engineering services for latest devices supporting LTE which have been commercially launched in the United States and other markets.

Our investments in building competencies in Windows mobile operating system and the early inroads we have made is now beginning to scale as we see an increased demand for our services from several leading semiconductor vendors. We are seeing greater demand for the Field Testing services we provide to semiconductor companies.

In the Chip Design space, we are proud to announce that, we have expanded our customer footprint and added two large semiconductor companies to our customer list. We have successfully engaged our existing customers in newer areas and expect this to deepen our engagements and to entrench us better with these customers. Analog semiconductors is an area of high growth in particular those addressing high performance. We have provided services to three large semiconductor companies in Analog design spanning design, layout and verification. Reflecting our domain competency in the area of IC Design, we are now executing a string of projects in the area of System on Chip design for an I/O hub in the ownership mode.

On the Handsets business,

The smart phone market continues to be attractive for us and our leadership in the Android operating system has enabled us to continue to win business from leading handset OEMs. Our successful implementation of an upgrade program, enabling existing handsets to support Android Ice Cream Sandwich despite hardware limitations, has resulted in expanding our business with both the semiconductor player and the handset OEMs. With this and the previous wins we have consolidated our presence in Korea which is one of the epicentres for the smartphone and other consumer electronic products.

As indicated earlier, our largest customer continues to be in a stage of transition and subsequent to this, we continue to see drop in business with them on the legacy platforms in the smartphones space. We have re-vectored our resources and we are pursuing opportunities to redeploy them in newer engagements. The longer sales cycles have resulted in a reduced utilization which we believe will improve as we win new business. Our engagements with this customer on feature phone business while currently stable may come under some pressure in the latter part of this year.

Our outlook for our Networks and Satellite business follows:

We are engaged in a number of projects providing a wide range of design services for the small cell market especially in geographies like Korea where we have a good track record. Increased carrier adoption of small cells is a good signal and is likely to result in greater business opportunities for us. We are leveraging our partnerships and expertise that we have developed in providing solutions on the Network Intelligence engine by proposing solutions to leading NEMs.

Our business in the secure terminal market is progressing steadily and we continue to explore opportunities to expand our offerings to address more elements in this ecosystem especially as it migrates to embrace standards based on Long Term Evolution.

Whilst sales cycles have remained protracted in the Satellite space, we continue to remain hopeful of winning significant business in this segment building on our past success in this market. We are actively pursuing a few large deals in the space segment.

Our outlook for our adjacencies follows:

Our concerted efforts to broad base our revenues by tapping into adjacencies and white spaces are progressing well. We continue to enjoy success in the automotive and consumer electronics space and are adding to our existing customer base both in terms of taking new offerings to existing customers and acquiring new customers. There has been an increase in the market acceptance of our rear seat entertainment solutions and our customer has been able to win new deals from some of the largest auto manufacturers from Europe and US. Our solutions in the surveillance space are seeing an increase in demand from customers especially in markets like Israel, Japan and Korea.

Awards and Recognition:

Zinnov, a reputed independent consultant, has in its Global Service Provider Rating – 2012 placed Sasken in the leadership zone in the Telecommunications vertical. On an overall basis, Sasken has been rated as being an established service provider of niche services and is also acknowledged to be well positioned in other verticals like Consumer Electronics and Semiconductors.

Our group level headcount was 2960 as of June 30th and the attrition for the quarter was 35.4%. The increase in attrition from the previous quarter is largely on account of the decline in headcount in our Networks subsidiary and a marginal increase in attrition in our India operations. However, we strive to continuously engage our talent pool, improve retention especially those who are high performers through several initiatives. For FY 13, we have communicated salary increases effective 1st July to reinforce our commitment to provide competitive salaries within the basket of companies we benchmark our compensation with. The competition from talent especially from product companies will continue to be high as we operate in a high skill and specialized work environment.

We successfully added 10 new customers during the quarter making the total number of active customers 119.

As the telecom vertical is globally under severe pressure, we have been pursuing the increasing needs of our existing competencies in areas such as Automotive, Consumer Electronics, Enterprise Mobility and Healthcare. While we are in the early phase of making inroads in several of these markets, we believe that there is tremendous growth opportunity in the medium term. In addition we are motivated to see an increase in the number of ownership mode projects that customers are awarding us. This is a validation of our domain expertise and the confidence that our customers have reposed in us.

To conclude, we have always been a resilient company and have adapted ourselves in an ever changing market to stay relevant to our customers most of whom have been with us for more than a decade. As we continue to make progress, we are thankful for your support and look forward to your continuing the same.

Thank you and with this I would like to open the floor for questions.

**Moderator** Thank you very much sir. We will now begin the question and answer session. The first question is from the line of Lalit Chauhan from Span Capital, please go ahead.

**Lalit Chauhan** My first question is regarding your top customer, you mentioned in the call that ramp down will continue this year also. So when do you see the revenue from this top customer will stabilize in the second half or you think it will take more time?

**Rajiv C. Mody** Our expectation is that we will see a revenue fall throughout this fiscal year and it is very difficult for us to predict frankly for the following financial year whether the revenues will continue or not. But we do continue to serve them on their feature phone operating system which does have a significant presence in the market. So we are hopeful that thing will continue in the following year also. But that frankly is a market share for perspective we will not want to comment upon.

**Lalit Chauhan** Right and secondly on the margins in the services front, it falls largely because of loss of revenue from that client?

**Rajiv C. Mody** I think I will ask Rajesh to answer the following EBITDA margin particularly referring to the EBITDA margins in our services business right?

**Lalit Chauhan** EBITDA margin services business is around 6% versus Q4 margin of 15%.

**Rajiv C. Mody** That's correct, so Rajesh can you explain that please?

**Rajesh Maniar** There are 3 – 4 reasons why the EBITDA is lower in the current quarter. Firstly the utilization for the quarter is lower at 67% compared to 72%. That's a bit affected EBITDA by 2%. Secondly we have made investments with respect to Visa and other facility related investments which has affected EBITDA around 2%. So that is around 4% together. There has been a pressure on our billing rates overall which has affected EBITDA by around 2%. And we had changes in our employment or HR policies which has affected EBITDA by additionally 4%. So it is a combination of these 3 – 4 factors which has affected EBITDA for the quarter.

**Lalit Chauhan** And where do you think the full year EBITDA to stabilize at?

**Rajesh Maniar** Well it's quite difficult to give guidance with respect to EBITDA for the full year at present. So we do not like to give any particular direction with respect to EBITDA for the year.

**Lalit Chauhan** Okay and what was the realized rate for the full year, exchange rate realized?

**Rajiv C. Mody** The revenue was realized at Rs.52.6.

**Lalit Chauhan** And lastly the other income for this quarter seems to be little bit on the higher side. So your explanation for the same.

**Rajesh Maniar** The other income for the quarter reflects, one is the way we account for the exchange variations, it is comprising of exchange variations significantly. So out of the 9 odd crores that you see on other income around 6.8 crores is because of the exchange variations and around 2.3 crores is really investment income.

**Lalit Chauhan** And lastly what are your current hedges and at what rate, outstanding hedges?

**Rajesh Maniar** Currently we have hedges of around $35 million at an average rate of around Rs.52.

**Moderator** Thank you. The next question is from the line of Debashish Mazumdar from Techno Shares and Stocks, please go ahead

**Debashish Mazumdar** I just wanted to understand there is a lot of development that is happening based on android Smartphone and recently Microsoft also very aggressive in windows Smartphone and all that, so how are we planning to go into that area to get the new opportunity there?

**G. Venkatesh** There are 2 ways in which we are engaged in the market both for android as well as for windows. One is with the companies that make silicon solutions for these handset companies and there are 2 – 3 very significant silicon players with all of whom we are engaged. What we do there is that we pick up the code from if Android from Google, and then we optimize the code and make it available on the silicon platforms so that the handset companies can readily go to market with these kinds of new releases from android and the second way we engage the market is in terms of working with the handset companies, build either middleware components or applications for these android phones when they ship these phones. And as newer and newer versions of operating systems come out there is a fair amount of work that needs to be done to bring the phone current with respect to these new operating systems. And these kind of work we engage the handset companies directly. And the third way we started recently to engage the market is in terms of actually building applications both on the server and client side that would allow certain enterprise applications to be deployed on these android device. That is third one which still is in investment mode I would say.

**Debashish Mazumdar** Okay just wanted to understand one point, we are predominantly very technical driven in this kind of businesses and we have long presence in the past, so what I understand from my study is that there is a lot of development that has happened in the last 2 – 3 years both in android and windows Smartphone areas. So where we missed the plot and why we couldn’t capture the growth that has happened in the last 2 – 3 years in the smart phone areas?

**G. Venkatesh** We haven’t really missed it. It’s just that still a large portion of the revenue if you see today is attributable to these growth areas, android and others. So what was earlier explained by Rajiv in terms of replacement we are doing for revenues from our top customer, a lot of these replacement revenues are indeed coming from these growth areas.

**Moderator** Thank you. The next question is from the line of Aishwaria K from ICICI Direct, please go ahead.

**Abhishek** Hi this is Abhishek form ICICI direct. Sir my first question is regarding the cost of revenues, could you highlight what has led to this significant jump and if you can break that into currency and what has been the change in the HR policy?

**Rajesh Maniar** As I mentioned in the context of the EBITDA. Really there are 3 – 4 reasons which affect the expenses also. It's really just a reflection of the EBITDA that I just explained. So indeed we made investments during the current quarter in terms of Visa or other facilities which is cost which have increased our expenses by around let's say couple of crores of rupees. And as I just mentioned employment policies had to do with retention program that we have with internally. So we had changes in our retention programs and other employee related benefits that we have which has resulted in increase of our employment cost by around Rs.4 – 5 crores. In terms of the absolute amount of rupee cost that you see as you hinted very correctly has been an impact of the exchange variation as far as foreign currency expenses are concerned compared to last quarter. So in absolute terms rupee expenses would reflect to higher exchange rate during the current quarter as well. So these are 3 reasons or primary reasons for increase in the cost of revenue that you see compare to the last quarter.

**Abhishek** So when you say the change in the HR policy, have you given a wage hike because if I remember it correctly you gave wage hikes in the Q2 of fiscal right?

**Rajesh Maniar** We have introduced newer retention programs during the quarter. We also have according to our internal policies change in our variable benefit plans. So these are some of the changes that we have introduced during the current quarter which when you see compared to last quarter there is an increase in the cost. Some of this will actually even out during the rest of the year as well. So this quarterly variation is partly variation because of retention program that we have introduced.

**Abhishek** So when you say you have increased the variable comp of the compensation, could you highlight what it was earlier and what it is now?

**Rajesh Maniar** Well it is not possible for us to share these details. I am just trying to tell you what policies we have with respect to employee benefits. It's not possible for me to share further details with you on this.

**Abhishek** But is it possible to share on what function are these based on meaning what percentage of that variable is based on company performance, individual performance, sub group performance, is it possible to share that?

**Rajesh Maniar** Well I cannot share significant amount of any data on this which you recall. But clearly in terms of what it is based on, it is based on company performance and individual performance, that's basically our premise for variable compensation.

**Abhishek** But a larger part of it would be based on the company performance?

**Rajiv C. Mody** I mean just to help you with this, the overall kitty funding is driven by the company performance and then how it gets distributed across is based on individual performance.

**Abhishek** Right I apologize for repeating this but what is surprising is that the company performance hasn't been in line with our expectations but our variable compensation has increased. So it's difficult to comprehend what is going on in terms of paying out the compensations given that the performance hasn't been in line with what we have been expecting I think over the couple of quarters.

**Rajesh Maniar** If you are looking at quarter-to-quarter compared to last quarter if you look at the performance, you get a different view. But when you look at the overall performance vis-à-vis the last financial year, profits have increased over the last financial year by more than 20%. So as I just hinted out earlier, variable compensation plan, the structure for the whole year, but when you see a quarterly snapshot, you could see a different view. So that's clearly what's happening there.

**Abhishek** Okay that's helpful and secondly on the buyback, could you update us on the status of the buyback and, how much we have bought back?

**Neeta Revankar** We bought back close to 6 lakh shares at an average price of about Rs.126.

**Abhishek** And separately apart from buyback, are we considering any other method or moved to what shareholders given that operation performance is not driving as per our expectations?

**Neeta Revankar** As of now we don't have any such plans. You will have to wait and watch.

**Moderator** Thank you. The next question is from the line of Sandeep Hemraj from PCS Securities, please go ahead.

**Sandeep Hemraj** My question is regarding your selling in administrative expense, even that has shot up. Could you give us some sense on that?

**Rajesh Maniar** When you compare our selling and administration expenses compared to last quarter, that's gone up by round 2.5 crores and that's partly because of expenses have been incurred during the quarter with respect to buyback of shares. So we basically expense out all cost relating to the buyback program that we have currently underway and there is some impact of exchange variation also on a quarter to quarter basis. But if you look at our SG&A expenses compared to last year indeed the expenses have gone down by 5% despite higher exchange rate in the current quarter. So we are taking all steps to control SG&A expenses while on a quarterly basis you see an increase partly because of buyback program that we have.

**Sandeep Hemraj** Could you speak the figure for me, the buyback expense and the exchange expenses that has been logged in to this quarter?

**Rajesh Maniar** Not able to share the details and the break up for that.

**Sandeep Hemraj** A ballpark figure at least?

**Rajesh Maniar** Well it's not possible to give you the detail of this because there is some confidentiality involved in this. So I would not like to share that.

**Sandeep Hemraj** Coming to this employee expenses, your employee number has gone down, why is that so? Is there a business we have lost out or is it just because of attrition?

**Rajiv C. Mody** It is primarily because of attrition. Also we said in our opening remark that we see the business from our largest customer going down quarter-on-quarter. We have not lost that customer. We still serve them on their feature phone operating systems. So there is no impact per se as far as losing a customer but definitely there has been an impact because of ramp downs and that does cause an increase in attrition.

**Sandeep Hemraj** So if we have to give an outlook in terms of would there be robustness in the recruitment going forward and outlook on the business per se?

**Rajiv C. Mody** Right now we are running our business at about 66 – 67% utilization. We definitely want to bring the utilization up to 73 – 74%. We continue to recruit selectively but we would not go in for any mass recruitment at this point.

**Sandeep Hemraj** And any outlook on the business that over the pipeline or you want to give some guidance on that how robust is the pipeline and what you expect in the coming few quarters?

**Rajiv C. Mody** No I do not want to hazard and guess and give you any guidance on what we see the outlook to be. All we can comment on is the time line taken by customers to make decisions is getting longer, but we are working towards ensuring that we continue our march our journey on the growing in the space that is our chosen space of doing business.

**Sandeep Hemraj** Coming to this employee expense again, would it be fair to assume that it would be around this range what you have logged into this quarter?

**Rajiv C. Mody** We have a salary increase going on in this quarter, so we expect the wage bill to go up but we are making all our efforts to see how we improve our utilization and thereby bring our cost of revenues come down in this quarter and the quarter going forward.

**Sandeep Hemraj** And what would be the increase in salary for existing employees in terms of percentage?

**Neeta Revankar** Our average wage bill for India will be up by about 14%.

**Sandeep Hemraj** 14%, vis-à-vis what you recorded this quarter or some part of it is already there in this quarter?

**Neeta Revankar** No this is effective July 1st. So it will entirely come in this quarter.

**Sandeep Hemraj** The margins have taken a beating and kind of told that you will be handling on that bit, but any sense on what part of the business software side the product size which you have taken are larger beating in terms of margins per se.

**Rajiv C. Mody** It's primarily the services side of our business which has taken a beating and I think we explained that it is due to multiple reasons one is of course there is an exchange reason, then the other reason is the employee related cost has gone up because of certain policies that we have put in. Utilization is down. There is a bill rate mix drop. So all those put together has impacted our EBITDA margins to come down from 15.7 to 5.6 and our efforts is to see how we now pull it up from here and bring it back to those original levels.

**Sandeep Hemraj** How much is your cash balance, what is your hedging strategy sir?

**Rajiv C. Mody** Our cash balance is 194 crores as on 30th June 2012. And I think we have 35 million hedged at Rs. 51.85.

**Sandeep Hemraj** Would you be increasing the hedge or the rest of the balance be open?

**Neeta Revankar** Yeah hedging policy remains the same as it has over the last few years. We will hedge our net open positions.

**Sandeep Hemraj** So this is $35 million that you hedge at 51.85.

**Neeta Revankar** That's correct.

**Moderator** Thank you. The next question is from the line of Lalit Chauhan from Span Capital, please go ahead.

**Lalit Chauhan** Yeah I had couple of other questions also. What are the opportunities you are looking in the enterprise mobility space for the company?

**G. Venkatesh** Primarily we see number of customers wanting to deploy enterprise applications for these new devices like iphones, android phones, and the ipads and so on. And this is primarily either it could be created for improving the experience of their customers or it could be for productivity improvement of their field force. And we are finding traction in this space because we have much better understanding of how to handle experience on these kind of devices. So it's early for us to give you a view on how this business is shaping up but we have started to get some traction here and as we go forward we will report more about it.

**Lalit Chauhan** what are the other initiatives of the company is taking which will stop this revenue fall I understand Nokia fall will continue for next 2 -3 quarters but when do you think the company will be back on growth path in next 1 or 2 years.

**Rajiv C. Mody** Very hard for me to say but definitely our efforts are to see that we get back on to the growth trajectory in the next 2 – 3 quarters and the intent for us is to see we expand beyond this space we are in for us to demonstrate growth. So that's where the significant focus is there on adjacent piece, things like automotives, consumer and all and growing into that aggressively and also simultaneously going into enterprise mobility area which is a brand new area for us to serve newer customers. We have good green shoots over there but hard for us to frankly assess what the size of the opportunity and market, opportunity size is there because we are doing the whole bunch of proof of concepts taking it to the end markets and all. Those are real things that are going on but difficult for us to this point judge in terms of what the size of the addressable market over there and unless we have that like GV said we will not be able to and wanting to make a commitment in terms of what the size that we are chasing. But all our effort is there to see that we increase our presence then the adjacencies as well as the newer areas to bring back because the strength this company has is in the core area which is critical and appreciated by the newer customers that we are targeting.

**Lalit Chauhan** And secondly the buyback would continue right, the buyback window is still open?

**Rajiv C. Mody** Yeah it will remain open for another at least 9 – 10 months according to the approvals that we have.

**Lalit Chauhan** And what is the total size?

**Neeta Revankar** Total amount of 86 crores.

**Moderator** Thank you. There are no further questions at this time.

**Rajiv C. Mody** Once again thank you all for joining on the call today. And we look forward to having you again in the month of October with our Quarter 2 results. Thank you.

**Moderator** Thank you. On behalf of Sasken, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.