"Sasken Communication Technologies Limited Q2 FY-2013 Earnings Conference Call"

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Moderator Ladies and gentlemen good day and welcome to Sasken's Q2 FY2013 earnings conference call. Before we begin we must point that certain statements made during the call concerning Sasken's future growth prospects maybe 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 participants' 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. Should you need assistance during this conference call please signal an operator by pressing * and then 0 on your touchtone 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 Inba. Ladies and gentlemen good morning to you all. It is my pleasure to welcome you to the conference call to discuss the business performance of the Sasken Group for the second quarter and half year ended September 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 colleague Neeta Revankar – CFO and Global Head, HR, IT & Administration and Executive Director to the Board of Sasken; Dr. G. Venkatesh – Chief Technology Officer & Chief Strategy Officer and Executive Director to the Board of Sasken, Rajesh Maniar – Vice President; Finance, Nagamani Murthy – Senior Vice President, Global Delivery; and Ravi Raman – Senior Vice President, Worldwide Sales.

Let me begin by walking you through our financials for the second quarter, fiscal 13. At the outset I must admit that this has been one of the toughest quarters for me in the recent past. In the second quarter for fiscal 13 the consolidated revenues for the Sasken Group declined by 15.6% over the previous quarter to Rs. 112.03 Crores. Consolidated earnings before interest depreciation taxes and amortization costs for the second quarter fiscal 13 were Rs. 2.43 Crores, a de-growth of 82.6% sequentially over the previous quarter.

Consolidated PAT for Q2 fiscal 13 was 24 lakhs. down 98.3% over the previous quarter. PAT margin for the quarter was at 0.2%. Software services revenues for the quarter were Rs. 106.45 Crores decrease by 11.2% of the previous quarter. Software product revenues for the quarter were at Rs. 4.92 Crores, a decrease of 60% over the previous quarter.

Services EBITDA margins for the quarter was at 1.8% and products EBITDA margin was at 15.7%.

The consolidated earnings per share for the second quarter was at Rs, 0.1. Cash and cash equivalent were at Rs. 181 Crores as of September 30, 2012. The revenues have declined as we continue to face ramp downs from one of our largest customers. This ramp down is expected to continue in the coming quarters and the revenues from this customer will diminish to an extent that it will no longer be one of our top 10 customers.

In addition we are witnessing ramp downs in our networks business due to technology nearing end of life cycle. This results in reduced need for software development as most activities are confined to providing minimal sustenance support. The royalty revenues for one of our products have not been recognized because of non-payment by the customer of earlier dues and non-receipt of royalty reports. We are discussions with the said customer. Meanwhile we have made early inroads in expanding our business footprint by tapping in to adjacencies like automotive, consumer electronics, enterprise mobility, retail and health care.

In the automotive electronics arena, software solutions have been well accepted in the market. I encourage you to see the following URL while I will not go through it, it will be there I am sure on the Web.

http://media.gm.com/media/us/en/gm/news.detail.html/content/Pages/news/us/en/2012/Oct/1008_SRX_CUE.html

The entire software for that product was developed and delivered by Sasken. However we believe that some of these new initiatives like enterprise mobility and health care, we are in the investment mode in these areas and it will take us a few quarters to be able to report the direction in which these initiatives will head. We believe that we are close to the bottoming out of our revenue decline and expect operating parameters to improve going forward. The management and the leadership team is going all within its capacity to achieve revenue growth which we estimate will take about four to six quarters.

In light of the revenue pressures that we are facing we have initiated several sustainable measures to control cost, we have put first plan to improve utilization, optimize facility costs, trim all discretionary expenses, optimize SG&A expenses and reduce capital expenditure. While taking cost savings measures we continue to make investments to expand in to areas which enable us to scale in the medium term. These actions will help soar our EBITDA margins in the coming quarters and bring our costs in line with our revenues.

I will now take you through some of the key business highlights for the quarter. We are delighted to bring to your attention that we have successfully bagged a large follow on contract from Inmarsat to further enhance the IsatPhone that we built. We are now interested with providing hardware and software enhancements. These efforts will result in the introduction of new features such as GPS and further improve the RF performance of the phone. This follow on project is testimony to the unique capabilities that Sasken brings to the table notably complete product design.

We continue to make progress in the automotive electronics vertical as well as our solutions being deployed in the global markets by leading automotive brands. We are seeing increasing interest for our services from manufacturers of ruggedized mobile terminals that are purpose built for specific verticals such as civil defense, logistics and retail. In the healthcare segment we are happy to announce that one of our solutions aimed at providing remote monitoring of intensive care units has being piloted in a super specialty hospital in India.

However as indicated in the previous quarter we continue to see challenge in our business due to technology development in the mobile devices area. The rapid adoption of smart phones and their availability at attractive price points has somewhat cannibalized our feature phone business. The upside however is we are now well entrenched as leaders in the smart phone arena particularly in the Android eco system. We have established inroads in the Windows operating space and continue to consolidate our presence.

The outlook for our semiconductor business is as follows.

We have bagged a large field trial contracts from Tier-1 Semiconductor vendor to providing testing services in several countries in Europe. Our engineering teams will provide field testing services spanning about 30 countries in North America, Europe and Asia. The services include carrying designated drive tests, collecting logs which are India based ODC's will analyze and provide solutions for. We are working on enhancing security features in NFC using the single wire protocol that ensures secure transfer of consumer credentials data to enable transactions.

We are proud to be associated with the first ever tablet win by one of world's largest semiconductor manufactures and have been associated in achieving a world force in Windows 8 based hardware certification. An Asian global OEM is set to launch a tablet based on this chip set and Windows 8 operating system. In the ICDS arena one of the largest semiconductor vendors has entrusted us with full chip design services for a system on a chip design activity that includes RTL enhancements, digital implementation, verification, analog design, layout and physical design. This project has been executed in an ownership mode and is testimony to a longstanding experience in Silicon design.

We have built on the engagement we have been providing multimedia and Android based services for leading vendors of semiconductors and are forayed in to providing them with services around 3D graphics. Sasken is enabling the use of 3D libraries and making them compatible using existing 2D engines thereby extending the lifecycle of the chipset. We are engaged in Taiwan and India providing support to our semiconductor vendors helping them achieve a major design win with one of their existing customers' mainstream product line. The service that we render includes supporting multimedia middleware and modern modems sub-systems.

On the handset side of our business we are working with leading Japanese smart phones smart device OEMs providing services to enable rich communication suite enhanced (RCS-e) that will deliver an experience beyond voice and SMS by providing users with instant messaging or chat live videos sharing and file transfer across any device on any network with anyone in the mobile address book RCS-e will also go a long way in allowing operators to enhance their revenues and also contribute to improving customer retention both of which are of critical importance to the operator. What I mean by RCS-e is the rich communication suite enhanced.

We have commenced engagement in the areas of rugged devices as they migrate to open platforms like Android while these discussions are in the initial phase they are slated to attain fruition in the coming quarters at the other end of the spectrum we are similarly engaged in discussions and supporting customization of handsets for a leading luxury mobile brand.

We have extended our support our scope of engagement with leading Korean handset OEMs by providing services in their latest range of smartphones. This engagement extends from previous liaison with the customer which involves supporting their future phones.

This engagement entails supporting multimedia middleware another application for the customers Android Ice Cream Sandwich based smartphones.

As our outlook for our networks and satellite business is as follows:

As stated in the opening remarks the repeat win from in Inmarsat is a major fillip for Sasken and entrenches us further as one of the few companies capable of R&D services for development of complex products.

Our outlook for our adjacencies is as follows:

Our concerted efforts to broad base our revenues by tapping in to adjacencies and wide spaces progressing well, we have won a prestigious assignment from global leader in there automotive segment to examine the feasibility of building LTE capability to enhance in car connectivity.

Our group level headquarters was 2762 as of September 30, 2012 and the attrition for the quarter was at 34%. We successfully added 12 new customers during the quarter making the total number of active customers to 124.

To conclude we continue to adapt ourselves and are lured by bagging prestigious follow on projects from Inmarsat we continue to make small but significant strides in our adjacency strategy which validates the value will bring to customers for adoption of wirelesses, machine critical in the current business context we expect that we will return to growth in the starting coming this quarter and look forward to building that over the next 4 to 6 quarters and as always we are thankful for your continued support.

Moderator Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. Our first question is from Sandeep Hemraj of PCS Securities. Please go ahead.

Sandeep Hemraj I would like to get an insight on why the revenues have sharply fallen and what is the outlook on the revenues for the next two quarters?

Rajiv C. Mody The revenues has sharply fallen primarily because of the ramp downs that we have experienced primarily from our single large handset OEM with whom we have had standing relationships over the last so many years but slowly like we have announced earlier that relates the programs are getting shutdown time because of the fact that the customer is moving towards the other platforms. So that has been a significant impact from Q1 to Q2. Our network equipment also has seen some ramp down because of the fact that the products in that space are getting matured and not much development is expected over there. So those two and third is also the fact that we have not recognized revenue on the royalties from one of the customers from whom we had royalty revenues from them since we have not received any reports and not also received any payment from these for the earlier quarter we have not recognized the revenue along that. So those three factors have in my opinion been significantly responsible for the drop in revenues.

Coming back to your next question in terms of the outlook going forward I think we have seen the worst and from here we will start seeing the growths and build up happening in our current space that we are operating in as well as opening a newer verticals and growing our business over in those vertical so we continue to see revenue growth in our traditional space like semiconductors, mobile handsets as well as in the automotive and the consumer electronics space while we continue to invest in enterprise mobility and retail health care and in those areas we expect that it will take at least 4 to 6 quarters before we start seeing anything significant.

Sandeep Hemraj Sir then is it fair to assume that this is kind of the bottom of your revenues and from here on we could expect an uptake in terms of whatever the revenues will get replaced from the loss of the large OEM?

Rajiv C. Mody That is true. The drops that we had from Q1 to Q2 were not practically possible for us to replace with new revenues in the time period and yes I expect and believe that this is the bottom and all the operating parameters should start seeing improvement from here on.

Sandeep Hemraj Sir, could you share the royalty amount that was likely to be expected or what can we expect in the next two quarters, second half of the….

Rajiv C. Mody We have no way to estimate what was the royalty amount in Q2 because we have not received any report from them but our royalty number in Q1 was somewhere in the range of $1.7 million.

Sandeep Hemraj Okay. So this is more like an annuity thing and it should be consistent right more or less?

Rajiv C. Mody No, like I said we have not received the report and we are in discussions with the said customers to ensure that we get paid if they are using our IP in the products that they are shipping.

Sandeep Hemraj And other income, why was that low sir?

Neeta Revankar The significant change that has happened from quarter one to quarter two is the exchange gained in the first quarter we had exchange gain and in the same quarter we have exchange losses and this is really because that the rupee has strengthened vis-à-vis the dollar, so that is the reason for the change.

Sandeep Hemraj And could you share those amounts, what was the gain and loss?

Neeta Revankar They have two phase amounts to exchange loss in this quarter is a little over Rs. 4 Crores.

Sandeep Hemraj Yeah, okay. Fine and what are the total amount that you have hedged in terms of hedging?

Neeta Revankar We have about Rs. 23.5 million equivalent hedged at an exchange rate of Rs. 53.50.

Moderator Thank you very much. Our next question is from Aishwarya K from ICICI Direct. Please go ahead.

Aishwarya K Can I have an update on the buy-back program?

Rajiv C. Mody Yes.

Neeta Revankar What we have bought back is so far is about 2 million shares that you have spent about Rs. 27 Crores so far so I would think that about one-third of the way there. The total approval was for about 58 million shares and about Rs. 85 Crores.

Moderator Thank you very much. Our next question is from Debashish Majumdar of Way2Wealth. Please go ahead.

Debashish Majumdar Just wanted to understand how is the attrition looks like going forward, we have seen some downward strained in the attrition it is because of the retention policy whatever you have taken. So how are you seeing attrition going forward?

Neeta Revankar See as we can think for a while now attrition actually is depended on a number of factors some of which are internal to the organizations and a lot of which are also related to the situation in the market outside. So it is too early to call it a trend but yeah for the last few months we are seeing it stabilize.

Debashish Majumdar So you are thinking attrition would be around 28% to 30% going forward in the next one year or will it come down because what we have seen in the other player's case is the attrition has come down significantly for few cases except a one big player, so there is a downward trend at the attrition side and although as you have taken some measure on the attrition side in the past so you are seeing attrition to be stabilized around 28% to 30% levels or it will come down to some 20% to 25% levels going forward?

Neeta Revankar Actually as I mentioned it is too early to say whether it is a declining trend or no, it depends on external factors and also depends on how well we are able to manage our growth. So it is too early to say right now but if you are – last two, three months we have been seeing attrition decline.

.Debashish Majumdar Just wanted to understand another point. We have seen some significant growth in North America revenue in this quarter so how are you looking at that geography and what exactly planning out as Sasken's specific issue if I can ask?

Rajiv C. Mody Yeah, fact remains that we have seen growth happen in the US, primarily two reasons, one of course the EMEA revenues have come down from 36% to 33% and that is primarily because of the large customer that we talking about but overall US revenue base is growing is factually correct and we are seeing more traction particularly out of the US both fulfilling and requirements in the onsite as well as getting projects from US companies to be executed out of India.

Debashish Majumdar Okay. So these are the projects basically related to Smartphone areas and car electronics areas which are the areas you were mainly targeting for your future growth, these are the projects from those areas or are you getting projects from your existing strong areas where you are present, so what kind of deals are you getting from North America?

Rajiv C. Mody It is primarily in the area of semiconductors that is our traditional area handsets. The areas that we adding on top of it is what is called as ruggedized devices, so that is a new category typically non-Smartphones that are specifically targeted to different verticals, ruggedized devices and example is the devices that are being carried by FedEx people in the field, so we are addressing that market and growing over there and also this large form factored devices being focus specifically for the retail market and all so we are seeing traction over there besides what you call we have traction also with specialized vertical tablet markets, automotive of course is the area where we are seeing growth in North America. So those are the areas that we continue do build our story and moving in that direction.

Moderator Thank you very much. Our next question is a follow up question from Aishwarya K of ICICI Direct. Please go ahead.

Aishwarya K I just wanted to know what is the average age of the employees in the company now versus the employees right now versus like one year back and how much percentage of your employees will fall under the 0 to 3 years of the employee pyramid?

Neeta Revankar We have about close to 40% of our employees in the category that you are talking about. If you are asking age I am sorry I do not have those numbers, we do not actively track it but my hunch is that the average age will now be about 27, it could have been about 28 last year.

Aishwarya K Okay. I was asking about the years of experience in the company?

Neeta Revankar Zero to three years experience in the company was your question and that we have about 40%. Average overall for the company it has declined over the last few years, marginally though from close to 5 years it will now be about 4.5 years.

Rajiv C. Mody Yeah, if you are asking whether we have seen large attrition in people joining and leaving in first two years of the engagement with the company and answer probably would be yes that that has been where we probably would have lost significant amount of our people.

Moderator Thank you very much. Our next question is from Apurva Shah from Dalal & Broacha. Please go ahead.

Apurva Shah I was looking at automotive utilities and industrial, so that has come down significantly in the first half of yearly basis. So wanted to know the major reason and outlook going forward?

Rajiv C. Mody That revenue that we report over here is primarily the investment in our ConnectM subsidiary and as you know that in that part of our business we serve the local market for energy management for tower companies. Over there it is extremely hard frankly for us to predict the revenues because telecom sector in the country is plagued with so many problems while we keep trying hard and believe the value proposition is extremely comparative and compelling the acceptance of that takes a lot longer than we earlier anticipated but today we monitor about 5000 towers for a large telecom tower company and provide interesting statistics as well as provide value in terms so energy usage as well as diesel pilferage and things of that nature.

Apurva Shah On the growth outlook you said you might be experiencing a bottoming out of revenue decline, so what kind of growth opportunities are you look at in H2 or maybe what kind of confidence you are experiencing?

Rajiv C. Mody Well, let me put it this way. While I would not like to give you any concrete or specific guidance there is absolute confidence that we will see growth coming back. Let me also not set an expectation that suddenly it is going to be significantly large growths and all those things because the macro environment continues to be challenging but we will definitely build out from hereon showing reasonable growth over the next 4 to 6 quarters.

Moderator Thank you very much. Our next question is from Sudhakar Prabhu of Span Capital. Please go ahead.

Sudhakar Prabhu Things have been very tough for you over the last one to one-and-a-half years but if looking at from a slightly longer term perspective, 3 to 5 years, do you think that from 100 million can you be at 150 to 180 million in the next 3 to 5 years?

Rajiv C Mody That is the growth trajectory that we are looking at without giving a guidance very clearly because that’s where we see our use of the capability and the strength that we have built over the last so many years. And taking that into newer verticals and building businesses out over there is what we are really focusing on and we are starting to see decent results hard for us to quantify or bring to your notice yet but we can assure you that we have starting to see decent results coming out of there.

Sudhakar Prabhu And any inorganic opportunity that you are looking for, any buyout or something?

Rajiv C Mody No we are not looking at any specific inorganic at this time.

Sudhakar Prabhu And what kind of sustainable margins can this business give you?

Rajiv C Mody Sustainability of the margins at the EBITDA level should be in the range of about 17% to 18% for services. That typically goes for a toss when you go through gyrations which are directly linked to the ramp downs. So that's where we many a times struggle hard for us to but we are putting in methods and systems to sustain at those levels to systematically deliver that.

Sudhakar Prabhu And lastly, what is your dividend policy? Do you have any stated policy?

Rajiv C Mody I don't know whether Neeta can answer whether we have any stated policy or no but typically we look at somewhere in the range of 33% to 40% of our profits as a dividend payout.

Moderator Thank you very much. Our next question is from Anirban Datta of Jetage Securities. Please go ahead.

Anirban Datta My first question was that do you see any problem in collecting the payment from the troubled telecom sector?

Rajiv C Mody No we are not seeing any bad debts from any of our customers.

Anirban Datta Are you seeing an extension of that of debtor days meaningfully from that perspective?

Rajiv C Mody No. We are not seeing any increase in the DSO. As a matter of fact the DSO has come down from 72 to 69 days.

Anirban Datta And my second question was, do you see your presence onsite to be increasing over the next 3 to 4 quarters and a negative impact on your margins.

Rajiv C Mody With the onsite business we make best effort to see that we don't compromise on the margins but we do see growth coming in the onsite business, yes.

Anirban Datta But that will not be at the cost of margins?

Rajiv C Mody Well I would not say all business would deliver uniform margins. Some of the businesses onsite we may do at lower margins because that may be strategically important but overall when we aggregate the thing we make an effort to ensure that we protect the margins.

Anirban Datta And sir finally on the buyback program as we just heard about a third has been spent so do you propose to continue the buyback program for the remaining amount?

Rajiv C Mody Let me answer that which is more politically right than accurate. We will definitely continue the buy back program. Now how much we will spend, what we will spend frankly I cannot predict. We have the buyback open until April 2013 and we are not closing the buyback. We definitely are interested in saying that we pick up more shares. Our cash position is good. We continue to generate cash also quarter-on-quarter. We will not relent on that. So we definitely believe that we will continue the buyback.

Moderator Thank you very much. We have a follow up question from Aishwarya K of ICICI Direct. Please go ahead.

Abhishek Sir the question pertains to the client contribution. Is it possible that on a quarterly basis we state what has been the contribution from the top client?

Rajiv C Mody We don't do that because it is very easy to guess and our customers don't like it.

Abhishek Okay the reason where I am coming from is if I look at the Top 5 in the Top 10 clients the revenue growth for this quarter they have declined sequentially in dollar terms. We have been saying that we have been getting growth outside of top client so my question is from an analyst perspective how do we re-engineer or reverse engineer the data points which the company is providing because it seems that the Top 10 customers are declining so which accounts are growing within the firm.

Rajiv C Mody Well frankly speaking we can't provide you with that data. We can say that at an aggregate level may be semiconductors and all clients in that are growing. It is pretty obvious handset is declining. The only thing that is declining is the networks business. At that level I can probably share some information but other than that I can't say and frankly speaking I am happy that our client concentration from the Top clients are within manageable limits that we don't have a single customer contributing more than 25% of our revenues. So there is a nice distribution coming along and we will continue to make sure that we manage that and go along that trajectory of having large number of customers contributing reasonable numbers of revenues.

Abhishek And just going back to the earlier question on the average experience of our employees within the company it has dropped down? You answered that the attrition is being driven by the freshers. Am I correct from whatever I understood?

Rajiv C Mody Yeah 0 to 2 years in the company and it could be freshers and it could be laterals also but the engagement within the company would be about less than 2 years but over there if you take a cut, large proportion would be people who would have joined us and we would have lost them at the end of 2-year period.

Nagamani Murthy What Rajiv is saying that when you look at the percentage of the attrition the higher percentage of the attrition is from that band of people who are 0 to 2 years experience.

Neeta Revankar I think his question really is that your average experience has come down and your attrition is at the lower end so how come?

Nagamani Murthy So there are attritions E2s and E3s the experience level above I would say 4 years plus to between 4 to 8 years of experience level.

Neeta Revankar Also it is dependent on our hiring pattern and we have been hiring people with lesser experience also in the last year. So I think all of these contribute to the reduction in the average experience within the company.

Abhishek And finally sir just a question on the investor relations team. On a quarterly basis could you identify a point of contact to whom we can reach on a quarterly basis or during the mid-quarters? That would be great because we used to touch the base with the person but it seems that we are not able to reach him. I apologize I am saying this on the call but would be great if you can give us the contact point for reaching out during the inter-quarter discussions.

Nagamani Murthy Yeah we normally have Investor at Sasken as one of our mapped down to one of our employees. We continue to use that id and you will have responses from us quickly.

Moderator Thank you very much and that was the last question. I would now like to hand the floor back to Mr. Rajiv Mody for closing comments.

Rajiv C Mody Well, once again I appreciate, thank you all joining on the call like I say. I must admit that this has been one of the toughest quarters for the entire management team but I think we have taken appropriate actions and you should start seeing the numbers looking better from here on all operating parameters. Thank you once again and look forward to seeing you in January.

Moderator Thank you very Mr. Mody. Ladies and gentlemen on behalf of Sasken that concludes this conference call. Thank you for joining us and you may now disconnect your lines.