



“Sasken Q3 FY12 Earnings Conference Call”

**February 1, 2012**

**Moderator**

Ladies and gentlemen good day and welcome to the Q3 FY12 Earnings Conference Call of Sasken. Before we begin we must point out that certain statements made during the conference call concerning Sasken future growth prospects may be forward looking statements. Please read the Safe Harbor Clause in the presentation for the full details. As a reminder 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 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 the highlights of the quarter followed by Q&A. Thank you and over to you sir.

**Rajiv C Mody**

Thank you Melissa. Ladies and gentlemen good morning to all of you. It's my pleasure to welcome you to the conference call to discuss the business performance of the Sasken group for the third quarter ended December 31, 2011. 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 thank you for accepting the call which was deferred due to personal reasons. I am joined on this call by my colleague 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; Nagamani Murthy, Senior Vice President and Head, World Wide delivery.

Let me begin by walking you through our financials for the third quarter FY 2012. In the third quarter of the fiscal 2012 the consolidated revenues for the Sasken group marginally declined by 1.6% over the previous quarter to ₹ 128.7 crores. Consolidated earnings before interest, depreciation, taxes and amortization costs for the third quarter fiscal 12 were at ₹ 18.66 crores, a growth of 11.5% sequentially over the previous quarter. Consolidated PAT for Q3 FY12 was at ₹ 18.62 crores up 9.8% over the previous quarter. PAT margins for the quarter were at 14.5%.

Software services revenue for the quarter were ₹ 116.7 crores, a decline of 4.9% over the previous quarter. Software product revenues for the quarter were at ₹ 10.8 crores an increase of 54.6% over the previous quarter. Services EBITDA margins for the quarter were at 12.4%. Product EBITDA margins were at 43.3%. The consolidated earnings per share for the third quarter were ₹ 7.22. Cash-and-cash equivalent were ₹ 180.6 crores as of December 31<sup>st</sup> 2011. Despite the drop in the revenues we have improved our consolidated EBITDA and PAT on a quarter-on-quarter basis. We continue to judiciously invest to create engines for future growth.

And now I take you through some of the key business highlights for the quarter.

The rapid pace of change has created a voracious appetite for ideas and innovation. Automotive companies around the globe strive to differentiate themselves by integrating newer technologies. We hosted our first automotive customer advisory council meeting during November of 2011. The council was represented by senior executives of leading organizations in automotive ecosystem. We believe that initiatives such as these will help us consolidate the early inroads we have made in the automotive and consumer electronics space and establish our execution course in this arena.

With the new generation of ultraportable devices being launched the mobile computing space is poised for growth. The breadth and depth of our domain knowledge will help us take advantage of this market growth. A testimony to our domain competence is evident in our engagements with several Tier 1 smart device manufacturers. Many of these relationships have moved from point engagements to ownership mode. The Tectonic shift in operating systems and platforms make the handset business choppy and less predictable. A de-growth in our software services business was partly due to drop in revenues from the key customers which we have signaled earlier. Others we continue to pursue ways and means to increase the predictability of this business line.

In our Semiconductor business unit, we have made break through with several onsite engagements with global leaders and continue to execute design services projects with them with the modem and multimedia sub-systems. We are seeing robust demand from several leading vendors of chip sets to port and support the latest versions of Android on to their existing and new platforms. This demonstrates the unique value Sasken is able to bring by connecting the dot between manufacturers of smart devices on silicon platforms. We have strengthened our position as partner of choice and delivered connectivity solutions on a processor family that is expected to be a serious contender in the mobile computing space. In the Semiconductor space we are seeing an uptick in the business on wireless platforms and for windows based smart devices.

Some of our new accounts have helped us spur growth in our network business. We now see this business line becoming more stable and poised for growth. This growth will come from 3D sustenance and small cell base station development projects as well as ramp up on LTE development. Geographies like Korea, Japan and US are expected to lead this growth. We are building on our existing engagements with leading equipment manufacturers in the area of public safety radio network. We are well poised to leverage our presence in this segment and expand our business to other leading manufacturers. Public safety radio terminals and satellite communications continue to offer growth prospects.

From a head count position, there has been a small decline at the Sasken Group level. This is due to delays and roll outs of 3G networks, a market which our subsidiary addresses. We have added headcount in our thrust areas such as Android, IC design and protocol stack. With increase in utilization, we are starting to on board our campus trainees. Our net headcount situations will improve in Q4.

Our group level attrition rates for the last quarter stood at 28.15%. This has been the lowest reported in last seven quarters. This we feel is the vindication of several employee engagement programs that have been rolled out in the last couple of years. However the demand for experience and talent in the embedded space continues to be high.

We successfully added 6 new customers during the quarter taking a total number of active customers to 125.

We are delighted to have been conferred the prestigious ISA Technovation Award 2011. The jury members have recognized Sasken technical and business innovations in developing IP and solutions for the semiconductor and mobile devices market over the last 15 years. These solutions have been integrated into the platforms of many leading semiconductor players and have been successfully deployed in the products of their customers in mobile phones, automotive infotainment systems and consumer electronic devices. As this industry continues on its path of exciting innovation we expect to continue our contributions to the ecosystem and to leveraging them in winning and growing our business.

To conclude we wish to state that we continue to strengthen our position in the existing businesses while we grow in newer areas such as healthcare, retail and consumer electronics. These efforts will help us broaden our customer base, reduce the impact of the volatile parts of our business. Finally we are confident of being able to generate new revenue streams by leveraging our core competency.

Thank you for your continuous support. Thank you and I would now like to open the floor for any Q&A that you would have.

**Moderator**

Thank you very much. Ladies and gentlemen we will now begin the question and answer session. Anyone who wishes to ask a question may press \* and then 1 on your touchtone telephones. Participants are requested to use only handsets while asking a question. Anyone who has a question at this time may press \* and then 1. The first question is from Chetan Vadia from JHP Securities. Please go ahead.

**Chetan Vadia**

Good morning to you. My question to you would be that for the quarter there is a slight reduction in the employee cost and that helps you to maintain profitability but in the newer business areas that are mentioned that having additional engagement with the automotive companies Android with operating system 9.30 chip set and new OE manufacturers when do you see this new initiative that is picking right now will add meaningful to your topline and bottom line.

**Rajiv C Mody**

The thing that we are experiencing and what we see both in the automotive as well as the consumer electronics world and the newer areas like retail and healthcare that we are focusing on I think we will definitely see an impact on our top-line over the next three to four quarters. I don't expect a sudden movement change that alone goes to make significant impact difference

to us over the next two to three quarters primarily because of two reasons. One of course we have seen a decline and continued decline in our top customers as we have announced earlier and in the existing business that we have it is not possible for us to immediately make up for the decline that we see quarter-on-quarter. However, all efforts are on to see that we minimize the impact caused because of the decline in the top customer of ours and make it up with the newer customers and broad base our customers. So frankly speaking I would say that it will take at least three to four quarters for us to see the impact on the newer areas that we are investing in.

**Chetan Vadia** Okay my next question is you said that Korea, Japan and US will lead the growth for you. So what's the outlook on the domestic front? From India how much business is expected to generate?

**Rajiv C Mody** We continue to serve India in two different ways. One is we continue to serve the local captives over here and work with them on leading, we work with the local Texas Instruments, Qualcomms and Intels of the world. We continue and will build our business out working with them but simultaneously we also have our SNEL subsidiary , which does network roll out as well as the supporting our customers over here in the telecom operator network and that also is the business which is India centric business and over there like I said in my opening remarks because of the delay in the roll out of the 3G network we are seeing an impact on the revenues because in the last quarter we did not see much growth at all because of the delays and the networks roll out themselves.

**Chetan Vadia** Okay I will take that sir. I will come with more questions. Thank you.

**Rajiv C Mody** Please.

**Moderator** Thank you. The next question is from Rishendra Goswami from Locus Investments. Please go ahead.

**Rishendra Goswami** Hi good morning gentlemen. A couple of questions on your CapEx, what has been the CapEx for nine months now?

**Rajesh Maniar** CapEx to date has been 21 crores and the current quarter CapEx was around 9 crores.

**Rishendra Goswami** That's a little higher than what the general expectation for the year was. May I know where you have spent the additional money?

**Rajesh Maniar** The planned CapEx for the year was 24 crores. What we have invested in is basically SEZs in the current quarter I mean we have invested in one SEZ at Gopalan Facility in Bangalore and we have had an investment in our IIT Chennai, R&D center so those two have been significant additions. In the earlier quarters of the year we had investment in our SEZ facility in Pune and we also had investments at our new SEZ facility another new one in Bangalore.

**Rishendra Goswami** I see. So what do you expect to spend this quarter? So what is the impact with the total CapEx for the year, then?

**Rajesh Maniar** It will be within our planned number of 24 crores for the full year so this quarter won't be more than 3 crores.

**Rishendra Goswami** I see and the plan for the next year?

**Rajesh Maniar** Well we are in the process of making our annual plan for next year. So we can guide you in our next call with respect to the next year plan.

**Rishendra Goswami** Okay I see. So major part of this year's CapEx has been into the SEZ facilities.

**Rajesh Maniar** That's right.

**Rishendra Goswami** Okay I see and just if you could help us little bit with the revenue number, I mean, there is a rupee decline of about 1.6% quarter-on-quarter. What will the dollar decline?

**Rajiv C Mody** Dollar decline has been in the range of 7.4% in dollar terms and this is primarily because of three reasons. One is we have seen a decline from our largest customer. Second reason is that we have seen a slowdown in the network roll out in the local market which is also impacted. Third reason is that we have seen an offshore volume remaining flat while the onside decline quarter-on-quarter and there is a lower FPP milestone that has been reached during the quarter.

**Rishendra Goswami** Okay fine and do you expect the large client decline over next 6 months going forward?

**Rajiv C Mody** Well let me understand that you are saying do we still further expect any decline on our top-line.

**Rishendra Goswami** Yes from the large customer account.

**Rajiv C Mody** Yeah from the large customer we definitely see and expect that. Let me put it this way. We are planning based on that as the current visibility that has been given to us by our largest customer. We do expect a decline over there and efforts are on to see how we can make it up for those declines from existing as well as new customer base and that is the transformation that we are going through as an organization.

**Rishendra Goswami** Sure and the decline that you expect would continue for how many more quarters?

**Rajiv C Mody** I think we would expect it to continue frankly for the rest of the next financial year.

**Rishendra Goswami** So it will be a kind of a phased manner over next 4-5 quarters.

**Rajiv C Mody** That is correct.

- Rishendra Goswami** Okay. Fine. The last question is on your margin. What do you think that from the currency movement on this quarter's margins versus last quarter that is September '11?
- Rajesh Maniar** Our revenue in that sense is hedged; protected at our hedged rate that we have with our schedule policy. Now during the current quarter clearly the topline was at our hedged rate which was in the region of ₹ 47. The topline has been more or less similar to the last quarter. It does not have any impact of exchange movement on the topline. Does that answer your question?
- Rishendra Goswami** Then if I understand it correctly what you are saying is the dollar realization for September quarter and December quarter were a kind of flat for you, right?
- Rajesh Maniar** That's right.
- Rishendra Goswami** Therefore there was no impact of dollar movement on your margins.
- Rajesh Maniar** On the top-line, that's right. Our expenses would get affected to an extent.
- Rishendra Goswami** Right because of the rupee denominated and what would that has been just speaking in terms of percentages because last quarter the EBITDA was 12.8% and this quarter it is about 14.5.
- Rajesh Maniar** Right.
- Rishendra Goswami** So the entire 170 basis points is that all currency or ..
- Rajesh Maniar** No I mean our EBITDA margins have improved, overall EBITDA margins has improved compared to last quarter driven by product revenues so we had higher product revenues in the current quarter so EBITDA margin improved overall driven by that. There was no positive impact from exchange movement compared to last quarter.
- Rishendra Goswami** Okay fine. Perfect. And then, the large other income that you have reported if you could just provide a breakdown for that 87 million?
- Rajesh Maniar** So that compares of two things. One is investment income. We had investment income from the cash-and-cash equivalents in the current quarter which continued to be along the levels lower than last quarter because last quarter we had some fixed maturity plans. So it is slightly lower than the last quarter but the other component of other income is largely the exchange movements. Exchange movements for us get accounted as part of other income.
- Rishendra Goswami** What was that amount?
- Rajesh Maniar** That was in the region of 5.5 crores for the current quarter.
- Rishendra Goswami** The rest was I guess your income from investments.

- Rajesh Maniar** Largely income from investments.
- Rishendra Goswami** Okay. Thanks. That's all from my side.
- Rajesh Maniar** Thank you.
- Moderator** Thank you. The next question is from Abhir Pandit from Parag Parikh Financial Services. Please go ahead.
- Abhir Pandit** Okay good morning sir. My question is regarding you had indicated that by the next financial year most of the Symbian volumes could go away. So I just wanted to get an update that is Nokia moving as per its plan or is there any extension of it?
- Rajiv C Mody** Well, we don't know. We can't make any comment on whether Nokia is moving away from their Symbian plans but we can only tell you that for the first half of the calendar '12 we are seeing commitments on delivering around the Symbian platform and I would like Nagamani to elaborate that further.
- Nagamani Murthy** It is Nagamani here. In the market place we are seeing along with the Symbian the other platforms as well and we continue to see other platform growth as well within Sasken.
- Abhir Pandit** Okay my question is would those other platforms be able to counter the fall in the Symbian thing. In the sense how much you would be able to counter in the percentage term? Little indication would be much better.
- Rajiv C Mody** Yeah, let me add. Of course Android is definitely a very strong platform which I am sure all of us are aware of and the other open platform that is in the market is Windows and we as Nagamani just pointed out have a play in both of those and we are significant developers and suppliers for that both to the semiconductor customers and the handset customers. Both for modem application processor as well as the connectivity elements that make up the large core of any mobile device and I am over here including Tablets also because those are the newer categories coming into the market. We do have a significant play in both these things and a good entrenchment and capability that we have built in both these open operating systems.
- Abhir Pandit** Okay. Sir my next question is related to the auto and utilities vertical. It has been an unprofitable vertical. My question is, why is it unprofitable and how much time will it take for that business to ramp up?
- Rajiv C Mody** Yeah this I think you are referring to our CconnectM subsidiary which is addressing the Indian market for monitoring of energy as well as consumption and doing inventory management at the telecom tower sites. We have made good progress and inroads on that with a large tower company and we have done a large POC with them delivering value to them and I think you will probably see the impact of this in the following year and year after with regards to the



lowering of the losses that we have been incurring so far in it. But it is indeed addressing a need in the market place whereby energy as well as infrastructure what we call the inventory management of the infrastructure at the remote site is absolutely required to be done in a remote fashion.

**Abhir Pandit** Okay and my last question would be on balance sheet I just wanted to know the cash on books of current quarter because last quarter it was 175 crores.

**Rajiv C Mody** It is 180.6 crores as on 31<sup>st</sup> December, 2011.

**Abhir Pandit** Okay. Thank you very much. That's all from my side.

**Moderator** Thank you. The next question is from Deepesh Mehta from SBI Caps. Please go ahead.

**Deepesh Mehta** I have three questions. One is despite our top client is not doing well, I think our top 5 and top 10 are showing more or less stable as a percentage of revenue so can you provide some movement about the rest of our top client. What we don't understand is qualitative comment and how much it can grow going forward? Second is about our services margin. It is showing some kind of decline this quarter. So your comment about because now services margin where you expect it to stabilize considering currency as well as otherwise excluding currency. And, third is, what would be our outstanding hedges at the end of quarter and about exchange rate during the quarter, can you provide breakup mark-to-market and translation. Thank you.

**Rajiv C Mody** I think I will request Nagamani to comment on the first question on why the top client is declining. Her views on what are we doing or how are we seeing the remaining top 14 clients of our top 15.

**Nagamani Murthy** I think as Rajiv mentioned earlier we are seeing the growth with the other set of customers with whom we have been working for a long time. We do see the growth coming up from these customers where we have actually gone beyond a single platform. So we are working on multiple platforms for the realization of this software for them in the market. So we do see a robust and continued growth with the next set of customers we have.

**Deepesh Mehta** Would it be possible for us to grow double digits with those clients?

**Rajiv C Mody** With some of them yes definitely. We can't make a blanket statement for all 15 or 14 of them but at least four or five of them definitely we expect and we are working towards how we can aggressively grow with them with double digit growth that is possible.

**Nagamani Murthy** That's correct. I think as Rajiv mentioned along with the mobile we are also working on the Tablet related because the platform more or less is same but there will be extensions and additions. So that is another thing that we are seeing in the market place.

**Deepesh Mehta** What would be the top 15 contribution to your revenue because we are giving top 10 as 72 so top 15 would be how much?

**Rajiv C Mody** We do not want to give you that data information. Sorry about that.

**Deepesh Mehta** You said out of top 15, four or five are likely to grow in double digit so I just wanted to understand as a concentration wise top 15 would be very good but you said data can't be shared. It is fine. So as a broad portfolio you expect top 15 or top 10 to grow at company level or you expect it to be a kind of muted because of top client's performance.

**Rajiv C Mody** Okay let me try to answer that. We definitely expect the top client to decline. Out of the remaining 14 we expect three or four of them to grow aggressively so that answers part of your question. The remaining growth we expect to come from broad basing our customers with our existing offerings beyond the customers that we have today and seeing how we can scale them to at least \$1.5 to \$2 million accounts over a period of four to six quarters. And the last strategy is for us to open newer verticals which I said will take at least three to four quarters for us to show significant contribution to the top-line. Am I clear or if not then I may be able to clarify between myself and Nagamani any point you would like us to.

**Deepesh Mehta** No. Broadly you covered. Only what I am still not clear is, you said new client addition would also support some kind of growth momentum. So if you can provide somewhat quantum you would be rely on new addition over new things that would be helpful.

**Rajiv C Mody** Let me try to answer that qualitatively rather than quantitatively. Qualitatively we believe that 3 or 4 like I said of the top 15 will grow. That means the remaining should be stable at where they are. Okay. So that is one peg in the ground. The second peg in the ground is then you may ask where will the growth come from? The growth will possibly come from opening newer accounts and scaling them aggressively so that would mean we need to open more accounts from what we have in top 15 or top 20 and/or taking our 125 active accounts and seeing how we can penetrate them more and grow them to at least \$1-1.5 million run rate over 3 to 4 quarters and lastly like I said from the newer areas which I mentioned in terms of automotive, consumer, retail as well as healthcare. But that I think the story will only unfold over the next 3 to 4 quarters. It is very difficult for us at this moment to kind of pinpoint and bring to you areas which we believe are going to scale up significantly because over there everything sounds really nice but it is a formative stage that we are going through from a market perspective.

**Deepesh Mehta** Okay so let me ask it slightly differently. So you expect our sales and marketing investment to increase going forward.

**Rajiv C Mody** Yes.

**Deepesh Mehta** Okay so now that addresses. For remaining questions if you can address.

**Rajesh Maniar**

The first question was with respect to EBITDA. EBITDA for the quarter in services has remained almost in the same level in the last quarter and that we have managed despite our investments that we made as Rajiv pointed out that with respect to our focus to get our revenue stream more predictable. We have made those investments. We have improved our operational drivers in terms of utilization, our billing rate effectively and we managed our employee cost. So with all that and making the investments despite having a drop in the top-line we managed to maintain our EBITDA around the same levels in the services side. On the product side of course there has been an uptick in the current quarter and EBITDA overall has improved consequent to uptick in the product revenue in this quarter. So going forward really the view we have for services EBITDA is we will continue to maintain in this region. Of course we will take steps to improve beyond that the targets are always higher than these but we believe that we should be able to maintain EBITDA in the services around the same level at present and product EBITDA quarter-on-quarter would get affected by what is the product revenue and the overall EBITDA to that extent fluctuate a little bit up and down. That I think was your first question, does that answer your first question.

**Deepesh Mehta**

Only one clarification. You said margin on the services side is likely to be maintained. So you consider without currency or with currency.

**Rajesh Maniar**

With currency given that the investments we are making probably impact made investments in a year or so. If we are closely looking at our numbers then we have indeed made investments in the past and we will continue to make investments as Rajiv just highlighted. So considering all of that our EBITDA is likely to remain at the same region. Coming to your second question with respect to hedges – We have around \$49 million worth of hedges at an effective exchange rate of slightly over 49. It is 49.5 or so that's what we are hedged at.

**Deepesh Mehta**

Can you repeat that number, I missed the number.

**Rajesh Maniar**

We have hedges of around \$49 million outstanding as of balance sheet date at an exchange rate of around 49.5 and the way we account for mark-to-market and exchange variations, based on our accounting factors the mark-to-market on designated contract is reflected in our balance sheet and the mark-to-market gain or loss gets reflected in our P&L. So for the current quarter based on the accounting factors we recognized mark-to-market loss of around ₹ 200 crores in our P&L but remaining mark-to-market remains in the balance sheet. It is really a factor of what the exchange rate is at that point in time for example as we end the quarter the exchange rate was around 53. Right now the exchange rate is below 50 so that is a factor of how the exchange movement fluctuates on a day-to-day basis or a quarter-to-quarter basis. So I think that was your question with respect to the hedges and mark-to-market translation.

**Deepesh Mehta**

I am not just able to understand because quarter closing rate was 53 closer to. Till our gain was very sizeable so if you could translate that what we made.

- Rajesh Maniar** Okay. So the gain is reflecting the revaluation of debtors also and 5.5 crores is the overall gain after taking into account mark-to-market loss on the undesignated contract. So, gain reflects two things actually the revaluation of debtors that take place at the end of the quarter and the variations that may be there because of realization of the quarter beginning debtors. So it is a mix of these things. We do not disclose the breakup of all of these things typically in the past but we can talk to you offline and answer your questions that you may have with respect to more details on this.
- Deepesh Mehta** Sure. Thank you.
- Moderator** Thank you. The next question is from Chetan Vadia from JHB Securities. Please go ahead.
- Rajiv C Mody** Hi.
- Chetan Vadia** Yes sir. My question to you is you said that the new areas that you are going to take around three to four quarters for you to completely mature them and significantly contribute to revenue. Till that time is it safe to assume that the current rate of the quarterly revenues that you are reporting right now would continue for a while?
- Rajiv C Mody** Well I would not want to give you any prediction on that because it is not clear to us how we would see with the top client if at all not staying with their plan and they can ramp it down at a short notice. It is difficult for me frankly to be able to give you in absolute confidence that we will maintain or like I can say the directional and qualitative statement that all efforts are on to ensure that happens. That is our intent to see that we don't decline from where we are and at least keep it stable and show steady growth from here. But that requires us frankly to ensure that we make up for the drops which are significant in nature. I am sorry I am not able to give you an absolute confidence.
- Nagamani Murthy** Just to add on to Rajiv, some of the segments we are already making revenues. The significant growth he is saying will be seen two to three quarters down the line but they are already making inroads. We are there in some of those other segments like automotive.
- Rajiv C Mody** We have made good progress in that, is what we are saying and we continue to be optimistic about it.
- Chetan Vadia** Okay I take that. Sir you said it will be two to three quarter or three to four quarters for revenue to materialize. So any thoughts on acquiring a smaller company with key capabilities ?
- Rajiv C Mody** We don't have anything on the horizon so hard for me to speculate whether we will or we will not. I can only say with you that conventional wisdom says that by adding another problem of acquisition it won't solve. It might be worthwhile for you to fix your existing problem and then worry about acquisition.



*Sasken Limited*  
*February 1, 2012*

**Chetan Vadia**

Okay I take that sir. That's it from my side.

**Moderator**

Thank you. As there are no further questions from the participants I would now like to hand over the conference back to Mr. Mody for closing comments.

**Rajiv C Mody**

Once again I would like to take this opportunity to thank you all for being on the call today and also supporting us during this phase where we are transiting, transforming ourselves as an organization and will come back to you again at the end of the fourth quarter with both the quarterly as well as the yearly numbers. Thank you so much again for being with us today.

**Moderator**

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