"Sasken Communication Technologies Limited Q3FY2013 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Sasken's Q3FY2013 Earnings Conference Call. 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, all participants' lines will be in the listen-only mode. 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 a Q&A session. Thank you and over to you sir.

Rajiv C Mody: Thank you, Marina. 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 third quarter ended December 31st, 2012. I take this opportunity to wish each one of you on behalf of Sasken a pleasant and a fruitful 2013. 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 of Technology and Chief of Strategy and Executive Director to the Board of Sasken; Rajesh Maniar – Vice President, Finance.

Let me begin by walking you through our financials for the third quarter fiscal '13. In the third quarter of fiscal '13 the consolidated revenues for the Sasken group grew by 4.2% over the previous quarter to Rs. 116.76 crores. Consolidated Earnings before Interest, Depreciation, Taxes and Amortization cost for the third quarter fiscal '13 were Rs. 12.89 crores, a growth over the previous quarter. Consolidated PAT for Q3 fiscal '13 was 10.52 crores, up from 0.24 crores over the previous quarter. PAT margins for the quarter was 9%. Software Services revenues for the quarter were 111.44 crores, increased by 4.7% over the previous quarter. Software product revenues for the quarter were at 4.66 crores, a decrease of 5.3% over the previous quarter. Services EBITDA margin for the quarter was at 10.2%. Product EBITDA margin was at 38.4%. Consolidated earnings per share for the third quarter was Rs. 4.47. Cash and cash equivalents were 163.16 crores as of December 31st 2012. We have filed for arbitration proceedings against the licensee awards on account of their refusal to honor the contractual commitment, pending the resolution of the dispute, no revenues has been recognized during the quarter.

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 continue to win business in all areas including smartphones, silicon designs and are executing some of them in an ownership mode. Despite the continuing decline in business from some of our key customers we have been able to win business from several others and register a 1% growth in revenues in dollar terms this quarter in our Services business. This has also reflected in the increase in our active customer base from 119 as of 31st March 2012 to 133 as of 31st December 2012. Our customer concentration from the top 10 customer has also declined from 74.7% to 69.7%.

We have been able to make successful entry into the ruggedized devices space which is Green Field area and may prove to be a growth area going forward. The significant win we have in the Satellite business has now become revenue generating for us in the last quarter. We continue to see strong growth in the Android Operating Systems space consolidating our leadership in this area.

I will take you through our performance in each of our business lines. The outlook for the Semiconductor business is somewhat mixed. While one of our large customers is re-vectoring their business which has caused some volatility, others continue to grow. We are seeing increased traction for our Android-based services, connectivity, testing and verification. There is an increase in onsite engagements which is likely to result in follow up business which will be executed offshore. We have commenced engagements in offering modem interoperability testing services with the European Tier-I Semiconductor vendor which is likely to expand across other geographies in the near-term. Our team is engaged in providing Engineering services for interoperability testing both in the field and in the labs. There is an increase in demand for our Wireless Connectivity services as we see that these technologies are extending its reach beyond just handsets.

On the Handset side of our business we see the bottoming out of the decline in business from one of our large customers. We continue to remain engaged with them on their mass market platform. Providing services around the Android ecosystem continues to be attractive and we have won projects from multiple customers on platform porting and upgrade as well as enhancing connectivity needs.

As part of our strategy to address newer form factors of wireless communication devices we have successfully begun providing services to leading manufacturers of ruggedized computers and handheld terminals. Our responsibilities include complete device productization, OS upgrade and integration of third-party components. One such project which has been executed in an ownership mode we are providing critical service such as performance tuning to enable our customer to obtain requisite certification.

Building on the credibility that we have garnered from several engagements with one of our UK's largest telecommunication service providers we have commenced a new engagement to provide audio solutions to offer superior voice communication in demanding environment such as trading stations.

In our recently concluded "Biennial Technology Event KenTech Fest" which had overwhelming attendance by customers both existing and prospects we showcased our capabilities in LTE, Automotive and Consumer Electronics, Smartphones and Tablets and Enterprise Mobility. Our in-house developed Sasken automation test suites and our Rich Communication Suite enhance (RCSe)- among other solutions demonstrated at the event garnered interest from several customers. We are currently in the midst of advanced discussions to license and provide services in these offerings.

Our outlook for our Networks and Satellite business we continue our investment in building offerings for the LTE ecosystem and this is resulting in customers evincing interest to explore opportunities to partner with us. We are currently engaged in discussions with a number of vendors targeting the space. We have successfully scaled up our engagements within Network Equipment Manufacturer customer in areas of providing test Automation Services and IP. We are in advanced stage of discussions to support large network OEM, achieve backward compatibility of their wireless networks to address the tail market for multi-generation networks. Business in this area is in a sustenance mode for our second generation offering and the third generation technologies are also expected to soon come into sustenance mode. However, we are seeing demand for development and enhancement services on the back of increased demand for commercial LTE networks.

Our outlook on our adjacencies, our play adjacencies continues to make progress and we see scaling up on our engagements with one of the world’s leading consumer electronics manufacturers. We have also begun our engagement with European Set Top Box manufacturers to provide Android enhancements to their Set Top Boxes, aimed at the hospitality industry.

On the Automotive Infotainment front, we are engaged in discussions with our Semiconductor and product partners to build systems around advanced platform to provide a new array of Infotainment services to all the occupants of an automobile. Our foray into Enterprise Mobility has begun has resulted in an engagement with one of the largest FMCG companies for whom we provided mobile application for the launch and promotion of one of their popular grooming products. We have also provided an in-store application for ruggedized device manufacturers that will be used by retail stores to enable their business associates having more meaningful interaction with their customers. As part of our adjacency growth plan we have made successful entry into Industrial Automation and started an engagement with the world leader in Industrial Automation Solutions.

Our group level headcount was 2,560 as of December 31st 2012 and the attrition for the quarter was at 28.7%. Our buyback program continues. We have so far purchased about 3.95 million shares against an approved limit of 5.8 million shares and spent an amount of Rs. 49 crores.

To conclude we expect to see the bottoming out of decline we have experienced both due to technology and market turbulence to play out and expect to return to growth in the coming quarters. Our single-minded focus in being a specialist provider of R&D services to the communication marketplace and its adjacency is of tremendous value to our customers and will become increasingly more so in the hyper competitive marketplace. As always we are grateful for your continued interest and support for Sasken and hope to see you soon in our next call at the fiscal year end .Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from Abhishek Shindadkar from ICICI Direct. Please go ahead.

Abhishek Shindadkar: The first question is on the business itself. So could you help us understand what has changed substantially between the previous quarter and this quarter in terms of the quality of earnings in the Services revenue and how sustainable it is going forward?

Rajiv C Mody: If I compare the quality of revenues in Q2 versus Q3, I think in Q2 we had signaled or we had said that we are seeing the bottoming out and that the degrowth that is coming in from one of our large handset customers was almost at the tail end. So I think that was something that we had announced as part of our call. What has happened between Q2 and Q3 on the growth side definitely is the fact that we have made up for some of the drops that we have seen in the revenues from the Tier-I handset OEM in other accounts and all, and we continue to see that. We have seen revenues kick in on our Satellite Immarsat program. We have also seen some revenues starting to come in our ruggedized devices area in the quarter. So whatever we have been focusing on to grow, use our know how talent and focusing on newer markets is starting to pay off. However, I would say that it is still green field and we are watching it to see that the revenues that we derive out of that is sustainable in the long run. On the margin side I think we focused very heavily and extensively on the cost side to see that we bring back the margins to respectable levels and we continue to focus on that to see that we improve from where we are going forward.

Abhishek Shindadkar: And just going back to the top client question, recently there was an article that one of the Tier-I vendors has been engaged by our top client for an IT Service provider as an end-to-end. So given that from here on, would we be able to refill those revenues, first of all is there a potential for loss of revenues from what we are doing currently for our top customer, and second if there is then would we be able to refill those revenues?

Rajiv C Mody: I presume you are referring to the IT contract that Nokia handed over and that is the press announcement you are referring to?

Abhishek Shindadkar: Right.

Rajiv C Mody: So, first of all just to clarify and position Sasken, Sasken doesn't participate in the IT Services for any customer. Sasken is a R&D service provider. So it focuses on working with the customers who are designing next-generation products. Since we don't participate in the IT side of the business, there is no impact to us from any of these changes or announcements that you might have read. However, having said that we do get impacted if a customer decides to cancel a product line. If you see any of those things and if we are working on those product lines it does impact our top-line and that is what has been happening to us, working with Nokia over the last many quarters because we have decided to exit Symbian product line and that was an impact to us.

Abhishek Shindadkar: Sir I understand that we are predominantly an R&D-focused player, but given that the other vendors who have been selected also have a focused R&D practice. So I know it would be difficult to predict right now, but would there be a possibility that the kind of contribution Nokia has in our revenues predominantly in that practice could be outsourced again to the large Tier-I vendor which has recently been partnered with?

Rajiv C Mody: Practically at the ground level we don't see those things happening, because once we engage with the customer because of our strengths the customer also wants to work with you based on the strengths that you bring to the table. And once you start working with the customer, there is a definite entrenchment and it is hard to dislodge. So frankly we don't see those kinds of things happening in the marketplace.

Abhishek Shindadkar: And on the customer addition we had a strong quarter of customer addition. Could you just elaborate on the kind of services or in the R&D space that customers are engaging us for and has there anything contribution from these nine new customers in the Q3 towards our revenue?

Rajiv C Mody: Yes, there has been contribution from those new customers that we have added in the quarter. Just to clarify the way we present our number of customer adds, if we look at our last 12 months of our revenues and see whether there has been any revenues that we generated out of those customers. So we do see revenues come in from these new customers that we have added and primarily these are in the areas of our strength, which is typically in the area of modems, connectivity, multimedia, testing, Android and different verticals like traditionally Handsets, Semiconductors have been our forte but newer ones coming in, Set Top Boxes, Satellite Communication, Automotive and slowly trying to see and seeing some action in the areas of Industrial. Consumer Electronics is also a traditional area where we see revenues coming on to us.

Abhishek Shindadkar: And last one from my side. Sir I know it is difficult to forecast, I think a lot of participants have been waiting to hear such good set of numbers. So from here on how sustainable is the revenue growth and on the operating metric side, addition of clients, employees, how sustainable is now the business model?

Rajiv C Mody: As we have always said, I think if you had joined us in the beginning on the year, we are clear that we will want to announce numbers only after we are done, we don't give guidance and we continue to write that philosophy. I think our efforts are always to ensure that we provide sustainable growth and revenues because it is in our interest in all ways, but just to answer, the short answer is we will not give guidance, but our effort is to see we continuously to improve our metrix.

Abhishek Shindadkar: And just a book keeping question. What was the cash balance at the end of Q3 that you said, could you just reiterate that?

Rajesh Maniar: Cash balance at the end of December was 163 crores. September was 182 crores approximately.

Moderator: Thank you. The next question is from Ashish Agarwal from Tata Securities. Please go ahead.

Ashish Agarwal: Sir, just one question from my end. In your results you have mentioned that there is around Rs.88 million of software licenses where the client has asserted have not used the IPR. Wanted to understand for how long this has been pending?

Neeta Revankar: This has been pending from the end of Q1. These are revenues recognized in the period ending June.

Ashish Agarwal: So in Q1 when we had product revenues of around 12 crores, so around 9 crores was the license, so it is pending from that?

Neeta Revankar: Actually it's not licensing fees, it is royalties, and yeah it has been pending from then.

Ashish Agarwal: But do you expect to write it down because it has been pending for last six months now?

Neeta Revankar: We just announced in the opening remarks that we have filed a claim for arbitration against a customer refusal to honor their contractual commitment. So I don't see us writing that down.

Moderator: Thank you. The next question is from Pawan Kumar from Capital Markets. Please go ahead.

Pawan Kumar: My question is regarding utilization levels. QoQ there is improvement in utilization levels, whereas YoY if I am right, corresponding previous quarter it was around 71.7%, from the 67.9%, how much improvement I can foresee?

Rajesh Maniar: If you look at our historical utilization level, they have been upwards of 70%. So we believe that there is clearly a potential to go back to our historical levels, so yes indeed there is that potential there.

Pawan Kumar: And next question is for my understanding, the attrition levels for our company is very high, like 28.7% compared to the peers where 12-15%. How should I understand this?

Neeta Revankar: I think one way to look at it is to compare the performance on this parameter over a longer period. And if you look at our attrition level it has steadily been at these levels. What has happened in the last quarter is that there has been a marginal decline actually in attrition, but it is not a trend which is why I don't think there is any significant change that we want to signal that has happened in the quarter that has gone by.

Pawan Kumar: How will the recruitment plans be going forward?

Neeta Revankar: Our utilization currently is at a level where we can service some growth without further hiring. So hiring is going to be at a pretty low level in the near future.

Rajiv C Mody: It will be very selective hiring.

Moderator: Thank you. The next question is from Sumit Poddar from Birla Sun Life. Please go ahead.

Sumit Poddar: So just wanted to understand in terms of headcount addition, how would you look for the full year? As we have already shared it would be nominal, but can we see the decline in the overall manpower to stabilize going forward?

Neeta Revankar: Actually I don't think we can talk too far out, because we are not giving any kind of guidance on the way the revenues are headed. For the current year if you are going to compare with the last year, since attrition continues at the levels that it has been, and since we are saying we will be hiring very selectively I do expect net headcount to be on a declining trend for some time, and the headcount addition will lag the revenue growth. So we will have to see a few quarters of revenue growth before we see any change in this headcount situation.

Sumit Poddar: And about the buyback program, till when is this buyback program there, and what is our view on further buybacks?

Neeta Revankar: The buyback program can be open for a period of 12 months and that 12 months expire sometimes towards the end of April, and we yet have some room of about 1.8 million shares left to buyback.

Moderator: Thank you. The next question is from Pawan Kumar from Capital Markets. Please go ahead.

Pawan Kumar: Could you please share the geography-wise revenue growth?

Rajesh Maniar: Basically, if you look at our share of revenue from various geographies, EMEA has gone up from 33% to 35%, so that has been an increase and that is really driven by the fact that there is a dip in our revenues in our Finland operations in Q2 which really is the vacation impact coming in there and we have had some growth in revenues as well in our European operations in addition to the seasonal factor.

Pawan Kumar: Whereas in North America there was QoQ decline in contribution, like 32% from 31%?

Rajesh Maniar: I don't think it is to do with a decline as such in absolute terms, share of the pie has gone down, because the share of pie in other geography has increased.

Moderator: As there are no further questions from the participants, I now hand the conference back to Mr. Rajiv Mody for closing comments.

Rajiv Mody: Once again thank you all for joining in on the call today and look forward to seeing you again in the month of April for Q4 as well as for the full year results. Thank you.

Moderator: Thank you very much, 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.