"Sasken Q4 FY12 Earnings Conference Call"

April 27, 2012

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Moderator Ladies and Gentlemen, Good day and welcome to the Q4 FY 12 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. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this call please signal an operator by pressing * and then 0 on your touch tone telephone. Please note that this Conference if 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 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 fourth quarter ended 31st March, 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 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; Rajesh Rao, Senior Vice President and Head – Worldwide Sales and Nagamani Murthy, Senior Vice President and Head - Worldwide Delivery.

Let me begin by walking you to our financials for the fourth quarter FY2012. In the fourth quarter of FY2012, the consolidated revenues for the Sasken Group grew by 1.2% over the previous quarter to **₹.**130.27 crores. Consolidated earnings before interest depreciation taxes and amortization costs for the fourth quarter FY2012 were **₹.**25.35 crores, a growth of 37.9% sequentially over the previous quarter. Consolidated PAT for Q4 FY12 was at **₹.**17.73 crores, down by 4.8% over the previous quarter. PAT margin for the quarter was 13.6%. Software services revenues for the quarter were **₹.**115.92 crores, declined by 0.7% over the previous quarter. Software products revenues for the quarter were **₹.**13.34 crores an increase of 23.1% over the previous quarter. Services EBITDA margin for the quarter was at 15.7%, products EBITDA margin was at 59.4%.

For the financial year 2012, the consolidated revenues were **₹.**519.96 crores down by 4.8% over fiscal 2011. Earnings before interest, taxes depreciation and amortization charges were **₹.**76.5 crores down by 20.7% over the previous financial year. The consolidated profit after taxes for the

FY2012 was ₹.64 crores down 12.7% over the previous financial year. PAT margins for the full year were at 12.3%. For the full year software services revenues were ₹.474.96 crores, down by 2.3% over the previous year and products revenues were ₹.39.49 crores down by 29.6% over the previous financial year. EBITDA margins for the services business was at 13.1%, and for products business it was 42.9% for the full financial year FY2012.

Consolidated earnings per share for the fourth quarter was approximately ₹.6.85 and for the full year EPS works out to be ₹.24.82. Cash and cash equivalent were approximately ₹.186 crores as of March 31st, 2012.

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

As indicated earlier we have seen significant ramp down in business from one of our largest customers over FY2012. This trend is likely to continue for the first half of fiscal 2013 before bottoming out. We have been successful in partially offsetting the decline in the revenues by bringing new business from both existing and new customers. We are seeing extended sale cycle in our new growth areas and some of our investments are likely to fructify in the latter half of FY13.

We are happy to announce a significant increase in our royalty based revenues, we have received from our IP licensing business. As per publicly available information our customer is expected to remain a market leader in TD-SCDMA Silicon solutions. Based on this information we expect our royalty revenues to remain strong in coming quarters. However, as indicated earlier royalty receipts are a function of quarterly shipments.

Our outlook for our Semiconductor business is as follows: The increased proliferation of tablets and smart phones augurs well for our semi-conductor practice. We have seen good growth in our engagements with the largest provider of silicon platforms to this segment. We are ramping up our presence in one of our locations to cater to the increased demand. As indicated earlier we continue to see good traction in providing firmware, middleware solutions, support to several silicon vendors working on smart devices based on Windows mobile operating systems. Our association with the largest semi-conductor manufacturer grows as they vigorously increase their market share in the wireless and computing phase. A new ODC is being established to accommodate present and future business prospects we see with this customer. We continue to remain leaders in providing solutions to most of the leading semi-conductor players for the upgrade of the latest android versions like Ice Cream Sandwich on their newer chip set platforms. The demand for our IC design services offering continues to be robust, we are working on set of box solutions for a fast growing player in this space.

Our outlook for our Handset business segments is as follows: We are excited to have commenced engagements with a leading Northern American OEM. We are working on their smart phone development program based on fourth generation technologies silicon platform. This opportunity has tremendous scope for scaling up. Our traditional engagement in development and support of feature phone currently looks to be stable, through the current calendar year. We are seeing an increase in hardware engagements from one of our key customers. Our work with semi-conductor vendors on the android platform has resulted in growth opportunities for us with the leading handset OEMs that we are currently engaged with. Based on the projects we have executed in providing a variety of solutions to both silicon and handset OEMs for porting and supporting the evolution of android mobile operating system, we believe that we hold leadership position in this space. This is borne out by the new projects that we continue to win from both semiconductors and handset market leaders.

Our outlook for our network and satellite business is as follows: It continued to grow in Q4 largely driven by the growth arising from new accounts. Our business in the area of public safety is progressing well and the demand look robust. Buoyed by our engagements in this space, we are investing to enlarge the scope of our current engagements, to include both terminals and the network elements used to build the trunk radio system. Our multiple engagements in providing design services to telecom OEMs have enabled us to mark the product design, development, deployment and support for small cells. This unique proposition gives us the advantage to build on our current engagements, and acquire new OEM/ODM customers, who are focused on the growing market for small cells. We have been able to make headway in the Korean market on the back of one of our engagements giving us the much needed visibility in one of the fastest growing markets for small cells.

Building on our leadership in Networks offerings and keeping with recent trends we have become a member of the Network Intelligence Alliance, a forum for collaboration amongst technology providers whose solutions secure data in transit, ensure efficient data delivery, monetize data transactions or track real time information. Being a part of this forum gives Sasken the ability to explore business with service providers and network equipment vendors. In the recently concluded mobile world conference 2012 at Barcelona, we demonstrated our abilities to provide network intelligence solutions and services.

We are providing support and enhancements to the satellite phone we had built for our customer, and we continue to pursue new business from the satellite segment. Sales cycle here remains fairly long however.

On our outlook for our adjacencies, Auto continues to be a focus area for us, we are excited that our rear seat entertainment solution will be an integral part of a high end Sedan being launched by one of the largest automobile manufacturers in the world. Building on this success we are enlarging our focus in automotive electronics to areas such as driver safety, navigation and assistance. We have become members of GENIVI, the industry body that drives the alliance for in-vehicle infotainment open source development platforms in the automotive segment. Our CE the consumer electronics business continues to grow, we are in discussions with several customers for android, multi-media and connectivity offerings. As an early validation of the go to market partnerships that we are forging in CE space, we have successfully offered system integration services around our customer's technology to their customers. Together with our partners we have been able to offer innovative audio solutions that enables streaming hi-fi audio to remote devices.

On the people front, the head count for Sasken Group stood at 3026 as of March 31st, 2012. Our group level attrition grade on a quarter-on-quarter basis was marginally up and stood at 30.9%. We continue to add head count in the embedded technology areas. We continue to look for ways to ensure that our employees are positively motivated and engaged. To this end among other things we have enhanced our benefits to recognize aspects like performance, tenure, utilization, etc. As part of our People First policies, we strive to obtain and act on employee perceptions of satisfaction. To deepen our understanding of factors resulting in greater employee satisfaction, we have engaged a reputed external agency to conduct comprehensive E-SAT survey. In the coming year we plan to use the feedback we receive from the survey to drive improvement actions.

We successfully added seven new customers during the quarter, taking the total number of active customers to 119.

As part of our efforts to increase engagements with our key accounts, we have built on the success and creditability we have established with them leading to higher levels of strategic engagements. Our customers address vast array of business segments, and we have successfully penetrated several of their business units with our portfolio of offerings. Verticals such as Health care and Retail are embracing wireless technologies rapidly thereby presenting high growth opportunities for technology service providers like us. We plan to target these sectors by leveraging our deep competencies spanning across the value chain of the wireless domain. We are also poised to extend our expertise to service increasing opportunities in the Enterprise Mobility space. We are making investments in these growth areas which will yield results in the future.

To conclude we confidently continue to focus on our core strengths and broad base our customer set and offerings in our quest to tap into new revenue streams. We expect these efforts will fructify in the coming years and result in us growing from strength to strength. We look forward to your continued support. I would now like to open the floor for Q&A.

Moderator Thank you very much Sir. 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 touch tone telephone. 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 Mr. Chetan Vadia from JHP Securities. Please go ahead.

Chetan Vadia Sir, I wanted to know the outlook for the automotive segment for the year we have done well in terms of top line it had gone up 34%, but it still not received profitability, so when do we see this initiative turnings EBITDA positive for you?

Rajiv C. Mody You are probably referring to the ConnectM investments that we have been making over the last few years.

Chetan Vadia I am seeing the segmental result table in the presentation, Slide #9?

Rajiv C. Mody We expect that business of ours should become PAT neutral this year.

Chetan Vadia PAT neutral FY13.

Rajiv C. Mody That is correct.

Chetan Vadia Okay.

Rajiv C. Mody There has been a slight change in the strategy over there also because of the change due to the impact that our customers have gone through, because the 2G licensing stuff, so we are also re-vectoring our strategy over there, but clarity that it has to be what do we call PAT neutral for this financial year.

Chetan Vadia Okay. Can you provide me your outlook once again for the services segment?

Rajiv C. Mody Like I said the outlook for the full year for the services segment is that we are seeing a decline from our single largest customer. There are significant efforts going on to ensure that we overcome those declines in our existing as well as the new account that we are working on penetrating, as well as the newer segments, like I said that we are opening including consumer electronics, auto, and the newer areas where wireless is playing out particularly the enterprise mobility side. So, all efforts are out there to see that we serve existing areas as well as open new forays for us. Having said that we do see a decline in revenues in the first quarter largely on account of the ramp down in the services business, however, we have put in place growth plans to address these in businesses from existing like I said and we see extended sales cycle in the new growth areas that we are focusing on. So we expect those things to fructify the latter part of fiscal ‘13. However, on the product side like I said that as per the market reports covering our customer who is the leader in TD-SCDMA silicon, we expect that will be continued uptick in our royalty revenues in the coming quarters. However, like I have indicated that royalty revenues are function of shipment and so we cannot necessarily kind of give a very predictable guidance on that.

Chetan Vadia Okay Sir. I think that is helpful. Thank you very much.

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

Rishendra Goswami Hi. Just a few clarification, firstly on that ConnectM you had mentioned there is a charge in terms of diminution in the value of investment. Where is that reflected? That does not flow through the P&L? It does not look like it has gone through the equity account, could be just explain that?

Neeta Revankar Actually the way we have accounted for ConnectM each quarter the losses have consolidated, so what we have done in this quarter will not result in any additional charge. Every quarter the losses of ConnectM are consolidated to the extent of our shares in the company as a result there is no additional charge this quarter.

Rishendra Goswami I see, but would it reflect anywhere in the financials even in the equity account?

Neeta Revankar It could reflect in the account of the standalone entity SCTL, so our investment there has been written-down, but because we have done it each quarter, there is no impact on the consolidated financials this quarter.

Rishendra Goswami Okay, it will be reflected in the standalone account then?

Neeta Revankar That is correct.

Rishendra Goswami Okay, got it fine. Then could you also explain the new classification the way balance sheet has been reported this quarter versus last quarter, the loans and advances which used to be classified as under the current assets, I think part of it has gone out as a long term asset, so could you explain what the reclassification is and how does it work going forward?

Neeta Revankar I think it will be simpler for us to add one more chart and put it out on our website by the end of today, that will make a simpler for everybody to understand, we will do that.

Rishendra Goswami Okay that will be very helpful because otherwise if you were to look it on a comparative basis as the reporting was in December quarter, then I am assuming that you are working capital has sucked up about 15 crores is that a correct understanding?

Rajiv C. Mody Are you talking about quarter or are you talking about year?

Rishendra Goswami I am talking about the quarter you compare Q3 versus Q4, if in the Q4 if you were to take the same reporting standard as in Q3 then my assumption is that your working capital has gone up by 15 crore quarter-on-quarter is that understanding?

Neeta Revankar That is correct. We had royalty revenues that we invoiced at the end of the quarter which got collected subsequently. And that would have resulted in an increase in our receivables. That is correct, and so working capital would have gone up pretty significantly.

Rishendra Goswami Okay great. And then also could you share the CAPEX number for FY12?

Rajesh Maniar For the full year the CAPEX has been in the region of 21 crores consolidated.

Rishendra Goswami And any prediction for FY13 what is the CAPEX is going to be?

Rajesh Maniar The planned CAPEX for next year will be in the region of 12 to 15 crores.

Rishendra Goswami 12 to 15 crores is it not last year I had targeted for a low CAPEX number about 12 – 15 odd crore it is little higher than expected where is the CAPEX gone?

Rajesh Maniar No last year we guided 24 crores we guided in the region of 24 crores.

Neeta Revankar And CAPEX is really for establishment of SEZ offices so that is the kind of CAPEX that will continue.

Rishendra Goswami Okay and this year it will be 12 – 15 crores right?

Neeta Revankar That is correct.

Rishendra Goswami Okay great. And your tax rates for FY13?

Neeta Revankar Effective tax rates are expected to continue at 24 – 25% of profits.

Rishendra Goswami 24 – 25% of PBT right.

Neeta Revankar Yeah.

Moderator Thank you. The next question is from Mr. Abhishek Shindadkar from ICICI Securities. Please go ahead.

Abhishek Shindadkar Yeah, on a sequential basis I see the employee costs declining, so could you help with understand what exactly has gone in there?

Neeta Revankar There has not been any rationalization action there as you assume. What really happens is that each quarter we take stock of all the retiral benefits and how much provision seems to be there is one issue. The second thing is that there is also change in the mix of people that you have in high cost location and low cost location. All these things together leads to changes in employee cost. The third significant factor is variable pay. All of these three together results in changes in employee costs period-to-period. That is what happened between Q3 and Q4.

Abhishek Shindadkar Okay, and sir if I understand this correctly this royalty payments are towards the China vendor?

Rajiv C. Mody That is correct. That is the protocols stacks that we licensed I think about three or four years ago and now we are seeing the benefits of that, where the volume of shipments have gone up.

Abhishek Shindadkar Okay. Separately a quick question for you, unless I am looking at some wrong numbers the balance sheet numbers which are published in the press release for FY11, and the balance sheet numbers in the annual report, there seems to be an increase in the overall balance sheet size, so could you help us understand what exactly has happened there?

Neeta Revankar Actually this must be the difference between the standalone account and the consolidated account. The other thing could be that because of the changes to schedule 6 you may be seeing some changes. The current liabilities are reclassified. The changes in schedule 6 which is causing these changes.

Abhishek Shindadkar Okay. So the current liabilities have been classified that led through the increase in the balance sheet, because the balance sheet size has gone up by about 100 crores if I am not wrong?

Neeta Revankar That is correct.

Abhishek Shindadkar So what exactly has change in the current liabilities?

Neeta Revankar The way they reported in the balance sheet it was reported earlier, current assets less current liability, now it is not done that way that is the change.

Abhishek Shindadkar Okay. And the numbers given in the press release are the audited consolidated numbers right?

Neeta Revankar That is correct.

Abhishek Shindadkar From a business perspective we understand that largest customer is under pressure. If you remember I had asked you that, did we have the bottom in the previous quarter? So from hereon, how do you think you will do in FY13, I know you have had said this earlier but I am just talking from our services business perspective, because I think the other two parts are little lumpy to kind of model?

Rajiv C. Mody The other part yes I agree it is lumpy to model. Coming to services, I think like I said that we definitely see that the first quarter revenues in services to decline because of the ramp downs that we have seen and we expect that from this largest customer the trends to be whereby at the end of the second quarter, we should be kind of be done with most of the ramp downs that we expect from that largest customer. Having said that there is significant effort going on to ensure that whatever ramp downs are there, we are able to make it up in existing as well as newer customer base and I think we have demonstrated that in some ways over the full year from fiscal '11 to fiscal '12, because we have been able to make up for the dips that we saw in the overall ramp downs whereby we grew other customer accounts, and that efforts continues. However, it is not frankly speaking possible for us to model it very accurately that is why we are staying away from giving any accurate guidance.

Abhishek Shindadkar Sir, last question from my side. You referred to gaining some work on the windows platform, so this is basically from the largest customer itself moving to that platform, or it is for a separate customer.

Rajiv C. Mody It is both with the largest customer also are doing certain developments for them on the windows, mostly on the hardware design side and the testing side. However, with other silicon platform vendors we are actually working on enabling Windows 7 and Windows 8 platform and all the necessary bring ups that are require to bring upon newer platforms. So for that we are working with two large silicon suppliers who are market leaders in this space.

Nagamani Murthy You are pretty right. As you know already we are leader in android platform along with that there is an uptick and there is a focus on the Windows platform. So whomever we are leader with and working with the silicon customers we continue to have android as well as Windows migration on to this customer so.

Abhishek Shindadkar Okay. That is helpful, and Sir last one if I can be squeezing, the other companies which you have reported numbers have typically suggested that clients are funding the discretionary part of the spends by reducing the maintenance, I would say keeping maintenance budgets flat. Have you witnessed any such trend when you given that you have a large portion of discretionary plus a telecom business, so have you witnessed any such trend and if that is so would that be helpful for you in FY13 or post probably FY14?

Rajiv C. Mody Yes that trend will be helpful. Every customer that we work with will have a set of products that are in R&D phase, products which are in the market and products which we can categorize as being end of life right. So we are working with customers to increase the revenue we get from end of life products either by reducing the cost of support for them during the last two years of the products life cycle or by working on enhancement the features that will extend the life time of such products. So this is a deliberate attempt to go to as many customers, as possible for whom this kind of a topic might be relevant and increase our revenue from such activity.

Abhishek Shindadkar So have you seen such trends shaping up in the market?

Rajiv C. Mody Yes.

Abhishek Shindadkar Okay. Thank you Sir for taking my questions and all the best for FY12.

Rajiv C. Mody Thank you.

Moderator Thank you. As there are no further questions I would like to handover the floor back to Mr. Mody for closing comments.

Rajiv C. Mody Well thank you so much for participating in the call today we appreciate being there and look for to coming back to you in the June ending quarter. Thank you.

Moderator Thank you very much. Ladies and Gentlemen on behalf of Sasken that enclose this conference call. Thank you for joining us and you now disconnect your lines.