“Sasken Communication Technologies Limited Q4FY2013 Earnings Conference Call”

April 29, 2013

MANAGEMENT: **MR. RAJIV C MODY – CHAIRMAN AND MANAGING DIRECTOR, SASKEN**
MS. NEETA REVANKAR – WHOLE-TIME DIR., CFO & GLOBAL HEAD-HR, IT/IS & ADMIN, SASKEN
DR. G. VENKATESH – CHIEF TECHNOLOGY & CHIEF STRATEGY & EXECUTIVE DIRECTOR, SASKEN
MR. RAJESH MANIAR – VICE PRESIDENT, FINANCE, SASKEN
MS. NAGAMANI MURTHY – SENIOR VICE PRESIDENT & HEAD, WORLDWIDE DELIVERY

Moderator: Ladies and gentlemen, good day and welcome to the Sasken's 4th Quarter FY2013 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, for the duration of the conference, 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, you may signal for an operator by pressing '*' and then '0' on your touchtone telephone. 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 Mr. Mody.

Rajiv C Mody: Thank you, Lavina. 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, 2013.

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 & Executive Director to the Board of Sasken; Dr. G. Venkatesh – Chief of Technology & Strategy & Executive Director to the Board of Sasken; Rajesh Maniar – Vice President, Finance and Nagamani Murthy – Senior Vice President and Head, worldwide delivery.

Let me begin by walking you through our financials for the Fourth Quarter Fiscal 2013. In the Fourth Quarter of Fiscal '13 the consolidated revenues for the Sasken Group fell by 2.9% over the previous quarter to Rs. 113.32 crores. Consolidated Earnings before Interest, Depreciation, Taxes and Amortization cost for the fourth quarter fiscal '13 were Rs. 12.58 crores, a decline of 2.4% sequential. Consolidated PAT for Q4 fiscal '13 was at Rs.7.02 crores, down by 33.2% over the previous quarter. PAT margins for the quarter was 6.2%. Software Services revenue for the quarter were at 107.4 crores, declined by 3.6% over the previous quarter. Software product revenues for the quarter were Rs. 5.58 crores, an increase of 19.7% over the previous quarter. Services EBITDA margin for the quarter was at 9.9%. Product EBITDA margin was at 42.8%. For the financial year 2013, the consolidated revenues were at Rs. 474.83 crores, down by 8.7% over the fiscal 2012. Earnings before interest, taxes, depreciation, and amortization charges were 41.91 crores, down by 45.2% over the previous financial year. The consolidated profits after taxes for the fiscal '13 were 31.96 crores, down 50.1% over the previous financial year. PAT margin for the full year were at 6.7%. For the full year, software services revenues were 445.12 crores, down by 6.3% over the previous year and products revenues were 27.44 crores, down by 30.5% over the previous financial year. EBITDA margins for the services business was at 6.9% and for products business was at 46.8% for the full financial year for fiscal 2013. Consolidated earning per share for the 4th quarter was approximately Rs. 3.23 and for the full year, EPS works out to be Rs. 13.26. Cash and cash equivalents were approximately Rs. 149 crores as of March 31st, 2013.

I will now take you through some of the key highlights related to the business – In Fiscal '13 we witnessed phenomenal amounts of churn on account of rapid changes in technology and the strategic changes made by 2 of our large customers. While one customer completely revised their software strategy, another exited the wireless space. We are able to mitigate the impact of decline in revenues from both these customers and the significant project ramped downs that ensued. We have managed to minimize the impact of the revenue decline by adding new customers, focusing on new verticals and creating new offerings. We have put forth our best efforts to ensure that our margins do not contract and we have taken all measures within our control to return to growth in the coming fiscal. We are pleased to announce continued success in servicing the needs for ruggedized device manufacturers. We added to our existing customer base one of the leading manufacturers of ruggedized devices. With this addition, we cover manufacturers who own more than 50% market share in this area. The primary reason we have been able to become a partner of choice of these manufacturers is our unmatched leadership position in the area of providing product development support for devices based on Android and Windows platforms. These devices are migrating from legacy operating systems to Android and Windows which we enable. In addition, we also help these devices support newer connectivity standards. We have been chosen by one of the iconic brands that manufacture high end speakers which is the first choice of the audio fill world over. We are enabling these speakers to connect wirelessly with portable media players and Smartphone's. Our deep expertise in wireless connectivity and audio processing has made it possible to deliver high quality audio experience. We have successfully added seven new customers during the quarter taking the total number of active customers to 127.

Our outlook for the handset business segment is as follows:

The headwinds in the handset business have resulted in slowing the pace of growth compared to what we have seen historically. We have de-risked this by adding the market for ruggedized devices. Our leadership position in the Android ecosystem connectivity is proving to be a differentiator to these device manufacturers. The three corner ways for mobile operating systems is getting stronger with the entry of two new players. Smart device OEMs have evinced interest in these mobile operating systems which will auger well for our business in coming years. The excellent customer satisfaction scores that we have received and our ability to deliver complex projects have also resulted in increased customer traction.

Our outlook for our semiconductor segment is as follows:

We have successfully managed to mitigate the ramp downs from one of the largest customers in semiconductor space. Based on the public information, you must be aware of changes with some of the semiconductor players in this space. We are monitoring the situation to ensure that we have minimal impact and also continue to serve them. On the positive side, we are seeing an increased growth in the onsite business in the area of Android porting, testing and connectivity solutions. We are providing services to add multimedia and connectivity solutions for our core communication processes that supports LTE and are targeted towards manufacture of Smartphone's and tablets. We are seeing growth into providing onsite testing services for chipsets that support LTE services for porting and supporting Windows on different platforms. Two of our customers have successfully bagged a number of design wins from OEMs. This portends that we will be seeing a robust demand for our services to support these design wins in the second quarter of the financial year.

Our outlook for networks and satellite business is as follows:

We have made significant progress with one of the Korean Lighting manufacturers of network equipment. We are engaged in supporting their wireless access network solutions across all technologies ranging from 2G to 4G. We believe that this engagement would scale to further heights during the phase of productization**.** In addition to the follow up business we have received for enabling the satellite phone that we built, we are exploring growth into terrestrial satellite infrastructure. We have established leadership position in providing services for satellite segments. We are pursuing large deals from other players in this segment, however, the sales cycles tend to be somewhat protracted.

On our outlook for our adjacencies – we are making steady progress in the enterprise mobility space. We have commenced engagements with one of the leading providers of solutions for the retail, supply chain and warehousing service providers. Our scope of work involves developing mobile applications for retail, retail supply chain processes that will run on ruggedized devices and Smartphone's. In the Automotive Electronics space, we have won business from leading Chinese automobile manufacturers to whom we have licensed our multimedia IP which will be incorporated in their in-vehicle infotainment system. Also as an extension to our current engagement, we have signed a deal with the tier1 Japanese customer for the next generation Infotainment systems. We are also pursuing large deals in the automotive space in Telemetrics and Infotainment segment. We continue to make investment in deepening our competencies to serve opportunities from verticals such as automotives, consumer electronics, retail, healthcare and machine to machine communications. This is part of our strategy to widen our customer base and expand it to adjacent market spaces that are adopting wireless communications as a key part of their offering strategy. The activities are carried through several initiatives within Sasken including our facilities in IIT Madras Research Park.

On the people front – the headcount for the Sasken Group stood at 2291 as of March 31st, 2013. We decided to sharpen our focus, sharpen our hiring over the last 2 quarters keeping in mind the existing bench size. Our actions have yielded expected results in the form of improved utilization. We will continue to closely monitor key matrix like utilization, our demand-supply scenario and act accordingly to accelerate hiring as and when required. Annualized attrition for the group has increased to 34.7%. We continue to take concerted actions towards rewarding high productivity and performance and towards improving people management capabilities of our managers in an attempt to increase retention.

Arbitration – We have initiated arbitration proceedings against the licensee of our software for non-payment of royalties owed to us under an agreement. The licensee used this licensed software in their product shipped. Backed by credible evidence, we are of the view that licensee has breached its obligation interalia to report shipment and royalty numbers and to pay the same claiming non-usage of licensed software while it continues to use it. As the licensee has not reported shipment numbers to us in our financial statements from July 2012, we have not recognized any revenues stream from royalties due to the licensee. The licensee, which is also listed in the United States has reported to have made more than 50% market share in the CDMA base band chipsets in China and has reported to have sold over 40 million units in 2012. By denying royalty payment, we allege that the licensee has intentionally breached the licensing terms and has denied us the benefits of success in the market. We are reasonably confident of a favorable resolution of the legal dispute.

Buyback – We are happy to announce that we have closed the buy backs. On completion of a 1 year period, we have acquired 5.2 million shares at an average price of 125.55 at a total cost of around 67 crores. This constitutes 91% of the approved buyback of 5.8 million shares. Sasken continues to be a lead in mobile technology space and has an enviable set of marquee customers to provide world class cutting edge solutions. We are committed to making appropriate investments in further enhancing our technology capability and expertise of our highly committed talent pool. We continue our quest to acquire new customers and diversifying our customers' base which will open new vistas of growth. As always, we are grateful to you for your continued support.

I would like to now open the floor for question and answers.

Moderator: Thank you very much, sir. Participants, we will begin the question-and-answer session. We have our first question from the line of Aishwarya K from ICICI Direct. Please go ahead.

Aishwarya K: Sir, I understand that your pipeline seems to be pretty good going ahead for the next year. But is it possible for you to quantify a number for the growth next year? My second question is – is it possible to give a break up of the other income because it has significantly declined from the last quarter?

Rajiv C Mody: Yes. I will answer the first one and request Neeta to answer the second one. Frankly speaking, of course, while we do not give any guidance, what is making it hard for us to quantify and give you any number we may deliver on the growth is in many cases determined also by our customers who are kind of working on certain leading edge products wanting to take those products to the market. That makes it that much more difficult for us to frankly quantify. However, I can assure you that we have made significant progress in the last one year to broad base the number of customers that we have added and also broad base the verticals that we are serving today, including enterprise mobility. We are focused on ensuring that we keep mining these accounts that we have opened and successfully work with them on areas that are having longevity combined with, of course, areas that have high technology content but could have a short shelf life. So frankly speaking, it is hard for me to give you an absolute number of the growth that we can deliver to the market. But let me assure you that the focus is to grow from here and deliver significantly better numbers compared to what has happened in the past. In the past, just wanted to reiterate, re-emphasize, we have seen two large impacts, I think. I am proud of the fact that our company has managed it extremely well in spite of the fact that approximately 20-25% of the revenue vanished because of change in strategy of these customers of our own and we also managed our profitability and our cash position extremely well. Neeta, you want to answer the second question on the other income?

Neeta Revankar: Yes. There are two significant reasons why other income has changed from Quarter 3 to Quarter 4. The first thing is that in Quarter 3, we had a large amount of exchange gained. We had over 3 crores of exchange gain and that is because of the significant change in exchange rates between Quarter 2 and Quarter 3. Now between Quarter 3 and Quarter 4, there is a marginal decline in the exchange rate and so we have posted an exchange loss of a crore. That's one significant reason for a reduction in other income. And the other one is that there is a small decline in the income from our investments because our investment portfolio size itself has reduced. We have used cash for buyback and so the portfolio size is reduced.

Aishwarya K: What is your interest yield?

Neeta Revankar: 7.5% post tax.

Moderator: Thank you. We have our next question from the line of Amit Kulkarni, an investor. Please go ahead.

Amit Kulkarni: A lot of money has been spent over the last 2-3 years in terms of buying stock from the market. I am wondering whether that money could have been kept aside for making an acquisition if any.

Rajiv Mody: Let me try to answer that question. One, we have spent about Rs. 60 crores in the last one year in the buyback, a process that we concluded recently. Second thing I want to emphasize also is the fact that the company believes that if and when there is an opportunity for any acquisition, we will definitely do that and it has enough resources to see that it does it. Thirdly, there is always this hurry of the management to go and do acquisition and shore up the top-line. We don't believe that that's a right approach or strategy, particularly if any of the existing people who own that company are exiting and making their monies and moving on. Let's remember Amit that we work in an environment, we work in a technology world where the churn is constant and given. So, we want to make sure that if we invest into something, we derive benefits out of it over a period where we can recover the investments that we have made in acquisition. We don't see that in the present environment and if and when we see that, let me assure you, we will definitely be the first people to do it.

Amit Kulkarni: Follow up question Rajiv to that is your stock is very cheap in the market at this point of time. I think it ought to be significantly higher. Likewise, I feel there are a lot of other companies that are trading or are available at a very attractive multiple. Now, there are two strategies that you can adopt. Probably wait for a deal to come to you or engage with somebody to actually go out and get your deal. Have you ever tried engaging somebody specifically for you to go and get a deal for yourself?

Rajiv C Mody: Amit, thanks for highlighting this. While I may not want to discuss this over an analyst call. Maybe if you can set up a time where I can call you and maybe discuss this. That would be more fruitful.

Amit Kulkarni: My third and last question is, why is Ashish Dhawan not on the board, he is one of the best investors in the country. He has also made a lot of money in terms of mergers and acquisitions for his own investee companies. I think Sasken should have him on the board. That is my question to you.

Rajiv Mody: Well, I take that as an input. However, he will not qualify as an independent board member.

Amit Kulkarni: Any particular reason for that?

Rajiv Mody: He owns personally, if I remember it right, close to about 9-10% of the company?

Amit Kulkarni: Yes.

Rajiv Mody: That automatically doesn't qualify him as an independent board member.

Moderator: Thank you. Mr. Mody, since we don't have any further questions would you like to add any closing comments here?

Rajiv Mody: I would like to thank you all who joined in for the analyst call today. Thank you for your continued support and look forward to seeing you at the end of this quarter in the New Year. Once again, thanks a lot.

Moderator: Thank you, sir. Participants, on behalf of Sasken that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.