

Sasken Communication Technologies Limited
Quarter Two Earnings Conference Call, Financial Year 2010
October 29, 2009

Moderator: Good afternoon ladies and gentlemen. I am Monali, the moderator for this conference. Welcome all to the Q2 FY 2010 earnings call of Sasken. 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. I will now hand 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 the Q&A. For the duration of the presentation, all participants' lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for participants connected to WebEx International. After that, the question and answer session will be conducted for participants in India Bridge. Thank you and over to you sir.

Mr. Rajiv C. Mody: Thank you Monali. Ladies and gentlemen, good evening 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 quarter ended September 30th 2009. I am joined on this call by my colleague, Neeta Revankar, CFO and HR Head; Dr. G. Venkatesh, Head of Worldwide Delivery and Executive Director to the Board of Sasken; Dr. T. K. Srikanth, Vice President and Head of Business Development and Portfolio; and Rajesh Maniar, Vice President, Finance in this call. Let me begin by taking you through our financials for the second quarter ended September 30th 2009. The consolidated revenues for the Sasken Group for the second quarter declined by 23% over the corresponding quarter in FY 2009 and 3% over the previous quarter to rupees 135.7 crores. Earnings before interest, depreciation, taxes, and amortization cost for the second quarter fiscal 2010 was at rupees 26.1 crores, a growth of 9% over the previous quarter and a decline of 37% over the corresponding quarter in the previous financial year. Consolidated PAT for Q2 FY10 was rupees 16.4 crores, lower by 19% over the previous quarter and was up by 58% over corresponding quarter in the previous year. PAT margins for the quarter were at 12.1%. Software services revenue for Q2 dropped 7% in rupee terms over the previous quarter to rupees 128.7 crores. EBITDA margins for the services business for the quarter dropped to 17.1%. Products revenue for Q2 rose by 5 times over the previous quarter to rupees 6.9 crores and dropped 67% over the corresponding quarter in the previous year. The consolidated earnings per share for the quarter was rupees 6.03. The services business delivered an EPS of rupees 4.72 for the quarter. Cash and cash equivalent as on September 30th

2009 was rupees 162 crores as compared to rupees 137 crores at the beginning of the year. The consolidated Sasken headcount as of September 30th 2009 stood at 3078. We added 7 new customers during the quarter taking the total number of active customers to 90. We are continuously exploring opportunities to extend our competencies to tap adjacent markets and expand our customer base and offerings. In line with this strategy, we have identified market adjacencies like consumer, automotive, electronics where we see a good fit and opportunity for Sasken. As part of this initiative, we have entered into an agreement with Chicago-based Ingenient Technologies that transfers customers, contracts, and certain other key assets including products and IP. Ingenient's multimedia software offerings will provide an excellent fit to that of Sasken. Sasken's strength in the area of professional services will allow it to extend the product offerings of Ingenient leading to greater share of wallet with their existing mark key customers. The ability to provide multimedia solutions to the consumer lifestyle which leads the personal communications market will put Sasken in a position of advantage to exploit eminent convergence ahead of competition. The transferred engineering employees in USA will form the core of Sasken's Chicago development center. Sasken will now have a development center in the US which will be a beachhead for new product development supported by a competitive multisided service delivery model. Sasken will now have a presence in Korea and will strengthen its existing center in Japan, epicenters for development of consumer and lifestyle products. We are beginning to see more requests coming from customers, especially in the handset and semiconductor area. Demand for the network side continues to be weak as network equipment manufacturers still see no sign of revival in demand.

Regarding specific developments with one of our key customers on the network equipment side of the business, that is Nortel, I wish to state the following. A major part of the revenues for Sasken received from Nortel is derived from Nortel's GSM and GSM-R business and Nortel announced on September 30th 2009 its plan to sell substantially all of its global GSM and GSM-R business. Smart phones remain one of the brightest spot of the technology industry with innovations in interfaces, design, applications, and promotion helping to stabilize prices and boost sale. As sales volumes grow and prices fall, Sasken's software and solutions will enable smart phone devices used by millions of emerging market customers to access the internet and associated services. The ever-evolving smart phones enable versatile mobile use of global internet services and we believe that product and services innovations that are related to the convergence of mobile communications and internet services will be the ones that bring about new business opportunities and productivity that in turn will help our customers and us overcome the present challenges and build future success. We are well placed to be a strategic partner

to our customers in building this success. R&D outsourcing by handset OEMs continues to increase due to the need to reduce R&D cost and Sasken is well placed to take advantage of these increased R&D outsourcing spends as we have preferred vendor status with all the leading handset players. We expect the forthcoming year to be a very exciting one. We have added customers with projects and new technology areas including Bluetooth, mobile internet and web runtime, antenna design and the Android platform while continuing to strengthen our position in satellite communication segment given our IP and expertise in the mobile handset space.

On the semiconductor business, reports released by the Semiconductor Industries Association suggests that industry momentum has turned positive following the steepest downturn seen in the recent times. We are seeing signs of that in our business segment as well.

Looking back on the first half of this financial year, we have worked hard to bring costs under control and weather this storm. Over the second half of the year, we anticipate several challenges like the appreciating rupee, customer asking for challenging business models, etc., but we firmly believe we are on the right track geared to meet and overcome these challenges. Thank you and over to Monali for Q&A.

Moderator: Thank you very much sir. At this moment, I would like to hand over the proceedings to WebEx International moderator to conduct the Q&A for participants connected to the International bridge. After this, we will have a question and answer session for participants at India Bridge. Thank you and over to Brandon.

International Moderator: Thank you moderator. We will now begin the Q&A session for participants connected to the WebEx International Bridge. Please press *1 to ask a question. Once again, please press *1 to ask a question. At this moment, there are no questions from participants at WebEx International Center. I would now like to hand over the proceedings back to the India moderator.

Moderator: Thank you Brandon. We will now begin the Q&A interactive session for India participants. Participants who wish to ask questions may please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, please press *1 now. First in line, we have Mr. Ashish Mehta from HSBC. Mr. Ashish...

Mr. Ruchit Mehta: Hello...

Moderator: Yeah, please go ahead sir with your questions.

Mr. Ruchit Mehta: Yeah, hi, this is Ruchit Mehta from HSBC. Sir, just in terms of the acquisition that we have announced, could you give us a bit more detail as to what is the kind of size of the company that we have acquired in terms of the revenues and how profitable it is and how much we would have paid off for that?

Mr. Rajiv C. Mody: We expect this company to deliver about 8 to 9 million dollars of revenue in fiscal 2011. They have existing 11 customers and 8 royalty yielding customers total and I wouldn't want to disclose at this time the amount that we have paid for the acquisition, but we can say that that has not significantly impacted our cash position.

Mr. Ruchit Mehta: What kind of profitable is this business, I mean is it profitable (a), and if it is so, then what is the kind of profitability it is generating?

Mr. Rajiv C. Mody: We expect it to deliver above the range of profitability that you are seeing in our business by ensuring that we relocate part of the development activities to India and reduce the cost in the US, but we will continue to have a core team based out of the US in Chicago to take advantage of the advances that continue to happen in the multimedia market.

Mr. Ruchit Mehta: So, would it be fair to say that as of now this is not generating any profits at all?

Mr. Rajiv C. Mody: As of now means while it was being run as an independent company?

Mr. Ruchit Mehta: Yeah.

Mr. Rajiv C. Mody: Yeah, it was not generating any profits, but we are going through the restructure which should happen and close by the end of this quarter and then starting next quarter, it will start yielding profits for us.

Mr. Ruchit Mehta: Okay, okay. In terms of synergy for us, you know, what does actually bring to the table and how do you look at sort of, you know, this acquisition helping us, in what manner?

Mr. Rajiv C. Mody: In terms of synergies, the way it goes is they have much more advanced best-in-class multimedia codecs in audio, video, and image and these are being used currently in various chipsets including very largely supplied from GI and they have leading customers across the globe in the consumer market as well as on the enterprise market, both in Japan, Korea, and in the US.

Mr. Ruchit Mehta: So, would it be fair to say that there isn't any overlap between existing Sasken customers and them?

Mr. Rajiv C. Mody: That is correct. There is not much of an overlap between our customers, existing customers and the new customer base that we get and that is the advantage we have in both ways where we will be able to sell our services capability into the new customer base that we get because of Ingenient's existing customers as well as we will be able to sell the advanced video and audio codecs and all and the substance comes into our entrant position in the handset space.

Mr. Ruchit Mehta: Okay. Would it be, I mean in some sense the kind of products that, the software that you are acquiring from this entity, how difficult would have it been for you to develop it on your own or, you know, was it a case of not wanting to develop on your own, acquire a technology?

Mr. Rajiv C. Mody: Absolutely because if you look at the history of that company, mean it has taken them close to about four to five years to build the thing out and in this market it is worth it to acquire at a good price rather than invest into them on your own.

Mr. Ruchit Mehta: Okay, okay, great. And in terms of...

Mr. Rajiv C. Mody: And...I am sorry..

Mr. Ruchit Mehta: Yeah.

Mr. Rajiv C. Mody: One more clarification from our side is I mean you will see revenues out of this which is in the form of licensing, royalties, and customization getting accrued towards our products offering that we report separately and there will be cross-selling of services that will be kind of reflected in our services business.

Mr. Ruchit Mehta: Just to clarify sir, I mean if the user base of the acquisition is more in the consumer electronic side of the business and our existing services or capabilities are more on the handset side, I am just trying to understand what kind of synergies are we trying to derive here and how cross-selling is possible potentially going forward?

Mr. Rajiv C. Mody: I mean if I...and I will take help from my colleague G. Venkatesh on that also, but definitely handset also is a consumer device and consumer devices are also becoming more and more connected to the wireless network. If you see, recently the announcement made by Samsung that they have the cameras where they have a connectivity, so once you take pictures you are able to download directly on to Facebook from wherever you are, but why don't I ask G. Venkatesh also to add to it.

Mr. G. Venkatesh: I think if you look at the multimedia components in the consumer electronic space, they by and large in terms of technology they lead the multimedia components that you will find on the handsets because I mean the consumer...now you have full

HD...televisions that you have at home and if you want to get that full HD kind of capability on the handset, that will come from technology. So, by and large, the consumer electronics leads in terms of multimedia technology capability and the technology then flows into chipsets that are targeted for handsets and that we kind of modify it for them.

Mr. Ruchit Mehta: Okay. And just on the core business, what was the US dollar revenue figure for the current quarter?

Mr. Rajiv C. Mody: The US dollar revenue for services was 26.6 million dollars and product revenue was 1.4 million dollars.

Mr. Ruchit Mehta: Okay. And within the services space, you know, you have had some bit of trouble in certain areas like, you know, in semiconductor and also the handset space, more particularly on the network space, what is your outlook right now for that, all are, you know, broadly expected to decline with network being more, but any update or progress on that front?

Mr. Rajiv C. Mody: I mean we have seen the worst both on handset and semiconductors in the last six months and we are expecting that we will continue to grow from here. We are expecting that we will see a growth of about 8% to 9% in Q3 over Q2 revenues.

Mr. Ruchit Mehta: For services as a whole or just for the semicon or handset space?

Mr. Rajiv C. Mody: Right now, we will...we are talking about as a group, the 26.6 million dollars that I told you was the services revenue for Q2, that we expect that number to go by about 8% to 9%.

Mr. Ruchit Mehta: Okay. And the network space, how is that doing?

Mr. Rajiv C. Mody: Network is like I said in my opening remarks continues to be a challenging area.

Mr. Ruchit Mehta: Okay. Just finally, when do you integrate the acquisition from, from which quarter?

Mr. Rajiv C. Mody: Starting this quarter and when I...yeah, starting this quarter.

Mr. Ruchit Mehta: Okay, thanks.

Mr. Rajiv C. Mody: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Bhupalan Rao, a private investor.

Mr. Bhupalan Rao: Hello...

Mr. Rajiv C. Mody: Hi.

Mr. Bhupalan Rao: Sir, I am an investor in your company. I am very much fond of your company. Let me know what is the percentage of handsets business and consumer electronics business?

Mr. Rajiv C. Mody: Can you repeat the question please.

Mr. Bhupalan Rao: Actually I want to know the business proportion sir, how much business we are doing under handsets...

Mr. Rajiv C. Mody: We don't give the breakup of handsets, semiconductors, and networks. We can say today handset constitutes the largest portion of our business.

Mr. Bhupalan Rao: Yeah, and you were telling that the market is too slow, what are the steps you are taking to produce new products to push into the market?

Mr. Rajiv C. Mody: To create Indian products?

Mr. Bhupalan Rao: Anything, for either US market or Indian market.

Mr. Rajiv C. Mody: Yeah, right now we don't have any specific play that we are targeting for introducing any products in the Indian market.

Mr. Bhupalan Rao: Okay, okay. For the US market?

Mr. Rajiv C. Mody: Pardon.

Mr. Bhupalan Rao: For US market...

Mr. Rajiv C. Mody: Yeah, we do supply component and it shows on our royalty revenues on the product side where we supply components, multimedia, as well as modems that are going into world market. So, we have customers like NEC, SE Ericsson who supply the products, software products we embed into them into the end consumer markets.

Mr. Bhupalan Rao: Sir, you are planning on going towards more on product development than towards services side, your business strategy?

Mr. Rajiv C. Mody: Can you please repeat.

Mr. Bhupalan Rao: Actually business strategy for the next half year is either product development or services side?

Mr. Rajiv C. Mody: No, no, we are continuing to go ahead on our stated strategy of working in the communications market place and continuing our business, growing both our services as well as our IPR products business.

Mr. Bhupalan Rao: Excellent, okay sir. Sir, what may be the future of this semiconductor space, how many months it may take to recover from this phase?

Mr. Rajiv C. Mody: I didn't get the question actually.

Mr. Bhupalan Rao: Sir, actually you are telling that handset business is...handsets business has become slow due to the recession in the semiconductor industry, let me know after how many months it may come into the green level?

Mr. Rajiv C. Mody: No, no, right now...we have seen actually growth in the handsets business primarily coming from the increasing deployment of smart phones...

Mr. Bhupalan Rao: Yeah.

Mr. Rajiv C. Mody: ...like Blackberry and, you know, the Nokia E71 and phones like that. So, these kinds of phones are driving a lot of development work for handsets that is kind of going to companies like us and semiconductor, if you look at semiconductor space, that has been going through some challenges in the last two quarters...

Mr. Bhupalan Rao: Yeah.

Mr. Rajiv C. Mody: ...but they are starting to see now revival in the semiconductor industry and correspondingly the work that is going to us in that space as well.

Mr. Bhupalan Rao: Okay. Thank you sir.

Moderator: Thank you very much sir. Next in line, we have Mr. Srivatsan from Spark Capital.

Mr. Srivatsan: Yeah, hi. Just want to get an update on both our multimedia protocol and WCDMA protocol shifting, have there been any more clients in the phone editions from which these products are getting shipped at this point of time?

Mr. Rajiv C. Mody: Yeah, we continue to support our customers on the existing engagements on the newer phones that they bring out in the market, both on the multimedia subsystem as well as on the protocol side. So, beyond...I mean I am not able to give you more details in terms of what new models they are being embedded or shipped in because that is something which we don't have much access to, but we continue to derive royalties both on our modem licensing that we had done for WCDMA as well as TDS-CDMA in China as well as the multimedia system, subsystem that is shipped and is reflected in the 1.4 million revenues that we derive out of it.

Mr. Srivatsan: Okay. In this acquisition that we have done, are there any royalty revenues linked to it or it is just license fees or only customization revenues, is it pretty similar to our current products model?

Mr. Rajiv C. Mody: That is correct, it is pretty much similar to our current products model where it will have both licensing, royalty, and customization. As a matter of fact, they have existing royalty stream which we inherit going forward.

Mr. Srivatsan: Would it be possible to quantify that?

Mr. Rajiv C. Mody: Very difficult for us to...why don't you wait for one or two quarters and when we get a good handle on the whole thing, we may be able to give you better data.

Mr. Srivatsan: Okay, sure. And I just wanted to know what is the current hedge position and CAPEX plan?

Mr. Rajesh Maniar: At present, we have 47 million dollars hedged as of 30th September at an average rate of 49.36...

Mr. Srivatsan: Okay.

Mr. Rajesh Maniar: ...and 750 euros hedged at an average rate of 66.74. CAPEX for the quarter was around 4.5 crores and we expect that the quarterly capital expenditure to continue for the next two quarters.

Mr. Srivatsan: Just a question on the hedges, have these been mark to market as of September 30th?

Mr. Rajesh Maniar: Well, they are not mark to market, but we have the revaluation of the hedges corresponding to the debtors as, you know, normally that is required per the accounting standard.

Mr. Srivatsan: Okay, at this point in time it is not sitting in the balance...in the P&L?

Mr. Rajesh Maniar: No, they are not sitting in the P&L.

Mr. Srivatsan: Okay, sure. Thanks a lot.

Mr. Rajiv C. Mody: Thank you.

Moderator: Thank you very much sir. Next in line, we have Ms. Dhanya from Dow Jones.

Ms. Dhanya: Sir, hi. My question is about your consolidated EBITDA margins, you mentioned in the press release that it is 19.2%, vis-à-vis first quarter what would be the number? Hello...

Mr. Rajiv C. Mody: Yeah, just a second.

Ms. Neeta Revankar: Your question is what was the EBITDA in quarter one?

Ms. Dhanya: EBITDA margins for first quarter, yeah, quarter one as well as the year ago quarter.

Ms. Neeta Revankar: For quarter one, the EBITDA was...as a company, it was 17.2%.

Ms. Dhanya: 17 point?

Ms. Neeta Revankar: 2.

Ms. Dhanya: Alright.

Ms. Neeta Revankar: And for the same quarter in the previous year it was 23.3%.

Ms. Dhanya: Alright. And I am sorry, I missed the last portion of the call, so I just wanted to know what would be the impact of this, the whole Nortel thing, as in, you know, you are saying that Nortel is planning to sell a substantial portion of certain businesses which you also were part of, as in, you know, probably you would be deriving revenue from that. I wanted to know what would be the impact of that on the company's business?

Mr. Rajiv C. Mody: As of now, we are one of the few strategic suppliers to them in this particular product line and we continue to derive business out of that and we support the product line globally for them. Of course, it is very difficult for us to say post the sell what the situation can be, but so far as the know-how, technology support for existing and the new customer sign-ups they continue to have, we play a key and a significant role in the product itself.

Ms. Dhanya: But do you expect a significant impact once it goes through, once they sell the business?

Mr. Rajiv C. Mody: To be very honest with you, it will be speculative on my part to say either way, so we will wait and watch as the things evolve.

Ms. Dhanya: And when do you expect this to happen?

Mr. Rajiv C. Mody: I think I just saw an email today saying that it is supposed to...the auctioning, the public auction on that should happen on 20th of November.

Ms. Dhanya: Alright, okay. Alright, that's it, thank you.

Mr. Rajiv C. Mody: Thank you.

Moderator: Thank you very much ma'am. Next, we have Mr. Niraj Dalal from Capital Market.

Mr. Niraj Dalal: Good evening sir. Sir, I wanted your outlook on the products business, it has seen growth in this quarter, quarter over quarter, so wanted an outlook on that.

Mr. Rajiv C. Mody: Yeah, hard for us to like predict particularly the royalty aspect, but all we can say is we continue to derive royalties from the licensing that we have done in the past and we continue to support customers. We also will see royalty add-ups coming in Q4 onwards of the Ingenient acquisition that we have made. So, we expect the products revenue to be in the range of about 1.8 to 2 million dollars in Q3 today.

Mr. Niraj Dalal: Okay, right. And sir, what are the outstanding hedges on the books?

Mr. Rajesh Maniar: Outstanding hedges as we just mentioned, we have 47 million dollars at the rate of 49.36...

Mr. Niraj Dalal: Okay.

Mr. Rajesh Maniar: ...and a small amount of euros.

Mr. Niraj Dalal: Right sir. And little outlook on your margins, services margins have also improved, so...

Mr. Rajiv C. Mody: Well, for the...I mean we have given the annual EBITDA guidance of around 20% at 48 exchange rate.

Mr. Niraj Dalal: Okay.

Mr. Rajiv C. Mody: We are staying with that guidance for the entire year, you know, and for every percentage change in rupee-dollar rate, there would be an EBITDA impact in the region of 0.4%. So, depending on where the rupee ends, EBITDA would fluctuate.

Mr. Niraj Dalal: Right sir. Thanks a lot.

Moderator: Thank you very much sir. Participants who wish to ask questions may please press *1. Next, we have Mr. Sushant Upadhyay, a retail investor.

Mr. Sushant Upadhyay: Hi. My question is regarding the human metrics, can you just take us through the human metrics once and tell us how many net employees were there in this quarter, added or decreased?

Ms. Neeta Revankar: We had 3078 employees on rolls at the end of the quarter. We added 112 employees and net we had a negative addition of 130 people. We had attrition generalizing at around 22.6%.

Mr. Sushant

Upadhyay: Yeah.

Ms. Neeta Revankar: Any other metric...

Mr. Sushant
Upadhyay:

That's great. Now if the company is...a little bit worrisome is that the employee count is actually coming down significantly over the last few quarters and we can argue that the utilization goes up because of that, but are we not seeing any growth moving forward so that we have a strong bench strength accordingly?

Ms. Neeta Revankar: Yeah, I think we have been talking about a growth that is behaving in this quarter. So, definitely yes, we are seeing business improve and so the headcount situation will also improve in the coming half year. What you must understand is that over the last six to nine months, we have been working on training people whose skills are not really current with the demand that we are seeing. So, you know, this has impacted our headcount over the last six to nine months. Going forward, we should see headcount increase at the net level too.

Mr. Sushant
Upadhyay:

Okay, great. Are you planning to give any salary hikes to the employees, you know, the next quarter or have you given any salary hikes this year at all?

Ms. Neeta Revankar: See, over the last three quarters, we have actually moved our compensation structure to a variable pay kind of model and it has worked pretty well. So, it worked pretty well in the sense employees have been getting 100% of their variable pay. We are expecting compensation increases in the near future also to be largely in the form of variable pay and it will be tied to individual and company performance.

Mr. Sushant
Upadhyay:

Excellent.

Mr. Rajiv C. Mody: And to add one more thing to it, this variable pay scheme is implemented across all levels in the organization.

Mr. Sushant
Upadhyay:

Right, that is good to know, whatever discussions are going on with the CEO salaries everywhere across the world. One question for you Rajiv, I am getting to understand that the major OEM suppliers, they are undergoing a consolidation in terms of the vendor, so they are undergoing a vendor consolidation and they are trimming down their vendor list, so has Sasken made its way into the list of the top vendor in the process of vendor consolidation?

Mr. Rajiv C. Mody: Yeah, we are in the...we are part of the strategic supplier list of most of the tier I customers that we work with, so we continue to be part of the list and some of the vendors while we are talking are going through narrowing their strategic suppliers and we are part of that list in the overall scheme of things.

Mr. Sushant Upadhyay: Great. And Rajiv, during the course of your initial speech, you mentioned that you are venturing into some new areas. Some of the words sounded exciting over there, if you could just repeat that, which are the new areas where Sasken is venturing into?

Mr. Rajiv C. Mody: I am sorry, I thought you probably are referring to the acquisition that we have made in the US?

Mr. Sushant Upadhyay: That and well, you mentioned certain new areas, if I remember you mentioned some new exciting areas, I don't recall right now, but it sounded different than telecom.

Mr. Rajiv C. Mody: Ingenient acquisition...like I said earlier, Ingenient acquisition allows us to address certain markets that we were not addressing, particularly in the areas of consumer and surveillance and automotive.

Mr. Sushant Upadhyay: Exactly.

Mr. Rajiv C. Mody: And this allows us to kind of get into that and also since they bring in the know-how technology on best-in-class multimedia, we should be able to take that into our existing markets like the mobile handsets also. So, we are seeing those as interesting spaces for us to kind of address and continue to build our business out by having significant advanced technology development happening out of the US, out of Chicago with a strong support being provided from India to ensure that we serve our customers globally through this method.

Mr. Sushant Upadhyay: Okay. And what is your expectation about the second half moving forward, do you...I know you don't give a guidance, but is it fair to say that the second half of FY10 would be better than the first half?

Mr. Rajiv C. Mody: That is clear, we definitely see the second half being better than the first half. Like we have said, we should see about 8% to 9% growth in our services business from Q2 to Q3. EBITDA margins staying at around 20% at 48 rupees to a dollar. There is going to be net additions on headcount and our products business also moving up from current 1.4 to about 1.8 to 2 million dollars.

Mr. Sushant Upadhyay: Okay, excellent. Now, why do you think the market is giving such a step-motherly treatment to an excellent company like ours?

Mr. Rajiv C. Mody: I would probably ask that question to you honestly, I don't understand the market.

Mr. Sushant Upadhyay: Well, can the management do some more disclosures and so on so that the market really...so there is a value unlocking out here because I think we are doing excellently well, our EPS ended up something like at this run rate at 26 bucks and well with a PE of 5 and 6, that is not what we deserve.

Mr. Rajiv C. Mody: Well, to be honest with you, it is hard for me to answer that question, but yes, fact remains that half yearly EPS for the company is about 13 rupees.

Mr. Sushant Upadhyay: Right. Well, so you do you plan to do any more disclosure so that your cost of equity comes down. If the market perception is not good enough, then I think the management should do something about it, isn't it?

Mr. Rajiv C. Mody: Yeah, we probably are the most transparent company when it comes to disclosing and giving whatever relevant information that the market demands and requires of us, which I am sure you can see it out of our annual report as well as on our disclosures that we do in terms of transparency and governance.

Mr. Sushant Upadhyay: Absolutely, I really appreciate that. So, that was all from my side. Thank you for answering my questions, thanks a lot Neeta.

Mr. Rajiv C. Mody: Thank you.

Moderator: Thank you very much sir. Next, we have Mr. Akhil Dhawan from Lotus Investments.

Mr. Akhil Dhawan: Hi Rajiv. Just a couple of quick things. I was just wondering if I could get your tax rate for the rest of this year, what we expect?

Mr. Rajesh Maniar: We expect the second half of the year tax rate as a percentage of revenues to be in the region of 4%. Quarter two tax rate was slightly lower because the profits from the European subsidiary was lower and hence...that is where most of the tax comes from, so that quarter two as an aberration in that sense. We should continue to see around 4% of revenues as tax.

Mr. Akhil Dhawan: I see. And can I get your latest debt number as of this quarter?

Mr. Rajesh Maniar: Latest debt number, did you say that?

Mr. Akhil Dhawan: Yeah, total debt as of this quarter. I think you gave out the cash, you said was 162 crore, I just wanted the debt as well.

Mr. Rajesh Maniar: 55 crores approximately is the outstanding borrowings at the end of the quarter.

Mr. Akhil Dhawan: Sorry, 55 crore?

Mr. Rajesh Maniar: That's right.

Mr. Akhil Dhawan: I see. And does the latest sort of cash and debt account for any payment for this acquisition already or that is still to come?

Mr. Rajesh Maniar: The payment for the acquisition will come, but as we mentioned that is not going to have a significant impact on our cash and bank balances we have.

Mr. Akhil Dhawan: I see. Okay, thank you, that's it.

Mr. Rajiv C. Mody: Thank you.

Moderator: Thank you very much sir. Next, we have Mr. Ritesh Khanna from B&K Securities.

Mr. Ritesh Khanna: Good evening sir.

Mr. Rajiv C. Mody: Good evening.

Mr. Ritesh Khanna: Sir, last quarter you had said that the product revenue was down because the shipments were not confirmed and you had not recognized the royalty. So, can you just break up leaving the royalty which you have recognized from last quarter, what is the product revenue this quarter, if we exclude the last quarter products revenue?

Mr. Rajesh Maniar: Revenues from products which is primarily royalties for the last quarter was 1.4 million dollars and the quarter before that the royalty revenues were 250,000 dollars. So, you know, for the two quarters put together, it is 1.6 million dollars, which is an average run rate of 800,000 dollars per quarter.

Mr. Ritesh Khanna: Okay. Second thing sir, another thing you had said that service guidance of 8% to 9% Q-on-Q for Q3, does that include the acquisition we have made, revenue from the acquisition?

Mr. Rajiv C. Mody: No, we don't, the revenue from the acquisitions would reflect more on the products side.

Mr. Ritesh Khanna: Okay. So, this is only purely service...

Mr. Rajiv C. Mody: That is correct.

Mr. Ritesh Khanna: Okay. What would be the total number of employees in the product division?

Mr. Rajiv C. Mody: 45 people would be there in the products division as of now and then to that will be added the amount of Ingenient in Chicago.

Mr. Ritesh Khanna: Okay. Sir, if I just look at your product employees, they have been decreasing every quarter, I mean starting second quarter FY09, you have been constantly decreasing the number of employees from product division, is that something that we are expecting probably, you know, that the product division will not be getting some kind of probably, you know, lesser amount of work coming forward or...I just wanted to understand why there is so much decline in product employees on a quarter-on-quarter basis?

Mr. Rajiv C. Mody: I think the reason is as you know we have consolidated our products business primarily to multimedia and modems also we are not investing; however, we continue to invest and build out on the multimedia side. So, the team is currently building out on the multimedia side as well as supporting on the modem side and with the acquisition of Ingenient, the headcount in the products division will go up.

Mr. Ritesh Khanna: Okay. So...but just wanted to get a sense, are there not more new projects coming up in products side or from, you know...

Mr. Rajiv C. Mody: No, no, we are getting all the newer things in the area of multimedia with our existing customers. Yes, on the modem side, there are not too many activities because we have stopped developing further IPs in the modem side.

Mr. Ritesh Khanna: Okay. What would be the total number of customers?

Mr. Rajiv C. Mody: In the products side?

Mr. Ritesh Khanna: The entire, total, as in the company.

Mr. Rajiv C. Mody: I think primarily it will be about three of four customers in the products side existing today, I mean that will be our primary customers to which you would have a spread because we supply to semiconductor companies and they would be supplying it to more companies who will make the end product.

Mr. Ritesh Khanna: Okay. No, I just wanted to check what is Sasken's total number of customers, active customers.

Mr. Rajiv C. Mody: Oh, I am sorry, we have 90 active customers.

Mr. Ritesh Khanna: So, that means 4 customers have been lost this quarter, last quarter I think you had around 94.

Mr. Rajiv C. Mody: Yeah, definitely, 4 customers must have come down to zero revenues for the quarter because typically we look at last four trailing quarters to represent the active customers.

Mr. Ritesh Khanna: And are there any new customer additions in this quarter?

Mr. Rajiv C. Mody: We have added 7 new customers.

Mr. Ritesh Khanna: Okay. And this revenue decline in this quarter, there is I think around 3% Q-on-Q decline, can you break that into volume decline and pricing?

Mr. Rajiv C. Mody: All of it is volume decline.

Mr. Ritesh Khanna: Entirely volume. So, pricing is stable this quarter?

Mr. Rajiv C. Mody: Oh, absolutely, pricing continues to be stable and we expect that pricing increases will be there starting January.

Mr. Ritesh Khanna: January.

Mr. Rajiv C. Mody: Yeah.

Mr. Ritesh Khanna: Right sir. Thank you, that's it from my side.

Mr. Rajiv C. Mody: Thank you.

Moderator: Thank you very much sir. Next, we have Mr. Pratik Gandhi from Edelweiss Securities.

Mr. Kunal Sangoi: Yeah, hi. This is Kunal Sangoi. Rajiv, my question is with regards to the Europe business. Last time we had said that because it is a holiday season, we would see decline in terms of volumes. Now, my question is going forward in Q3, do we see that volumes reinstated again or because during the quarter we had seen some softness in the volume flow.

Mr. Rajiv C. Mody: Yeah.

Mr. Kunal Sangoi: So, what is the outlook?

Mr. Rajiv C. Mody: I am sorry, go ahead.

Mr. Kunal Sangoi: Yeah, so what is the outlook for Europe in Q3?

Mr. Rajiv C. Mody: Yeah, so we will see volume growth happening in Europe in Q3, which typically declines because of the vacation period, but over

and above that, we are also seeing growth in the US as well as in India.

Mr. Kunal Sangoi: Okay.

Mr. Rajiv C. Mody: So, overall, all three regions are showing reasonable growth.

Mr. Kunal Sangoi: Okay. And second question is if I am not mistaken in products, you had said that last quarter we had 65 people and now we are down to about 45 people, but if I look at the cost in the product, I think it has gone up sequentially, would you like to comment on that?

Mr. Rajesh Maniar: Well, maybe the cost with respect to products division has gone up because the royalty related, the royalty is higher, so you typically see taxes component of the products division cost going up. That would be about it, I mean...

Mr. Kunal Sangoi: No, no, we are talking about operating margins, so I am just looking at cost that is booked prior...pretax.

Mr. Rajesh Maniar: Okay. So, really what happens is that the cost to the products division also includes an allocation of SG&A expenses and that gets allocated based on the revenues booked during the quarter. So, because of that, you may be seeing some small increases, but overall there is no increase in the cost in the products division.

Mr. Kunal Sangoi: Okay, okay, fine. Thanks.

Moderator: Thank you very much sir. Participants who wish to ask questions may please press *1. Next is a followup from Sushant Upadhyay, a retail investor.

Mr. Sushant Upadhyay: Okay, Rajiv, this is a question for you, Sasken is a knowledge industry, so can you give us a sense of how many patents do we hold and can you give us a sense of how many additional patents we filed over the last half year?

Mr. Rajesh Maniar: Yeah, we have about little over 40 patents that we have totally filed, of which about 20 filed have been granted to date and these have been filed in US and some of them have also been filed in India and some have been filed in other regions as well like Europe and Japan and we keep examining, every quarter we examine which patent we want to continue processing because based on the covers on the patent examiners, we decide whether we want to continue the patents or drop them and we abandoned about 7 patents or so like that because they were not worth pursuing. We have added two more patents to the pipeline.

Mr. Sushant

Upadhyay: Right. And one question which is another open-ended and generic question, we are an excellent company, but looks like we have not been able to come out with a second gear, so Rajiv can you share a little bit about strategic vision that you have to let us come out with a second gear and really gallop on it at a smooth pace?

Mr. Rajiv C. Mody: I think, I mean you have asked a very open-ended question, so I will try to see if I can converge and answer you, but the fact remains yes, we are in technology business and definitely there has been impact to us because of the fact that certain advanced product lines that we normally work with our customers, if they decided to drop, then that has an impact for us. Take for example when Motorola decided to drop and get out of Symbian as a segment, that had an impact on us. When TI decided to exit wireless chipset business, that had an impact. So, we will continue since we work on all this leading edge things with our customers, those impacts will continue. Having said that, we are building a robust model in this whole R&D area where we see significant demand of us in reducing costs and still being able to provide total solution in the whole scheme of things and today Sasken is geared to be very, I mean to give you a context on that, today we have almost 20% of our employees that are non-Indians based out of various sites, various locations worldwide and we will continue to build our business out where we are able to provide both leading edge technologies as well as total cost of ownership which are competitive in the market place to deliver total solutions to the customer. So, I think we are continuing to build our footprint and we are confident and absolutely clear that that is the right approach in the new scheme of things, in the newer markets that we are operating.

Mr. Sushant Upadhyay: Right. Now, you are from the telecom field heavily. In telecom if I see, there are three traditional fields, one is the handsets, second is the network side, and the third one is should we say the OSS. Now, you are strong in handsets, no question about it, probably your second best area is the network side. What are you doing to...are you planning something on the OSS side as well?

Mr. Rajiv C. Mody: I mean OSS as an area if you go in it today just as is, it is a very crowded area and we wouldn't want to venture into it because there is no strategic value that we provide by getting into it. So, we will not venture into that to be very honest with you.

Mr. G. Venkatesh: So, directionally we are looking at expanding beyond telecom into two areas. One essentially you are looking at is, one, we have already mentioned which is the consumer electronic and automotive space which is kind of getting a lot of benefit from multimedia penetration, taking our multimedia capabilities and penetrating in those spaces and the other area that we are looking

at is the area of client server applications development for both the handset companies as well as as we start developing applications around the handset using servers, so these are all this application services and stuff like that. That is the other area that we have started to put up with.

Mr. Sushant
Upadhyay:

Okay.

Mr. G. Venkatesh:

The third area that we are expanding into after, thanks to the Inmarsat win is basically the satellite communication space, so there we have both, on the handset, on the client side, we have some development work going on. Also, on the network side, we have made some entry, doing some development work around specific network, the customized network that they put up for satellite.

Mr. Sushant
Upadhyay:

Okay. Now, if I remember correctly, the last big thing on the handset side which Sasken did was the Symbian. In fact, Symbian became at some point of time almost synonymous with Sasken. What is the next big thing on the handset side?

Mr. Rajiv C. Mody:

What is the next big thing on the handset side, I guess the next thing that is coming on the handset is, like GV was saying, the internet-based services both for social networking as well as for any other personal information management, any of those kinds of...plus the stores from which you can buy, download applications, so I think that is supposed to be the big area at least for the next couple of years.

Mr. G. Venkatesh:

So, it is convergence basically of internet applications that we conventionally see in this handset technology.

Mr. Sushant
Upadhyay:

And how Sasken is trying to capture these opportunities?

Mr. Rajiv C. Mody:

Yes, the way we are capturing this opportunity is we may probably not talk about it too much, but we have launched for lot of our customers the full solutions both on the handset and the server side which is connecting the handset to the internet services globally and we continue to build out on that capability and the know-how that we have both on the server side as well as on the handset side.

Mr. Sushant
Upadhyay:

Fair enough. Okay, thanks for answering these questions. Back to you moderator.

Mr. Rajiv C. Mody:

Yeah.

Moderator: Thank you very much sir. Next in line, we have Mr. Amitabh Sonthalia from SKS Capital.

Mr. Amitabh Sonthalia: Hi, just a few elementary questions which may have been answered because I got disconnected from the call a couple of times. Just quickly, did you give a revenue or profit guidance for the second half of this year?

Mr. Rajiv C. Mody: We gave a revenue guidance in Q3 of 8% to 9% growth in our services business and about 1.8 to 2 million dollars of revenues in our products business.

Mr. Amitabh Sonthalia: Okay.

Mr. Rajiv C. Mody: And profit margins, we said we will maintain 20% EBITDA margins at 48 rupees to a dollar.

Mr. Amitabh Sonthalia: Okay. And so roughly what does it translate into consolidated growth for the company in Q3?

Mr. Rajiv C. Mody: 8% to 9% services and about 1.8 to 2, so about 30...anywhere from 30 to 31 million if you add the whole thing up.

Mr. Amitabh Sonthalia: Okay. And just wanted to understand your exchange hedging policy, you had...I noticed that you had exchange losses of about 42 crores last year, full year, and about 10 crores of gain in the first half this year, are these notational or book losses? Hello...

Mr. Rajiv C. Mody: Yeah, just a second.

Ms. Neeta Revankar: Actually these are losses that we are required to book as per the accounting standards, okay. They include losses that we have to book based on differences in the exchange rate at which we booked our revenues and the exchange rate at which we booked our forward contracts. Our hedging policy has not changed significantly over the last two-three years. We continue to hedge 90% to 95% of our 12 months revenue.

Mr. Amitabh Sonthalia: Okay. So, basically it is more loss of opportunity rather than any, you know, any complex derivative..

Ms. Neeta Revankar: That is correct.

Mr. Amitabh Sonthalia: ...sort of structures.

Ms. Neeta Revankar: That is correct.

Mr. Amitabh Sonthalia: Okay. So, essentially last year's 42 odd crores of Forex loss that...exchange loss that you have shown is the profits you otherwise would have made had you left all your revenues uncovered right?

Ms. Neeta Revankar: That is correct, largely correct.

Mr. Amitabh Sonthalia: Okay. And for the second half, is there any...the amount of exchange losses again would depend on the currency movements, correct?

Ms. Neeta Revankar: Exactly. What we mentioned is that we have hedges right now of 47 million dollars at an average exchange rate of 49.36.

Mr. Amitabh Sonthalia: Okay. Just another...wanted to just find out your payout policy, you have declared an interim dividend of 2 rupees, is there any stated payout policy that the company has?

Mr. Rajiv C. Mody: Yeah, I mean this is the first time that we have declared an interim dividend after our listing and we will continue to declare it based on the overall performance on the interim basis, but definitely our intent is to see how we continue and build on this.

Mr. Amitabh Sonthalia: Okay. And finally, are there any plans to increase the promoters stake which is rather low at about 28%?

Mr. Rajiv C. Mody: No, there is no specific plan to increase the promoters stake.

Mr. Amitabh Sonthalia: Okay. That's all from my side, thanks.

Mr. Rajiv C. Mody: Thank you.

Moderator: Thank you very much sir. Participants who wish to ask questions may please press *1. I repeat, participants who wish to ask questions may please press *1. Next in line, we have Mr. Ruchit Mehta from HSBC.

Mr. Ruchit Mehta: Yeah. Just to reiterate, you said 30-31 million dollars of revenues for the current quarter and about 20% OPM.

Mr. Rajiv C. Mody: I missed your question Ruchit.

Mr. Ruchit Mehta: Sir, you have guided to about 30-31 million dollars in revenue for the current quarter and about 20% OPM, is that correct.

Mr. Rajiv C. Mody: We expect 20% for the full year.

Mr. Ruchit Mehta: For the full year?

Mr. Rajiv C. Mody: That is correct. EBITDA you are referring to right?

Mr. Ruchit Mehta: Yes sir.

Mr. Rajiv C. Mody: Yes, 20% EBITDA for the full year at 48 rupees to a dollar.

Mr. Ruchit Mehta: And 30-31 million dollars of revenue for the current quarter, third quarter?

Mr. Rajiv C. Mody: Yeah, I have done the arithmetic that 26.6 multiplied by 8% and added 1.8 million on products to that.

Mr. Ruchit Mehta: And this would exclude whatever from the acquisition that we have done?

Mr. Rajiv C. Mody: No, this is inclusive of that because we said that that revenues from Ingenient will accrue towards products at least for the next two quarters.

Mr. Ruchit Mehta: Okay. Thanks.

Mr. Rajiv C. Mody: Thank you.

Moderator: Thank you very much sir. Participants who wish to ask questions may please press *1. Next, we have Ms. Shraddha from B&K Securities.

Ms. Shraddha: Yeah, hi sir. You said 1.4 million dollars of product revenue recognized in this quarter.

Mr. Rajiv C. Mody: Yes.

Ms. Shraddha: And that was a royalty revenue you mentioned, so the entire product revenue is coming through royalty?

Mr. Rajiv C. Mody: There were some small licensing fees, but by and large it was full royalty revenues, yes.

Ms. Shraddha: Okay. And out of the 1.8 million dollars which you have guided for in Q3, how much do you think would accrue from the acquisition and how much would be organic?

Mr. Rajiv C. Mody: To be very honest, hard for me to say that at this time, so can we wait because royalties, it is very difficult for us to predict. We are waiting for the reports to come to us in this quarter for all the shipments that happened in the previous quarter.

Ms. Shraddha: Okay. And sir, again referring back to the earlier question which was asked as to how much was the quantum of royalty revenue which could not get recognized in the last quarter, but was billed in this quarter, so out of this 1.4 million dollars of royalty revenue, how much it actually accrue this Q1?

Mr. Rajesh Maniar: Well, it is difficult to give a number, but as I said, I mean you can take an average for the two quarters, if take an average royalty, it was 850,000 dollars per quarter.

Ms. Shraddha: Sure, thanks a lot.

Moderator: Thank you very much ma'am. Participants who wish to ask questions may please press *1. At this moment, there are no further questions form participants. I would now like to hand over the floor back to Mr. Rajiv Mody for final remarks.

Mr. Rajiv C. Mody: I take this opportunity to thank you all for joining us on the call and we look forward to seeing you again on our call for the third quarter numbers. Thank you once again.

Moderator: Ladies and gentlemen, thank you for choosing WebEx conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.
