

Sasken Communication Technologies Ltd
Transcript of Q1 FY08 Investors/Analysts Conference Call
July 23, 2007; 11:00 AM

Ladies and gentlemen, good morning to all of you. It is my pleasure to welcome you to the conference call to discuss the business performance of the Sasken Group for the first quarter ended June 30, 2007.

Before we begin we must point out that certain statements made during the call concerning our future growth prospects may be forward looking statements. Please read the safe harbor clause in the second slide of our presentation for full details. My colleagues Ms. Neeta Revankar, Chief Financial Officer, Kannankote Srikanth, President and Chief Operating Officer, and Dr. G. Venkatesh, Executive Director on the Board join me on this call.

Let me begin by summarizing the financial results for the first quarter.

The consolidated revenues for the first quarter of FY08 stood at Rs 128.4 crore, which is US\$31.4 Million. This represents an increase of 41% from Rs 91 crore in Q1 FY07 and a decline of 5% from Rs 135.4 crore in Q4 FY07. In dollar terms, we have grown 55% year on year. The sequential quarter growth in dollar terms is 2%.

The consolidated EBITDA for the company stood at Rs 9.9 crore, which is 7.7% in terms of margins.

The Profit After Tax is Rs. 6.4 crore, a decline of 31% Year on Year and 38% quarter on quarter. The Basic Earnings Per Share stands at Rs 2.24/-for the quarter.

The services business of Sasken grew 2% in dollar terms sequentially to reach 29.3 Million dollars. The EBITDA in the services business stands at 12.4%. This represents a drop of 740 bps from the previous quarter. The appreciation of the rupee against the dollar has impacted our margins by 5%. This is because of the fact that 67% of our billing is in US Dollars, and also because 65% of our revenues come from our offshore delivery model. We also absorbed offshore wage increases of 11% overall this quarter. This had an impact of 2.5% on our services EBITDA margins.

On the positive side, we have one more customer now giving us greater than 20M\$ in trailing twelve months' revenues, taking the total count to 3 customers for this revenue segment. We also have one more customer moving to the greater than 10M\$ range in trailing 12 months revenues.

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We have had some good wins with Tier 1 customers, especially on the handsets side in the last quarter. We are now working with 4 out of the top 5-handset makers across the world, on an ODP model, executing on complete module ownership projects.

On the products side, our Q1 revenues were Rs 8.7 crore or \$2.1 Million. Of this, royalties were Rs 2 crore, the highest royalties we have had in a single quarter. We had two design-wins in the last quarter. NTT DoCoMo FOMA N904i by NEC has started shipping in the Japanese market. In this market, we are now enhancing our software footprint on these phones. Panasonic Mobile Corporation (PMC) has also started shipping royalty-bearing handsets from April.

Motorola has licensed Sasken's Multimedia software solution for its Symbian/UIQ platform. Sasken's Multimedia software solution is included in Motorola's MOTO Z8 handset, which is currently shipping with select operators and retailers in Europe.

On the 3G wireless protocol stacks, we expect a Tier 1 phone manufacturer to start shipping 3G phones containing our partner chipset and our modem solution in the later part of Q2 / early part of Q3; this continues to be on track.

On the Sasken Application Framework, we are consolidating our relationships with silicon partners towards an objective of making Sasken "software default" on chipsets. With our lead customer, the engineering implementation is going on track; the software is maturing, and feature sets are being enhanced. We also have the software on "form factor" handsets for our lead customer.

We will continue to track and report the progress on all our products to you periodically on the basis of information we receive from our customers. The tentative phone schedule launch for all our products is given in the relevant slide in our presentation. Please note that these timelines are only tentative and may undergo changes depending on customer strategies for launches.

One accolade we received in the last quarter was winning the Gold Award for the 2005-06 Annual Report, at the LACP 2006 Vision Awards Annual Report Competition in the telecommunications category. Sasken has made India feature in the Top 100 Annual Reports across the globe by being the only Indian company chosen as one of the Top 100 across all categories.

We have gone through a process of very stringent performance assessment, where people all across the company have been rated basis their performance and potential. We have also given differential wage increases in April, basis these ratings. This has resulted in involuntary attrition of 114 people in Q1. We do see this as a positive measure in our endeavour to build a competency and performance based organization.

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You will find that we have defined a new segment in our segment analysis termed "Automotive, Utilities and Industrial". This segment will represent the performance of our investee companies - TACO Sasken and ConnectM.

This was the summary of our performance in Q1.

Let me now take you through the communications marketplace as we see it today. We do see that Network Equipment customers continue to have a muted growth pipeline. The semiconductor industry is displaying sluggish growth. On the other hand, we are seeing a number of growth opportunities on the handset development, integration and testing side. The Service Provider and Test services initiatives continue to be a nascent stage.

For the Full Year FY08, we are aiming to grow our services business at 20-25% in dollar terms on the base of our Q4 run rate, which was about \$110 Million.

Going forward, we are tracking for enhanced utilization, reduction in average compensation costs and getting a greater spread on our costs through faster revenue growth. We will also be looking at pursuing fixed price projects as we go forward. We believe that all these measures will help us steadily increase our margins in subsequent quarters.

For the business as a whole, we will continue to enhance our pipeline in all segments, participate in key outsourcing opportunities with our Tier 1 customers, improve operational efficiencies and streamline costs.

I am ending on the note that we are confident of coming back on track with our growth rates in revenue and profitability in the next few quarters.

Thank you for your patient hearing and over to the moderator for Q&A.

Moderator

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

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. At this moment there are no further questions from participants at WebEx International Center. I would like to hand over the proceedings back to India moderator.

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Moderator

Thank you Tanila. We will now begin the Q&A interactive session for the participants connected to India. Participants who wish to ask questions, kindly 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, kindly press *1 now. First in line we have Mr. Rishi Maheshwari from Networth Stock Broking. Over to you sir.

Rishi Maheshwari

Good morning everybody.

Rajiv Mody

Good morning.

Rishi Maheshwari

Sir, I would like to know primarily why do we see a dip in the total number of employees and consequently the lower utilization vis-à-vis Q1 FY07, and the higher attrition which was always a cause of concern and you had said that we would continue to work on that?

Rajiv Mody

Let me have Sri answer the first two questions on during the quarter the attrition has gone up, and second one I will have Hari answer on the performance based improvements that we have done in attrition.

Srikanth Kannankote

If you look at the gross adds, which is at 199, and the attrition percentage is at 20.4%, there were about 100 plus involuntary separations. Rajiv mentioned that we had gone through some rigorous performance based ratings and we wanted to really make sure that the bottom 10% of the organization or bottom percentages of the organization were identified. So I would say that 100 plus involuntary departures will make the net adds at a negative number, if you sort of remove that and adjust for that it would be a few 10s of additions from Q4 to Q1. Compared to the utilization you should look at Q4 to Q1 there was a one-point increase in terms of utilization. I think also it is good to note that in Q3 and Q4 we had added people in the last year, and what we wanted to do was to manage the bench very carefully this time in terms of how we take the utilization up and that is the thing that we have to continually focus on as the rupee gets stronger. So, you will see from that perspective that the bench utilization is being managed and the hiring is being managed to look at how the business conditions are. So, it is one point increase in utilization between Q4 and Q1. The last year utilization of 79% in Q1 was on a lower base in terms of number of people and I think if you look at subsequently between Q1 and Q2 we grew from 2900 to 3300, and Q2 to Q3 we went from 3300 to 3500. So the additional people came on board between Q2 and Q3 and what we are trying to do is to manage that. Having said that, Rajiv also mentioned that we are going

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to be looking at ACCs and we will be looking at increasing the introduction of some of the freshers and going forward in Q2, Q3 and Q4.

Rishi Maheshwari

I take your point on utilization, but are we saying that we are comfortable with the range of because the voluntary attrition over here is around 20.4% in Q1 FY08 versus 19.6% in Q4 FY07. So, are we saying that we are comfortable with attrition at around that range?

Srikanth Kannankote

Always one thing that you have to take notice as you look at the overall attrition i.e. two segments of our business, if you take those in the R&D services business, we are running at about 15-16% attrition on that one. The SNEL business, which is our services business, is similar to the BPO kind of businesses and that has a higher attrition rate. So, if you sort of compile the both you will get to this attrition. Having said that, we are not satisfied at the 19-20 levels, we are striving to get the attrition down to about 16-17% levels. And we think that it may be manageable and moving forward we need to see how we can get it to industry benchmark, which I believe would be somewhere around 12-13%.

Rishi Maheshwari

Alright. It is a normal practice for all IT companies to post their top client concentration. So, in that respect, can we also understand what kind of transition do we see in the top client performance, especially in this quarter?

Srikanth Kannankote

If you take a look at the segments of our business, you can really at our businesses in three segments, and products being the fourth segment. You can look at the networks equipment manufacturing business; you can look at semiconductor business, as well as the handset business and services associated with handsets. Our performance actually in terms of handsets business is quite robust, we just announced that we now have four out of the five tier 1 vendors from the services perspective recently putting together two ODPs this quarter, and we are pretty bullish about that business. The business that continues to be challenged, which constitutes about 40 plus percent of our business is the network equipment business. It is a business where other than one major vendor, everybody else is going through consolidation in terms of their own product lines and their own product line structures. Also some of the deals that we see coming from them is really something which is a challenged business model in terms of the geographies that they want to shed from their head count perspective and the technologies that they want to give out from an outsourcing perspective, and this is something that we are quite reserved about participating in, because it is not good for the business model and the type of business models that we want to be in. So, I think while our base is quite strong with the networks customers, we continue to see no erosion, we think that it will be at least another quarter like we said the last time before we see some traction in that industry. The semiconductor market is something as Rajiv mentioned is sluggish, and sluggish to us means that we had anticipated some market or better than market growth and I think we had to look at and revise that down a little bit in terms of where it will grow and how it will grow. But, the handset market, which by the way is other

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than one major account is quite a nascent market for us, continues to grow very very strongly, and I think going forward that you would see this market making an impact in terms of our positioning and performance.

Rishi Maheshwari

Will it be comfortable for you to actually segregate the networking, semiconductor, and telecom handset into the percentage of total revenues?

Rajiv Mody

No, we don't provide the breakup of the revenues that we derive out of the four segments that we operate in.

Rishi Maheshwari

Right, Just one more on the R&D expenses that we have seen in this quarter, which has been high compared to the last few quarters. Having spent a lot on already existing three solutions on the product side, how do we actually see this R&D expenses going forward?

Dr G Venkatesh

The R&D expenses for Q1 reflects some of the costs that we incurred in the TACO Sasken joint venture that we started a few months ago. The other reason for the increase in R&D expenses is the wage hike that we had in our product team. So, those were the primary reasons for increase. So, going forward we maintain our product engineering expenses at the same level, we don't anticipate that there is going to be any significant increases.

Rishi Maheshwari

Alright, thank you so much, I will come for the follow up.

Moderator

Thank you very much sir. Participants are requested to restrict to one or two questions at the initial round of Q&A. The follow-up questions will be taken later on. Next in line we have Mr. Goyal from Citigroup. Over to you sir.

Goyal

Hi! Good morning.

Rajiv Mody

Good morning.

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Goyal

Last quarter you had talked of 30-35% revenue growth in services and now it is 20-25%; how confident are you on that or in other words what is the visibility for the same, and do you expect the growth to be back ended from here as well?

Rajiv Mody

Let me answer it partly and then I will hand it over to Sri to answer it. Just to clarify, we are talking about a 20-25% growth on a base of \$110 million run rate that we had in Q4; this is what we see as the revenues that we will derive from our services business this year. I would like Sri to comment on the visibility that we have for the overall thing and talk about that a little more.

Srikanth Kannankote

I think I mentioned earlier that where we see growth is really in the handset and handset integration business; if you take a look at some of the performance levels in Q1 while holding other businesses somewhat level, some of the wins that we have announced, is in the handset area. So that definitely will contribute more to the Q2, Q3 and Q4 revenues going forward. So, our visibility in the handset area is quite strong and we continue to be pretty optimistic about that. Semiconductor, we talked about the markets itself, while it is sluggish we still are looking at a very decent pipeline, so I sort of put that as a mid-growth category for us. Where we are, we are looking at 20-25% overall and that is really due to the uncertainty associated with the network equipment manufacturer market. While we feel quite comfortable in terms of the current levels of business that we have and the sustenance of that, we see that the growth levels of the new business is coming down will be not as aggressive as we thought it would be, so I would put that as a market which is a challenging market, and I think that from a overall visibility perspective we feel it is comfortable at the 20-25% level. We see pipelines of deals in the handset area, and we also are seeing deals in the semiconductor area. Where we see some challenge deals are in the network equipment area. So, that sort of makes up the mix of what we are looking and where we are and I think given that the network business as I had said even at the last call is a dominant portion of our company, we need to really look at substitution revenues in the handset area and that is what we are doing.

Rajiv Mody

And to answer your other question, do we see the growth back ended, the answer is no. We definitely see the growth coming starting this quarter.

Goyal

Okay thanks, and just one question for Neeta, like in the past we have always talked of 20 to 23% EBITDA margin levels being sustainable on the services side of the business, what is the outlook on the same for FY08?

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Neeta Revankar

Actually considering that the exchange rate has moved adversely to our business and that it will take us a while to make the structural adjustments within our organization to deal with that, I would expect that for FY08 we should look at a range of 15 to 17% at the EBITDA level for services.

Goyal

Okay, and just one more follow up, on the product side we were talking of a EBITDA break even in the business for this year, does that look an achievable target for FY08 with one quarter having gone by and with the kind of visibility you have?

Dr G Venkatesh

We continue to look at that target of breakeven for the current year at the EBITDA level.

Goyal

Okay, but in terms of visibility any changes, is it better than what it was looking or worse than that?

Srikanth Kannankote

I think as we said last time, primarily there are two points I wanted to make, the reasons that we are looking at the EBITDA level is because our offshore business is about 65% of the total portfolio with Botnia, without Botnia it may go up to 85%, and our dollar billings are at about 67% as we had mentioned. So those two really put some pressure in terms of the business models for us and operationally what we have to do is to really look at restructuring, tightening, improving productivity in whatever way possible and you all know the levers that we work on to be able to get the EBITDA level up, and so it is a steady quarterly improvement as to how we see that in terms of structuring the company to be able to meet the productivity gains that we want to see. From a product perspective, we are on track with all of the stuff that we had anticipated from a win perspective and also from platforms, the shipments of the platforms as you saw that the NEC and the Panasonic shipments are happening, and the Z8 is in shipping this quarter, and hopefully does well, and so far we are quite satisfied with what has happened and we continue to be on track with the E series stuff that we had said as well as the M series, the 3G software that we have said. So I think time will tell that we are comfortable but one can never predict as to where these shipments are and how quickly the shipments are going to materialize. So far I believe from the big ones that we are looking at we seem to think or at least all indications show us that we are on track on that point.

Goyal

Thank you and wish you all the best.

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Srikanth Kannankote

Thank you.

Moderator

Thank you very much sir. Next in line we have Ms. Diviya Nagarajan from Motilal Oswal. Over to you mam.

Diviya Nagarajan

Hi, well most of the questions have been answered, my question regards to the top clients this quarter, have you seen any significant ramp down over last quarter that was not anticipated earlier and how do you see these top clients reviving for the rest of the year in the telecom space?

Srikanth Kannankote

Ramp downs, while there are some sundry ramp downs here and there we have not seen any major ramp downs. The top 3 accounts continue to be quite strong for us. Product lines continue to be strong from a customer perspective that we are working on. Some other ramp downs, smaller ramp downs are made basically because of productivities and restructuring, so no major ramp downs from our perspective. Again from this quarter as we announced that earlier if you look at the segments we feel very, very comfortable with the handset segment as to where it is going to go and the revenue that it is going to produce. Two businesses that I refuse to mention that are very nascent are also beginning to show some improvement in terms of revenues; one is the testing business and the other one is the service provider business, and we will continue to look at those as alternate positive growth for the slowing network equipment business, so having the relationship with the NEMs is critical to go to the service providers and so we should see some growth in those areas as well adding to our services business. So I think overall from the portfolio perspective, onus is on us take a look at where we are in the current portfolio and what we need to do to hit that and how do we effectively manage that. So I am feeling okay in terms of the visibility. The semiconductor business is the same as I said earlier. So I think we are looking at the guidance that we have, we are looking at some good traction, and we are quite confident that we are going to be able to live through what we have said.

Diviya Nagarajan

Alright, Neeta as far as the services margins are concerned, what was the impact because of the rupees standalone had on the margins this quarter and going forward going up to these 15 to 17% levels what are your expectations as far as various margin levers, the concerns, and if you could give us the breakup of the contribution from each of them please?

Neeta Revankar

We have stated that the impact in this quarter of the exchange rate is 5%, and the other impacts in this quarter has been that of the wage hikes. Now going forward the levers that we expect we using in the coming quarters are really the utilization levers. We are today at

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72.5%, we should be able to increase this significantly over the coming quarters, that is the major lever. The other two levers that we will also use is looking at the composition of our revenues between fixed price programs and time and material programs, and also the average experience profile in the organization, but yeah the largest contribution should be from higher utilization.

Diviya Nagarajan

What is the trend that we are seeing on pricing; are we expecting any kind of improvements coming from that angle as well?

Srikanth Kannankote

If you take a look at the price increase, we were at 1.5% in terms of Q1, and in multiple ways the price increase can be calculated. One way is to get rate increases and the other way is also is to get performance bonuses, kind of an incentive as you deliver. We think and if we take a look at the network equipment space, it is going to be quite challenge in terms of how and what kind of price increases we get. As has been stated by us and others we will be looking to do all ways possible to increase our prices, I would say this quarter is going to be the way that it is going to look like in the market and as we move forward, as Neeta was saying earlier, the ability for us to do value pricing through fixed price project is the one that is going to give us an implicit increase in terms of pricing, so that is one of the ways that we will look at how to go about and combat the appreciating rupee.

Diviya Nagarajan

Alright, thanks, I will come for follow-up later.

Moderator

Thank you very much ma'am. Next in line we have Mr. Anurag Purohit from Religare Securities. Over to you sir.

Anurag Purohit

Good morning gentlemen. My question, could you just give me a breakup between the 2% growth in dollar terms that you have between volume and pricing?

Neeta Revankar

It is both equally, 1% is through volume and 1% is through price.

Anurag Purohit

Do you also see improvement in pricing from these levels?

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Neeta Revankar

Yeah, as we mentioned the way the improvements will impact us significantly is when we change the business model and have more of fixed price programs. Otherwise we will continue to see low single digit increases the way we have been seeing in the past.

Anurag Purohit

Also do we have a guidance on how many number of employees we are going to recruit for FY08?

Srikanth Kannankote

Today our rate is we are about 3513, so we will probably look at about 700 to 800 new employees over the next three quarters.

Anurag Purohit

Okay, thank you and all the best.

Moderator

Thank you very much sir. Next in line we have Mr. Joshi from Arena Research. Over to you sir.

Joshi

Hello, good morning gentlemen.

Srikanth Kannankote

Good morning.

Joshi

Yeah hi. One question regarding your revenues; traditionally, you have broken them up in software services, software products, and network engineering services, could you at least give one number as in how much was the breakup in the sense in terms of share of these in your total revenue?

Rajiv Mody

Historically, we have always given the breakup of our revenues on software services and software products. We have added a new segment to it, which is the transportation, utilities, and industrial, and that segment essentially reflects the revenues and the expenses that we incurred in our TACO Sasken joint venture as well as in ConnectM.

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Joshi

Okay, thanks, one question about your hedging policy, could you throw some light on what is your cover like?

Neeta Revankar

We had outstanding covers of about \$53 million at the beginning of the financial year. As on date we have about \$39 million of covers outstanding.

Joshi

That is at what rate ma'am?

Neeta Revankar

At an average rate of 45.79.

Joshi

45.79, okay.

Neeta Revankar

But please understand that gains on this to the extent that we already have booked sales, have already been partially considered in the financials.

Joshi

Okay.

Neeta Revankar

In line with the accounting standards.

Joshi

Okay fine, thanks, yeah, thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Ruchir Desai from Pioneer. Over to you sir.

Ruchir Desai

Hi! Good morning. Just a couple of questions; first on product side, we have seen a couple of delays in your product shipments for your 3G protocol stack and 2.5G protocol stack by a couple of quarters, could you elaborate a little bit on that?

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Rajiv Mody

Yeah, GV will answer that question.

Dr. G. Venkatesh

The 3G protocol stacks we are seeing, the product from our lead tier 1 customer we had said earlier that we will ship end of Q2, but that is more likely to be early part of Q3 now, so it is end of Q2 early part of Q3, there is not really that much of a change from what we had said earlier, which is like September of this calendar year. Now, on the 2.5G protocol stack customers, these are actually really not very significant customers for us in the sense of building out of big royalty volumes, but we do see that there could be a quarter delay in shipment from these customers, but it is not going to make any major impact really in the overall numbers, because we are not really banking on royalty numbers from these customers.

Ruchir Desai

Okay, also regarding the services business, could you give us the break up between what was the revenue from Sasken Finland and what was the revenue from organic services?

Rajiv Mody

Yeah, Neeta can you answer that?

Neeta Revankar

The revenues from Sasken Finland during the quarter were \$7.5 million. If you want it in rupee terms, it is Rs. 30.8 crores.

Ruchir Desai

Alright, thanks. Also on the utilization front, we see an increase in utilization, what is led mainly by organic services or also led by Sasken Finland?

Srikanth Kannankote

I think Sasken Finland continues to be at where it was in terms of Q4, between Q4 and Q1, and it runs at about approximately 70%. Where we saw a point increase in terms of utilization, it is from offshore in India, India based resources, and like we said to you earlier we are really trying to manage the bench to get the utilization up and we will continue to do so.

Ruchir Desai

Yeah, thanks, I will come up for follow-up questions later on. Thank you.

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Moderator

Thank you very much sir. Next in line we have Mr. Kunal from Edelweiss Securities. Over to you sir.

Kunal

Yeah, good morning. Sir my question is I wanted one clarification; when you are saying services revenue to grow by 20 to 25% in dollar terms, it would be purely telecom software services and not the automotive, utilities and industrial, right?

Rajiv Mody

That is correct.

Kunal

Okay, so sir in connection, what kind of opportunities do we seek, and I was just going through the press release, it is mentioned that we would see the first customer addition by the end of the year, so is the sales cycle long enough to take such a long time?

Dr. G. Venkatesh

The opportunities we are pursuing in ConnectM are to build applications, M2M based applications, which will serve the industrial and the transportation and the utilities markets. The sales cycle, because we are just building out the sales team in that entity at this point in time, we think that the sales cycle is like 6 months before we get our first customer win there. We do expect to see some revenues coming in this financial, but as we go forward we will report it in more detail.

Kunal

Sure, sir any number to it, what kind of revenue can we expect?

Dr. G. Venkatesh

No, it is too early for us to make any suggestions at this point in time.

Kunal

Okay, and second question is towards the pipeline that we are having in the application framework, E series, if you could brief or offer some comments on that please?

Srikanth Kannankote

Like we have said on the E series we are continuing to make progress with the customer that we had announced and we are looking at it being on track to what we have said and there is not change in terms of the royalty things that we announced. We will continue to see those kind of prevailing rates in the market.

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Rajiv Mody

The phone shipments still hold as we have said somewhere around November time period, and like I had mentioned in my opening remarks the models on that are already in place being tested over here in Bangalore.

Kunal

Okay, and sir I believe that some of the customer wins on the services side have been notable that we have been trying since quite some time to get in, and we have got that win, so from that new customer wins what kind of ramp up do we expect in the coming quarters on the services business?

Srikanth Kannankote

Like we said overall we are looking at 20 to 25% growth in dollar terms starting this quarter, so I think that is what we see as a growth in the overall business, and like we have said it is a challenge on the network equipment side, it is slightly sluggish on the semiconductor side, but we are seeing good ramp ups happening on the handset side. So, that seems to be the overall market environment that we are operating in. I am sure as and when things change we will come back to you, but in the plan that we have made going forward this is what we expect to see for all of the financial year.

Kunal

Thanks a lot and all the best.

Moderator

Thank you very much sir. Next in line we have Mr. Gandhi from Brics Securities. Over to you sir.

Gandhi

Hello, good morning to all of you. I just wanted to ask you one question about this differential wage increase, was it a routine thing, I mean what prompted you to do something like that now?

Srikanth Kannankote

I think where we think that we get our benefit from an organizational perspective is to move towards the performance based organization and we have been talking about it for the last 6 months as to how do we ensure that in this market of high attrition, how do we retain some of the best people that we need to retain and how do we ensure that we spend the money wisely in terms of distributing it. So, as a result we have gone into a category of assessing people as to who the performers are, who are very critical for us, and as a result we have implemented this for this quarter going forward a differential rate. So, I think it has proven to be pretty positive for us from a perspective of retention of good people and taking a look at

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where we are from an organizational perspective and what we need to do in terms of management performance.

Rajiv Mody

Also, just to add few things to what Sri said, with the structural adjustment that is permanent in our minds which is the dollar rupee will be where it is, I think these are positive steps that the organization has taken early on and we will build on top of that going forward.

Gandhi

Okay, so you are saying you are basically trying to replace non-performing, high cost resources with freshers?

Rajiv Mody

That is correct. Basically, the message we are sending is if we give you a high salary increase we expect higher productivity and higher responsibility that comes along with it.

Gandhi

Okay, that is very good. Can you describe the network equipment market and the semiconductor market, how it has evolved over the past one-quarter and the changes you see?

Srikanth Kannankote

Like I said in the network equipment market what I have said for us is that we have not seen any major ramp downs, we have seen ourselves holding in terms of the revenue sequentially from Q4 to Q1. We have also said that there are some really interesting things that the market is doing, while they are looking at their products and rationalizing their products, we are looking at some of the technologies and some of the geographies that they do not want to be in and see if they can outsource that entire product line. These are tough business models given some of the locations that they have and some of the technologies that they have and we have to really be careful as to how do you position yourself into this and how do you go after some of these. So, we see that that kind of a wholesale divestment of products and people on locations are the ones that are going to be large ones. On the other hand we also see some smaller projects that is coming in the areas of current or newer technology. There are also more trends towards having to take ownership and the ownership of sub systems associated with that. So this whole churn in the market is going to take sometime before we see the kind of growth that we would like to see in this market. Semiconductor business is the wireless side of the semiconductor sector. We have got our large customer, the tier 1 customer which continues to be on track in terms of growth, but it is in the mid range not in the high end range, so we sort of feel that we will sustain the ability to grow that business in the mid range from a growth perspective. The high end range that we see the growth coming would be in the handsets area.

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Gandhi

Okay, do you think there could be any negative surprises on the handset side and services side in future?

Srikanth Kannankote

I do not see it, I think we have good visibility from the pipeline perspective, and we are also engaged with 4 out of the 5 the top ones, and we continue to see our products and services together leveraging our relationships with these guys.

Gandhi

Okay, thanks a lot.

Moderator

Thank you very much sir. Next in line we have Mr. Krishnan from DSP Merrill Lynch. Over to you sir.

Krishnan

Hi.

Srikanth Kannankote

Hello.

Moderator

Mr. Krishnan, I think we dropped his line sir. Next in line we have Mr. Mehta from Dipen Mehta Shares. Over to you sir.

Dipen Mehta

Yeah, this is Dipen Mehta here. In your press release you have said that the services earnings per share about 5.5, I just wanted to understand that how you arrived at that particular number?

Neeta Revankar

What is the concern here Mr. Mehta? It is the way we normally calculate please understand that.

Dipen Mehta

Because the EBIT is 7%, I do not understand how we came to 5.5.

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Neeta Revankar

Actually what really happens is that the exchange gain that we get also gets apportioned between services and products.

Dipen Mehta

That is what, how did it, I mean if you can just quickly say that EBITDA was so much and this would help us to understand how we came to 5.5.

Neeta Revankar

Okay, we have the EBITDA...

Dipen Mehta

It could be good idea to just put these calculations in rather than you know us struggling to figure out what is this and how much is for exchange gain, I mean since you are calculating it, which is a good thing, or may be we could take it later on?

Neeta Revankar

Yeah, we will put it out for everyone to see in a few hours, Mr. Mehta.

Dipen Mehta

Okay. Second thing, this products revenue and products profits which we are getting, see may be the time has come now for the management to kind of share what their vision is for this particular business in the sense that a lot of money and I am sure lot of time management has gone into this particular business, and what is the potential I mean you know you get one product, one thing going, what is it, is it few hundred thousand dollars running into millions of dollars, some kind of a metrics you know which I am sure you have, may be you could give us a better idea about what exactly the value that has been created in this particular business, because we are thinking in money quarter after quarter and I am pretty certain that the break even is getting delayed, it is just my view, and that you know now earlier I thought you were would break even at a bottom line level in FY08 and now you are talking of a break even in EBITDA level in FY08, so I mean there are very serious concerns on this particular activity and if you could share with us what is and how does the calculation work over here?

Rajiv Mody

Yeah Mr. Mehta this is Rajiv here, what we will do is while we cannot answer this over a call today we will schedule for an analyst meet and we will invite you all to our facilities on a certain day for you to get a view in terms of exactly what is going on in our products business. The way we did it last year we will do it sometime in the next 4 to 6 weeks there for us to take you through the whole thing.

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Dipen Mehta

All I wanted to know is that is what is potential of something like this I mean?

Rajiv Mody

The potential of this is approximately you can think in terms of building a \$40 million to \$50 million business with about 250 to 300 people delivering healthy EBITDA margins. I think that is the potential. There are of course risks that are associated with this, primarily on various fronts; one is of course when you sign up with the semiconductor company, second is when you sign up with the handset company, and third is when the model actually starts shipping. Now if you look at the progress, lot of companies have made and build business out of it, it is quite significant and quite attractive, so I think if you look at the overall market, take any of our series, take our multimedia series, I think it has taken us about 3 to 4 years for us to be able to drive, one, the volumes on it, and two, drive royalty led business model, and you are seeing the streams on that one starting to converge. So, you will similarly see the things happening on the modem side as well as on the application framework side, so it has its own time line I understand, but I can assure you one thing that it is very a sticky business and it is a very robust business, specifically the market that we are operating in because handset is something expected to be in the market for the foreseeable future and the space that we have chosen is such that it is not something which would kind of vanish over a period of time, and we have established ourselves as a very formidable player in each of the spaces that we are operating in.

Dipen Mehta

Right sir, the last question pertains to the growth rates, I mean at 20 to 25% you are talking of dollar growth rates, am I right?

Rajiv Mody

Yes 20 to 25% we are talking in terms of dollar growth rate, that is correct.

Dipen Mehta

And that \$110 million is basically you are taking Q4 and multiplying it by 4 and then.....

Rajiv Mody

That is correct.

Dipen Mehta

Actually speaking, for the full FY07 it will be significantly higher because Q4 would not be 25% of the full year, I mean so is that correct understanding?

Rajiv Mody

That is correct.

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Dipen Mehta

Okay, thank you I have some more questions, I will come back.

Rajiv Mody

Please.

Moderator

Thank you very much sir. Next in line we have Mr. Krishnan from DSP Merrill Lynch. Over to you sir.

Krishnan

Hello.

Rajiv Mody

Yes please.

Krishnan

Yeah, just on your guidance again I mean like since last one quarter what has changed in terms for you to tilt the guidance down by 10 percentage?

Rajiv Mody

Like Sri mentioned the reason for us to bring the thing down from what we had stated earlier is primarily the sluggishness that we are seeing in the network equipment business, what we were expecting was that would change in this quarter but we are not seeing any major significant changes coming about in that side of the overall business.

Krishnan

Okay, in terms of the NE segment, have you factored the similar kind of situation to sustain from...

Rajiv Mody

Have we factored similar kind of situations like...., I lost you somewhere, hello.

Moderator

Mr. Krishnan? His line got disconnected sir. Next in line we have Mr. Sudhakar from Span Capital. Over to you sir.

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Rajiv Mody

Okay.

Sudhakar

Thanks all my questions have been answered. Thank you.

Rajiv Mody

Thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Vivek Singla from Standard Chartered Mutual Fund. Over to you sir.

Vivek Singla

Hello, a very good morning.

Rajiv Mody

Good morning.

Vivek Singla

Yeah, hi. Just sort of confusion actually, when you were mentioning the guidance of 20 to 25% dollar terms and we are saying that the base is now \$110 million as in Q4 annual run rate. On a like to like basis, when we are saying that 35%, is it actually a 10% drop or is it actually there is a difference in the base itself.

Neeta Revankar

Yeah, that is correct. There is a 10% drop that we are talking.

Vivek Singla

There is a 10% drop. So, this 10% drop does it actually figure in that there will be some kind of revival in the NEM and the semiconductor segment or do we actually see the growth in these two segments more or less at the levels that we have seen in Q1 for the rest of the year?

Rajiv Mody

We have factored in the network equipment side remaining sluggish in the overall guidance that we are giving you.

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Srikanth Kannankote

If you look at, we have sort of characterized the bucket in the low, medium and high.

Vivek Singla

Okay

Srikanth Kannankote

Low growth would be in the network equipment side, medium would be in the semiconductor, and high would be in the handsets.

Vivek Singla

Okay, again on the margin front, I think again we used to have a guidance in the range of some 20-23% at the EBITDA levels for services. Again that has also been revised downwards mostly because of rupee or is it something more that can be evident like?

Neeta Revankar

Actually, it is entirely because of the way the exchange rate has moved. And in fact we have factored in some improvements in efficiencies to deal with this exchange rate movement.

Vivek Singla

So what is the potential, I mean, if they say the utilization you can improve from 72% onwards, I mean, what is the kind of expansion that you would likely to or you will be comfortable with at least. Any rough number you can put?

Neeta Revankar

Yeah, 78-80% is the rate.

Vivek Singla

Under margins actually, sorry not on the...

Neeta Revankar

We have mentioned that the EBITDA that we will be looking at, we expect for the year is about 15 to 17%.

Vivek Singla

Okay, and any color on your product side as to what kind of number as per the entire year we can look?

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Neeta Revankar

We always have been telling you that we are not in a situation where we can give you guidance on product revenues.

Vivek Singla

Right.

Neeta Revankar

Actually that situation remains. We need to see more of royalties in our product revenue composition to be able to predict those revenues.

Vivek Singla

Okay. Yeah, I think that answers most of it. Thanks a lot.

Moderator

Thank you very much sir. Next in line we have Ms. Madhu from Finquest Securities. Over to you ma'am.

Male participant

Yeah, hi sir. My question is regarding the traction at Nokia after Botnia's acquisition.

Srikanth Kannankote

Okay, we continue to get quite a bit of progress in Nokia and our utilization at Botnia continues to make progress; we said it was about 70%. Our pipeline is pretty strong. So, we think that we have also now begun to expand some of our Nokia businesses into other continents, because of the relationships that we had in Botnia. So, the two reasons as to what Botnia would want to get penetration and increases within the accounts and who to take the competency and how we see can expand the competency into other accounts, and we are making progress on both sides.

Male participant

Sure. And another question regarding currently Motorola is very weak in handset market. I mean its running under losses for the handset business. So, how is that going to affect your product business?

Srikanth Kannankote

Our position with Motorola on the products businesses with the Z8 product, which is a Symbian/UIQ based product, and the multimedia subsystem that we have is bundled as part of that. So far from what we hear the couple of operators have taken that and have begun to distribute it. This is the quarter that will tell us as to how it will do, and probably the reviews

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of how that thing is doing, you probably can read it yourself but we haven't heard anything negative in terms of how the performance has been so for us to say anything different about what we have said already.

Male participant

Okay, sir. And regarding the testing center in Chennai for handset, can you throw some light on that?

Srikanth Kannankote

Its one of the tier 1 customers and it's a new one, it just started, and we are hoping that it's a beginning. It is in the top 5, hoping that we will see some sustenance of that and growth, and we are pretty excited about that, really excited about that.

Male participant

Okay, sir. Thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Amit from Alchemy Capital. Over to you sir.

Amit

Hi Rajiv.

Rajiv Mody

Hi.

Amit

This is Amit from Alchemy. I just wanted some clarity on services business, plus few other questions. The guidance you are giving on EBITDA is around 15 to 17% is for the full year, right?

Neeta Revankar

That's correct.

Amit

And the levers you are going to use are the utilization rate improvement, composition of revenue towards fixed price, all these are actually really gradual, if I understand, right?

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Rajiv Mody

Yeah, go ahead.

Amit

So basically if you are going to achieve 15-17 % margins, probably we should actually by Q4 should move even at the top level I mean around 17% or even beyond that. Is that the right assessment?

Rajiv Mody

Yeah right, that's correct.

Amit

Okay. So, going forward in '09 do we expect again to go back to our normalized EBITDA of 20-23% level?

Neeta Revankar

No, actually see this is very much a function of also the way the exchange rate moves okay.

Amit

Right. Keeping that suppose you know assuming at the constant for a time being.

Neeta Revankar

Yeah, assuming exchange rate remains where it is today, on an annual basis it is our aim to get EBITDA back to the level that it was. But again quarter-on-quarter there will be changes; we are talking about annual basis here. So, in '09 we should be getting somewhere close to that range.

Rajiv Mody

What we are saying essentially is that we are adapting ourselves structurally to the change that has happened on the dollar-rupee exchange rate.

Amit

Right.

Rajiv Mody

And we have accepted that it is going to remain around 40-41 rupees.

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Amit

Right.

Rajiv Mody

And that is not going to go back ever in the foreseeable future to 43, 44, 45 rupees.

Amit

That's right.

Rajiv Mody

And that is what we are saying that as management we have internalized that as the inflection point, the structural change, and adapting ourselves. And whatever as actions needs to be taken around it will be taken inside the organization.

Amit

Right. So for the Q2 would it be possible for services EBITDA to go back to at least 14-15%?

Neeta Revankar

As we mentioned to you, quarterly EBITDA guidance is very difficult, please.

Amit

Because, all the measures are gradual, I don't see that overnight you know we will be able to move the margins up.

Neeta Revankar

That's a fair statement.

Amit

Okay, and again in services you said the challenges and the semiconductor, do you think they will get resolved by '09 and probably we again see 30-33% growth in services?

Srikanth Kannankote

I would say the biggest pain point that we have told you is in the NEM, semiconductor we said it is sort of middle in terms of growth, not the high levels as per market, I am talking about may be in the 20s instead of in the 30s is what we are looking at. If you look at any NEM's business model itself, given the amount of products that they have to invest in, and the R&D that they have to invest in, their productivity has to go up, and I have said this many times and I will continue to say that offshore component of any NEM's business in fact will only go up and not come down. What is happening is that the rationalization in terms of their

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products itself is delaying a bit in that front. So, I don't see how they can manage their business in terms of the R&D spending that they have to the kinds of functionality they would need without doing this offshore component, and the ability for you to maintain your relationship, and the ability for you to continue to maintain this relationship will have a big impact. And as we have said that we have got some good relationships with many of the tier 1 customers there, and we haven't seen any major ramp downs.

Amit

Okay, on the product side, can you just throw some light in terms of the kind of traction we are seeing with tier 1, like Motorola, how big would this be opportunity in terms of growth story plus exponential growth on that side?

Rajiv Mody

See there are few things that we see cannot disclose and discuss because of confidentiality.

Amit

No not on the numbers or anything, I am talking in terms of the trend, do you think other global tier 1 joining the band?

Rajiv Mody

Well, as and when that will happen we will definitely announce to you, all we can say is that our endeavor is definitely that, and I am sure we would be working towards, but unless it is done it not done.

Amit

Another one on the product side, basically now we are given on this latest tentative product milestone target in terms of shipment, but as the history suggests basically there have always been the delays in shipments by one quarter or so. How confident you are that the current shipment schedule could be made?

Srikanth Kannankote

I think we said that earlier that there is about three of four major ones that we are tracking, which will have any impact at all on revenue from our perspective. For that, we are seeing those changes in terms of our outlook for those three or four major elements, right. If you look at these delays in shipments, some of the ones that we have talked about are the ones which are good to have as customers but not material in terms of for us to change as we are looking at the market.

Amit

Okay, now few P&L items basically, this quarter we had amortization of around 3.7 crore. Can you just give some details about it?

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Neeta Revankar

Considering actually the way it has in the past, there has not been too much of a change. Of this you have about Rs. 3 crores roughly, which is the amortization of the product software. That is the largest component.

Amit

Okay, and this will be one time in this quarter or this is like a quarterly run rate?

Neeta Revankar

We have Rs. 30 crore capitalized in our balance sheet towards product software as yet end of this quarter, and we have amortized for two quarters so far. So, we expect to amortize for ten more quarters.

Amit

For.

Neeta Revankar

Ten more quarters.

Amit

For 10 more quarters, Rs. 3 crores each.

Neeta Revankar

That is it, unless we see some change either positive or negative, when we review the business each periodically.

Amit

Okay, so roughly around Rs. 10 crores of total amortization, plus depreciation would be in the quarter.

Neeta Revankar

Yeah, that is correct.

Amit

Okay. Secondly, what is the goodwill we have on the consolidation, and what is the amortization policy there?

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Neeta Revankar

We have goodwill of about Rs. 175 crores in the balance sheet. The way we look at it is periodically, we test it for impairment, and if there is any impairment we will reduce it. Until then there is no charge.

Amit

Okay. And the last one, the tax at this quarter moved substantially to around 30% from 23% odd we used to see. Is it a one time or I mean 30% would be the annual rate?

Neeta Revankar

As we have said earlier, our tax is really is a summation of three factors - the amount of domestic revenues we have, the amount of product licensing and royalty revenues we have, and the amount of domestic business we have done. So this quarter we have seen an increase in the product licensing and royalty revenues vis-à-vis the previous quarter. That is one reason that has contributed to the increase.

Amit

But this figure would probably progressively increase only, right?

Neeta Revankar

That is correct, unless in contracts we are able to pass this on to the customer.

Amit

Okay.

Neeta Revankar

So, I think a range of 2 to 2.5% on revenues is appropriate for modeling purposes towards taxation.

Amit

Okay, but does that suggest around 30% tax rate effective?

Neeta Revankar

It should be in the range of about 25%.

Amit

25%.

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Neeta Revankar

25%

Amit

Yeah 25%. Okay, thanks a lot. If I have anything else, I will come back. Thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Raghavan from Spark Capital. Over to you sir.

Raghavan

Hi, my question relates to the revenue from non-top 10 clients. There seems to be a significant opportunity there because top 10 clients are 77% and the remaining 70 odd clients contribute very less. Do you see that a sort of the growth in each pockets of clients can be much better than top 10 clients?

Srikanth Kannankote

Yeah, while we want to fortify ourselves in terms of our positioning at the top 10 in the tier ones, if you take a look at total customers that we have, we have 87 customers that are revenue generating customers, and we have now also talked about a sales force that we had introduced in terms of going after non-top 10 customers and we anticipate that the growth will also come from there in terms of the market. Now if you take a look at the NEM space, or at the handset space, outside of the top 10 would be either a new entrant or some of the smaller companies. Where we really think that we are going to have a big opportunity would be in the two segments that we mentioned earlier - the service provider segment and the test segment, and I think as you look at the way that we make progress, we have to look at how well we do in terms of penetrating the service providers space and how it becomes a driver for us in terms of contribution of revenues.

Raghavan

Okay. Significant part that is missing in the overall communications space is, there has not been many clients at least which we know of in the enterprise communication space, especially when you are talking about routers like CISCO or Juniper, are you focusing on this space to sort of cover up the entire communication space on the whole?

Srikanth Kannankote

Yes, part of the work that we do for one of the tier ones is in the enterprise space and we have capabilities in that. What we are looking to see is the ability to take that and use our expertise with other customers and some of the customers that you have mentioned will figure into it. It is just that going from those no positions to a position of project positioning and the positioning of ownership will take some time, but it is not lost on us that these are opportunities for us to go.

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Raghavan

Next question is regarding your China center; the number of Chinese equipment manufacturers especially like Huawei being a player into the global scene is increasingly higher. Are you looking at servicing them as a potential from your Chinese centre?

Srikanth Kannankote

At this point they have been more captive in terms of their strategy for outsourcing even if they expand their outsourcing to other parts of the world. We at this point have not factored them as a big opportunity for us.

Raghavan

Okay. Thank you very much.

Srikanth Kannankote

Thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Joshi from Arena Research. Over to you sir.

Joshi

Hello. Just a small question. May be you have answered this sometime back, but could you tell me what is the services EBITDA, just a small repetition may be.

Neeta Revankar

It is 12.4%.

Joshi

Yeah, thank you very much ma'am.

Moderator

Thank you very much sir. Next in line we have Mr. Kunal from Edelweiss Securities. Over to you sir.

Kunal

Hello. My question is relating to the tax. We have seen that though the PBT has come down the tax has more or less remained same at about Rs. 2.6 crores. What is the reason for the same?

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Neeta Revankar

As I have explained it, it is a combination of factors, one is that licensing and royalty revenues from products have gone up in the quarter, and over there taxes are a proportion of revenue and not a proportion of profit.

Kunal

Okay.

Neeta Revankar

And the other thing is that we have Finland and Mexico centers also where we pay taxes. We have on site revenues on which we pay tax. So that is why it is higher.

Kunal

Okay. What is your tax rate in Finland?

Neeta Revankar

The tax rate in Finland is 26%.

Kunal

Okay. Sure. Thanks a lot.

Moderator

Thank you very much sir. Next in line we have Mr. Anurag from Religare Securities. Over to you sir.

Anurag

Thank you. All my questions have been answered.

Moderator

Thank you very much sir. Next in line we have Mr. Dipen Mehta from Dipen Mehta Shares. Over to you sir.

Dipen Mehta

I just observed that the R&D expenditure also has gone up significantly year-on-year from Rs. 2.86 crores to about Rs. 9 crores, and even QoQ it has gone up from Rs. 7.5 crores to Rs. 9 crores. Any specific reason for that sir?

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Dr. G. Venkatesh

Part of the reason is that we have accounted for some of the expenses in our TACO Sasken subsidiary in the R&D, and part of the reason is that there is wage increase in our product engineering teams itself, so that has also contributed.

Dipen Mehta

And do you expect that this number will remain now flat for the rest of the year, the other three quarters?

Dr. G. Venkatesh

It is a headcount led thing and the headcount stays flat. TACO Sasken there may be some increases coming in because of TACO Sasken, but from the product engineering perspective we are looking at a flat headcount, so there is going to be no increase.

Dipen Mehta

Okay. Also, you know I was just observing that actually our revenues from US are just about 28%, and yet we got I believe 5% hit on the rupee appreciation. Was it that we were under hedged at the beginning of the quarter and if you could also give an overview of the hedging strategy at this point of time?

Neeta Revankar

See, our dollar billing, there is a difference between dollar billings and revenue from US. So, that is what we need to understand.

Dipen Mehta

Okay.

Neeta Revankar

Dollar billings are in the range of 67%. That is the reason why the exchange rate has impacted us. Regarding the hedging strategy we actually look at hedging as a risk mitigation tool and our aim is to hedge close to 100% of our net exposures for the year. So, as soon as an exposure materializes, we hedge. We have some stop loss limits, which determine how much of an open position we can keep.

Dipen Mehta

At present as we speak, we are at that level of 100% of the exposure for the next 12 months?

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Neeta Revankar

100% of net exposure, yeah we are close to that. As I mentioned, we keep some open position and monitor that closely. If at all we reach a stop loss limit and if the exchange rate moves adversely then even that will get hedged.

Dipen Mehta

Okay and what are the billing rate increases, which we got in this quarter?

Neeta Revankar

The billing rate increase averaged about 1%.

Dipen Mehta

About 1% is it?

Neeta Revankar

That is correct.

Dipen Mehta

Okay, this is a question for Mr. Mody, you know, it is a kind of a broad question that the environment in which we are in where the industry as a whole is not able to get more than 1-2% increases in the billing rates and employee costs are increasing at the rate of about 15%, attrition at about 15%, and if the rupee continues to appreciate by 7%, then 3 years time we wouldn't have an industry. So, what is the company doing you know in terms of long range planning to ensure that it has a viable business model 2-3 years down the line because if these numbers if you cumulate them and compound them 2-3 years down the line then in FY10 you factor in the fact that 10A 10B benefits go away, so you got a tax liability on hand, so the picture at least 2-3 years down the line looks very murky, so I mean from your company perspective as it is industry perspective what is the thinking going on and what are the kind of strategies which are emerging, may or may not go for those strategies.

Rajiv Mody

Yeah, your observation is fairly accurate and the industry definitely is going through a structural adjustment on the overall way in which it used to be doing in the past compared to the practices it needs to follow going forward. Couple of things from an industry perspective I am sure you will see the rates being pushed upwards in areas where you are able to negotiate better rates because of your competitive strength advantage that you have in the space that you are operating in. So, we will definitely see that. Second thing we will see is also the fact that the way the salaries have moved year-on-year at those rates in the past may not necessarily be the way things will move in the future. Third thing that you will definitely see is move more and more towards value based rather than head count-led kind of activity. So, as an industry I am pretty sure we will see that trend and whichever company I believe accepts this reality wholeheartedly is going to indeed be a winner. Simultaneously, of

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course in our revenue model, we have the other thing built in which is royalty led on the handset side, of course it is taking a little longer than what we expected, but overall I think it is in the right direction in the overall scheme of things.

Dipen Mehta

Okay. Thank you and all the best.

Moderator

Thank you very much sir. Next in line we have Mr. Rakesh from IL&FS InvestSmart. Over to you sir.

Rakesh

Hello.

Rajiv Mody

Yeah, go ahead.

Rakesh

Hi, this is Rakesh here actually.

Rajiv Mody

Yeah, hi.

Rakesh

You have reported a Rs. 5.22 EPS for your services business, right?

Rajiv Mody

That is correct.

Rakesh

If I multiply that 5.22 with the number of shares, the services PAT comes at a Rs. 14.88 crores, am I right sir?

Neeta Revankar

That is correct.

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Rakesh

Now 12.5% EBITDA on service business comes to an EBITDA of around Rs. 14.96 crores, I am adding your software services plus networking services to calculate that EBITDA.

Neeta Revankar

That is fine.

Rakesh

What I am missing out here because just Rs. 8 Lakh of below EBITDA numbers

Neeta Revankar

I had actually told Mr. Mehta that we would put it out, but let me take you through that calculation. I hope Mr. Mehta is also listening. We will just work with percentages. We have EBITDA of software services at 12.4%. We have depreciation and amortization together at 5.4%.

Rakesh

Depreciation and amortization together of 5 points?

Neeta Revankar

5.4%.

Rakesh

Okay.

Neeta Revankar

We have interest at 0.8%, and we have tax for services at 1.7%.

Rakesh

Tax for services at?

Neeta Revankar

1.7%.

Rakesh

And the other depreciation amortization of 5.4% is again for services only?

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Neeta Revankar

That is correct. I am giving you only services numbers. And all of these are to be reduced from the EBITDA. What needs to get added is the other income of 8%.

Rakesh

Other income of 8%, which is accrued basically to services only.

Neeta Revankar

It is to both services and products, 8% of services revenue is other income.

Rakesh

8% of services revenue is other income.

Neeta Revankar

Yeah.

Rakesh

Okay, that is how you arrive at your PAT EPS?

Neeta Revankar

That is correct.

Rakesh

Okay, thanks a lot.

Rajiv Mody

Thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Shreyas from SSKI. Over to you sir.

Shreyas

Hi, just a book keeping question, what was the salary cost for the quarter, which you give as per your clause 41 filing?

Neeta Revankar

You are looking at employment cost for consolidated Sasken, that is Rs. 88 crores.

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Shreyas

Rs. 88 crores, and what was the figure for last quarter. Last quarter actually it was Rs. 84 crores, but I suppose it must have been revised because of deferment of revised AS15?

Neeta Revankar

That is correct.

Shreyas

So, entire 100 basis points impact, which you got, is because of that salary cost only, for the last quarter, or that impact is captured in salary cost or somewhere else?

Neeta Revankar

I am sorry, I do not understand your question, but if you are asking whether the reversal for AS15 was to salary cost, that is correct.

Shreyas

That is correct. Okay, fine. That is it.

Moderator

Are you done with your question sir?

Shreyas

Yeah, thanks.

Moderator

Thank you very much sir. Participants who wish to ask questions, kindly press *1 on your telephone keypad. I repeat, participants who wish to ask questions kindly press *1 on your telephone keypad. Next in line we have Mr. Dipen Mehta from Dipen Mehta Shares.

Dipen Mehta

Yeah, the 8% other income which you are disclosing is basically on Rs. 119.71 crores of revenue. Is that right?

Neeta Revankar

That is correct.

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Dipen Mehta

Okay, that means what would have happened is that we would have got realizations at an average of 40.8 or something there about, but our hedges would have been at 44 or 45, and therefore the difference would have come in this 8% other income?

Neeta Revankar

That is correct.

Dipen Mehta

Effectively, what it means is that if you add up both the numbers and the realization for the quarter would have been at about 44 or 45, if you add up the revenue.

Neeta Revankar

Yeah, you could look at it that way.

Dipen Mehta

Okay. Thank you.

Moderator

Thank you very much sir. At this moment, there are no further questions from participants. I would like to hand over the floor back to Mr. Rajiv Mody for the final remarks. Over to you sir.

Rajiv Mody

Thank you all for participating in this call and I would like to reiterate that we would invite you over for a meet to take you through our products business and show what the progress that we have made. So, you can expect communication from our investor relations to all of you and it would be our pleasure to host you over here. So, with that thank you all and look forward to seeing you again in October. Thank you.

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.