

SASKEN COMMUNICATION TECHNOLOGIES LTD

Analyst/Investor Conference Call

Friday, July 21, 2006

Moderator

Good morning ladies and gentlemen. I am Parimala, the moderator for this conference. Welcome to Sasken conference call. For the duration of the presentation all participants' lines will be in the listen-only mode. After the presentation the Q&A session will be conducted for participants connected to SingTel. After that the Q&A session will be conducted for participants in India. I would like to hand over to Mr. Mody of Sasken. Thank you and over to you sir.

Rajiv Mody

Good morning ladies and gentlemen and good day to you all. First of all my sincere apologies for a delay, there was a technical snag over here on the communication side. So we being a communication tech company hopefully it should not happen again and sincere apologies for that.

Ladies and Gentlemen, good day to all of you. It is my pleasure to welcome you to the conference call and present the business results of Sasken for the first quarter for the financial year FY07.

I am joined on this call by my colleagues, Dr G Venkatesh, member of the Board of Sasken who is our Head (Products) and Chief Technology Officer, Ms Neeta Revankar, Chief Financial Officer, Mr Kumar Prabhas, Head (Services) and Chief Operating Officer, and Hari Iyer, Culture Officer.

The consolidated revenues for the quarter ended June 30, 2006 stood at Rs 91.12 crore, in comparison to Rs 67.74 crore for the same period last year (Q1 FY06), registering a growth of 35%. Profit After Tax for the same period stood at Rs 8.65 crore, in comparison to Rs 4.77 crore for the first quarter last year, registering a growth of 81%.

Comparing with the sequential quarter (Q4 FY06), the revenues grew by 17% from Rs 78.05 crore in Q4 FY06 and Profit After Tax grew by 38% from Rs 6.29 crore in Q4 FY06.

Our services business has delivered a healthy performance last quarter. We recorded 40% annual growth in services in rupee terms. The sequential quarter growth was 19% in rupee terms and 15% in dollar terms.

From an operating metrics viewpoint, our utilization went up to 79.1% from 77.7% last quarter. We will continue to manage utilization in the band of 70% to 80%. Offshore revenues were 79%, onsite 14%, and fixed price 6% of total revenues.

We have seen strong demand from our Tier 1 customers last quarter and our strategy on this front continues. Our Top 5 customers continue to contribute roughly the same, which was 76.7% in Q1. Top 10 customers contributed to 87.2% of revenues. Both our offshore and blended billing rates also went up last quarter.

We had acquired Chennai-based Integrated SoftTech Solutions in April 2006. This brought us a centre in Chennai and competencies in Datacom and WLAN. We have consolidated the accounts of iSoftTech from June 1, 2006 onwards and revenues for one month in June were Rs. 86 Lakh. The integration process here is proceeding smoothly and as per plan.

We had also announced an engineering centre in Mexico. This has now started ramping up and we have increased headcount here. The Mexico centre has started contributing to company revenues from this quarter.

In India, we continue to grow in Bangalore, Pune and Chennai.

We have launched a new offering - Test Lab in Q1 FY07. This is a first of its kind offering in India aimed at 2G / 2.5G pre-conformance protocol testing for silicon vendors and terminal device manufacturers

On the products side, royalty revenues have gone up from the last quarter.

Last quarter, we had a "design-in" from a Tier 1 handset manufacturer for our S-Series, which is our multimedia applications suite. We also had sub-licensing revenues for our "M-Series", which is our communication / protocol stack offering from a Tier 1 handset manufacturer.

We continue to be on track for the products business. We expect phones containing Sasken IP, our S-Series to start shipping from November 2006.

From a people perspective, we had a net total of 322 people joining us in Q1; the gross adds were 469, taking our total strength to 2,897 people as on June 30, 2006. We plan to keep the momentum on the recruitment front.

In Q1, we were recommended for the ISO 14001 certification. This was in recognition of our processes and focus of our Environment Management System.

Thank you so much for your patient hearing, and my colleagues and I will now be happy to answer any queries that you may have.

Over to the moderator.

Moderator

Thank you very much sir. At this moment I would like to hand over the proceedings to Salvia to conduct the Q&A for participants connected to SingTel. After this we will have a Q&A session for participants at India Bridge. Thank you and over to you Salvia.

Salvia

Thank you Parimala. We will now begin the Q&A session for participants connected to the SingTel bridge. Please press 01 to ask the question. Participants who wish to ask the question please press 01 now. At this moment there are no questions from participants at SingTel. I would like to hand over the proceedings back to Parimala.

Moderator

Thank you Salvia. We will now begin the Q&A interactive session for India participants. Participants who wish to ask question 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. Rishi Maheshwari from Network Stock Broking. Over to you sir.

Rishi Maheshwari

Good morning gentlemen. My name is Rishi. Congratulations on a good set of numbers. What I wanted to ask was the attrition rate at around 20% this quarter looks fairly high in your company, can you let me know how do plan to go about controlling the attrition rate?

Rajiv Mody

Yeah, I would like Hari to take this question.

Hari Iyer

Hello.

Rishi Maheshwari

Yes.

Hari Iyer

I am Hari. We believe that the attrition rate that we have this quarter and the companies comparable to us in this space. We are also working on a lot of things, which will help us. Can you hear me?

Moderator

No sir, your voice is breaking a bit.

Hari Iyer

Okay, can you hear me now? Okay. We believe that our attrition rate is in line with companies comparable to us in this domain. Irrespective of that we believe that we need still work on this and a lot things have happened, couple of things that we had done in terms of the attrition is to bring some amount of parity of salary, as salary for this year has been brought in line with the salary that we think is what the market kind of salaries are. We also realize that a lot of people leave us in the first two years of joining us. We have put in very strict input control as we call it to see that we get the right people and who are the right fits and who are looking for the kind of work that we do. Attrition again is also related to what we term as relationship between the managers and the people working with us. We are trying to see that the managers are trained on relationship management, so that process is also going on. So that is how we plan to bring this attrition down.

Rishi Maheshwari

I am sorry sir, but your voice broke a little on the salary front, can you please repeat that how much did you say was the salary. How much did you say how you are going to improve up on your salary front?

Rajiv Mody

Let Neeta answer that.

Neeta Revankar

Yeah, I will take that question. See actually increased salary for 1/3rd of our organization in January and for remaining the 2/3rd the salary increase is done in April. The average salary increase was about 15%.

Rishi Maheshwari

So do we say that it is already the wage increase has already been into place in this quarter results?

Neeta Revankar

That's correct.

Rishi Maheshwari

Okay and the next question was ma'am that there has been high very high reliance on the top 10 clients and it clearly seems that almost 6/7th of your business revenues comes from the top 10 clients. Do we get to see a little diversification in that regard?

Prabhas Kumar

I will take this question, this is Prabhas. Typically our services strategy clearly is to focus on tier 1 customers in the identified market segments and if you really map the market you will see that you know there is further consolidation taking place in the markets, and what used to be top 10 players dominating each one of the segment is actually now reducing to top 5 players dominating the industry. So we believe that our tier 1 focus is absolutely in line with that and you know the dependence high reliability on top 10 customers as long as they are part of the dominating players will continue to be you know behind our strategy and it is absolutely by design.

Rishi Maheshwari

Right, besides which again speaking a little more on the client side, your geographical distribution in terms of the client concentration is fairly evenly managed, now is that also a focus or because a lot of other companies have very large presence in America, whereas you have actually higher presence in Europe, if I am not mistaken please rectify me, but as I see from the results it is a very high presence in Europe, is that also because of some design or is that because a lot of client calls come from Europe?

Prabhas Kumar

It is absolutely by design, again if you scan the market you will see that in the communication world outside of the semiconductor play if you look at the handset and network OEMs the European vendors are actually dominating, and it is actually a good sign to have a good percentage of revenues coming in from European customers. Having said that, the North American a lot of our India revenues that you see they actually also come from American companies India centers or in some sense you know a good part of Indian revenues they are also part you know North American head quartered companies.

Rishi Maheshwari

Right. Can I just come back to the salary front and ask you if how much percentage increase are you planning upon the salaries for the current existing employees, in what band?

Neeta Revankar

See, we have already given a salary increase in April.

Rishi Maheshwari

Right, yeah when you come out with a guidance if you are looking at Q4 2006-2007, what will be your percentage increase over there?

Hari Iyer

Let me take this question, I am Hari Iyer again.

Rishi Maheshwari

All right.

Hari Iyer

See, it is not correct for us to tell you what kind of an increase would be, because our increases are when we do a survey of the market and find what kind of salaries exist, based on that is how we decide what kind of increases to give.

Rishi Maheshwari

So, in that case can I be known about what was the increase in April?

Neeta Revankar

16% is the average increase that was given in April.

Rishi Maheshwari

All right, thank you so much ma'am that sums up all. Thank you and all the best for the future.

Moderator

Thank you Mr. Rishi. Next we have Mr. Sandeep from PCS Securities. Over to you sir.

Sandeep

Yeah, congratulations on a good set of numbers. Can you just tell me the development on network engineering space and does it impact growing share of India's business and going forward what would be the share of India business as such?

Prabhas Kumar

Okay, this is Prabhas again. Network engineering services as we said what we call non R&D business for our network OEM customers, and when we started this business our first 6 to 8 quarters focus was going to be in the Indian market as Indian market was seeing pretty good role out of new equipment as you know Indian mobile market is booming as we speak. So, we have done that successfully and good part of our Indian revenues are indeed a part of the network engineering services and the other part being North American customers India centers outsourcing to us the R&D work. Going forward, our next step on network engineering services would be to take it international, and we are now working on a plan where network engineering services as we speak are being rolled out internationally in fact we already have our first customer outside India, and in fact the portfolio for network engineering services in terms of geographic spread will shift in favor of out locations and not so much in India.

Sandeep

So the India share would actually decrease?

Prabhas Kumar

For the network engineering services.

Sandeep

Okay. My next question is like given the fact that one of our competitor is acquired on products side by a company like Motorola, what are the issues like the competition issue because the scale advantage should obviously there and considering the fact that the products are phasing out of investing phase from next year what would be the issues like we are going to address in the space?

G Venkatesh

This is Venkatesh, I will take that question. Our competition, TTPCom was acquired by Motorola, so we see that in two ways; one is basically that Motorola acquired TTPCom for a product which compares with our integrated solutions product, and therefore to an extent access to Motorola for our integrated solutions might be limited because of the acquisition, but by and large because of this acquisition the market or the remaining customers is opened up for us. So net-net if you look at it, this is the positive for us. On the second one we are on track in terms of our product milestones, which is about creating phones which will be shipping from November 2006 onwards and to 2007, we are in track in terms of deriving these phones and they are all on track.

Sandeep

My next question is like given the fact like we make expect a slow down in semiconductor industry, are we looking for something to change in the composition and addressing say one more top out from the three segments which we offer. Are we looking for some ways like offering solution on a space?

Rajiv Mody

I will take this question. Your question in terms of slow down in the semiconductor segment may be probably relevant in the computing space, however, in the communication space particularly the mobile handset space we do not see any slow down at all, as a matter of fact the number of handsets being launched into the market just continues to grow and there are challenges for each semiconductor vendor to bring out the solutions which meets either price points at which consumers are willing to pay for all the features that are normally available today in the high end phones. So, overall we do not see honestly a slow down in this, as a matter of fact we see the demand continuing and the challenges continuing in spite of possibly consolidations happening, and that is a sweet spot for us overall in the whole scheme of things of our business.

Sandeep

Okay. My last question is like any comments on the tax rate being low this quarter and what would be the tax rate for the entire year?

Neeta Revankar

See, the tax actually depends upon three things in our company as I have shared before; on the amount of the taxes that we pay on our products business, the taxes that we pay on the onsite business, and the taxes on India business. For the quarter, taxes would have been in the range of about 1.6% for our services business, the reason why it appears as a very small number compared to the previous quarter is because we had a tax refund actually repeat during the quarter.

Sandeep

Okay, so the tax rate for the interim would be as given in the last week guidance?

Neeta Revankar

Yeah, that should be in that range presuming that the mix between these three businesses continues the same that should be in that way.

Sandeep

Okay. That is all from me. Thank you very much.

Moderator

Thank you Mr. Sandeep. Next we have Mr. Ruchir Desai from Pioneer. Over to you sir.

Ruchir Desai

Hi, good morning. Sir, first question on the services side, the growth in the services is quite good so this growth came from the network equipment manufacture, semiconductors, and handsets; basically I want know in future where you expect growth coming from, do you see growth coming from semiconductors vendors also, because at present if I am not mistaken your growth is coming from the network equipment manufactures?

Rajiv Mody

So, let me correct that actually. If you look at our revenue mix in services business, around 50 to 55% revenues comes from network OEM, around 30% come from semiconductor vendors, and about 10 to 12% comes from handset vendors. That is also more to do with the fact that you know in terms of age our network OEM part of our business is oldest, we have been focused on that right from day one. Semiconductor business has been about 7 year old business, whereas handset business for services has been only a 3-year-old business, okay. Now, the growth in this quarter vis-à-vis last quarter as well as same quarter previous year has been strong in all the three segments, and we continue to see that the handset devices segment the growth is slightly higher but that is more to do with the fact that the scale is lower there.

Ruchir Desai

Right so going forward you expect growth in all three segments or I mean.

Rajiv Mody

Yes. We absolutely expect growth in all three segments.

Ruchir Desai

Okay, next question is on the margins front the margins have been really shot off to around 14%, they have been quite high as compared to the previous quarters, so what is the sustainable margin which you can give me the outlook, what margins are sustainable going forward in say the next 1 year?

Neeta Revankar

You are talking about EBITDA?

Ruchir Desai

Yeah, EBITDA margins.

Neeta Revankar

Yeah, so we actually like to split this into two and what we do talk about is the EBIDTA from the services business itself. So EBIDTA from the services business, we have said that we can sustain it in the range 20 to 23% and that remains.

Ruchir Desai

All right. Coming on the products front what is your outlook on the product revenue space? If you see the previous quarter it has been fluctuating on and off, obviously revenues from royalty have increased this quarter, but on the whole what is your outlook on the products revenue front what is your outlook I mean how much of it will contribute to total revenue say in FY07?

Rajiv Mody

We are not giving any guidance for the future, but by and large the revenues from product licensing will continue to remain sloppy through the quarters of this financial year, primarily because it is licensing based and it is based on milestone, as we have milestone we may get revenues, we do not have milestones the revenues may come down, but as we start the royalty component to kick in which is happening primarily from the last quarter of this financial year and going into the calendar 2007, that is when we are likely to see the revenues being stable.

Ruchir Desai

So you are saying that by FY07 you will see more revenue from royalty?

Rajiv Mody

The next financial year that is calendar year FY07 which is FY07-08 is when you likely to see royalty revenues ramp-up.

Ruchir Desai

Okay, in 2008 you will see better revenues from royalty?

Rajiv Mody

That is right.

Ruchir Desai

Also some capitalized cost, some cost you have capitalized on product development around 20 crores, when will that product hit the market, I mean I think if I am not mistake I think 18 months down the line or?

Rajiv Mody

No, no the product is hitting the market in the first quarter of calendar year 2007, and basically we will see that product hitting the market and then we will start seeing royalties on that product start shortly from there.

Ruchir Desai

First quarter of calendar year 2008 or 2007?

Rajiv Mody

2007 calendar.

Ruchir Desai

So that is this quarter 2006-2007.

Rajiv Mody

2007, calendar year.

Ruchir Desai

2007-2008 okay.

Rajiv Mody

That will be the last quarter of this financial year.

Ruchir Desai

Correct, so you could see more revenues from that product coming in by FY08, so products revenue should improve by FY08.

Rajiv Mody

That is right.

Ruchir Desai

One more thing on the product front itself, you had I think in the prospective you had mentioned that you have royalty engagements with 5 customers at present. What would be the number right now from if you can give the number?

G Venkatesh

We have a number of phones that are being designed, there are currently 8 phones that are being designed as of date with Sasken IP in it, and they are all going to ship starting from November 2006 and going into 2007.

Ruchir Desai

Okay so I think you mentioned in the press release that some phones will start to get shipped in November '06 containing Sasken IP, so that will be which part of these I mean V-series or M-series?

G Venkatesh

It is application solutions actually, I mean it is shipping already, but there will be further versions of that which will be shipping in November 2006.

Ruchir Desai

All right. The S-series, okay. Just one more question this S-series, M-series, and E-series is it major combination application solutions, protocol stacks, and your multimedia codex or they are separate part, seeing all together?

G Venkatesh

See if you look at S-series it is primarily multimedia sub systems, which means that it is a smart phone, they stand for smart phone, and basically if multimedia sub systems that go on and operating system like Linux or Microsoft, and it has got holes that have an application processor. E-series will also carry multimedia components in it, but its integrated solutions that integrates multimedia sub system, integrates several subsystems in FAT of the phone along with these protocol stags, and the M-series is just protocol.

Ruchir Desai

All right. Coming to your semiconductor partnerships I think that is quite important for you going forward as you mentioned, so how many semiconductor partnership do you have at present, because that depends on your... that would be I mean your revenues from products would be dependent on semiconductor partnerships, so if you can give some light on that?

G Venkatesh

We have five active partnerships, but I think for the purpose of royalty calculations there will be three significant partnerships for next year that we have, building our volume projection of.

Ruchir Desai

Okay another question, you have mentioned I mean in your presentation on your product milestone, target, and status, when does revenue starts flowing in, when does revenue start coming for the company, is it from the number of phone design wins or is it from number of platform design ins as of date, I mean when does the revenue start coming in?

G Venkatesh

The key revenue number that we have to track really royalty numbers that will start coming when the phones starts shipping, and that is basically is from November 2006 onwards.

Ruchir Desai

No sir, when does the phone start shipping, is it when your phone gets design win, is it that when?

G Venkatesh

Design wins, yeah, design win means phone start shipping.

Ruchir Desai

So that is two at the moment you have for the S-series?

G Venkatesh

That is correct.

Ruchir Desai

And the contestable market is 54 million units, so obviously there are other players in it, so much I mean I don't know may be if you keep a number to it, how much of it would you want to get?

G Venkatesh

I cannot disclose that at the moment, see we keep presenting you market picture as we start shipping phone.

Ruchir Desai

Okay fine, thanks a lot.

Moderator

Thank you sir. Next we have Mr. Taneja from Doulat Capital. Over to you sir.

Taneja

Thank you. My question has already been answered before.

Moderator

Thank you sir. Next we have Mr. Ben Mathias from NEA. Over to you sir.

Ben Mathias

Hello Rajiv, congratulations on a great quarter. Can you briefly comment on the specific revenues and EBIDTA for the product business in the quarter?

Rajiv Mody

Yeah, I think Neeta will be able answer that question.

Neeta Revankar

Yeah, so Ben on revenues GV has already covered that there are royalty revenues which have gone up during the quarter and one sub licensing revenue from the M-series, okay that is largely the revenue that we have got during the quarter. In terms of the expenses, expenses are more or less fixed for the product business quarter-on-quarter, okay, so the EBIDTA really varies depending upon the revenues that we book, and for the quarter that has just gone by our expensive from the product business where \$2.9 million US.

Rajiv Mody

Did she answer your question Ben?

Ben Mathias

Yeah I think I probably missed the part on the specific revenues or the revenues as the percentage of the total revenues Rajiv, the product revenues as percentage of the total revenues?

Rajiv Mody

See the product may constitute about 4% of our total revenues for the quarter.

Ben Mathias

Okay great that is what I needed to know. Thank you Rajiv and Neeta.

Rajiv Mody

Thank you.

Moderator

Thank you Mr. Mathias. Next we have Mr. Shekar Singh from ICICI Securities. Over to you sir.

Shekar Singh

Hello sir and congratulations on good set of numbers. I just wanted to understand like there had been a sharp increase in the India revenues, so in Q1 we have around 28% revenues coming from India as compared to 22% in Q4 FY06. Now, if you look at the incremental revenues which have been added close to 65% of the incremental revenues have actually commenced just because of the increase in the India portion of business, now does that have any impact on the margins or some other portion of business?

Prabhas Kumar

Yeah this is Prabhas here, actually answer is no, most of our incremental revenues in India have come from the R&D labs of our multinational customers, and you know the EBIDTA margins from those business are pretty much in line with the margins overseas.

Shekar Singh

Okay, so the booking for such R&D labs based out of India will that be in dollar terms or will it be in rupee terms?

Neeta Revankar

The revenue is in dollar terms.

Shekar Singh

In dollar terms okay.

Neeta Revankar

That is correct.

Shekar Singh

Okay, so basically it is just the classification where you sat that since it is coming out of India therefore you have taken it as an Indian.

Neeta Revankar

Yeah we get a purchase order from India and we pay taxes on that in India.

Shekar Singh

Okay, so this will be like taxable in India.

Neeta Revankar

That is correct.

Shekar Singh

Thanks a lot ma'am.

Moderator

Thank you sir. Next in line we have Mr. Hitesh Zaveri from Edelweiss Capital. Over to you sir.

Hitesh Zaveri

Yeah hi, congratulations to the management team on good set of numbers. My question is with regards to the center that you have established in Mexico and that has started contributing. What kind of numbers do you expect from this center and whether it will be profitable in the current year itself?

Prabhas Kumar

Mexico, as we speak, we have around 35 engineers ramped up there and over the next 2 months they are going to take it to about 65. At the moment that is what the ramp up plan for Mexico is and as we have seen it has started contributing to our revenues in the quarter that just got over. In terms of when going forward when does it become profitable, we expect it to come near breakeven in the current quarter, and on an yearly basis this year we expected it to be profitable.

Hitesh Zaveri

Thanks for that. What is the potential in the Test Lab offerings that you have, what kind of customers do you deal with, if you could throw some color also about the revenues and the profitability here?

Prabhas Kumar

Okay, Test Lab is slightly a different business from the rest of services business that we have first of all, it is highly you know it is more CAPEX oriented rather than head count oriented, so that is one key difference, and you know the real class A cost items that are there is the depreciation on the equipment and not so much on the employment expenses. So having said that the offerings let me just say what we have done so far we have launched what is called a pre conformance 2G, 2.5G protocol stack testing, which is basically when the platform vendors which have generally the silicon players want to build a platform before they take it for conformance, which is done by accredited bodies, they have to take it through what is called a pre conformance, and that is what we are offering through this lab at this point of time. We do have a certain road map to add more offerings as part of the Test Lab in future, but of course that is something that we will be able to disclose as and when we launch more offerings. For the pre conformance offerings that we have already launched our primary target market is semiconductor customers, and at the moment we have one customer and we have three more in the pipeline. From a profitability perspective if you look at the EBIDTA and ROCE numbers, ROCE number is more or less in line with rest of the business and EBIDTA numbers will be slightly higher once it get to steady state.

Hitesh Zaveri

Well, I appreciate it. Could also throw some light on the pricing increase that you have received in this quarter and the remaining three quarter from the services business what kind of price increase are you going to be receiving from your, especially within your top 5 and top 10 customers?

Prabhas Kumar

Right, so let me take it in two parts first of all we have seen a pricing increase of about 1.2% compared to the previous quarter, and that is at a blended level. The offshore pricing increase has been slightly more than that and onsite price increase has been slightly less than that. So that has been the pricing trend over the previous quarter. We have said this before that going forward we have seen pricing stabilize and we are seeing marginal improvement in pricing as we go forward and it is okay to expect low single digit price increase year-on-year.

Hitesh Zaveri

Fine, but do you know Prabhas, it would make lot of difference if the price increases say 2% versus 5% and versus 7%, so if you could narrow down the range little bit more that would be helpful.

Prabhas Kumar

You know let me put it in other way, most of the pricing increases take place in Q4 and Q1, and if you remember Q4 we had a price increase of about 1.5% again in offshore business, and a similar price increase has taken place between Q4 and Q1. Rest of the year price increase will be much lower than this, so that if you just add up you can get the yearly number.

Hitesh Zaveri

Sure. I will have some couple of more questions, may be I will await my term one more time. Thank you so much.

Moderator

Thank you Mr. Zaveri. Next we have Mr. Dipen Mehta from Dipen Mehta Share and Stock Brokers. Over to you sir.

Dipen Mehta

Yes congratulations sir on excellent set of numbers. I just observed that you have add one more page, that is page #15, in the presentation which has been sent to analyst, and my question raised to that particular page where you have mentioned the product management targets and status, and I just wanted to understand that the first design in and first design when what exactly do they mean, If it is the what you have developed and then what has been confirmed by the client? Also you know from there on if you could explain each of the milestones, what exactly do they mean, because as I understand this kind of represents the flow chart from ideations to actual revenues as far as product business is concerned.

G Venkatesh

Okay this is Venkatesh again. Design in represents basically the point at which we sign up a phone customer, that means the phone platform is beginning to get designed, so if you look at the steps, we first by identifying a lead semiconductor as a partner for our product, once a lead semiconductor partner is identified then we demonstrate our product on the lead semiconductor partner chip set, and then based on the demonstration and the performance of our product the phone customer gets interested and then they sign up, and depending on the business model for different products we have different business model, depending on the business model the customer either signs up with the semiconductor partner or signs up with us directly, and that is when we say that we have reached a design win. We say that we have hit design win when the phone starts shipping, which is when actually our revenues start accruing in terms of royalty. So when we say that we have three design in platform design ins on 2.5G M-series, we are saying basically that there are three phones currently being designed, three phones platform that are currently being designed, and a number of models will be spun out of it with our 2.5G protocol stack, and similarly there are two phone platforms that are being designed with our 3G protocol stack in it, and there are three phone platforms that are being designed with our multimedia applications in it, of which you know two are already shipping currently, two phones models are shipping out of these platform.

Dipen Mehta

Okay and therefore the customer is coming in at third level, that is for design in itself you have the customer in place, and is that the major bottleneck or is that the major hump which you need to get over and thereafter it is just a kind of a you know all the way down in terms of actual dispatch, which is the most tougher aspect of this particular flow chart?

G Venkatesh

Yes, so the key milestone is design in, that you rightly pointed out, I mean design in is a very critical milestone because that is when you have signed up a phone customer, and from there onwards the uncertainty happens in terms of the development time lines, because phone development can shift by one quarter many times it does shift by one or two quarter, so you can have development time line shift and by and large once the phone platform hits the market the model that are created from it, some models may succeed and some may fail, but by and large those phone platforms succeed, so the critical milestone is the design in.

Dipen Mehta

The phone design in, that is the critical milestone, right, also from to the actual revenues will also depend upon your capability, because end of the day it is you just demonstrated in a Test Lab that this is what can be done and supposing that the phone does not deliver in terms of the requirement or the specifications, then at any point of time in the next four or next three steps this line can back off?

G Venkatesh

No the customer by and large the phone customers do not buy our products unless the product has met all their technical feasibility milestone, so that is the reason why you do a product demo to them where you actually demonstrating the performance of your product and they check all the component performance measures before they decide to pick your product for their platform, so by and large the technical issues are usually resolved, the development time line shifts are more in terms of integration and takes the time, that is that you have to integrate it on to their own platform and you have to test it, and testing can be a cycle in this phase that can shift their time lines by about a quarter many times.

Dipen Mehta

Just to take the thing forward when you say for design in for there is a astrix and then for three you have the quarter, that means for the E-series you are still hunting for the customer or that customer also is in for the E-series as well?

G Venkatesh

E-series as you know E-series is the product that we launched in February 2006, and that product basically we have been demonstrating it to customer, there is a pipeline that we have, it is a reasonably healthy pipeline, we expect to conclude customer during the next few months, that is this quarter or the next quarter.

Dipen Mehta

Just one last question on this, so when you see that first design in is there for three models, does it mean that it may mean that there is more than one phone manufacturer involved in each of these particular series and if you could even highlight or disclose whether all the three are different phone manufacturers or is it single manufacturers?

G Venkatesh

They are different manufactures, by and large the phone manufacturer would have a two platform, and in this case all the three platforms are from three phone manufacturers.

Dipen Mehta

Okay and going forward therefore as it becomes clearer that this particular metrics will just keep on getting expanded if you have the E-series in Q1, then may be Q1 FY07 there will be something more, and something more so on and so forth, is that the lifeline or the road map for this business that really because your four columns in three or four year would go to 30-40 columns or 10-15 columns like that?

G Venkatesh

We will keep updating the numbers on this chart, if you look at the green shaded boxes there, it reflects the places where things have changed, in the last quarter we added one significant phone customer, we have one phone customer for our 3D M-series, and we added one significant, that is another tier 1 phone customer for our 3D S-series and that is why those boxes are shown as green, which means that they have added one. It went from one to two, and it went from two to three, so we will keep reflecting the new numbers as we go forward every quarter on this chart.

Dipen Mehta

Another question relates to the actual loss on the product business. If you could just clarify that how much was the withholding tax on the product in this particular quarter, as I recollect it was 3 crores for FY06 full year, for the Q4 what are the withholding tax please?

Neeta Revankar

Yeah, the withholding tax for this quarter was Rs. 2.3 million.

Dipen Mehta

That is 23 lakhs?

Neeta Revankar

That is correct.

Dipen Mehta

Okay and also may this had been covered earlier, but the reasons for the low tax provision which has been made because it is 23 lakhs is the withholding tax then I think 86 lakhs will be total provision which has been made for tax, sorry, 4.96 that is 49 lakhs is the tax provision of Q1, and I think that 23 lakhs should be included in 49 lakhs, so the reason for such a low tax provision in the first quarter?

Neeta Revankar

Yeah this was covered earlier, but I will quickly take you through that. We did receive a refund of taxes during this quarter, and that is the reason why you see this lesser percentage for taxes in our P&L.

Dipen Mehta

So how much was the refund therefore if you could compute the actual tax?

Neeta Revankar

The actual tax would be 1.6%.

Dipen Mehta

1.6% of the revenue.

Neeta Revankar

That is correct. The refund was Rs. 12 million.

Dipen Mehta

Okay. Thank you very much and all the best.

Neeta Revankar

Thank you.

Moderator

Thank you Mr. Mehta. Next is a follow-up from Mr. Ruchir Desai of Pioneer. Over to you sir.

Ruchir Desai

Yeah, hi. I just have a question on the human resources front. What is your target that you have for the next year, I mean how many people do you want to hire in the following year in this year I mean?

Hari Iyer

We are looking at about 700 to 750 people to be added across the year.

Ruchir Desai

In the next 3 quarters?

Hari Iyer

Across the year.

Ruchir Desai

Yeah all right, and this would be more on the fresher side or more on the say two to four year experience or middle management side?

Hari Iyer

This would be more on the two to four experience, along with the freshers also.

Ruchir Desai

Correct. Also if you can give the figure on the salary offered to the freshers who joined in this year say in FY06 and FY07?

Hari Iyer

The salary that we offered to the freshers who has joined in this year that it was recruitment last year from the campus, 2.25 Lakh for a person who has done his B. Tech and 2.5 for people who have done their M. Tech.

Ruchir Desai

And what will be the figure for next year?

Hari Iyer

2.75 Lakh is what we are offering in the campus for our B. Tech, and 3 Lakh is what we are offering for an M. Tech.

Ruchir Desai

All right, just one more question on the products front, you also have some offerings in the ADSL and DSL space, are you focusing on that any more or you are just going to focus on the mobile phone side now?

G Venkatesh

It is going to be primarily focused on the mobile phones.

Ruchir Desai

So what portion, I mean does it contribute to revenues at the moment or just wait very miniscule?

G Venkatesh

It is very marginal.

Ruchir Desai

Very marginal at the moment, all right fine and thank you.

Moderator

Thank you Mr. Desai. Participants who wish to ask questions may please press *1 now. Next we have Mr. Anurag Jain from Kotak Mutual Fund. Over to you sir.

Anurag Jain

Congratulations on a good quarter.

Rajiv Mody

Thank you.

Anurag Jain

I just wanted to know couple of things. Our R&D spend if I look at YOY has come down from 6.1% to 3.2% of sales, is that sufficient, has there been a conscious decision, what is happening there?

Neeta Revankar

See we have got to look at the investments that Sasken is making by looking at two lines, one in the P&L and one in the balance sheet, okay, so if you add the R&D and the capitalized expenses, then that is the total.

Anurag Jain

Okay so a part of it has been capitalized.

Neeta Revankar

That is correct. This is something that we started investing in this product first quarter of last financial year and since then we have been steadily capitalizing expenses on a particular product line.

Anurag Jain

Next question on addition of 11 new customers this quarter, what is the potential there, which segment they are in, are they big IT spenders, how do we see them contributing going forward?

Prabhas Kumar

Okay I will take that. A majority of these 11 customer additions have come through our acquisition of iSoftTech in Chennai, and so that is what has happened actually and apart from a couple of customers most other customers are non tier 1 player, so from that perspective the growth will really continue to come from our tier 1 customers and the idea here is to be able to leverage the same customers for the Chennai acquisitions.

Anurag Jain

Any employee additions this quarter from the acquisition?

Prabhas Kumar

Yes we have added 111 people through Chennai acquisition.

Anurag Jain

So this 322 includes that 111?

Prabhas Kumar

That is correct.

Anurag Jain

Okay on the product front, there has been this TI has setup a center in Chennai for this low cost kind of platform, what exactly is it how does it affect us, if at all?

G Venkatesh

It does not affect us in anyway actually.

Anurag Jain

It does not?

G Venkatesh

No.

Anurag Jain

But could it lead to any higher attrition or people joining the center or something?

G Venkatesh

Not really, I think our focus remains to be complimentary like what they are doing.

Anurag Jain

Okay. I guess that is all. Thanks a lot and all the best.

G Venkatesh

Thank you.

Moderator

Thank you Mr. Jain. Next in line we have Mr. Suresh from SSKI. Over to you sir.

Moderator

Mr. Suresh are you there?

Suresh

Hello.

Moderator

Yes sir, go ahead with your question.

Suresh

Yeah congratulations on your good set of numbers.

Rajiv Mody

Thank you.

Suresh

Sir in this telecom services business because of the global consolidation do you see any uncertainty in spending in the near term because of the integration related issues?

Prabhas Kumar

Not really, because we are watching the consolidation very, very closely and I guess at the moment you are talking about what is happening between Lucent Alcatel and what is happening between Nokia and Siemens. The exercise that we kick off as we see signs of this consolidation is actually start mapping the product lines of these customers and try to take our view, then validated it with the customers also as to how the product consolidation will take place, and depending on how the consolidation takes place certain products get into sustain only mode and certain products continue with new with design and sustain mode, and then we map that back to our engagement with these customers and the product line and our current view is that short to medium term there is absolutely no impact, in fact there are opportunities because in both the situations we used to work with one customer and not the other, but we were working with the stronger product lines and hence you know through this consolidation process we actually end up entering the second customer.

Suresh

Okay and sir what is your network engineering services revenue for the quarter?

Prabhas Kumar

It is around 1.6 million dollars.

Neeta Revankar

In rupee terms Rs. 73.8 million..

Suresh

.... the gains in this top line growth.

Prabhas Kumar

Sorry, say that again.

Suresh

Impact of any currency gains on the top line growth?

Neeta Revankar

Absolutely, the currency has moved 3.7% is the impact on the top line.

Suresh

Okay and in the product business - royalties, you said that in the last quarter there was 98 million of royalty because of a customer for 2 months, so for the same customer the royalty has come in for the 3 months in this Q4?

G Venkatesh

That is right.

Suresh

That is right, so any addition or deletion to that customers in that list or?

G Venkatesh

No the same, there is only customer which is taking phones right now.

Suresh

Okay, okay, thank you very much sir.

Moderator

Thank you Mr. Suresh. Next is a follow up question from Mr. Dipen Mehta of Dipen Mehta Share and Stock Brokers. Over to you sir.

Dipen Mehta

Yeah I know that the management does not give a guidance but in the past I have asked this question and I want to know again that the losses in the products business are clearly I mean the impact in the bottom line big time, so at what point of time do you expect in which quarter that the product business will start breaking even? Earlier I think I may be wrong you have suggested last quarter of the current fiscal that is March 2007, if you could throw some more highlights or some more explanation on that count please?

G Venkatesh

Yes we actually stay with that, that in the fourth quarter of the current financial year our products business should break even.

Dipen Mehta

Okay, so that means for the full year you would still have a loss in the product business, but from Q4 onwards it is a break even and then hopefully from Q1 FY08 it should start contributing positively?

G Venkatesh

That is correct.

Dipen Mehta

Okay and also again in the services business this quarter has been quite good. Do you feel confident that you have reached a stage where there is element of stability in the services or business in terms of top line and bottom line, at least in the nature of long term contracts or order books in place and that going forward we can expect you know these to be a stable cash flow for the company and little less volatility in that business and more or less in line with what other service companies such as you are all doing, is that good enough, perhaps just an explanation on that.

Prabhas Kumar

Yes absolutely, I mean if we just share with you over the last 16 quarters we have had if I look at CQGR sequentially over last 16 quarters, services business has grown at 14% over last 16 quarters and year-on-year about 60% over 3 years, so it is becoming more and more stable and you know we pretty much believe that we are in a stage where it is highly predictable and you know variations are very, very marginal.

Dipen Mehta

And just to the number of amount capitalized towards product development as on 30th June 2006?

Neeta Revankar

During the quarter we added 6 crores to that, so the amount of here in the balance for 30th June is 20 crores, Rs. 203 million.

Dipen Mehta

Thank you very much.

Moderator

Thank you Mr. Mehta. Participants who wish to ask questions may please press *1 now. Next is a follow-up question from Mr. Anurag Jain of Kotak Mutual Fund. Over to you sir.

Anurag Jain

Yeah Anurag again. This question is probably to Prabhas; any changes in the relationship with tier 1 customers, in the sense any upgrades as can be seen in slide 13, any upgrades or any movement of the customers up or expected in next few quarters?

Prabhas Kumar

Are you talking about whether any customer has moved from any particular phase to another phase?

Anurag Jain

Yeah, yeah.

Prabhas Kumar

So in last quarter we did not see any movement of any phase transitions, and in terms of additions also we did not have one, in fact as we have shared before we are pretty much done with entry strategies on the three market segments, which are semiconductor, handsets, and network OEMs, and there are couple of costumers more that we want to enter but bearing that we pretty much have all the costumers and the focus is really on transitioning them to a higher side. The last quarter there was no phase transition; however, revenues as you can see in the results have gone up from all the tier 1 costumers.

Anurag Jain

So going forward next 2 or 3 quarters can we expect some of the new customers that might have come in over the previous quarters, you know, ramping up or?

Prabhas Kumar

Yes, as we speak there is good traction with at least three to five out of these 18 customers that we have and some of them will end up making phase transitions in quarters to come. I cannot say anything about a particular quarter, but in the next few quarters.

Anurag Jain

Okay and one question on this exercise of profiling the experience required for activities, any progress there, what is happening?

Prabhas Kumar

Yes, in fact, when we started the financial year as you know our average experience was about 4.3 years and as the month passed by the existing people get more experience by 1 month, but then we have just added freshers in this month, so net-net at the moment we have pretty much have the same snapshot of 4.3 years of average experience. The tech-profiling exercise that I have talked about before is aimed at making sure that we have our pyramids being managed optimally at all times, which means that we must be able to deliver on time with quality with the right kind of productivity. Now that exercise has had some early results and it will be too early for me to you know make any definitive statement in terms of whether the average experience will come down, but if it does come down even lets say by 3 months or 4 months that does lead to 2 to 3% margin improvement, but it is too early to say you know whether it indeed can come down from 4.3 to 4.0 or 3.9.

Anurag Jain

Okay, thanks a lot.

Prabhas Kumar

Signals are positive.

Anurag Jain

Okay thanks a lot.

Moderator

Thank you Mr. Jain. Next is a follow-up from Mr. Hitesh Zaveri of Edelweiss Capital. Over to you sir.

Hitesh Zaveri

Yeah hi, a question for the management team. Are you also looking at expanding your service areas, which probably could be outside of the telecom space but at the same time applying the capability that the company has, let us say in the area of say consumer electronics or some aspects of embedded services, which could be relevant to you know the capability that you have built?

Prabhas Kumar

Yeah, as far as the consumer market goes indeed we have started working with the customers who play in consumer electronic segment too, particularly in the semiconductor market segment. As you would see a lot of our semiconductor customers while they have maximum presence in communication they have a good amount of presence in consumer too, and with the convergence taking place it absolutely makes sense to focus on that, particularly when the skills are highly portable. So in fact if you look at our semiconductor revenues the share of that revenue from consumer devices than with semiconductor business has actually increased, and we already have that.

Hitesh Zaveri

Actually you know just to take this further, you know, if you look at market away from handset and even at the PDAs etc., and the whole varieties of those there, there is many things that Sasken does, either in services or products that could be very much addressable to this market and by that I mean you know whether a sizable number could be achieved by pursuing this?

Rajiv Mody

Yeah let me try to answer this question. The focus continues to remain in the communication market and convergence is a significant driver for all the different ways in which we communicate, so be it mobile, be it PDAs, and also devices that sit inside homes, which have broadband connections connected to it delivering all kinds of content on it, so that is the space, which is a sweet spot for us and we will continue to focus on that because that is where our capabilities are highly respected and regarded, and we will focus and we will kind of enter those spaces. We may not want to go into consumer spaces, which are not in anyway relevant to us where we do not have a significant play; take for example, if cameras start having any communication devices into them, which allows somebody to kind of take pictures and transport them using the wireless communication channels, we indeed will have a play in that, but we may not want to kind of get into any cameras or any of those things, which have no such requirement today.

Hitesh Zaveri

Sure, so you know Rajiv, at the same time if you take the spaces that you just described, the evolutions in this space have been on for quite sometime, if I take lesser to 4 years, with respect to that how many costumers would you have, what is the costumer mapping would you look at for approaching and whether it will be service led approach or a product led approach here?

Rajiv Mody

See I think those businesses will take based on time to market requirements, for example, if there is a costumer out over there who already has some of these building blocks and they want services around it, then we will definitely position our services business with them; however, if they do not have anything which they can use as a building block and we can provide that as a building block then we will provide them with our products and bundle with our services activity, so it is a combination based on these requirement of the end costumers that will determine a lot of it.

Hitesh Zaveri

Sure. Do you have any word on M&As now. How is the space for you, whether you would be particularly actively scanning for any fit either on service or the product side?

Rajiv Mody

M&A is a continuous activity within the company, I mean we keep scanning for companies that would add:

1. Either capabilities that we may not have.
2. Certain customer engagements, tier 1 particularly, which can scale up our relationships with them, and our combination of the above.

We continuously scan that environment and as you know nothing is done unless there is a sign because there is always a split between the cup and the lip. So at an appropriate time when absolutely things are final, we will definitely come to you.

Hitesh Zaveri

Sure, I appreciate. Thank you so much and best of luck.

Rajiv Mody

Thank you.

Moderator

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

Rajiv Mody

I take this opportunity to thank you for joining in on the call. Yes indeed it was a very satisfying quarter and we continue to work towards growing our business in the segments that we operate in and create a differentiated story, which benefits our customers as well as our shareholders, and we are focused on to that using both our services and our products model. You know services, like Prabhas was explaining, has reached a critical size and critical stability, and of course products continue to be in investment mode and expected to be there at least for the next few quarters, but we are seeing very good traction in the market and we see that we will be able to deliver on the promises that we have made to you. So with this I would like to thank you all and look forward to meeting with you again at the end of this quarter. Thank you.

Moderator

Thank you sir. 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 and have a nice day.