



“Sasken Q4 FY12 Earnings Conference Call”

April 27, 2012



**MODERATORS: MR. RAJIV MODY- CHAIRMAN & CEO, SASKEN
DR. G VENKATESH – CTO & CSO
MS. NEETA REVANKAR- CFO & GLOBAL HEAD, IT &HR
MR. RAJESH MANIAR – VP, FINANCE**



Sasken Limited
April 27, 2012

**MS. NAGAMANI MURTHY – SVP & HEAD, WORLDWIDE
DELIVERY**

Moderator

Ladies and Gentlemen, Good day and welcome to the Q4 FY 12 earnings on Conference call of Sasken. Before we begin we must point out that certain statements made during the conference call concerning Sasken future growth prospects may be forward looking statements. Please read the Safe Albert Clause in the presentation for the full details.

As a reminder all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this call please signal an operator by pressing * and then 0 on your touch tone telephone. Please note that this Conference is being recorded. I would now like to hand the Conference over to Mr. Rajiv C. Mody – Chairman and CEO, Sasken. Mr. Mody will take you through the financials and the highlights of the quarter followed by Q&A. Thank you and over to you Sir.

Rajiv C. Mody

Thank you Marina. Ladies and Gentlemen, good morning to you all. It is my pleasure to welcome you to the Conference call to discuss the business performance of the Sasken Group for the fourth quarter ended 31st March, 2012.

Before we begin we must point out that certain statements made during the call concerning our future growth prospects are forward looking statements. Please read the Safe Harbor Clause in the second slide of our presentation for full details. I am joined on this call by my colleague, Neeta Revankar, CFO and Global Head, HR, IT and Administration Executive, member of the board of Sasken; Dr. G Venkatesh, CTO, CSO and Executive Director to the board of Sasken; Rajesh Maniar Vice President, Finance; Nagamani Murthy, Senior Vice President and Head of the World Wide delivery.

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

Software products revenues for the quarter was 13.34 crores an increase of 23.1% over the previous quarter. Service EBITDA margins for the quarter was at 15.7%, products EBITDA margins was at 59.4%. For the financial year 2012, the consolidated revenues were 519.96 crores down by 4.8% over fiscal eleven. Earnings before interest, taxes depreciation and amortization charges were 76.5 crores down by 22.7% over the previous financial year.

The consolidated profit after taxes for the FY2012 was 64 crores down 12.7% over the previous financial year. PAT margins for the full year were at 12.3%. For the full year software services, revenues were 474.96 crores down by 2.3% over the previous year and products revenues were 39.49 crores down by 29.6% over the previous financial year. EBITDA margins for the services business was at 13.1%, and for products business it was 42.9% for the full financial year FY2012. Consolidated earnings per se for the fourth quarter was approximately Rs.6.85 and for the full year EPS worked out to be 24.82. Cash-on-cash equivalent was approximately 186 crores as of March 31st, 2012.

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

We are happy to announce a significant increase in our royalty based revenues, we have received from our IT licensing business. As per publicly available information our customer is expected to remain a market leader in TD-SCDMA Silicon solutions. Based on this information we expect our royalty revenues to remain strong in coming quarters. However, as indicated earlier royal receipts are function of quarterly shipments. Our outlook for our semi-conductor business is as follows: The increased proliferation of tablets in smart phone augers well for our semi-conductor practice. We have seen good growth in our engagements, with largest provider of silicon platforms to this segment. We are ramping up our presence in our locations to cater to the increased demand. As indicated earlier we continue to see good traction in providing firmware, middleware solutions, support to several silicon vendor working on smart devices based on windows mobile operating systems. Our association with the largest semi-conductor manufacturer grows as they vigorously increase their market share in the wireless and computing phase. A new ODC is being established to accommodate present and future business prospects we see with this customer. We continue to remain leaders in providing solutions to most of the leading semi-conductor players for the upgrade of the latest android versions like ice cream sandwich on their newer chip set platforms. The demand for our IC design services offering continues to be robust, we are working on set of box solutions for the fast growing players in this space.

Our outlook for our handset business segments is as follows: We are excited to have commenced engagements with the leading Northern American OEM, we are working on their smart phone development program based on fourth generation technologies silicon platform. This opportunity has tremendous scope for scaling up. Our traditional engagement in development and support of feature phone currently looks to be stable, through the current calendar year. We are seeing an

increase in hardware engagements from one of our key customers. Our work with semi-conductor vendors on the android platform has resulted in growth opportunities for us with the leading handset OEMs that we are currently engaged with. Based on the projects we have executed in providing a variety of solutions to both silicon and handset OEMs for porting and supporting the evolution of android mobile operating system, we believe that we hold leadership position in this space, this is borne out of the new projects that we continue to win from both semi-conductors and handset market leaders.

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

Building on our leadership in and networks offerings and keeping with recent trends we have become a member of the network alliance, network intelligence alliance, a forum for collaboration amongst technology providers, for solutions secured data and transit and ensure efficient data delivery, monetized data transactions or real time, or tract real-time information. Being a part of this forum gives Sasken the ability to explore business with service providers the network equipment vendors. In the recently concluded mobile world conference in 2012 at Barcelona we demonstrated our abilities to provide network intelligence solutions and services. We are providing support and enhancements in satellite phone, we had built for our customer, and we continue to pursue new business, from the satellite segment. Sales cycle here remains fairly long however. On our outlook for our adjacencies auto continues to be a focus area for us, we are excited that our rear seat entertainment solution will be an integral part of a high end Sedan being launched by one of the largest automobile manufacturers in the world. Building on this success we are enlarging our focus in automotive, electronics to areas such as, driver safety, navigation and assistance. We have become members of GENEVE, the industry body that drives the alliance for in-vehicle entertainment open source development platforms in the automotive segment. Our CE the consumer electronics business continues to grow, we are in discussions with several customers for android multi-media and connectivity offerings. As an early validation of the go to market partnerships that we are forging in CE space, we are successfully offered system integration

services around our customer's technology to their customers. Together with our partners we have been able to offer, innovative audio solutions that enables streaming hi-fi audio to remote devices.

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

We successfully added seven new customers during the quarter, taking the total number of active customers to 119. As part of our effort to increase engagements with our key accounts we have build on the success of creditability, success and creditability we have established with them leading to higher levels of strategic engagements, our customers address was array of business segments, and we have successfully penetrated several of their business units with our portfolio of offerings. Vertical such as health care and retail are embracing Wireless technologies, rapidly thereby presenting high growth opportunities, for technology service providers like us. We plan to target these sectors by leveraging our deep competencies panning across the value change or the wireless domain. We are also poised to extend our expertise to service increasing opportunities in the enterprise mobility space. We are making investments in these areas which will yield results in the future.

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

Moderator

Thank you very much Sir. Ladies and Gentlemen we will now begin the question and answer session. Anyone who wishes to ask a question may press * and then 1 on your touch tone telephone. Participants are requested to use only handsets while asking a question. Anyone who has a question at this time may press * and then 1. The first question is from Mr. Chetan Vadia from JHP Securities. Please go ahead.

Chetan Vadia

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

- Rajiv C. Mody** You are probably referring to the ConnectM investments that we have been making over the last few years.
- Chetan Vadia** I am seeing the segmental result table in the presentation, Slide #9?
- Rajiv C. Mody** We expect that business of ours should become PAT neutral this year.
- Chetan Vadia** PAT neutral FY13.
- Rajiv C. Mody** That is correct.
- Chetan Vadia** Okay.
- Rajiv C. Mody** There has been a slight change in the strategy over there also because of the change due to the impact that our customers have gone through, because the 2G licensing stuff, so we are also re-vectoring our strategy over there, but clarity that it has to be what do we call PAT neutral for this financial year.
- Chetan Vadia** Okay. Can you provide me your outlook once again for the services segment?
- Rajiv C. Mody** Like I said the outlook for the full year for the services segment is that we are seeing a decline from our single largest customer. There are significant efforts going on to ensure that we overcome those declines in our existing as well as the new account that we are working on penetrating, as well as the newer segments, like I said that we are opening including consumers, automotive, and the newer areas where wireless is playing out particularly the enterprise mobility side. So, all efforts are out there to see that we serve existing areas as well as open new forays for us. Having said that we do see a decline in revenues in the first quarter largely on account of the ramp down in the services business, however, we have put in place growth plans to address these in businesses from existing like I said and we see extended sales cycle in the new growth areas that we are focusing on. So we expect those things to fructify the latter part of fiscal '13. However, on the product side like I said that as per the market reports covering our customer who is the leader in TD-SCDMA silicon, we expect that will be continued uptick in our royalty revenues in the coming quarters. However, like I have indicated that royalty revenues are function of shipment and so we cannot necessarily kind of give a very predictable guidance on that.
- Chetan Vadia** Okay Sir. I think that is helpful. Thank you very much.
- Moderator** Thank you. The next question is from Mr. Rishendra Goswami from Locus Investments. Please go ahead.

- Rishendra Goswami** Hi. Just a few clarification, firstly on that ConnectM you had mentioned there is a charge in terms of diminution in the value of investment. Where is that reflected? That does not flow through the P&L? It does not look like it has gone through the equity account, could be just explain that?
- Neeta Revankar** Actually the way we have accounted for ConnectM each quarter the losses have consolidated, so what we have done in this quarter will not result in any additional charge. Every quarter the losses of ConnectM are consolidated to the extent of our shares in the company as a result there is no additional charge this quarter.
- Rishendra Goswami** I see, but would it reflect anywhere in the financials even in the equity account?
- Neeta Revankar** It could reflect in the account of the standalone entity SCTL, so our investment there has been written-down, but because we have done it each quarter, there is no impact on the consolidated financials this quarter.
- Rishendra Goswami** Okay, it will be reflected in the standalone account then?
- Neeta Revankar** That is correct.
- Rishendra Goswami** Okay, got it fine. Then could you also explain the new classification the way balance sheet has been reported this quarter versus last quarter, the loans and advances which used to be classified as under the current assets, I think part of it has gone out as a long term asset, so could you explain what the reclassification is and how does it work going forward?
- Neeta Revankar** I think it will be simpler for us to add one more chart and put it out on our website by the end of today, that will make a simpler for everybody to understand, we will do that.
- Rishendra Goswami** Okay that will be very helpful because otherwise if you were to look it on a comparative basis as the reporting was in December quarter, then I am assuming that your working capital has sucked up about 15 crores is that a correct understanding?
- Rajiv C. Mody** Are you talking about quarter or are you talking about year?
- Rishendra Goswami** I am talking about the quarter you compare Q3 versus Q4, if in the Q4 if you were to take the same reporting standard as in Q3 then my assumption is that your working capital has gone up by 15 crore quarter-on-quarter is that understanding?
- Neeta Revankar** That is correct. We had royalty revenues that we invoiced at the end of the quarter which got collected subsequently. And that would have resulted in an increase in our receivables. That is correct, and so working capital would have gone up pretty significantly.

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

Rajiv C. Mody For the full year the CAPEX has been in the region of 21 crores consolidated.

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

Rajiv C. Mody The planned CAPEX for next year will be in the region of 12 to 15 crores.

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

Rajiv C. Mody No last year we guided 24 crores we guided in the region of 24 crores.

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

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

Neeta Revankar That is correct.

Rishendra Goswami Okay great. And you tax it for FY13?

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

Rishendra Goswami 24 – 25% of PBT right.

Neeta Revankar Yeah.

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

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

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

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

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

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

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

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

Neeta Revankar That is correct.

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

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

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

Neeta Revankar That is correct.

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

Rajiv C. Mody The other part yes I agree it is lumpy to model. Coming to services, I think like I said that we definitely see that the first quarter revenues in services to decline because of the ramp downs that we have seen and we expect that from this largest customer the trends to be whereby at the end of the second quarter, we should be kind of be done with most of the ramp downs that we expect from that largest customer. Having said that there is significant effort going on to ensure that whatever

ramp downs are there, we are able to make it up in existing as well as newer customer base and I think we have demonstrated that in some ways over the full year from fiscal '11 to fiscal '12, because we have been able to make up for the dips that we saw in the overall ramp downs whereby we grew another customer accounts, and that efforts continues. However, it is not frankly speaking possible for us to model it very accurately that is why we are staying away from giving any accurate guidance.

Abhishek Shindadkar

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

Rajiv C. Mody

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

Nagamani Murthy

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

Abhishek Shindadkar

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

Rajiv C. Mody

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

Abhishek Shindadkar

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



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Rajiv C. Mody	Yes.
Abhishek Shindadkar	Okay. Thank you Sir for taking my questions and all the best for FY12.
Rajiv C. Mody	Thank you.
Moderator	Thank you. As there are no further questions I would like to handover the floor back to Mr. Mody for closing comments.
Rajiv C. Mody	Well thank you so much for participating in the call today we appreciate being there and look for to coming back to you in the June ending quarter. Thank you.
Moderator	Thank you very much. Ladies and Gentlemen on behalf of Sasken that enclose this conference call. Thank you for joining us and you now disconnect your lines.