

Q3 2011 Earnings Call – Sasken Com

Dt- 21 Jan'11

Operator

Thank you for standing by and welcome to the Q3 FY 2011 Earnings Call of Sasken. Before we begin, we must point out that certain statements made during the call, concerning Sasken's future growth prospects maybe forward-looking statements. Please read the Safe Harbor clause in the presentation for full details. I will now hand over to Mr. Rajiv C. Mody, Chairman and CEO of Sasken. Mr. Mody will take you through the financials and the highlights of the quarter, followed by the question-and-answer session. Over to you, sir.

Rajiv C. Mody, Chairman and Chief Executive Officer

Thank you, Varun. Ladies and gentlemen, good morning to all of you. It's my pleasure to welcome you to the conference call to discuss the business performance of the Sasken Group for the third quarter ended December 31, 2010.

Before we begin, we must point out the term 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'm joined on this call by my colleagues, Neeta Revankar and G. Venkatesh, Executive Director to the Board of Sasken; Rajesh Maniar, Vice President, Finance; T.K. Srikanth, Vice President, Handsets, Consumer and Auto Electronics and Portfolio and S. Ramaraj, Senior Vice President and Head of Delivery, Sasken APAC & North Americas and Rajesh Rao, Senior Vice President and Head of Worldwide Sales.

Let me begin by taking you through our financials for the third quarter ended December 31, 2010. The consolidated revenues for the third quarter grew by 3.4% over the previous quarter in fiscal 2010. Earnings before interest, taxes, depreciation and amortization for the third quarter fiscal 2011, stood at Rs. 26.9 crores, a growth of 11.8% over the previous quarter and 9.5% over the corresponding quarter in the previous financial year.

Consolidated PAT for Q3 fiscal '11 was Rs. 15.73 crores, up marginally by 0.1% over the previous quarter, and a drop of 8.2% year-on-year, over corresponding quarter in the previous year. PAT margins for the quarter were at 11.4%.

EBITDA decline has been on account of closure of Mexico site and lower utilizations including in the high cost locations. We have taken corrective actions to improve utilization and bring margins back to track. Services revenue were Rs. 116 crores, down 3.5% quarter-on-quarter.

Products revenues were Rs. 21.6 crores, up 61.4% quarter-on-quarter. Services EBITDA margins for Q3 was at 10.8%, products EBITDA margins for Q3 was at 71.6%. Sasken Group delivered an EPS of Rs. 5.7 for the quarter.

The consolidated headcount as of December 31, 2011 was 3,477.

In continuation with the trends we have reported earlier of reduction in business in the high cost locations, we examined the prospects of our Mexico center. As both, the pipeline and future growth prospects were not healthy, we decided to close down our operations in that center, which has resulted in a one-time adverse impact on our EBITDA and PAT margins.

While at the end of Q2, we were anticipating a 10% growth over H1 in reality, we have not been able to meet this particularly because of continued uncertainty in the business outlook as referred to earlier in particular in the European geography.

In addition, procurement of follow-on business has not been completed in the forecast time line. Some part of our business addresses rapidly evolving technologies and business engagement in these areas, tend to be in the form of short sprint cycles. This results in choppiness in some of our services business as well. Our customers in the high cost locations have ramped down businesses more aggressively than what we had anticipated. We are taking steps to mitigate some of these risks.

We are enhancing our sales capability, Rajesh Rao has joined us as Head of Sales. He has grown businesses in the past and we expect him to provide momentum in building out our sales function. Sales become specially critical as the European ecosystem that was strong in the past, has declined and we are now yet to and we are not yet out of surprises.

Since that accounts for 40% of revenues and we are faced with lack of predictability on a quarter-on-quarter basis. Our sales teams are actively engaged in identifying new growth opportunities that's been transitioned into creating replacement revenues. We are looking

at our investments in building capabilities in Android full phone design IP led services and operator offerings to create breakthrough growth.

Our key project wins this quarter include integrating services for tier one handset vendor, product design and testing services for TDS-CDMA standard, Android MMI integration and stability projects for tier one chipset vendor.

In addition, we have significant wins to provide integration services in smartphone space. That is based on a platform using the latest symmetric multiprocessing dual core technology. In this quarter, we added three key customers amongst others taking our active customer base to 127.

We have seen some positive surprises and the uptick of TDS-CDMA in Chinese market, leading to a significant increase in our products business. While we continue to be cautious about making inferences about this being a trend that will continue. It's likely that this market may display some enormous momentum in the quarters to come.

Some key technology trends that we observed and are prepared to address are as follows; while the iPhone helped to create a tipping point for mainstream smartphone adoption, Android activations are up significantly as per market research reports.

We are well placed to exploit this trend of continued Android adaptations, which now seems to be targeting all price point devices and attracting new entrants. Deployment of 4G network to mature economies seem to be gathering momentum with multiple operators announcing network rollout plans and launch of new devices in several markets.

The speed of 4G will make watching live video, streaming video and mobile as much more common activity. 4G will provide the ideal point for rich media applications to take off, presenting us an opportunity to exploit our rich media capabilities.

4G is also likely to see the introduction of graphics intensive applications, which will leverage the compute power of dual-core processors that are becoming standards in high-end smartphones. Semiconductor vendors are hastening the introduction of multi-technology, multi-core platforms and struggle to keep up pace with the rapid revolution in operating systems and applications that are expected to support and run.

The proliferation of open source platform means that semiconductor vendors at OEMs must collaborate stronger than ever before, to differentiate themselves in the marketplace. These provides wide space opportunities for Sasken to step in and sell.

To conclude, we expect to reverse the de-growth in services in the current quarter of the financial year, which is Q4 fiscal '11 -- results and their continued trend is what we are working towards to achieve and strive. Thank you for your attention. And now I hand over to the moderator for the Q&A.

Questions And Answers

Operator

Thank you, sir. [Operator Instructions]. The first question is from Mr. Biplab Chakraborty from B&K Securities. Your line is unmuted, please ask your questions.

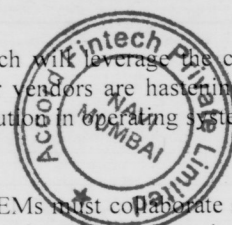
Biplab Chakraborty

Hi, Rajiv. Thanks for taking my question. I mean in the commentary you spoke about strong traction in the Chinese market, in the product space. If you could please elaborate on that?

Rajiv C. Mody, Chairman and Chief Executive Officer

Yeah. Let me try to explain we have, as you know, in the past licensed our protocol stack to a leading chipset vendor, which is launching the phones in the China market, particularly in the TDS-CDMA space.

We have seen sustained royalty revenues coming from them and in this quarter, we saw also a renewal of the license, which contributed to higher revenues coming from that customer. We don't expect that to continue in the going quarters on the revenues that we derive by the renewed license, but we do continue to see revenues continue to flow towards on account of royalties on the increased or on the volume shipments that they do in the market today.



Biplab Chakraborty

A follow-up on that would be the EBITDA margins and your products business, it expanded significantly this quarter on the back of I guess around 2000 bps versus last quarter too. And if you could please throw some light on that?

Rajiv C. Mody, Chairman and Chief Executive Officer

Yeah, I think it's obvious that the EBITDA margins have gone up significantly because of the licensing deal that we did. But in the normal situation, it could go back to the regular EBITDA margins that we have demonstrated in the previous quarter.

Biplab Chakraborty

So that would be somewhere in the 50% mark?

Rajiv C. Mody, Chairman and Chief Executive Officer

Well, depending upon the -- depending upon the volume segment and the royalty revenues that's derived, but we see that the revenues I mean the product side of our business is stable today, somewhere in the range of 2 to \$2.5 million.

Biplab Chakraborty

Sure thanks. My second question was related to your attrition, if you could throw some color on that going forward, how do you see that panning out?

Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

We've seen attrition issues in the current quarter, over quarter two but I think it's too soon to talk about a trend going forward. From our perspective, we've done -- we've taken all the actions that management can take towards reducing attrition. There are of course a few things beyond our control which is the pull from the market outside. It is very difficult to predict anything about attrition going forward.

Biplab Chakraborty

Sure. And if I may, squeeze in a third question, before I come back for follow-up. There was discussions regarding the second generation satellite phones with Inmarsat. I was just wondering if there are any updates on that?

Rajiv C. Mody, Chairman and Chief Executive Officer

There is no further update on that, we were expecting certain closures to happen, but it's taking slightly longer time for us to come up with the exact architecture and things of that nature.

Biplab Chakraborty

Sure, that's helpful. I'll come back for follow-up. Thanks.

Rajiv C. Mody, Chairman and Chief Executive Officer

Sure.

Operator



Thank you. The next question is from Dinesh Kumar from Aditya Birla Money. Mr Kumar, your line is unmuted. Please ask your question.

Dinesh Kumar

Hi, good morning to all.

Rajiv C. Mody, Chairman and Chief Executive Officer

Morning.

Dinesh Kumar

I have a couple of queries, actually first is on the hiring plan side. Actually hiring is neutral for the last two quarters, it is stable around 3,500 level. So how do you see it panning out towards the next two to three quarters?

Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

I'm sorry, I didn't hear your question very clearly. Was it about hiring trend in the past and going forward?

Dinesh Kumar

Yeah, yeah exactly.



Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

Yeah so, we are continuing to hire. What we have done is, we've been closely monitoring the mix of people that -which we hire and that is what will determine whether hiring will go up in a particular quarter or go low. So as of now, there has been no significant change in our hiring plan and we continue to hire for anticipated growth.

Dinesh Kumar

Okay. Will it be lateral hiring or it will be from freshers?

Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

See, this is something that either calls that we take, each quarter depending upon demand. So, in one quarter we may be hiring more laterals and in the another, we may be going in for more freshers. It's very difficult to say anything beyond this.

Dinesh Kumar

Okay. Well and fine and another query is, can you throw some light about, you told about product business, right? Can you say about automotive sector, because it's grown very well in this quarter.

Rajiv C. Mody, Chairman and Chief Executive Officer

Just to check, you are asking us to comment on the automotive?

Dinesh Kumar

Yeah, segment. Yeah.

Rajiv C. Mody, Chairman and Chief Executive Officer

Are you referring to our ConnectM business?

Dinesh Kumar

The segment as a whole, I am asking.

Rajiv C. Mody, Chairman and Chief Executive Officer

Yeah. Why don't you?

T.K. Srikanth, Vice President Handsets, Consumer & Auto Electronics, and Portfolio

So we have a subsidiary called ConnectM Technology Solutions, which is primarily to the end-to-end space and they are starting to see some good traction from that company, which has started to show some revenues for us in the current, in the quarter that went by.

Dinesh Kumar

Okay.

T.K. Srikanth, Vice President Handsets, Consumer & Auto Electronics, and Portfolio

We have more to say about it I guess in the next earnings call.

Dinesh Kumar

Okay. And in the geographical space, the revenues grew or de-grew in North American space and Europe space and even in India, we saw some kind of de-growth. How do you see this major revenue drivers went to?

Rajiv C. Mody, Chairman and Chief Executive Officer

Yeah, I think, we have seen like we said in our -- like I said in my opening remarks that lot of work is moving from high cost to low cost and we are seeing customers aggressively doing that. It has an impact on us and that's one of the contributors. The de-growth that you are seeing primarily in the India is because of Inmarsat closure. We have not seen much of de-growth in volume terms in India, as a matter of fact we're seeing the volume increase in the India assets.

Dinesh Kumar

Okay. What about the U.S. and Europe, going forward?

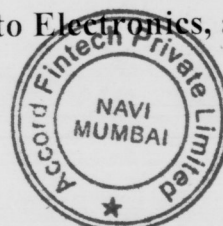
Rajiv C. Mody, Chairman and Chief Executive Officer

Europe, definitely a lot of activities, where things are moving into India and China.

Dinesh Kumar

Okay. Fair enough, thanks and that's it from my side.

Operator



Thank you, Mr. Kumar. The next question is from Vinayak from Right Horizon. Vinayak your line is unmuted please ask your questions.

Analyst

Yeah, hi, good morning Rajiv and Neeta.

Rajiv C. Mody, Chairman and Chief Executive Officer

Yeah, hi.

Analyst

Yeah, just three questions. First, is on the revenue side, I'm talking specifically about your software products business. On that, if I'm looking at, on a quarterly basis, there has been a good amount of transfer -- in terms of run rate. So, first two quarters of the current year you did about 13 crores, this quarter you did 25 crores. So possibly I mean I would imagine that it would end up with about 70 crores FY11. Now question is, is this segment a potential 250 crore kind of annual basis opportunity in the next, maybe two or three years? That's question number one.

Question number two is, on your buyback program, you said 35 crores was allocated at 225 plus, and at the top end and that which you'll continue buyback. I guess we haven't seen any movement there. So a reason for that.

And finally, on the -- the third question is on the balance sheet cash level, may be at net level, you are at 200 crores. So is it safe to assume that Sasken will have a 20 crore per quarter run rate, for the next few quarters?

Rajiv C. Mody, Chairman and Chief Executive Officer

Okay, so let me try to answer the first question, I'm sorry your fourth question?

Analyst

Sorry?



Rajiv C. Mody, Chairman and Chief Executive Officer

Okay, you had three questions right?

Analyst

Yeah.

Rajiv C. Mody, Chairman and Chief Executive Officer

Okay, so let me try to answer the first question. In the product side of this thing we have been in the last three quarters, royalty revenues contributing to the overall revenue flow. And this revenues we derive out of the licenses that we have signed up in the past, both on the protocols back side as well as multimedia and the new licenses that we've signed on the multimedia side.

Analyst

Right.

Rajiv C. Mody, Chairman and Chief Executive Officer

Now, it's very hard for us to predict on a sustained ongoing basis, whether we will keep generating similar kind of revenues, our hope and our efforts definitely point towards that. But not necessarily something within our control because it depends on whether a certain product category becomes significantly successful.

Today we can safely say that on an average, we would possibly do about 2 billion at least to third quarter, based on the outlook that we have. We keep watching that and if there is any change in that, either positive or negative, we will come back to you.

But today at least the expectation and the visibility shows that. Efforts of course are in place to see how we increase that and build a good, healthy business out of it, which delivers us significant margins. So that's the first question. The second question was on the buyback and the cash part, which I'll ask you to answer.

Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

See, as you are aware, we have one full year's complete buyback and that is about little over six weeks into the buyback program.

Analyst

Okay.

Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

Already bought back a little over 100,000 shares and that will consist -- as far as the cash on the balance sheet is concerned, question was that we have clearly 11 crores on the balance sheet and if you see the trend over the last few quarters, we certainly have been generating cash in the range of 15-20 crores.

Analyst

Okay. And you think that, you can -- that to remain at the same level?

Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

See cash generation is dependent upon how the business moves, right?

Analyst

Correct.

Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

So, I think we should just track how the business is progressing and we'll show that cash is being generated in line?

Analyst

Okay. But the question therefore was, you put the management giving any guidance with respect to any like you are open for any acquisition and deployment of cash?

Rajiv C. Mody, Chairman and Chief Executive Officer

No. We don't have any plans for any acquisitions at this time.

Analyst

Okay. Fine. Rajiv and Neeta, thanks for that. I'll join the queue for any follow-up questions that I may have. Thanks.



Rajiv C. Mody, Chairman and Chief Executive Officer

Thanks.

Operator

Thank you, Vinayak. The next question is from Ashish Pandey from Capgo. Mr. Pandey, your line is unmuted, please ask your question.

Analyst

Sure, sir -- I want to know I mean you have some 20 lakhs of options outstanding right now. And you have 275,000 of outstanding shares. So, I want to know, I mean do you have any idea of allotting options year-on-year or you just follow the lead based program. I mean I want to know I mean, do you have any guidance of how many options you're going to issue in the next two-three years? Do you follow any strategy?

Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

See, definitely when we're looking at employee compensation, stock options form an important part of that strategy, okay. So, we will continue to use stock options to attract and retain core talent and leaders in the organization.

Analyst

Okay.



Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

If you're asking about any specific numbers, we are looking at going to shareholders in the near future to seek approvals because as of now, we do not have any options left in the kitty to grant. So, when that happens, you will be aware.

Analyst

Okay. On that just came out to the number that 10 point okay, leave it. Can I know how much is cash and cash equivalent left on your balance sheet right now, I mean at the end of December quarter?

Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

It was 211 crores.

Analyst

So, that includes the 35 crore you have given to Karvy for buyback or excluding that we have?

Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

We have not given any money to anybody for the buyback.

Analyst

Okay.

Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

As and when we buyback, we will make payment for the shares bought back. So, 211 crores is all that we have with us.

Analyst

Okay, fine. Thank you, ma'am. Thanks. That's all from my side.

Operator

Thank you, Mr. Pandey. [Operator Instructions]. The next question is from Kunal. Kunal, your line is unmuted. Please ask your questions.

Analyst

Yeah, thanks. Sir, my question is, with regards to your services business. How do you see the outlook over the next coming forthcoming quarters because if we look at last two years, this is the business which has seen a significant deceleration -- sorry.

Rajiv C Mody

Yeah. Kunal, your observation is correct. We have definitely seen some change there. Some of it are services business while not to de-emphasize or give any other indication, there is significant efforts being put into see that we start reversal on these trend in the growth on our services business quarter-on-quarter.

Just to highlight some of the events that have occurred. One is of course, one of our largest customers continue to rationalize their R&D costs. And their restructuring is yet to play out. So, there is a slowness in the overall approach.

The other thing is that we have experiences that one of our customers made a strategic change in their business focus, which resulted in us having to close down some of the proximity sent at particularly in Mexico. One of the largest customer, whom we expected to go in the U.S. also hasn't grown. Our satellite space, the follow-on is a little slower than what we had anticipated. So, some of these things are definitely the negative that have impacted us.

But while these have been the negatives and also to add to it Kunal, we have announced earlier on in the previous calls that we actually exited some of our non-profitable, non-strategic businesses in the early part of the year.

Analyst

Right. That was on the network side, right?

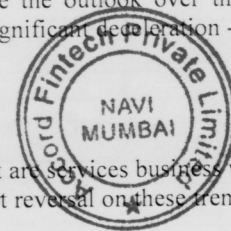
Rajiv C. Mody, Chairman and Chief Executive Officer

That is correct. But that has all, many of it is by the way been made up also over the last three quarters compared to the previous year. Now, there has been de-growth, there has been growth in other areas. So, overall net-net, there is still a negative that we are kind of chasing. Our focus is to see that we stabilize that and grow not only with our key current customers, but broaden that thing and take it to many more customers to reduce our dependency also currently that we have on our top five customers.

So, for that like I said in my opening remark, we have Rajesh Rao who has joined us, brings in a very good experience. And he has taken the mantle of driving sales to going for furthering and what do we call increasing our customer base.

On the utilization number, it shows very clearly to you that we have quite a few people available. And we are training them and making sure that we are ready to address the needs of the market.

Analyst



Right. Sir, you also said that some of your Tier-1 customers, they are moving work offshore and there is significant work shift to India and China?

Rajiv C. Mody, Chairman and Chief Executive Officer

That's correct.

Analyst

So, right. So, are we not part of that work flow?

Rajiv C. Mody, Chairman and Chief Executive Officer

We are part of that work flow, Kunal. Unfortunately, a loss in the high cost participate by loser billing it similarly takes significantly more over a year to replace that one-on-one.

Analyst

Yeah, sir.

Rajiv C. Mody, Chairman and Chief Executive Officer

So, that's the trend that we have seen over -- and we had planned for certain growth and things and all. So, we had kept certain cost bench over there, which is not materialized, which has impacted our EBITDA adversely also. But we are taking correctives on all those things, because we see that there is a pull on the requirements primarily out of customers moving things more to India and to China.

Analyst

So, what does the plan with the top customer continue? What is their -- you did mention that it continues to rationalizing its slowness and in the approach? So, it is basically the work that you are doing is continuing without any change or you are seeing some ramp down there as well?

Rajiv C. Mody, Chairman and Chief Executive Officer

Okay. In some of the customer accounts, the growth that we had expected didn't happen. While in some accounts, we do see some ramp downs happening, in some of their areas but having said that, we also see other customers growing very rapidly.

Analyst

Right. But do you anticipate further ramp down the indications?

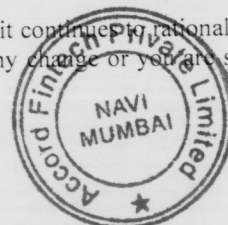
Rajiv C. Mody, Chairman and Chief Executive Officer

Right now, there are no indications to that effect on any further ramp downs from any of our customers, right.

Analyst

Okay.

Rajiv C. Mody, Chairman and Chief Executive Officer



I hope you appreciate the fact which I mentioned in the opening remark that we do work in many of leading technologies. And there is inherent choppiness that comes as part of the activity.

Analyst

Yeah, absolutely. Any new wins that you can talk about and probably some indication of the size?

Rajiv C. Mody, Chairman and Chief Executive Officer

I'm not able to say that, to be frank with you. But we do have wins and I tried to think that in the area of Android as well as MMI as well as say, I mean the thing that I talked about was integration services in this smartphone spaces.

Analyst

Sure. Okay. Thanks a lot.

Rajiv C. Mody, Chairman and Chief Executive Officer

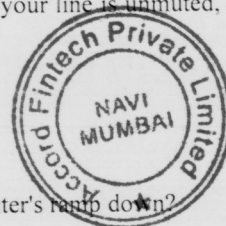
Thank you.

Operator

Thank you, Kunal. The next question is from Shradha Agarwal from B&K Securities. Shradha, your line is unmuted, please ask your question.

Shradha Agarwal

Yeah. Hi, good morning Rajiv. Firstly, what was the one-time effect you took due to Mexico center's ramp down?



Rajiv C. Mody, Chairman and Chief Executive Officer

Yeah Neeta, can answer that.

Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

Yeah. So there were a number of expenses that came to the P&L this quarter. Largely severance costs and deferred tax assets being de-recognized. So, all of this added up to about 6.3 crores for this quarter.

Shradha Agarwal

Okay. And how many employees were laid off because of this?

Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

Actually during this quarter, we had about 93 in voluntary separations in the company.

Shradha Agarwal

Okay. And in terms of Ingenient, what's actually happening there in terms of your demand traction in consumer electronic and automotive segment because probably you were talking about that being the revenue driver for FY12. So any updates out there?

T.K. Srikanth, Vice President Handsets, Consumer & Auto Electronics, and Portfolio

Yeah, our business coming out of the Ingenient line of products continues, we're continuing to acquire customers, and continue to get repeat business with the customers in the auto and suite sales to multimedia. They're actually moved forward and some of them has actually win larger IP license fee plus integration projects with them and we see that trend continuing in the next two quarters.

Shradha Agarwal

So, what is the time this -- earlier probably you were giving some number in terms of what is the kind of revenue would expect from this particular segment to slow into your P&L. So what is that number as of today, I mean how much of your revenue would you think to be contributed from automotive and consumer electronics say in FY12?

T.K. Srikanth, Vice President Handsets, Consumer & Auto Electronics, and Portfolio

No, I don't think we break it out that way. I'm not in a position to give that number right now.

Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

Yeah, and it's too early for FY12 guidance, Shradha.

Shradha Agarwal

Okay. And in terms of SACT segments in your services business, probably semiconductor industry otherwise is doing really well. And if I look at numbers which are floated in media articles probably, it will be the best year in last 10 years for semiconductor industry. So, how is that particular segment shaping up for Sasken?

Rajiv C. Mody, Chairman and Chief Executive Officer

We are definitely seeing good demand on chip design, on PS4 activities, full system dilutions providing different operating systems for the end markets, connectivity for different operating systems. As you know having said that, I also want to let -- I mean you are also aware of the market itself, I don't need to, but there are lot of consolidations also happening in the marketplace which does two things to us.

One, either it closed down some of the engagements themselves because consolidation essentially makes that thing happen. And two, kind of -- in many ways, opens up interesting opportunities for us. But overall, it could bring in some element of choppiness, again good case and point is Atheros recently got acquired by Qualcomm, Atheros was a customer of ours. Qualcomm is a customer of ours, now combining the two halves, the whole thing is going to shape out, could be delayed slightly. So, those things are also impacting us and helping in elements of choppiness.

Shradha Agarwal

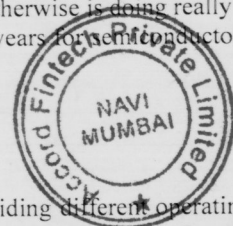
Right. But if I have to talk about in terms of your confidence in your three sub-verticals, I mean semiconductors, handsets and network, so on which segment would you be the most bullish on?

Rajiv C. Mody, Chairman and Chief Executive Officer

I think I'll go probably from the end market, Shradha. And I think all the consumer devices and I include all newer devices because now we are also starting to engage with customers who are putting in newer devices like tablets and those into the marketplace is the interesting driver for us.

Second, driver for us is related to that, the testing which is a key aspect both and expand either semiconductor company or a handset or an operator and more for the developed market which is also a good driver for us. And third is the operating systems which is the particularly the Android operating system is also a good driver for us.

Shradha Agarwal



Right, that's helpful. And Neeta, if you could help me with the tax rate. I mean we saw substantial jump in your taxes in this quarter, the reason behind that?

Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

As I explained because of the Mexico decision that we took, we had to reverse a significant amount of deferred tax assets.

Shradha Agarwal

Okay.

Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

That has been the large reason for a change in the tax as a proportion to revenues and the effective tax rate.

Shradha Agarwal

Okay.

Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

I think there has been no significant change in effective tax rate otherwise from the previous quarter. But going forward as we get out of the MCP regime, I expect that our effective tax rate will start slowly going up.

Shradha Agarwal

And any ballpark number would you want to give there?

Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

See, right now our effective tax rate is in the range of about 17%.

Shradha Agarwal

Right.

Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

It will go up to like 25% over the year.

Shradha Agarwal

Okay. And one book keeping question on your hedge cover, outstanding hedge as of last December quarter?

Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

You are aware that we have both forward contracts and option contracts.

Shradha Agarwal



Right.

Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

And we hedge both dollars and our euros. Overall, we have about 45 million equivalent hedge and at a rate of about Rs. 46.58.

Shradha Agarwal

All right. Thank you so much. That's it from me.

Rajiv C Mody

Thank you.

Shradha Agarwal

Yeah.

Operator

Thank you, Shradha. The next question is from Jaydeep Sarkar from USI Capital. Jaydeep, your line is unmuted, please ask your question.

Analyst

Hello. I think you got the wrong name, this is Baidik Sarkar from Unified Capital. Actually it's good to be talking to you. I have a couple of questions. Am I audible?

Rajiv C Mody

Yeah, you are audible, Jaydeep.

Analyst

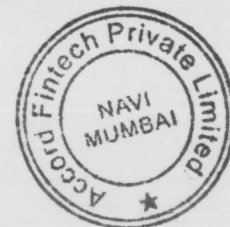
Yeah. Okay, it's Baidik, once again not Jaydeep. But anyway, so my first question is Rajiv is, we've been witnessing lower offshore revenues in Q3. I just wanted to understand it from a macro perspective, what is the need, I mean is it a structural issue, a customer is not willing to outsource high-end work to India or China or I mean I just wanted some idea from that?

Secondly, we've been seeing some moves towards growth expressed contracts. Again I request the company stating that you would like to move into the fixed price contract, and move away from P&L issues. So, why is that happening? Are customers unwilling to negotiate or whatever the reasons might be?

Secondly, the lower utilizations. You had mentioned that, the revenues, there have -- for Q2 because of a decrease in the billable resources. Now in spite of the minimal net additions, we've seen this year, I beg your pardon this quarter, utilization has still come down. So, does it reflect our core pipeline, or is it just a timing issue? And sorry sir, I missed it earlier, but are we on track for y-on-y 5% revenue growth? That's it. These are my questions.

Rajiv C. Mody, Chairman and Chief Executive Officer

Yeah. So, let me answer the questions in the order you have raised. India revenues in from Q2 to Q3, there is an echo, can somebody mute? Hello?



There is still a continued echo. This is better. The India revenue decline is primarily because of the satellite program coming to an end. We have not seen any loss of any customer during the quarter that we are serving today. So, that is going to be the prime reasons from Q2 to Q3.

On the EBITDA side, also it's similar because I think some of the programs that I mean the entire in-market program was an FPP and the reason why it has come down is primarily because of that.

Having said that, we definitely are working with our customers to convert as many programs into FPP in the areas that we have already worked and are knowledgeable, rather than we go after FPPs where the risk element is high. So, we are definitely focused on seeing that we move away as much from being headcounts E&M lead to an FPP kind of an activity.

I think the utilization is low because of the fact that there is an effort going on in training our resources and be available to serve our customers as we see the demand forecast. So I think this is probably a lag and will continue to be a lag for the revenue growth.

Fourth question you asked, whether we'll meet our overall guidance that we had given and I said in my opening remarks that no, we will not do that because of the reasons that I've already articulated earlier in terms of the decisions are getting slow, some of the high cost moving to low cost. Some of our customers taking longer than anticipated to close on the next generation stuff. But those things are coming in the way overall.

Analyst

Okay. Thank you, gentlemen.

Rajiv C. Mody, Chairman and Chief Executive Officer

Thank you.

Operator

The next question is from Ganesh. Ganesh, your line is unmuted, please ask your questions.

Analyst

Yeah. Thanks for the opportunity. Just wondering, you've been referring about new projects coming in the pipeline, something like Android segment and other stuff. So, just want to know when we can expect from looking to any announcement of any large projects which could require the revenue and earnings and show a good growth in FY12?

Rajiv C. Mody, Chairman and Chief Executive Officer

I think I would say that when we come back to you in our April call, we should be able to give a better handle and a view in terms of the wins that we have in this space. I can only leave you with the message that there is good opportunities in this.

We are in advanced conversations with many customers but there is always a slip between the cup and the lip. And we don't want to say anything. We'd rather say things when we are close. And we'll be able to give you more definite in saying in our April calls.

Analyst

Okay. I was comparing the nine months numbers of FY10 versus FY09, the amortization which has increased almost 10 times. So -- and it has been gradually over the first three quarters. So, just wanted to know why there is a 10 time increase in amortization?

Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

Actually, there was an acquisition that we did last year and as a part of that, we had some right to customer contracts which is what we have amortized. This should stop going forward because that particular thing has been completely amortized in the quarters that we just ended. You will see it back at earlier levels.



Analyst

From next quarter onwards it will be back at earlier levels?

Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

That's correct.

Analyst

Okay. And one last question, the investment write-off, is it part of the Mexican close down?

Rajiv C. Mody, Chairman and Chief Executive Officer

No. That was a restructuring balance sheet, you are asking?

Analyst

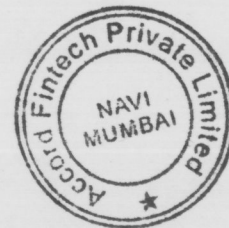
No. In the P&L you have a investment write off, intimation is value of investments of 4.5 crores.

Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

Actually it's a reversal. We have actually recognized again that we have made on sale of shares that we had acquired many years ago, as part of a licensing deal. We have actually assumed that the value was minimal and written it off, but we realized some value from that -- from those shares last quarter.

Analyst

Okay, great. Thank you very much.



Operator

Thank you, Sandeep. The next question is from Mijal Handa. Your line is unmuted. Please ask your question.

Analyst

Yeah, thank you. Good morning.

Rajiv C. Mody, Chairman and Chief Executive Officer

Good morning.

Analyst

I just want to know, you mentioned that some of your business is shifting from Finland to offshore here, has the volume of business remained the same or even the volume has reduced?

Rajiv C. Mody, Chairman and Chief Executive Officer

Volume I think is more or less similar in the, from Q2 to Q3.

Analyst

And when did the shift start with, when were the customers shifting from on-site to offshore?

Rajiv C. Mody, Chairman and Chief Executive Officer

This is a trend which has been going on particularly over the last nine to 12 months. Earlier, we used to see more things happen in the high cost as well as growth happen over here. But over last few, three to four quarters we have seen a reversal on that, where significant requirements keep coming in the low cost compared to the high cost.

Analyst

Okay. And would profitability be better here?

Rajiv C. Mody, Chairman and Chief Executive Officer

No, definitely the profitability is better but it has an impact on your top-line.

Analyst

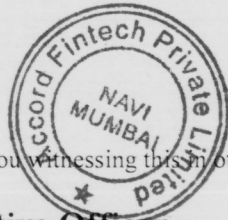
Sure, I understand it was a billing rate.

Rajiv C. Mody, Chairman and Chief Executive Officer

That is correct.

Analyst

And is the, is this trend only for one customer in Finland or are you witnessing this in other customers, in other geographies as well?



Rajiv C. Mody, Chairman and Chief Executive Officer

No, we are witnessing with other customers also in other, from other geographies by the day.

Analyst

That is happening others as well.

Rajiv C. Mody, Chairman and Chief Executive Officer

Yeah, our volume in Q1 versus Q3 is almost similar.

Analyst

I see. And when you say that your gross work is shifting from on-site to offshore, are you also losing some work to other competing vendors?

Rajiv C. Mody, Chairman and Chief Executive Officer

I don't think we've seen much of that, particularly in the areas that we continue to serve our customers in.

Analyst

Okay. And couple of questions on the financial side. You have stock options outstanding which shows on your balance sheet or the role. I just want to understand, is there some issue why you will not exercise because I think you've mentioned some time back that you had nothing outstanding now on -- to issue, but there is something showing on the balance sheet. Can you clarify that thing?

Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

Sure, what you see outstanding on the balance sheet are actually stock options already granted.

Analyst

Okay.

Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

Which are yet to be exercised.

Analyst

Okay.

Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

As long as our buyback program is open, we actually cannot allow anyone to exercise options, as per SEBI regulations.

Analyst

Right.

Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

So that will continue to remain outstanding until we close the buyback.

Analyst

And what is the exercise price on these?

Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

There are differing exercise prices that these are normally disclosed as a part of our notes to account.

Analyst

Okay, fair enough.

Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

So, you will find it there.



Analyst

Secondly, do you have any existing operations in any SEZ or any plans to set up any SEZ?

Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

We actually have an SEZ in Bangalore, we also have one that we just set up in Poona.

Analyst

Okay.

Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

Yes, we are looking at expanding the Bangalore SEZ or probably setting up another one in Bangalore. But as of now, these are the only ones.

Analyst

Okay. So that is why your asset will remain at 25 from next year, because you will get some exemptions on these?

Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

That's correct.

Analyst

Okay. And in terms of FY12, what is the plan for capital expenditure?

Rajiv C. Mody, Chairman and Chief Executive Officer

It's too early.

Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

It's actually very early; we haven't yet drawn up our FY12 plans.

Analyst

Okay, fair enough. Anyway, thank you very much and all the best for the future.

Rajiv C. Mody, Chairman and Chief Executive Officer

Thank you.

Operator

Thank you. The next question is from Mr. Chakraborty. Your line is unmuted, please ask your question.

Biplab Chakraborty



Hi, Rajiv, this is Biplab again.

Rajiv C. Mody, Chairman and Chief Executive Officer

Hi.

Biplab Chakraborty

Hi, just a follow-up on the revenue guidance. You mentioned that Sasken will not be meeting the revenue guidance earlier of I think 5 to 6%. So are we giving out any fresh guidance?

Rajiv C. Mody, Chairman and Chief Executive Officer

No, we are not.

Biplab Chakraborty

Just a follow-up on that, can we expect the services revenue to grow next quarter?

Rajiv C. Mody, Chairman and Chief Executive Officer

Yeah, like I said we definitely see the services revenue to grow from Q3 to Q4. But we would not want to leave a message with you that it's adjourned because we would like to demonstrate that, sustain the thing over the next few quarters before we say that it's a trend.

Biplab Chakraborty

Sure, sure. Thanks, Rajiv. Thanks for taking my question and good luck going forward. Thanks.



Rajiv C. Mody, Chairman and Chief Executive Officer

Thank you.

Operator

Thank you. The next question is from Sandeep your line is unmuted. Please ask your question.

Analyst

Hello. Good morning, sir.

Rajiv C. Mody, Chairman and Chief Executive Officer

Good morning.

Analyst

I had a question with respect to utilization. Now that your Mexico operation has shutdown. Would this utilization pickup in the coming quarter?

Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

That's correct, actually we are -- Mexico is not the only reason. We have a number of high cost locations and we are looking at increasing utilization there. We are also working on improving utilization in India. So yes, definitely you should see an improving trend, moving trend in utilization globally.

Analyst

And when is this likely, like how is the trend upwards going to be like quarter-on-quarter types, any guidance on that?

Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

Not really, quarter-on-quarter we will start seeing improvement right from the current quarter itself Q4.

Analyst

Okay.

Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

Yeah, but it's very difficult to say, what number it will grow.

Analyst

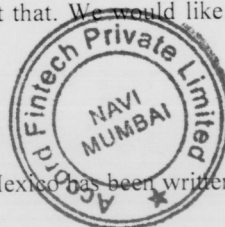
Okay. And like you mentioned that you have other high cost, were there any further plans of any other shutdown and moving based in to SEZ in Bangalore or Poona?

Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

I hope we don't have to shutdown any more. We definitely are not looking at that. We would like to grow all our existing centers beyond their current level.

Analyst

Okay. And then last question is like, now that -- is all the cost with respect to Mexico has been written-off or we can expect something in the next quarter as well?



Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

Pretty much all that we could anticipate, we have written-off.

Analyst

Okay. And this buyback program which is going on, when is this likely to complete. Would you be doing it faster than anticipated or since the price is far below your upside price, I think the target price that you want to buy at?

Neeta Revankar, Chief Financial Officer and Global Head-HR, IT/IS and Administration

Actually we have a 12 month period and as of now, I don't think I can say anything beyond that. We will be buying back steadily and as funds improve.

Analyst

All right. Thanks and good luck. That's it from my side.

Rajiv C. Mody, Chairman and Chief Executive Officer

Thank you.

Operator

Thank you, Sandeep. [Operator Instructions]. At this time, there are no further questions from the participants. I would like to hand the floor back to Mr. Mody. Over to you, sir.

Rajiv C. Mody, Chairman and Chief Executive Officer

Well, once again thank you all for joining us on the call and look forward to coming back to you with more information in April.
Thank you.

Operator

Thank you. With this, we conclude the conference call for today. Thank you for your participation. And have a pleasant evening.
Thank you.

