Initiating Coverage
SECTOR: INFORMATION TECHNOLOGY

Sasken Communication Technologies

Going places

Diviya Nagarajan (DNagarajan@MotilalOswal.com); Tel: +91 22 3982 5428
Sandeep R Shah (SRShah@MotilalOswal.com); Tel: +91 22 3982 5405

Contents

Page No.

Sasken Communication Technologies

STOCK INFO.	BLOOMBERG
BSE Sensex: 13,187	SACT IN
	REUTERS CODE
S&P CNX: 3,809	SKCT.BO

6 November 2006 — **Buy**

Initiating Coverage — Rs442

Y/E MARCH	2005	2006	2007E	2008E
Sales (Rs m)	2,418	3,081	5,047	7,030
EBITDA (Rs m)	362	538	898	1,424
Adj. NP (Rs m)	228	297	515	883
Adj. EPS (Rs)	13.5	10.6	18.0	31.1
EPS Growth (%)	11.8	-21.4	69.3	73.1
BV/Share (Rs)	84.3	137.8	153.6	179.6
P/E (x)	32.7	41.6	24.5	14.2
P/BV (x)	5.2	3.2	2.9	2.5
EV/EBITDA (x)	29.4	26.7	13.8	8.3
EV/Sales (x)	3.0	4.0	2.6	1.8
RoE (%)	17.8	11.3	12.6	18.8
RoCE (%)	18.0	11.3	12.4	16.7

Niche in Telecom R&D to power services revenues: Sasken Communications is a niche player in the Telecom R&D services space, wherein outsourcing and offshoring to third party service providers is expected to increase. We expect services revenue to grow at a CAGR of 50% over FY06-FY08E.

Products - success story envisaged: The product business is poised for take off, with significant product launches anticipated from December 2006. In a scenario where handset manufacturers are trying to cut software costs to maintain profitability, we believe Sasken is well placed to capture a significant chunk of the business due to its cost effective solutions. Product revenue should grow at a CAGR of 61% from FY06-FY08E due to ramp-up in shipment of individual product lines.

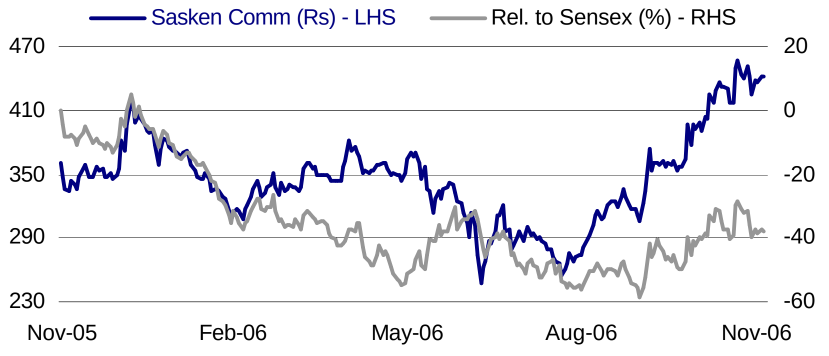
Expect strong growth over next few years: While service revenues is on a strong momentum, product business will contribute significantly FY09 onwards. We expect margins to improve from 17.5% in FY06 to 20% in FY09E. We estimate profits to grow at a CAGR of 70% from FY06-09. We have been conservative in our estimates as we expect greater visibility in FY08 to build higher estimates for FY09 onwards.

Current valuations exclude products business: We have valued Sasken's services business at an EV/EBITDA of 11x FY08E, which implies a P/E of 15x FY08E Services EPS. We have valued the products business at 2.8x FY08E sales, implying a SOTP of Rs558, an upside of 26% from the current levels. We initiate coverage with a **Buy** rating.

KEY FINANCIALS	
Shares Outstanding (m)	28.1
Market Cap. (Rs b)	12.4
Market Cap. (US$ m)	275.7
Past 3 yrs. Sales Growth (%)	36.2
Past 3 yrs. NP Growth (%)	27.2
Dividend Payout (%)	36.6
Dividend Yield (%)	0.7

STOCK DATA	
52-Week Range	462/240
Major Shareholders (as of September 2006)	%
Promoters	27.1
Domestic Institutions	4.3
FIIs/FDIs	47.3
Others	21.3
Average Daily Turnover	
Volume ('000 shares)	110.0
Value (Rs million)	41.8
1/6/12 Month Rel. Performance (%)	3/22/-38
1/6/12 Month Abs. Performance (%)	10/28/23

STOCK PERFORMANCE (1 YEAR)



Niche player in Telecom R&D, will power services revenues

Sasken Communications is a niche player in the Telecom R&D services space with specialty focus on the following segements: A) Network OEMs (original equipment manufacturers), B) Semiconductor manufacturers, C) Terminal Devices (handsets). The company is currently amongst the Top 3 offshore vendors from India in each of its focus segments. Globally, outsourcing and offshoring to third party service providers in these segments is expected to increase owing to significant cost pressures that telecom companies worldwide are facing. We foresee good visibility for Sasken in terms of growth given its expertise and association with industry leaders in each of these segments.

Wireless dominance to help consolidate leadership amongst Network OEMs

Sasken derives 45-50% of its services revenue from R&D and engineering services offered to Network OEMs (~US$12m in 2QFY07, US$34m in FY06). The leading vendors in the market are Nortel, Lucent-Alcatel, Motorola, Ericsson and Nokia-Siemens. This is a significantly large market; with an estimated annual R&D spend of US$20b by Tier I players alone. Currently, the outsourced pie is much smaller at US$1.5b, of which US$0.9-1b is outsourced to India. Of these, third party vendors constitute close to 60-70% of the market, while the remainder is with captive centers. We expect greater offshoring in this segment over the next few years to drive business growth.

SASKEN'S OFFERINGS IN NETWORK OEMS

FOCUS AREA WITHIN NETWORK OEMS	SUB-SEGMENT	STATE OF INDUSTRY/ SASKEN'S POSITION
Access	Wireless	Lower outsourcing at present. Customers spending is more towards Wireless access. Sasken is the leader amongst offshore vendors
Core	Next Gen.	Telecom spending high in this area. Sasken amongst top 3 vendors
	Data Networks	Another high spend area. Sasken has recently gained presence in this space through the acquisition of Chennai based Integrated Softech
Network Management (OSS)	Operations Support Systems (OSS)	Services more horizontal in nature such as network planning, competition is more intense here with several offshore vendors. However, contribution to Sasken's revenue is small (~7.5% of service revenue)

Source: Company/ Motilal Oswal Securities

Sasken' top clients are leading network OEMs. These include three out of the top four players in the industry, who together control nearly 60% of the global market. The company has long-term MSAs (master services agreements) with these clients and is confident of being able to gain traction as the offshore momentum in these clients picks up. In addition, Sasken has recently signed an MSA with the fourth Tier I customer as well, who controls about 30% of the global market. With this tie-up, Sasken would have access to clients who dominate nearly 90% of the total global network equipment market.

R&D BUDGETS OF LEADING OEMS (CY2005)

COMPANY	REVENUE (US$B)	R&D BUDGET (US$B)	% TO SALES
Siemens	92	6.3	6.8
Motorola	37	3.7	10.0
Nokia	32	4.6	14.2
Lucent-Alcatel	25	2.9	11.6
Ericsson	20	3.2	16.1

Source: Company/ Motilal Oswal Securities

Given Sasken's leadership position amongst offshore vendors in wireless technologies and its presence in emerging technologies such as next generation and data networks, we expect this business to register buoyant growth over the next few years.

Tier I clients to ensure significant business traction in semiconductors

Sasken derives 25%-30% of its service revenue from design services to semiconductor companies. R&D budgets in the semiconductor industry are estimated to be high, at an annual spend of US$10b, nearly equally distributed between both hardware and software design. Offshoring in this segment is still low; with India capturing about US$500m-US$600m of the outsourced spend. Of this, around two-thirds of the business would be with the captive centers of global semiconductor companies.

SASKEN'S OFFERINGS IN SEMICONDUCTORS

OFFERINGS	REVENUE CONTRIBUTION	SERVICES OFFERED	POSITIONING
Hardware Design	45%	Application Specific Integrated Circuits (ASIC)	Amongst top 3 offshore vendors
Software Design	55%	Chipsets, OS related software, Multimedia codecs, protocol stacks, User Interfaces	Top offshore vendor in multimedia codecs and protocol stacks, top 3 in OS and top 5 in UI design

Source: Company/ Motilal Oswal Securities

R&D budgets in the software design space are expected to grow in single digits over the next two years, which could result in greater offshoring of work to low-cost locations, with India being a preferred destination. The leading players in this segment include TI, ADI, Renesas, Phillips, Freescale, and NEC.

R&D BUDGET OF SEMICONDUCTOR COMPANIES (CY2005)

COMPANY	REVENUE (US$B)	R&D BUDGET (US$B)	% TO SALES
NEC	43.9	3.1	7.1
TI	12.3	2.2	17.9
NXP	6.0	1.2	20.2
Freescale	5.8	1.2	20.5
ADI	2.4	0.5	20.7

Source: Company/ Motilal Oswal Securities

Sasken currently services four of the Top 5 and 6 of the Top 10 companies in this space, and is in negotiations to sign up with another top player. While Sasken's top client contributes close to 70% of business in this segment, management expects a strong ramp-up in its 2-5 top clients, which is likely to propel growth over the next few quarters.

Terminal Devices: Botnia acquisition aids faster ramp-up, ups client base

The terminal devices division, which was started in 2003, has scaled up quickly and accounts for 30% of total revenue (in 2QFY07); up from 15% in FY06 due to faster-than-company average growth and acquisition of Finland-based Botnia Hitech (Botnia registered revenues of US$22m and profits of US$3.6m in FY06, consolidated w.e.f. September 2006). Sasken currently works with three of the Top 5 handset manufacturers in the world, which gives it access to nearly 70% the terminal devices market. With acquisition of Botnia Hitech, Sasken has strengthened its relationship with one of its top clients — the tie-up offers possibility of greater account penetration and cross-selling due to acquisition of capabilities in mechanical design.

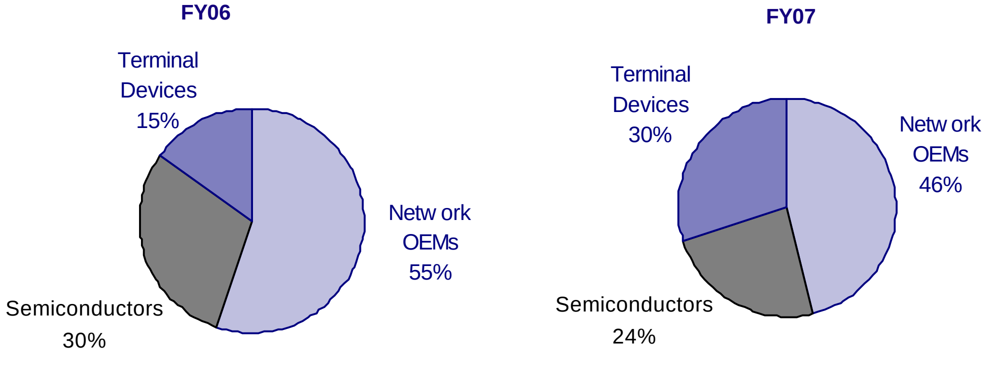
OFFERINGS IN TERMINAL DEVICES

	SERVICES	REVENUE CONTRIBUTION (%)
Software Design	Product design, development and support	39
	Product testing and validation	26
Hardware & Mechanical Design	Acquired through Botnia	35

Source: Company/ Motilal Oswal Securities

R&D expenditure in this segment is estimated at US$5b-US$6b per annum, with around US$300m being offshored mostly to captive units in India. With handset prices on a declining trend, industry leaders in the handset market are increasingly looking at offshoring R&D budgets. While Sasken is currently not amongst the top 3 vendors because of being a late entrant, it is revving up fast. Sasken is witnessing strong traction from its top customers at present, with demand outstripping supply in this space. The Top 2 clients are expected to grow robustly in the forthcoming quarters; with Botnia adding to growth in FY07. With added services portfolio as well as stronger relations with some of the leading players through Botnia, we expect growth in this segment to remain very strong.

SERVICES REVENUE BREAK-UP



Source: Company/ Motilal Oswal Securities

Products - success story envisaged

Sasken's product business is poised for take off, with significant launches of products bearing Sasken's IP, anticipated from December 2006 onwards. Sasken's product lines cut across around 80% of the world's total handset market in terms of offering functionality, with a current targeted market of over 210m phones. Sasken's strongest presence currently is in the smart phones segment — this is the fastest growing mobile phone category worldwide, with estimated annual growth rates of 30-40% over forthcoming years. In a scenario where handset manufacturers are trying to push down software costs to maintain profitability, we believe Sasken is well placed to capture a significant chunk of the business in this segment due to its cost-effective solutions and royalty revenue based on shipments.

Overview of the global handset market

The global handset market can be divided into low-cost phones, smart phones and feature phones. Low-cost phones are the basic function phones in the US$30-50 price range, which have rudimentary features such as text messages, phone book etc. in addition to voice functionality. At the other end of the spectrum are smart phones with high-end operating systems such as Symbian, Windows or Linux along with several enterprise applications and high resolution multimedia.

Low-cost phones are estimated to reach 100m units in CY06, while smart phones are estimated at 150m units. The bulk of the total phone market is made up of feature phones (~600m units), whose functionality falls somewhere between low-cost and smart phones. Smart phones are expected to grow fast at an estimated 3%-40% YoY growth compared with 11-12% for the total market.

Handset manufacturers such as Nokia, Motorola, Samsung, LG and Sony Ericsson are dependent on silicon vendors such as TI, Freescale, NXP, EMP and ADI for providing the chips that form baseband processors (modems) and application processors (for multimedia in smart phones). Players such as Nokia, Sony Ericsson own the design for these chips or have captive units that own the design, while Motorola, Samsung and LG also outsource design and development from third-party vendors such as Sasken. In addition to the big handset manufacturers and silicon manufacturers, there are numerous small-scale handset manufacturers such as Lenovo, Arema, NEC, Sharp etc., who largely outsource design to third-party vendors to avail of cost advantages.

PRODUCTS - A SNAPSHOT

PRODUCT LINE	FUNCTIONALITY	TARGET CATEGORY	ESTIMATED SIZE OF SASKEN'S TARGET MARKET
M-Series	Modems, Protocol stacks, software for the modem subsystem	All phone categories, since all types of phones require a baseband processor	Primarily in 3G, estimated at 75-100m units by 2009, extension to other technology could result in expansion of target market
S-Series	Multimedia and messaging solutions	Smart phones	60m units at present, growing at 30-40% YoY
E-Series	Integrated solutions that offers differentiated feat-ure phones across platforms and phone segments	Feature phones	Currently target 150m units

Source: Company/ Motilal Oswal Securities

S-Series to lead product growth

Smart phones currently constitute 18% of the global mobile handset market, and are expected to grow at an estimated pace of 30%-40% CAGR from 2006-2009E. Over this period, smart phones are expected to reach 30% of the global mobile handset market.

Smart phone features

Smart phones are high-feature phones that have two built-in processors - a baseband processor for the modem subsystem and an application processor that runs an OS such as Symbian, Linux or Windows and is capable of hosting high-end applications such as Microsoft Office (for example). This is unlike low-cost phones that possess only a baseband processor; or feature phones, which may also run co-processors along with the baseband processor.

In the smart phone space, around 75% of the silicon is estimated to run on OMAP (Open Multimedia Application Processor) technology that is provided by Texas Instruments Inc. Sasken has considerable experience with OMAP technologies, having provided support for OMAP right from version 15xx to the current 2420 series. Of the addressable market for application processors in this space, Sasken is currently targeting a market size of roughly 60m units which includes manufacturers such as NEC, Panasonic, Motorola, Samsung and several ODMs based out of China and Taiwan.

Shipments from leading clients to pump in royalty revenue post-FY07

While Sasken already has royalty agreements for the S-Series product line on 3G technology with one of the two major clients, significant royalty revenue for the S-Series is expected to kick in with the launch of new handsets in December 2006 from the other major client, also operating in this space. While royalty revenue in FY07 is likely to be muted, the sale of handsets carrying S-Series software in CY07 is expected to result in increased royalty revenue FY08 onward. In FY08, Sasken expects shipments to reach 7m-8m units as a result of handset sales from three leading clients and 2-3 Taiwan-based ODMs.

S-SERIES (NOS M)	
Estimated target market in CY07	60
Estimated shipments for Sasken in CY07	7
Implied market share (%)	11.7
Estimated shipments for Sasken in FY09 - Worst case	8
Estimated shipments for Sasken in FY09 - Base case	11
Estimated shipments for Sasken in FY09 - Best case	13

Source: Company/ Motilal Oswal Securities

We expect the S-series to post royalty revenue of US$4m in FY08 and US$7m in FY09, wherein it would contribute to 38% of total royalty revenue.

M-Series - handset shipments post FY07 to bring in healthy royalty revenue

The M-series line of products offers solutions for baseband processors of mobile handsets that carry the modem subsystem. The key suppliers of silicon (chips) to handset manufacturers are Texas Instruments, Freescale, NXP, EMP, ADI etc. Within the M-Series suite, Sasken has gained traction in the 3G evolution of GSM, having signed contracts with a few leading silicon vendors, who in turn supply to leading handset manufacturers. Shipments are expected to start in 1HFY07. Of these, Sasken, through its semiconductor partners, is expected to supply to roughly 6% of the world's UMTS/GSM 3G phones by 2009. This amounts to a potential 20m-25m in shipments for Sasken by 2009.

M-SERIES

	WORST CASE	BASE CASE	BEST CASE
Estimated handset sales in FY09 (Nos b)	0.99	1.07	1.12
Estimated market share of 2 leading players (%)	4.5	5.3	6.0
Sasken's share in the above (%)	25	25	33
Estimated shipments by Sasken in FY09 (Nos m)	11	14	22

Source: Company/ Motilal Oswal Securities

TDSCDMA (China) could add to revenue from M-Series

Sasken also has some wins in the TDSCDMA space, the CDMA standard in China. TDSCDMA licenses are expected to be handed out in May 2007, and a majority of the phones launched could be dual mode GSM/TDSCDMA phones. Sasken has contracts to offer solutions to two of the key players in this space, which could also add to revenue from M-Series post FY08.We expect the M-series to post royalty revenue of US$2.4m in FY08 and US$7m in FY09, wherein it would contribute to 38% of total royalty revenue.

E-Series - the ace in the pack

The E-series product line offers integrated solutions for the feature phones category, which constitutes close to 70% of the global phone market. However, Sasken's target segment is a smaller subset comprising Tier II vendors and ODMs (Lenovo, NEC, PMC, Sharp, Compal, Arima, CMCS etc.). This constitutes about 250m phones at present. The primary advantage that E-series presents over competing products and inhouse design is its ability to extend processor performance on low-cost phones to much higher application capacity without the addition of co-processors. In terms of savings per phone, this would amount to saving of US$4-5/phone on account of reduction of co-processor requirements.

The E-series is yet to contribute meaningfully to revenue and is still in the investment phase. The company is currently in negotiations with three potential clients and is hopeful of winning the deal with at least 2 of the 3 clients, in FY08. In the case of deal wins around March 2007, shipments are likely to commence from July-August 2007, with an estimated shipment of 2m units per client in FY08. We however believe that this is too optimistic and anticipate shipments of 1m in FY08 from the E-Series. Royalty per unit is higher in the case of E-series, which is expected to translate into revenue of US$1.5m in FY08 and US$4.5m in FY09, wherein it would contribute to 24% of total royalty revenue.

License fee, customization and AMC to add US$6m-US$8m p.a.

In addition to royalty revenue from the individual product lines, Sasken would also receive license fee, customization revenue and AMC revenue. Based on existing contracts, managements expect revenue of US$4-5m, with US$2-3m as new deal wins every year. AMC revenue, which is currently low due to lack of shipments, is expected to pick up post FY08 when product lines would come out of the warranty periods for some customers. We expect this revenue component to increase post-FY08, whereby it would compensate for the lower license fee revenue due to the shift to the royalty-based revenue model.

Third party competition for Sasken's products is minimal

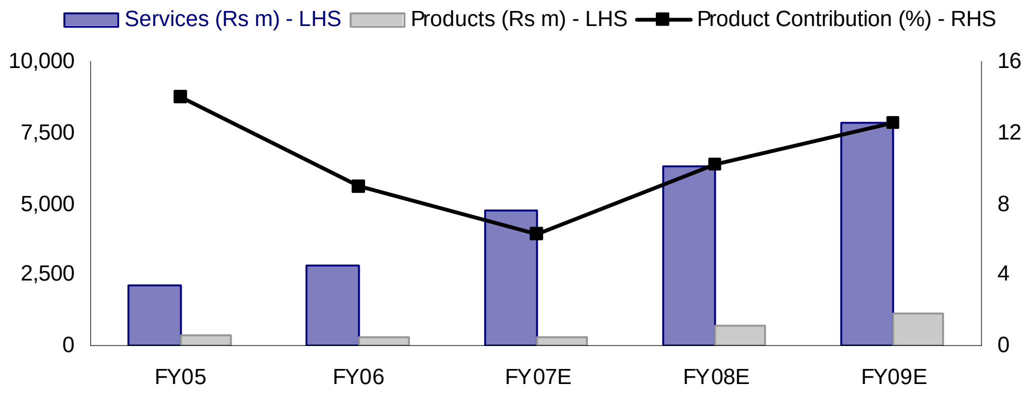
The company's flagship product in the E-series "Aria" includes integrated application for feature phones, including development environments and tools for UI design. The only comparable product present in the market is TTPCom's "Ajar", which is currently used exclusively by Motorola (through the purchase of TTPCom). The management expects new competitors to emerge as the internal software groups are spun out of failing handset and silicon companies.

The company faces minimal third party competition in the M-series and S-series as well, with a single third party competitor for S-series (Packet Video) and possible competition for M-series from the spin out of internal software groups. Lack of meaningful competition gives Sasken an edge in an environment wherein handset manufacturers are looking at increasingly cost effective solutions through third party vendors.

Financials and valuations

Given the strong volume growth anticipated in the services business in each of the focus segments of Sasken after the Botnia acquisition, we expect services revenue to grow at a CAGR of 50% over FY06-FY08E. Product revenue is expected to grow at a CAGR of 61% over the same period due to ramp-up in shipment of individual product lines. Products, which are currently loss making, are expected to make some operating profit in FY08, and would start contributing positively to margins and profits from FY09 onwards.

PRODUCTS TO PICK UP POST FY07



Source: Company/ Motilal Oswal Securities

Services margins likely to be impacted by wage pressures

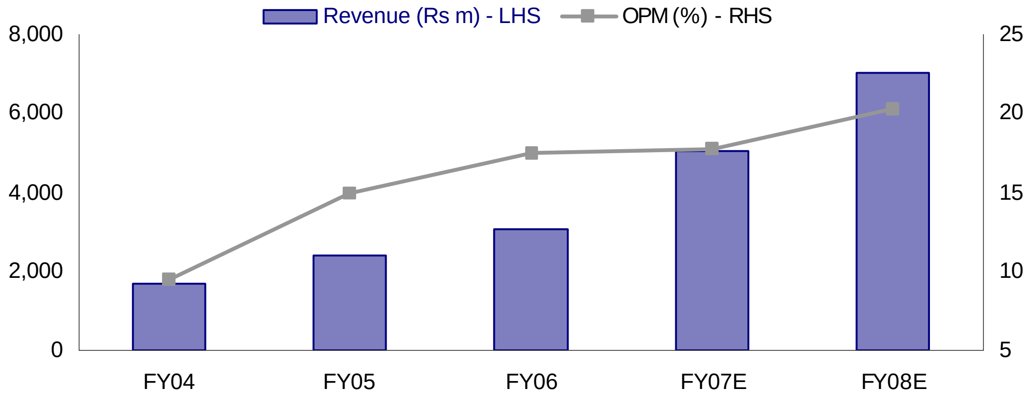
Services margins are expected to decline from the current levels of 24% due to rising wage costs and also due to our expectation of higher employee incentives, as the company tries to contain its high attrition levels. Additionally, the company is also investing in sales and marketing activities and plans to expand the sales team, which is likely to result in higher expenditure. While the company's SEZ plans are yet to be finalized, the company could lease facilities to meet its immediate requirements. Therefore we do not expect any major savings from G&A costs also. However, expected price increases (billing rates are still lower compared with some peers) are likely to contain any steep erosion in margins due to higher costs. Consequently, we expect services margins to decline in the forthcoming years.

Greater product composition and expected breakeven to improve overall margins

The products business is expected to start making operating profits in FY08 (management expects likely operating breakeven in 4QFY07 itself), which would result in overall margins increasing YoY. Consequently, we expect margins to improve from 17.5% in FY06 to

20.3% in FY08E, which would result in faster profit growth over the same period. We expect profits to reach Rs883m by FY08E, a CAGR of 72.5% over FY06-FY08E.

OPERATING MARGINS TO IMPROVE WITH PRODUCTS BREAKEVEN



Source: Company/ Motilal Oswal Securities

Equity dilution likely for facility expansion/working capital needs

Sasken has already passed an enabling resolution to raise close to US$50m through equity dilution or FCCBs for the purpose of facilities expansion, working capital requirement and inorganic growth. However, we believe that with the Botnia acquisition as well as management's focus in terms of the growing product business, we do not foresee acquisition in the near term, in which case, dilution could be below US$50m. However assuming dilution at Rs475, total dilution with US$50m raising will be around 17%.

Sum-of-the-parts valuation proposes upside of 26.5%, Buy

We have valued Sasken's services business at an EV/EBITDA of 11xFY08E, which implies a P/E of 15x FY08E Services EPS. Current valuations at 14.2x FY08E earnings, therefore, exclude the valuations of the products business. We have valued the products business at 2.8x FY08E sales (v/s acquisition of TTPCom by Motorola at 2.8x sales,TTPCom register revenues of Pounds 37m and loss of Pounds 26m in FY06), implying a total share price of Rs558, an upside of 26.2% from the current levels. We initiate coverage with a **Buy** rating.

SUM OF PARTS VALUATION

PARTICULARS	(RS M)	REMARKS
Services Business		
FY08E EBITDA	1,418	
EV/EBITDA multiple x FY08E EBITDA	11.0	Assuming product to breakeven in FY08, 11xFY08E service EBITDA, values services business by 15x FY08E Services EPS
Services EV	15,597	
Value per Share (Rs)	**513**	
Product Business		
FY08E Sales	716	
EV/Sales multiple x FY08E Sales	2.8	TTP.com getting acquired by Motorola at 2.8x Sales despite it was loss making with high client concentration.
Product EV	2,006	
Value per Share (Rs)	**66**	
Total EV	**17,604**	
Less: Current Debt	1,035	
Add: Current Cash and Bank	412	
Net EV	**16,981**	
Current O/S Shares (m)	28.0	
Expected dilution from likely	2.4	We have taken dilution (at Rs475 per share) to the extent of only 50% of likely US$50m fund raising as we believe that fund requirements for facility expansion and working capital would be lower than US$50m
Likely Diluted Equity Shares (m)	**30.4**	
Value per share (Rs) (without Dilution)	**605**	
Upside from Curr. Levels (%)	**37.1**	
Value per Share (Rs)	**558**	with likely dilution at Rs 475/share
Upside from Curr. Levels (%)	**26.2**	

Source: Company/ Motilal Oswal Securities

COMPARATIVE VALUATIONS

		SASKEN	HCL TECH	TECH MAHINDRA
P/E (x)	FY07E	24.5	20.9	19.9
	FY08E	14.2	16.9	16.4
EV/Sales (x)	FY07E	2.6	2.9	4.0
	FY08E	1.8	2.1	2.8
EV/EBITDA (x)	FY07E	13.8	13.1	17.1
	FY08E	8.3	10.0	13.3

Source: Motilal Oswal Securities

Concerns

Product revenue dependent on handset shipments by clients

Our estimates for product revenue and profitability assume average success of handsets launched by Sasken's clients. Failure of handsets in the market could result in potential downside to revenue from the products business.

Dependence on one single vertical could impcat revenue in the case of slowdown

Both products and services revenues are currently aligned to one single business vertical viz. Telecom. Any slowdown in this sector would have a significant impact on Sasken's revenue and profitability due to lack of risk mitigation

Sustaining royalty/unit could be a challenge with declining technology costs

Maintaining royalty/unit would be a challenge for Sasken in a technology intensive environment where technology costs are declining on a continuous basis. Also, royalty will be linked to handset prices, which generally are on a declining trend. Any significantly decline in royalty/unit could impact revenue and profitability significantly.

Services billing rates lower than peers

Services billing rates continue to remain lower versus industry peers. Our model factors in certain increases in billing rates that would help contain margin erosion. Any negative impact on billing rates could impact services margins significantly.

Supply side concerns could result in margin pressure

Supply side concerns for services business continue to plague the company with attrition levels high at +20%. Whilst management is currently adopting measures to contain attrition, ongoing attrition could lead to higher margin pressure in services business.

INCOME STATEMENT					(RS MILLION)
Y/E MARCH	2005	2006	2007E	2008E	2009E
Sales	**2,418**	**3,081**	**5,047**	**7,030**	**8,984**
Change (%)	*45.5*	*27.4*	*63.8*	*39.3*	*27.8*
Software Develop. Exp.	1,523	2,005	3,255	4,254	5,520
SG&A	533	538	894	1,352	1,667
EBITDA	**362**	**538**	**898**	**1,424**	**1,796**
% of Net Sales	*15.0*	*17.5*	*17.8*	*20.3*	*20.0*
Depreciation	148	236	215	281	330
Interest	5	1	72	96	96
Other Income	37	64	46	100	104
PBT	**245**	**365**	**657**	**1,148**	**1,474**
Tax	17	69	142	265	332
Rate (%)	*7.1*	*18.8*	*21.6*	*23.1*	*22.5*
PAT	**228**	**297**	**515**	**883**	**1,143**
Change (%)	*24.3*	*30.3*	*73.6*	*71.4*	*29.4*
Extra-ordinary Items	0	68	0	0	0
Reported PAT	**228**	**229**	**515**	**883**	**1,143**
Change (%)	*24.3*	*0.6*	*124.8*	*71.4*	*29.4*

E: MOSt Estimates

ASSUMPTIONS	2005	2006	2007E	2008E	2009E
Services Revenue (Rs m)	2,078	2,806	4,734	6,313	7,860
As % of total revenue	86.0	91.1	93.8	89.8	87.5
Product Revenue (Rs M)	339	275	314	716	1,123
As % of total revenue	14.0	8.9	6.2	10.2	12.5
Services - Revenue Mix (%)					
Onsite	22.3	17.6	28.2	30.7	30.1
Offshore	56.1	72.8	66.1	63.0	63.6
Fixed Price	21.6	9.7	5.7	6.3	6.3

E: MOSt Estimates

BALANCE SHEET					(RS MILLION)
Y/E MARCH	2005	2006	2007E	2008E	2009E
Share Capital	171	279	284	287	290
Share Premium	613	2,802	2,844	2,940	3,051
Reserves	635	768	1,185	1,867	2,749
Net Worth	**1,419**	**3,850**	**4,314**	**5,094**	**6,090**
Loans	15	12	1,035	1,030	870
Deferred Tax Liability	0	-2	-4	2	17
Capital Employed	**1,434**	**3,860**	**5,345**	**6,126**	**6,977**
Gross Block	1,603	1,895	4,437	4,837	5,387
Less : Depreciation	733	918	1,257	1,538	1,868
Net Block	**870**	**977**	**3,179**	**3,298**	**3,518**
CWIP	8	34	50	50	50
Investments	6	1,865	365	365	365
Capitalized Software Product Costs	0	141	392	252	112
Curr. Assets	**889**	**1,223**	**2,358**	**3,309**	**4,948**
Debtors	541	653	1,316	1,356	2,058
Cash & Bank Balance	109	151	478	890	1,521
Loans & Advances	237	385	534	1,013	1,308
Other Current Assets	2	33	30	50	60
Current Liab. & Prov	**338**	**381**	**999**	**1,147**	**2,015**
Current Liabilities	254	266	718	547	1,070
Provisions	84	115	281	600	946
Net Current Assets	**551**	**842**	**1,359**	**2,162**	**2,932**
Capital Employed	**1,434**	**3,860**	**5,345**	**6,126**	**6,977**

E: MOSt Estimates

RATIOS

Y/E MARCH	2005	2006	2007E	2008E	2009E
Basic (Rs)					
EPS	**13.5**	**10.6**	**18.0**	**31.1**	**39.9**
Cash EPS	22.3	19.1	25.5	41.0	51.4
Book Value	84.3	137.8	153.6	179.6	212.6
DPS	3.0	3.0	3.6	6.2	8.0
Payout % (Incl.Div.Taxes)	22.2	36.6	20.0	20.0	20.0
Valuation (x)					
P/E	32.7	41.6	24.5	14.2	11.1
Cash P/E	19.8	23.2	17.3	10.8	8.6
EV/EBITDA	29.4	26.7	13.8	8.3	6.3
EV/Sales	3.0	4.0	2.6	1.8	1.3
Price/Book Value	5.2	3.2	2.9	2.5	2.1
Dividend Yield (%)	0.7	0.7	0.8	1.4	1.8
Profitability Ratios (%)					
RoE	17.8	11.3	12.6	18.8	20.4
RoCE	18.0	11.3	12.4	16.7	18.6
Turnover Ratios					
Debtors (Days)	66	71	71	69	69
Fixed Asset Turnover (x)	0.7	0.6	0.9	0.7	0.6
Leverage Ratio (x)					
Debt/Equity Ratio (x)	0.0	0.0	0.3	0.2	0.2

E: MOSt Estimates

CASH FLOW STATEMENT					(RS MILLION)
Y/E MARCH	2005	2006	2007E	2008E	2009E
CF from Operations	353	391	772	1,305	1,619
Cash for Working Capital	-124	-306	-210	-475	-199
Net Operating CF	**229**	**85**	**562**	**831**	**1,420**
Net Purchase of FA	-239	-331	-2,433	-400	-550
Capitalisation of Product Development Cost	0	-141	-250	0	0
Net Purchase of Invest.	23	-1,799	1,546	100	104
Net Cash from Invest.	**-215**	**-2,271**	**-1,138**	**-300**	**-446**
Proceeds from Equity.	105	2,291	47	99	114
Proceeds from LTB/STB	10	-3	1,023	-5	-160
Interest Paid	-5	-1	-72	-96	-96
Dividend Payments	-43	-58	-96	-117	-201
Cash Flow from Fin.	**68**	**2,229**	**903**	**-119**	**-343**
Free Cash Flow	-10	-246	-1,871	431	870
Net Cash Flow	**81**	**43**	**327**	**411**	**631**
Opening Cash Balance	**27**	**109**	**151**	**478**	**890**
Add: Net Cash	81	43	327	411	631
Closing Cash Balance	**109**	**151**	**478**	**890**	**1,521**

E: MOSt Estimates

N O T E S

For more copies or other information, contact
Institutional: Navin Agarwal. **Retail:** Manish Shah, Mihir Kothari
Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: inquire@motilaloswal.com

Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

Disclosure of Interest Statement	Sasken Communication Technologies
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No