

STOCK DATA

Market Cap	Rs2.4bn
Book Value per share	Rs161
Eq Shares O/S (F.V. Rs.10)	28.0mn
Median Vol (12 mths)	522,398 (BSE+NSE)
52 Week High/Low	Rs370/76
Bloomberg Code	SACT@IN
Reuters Code	SKCT.BO

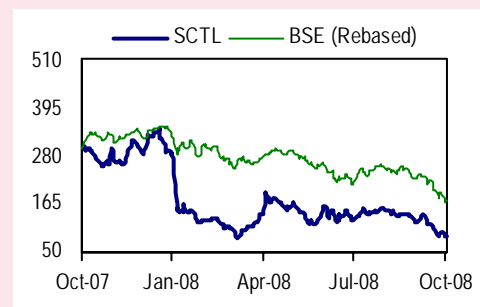
SHAREHOLDING PATTERN (%)

Qtr. Ended	Dec-07	Mar-08	Jun-08
Promoters	26.3	26.4	26.4
MFs/FIs	9.5	6.5	10.2
FIIIs	37.0	24.9	18.2
PCBs	5.6	8.7	8.9
Indian Public	8.7	33.5	36.3

STOCK PERFORMANCE (%)

	1M	3M	12M
Absolute	(32.4)	(35.6)	(70.8)
Relative	(7.4)	(12.8)	(49.7)

STOCK PRICE PERFORMANCE



KEY HIGHLIGHTS

Sasken Communication Technologies Ltd. (SCTL) reported net sales of Rs1.7bn, a QoQ growth of 4.9%. This growth was due to the weak INR as sales in USD terms dipped by 2%. Weak INR and cost control led to a 150bps sequential expansion in OPM to 23.3%. However, MTM losses during the quarter negated this, resulting in a 24% QoQ drop in net profits to Rs104mn.

● Service revenue guidance cut

SCTL's expectations of a 25-29% USD growth for services in FY09 was aggressive considering the sluggishness and uncertainty in key markets. It now expects to achieve a 10% growth as the networks and semiconductor segments due to elongated sales cycles. Networks is expected to de-grow by 15% while semiconductors is expected to grow at ~15% from the earlier expectation of ~25%.

● Uncertainty over revised guidance will come into play

The handsets business has not witnessed any cut as this segment is yet expected to grow at ~35-40%. We are skeptical about the visibility SCTL has over its growth rates and would not be surprised if the revised guidance is not met as the current environment does leave open a possibility that client spends in handsets could be impacted.

● Profitability could take a hit in FY10

The revised guidance implies a single digit growth rate in USD terms for H2. If the current environment sustains and we assume slight INR appreciation with no major recovery in USD growth, SCTL would face increased cost pressures which could possibly lead to negative earnings growth in FY10.

VALUATIONS AND RECOMMENDATION

At the CMP of Rs92, SCTL is trading at a P/E of 5.5x and EV/EBIDT of 1.8x its FY09E. A weak INR and cost control should enable SCTL to post significant increase in profits in FY09 but this is linked to a guidance which is uncertain. Though such a growth rate make valuations attractive, the picture might change in FY10 if USD growth continues to face pressure combined with a stronger INR leading to cost pressure and therefore a risk of earnings de-growth. Hence, we maintain our 'SELL' recommendation.

KEY FINANCIALS (CONSOLIDATED)

Rs mn	Quarter Ended			Yr Ended (March)				
	Mar-08	Jun-08	Sep-08	2006	2007	2008	2009E	2010E
Net Sales	1,573	1,681	1,763	3,081	4,771	5,702	6,955	7,552
YoY Gr. (%)	16.1	31.0	23.1	27.4	54.8	19.5	22.0	8.6
Op Profits	299	366	411	482	758	792	1,438	1,259
Op. Marg.(%)	19.0	21.8	23.3	15.6	15.9	13.9	20.7	16.7
Net Profits	148	137	104	229	443	394	567	618
Eq Capital	286	286	280	279	285	286	338	338

KEY RATIOS

	Yr Ended (March)				
	2006	2007	2008	2009E	2010E
Dil. EPS (Rs)	6.8	13.1	11.7	16.8	18.3
ROCE (%)	14.0	13.2	11.6	15.5	14.2
RONW (%)	8.7	11.0	8.9	11.5	11.2
P/E (x)	13.6	7.0	7.9	5.5	5.0
EV/ Sales (x)	0.4	0.7	0.6	0.4	0.3
EV/EBDIT (x)	3.5	4.4	4.0	1.8	1.8

PERFORMANCE OVERVIEW

Actual v/s Estimate - Q2FY09			
Rs mn	PINC Estimate	Actual	Var (%)
Net Sales	1,761	1,763	0.1
Operating Profit	309	411	33.0
OPM (%)	17.5	23.3	580bps
Net Profit	164	240*	46.0
Diluted EPS (Rs)	4.8	6.9	46.0

Source: PINC Research / * Excl MTM losses

Net Sales for the quarter came in as per our expectations but the cost cutting/control measure by SCTL led to an unexpected expansion in OPM in a quarter when wage hikes came into effect. USD:INR hedge positions led to an exchange loss of Rs136mn leading to a dip in net profits. Excl this amount net profit numbers were better than expected.

These results do not paint the true picture as sales in USD terms dipped by ~2% QoQ with service revenues decreasing by 2.5% QoQ.

This decline reflects the difficulties it is facing in its key markets of networks and semiconductors which has led to a revision of FY09 USD growth outlook for the services business.

Networks is now expected to de-grow by 15% from the earlier expectation of 8-12%. SCTL was banking on certain large deals going through to achieve this guidance but it continues to witness elongated sales cycles. The semiconductor segment also continues to face delayed decision making leading to a cut in growth outlook for this business from ~25% to 15%. The growth outlook for the handset segment remains unchanged and is expected to grow at ~35-40%.

Overall service revenues are now expected to grow at ~10%, a cut of 15-19%. We are unsure about the kind of visibility SCTL has over its revised growth rates as it is banking on unchanged growth rates in the handsets segment in order to achieve its guidance. Hence, a continuation of a sluggish economic environment into the next few quarters leaves open the possibility that clients in the handset segment could potentially delay decisions/spends.

OUTLOOK

With a continuation of a weak INR, we have revised our FY09 and FY10 estimates. Our FY09 and FY10 estimates are based on USD:INR of Rs44 and Rs43 respectively from our earlier assumption of Rs41 and Rs40.

Our sales estimates are now at Rs6.9bn and Rs7.6bn respectively and we expect SCTL's cost control measures and a weak INR to lead to OPM expansion of ~680bps to 20.7%. We do not think that such margins are sustainable assuming no major recovery in USD growth rates and a stronger INR in FY10 which would lead to cost pressures. Hence we expect OPM to contract by ~400bps in FY10 to 16.7%. Our net profit estimates for FY09 and FY10 are at Rs567mn and Rs618mn respectively with a diluted EPS of Rs16.8 and 18.3.

Our FY09 and FY10 USD growth rate for service revenues are at 10.6% (USD144mn) and 13.3% (USD164mn).

VALUATIONS AND RECOMMENDATION

A weak INR and cost control is leading to a big jump in FY09 profits and making valuations look attractive vis-a-vis growth rates but this is skewing the true picture as key markets are under great pressure. Considering no major changes in key markets in the next 2-3 quarters, FY10 USD growth rates may not see a major recovery and therefore if we assume a stronger INR, it would lead to cost pressures and could potentially result in negative earnings growth in that year. Hence, we maintain our 'SELL' recommendation.

Besides a weak INR, sharp reduction in costs helped expand margins...

Revised guidance could also face a threat if sales cycles in the handset business get elongated further...

Weak INR provides a misleading picture, FY10 growth rates could come under pressure...

Revised Estimates						
Rs mn	Prev. Estimates		Revised Estimates		% Change	
	FY2009	FY2010	FY2009	FY2010	FY2009	FY2010
Net Sales	6,978	8,308	6,955	7,552	(0.3)	(9.1)
Operating Profit	1,158	1,220	1,438	1,259	24.1	3.2
EBIDTA	1,167	1,289	1,298	1,327	11.3	3.0
Net Profit	502	554	567	618	12.9	11.5
Diluted EPS	14.6	16.1	16.8	18.3	14.9	13.5
OPM	16.6	14.7	20.7	16.7	410bps	20bps
NPM	7.2	6.7	8.2	8.2	100bps	150bps

USD Sales						
USD mn	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09
Net Sales	31.4	32.9	35.8	39.4	40.9	39.3
QoQ Growth	1.6	4.6	8.8	10.2	3.7	(3.8)

Geographic Mix						
USD mn	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09
North America	8.8	11.5	9.3	8.7	9.4	8.7
QoQ Growth	13.8	30.7	(19.1)	(6.5)	8.0	(7.4)
Europe	15.4	14.5	19	21.3	20	19.7
QoQ Growth	1.6	(5.8)	31.0	12.1	(6.1)	(1.5)
India	6	6.2	6.8	7.9	9.8	8.7
QoQ Growth	1.6	3.3	9.7	16.2	24.1	(11.2)
RoW	1.3	0.7	0.7	1.6	1.6	2.4
QoQ Growth	(49.2)	(46.2)	0.0	128.6	0.0	50.0

Company description

Sasken Communication Technologies Ltd. (SCTL) was formed in 1989 & has evolved into a leading offshore R&D service provider in the telecom domain. It has focused on network equipment manufacturers, semiconductor vendor and handset vendor segments as its domain. SCTL also provides product offerings, which facilitate handset development. These are provided through semiconductor vendors or are supplied directly to mobile handset vendors.

Client Mix						
USD mn	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09
Top 5 Clients	24.1	24.4	27.7	28.5	27.6	25.2
<i>QoQ Growth</i>	3.6	1.2	13.5	2.9	(3.2)	(8.7)
Top 10 Clients	27.6	28.1	30.7	33.1	32.8	31.9
<i>QoQ Growth</i>	2.5	1.8	9.3	7.8	(0.9)	(2.7)
Clients 6-10	3.6	3.7	2.9	4.6	5.2	6.7
<i>QoQ Growth</i>	(4.3)	2.8	(21.6)	58.6	13.0	28.8
Non Top 10 Clients	3.8	4.8	5.1	6.3	7.1	7.4
<i>QoQ Growth</i>	(4.7)	26.3	6.3	23.5	12.7	4.2

Product Revenues						
USD mn	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09
License Fee	1.3	1.6	0.6	1.2	1.1	0.7
<i>QoQ Growth</i>	76.6	23.1	(62.5)	100.0	(8.3)	(36.4)
Royalties	0.5	0.4	0.3	1.1	0.7	1.6
<i>QoQ Growth</i>	13.3	(20.0)	(25.0)	266.7	(36.4)	128.6
Customisation	0.4	0.5	1.5	2.2	2.6	2.4
<i>QoQ Growth</i>	(58.2)	25.0	200.0	46.7	18.2	(7.7)
Total	2.2	2.5	2.4	4.5	4.4	4.7
<i>QoQ Growth</i>	6.2	13.6	(4.0)	87.5	(2.2)	6.8

Service Revenues Mix						
USD mn	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09
Onsite	9.8	9.3	11.8	13.4	13.8	13.3
<i>QoQ Growth</i>	(2.4)	(5.1)	26.9	13.6	3.0	(3.6)
Offshore	19.5	23.7	21.5	21.5	21.7	21.4
<i>QoQ Growth</i>	3.2	21.5	(9.3)	0.0	0.9	(1.4)
Fixed Price	1.2	1.8	2.0	2.1	1.5	2.0
<i>QoQ Growth</i>	(18.8)	50.0	11.1	5.0	(28.6)	33.3
Time & Material	28.1	31.2	31.4	32.8	34.1	32.6
<i>QoQ Growth</i>	3.0	11.0	0.6	4.5	4.0	(4.4)
Total Service Revenues	29.3	33.0	33.3	34.9	35.6	34.7
<i>QoQ Growth</i>	1.3	12.6	0.9	4.8	2.0	(2.5)

Estimates				
Rs mn	Sasken			CAGR
	FY08A	FY09E	FY10E	FY08-10E
Net Sales	5,702	6,955	7,552	15.1%
Operating Profit	792	1,438	1,259	26.1%
OPM	13.9	20.7	16.7	
PAT	394	567	618	25.2%
Diluted EPS (Rs)	11.7	16.8	18.3	25.2%
P/E	7.9	5.5	5.0	

Peer Group Comparison								
Rs mn	NIIT Technologies			CAGR	Mastek			CAGR
	FY08A	FY09E	FY10E	FY08-10E	FY08E	FY09E	FY10E	FY08-10E
Net Sales	9,415	10,447	11,570	10.9%	8,940	11,652	13,338	22.1%
Operating Profit	1,763	1,988	2,089	8.8%	1,598	2,255	2,556	26.5%
OPM	18.7	19.0	18.1		17.9	19.4	19.2	
PAT	1,352	1,432	1,495	5.1%	1,259	1,622	1,788	19.2%
Diluted EPS (Rs)	22.8	24.2	25.3	5.1%	44.6	57.4	63.3	19.2%
P/E	3.2	3.0	2.9		4.8	3.8	3.4	

Peer Group Comparison								
Rs mn	Hexaware			CAGR	KPIT Cummins			CAGR
	CY07A	CY08	CY09	CY07-09E	FY08A	FY09E	FY10E	FY08-10E
Net Sales	10,398	11,579	13,672	14.7%	6,005	7,570	9,030	22.6%
Operating Profit	1,201	1,189	1,606	15.6%	923	1,080	1,303	18.8%
OPM	11.6	10.3	11.7		15.4	14.3	14.4	
PAT	1,101	853	1,134	1.5%	513	628	760	21.7%
Diluted EPS (Rs)	7.5	5.9	7.8	2.1%	6.2	7.9	9.2	22.0%
P/E	3.3	4.2	3.2		4.4	3.4	2.9	

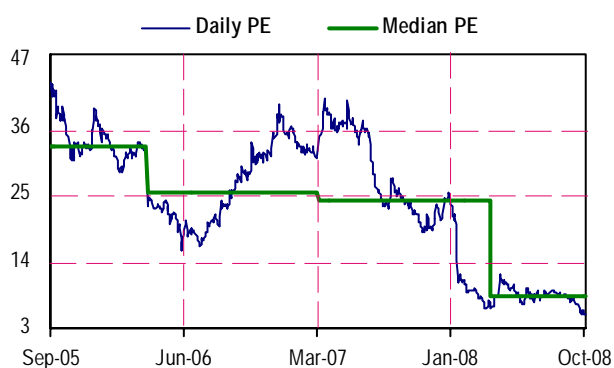
Peer Group Comparison								
Rs mn	MindTree			CAGR	Infotech Enterprises			CAGR
	FY08A	FY09E	FY10E	FY08-10E	FY08A	FY09E	FY10E	FY08-10E
Net Sales	7,398	10,234	13,169	33.4%	6,741	9,001	11,283	29.4%
Operating Profit	1,254	1,460	1,822	20.5%	1,217	1,669	2,106	31.5%
OPM	17.0	14.3	13.8		18.1	18.5	18.7	
PAT	1,033	1,111	1,597	24.3%	856	1,098	1,332	24.7%
Diluted EPS (Rs)	26.6	30.5	40.9	24.1%	16.2	20.3	25.2	24.8%
P/E	9.1	8.0	5.9		9.0	7.2	5.8	

Source: PINC Research / Bloomberg

Financial results for the quarter & half year ended 30 September 2008 (Consolidated)

Particulars (Rs Mn)	Quarter Ended			Half Year Ended			Year Ended
	30/09/08	30/09/07	Gr %	30/09/08	30/09/07	Gr %	31/03/08
Net Sales	1,763	1,432	23.1	3,444	2,716	26.8	5,702
Total Expenditure	1,352	1,198	12.9	2,667	2,382	11.9	4,910
Cost of Operations	1,130	896	26.1	2,190	1,743	25.6	3,739
R&D Expenses	9	50	(81.3)	24	140	(83.1)	216
SG&A Expenses	212	252	(15.6)	454	499	(9.1)	954
Operating profit	411	235	75.4	778	334	133.1	792
Other Income	(122)	79	-	(180)	185	-	234
PBIDT	289	313	(7.7)	598	518	15.3	1,026
Interest	10	10	(2.1)	21	20	3.9	40
Ammortisation	31	35	(11.6)	66	73	(9.3)	144
Depreciation	72	68	6.2	141	135	4.5	274
PBT	176	200	(12.0)	370	290	27.3	568
Provision for current tax	69	57	21.2	121	83	45.4	174
Provision for FBT	4	-	-	8	-	-	-
Net Profits	104	143	(27.6)	241	207	16.3	394
Equity Capital (F.V. Rs 10)	280	285	(1.7)	280	285	(1.7)	286
Reserves (excl. rev. res.)	-	-	-	-	-	-	4,302
EPS for the period (Rs)	3.7	5.0	(26.4)	8.6	7.3	18.3	13.8
Book Value	-	-	-	-	-	-	161
OPM (%)	23.3	16.4		22.6	12.3		13.9
NPM (%)	5.9	10.0		7.0	7.6		6.9
Exp. (% of Net Sales.)							
Cost Of Revenues	64.1	62.6		63.6	64.2		65.6
R&D Expenses	0.5	3.5		0.7	5.2		3.8
SG&A Expenses	12.0	17.6		13.2	18.4		16.7

Median PE v/s Daily PE



PE Band



Income Statement	2005	2006	2007	2008	2009E	2010E
Revenues	2,418	3,081	4,771	5,702	6,955	7,552
Growth (%)	45.5	27.4	54.8	19.5	22.0	8.6
Total Expenditure	2,204	2,769	4,014	4,910	5,517	6,293
Operating Profit	213	312	757	792	1438	1259
OPM (%)	8.8	10.1	15.9	13.9	20.7	16.7
Growth (%)	35.5	46.3	142.6	4.6	81.5	(12.4)
Interest & dividend income	37	64	97	234	(139)	68
EBIDT	250	376	855	1026	1298	1327
(-) Interest	5	1	45	40	42	42
(-) Depreciation & Ammortisation	-	9	267	418	411	441
PBT & extraordinary items	245	365	543	568	845	844
(-) Tax provision	17	69	101	174	278	227
Net Profits	228	297	442	394	567	618
Extra Ordinary Items	-	(68)	-	-	-	-
Net Profit after Extra Ord.	228	229	442	394	567	618
Growth (%)	23.4	0.6	93.0	(11.0)	44.0	8.9
Fully diluted Eq. sh. O/s (mn no)	33.8	33.8	33.8	33.8	33.8	33.8
Book Value (Rs)	47	116	126	137	155	170
Diluted EPS (Rs)	6.7	6.8	13.1	11.7	16.8	18.3

Balance Sheet	2005	2006	2007	2008	2009E	2010E
<i>Equity Share Capital</i>	168	279	285	286	338	338
<i>Reserves & Surplus</i>	1251	3571	3933	4303	4909	5413
Net worth	1419	3850	4218	4588	5247	5751
Total Debt	15	12	916	876	772	772
Deferred Tax liability	-	(2)	(6)	(13)	(13)	(13)
Capital Employed	1,434	3,860	5,128	5,452	6,006	6,510
Fixed Assets	877	1152	3328	3285	3324	3332
Net current assets	551	842	1,434	1,901	2,416	2,911
Investments	6	1,866	366	266	266	266
Total Assets	1,434	3,860	5,128	5,452	6,006	6,510

Cash Flow Statement	2005	2006	2007	2008	2009E	2010E
PBT & extraordinary items	245	365	543	568	845	844
Depreciation	154	194	267	418	411	441
Interest & dividend inc.	(2)	(58)	(97)	(234)	139	(68)
Interest paid	5	1	45	40	42	42
Tax paid	(27)	(94)	(101)	(174)	(278)	(227)
(Inc)/Dec in working capital	(124)	(306)	(395)	(247)	(156)	(157)
Other Adjustments	19.95	-18	-14	72	-	-
Cash from operations	271	86	248	443	1003	876
Net capital expenditure	(239)	(472)	(2,488)	(351)	(450)	(450)
Net investments	21	(1,860)	1,497	102	-	-
Interest recd	2	58	97	234	67	68
Cash from investing activities	(216)	(2274)	(894)	(15)	(383)	(382)
Issue of eq. shares	105	2,291	78	1	52	-
Change in debt	10	(3)	904	(40)	(105)	-
Dividend paid	(85)	(57)	(94)	(128)	(129)	(114)
Interest Paid	(5)	(1)	(45)	(40)	(42)	(42)
Cash from financing activities	26	2230	843	(207)	(223)	(156)
Inc/Dec. in cash	81	42	197	220	397	338

Key Ratios	2005	2006	2007	2008	2009E	2010E
OPM (%)	14.7	15.6	15.9	13.9	20.7	16.7
ROACE (%)	19.6	14.0	13.2	11.6	15.5	14.2
ROANW (%)	17.8	8.7	11.0	8.9	11.5	11.2
Sales/Total Assets (x)	1.7	0.8	0.9	1.0	1.2	1.2
Debt:Equity (x)	0.0	0.0	0.2	0.2	0.1	0.1
Current Ratio (x)	2.6	3.2	2.8	3.1	2.7	3.0
Debtors (days)	81	76	84	84	91	91
Net working capital (days)	67	82	83	85	76	78
EV/Sales (x)	1.2	0.4	0.7	0.6	0.4	0.3
EV/EBIDT (x)	14.1	3.5	4.4	4.0	1.8	1.8
P/E (x)	13.6	13.6	7.0	7.9	5.5	5.0
P/BV (x)	2.0	0.8	0.7	0.7	0.6	0.5

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