

Company Report

Sasken Communication Tech. Ltd.

21st August, 2010**BUY**

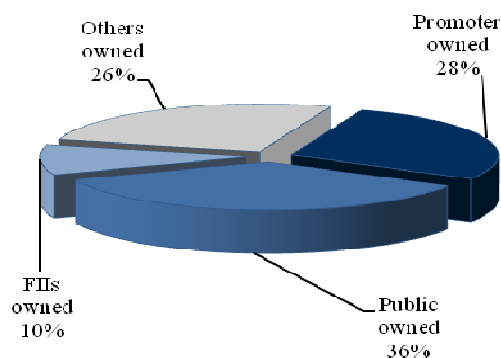
CMP ₹ 200.85

Target Price ₹ 280.00

| | |
|-------------------|--------------------------|
| BSE Code | 532663 |
| Market Cap (₹ Mn) | 5531.72 |
| 52 Week High/Low | 225.65/122.25 |
| Industry | IT Consulting & Software |
| Face Value | ₹ 10.00 |
| Shares O/S | 2,75,41,576 |

| | |
|----------------|--------|
| EPS (STND TTM) | 29.93 |
| CEPS | 9.96 |
| Book Value | 184.54 |
| P/E | 6.71 |
| P/B | 1.08 |

Shareholding Pattern



Key Highlights

Hiring in trend: Sasken Communication appears to be on strong growth trajectory. The consolidated headcount as of June 30th 2010 stood at 3284, a net add of 131 for the quarter which reflects the moment of increasing demand.

Forayed into Handset segment: Sasken has emerged as the partner of choice for key tier 1 customers and is providing testing services on their primary feature phone platform. This will help us expand our range of offerings and consolidate our position as one of the leaders in the mobile handset space.

Investment into building specific competencies: The Company has made investment in building specific competencies on the android platform and is keenly pursuing large opportunities in this potentially high growth area.

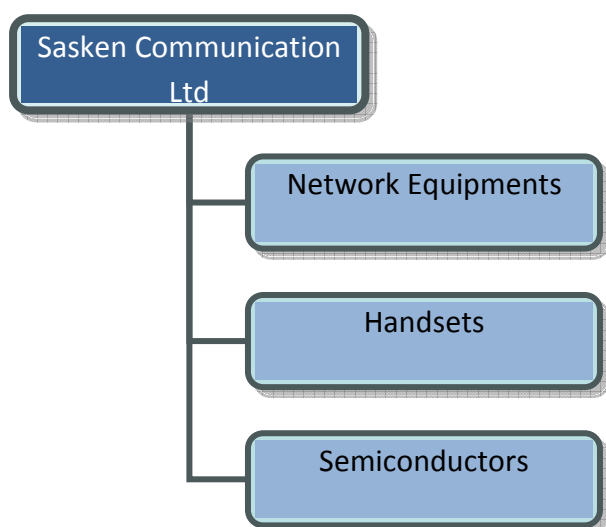
Sound financial performance: The revenue for the first quarter grew by 8.84% to ₹ 104.10 crore from ₹ 95.64 crore in corresponding quarter of fiscal 2010. Operating Profit for the first quarter fiscal 2011 was at ₹ 23.78 crores, a growth of 48.25% over the corresponding quarter in the previous financial year. PAT for Q1 FY 11 was at ₹ 23.03 crores, higher by 35.07% over the corresponding quarter in the previous year. The EPS for the first quarter increased to ₹ 8.42 from ₹ 6.29 in Q1FY2010.

Valuation

At the CMP of ₹ 200.85, the stock is trading at a standalone PE of 6.96x and 5.98x its FY11E and FY12E EPS of ₹ 28.83 and ₹ 33.55, respectively. Since the stock offers good opportunity, we initiate a 'BUY' signal on the stock with a target price of ₹ 280.00 in medium to long term investment horizon expecting an appreciation of about 39.40%.

Business Details

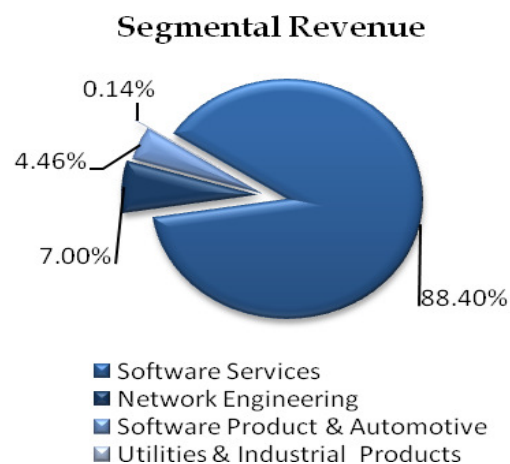
Sasken Communication Technologies Limited (Sasken), established in 1989 and headquartered in Bangalore, India is an embedded communications solutions company, that helps businesses across the communications value chain accelerate product development life cycles. Sasken offers a unique combination of research and development consultancy, wireless software products and software services, and works with Network OEMs, Semiconductor Vendors, Terminal Device OEMs and Operators across the world. Global Fortune 500 and Tier 1 companies in these segments are part of Sasken's customer profile. Sasken employs 3,153 people, operating from state-of-the-art research and development centers in Bangalore, Pune, Chennai and Hyderabad in India, Kaustinen, Tampere and Oulu in Finland and Monterrey in Mexico. Sasken is also present in Beijing (China), Bochum (Germany), Kanagawa (Japan), Guildford (UK), Chicago, Dallas & Santa Clara (USA) and Seoul (South Korea).



Sasken Communication Technologies Limited is a provider of telecommunication software services and solutions to network equipment manufacturers, mobile terminal vendors and semiconductor companies around the world. Sasken delivers end-to-end solutions that enable richer content delivery on next generation networks. Sasken has its headquarters in Bangalore, India with offices in Pune, Chennai, Hyderabad, China, Germany, Japan, Sweden, United Kingdom (UK), United States of America (USA) and South Korea.

In addition to being directly involved in the development of a variety of technologies, Sasken is a member of premier technology bodies including ITU, 3GPP, GCF, MPEG-ISO, WiMAX, NFC, Open Handset Alliance, DLNA and ATM, DSL & SDR forums.

Committed to innovation, Sasken works with terminal device manufacturers, network equipment manufacturers, semiconductor vendors and network operators to help them get to market ahead of the competition, and stay focused on new product development and manufacturing. With deep understanding of the communications industry, access to current and emerging technologies, mature development processes, global resources and a proven track record, Sasken creates complete solutions to help clients succeed. Clients choose Sasken for its comprehensive range of application solutions and services, backed by a proven reputation for expert support and high quality. Its growth strategy is offering compelling value propositions to its customers by spotting and exploiting opportunities to help them grow.



Sectoral Outlook

The rise in demand for IT services is also reflected in the fresh investments being made in the software industry. 14 new projects entailing an investment of ₹ 2,850 crore were announced during the June 2010 quarter. As at the end June 2010 quarter, the total outstanding investment in the industry stood at ₹ 1,78,084 crore. In 2010-11, we expect the software sales to grow by 17.3 per cent, mainly driven by higher business volumes. PAT is likely to grow by a slower 16.6 per cent. We expect the rupee to appreciate by 8-10 per cent vis-a-vis USD in 2010-11 which is expected to put pressure on the profits.

Glimmer of hope is that emerging telecom markets in China and India continue to witness hyper growth. The demand for mobile services in these markets will fuel the capex of mobile service providers across the globe to scale over to \$224.5 billion by the year 2015. This shift in growth and the associated telecom equipment spending has drawn the attention of the global players to reach and serve these growing geographies. However, the associated challenge in this market for the global telecom gear makers is to reduce costs to be competitive, especially against the domestic manufacturers. This intense pressure on margins has led to extensive consolidation that is still taking place in the telecom equipment, the semi-conductor and to a lesser extent in the handset industry.

Computer Software : Investment Statistics

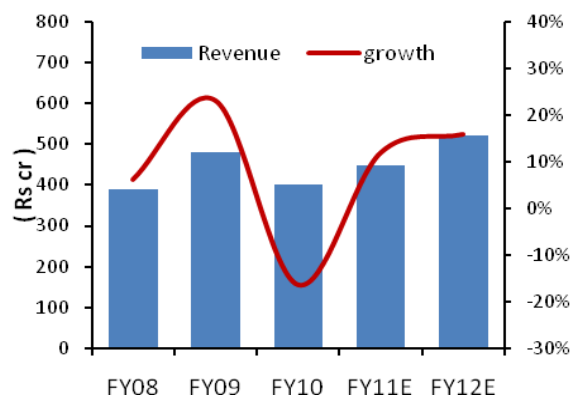
| | Projects under implementation | | Under Implementation stalled | | New Projects | | Total Investments | | Projects Completed | | Projects Shelved | |
|--------|-------------------------------|-----------|------------------------------|-----------|--------------|-----------|-------------------|-----------|--------------------|-----------|------------------|-----------|
| | (Nos.) | (₹crores) | (Nos.) | (₹crores) | (Nos.) | (₹crores) | (Nos.) | (₹crores) | (Nos.) | (₹crores) | (Nos.) | (₹crores) |
| June09 | 461 | 89,804 | 9 | 5,630 | 8 | 1,047 | 749 | 1,56,639 | 3 | 82 | 3 | 1,489 |
| Sep09 | 463 | 91,582 | 15 | 11,074 | 10 | 0 | 752 | 1,53,972 | 5 | 2,755 | 1 | 0 |
| Dec 09 | 456 | 92,513 | 16 | 12,846 | 9 | 640 | 732 | 1,56,186 | 23 | 1,458 | 5 | 662 |
| Mar 09 | 457 | 90,675 | 25 | 23,799 | 12 | 1,746 | 713 | 1,61,113 | 22 | 1,348 | 4 | 210 |
| Jun 09 | 461 | 1,15,215 | 34 | 24,016 | 14 | 2,850 | 709 | 1,76,442 | 10 | 2,157 | 4 | 1,000 |

Source: CMIE

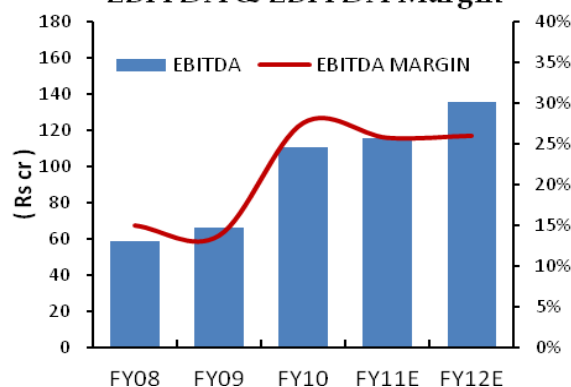
After witnessing a fairly rosy period over the past few months, the Indian information technology services sector is faced with an unpleasant situation; higher U.S. visa fees. Several Indian software firms avail H-1B and L-1 visas in thousands every year to fly their employees to the US for working at their clients' locations as on-site engineers. Most big Indian IT companies would have well over 50% of their employees in the US under these visas, even though most are in the process of increasing their base of local employees.

The US and UK markets account for 60-80 per cent of the total IT services being exported from the country. While US is indicating the improvement in demand for IT services, the tough economic environment in UK is impacting the profitability of some of the IT companies. The Indian software industry garners around 20-30 per cent of its revenues from Europe. During the June 2010 quarter, the Indian rupee appreciated by 12.4 per cent vis-a-vis euro and by 7.2 per cent vis-a-vis GBP compared to the year ago quarter. This impacted the profit margins of the IT companies. In contrast, the share of revenues from US has increased for most of the IT companies during June 2010 quarter. The Indian software industry has witnessed volume driven growth led by the US market and mainly from the BFSI segment. IT companies continued to add clients during the quarter. Infosys added 38 new clients.

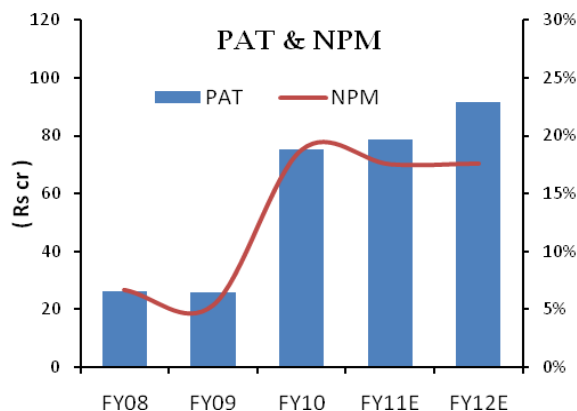
Revenue & Revenue Growth



EBITDA & EBITDA Margin



PAT & NPM



Focusing India & China Markets

As mobile services have become ubiquitously available in India, Sasken have consciously exploring opportunities in the Indian market. The company is capitalizing on this trend and expects to capitalize in a significant way in coming quarters. Glimmer of hope is that emerging telecom markets in China and India continue to witness hyper growth. Sasken has made investments in building specific competencies on the android platform and is keenly pursuing large opportunities in this potentially high growth area. Outsourcing of applications, user interface solutions and testing of different elements at unit, system and field testing level will continue to grow, as OEMs and operators look to move activities to third parties located in low cost locations such as India and China which help them to reduce their cost structure.

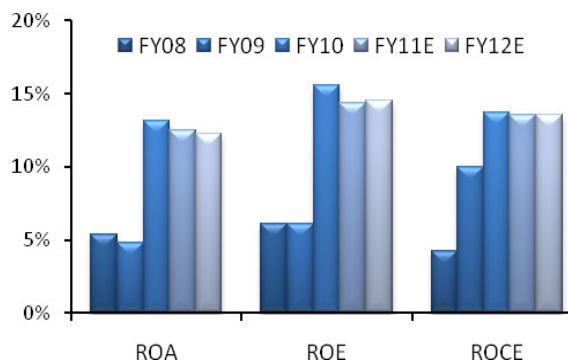
Launched Inmarsat satellite handsets

Sasken has successfully launched first global handheld satellite phone IsatPhone Pro, the first handset to be purpose-built for the Inmarsat network. This robust satellite phone will come with the ultimate combination of global coverage, clear voice quality, reliable network connection, long battery life and easy to use features. The satellite phone is designed for professional users in the government, media, aid, oil and gas, mining and construction sectors. Through its multi-site capabilities and centers excellence in India, Finland, and Germany, Sasken is able to deliver end to end development of the IsatPhone Pro satellite phone. Sasken announced the partnership with Inmarsat to bring its global handheld satellite phone to the market. With the launch of this handset, the company is seeing increased traction in the satellite segment. They have launched it and initial reactions are very positive from the market itself.

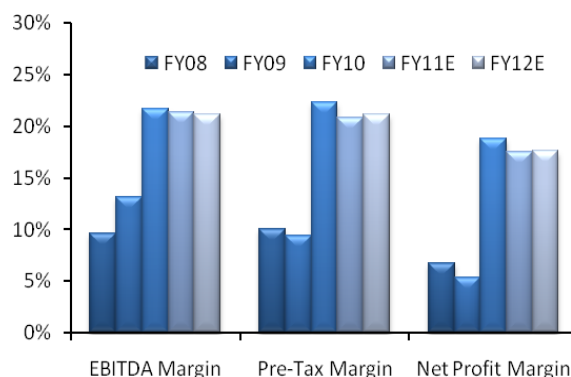
Robust financial performance

The company is showing phenomenal performance in FY2010 on the back of focused business strategies, cost saving streamlining, and cost management. Sasken's revenues were ₹ 401.50 crores, a de growth of 16.31% over the previous financial

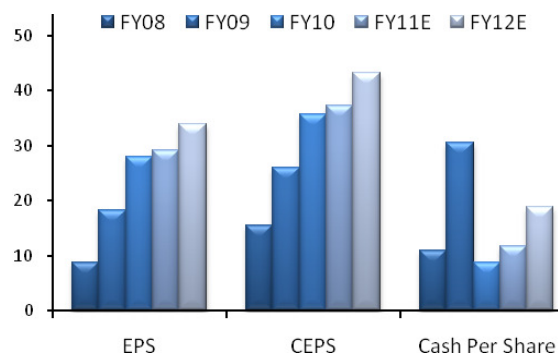
Profitability Ratios:



Margin Ratios:



Per Share Ratios:



year. Earnings before interest, taxes, depreciation, and amortization charges were ₹ 87.12 crores, up by 37.74% of ₹ 63.25 crores over the previous year. The profit after tax for fiscal 2010 was at ₹ 75.34 crores, a growth of 192.59% over the previous financial year. PAT margin for the full year was at 18.76%. The EPS increased to ₹ 27.79 from ₹ 9.50 in FY2009.

Focused telecom space

Sasken has emerged as the partner of choice for key tier 1 customers and is providing testing services on their primary feature phone platform, this will help Sasken to expand their range of offerings and consolidate their position as one of the leaders in the mobile handset space. Sasken has made investments in building specific competencies on the android platform and is keenly pursuing large opportunities in this potentially high growth area. This augurs well than build on our multisided optimal cost capability strategy allowing expanding their portfolio of offerings to both the existing and prospective customers in this region. With the launch of the way of Vyapar Seva multimodal platform that incorporates. Sasken continues to differentiate itself by continuing to pursue the path of developing intellectual property in the communication space, with a healthy pipeline of patents.

Diversifying into Consumer Electronic & Satellite segment

Sasken is focusing on telecom segment but this exposes the company to the risk associated with operating in a single industry vertical. To mitigate the risk, Sasken has started addressing consumer requirement in adjacent verticals such as consumer electronics, satellite, government, defense and auto. The company is extending its competencies to tap adjacencies to the telecom vertical and expand customer base and offerings. In line with this strategy, Sasken has planned for about 10 to 12% of revenues in FY 2011 to come from adjacent verticals. Sasken had announced the acquisition of Ingenient in the beginning of the second half of FY 2010. Sasken's global reach and India based development centres enable us to offer a compelling portfolio of value-added solutions to our customers across the globe.

Standalone Profit & Loss Account

₹. Crore

| Particulars | FY06 | FY07 | FY08 | FY09 | FY10 | FY11E | FY12E |
|--------------------|--------|--------|---------|--------|--------|--------|--------|
| Net sales | 267.54 | 366.31 | 389.25 | 479.75 | 401.50 | 449.68 | 521.63 |
| Growth% | | 36.92 | 6.26 | 23.25 | -16.31 | 12.00 | 16.00 |
| Expenditure | 240.29 | 315.36 | 351.72 | 416.50 | 314.38 | 353.45 | 411.04 |
| EBITDA | 27.25 | 50.95 | 37.53 | 63.25 | 87.12 | 96.23 | 110.59 |
| Growth% | | | -26.34 | 68.53 | 37.74 | 10.46 | 14.92 |
| EBITDA margin | 10.19 | 13.91 | 9.64 | 13.18 | 21.70 | 21.40 | 21.20 |
| Other income | 6.50 | 9.19 | 20.88 | 2.88 | 23.59 | 19.56 | 25.00 |
| Depreciation | 15.52 | 15.93 | 19.50 | 21.04 | 20.94 | 21.98 | 25.27 |
| EBIT | 18.23 | 44.21 | 38.91 | 45.09 | 89.77 | 93.81 | 110.32 |
| EBIT margin | 6.81 | 12.07 | 10.00 | 9.40 | 22.36 | 20.86 | 21.15 |
| Interest | 0.00 | 0.65 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| PBT | 18.23 | 43.56 | 38.91 | 45.09 | 89.77 | 93.81 | 110.32 |
| Tax | 5.33 | 6.04 | 12.81 | 19.34 | 14.43 | 14.96 | 18.56 |
| Adjusted PAT | 12.90 | 37.52 | 26.10 | 25.75 | 75.34 | 78.85 | 91.76 |
| Growth % | | 190.85 | (30.44) | (1.34) | 192.59 | 4.66 | 16.37 |
| Net Profit margins | 4.82 | 10.24 | 6.71 | 5.37 | 18.76 | 17.53 | 17.59 |
| Equity Capital | 27.94 | 28.50 | 28.56 | 27.11 | 27.11 | 27.35 | 27.35 |
| Res. & Surplus | 346.00 | 389.90 | 399.56 | 396.07 | 454.27 | 522.28 | 603.19 |
| Equity Shares | 2.79 | 2.85 | 2.86 | 2.71 | 2.71 | 2.73 | 2.73 |
| EPS | 4.62 | 13.16 | 9.14 | 9.50 | 27.79 | 28.83 | 33.55 |
| CEPS | 10.17 | 18.75 | 15.97 | 17.26 | 35.51 | 36.87 | 42.79 |

Ratios

| Particulars | FY06 | FY07 | FY08 | FY09 | FY10 | FY11E | FY12E |
|--------------------|--------|--------|--------|--------|--------|--------|--------|
| Sales to equity | 9.58 | 12.85 | 13.63 | 17.70 | 14.81 | 16.44 | 19.07 |
| Book Value | 133.84 | 146.81 | 149.90 | 156.10 | 177.57 | 200.93 | 230.47 |
| Debt to Equity | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Reserves to Equity | 12.38 | 13.68 | 13.99 | 14.61 | 16.76 | 19.09 | 22.05 |
| ROCE | 4.88 | 10.57 | 9.09 | 10.66 | 18.65 | 17.07 | 17.50 |

Balance Sheet

(Rs. Crore)

| Particulars | FY06 | FY07 | FY08 | FY09 | FY10 | FY11E | FY12E |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Equity Capital | 27.94 | 28.50 | 28.56 | 27.11 | 27.11 | 27.35 | 27.35 |
| Reserves & Surplus | 346 | 389.90 | 399.56 | 396.07 | 455.59 | 522.28 | 603.19 |
| Shareholders' funds | 373.94 | 418.40 | 428.12 | 423.18 | 482.70 | 549.39 | 630.30 |
| Secured loans | 0 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Unsecured loans | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Borrowings | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Deferred tax (Net) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Sources of funds | 373.94 | 418.40 | 428.12 | 423.18 | 482.70 | 549.63 | 630.54 |
| Gross block | 184.02 | 201.44 | 210.38 | 229.07 | 236.23 | 264.51 | 316.13 |
| Depreciation | 89.59 | 106.10 | 126.54 | 147.58 | 168.52 | 190.50 | 215.77 |
| Net block | 94.42 | 95.35 | 83.84 | 81.49 | 67.71 | 74.01 | 100.36 |
| Capital work in progress | 0.55 | 4.08 | 0.59 | 1.00 | 1.53 | 2.00 | 1.65 |
| Investments | 187.25 | 175.56 | 185.50 | 184.60 | 328.57 | 327.96 | 330.69 |
| Inventories | 1.74 | 0.31 | 1.85 | 0.00 | 1.67 | 2.70 | 3.12 |
| Sundry debtors | 52.35 | 76.73 | 96.83 | 104.31 | 66.99 | 94.49 | 130.49 |
| Cash and bank balance | 11.36 | 17.03 | 31.10 | 82.56 | 23.98 | 31.95 | 51.24 |
| Loans and advances | 44.44 | 67.88 | 67.58 | 59.14 | 70.65 | 80.09 | 108.59 |
| Other current assets | 0.00 | 0.00 | 0.00 | 20.91 | 11.63 | 15.75 | 24.83 |
| Total current assets | 109.89 | 161.95 | 197.35 | 266.92 | 174.92 | 224.98 | 318.27 |
| Sundry creditors | 32.32 | 51.82 | 60.39 | 110.83 | 90.02 | 79.32 | 120.43 |
| Net current assets | 77.58 | 110.13 | 136.96 | 156.09 | 84.89 | 145.66 | 197.84 |
| Miscellaneous exp. not written off | 14.13 | 33.27 | 21.24 | 0.00 | 0.00 | 0.00 | 0.00 |
| Uses of funds | 373.94 | 418.40 | 428.12 | 423.19 | 482.70 | 549.63 | 630.54 |

Cash Flow Statement

₹. Crore

| Particulars | FY07 | FY08 | FY09 | FY10 | FY11E | FY12E |
|--------------------------------|---------------|----------------|----------------|-----------------|----------------|----------------|
| Pre Tax Profit | 43.56 | 37.75 | 68.60 | 90.45 | 93.81 | 110.32 |
| Depreciation | 16.50 | 20.44 | 21.04 | 20.94 | 21.98 | 25.27 |
| Interest | 0.65 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Chng in WC | (26.89) | (12.76) | 32.33 | 12.62 | (52.80) | (32.89) |
| Total Tax Paid | (6.04) | (12.81) | (19.34) | (14.43) | (14.96) | (18.56) |
| Other Operating Activities | (19.14) | (12.04) | (21.24) | 0.00 | 0.00 | 0.00 |
| CF from Operations (a) | 8.64 | 44.66 | 123.87 | 109.58 | 48.03 | 84.14 |
| Capital expenditure | (20.96) | (5.44) | (19.11) | (7.69) | (28.75) | (51.27) |
| Chg in investments | 11.69 | (9.93) | 0.89 | (143.97) | 0.61 | (2.73) |
| Other investing activities | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| CF from investing (b) | (9.27) | (15.37) | (18.21) | (151.66) | (28.14) | (54.00) |
| Free Cash flow (a+b) | (0.63) | 29.29 | 105.66 | (42.07) | 19.89 | 30.14 |
| Equity raised/(repaid) | 0.56 | 0.06 | (1.45) | 0.00 | 0.24 | 0.00 |
| Debt raised/(repaid) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Interest paid | (0.65) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Dividend(inctax) | (11.40) | (11.42) | (10.84) | (10.84) | (10.84) | (10.84) |
| Other financing activities | 17.78 | (3.86) | (41.91) | (5.66) | (1.32) | (0.00) |
| CF from financing © | 6.29 | (15.22) | (54.20) | (16.50) | (11.93) | (10.84) |
| Net chg in cash (a+b+c) | 5.66 | 14.07 | 51.46 | (58.57) | 7.96 | 19.30 |

Quarterly Financial Highlights

₹. Crore

| Particulars | Q1FY11 | Q1FY10 | Q4FY10 | YoY% | QoQ% |
|------------------|--------|--------|--------|-------|--------|
| Sales | 104.10 | 95.64 | 108.50 | 8.84 | (4.05) |
| Expenditures | 80.32 | 79.60 | 83.80 | 0.90 | (4.15) |
| Operating Profit | 23.78 | 16.04 | 24.70 | 48.25 | (2.33) |
| Net Profit | 23.03 | 17.05 | 23.58 | 35.07 | (2.33) |
| OPM% | 22.84 | 16.77 | 22.76 | 6.07 | 0.08 |
| NPM % | 22.12 | 17.83 | 21.73 | 4.59 | 0.39 |
| EPS | 8.42 | 6.29 | 8.70 | 33.86 | (3.21) |
| CEPS | 9.96 | 8.59 | 10.43 | 15.94 | (4.50) |

Past Price movement of the stock



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GROUP COMPANIES

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HEM FINANCIAL SERVICES LIMITED

SEBI REGISTERED CATEGORY I MERCHANT BANKER

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