

Sasken Communication Technologies Ltd.

E- Series win with Lenovo

- **Lenovo Mobile deal:** Sasken announced an E-Series “design in” with Lenovo Mobile. The company expects shipments of Lenovo phones with Sasken IP to start from Nov-Dec 2007. Lenovo will use the Sasken “E-Series” framework on a TI Silicon platform.
- **Strategic impact:** We view the Lenovo deal as strategically crucial, as this is the first E-Series win for Sasken. We believe that Sasken can use the Lenovo deal as a reference client to win more E-Series deals. Overall, we expect significant E-Series revenues from FY09 as Sasken successfully demonstrates the solution with Lenovo.
- **Products traction continues:** We believe that traction in products remains strong and have greater comfort in our expectation of decent US\$15-16m FY08 product revenues. We expect products division to breakeven in FY08.
- **4QFY07 preview:** We expect decent 12% Q/Q growth in revenues with strong traction in products. Further, we expect strong margin expansion due to improved product performance leading to 38% Q/Q PAT growth.
- **Valuation:** Sasken is trading at ~13X FY08E EPS with 53% EPS CAGR over FY07-09E. Our sum-of-parts based Dec 07 target price is Rs650/share, upside of 35% from current levels. We note that services contributes 95% of the value and any improvement in product visibility should provide further upside potential.

Table 1: Reuters: SKCT.BO, Bloomberg: SACT IN

RsM (Year-end: Mar)	FY06A	FY07E	FY08E	FY09E	RsM	FY06A	FY07E	FY08E	FY09E		
Sales	3,081	4,913	7,441	9,480	Y/E BPS (Rs)	137.8	150.4	182.0	223.6	52-Week range	Rs240.2-624.0
Operating Profit	315	689	1,308	1,691	ROE (%)	11.3	13.7	21.7	22.7	Shares Outstg	28Mn
EBITDA	486	892	1,593	2,004	ROIC (%)	14.0	15.3	19.3	20.8	Avg daily volume	0.09 Mn
PBT	365	695	1,283	1,686	Qtr EPS (Rs)	1Q	2Q	3Q	4Q	Avg daily value (US\$)	1.1 Mn
Net profit	229	554	1,018	1,301	EPS (FY06)	2.1	4.2	0.1	2.3	Index (Sensex)	12,856
EPS	8.7	19.7	36.1	46.1	EPS (FY07) E	3.1	4.2	4.2	8.1	Free float	46%
P/E	55.5	24.5	13.4	10.5	EPS (FY08) E	6.9	8.2	9.7	11.2	Dividend Yld (%)	1%
P/B	3.5	3.2	2.6	2.2	Local	1M	3M	12M		Exchange rate	Rs43.0/US\$1
EV/EBITDA	27.4	14.9	8.4	6.6	Abs. Perf.(%)	-3.7	-18.0	32.9		Market Cap	US\$313M
Cash	2,017	373	640	1,248	Rel. Perf.(%)	-3.4	-11.5	20.3			

Source: JPMorgan estimates, Company data.

Overweight

Rs481.70

05 April 2007
Price Target: Rs650.00

India

eBusiness/IT Services

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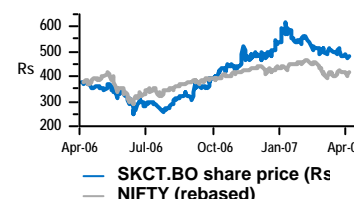
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Price Performance



	YTD	-1M	-3M	-12M
Absolute	-10.1%	-2.1%	-17.6%	26.7%
Relative	-4.7%	-7.0%	-11.8%	18.1%

Source: RIMES, Reuters.

Valuation – Sum of parts Dec-07 target of Rs 650/share

We are setting a sum of parts based Dec-07 price target of Rs 650/share. While Sasken is primarily seen as a product-related play, it is noteworthy that 95% of our DCF value comes from services. Any upside on products could lead to further increase in our target price.

Services valuation: In terms of P/E, we expect Sasken's services business to be valued towards the upper end of mid-cap Indian IT universe due to strong R&D expertise and differentiated positioning. Based on our EPS estimates (CY08E EPS of Rs 41) and 1-year forward P/E of 15x, we get a services value of Rs 620/share.

Products: With the products business at the cusp of growth and still not making profits, we have valued the product business on sales. Given limited visibility on products business and delays in royalty bookings, we value the product business conservatively at 1x forward sales – this yield a per share value of Rs 30/share.

Table 2: Sum of parts Valuation

Valuation (Rs)	Dec-08 target
1-year forward services P/E (x)	15.0
Services EPS	41.3
Services value/share	620
Products sales/share	31
Products value/share	30
Price target (x)	650

Source: JPMorgan estimates, Company data.

Risks to our price target

Macro slowdown in Telecom R&D spending, unexpected wage inflation and appreciation of Rupee against the US dollar are key risks to our price target.

DCF valuation – Dec-07 fair price of Rs 650/share

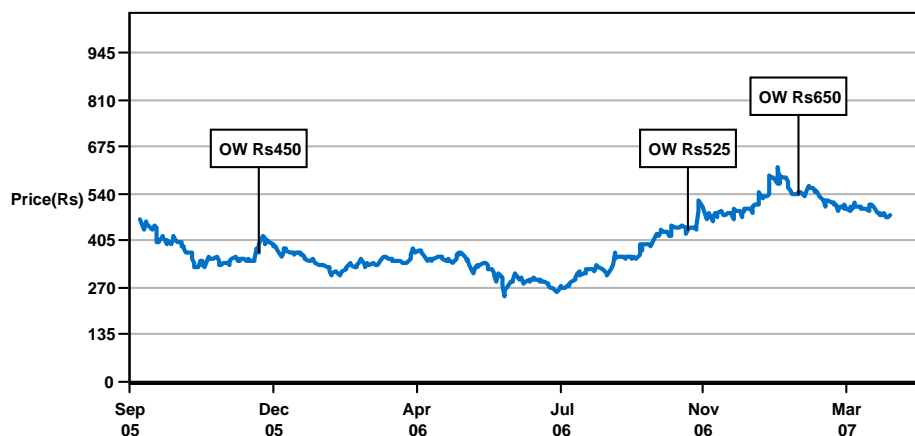
Our DCF fair price for Sasken is also Rs 650/share. We estimate 10-year revenue CAGR of 25% up from 22% earlier given the strong performance in services YTD. Our other assumptions remain long-term EBIT margins of 17.5%, long-term ROIC of 19% and cost of capital of 12.2%.

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Sasken Communication Technologies Ltd. (SKCT.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
09-Dec-05	OW	372.15	450.00
02-Nov-06	OW	438.05	525.00
25-Jan-07	OW	538.90	650.00

Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.

Initiated coverage Dec 09, 2005. This chart shows JPMorgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.

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Sasken: Summary of Financials

Income statement						Ratio Analysis					
INR in millions, year-end Mar	FY05A	FY06A	FY07E	FY08E	FY09E	% , year-end Mar	FY05A	FY06A	FY07E	FY08E	FY09E
Revenues	2,418	3,081	4,913	7,441	9,480	Gross Margin	32.2	29.0	31.6	34.1	33.8
Cost of Goods Sold	1,638	2,188	3,358	4,906	6,272	EBITDA margin	15.0	15.8	18.2	21.4	21.1
Gross Profit	779	893	1,555	2,536	3,208	Operating Margin	9.1	10.2	14.0	17.6	17.8
SG&A Expenses	246	210	257	484	569	Net Margin	9.4	7.4	11.3	13.7	13.7
Operating Profit (EBIT)	221	315	689	1,308	1,691	SG&A/Sales	10.2	6.8	5.2	6.5	6.0
EBITDA	363	486	892	1593	2004	Sales growth	45.5	27.4	59.4	51.5	27.4
Interest Income	36.7	80.8	83.5	23.4	43.8	Operating Profit Growth	39.1	43.0	118.4	89.9	29.3
Interest Expense	-5	-1	-45	-42	-42	Net profit growth	24.2	0.6	141.6	83.9	27.8
Investment Income (Exp.)	0.0	-16.7	-14.8	0.0	0.0	EPS (Reported) growth	4.4	-39.3	126.6	83.4	27.8
Non-Operating Income (Exp.)	-7.4	-12.7	-18.1	-7.2	-7.2	Interest coverage (x)	46.6	221.5	15.4	31.4	40.7
Earnings before tax	245	365	695	1,283	1,686	Net debt to total capital	n.m.	n.m.	10.2	4.2	n.m.
Tax	-17	-69	-141	-265	-385	Net debt to equity	n.m.	n.m.	12.3	5.0	n.m.
Net Income (Reported)	228	229	554	1018	1301	Asset Turnover	136.4	72.6	82.9	106.1	113.2
INR						ROE	17.8	11.3	13.7	21.7	22.7
EPS (Adjusted)	14.3	8.7	19.7	36.1	46.1	ROIC	15.8	14.0	15.3	19.3	20.8
BPS	84.3	137.8	150.4	182.0	223.6	ROCE	15.6	9.6	11.8	17.8	19.1
DPS	3.0	3.0	4.0	4.5	4.5						
Shares Outstanding (bn)	17	28	28	28	28						
Balance sheet						Cash flow statement					
INR in millions, year-end Mar	FY05A	FY06A	FY07E	FY08E	FY09E	INR in millions, year-end Mar	FY05A	FY06A	FY07E	FY08E	FY09E
Cash and cash equivalents	109	2,017	373	640	1,248	Net Income	228	229	554	1,018	1,301
Accounts receivable	541	653	1,203	1,629	2,026	Depr. & Amortisation	142	171	203	285	313
Inventories	2	33	33	45	56	Change in working capital	-175	-279	-374	-419	-389
Others	237	385	505	685	851	Other	0	68	0	0	0
Current assets	889	3,088	2,114	2,999	4,182	Cash flow from operations	195	189	383	884	1,225
LT investments	6	0	435	435	435	Capex	-239	-305	-2,256	-480	-400
Net fixed assets	877	1,011	3,064	3,260	3,346	Disposal/ (purchase)	32	-138	-603	-10	-90
Others	0	143	312	322	412	Cash flow from investing	-206	-443	-2,859	-490	-490
Total assets	1,772	4,243	5,925	7,015	8,374	Free cash flow	-44	-116	-1,873	404	825
Liabilities						Equity raised/ (repaid)	105	2,285	-47	0	0
Current Liabilities	254	266	562	761	946	Debt raised/ (repaid)	10	-3	884	0	0
Total current liabilities	254	266	562	761	946	Other	29	-37	109	0	0
Long term debt	15	12	896	896	896	Dividends paid	-51	-84	-113	-127	-127
Other liabilities	84	115	224	224	224	Cash flow from financing	93	2,161	833	-127	-127
Total liabilities	353	392				Net change in cash	81	1,908	-1,643	267	608
Shareholders' equity			1,681	1,881	2,066	Beginning cash	27	109	2,017	373	640
	1,419	3,850	4,244	5,135	6,308	Ending cash	109	2,017	373	640	1,248

Source: JPMorgan estimates, Company data.