

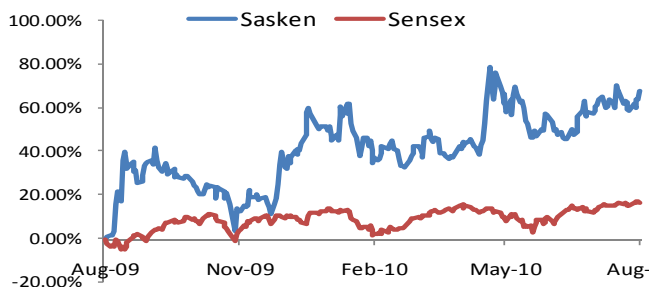
Q1 FY11 Results Update
Sasken Communications Technologies Ltd

Recommendation	HOLD
CMP (09/08/2010)	Rs. 208
Sector	Information Technology

Stock Details

BSE Code	532663
NSE Code	SASKEN
Bloomberg Code	SACT IN
Market Cap (Rs. cr)	569.9
Free Float (%)	64.96%
52- wk HI/Lo	225.65/122.25
Avg. volume BSE (Quarterly)	89704
Face Value	Rs.10
Dividend	60%
Shares o/s (Crs)	2.74

Relative Performance	1Mth	3Mth	1Yr
Sasken	5.93%	17.46%	67.85%
Sensex	3.01%	6.09%	16.95%


Shareholding Pattern as of 31/03/2010

Promoters Holding	27.77%
Institutional (Incl. FII)	18.58%
Corporate Bodies	11.27%
Public & others	42.38%

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Quarterly result

- ✓ Q1 FY11 declined by 5.2% QoQ to Rs. 145.8 Crs due to the strategic exit of couple of customers, cross currency movement and a high attrition rate. Revenues was below our estimate of Rs. 154.4 Crs.
- ✓ EBITDA grew 3.8% QoQ to Rs. 28.2 Crs. EBITDA was broadly in line with our estimate of Rs. 27.5 Crs.
- ✓ PAT increased 5.7% QoQ to Rs. 23.1 Crs in Q1 FY11. PAT was above our expectation due to higher-than-expected forex gain.

Particulars (Rs. Crs)	NBS estimate	Actual	Variation
Sales	154.4	145.8	-5.6%
EBITDA	27.5	28.2	2.3%
PAT	20.1	23.1	14.5%

Key highlights

- ✓ During Q1 FY11 Sasken added 18 new customers. With this Sasken's total number of active customers has increased to 116 at the end of Q1 FY11.
- ✓ Top-line increased QoQ from products business while declined in services business in Q1 FY11. Products business witnessed a top-line growth of 23% QoQ and stood at 8.5% of total revenues.
- ✓ Net addition of 131 software professionals Q1 FY11. The increased hiring reflects an uptick in demand and Sasken has announced a wage hike to arrest the attrition rate.

Valuation & Recommendation

At the current price of Rs.208, Sasken is trading at a PE of 7.17x FY 2011 EPS & 6.63x FY 2012 estimated EPS. The Management has lowered the earnings guidance to 10-12% growth in topline for FY 2011. Moreover, the wage rate hike announced by the Management is likely to result in a subdued bottom-line performance in near term. Considering these factors, we are valuing Sasken at a target PE multiple of 8.0x. Based on our estimated EPS of Rs. 29.03 for FY 2011 and target multiple, we arrive at a target price of Rs.232 per share for Sasken indicating a limited upside potential in the near term. Consequently, we give a HOLD rating to Sasken with a near term view.

Year	Net Sales (Crs)	Growth %	EBITDA (Crs)	Margin %	PAT	Margin %	EPS	PE	P/BV
FY 2009A	697.8	22.4%	163.8	23.5%	57.50	8.2%	21.21	9.81	1.17
FY 2010A	574.2	-17.7%	101.9	17.7%	75.52	13.2%	27.86	7.47	1.08
FY 2011E	622.0	8.3%	110.1	17.7%	78.70	12.7%	29.03	7.17	0.97
FY 2012E	703.9	13.2%	128.1	18.2%	85.10	12.1%	31.39	6.63	0.87

Performance Analysis

- Sasken's reported revenue decreased 5.2% QoQ to Rs. 145.8 Crs in Q1 FY11. This is primarily due to strategic exit of couple of customers, exchange volatility due to cross currency movement, an increased attrition rate and change in offshore: onsite mix. Attrition rate increased to 35.4% on an annualized basis which is at a historically higher level.
- Sasken's EBITDA increased to Rs. 28.2 Crs in Q1 FY11 as compared to Rs. 27.1 Crs in Q4 FY10 driven by reduced employee expenses and lower SG&A costs. While more shift on offshore business locations provided a boost to the margin.
- Sasken reported a net profit of Rs. 23.1 Crs in Q1 FY11 as compared to Rs. 21.8 Crs in Q4 FY10 registering a growth of 5.7% on QoQ basis primarily due to significant increase in foreign exchange gains and a decline in income taxes during the quarter.

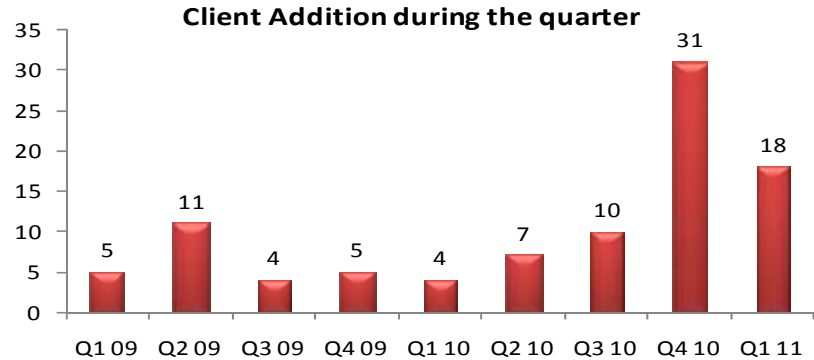
Performance Analysis of Q1 FY11 (in Rs Crs.)

	Q1 FY11	Q4 FY10	Q-o-Q	Q1 FY10	Y-o-Y
Revenues	145.8	153.8	-5.2%	139.5	4.5%
Cost of revenues	97.0	106.0	-8.5%	97.8	-0.8%
Research & Development exp	0.0	0.0	N/A	0.0	N/A
Gross profit	48.7	47.8	2.0%	41.7	16.8%
SG&A	20.6	20.7	-0.5%	17.7	16.2%
EBITDA	28.2	27.1	3.8%	24.0	17.3%
<i>margin</i>	<i>19.3%</i>	<i>17.6%</i>	<i>168 bps</i>	<i>17.2%</i>	<i>211 bps</i>
Depreciation & Amortization	9.8	8.4	17.5%	8.8	11.7%
Interest	0.4	0.5	-18.9%	0.8	-53.4%
Exchange gain/(loss) (net)	6.1	4.0	50.6%	10.5	-42.0%
Other income	2.5	3.2	-22.3%	1.4	77.3%
Income before taxes	26.5	25.5	3.9%	26.3	0.9%
<i>margin</i>	<i>18.2%</i>	<i>16.6%</i>	<i>160 bps</i>	<i>18.9%</i>	<i>-65 bps</i>
Income taxes	3.5	3.7	-6.3%	6.1	-42.8%
Net income	23.1	21.8	5.7%	20.2	14.0%
<i>margin</i>	<i>15.8%</i>	<i>14.2%</i>	<i>163 bps</i>	<i>14.5%</i>	<i>132 bps</i>
EPS	8.45	8.05	5.0%	7.46	13.3%

Source: Company data, Nirmal Bang Research

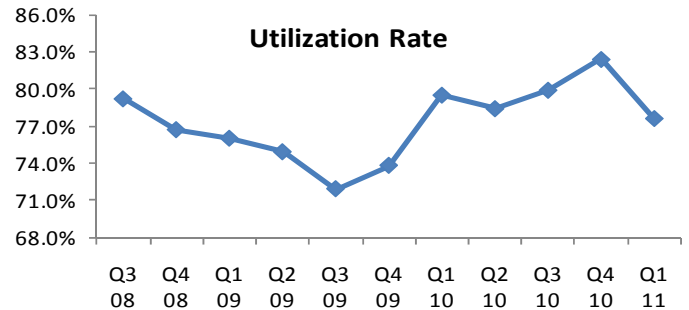
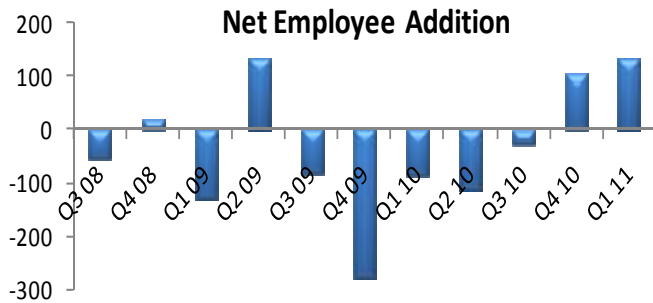
Increasing client wins to boost top-line

Sasken has successfully expanded its client portfolio over last few quarters. It has added more than 34 new clients in Q4 FY10 and 18 new clients in Q1 FY11 taking the total of active customers to 116 which will help the company to diversify its client base.



Net Addition in employee adds optimism

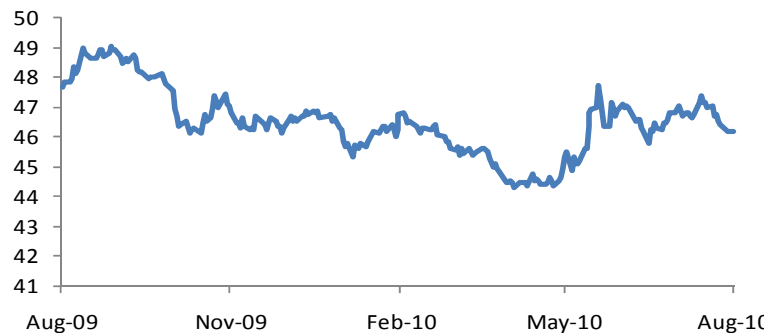
During Q1 FY11, Sasken has a net addition of 131 employees which is highest in last 11 quarters. Increasing employee addition to combat higher attrition rates and announcement of wage hike suggest that company is focused to expand employee base to meet the uptick in demand in the IT services industry. During Q1 FY11, Sasken had a very high attrition rate of 35.4% on an annualized basis while utilization rate fell to 77.6% in Q1 FY11. To arrest the attrition, company has announced wage hikes effective 1st July 2010. The company has given an average hike of 12% to its offshore employees and of 6% to its onsite employees.



Hedging position remains strong

Sasken is well placed as compared to some of the peers as company has maintained strong hedging positions. At the end of Q1 FY11, Sasken has hedged around US\$45 mn of its revenues at an average rate of USD/INR 47 for FY 2011 while currently the USD/INR is trading in the range of 44-46. This will partially shield the company's bottom-line from the volatility in the exchange rates.

USD/INR movement over last 1 year



Revision in Estimates

- Our sales estimate for FY 2011 are revised marginally downwards given the poor Q1 FY11 performance. For FY 2012, our revenues estimates remains broadly unchanged.
- PAT estimate remains unchanged for FY 2011 as we expect that higher foreign exchange gains and change in offshore : onsite mix to offset the impact of wage hike on the margins.

Particulars	FY 2011			FY 2012		
	Previous Estimates	Revised Estimates	Variation	Previous Estimates	Revised Estimates	Variation
Sales	640.3	622.0	-2.9%	713.2	703.9	-1.3%
PAT	78.9	78.7	-0.3%	88.0	85.1	-3.3%

Valuation & Recommendation

At the current price of Rs.208, Sasken is trading at a PE of 7.17x FY 2011 EPS & 6.63x FY 2012 estimated EPS. The Management has lowered the earnings guidance to 10-12% growth in topline for FY 2011 on the back of loss of couple of customers and attrition concerns. Moreover, the wage rate hike announced by the Management is likely to result in a subdued bottom-line performance in near term. Considering these factors, we are valuing Sasken at a target PE multiple of 8.0x. Based on our estimated EPS of Rs. 29.03 for FY 2011 and target multiple, we arrive at a target price of Rs.232 per share for Sasken indicating a limited upside potential in the near term. Consequently, we give a HOLD rating to Sasken with a near term view.

Q1 FY11 Results Update
Sasken Communications Technologies Ltd
Financials

Profitability (Rs. In Cr)	FY09A	FY10A	FY11E	FY12E
Revenues	697.8	574.2	622.0	703.9
% change	22.4%	-17.7%	8.3%	13.2%
EBITDA	163.8	101.9	110.1	128.1
% change in EBITDA	106.8%	-37.8%	8.1%	16.3%
Depn & Amort	37.4	31.7	38.8	35.3
Op . Inc.	126.4	70.2	71.3	92.9
Interest	3.8	2.6	1.5	0.9
Other Income	7.2	7.7	9.8	11.5
Forex Gain/(Loss)	-42.6	16.8	21.1	10.0
Tax	28.5	17.4	22.0	28.4
Extraordinary	15.2	0.0	0.0	0.0
PAT	43.5	74.7	78.7	85.1
Adjusted PAT	58.7	74.7	78.7	85.1
Shares o/s (Cr.s.)	2.7	2.7	2.7	2.7
Adjusted EPS	21.64	27.54	29.03	31.39
Cash EPS	29.83	39.22	43.33	44.39
Quarterly (Rs. In Cr)	Sep.09	Dec.09	Mar.10	Jun.10
Revenue	135.7	145.2	153.8	145.8
EBITDA	26.2	24.6	27.1	28.2
Dep & Amorz	7.3	7.2	8.4	9.8
Op Income	18.8	17.4	18.8	18.4
Interest	0.8	0.5	0.5	0.4
Other Inc.	1.5	1.6	3.2	2.5
Forex Gain/(Loss)	-0.5	1.9	4.0	6.1
PBT	19.0	20.3	25.5	26.5
Tax	3.5	4.1	3.7	3.5
PAT	15.5	16.3	21.8	23.1
Diluted EPS (Rs.)	5.81	6.07	7.69	8.08
Performance Ratio	FY09A	FY10A	FY11E	FY12E
Gross margin (%)	36.7%	30.5%	31.5%	30.7%
EBITDA margin (%)	23.5%	17.7%	17.7%	18.2%
PAT margin (%)	8.8%	14.4%	13.5%	13.1%
PAT margin (%)				
ROE (%)	8.8%	14.4%	13.5%	13.1%
Valuation Ratio	FY09A	FY10A	FY11E	FY12E
Price Earnings (x)	9.81	7.47	7.17	6.63
Price / Book Value (x)	1.17	1.08	0.97	0.87
EV/ Sales	0.70	0.70	0.58	0.44
EV / EBITDA	2.99	3.94	3.27	2.44

Financial Health (Rs. In	FY09A	FY10A	FY11E	FY12E
Share Capital	16.9	16.9	16.9	16.9
Reserves & Surplus	356.4	386.0	438.2	499.9
Minority	12.6	12.6	12.6	12.6
Net Worth	385.8	415.5	467.7	529.4
Deferred Tax Liabilities	3.9	3.9	3.9	3.9
Total Loans	23.8	23.8	23.8	23.8
Total Liabilities	413.5	443.2	495.4	557.1
Net Fixed Assets	13.0	18.7	34.3	48.1
Goodwill	186.7	186.7	186.7	186.7
Capitalized Software	67.9	78.0	89.7	103.4
Investments	56.5	56.5	56.5	56.5
Cash & Bank	53.7	45.1	52.1	83.4
Debtors & Other CA	137.3	148.2	175.3	188.4
CL & P	101.5	90.1	99.3	109.4
Net CA	89.4	103.3	128.2	162.4
Total Assets	413.5	443.2	495.4	557.1
Cash Flow (Rs. In Cr)	FY09A	FY10A	FY11E	FY12E
Operating				
Net Income	46.6	32.4	56.3	67.2
Change in WC	0.7	-22.4	-17.9	-2.9
Other Adjustment	19.4	26.2	33.2	39.8
CF from Opeartion	66.7	36.2	71.6	104.1
Investment				
Capex	-57.0	-38.1	-56.6	-63.7
Other Investment	-53.3	0.0	0.0	0.0
Total Investment	-110.3	-38.1	-56.6	-63.7
Financing				
Diviend Paid	-2.6	-2.8	-4.1	-5.5
Share Capital	0.0	0.0	0.0	0.0
Proceeds/Repay on Loa	-6.1	-3.9	-3.8	-3.6
Total Financing	-8.8	-6.7	-8.0	-9.1
Net Chg. in Cash	-52.4	-8.6	7.0	31.3
Cash at beginning	106.1	53.7	45.1	52.1
Cash at end	53.7	45.1	52.1	83.4
Per Share Data	FY09A	FY10A	FY11E	FY12E
Reported EPS	4.44	2.70	4.70	5.60
BV per share	32.15	34.63	38.98	44.12
Cash per share	9.18	8.47	9.05	11.66
Dividend per share	0.20	0.20	0.30	0.40

NOTE

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