

**BUY**

<b>Price</b>	<b>Rs105</b>
<b>Target Price</b>	<b>Rs127</b>
<b>Investment Period</b>	<b>12 months</b>

**Stock Info**

Sector	IT
Market Cap (Rs cr)	285
Beta	0.87
52 WK High / Low	162 / 41
Avg Daily Volume	243885
Face Value (Rs)	10

BSE Sensex	14,645
Nifty	4,341

BSE Code	532663
NSE Code	SASKEN
Reuters Code	SKCT.BO
Bloomberg Code	SACT@IN

**Shareholding Pattern (%)**

Promoters	28.0
MF/Banks/Indian FIs	8.1
FII/ NRIs/ OCBs	19.4
Indian Public/Others	44.5

Abs.	3m	1yr	3yr
Sensex (%)	47.9	13.0	38.0
Sasken (%)	85.0	(13.8)	(63.7)

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**Performance Highlights**

■ **Poor core business performance pressurises Top-line:** Sasken recorded a disappointing 9.1% qoq decline in its 4QFY2009 Top-line, which touched Rs168.3cr. This was due to the poor performance of both its Services and Products Businesses. This performance was recorded in spite of the Rupee's depreciation against the Dollar, with the average realised rate being higher by 2.7% qoq (Rs50.26 v/s Rs48.93 in 3QFY2009). Services revenues, in Dollar terms, fell by a significant 11.6% qoq to US \$31.3mn (US \$35.4mn in 3QFY2009). In Rupee terms, the Services Business clocked a 9.2% qoq fall. The Networks Business continues to face pressure, given the challenging business environment. The bankruptcy of its key client Nortel is a clear case in point and Sasken had a total of Rs24cr in receivables from this client as on March 31, 2009. Volumes fell 9% qoq and billing rates fell 3% qoq. On the other hand, Product revenues fell by 8.9% qoq, with the key reason being the collapse in Customisation revenues (down by as much as 70.8% qoq), even as Royalty Income (up by as much as 72.8% qoq) and Licence Fees (up 62% qoq) showed healthy growth.

On a yoy basis, in Dollar terms, Sasken recorded a disappointing 10.4% de-growth in Services Revenues. Yet, due to a 26% yoy higher Rupee-Dollar rate (Rs50.26 v/v Rs39.89 in 4QFY2008), Services Revenues in Rupee terms grew by 12.9% yoy. However, core business growth remains a challenge and we expect this to continue until a clear improvement in the business environment materialises. Sasken's Products Business clocked a disappointing 39.9% yoy de-growth in revenues, in Rupee terms, which was due to a crash in Customisation revenues (down 78.4% yoy) and Licence Fees (down 29.8% yoy), even as Royalties rose by 27.9% yoy. Overall revenues in Rupee terms grew by 7% yoy for the quarter.

■ **Higher Product Margins drive overall Margin expansion:** For 4QFY2009, Sasken reported a healthy 344bp qoq expansion in EBITDA Margins due to significantly higher Product Margins (higher by as much as 5,169bp qoq, or 51.7%). On the other hand, Services Margins fell by 103bp qoq. On a yoy basis, Margins rose by an impressive 715bp.

■ **One-time item reduces Bottom-line:** Owing to a one-time item related to a write-off of capitalised software product costs, Sasken's Bottom-line for the quarter crashed by 73.1% qoq and by 73.9% yoy. Excluding this, the Bottom-line rose by an impressive 32.9% qoq and by 28.7% yoy.

**Key Financials (Consolidated)**

Y/E March (Rs cr)	FY2008	FY2009	FY2010E	FY2011E
<b>Net Sales</b>	<b>570.2</b>	<b>697.8</b>	<b>744.1</b>	<b>822.0</b>
% chg	19.5	22.4	6.6	10.5
<b>Net Profit</b>	<b>39.4</b>	<b>42.3</b>	<b>80.8</b>	<b>86.4</b>
% chg	(11.0)	7.4	91.0	6.9
EBITDA Margin (%)	13.6	23.5	21.9	20.4
<b>FDEPS (Rs)</b>	<b>14.5</b>	<b>15.6</b>	<b>29.8</b>	<b>31.9</b>
P/E (x)	7.2	6.7	3.5	3.3
P/BV (x)	0.6	0.6	0.5	0.4
RoE (%)	8.9	9.0	15.7	14.9
RoCE (%)	4.9	15.3	13.9	12.9
EV/Sales (x)	0.6	0.3	0.2	0.1
EV/EBITDA (x)	4.1	1.4	1.0	0.6

Source: Company, Angel Research

**FY2009 Top-line grows 22% yoy; Services grow 5% yoy in Dollar terms**

Sasken recorded a 22.4% yoy growth in its FY2009 Top-line. The company's Services Business grew by just 5% yoy, in US Dollar terms. It should be noted that FY2009 was a year in which the company repeatedly missed its successive guidances for the Services Business. At the start of the fiscal, the management had guided for a 25-29% yoy growth in Services revenues and, as the year unfolded and the business environment became ever-more challenging, this guidance was cut with each successive quarter. After 1QFY2009, the guidance was downgraded to a 20-25% yoy growth, after 2QFY2009 to just a 10% yoy growth, and after 3QFY2009 the management said that even this growth would not be achieved by the company. Thus, Sasken has been unable to perform anywhere close to expectations, which is a highly disappointing performance by the company.

In Rupee terms, Services grew by a much healthier 21.3% yoy, only on account of the higher realised Rupee-Dollar rate during the fiscal (Rs46.40 v/s Rs40.16 in FY2008, higher by 15.5% yoy). On the other hand, Sasken's Products Business grew by 33.6% yoy, owing to considerably higher Royalty revenues (up by as much as 106.4% yoy) and Customisation revenues (up 63.8% yoy). On the other hand, Licence Fees fell 30.7% yoy.

**Exhibit 1: Segment-wise Revenue break-up**

Business Segment (Rs cr)	FY08	FY09	% chg
Services	524.0	635.7	21.3
Products	46.0	61.5	33.7
Automotive, Utilities & Industrial	0.2	0.6	154.9
<b>Total Revenue</b>	<b>570.2</b>	<b>697.8</b>	<b>22.4</b>

Source: Company, Angel Research

**Overall Margins soar on Rupee depreciation, higher Product Margins**

Sasken recorded an impressive 958bp yoy expansion in its EBITDA Margins in FY2009. In absolute terms, EBITDA soared by as much as 106.8% yoy. This was due to the significant Rupee depreciation witnessed over the quarter, and the considerably higher Product Business Margins (up by as much as 4,640bp yoy, or 46.4%). The Products Business broke-even for the first time in a fiscal, and the strong operating leverage generated in this business along with the Rupee depreciation combined to power overall Margins higher for the fiscal.

**Exhibit 2: Segment-wise EBITDA break-up**

Business Segment	EBITDA (Rs cr)		EBITDA Margins (%)	
	FY08	FY09	FY08	FY09
Services	85.7	144.9	16.4	22.8
Products	(1.8)	26.2	(3.8)	42.6
Automotive, Utilities & Industrial	(4.7)	(7.3)	(1,992.0)	(1,207.8)
<b>Total</b>	<b>79.2</b>	<b>163.8</b>	<b>13.9</b>	<b>23.5</b>

Source: Company, Angel Research

**Higher Margins drive Bottom-line excluding one-time items**

Owing to the impressive Margin expansion witnessed during the fiscal, Sasken recorded a strong 51.4% yoy growth in its Bottom-line for FY2009. This was in spite of forex losses to the tune of Rs42.6cr (forex gains of Rs18cr in FY2008). The company incurred a one-time cost of Rs15.2cr related to a write-off of capitalised software product costs, including which Bottom-line grew by a sedate 7.4% yoy for the fiscal.

**Outlook and Valuation**

Going ahead, we expect Sasken to record 8.5% and 22.6% CAGRs in its Top-line and Bottom-line, respectively, over FY2009-11E (excluding one-time items). Sasken continues to struggle to cope with the difficult business environment, and its key segment, Network Equipment Manufacturers, remains in consolidation mode. The medium-term outlook remains hazy for Sasken even as a recovery is anticipated in 2HFY2010. While the business prospects in the medium-term are a little subdued, we believe current valuations at just 3.3x FY2011E EPS adequately factor this in. **We upgrade the stock to Buy from Neutral with a Target Price of Rs127, implying a P/E of 4x FY2011E EPS.**

**Exhibit 3: FY2009 Consolidated Financial Performance**

Y/E March (Rs cr)	FY2009 4Q	FY2009 3Q	% chg (qoq)	FY2008 4Q	% chg (yoy)	FY2009	FY2008	% chg
<b>Net Revenues</b>	<b>168.3</b>	185.1	<b>(9.1)</b>	<b>157.3</b>	<b>7.0</b>	<b>697.8</b>	570.2	<b>22.4</b>
Cost of Revenues	99.7	119.1	(16.3)	101.9	(2.2)	438.4	373.9	17.2
R&D Expenses	0.0	1.0		2.7		3.4	21.6	(84.5)
<b>Gross Profit</b>	<b>68.6</b>	65.0	<b>5.5</b>	52.6	<b>30.4</b>	<b>256.0</b>	174.6	<b>46.6</b>
SG&A Expenses	24.6	23.0	7.2	22.7	8.2	92.2	95.4	(3.3)
<b>EBITDA</b>	<b>44.0</b>	42.1	<b>4.7</b>	29.9	<b>47.2</b>	<b>163.8</b>	79.2	<b>106.8</b>
Other Income	(5.9)	(12.6)		2.0		(36.6)	23.4	
Depreciation & Amortisation	9.2	7.5	23.2	10.6	(12.9)	37.4	41.8	(10.5)
Interest	0.8	0.9	(3.9)	1.0	(16.1)	3.8	4.0	(5.2)
Extraordinary items	(15.2)	0.0		0.0		(15.2)	0.0	
<b>Income before Income Taxes</b>	<b>12.8</b>	21.1	<b>(39.2)</b>	20.3	<b>(36.8)</b>	<b>70.8</b>	56.8	<b>24.7</b>
Tax	8.9	6.7	33.2	5.5	63.8	28.5	17.4	63.7
<b>Net Income</b>	<b>3.9</b>	14.4	<b>(73.1)</b>	<b>14.8</b>	<b>(73.9)</b>	<b>42.3</b>	39.4	<b>7.4</b>
<b>Diluted EPS (Rs)</b>	<b>1.4</b>	5.3	<b>(73.1)</b>	<b>5.2</b>	<b>(72.5)</b>	<b>15.6</b>	13.8	<b>13.2</b>
Gross Profit Margin (%)	40.8	35.1		33.5		36.7	30.6	
EBITDA Margin (%)	26.2	22.7		19.0		23.5	13.9	
Net Profit Margin (%)	2.3	7.8		9.4		6.1	6.9	

Source: Company, Angel Research



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**Ratings (Returns) :** Buy (Upside > 15%)  
 Reduce (Downside upto 15%)

 Accumulate (Upside upto 15%)  
 Sell (Downside > 15%)

Neutral (5 to -5%)