



Q4 Earnings Conference Call

April 30, 2007

MEMBERS OF NUCLEUS MANAGEMENT

- Mr. Vishnu R. Dusad, Managing Director
- Mr. R P Singh, President and Head, Global Delivery
- Mr. P. K. Sanghi, Chief Financial Officer
- Mr. Prakash Pai, Head - Product Management Group
- Mr. Niraj Vedwa, Head - Global Sales and Marketing
- Mr. Ravi Verma, Head - Global HR
- Ms. Asha Goyal, Vice President & Head of Quality

CONFERENCE CALL PARTICIPANTS

- Mr. Ramesh Damani, Ramesh Damani Finance Pvt. Ltd.
- Mr. Sanjay Kaul, FE Securities
- Mr. Hitesh Punjabi, Religare Securities
- Mr. Anurag, Religare Securities
- Ms. Shivani Mehra, Edelweiss Capital
- Mr. Ashish, Lucky Securities
- Mr. Yogesh Parekh, Nirmal Bang
- Mr. Karthik, Unify Wealth Management
- Mr. Rakesh, IL & FS Investmart
- Mr. Aseem Gupta, DSP Merrill Lynch
- Mr. Ruchit Mehta, HSBC Asset management (India) Pvt. Ltd.
- Mr. Rajiv Ghosh, Wealth Management
- Mr. Neerav Dalal, Capital Market
- Mr. Om, Individual Investor
- Mr. Lalitabh Srinivas, Techno Shares
- Mr. Puranik, Enam Securities
- Mr. Sazal Gupta, Perfect Home Finance
- Mr. Mahesh, Individual Investor

Nucleus Software

Investor/Analyst conference call

April 30, 2007

Moderator

Good evening ladies and gentlemen. I am Ahmed, the moderator for this conference. Welcome to the Nucleus Software Exports Limited Q&A conference call. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would like to hand over the floor to Ms. Poonam Bhasin. Thank you and over to mam.

Poonam Bhasin

Thank you Ahmed. Good afternoon ladies and gentlemen. I am Poonam Bhasin, the Company Secretary. We welcome you all to the investor con call of Nucleus Software to discuss the financial results for the quarter and year ending March 31st. Today, we have with us Mr. Vishnu R. Dusad, CEO & Managing Director, Mr. R. P. Singh, President and Global Head - Delivery, Mr. P. K. Sanghi, Chief Financial Officer, and Mr. Prakash Pai, Head Product Management, Mr. Niraj Vedwa, Global Sales and Marketing Head, and Dr. Asha Goyal, Vice President Quality to answer your queries. First we will commence with brief comments on the performance of the Company and after that we will be open to question and answer session. I would now hand over to Mr. Vishnu R. Dusad, Managing Director of Nucleus Software, for his brief comments.

Vishnu R. Dusad

Thank you Poonam and good afternoon ladies and gentlemen. We thank you very much for joining this call. Before I update you on the financial results, I would like to give you an overview of the year. In financial year 2005 after 19 years of the Nucleus story we achieved Rs. 100 crore revenue for the first time. It has taken us 2 years to achieve the next Rs. 100 crore revenue and I am pleased to announce Rs. 221 crore consolidated revenue for the year.

The year has been marked by several other milestones in line with our IPR led strategy. Revenues from the product business have crossed 50% of the total revenue for the first time and stands at 54%. Interestingly, this is the first year where product business revenue at Rs. 119.76 crore is in excess of Rs. 100 crore. We booked the largest single product order in our history from ACOM Co. of Japan. Our product implementation in Europe went live at GMAC Italy opening up further opportunities in the geography. FinnOne our flagship suite for retail loan solutions was ranked No.1 bestseller in retail loan solution by IBS for the first time.

Now coming to the results; we are very pleased to announce that our consolidated revenue for software product and services for the quarter has increased by 42.93% to Rs. 60.16 crore against Rs. 42.09 crore for the corresponding quarter of the previous year. For the financial year the consolidated revenue has increased by 49.4% to Rs. 221 crore against Rs. 148 crore for the previous year.

Net profit for the quarter has increased by 27.9% to Rs. 13.95 crore against Rs. 10.90 crore in the corresponding quarter of the previous year and net profit for the year has increased by 48.7% to Rs. 55.15 crore against Rs. 37.08 crore in the previous year. EPS is Rs. 8.65 for the quarter against Rs. 6.77 for the corresponding quarter of the previous year. For the year EPS is Rs. 34.22 against Rs. 23.04 for previous year.

After considering our robust order book and positive outlook for the product business in future years, the Board of Directors have recommended issue of bonus shares in the ratio of 1:1 subject to approval of the shareholders and we are confident of our ability to service the enhanced post bonus capital.

Products business continues to lead our growth. For the quarter revenue for the product business at Rs. 35.66 crore is 59.29% of the total revenue. For the year, Product revenue is at Rs. 119 crore, which is 54.15% of the total revenue.

In the project and services business, the revenue for the quarter has increased 4% at Rs. 24.49 crore against Rs. 23.54 crore for the corresponding quarter last year. For the year this revenue has increased by 11.18% at Rs. 101 crore against Rs. 91.22 crore for the previous year.

Our strategy for the future growth is to be a leading global player in our specialty area of retail loan with implementations in all continents and all countries. To meet our strategic goals we are continuing to recruit aggressively, creating additional infrastructure for future requirements. We are commissioning our second facility at our campus this week. It will seat 800 seats, and the Board of Directors have given in-principle approval for commencing work on phase III within the campus, which will create another 800 seats, by the financial year 2008. Additionally, we are also investing aggressively on improving the quality of our offering and to that effect we have one of the industry's known personalities, Dr. Asha Goyal, joining us as Head of Quality. She in her last role was Head of Quality for IBM Global Services, and helping a team of 50,000 people deliver quality to their group of customer base, and now she is helping us out bringing in the latest technologies and tools in the Company to ensure that we deliver highest quality to our customers.

Now, I will now hand over to R. P. Singh, President and Head of Global Delivery, to make his comments.

R. P. Singh

Thank you Vishnu. The quarter saw a lot of implementation activity as well, especially on the product side, where for the last more than a quarter we have been focusing on implementations based on as is strategy. The main aim has been to ensure that the customer gets value out of our product as early as possible, and we have been extremely successful especially in DCB Bank as well as YES Bank in India where the implementation happened within 3 months, in fact 7 and 9 weeks respectively, and they

were able to launch their businesses and support their business on the product in such a short period. I think that was the beginning and a great success from a new strategy.

We also saw good traction on Cash@Will, the other corporate cash management product that we have. It went live at one of our larger implementations at ICICI Bank, the payments module was live and processing their volumes. At the same time a very significant milestone was that we managed to print the first IT refund cheque through our system at (SBI) State Bank of India which is also using our product. We also have obtained a sign off from DBS Bank Singapore for implementing this in the Indian set up. However, we are in the process of going live there.

Our first SMEC which is on the FinnOne side, the first implementation for small and medium enterprises, a new release that the product management team had rolled out, was implemented at the first site at Indonesia and we are looking at further implementation of the same in a short while. I think it was also a time to welcome the third, you know, more than a million customer base implementation that we have, after ICICI Bank and HDFC Bank, and once we migrated the entire Bank of Punjab portfolio into the new merger with Centurion that entity also became more than million customer base that we have for our product.

Just a little on the larger implementations. The GMAC activity is moving well. We already have initiated and very well into the fit gap study that is going on for Benelux. We should be going live by the end of this year, for this set of countries. We also kicked off in the last quarters the new order that we received from Japan. The teams are already in Japan and the final studies are, fit gaps are going on at this moment, more so when we get into the subsequent quarters. Thank you. I will hand over to Prakash who would update on the product side.

Prakash Pai

Good evening everybody. I am happy to announce that Nucleus flagship product FinnOne has been adjudged as the No. 1 retail lending solution in the global market by IBS Publishing. This is the result of our focused investment in products to keep these ahead of competition both functionally and technically and in line with our customer needs. Today the customer base of our product has expanded from India to several global regions such as South East Asia, Middle East, Africa, Far East, and Europe. During the year gone by we have released new and improved versions of our products FinnOne Lending, FinnOne Deposits, FinnOne Finance Against Security, and FinnOne Customer Acquisition Systems.

In this year we also added a few new tools to our product. These tools will expand the functional coverage of our products and improve user productivity. These are communication engine, single sign on features, and loan calculators. Two new significant market segments have been addressed this year by launching new modules - FinnOne Forecaster has been introduced to meet the requirements of the potentially strong area of business analytics. This would be an add on module to our existing FinnOne product. And then to the meet the Basel II requirements of banks, Nucleus recently developed solutions in the area of operational and market risk management.

As mentioned in our earlier calls, FinnOne today covers all the business requirements of banks, financial institutions, and captive auto finance companies. The FinnOne product

suite is now capable to fully handle the retail and SME businesses, both of which are the key businesses of any banking institution. As part of our technology upgrade strategy we are migrating our flagship product FinnOne Lending to the Java J2E platform. A new product release is scheduled in this quarter for our other significant product Cash@Will, which focuses on the cash management business. I now hand you over to Pramod Sanghi, our CFO.

Pramod Sanghi

Hello, good afternoon everyone. Let us talk of numbers on our quarterly sequential basis and then for the year as such. On a sequential basis, revenues have grown by 7.08%. Product revenues have increased by 12.29% at Rs. 35.66 crore. Revenue from other streams of business, that is projects and services, has increased a fraction of a point really, 0.33% sequentially. At the gross level, profitability has improved with cost of delivery at 53.5% against 56.39% last quarter. Marketing expenses are at 8.6% of revenue against 9.85% in the previous quarter. G&A expenses have, however, increased and are at 9.38% of revenue against 5.86% in the previous quarter. The increase in the G&A expense is primarily on account of one-time provisioning of Rs. 1.8 crore on account of delayed implementation of our product at one client site. We have taken a conservative view and provided for possible write-offs, while we engage actively with the client for a solution and continuing the implementation.

The EBITDA margin for the quarter is 28.5%. We were at 27.9% in the last quarter. Other income is at Rs. 0.8 crore, lower than Rs. 1.59 crore previous quarter. The realized income from investment in this quarter is Rs. 0.61 crore against Rs. 1.18 crore last quarter. This is basically a function of maturity dates as we would tend to hold investment for a year for the possible tax benefits which are allowed. Withholding taxes are static at about Rs. 1.26 crore. The Depreciation has gone up to Rs. 2.06 crore against Rs. 1.71 crore. Taxes are also up with deferred taxes coming in at Rs. 0.73 crore as compared to Rs. 0.37 crore in the previous quarter.

PAT at Rs. 13.95 crore is largely the same as Rs. 13.94 crore in the last quarter. PAT is 23.19% of revenue against 24.81% in the last quarter. Now when we look at the full year, Vishnu has already talked about revenue, net profit, and EPS. If we look at the cost of delivery it is 56.56% against 54.37% in the previous year. The gross margin is slightly lower at 43.44% against 45.50% in the previous year.

Sales and marketing expenses, more or less flat as percentage of revenue, 8.11% this year against 7.93% last year. G&A, 6.72% against 7.21% last year despite the charge taken in Q4.

EBITDA for the year is 28.61%, we were at 30.48% in the previous full year.

Other income has increased. It is at Rs. 5.62 crore, we were at Rs. 3.06 crore in financial year 2006, this is of course with the income on investment going up to Rs. 3.53 crore against Rs. 1.57 crore in the previous year.

Depreciation is Rs. 6.88 crore, 3.11% of revenue, against Rs. 4.76 crore, 3.21% of revenue last year. Withholding taxes as a percentage are 2.12% of revenue against 2.19% of revenue. Taxes are lower, Rs. 2.20 crore, 1% of revenue, 3.83% of PBT, against Rs. 3.12 crore, 2.1% of revenue, 7.75% of PBT.

Net profit, around 25%, 24.93% this year, and 25.05% last year.

In terms of receivables they have increased to Rs. 55.26 crore against Rs. 37.19 crore at the end of the December quarter. The DSR has increased to 83 against the usual 60 days and we expect this to come back in line within the next month.

Operating cash flow for the quarter before working capital changes is Rs. 18.73 crore. Net working capital has increased by Rs. 4.5 crore and with Rs. 11.3 crore out go on capex and Rs. 6.22 crore interim dividend our liquid funds have now decreased from Rs. 84.29 crore in December to Rs. 81.8 crore.

Talking of foreign exchange, in April 2007, everyone is aware that there has been a marked change in the monetary policy and the rupee has appreciated. As of last Friday it was 41.07 and today last I saw it was trading at about 41.18, so we have possibly a new set of exchange rates within a 40 to 43 range against a range seen in the last 3 years of 43 to 46. We are constantly reviewing our strategy in view of this appreciation and cost control will assume greater significance this year.

We had a coverage of US\$ 6.95 million at March end, and as of date we have a coverage of US\$ 9.6 million at an average rate of 43.94. Primarily we cover 3 months receivables.

In terms of client concentration, our top 5 clients have contributed 63% of revenue against 72% from the top 5 clients in the previous quarter. I think this time we will talk proactively about our order book position. It is Rs. 330 crore at the end of March and includes Rs. 286 crore of the product business and Rs. 44 crore of the services business. Of the product business in hand we expect to execute Rs. 156 crore in FY08 and the balance in subsequent periods. I will now hand over to Niraj to give you a brief on the global events in sales and marketing.

Niraj Vedwa

Thank you Pramod and good afternoon to all of you. It has been one of the best years for new customer acquisition and new product orders. We added 21 new customers which is the highest we have achieved so far. 22 new product orders which is also the highest that we have achieved for 74 modules which also is the highest. The largest order that we bagged which is ACOM, second largest consumer finance Company in Japan, is also the biggest order received by Nucleus. Our participation in various events like CYBOS, Meftec and some other regional events has also been of the highest visibility and presence.

We have had very high visibility in terms of branding, marketing, and public relations across different geographies. We have been receiving orders from all across; from Japan, Africa, Middle East, India, and we are working very closely with a lot of companies and financial institutions in Europe as well as Eastern Europe, and we do look forward to receiving some business from these areas. Overall, it has been a very satisfying year in terms of new business acquisitions. That is the brief summary from my side. I now hand over to Dr. Asha Goyal, our Vice President and Head of Quality to say a few lines.

Asha Goyal

Good afternoon everybody. I will talk about the new initiatives in quality. Nucleus is poised for growth. For excellence in project execution, Nucleus is investing in world class software using tools as a strategy. This will introduce higher automation in various phases of projects and will result in enhanced quality and reduced time to market. To execute this strategy Nucleus will be able to attract the best talent from the market as it presents a unique opportunity to IT professionals in terms of kind of work they dream of doing. It provides huge opportunities to these professionals for designing products and architecting software. Now professionals can have intellectually enjoyable time, which is hardly available in typical software services projects in the industry and this will help them in achieving. Thank you very much.

Poonam Bhasin

Thank you Dr. Asha. Ladies and gentlemen, we are now open to question and answer session.

Moderator

Thank you very much mam. Ladies and gentlemen we will now begin the Q&A interactive session. Participants who wish to ask questions please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question please press *1 now. To ask a question please press *1 now. First in line we have Mr. Sanjay Kaul from FE Securities. Over to you sir.

Sanjay Kaul

Good afternoon Vishnu and thanks for the bonus and a big welcome to Ms. Asha Goyal also who joined the team, congratulations on securing big order from all over the place, and I hope that this trend will continue in the years to come. I will take my questions later on. Thanks and bye.

Vishnu R. Dusad

Thank you very much. Thank you very much for the kind words.

Moderator

Thank you very much sir. Next in line we have Mr. Hitesh Punjabi from Religare. Over to you sir.

Hitesh Punjabi

Good evening sir. I would like to know what has been the pricing environment on the product side?

Niraj Vedwa

This is Niraj and I'll take this question. The pricing environment obviously is regional in nature and it also depends on the kind of competition at the time, but in overall We do see that in the license component there is a marginal increase over last year and also the T&M rates we are able to get better rates than what we were getting previously. This is only on account of the fact that we have a very successful installed base and customers are happy, so the new customers are willing to give us that little additional amount.

Anurag

Okay, sir this is Anurag from Religare. Is there any significant rupee impact that has gone into the quarter on operating levels?

Pramod Sanghi

No, in this quarter there is no significant impact because you know December end we were at 44.39 and we were at 44 most of the quarter and 43.75 at the end. There is no significant effect in this quarter.

Anurag

Okay, great. In terms of business environment, how you are seeing the traction especially in the European markets and the Middle East markets as such in terms of the order inflows that is coming from these geographies?

Niraj Vedwa

Ok, I'll take this question, my Name is Niraj. This year, Middle East and Africa has been very good for us, in fact we have announced some of the big deals like Emirates Bank, RAK Bank, Mashreq Bank are the ones which we have announced, and these are some of the biggest names in the Middle East markets. We also have Arab National Bank. Now having said that some of the new orders that we have got, which also we announced, such as Dubai Islamic Bank, you know they are also one of the largest Islamic banks, so we have a substantial market share there and we are receiving lot of inquires from the Middle East market. We do feel that we will get a lot of new business because we have a very healthy pipeline and also repeat business from the existing customers. At the same time in Europe, basically the GMAC win has helped us in making inroads in lot of automotive finance companies to whom we are talking and we are quite hopeful that we should be able to get something. The time frame cannot be committed.

Anurag

Okay and the order book that we talk, what would be the average time duration for the order book sir?

Pramod Sanghi

That is why we gave that breakup where you know Rs. 330 crore and we said that a particular amount will be implemented within 1 year. Most of the orders, when we get a single country order or a single implementation order, all these are largely implemented

within maximum a year of obtaining the order as such. Of course certain orders like GMAC, which we started in 2005, goes on for four years. The ACOM order which we have started in March of this year will probably go for 2 years or so. So these orders add to the pipeline or the visibility of revenue actually which is post one year.

Anurag

Thank you and all the best for 2008.

Vishnu R. Dusad

Thank you.

Moderator

Thank you very much sir. Next in line we have Ms. Shivani Mehra from Edelweiss. Over to you mam.

Shivani Mehra

Sorry sir for the repetition, I just wanted to know what was the breakup of the product, projects, and service line in Q4, Q4 FY 07and Q4 FY06 and FY07?

Pramod Sanghi

You wanted the.....

Shivani Mehra

Revenue breakup for Q4 FY07, Q4 FY06, and FY07?

Pramod Sanghi

Okay, products business quarter ended March 31st 2007 is Rs. 35.66 crore. Projects and services is about Rs. 24.50 crore. March 2006 quarter product is Rs. 18.55 crore and projects and services is Rs. 23.54 crore.

Shivani Mehra

Okay.

Pramod Sanghi

You want the full year also?

Shivani Mehra

Yes sir.

Pramod Sanghi

Okay, full year products is Rs. 119.76 crore.

Shivani Mehra

Rs. 119.76 crore, yes.

Pramod Sanghi

And projects and services Rs. 101.43 crore.

Shivani Mehra

Okay, thank you so much. Sir you said you would be executing Rs. 156 crore by the end of this year, order book.

Pramod Sanghi

Well of the product orders in hand we expect to execute Rs. 156 crore in FY08, then of course we will add to it whatever we book and execute within the year.

Shivani Mehra

Okay, thank you so much sir.

Moderator

Thank you very much mam. Next in line we have Mr. Ashish from Lucky Securities. Over to you sir.

Ashish

Good afternoon to the team at Nucleus and congratulations on a great year.

Vishnu R. Dusad

Thank you. Thank you very much.

Ashish

Vishnu my question basically is a question on the competitiveness of our Company vis-à-vis the integrated core banking software solutions provider. Do you see a threat from any of the core banking providers in times to come as the bank replace their core banking operations and at that time would we have a significant disadvantage compared to the integrated vendors?

Vishnu R. Dusad

Okay, I will request Prakash to take this question.

Prakash Pai

This is Prakash here, the two products that Nucleus has, one is the retail lending solutions and the second is the cash management solution.

Ashish

Right.

Prakash Pai

Now over the years as these banks have been replacing legacy systems with the new core banking solution, we have been consistently implementing our retail lending solution along with the even new core banking solution. A number of banks have replaced their existing legacy systems with new core banking solutions over the last 2 - 3 years, but when it comes to detailed functionality on the retail lending business, they have preferred to implement the FinnOne solution for the retail lending business. This is primarily because this is a very focused product and it focuses only on one line of business and it gives them a great deal of competitive advantage. Over the years, yes, any of the core banking solution can expand their scope of work to cover the retail lending in a bigger way, but we do feel that having got this lead and our continuous investments in it will continue to give us the advantage. As you must have noticed over the last 2 to 3 years we have continuously added more and more functionality and covered more and more business areas within retail lending. As I mentioned in the call earlier that we cover not only the banks but financial institutions as well as captive auto finance companies.

Ashish

Right, okay from what I understand is that at the current point of time we definitely have a lead over the core banking vendors in the retail lending area, but lot of them are also investing heavily in getting the retail lending fees, their retail lending functionality up to our standards. So to your mind what is the kind of time advantage or the lead that we have over these guys? And the second question is as and when they catch up, may be in a couple of years I mean you know whenever they catch up with us, then what would be our next step? Would we then go into the core banking area as well?

Prakash Pai

We are very proactively increasing the coverage, like for example as I said that you know like we were earlier only covering the retail lending part, we now also cover the small and medium enterprises part, so that gives us at least a 2 to 3 year advantage over any core banking solution. Now question is that if they also catch up in the same area we would definitely invest to move forward to areas like securitization and other related activities.

Ashish

Okay, so there is enough of the space to expand the product offering, I mean your product road map, for how many years does your product road map take into account expanding functionalities?

Prakash Pai

See one is our product road map expanding these functionalities, and the second is the market is also very huge. Today, we are only operating in few countries if you would look at it.

Ashish

Right.

Prakash Pai

Okay, so the market itself is very huge and we think that there is enough space that we would be able to cover.

Ashish

Okay, my second question is related to your expansion into to the US market, could you give us a status update on that?

Vishnu R. Dusad

Okay, as we have been mentioning in earlier calls also, the process of studying that market is continuing. As I had mentioned in the last call, we have hired someone who has spent more than couple of decades in that market to help us with understanding of the functionality that we need to add to our product apart from the understanding that Prakash himself has directly developed after spending 4-1/2 years there and another senior colleague of ours, Parminder Bansil, who is spending time there exploring that market. So I think we are making good progress and we need to now accelerate that and then we are ready for the US market.

Ashish

Okay, so would it be safe to assume that we are still about 1 year away from the US market entry?

Vishnu R. Dusad

Yes, at least 1 year.

Ashish

At least 1 year.

Vishnu R. Dusad

It could be 2 years also.

Ashish

Okay, my third question is on the product side do we now have visibility to give us some kind of a visibility on the quarter-on-quarter group that we can expect from the product side of the business?

Pramod Sanghi

It is our stated stand that we do not give guidance for revenue or profitability on either a quarter-on-quarter basis or on a year-to-year basis.

Ashish

Yeah, but as I heard on the call the product revenue for the next year we are targeting about Rs. 156 crore, did I hear that correctly?

Vishnu R. Dusad

That is not the target.

Ashish

Okay.

Pramod Sanghi

What we said was, it is fair enough that we say that this our order book as of today, out of the order book we expect to execute so much in the next year, right, that is not necessarily the only part of our revenue target.

Ashish

Right, whatever orders we book during and execute during the years would be in addition to that?

Pramod Sanghi

That is right.

Ashish

Right sir.

Pramod Sanghi

That is only to make the mathematics simple for people.

Ashish

Right, one last question was over the next one year do we anticipate any implementation slips since we are implementing a large number of projects at a large number of sites, could you throw a little bit of light on how we are gearing ourselves up to handle these kind of delivery issues that are now likely to crop up at this kind of scale?

R. P. Singh

I think there are two parts, one that Dr. Asha Goyal also updated that is lot of capability stuff that is going-on on an inculcation of tools. On the other hand what we are doing at the delivery end one of course is you know working with the customer to moving with as is implementation, which you know makes it easier while it is valuable for the customer, for us it is easier to take on a implementation, get it over with, move to the next. Also that gives us greater capability of training our new expansions in the teams. We are in fact adding a whole bunch of research analysts, which is in line with this strategy of as is implementation. So trainings on that front, we in fact initiated in addition to user manuals, we have also initiated computer based training kits which are then handed over to our customers. So all that helps us in small steps to collectively would make a major impact.

Ashish

Alright, thank you very much and keep up the good work sir.

Vishnu R. Dusad

Thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Ramesh from Damani Finance. Over to you sir.

Ramesh

Hi! Vishnu, congratulations on the performance and solid year.

Vishnu R. Dusad

Thank you, thank you Ramesh. Thank you very much.

Ramesh

I am going to try the question another way with Niraj what Ashish asked. Niraj you should leave ACOM out of the picture. ACOM is a large order that you know makes the distribution unequal. How confident is marketing that you can go out and get product revenue of about Rs. 30 crore per quarter?

Niraj Vedwa

As I said that if you look at the last 2 - 3 years and the way we have been growing, this year has had records of all sort, as I said in my brief introduction or summary for the year, we had 21 new customers, 22 product orders from these 21 customers for 74 models, which is all all-time high, and in terms of our number of RFP responses that we are getting and we are replying to, it is obviously also on a high, this is increasing. We have more customers or prospective customers coming to us very proactively saying you have implemented here, you have implemented there, so you know what is your

pricing etc., so the overall picture of what we have in terms of our prospect base and in terms of our coverage looks very good, and we are quite confident, I cannot commit on those figures of Rs. 30 crore etc., but we are very confident of at least in terms of number of customers and in terms of number of modules etc., we will obviously be able to do a reasonable job on that.

Ramesh

Okay, thanks Niraj. Mr. Sanghi, how concerned are you about the rupee dollar rate at this point and what is your sensitivity telling you?

P. K. Sanghi

I am reasonably concerned. I used to target 45, so I am wondering whether I should target 43 or something lower than that, but at the moment I am comfortable looking at 43 for the year.

Ramesh

Okay, thank you so much and have another good year next year.

Vishnu R. Dusad

Thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Yogesh from Nirmal Bang. Over to you sir.

Yogesh

Sir, last time I had talked with you, you were comfortable with the margin of 30%, but for the year it has dropped to around 28.6%.

Pramod Sanghi

Well, I think you know 28.6% and 30% you know 140 basis points is not very far, from our target as such and of course things happen during the year on which some we have good control, some we have less control, I think we are comfortable with these margin levels, and in fact if you noticed in my statement, I did not make a commitment, otherwise I will be asked a question again next year.

Yogesh

No...no...Sir, that I totally understand, but despite this year the growth was from the product side, so margin should have been maintained or increased?

Vishnu R. Dusad

Yes, but you must appreciate that expenses on personnel/manpower as well as scaling up for larger implementation do affect margins at the same time.

Yogesh

Okay sir, and for this year how will be the manpower be, given the hike for this year?

Vishnu R. Dusad

We have Mr. Ravi Verma, who is Global Head of HR, who has also joined us in the call. I will request him to answer that question.

Ravi Verma

Good afternoon. This is Ravi, I will refer to the article which has come up in paper where they were talking about industry average hike about 15 to 18% and something like that. We have also been very, very competitive and we would like to, see this is the product business in which continuity of our employee is extremely important. So to do that we will like to benchmark ourselves with the competitive compensation, and this 15 to 18% which I just talked of, we will definitely consider that.

Yogesh

17 to 18%.

Ravi Verma

15 to 18%.

Yogesh

Okay sir, and sir are there any planning for hiring the employees for this year?

Ravi Verma

Yes, we are targeting for about 400 to 450 employees in this year.

Yogesh

Okay and freshers in that?

Ravi Verma

Definitely, but it wouldn't be like last year wherein we had hired about nearly 225. We will be scaling it down, but we are yet to take a call on it.

Yogesh

Okay, thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Karthik from Unify Wealth Management. Over to you sir.

Karthik

Sir, what is your current employee strength and how much was it added over the last year?

Pramod Sanghi

We had about end of March 1632, and we have added about 478.

Karthik

478 employees. What is the attrition rate this year over last year?

Ravi Verma

It is around 19%.

Karthik

Pardon me. I cannot hear you sir. 19%?

Ravi

That is right.

Karthik

After scaling up would have about 800 employees, right? Hello.

Pramod Sanghi

What is the question?

Karthik

What is the new pace you are talking about some 800 employees being added in the new unit, when will that be operational?

Pramod Sanghi

No, no what we are saying is that our second facility is at the same premises, and this facility should see us good for accommodating the people we recruit this year.

Karthik

Okay.

Vishnu R. Dusad

Next we are setting up another 800 people facility which we will add this year and we finish within 12 months for people to be recruited in FY09.

Karthik

Okay, and you are targeting about 400 to 450 employees addition this year, right?

Pramod Sanghi

That is right.

Karthik

Okay, thanks a lot sir and all the best.

Vishnu R. Dusad

Thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Rakesh from IL&FS Investsmart. Over to you sir.

Rakesh

Hello.

Vishnu R. Dusad

Hello, yes please.

Rakesh

Yeah, Rakesh here actually. Sir, what I was asking is as basically your product revenue as percent of total revenue increases, it should be margin accretive, right? So I would like to just have a take on that, what is the take on that, what is the cost structure on the product side?

Vishnu R. Dusad

Your point is absolutely valid, our investment on the product front and in terms of increasing the capacity, those also we are now accelerating and that is how you may or may not be able to see the increase in margins directly.

Rakesh

But how much time will it take, I mean there has to be, I mean are you in the investment phase for another 2 to 3 years?

Vishnu R. Dusad

I mean it could continue for 5 to 10 years.

Rakesh

Okay, is it that long?

Pramod Sanghi

No. You please understand that in the product business we have to make investments every year. We were asked a question earlier in the conference about our lead over other competitors and so on, so we need to invest constantly to stay ahead and the enhanced product business and visibility of revenue, higher license revenues give us the ability to invest both in product development and in sales and marketing.

Rakesh

Okay.

Pramod Sanghi

So we are quite comfortable with the margin levels which we have been operating at for the last 2 years and they enable us to I think operate quite comfortably.

Rakesh

Okay, I got that thanks, thanks a lot.

Moderator

Thank you very much sir. Next in line we have Mr. Aseem Gupta from DSP Mutual Funds. Over to you sir.

Aseem Gupta

Hi, congratulations to everyone for a good set. I just have one question, there has been some concern as far as the Citi Bank revenues are concerned, any comments on that sir?

Vishnu R Dusad

We are not aware of any such concern. Our services revenue from Citi Bank is the most stable and robust part of our revenue stream I would say because you know the value that we deliver to Citi Bank corporate banking business is very significantly high, and you know one of our applications I think we have mentioned it earlier in our calls is running in more that 120 countries, so that is the kind of value that we deliver, so we are not at all concerned about Citi Bank revenue.

Aseem Gupta

As the Bank is talking about consolidation of vendors, so if we are not expecting a decrease in revenue are we expecting a significant increase in the coming few years or do you think it will stabilize at current levels?

Vishnu R Dusad

We are talking to their senior management for similar value addition to their businesses and we could visualize some higher revenues coming in from Citi Bank.

Aseem Gupta

Okay, thank you.

Vishnu R Dusad

Thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Ruchit Mehta from HSBC. Over to you sir.

Ruchit Mehta

Yeah, hi, thank you gentlemen, good evening gentlemen, and congratulations on a great year.

Vishnu R. Dusad

Thank you.

Ruchit Mehta

Sir just on the projects and the services part of the business, it is very stagnant or slowish in this year, how do we see it going forward into fiscal 2008, you did mention just now that Citi Bank you may see some improvement in revenues, but on the other major account how do you see things moving along?

Niraj Vedwa

This is Niraj, I mean of course as part of our strategy we are obviously being driven more by product business, but on the services side I mean we have couple customers with whom quite stable business and we do see that business increasing over the years and of course we are also looking forward or rather talking to couple of other banks for some new business on the services side. So we do see that you know we do expect rather I would say that the services business would go up substantially from what we have done last year.

Ruchit Mehta

So there would be a YOY growth in the services part as well?

Pramod Sanghi

Yes, what Niraj is saying is that existing business should grow with bigger engagement and actually we always talk to customers, but fact of the matter today is it really comes today from two customers, so till we get the third customer it is a little premature to talk about getting more revenues or substantial or additionally large, because they can come tomorrow, they can come after a year. We are always in talks with Banks.

Ruchit Mehta

Only reason was that in Q1 and Q2 we used to do about Rs. 4 crore a quarter and then we have done about Rs. 12.5 crore in second half of the year, so is Rs. 2.5 crore a base on which it will grow or is it the full year 13 crore....

Pramod Sanghi

For the services business if you mention, I think we mentioned in the last call that you know we were doing some business in the US at very low margins, so we proactively decided not to continue that. It was not adding to any bottom line anyways.

Ruchit Mehta

And sir just on this capex for the full year, any particular amount that we are looking at to spending this year?

Pramod Sanghi

I suppose we would spend about Rs. 20 crore on building and we could spend another Rs. 20 crore on equipment and tools and so on.

Ruchit Mehta

Okay great. And can you just let us know what will be the total number of ESOPs outstanding as of now?

Pramod Sanghi

Yes, I can give you the exact number, we have a 579,310 ESOPs outstanding as of 31st March.

Ruchit Mehta

Okay, and do you plan to increase this you know as a sort of retention strategy?

Pramod Sanghi

We are waiting for the government to clarify on the fringe benefit tax and after that we will take a view. Prior to the introduction of the fringe benefit tax we were looking actively at it, you know I mean today we have to balance the interest of the employees

and the Company both, and let us see what the government comes up with. I hope in the next 15 days it will be resolved.

Ruchit Mehta

Okay, so if you were to dilute this, your equity would grow to 16.6 million shares.

Pramod Sanghi

As of now, yes you are right.

Ruchit Mehta

Okay, great, thank you.

Vishnu R. Dusad

Thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Rajiv Ghosh from Wealth Management. Over to you sir.

Rajiv Ghosh

Sir congratulations for a good set of results.

Vishnu R. Dusad

Thank you, thank you very much.

Rajiv Ghosh

Sir this year you are going to add almost similar amount of employees as last year, I think 440 or 450 odd, is that correct?

Vishnu R. Dusad

That is right.

Rajiv Ghosh

Okay, so we can see an expansion in margins next year?

Pramod Sanghi

Well, as we mentioned earlier we are not really looking at any significant changes in operating margins, so we would continue you know we have been between quarter-to-quarter really you know anywhere between 27 to 32, 33, so I presume we will continue to operate within that range. The months when the increased cost come in the margins

go down slightly, then the turnover increases the margins catch up, it goes on, but I do not think that range is going to change significantly.

Rajiv Ghosh

Okay, so there will be a further upward pressure on selling and marketing expenses, that is how it will happen?

Vishnu R. Dusad

Yes, it could be selling and marketing expenses as well as our investment in the next release and so on.

Rajiv Ghosh

Okay, fine. Thank you.

Vishnu R. Dusad

Thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Neerav Dalal from Capital Market. Over to you sir.

Neerav Dalal

Good day sir, I just had a question regarding the tax rate, what will be the tax rate going forward because it dipped over last year?

Pramod Sanghi

You are aware that as far as 90% of our business comes from overseas, that is tax free, and 10% of our business comes from India which is taxed at the regular tax rates. So it is a function of that, and we do not expect it to change very significantly over the years.

Neerav Dalal

Okay sir, thank you.

Vishnu R. Dusad

Thank you.

Moderator

Thank you very much sir. Next in line we have a follow up question from Mr. Ashish from Lucky Securities. Over to you sir.

Ashish

Sir, I had a question on our pricing model. Are we still continuing to price on the basis of a license fee plus annual maintenance contract or have you been able to get into some innovative pricing mechanism such as a 3-year license renewal or a transaction based pricing or a pricing model based on assets under management, has there been any change in our pricing model at all?

Niraj Vedwa

This is Niraj. Yes, we have done some innovation on our pricing, and I mean we have received one or two orders also on those new pricing models. We have now introduced basically the different options which are you know competitively available in the market; one of course is basically portfolio based kind of a pricing which as the customer portfolio grows he pays an additional license, which can be seen at a quarterly basis or a half yearly basis. There is also a transaction based pricing which is a model. So these are two models which we have introduced, and I think in two customers we have already settled on this new innovative pricing model which will get us additional license revenue as the business grows.

Ashish

Alright, that is it sir, thank you very much.

Moderator

Thank you very much sir. Next in line we have a follow up question from Mr. Sanjay Kaul from FE Securities. Over to you sir.

Sanjay Kaul

Your quarter-on-quarter results are flat, is it because of this Rs. 1.8 crore that has been provided for the delayed implementation?

Pramod Sanghi

Mr. Kaul Rs. 1.8 crore is 3% of revenue. If that provision had not taken place then profit would have been higher by 1.8 crore, which could have benefited, I am sure you can calculate the necessary increase. It is not for me to calculate, because it does not exist today.

Sanjay Kaul

Correct, absolutely.

Pramod Sanghi

Does not exist today.

Sanjay Kaul

Correct, and this for the March quarter ending, what was the revenue from ACOM that you would have taken into account?

Pramod Sanghi

Customer wise revenues we do not get into.

Sanjay Kaul

Okay, fine, thank you.

Vishnu R. Dusad

Thank you.

Moderator

Thank you very much sir. Next in line we have a question from Mr. Om. Over to you sir.

Om

Hello.

Vishnu R. Dusad

Hello.

Om

Hi, I am an individual investor with the Company, I just wanted to say congratulations. That is all. No questions now.

Vishnu R. Dusad

Thank you very much for being on the call and for being the investor.

Moderator

Thank you very much sir. Next in line we have a follow up question from Mr. Ramesh from Damani Finance. Over to you sir.

Ramesh

I think Sanjay just asked one question whether the Rs. 1.8 crore was directed to the bottom line, it was so, I already have my answer. Thanks.

Vishnu R. Dusad

Thank you very much for listening on the call.

Moderator

Thank you very much sir. Participants who wish to ask questions, please press *1. Participants who wish to ask questions, please press *1. We have a follow up question from Mr. Ashish from Lucky Securities.

Ashish

Sir my question is about the sustainability of our maintenance revenues which we get year after year. As I understand is it currently in the range of about 15% of the upfront license fee?

Niraj

We have three maintenance options. There is something called gold support, which is 24/7, which is at 25%. There is silver support, which is from the beginning of the software cycle in the morning to the end of the day software cycle, which is called silver support at 20%. And there is the bronze support at 15%. Our model of pricing is license plus customization, then the required 15%, 20%, or 25%. Bulk of the customers would be on the bronze support, which is 15% of license and customization.

Ashish

I see, okay. The other question that I had is once the product is implemented at the client side there are lots of customizations etc. which go through. To the extent as I understand that in 3 years time the product that is or the software that is now working at the customer site after 3 years of implementation is pretty different from what the software was at the start. So does this impede our ability to kind of give them upgrades and get further revenue from the same customer after 3 years? I mean does the customer become so used to the software that he no longer needs our services after 2 or 3 years?

Prakash Pai

This is Prakash here. Customers do request for the customization of the product to suit their specific requirements. Now many times what happens is these requirements could be generic in nature or these customizations could be useful to the product on a universal front. On that occasion we bring this into the core product in a phased manner. So what happens is that customer at different points in time can be upgraded to a latest version, but he will have to retrofit those changes which we have not included in the core product.

Ashish

Okay, so in that sense even if the customer has made lot of changes it is not that you know that he does not need our services anymore or that he cannot be upgraded on a basic product itself?

Pramod

This is Pramod here, I wanted to add, the customer does not make changes, we make the changes.

Ashish

So all the changes that are there are there in some database that you guys maintain of the customizations by individual customer?

Pramod

Customer does not touch the code.

Vishnu R. Dusad

The customer does not have any access to our code, whatever customized changes that need to be made are made by Nucleus itself.

Ashish

Okay, I see, alright.

Niraj

I just wanted to add on that you know since you asked this question, we have a customer since 1992 who is using our software and he has upgraded a new version. The customer is in Indonesia and for all these 15 years he has paid us annual technical support plus upgraded software. We have customers such as HDFC Bank who have been using since 1998 or 1999 and they are all under 8 years even today, of course they have been upgraded two new versions, so these are some examples just to substantiate the point which Prakash made.

Ashish

Right, sir one final question on pricing trends, could you give us a sense of where is our pricing in terms of in relation to our competitors and in terms of whether we are able to still take incremental price hikes on our base pricing every year with new customers?

Niraj

Well with the market share that we have and being in a leadership position you know we have managed to get some of the global vendors at pricing we have actually reduced below us and you know we have also in terms of pricing even today when we are going for these bids there are 7 or 8 vendors who are there, some of them are global, some of them are local, and there could be some Indian vendors also, but we have always kind of walked away with a good price value proposition. Some of the large contracts, I mean ACOM for example, also was a highly fought case and we did manage to get a good pricing.

Ashish

Alright, alright sir, thank you very much.

Vishnu R. Dusad

Thank you.

Moderator

Thank you very much sir. Participants who wish to ask questions please press *1. Participants who wish to ask questions please press *1. Next in line we have Mr. Lalithab Srinivas from Techno Shares. Over to you sir.

Lalithab Srinivas

Hello.

Vishnu R. Dusad

Hello.

Lalithab Srinivas

Yes sir just a small question on the product side, can you just tell us what is the current tank size that you have?

Pramod Sanghi

What is the current....?

Lalithab Srinivas

Tank size or the order book position.

Pramod Sanghi

We gave a figure of tank size, okay total order book we said was Rs. 330 crore, out of which the product business value is exactly

Lalithab Srinivas

Rs. 330 crore, right?

Pramod Sanghi

Yes, Rs. 330 crore total, out of which 286 is product business. The 286 please understand includes license fee, customization, as well as maintenance contract.

Lalithab Srinivas

Okay and sir what is the duration of this, is this executable over a 1 year period?

Pramod Sanghi

Rs. 156 crore we expect to execute within 1 year and the balance is post that.

Lalithab Srinivas

Okay, and sir how is the contract usually priced, I mean how much is the license fee and how much is the maintenance fee and all that?

Pramod Sanghi

Currently, out of order x price today the license fee would be between 50 to 60% of the order price. The balance going towards implementation and the customization. And ATS or maintenance would come post implementation and warranty which would as Niraj said earlier 15% of the license plus customization.

Lalithab Srinivas

Okay, and how long does it take to implement the product at customer's end?

R P Singh

Normal implementation say for on a average it would be from 6 to 8 months, but it can be as extreme as 3 months to 1 year.

Lalithab Srinivas

Okay.

Niraj

I mean if there is no customization which is we are trying to go with the strategy of Vanilla implementation it could be like 3 months, which is what we are enforcing and trying our best to get from the market.

Lalithab Srinivas

Okay, fine sir, thank you sir.

Vishnu R. Dusad

Thank you.

Moderator

Thank you very much sir. Participants who wish to ask questions please press *1 now. Participants who wish to ask questions please press *1 now. Next in line we have Mr. Puranik from Enam Securities. Over to you.

Puranik

Hi, Vishnu congrats to your team. Great results.

Vishnu R. Dusad

Thank you Puranik sir for being here on the call.

Puranik

It is a pleasure. I want to check with you on couple of things, you know on the number of license user base you have built over time and the pricing power built especially in Indian market, how do you see the pricing power getting built in India? There were very interesting questions on the maintenance upgrade revenues, because that is the crux of the whole product business. If you can tell us how that you know we are getting a better pricing power in the last few quarters or how will you see the pricing power developing in this, because the product business comes out of people paying for upgrades, people paying for license, and customization, give some sense.

Niraj Vedwa

Okay, I mean I will try and address some part of it. My name is Niraj and then I will hand it over to Vishnu. We have about close to one forty customers that we have, active customer, otherwise I would say that about 125 or so would be product customers, so over the years our pricing is based on the number of modules of the product which is implemented, so already we have said that we have implemented about 250 odd modules in about 22 countries and we have contracts you know to implement in another 80 countries over next couple of years. So I think that you know obviously your question I guess has not come from the technical support revenue etc. etc.

Puranik

My question is little different because see in a IPR story the power comes from the volume and pricing, because your cost income ratios in this business are different over long term, it is favorable to you, that will come when you start charging for the upgrades that you sell, the maintenance revenues which is predominantly the upgrade, have to be paid for. Is there a pricing power that you have got today or is there a method to get that in the near future?

Vishnu R Duasd

Okay, the way we look at this question of pricing power is slightly different than most of the product players I would say. What we would like to focus on is you know price performance for the next 5 to 10 years at least, and we would like to on an ongoing basis improve the price performance ratios by helping bring the cost of lending down, by helping the Banks and the financial institutions bring their cost of lending down through various means, which could be you know different components of the solutions coming from different vendors who are best in class and yet are able to deliver far better price performance than may be some of our existing components in such a manner that we are able to penetrate far far deeper than the quarter percent of the global retail assets that we have today on our products. So our focus would be clearly in terms of deepening our penetration or taking this percentage of retail asset service to far higher numbers, and then at that juncture either we would look at additional modules that we can bring in, in terms of higher you know which would deliver higher price performance, and that is how we look at our long-term business model. We do not visualize, you know pricing power sort of getting used very heavily, we may have pricing power but we

would not use it easily, we would rather make sure that the solution that we have is of immense value to our customers.

Puranik

So what you are saying is create a large user base in the first place and create width and depth to look for pricing power.

Niraj Vedwa

Absolutely, that will come out of it.

Puranik

That is great, thanks Vishnu.

Vishnu R. Dusad

Thank you.

Moderator

Thanks a lot. Next in line we have Mr. Sazal Gupta from Perfect Home Finance. Over to you.

Sazal Gupta

Good evening Vishnu and to rest of the team for giving such good numbers. I just wanted to know when has that ACOM order, has it started off, have you started implementing this order?

R P Singh

As I mentioned this has got kicked off in March, the teams are already in the bank, and product fit cap activity is going on.

Sazal Gupta

Could you tell me when have you started implementing this order?

R P Singh

It was started in the beginning of March, 1st March.

Sazal Gupta

So beginning of March, so that means would I be safe to say that the profit would have been because the expenses would have been accounted for in this quarter for the manpower employed and everything, the profit would have been higher because the expense would have been for the full quarter?

Pramod Sanghi

Mr. Gupta, you are very good at mathematics of how the Company works, so you can draw your own conclusion, but you are not going to get a comment from us.

Sazal Gupta

Fine, I will take, that is enough. Thank you.

Vishnu R. Dusad

Thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Mahesh. Over to you sir.

Mahesh

Hello.

Vishnu R. Dusad

Yes please.

Mahesh

Thanks Vishnu for the great quarter and a year, I have one question. What is the repeat percent business and how many Fortune 500 clients are we serving right now?

Vishnu R. Dusad

Thank you very much, I think my sense is we will have I guess at least 5 of Fortune 500 clients on our list, and it could be, whichever are there they would be I would say be Fortune 100,

Pramod Sanghi

But we will check that.

Mahesh

And what is the repeat business, percentage of repeat business?

Pramod Sanghi

The projects and services space is largely completely repeat business, and the product business I would say, you know repeat is a very difficult thing to say.

Vishnu R. Dusad

Yes, reference business you can say, which is 100%. Yes because in products it is necessarily word of mouth which is most important and without that you cannot grow.

Pramod Sanghi

Whether it is repeat business you know if I am doing a GMAC contract over 4 years, is it repeat business every year or it is the same business every year, it is a big question, so let us not get into it. Services business 100% I think is today repeat business.

Mahesh

Okay, thanks a lot.

Vishnu R. Dusad

Thank you.

Moderator

Thank you very much sir. Participants who wish to ask questions, please press *1 now. Participants who wish to ask questions, please press *1 now. At this moment there are no further questions from participants. I would like to hand over the floor back to Ms. Poonam Bhasin for final remarks. Over to you mam.

Poonam Bhasin

Thank you ladies and gentlemen. I now hand over to Mr. Vishnu for the closing comments.

Vishnu R. Dusad

I would like to take this opportunity to thank all of you for being here on the call and for all the interest that you have. It is this keen interest from all of you that keeps us motivated and your presence on the call is really inspiring. Thank you very much for all the good words and we would like to reassure you of our commitment to making and building this into a great business. Thank you.

Moderator

Thank you very much sir. Ladies and gentlemen, thank you for choosing WebEx conferencing services. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.

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