



# Q2 FY 09 Earnings Conference Call

## October 20, 2008

### Members of Nucleus Management

- |                       |                                    |
|-----------------------|------------------------------------|
| - Mr. Vishnu R Dusad  | Managing Director & CEO            |
| - Mr. R.P. Singh      | President Delivery                 |
| - Mr. Pramod K Sanghi | President Finance & CFO            |
| - Mr. Niraj Vedwa     | President Sales and Marketing      |
| - Mr. Prakash Pai     | President Product Management       |
| - Mr. Ravi Verma      | President Human Resource           |
| - Dr. Asha Goyal      | Vice President and Head of Quality |

### Conference Call Participants

- |                       |   |
|-----------------------|---|
| - Mr. Ankur Rudra     | Noble Group                             |
| - Ms. Grishma Shah    | Edelweiss Securities                    |
| - Mr. Vihang Naik     | Motilal Oswal                           |
| - Mr. Mahesh Paranjpe | ING Investment                          |
| - Mr. Sunil Tirumalai | Credit Suisse                           |
| - Mr. Ruchit Mehta    | HSBC Asset Management (India) Pvt. Ltd. |
| - Mr. Anand Mahindra  | Ramesh Damani Finance                   |
| - Mr. Ritesh Rathod   | UTI Mutual Fund                         |

### Operator:

Good afternoon, ladies and gentlemen. I am Mithu, the moderator for this conference. Welcome to the Nucleus Software Exports Limited Conference Call. For the duration of

the presentation, all participants' line will be in the listen-only mode. After the presentation, the question-and-answer session will be conducted.

I would like to hand over to Ms. Meenakshi Sharma. Thank you and over to you, ma'am.

**Meenakshi Sharma:**

Thanks, Mithu. Good afternoon, ladies and gentlemen. This is Meenakshi Sharma here, the Assistant Company Secretary. We welcome you all to the conference call of Nucleus Software to discuss the financial results for the quarter and half year ending September 30th, 2008.

We have with us Mr. Vishnu R. Dusad, Managing Director and CEO; Mr. R. P. Singh, President, Delivery; Mr. P. K. Sanghi, President, Finance and Chief Finance Officer; Mr. Prakash Pai, President, Product Management; Mr. Niraj Vedwa, President, Sales and Marketing; Mr. Ravi Verma, President, Human Resource; and Dr. Asha Goyal, Vice President and Head of Quality.

First, we will commence with a brief comment on the performance of our company and after that we will be open for the Q&A session.

I'll hand over to Mr. Dusad, Managing Director and CEO of Nucleus Software for his brief comments.

**Vishnu R. Dusad:**

Thank you, Meenakshi, and good afternoon, ladies and gentlemen. Thank you very much for joining this call.

At the outset, I would like to say that the numbers for the quarter are disappointing and we have not delivered revenue at the level for which we are structured in terms of both manpower and infrastructure.

Order booking in our niche market, Japan, Middle East, South Africa, South East Asia, is robust, and we have capacity to deliver higher revenue without adding to resources or infrastructure. We have \$9 million of new orders in hand which have to start, and we are initiating the same.

Let me give you the numbers first and then we will spend a little time on the global scenario.

- Our consolidated revenue for software products and services for the quarter has increased by 7.23% to Rs. 75.46 crore against Rs. 70.37 crore on year-on-year basis.

- For the half year, the consolidated revenue has increased by 15.57% to Rs. 158.35 crore against Rs. 137.02 crore for the corresponding half year.
- Revenue for the product business for the quarter at Rs. 52.10 crore is 69% of total revenue against Rs. 49.16 crore 70% of revenue on a year-on-year basis.
- For the half year, product revenue at Rs. 109.36 crore is 69% of half year revenue against Rs. 93.33 crore 68% or revenue on a year-on-year basis.
- In the projects and services business, the revenue for the quarter has increased by 10.13% at Rs. 23.35 crore against Rs. 21.21 crore for the corresponding quarter last year.
- Revenue for half year from projects and services has increased by 12.12% at Rs. 48.99 crore against Rs. 43.70 crore for the corresponding half year of previous year.
- Total expenses for the quarter has increased by 28% on a year-on-year basis , and we are conscious of the need to leverage this base for achieving higher revenue.
- With increase in expenses, EBITDA has declined by 53.20% to Rs. 8.40 crore from Rs. 17.95 crore on a year-on-year basis.
- EBITDA for the half year has declined by 33.68% to Rs. 22.59 crore from Rs. 34.06 crore for the corresponding half year of the previous year.
- Net profit for the quarter has decreased by 74.84% to Rs. 4.07 crore against Rs. 16.18 crore on year-on-year basis.
- For the half year, net profit has decreased by 59.92% at Rs. 12.10 crore against Rs. 30.20 crore for the corresponding half year of the previous year.
- EPS is at Rs. 1.26 for the quarter against Rs. 5.00 for the corresponding quarter of the previous year.
- EPS is at Rs. 3.74 for the half year against Rs. 9.33 for the corresponding half year of the previous year.

I will leave it to Pramod to present more detailed financials and would like to devote my time to the global scenario and our response.

It is accepted now that both U.S. and Europe will slip into recession and emerging economies will grow at lower pace in the next two years. While our immediate revenue exposure to U.S. is almost nil; and Europe is specific client based, there is uncertainty and the banking sector in our niche markets is not insulated. Apart from closely monitoring the situation and continuously talking to all our customers, we have taken on the following steps to increase productivity and simultaneously reduce the expenses.

1. Redeployment of resources internally from non-billable things to billable streams;
2. Rationalization of non-customer-related travel;
3. Process improvement and waste elimination drives.

At the same time, we will continue our marketing efforts. We participated in SIBOS in Vienna in mid-September, and there are more regional events coming up in the future.

Now I am inviting R. P Singh, President, Delivery to make his comments.

**R. P Singh:**

Thank you, Vishnu and good afternoon to all. The product business revenue for the quarter at Rs. 52.10 crore increased by about 6%, whereas the services increased by about 10% (YoY)

This quarter across seven global customers, we had 13 product modules which went live. And this was all in different regions though the concentration was the Indian Subcontinent and the Middle East. Some of these were executed within record time.

Moving to the larger ones, we had GMAC where the rollouts are progressing well. We've got multiple countries as I had mentioned last time moving in parallel and all of them are progressing well.

On the ACOM front from Japan, I had mentioned that ATM and ACM had started to go live. Those rollouts have been going on ever since and as of today we've got 500 ATMs already moved onto transitions over to the new systems that have been implemented.

As far as the core product deliveries are concerned, those deliveries have started happening as of right now, and will continue to happen with the larger chunks reaching there by end of the year and by the end of the first quarter next year.

I think Vishnu has already mentioned about the global situation and the initiatives that we have been taking on waste reduction, bringing down cost and expenses, so that we are all geared up for any kind of situation that it may put us into.

At the same time, we are initiating work on the orders that are coming and Niraj will be publicly talking more about them in the call, but we are all set to take up those and initiate them in this quarter. We should see a lot of action happening on implementation in the quarters to come.

Now, I'd like to handover to Prakash.

**Prakash Pai:**

Good afternoon, everybody. This quarter we have added the Islamic Financing product to our FinnOne's table. The first implementation of this new product module will begin in the Middle East. With this module, we will target Islamic banks and also conventional banks within Islamic product window.

The modules launched in the previous quarter like Lead Management, Payout etc, , have all been implemented at initial customer locations this quarter. With the addition of these new ancillary modules, our core product becomes an even bigger value proposition to our customers in comparison to our competitor products.

On the Cash@Will front, we have released an upgrade to our BankONet product this quarter. The Cash@Will product is also being deployed at two very large public sector banks in the county.

We are confident that Nucleas products will continue to add business value to our esteemed customers and perspective client.

I now handover to Pramod Sanghi, our CFO.

**Pramod Sanghi:**

Good afternoon, everyone. We will now talk about the quarter-on-quarter financials and the balance sheet items.

- On a sequential basis, revenues have declined by 8.98% from Rs. 82.90 crore in the last quarter to Rs.75.45 crore in this quarter. On a positive note, revenue from own deliverables excluding trading is at Rs. 72.93 crore against Rs. 73.16 crore last quarter.
- Product revenues excluding trading at Rs. 49.57 crore have improved sequentially by a 4.31% against Rs. 47.52 crore last quarter.
- Revenue from products and services has decreased by about 9% sequentially.
- Trading revenue for products is Rs. 2.52 crore against Rs. 9.74 crore in last quarter. As it is evident from the segment that we have circulated, in Japan the reduction in revenue is primarily due to trading revenue, which has reduced to Rs. 1.98 crore from Rs. 9.62 crore in the last quarter.
- Cost of delivery has gone up. It has increased to 70.16% of revenue against 67.6% of revenue in the last quarter.

- Marketing expenses are at 9.6% of revenue against 8.40% last quarter.
- G&A expenses are also up at 9.12% of revenue against 6.83% in the last quarter. We have taken some provisioning against some doubtful debts in this quarter.
- EBITDA margin for the quarter is at 11.13%. We were at 17.11% in the last quarter.
- Other income is at Rs. 1.49 crore, against Rs. 6.33 crore previous quarter. In the previous quarter, we had some capital gain from disposal of our investments in GMAC India.
- Foreign exchange losses are at Rs. 46 lakh for the quarter against 7Rs. 48 crore last quarter. We will elaborate this separately also.
- Withholding tax, MAT, deferred taxes, FBT, if you take all of them together, total taxes are at Rs. 1.78 crore against Rs. 1.62 crore as of last quarter.
- Our depreciation has increased to Rs. 3.57 crore from Rs. 3.37 crore.
- Finally, the PAT number is Rs. 4.07 crore, 49.3% lower than last quarter figure of Rs. 8.03 crore, and it's a 5.4% of revenue against 9.7% in the last quarter.
- Forex loss for the quarter post the EBITDA level is around Rs. 46 lakh against Rs. 7.5 crore in the last quarter. Mark-to-market losses on options are set off against realized gains on receivables and translation of receivables and payables at the end of the quarter.
- In addition, on 10.05 million dollars of forward contracts which are designated as highly probable forecasted transaction, a mark-to-market loss of Rs. 2.57 crore is appearing in the balance sheet and would be set off against revenue largely in the next two quarters. On September 30th, we had a total hedge of US\$ 33.65 million, mark-to-market at 46.97 as of the quarter end and accounted as above. This stands reduced to \$30 million today.
- On the receivables front, there is an increase. We are at about Rs. 81.54 crore against Rs. 71.47 crore last quarter. It is running at about 99 days against 78 days last quarter, and we are working to bring this figure down to about, 70 days.
- The operating cash flow before working capital changes for the quarter is at Rs. 13 crore, and we hold cash plus investments of Rs. 90 crore, marginally lower than Rs. 95 crore as of June end, after payment of dividend during this quarter.

- In terms of client concentration, our top five clients have contributed 70% of revenue against 74% in the previous quarter.
- The order book position is Rs. 356 crore, including Rs. 295 crore product business and Rs. 61 crore of projects and services business. As of June end, this figure was a total of Rs. 322 crore, of which Rs. 277 crore was product business and Rs. 45 crore was project business. This order book at the end of the quarter is conservatively translated at Rs. 46 to the dollar.

Now, I'll hand over to Niraj to talk to about sales and marketing initiatives and the orders.

**Niraj Vedwa:**

Thank you, Pramod, and good afternoon to everybody.

We have had a good quarter in terms of order booking. We closed 12 product orders for 47 new product modules. For the first six months, the figure stands at 17 product orders for 64 new modules. It is relevant to mention that in the last financial year, we had received 23 product orders.

We added 10 new clients for our product business this quarter and 15 in the first six months. These orders, most of them came from Southeast Asia, Middle East, Africa and India. During the quarter, we won two large service deals from one of our very large accounts. These projects would have an engagement of over 500 man months each and will last anywhere from one-and-a-half years to two years.

We also have a very strong pipeline of more than 100 prospective cases where we have submitted proposals and given demonstrations. Also in some of the customers, conducted a proof-of-concept. We are putting a very, very strong focus on closing these orders at the earliest.

We had in the past stated our decision to start projects upon signing of license agreements, and as has been mentioned before, we have a number of orders which are yet to start. So, we are putting a strong focus on closing these agreements within, the next few weeks so that we can start these projects.

We have participated at SIBOS, the world's largest premier banking event, and we have generated more than 30 leads. In terms of accolades, Nucleus Software was ranked among the "200 Best Under a Billion" list for the year 2008 by Forbes for the Asia Pacific region.

The overall summary here is that there is business in the market. We have prospects and we are putting a very strong focus to closing all these deals in this quarter. Thank you.

And I hand it over to Ravi Verma, the Head HR for Nucleus.

**Ravi Verma:**

Thank you, Niraj.

In Q2, manpower numbers have increased from 1,976 to 2,059. The net additions have been on account of taking freshers from the off-campus drive. Looking at the global scenario, we have been very cautious and judicious in our hiring decisions.

The thrust at Nucleus has been to improve the productivity and performance of manpower by putting systems in place for close monitor and controls. Manpower utilization for revenue generating projects has been maximized by rotating and realigning resources from internal resource.

Vishnu has already talked about this aspect. We have launched a major self-learning initiative for resources to empower them with the required skills and knowledge to perform their task with accuracy and at fast pace.

This is self-driven, and it's on the job program, which is aimed at improving competency of resources for increased productivity. This is based on the model, which has been adopted in Toyota. We have initiated Lean Management concept in the organization, which would be helping us in streamlining our processes at all levels. We are also looking at our costs very carefully to find opportunities for savings without compromising operational efficiency.

The attrition level has been at lower level compared to last quarter and is well under control.

Thank you, Asha, please.

**Asha Goyal:**

Thank you, Ravi. Nucleus has announced its focus on quality, with different process enhancement initiatives to be responsive with respect to current scenario. CMMI initiative has been launched. IBU heads and senior project managers have been trained on the CMMI model. This will increase the understanding and help in institutionalizing the processes across the organization in a stronger and sustained manner.

While senior practitioners' team defining new and enhanced processes to eliminate waste and enhance work efficiencies, these are being included in the standard software process put in place to be followed by every individual.

To empower our professionals for better management of software product and projects, Nucleus has initiated extensive training on Function Point Analysis and related tools which will help every group in quantitative software project management.

Thank you. Over to Meenakshi.

**Meenakshi:**

Thank you, Dr. Asha. And now over to you Mithu for the question-and-answer session.

First on line, we have Ms. Grishma Shah from Edelweiss. Please go ahead, ma'am.

**Grishma:**

Hello.

**Vishnu:**

Hello.

**Grishma :**

My question is to Mr. Sanghi. First, if you could explain us one more time about the mark-to-market loss, which is taken against the receivables.

**Pramod:**

Grishma, we have said that the total forex loss for the quarter accounted basically at the other income level is Rs. 46 lakh.

It was Rs.7.5 crore in the last quarter and the mark-to-market losses on options are set off against realized gains on receivables and translation of receivables and payables at the end of the quarter.

**Pramod :**

If I had a \$15 million of receivable at the end of the quarter which is just a number, we translate it at 46.97.

**Grishma:**

What was the amount that we set off against receivables?

**Pramod:**

I'll have to give you exact numbers separately, but this is the overall effect at the post EBITDA level.

**Grishma:**

So, previous quarter also we had done the same thing or this is what we are starting this quarter itself?

**Pramod:**

No, the accounting concept remains the same. It happened last quarter also. Last quarter the impact of the loss was higher, because our total position was higher.

During this quarter, the rupee/dollar movement in the first two months, was in fact below the levels of June also. There were some options expiry, in which we actually made a gain also

**Grishma:**

USD 30 million would be at what rate for us?

**Pramod:**

I already said, the rate is of no relevance now, because it is accounted for at 46.97 in the books.

**Grishma:**

So, now whatever gains or loss...

**Pramod:**

We have to see movement beyond 46.97.

**Grishma:**

What is the doubtful debt provision that we've done and for which client and geography, if you could tell us?

**Pramod:**

We would not like to talk about specific clients. There are some general provisions that take place, as per our policy., Whenever we have any debt that crosses 365 days, we would provide for it irrespective of the position with the client. There are certain provisions which happen as a matter of policy. And in one specific case, where we would not like to name the client, the client is at the moment disputing payment of certain amount. We have taken a provision of about Rs. 52 lakhs there.

**Grishma:**

If you could also tell us about or elaborate more on the cost cutting measures, how is it going to help in numbers. And two, are there going to be more project execution delays going ahead or we are on track now? How is it going to be more importantly?

**Pramod:**

We are looking at reducing variable cost quarter-on-quarter by 10%. As far as the projects are concerned, I think the figure of 9 million contains about 14 or 15.orders And if I'm correct, we have already started after the end of the quarter, four of them and we do expect that a large number of them would start off in the next 15 to 30 days.

**Grishma:**

So the \$9 million revenue can potentially come in Q3?

**Pramod:**

Not all of it

**Grishma:**

It is spread, but it will start coming.

**Pramod:**

Yes, it will start coming.

**Grishma:**

So any particular reason why are we facing delays in the project commencement?

**Pramod:**

Niraj mentioned that we are following a policy since the first quarter of this year, that we would commence work on projects after the license agreements have been signed. Normally, there is a gap between the purchase order and the license agreement. And of course, one point is, that in the month of September, Middle East was largely off because of the Ramadan period.

**Grishma:**

So the licensing agreement signing has started and you think it would close by the end of October - mid-November. And that's when you start booking revenues from those orders?

**Pramod:**

Yes, it's a continuous process. The license agreement closure during the month of September was slow because people were not available in the Middle East.

**Grishma:**

So most of these orders are from Middle East for us.

**Pramod:**

Yes, a larger number of orders booked this year are from the Middle East.

**Grishma:**

Why has the debtor days increased?

**Pramod:**

Debtors days, two things. First, debtors have also translated at a higher figure. To that extent there is some change in it. And yes, there are some steps we need to take to improve our collection cycles and we are working on that.

**Grishma:**

We improved last quarter and we slip back this quarter. So, I mean, how does one look at it?

**Pramod:**

.We are committed to bring it down to 70 days.

**Grishma:**

And what was the average USD-INR rates for this quarter and the positive impact on revenues because of the stronger rupee/dollar movement?

**Pramod:**

The average rupee/dollar rate, which is used for turnover translation, would have been about 44.37. And let me workout that number on turnover and expense, because it will not only be on turnover, it will be on expense also. There is a specific effect at the EBITDA level, let me get back to you on that.

**Grishma:**

I'll come back with more questions then.

**Mithu:**

Thank you, ma'am. Next on line we have question from Mr. Vihang from Motilal Oswal. Please go ahead, sir.

**Vihang:**

Hi. I just had a question regarding the margins actually. In the segment, geographical segment, others, the margins have declined quite significantly. Any color on that?

**Pramod:**

What you are looking at segment in the published results is for the standalone Company. It is not the consolidated results, and when we consolidate all our 100% owned subsidiaries, the figures would change slightly. So let me see if I can help you on that a little later. If you could send me a mail, I'll be able to help you.

**Vihang:**

Sure, I'll do that. Another question on the DSO front, actually you said, we will be getting at the number 70 days in the future and what is the timeframe we are looking at to bring these down to 70?

**Pramod:**

End of this quarter.

**Vihang:**

Thank you.

**Mithu:**

Thank you, sir. Next on line we have a question from Sunil Tirumalai from Credit Suisse. Please go ahead, sir.

**Sunil:**

Thank you very much. Sir, I think that I missed out the reason for the revenue disappointment this quarter; could you please quickly go through that?

**Pramod:**

We have not said anything specific about the revenue disappointment, but yes we have stated that the numbers are disappointing overall. Yes, product revenues excluding trading have been flat on a quarter-on-quarter basis. Trading revenue has gone down substantially, and project and services revenues has gone down by about 9%. Of course, the revenue is affected by some delayed project starts. And as Niraj had mentioned that we have booked 17 orders in the first six months of the year, I would say almost 70% of those are yet to start booking any revenue.

**Sunil:**

I think you mentioned that you are looking to cut variable cost by 10% Q-o-Q. Just wanted to understand what proportion of your cost would be of this nature? How easy is it for you to bring it down?

**Pramod:**

These are costs on communication, travel and infrastructure. We are not talking here of personnel cost, which is a very large component of our cost as such. We are looking at 10% of 15%, so you get 1.5% off, which gives you a better EBITDA.

**Sunil:**

Thank you very much. I'll come back later for follow-up.

**Mithu:**

Thank you, sir. Next on line, we have Mr. Ruchit Mehta from HSBC. Please go ahead, sir.

**Ruchit:**

Hi. Good afternoon.

**Vishnu**

Very good afternoon.

**Ruchit:**

Just wondering if you were talking about cost cutting effects in terms of EBITDA margin, but where do you see the EBITDA margins go for the year as whole, because between two quarters, you've seen margins decline? So, what level are you comfortable at for the whole fiscal as a year?

**Vishnu:**

You know, as we mentioned, we do not give guidance, but we do certainly realize that these EBITDA margins need to be going really up from where we are.

**Ruchit:**

Secondly, could you give us what's the order book as of the end of the quarter? I missed that figure.

**Pramod:**

Order book is at Rs. 356 crore.

**Ruchit:**

How much of it is in Q2 ?

**Pramod :**

I said Rs. 356 crore end of the quarter. We were at about Rs. 322 crore end of last quarter.

**Ruchit:**

Finally, sir, could you give us what was the U.S. dollar revenues in this quarter and what was the same figure for the first quarter of fiscal '09?

**Pramod:**

I should be able to give you that. We have about Rs. 9.5 crore of rupee revenue in this quarter. And last quarter, we had about Rs. 7.8 crore rupee revenue. So, you would say that we have about Rs. 75 crore , dollar revenue last quarter.

**Ruchit:**

No, sir, I was saying revenues in U.S. dollar terms. Effectively, if I were to look at the rupee/dollar rate to see what the actual dollar revenues were last quarter and this quarter, not in rupee, U.S. dollar terms.

**Pramod:**

I will give you that later

**Ruchit:**

Great, and just finally, what's the hiring outlook and what's the Capex plan?

**Pramod:**

We are at about 2,000 people now. We do think that we would remain at a similar number till the end of the year.

**Ruchit:**

What's the Capex plan for the year as a whole?

**Pramod:**

Capex plan, as of today, we normally have Capex of about 2 to 3 crore per quarter on hardware and software. And as of Capex we have incurred, you know, that we have bought land in Jaipur but till now, we have not started construction. We will not start construction till the end of FY '09.

**Ruchit:**

Fair enough. Thank you.

**Mithu:**

Thank you, sir. Next on line, we have question from Mahesh Paranjpe from ING Investment. Please go ahead, sir.

**Mahesh:**

Hi, Vishnu. I have three questions. The first one is, is it true that there was a big U.S. base win that you have missed out and that is for an existing customer?

**Vishnu:**

Sorry, we didn't get that. Mahesh, if you could repeat.

**Mahesh:**

I said that there was one big proposal in U.S. that you lost or you maybe you were not invited, and I think it was for an existing customer. If it is true, would you like to provide more details about that?

**Vishnu:**

No, there is nothing of that sort, Mahesh.

**Niraj:**

No, there is nothing of that sort.

**Mahesh :**

The second is that if you see last year's IBS ratings that came, we were first. This year, we have slipped to the second ranking with SAP's loan origination product being the first one, and they have got some major wins in Europe. How would you like to interpret that and what would be your action plan in that respect, because if they have got wins in Europe, it is very likely that Nucleus can face competition in other parts of the world?

**Niraj:**

SAP had a loan product for a number of years. It was packaged under core banking. IBS Publishing also decided to include all the core banking implementations where lending was available in the lending sales field. So, they have come in that list. But their strategy is to sell it along with the core banking and not separately. So, that is one clear differentiator.

For us, the year has been very good in terms of product wins, and as we said before, we had 17 wins so far. But we have not faced SAP, and I don't think we faced them anywhere among these deals. We are not facing them in our areas as of now.

But when it comes to more European prospects with whom we are dealing with presently, there would be a possibility of them coming, and we'll handle them at that appropriate stage.

**Mahesh:**

And sometime back, maybe two, three, or four quarters back, there was a talk about we getting into GMAC U.S. and selling FinnOne to GMAC U.S. Is there any update on that?

**Niraj :**

No, as of now, they are continuing to use the existing system, which was a customized solution development, and they would continue to use that system. They keep looking at systems. So, when they want to look at systems, we show them our system and that is where we are.

**Mahesh :**

This is the last one. This is related to software as a service, which is coming as a new paradigm and presumably, like, loan origination and loan servicing is a very good example of software as a service. We have a platform and then like you couple that with per loan origination or servicing charges and BPO backoffice, so how are we progressing on that?

**Niraj:**

See what we are doing is that we are in discussion with some of the top software houses, who have capability to do this kind of an offering, and we will partner with them and offer this as a service. Currently, we are in the discussion stage.

**Mahesh:**

But then is there no plan of extending company's capabilities into BPO and instead of partnering, like, have a home grown platform where we have BPO plus an excellent product, where you can get better margins and better revenues?

**Niraj:**

As of now, we don't have any plans to offer our product on SAS or BPO model. At this stage we prefer to partner with large global organizations and leverage each others strengths to win more customers and offer a good value proposition.

**Mahesh:**

Have you seen any traction on that?

**Niraj :**

Yes, we have seen lot of traction on that.

**Mahesh :**

When can you expect some progress in that direction, some concrete progress in that direction?

**Niraj :**

To let you know, we signed Bank of Baroda which is a very large Indian Bank, and we're signing the contract through HP, Hewlett-Packard. So this is one large deal in which the whole IT has been outsourced to HP.

The whole contract is through HP and there is the Finnacle Core Banking, and there is a Nucleus' Loan Solutions. So all that is being installed at the HP premises and HP is managing the whole IT infrastructure on the same hosted model.

That is our first win already, but just like HP we are talking to many more and there are already proposals that have gone in through either value-added resellers or through these large global corporations or even through very large software houses, who specialize in infrastructure outsourcing or on the ADM and they could be Indian also.

**Mahesh:**

Can you please throw some light on how is the billing done for this Bank of Baroda contract?

**Pramod:**

It's a standard arrangement that we would license the software to BOB through HP.

**Mahesh:**

But the billing is not for transaction, right?

**Niraj:**

Yes. It's not per transaction

We have a similar order which is from the UAE region, which is a very large Bank called Dubai First and the whole IT is outsourced to Network International. ; a Company which actively does infrastructure hosting and these managed services. So there are opportunities and we are continuing to work with similar kind of organizations to expand our reach.

**Mahesh :**

Thanks a lot.

**Vishnu:**

Thank you.

**Mithu:**

Thank you, sir. Next on line we have Mr. Ankur Rudra from Nobel Group. Please go ahead, sir.

**Ankur:**

Hi. Good afternoon, gentlemen. Thanks for taking my questions. Firstly, you highlighted that the revenues this quarter were affected by the change in booking, because the project starts were suppose to begin after the licensing was completed. Could you just clarify how was this done in the similar quarter last year?

**Pramod:**

Till fourth quarter of last year and even for earlier years , normally once we have a committed purchase order from the client, which is a fairly elaborate piece of document, we would commence work and then incur expense and accrue revenue at the same time.

We did have one or two cases in the previous year, where license agreements took more than a year to finalize, which put us in a kind of a disadvantageous position commercially. So we decided that we would commence work after license agreements are signed, where in the responsibilities of both parties are defined in more detail. We did

expect this to affect us in terms of initial booking of revenue in the first quarter, but it has extended for two quarters now.

**Ankur:**

How long do you expect this to get to normal, in terms of quarters? Do you think that it will normalize over Q3, Q4 or it might take longer?

**Pramod:**

Definitely over Q3, Q4,

**Ankur:**

How has the demand environment been, since the close of the quarter in last three or four weeks, for your key clients in Japan and in the Middle East?

**Niraj:**

I had just mentioned that we have a strong pipeline and I'm talking about the non-large accounts, a very strong pipeline of more than 100 cases where we have submitted proposals and where we have given demo of the product.

And in some cases there is, something called as a proof-of-concept, where the customer actually calls you and then install the product, and i gives you some script which we run it as per our process. So we have done that also in a lot of cases. There is a very strong pipeline and this is on the non-large accounts.

Among the large accounts, as of now, there is absolutely no drop in revenue. On the contrary, in one or two large accounts, we have received more business. One of the large accounts, I have already mentioned that we got two services contracts, each of them being more than 500 man months. And these are obviously significant project, which would last for anywhere between 1.5 years to 2 years kind of a range.

So these are some of existing large accounts and the other accounts continue to remain at the same level or slightly higher.

**Ankur:**

I understand, you don't give guidance for the year, but given the events of the last six weeks, qualitatively, how have your internal targets for the year altered?

**Pramod:**

As we also said in the beginning of the call, there is uncertainty. So we would be careful in committing to additional expenditure both in Capex or in increasing capacity. As of now, our markets are niche markets , but its impossible to have a crystal ball at the moment. But we will not expand capacity till we have a clearer picture.

**Ankur:**

Thanks for that. That's all.

**Mithu:**

Thank you, sir. Next on line, we have question from Anand Mahindra from Ramesh Damani Finance. Please go ahead, sir.

**Anand:**

Good afternoon. Mr. Damani would apologize for not being able to attend the call. I have a few questions.

**Vishnu:**

Please go ahead. And kindly convey my regards to Mr. Damani.

**Anand:**

I'll do that. The order book, what you said, was Rs. 356 crore. Now, does it include the \$9 million of new orders?

**Pramod:**

It does.

**Anand:**

Any more progress in Japan after ACOM?

**Niraj**

We continue to work on, the consumer finance companies, we have got some kind of a market share there.

We continue to work on some of the other prospects also

**Anand:**

Fine, that will be all for me. Thanks a lot.

**Vishnu:**

Thank you.

**Mithu:**

Thank you, sir. Once again, we have a follow-up question from Grishma from Edelweiss. Please go ahead, ma'am.

**Grishma:**

This question is pertaining to your order book itself. If you look sequentially, we have grown at around 10.6% in terms of our order book from Rs. 322 crore to Rs. 356 crore. Of this, product orders have grown by 6.5% and projects and services put together, is 35.6%. What I want to know is how much we have in terms of dollars,?

Two, what is the execution cycle that you are looking at now, that you've said that there are two services projects, which would last for more than one-and-a-half years or in the span of one-and-a-half years to two years from now?

**Pramod:**

There are several questions. So, let me try and answer them, and I am sure it will be for the benefit of everyone.

Please takedown the details. In U.S. dollars, we have \$63.92 million, against, \$65.15 million as on 30th June. In terms of Rupee bookings against Rs. 19.91 crore last quarter, we are at Rs. 21.15 crore. In terms of Singapore dollars, against 5.5 million, we are at 10.5 million. And in terms of Japanese yen, we are at 158 million yen against 152 million yen.

Regarding the cycle of product order, the normal product order, especially like the \$9 million we talked about, would probably fall during the cycle of one year. To date, excluding the ACOM order, the entire order book consists of orders which will be executed within 12 months. In fact, today the order book actually does not contain GMAC beyond the quarter. That will continue definitely into the next year.

**Grishma:**

Regarding GMAC, what do we expect after the quarter? We expect the maintenance revenue to flow in every quarter or how was it?

**Pramod:**

No, we are still implementing in new countries and we expect the contract to be renewed. and talks have already started.

**Grishma:**

Probably next one more quarter down the line is when we'll get a clear picture about GMAC?

**Pramod:**

We know the position, but, in terms of documentation in hand, it should happen in this quarter.

**Grishma:**

If the renewal happens, what can be the likely quantum?

**Pramod:**

We had a \$12 million order when we booked it, and we said that we would book \$3 million each year over 4 years. As the license part is over more or less, we could expect for the next two years to get revenues of about \$2 million a year.

**Grishma:**

If one had to look at the dollar order book, we've not grown sequentially?

**Pramod:**

65.1 to 63.9, is a small decrease.

**Grishma:**

We've not grown in those terms ?

**Pramod:**

You have to keep in mind that we are implementing the ACOM project, which is one of our large projects, so it obviously results in depletion of order book.

**Grishma:**

Between the two quarters are we executing the smaller ones? Does that happen or it's slowed down for us?

**Pramod:**

No, in fact, what we are saying is that in the smaller ones, the order book position has actually gone up, because as you are aware that we have yet not replaced the ACOM order by a fresh order. So, the order book excluding ACOM would have gone up in dollar terms also.

**Grishma:**

When we look at FY'10, are we looking at 10% to 15% kind of a growth in the emerging markets or the economies where we are there in Middle East, Africa and all, is that the kind of growth that we are looking at or it would be a little lower in terms of geographies that you are looking at? I'm not talking about the revenue that we...

**Pramod:**

We do not answer guidance questions, whichever way they are asked.

**Grishma:**

We are sitting on a cash of around 95 crore. Are we thinking of various options to deploy that cash any plans for that?

**Pramod:**

We would deploy that cash only for our own Capex and projects. As of now, there is no deployment either in acquisitions or anything of that sort.

**Grishma:**

Apart from acquisition, any plans to reward shareholders?

**Pramod:**

We are running profitability lower than last year's level at the moment, and the first step for us is to bring up the profitability, up to the shareholders' expectations and then think about our capacity to reward them.

**Grishma:**

That's fine. Thanks a lot.

**Vishnu:**

Thank you.

**Mithu:**

Thank you, ma'am. We have next question from Ritesh Rathod from UTI Mutual Fund. Please go ahead, sir.

**Ritesh:**

Good afternoon, sir.

**Vishnu:**

Good afternoon.

**Ritesh:**

One question more on the long-term strategy side. You said that Company should not be looked on a quarter-on-quarter performance. But what are the steps you are taking to make sure that the Company doesn't get impacted by the slowdown which has happened? And what sort of diversification are you looking at?

Are you doing any sort of JV with big guys so that it becomes very easy for you to penetrate in the other accounts, financial accounts, because somewhere the Company hits a cap in terms of the revenue, and you are being only one-product driven, it becomes very difficult to scale this business? So, any broad guideline you can give us that how you will scale it up further from whatever level today we have?

**Vishnu:**

As we mentioned earlier, we are working with the major players, and the way we are going about it is to create a very strong alliance with all these players who have access or

reach to very large players in the U.S. and European market and through them integrate our products with the larger customers.

**Ritesh:**

So how many new orders in terms of order book, have you cracked in such a way of sales for marketing, where you are through alliances and you've got more orders, when it was not so compared to last year?

**Niraj :**

I have mentioned this before also. We have about three orders, which have already come in through this channel. There are two levels of channels. One is, these large value-added resellers or some large hardware shops like have IBM, HP etc. Then we have large global software houses, who don't have products, they are only into managing services or ADM or process outsourcing etc.

Then we have our own network of partners, today if you look at our website there is a list. We have more than 20 partners around the world who are doing our sales, who are helping us in sales in certain markets. Of course, they are in the normal sales, The large orders that we have got, I just mentioned two of them one through HP which we got was from Bank of Baroda, and the other large one we got in the Middle East, actually in UAE, which is the Dubai First. It's a very large bank.

We got it through Network International which is basically provides hosted and managed services and SAS for customers, and we are talking to many, many more. So we do see that this will increase as we move on.

**Ritesh:**

Any plan to increase our product basket, as we have one flagship product, any such other product which is in the pipeline which can be as big as this flagship product?

**Niraj:**

I think Prakash had mentioned before that we launched the Islamic product, we announced the soft launch in March quarter, and then, we officially announced the product. We have already won a couple of orders. In this quarter, out of the 12 orders, two orders are for the Islamic product. We will be starting our implementation of the first Islamic product in one of the largest Islamic banks in the Middle East region.

I am sure, because of that, a lot of players will follow through. Besides, there is a huge opportunity for Islamic banking. We do see that as a good opportunity, besides, we are

also getting into new products in this space, especially in the consumer or in the retail banking area.

**Ritesh:**

How about any risk management product we have which could be much in demand at this point of time given the crisis in the world?

**Prakash:**

At this point of time, we are not investing in building a new product. However, we have a small module which goes along with our own product, which does risk management and is named as Forecaster.

**Ritesh:**

One last question. When does ACOM order gets over and how do you expect to refill the gap which would be created by this ACOM order?

**Pramod:**

We would expect revenues to flow from the ACOM main order till the last quarter of 2009, that is December 2009. We must keep in mind that even after that period we would expect not at that scale but at a reasonable scale revenues to continue from that Company, because apart from doing software development we are doing a number of activities for them which would continue on a long-term basis. Otherwise, of course, to replace the main revenue, Niraj will let us know.

**Niraj :**

As Pramod said there are two ways, one is the ACOM product will get into maintenance phase and besides the core product that we are implementing, we are also offering a huge range of services there which we do feel will continue. So there would be a reasonable size of engagement.

At the same time, we are continuously looking at Japanese market and some other markets; we are looking at some large details. Basically leveraging on what we have done in Japan. So we are working and making presentations to a lot of consumer finance companies in Japan.

On a long-term perspective, we are focusing on Europe, we have started to meet lot of prospective customers. So we do feel that at some stage, we should have some good traction in Europe.

**Ritesh:**

That's from my side. Thank you.

**Vishnu:**

Thank you.

**Mithu:**

Thank you, sir. I would like to handover the floor back to Ms. Meenakshi Sharma for final remarks. Over to you ma'am.

**Meenakshi:**

Thank you, Mithu, and thank you all for joining us in this call. I would like to handover to Mr. Vishnu for his closing comments.

**Vishnu:**

Thank you very much once again for your interest in Nucleus Software and we will continue to provide quality with our services for customers and we thank you for your support. Bye.