



Q3 Earnings Conference Call

Jan 21, 2008

MEMBERS OF NUCLEUS MANAGEMENT

- | | |
|------------------------|--|
| - Mr. Vishnu R. Dusad, | CEO & Managing Director |
| - Mr. R. P. Singh, | President, Delivery |
| - Mr. P. K. Sanghi, | President, Finance & Chief Financial Officer |
| - Mr. Prakash Pai, | President, Product Management |
| - Mr. Niraj Vedwa, | President , Sales and Marketing |
| - Mr. Ravi Verma, | President, Human Resource |

CONFERENCE CALL PARTICIPANTS

- | | |
|-----------------------|---|
| - Mr. Vinay Sharma, | AIG Investment |
| - Mr. Ramesh Damani, | Ramesh Damani Finance Pvt. Ltd. |
| - Ms. Grishma Shah, | Edelweiss Securities Ltd. |
| - Mr. Ruchit Mehta, | HSBC Asset Management (India) Pvt. Ltd. |
| - Mr. Sanjay Kaul, | FE Securities |
| - Mr. Krupal Maniar, | ICICI Securities Ltd. |
| - Mr. Sazal Gupta, | Perfect Home Finance |
| - Mr. Anand Mahindra, | Ramesh Damani Finance Pvt. Ltd. |

Nucleus Software

Investor/Analyst conference call

January 21, 2008

Moderator

Good afternoon ladies and gentlemen. I am Monali, 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. After the presentation, the question and answer session will be conducted for participants connected to the International Bridge. After that, the question and answer session will be conducted for participants in India. I would now like to hand over the floor to Ms. Meenakshi Sharma of Nucleus Software Exports Limited. Thank you, and over to you ma'am.

Meenakshi Sharma:

Thank you Monali. Good afternoon evening ladies and gentleman. I am Meenakshi Sharma, Assistant Company Secretary.

We welcome you all to the Investor Conference Call of Nucleus Software to discuss the financial results for the quarter and nine months ended on December 31, 2007. We have with us Mr. Vishnu R. Dusad, CEO and Managing Director; Mr. R. P. Singh, President, Delivery; Mr. P. K. Sanghi, President, Finance & Chief Financial Officer; Mr. Prakash Pai, President, Product Management; Mr. Neeraj Vedwa, President, Sales and Marketing; and Mr. Ravi Varma, President, Human Resource. First, we will commence with the brief comments on the performance of the Company and after that we will be open to the question and answer session. I now handover to Mr. Vishnu R. Dusad, CEO and Managing Director, Nucleus Software, for his brief comments.

Vishnu R. Dusad:

Thank you, Meenakshi. Good afternoon ladies and gentleman. Thank you very much for joining this call.

Before we announce the financials, I would be very happy to announce that the Board of Directors have, in the meeting held yesterday, approved the signing of MOU with a leading developer for lease of 16 acres of land in the notified SEZ in Rajasthan for setting up our new software development center. We have chosen Jaipur as it is easily accessible from Delhi. There is abundant availability of talent, more specifically talent that understands finance exceedingly well, and very well developed infrastructure followed by excellent support from the Government.

Now to the financials:

- Our consolidated revenue for software products and services for the quarter have increased by 31.06% to Rs. 73.64 crore against Rs. 56.18 crore on year-on-year basis.
- For the nine-month period, the consolidated revenue is at Rs. 210.66 crore. It has increased by 30.82% against Rs. 161.03 crore on year-on-year basis.
- Product business continues to be buoyant. For the quarter revenue for product and related services business at Rs. 51.73 crore, which is 70% of the total revenue.
- For nine months, product revenue is at Rs. 145.07 crore, 68.86% of revenue and is higher than similar period last year.
- In the project and services business, the revenue is at Rs. 21.9 crore for the quarter, has decreased 10.32% against Rs. 24.42 crore on a year-on-year basis.
- Revenue for nine months from project and services is at Rs. 65.59 crore and has decreased by 14.74% as against the number of Rs. 76.93 crore on a year-on-year basis. Though this is not our focus area, still we would like to maintain it and are addressing it accordingly.
- Net profit for the quarter at Rs. 15.53 crore has increased by 11.4% to Rs. 15.53 crore against Rs. 13.9 crore on a year-on-year basis.
- EPS is at Rs. 4.80 for the quarter against Rs. 4.32 on year-on-year basis and is Rs. 14.13 for the nine-month period against Rs. 12.78 last year.

It also gives me great pleasure to announce that Nucleus Software has been selected as one of the top 25 companies **adopting 'Good corporate governance practices', by The Institute of Companies Secretaries of India** for second consecutive year in 2007. Nucleus Software is ranked among the **'Top 15 most exciting, emerging IT/BPO companies to work for' by NASSCOM**. Nucleus Software has been listed among the **'Best 200 under a billion companies in Asia' (2007) by Forbes Asia magazine**. Nucleus Software was adjudged as **'One of the fastest growing companies in Asia Pacific'** under Deloitte & Touche Fast 500 program for 2007.

On a strategic note, we are concentrating on Japan as we believe that this economy, with the second largest IT spend in the world after USA, will continue to provide us opportunities for growth. We have been in Japan for eight years now, and we continue to be bullish of the role that we will play in the Japanese economy over the decades.

Europe is also a region full of legacy systems, but is slow to change. We are increasing our marketing efforts in Europe to seed the market for future growth with our existing implementations that are now maturing and growing.

In US, we are continuously evaluating opportunities and there have been some developments in the 'Payments' space, where we see some traction.

At the end, customer satisfaction remains the key, and while we all look at numbers, I firmly believe and reiterate that numbers flow automatically from satisfied customers. And with the growing need for products in all markets, we have a future to look forward to.

Now, I will hand over to RP for his comments.

R. P. Singh:

Thank you, Vishnu. I wish you all a very good afternoon.

As mentioned by Vishnu, Far East continued to increase its contribution from 48.34% in the previous quarter to 53.44% in the current quarter. The contribution from Africa also grew substantially from 1.84% to 6.11%, thanks to growth in sales there. The contribution from India grew marginally though from 9.65 in the last quarter to 11.33% in this quarter. South East Asia was the one which showed a drop in its contribution from 15.17% in the previous quarter to 12.25% in this quarter. The other regions have generally shown marginal changes only.

Eleven product modules went live in various markets across the globe, some of the implementations continued to be in record time. This further gave increased visibility of Nucleus in the global markets and reaffirmed its standing in the global lending and cash management space.

The GMAC, General Motors Acceptance Corporation, implementation for Benelux is progressing well and will go live this quarter. As a matter of fact, the work on the next set of countries has been initiated. Teams are already traveling to hold first-level workshops with potential countries, so that the short list of the first set can be established. Plans are on for simultaneous rollouts for the subsequent countries.

On the ACOM project, there is a minor delay in phase I, being a mission critical system, the Infraplus application deployment is being put under extensive performance as well as failure tests. This is ongoing at the moment. The prototype on phase II has been successfully reviewed as per schedule and that should be moving absolutely on track.

That is all from my side. I will hand over to Prakash Pai, who heads the product.

Prakash Pai:

Good afternoon everybody.

In continuation with our strategy, the product management team has continued to focus on enhancing the product space to cover more functional areas. The FinnOne™ suite today covers multiple business areas like auto loans, mortgages, personal loans, SME loans, and the Cash@Will™ product covers the areas of collections, payments, and liquidity management.

To maintain our competitive edge in the market place, apart from the technology upgradation being undertaken, the product is being enriched to cater to the growing needs of financial institutions in the area of captive auto financing, dealer financing,

insurance management, sales lead management, business partner incentive and payments management. With the added functionalities and robustness of the product, the company continues to successfully implement its strategy of vanilla product implementation.

To strengthen our domain competency, Nucleus has recruited a large number of functional experts with each product management team. An upgraded version of the product suite will be released by the end of Q4. This is in line with the Company's strategy to release upgrades of the products every half year.

I now hand over to Pramod Sanghi.

Pramod K Sanghi:

Good afternoon everyone. We will now talk about the QoQ financials.

- On a sequential basis, revenues have grown by 4.65%.
- Our product revenues are at Rs. 51.73 crore, increased sequentially by 5.23% against Rs. 49.1 crore last quarter. This includes Rs. 5.14 crore of product revenue from the third party products, which we offer to our customers as a combined solution. In this quarter, this revenue was Rs. 2.95 crore.
- Revenue from other streams of business, that is projects and services, has increased 3.27% sequentially. This is a welcome change because we have been seeing some falls in this stream in the last two quarters.
- On a functional basis, cost of delivery has decreased to 59.03% against 61.55% of revenue in the last quarter. This is primarily because while revenues have gone up, there has been no significant change in manpower.
- The marketing expenses are at 8.58% of revenue against 6.33% last quarter. The increase of 2.25 percentage points is primarily due to participation in SIBOS conference in Boston in October and an increase in manpower cost with increased deployment.
- G&A expenses are at 7.23% of revenue against 6.61% in the last quarter.
- The EBITDA margin for the quarter is about 25.13% against 25.51% in the last quarter. We have talked about a target EBITDA of about 25%, and we have been maintaining the same.
- Other income has taken a dip at Rs. 1.32 crore for the quarter. We were at Rs. 3.18 crore in the previous quarter, and this has obviously affected the net profit after tax. The realized income from investment in mutual funds is flat. This is about Rs. 0.8 crore against Rs. 0.86 crore last quarter. Primarily in the last quarter, we had a large foreign currency gain which was about Rs. 1.71 crore, and this quarter it is marginally negative at Rs. 0.10 crore. This has happened because the rupee-dollar fluctuation within this quarter has been happening within a 1% band.

- Withholding taxes are more or less flat again at about Rs. 0.86 crore against Rs. 0.76 crore.
- Current and deferred taxes are Rs. 1.24 crore against Rs. 2.39 crore in the last quarter.
- The MAT set off for the quarter is at Rs. 0.96 crore against Rs. 1.18 crore previous quarter.
- Depreciation has increased to Rs. 3.15 crore from Rs. 2.98 crore.
- CAPEX during the quarter is Rs. 2.71 crore and for the year is about Rs. 11.42 crore.
- PAT at Rs. 15.53 crore, is 4% less than last quarter figure of Rs. 16.18 crore.
- Receivables are at Rs. 48.78 crore against Rs. 51.05 crore last quarter. DSR has fallen again from 67 to 61 days.
- Operating cash flow for the quarter before working capital changes is Rs. 19.64 crore.
- Net working capital has increased by about Rs. 17.35 crore, with Rs. 2.27 crore decrease in receivables, Rs. 5.74 increase in other current assets, Rs. 12.81 crore decrease in current liabilities.
- The total cash plus investments figure as on December 31, 2007, is Rs. 101.91 crore against Rs. 103 crore plus for September 30, 2007.
- In terms of Forex cover, we were covered USD 26.83 million as of December 31, 2007, and we are covered USD 29.38 million as of date at the rates of 40.82 average, 40.68 effectively.
- Client concentration remains the same with top 5 clients contributing 69%.
- Finally, the order book position is Rs. 330 crore including Rs. 288 crore product business and Rs. 42 crore of services business. This is after adjusting for the rupee appreciation. And is an increase from a total order book of Rs. 281 crore last quarter which included product business of Rs. 238 crore

Niraj Vedwa:

Good afternoon.

For the quarter, we have had five new product wins for 14 product modules. They have been primarily for FinnOne™ and one for the card solutions, which is PowerCARD from third party vendor. These orders have come from Japan, Middle East, Africa, as well as India. For the 9-month period, we have bagged 18 new product orders for 44 modules for FinnOne™, cash management as well as PowerCARD, the credit card solutions.

During this quarter, we had participated in a couple of events, one of them in the CIS regions, which was in Belarus. We had also co-sponsored one of the banking events. We have also participated in some other banking seminars. The number of responses that we are getting, you know, RFP's from customers has been quite good during the quarter, and we are quite confident of getting more product business in the coming quarters.

Thank you. I hand this over to Ravi Varma, who heads the HR.

Ravi Varma:

Good afternoon everyone.

In quarter three, the major emphasis has been on performance enhancement for employees. New initiatives, such as performance parameters identification and determination for employees, have more or less been achieved. Going forward the challenge would be to assess that how these are going to contribute in our projects execution and completion and create an environment of self discipline and empowerment. I am referring to the Annual Incentive Plan. Manpower strength has moved from 1635 to 1677.

Major challenges have been to recruit and retain resources. The market has been quite dynamic and volatile. The industry as a whole is affected because of changing definitions of loyalties and employee responsibility, . In our opinion it is going to remain so for some more time till industry contributes directly to address this issue at the grass root level.

In the meanwhile, the organization has inducted Project Interns who are contributing further value. This will also bring down our compensation costs in the time to come.

I am pleased to share that Nucleus has been ranked amongst top 15 exciting emerging companies to work for, as a result of a survey conducted by NASSCOM. With many initiatives on anvil, we are confident that Nucleus would definitely go up in its position and be one of the preferred employers in this country.

Now, I will hand it over to Ms. Meenakshi.

Meenakshi:

Now we are open to the question and answer session.

Moderator:

Thank you very much ma'am. At this moment, I would like to hand over the proceedings to the international moderator to conduct the Q&A for participants connected to the International Bridge. After this, we will have a question and answer session for participants at India Bridge.

International Moderator:

Thank you Monali. We will now begin the question and answer session for participants connected to the International Bridge. Please dial 01 to ask the question. Participants connected to the International Bridge please press 01 to ask a question. At this moment, there is no question from the participants at the International Bridge. I would like to hand over the proceedings back to Monali. Monali, thank you.

Moderator:

Thank you. We will now begin the Q&A interactive session for India participants. Participants who wish to ask questions may please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their question on a first in-line basis. Participants are requested to use only handsets while asking questions. To ask a question, please press *1 now. First in-line, we have Vinay Sharma from AIG investment.

Vinay:

Hello sir, can you please update your order book position, I could not get it, my line was weak or something like that, can you please repeat it for me?

Pramod:

Yes. The order book position at the end of the quarter is Rs. 330 crore including Rs. 288 crore product business and Rs. 42 crore of services business.

Vinay:

Ok, thank you sir.

Moderator:

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

Ramesh:

Good Afternoon Vishnu, how are you?

Vishnu:

Very good afternoon Ramesh

Ramesh:

Vishnu, we missed the part on the order book. Could Mr. Sanghi refresh us what was the state of the order book last quarter? If I could ask, Niraj what is the sense about traction in orders particularly in Japan and other parts of the world. Are we seeing better traction now or because of the subprime mess, there has been a slowdown in order traction. Could I ask for Niraj's view on that?

Pramod:

Ok, Ramesh, the order book, if I may say again is Rs. 330 crore end of December which includes Rs. 288 crore of product business and 42 crore of services business, as against Rs. 281 crore as of September 30, which include a product business of about Rs. 238 crore. So, net-net, there is an increase of about Rs. 50 crore in outstanding product business, which I may add is due to additional orders from existing customers in Japan and Africa.

Ramesh:

Okay and Niraj, your view please.

Niraj:

If you look at Japan, yes, there is traction. We are talking to lot of consumer finance companies, and at the same time, I am also going to tell you that during the last quarter also we have increased the number of people that we have on the street. So, the fleet on the street has been increased substantially by almost like, 30% to 40% increase in our sales force which is on the street. We have put in more people in some of the markets where we feel we are getting higher traction. So, Japan is one of the markets where we have put additional sales people. We have put people in Europe, Africa and Middle East.

Secondly in terms of number of RFPs that we are getting, I would say, we are getting more number of RFPs from customers. Basically, these are response to proposals, which means that there is a good market and we are of course replying or have already replied to those RFPs, so that is the second indicator.

Third is that, we are obviously following a lot of cases and lots of deals across the region, and we are quite confident of bringing in some good revenue during the quarter. As Pramod mentioned to you, that you know we have got additional 50 crore of, you know, product revenue from existing customers. They are in Japan and also in Africa. So those are the existing customers who have given us some potential new business.

And also, we have got business from some new customers, so we have basically, 5 new contracts for 14 modules, and for the year, again I am repeating for the year, we had 18 product orders for 44 product modules. So, we have also signed our first customer on transaction-based pricing. We are going to be hosting this at a BPO, and this is from a very large customer. So, this is the start of our transaction-based pricing, and we would then start offering this solution, basically the FinnOne™ solution on a transaction-based pricing to other customers in India and outside India using our own sales lead as well as the sales lead of the BPO partner.

Ramesh:

Just a quick follow-up question. This 50 crore new order to be implemented over what time is significant, what is the timetable?

Pramod:

The 50 crore will be net addition after taking into account the revenue which will happen during the quarter, so the order book will be high, the additional order will be higher than that, that is one thing I would like to share.

Ramesh:

Right

Pramod:

Right, and of course, what we are saying today is that beyond next financial year, so FY-10, plus you know beyond March 2009 actually, about Rs. 116 crore and balance.

Ramesh:

No, my question was with the 50 crore of new order that you got this quarter that you added to your order book, what is the time table for implementation of that, if I may ask?

Pramod:

No, what I mentioned was this is the net addition, the order addition actually, if we look at the new orders which we got were in excess of Rs. 100 crore. Net addition to the order book is Rs. 50 crore, after adjusting the revenues which have happened during the quarter and out of that Rs. 100 crore, about 40% to half of it goes into the next financial year which is 2009-2010, so balance would be in the next 15 months.

Ramesh:

Okay, great. Thanks.

Vishnu:

Thank you.

Moderator:

Thank you very much sir. Next in line, we have Ms. Grishma from Edelweiss Securities.

Grishma:

Hello Mr. Sanghi. What is the cost of SEZ for us?

Pramod:

Well, I do not think we would like to comment on the exact price of land which we are buying, but as we are buying in Jaipur, it would be an attractive price.

Grishma:

Okay and the entire cost would be booked in 2009 or 2008.

Pramod:

Initially we would purchase the land, and for which the price, I think, partly would be paid now, about 25% of it, and partly would be paid after we obtain the necessary approval from the government which would probably happen around April or so, and we would then start construction.

Grishma:

Okay.

Pramod:

Land cost would be incurred in phases. Overall, you know, first year, we would do certain capacity, and then we would add further capacity. If you could look at our spending, you know, anywhere from Rs. 25 to 30 crore every year on that facility.

Grishma:

25 to 30 crore over the next two years?

Pramod:

Over the next 3 years I would say.

Grishma:

Next 3 years, that is the ongoing CAPEX for us.

Pramod:

Yes.

Grishma:

Okay, and that apart, we expect how much of CAPEX for 2009 and 2010?

Pramod:

Apart from that, our CAPEX normally remains more or less standard. We spend anywhere between Rs. 10 to 15 cores on hardware and software.

Grishma:

Okay. We say that we are through with the GMAC stake sale as I read in the notes, so the price which we will get from the stake sale, when will we book it in the fourth quarter?

Pramod:

We have exercised the option.

Grishma:

Correct.

Pramod:

The price has been agreed and as per the share holders agreement, there are certain regulatory approvals which are required to be taken by GMAC. When we get the approvals, the transaction will be presumed as fully. We do expect it to happen during this quarter. We cannot say, just say 70% to 80% chance of this quarter, otherwise next quarter.

Grishma:

Okay. There is a fall in the South East Asia contribution as a percentage of revenues, in our total, when I look at the geographical segment. Any particular reason for that?

Pramod:

We have mentioned earlier, I think in various calls also and discussions that for the last 6 months South East Asia in comparison to Middle-East, Africa, and India has been weaker.

Grishma:

Okay, what is the reason for that?

Pramod:

Mr. Vedwa....

Niraj:

There are primarily two reasons, one is that the numbers of the RFPs as you call it or customer requirement of the FinnOne™ product, they are on the lower side than what we have seen previously, that is the first thing. The other side is that there are lots of cash management RFPs which take up much longer time to close.

Grishma:

Okay.

Niraj:

So, it is a combination of both.

Grishma:

So it might pick up next year depending upon how for the cash management?

Niraj:

Yes.

Grishma:

Okay. What was the average rupee-dollar rate for us this quarter?

Pramod:

Average, we started, more or less it would be some where around 39.60, I would say.

Grishma:

39.60, and what is the overall hedging that we have?

Pramod:

Overall hedging as I mentioned as of date is about 29.4 million at 40.66.

Grishma:

At 40.66? Okay. We said that we have had experienced a delay in the phase I for the ACOM roll out, do we have any penalties or something attached to it?

R.P.Singh

No, it is not. As a matter of fact, the delay is not an odd delivery or anything. It is just a project which required, you know, additional scrutiny, especially from a Japanese standard standpoint. So, there are no penalties, and it is a joint delay which had happened, so it is agreed re-plan.

Grishma:

Okay. I also wanted to know about the marketing expenses which have gone up in this quarter. Do we expect that to continue next quarter or we see this just because of the participation is the reason why we see an increase?

Pramod:

Well I would say that though we expect it to continue, and Niraj would not say no, because, you know when we move to the next phase of booking business we need to invest in markets.

Grishma:

Okay. Can you elaborate more on the transaction-based pricing?

Niraj:

The transaction-based pricing is basically a model where we host the application as a service provider and then the pricing is done based on the total number of applications which are received for processing and, you know, then there are disbursements which happen on the system. The loan application and then whatever is cleared. So on the basis of that, there is a charge per application or per file as you would call it, which basically means that there is a recurring business quarter-on-quarter.

Grishma:

Okay, and if we are doing it in partnership with a BPO player, so do we have some revenue sharing with them or how does it work for us?

Pramod:

BPO player, of course, provides the entire infrastructure, so automatically what is charged to the customer, a portion will go to him, because we are only providing the software solution.

Grishma:

Okay. So, how big is this client as in terms of our order book, how much is this order?

Pramod:

We are not actually giving that many details at the moment. It is the beginning, and it is the first order which is based like this, and this would hopefully take us in offering this to other customers.

Grishma:

Okay. I also see an increase in the general and admin cost as a percentage of our revenue as well as in terms of absolute number.

Pramod:

That is correct, and we hope that it will come down next quarter.

Grishma:

It would come down, okay fine. Thanks for now and best of luck.

Pramod:

Thank you.

Vishnu:

Thank you.

Moderator:

Thank you very much ma'am. Next in line, we have Mr. Ruchit Mehta from HSBC.

Ruchit:

Hi. Good evening gentleman and congratulations on the results. Sir, just two quick questions. One on your product side of the business, I believe there were some third-party product sales, I missed that figure, if you could give me that figure also for this quarter and for the previous quarter, Q2, as well.

Pramod:

The third party quarter product sale this quarter was Rs. 5.14 cores and last quarter was Rs. 2.95 crore.

Ruchit:

Okay and essentially the slackness in the product revenues that we see is just because of the delay of the ACOM order?

Pramod:

No. The ACOM order delay which is in the first phase which is basically something from January to March does not really affect revenues, right. Product revenue's being flat. Okay. What you are saying 70% through the quarter, it is a function of you know when we book and when we start delivering new business, and it will not necessarily grow at the same pace every quarter.

Ruchit:

So, there could be spurts in one quarter and then you know some sort of like which we saw in the first quarter and the second quarter and then some slackening and then again it might just pick up depending on when it is delivered.

Pramod:

Yes. It is the function of when it is booked and when it starts getting delivered. It is not a function of accounting because we book the entire license plus other revenues over the period of the contract.

Ruchit:

Okay.

Pramod:

The timing of order booking is something you know which will not happen every month, you know, that every first we get so many orders.

Ruchit:

Okay. Also the selling and marketing side of the business, there is a very sharp jump and you mentioned something like a conference or something that you attended, what was that extraordinary cost which may not be in the next quarter?

Pramod:

We spent about Rs. 70 lakhs on SIBOS.

Ruchit:

Okay.

Pramod:

In the US which is one of the largest conferences.

Niraj:

SIBOS is one of those world's most well known, most recognized banking conferences, and it is a place where, most of our existing customer as well as prospective customer from around the world gather and has an audience of approximately 7000 CEO, CIOs, and decision makers who come there, who visit it over a 3 - 4 day period. And this time it was in Boston, USA. So we had one of the very large booths there and of course this is meant to brand the Company, brand the product, and also to en-rate prospects by showcasing. So, we had all our products on, you know, demonstration as well as on display there.

Ruchit:

Okay, and you mean to tell that just for that, the cost really have grown almost 25% sequentially, so is this a steady state level of cost that there we roughly say Rs. 5.5 crore, if you had just that Rs. 70 lakhs that you spent over there in SIBOS, so is that more or less now the base that one will work with?

Pramod:

Yes I think so, you know, the base would now because it will be SIBOS in one quarter, it could be some other event in the other quarter. The figures may not be the same.

Ruchit:

Okay.

Pramod:

But it will definitely, as we go larger. We would need to spend more, and when we are trying to do more business in developed market, the costs are higher.

Ruchit:

Sir, essentially you have been hiring more of sales guys and spending more on marketing, which is why the costs are higher?

Pramod:

Yes.

Ruchit:

Is that analogy correct?

Pramod:

With the number of people on the count as well as we are hiring people in Europe and Middle-East and Africa.

Niraj:

I already mentioned that sometime time back that you know we have increased the number of people on the street or the fleet on the street or our direct sales force by almost 30% flat, so we have increased it and plus you know when we hire people in Europe and some of the more developed markets, the costs are much higher.

Ruchit:

Okay.

Niraj:

So, that is one thing and as Pramod mentioned, we will be participating in events across the region, and this quarter, we are participating in a very large, this is the largest Middle-East banking event which is on 11th and 12th of February which is called MEFTEC in Bahrain. So, we will be having, you know, these events almost every quarter now.

Ruchit:

Okay sir, more of a regular expenditure now. You said 30% increase in sales force. So, what will be the absolute number of sales force at the end of the quarter?

Niraj:

The total number of sales people that we have increased during the quarter is approximately 7 or 8 we have increased.

Ruchit:

Okay.

Niraj:

So, our total sales force is now approximately about 32 people.

Ruchit:

No problem. Great, effectively just on the order book side, you mentioned about 288 was products.

Pramod:

That is correct.

Ruchit:

Correct and any reason why taxes are also lower in this quarter, just about, you know, 1.7% tax to PBT ratio excluding say withholding taxes?

Pramod:

No particular reason. It is just a question of the mix of domestic business in India to the foreign business and the profits.

Ruchit:

Okay, No problem. Thank you Sir.

Moderator:

Thank you very much Sir. Next in line is Mr. Sanjay Kaul from FE securities.

Sanjay:

Good afternoon Vishnu.

Vishnu:

Good afternoon Sanjay, how are you?

Sanjay:

I am fine. R. P. Singh had mentioned a minor delay in the deliverables in the ACOM thing, how much is the delay we are talking of, couple of months or?

R P Singh:

Currently, we are talking of two months. Now, we plan to go in March.

Sanjay Kaul:

In March, okay, thanks.

Moderator:

Thank you very much Sir. Participants who wish to ask questions may please press *1. Next in line, we have Mr. Krupal Maniar from ICICI securities.

Krupal:

Hello sir, just would like to know if we take the profits for the last seven quarters, it is like, you know, flat, almost at 13-14 crore, if we just try to remove 1.7 crore gain in last quarter. So, just would like to know the management comment on the same.

Vishnu:

Sure, you are absolutely right Krupal. Essentially what is happening at the juncture is substantial investment in the product.

Krupal:

Okay.

Vishnu:

Obviously, it was not the plan, but we do not want to cut down on our investment because there is a shortfall in the profit of the plan. So, that is what I would like to say in terms of the reason for flatness of the profits.

Krupal:

Okay, but going ahead, are we still going to continue to make significant investment to grow our business and could have an impact on the profits.

Vishnu:

I think, I do not visualize very substantial impact on the profits, but I would like to take the opportunity to reiterate once again that we are now very clear in terms of long-term sustainability rather than short-term. So, I will go to the extent of saying that even in some quarter we may have to take a hit, we will be prepared to do that.

Krupal:

Okay.

Vishnu:

Rather than suspending our investments on the product front.

Krupal:

Sir, actually I was trying to know whether you know, if you have an option to choose between a growth and say, a margin, maybe you know, then what would be the management, the order of preference in that case?

Vishnu:

You said?

Krupal:

Growth and a better margin, suppose, you know.

Vishnu:

Okay, it will be growth only.

Krupal:

You will prefer growth to margins?

Vishnu:

Yeah, I mean growth, when we say growth, we are talking about long term growth.

Krupal:

Okay.

Vishnu:

You know, the sustained investment into the product has helped us ensure that long-term growth does not get affected.

Krupal:

Okay, and sir, when we say there is some part of delay in on the ACOM model sir, that would have an impact in the revenue for this current quarter, Jan, Feb, March.

Vishnu:

No. Certainly not

Krupal:

It would not have any effect as such?

Vishnu:

No.

Krupal:

Okay, and, just on the order book positions, when we say, there is 50 crore net addition, so is there a single big order means, if we try to gross it up, it would be more than 100 crore plus. So, is there a large single order which is included or it is many small orders put together.

Pramod:

Let us say that there are three orders which contribute a significant amount.

Krupal:

Okay. Whether you will be able to share more information regarding what could be the size and how much is the time implementation and it is from which region.

Pramod:

As I mentioned that the orders are from Japan and from Africa.

Krupal:

And over what period?

Pramod:

We are not getting into individual order details. These are from our existing customers that are all what we said.

Krupal:

These are from the existing customers?

Pramod:

That is right. So, there is increase in scope and so on. There are additional products to be supplied.

Krupal:

And sir, when can we expect material revenues coming, say from Europe as of now.

Niraj:

For Europe, as I had mentioned this before on the sales front, we are attacking Europe in number of ways by, you know, we are adjacently forming partners in Eastern and Central Europe and in the CIS countries we have put in dedicated team, if you take Russia and all the CIS countries. We have put in dedicated teams because we see a good opportunity there. In Eastern Europe, some of the countries we are getting are especially for core banking or for retail banking system replacement. There is a market, and we have put in a team there. And, plus UK and Netherlands, in any case our own offices, from there we are looking at the mainland Europe. In terms of business, we are obviously following up and we are increasing our traction base in the market. We are confident of bringing in some business sure enough.

Krupal:

Just the last question. I think one of our deals with General Motors is getting expired in current year, I think, December 2008. The implementation is in Europe, so are we expecting GMAC to be continuing say beyond current year also.

Pramod:

Look, Krupal as we have mentioned earlier, the GMAC contract is till December 2008 and as it is in both companies' interest to continue the association after that period, we would expect it to be renewed, but formal discussions are yet to start.

Krupal:

Okay sir. Okay, thank you.

Pramod:

Thank you.

Moderator:

Thank you very much sir. Next, we have Mr. Sazal Gupta from Perfect Home Finance.

Sazal:

Good evening Mr. Vishnu and every one. There are two questions I wanted to ask. First is, what is your business in India, you have done in this quarter as compared to the preceding quarter?

Pramod:

India revenue for the quarter is 8.34 crore and in the last quarter we had done 6.79 crore.

Sazal:

Sorry.

Pramod:

Last quarter, we had done, September quarter, 6.79 crore of India business, and December 31st is 8.34 crore.

Sazal:

And in the preceding quarter?

Pramod:

You want the June quarter?

Sazal:

Yes.

Vishnu:

Can you go ahead with the other question?

Sazal:

The second thing is that I wanted to know, like we have not been able to break in to the US market till now, whereas you have been getting orders across the globe right now. What is the reason behind it?

Vishnu:

As I mentioned, we have started seeing some traction on the payments side of our offering, which is part of our Cash@Will™ product, and that of course is going to be on transaction-based pricing and we do hope that this one would help us get the final grip on the margin.

Sazal:

Okay, let us hope for the best. And, could you get me the figure for the preceding quarter for the Indian market.

Vishnu:

Yeah, what we can do is, as a part of our next question, we could let you know that.

Sazal:

Fine, Thank you

Vishnu:

Thank you very much.

Sazal:

Thank you.

Moderator:

Thank you very much sir. Next is a follow up from Ms. Grishma of Edelweiss Securities.

Grishma:

Any updates on the acquisition front that you are planning.

Vishnu:

None, as of now. We are talking to various people, but there is no update as of now.

Grishma:

And, I just missed out on the upgradation of the products part initially.

Prakash:

In the up gradation of the products, we said that we are upgrading the FinnOne™ product as well as the Cash@Will™ product, and it will cover areas for captive auto financing, dealer financing, insurance management, sales lead management, business partner incentive and payments management. As earlier, we will come up with a release once in 6 months. The release will be planned by the end of March.

Grishma:

By end of March is when we are planning to release it.

Vishnu:

Yes.

Grishma:

Okay. Thank you.

Moderator:

Thank you very much madam. Next in line is Mr. Anand Mahindra from Ramesh Damani Finance.

Anand:

Good afternoon Vishnu. I am from Ramesh's office.

Vishnu:

Please go ahead.

Anand:

My question to you is, is it fair with the ACOM delay, do you think it is fair to assume that there are no revenues in book this quarter from ACOM and if we follow that next quarter.

Vishnu:

No, nothing of that sort. Please understand, I think it is a very important question that everyone has been asking. Let me try to explain the relationship and then you will get the perspective. See here, at ACOM we are in the process of replacing their legacy systems. So, it is expected that we may come across a variety of surprises as we go around and while we are proactively looking for eliminating or minimizing these kind of surprises, this is one such surprise that has come up and the relationship being that of more of partnership in nature. It is jointly agreed as RP explained, it has been jointly agreed that we would, you know, now reschedule the dates from December to March, and that is about it. And the work continues and there is just a small milestone in the entire project, so the entire work continues, there is no effect whatsoever on the revenues. There are no penalties and work continues as it is expected.

Anand:

But in terms of the actual booking of the revenues to the quarter, has that been affected or are you recognizing the revenue from the quarter.

Vishnu:

No, it has not been affected.

Anand:

Great, thank you.

Vishnu:

Thank you.

Moderator:

Thank you very much sir. Participants who wish to ask questions, may please press *1. I repeat, participants who wish to ask questions, may please press *1. Next is a followup from Mr. Ruchit Mehta of HSBC.

Ruchit:

Hi sir. Just to follow up on the product side of the business, if there has been no delay in booking of the ACOM revenues, it is particularly puzzling the slow growth in the product side of the business, especially considering what we have seen in the recent quarters. So, if you could just elaborate a bit more on that.

Pramod:

Ruchit, if you looked at our order book.

Ruchit:

Okay.

Pramod:

The order book actually fell in the first two quarters.

Ruchit:

Okay.

Pramod:

Right, so once the order book is falling, then my booking is slightly lower than the revenue I am doing, so then the affect of that lower booking comes in the subsequent quarters, right.

Ruchit:

Okay.

Pramod:

That is all there to it. It would have been quite evident if you looked at the fall in the order books.

Ruchit:

So, if I understand correctly the last two quarters we have seen an increase in the order books, so that flow through will come in say two to three quarters down the line, or couple of quarters down the line.

Pramod:

What we are saying is the quarter 1 and quarter 2, the order book flow was lower than expected, which affected the revenue for the quarter 3. As quarter 3 booking is high, yes you are right, the revenue flow in the subsequent quarters would help.

Ruchit:

Okay, fine. Thank you.

Vishnu:

Thank you.

Moderator:

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

Meenakshi:

Thanks a lot for your participation and that is all from the team at Nucleus Software. Thanks.

Vishnu:

Thank you.

Moderator:

Ladies and gentlemen, thank you for choosing WebEx Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice evening.
