



# Q4 FY 08 Earnings Conference Call

## April 28, 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                    |
| - Dr. Asha Goyal,      | Vice President and Head of Quality           |

### CONFERENCE CALL PARTICIPANTS

- |                        |   |
|------------------------|---|
| - Mr. Ruchit Mehta,    | HSBC Asset Management (India) Pvt. Ltd. |
| - Ms. Grishma Shah,    | Edelweiss Securities Ltd.               |
| - Mr. Manish Bhandari, | ING Investment Management.              |
| - Mr. Krupal Maniar,   | ICICI Securities Ltd.                   |
| - Mr. Anand Mahindra,  | Ramesh Damani Finance Pvt. Ltd.         |
| - Mr. Ankur Arora,     | ING Investment Management               |
| - Mr. Mahesh,          | Individual Investor                     |

## **Nucleus Software**

### **Investor/Analyst conference call**

**April 28, 2008**

#### **Moderator**

Good evening 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 international bridge. After that, the question and answer session will be conducted for participants in India. I would now like to hand over to Ms. Meenakshi Sharma of Nucleus Software. Thank you and over to you ma'am.

#### **Meenakshi Sharma**

Thank you. Good afternoon Ladies and Gentlemen. I am Meenakshi Sharma, the Assistant Company Secretary. We welcome you all to the investor conference call of Nucleus Software to discuss the financial results for the quarter and year ended on March 31, 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 Financial 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 question and answer session. I now hand over to Mr. Vishnu R. 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. I will initially walk you through the numbers.

- Our consolidated revenue for software products and services for the quarter has increased by 29.75% to Rs. 78.06 crore against Rs. 60.16 crore on a year on year basis.
- For the financial year the consolidated revenue has increased by 30.53% to Rs. 288.72 crore against Rs. 221.19 crore for the previous year.
- Net profit for the quarter has increased by 14.84% to Rs. 16.02 crore against Rs. 13.95 crore in the corresponding quarter of the previous year
- Net profit for the year has increased by 11.95% to Rs. 61.74 crore against Rs. 55.15 crore in the previous year.
- EPS is Rs. 4.95 for the quarter against Rs. 4.32 for the corresponding quarter of the previous year.
- For the year EPS is Rs. 19.08 against Rs. 17.09 for previous year.
- Product business continues to be buoyant. For the quarter, revenue for the product business at Rs. 52.34 crore is 67.06% of total revenue.
- For the year, product revenue, at Rs. 197.41 crore, is 68.38% of revenue and has shown a growth of 64.84 % on a year on year basis

- In the projects and services business, revenue at Rs. 25.71 crore for the quarter has increased by 4.94% against Rs. 24.50 crore on a year on year basis
- Revenue for the year from projects and services at Rs. 91.30 crore has decreased by 10 % against Rs 101.43 crore on a year on year basis
- During FY 08, we have, achieved top line growth of 30%.
- With 90% of our revenue from overseas, there is a definite exchange effect on reported volumes. In Dollar terms volumes have grown by 43 % and while we do not wish to attribute profitability fluctuations to exchange variations. It is definitely necessary to see volume growth, which looks at comparable throughput.

During the year, we have commenced work on our largest product implementation at A COM in Japan and we look forward to strengthening our base in the second largest economy in the world

- **Our focus during FY 08 has been on gearing up for the future by:**
  1. **Investing in products:** our people on product development are at 225 against 162 at the beginning of the year
  2. **Investing in Marketing:** Here we have 83 people against 53 at the beginning of the year
  3. **Investing in infrastructure:** We have signed a MOU for 17. 41 acres of land in a SEZ at Jaipur and have formed a new fully owned subsidiary to implement the project. We have shifted our branch in UAE from Sharjah to Dubai and shall in this quarter have a new Marketing and support centre ready for operations. We have also opened a branch of our Singapore subsidiary in Korea .Our new marketing and support centre in Mumbai has commenced operation from new premises
  4. **Investing in Systems and processes:** Several initiatives, specially in HR related areas have been taken with internal development of systems
- **Under Treasury operations,** we have proactively hedged our currency risk by increasing the coverage while avoiding any high-risk instruments. Coverage is 30 million US Dollars as on March 2008 against 6.95 million US Dollars in March 07
- Our investments in mutual funds have increased to Rs. 76.63 crore from Rs. 55.07 crore as on March 31,2007
- Our cash and equivalents have grown to Rs. 94.13 crore from Rs. 81.90 crore
- **Manpower:** Total numbers have grown to 1936 from 1532

### **Now I will talk of our plans for the future:**

- We will continue to focus on banking products and introduce new features and move to new technology
- We will open new markets
- We will achieve even higher level of customer satisfaction
- We will look for opportunities in developed countries arising from the current turmoil in consumer finance and also through replacement of legacy system.

Thank you very much for your attention and now I invite RP to make his comments.

### **R. P. Singh**

Thank you, Vishnu and wishing all a very good afternoon.

The last year has been another exciting and fulfilling one. Our endeavor to get our customers to realize return on their investments, as early as possible, saw 70 product modules go live globally in the year. The FinnOne™ suite contributed 62 of these while Cash@Will™ had 8 modules go live. These implementations were done across 27 customers globally strengthening our footprint in the Middle East by 7 and in the Indian subcontinent by 11.

The Cash@Will™ suite is picking up steam with the second country of a global rollout and the largest deployment going live in the quarter.

We have been working on improving the productivity by enhancing methods and skills levels. The result is evident in the fact that the team size remained level all through the first 3 quarters. In the last quarter we have added 126 Nucleites including campus recruits to prepare ourselves for the next year.

The ACOM project is progressing well, one of the two large engagements that we have been talking of. It has got into a full-fledged build and all eyes are focused on the year-end delivery.

On the GMAC front, I am pleased to announce that BeNeLux went live on 10 March. That is the second stage of success in the project and the overall program has got into higher gear. We have already started on two countries in parallel, which we are planning to go live early next year. We expect another country to be added to this basket in the next few months, so that we work on three parallel products at the same time.

That's all from me now and I look forward to your wishes to deliver another good year. Over to Prakash.

### **Prakash Pai**

Good afternoon everybody. In the last decade, Nucleus Software has stood out as one of the few IT companies, which have followed a product-led growth strategy. Starting from scratch in 1996, Nucleus has exhibited phenomenal rise with this futuristic planning. Today, product-based revenue contributes approximately 68.38% of the Nucleus' total annual revenue.

Nucleus flagship products have been implemented in Asia Pacific, Africa, Middle East and Europe. We are now focusing to take our products to the remaining continents, like Latin America.

Just to update everyone, the FinnOne™ suite today covers multiple business areas like auto loans, mortgages, personal loans, and SME loans, while Cash@Will™ applications provide end-to-end support in the areas of collections, payments and liquidity management for corporate customers of the financial institutions.

To maintain our competitive edge in the market place, we are following a double benefit approach.

- One, we are undertaking technology up gradation of our products and,
- Two, the products are being enriched to cater to the growing needs of financial institution.

A new release of all our key modules of FinnOne™, customer acquisition system, loan management system, and collections is being scheduled for mid May. This new release will enrich our products in the area of captive auto financing, dealer financing, insurance management, sales lead management, business partner incentive, and payment management.

In addition, to meet the growing needs of Islamic banking, our FinnOne™ product is being further enhanced to meet the specific business requirements of our Islamic banking customers, mainly located in the Middle East.

We are confident that Nucleus products will continue to add business value to our esteemed customers and prospective clients.

As a first step, we have engaged a leading US-based consultant to help us in evaluating our products for the American market and preparing a strategy to enter the US shore.

I now hand over to Pramod Sanghi.

Pramod Sanghi

Good afternoon everyone. We will now talk about the Q-o-Q financials.

- On a sequential basis, revenues have grown by 6.00%.
- Product revenues at Rs. 52.34 crore are marginally higher than Rs. 51.74 crore last qtr. Traded products included in this is Rs. 0.90 crore against Rs. 5.13 crore previous quarter and therefore there is sequential growth in our own products.

- Revenue from other streams of business that is projects and services at Rs. 25.71 crore has increased 17.41% sequentially. There has been a rate increase with one of our customers.
- Cost of delivery has increased to 59.16 % against 59.03 % of revenue last quarter also.
- Marketing expenses are at 6.4% of revenue against 8.6% last quarter. Last quarter, we had incurred well basically a large expenditure at an exhibition in the US and that has obviously not been repeated in this quarter, but there could be more events taking place as we go along.
- G&A expenses are at 7.65% of revenue against 7.24% in the last quarter.
- The EBITDA margin has improved to 26.7% against 25.1% in the last quarter.
- Other income is marginally lower at Rs. 1.11 crore.
- Withholding taxes are at Rs. 2.18 crore. This has increased from Rs. 0.87 crore in the last quarter.
- Current and deferred taxes are Rs 3.08 crore against Rs. 1.24 crore last quarter. The MAT set of for the qtr is Rs. 2.52 crore against Rs. 0.96 crore previous quarter.
- Depreciation figure has moved up slightly from Rs. 3.15 crore to Rs. 3.24 crore.
- The PAT has increased by about 3.15% from Rs. 15.53 crore to Rs. 16.02 crore.
- There is an increase in receivables, seems to be like a year-end phenomenon, not from our side but perhaps from some of our customers because it happened last year also. We are at Rs. 67.81 crore against Rs. 48.78 crore last quarter. DSR has gone up to 79 against 67. We do think that by the end of the current quarter, this should come back to a normal trend of somewhere around early 60s.
- Operating cash flow for the quarter before working capital changes is Rs. 51 crore plus. Net working capital has increased by Rs. 17.5 crore primarily due to the increase in receivables.
- With CAPEX and tax outflows of Rs. 7.3 crore, total cash plus investments is at Rs. 94.1 crore against Rs. 101.9 crore in December 31, 2007.
- Our Forex coverage as of March 31, 2008, was USD 30.09 million and remains more or less the same even today. The rate at which we are covered is 40.41 as of date.
- In terms of client concentration, our top five clients have contributed 68% of revenue against 69% in the previous quarter.

**When we look at the full year, Vishnu has already talked about revenue, net profit, and EPS.**

- If you look at the cost of delivery, it has gone up from 56.6% to 60.4%. This is primarily due to increased manpower in product development. Product development as we have explained earlier is charged off to expenses and accounted in delivery expenses every year.
- Sales and marketing expenses are at 7.1% against 8% last year.
- G&A is again about 6.98 against 6.72 last year.
- EBITDA is at 25.43%, we were at 28.6%. I think in second call last year, we had looked at 25%, so we have achieved that figure.
- Other income is up at Rs. 7.05 crore against Rs. 5.62 crore last year.

- Depreciation is a sizeable increase that has gone up to Rs. 11.85 crore against Rs. 6.88 crore last year.
- Withholding taxes as a percentage are down, they are 1.43% of revenue against 2% last year.
- Taxes are at Rs. 2.72 crore, about 1% of revenue, 4.2% of PBT against Rs. 2.2 crore, 1% of revenue, again about 3.8% of PBT.
- Net profit margins are at about 21.4 for the year against 24.93 last year.
- The order book position as of March 31, 2008, is at Rs. 318 crore including Rs. 276 crore product business and 42 crore of services.

Thank you. I will now hand over to Niraj.

### **Niraj Vedwa**

Thank you Pramod and a very good afternoon to all of you.

A quick summary of the sales and marketing activities. We had an excellent year with 24 product wins. FinnOne™ was adjudged the second highest selling lending product in the world. This is the second time in the row that FinnOne™ has been adjudged in the top two lending products in the world by sales.

Last year has been very encouraging in terms of number of RFPs or request for proposals received. We received 125, which is a hit rate of almost slightly more than 10 a month. We also conducted more than 200 demonstrations during the full year.

Based on the above, we have a very, very healthy and a strong prospect base.

Also, our sales force has been doubled during the year from 17 to 35 active sales people on the street. To tap the local markets, we have hired local people. We now have a Dutch salesperson based in Amsterdam for the BeNeLux market, an Egyptian salesperson based out of Cairo for the North African market. We also have a French salesperson who is in the process of joining who will be based in Paris for France and the French-speaking African markets. We will be adding on more local sales people to the sales team.

In our growing markets in Middle East and Africa, we have made substantial investments in sales and marketing. We have split Africa into four parts, each manned by a regional sales manager. One for West Africa, which is Nigeria and Ghana, one for East Africa, which is Kenya, Tanzania, and Uganda; South Africa, which is Mauritius and South Africa; and North Africa.

In addition, in the Middle East market, we have added two more sales people to add to our strength. Our London and Amsterdam offices are now staffed by two sales people each and Japan office is now staffed by three. We have opened our sales prospecting activities in CIS, Eastern Europe, and are now working very hard in Latin America and Mainland Europe as we feel that there is a very strong demand for retail banking products. Based on the RFPs and demos done, we have a very healthy pipeline as I mentioned before and by doubling the sales force, we are quite confident of another excellent year.

Prakash mentioned that we have, you know, contracted with a leading global consulting firm to do a product fitment vis-à-vis the US market and also go-to-market strategy. This report is expected by May end and initial report suggests that there is a good fitment at least on some of the modules. Based on this, we will be putting a strategy into place for the lucrative American market. This is coupled by a very strong marketing branding, PR, and license team, which continue to create a high recall for Nucleus brand. We have participated in almost all major banking events globally, and we do believe that we have a good year coming ahead.

I now handover to Ravi Verma, who heads HR for Nucleus.

### **Ravi Verma**

Thanks Niraj, and good afternoon everybody.

In Q4, our manpower numbers have increased by 259, and as of 31<sup>st</sup> March, it is 1936. Just to update you, today, it is 1986. So, there is an addition of 50.

There have been many initiatives taken in 2007 – 2008 to name a few :

- We have institutionalized instructional-based skill development training for our employees. Methodology inspired by the Toyota Talent Management.
- Another development initiative on account of higher education program, under which we have tied up with IMT Ghaziabad for imparting MBA programs for our employees, it has become a great success.
- We have introduced Annual Incentive Plan for all our employees. I am happy to share that this plan is well documented, system oriented, and well communicated. It has delivered immense results in terms of various objectives, achievements, at various levels.

Attrition is still a major concern; however, we expect that in times to come, it would get addressed to some extent. This is based on the current trends in the industry. In fact, the trends are already on improvement side within Nucleus itself.

In the year to come, HR would be working proactively on our Jaipur project. We are planning to make operational by June 2008, and in addition as talked by R.P., productivity would be another area of focus.

Now, I hand it over to Dr. Asha.

### **Dr. Asha Goyal**

Thank you Ravi. Good afternoon.

In the area of Quality assurance Nucleus has enhanced its process maturity on various aspects during this year with respect to being a product company. Processes have been extended from “development, delivery and support” phases to “product creation and product management” phases.

Business unit level sessions were held during the year, across all groups to enhance NSSP (Nucleus Standard Software Process) to a new release. This is to enable a high level of integrated project management environment.

To support solution design area, various guidelines and reference material has been created by experts, learning from experiences gained from delivered projects, to make better delivery to future clients.

On the people side, frequent trainings are held to address the growth in number of people and to renew process knowledge.

On the technology side, with the introduction of a configuration management tool the workflow has been automated to increase productivity and reduce defects. In fact this automation, using Rational Clear case, was so extensive that IBM selected it to create a global case study from it.

Nucleus now plans to move ahead to renew its certification to CMMI V1.2

Thank you, and I will handover to Mr. Ravi again.

### **Ravi**

Just a minor correction. When I said that Jaipur's project, which we are planning to make operational, by mistake I have said June 2008, I am talking about June 2009, thank you.

### **Meenakshi**

Thank you Ravi. 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 International Moderator to conduct the Q&A for participants connected to International Bridge. After this, we will have a question and answer session for participants at India Bridge. Thank you and over to Salvia.

### **International Moderator**

Thank you Monali. We will now begin the Q&A session for participants connected to the International Bridge. Please press 01 to ask a question. Participants, who wish to ask a question, please press 01 now. At this moment, there are no questions from participants at International. I would like to handover the proceedings back to Monali.

### **Moderator**

Thank you Salvia. 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 chance to present their questions on a first in line basis. Participants who wish to ask questions, may please press \*1. First in line, we have Mr. Ruchit Mehta from HSBC AMC.

**Ruchit Mehta**

Hello?

**Pramod**

Yeah, hi Ruchit, sorry, Pramod here, sorry, we got disconnected, I don't know.

**Ruchit**

Firstly, great numbers sir, congratulations on that. I just wanted to get a sense, you know, in this quarter, we have had a bit of flatness in the product sales, so, I mean, especially because you mentioned you started booking revenues from ACOM as well, so how should we see product revenues panning out, would they essentially grow faster than company or?

**Pramod**

See, Ruchit, I mentioned very clearly that you know product revenues are flat on a QoQ basis, but you know, this has been also because traded products which were about 5 crore last quarter, fallen to about 90 lakhs this quarter. Traded product is not our main business, right.

**Ruchit**

Okay.

**Pramod**

See, if you look at just our business, then our business has shown some sequential growth.

**Ruchit**

Okay.

**Pramod**

As far as the future is concerned, we expect, as of today, the entire growth to come from the product base.

**Ruchit**

Okay, and do you anticipate that growth to be broadly in line what the industry is anticipating because we keep hearing about 20% to 25% growth in industry as a whole. Is that something that you are comfortable with?

**Pramod**

Product business growth, you know, if you look at our product business growth, 06 – 07, we grew by about 100%, and if you look at even this year, we have grown on a YoY basis by 65%, okay.

**Ruchit**

Okay.

**Pramod**

So, you have to look at it in that perspective, and do some number crunching I suppose, but you know, we are not looking at industry rates of growth here.

**Ruchit**

Okay, okay. So, you are going much faster than that.

**Pramod**

Yeah, but of course, then we don't expect any growth in the services part, the moment we expect it to be where it is.

**Ruchit**

Okay, so projects will grow, these projects also going to be quite, you know, a bit of growth dampener.

**Pramod**

You know, projects and services...

**Ruchit**

Okay.

**Pramod**

We don't expect it to grow unless we acquire some major new customers, which is much longer exercise. We expect the entire growth to come from the product business, right.

**Ruchit**

Okay, and just on the margin environment, you know, we have had a very nice uptake in this quarter, but going forward, how do you see margin, especially because you know, I don't know what the scene on attrition is this time around. You know, last couple of years, we have been paying you know significantly higher than industry average salary hike, so what is the outlook on that this year?

**Pramod**

As of now, I think, we are looking at the same number as what we looked at last year.

**Ruchit**

Okay.

**Pramod**

About 25%.

**Ruchit**

Okay, 25% salary hikes.

**Pramod**

No, no, 25% EBITDA, not salary hike.

**Ruchit**

Okay, that is a scary number.

**Pramod**

Yes.

**Ruchit**

Okay, but what is the scene on attrition, I mean, has it improved

**Pramod**

I think Ravi mentioned that in his statement that he expects it to be lower in the future months.

**Ravi**

I think roughly.....

**Ruchit**

I am sorry. I could not hear you. Your voice is breaking up.

**Ravi**

I said that if you look at the last three months of spend in the company itself, our attrition trend is improving.

**Ruchit**

Okay, so what is the percentage in this quarter on an annualized basis.

**Ravi**

I can only say one thing that this has been at par with the industry trend, before, I mean, you can talk till say about December and January onwards, it is much, much better. I can share one information that attrition is far lesser than industry, maybe 70% or 80% industry.

**Ruchit**

Okay, and just on the CAPEX front, what is your outlook for this year. How much are you looking to spend?

**Pramod**

Ruchit, see, we would spend about, including land, we would spend on the first phase, we would spend about 25 crore, I would say, on the new facility at Jaipur.

**Ruchit**

Okay.

**Pramod**

We would spend about anywhere between 5 to 10 crore of standard hardware, software, and other items. So, you could look at about 35 crore.

**Ruchit**

That is for the company as a whole completely.

**Pramod**

That is correct.

**Ruchit**

Okay fine. Thank you so much.

**Pramod**

Thank you.

**Ravi**

Thank you.

**Moderator**

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

**Grishma Shah**

Sir, I wanted to know the situation for the GMAC stake sale.

**Pramod**

Yes, Grishma, we had advised last quarter that we have exercised our put options. There has been an application, which has been made to the Reserve Bank by GMAC on acquiring this stake. The approval has not yet come, so it will happen once the approval comes. We do expect that it should get resolved in this quarter.

**Grishma**

As I look at our standalone numbers, I mean, we have got a very good PBIT margin improvement on the India front, I mean. How are we seeing the orders?

**Pramod**

How are we seeing the...?

**Grishma**

How are we seeing the orders there?

**Pramod**

No, no, India is a part of consolidated, Grishma. I don't think we can look at it in an isolated fashion.

**Grishma**

Okay.

**Pramod**

Of course, because you know in certain geographies, we would bill from India to our subsidiary in Japan or Singapore. They would bill the ultimate customer.

**Grishma**

Okay.

**Pramod**

So, for any meaningful analysis, we should look at only consolidated numbers.

**Grishma**

Okay, and this is the first time that our sub has given us an interim dividend of 10 crore.

**Pramod**

That is correct.

**Grishma**

So, next year also, you expect it or?

**Pramod**

Well, I think, dividend policies, of course there are distributable profits available in subsidiaries, we are not required to be retained, it would be remitted to parent company.

**Pramod**

Okay, and we have incorporated the wholly-owned subsidiary, Nucleus Software Limited.

**Pramod**

Yeah, that is correct.

**Pramod**

So, the entire Jaipur project is in this sub.

**Pramod**

It will be done in this subsidiary, yes.

**Grishma**

Okay, okay, and I mean we have added very strongly in the fourth quarter as compared to the last 3 quarters. Is that in an anticipation of a bigger order or how have we planned it?

**Vishnu**

Yeah, it is, this is Vishnu. It is both in anticipation of, you know, increased business in the coming financial year, we are preparing ourselves for that, and also, we have added on product development side. So, that is how this increase has taken place.

**Grishma**

Okay, fine. If I have any more questions, I will come back. Thanks for now.

**Vishnu**

Thank you.

**Moderator:**

Thank you very much ma'am. Next, we have Mr. Sunil Thirumalai from Credit Suisse. Mr. Sunil, please go ahead sir. We will move on to the next question. Mr. Ankur Arora from ING Investment Management.

**Manish Bhandari:**

Hi everybody, this is Manish Bhandari, colleague of Ankur. We have got couple of queries. One is, is your currency realization reflect your geographical breakup of the revenue or would it be different?

**Pramod**

No, it does not because most of our Japan billing is also in dollars. If you look at Europe, that is billed in dollars. A large amount of Japan is billed in dollars. Singapore if you look at would be billed in Singapore dollars. Our large portion of South East Asia gets billed in Singapore dollars.

**Manish**

Can you give me a percentage breakup of your currency realization.

**Pramod**

Yes, I could, if you just give me a second.

**Manish**

Okay.

**Pramod**

It tends to be around 70% dollar.

**Manish**

70% in US dollars, and the rest will be?

**Pramod**

We have about 15% to 18% in Singapore dollars, and we have about.....

**Manish**

Okay.

**Pramod**

I can give you for the entire year, you know, we have about 11% in Singapore dollars, we have 73% in US dollars. Obviously, 11% is in rupees, 5% is in the Japanese Yen.

**Manish**

Okay, and second thing is, you are spreading across in African region as well as in CIS region, is your product has got a differential pricing in this region or you have got a same price?

**Vishnu**

We do tend to have pricing, which would be different in different markets. As these structures are different, the requirements are different, practices are different, so the Middle East and African prices tend to be higher than South East Asia and India.

**Manish**

Okay, alright. We keep on hearing about challenges on the services side from the large corporates like Infosys and everyone going forward. Are there any challenges on the product business side. Would the terms and conditions of the product business change, which would be may be slightly negative from the revenue realization perspective.

**Vishnu**

As of now, the indications that we have, we do not see those kind of challenges in near future. We cannot talk about longer term duration, and the reason, I guess, the customers would respond to our value propositions differently than, product value proposition differently than services value proposition, is the fact that you are able to see the value getting realized as R.P. mentioned in his presentation, within a few months of investment, and that is what continues to be our focus.

**Manish**

So, we are still at 55% of the implementation and license fee would be what 15% to 18%, that would be the rough number?

**Pramod**

Are you talking about breakup of.....

**Manish**

That is right.

**Pramod**

Order between license fees and customization implementation.

**Manish**

Yes.

**Pramod**

No.....you know, normally for single country implementation orders, the license tends to be about 50%.

**Manish**

Yeah, that is right.

**Pramod**

And if you go towards very large orders, then the license fee goes down.

**Manish**

Okay. How do you....again, I am not very clear about this withholding taxes charged off. Can you explain in detail why does it appear and how does it appear?

**Pramod**

Withholding taxes are basically revenues from Japan, either whether they are through our subsidiary or directly from customers, all payments from Japan to India are subject to a 10% withholding tax.

**Manish**

At Japan?

**Pramod**

At Japan.

**Manish**

Okay.

**Pramod**

Now, that to the extent that amount cannot be claimed in tax in India, becomes an expense for us.

**Pramod**

So, you have already included in when you are billing it to the customer. You already taken that into account.

**Pramod**

Well, yes, pricing obviously we do know that there will be a 10% withholding, but please remember that till July 2006 it used to be 20%. That was very difficult to manage. Now, it has come down to 10%, and that is like the cost of doing business in Japan.

**Manish**

Sure, two questions clubbed into one question. One that, can you give us a broad growth outlook on the product business as you said that the growth will be led by the product business. Can you tell us the composition of the revenue on the product side from the geography would change dramatically or if you could give us some idea as to what are the major orders you are contesting now, maybe next 6 months down the line. I am sure you have a better idea on the pipeline, and so that would help us in making some kind of revenue estimation.

**Pramod**

These are three questions. One is that what is our outlook.....

**Manish**

We can finally convert this to one in terms of your outlook.

**Pramod**

Yeah, but you know, we do not give guidance as such, and we can only offer our figures for last year, last quarter, QoQ, you should be making your best judgements but keeping in mind that you know products grew by 100% plus 06-07, they have grown by 65% to 66% this year, and we expect as Niraj said with new markets and as Prakash said with new product development, this business will continue to grow, and we have not seen any slackening at least in Africa, Middle East, India, or even....all the emerging markets seem to be doing well, and as we don't have exposure currently to the US, it seems to be alright.

**Manish**

Last question from our side. Is there any acquisition which you would like to add up from the product perspective or maybe geographical distribution perspective?

**Vishnu**

Yeah, we are continuing to get offers from different directions coming our way for acquisitions, and we continue to evaluate them. As of now, there is nothing that we can talk about.

**Manish**

Thank you everybody at Nucleus.

**Vishnu**

Thank you.

**Moderator**

Thank you very much sir. Next is a followup from Mr. Ruchit Mehta of HSBC AMC.

**Ruchit**

Yes sir. Just on the taxation front and including of withholding taxes, if you just triple withholding taxes, other tax to PBT ratio is just about 3.5%, so how do we see taxes penning out next year going into fiscal 09?

**Pramod**

No, 09, we don't expect any major change to happen in this.

**Ruchit**

Okay, so these 2 to 2-1/2 crore of withholding taxes that you paid in this quarter because assuming ACOM order continues in the balance of the full year, would that be the similar level of withholding taxes or slightly increase in levels?

**Pramod**

Yeah, it is a function of Japan revenue, also the MAT credit, so it is reasonably a complex situation, but yes, if revenue from Japan goes up, withholding tax would tend to rise.

**Ruchit**

Okay, and you get a set off against MAT, I mean, for withholding taxes.

**Pramod**

Yes, you can now. Till previously, in the last year, we could not, but obviously starting FY08, as MAT is levied on us, we get a set off.

**Ruchit:**

Okay, and what is the current cash and liquid investments position?

**Pramod**

We have about Rs. 94 crore.

**Ruchit:**

94 crore, okay, and your current yield on investments?

**Pramod**

We invest largely in liquid funds and FMPs and it varies 8 to 10% gross.

**Ruchit**

8 to 10% gross. Okay, thank you so much.

**Pramod**

Okay, thank you.

**Moderator**

Thank you very much sir. Participants who wish to ask questions, may please press \*1. Next, we have Mr. Krupal Maniar from ICICI Securities.

**Krupal**

Hello sir?

**Pramod**

Yeah, hello Krupal.

**Krupal**

Sir, I would like to know the management views on how we are planning to replace the ACOM revenue in FY10 because most of the ACOM would be getting over in FY09, so just wanted the management views on that?

**Pramod**

Okay, let me start and then Niraj will take over there, right. Obviously, getting orders is a continuous process, and you know, when we were, 4 years ago, when we did not have GMAC, then we had a smaller order book, then we got GMAC, and our order book went up, and 90% of our order book was GMAC. Now, ACOM came in 2007, and it formed a large part of our order book. After that, I will leave it to Niraj.

**Niraj**

Order is, as Pramod said, it is a continuous process. We are talking to many, many large organization for, you know, for the FinnOne product, and we will continue to basically ensure that we get appropriate replacement for ACOM.

**Krupal**

If I want to know, how many deals would be of you know such size as large as ACOM?

**Pramod**

Well, I mean, we are looking at, at least trying to get one a year, but if you get one a year, that itself would be substantial. At the same time, I think I had said before that during the full year, we have had 24 deals, and out of them, the 8 deals came in January to March period, you know.

**Krupal**

Okay.

**Pramod**

These could be, you know, these are small or medium sized and not obviously of the size of ACOM, but I also mentioned also about the RFPs and all that. We have 125 RFPs and lot of them have to be decided, so there is a very strong pipeline, and there are all kinds of, there are large deals, medium deals, as well as small deals, but to say that you know as far as ACOM replacement is concerned, we would be very good if we can get one replacement for ACOM or an ACOM equivalent every year, that is what we will strive for.

**Krupal**

Okay.

**Pramod**

Krupal, one last thing is that you know ACOM the main project definitely of course when it goes live, a particular amount of revenue would be over, but we are looking forward to a longer term relationship with such large companies. So, we would expect to continue business them.

**Niraj**

If I want to know that from which part this replacement could come in, whether we are looking at Europe as an area where we can get such replacement or it would be like Japan going ahead.

**Vishnu**

Large size deals come from extremely mature and developed markets, so obviously Japan is one of them.

**Krupal**

Okay.

**Niraj**

We will continue to look at deals in, among the current landscape, we will only be looking at such large size deals from Europe because we have a GMAC in Europe, and we have

the ACOM in Japan, so I mean, these potentially could be two areas where we can get large deals.

**Krupal**

Okay, and sir, just an update on your top 5 clients, like you know, they are contributing 68% of the revenues, so in terms of that visibility going into next year, so can you throw some light on that.

**Pramod**

Well, the top 4 clients we do not expect any..., they are of course, you know the software clients you know, we don't talk about them, but we don't expect any business from those clients to go down in absolute terms.

**Krupal**

But in terms of their growth, their growth could be higher than the average of the companies or we expect them to slow down.

**Pramod**

These accounts would tend to remain, you know, if you look at ACOM which is everybody knows it is a large account, so I am not saying anything new, but tGMAC possibly could be slightly lower but not this year, subsequent year because the license would have been fully taken into revenue by end of this year, and there are two services clients, we expect similar volume, but growth would come from new clients.

**Krupal**

Okay, okay, and in terms of our price hike, we mentioned in some of our clients, top clients, so can you just quantify the same?

**Pramod**

We said that one of our services clients, we were able to get a price increase, effective January, and in any case, that was the services. In products, we have got increases at various points of time with various customers.

**Krupal**

Okay, but whether that would be in the range of 5% to 10% or higher than that or?

**Pramod**

I don't think Krupal we are looking at disclosing that much information.

**Krupal**

Okay, in terms of wage hike for FY09, any outlook on that?

**Vishnu**

See, it will be essentially around the industry number.

**Krupal**

In the range of 15 odd percent.

**Vishnu**

I think that is what the industry is talking about,

**Pramod**

Is that the industry number, they say something else all the time, so.

**Krupal**

Because I think the top companies are seeing in the range of 10 to 12% roughly. So, are we in the same range?

**Ravi**

This is Ravi here. We are trying to understand what other companies are doing. We have got in touch with some of the top 4, and one of the top 4 is talking about 15% though Times of India is talking about 9%, but they have talked about 15. Another company is talking about 16%, so we are still at a stage where we are trying to study. We will make sure that we don't go overboard, but we will be matching the industry, you know, what is happening.

**Krupal**

Okay, so I think this wage hike is effective of 1<sup>st</sup> of April or ?

**Ravi**

1st.

**Krupal**

Okay, so we have not done the wage hikes as of now.

**Pramod**

It would be effective April and it would be distributed by May. So, we would know by the month end, next month end.

**Krupal**

Okay, thanks a lot.

**Vishnu**

Thank you.

**Moderator:**

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

**Anand**

Mr. Damani is traveling and was unavailable for the call today. He would like to congratulate you on a good quarter, and wish you all the best for the future.

**Vishnu**

Convey our thanks to him. Thank you.

**Anand**

Yes, I will do that.

**Moderator**

Thank you very much sir. Next is a followup from Ms. Grishma Shah of Edelweiss Securities.

**Grishma**

I just wanted to know our forex cover figures one more time, and at the rate, what the US dollar rate?

**Pramod**

30.5 million dollars at 40.41 currently.

**Grishma**

Okay, okay, and of the approximate 150 crore order of ACOM, how much of ACOM have we executed so far in terms of revenues?

**Pramod**

Customer-wise revenues we don't talk.

**Grishma**

Okay, and any geographical breakup of our order book that I can get.

**Pramod**

Yeah, we should be able to provide that subsequently.

**Grishma**

Okay.

**Pramod**

We will work on it, and we will provide it to the investor community at large.

**Grishma**

Okay fine, thank you sir.

**Vishnu**

Thank you.

**Moderator**

Thank you very much ma'am. Participants who wish to ask questions, may please press \*1. Participants who wish to ask questions, may please press \*1. Next is a followup from Mr. Ankur Arora of ING Investment Management.

**Ankur**

Hi, everyone, just a small question. As far as your order book is concerned, can you just provide a product wise breakup between these products?

**Pramod**

Our product order book largely consists of orders for FinnOne™.

**Ankur**

For FinnOne™?

**Pramod**

FinnOne™, yes. See, cash, as of now, accounts for anywhere between 6% to 7% of revenues,, of product revenue.

**Ankur**

Okay, the whole of the order book is basically coming out of FinnOne™,.

Largely, it is from, so the order book is also in the same proportion or even more.

**Ankur:**

Alright, perfect, thank you. Thank you very much.

**Vishnu**

Thank you.

**Moderator**

Thank you very much sir. Participants who wish to ask questions, may please press \*1. Next in line, we have Mr. Mahesh an Individual Investor.

**Mahesh**

Hello?

**Vishnu**

Yes, please.

**Mahesh**

I would like to know what is our position in Sales League table for ISB this year?

**Niraj**

IBS Sales League table we were No.2 with 17 sales.

**Mahesh**

Okay, and is this year also like they have classified it according to the nature of the software, for example lending is separately classified.

**Pramod**

That is right. This IBS League table is for lending.

**Mahesh:**

So, any analysis of why we have been in the second position this time because last year we were first, and we were well ahead of the next competitor?

**Pramod**

Yes, I mean, amongst all the competitors who were there last year, we are still way ahead of them, so that position continues, but we have an entrant who have got one position above us. So, we lost it by just one position.

**Mahesh**

And any SWOT analysis that has gone into this position where we have lacked behind this time, any threat from this new entrant?

**Pramod**

I mean, the threat from this new entrant would be in, probably in the European market, but not in the current market space at, you know, so I mean, this particular vendor is an European vendor and has obviously got strong credentials in the European market, so as we move into the European market, we expect to have some competition from that. We are obviously doing a comparative analysis of our products and putting in an appropriate sales strategy to win against them.

**Mahesh**

Okay, 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 handover the floor back to Ms. Meenakshi Sharma for final remarks.

**Meenakshi**

Thank you everyone for joining us in this call, and I would now like to handover to Vishnu for his closing comments.

**Vishnu**

I would like to take the opportunity to thank all of you for your support in the endeavors that we have in terms of servicing our customers all over the world, and we look forward to your continued support in years to come. 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.

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