



Q3 FY 07 Earnings Conference Call

Jan 22, 2007

MEMBERS OF NUCLEUS MANAGEMENT

- Mr. Vishnu R. Dusad, Managing Director
- Mr. P. K. Sanghi, Chief Financial Officer
- Mr. Manoj Tandon, Vice President, Corporate Affairs
- Mr. Niraj Vedwa, Head - Global Sales and Marketing

CONFERENCE CALL PARTICIPANTS

- Mr. Atul Penkar, Birla Sun Life Asset Management Company Ltd
- Mr. Ravichandran, UNIFI Wealth Management Ltd.
- Mr. Gaurav Dua, Sharekhan Ltd.
- Mr. Anand Mahendra, Ramesh S. Damani Finance Pvt. Ltd.
- Mr. Harmendra Gandhi, Brics Securities Limited
- Mr. Yogesh, Nirmal Bang Securities
- Mr. H.R. Nandanwal, India Capital
- Mr. Rajiv Ghosh, Wealth Management Advisory Services Ltd.
- Mr. Karthik, UNIFI Wealth Management Ltd.
- Mr. Siddharth Purohit, Way 2 Wealth
- Mr. Ruchit Mehta, HSBC Asset Management (India) Pvt. Ltd
- Mr. Sanjay Kaul, FE Securities
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- Mr. Puranik, Enam Securities

Nucleus Software Exports Ltd.
Investors/Analysts Conference Call
January 22, 2007

Moderator

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

Poonam Bhasin

Thank you Sanjay. Good evening ladies and gentlemen. I am Poonam Bhasin, the Company Secretary of Nucleus Software. I welcome you all to the investor conference call of the company to discuss the financial results for the quarter and nine months ended December 31' 2006. Today we have with us Mr. Vishnu R. Dusad, Managing Director, Mr. P. K. Sanghi, Chief Financial Officer, Mr. Manoj Tandon, Vice President Corporate Affairs, and Mr. Niraj Vedwa, Head Global Sales and Marketing to answer your queries. Mr. R. P. Singh, President and Global Head Delivery, is travelling and he will try to log in for the call.

We will first start with the brief comments on the financial performance of the company and then we will be open to question and answer session. I will now hand over to Mr. Vishnu for his brief comments.

Vishnu R. Dusad

Thank you Poonam and good afternoon ladies and gentlemen. We thank you very much for joining this call. Before I update you on the financial results, I would like to give you an overview of recent major announcement. Nucleus has been awarded a contract from ACOM CO. Ltd., a leading consumer finance company in Japan, to implement FinnOne™ and related services from India. This is the biggest product order ever for Nucleus, bigger than the last big order from GMAC and bigger than our last year's revenue of Rs. 148 crore. ACOM selected the company's flagship product FinnOne™ for refurbishing their loans, guarantee, and credit card business. This order will be executed over 2 years and is expected to be live some time in 2009, and subsequently there will be annual technical support from India for another 5 years. ACOM published the news of award of the order on their web site in Tokyo on Friday, January 19, 2007 and simultaneously we announced the contract in India. Apart from the contribution to revenues and profitability in the future, this order represents a major breakthrough for

Nucleus in Japan market. As we implement this contract, we expect our visibility to improve in the second largest economy of the world.

Now coming to the results, we are very pleased to announce that our consolidated revenue from software products and services for the quarter has increased by 50.23% to Rs. 56.18 crore against Rs. 37.40 crore for the corresponding quarter of the previous year. For the nine months, the consolidated revenue has increased by 51.97% to Rs. 161.03 crore against Rs. 105.96 crore for the corresponding period of previous year.

Net profit for the quarter has increased by 58.02% to Rs. 13.94 crore against Rs. 8.82 crore in the corresponding quarter of the previous year, and net profit for the nine months period has increased by 57.37% to Rs. 41.20 crore against Rs. 26.18 crore in corresponding period of the previous year.

EPS is Rs. 8.65 for the quarter against Rs. 5.47 for the corresponding quarter of the previous year. For the nine months, EPS is Rs. 25.57 against Rs. 16.27 for the corresponding period of the last year. This is the 10th consecutive quarter of growth in both top line and bottom line of the company and I would like to thank all the stakeholders, including my colleagues at Nucleus, for making this possible.

Products business continues to lead our growth. For the quarter, revenue for the product business at Rs. 31.76 crore is 56.53% of the total revenue. We are now regularly above 50% and with the robust booking trend in products orders. We are confident of increasing this further. For the nine months, product revenue at Rs. 84.10 crore is 52.23% of the nine months revenue.

In the projects and services business, the revenue for the quarter has increased 4.99% at Rs. 24.42 crore against Rs. 23.26 crore for corresponding quarter last year. Revenue for nine months period for projects and services has increased by 13.65% at Rs. 76.93 crore against Rs. 67.69 crore for corresponding nine months of the previous year. Our strategy for the future growth is to be a leading global player in our specialty area of retail loans with implementations in all continents and all countries.

Now I would like to also talk about our achievements from the Corporate Governance front. On behalf of the Board, I would like to announce that the Institute of Company Secretaries of India has selected **Nucleus amongst the top 25 companies adopting "Good Corporate Governance Practices" for 2006**. Further, our annual report for the financial year 2005 received '**Merit Award**' for "**Best Presented Accounts Award**" in January 2007 earlier this month by the South Asian Federation of Accountants in the category of "Communications and Information Technology".

To meet our strategic goals, we are continuing to recruit aggressively, creating additional infrastructure for future requirements. We are on target to commission our second facility at our campus by end of this financial year, which will add 800 seats, and Board of Directors have given in principle approval for commencing work on Phase 3 within the campus, which will create another 800 seats, by the end of FY08, and we continue to invest in our products. Now I would like to check if R.P. is there. R.P. Okay now I request Pramod Sanghi, our CFO to give you a highlight of the financials.

P. K. Sanghi

Thank you Vishnu and welcome everyone. On a sequential basis, revenues have grown by 2% and the operating margin for this quarter is at 27.90%, 28.6% for the nine month period. Product revenues have increased sequentially by 12.78% at Rs. 31.76 crore up from Rs. 28.16 crore.

Revenue from other streams of business that is, project and services has decreased 9.32% sequentially; this is primarily due to a reduction in the US services business from Rs. 2.17 crore in the last quarter to Rs. 0.8 crore in this quarter. This is not a core area of attention and we have proactively reduced some low margin business. On a functional basis at the gross level, profitability has improved with cost of delivery at 56.39% at against 58.38% last quarter.

Marketing expenses have increased by more than 200 basis points to 9.85% of revenue against 7.28% in the last quarter. General and Administration expenses have also gone up by 50 basis points and are at 5.86% of revenue against 5.3% in the previous quarter.

The rupee has been strong against the dollar in this quarter; we started off at about 45.92 and we closed at between 44.30 and 44.40, this had a negative effect on the OPM by 200 basis points.

Other income is up at about Rs. 1.59 crore from Rs. 1.04 crore in the last quarter. It includes Rs. 1.19 crore of capital gains, dividends, and interest income. Taxes including FBT are at Rs. 37 lakhs against Rs. 24 lakhs in the previous quarter, and consequently net profit is marginally higher over last quarter at Rs. 13.94 crore against Rs. 13.86 crore in the last quarter.

In terms of receivables, we have been successful in bringing down the levels to Rs. 37 crore against Rs. 47 crore plus in September 2006, so we are back to 61-day sales against 79 days last quarter. Because of the reduction in receivable and consequent reduction in working capital, our liquidity has improved substantially and as of the end of the quarter we are holding cash and current investment in mutual fund of Rs. 84 crore plus as against Rs. 62 crore approximately in September 2006.

In terms of client concentration, our top 5 clients have contributed 63% of revenues against 72% from the top 5 clients in the previous quarter. I will now hand over to Niraj to give a brief on the global events in sales and marketing and then Manoj will brief on the delivery and the product management.

Niraj Vedwa

Thank you Pramod, this has been one of the most successful quarters for Nucleus Software in product business. During the quarter, we received 8 significant orders for 23-product module and YTD nine months' performance stands at 20 orders for 52 modules, which is significantly higher than the previous nine months period. ACOM was the largest order that was received since inception of Nucleus, as Vishnu has already spoken about. Besides that particular order from Japan, we have received significant orders from two large banks in India and one large financial institution from India. We have also received orders for FinnOne™ product from two large banks in Nigeria. One large global bank based out of Europe has placed an order on Nucleus to implement

Cash Management solution in over 16 countries. Another large global automobile finance company has placed an order on Nucleus for FinnOne™ auto finance roll out across Asia Pacific. So it has been a very significant quarter for us in terms of product business. The orders in hand position has increased substantially to Rs. 335 crore as of this quarter. I now hand over to Manoj to talk about delivery and give an update on behalf of RP who is traveling to Japan and Prakash who is also in a meeting with a bank.

Manoj Tandon

Thank you Niraj, I will first talk about the updates on the delivery side. On the geographical distribution while most regions remained more or less similar, we saw a growth in Middle East from 4.69% last quarter to 7.4% in the quarter ending December 2006. Africa saw a growth from 3.67% to 8.15%. Work in both these regions is consistently growing. We had First Bank go live in Nigeria and we are looking at multiple implementations going live in this quarter.

Europe showed a drop but that is temporary as this was the transition period between two countries roll out for GMAC. ACOM is indeed a big win for us, it brings along enjoyable challenges be it culture, language, or technical skills. We have started the process of mobilizing the team. We have already established a high level roll out plan and the architecture jointly with ACOM. We expect to peak to about a size of 150 to 200 people. We will keep you updated on the progress of this key project periodically.

Moving onto the product management part of it, the product management team continues to invest in the development of the core product to keep it ahead both functionally and technically. We are also keeping in mind our customers' needs. FinnOne™ suite for the retail finance market continues to be the preferred choice of our prospective customers. As mentioned in earlier calls, as well as a part of our technology upgrade strategy, we are migrating our FinnOne™ lending product to the Java J2EE platform. Phase I of our migration would be completed by the end of April 2007.

Value added functionalities specifically focused and the captive auto finance markets are under advanced stages of development and would be launched by the end of March 2007. In the quarter that has ended we have released an upgraded version of FinnOne™ Lending version 3.4. We continue to make regular investments in our other FinnOne™ and Cash@Will™ product modules. I will now hand over to Poonam to take the call forward.

Poonam Bhasin

Thank you Mr. Tandon. Ladies and gentlemen, we are now open to question and answer session.

Moderator

Thank you very much Mam. We will now begin the Q&A interactive session. Participants who wish to ask questions, please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, please press *1 now. Our first question is from Mr. Atul Penkar from Birla Mutual Fund.

Atul Penkar

Hi, Vishnu, congratulations on significant order win. My first question is, if you can share a bit details on the large order that we have got from ACOM and Yes Bank deal also.

Vishnu R. Dusad

Yes, certainly. I am talking about ACOM to begin with. This is an order where the customer is replacing IBM, its existing platform, which is around mainframe, and they are using our platform that is FinnOne™, so the objective is to provide greater flexibility to the business in terms of their offerings to their customers and at the same time reducing the cost of operation. We have been in touch with them for more than 3.5 years. Orders in Japan do take reasonably long gestation period and we are aware of that and therefore, we continued to pursue and now we are extremely happy that the second biggest consumer finance company in Japan has decided to entrust its business with an Indian software company and that too with us.

Atul Penkar

Okay, but if you can share a bit details in regards to Rs. 150 crore of the total order value, what could be the license and the services component of it?

Vishnu R. Dusad

No, I don't think Atul we will be able to share that, but let me only mention that this is going to be very significant in terms of credibility also because ACOM has been in business for more than 70 years and their CEO is a leader of the Consumer Finance Industry Association. The client confidentiality does not allow us to talk about the further breakup.

Atul Penkar

Fair enough, if you can also share in terms of how long had been the sales cycle and who were your competitors for this deal?

Niraj Vedwa

We have been working on this for the last 3.5 years as Vishnu had said before, and of course we were competing with IBM, and in the last two it was Nucleus and I-Flex.

Atul Penkar

Okay, and how do you see the margins in this particular project?

Pramod

Atul, we expect margins to be like as they are usually for us in our product business, which are license contribute net of product development expense to the top line and bottom line, and the margins for the services for Japan would be comparable to the margins for other customers currently.

Atul Penkar

Okay and now that we have got this significant win does it put Nucleus into the different league in terms of getting big ticket orders going forward, and if yes what is the kind of pipeline of such large deals that we have?

Vishnu R. Dusad

Certainly, it puts us in a league where people would look at us for orders of this size and bigger, you know it is only step by step that size of the order grows. Almost 2 years back when we announced GMAC order, it was \$12 million, and now we have far bigger order, and the other interesting part is our partners IBM, Sun Microsystems and others might also generate confidence in pushing our product with their bigger customers.

Atul Penkar

Okay, and if you can share a bit details on your services business, why it has remained almost flat quarter-on-quarter. Is there any strategy to reduce some low margin services business?

Pramod

Atul, as you are aware that in the projects and services business, we have some very large clients. We historically have been working in the banking domain. Both these banks continue to give us large business on a continuous basis, in one case for more than 10 years and in the other case for more than 6 years. First, in the US we were doing some business in the services space, which was very small and it was not very remunerative, so proactively as we are now looking at ramping up our product business in the US over a period of time, we thought it is better to concentrate on product business and may be reduce the services business.

Atul Penkar

Okay and going forward, now that product is about 56.5% of sales where do you see this mix, may be a year or two years down the line?

Pramod

We expect all the growth rather 90 to 95% of the growth to come from the product business, then after that it is a question of some mathematics.

Atul Penkar

Okay and also during this quarter, we have seen the top 5 contribution coming down to 63%, what has led to this decline in concentration, I mean is there any sharp ramp up which is happening in other clients?

Pramod

In one case of course as Manoj mentioned, is GMAC, where there was lower revenue in this quarter because of the transition between the two countries, so that contribution is lower and which will come back, so I don't think this will remain at 63%, it will probably go back to 70% at least in the short and medium term.

Atul Penkar

Okay and Sir my last question is if you can break down your total order book between products and projects.

Pramod

Yes, out Rs. 335 crore of total order in hand, Rs. 263 crore is product order book.

Atul Penkar

Okay, that is all from my end. Thanks and congratulations.

Vishnu R. Dusad

Thank you. Thank you very much Atul.

Moderator

Thank you very much Sir. Our next question is from Mr. Ravvichandran from Unify Wealth Management.

Ravvichandran

Can I have an update on head count as of 31st December and the attrition and additional clients?

Ravi

Total head count as on December 31 is 1429.

Ravichandran

So about recent order what kind of pricing you have with this new order, it is on perpetual license or you have capped the number of users, or the transactional based, and what competitive edge you had as compared to other players to win this large order?

Niraj Vedwa

Method of licensing is perpetual, it is not capped, that is the first thing, but the license revenue is very sizable. It more than takes care of the issues of transaction or portfolio or the number of users, so all that has been taken into account while pricing. In terms of competitive advantage, I think the customer saw our continuous successful implementations all across the globe in the loans area, especially in the retail area, and actually did a couple of side business across different parts of the globe just to itself check and see that our product is running at the kind of volumes that it was looking at, and it is only after that, that the customer was able to accept the facts that we have continuous focus on this line of business and we have had successful implementations in the past. Then it decided to go ahead with us.

Ravvichandran

Thanks, and when this is likely to go live?

Niraj

This is likely to go live sometime in 2009; we are looking at the first quarter.

Ravvichandran

Okay, first quarter of 2009, thanks a lot and all the best.

Vishnu R. Dusad

Thanks.

Moderator

Thank you very much Sir. Next we have a question from Mr. Gaurav Dua from Sharekhan.

Gaurav Dua

Hi Pramod, this is Gaurav Dua here. Sir there is jump in the SG&A cost, is that a blip?

Pramod

We expect marketing expenses to increase in absolute numbers over a period of time as we address larger markets and spend more on branding; however, as a percentage of revenues, we don't expect it to change significantly. 7 - 10% is the range and we would expect it to remain at the same.

Gaurav Dua

Okay fine, another thing, can you specify the scale of plan for the ACOM order, how will it move exactly and would you make some investments initially for that?

Niraj Vedwa

We have already said that the product is to go live sometime in 2009 and we are looking at the first quarter. We have a plan for implementation and that ranges between 100 - 200 people as we have already said. There is a full plan, which is stamped, and investment is only in terms of the people, who need to be put into the project, and we are already in line with the projections to put in the required number of people as and when they are required in the month.

Gaurav Dua

Okay Sir thanks.

Moderator

Thank you very much Sir. Participants who wish to ask questions please press *1 on your telephone keypad. Next we have a question from Mr. Anand Mahendra from Ramesh S. Damani Finance.

Anand Mahendra

Mr. Damani was unable to make the call today. We wanted to congratulate you on another great quarter and another great order and we would like to wish you all the best for the future.

Vishnu R. Dusad

Thank you very much Anand and kindly convey our thanks to Mr. Damani as well.

Anand Mahendra

I will. No questions at this time.

Vishnu R. Dusad

Thank you.

Moderator

Thank you very much Sir. Our next question is from Harmendra Gandhi from Bricks Securities.

Harmendra Gandhi

Good quarter, I just wanted to understand few things, does this Rs. 324 crore order in hand include ACOM order also?

Pramod

Yes it does and order in hand is Rs. 335 crore and not Rs. 324 crore.

Harmendra Gandhi

335, sorry, and is it going to be the first implementation for retail FinnOne™ in Japan market?

Niraj Vedwa

No, we already have implementation for FinnOne™ in the market.

Harmendra Gandhi

Okay, so we don't expect significant product customizations to be done in the market.

Niraj Vedwa

Yes, we do not expect.

Harmendra Gandhi

Okay and is it a direct sale or is it through a local partner?

Niraj Vedwa

It is a direct sale.

Harmendra Gandhi

Okay, so you don't have to share any revenue with any partners there?

Vishnu R. Dusad

No.

Harmendra Gandhi

Okay, that is all, actually this is my first call, so may be I will research more and then come back to you with more questions.

Niraj Vedwa

Alright, thank you.

Harmendra Gandhi

Thanks.

Vishnu R. Dusad

Thank you Harmendra.

Moderator

Thank you very much Sir. We have our next question from Mr. Yogesh from Nirmal Bang Securities.

Yogesh

Hello Sir.

Pramod

Hi, Yogesh.

Yogesh

Sir, can you tell me from when will revenue start accruing, because there would be first pilot stage and then other stage.

Pramod

Revenue, if you are talking about I assume the ACOM project, it would expect to start in this quarter.

Yogesh

Okay, and Sir would it be proportionally till 2009?

Pramod

It would of course be proportionate based on percentage completion till we expect it to get over about 2 years or slightly less.

Yogesh

It will be similarly over the period of 2 years.

Pramod

That's right.

Yogesh

Okay, and Sir what is going on in the US front, actually you were planning to enter in the US with a new product.

Niraj Vedwa

We have entered the US with a new product. As of now we have a beta version of the new product for FX, that is, foreign exchange product there and that product is under beta test marketing. We are talking to a lot of customers, showing them the product and taking their feedback, and then formally we will release it post their feedback.

Yogesh

Okay, and this foreign exchange product is not launched anywhere else?

Vishnu R. Dusad

No, we have one of the implementations of this product in Japan; if you are referring to FX then we are at the moment in the stage where we are doing the gap analysis of the product in the US market. Once the gap analysis is over then we will enter into the development and the beta marketing of the product.

Yogesh

Okay, thank you Sir.

Moderator

Thank you very much Sir. We have our next question from Mr. H.R. Nandanwal from India Capital.

H.R. Nandanwal

Hi, congratulations on your great quarter. I was trying to get some idea on your new product pipeline and whether your very new products are in terms of development or beta testing phase?

Vishnu R. Dusad

We have a new product for the US market, which we are calling FX as Niraj has mentioned. This will help banks offer remittance services to international customers, and we have received first beta order from the US, and it will get deployed sometime in April-May and we are very positive about this particular product. Regarding other products, we have already talked about, which is loan origination system for small and medium enterprises, has gone live in two banks in Indonesia.

H.R. Nandanwal

Is that pretty much what you have in the pipeline?

Vishnu R. Dusad

That is right, and then as we have already mentioned we are upgrading our existing product to Java platform.

H.R. Nandanwal

Sure, you think that is customer driven upgradation to Java?

Vishnu R. Dusad

What exactly would you mean by customer driven upgradation?

H.R. Nandanwal

I am asking whether that is a result of some technology requirements in terms of platform or something else or a particular architecture requirement, which is requested by your customers?

Vishnu R. Dusad

No, this is more of a proactive step from our side and of course customers also these days want to move to Java, so it is both ways.

H.R. Nandanwal

Sure, what about your future releases of existing other products, do you have any major product upgrades coming up?

Niraj Vedwa

On both FinnOne™ as well as on Cash Management side, which are the two lines of business, which are our major product offerings, we have releases coming. First, I will talk about the Cash Management. We have a new release, which is coming in June this year and that takes care into couple of new modules, which are being developed. For example EBPP which is Electronic Bill Presentation and Payments, we have cross border payments, we have RTGS, and we have channel financing, so these are four new modules which are coming in the Cash Management product by itself. As far as FinnOne™ itself is concerned we are moving to platform independent technology, which will happen sometime in next year, that is the major release that is happening in the next year. There is a minor release that will happen in the third quarter of this year.

H.R. Nandanwal

Okay thanks that is all I have.

Niraj Vedwa

Okay, thank you.

Moderator

Thank you very much, Sir. Next, we have a question from Mr. Rajiv Ghosh from Wealth Management, Calcutta.

Rajiv Ghosh

Congratulations for order wins. Can you outline the time line; I mean is it the first quarter of calendar year 2009 that you are talking of when the product will go live?

Pramod

Yes, we are talking of the first quarter calendar year 2009.

Rajiv Ghosh

Okay, and when will the revenue start to kick in?

Pramod

We expect revenues to start this quarter, which is the current quarter.

Rajiv Ghosh

And what kind of revenue, can you give some outline?

Pramod

We will not be able to give you an outline of the revenue number from this project or on a total basis for the quarter.

Rajiv Ghosh

You will be having something like 200 people working on this project.

Niraj

It is between 100 or 200 people at different time, so we would be ramping up now to a team of about 100 people.

Rajiv Ghosh

Okay, and can we expect that the license revenues will be something close to 40% of the order size?

Pramod

I would not like to comment.

Rajiv Ghosh

What is your current share in product revenues and how much is license revenues?

Pramod

As we have mentioned earlier that we do not give the share in the revenue, traditionally we have been looking at out of a total order size, 40 to 50% has been license revenue and the balance in the customization and implementation. For this order at this point of time we are restrained by customer confidentiality to reveal these percentages also.

Rajiv Ghosh

Okay, and your new product offering in the healthcare space, can you outline something more, I could not quite get that?

Pramod

No, no we are not getting into the healthcare space, I think you must have heard something wrong, must be due to some disturbance in the line, we are continuing in the banking space only.

Rajiv Ghosh

There was a talk of a new product offering related to healthcare

Pramod

No, it was a foreign exchange product, may be you heard it wrong due to bad audio.

Rajiv Ghosh

Okay. Thanks.

Pramod

Thank you Rajiv.

Moderator

Thank you very much Sir. We have our next question from Mr. Karthik from Unify Wealth Management. Mr. Karthik, please go ahead.

Karthik

My question has been answered. Thank you.

Moderator

Sure, thanks a lot Sir.

Vishnu R. Dusad

Thank you.

Moderator

Next, we have our question from Mr. Siddharth Purohit from Way2Wealth.

Siddharth Purohit

Hello.

Vishnu R. Dusad

Yes please.

Siddharth Purohit

Sorry Sir, I have joined little late, but Sir can you just elaborate to me what was the reason for flattish kind of quarter, sorry if I am repeating the question.

Pramod

I think as a product company we really don't look at quarter-to-quarter growth. We should be looked at on a yearly basis, and obviously the revenues are a function of orders received, timings of the order received and how they are proceeding in the implementation.

Siddharth Purohit

More of lower revenue recognition rather than execution you will say.

Pramod

More of lower revenue recognition rather than...

Siddharth Purohit

Like may be your execution has been done probably but the revenue recognition has not been done during this quarter.

Pramod

No, execution and revenue recognition are principles on which we do work so it automatically takes place, it is not to our discretion; if we complete work we recognize revenue.

Siddharth Purohit

Okay, fine, thank you Sir.

Moderator

Thank you very much Sir. Next we have a follow up question from Mr. Atul Penkar from Birla Mutual Fund.

Atul Penkar

Hi Sir, just need some clarification in regards to the license fee for this project. Will we be following the same policy as we followed in GMAC deal?

Pramod

We have been following this Atul actually for all our orders; that the licenses are booked over the period of implementation, which is the correct methodology if you look at any kind of US GAAP methodology. We don't book any license up front or any kind of back ended or front ended of license fee. It is booked over the implementation period.

Atul Penkar

Okay and if you can repeat these numbers, I did not get it what was the head count at the end of this quarter and what was the attrition rate.

Pramod

Head count at the end of the quarter was 1429, and we are running at about 20%.

Atul Penkar

20%.

Vishnu R. Dusad

Yes.

Atul Penkar

Okay, thank you Sir.

Moderator

Thank you very much Sir. Next we have another follow up question from Mr. Yogesh from Nirmal Bang Securities.

Yogesh

Hello Sir, what is the current order book of services, actually I am repeating this question.

Pramod

That is okay. We said we have a total figure of Rs. 335 crore and we had Rs. 263 crore of products and we have Rs. 72 crore of services.

Yogesh

Sir is something going on in the services front because that is already flattish kind of growth and which contribute around 50% of revenue, will the growth improve?

Pramod

We expect growth to come from the product areas.

Yogesh

Product area.

Pramod

Yes.

Yogesh

And services will remain flattish.

Pramod

Services are expected to grow slowly.

Yogesh

Slowly, okay, thank you.

Moderator

Thank you very much, Sir. Participants who wish to ask questions please press *1 on your telephone keypad. We have our next question from Mr. Ruchit Mehta from HSBC.

Ruchit Mehta

Hi, Good Evening Sir and congratulations on your great results and order win. I just wanted to understand, is this entire Rs. 150 odd crore of order from ACOM going to be booked over the next 2 years or the license will get booked and the maintenance part would come later on.

Pramod

Okay let me clarify, there will of course be a license, there will be implementation which will be based on the manpower we deploy, and there would be a maintenance which could follow after 2009.

Ruchit Mehta

Okay, so currently the Rs. 150 crore is only for license and implementation.

Pramod

Well, we have not said Rs. 150 crore; I mean that is a guess you are taking.

Ruchit Mehta

Okay and just to understand this a little better, in Q1 calendar year 2009 it will go live but is it going to be like GMAC wherein you will implement it at a site by site over various timeframes, so actually Q1 2009 could be first implementation.

Pramod

No, what will happen is that it is implementation across the company and as there is voluminous data we expect that the whole transformation of the system from an IBM platform to a FinnOne™ platform is something which will take them 1.5 to 2 years to close, so we will continue working along with them and this is the expected date, which is also indicated by ACOM in their own press release which is available on their site.

Ruchit Mehta

Okay, therefore the current order size of this ACOM deal gets executed over the next few years, there wouldn't be any carry forward of that going beyond 2009?

Pramod

Well as we have not indicated the order size but of course the license and the implementation part would get covered, we expect in the next 2 years.

Ruchit Mehta

Okay, and will it be sort of lumpy?

Pramod

It would probably increase as we go along because the manpower deployment would increase, but it will not be lumpy in terms of very large chunks coming in at a particular time, because we do it on a percentage completion basis, so it is largely a function of

how many people are deployed and what percentage completion we are doing on a regular basis.

Ruchit Mehta

And on withholding front, as the order is based at Japan, what would be the sort of withholding tax for this order?

Pramod

Withholding tax for this order would be 10%.

Ruchit Mehta

10%.

Pramod

That is right.

Ruchit Mehta

Okay, thank you.

Pramod

Thank you.

Moderator

Thank you very much Sir. We have our next question from Mr. Sanjay Kaul from FE Securities.

Sanjay Kaul

Good afternoon Mr. Vishnu Dusad, Mr. Sanghi, Mr. Niraj, not very good set of numbers but good order backing, can we expect something from the US front in the next year, 2007-2008.

Vishnu R. Dusad

Certainly, as we mentioned we have picked up our first beta site and now it is looking much more positive than it was ever before.

Sanjay Kaul

Can we expect some sizable orders?

Vishnu R. Dusad

No, certainly not from US yet, because it takes time for the market to get the confidence, as we have mentioned, in Japan it took us 3.5 years so it is a long process.

Sanjay Kaul

Long process.

Vishnu R. Dusad

Yes.

Sanjay Kaul

Thank you very much.

Vishnu R. Dusad

Thank you.

Moderator

Thank you very much Sir. Participants who wish to ask questions please press *1 on your telephone keypad. We have our next question from Mr. Rajiv Ghosh from Wealth Management.

Rajiv Ghosh

Sir, I want to know whether we can have further big orders, bigger than \$10 million in the pipeline in the next 6 months, I mean how many orders of like that we are working on?

Niraj Vedwa

Okay, what I would like to say here is that we are getting sizeable number of RFPs from all across and from various channels, whether it is our distributors that we have all across the globe, whether it is our own direct sales force, whether it is our existing account and whether it is our technology partners like IBM and Oracle. We are getting inquiries from everybody, so the number of responses that we are giving back is much higher than what we did in previous quarters. We are working on a lot of large deals and this is global in nature, it is not that we are working on deals which are large in one particular area but we are working in almost most of the areas, and yes there are prospects of high value orders and obviously as a sales person I would say that it is our endeavor to go and close as many of them in the market.

Rajiv Ghosh

And how is the competitor response to this?

Niraj Vedwa

I think this is one of the question which our worthy competitors would be the best person to answer, but yes we are giving a tough call to all global players now, I mean we of course are competing with Indian players but we really are now competing with some of the large global players. This is a very interesting game.

Rajiv Ghosh

Okay, thanks.

Moderator

Thank you very much Sir. Next we have a question from Suman Kawatra from FE Securities.

Suman Kawatra

Hi, congratulations Vishnu on excellent order. I am sure it is a very big order for you, is it one of the biggest orders bagged by any product company or software company in India?

Vishnu R. Dusad

Thank you very much Suman. Yes, I think it is certainly one of the biggest product orders won by any Indian software company so far. I will not be surprised if it is amongst top 3 or something like that.

Suman Kawatra

Okay, excellent, congratulations once again. Thank you.

Vishnu R. Dusad

Thank you.

Moderator

Thank you very much Sir. Next we have a question from Puranik from Enam Securities.

Puranik

Vishnu and Pramod congrats for the fantastic quarter. I am looking at the quarter not from earnings perspective; I think you have done proud to this country by winning an order like this, it requires great amount of commitment, patience and perseverance to win orders in the business you are in. We are extremely proud of you. You have extended the longevity of company by many decades not years, you have done a fantastic job of it, and the acronym your company stands, the affection, confidence and moderation, the company you have won the order that is affection, confidence and moderation company that is ACOM, you deserve that kind of recognition on what you have done. Couple of things I would like to understand; one is in terms of your long-term

role of how do you bill your business from a product service solution perspective. What are the key internal micro-macro target of how do we build a nonlinear business to reinforce the confidence of every community. Can you give some idea on that and also the addressable market, one thing you need to educate the investors because I think you are part of a huge market, it is just a beginning, it is just a just a tip of ice berg, I think it is all great and I wish you all the very best.

Vishnu R. Dusad

Thank you very much Mr. Puranik for those extremely kind words. We do hope that we will be worthy of such high words that you have spoken about us. As regard the size of the market, I think it is really humongous, thank you for asking this question. Today, the global retail asset are at the end of 2005, the numbers about global retail asset are in the vicinity of \$26 trillion, more than 50% of which are there are from America, and something like 80% out of these are mortgage assets. Now that being the size, I think the retail assets that our product today goes is in the vicinity of 60 to 65 billion, which essentially means quarter percent of the global retail assets. So from that I guess we can kind of have a feel of the size of the market, and we are continuously working on trying to address the entire market.

Puranik

Oh! That is the huge amount.

Vishnu R. Dusad

It is a huge amount.

Puranik

Huge amount, you can see a long-term visibility of 100 years in a business.

Puranik

Long sustainable corporation, excellent.

Vishnu R. Dusad

Yes

Puranik

Fantastic. All the very best to you Vishnu.

Vishnu R. Dusad

Thank you.

Puranik

You have built a fantastic company I tell you, you have really done proud to this country in every way in creating a management team, having people etc. In particularly the mid size of Indian business we rarely come across leadership, which attract to keep the top and middle management totally, I think you have done a fantastic job of that.

Vishnu R. Dusad

Thank you very much Mr. Puranik once again for those extremely kind words. We will try to be worthy of those words.

Puranik

Thank you.

Moderator

Thank you very much Sir. Participants who wish to ask questions please press *1 on your telephone keypad. At this moment, there are no further questions from participants. I would like to handover the floor back to Ms. Poonam Bhasin for final remarks.

Poonam Bhasin

Thank you Sanjay. We thank you all for the participation in our investor concall and we look forward to your participation in the next quarter. I now handover to Mr. Vishnu for his closing comments.

Vishnu R. Dusad

I would just like to take once again this opportunity to thank all of you for the keen interest in what Nucleus Software is doing and we do hope that you will continue to send in your inputs for improving ourselves further. Thank you very much once again.

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.
