



**NUCLEUS
SOFTWARE**

Q1 Earnings Conference Call

Jul 24, 2006

MEMBERS OF NUCLEUS MANAGEMENT

- Mr. Vishnu R. Dusad, Managing Director
- Mr. R.P. Singh, President and Head, Global Delivery
- Mr. P. K. Sanghi, Chief Financial Officer
- Mr. Prakash Pai, Head - Product Management Group
- Mr. Niraj Vedwa, Head - Global Sales and Marketing

CONFERENCE CALL PARTICIPANTS

- Mr. Dipen Mehta, Dipen Mehta Share and Stock Brokers Pvt. Ltd.
- Mr. Ramesh Damani, Ramesh Damani Finance Pvt. Ltd.
- Mr. Aseem Gupta, Dsp Merrill Lynch Fund
- Mr. Anoop Bhaskar, Sundaram BNP
- Mr. Ravi Chandran, Unify Wealth Management
- Mr. Neelang Mehta, HSBC
- Mr. Shreyas, SSKI Securities Pvt. Ltd.
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Nucleus Software

Investor/Analyst conference call

July 24, 2006

Moderator

Good afternoon ladies and gentlemen. I am Gaurav, the moderator for this conference. Welcome to the Nucleus Software 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 now like to hand it over to Ms. Poonam Bhasin. Thank you, and over to Ms. Bhasin.

Poonam Bhasin

Thank you Gaurav. Good afternoon ladies and gentlemen. I am Poonam Bhasin, the Company Secretary. We are thankful to all of you for joining us today to discuss the financials for quarter ended June 30, 2006. Today, we have our Managing Director, Mr. Vishnu R. Dusad, Mr. R. P. Singh, President and Head - Global Delivery, Mr. P. K. Sanghi, Chief Financial Officer, and Mr. Prakash Pai, Global Head of Product Management. Mr. Niraj Vedwa, Global Sales and Marketing Head is also here to answer your queries. We will commence with the brief comments on the performance of the company during this quarter, over this we are open to question and answer session. I would now hand over to Mr. Vishnu, Managing Director and CEO of Nucleus Software.

Vishnu R. Dusad

Thank you Poonam, and good afternoon ladies and gentlemen. Thank you very much for joining this call. We are very happy to announce that the consolidated revenue from software products and services has increased to 49.76 crores against 32.84 crores for the corresponding quarter of the previous year which is an increase of 51.5%. Likewise, the net profit for the quarter has also increased to 13.4 crores against 8.59 crores in the corresponding quarter of the previous year, an increase of 56%. EPS is 8.32 for the quarter against 5.34 for the corresponding quarter of the previous year. This is the eighth consecutive quarter of growth in both top line and bottom line of the Company and I would like to thank all the stakeholders for making this possible, including my 1420 colleagues at Nucleus.

The product business continues to deliver encouraging results. Revenue for the product business, consisting of license, customization, implementation, and annual technical supports stands at 24.18 crores, an increase of 113% over the figure of 11.32 crores in the corresponding quarter of the previous year. For this quarter, the product business contributes 48.49% of the total revenue, the highest till date, and we are making swift progress towards our short-term goal of realizing 50% plus revenues from the product business. Our first product implementation in Africa, at a leading bank in Nigeria is on schedule and this March our maiden similar implementation on the African main continent.

In the projects and the services business, the figure for this quarter is 25.58 crores against 21.53 crores for the corresponding quarter last year, which is a growth of 18.9%.

It continues to deliver value to our larger banking customers and explore new opportunities with them.

Our growth in future years will be a function of product development, our capability to attract and retain the talent, and consistently deliver high quality products to our customers. We have increased our head count in product development group to 101 and are proactively working on maintaining requirements of new geographies and new customers. In this quarter our total head count has increased to 1420, as I mentioned earlier, from 1068 at the end of March 2006. We have been able to attract 350 plus talents from the industry and from some of the best campuses. This includes both lateral recruitment and freshers as I mentioned, and we have instituted a rigorous training program to initiate the freshers in the regular stream.

We reiterate that as a Company we do not believe in giving revenue and profitability guidance. I would rather stress on our product portfolio, the number of users, customer base of our customers, customer acceptance and some exciting opportunities in the banking space where we have domain expertise.

With increased acceptance of our products across the globe, we are confident that we will continue to create shareholder value and economic wealth for our customers. We have awarded the field contract and started work on our new 800-seat facility on our current campus. The work is proceeding satisfactorily and we expect completion during the current fiscal. Now, I would like to hand it over to my colleague, R. P. Singh who is our President and Head of Global Delivery.

R. P. Singh

Thank you Vishnu and good afternoon everyone. Very quickly on the delivery side, this quarter has seen a growth in the contribution of Middle East and African markets. They have contributed 11% and 8% respectively against the pervious quarter. South East Asia has grown and contributed 22% against 13% in the previous quarter. Japan market has contributed 38% against 35% in the pervious quarter which is quite stable. However, contribution from Europe market has decreased from 10% to 8% in the previous quarter. Other than that, the key challenges that we have been facing are that the focus has been on one on scale not only our FinnOne product which has been running on high scale at the aggressive banks. Now our cash management product has also been put to test on high scale usage, at very large volumes at both SBI and ICICI Bank, which will again become a bench mark for our product and this kind of products in the market. The second area of our we have been focusing on ,of course, is the training, Vishnu talked of the large growth we have had. Out of that, about 200 plus are the campus recruits who have come in and joined us. This group of 200 are undergoing an eight-week training program with us and are expected to be productively deployed by mid-August. With all that activities we will have the scale and capacity to take on the growth that is absolutely visible to us. From here on, over to Pramod.

Pramod

Thank you RP and welcome everyone. On a sequential basis revenues have grown by 18.2%. Operating margins in Q1 is at 29% against 33% in the last quarter. We are reasonably happy with this operating margins as we have partially absorbed the increase in personnel cost, which are at Rs. 22.2 crores for the quarter against 16.78

crores for the March quarter. This has happened also because we have given a salary increase to all India based personnel effective April 2006, which has an impact of Rs. 2 crores in the current quarter and eight crores on an annualized basis.

We had stated in our conference call in April 2006, that we are looking at OPM of 30% plus for FY07 and we continue to be comfortable with that number. The higher personnel cost has been absorbed with revenue growth in the products business, which has gone up to 49% and of course the positive effects of the foreign currency movement in the dollar and the Singapore dollar and the Yen.

Product related revenues have increased sequentially by 30%, at Rs. 24.18 crores from Rs. 18.55 crores. Revenue from other streams of business, i.e. projects and services, has increased 8.7% sequentially. On a functional basis, cost of delivery has increased to 58% of revenue sequentially from 52% due to higher personnel cost. Selling and marketing, general administration expenses have decreased sequentially to 12.5% of revenue from 16% revenue in the previous quarter. Withholding taxes are at 90 lacs for the quarter. We must mention that effective July 01, 2006, under the DTA between India and Japan, withholding taxes have been reduced to 10% from 20%, and this will have a positive benefit in this quarter for all payments due at the end of the quarter, and will also contribute in subsequent quarters. Annual effect of this could be around Rs. 3 crores; our Japan revenues for the company are on an upward trend.

Other income of Rs. 2.18 crores for the quarter includes Rs. 1.5 crores on investments and interest from fixed deposits. Net profit has grown sequentially by 22.7% at Rs. 13.39 crores against 10.91 crores, and net profit margins are at 26.9% against 25.9% sequentially. In terms of receivables, at Rs. 32.1 crores, we are running at 59 days sale. We have been maintaining DSRs normally below 60 days, which we consider well within industry norms. Operating cash flow after working capital changes is 3.43 crores for the quarter and capex outflow Rs. 5.21 crores. Cash equivalent including current investments are 77.35 crores against 77.48 crores in March 2006, which is more or less the same. Out of this capex spends 1.7 crores is on hardware and software and the balance on infrastructure. I will now hand it over to Prakash who is the Head of our Products group and he will talk to you about the product development.

Prakash

Good evening everybody. Last quarter we formally released our FinnOne Collection version 3.3. As you are aware, the FinnOne Collection product focuses on delinquency management functions to help the bank recover the bad debts. FinnOne Collection 3.3 was a major upgrade to the earlier versions. The new release is already being implemented at more than five customer locations. These implementations have started in the recently completed quarter. With the increased focus of our prospective customers on small and medium enterprises, our FinnOne Lending product functionalities have been enriched so as to take care of the unique servicing needs of the SME segment. As mentioned, we are already implementing our corporate loan origination systems at several locations. With this product upgrade of FinnOne Lending, our servicing module, our customers would be able to leverage the FinnOne suite for servicing both the retail and SME customers. Our FinnOne Customer Acquisition System which caters to the loan origination requirements of both retail and SME customers continues to receive a favorable response from the market. The risk management features of the products have been strengthened with the weights based

scoring module and interfaces to credit bureaus, such as CIBIL. To improve the levels of customer services being offered by our customers, we have integrated our product suite with a correspondence and alert management engine. This would help our customers keep in touch with their customers. This quarter has been a quarter of consolidations after the launch of several new products and product upgrades in the previous quarter. And now I will hand it over to Niraj Vedwa the Head of Sales and Global Marketing.

Niraj Vedwa

Good afternoon everybody. During the quarter we added four new customers, taking our total customer count to 124. We received 3 product orders in the first six-product module during the quarter. A leading bank in Japan, a leading bank in Sri Lanka, and a leading bank in India have chosen our FinnOne product range to implement. We continue to move to higher grounds, and with HP we have moved to elite partner status, which is the highest worldwide under the HP ISV program. That is a quick summary from my side, and I will hand it over to Poonam Bhasin to take the meeting ahead.

Poonam Bhasin

Thank you Niraj. Ladies and gentlemen, we are now open for the question and answer session.

Moderator

Thank you very much mam. We will now begin with the question and answer session. Participants who wish to ask questions may please press *1 on their 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 a question. To ask a question, participants may please press *1 now. First in line we have Mr. Aseem Gupta from DSP.

Aseem Gupta

Hello.

Vishnu R. Dusad

Yes please.

Aseem Gupta

Yes congratulation for a good set of numbers. Could you please throw some light on the attrition because during my last call it was like the Company was facing some attrition issues. What is the scene on that front right now?

Vishnu R. Dusad

We are very happy to let you know that we are running at around 14% of attrition rate.

Aseem Gupta

14%?

Vishnu R. Dusad

Yes

Aseem Gupta

Oh, that is a very good number. And going forward what are the targeted geographies for the company. Is it like will it stay or will South Asia and Africa will be the core focus or is the Company targeting Europe and US also now?

Vishnu R. Dusad

So, we are clearly addressing both Europe and US and I would request Niraj to give you a small update.

Niraj

Yes if you would look at the previous quarter performance, we have had a huge number of orders that we have been getting from the Middle East and African markets. So, you know we have moved from let us say South East Asia, Japan to Middle East and our GMAC implementation is entirely for, you know, it is basically for the 19 countries in Europe, so our focus, as of now, is obviously across the world but there is a lot of focus which we are putting more on the US and the European markets, and we are getting a lot of interesting leads in these markets for our product business.

Aseem Gupta

Do you see any challenges targeting these markets?

Niraj

Yes, the challenge for both the Europe and US market is the entry cost which is extremely high, but we are taking care of them. Another challenge is to have the product addressed to the market in terms of the customization and fitment to that market. That is something which we have been doing and I can, forward that to Prakash once I am through with my comments to talk about that, but these are some of the challenges and we are addressing it, you know, either directly which is through our own sales channel, and also through our partnership, which is, you know, with IBM, SUN, HP, and Oracle. Also we are partnering with a lot of SIs in these markets in Europe who help us in selling those products and which actually would help us in reducing the cost, our own cost, our direct cost, I would say. So, having said that, I will hand it over to Prakash for the product part.

Prakash

See, as far as the products are concerned, right now, as you said, they are mainly targeted at non-US and non-Europe markets. We already launched our study to develop the product functionalities to meet the requirement of the US and European markets.

Thanks to the GMAC implementation we have one live site now in Europe and in this coming quarter we would start our study for upgrading our functionalities to meet the requirements of the auto financing market in the US.

Aseem Gupta

Okay, thank you.

Vishnu R. Dusad

Thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Anoop Bhaskar from Sundram BNP.

Anoop Bhaskar

Hello sir, there is question, you know, there was a GMAC order, I am sure you have only one site which is live. Could you tell us what kind of role out you are expecting for that over the next 12 months?

Vishnu R. Dusad

Okay, as far as GMAC is concerned we have six countries where our product is running. The one in Europe, that is what we are talking about, is in Italy, and we are looking at two more countries in this financial year to be targeted for implementation.

Anoop Bhaskar

And actually what is the full value of the contract?

Vishnu R. Dusad

It is 12 plus million.

Anoop Bhaskar

And in terms, you know, if the product is to be, you know, sold in the US, what kind of timeframe would you require to actually modify the product, and by when could you, in terms of sales effort, in terms of how many offices already set up in the US and where you are and what is the kind of role-out you plan over the next 12 months?

Vishnu R. Dusad

Okay, as of now, we have only one center office in the US that is in the New Jersey state, and we are looking at another nine months to a year timeframe for the products to get ready for the US markets. Mean while, we are also looking at a deposit product. We are experimenting with the deposit product for the US market, multi-currency deposit product. These are our plans for the US markets.

Anoop Bhaskar

So finally, in terms of competition, you know, in a crude way, on a per-model basis, have you been able to hike prices over the last 12 months or are the prices stable compared to what you were asking earlier?

Vishnu R. Dusad

Yes, certainly we have been able to get much better prices as compared to what we were getting 12 months back and may be Niraj can tell you more about it.

Niraj

Yes, we are getting better license as well as higher rates for our services all across, and that is an upward trend definitely, and coming back to your earlier point, while we are, you know, of the US market you say that you take out 9 to 10 months of before we come out to the US-ready product on our own. But for the European market, the products, both the Italy implementation, and as Vishnu has mentioned before, the GMAC had gone live in, you know, India, Thailand, China, Indonesia and Taiwan, and in Europe the first site was Italy, which went live. So, all that we have gained is, now, we are talking to a lot of auto finance companies and there are some interesting traction developing between, you know, Nucleus and those companies. And we do see a lot of positive movement in Europe after the implementation in Italy.

Anoop Bhaskar

And sir, finally on your services side could you throw some light on how much is the offshore and onsite and what kind of rates you are getting currently?

Vishnu R. Dusad

Okay, I think something like 50% of the services are in terms of dollar value, dollar amount 50% are getting delivered onsite, balance 50% are getting delivered from offshore, that is Noida as well as our Chennai office, and as far as the rates are concerned, we are getting close to the market rates in all the dealings, I mean, we offer services only in essentially three geographies, Japan, Singapore and US, and we get the market rate.

Anoop Bhaskar

Okay sir, thank you sir.

Vishnu R. Dusad

Thank you, thank you very much.

Moderator

Thank you very much sir. Next we have Mr. Ravi Chandran from Uni-Fi Wealth Management.

Ravi Chandran

Good evening sir and congrats for good numbers.

Vishnu R. Dusad

Thank you, thank you.

Ravi Chandran

Just couple of things, one is how your order book look like now?

Pramod

The order book is at about 130 crores at the end of the quarter.

Ravi Chandran

What is the break-up between service and the products?

Pramod

The products order book is at about 80 crores and the projects and services is at about 50.

Ravi Chandran

So, as far as the order book is concerned there is not much of change as compared to Q4 of last year?

Pramod

Yes, it is basically at the moment yes. There is no significant change in the order book.

Ravi Chandran

And as far as the employee addition is concerned you have been indicating that we will add about 500 people in whole of this year, the 350 guys added in Q1 itself. Would you like to revise this number?

Vishnu R. Dusad

No, we are comfortable with the number. Obviously there are more people in this quarter because we have taken freshers, who joined at this time of the year, though they will be available only in this quarter, and we expect that the number will remain at 500 for the year.

Ravi Chandran

Right, and this product, as a percentage of the overall revenue you have been indicating a 45 to 50% and looking at Q1 number probably you can exceed that 50% figure in the current fiscal?

Vishnu R. Dusad

We would hope to do so, but we are currently comfortable looking at that 50% as the bench-mark in the short term.

Ravi Chandran

And finally a small doubt to clarify. This GMAC product, you have got order for Asia Pacific, Latin America, and the European region, right?

Vishnu R. Dusad

Right.

Ravi Chandran

And this 12 million dollar is the amount which you will receive over a period of time, I think some 3 year or 3-1/2 years.

Vishnu R. Dusad

Four years.

Ravi Chandran

And as and when the product goes on live you will have the implementation revenue. That is how it works?

Pramod

If you take a 2 million dollar order for four years, which is approximately 54 to 55 crores, that is being spread more or less evenly over four years, starting January 2005. So, we have now really done 18 months into the contract.

Ravi Chandran

Okay, okay then.

Pramod

We have a carry forward of around 33 crores of this order.

Ravi Chandran

Right, this is actually a license revenue kind of a thing.

Vishnu R. Dusad

It consists of both license revenue and product implementation and customization.

Ravi Chandran

Okay, okay so I don't get this point, I mean, you are rolling out the product in some particular country in Europe. Instead of doing it in six months if you achieve it in one month time what you get if the amount is fixed in advance?

Pramod

The question I heard is that obviously at the beginning of the contract it has been estimated by GMAC that for the number of countries that they wish to take live it will take about four years, and accordingly, the implementations are taking place, and each individual country implementation, you know, is not linear with people that it has so, 30 people for three months or I put 90 people for one month, it does not become deliverable in one month. There is a schedule, and we have to go as per the schedule. And there is a reasonable amount of work required to be done for each country.

Ravi Chandran

Okay and on the tax side, whatever the new facility is coming up, is it eligible for complete holiday?

Pramod

The new facility which is coming up in the current campus will be eligible for tax holiday up to March 2009.

Ravi Chandran

Earlier you were looking at something in SEZ?

Vishnu R. Dusad

Yes, both plans are, in any case, being considered separately. But this may be the immediate and we are separately looking for land of, you know, 25 acres to set up an SEZ in 2008-2009.

Ravi Chandran

Thanks a lot sir.

Vishnu R. Dusad

Thank you.

Moderator

Thank you very much sir. Next we have Mr. Dipen Mehta from Dipen Mehta Shares.

Dipen Mehta

Yes, congratulations on great set of numbers. I just wanted to get the number on the product sale for the March quarter. For June it was 24.17; for March how much is the product, projects and professional services?

Pramod

The product revenue in the quarter was 18.55 crores for the products and for the projects and services will be the balance, which should be about 23 odd crores.

Dipen Mehta

That means for the June quarter we had a phenomenal increase in the product sales from 18.55 to 24, so it is, one can conclude that you mentioned three new product orders for FinnOne, okay, okay, so this increase in product revenues is on account of FinnOne or any other product?

Vishnu R. Dusad

As of now, this is FinnOne.

Dipen Mehta

Sorry?

Pramod

The major increase in the revenue in the product segment comes from FinnOne, the Cash@Will product revenues is still done at about 6 to 7% of total product revenue.

Dipen Mehta

Okay, sir second question relates to the increase in employees at 352. It is a sharp increase,, much higher than what we expected. What is the overall plan for such aggressive recruitment for the company? Are there some new clients or is it just normal hiring? Are you expected to launch some new products, and how do you expect to deploy most of these employees? Roughly, if you could just departmentally tell us how you wish to deploy them?

Pramod

See. over the last one year we have seen that the product business is getting momentum and we need to recruit more people in the product stream for both implementation and for development. So, out of the 500 people, we would expect at least 70 to 75% would go into the product stream, and if you look at basic numbers you would expect about 100 to go into development, 250 to 300 people to go into customization and implementation. Today our effort is towards making a faster delivery to the customers, and we should be able to handle multiple geographies and multiple customers simultaneously.

Dipen Mehta

Okay, so most of it is towards pushing the product business. Any ICD plans for the cash of the company as on hand, and also keeping in mind that are you looking at acquisition in the US market where I think you are slightly weak, so if you could just, you know, kind of, give us your thoughts?

Vishnu R. Dusad

The cash we have at the moment, apart from building our infrastructure, we have not decided on any further utilization of cash and are looking largely at organic growth, and we do not have any current plans for any acquisition in the US market.

Dipen Mehta

Thank you, and all the best.

Vishnu R. Dusad

Thank you.

Moderator

Thank you very much sir. Next we have a follow up from Mr. Aseem Gupta of DSP.

Aseem Gupta

Hello.

Vishnu R. Dusad

Yes Aseem.

Aseem Gupta

Sir, can you help me with the operating margins of the company? The company has reported a 29% operating margin for this quarter. I am assuming that a part of it will be because of some foreign exchange gains, because of rupee depreciation. Do you think the company will be able to reach its target operating margin of 30% for the year?

Pramod

Yes we do expect to reach 30% margin because we expect larger contributions from product as we go along, and of course we don't expect at the moment any major ..., well we are currently costed at 45.50 or so, and we don't expect that rupee would appreciate beyond that point.

Aseem Gupta

And just if you could help me with this one. You mentioned that the company is getting better prices and there is an upward trend in the prices now. Can you please quantify

that, is it, like 4 to 5% increase or it is 5 to 10%? What is the kind of rate increase that the company is seeing?

Niraj

I will answer this question. We are seeing, firstly, higher license revenue coming from the contract. This is primarily because of fact that continuously we are going on delivering at each and every location. So, as of now, we have more than 250 products, which are installed globally, and each one of them is successful, with clients using them. So that gives us a higher recall, and a higher positioning, and a higher, I would say, brand equity in terms of license. What we are also seeing is that in terms of customization rates, both onsite as well as offshore, as well as implementation, we are getting much higher; it could vary like, as you said, 4 to 5%, could be 10%, could be 20%, also depending on clients and depending on market.

Aseem Gupta

But what about license rates, how have they changed since, say, over the past year?

Pramod

See, what Niraj is trying to say is that if we were selling in the Middle East, and we would offer a license and a full implementation for a FinnOne suite say, for \$700,000 or \$800,000, and today we can get prices in excess of a million dollar.

Aseem Gupta

Okay, so they have changed considerably that means.

Pramod

Certainly, because as the company establishes the product and the product performs at different locations, our pricing power increases.

Aseem Gupta

Yes, that is true. I just wanted to understand how they have changed. Thank you, thanks a lot.

Moderator

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

Ramesh Damani

Vishnu.

Vishnu R. Dusad

Hi, Ramesh, thank you very much for being here.

Ramesh Damani

Sure, it is always a pleasure Vishnu. First of all congratulations to you and your team for an absolutely brilliant quarter and it was wonderful going through the numbers.

Vishnu R. Dusad

Thank you.

Ramesh Damani

Vishnu, couple of questions. First I was wondering, is there an opportunity for companies like Nucleus or other companies in BSFI area with the Basel II norms being implemented? And secondly, could you just tell us when you are going to expect serious revenues coming in from North America, and by what timeframe should you look at serious revenues coming in from North America? Thanks, I will listen to your answer now.

R.P. Singh

Ramesh, I will give you the update and answer. Basel was an area we identified about six months back and we had put in a small team of 2-3 people to first explore the accord and then look at opportunities of either a solution or a product that would help them, you know, BFSI market. The good part is that we managed to cover the credit risk and ops risk part of the Basel and have already, as a pilot, started engaging with certain customers to do the first pilot implementation of the solution we have come out with. At this moment, we are in serious discussion with a large bank and hopefully, in the next couple of weeks you may be able to get approval to go ahead with the pilot, and once, of course, the success of the pilot happens, this could very well be another additional product, which is because this is not really a product only because there is a lot of consulting which will go along with it, but as a complete solution or sometimes you may be able to add to our basket of offerings.

Vishnu R. Dusad

And Ramesh, as far as the revenues from North America are concerned, we are expecting our first order to come in by Q4 and I guess once we are able to get out first major side we would look at, we should be able to build a momentum there, like in any other geography.

Moderator

Thank you very much sir. Next we have Mr. Neelang Mehta from HSBC.

Neelang Mehta

Hello sir.

Vishnu R. Dusad

Yes, good afternoon.

Neelang Mehta

Good afternoon sir. Sir I just have two brief things:

- What is the dollar rupee impact on your revenue line for this quarter?
- What is the kind of hedge position we run generally?
- What is it currently and at what rate?
- Is there any other income gain due to FX gain we have taken in this quarter or any loss? Thank you.

Pramod

Okay, that was series of question, right. The first question is that what is the impact of the dollar and the other currencies movement as such? This would be in excess of Rs. 2 crores for the quarter, in terms of revenue.

The second question is, what kind of exposure we run and what kind of covers do we do? I mean, today if you look at exposures, for one quarter at the moment may be 6 million dollars in India.

Neelang Mehta

Pardon sir.

-Pramod

In India, say my exposure is about 6 million dollars at the moment, if you took my receivables figure, because in Singapore what happens is, of course, that I have expenses in Singapore dollar also. We cover at the moment about three million dollars.

Neelang Mehta

Okay 50%.

-Pramod

Yes we cover about 3 million dollars, at the moment. The exchange rate at which we are covered is 45.47, 2.83 million dollars as of date.

Neelang Mehta

Okay, and sir, what is the other income which we have booked or other loss for FX fluctuations this quarter?

-Pramod

No, we have not booked any major thing in foreign currency fluctuation in fact.

Neelang Mehta

Okay sir. Thanks.

Pramod

Major increase comes in the translation of revenue from dollars to rupees or Singapore dollars to rupees.

Neelang Mehta

Okay, okay, thanks a lot sir.

Moderator

Thank you very much sir. Participants who wish to ask questions may please press *1 now. Next we have Mr. Shreyas from SSKI.

Shreyas

Hello, congratulations sir on good set of numbers.

Vishnu R. Dusad

Thank you, thank you very much.

Shreyas

Sir, just I have one question, can you give an update on GMAC project in China, where there were some regulatory issues.

Pramod

Yes, that continues to be in the same state. There has been no movement so far on the LOS implementation in China, because the GMAC has not been able to sort out the investments required to overcome the regulatory issues.

Shreyas

Okay, and that part of revenue would be how much of this total \$12 million contract?

Pramod

No, this is not covered into the \$12 million contract. It was a separate contract.

Shreyas

Okay.

Vishnu R. Dusad

It was more a pilot project for us in GMAC for loan origination.

Shreyas

Okay, and regarding this order book, out of this 80 crores of projects 33 crores is GMAC, right?

Pramod

That's right.

Shreyas

Okay, thank you so much sir.

Moderator

Thank you very much sir. Next is a follow-up question from Mr. Neelang Mehta of HSBC.

Neelang Mehta

Sir, sorry for a follow-up question. Hello.

Vishnu R. Dusad

You are most welcome.

Neelang Mehta

Yes sir, only one thing. What is the salary hike which you have taken during the quarter in percentage terms? You have given a quantum two crores, but what is the average salary hike you have given to employees on shore and offshore sites, that is one question, and how do you see its spanning out over the year or next two years the ability to get in talent and at the right price?

Pramod

I will answer the first part. In terms of the salary hike at the moment, what we have done is that we have done a revision in salary for our India-based staff. You call it offshore staff, which was up to middle management category, and in that category the effect on the India-based staff was about 26%, and the annual impact of that is about eight crores. And the regular reviews and the set would be effective from 1st of July, which is for the entire company, including onsite staff.

Neelang Mehta

Okay, so this is the one time salary hike which has been given to middle management.

Pramod

Up to middle management from the junior most level.

Neelang Mehta

Okay, and the normal annual salary hike will come in the Q2 of this year.

Pramod

Yes, you are absolutely right.

Neelang Mehta

Okay, and what kind of salary hike, you see, you are required to do in this?

Pramod

We expect it to be around 14 to 15%.

Neelang Mehta

14 to 15%, and you think after this, you will still be able to achieve your guidance for the margin for the whole year?

Pramod

Yes, that is our objective for the year.

Neelang Mehta

Okay, okay, thank you very much sir.

Moderator

Thank you very much sir. Next we have Mr. Dipen Mehta of Dipen Mehta Shares.

Dipen Mehta

Sir could you give an outline of the kind of competition which our products are facing, in the sense that when you win an order for a Sri Lankan Bank or in India, India Bulls or Cholamandalam, who were the competing products you were pitted against, which companies and which products?

Niraj

See in different markets we not only face competition from some of the leading product companies globally, but we also face local competition, and of course, the Indian vendors. So, in India, of course we have vendors like Iflex, and Polaris in the software sector. They all are there, and we also face competition from London Bridge, you know, which is a global company in our area, and we face in different markets different levels of local competition. So, these are all, I mean, for FinnOne products these are the products that we do compete with. So, in Sri Lanka, for example, the NDB Bank was using Iflex as a core banking and Iflex is also one of the bidder for the loan products.

Dipen Mehta

So Iflex, Polaris, and which is the third company you said London?

Niraj

Indus Software is other company, which is now, you know, from R Systems. I mean, like product, which they require, so they are also in competition, and London Bridge is there in the global market. They have got collection work in Australia. So, these are all the companies which are global companies, which you know have a substantial market share globally, and we compete with all of them also.

Dipen Mehta

Thank you. Thank you.

Vishnu R. Dusad

Thank you.

Moderator

Thank you very much sir. Participants who wish to ask questions may please press *1 now. Participants who wish to ask questions may please press *1 now.

Pramod

If there are no more questions then I think we should close the call.

Moderator

At this moment there are no further questions from participants. I would like to hand over the floor back to Ms. Bhasin for final remarks.

Poonam Bhasin

Thank you Gaurav. We thank you all for participating in our Investor ConCall, and we look forward to speaking to you in the next quarter. I now hand it over to Mr. Vishnu for the closing comments.

Vishnu

Once again I would like to thank you all for the keen interest that you have shown in the company and inquisitive questions you asked. These questions ensure that we remain on our toes. Thank you very much.

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.

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