



**NUCLEUS
SOFTWARE**

Q2 FY 07 Earnings Conference Call

Oct 30, 2006

MEMBERS OF NUCLEUS MANAGEMENT

- Mr. Vishnu R. Dusad, Managing Director
- 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. Ruchit Mehta, HSBC Asset Management (India) Pvt. Ltd.
- Mr. Ramesh Damani, Ramesh S. Damani Finance Pvt. Ltd
- Mr. Dipen Shah, Kotak Securities Ltd.
- Mr. Dipen Mehta, Dipen Mehta Share and Stock Brokers Pvt. Ltd.
- Mr. Ashish, Lucky Securities
- Mr. Saravan, Unifi Wealth Management Ltd.
- Mr. Dipen, Individual Investor

Nucleus Software Exports Limited
Analysts/Investors Conference Call
October 30, 2006

Moderator

Good afternoon ladies and gentlemen. I am Ahmed, 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 now like to hand it over to Ms. Poonam Bhasin. Thank you and over to you mam.

Poonam Bhasin

Thank you Ahmed. Good afternoon ladies and gentlemen. I am Poonam Bhasin, the company secretary. We thank you all for joining us today to discuss the financials for quarter and half year ended September 30, 2006. Today, we have with us Mr. Vishnu R. Dusad, Managing Director; Mr. P. K. Sanghi, Chief Financial Officer; Mr. Prakash Pai, Global Head Product Management, and Mr. Niraj Vedwa, Global Sales and Marketing Head to answer your queries. We will commence with brief comments on the performance of the company for the quarter and half year, and over to this we are open to question and answer session. I would now hand it over to Mr. Vishnu, Managing Director of Nucleus Software for his brief comments.

Vishnu R. Dusad

Thank you Poonam, and good afternoon ladies and gentlemen. Apologies for this couple of minutes delay and thank you very much for joining this call. We are very happy to announce that the consolidated revenue from software products and services for the quarter has increased by 54.22% to Rs. 55.09 crore against Rs. 35.72 crore for the corresponding quarter of the previous year.

For the half year, the consolidated revenue has increased by 52.93% to Rs. 104.85 crore against Rs. 68.56 crore for the corresponding period of the previous year. Net profit for the quarter has increased by 57.86% to Rs. 13.86 crore against Rs. 8.78 crore in the corresponding quarter of the previous year. Net profit for the half year has increased by 57.03% to Rs. 27.26 crore against Rs. 17.36 crore in corresponding period of the previous year, and I may mention that net profit of the half year, on a sequential basis, has also increased by 38%. EPS is Rs. 8.60 for the quarter against Rs. 5.45 for the corresponding quarter of the previous year. For the half year EPS is Rs. 16.92 against Rs.10.79 for the corresponding period of last year.

This is the ninth 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.

Product business continues to lead our growth. For the quarter, revenue for the product business at Rs. 28.16 crore is 51.12% of the total revenue. We have crossed the 50% mark and I may add that after meeting this target we are now looking at increasing this proportion further. For the half year, product revenue at Rs. 52.34 crore is 49.92% of the half-year revenue, again close to 50% target.

In the projects and services business, the revenue for the quarter has increased 11.7% at Rs. 25.58 crore against Rs. 22.9 crore for the corresponding quarter last year. Revenue for half year from projects and services has increased by 18% at Rs. 52.51 crore against Rs. 44.42 crore for the corresponding half year of the previous year. While projects are not growing at the same speed as products, we continue to provide solutions and value to our large customers in this case and look for new sizeable relationships.

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. We continue to invest in products, both new and modifications/enhancement in the existing range. Scalability of operations and worldwide compliances are a major challenge and we are gearing up to meet the same. We shall also invest in market, both traditional and non-traditional. People are another challenge and we have now moved towards recruiting local talents of the countries we work in. Recently, we participated in an exhibition-cum-conference called SIBOS in Sydney and I would like to share some of my experiences. One was the respect given to India, Indian banks, and Indian technology providers, and the second was the business case of replacing systems in banks at a fraction of the existing operating cost. This was extremely encouraging. Infrastructure requirements are increasing and we are on course to commission Phase 2 of our current campus in March 2007. This will add 800 plus seats. Now I would like to hand over to Prakash Pai who Heads our Product Management Group.

Prakash Pai

Thank you Vishnu and good afternoon to everyone. In this call, I will first speak about the delivery part representing Mr. R. P. Singh, our President and Head of Technologies. This quarter has seen a growth in the contribution of Far East. They have contributed 44.08% as against the previous quarter contribution of 41.80%. Other markets like South-East Asia, Middle East, Africa, and Europe have remained stable. Our flagship products, FinnOne™ and Cash@will™, are today seeing increased acceptance in all the geographies that we have penetrated into. With multiple installations in each geography, FinnOne™ suite has become the product of choice for the retail finance business. We are currently in the process of implementing our Cash@will™ product across multiple countries in South-East Asia like Thailand, Singapore, Vietnam, Korea, Malaysia, etc. Our new product FinnOne™ CAS-SME module, which was in development earlier in the year, has gone live at our first site in Indonesia. GMAC Italy has been in production since April 2006 and we have had two successful releases after the initial go live in April. We expect to commence the next country implementation in early January 2007. The study is currently being done for this country.

A major site in Japan has gone live with the FinnOne™ Lending product.

Our 200 new recruits who were undergoing training in the previous quarter have now been deployed in various delivery teams. This has helped us in scaling up to meet the implementation needs of the new product orders.

The Product Management team continues to invest in the development of the core product to keep it ahead both functionally and technically in keeping with our customer needs. FinnOne™ suite for the retail finance market continues to be the preferred choice for our prospective customers. As part of our technology upgrade strategy, we are migrating our flagship product FinnOne™ Lending to the Java J2EE platform, and as part of our functionality upgrade strategy, we will ensure that our products are capable of meeting the requirements of a typical Captive Auto Finance company, an area where we have focused in the last 2 years.

As highlighted in the earlier quarters, we continue with our focus on the SME Loans Origination and servicing business domain. The FinnOne™ Collections product, which

concentrates on debt collections and delinquency management business, is being upgraded functionally to cater to the new requirements for the retailed lending and credit card business. The new version will focus more on improving management reporting in order to ensure a tight control and delinquency. Our new product module, FinnForecaster, a Java-based interactive suite that transforms organizational data to business solution will be launched in the next quarter. It is a 'Decision Driver' to speed up predictive analysis to data modeling, which otherwise would have been based on 'gut feeling' only. This product will help the customers reduce decision-making time line for loan approval. It will be a great tool to provide competitive advantage to the lending institutions.

Our other significant product Cash@will™, which focuses on the cash management business, is witnessing acceleration in favorable responses. In keeping with the changing market trends, the product is being enhanced to cover new areas of Electronic Bill Presentation and Payments, Channel Financing, and Global Remittances. I now hand over the floor to Pramod Sanghi.

Pramod Sanghi

Thank you Prakash and welcome back to Q2 concall. On a sequential basis, revenues have grown by 10.7%. Operating margin this quarter is at 29%, which is same as the previous quarter. We are comfortable with this operating margin level as we have fully absorbed the increase in personnel cost, which has grown to Rs. 26 crore for the quarter against Rs. 22.2 crore for the June quarter. Our annual review process was effective July 1, 2006, and this increase was after the benchmarking increase in the previous quarter. We restate our goal of achieving a 30% OPM for the full year. The higher personnel cost have been absorbed with revenue growth in the products business, which as Vishnu mentioned, has gone up to 51.12% of total revenue. Product revenues have increased sequentially by 16.54% at Rs. 28.18 crore up from Rs. 24.18 crore. Revenue from other streams of business, that is projects and services, has increased 5.27% sequentially. On a functional basis at gross level, our profitability continues to be the same with cost of delivery at 58.38% marginally different from 58.45% last quarter, and SGA is also at about 12.6% of revenue.

Withholding taxes are at about Rs. 1.27 crore this quarter.

Other income has shown a fall at Rs. 1.04 crore. It includes about Rs. 39.5 lakhs on gains from dividends on the investments and interest on fixed deposits. In the last quarter, the other income figure was Rs. 2.19 crore including income from investments and deposits, which accounted for Rs. 1.54 crore. This is due to timing of maturity of investments in liquid funds. As of September 30, we have about Rs. 1.5 crore of unbooked income on investments against about Rs. 93 lakhs as on June 30, 2006

Current taxes for the quarter are at Rs. 6 lakhs, which is significantly lower than Rs. 69 lakhs in the previous quarter as Indian taxes are nil, with India revenue lower than the previous quarter. We of course do not pay any taxes currently on all international income.

Net profit has grown sequentially by 3.47% at Rs. 13.86 crore against Rs. 13.40 crore in the last quarter and the net profit margin is at about 25.17% against 26.93 sequentially. In terms of receivable, we were at Rs. 47.35 crore as of September 30, 2006. We are running at 79 days sales, which is higher than the previous quarter figure of Rs. 32.10 crore debtors and 59 days DSR. We have stepped up our collections in October and expect to revert to our standard DSR of 60 days shortly.

Operating cash flow before working capital changes was Rs. 15.64 crore. With working capital increases of Rs. 19.9 crore, capex of Rs. 5.37 crore and dividend pay out of Rs. 6.40 crore; the liquid funds have reduced this quarter. Cash equivalent including current

investments therefore were Rs. 61.6 crore as on Sep 30,2006 against Rs. 77.3 crore in June 2006. With focus on collections, we are back as of date to approximately Rs. 78 crore of liquid funds.

In terms of client concentration, there is no major change. The top 5 clients have 72.3% of revenue against 72% in the previous quarter. I will now hand over to Niraj to give you an update regarding the marketing and sales events during the quarter.

Niraj Vedwa

Thank you Pramod and good afternoon to everyone. We have had a very good quarter in terms of product business as we have won product orders for \$6.25 million. These are six large contracts that we have received for 18 of our product modules. To know more about them, we have won contracts from a very large multinational bank for a global rollout for a cash management product across 16 countries. We have received another cash management order for one of the very large South East Asian bank. We have received two large orders for FinnOne™ complete product suite for loan origination, lending, and collections from the SAARC region, and one of the largest Islamic banks in UAE has gone ahead with our FinnOne™ product. This is just a brief about the product business.

To add on to this, we have had a very good October also, where we have bagged contracts worth \$2.3 million on the products, one of them being from a large finance company in India and two other contracts from the African subcontinents. So this is where we stand on the product business. Overall for the quarter we added 10 clients, and as Vishnu mentioned earlier, we had a very successful event at SIBOS, which is one of the largest banking events in Sydney, where we had a very large booth and some very interesting customers came over and a lot of enquiries have been generated. We have also stepped up our marketing through our partners like IBM, SUN, Oracle, and we are doing a lot of road shows across different parts of the world, which include some breakfast shows, some product demos and some joint marketing campaigns and these would increase in the coming quarters.

That is the overall summary from my side. I hand it over back to Poonam Bhasin to take this call further.

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 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, participants may please press *1 now. To ask a question, participants may please press *1 now. To ask a question, participants may please press *1 now. First in line we have Mr. Ruchit Mehta from HSBC. Over to you Sir.

Ruchit Mehta

Hi, congratulations on your result. Sir, Could you give us some sort of guidance as to how the market is developing and how do you see yourself in terms of growing into the developed market of US and the Europe.

Niraj

In terms of the market, we have seen an increased number of requirement documents coming to us from customers and these are coming from all across. We are seeing an increase in the number of RFPs coming from both Middle East and Africa as well as from South East Asia. What is also interesting is that a lot of automotive finance companies in different parts of the world including Europe are talking to us about our products. So, the number of enquires have definitely increased and if you look at the Middle East sector, there has been a huge increase in the consumer behaviour pattern as well as demand and the banks there are going in for a transformation from legacy system to a new system. We are seeing an increased demand for our products from those areas. As far as the US is concerned, we are now getting a GAP analysis done for our products for the US market and as a part of the strategy we will start development of the GAP and then offer it to the US markets. So, that is still about 6 months to 9 months away as far as the US strategy is concerned. During this intermediate period, we are doing all kinds of market intelligence and data capturing and data gathering to be able to penetrate into that most lucrative market as we go along.

Vishnu R. Dusad

I would just like to add that there is an interesting pattern that we are noticing, that after our first and second customer goes live in our target economy or target geography, the subsequent orders we get are much faster and this is the emerging pattern.

Ruchit Mehta

Also could you just give us the flavor as to how the average deal size have been for you say versus a year ago?

Vishnu R. Dusad

There is clearly at least 25% increase in the size of the deal as compared to the situation a year ago.

Ruchit Mehta

And how do you see it going forward say over 3 years?

Vishnu R. Dusad

We will continue to see it increasing.

Ruchit Mehta

Could you just give us an understanding of your expansion plans and capex plans?

Pramod

Expansion if you look at infrastructure, we will be spending about Rs. 18 to 20 crore on the building, which is coming up now. We have already spent about Rs. 2 crore. We would expect to capitalize this amount by the end of the financial year. So, there would not be any depreciation impact in the current year, but there would be depreciation impact in the

subsequent years. Apart from this building, we are spending at a rate of almost Rs.1.5 to 2 crore per quarter on hardware and software. And for the future of course, we have plans to see whether we can find some locations or set up our own SEZ.

Ruchit Mehta

Okay Sir, that means you would spend close to around say Rs. 25 to 28 crore on capex this year.

Pramod

I think we would land up spending almost Rs. 30 crore.

Ruchit Mehta

How are the hiring plans for the balance current year and what is the employee base currently

Pramod

We are currently at 1400, which we were at the end of the last quarter also. We are looking to add 200 more by the year-end with experience in product and technology. We are not looking at freshers now because we had a large intake of freshers in the last quarter.

Ruchit Mehta

These 200 will purely be experienced people. Will there be any fresher hiring?

Pramod

No we do not plan any fresher hiring immediately. The fresher hiring would take place I would suppose next financial year.

Ruchit Mehta

Sir this is my final question. How do you see product development expenditure going forward?

Vishnu R. Dusad

We have about 150 people currently in the product development and management group and I would say about 125 of them are totally devoted to only development. We expect this number to remain between 125 and 160 in the current financial year and then we would step it up depending on primarily how much work is required for the US product.

Ruchit Mehta

Okay. Is all product R&D cost expensed and not capitalized?

Pramod

Yes quite right. Basically the cost is people cost and infrastructure cost and everything is expensed in every quarter and every month.

Ruchit Mehta

Okay. Thank you very much Sir.

Pramod

Thank you.

Moderator

Thank you very much Sir. Next in line, we have Mr. Ramesh from Ramesh S. Finance. Over to you Sir.

Ramesh Damani

Congratulations for steady quarter.

Vishnu R. Dusad

Thank you. Thank you very much Ramesh for being there and for the compliments.

Ramesh Damani

Vishnu, I just wonder and curious has there been a large increase in salary component this quarter?

Vishnu R. Dusad

Yes, certainly. You know as you may recall, we had a salary hike in the month of April 2006, which was essentially with intent of benchmarking our salaries with the industry, and again this quarter we have had an increase from Rs. 22.19 crore to Rs. 26 crore without any major change in the number of people. It is close to 17% increase in this quarter.

Ramesh Damani

Has there been a bench that next quarter would be more productive?

Vishnu R. Dusad

Yes certainly, the trainees are still undergoing training in a way. While their centralized training we have completed, but even after they have joined the respective teams, they are continuing on-job training.

Ramesh Damani

So they will be productive in which quarter now, when will they be billable?

Vishnu R. Dusad

See Ramesh, as you understand, we do not have concept of billable, but yes, they will be productive this quarter to next quarter onwards. It's a steady increase in productivity that we will experience over next 2 to 3 quarters.

Ramesh Damani

Vishnu one more thing. In the earlier part, you had mentioned that you got \$6.25 million worth of product orders this quarter and additional \$2.3 million you have got in October. Right?

Niraj Vedwa

Yes that's right, we got \$ 2.3 million in October, and as I have said we have got a very large order from a finance company in India and two very large orders from the African continents, these are all for the complete product suite for FinnOne™.

Ramesh Damani

So basically that is about \$9 million product orders, which you are reporting in effect, \$6.25 million in Q2 & \$2.3 in October. Right?

Vishnu R. Dusad

That is right Ramesh.

Ramesh Damani

Okay great. We look forward to better results next quarters also.

Vishnu R. Dusad

Thank you.

Moderator

Thank you very much Sir. Next in line, we have Mr. Dipen Shah from Kotak Securities. Over to you Sir.

Dipen Shah

Yes Vishnu, congrats on a good set of numbers. One of my questions was asked by Ramesh already, I just have one very small question, what was the total R&D expenditure, which was incurred during the current quarter?

Vishnu R. Dusad

It's close to Rs. 3.5 crore Dipen.

Dipen Shah

Okay and obviously the whole thing was written off during the quarter.

Vishnu R. Dusad

That has been a practice.

Pramod

Expensed is the better word than written off.

Dipen Shah

Okay Mr. Sanghi. As of now, this is it. Thanks very much and all the very best.

Vishnu R. Dusad

Thank you.

Moderator

Thank you very much Sir. Next in line, we have Mr. Dipen Mehta from Dipen Mehta shares. Over to you Sir.

Dipen Mehta

Congratulations on a great set of numbers. I just did not get it exactly, \$9 million of product orders came just in the month of October, is that what you are trying to get at Sir?

Pramod

No, \$6.25 million is what we have stated in the press release also, is the product orders, major ones, which we booked in the last quarter and we had also stated during this call that we have also booked about \$2.3 million of orders within October.

Dipen Mehta

Okay, that \$2.3 million is in October. Sir if you could also give us the order backlogs as of 30th September.

Pramod

We are at a total order book of about Rs.135 crore, in which Rs. 90 crore is the product business.

Dipen Mehta

Rs. 90 crore is product, and Rs. 45 crore is services. This was Rs. 130 crore as you have disclosed in the last conference call.

Pramod

Rs. 130 crore was total order book and of this Rs. 80 crore was product as stated in the last conference call. Rs. 135 crore this quarter order book does not include the October orders.

Dipen Mehta

This does not include the October order, right. So, October order of \$2.3 million is additional. And the order backlog for GMAC was Rs. 33 crore at the last conference call on 30th June 2006.

Pramod

Yes, GMAC, the order at the moment, which is in pipeline, still is about Rs.28 crore.

Dipen Mehta

What was the attrition rate Sir? It was 14% last quarter you have disclosed.

Vishnu R. Dusad

Today it is 17%.

Dipen Mehta

So, it has gone up in this quarter itself. Any particular reason for that Sir or is it because the hiring pattern changed to a more freshers last quarter. Any particular comment on the increase, because it is rather a sharp increase Sir.

Vishnu R. Dusad

This is usually due to market forces, I would say, nothing beyond that. We would have deeper analysis done, but I would say more of market forces.

Dipen Mehta

Just a last question Sir. On page 2 of your press release, you have mentioned in business expansion that FinnOne™ Lending today covering almost 70% of the incremental retail business in India is being adopted by leading global financial institution. Does it mean that 70% of the retail banking is being done on our product or what does that 70% means exactly?

Vishnu R. Dusad

70% means let's say, whenever there are 100 loans getting booked in a month, then out of those 100 loans, 70 loans will be booked using our platform in India.

Pramod

Because the bank, which we service, we will not take any name, have a dominant market share in the retail-lending segment.

Dipen Mehta

Quite interesting. Thank you and all the best.

Vishnu R. Dusad

Thank you

Moderator

Thank you very much Sir. Participants are requested to use handsets while asking a question. Next in line we have Mr. Ashish from Lucky Securities. Over to you Sir.

Ashish

Good evening Sir and congratulations on a good set of numbers.

Vishnu R. Dusad

Thank you and very good evening to you.

Ashish

I had a question. Basically when we last met you, you had mentioned that you are doing a market sizing exercise to determine the global market size for our kind of products. Just wanted to know whether you have been able to get a better sense on the exact size of the global market that we are addressing.

Niraj

I will attempt to try and answer this. What we have done is that, we have put in a team, which is looking at various sources to and arrive at a market size because there is no quantified market size for a replacement market especially in the niche areas that we operate, which is lending as well as cash management. We are looking at all kinds of reports to be able to come to some logical conclusion by our own analysis as to what is the right market size and I think during the course of this quarter we should be in a position to come up with some numbers on that and probably we will be able to share it with you during the course of the quarter or before the investor call next time.

Ashish

Okay, and my next question pertains to the pricing model that we have adopted for the orders booked during the last quarter and in October, which is the transaction-based pricing model. Have we been able to get that kind of a pricing model going on any of these orders?

Niraj

Most of the orders that we have got are like a perpetual license, but we have capped the number of users on that. So, that is a slight deviation from the standard perpetual license policy that we have. We have had 1 or 2 contracts where we have put a certain price, and as the portfolio increases there is an additional amount that the customer needs to pay for the license. We have variations on those models.

Ashish

But it is not linked to the value of the loan or the number of loans being handled by our system.

Niraj

The portfolio base would be number of loans itself being handled by the system.

Ashish

Pardon me?

Niraj

The portfolio-based pricing that we have done with one or two customers is based on the portfolio and the growth of the portfolios, so the number of loans today on the system and

incremental loans as they get booked during the course of the year, there is an additional price, which the customer needs to pay for them.

Ashish

I see, okay, so we have already moved towards that kind of pricing?

Niraj

I mean we have made some progress I would say.

Ashish

Is it our intent to go more and more to that kind of pricing because that allows you to capture the upside of your clients lending portfolio, right?

Niraj

Yes, absolutely right, and I think that is something which we would obviously want to move forward with because that gives us the continuous stream of license revenue in the coming quarters.

Ashish

Okay. Is there any intent on our part to actually take over the loan processing part of your customers' business, which includes your software being handled by you and then the processing itself being done by you as well?

Niraj

That becomes like a transaction-based BPO kind of a model. As of now, we don't have that and this is not being offered currently by us.

Ashish

Right okay. All right, thank you very much and all the best.

Niraj

Thank you.

Moderator

Thank you very much Sir. Next in line, we have Mr. Sarvanan from Unify Wealth Management. Over to you Sir.

Sarvanan

Congratulations for the impressive results. My question is regarding the margins between products and services business for the half year 2007.

Pramod

You are asking for the product and project margin separately.

Sarvanan

Yes exactly.

Pramod

We have always stated that in case of product license business because we expense everything every quarter, so technically the product license business has apart from the development expenses 100% margin to it, and the margin in the projects business, which is projects as well as the services round the product that runs at about 24% to 25%, and the services business runs at about 10%, and these margins do not change when the EBITDA remains almost constant, and the margins have not changed significantly over the last quarter.

Sarvanan

Okay. Thank you Sir.

Moderator

Thank you very much Sir. Next in line we have Mr. Dipen, he is an individual investor. Over to you Sir.

Dipen

Hi there. Thanks for the excellent set of numbers. Just to understand the competitive environment in which Nucleus is operating in, who are the typical Indian vendors you come across when you are making pitches for new wins?

Niraj

We are bidding for projects all across the globe, so we have clearly two sets of competitors, one are the global competitors and others are the very local regional specific competitors. So, if I look at the international competitors, we would be fighting with Fair Isaac, London Bridge, Fidelity, ebworks etc., these are some of the names, and if you were looking at some of the Indian vendors who do we come across in most of the deals is I-flex as well as Infosys. These are the vendors with whom we compete.

Dipen

Another question which I wanted to understand, which I think has already been addressed to some extent earlier on was that plans of Nucleus for United States. As of now, what is the proportion of revenue which is being generated there and looking forward to say in the next 2 to 3 years, what percent of revenues would the company like to be coming from the US?

Niraj

As we have said before, today the contribution from US is very low, and as of now we are not focusing on the product business in US. As a part of the strategy, we have moved from India into South East Asia, then to Far East, Middle East, Africa, and then into the European developed market. Now we have products, which are live in 22 countries, and as we have said before we have got contracts to implement in about 80 countries. So, this would be

over the period of the next 2 years. As we rollout across these countries, we do see our revenue contribution increasing from the more developed markets like Europe. As far as US is concerned, as of now we are not selling products there, though we do have a single implementation there. We have constituted a core group within our product management group to look at the US market and it basically does a product fitment to the market, and as we come closer to the conclusion of the GAP analysis, we will start our marketing activities for the US, but we do not see that in the next 6 to 9 months at least for the US markets.

Pramod

Currently the contribution is 4% of total revenue and this is largely in service area.

Dipen

Okay, thank you so much.

Moderator

Thank you very much Sir. Participants who wish to ask questions, please press *1 now. Next in line, we have a followup question from Mr. Dipen Mehta from Dipen Mehta and shares. Over to you Sir.

Dipen Mehta

You had also disclosed that the withholding tax would be declining from 15% to 10%. Has that effect come in September quarter?

Pramod

Yes of course, that in fact is not 15% to 10%. From Japan it has gone from 20% to 10%, and that benefit has already come in this working.

Dipen Mehta

First time in the second quarter, right.

Pramod

Partly in the first quarter, and of course on going forward basis, it will be there in each transaction now.

Dipen Mehta

As regard to going forward, what are the views on tax planning because in a couple of years' time, we will see 10A benefits going off and we are perhaps at lower tax base, so any such planning is being undertaken just now in terms of going to SEZ or any other strategy have you thought of?

Pramod

We are aware that the tax 10A exemption expires in March 2009 and we are looking at the SEZ option.

Dipen Mehta

Because, we recently commissioned a large development facility, am I right?

Pramod

We are in the process of commissioning our second phase, which will be started by March 2007. The SEZ process is not something, which takes 1 day to start. It can take 2 to 3 years, and it should come into place sometime in 2009-2010. We believe that currently this investment in the centre would yield sufficient returns within the next 2 years to be economically justified.

Dipen Mehta

But you are looking at eventually moving to an SEZ and such planning is under way.

Pramod

Yes, we are looking at the SEZ option as appropriate depending on the size and the plans of the company.

Dipen Mehta

Okay, thank you.

Moderator

Thank you very much Sir. At this moment, there are no further questions from participants, I would like to hand over the floor back to Ms. Poonam Bhasin for final remarks.

Poonam Bhasin

Thank you Ahmed. We thank you all for the participation in our investor concall, and we look forward to your participation in the next quarter. I will now hand over to Mr. Vishnu for the closing comments.

Vishnu R. Dusad

Thanks Poonam, and once again I would like to thank you all ladies and gentleman for your precious time and your interest in Nucleus Software. It is your interest and your support that keeps us going. Looking forward to speaking to you in the next quarter. Thank you and good day.

Moderator

Thank you Sir. 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.
