



Q3 FY 09 Earnings Conference Call

January 19, 2009

Members of Nucleus Management

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|-----------------------|------------------------------------|
| - Mr. Vishnu R Dusad | Managing Director & CEO |
| - Mr. R. P. Singh | President Delivery |
| - Mr. Pramod K Sanghi | President Finance & CFO |
| - Mr. Niraj Vedwa | President Sales and Marketing |
| - Mr. Prakash Pai | President Product Management |
| - Mr. Ravi Verma | President Human Resource |
| - Dr. Asha Goyal | Vice President and Head of Quality |

Conference Call Participants

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| - Mr. Ankur Rudra | Noble Group |
| - Mr. Ankur Arora | ING Investment Management |
| - Mr. Anoop Gupta | Fe Securities |
| - Mr. Priyank | Edelweiss Securities |
| - Mr. Ravichnadrans | Unifi Wealth Management |
| - Mr. Ruchit Mehta | HSBC Asset Management (India) Pvt. Ltd. |
| - Mr. Keshav Harlalka | BHH Securities Private Limited |

Operator:

Good afternoon ladies and gentlemen. I am Monisha Gosh, the moderator for this conference. Welcome to the Nucleus Software Exports Limited Conference Call. For the duration of the presentation, all the participant's line will be in the listen-only mode. After the presentation the question-and-answer session will be conducted.

I would like to hand over the floor to Ms. Meenakshi Sharma. Thank you and over to you ma'am.

Meenakshi Sharma:

Thank you Monisha, good afternoon ladies and gentlemen. This is Meenakshi Sharma here, the Assistant Company Secretary, Nucleus Software Exports Limited. We welcome you all to the conference call of Nucleus Software to discuss the financial results for the quarter and nine months ending December 31, 2008.

We have with us here, Mr. Vishnu R. Dusad, Managing Director and CEO, Mr. R. P. Singh, President Delivery; Mr. Pramod K. Sanghi, President Finance and Chief Financial Officer; Mr. Prakash Pai, President, Product Management; Mr. Niraj Vedwa, President Sales and Marketing; Mr. Ravi Verma, President Human Resource; and Dr. Asha Goyal, Vice President and Head of Quality.

First we will commence with a brief comment on the performance of our company and after that we will be open for the Q&A session during this call.

With this I hand it over to Mr. Vishnu R. Dusad, Managing Director and CEO of Nucleus Software for his brief comments.

Vishnu R. Dusad:

Thank you Meenakshi, and good afternoon ladies and gentlemen. Thank you very much for joining this call.

I will first deal with the numbers.

- Our consolidated revenue for software products and services for the quarter has increased by 14.39% to Rs. 84.24 crore against Rs. 73.64 crore on year-on-year basis.
- For the nine month period, consolidated revenue has increased by 15.15% to Rs. 242.59 crore against Rs. 210.66 crore for the corresponding nine month period of the previous year.
- Revenue for the product business for the quarter at Rs. 55.70 crore is 66.12 % of the total revenue against Rs. 51.74 crore, which was 70.26 % of the revenue for the same period previous year.

- Product revenue from own business, that is the product developed by Nucleus, for the quarter is at Rs. 52.64 crore is 62.50% of the total revenue against Rs. 46.60 crore which was 63.28% of revenue for the same period previous year.
- For the nine month period, product revenue at Rs. 165.06 crore is 68.04% of total revenue against Rs. 145.07 crore which was 68.86% of revenue last year.
- For the nine month period, product revenue from own business for the quarter is Rs. 149.75 crore , 61.73% of the total revenue against Rs. 133.13 crore which was 63.20% of revenue last year.
- In the projects and services business, revenue for the quarter is Rs.28.54 crore, 33.88% of the revenue against 21.90 crore which was 29.74% of the revenue on a year-on-year basis.
- Revenue for nine month, from projects and services is Rs. 77.53 crore, 31.96% of revenue, against Rs. 65.59 crore, 31.14% of revenue on a year-on-year basis.
- Total expense for the quarter has increased by 25% on year-on-year basis.
- EBITDA is Rs.15.21 crore against Rs. 18.51 crore on year-on-year basis.
- EBITDA for nine month period is Rs. 37.80 crore against Rs. 52.53 crore for the corresponding nine month period of the previous year.
- Net profit for the quarter is at Rs. 10.55 crore against Rs. 15.53 crore on year-on-year basis.
- For the nine month period, net profit is at Rs. 22.66 crore against Rs. 45.72 crore for the corresponding nine month period of the previous year.
- EPS is at Rs. 3.26 for the quarter against Rs. 4.80 for the corresponding quarter of the previous year.
- For the nine month period, EPS is at Rs. 7.00 against Rs. 14.13 for the corresponding nine month period of the previous year.

We have stated last two quarters and reiterate that we are a Product company with a long-term perspective. The numbers for the quarter are a definite improvement on the previous two quarters and we continue in our efforts to raise revenue and profitability to desired levels.

The global financial crisis has truly extended to the entire world and almost all countries are reporting lower growth or recessionary economic conditions. We believe there are opportunities as well as constraints and we are exploring different business models to effectively meet customer expectations on cost effective business solutions.

Now I hand over to R.P. Singh, for his comments on delivery.

R.P. Singh:

Thank you Vishnu and good afternoon everyone. The product business revenue for the quarter at Rs. 55.70 crore increased by 8%, where as the projects and services revenue for the quarter at Rs. 28.54 crore increased by 30% in comparison to Rs. 21.90 crore for the corresponding quarter of the previous year.

This quarter sixteen new product modules went live across seven customers. Of these four were from the Indian sub continental region and three from the South East region. Cash@will was a significant contributor this quarter in these implementations.

At the same time we have already initiated work on 8 new orders which were received in this quarter. An update on the larger engagements. GMAC roll outs are progressing well in multiple countries. Very positive feedback was received from Italy and Benelux, which are already running on FinnOne™ and are appreciating the value that it is delivering to the business.

Both new countries U.K. and China are in UAT at this moment and we look at getting them into production within the quarter. Requirement study has already started in France and two new countries are being identified, and probably we will initiate the initial discovery work shops within the next month or two.

An update on ACOM which is from Japan, 1000 ATMs and about 200 ACMs have been rolled out on the new system, the new technology is already running there and delivering value. FinnOne™, the core product, deliveries have started, we have already delivered two sets and integrated testing on these two deliveries has been started. We have one more planned for this quarter and the final in the subsequent early next quarter. Migration of portfolios, preparation for those that are also progressing well and as per schedule. That's all from my side, over to Prakash.

Prakash Pai:

Good afternoon everybody. This quarter we have completed the initial implementation of all our new ancillary modules like Lead Management and PowerPay. In this quarter only minor releases of the core products have been made. This is in keeping with our strategy to have major releases once in six months.

The upgraded FinnOne™ product version 3.5 has now been successfully deployed in all our latest implementations in India and overseas. With the addition of the Islamic financing functionalities, FinnOne™ today is able to provide financial institutions with single technology platform for retail, SME and now Islamic product offerings.

The FinnOne™ Loan Management system is currently being upgraded to a new technology architecture. Post the up gradation, the product will be available on the Java J2EE architecture platform.

On the Cash@Will product front, our product has now been implemented in three public sector banks. These banks have implemented the latest Cash@Will 2.6 version. Cash@Will has now made inroads in the African and Middle East markets. Implementations have started at the first customer locations in these markets.

Plans are currently being made to migrate the current Cash@Will products to the Java J2EE architecture in the next financial year.

I now hand over to Pramod Sanghi, our CFO.

Pramod Sanghi:

Good afternoon everyone. We will now talk first about the quarter-on-quarter numbers.

- On a sequential basis revenues at Rs. 84.24 crore have increased by 11.64% from Rs. 75.46 crore.
- Total product revenue has increased by 6.90% at Rs. 55.70 crore compared to Rs. 52.10 crore last quarter.
- Traded products revenue included in the product revenues above is Rs. 3.05 crore against Rs. 2.52 crore last quarter.
- Revenue from projects and services has shown a significant increase by 22%, it is at Rs. 28.54 crore against Rs. 23.35 crore last quarter.
- Cost of delivery has decreased to 64.30% of revenue against 70.16% of revenue last quarter. For the nine month period we are running at 67.30% cost of delivery against 60.90% for the same period last year.
- Marketing expenses are at 7.85% of revenue against 9.60% of revenue last quarter. For the nine month period, they are at 8.59% of revenue against 7.41% of revenue for the same period previous year.
- G&A expenses are at 9.79% of revenue in this quarter against 9.11% in the last quarter. For the nine month period they are 8.50% of revenue against 6.74% in the same period last year. G&A expenses include current assets write offs & provisioning for doubtful debts/ advances/ other current assets of Rs. 2.43 crore for the quarter ended December 31, 2008 and Rs. 3.95 crore is the total for this provisioning for the nine month period.
- Total expenses including trading cost at Rs. 69.03 crore, are 2.94% higher than the previous quarter.
- EBITDA margin stands improved to 18.06% against 11.13% in the last quarter.
- Other income is at Rs. 3.87 crore, we were at Rs.1.49 crore previous quarter. This includes Rs. 2.89 crore of capital gains, dividends and interest on investment in mutual funds and fixed deposits, which was Rs.1.13 crore in the previous quarter.
- Foreign exchanges losses booked of Rs. 1.07 crore for the quarter against losses of Rs. 46 lakhs last quarter.

- Withholding taxes are Rs. 2.47 crore against Rs. 1.52 crore in the previous quarter. With a MAT set off of Rs. 54 lakhs against Rs. 68 lakhs last quarter. current and deferred taxes are Rs. 2.15 crore against Rs. 77 lakhs last quarter. Fringe benefit tax are the same at Rs. 18 lakhs.
- Total taxes including withholding are Rs. 4.26 crore against Rs. 1.78 crore last quarter. This is about 5.06% of revenue against 2.36% of revenue for last quarter and 3.17% of revenue for the nine months period.
- Depreciation is slightly lower at Rs. 3.19 crore against Rs. 3.57 crore.
- Profit after tax is at Rs. 10.55 crore, 12.52% of revenue, up from 4.07 crore last quarter, which was 5.40% of revenue.
- Forex loss for the quarter is at Rs. 1.07 crore after accounting for mark-to-market losses on options of Rs. 5.47 crore as of December 31st. The forex loss for the previous quarter was Rs. 46 lakh.
- In addition, on \$11.25 million dollars of forward contracts, which are designated as highly probable forecast transactions, we have taken a mark-to-market loss of Rs. 3.63 crore to hedging reserve.. This would be a revenue item on maturity depending on the prevailing rates. On December 31st , we had a total hedge of \$18.75 million at an average rate of Rs. 44.20 which of course is mark-to-market at Rs. 48.72 as of quarter end.
- Receivables are at Rs. 83.91 crore against Rs. 81.54 crore last quarter. DSR is at 92 days against 99 last quarter. We had made a commitment of reducing this figure to 70 days and while we have improved collections, cash flows and cash equivalents, the DSR remains high and we need to look at bringing it down as fast as possible.
- The operating cash flow after working capital changes for the quarter is at Rs.14.66 crore and cash and cash equivalent is at Rs. 104.22 crore against Rs. 90 crore as of last quarter.
- During the last quarter, with adverse developments in money markets, the Company has exited/redeemed on maturity, all mutual fund investments in FMPs and liquid funds. These were Rs. 71.86 crore as of September end. These funds have been largely redeployed in fixed deposits and the gross return on these deposits in December would be about 10.71% which will be subject to taxes.
- Some information regarding bank balances.

As of December 31, we have fixed deposits with banks of Rs. 77.28 crore. Balances in current accounts in India and overseas of Rs. 26.89 crore.

The break up of fixed deposits which are in India are :

HDFC Bank,	Rs. 22.77 crore;
Citibank,	Rs. 14.71 crore;

DBS Bank,	Rs. 9.00 crore;
ICICI Bank,	Rs. 7.60 crore;
Canara Bank	Rs. 15.10 crore;
Punjab National Bank	Rs. 8.10 crore.

Interest accrued on fixed deposits is Rs. 1.29 crore as of December 31st. Balance conformations in respect of fixed deposits for Rs. 76.25 crore in Nucleus India, have been independently obtained by the Statutory Auditors from the respective banks.

In addition we have Rs. 12.33 crore in scheduled banks in India and we have Rs. 14.57 crore in different parts of the world, form subsidiaries in different locations . These include large balances , comparatively of :

Singapore	Rs. 7.52 crore,
US	Rs. 2.14 crore
Japan	Rs. 2.94 crore.

- In terms of client concentration, our top five clients have contributed 72% against 70% last quarter.
- The order book position is Rs. 359 crore including Rs. 283 crore product business and Rs. 76 crore of project & services business against Rs. 356 crore last quarter, with Rs. 295 crore of products and Rs. 61 crore of services. In dollar terms the order book is \$76.38 million against \$77.48 million as of September end.

I will now handover to Niraj.

Niraj Vedwa:

Thank you and good afternoon, I would like to give you a brief update of sales and marketing efforts.

We closed 8 new product orders for 20 product modules. We added 6 new customers. For the nine month period, we have 25 new orders for 84 product modules. We closed a large services order from existing customer in South East Asia.

Our large relationships and accounts are secure and have given us more business in the quarter. These product orders came from South East Asia, Middle East, USA and India. Our order book position shows a marginal increase to Rs. 359 crore against Rs. 356 crore last quarter end. We are actively pursuing 100 odd prospects from across the world for product business. These are customers where proposals have been given.

Our product demos are now available in 5 languages. We have appointed 6 new partners during the quarter including 4 in Latin America. We continue to receive RFPs/proposal requests from customers from across the world.

Awards and Accolades

- For the third consecutive year in 2008, Nucleus Software has been selected as one of the “Top 25 Companies Adopting Good Corporate Governance Practices”, by the Institute of Company Secretaries of India (ICSI).
- Nucleus Software for the second year running has been listed among “Top 15 Exciting Emerging Companies to Work For” by NASSCOM.
- Nucleus Software has also been recognized under “Best Practices” for Performance Management System by NASSCOM for the year 2008.

Thank you and now I will hand over to Ravi Verma.

Ravi Verma:

Looking at the Global Scenario, we have been very cautious and judicious in our hiring decision and using the existing resources optimally. In Q3 manpower numbers have therefore been marginally reduced from 2059 to 2042. . The Lean and Kaizen initiatives have been initiated at Nucleus to improve the productivity and performance of employees. The measures taken to monitor the timesheet quality and compliance has also resulted in better utilization of manpower. All requirements of resources have been thoroughly scrutinized and focus has been to get the temporary requirements filled through subcontract temporary staff. The requirements have been met by internal adjustments and by multiskilling. The focus has also been increased on process improvements and strict compliance to achieve consistent and better results.

Nucleus Software for the second year running has been listed among "Top 15 Exciting Emerging Companies to Work For" by NASSCOM. Training and Development initiative of “Self driven, On the job, Unique Learning program” has been very successful and all freshers who were inducted on 01 Sep 08 have become productive in the projects. The program is now being enhanced to other levels in the organization.

We have also revamped our criteria for performance incentive for employees where more focus has been given to team work for achieving organizational goals.

As the Kaizen (self improvements) initiatives have been initiated with participation from employees, we have been able to improve the operational efficiency with corresponding reduction in our costs.

The attrition levels have been well under control and now I hand it over to Dr. Asha.

Dr. Asha:

Thank you Ravi. Good afternoon everybody.

Nucleus continues its focus on Quality. Organization has put special focus on Lean thinking; the processes are being modified and rolled out for deployment of the same.

Thematic goal of process compliance is being supported by enhanced audit activity. To strengthen this further, frequent training sessions on standard processes are being conducted.

CMMI initiative has moved forward with an appraisal of implementation status of different process areas for maturity level 3. This will increase the understanding about how the processes are institutionalized.

Thank you.

Meenakshi Sharma:

Thank you Dr. Asha, and now we forward to you Monisha for the question-and-answer session.

Monisha:

Thank you Ma'am. We will now begin the Q&A interactive session. First in line we have a question from Mr. Ankur Rudra from Noble Group. Please go ahead sir.

Ankur:

Hi, good evening gentlemen. Congratulations on an improved quarter in the current conditions. My first question is on, the US dollar revenues and the order book growth?

Pramod

The order book we said was at \$76.38 million as of December end and it is \$77.48 million around September end.

Ankur:

The US dollar revenues?

Pramod:

In terms of US dollar revenues, we are at \$17.60 million again \$17.30 million last quarter.

Ankur:

Thanks for that. Last quarter you had highlighted several cost saving initiatives. Could you comment on how much of this has taken effect in terms of improving the margins in the December quarter and how much more rationalization can we expect going forward on this front?

Pramod:

It will be in operating and largely in the G&A expense area and some rationalization of policies will take place. It would have affected savings of approximately Rs. 3 crore in this quarter.

Ankur:

Do you expect this to continue?

Pramod:

We would expect this to continue.

Ankur:

Could it just be higher on the larger scale going forward or at the similar level every quarter?

Pramod:

Well as of now because we have not expanded infrastructure or man power in this quarter, we would expect them to remain at these levels and we would possibly improve when we grow further.

Ankur:

Also in the initial comments you mentioned, that you are committed to remain a Product Company and are exploring various business models, which effectively meet customer expectations, specifically on cost effective business solutions. Firstly, I do appreciate management sticking to the long-term strategy of focusing on products. With regard to your alternative business models that you are highlighting, is this along the lines of say software as a service or rental licensing instead of one time licensing? Could you add a bit more color there?

Niraj:

Absolutely right, during this quarter we have given five or six proposals which are on these lines because there were certain customers who were in the process of taking the decision and amongst all the turmoil, we found that lot of them were holding back decisions and always waiting for appropriate moment. So we discussed that and we came up with an alternative model where we could offer our product on the ASP model.

We have given five to six proposals to customers and they have been quite well received. We haven't closed a deal yet but we have given those proposals.

Ankur:

And you have the capability to provide this, if your proposal is accepted?

Niraj:

That's right.

Ankur:

Just on the GMAC order, could you comment on what would be the net impact of the bail out in December given by the US government to GMAC, to the business in the short to medium term?

Vishnu:

The way we look at it is, it will have only positive impact because we are a long-term partner with GMAC and its now coming to almost nine years. They are seeing the value that we are delivering. So as they transform themselves into a Bank Holding Company and transform their businesses across the world in that direction, we do expect some more business to come in.

Ankur:

Finally if you could comment on what traction is being witnessed with the new product Islamic finance component, and I think you had also mentioned last time you were trying to access new geographies such as Europe. Have you seen any traction on those fronts?

Niraj:

On the Islamic version, we are doing our first full fledged implementation of an Islamic loan product; it is one of the largest Islamic banks in the Middle East. And before that we had given lot of proposals. So we are in the Middle East and there is a very high demand for Islamic products and we have given many proposals for this new version of the FinnOne™ products and we do see a lot of orders coming that way. There are also opportunities for this product in Malaysia and couple of other countries and we are actively following them up.

Now coming to the new geographies, as we have mentioned before, in Europe we had put more sales force there and the team is working very hard and there are a lot of prospects which have been developed, have been generated and we are very confident that we will be able to get some results out of Europe. Even going forward, as I mentioned, we have appointed four channel partners for Latin America, we have got some very interesting prospects and lots of proposals from customers which we never had before. Some decisions are expected in this quarter also. We're actively following them up.

Ankur:

This is great. Thanks for that.

Operator:

Next in line we have a question from Mr. Priyank from Edelweiss. Please go ahead.

Priyank:

Good afternoon sir. Congratulations on an improved quarter this time. Just a couple of questions related with this. We saw a sharp decline in margins and profitability between the March quarter and June quarter and after that it has been a slight uptrend with improving margins. To what extent do we see this continue, or in the current environment do you see margins stabilizing between the September and the December numbers?

Pramod:

We were at 17% in the first quarter, then we were at 11% in quarter two and now we are at about 17% - 18% again. We did 25% last year. We do not give guidance as such. One step at a time, I think we have come back to where we were in the first quarter and we would try to improve this margin.

Priyank:

What would be the lever that you would be pushing in order to push this margin up to the level that we saw last year?

Pramod:

It would be productivity increase as well as cost optimization.

Priyank:

Could you give some color around both of those please, sir?

Pramod:

I think Vishnu may like to talk about Lean method of developing software.

Vishnu:

So far we have been following this CMM model, Capability and Maturity Model, which was well established and as Dr. Asha mentioned we are now getting into Capability Maturity Model Integrated. As a part of this enhancement, we are also ensuring that our core methodology is based on the lean principles, which are essentially about ensuring that the customer value that as defined by the customer remain the focus of the organization and any wastages that are there in the value stream, as seen by the

customer are minimize or eliminated brought to zero. There is a continuous flow of activities and there is a pull from the customer and finally there is a movement towards perfection. These are the five principles of Lean management, which we are very aggressively trying to bring in our core functioning and we are very confident that these principles as they have been successful in Toyota, would also be extremely helpful for us and more importantly for our customers.

Priyank:

Do you see your margins going back to the 24 to 25% levels in FY'10 ?

Pramod:

I don't think we would like to comment on FY' 10 projections at this point of time.

Priyank:

Thank you sir, that's all from my side.

Vishnu:

Thank you.

Operator:

Thank you, sir. Next in line we have a question from Mr. Ruchit Mehta from HSBC. Please go ahead.

Ruchit:

Good afternoon and nice quarter. In the projects business, you had a sequential jump of almost 22%, was that a one-time revenue that has been booked in this quarter or some special projects. Do you see this level of revenue sustainable?

Pramod:

This is additional revenue from existing customers and these are new projects just started. We mentioned last time that we have won some projects, that have just started. These projects normally last between 9 to 16 months and we would expect the revenue at these levels in this period.

Ruchit:

What was the dollar growth this quarter and the pricing improvement for services?

Pramod:

There has been no change in pricing of services in this quarter. I had mentioned that there is some volume growth in dollar terms, also in terms of total revenue.

Ruchit:

If you can also give us some sense of the growth environment, what you are seeing in terms of ground level and also in terms of winning new orders because you had a flattish order-book for quite a couple of few quarters and how challenging is the market base especially considering you are product based Company ?

Pramod:

I will answer part of the question and then Niraj will answer the second part.

The flattish order book arises also because we are booking very large revenues from a large ACOM project, which is not being replaced by projects of similar size. It is being replaced by a number of smaller orders, therefore the work involved in getting 10 orders to replace ACOM on a quarterly basis or 6 to 8 orders has been for some time and that is why it has been flat.

Niraj:

For the first question, on the services, if you look at our Q2 recap in September, I had mentioned that we have won two large quarter engagements which was more than 500 man months each and which would last anywhere from 1 to 1.5 year to a maximum of 2 years. Some part of that revenue we had already started showing in the books.

During this quarter we have one another large services orders, which is what I mentioned earlier. Now in terms of business, I have said that we have won 25 product orders for the first nine month period, which is significantly higher than what we had done in the same period last year. Just a recap, in the entire last year, we had won 23 product orders and during the first nine month itself, we have won 25 product orders.

I have also mentioned before that we are actively following approximately a 100 odd prospects, proposals have gone in and they are from all around the world. So we have some very good prospects, we are following them up. Some decisions obviously have got delayed because of the market scenario, for that we have come up with some different pricing like the Application Service Provider model. So we are actively talking to customer's, there is enough prospects in the marketplace.

Ruchit:

Do you see any sort of pressure on the customers to cut price, especially on your product front, willingness to buy the product but at probably significantly lower prices?

Niraj:

There are all kinds of scenarios, in some cases customers are expecting a very low price, some expecting some deferred price, some customers say we can pay a little amount in the first year and then we keep paying the rest. There are all kinds of customers and we are targeting every segment, we are not leaving any single prospect. We are coming up with an alternative proposal for every customer, so that we can win that business.

Ruchit:

How do you see the cycle now as compared to your normal cycle? Has it been significantly affected due to the market environment?

Niraj:

There is not much of a difference, except for the last 2, 3 months, many things were going on. There was the year ending taking place number one and everybody was just going slow at the end of the year. So there were some delays in the last two months but then again I think things have started looking much brighter now.

Ruchit:

Do you see more interest from local regional banks or MNC's. I mean, I am trying to understand that the trouble entities like Citi group or Bank of America or entities of those banks are also buying products or you are seeing mainly the local banks like the DBS or a State Bank of India?

Niraj:

Everybody is buying products, everybody is trying to bring in optimization where ever there are gaps, bring in products where ever they can see values also, I think we are having all kinds of scenarios.

Ruchit:

Great and just finally, what's the CAPEX plan, for the current year, any change to that?

Pramod:

No, there is no major CAPEX plan now; we would only make some additions to computer assets or software assets, if we buy it from outside in the current year.

Ruchit:

Would be around Rs. 20 - 30 crore?

Pramod:

Total cash paid for land of course during the fist quarter, but we are not proposing to start work there now.

Ruchit:

You used to do some work for Citi Group in Singapore as well, has there been any impact on that business?

Pramod:

Infact that business has gone to the new on- site - off-shore model that business has expanded in the last few months.

Ruchit:

Any trouble on the receivables front, either from Citigroup or GMAC, because these are the troubled accounts, any issue in the receivables cycle?

Pramod:

No, Citibank and GMAC in fact are some of the people who pay the best with regard to the number of days. There are of course one or two clients due to whom our receivables run an average of 90 days plus.

Ruchit:

Thank you.

Operator:

Thank you, sir. Next in line we have a question from Mr. Ravichandran from UNIFI Wealth Management. Please go ahead sir.

Ravichandran:

Good evening all of you. Congrats on good set of numbers.

Pramod:

Good evening.

Ravichandran:

As far as the order book is concerned, out of the \$76 million, ACOM, we are supposed to complete by December 2009 as for our revised plan, and the other portion of the order book, the general cycle is about 12 months. So in this context is it fair to assume that this \$76 million is executable in the next 12 month time?

Pramod:

That could not be appropriate because the order book does contain certain ACOM, some other business to the tune of at least \$20-\$25 million, which would be after December 2009.

Ravichandran:

And the last two quarters we had some issues between the order winning and license agreement, there was a lag in the signing license agreement. Whether these issues are behind us or still you are facing these kind of issues here and there?

Niraj:

In the last quarter, where we had mentioned that we have won a lot of orders, but we are unable to start those projects because we wanted to get the agreement signed and I am happy to say that most of those agreements have been signed and work has either started or it is commencing.

Ravichandran:

Finally to the CFO, can you just repeat the FOREX positions; hedging as well as MTM loss. I could not capture that position, thank you.

Pramod:

The hedging position is that we have a total hedge of \$18.75 million now which is a substantial reduction from where we were at September end. Out of \$18.75 million, \$11.25 million are for Forward and the balance \$7.5 million is Options. All of these are the mark to market at Rs. 48.72; the mark to market on the Options is absorbed in the profit and loss account for the quarter. The mark to market on the Forwards, which is Rs. 3.6 core, is debited to the hedging reserve and would get adjusted whenever the forwards mature. We have no forwards beyond August and let us assume that they would get adjusted in revenue depending on the rates prevailing on those dates between now and September.

Ravichandran:

Thank you. Wish you all the best.

Pramod:

Thank you very much.

Operator:

Thank you sir. We have in line Mr. Ruchit Mehta from HSBC again. Please go ahead, sir.

Ruchit:

Just wanted to understand the Withholding Taxes that have actually gone up in this quarter. I am wondering this will be directly linked to the ACOM execution?

Pramod:

Withholding Taxes are basically 10% of revenue from Japan in the standalone company in India. It would include ACOM and other Japan Business.

Ruchit:

Even the normal tax, excluding withholding taxes has actually seen an increase, to almost 15% in this quarter. So what taxes are you assuming going forward and what will it be in fiscal '10 as well?

Pramod:

This time in fact in terms of the tax rate applied in current quarter ,there is an effect because we have done some premature encashment of fixed maturity plan, where there is a short term capital gain arising and the short-term capital gain is taxable in full.

Our taxes have been running at about 4 to 5% of revenue. As the exemption continues next year, we would expect them in the same way.

Ruchit:

So what would it be in terms of Profit Before Taxes (PBT) ? I mean 4 to 5% of PBT or revenue?

Pramod:

I have given percentage of total revenue four to five.

Ruchit:

The 4 to 5% of revenues would be a huge amount?

Pramod:

A little.

Ruchit:

What is the hiring outlook, and do you continue to look at just in time hiring or more significant additions going forward?

Pramod:

I think just in time is the right word and we are not looking at a creating any specific bench unless we have more clarity on the demand side.

Ruchit:

Sir just in terms of the wage cost, we have had significant wage inflation this year as well. How do you now build in wage inflation going forward into next year? Would they moderate from the levels that we have seen?

Pramod:

We have been probably higher than industry. We would expect to be at industry levels this year.

Ruchit:

Thank you.

Operator:

Thank you, sir. Next inline we have a question from Mr. Ankur Arora from ING Investment Management. Please go ahead.

Ankur Arora:

May be just a quick question on the other income side, we have an other income of Rs. 3.87 crore in this quarter. Can you just break it up and verify?

Pramod:

This has Rs. 2.89 crore of capital gains, dividends and interest.

Ankur Arora:

Can you break it up? How much is the capital gains, dividend and interest?

Pramod:

Capital gains on investment in mutual funds is Rs. 1.04 crore. Dividend from mutual fund is Rs. 48 lacs and interest is Rs. 1.37 crore.

Ankur Arora:

Remaining portion of the other income comes from?

Pramod:

We have gain on the consolidation of Rs. 65 lacs.

Ankur Arora:

What is the gain on consolidation all about?

Pramod:

That is basically an accounting entry of forex gain on consolidation. In material subsidiaries like Singapore all assets and liabilities gets translated at revised exchange rates. It's an accounting gain.

Ankur Arora:

It is kind of Forex gain only a book entry only, nothing much apart from that.

Pramod:

That's right and then there is miscellaneous other income etc. of about Rs. 33 lacs.

Ankur Arora:

Thank you.

Operator:

Thank you, sir. Next inline we have a question from Mr. Anoop Gupta from FE Securities. Please go ahead.

Anoop:

Good afternoon. Congratulations for good set of numbers I just wanted to enquire that your administration expenses have gone up. There has been a write off, what does it pertain to?

My second question is that till now the Company has not been able to get any business from U.S. I have read or heard it from someone that your software does not support U.S. business. So what is the Company doing to make an entry into that market?

Pramod:

I will take the first part of the question. This is regarding the G&A expense and we have mentioned about the provisioning for receivables. It is like in any other business, there are certain receivables which are being discussed with the customers, where there is some doubt and while we are committed to recover that money, we thought it prudent to provide for them. We would not been in a position to give customer wise details.

Anoop:

But do you expect any further provisioning coming in? The debtors if we classify them into less than six months and more than six months, how much would that be out of this Rs. 84 crore?

Pramod:

I will get back to you on that number and in the meanwhile Niraj will talk to you about US market and the product compatibility.

Niraj:

As we had mentioned before that we had hired an external leader in the business to look at the product and do a fitment analysis for the U.S. market and at the end of it, the report concluded that at this stage, there is a lot to be done in the product and there is substantial investment required. The U.S. market is controlled by a couple of people on the software service model. So based on all those inputs, we took a decision to hold back the plan for the FinnOne™ product for the U.S. market.

There were opportunities in the payments area and I have mentioned before that it was amongst the eight orders that we got this quarter. In this quarter there is one which has come from the U.S. and that is for the payments products, the revenues of course will be coming in as we deliver the product. We have a payment part in suite of cash management product which we have. This particular module called Payments has been adapted to the U.S. market and product implementation will happen soon.

Anoop:

So we should be seeing something now from US going forwards?

Niraj:

Not on the FinnOne™ loan side but definitely on the payment side.

Anoop Gupta:

Are you working on FinnOne™ also to get into U.S.?

Niraj:

At the moment our entire focus is on getting a good positioning and also some good orders in Europe and Latin America. We will be working but not doing any marketing efforts in US for the moment because in today's position, it is not the right time to enter that market also.

Anoop Gupta:

But you have been into that market for quite sometime.

Niraj:

That is right. We have been in that market for sometime and I will say that we got this analysis done and it requires a lot of investment into the product and at this stage we thought it is better that we focus on Europe and other markets especially Europe because there the fitment was extremely high in comparison. Especially when GMAC has gone live in so many countries, we could leverage that implementation and get more business in Europe and then move to the U.S. So there are markets and the question is where you put in all your focus. I think Latin American and Europe are two areas where we think that is good potential and a good market and hence we are focusing on them.

Anoop:

Thank you. I think that will answer my questions.

Niraj:

Thank you.

Operator:

Thank you, sir. Next inline we have a question from Mr. Keshav from BHH Securities Private Limited. Please go ahead.

Keshav:

Sir I was wondering about your Forex losses to the tune of Rs. 9 crore in nine months. Can you just throw some light on that and in the last quarter we had seen a Forex loss come down to Rs. 1 crore. viz a viz Rs. 8 crore for the six months. So can you give us some sense of what it's going to be going forward?

Pramod:

The larger amount of Forex loss was booked in the first quarter. If you remember rupee depreciated from Rs. 39.30 or Rs. 39.40 end of March to about Rs. 43.90, above 44 by June end. As per our Hedging Policy we had a large number of options outstanding, and there was a huge mark-to-market loss in those. What happens is that the larger amount of loss in this accounting treatment gets booked right upfront and then these smaller amounts, if there are subsequent movements start getting booked. We do not expect to book losses of this nature, and you may have noted that our hedging position has gone down substantially.

Keshav:

So can we assume that we will see similar numbers going forward? For that can you give us some forecast for the next four quarters? For PAT because last quarter the PAT was Rs. 4 crore and this quarter It is Rs. 10.5 crore. So there is a big jump of 150% quarter-on-quarter.

Pramod:

Yes, that is right but you will notice that on a nine month basis, we are also running at a 50% below last year. We do not give any guidance on the revenue or proper numbers.

Keshav:

Thank you, sir.

Operator:

Thank you, sir. At this moment there are no further questions from the participants. I would like to hand the flow back to Ms. Meenakshi Sharma for final remarks, over to you ma'am.

Meenakshi:

Thank you Monisha and thank you everybody for joining us in this call and now I would like to hand it over to Vishnu for his closing comments.

Vishnu:

Once again we would like to thank you very much for your interest in Nucleus and we would like to reassure you of sustained support to our customers as well as all our stakeholders. Thank you very much.