



Q4 FY 10

Earnings Conference Call

April 26, 2010

Members of Nucleus Management

- | | |
|-----------------------|-------------------------|
| - Mr. Vishnu R Dusad | Managing Director & CEO |
| - Mr. Niraj Vedwa | Chief Operating Officer |
| - Mr. Pramod K Sanghi | President Finance & CFO |
| - Mr. Ravi Verma | President and Head HR |

Conference Call Participants

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|----------------------------|----------------------|
| - Mr. Manik Taneja | Emkay Global |
| - Mr. Abhishek | BCK Shares |
| - Mr. Dipesh Mehta | Khandwala Securities |
| - Ms. Grishma Shah | Envision Capital |
| - Mr. Deepak Radhakrishnan | UNIFI Capital |
| - Mr. Ravvichandran | UNIFI Capital |

Nucleus Software Exports Limited

Meenakshi

Thank you Savita, and a very good afternoon and warm welcome to all of you. This is Meenakshi Sharma from the Investor Relations' team at Nucleus Software. Here, we are in this Investor Conference Call of Nucleus Software to discuss the financial results for the Quarter Four and Year Ended 2010. We have with us today Mr. Vishnu Dusad, CEO and Managing Director; Mr. Pramod. K. Sanghi, President Finance and the Chief Financial Officer; Mr. Niraj Vedwa, Chief Operating Officer; and Mr. Ravi Verma, President and Head HR. We will first start with the initial comments on performance of the company straight from the CEO and MD and after that we would be open for the question and answer session. With this, I handover to Mr. Dusad for his comments.

Vishnu:

Thank you Meenakshi and good afternoon ladies and gentlemen. It gives me immense pleasure to announce the results for Fourth Quarter and Year Ended March 31, 2010.

Before moving on to the numbers, I would like to share some of the accolades that we have won during the year:

- Nucleus Software's FinnOne™ was ranked '**World's No 1 Selling Lending Software product**' by IBS Publishing for the second consecutive year in 2009.
- Annual Report of the Company for year ended March 31, 2009 was adjudged as the **BEST under the category 'Information Technology, Communication and Entertainment enterprises'** of the '**ICAI Awards for Excellence in Financial Reporting**' by the Institute of Chartered Accountants of India (ICAI). A **GOLD SHIELD was awarded to the Company. Nucleus received the Gold Shield for the 2nd consecutive year.**
- The Company was ranked among the **Top 25 companies adopting "Good Corporate Governance Practices"** by ICSI for **fourth consecutive year in 2009**
- South Asian Federation of Accountants (SAFA) adjudged Nucleus' Annual Report as the recipient of the merit position for the **Best Presented Accounts and Corporate Governance Disclosures Award 2008** under the category of Corporate Governance Disclosure.
- Forrester Research, a leading independent analyst firm, the Company as an industry vertical specialist in their recent report "Working With Tier Two Offshore Providers.

Nucleus Software Exports Limited
Fourth Quarter and Year Ended March 31, 2010

Now I will take you through the numbers, first the quarterly figures.

- **Our consolidated revenue from software products and services** for the quarter is Rs.72.25 crore against Rs. 85.81 crore for the corresponding quarter previous year.
- **Revenue from the product business** for the quarter is at Rs. 48.11crore, 66.58% of the total revenue against Rs. 54.90 crore, 63.98% of the total revenue for the corresponding quarter previous year.
- **Product revenue from own business**, products developed by Nucleus, for the quarter is Rs. 36.11 crore, 49.97% of the total revenue against Rs. 50.97 crore , 59.40% of revenue for the corresponding quarter previous year.
- **Projects and services business revenue** for the quarter is Rs. 24.14 crore, 33.42% of total revenue against Rs. 30.91 crore, 36.02% of the revenue for the corresponding quarter previous year.
- **EBITDA** for the quarter is Rs. 13.83 crore, 19.15% of revenue against Rs. 11.36 crore, 13.23% for the corresponding quarter previous year.
- **Net profit** for the quarter is Rs. 9.19 crore, 12.72% of revenue against Rs. 9.60 crore, 11.20% of revenue for the corresponding quarter previous year.
- **EPS** is at Rs. 2.84 for the quarter against Rs. 2.97 for the corresponding quarter previous year.
- **For the Year our consolidated revenue from software products and services** is Rs. 291.78 crore against Rs. 328.40 crore for Previous Year.
- **Revenue from the product business** for the Year Ended is at Rs. 173.95 crore, 59.62 % of the total revenue against Rs. 219.96 crore, 66.98% of the total revenue for Previous Year.
- **Product revenue from own business**, product developed by Nucleus, for the Year Ended is Rs. 151.13 crore, 51.79% of the total revenue against Rs.200.72 crore, 61.12% of revenue for Previous Year.
- **Projects and services business revenue** for the Year Ended is Rs. 117.83 crore, 40.38% of total revenue against Rs. 108.44 crore, 33.02% of the revenue for Previous Year.
- **EBITDA** for Year Ended is Rs. 54.08 crore,18.53% of revenue against Rs.49.61 crore, 15.10 % of revenue for Previous Year.

Nucleus Software Exports Limited
Fourth Quarter and Year Ended March 31, 2010

- **Net profit** for Year Ended is Rs. 38.40 crore, 13.16% of revenue against Rs. 32.26 crore, 9.82% of revenue for Previous Year.
- **EPS** for Year Ended is at Rs. 11.86 against Rs. 9.97 for previous year.
- **Our total Current investments and bank position** is at Rs. 163 crore as on March 31, 2010 against Rs. 147 crore as on December 31, 2009.
- In terms of **manpower**, we are at 1558 as on March 31, 2010 against 1668 as on December 31, 2009.

We have had a difficult year with top line falling from the previous year . We focused on cost and EBITDA margins have grown by 343 basis points to 18.53% for the year against 15.10% in 2009 . we are conscious that we had 25.55%B EBITDA margin in 2008 and we have some way to go before achieving the same again The emphasis in the current year would be to return to top line growth and increase market share .T he challenge will be in increasing productivity to compensate for increasing manpower cost .The steep appreciation of the rupee against all major currencies is another external factor which will need closer management . New technologically superior versions of our key products will be launched during the current year and we are confident of maintaining our competitive edge. Thank you very much and over to you Pramod.

Pramod:

Good afternoon everybody. This is Pramod Sanghi and welcome to the conference call.

- **On a sequential basis, revenues** are at Rs.72.25 crore, increase of 5.53 % from Rs. 68.46 crore previous quarter. Total Revenue For the year is Rs. 291.78 crore against Rs. 328.40 crore previous year., a fall of 11.15%
- **Product revenue** at Rs. 48.11 crore against Rs. 39.69 crore previous quarter, growth of 21.21%. Product revenues for the year are at Rs. 173.95 crore against Rs. 219.96 crore previous year., a fall of 21%
- **Traded revenue from products** included in this product revenue is Rs. 12 crore against Rs. 3.73 crore previous quarter. For the year it was Rs. 22.83 crore against Rs. 19.24 crore previous year.
- **Revenue from own Products** is Rs. 36.10 crore against 35.96 crore. For the year it was at Rs. 151.12 crore against Rs. 200.72 crore previous year.

Nucleus Software Exports Limited
Fourth Quarter and Year Ended March 31, 2010

- **Revenue from projects and services** is at Rs. 24.14 crore, against Rs. 28.78 crore previous quarter, a decline of 16.11%. Projects and services revenue for the year is Rs. 117.83 crore against Rs. 108.44 crore previous year., a 8.66 % increase
- **Cost of delivery** as a % of revenue has increased marginally to 66.47% against 67.83% previous quarter. For the year is 67.23%, similar to 67.77% previous year.
- **Marketing expenses** are at 6.84% of revenue this quarter, against 8.05 % of revenue previous quarter. In absolute terms, this is Rs. 4.95 crore against Rs. 5.51 crore previous qtr. Marketing expense for the year at 22,67 crore is 7.77% of revenue, against 27.80 crore , 8.46% of revenue for the previous year.
- **G&A expenses** are at 7.50% revenue this quarter, against 6.25% of revenue previous quarter. In absolute terms , this is Rs. 5.44 crore against Rs. 4.28 crore previous qtr. G&A expense for the year is 6.47% of revenue, 8.66% of revenue for the previous year.
- **Total expenses** in the quarter are at Rs. 58.42 crore, against Rs. 56.23 crore previous quarter. On a yearly basis, expense is Rs. 237.70 crore, 14.74% lower than Rs. 278.80 crore in the last year. We have fulfilled our commitment of achieving a 10% reduction in overall expense for the year.
- **Total expenses in the quarter excluding trading related costs** are Rs 51.35 crore against Rs. 53.22 crore in previous qtr, a 3.52 % reduction.
On a yearly basis, expense is Rs. 222.32 crore, 14.60 % lower than Rs. 260.32 crore in the previous year.
- **EBITDA** is at 19.18% this quarter against 17.88% previous quarter. For the year, EBITDA is 18.53% against 15.10% previous year.
- **Other income** is at Rs. 2.06 crore against Rs. 2.28 crore previous quarter.
For the year, it is Rs. 9.62 crore, against Rs. 13.71 crore previous year.
- **There is a foreign exchange loss** of Rs. 2.43 crore against a loss of Rs. 1.66 crore previous quarter. At the same time there is a Rs. 1.03 crore gain on forwards which is part of the revenue stream.

For the year, foreign exchange loss was Rs. 8.03 crore against Rs. 7.92 crore. The gain on forwards booked to revenue for the year is 3.12 crore

- **Withholding taxes** are 34 lakhs, which were NIL last quarter. WHT for the year was Rs. 42.56 lakhs against Rs. 7.26 crore previous year.

Nucleus Software Exports Limited
Fourth Quarter and Year Ended March 31, 2010

- **Total taxes including withholding taxes** are 17.24% of PBT against 9.31% of PBT last qtr at a group level. For the year Total Taxes were at 13.39% of PBT against 23.41% of PBT previous year
- **Depreciation** is Rs. 2.36 crore against Rs. 2.76 crore previous quarter. For the year depreciation is at Rs. 11.33 crore against Rs. 13.28 crore previous year.
- **Capex for the year is Rs. 2.05 crore against Rs. 23.18 crore in the previous year**
- **PAT** is Rs.9.19 crore, 12.72 % of revenue against Rs.9.20 crore, 13.44 % of revenue previous quarter. For the year PAT is at Rs. 38.40 crore against 32.26 crore previous year.
- In terms of **foreign currency hedges**, we had on Mar 31, USD 10.00 million dollars of forward contracts at an average rate of 46.66 which are designated as highly probable forecast transactions, and there is a mark-to-market gain of about Rs. 137.24 lakhs which is taken to hedging reserve in the balance sheet. We have a 0.40 million \$ option which is marked to mkt at 45.09 in the accounts.

Our total hedge is USD 10.40 million and we are basically covering close to our India receivables which are USD 10.42 million as of Mar 31 2010. March 2009 we had a total hedge of USD 9.15 million.

- **Current Coverage** is USD 11.65 million @ including forward contracts of USD 11.25 million and option of USD 0.40 million.
- With regard to **receivables**, we are at Rs. 58 crore against Rs. 62 crore previous quarter and the **DSR** as on 31st March is at 72 days against 84 days previous year.
- **Top 5 clients** at 67 % against 69% last quarter.
- **The order book position** is Rs. 164 crore including Rs. 117 crore of products business and Rs. 47 crore of projects and services business, against Rs. 179 crore last quarter with Rs. 117 crore of products and Rs. 62 crore of services.

Some details of our bank deposits:

- We have balances with scheduled banks in India of Rs. 10.17 crore, against Rs. 11.97 crore as at December end.
- We have balances outside India including our subsidiaries of Rs.17.07 crore against Rs. 20.74 crore as at December end.
- We have fixed deposits with Citibank, HDFC Bank, Canara Bank, Bank, Punjab National Bank, ICICI Bank, State Bank of India, Corporation Bank and Bank of India totaling to Rs. 38.68 crore. Against Rs. 45.41 crore as at December end.

Nucleus Software Exports Limited
Fourth Quarter and Year Ended March 31, 2010

We have mutual funds of Rs.95.65 crore against Rs. 67.90 crore in December.
I will now handover to Niraj for his comments on the operations of the company.

Niraj

Thank you Pramod. The year was challenging on the sales front. For the year, 31 product orders were received for 87 modules, so the value of the sales deal had gone certainly lower than the previous year. We also added 12 channel partners across the globe during the year. 170 RFPs or RFIs which are request for proposals came from customers, and we are seeing an increasing trend on that, and 280 product demonstrations were held during the course of the year. There have been decisions which have been delayed for the last 3 to 4 months on various accounts such as Dubai crisis, Greece crisis, and the crisis in the US regarding a particular bank. There have been, , temporary holding of decisions, and we do expect that decisions will start happening now. We have had some good endorsements from Gartner, from Forrester, as well as Celent during the course of the year, and of course IBS Publishing having ranked Nucleus as the No. 1 selling, lending product in the world.

We have participated in a number of events. Recently, we were platinum sponsors in the largest banking event in Middle East called MEFTEC, where we had the largest, and we had some very good enquiries which were received during the course of the exhibition. We also participated in the Asian Banker Summit 2010 in Singapore.

As far as markets are concerned, now we are operating in almost all the markets. We are expecting lot of traction in various markets including Europe, Latin America. We have also put in a very large structure team to manage the large accounts globally, and we are also focusing on increasing our penetration into some large accounts which can give us some sizeable business. In the meanwhile, we have also translated our website into 5 languages, and that is already hosted. So, we have Japanese, French, Spanish, German, and Arabic. These are the 5 languages that our website is now operational.

In the last 3 months, we have focused a lot into increasing the operational efficiency. There is a very high focus on QA, quality assurance, as well as very high focus on process compliance. Each and every person or individual or associate in Nucleus performances measured on the timesheets which are being filled on a daily basis. There is a very high focus on increasing our efficiency and henceforth reducing cost of delivery to under 60% from the current 67%. We are ensuring that each and every code which goes out of Nucleus is tested by our testing team, and then only it goes out to the customer .We are focusing on a very high voice of customer feedback. There is a technology incubation unit which has been created to strengthen our technology incubation. We have also created centralized business analyst pool which interacts with customers to ensure that their requirements are absolutely clearly documented and understood, and to support the delivery in delivering as per norms. There is a delivery assurance group which has been created to help and facilitate the delivery units to follow the standard processes. These are some of the steps which are taken to increase the operational efficiency. We have had high number of successful deliveries

Nucleus Software Exports Limited
Fourth Quarter and Year Ended March 31, 2010

across the globe, and a very high voice of customer rating coming from many customers, and with some of these measures that we have taken, we hope to increase our voice of customer and the customer satisfaction.

At the same time, ensuring that our delivery is absolutely impeccable, and also with this operational efficiency, and process compliance, we are able to reduce our cost of delivery from 67% to under 50% is what we are looking at, and with the markets now opening up, with the RFPs that we have in hand, and the demos that we have in hand, we are hopeful and confident that decisions will start happening now, and this would start resulting in increase in the order book, and also increase in the execution and hence the revenue recognition. Now, I will hand it over to Ravi Verma, President and Head, Human Resources.

Ravi:

Thank you Niraj. Q4 has been a challenging quarter. We have continued with our focus to manage all our requirements with the internal resource movements as far as possible and improving productivity of the existing teams. Selective hiring continued for skills not available internally and to build sales/ domain skills. In addition we also inducted 37 Freshers from college. These are being trained on technology and product through our internal training programs. We have continued with our strategy of taking temporary/ contract staff for short term ramp up requirements of the projects. Manpower numbers have therefore been kept under strict control and reduced from 1668 to 1558, as some of the vacant positions due to employees leaving organization have been filled internally.

Key focus area for this quarter was role realignment of project managers. This has enabled job enrichment for Project Managers and has brought focus on providing deliveries with reduced rework. Employee knowledge improvement initiative was another key area on employee development initiative agenda.. A special drive was conducted to enhance knowledge of project managers and business analysts.

Our efforts were further enhanced for training and skills enhancement of released resources, before their allocation to the next assignments. Resources who have been ramped down were prepared to support the new product release. Extensive skills enhancement programs are being conducted for Technology and Framework knowledge for the new product. We continued our efforts of capturing Product knowledge and translating it in to Computer Based Trainings (CBT's). This has ensured the building of knowledge repository at organizational level.

Project management and planning tools developed internally were further enhanced. This tool is helping the projects in proper planning and monitoring productivity of the resources. Project Dashboard is being extensively used by BU heads and Management to track the projects proactively for preventative actions to avoid any last minute surprises.

Nucleus Software Exports Limited
Fourth Quarter and Year Ended March 31, 2010

The attrition levels have increased slightly, however these are well under control and has no adverse impact on business.

Meenakshi

Thank you Ravi and now we are back to Savita for letting us continue with the Q&A session.

Manik

Hi sir. Just some question first of all on your order book, if you could give us the position of order book at the end of the quarter. Similarly, the breakup between the products part of it and the services part of it as well as some inputs on the sales efforts that you guys have been making in MEA and Asia-Pac.

Pramod

Order book end of quarter is 164 crores, of which 117 crores is products, and 47 crores is services. On the sales efforts, Niraj will talk.

Niraj

We have 170 RFPs that we received during the year. I would say that more than 90% of these have come from, , South East Asia, Middle East, and Africa. Now, we have got number of RFPs from Europe and Latin America also, but , so this is the composition. In Africa, we now have 4 sales people with one person who is stationed in Nigeria permanently, and we have a person looking after Southern part of Africa, somebody looking after Eastern Africa, somebody looking after Western Africa, and we have 1 person in Egypt, who is handling the Egyptian market, and we have a person for the Francophone countries, which is Morocco, Algeria, Tunisia, etc., we have a person who is hired there, who is a Tunisian who speaks French. The African Continent is now headed with 5 people and we have 2 people exclusively for CIS markets. We have an office in Dubai Internet City. Then in South East Asia, we are covering all the countries, we have a person based in Korea who is an Korean person. We have a person in Manila for the Philippines market, and similarly we have people either in Singapore and India, who are handling different markets. Bulk of the RFPs that have been coming, they are coming from South East Asia, from Middle East, and the Northern African part. Lot of RFPs are coming from Northern Africa. So, this is where these have been coming, and then in Europe, now, because we have now enough focus has been given to the European market, we have lot of RFPs that have come in from there, and some decisions are expected in this quarter.

Manik:

Just wanted both Vishnu's and Mr. Sanghi's remarks. We have been accumulating significant cash on our balance sheet. Where would you want to use this cash?

Vishnu:

In yesterday's Board meeting, our Board has given us an approval for initiating process for some minor acquisition, so that is where this cash would be put to use.

Manik

And sir, potential areas for these inorganic moves?

Vishnu:

We are looking at two kinds of targets. One, companies which would help us expand our geographical reach, with a product similar to ours, also companies which have presence in geographies where we do not have. That is one type of company that we are looking at. The other one being having products which we can sell to our existing customers.

Niraj:

Further adding on to what Vishnu said, we are only increasing our number of customers. So, there are areas within retail banking space which can compliment, our existing strong customers, if we are able to, in the company with lot of products which we can implement or supplement what we have to offer, it would be a very good cross-selling.

Manik:

Sir, apart from that, just wanted to get your views on possible wage increments for the company, given that most of the peers in the sector have been giving decent salary hikes, how would you guys position yourself and what kind of pressure you are seeing over there?

Pramod.

I will answer part of the question and then Ravi will answer. First part is that we had given a hike in December 2009, which was about 10% across the board on an average for all the India personnel, and we have executed another hike for selected people at the lower level in the engineering team, who have gone through 4 years' experience or 1 to 5 years experience, Which again is effective April, that again possibly I would say would be somewhere between 13% to 14% additional there. On the balance man power which is about 50%, that

Nucleus Software Exports Limited
Fourth Quarter and Year Ended March 31, 2010

would cover about 40% of the people in India, we still have to take a call, and the review processes have started, but we have not decided on the numbers.

Manik

Sure sir, and what would be our employee turnover as of now, I mean, the attrition number?

Pramod

This attrition number moves around a little bit, but it can go as high as 20% to 25% or it can come down to 15%. Attrition actually takes place largely at the levels of experience between 1 to 3 years. And that is something which we have tried to address largely through salary increases, , and Ravi will share on that.

Ravi:

On the attrition, I can say that if you look at the leadership team in Nucleus which has project managers, we have very, very stable team in place, and attrition is in single digits, on the lower side of the single digits As far as attrition at lower levels is concerned, that is basically 1 years, 2 years, it is a bit high, but as the projects were ramping down, it did not affect the growth at all. As far as other positions are concerned, we are already working on that.

Manik

Thank you.

Abhishek:

I just wanted to ask you one question regarding your product revenue. Are you seeing enough demand picking up in that segment, so that it can actually result into an incremental revenue on the quarters to come?

Pramod

Our basic business is products, and while it has gone down this year, this is the area where we push.

Niraj

The contribution from products to revenue is 65 to 70% as a portion of our total revenue. One of our unique selling propositions is that we are 100% focused in banking products and

Nucleus Software Exports Limited
Fourth Quarter and Year Ended March 31, 2010

services around the banking products, so that has given us a very strong niche. You may see the endorsement that the IBS Publishing says, Nucleus is No. 1 in lending product, and Gartner says you are amongst the best lending solutions, so we have got accolades from Gartner, from Forrester, from Celent. , We have a very strong partner network across the world. We have customers all across the world. The RFPs that we have this year, are more than 170, and we have given our presentations and demonstrations for the same. The markets are opening up globally. There were some temporary setbacks because as I had mentioned before, Dubai crisis started and the decisions were held back, and then as the market was turning around, we had Greece crisis, so people today think 10 times that one small incident in one part of the world may actually lead to a global phenomena, so people hold decisions.

I think we have passed that, and we are only hoping that no more news comes up, but with this happening, we are now all geared up to make sure that these product orders are converted, our sales force will be charged up, and we really push them hard, and we are confident of converting these orders. In this month itself, we have converted already two, orders from Egypt, it is in a span of 1 year, rather 13-calendar month that we have got our third deal from Egypt. We are pushing hard, and we are hopeful of converting opportunities which are existing in the market.

Abhishek:

The second question is related to your presales activities, what is the percentage share of this presale activity to your total selling and marketing expenses?

Niraj

We have, roughly about 25 people who are involved in presales. Now, presales consist of a number of activities. There are some people who are totally involved in telemarketing, wholesome people are involved in helping participation in all the events all over the world. We do major campaigns, we do lot of optimization on our website to attract customers, so if you put in words like, banking technology, or if you put in lending software, by default you will find Nucleus in the top 3 or 4 searches in number of criteria. Then, we have the team responsible for filling up the RFPs of the best quality product, to deliver to customers, and there is also a team which is responsible for giving demonstration. So, this is all part of presales team. They are roughly about 25 people who are there on that.

Pramod

To answer your question better, , presales and sales which is direct sales would account for probably 70% to 85% of our total expenditure on marketing.

Abhishek:

Nucleus Software Exports Limited
Fourth Quarter and Year Ended March 31, 2010

How are you seeing this expenses actually going up in the next few quarters to actually capture the demand.

Niraj

Yes, we would be increasing our focus on participation in most of the large banking events. We would like to participate in all seminars, give as many breakfast shows in different parts of the world, where we invite customers over breakfast or cup of tea or coffee or dinner, and they go through our products. We want to have this all around the world, and of course, we want to increase our sales force.

That is very important, as we have to tap the opportunities and win business. So, we are putting in extra efforts and substantial investment into sales and marketing.

Abhishek:

My third question related to your product business, as far as my understanding, your product business is basically divided into two parts. One is your IP sales and second is your annuity based maintenance cost you will get. So, what is that annuity based revenue as a percentage of share, what is the actual percentage of share of the total product revenue?

Niraj

I will just brief you about our product business while Pramod will give you the exact figures. Once we get the customers, the initial part, there is a license, then there is customization, and then there is implementation revenue, and once the product goes live, then there is the annuity revenue. Now with the annuity revenue, we have three models. There is bronze support which is 9 to 6 the customer business hours, where we charge 15% of the license revenue, then we have silver support which is basically beginning of the day to end of the day, which is an application time. There we charge 20%, and third level of support is 24/7 support, which is the gold support, for which we charge 25%. Almost all customers will do customization on a year on year basis, so that is also another annuity model. So, in the annuity, we will have annual technical support revenues, and the customization which comes in, and Pramod will give you the figures for support revenue which comes for the year.

Pramod

The total product revenue we have stated for the year, all kinds, is approximately Rs. 173.95 crores. Out of which, own products' revenue was Rs.151.12 crores. On 151.12 crores, we have about maintenance forms almost 19%.

Abhishek:

Thanks.

Dipesh:

Just wanted to understand about our growth outlook because if I see our order book, earlier used to be around 4-quarter run-rate. Now, it is around half of it, around 6-month run rate. So, what kind of demand outlook we are seeing for may be at this point of time, and verticalize our geography, that would be very helpful.

Pramod

First part, the order book, yes, there was a drop in the product order book for four consecutive quarters, and I think this is the first quarter where we have seen improvement, and the effort is on to increase the order book, obviously revenue for the future quarters. As far as efforts are concerned, we will again expand our niche in both the verticals and product lines.

Niraj

We are one of the companies that are more affected in because of recession across the world primarily coming out of the subprime crisis in the US market, which is all related the credit problem. The moment credit squeeze happens, the first thing which banks start doing is that they will start reducing their exposure to loans, and they start reducing loans and they start focusing on more on the other businesses. Our product is in loan business, and obviously it got most affected because of this.

Now, with the markets having opened up, the number of RFPs, all the customers who had been holding on to decisions either to change a system or to enhance a system, have started opening up. There are 170 odd RFP's that we have received in the year and still there are these RFPs which need to be decided. We are in good stages in many of these cases and we are focusing through our sales force to come up with innovation in pricing. Different models have been given to customers. We are trying to show flexibility to customers in terms of innovative pricing models, so that, we can help them take a decision. Focus is now on generating closures of these RFPs. I have already mentioned that, most of these RFPs, 90% plus have come from Middle East, from South East Asia. These are some of the markets where we have very high presence and also from Africa and we are confident now that with the change in the world outlook, change in the global economies, and if you look at the Indian market, in the last one and half years, the number of apartments or builders, , who are coming up with apartments had totally gone off and even loans were not available. Now, you will find builders after builders launching new products and if you walk into a builder's premises you will find five banks willing to give you a loan. So, the outlook has changed here in India and same way it is all across and we have also started seeing that customers have started requesting for our proposals, etc. We are confident of being able to, convert these orders and increase the pipeline on products in this quarter.

Dipesh

Only one clarification I required. When we say, we are taking more RFPs, so we are confident that now from current level of around 70 odd crores of run rate, we don't expect any decline going forward and we expect steady increase going forward?

Niraj

Well, that is obviously the expectation, certainly. We had a higher order book, and , along with this we need to close these deals the order book size, especially on the product business should go up.

Dipesh

Okay and the second, about acquisition what you highlighted, Board has approved. So, what would be the size of that acquisition what we are looking at?

Pramod

We have not limited ourselves with size, but it is not something which will be, strictly say that we are not looking at very large acquisition.

Dipesh

So, that we would not raise any debt, whatever cash we have that would be?

Pramod

I think the first acquisition would most likely not require any debt.

Dipesh

Okay and about the margin outlook, I just wanted to understand because if I see our selling cost has also declined steadily. So, now once we are seeing stability in the marketplace, what kind of trend we expect to see?

Pramod

I think we stated, , that we came down from 25% EBITDA in 2008 to 15 and odd in 2009 and now we are back to 18.5. So, , it is difficult to predict and especially with the exchange rate

Nucleus Software Exports Limited
Fourth Quarter and Year Ended March 31, 2010

movements, but we would like to definitely keep on improving it and take it to 25. Now, whether it takes 6 months or take 18 months is very difficult to say.

Dipesh

Okay, but now we are confident about growth?

Pramod

We are in the business of products and we don't see a demand constraint anymore.

So, it is up to us to go out and convert opportunities and grow the company.

Dipesh

Thank you sir.

Neerav

Good evening sir. Sir, I just need one clarification. You said you had a 10% wage hike in December?

Pramod

That is right.

Neerav

And you are going to have another one for the other employees effective first of April?

Pramod

What I stated was that we had a 10% hike in December. And then for certain levels in the company, hike has been already announced effective April. Those are about 50% or something, India people, 40% of the India people and the balance we are still looking at it.

Neerav

Right, and sir, the services revenues have come off this quarter. Any reasons for that?

Pramod

Nucleus Software Exports Limited
Fourth Quarter and Year Ended March 31, 2010

Our services revenues have come off because as we have mentioned earlier that we had certain large projects which were booked in end of 2008. And they had a fixed time span and they have slowly down and that is why we have come back to our steady old rate, but we need to do more in it and I think we are actually planning some new offerings in the services area. Niraj will talk specifically about it.

Niraj

We are, building some center of excellence and one being the ISAs or Infrastructure Support Area. So, we have already been doing it with a couple of customers.

In the last ten days, we have, launched a series of services for our existing customers.

This is around the infra services. The data center hosting is one, for example. Another example is DBA support, network monitoring is the third. We have consulting on network, consulting on IT architecture etc. These are things that we have already focused on. They have been put up on our website, collaterals have been generated and sales team are being trained. We have also started the activity of informing customers. We do expect that this help us in building up significant revenues as we move on. At the moment, we have launched it for our existing set of customers.

Neerav

Thanks a lot.

Grishma:

Just wanted to know our forex hedging policy because what I observed is on a year-on-year our forex loss is 8 crores. So, what is it going ahead and why was it the same as what we had last year?

Pramod

This is a slightly complex question of why the figure is similar to the previous year. If you look at the exchange rate movement in 2008, we averaged about 40. In 2009, we averaged about 45, 46, then, we hit a peak of 50 in 2009 March, and then we have steadily come down. Basically what is reported in other income is like zero hedge. All my assets or liabilities in foreign currency get translated every quarter at the regular rate prevailing in the market. This is the straight effect of exchange rate appreciation.

Nucleus Software Exports Limited
Fourth Quarter and Year Ended March 31, 2010

Whatever is the gain I get on hedge goes to my revenue account. That revenue account hedge has given me about a 3 crore gain during the year, we have taken a decision that we would maintain coverage at the moment between 10 to 15 million dollars. As you have noticed in earlier years, there had been very heavy volatility. I think we have been at about 10 to 12 million dollars for the last 15 months, and this is the policy that we follow.

Grishma:

And what would be your tax rate going ahead, FY '11 and then probably...

Pramod

Tax rate going ahead today would be similar to the current year.

Grishma:

Sir, once the STPI goes out

Pramod

Direct tax code comes into play, then, we go to 25%. If the direct tax code does not come into play, then we are at 33%. And if we start some operations from SEZ, then there would be some fall.

Grishma:

What is the status on the new facility that we have planned?

Pramod

See the Jaipur SEZ facility where we have 17 acres of land, we are now planning to start a small unit. Or rather to commence construction of a small unit, which will be ready for production by next year.

Grishma:

You said you had 280 product demonstrations, does this account to your client conversion process and hence you would now wait for them, to respond or how does it go. I just wanted an understanding on that.

Niraj

Nucleus Software Exports Limited
Fourth Quarter and Year Ended March 31, 2010

See, there are two ways. One is that, when we participate in seminars and exhibitions or recent campaigns There interest is generated, and our sales people go there and they will give some demonstrations, and then RFPs will come. That is one way.

So, when RFP comes, there also, we have to give a demo and there is something called as a proof of concept where we actually put the system and people play around with it.

Then, they get into discussions around technology, around deployment, customization. So, we can have demos at both the levels before the RFP and after the RFPs. During the course of the year, we have had 280 demos for both before the RFP and post the RFP.

Customers normally would not like to see product demonstrations unless, there is some seriousness. Now, that means that we have had 170 RFPs that have come during the course of the year. So, obviously that is the customer-generated interest. give you the difference that out of say 280, probably 170 would be new RFPs that have come and probably another 100 of them would be, where people have come for exhibitions and we have given demonstrations. Either way, it adds up to customer interaction. So, once the RPF comes and we give a demonstration, then they get into, deployment and customization and migration, etc.

In that case also, we have about 100 odd cases where customers are in that stage where they have started to discuss, and of course, they will be discussing with one or two competitors also. It is in our hands, how much we can convert out of these. The entire sales focus is focusing on bringing in as many orders, through a sales push., and through innovative pricing and flexibility.

Grishma:

Okay and also lately what I have observed is, you have been partnering with people across the globe, but I just wanted to understand, initially you believed that, you would invest yourself and not go for partners, now there is a change in the strategy. So, when do you see the results flowing in for them? Is it still a longer time like say one and one and half years down the line where we see a significant amount of traction there?

Niraj

No, first of all, our strategy has not changed. See, you have direct and indirect sales strategy . The direct strategy would be your sales force which sells directly and there is also a sales force which focuses on large accounts. Hence there are two separate teams, now created for direct sales. While in indirect sales their are endorsement in which come in from various consulting companies or let us say IBM or Oracle, Sun, etc., (of course when Sun was not part of Oracle).

There, since our products run on their software or say hardware, they also get us a lot of enquiries from different parts. In a number of places, we partner with them and they front-end, and in some places we front-end, but either ways we go jointly.

Nucleus Software Exports Limited
Fourth Quarter and Year Ended March 31, 2010

This means we want to be present in every market. We can't enter directly in every market because if you go to a market you need to have three or four things which are important, one is to understand the culture, number two is to understand the local language, number three to have the right connections. There are at least 40 to 50 markets, where we do not want to go directly at this stage because of the high cost of entry and sales. Hence we started going with partners, and with partners the benefit that we get is that there is no direct cost in the initial part because we share some portion of the revenue which will come in.

The biggest advantage is that we have chosen partners who have already got large banks as their customers either for software selling or for hardware and they are local people and help us in generating RFP's. That is why we have been able to increase the number of RFPs that are coming in. That is one big advantage, we get through them, we are able to sell. We are now also taking some of the partners to the next level where they will be trained to give demos on their own and also first level support on their own.

Basically what we are saying is that we want to cover as many countries as possible. But at the same time we should not compromise on, the Nucleus brand. The way we give demos, the quality should be, same across the world. We are focusing heavily on that, and we do see that as we move on, the contribution from the partner channels will keep increasing and that is what we want, so that we can focus on product development and some of the core issues and we can leave the rest to channel partners.

Grishma:

Sir, one last question, basically now if you are, penetrating more and more geographies, etc., rather than concentrating on few geographies, I mean, I just wanted to understand why because, wouldn't it be prudent to then, concentrate on few geographies and mind the clients in the same area rather than spreading across the region?

Niraj

We continue to do the few geographies which we were doing. We haven't changed that model. Our traditional markets have been South East Asia, Middle East, India, Africa and there are markets where in any case we are focusing directly, with our sales force being there.

There are, so many countries, and we cannot obviously cover each and every country. While our sales force is focusing on a set of few countries, our priorities have not changed. Even in the Middle East, we are focusing on five countries directly, the rest is through indirect channel. When we go to Africa, we have at least four or five countries, we are focusing directly and the rest is focused by partners.

Nucleus Software Exports Limited
Fourth Quarter and Year Ended March 31, 2010

We are having a very judicious mix and we are balancing it out. That is why I said that we are empowering partners to give first level demos, so our presales effort would also be limited.

Grishma:

Sir any of our these efforts have actually kind of come down to the order book for....I mean, I do not want a number but has that happened or it is still a nascent stage?

Niraj

Yes, we have picked up orders in various markets. We have picked up orders through partners in Indonesia. It is through partners in Philippines. So, in a number of markets it is through partners.

Grishma:

Okay, so the traction is there?

Niraj

Yes.

Grishma:

Fine. Good luck.

Niraj

Thank you. We need all the luck.

Deepak

My first question is on our utilization rates, what are they now?

Pramod

This is a question which is largely applicable to a services company. Sometimes people can be free from the product space but then they would be utilized for development or certain other activities within the product space. So, there is no bench as such, but overall you would have seen our numbers come down. Earlier there would have been some bench

Nucleus Software Exports Limited
Fourth Quarter and Year Ended March 31, 2010

overall, but today, we would say safely that we are at almost, full at 90% to 95% utilization today.

Deepak

The order book front again, what would you state as the primary reason for the order book decline. Is it competition or there has been a similar company or similar product - by a different company? Is it competition eating your market share?

Pramod

No, if you look at the figures, which we have published and look at the IBS figures, we are far ahead of the other competitors in booking orders across the regions in the terms of number of orders. People like SAP which are No. 2, are confined mainly to Europe, One of the reasons for the order book decline is of course that the Japan order book has fallen, and in the other countries, it is not because of competition. It is because of delay in business for some time. We wouldn't like to give too many explanations. we have to do better, there is no doubt.

Niraj

We basically need to convert last three - four months, the conversions have been a little slow, and I have mentioned this before, there was Dubai crisis threatening the world and, so people in Middle East just held back to decisions and a number of other regions also held back saying that, Dubai crisis may lead to some other crisis in the world. And then we had the Greece crisis. Greece going bankrupt and had to be bailed out. And then we had this investment bank crisis in US. The three of them happened in quick succession and made people take a backseat. I think now we are in a situation where we would be able to convert

Deepak

Is competition a big problem in India? There are not too many companies with similar product like yours, but now I find there are at least three or four companies in the smaller midcap space who offer products for the banking and financial services segment?

Niraj

Competition has remained largely constant over the years, except for one entrant in the cash market, which is also 3, years now, there is no competition really. globally if you look at, we

Nucleus Software Exports Limited
Fourth Quarter and Year Ended March 31, 2010

have SAP, Fidelity, , Fair Isaac, Misys, Polaris, R-Systems/Indus, 3infotech, and AurionPro, so there are all these standard companies.

Deepak

Any guidance that you provide for the order book?

Niraj

No. We don't provide any guidance.

Ravi

Hi Niraj, this is Ravi Chandran. When we see the order book declining over the last few quarters, not much of ramp up happening on the employee side, the employee numbers are also coming down, and we have been anxiously waiting for the company to get some decent sized order. We have been spending for quite some time. Apart from the general global slowdown, would you like to add any other reason for not getting any new orders?

Niraj

I had said before that, global slowdown affected everybody, but Nucleus was most affected because we are into lending area, and lending business totally all over the world in last two years has almost dropped so that is why we were affected the most.

Vishnu:

Our markets are emerging markets and Japan, is the space where we have been getting larger orders from. This year, what has happened is that while the Growth in emerging market has continued, we don't have large orders from Japan, Europe and US where multi-million dollar deals can be done, we are again redoubling our efforts in Japan.

Ravi

Thank you.

Abhishek:

I just wanted to know on the pricing scenario. Has the pricing stabilized or it is more likely to go down?

Nucleus Software Exports Limited
Fourth Quarter and Year Ended March 31, 2010

Pramod

We have changed our Pricing. It has been falling a little bit because there is reasonable competitive activity in the emerging markets, and while banks are still looking at business, they are looking at more value for money.

Abhishek:

secondly, you had earlier mentioned in your con-call that your Board has approved for some acquisition, so is there any financial criteria on the acquisition front like you have specific ROI or EBITDA margins you are looking for.

Pramod

The company which we are buying, if it is making profits, they about four to five time sales. The companies which are loss making will mostly ask for one-time sale. The question is how you balance the two. We will have to evaluate in each case, and not just to make a statement, that it will EPS accretive or not accretive. I think it will be that how we will be able to use that company to grow our business and their business together.

Abhishek:

Thanks.

Dipesh

Sir, in the last con-call, we have said about partial cancellation of one of the Japanese order. We expected around January some update over there. Can you provide update on that?

Pramod

We have stated in our results in the notes that whatever discussions we had been having with the customers have been resolved mutually satisfactorily, and there is no further liability on the company.

Dipesh:

Thanks.

Meenakshi

Nucleus Software Exports Limited
Fourth Quarter and Year Ended March 31, 2010

Thank you ladies and gentlemen for being with us for this duration of this call, and now over to Vishnu for his closing comment.

Vishnu:

I would like to thank all of you for your interest in Nucleus, and once again, I would like to reassure you of our total commitment to building a long-term business. Thank you very much.