



**NUCLEUS
SOFTWARE**

Q1 FY 08 Earnings Conference Call

July 25, 2007

MEMBERS OF NUCLEUS MANAGEMENT

- Mr. Vishnu R. Dusad, Managing Director
- Mr. R P Singh, President and Head, Global Delivery
- Mr. P. K. Sanghi, Chief Financial Officer
- Mr. Niraj Vedwa, Head - Global Sales and Marketing
- Mr. Ravi Verma, Head - Global HR
- Ms. Asha Goyal, Vice President & Head of Quality

CONFERENCE CALL PARTICIPANTS

- Mr. Ramesh Damani, Ramesh Damani Finance Pvt. Ltd.
- Mr. Nimesh Joshi, CLSA India Ltd.
- Mr. Brijesh Parekh, HDFC Securities Ltd.
- Mr. Rajesh Kumar, Individual Investor
- Mr. Ravvichandran, Unifi Wealth Management
- Mr. Deven Sangoi, Prudential ICICI Asset Management Company Ltd.
- Mr. Nilang Mehta, HSBC Asset Management (India) Pvt. Ltd.
- Mr. Gaurav Dua, Sharekhan Limited
- Mr. Hitesh, UTI Mutual Fund
- Mr. Aseem Gupta, DSP Merrill Lynch
- Mr. Ruchit Mehta, HSBC Asset Management (India) Pvt. Ltd.
- Mr. Govind Dalal, Individual Investor

Nucleus Software Exports Ltd.
Investor/Analyst Conference Call
July 25, 2007

Moderator: Good morning Ladies and Gentlemen. I am Ravi Bob, the Moderator, for this conference. Welcome to Nucleus Software Exports Ltd Q&A conference call. For the duration of the presentation all participants' line will be in listen-only mode. I will be standing by for the question and answer session. I would now like to handover to Himmi Gupta. Thank you and over to you ma'am.

Himmi Gupta: Good afternoon ladies and gentleman. I am Himmi Gupta member of Investor Relations Team. We welcome you all to the investor conference call of Nucleus Software to discuss the financial results for the quarter ending June 30, 2007. Today we have with us Mr. Vishnu R. Dusad, CEO and Managing Director, Mr. R. P. Singh, President and Global Head – Delivery, Mr. P K. Sanghi, Chief Financial Officer, Mr. Niraj Vedwa, Global Head - Sales & Marketing, Mr. Ravi Verma, Global Head - HR, and Dr. Asha Goyal, Vice President – Quality to answer your queries. First we will commence with brief comments on the performance of the company and after that we will open to question and answer session. I would now handover to Mr. Vishnu R. Dusad, CEO and Managing Director of Nucleus Software for his brief comments.

Vishnu R. Dusad: Thank you Himmi and good afternoon ladies and gentleman. Thank you very much for joining in this call. We are very pleased to announce that our consolidated revenue for software products and services for the quarter has increased by 33.96% to Rs. 66.66 crore against Rs. 49.76 crore on year on year basis. Against a background of a sharp appreciation of Rupee and consequent effect on dollar, this signals a reasonable volume increase in the business. Product business continues to lead our growth. For the quarter, revenue for the product business at Rs. 44.17 Crore is 66.27% of total revenue. In the projects and services business the revenue for the quarter has decreased 12.11% at Rs. 22.49 crore against Rs.25.58 crore for the corresponding quarter last year. While this is not a focus area; we would like to maintain it and are addressing it accordingly. Net profit for the quarter has increased by 4.54% to Rs. 14.01 crore against Rs. 13.39 crore on year on year basis. And EPS is at Rs. 8.67 for the quarter against Rs. 8.32 for the corresponding quarter of the previous year.

While Pramod will elaborate further on the financials further in this call, I would like to talk about our strategy for the year. As an economy, I guess we are entering a new paradigm, possibly the end of comfortable exchange rate regime. Integration of Indian financial markets with global markets is happening. The movement of exchange rate is obviously creating new challenges. We have ways and means to address the same. Similarly as we enter more countries competition for our products will increase.

Talent as we are visualizing will always be scarce, more so in terms of shortage of quality educational institutions. Global GDP growth is running close to 5%. The market opportunity continues to be immense. Thanks to that. We are aggressively recruiting sales and market personnel to address the multiple opportunities and engagements. We are encouraging our customers to launch their business with only essential customization and **reduce Time to Market**. The bells and whistles can be added later and RP would talk about this later. Our infrastructure is in place and it is not a constraint

for our growth at least this year. And we are moving further up the value chain by offering specialized services to customers around our product. With this background I would now like to handover to RP Singh, President and Head of Global Delivery to make his comments.

R. P. Singh: Thanks Vishnu. The 1st quarter of the year has been quite eventful. We added another 17 product live sites in this quarter. Of these 9 are for Loan Origination, 2 for the Servicing and 5 for Collections. As mentioned in my last update, the focus on bringing down product implementation timelines continued to show result this quarter. Our average implementation cycles of new orders even in this quarter have been reduced to 3 to 4 months to get our customers start benefiting from the products.

However let me at this moment come to most pertinent question in context of this quarter results, question being what are we doing to match the pressure put on the margins by the increase in salaries and the dollar rate that Vishnu mentioned. Over the last few months we have been focusing on redeploying teams across the geographies. We have invested heavily into work method introductions as well as implementations skill upgrades. This will enable us to improve productivity significantly. As a matter of fact initial results of this effort are visible in this quarter results. In addition to the price revision effort, which is also going on, the revenue growth with reference to last quarter itself has been achieved by similar average team size. In fact we are 13 people less this quarter than what we were last quarter in the operations team. The focus is going to continue and I am confident for the significant improvements over the year. Quick update on the large engagements. On the GMAC front, we received a sign off on the conference pilot for Benelux, which are the three countries that we are working on at the moment. And the implementation is moving on track for the year end, which is what was planned. Similarly progress on the Japan front is also moving excellently. We have had a few reviews on that and requirement phase is already about to come to an end. And the project is progressing so far exactly as per plan. That's all from me, over to Pramod.

P. K. Sanghi: Good afternoon everyone. We will now focus on the quarter-on-quarter financials. On a sequential basis, revenues have grown by 10.8%. In dollar terms the revenue growth is about 18%. Product revenues have increased sequentially by 24% at Rs. 44.17 Crore. This includes Rs.3.83 Crore of product revenue from third party products, which we offer to our customer as a combined solution. Previous quarter this revenue was Rs. 0.49 Crore. We are mentioning it this quarter because this amount has increased and become more significant than in earlier quarters. The margins on these products are in the 15% to 25% range with operating and net margins being similar. Excluding this revenue for both quarters that is June quarter and the March quarter, the sequential growth in the product segment would be about 15%. Revenue from other streams of business that is projects and services has decreased about 8.2% sequentially.

The exchange rate effect on total revenue is negative 6.76%. This is basically a translation of revenue at the month ending rates or the quarter ending rates as applicable to India sales and the sales by the subsidiaries. Cost of delivery has gone up to 62.34% against 53.5% of revenue last quarter. The 884 basis points increase consists of a 450 basis point change due to annual appraisals and 400 basis points change due to the cost of the traded products which I spoke about earlier. Marketing expenses are at 7.2% of revenue against 8.6% last quarter. G&A expenses are at 8.18% of revenue against 9.38% in the last quarter. Last quarter G&A also had a

provisioning of Rs. 1.8 crore. In this quarter there is no significant provisioning taking place. And we do not obviously anticipate any further provisioning.

EBITDA margin for the quarter is about 22.24% against 28.53% in the last quarter. The 628 basis points decrease is about 241 basis point due to exchange effect and the balance is largely due to personnel cost. Other income is at Rs. 2.68 crore, substantially higher than Rs. 0.8 crore previous quarter. The realized income from investments in mutual funds this quarter is Rs. 2.19 crore against Rs. 0.61 crore last quarter. This is basically a function of maturity dates, as we would tend to hold investments for a year for tax benefits. Withholding taxes are at Rs. 0.34 crore against Rs.1.26 crore in the previous quarter. This has gone down as with MAT being applicable from this fiscal year, we are receiving a set off for the withholding taxes paid overseas. Depreciation has increased to Rs. 2.48 crore from Rs. 2.06 crore. Taxes are at Rs. 0.67 crore against Rs. 0.73 crore last quarter. We have availed MAT credit entitlement amounting to Rs. 1.3 Crore, which would be carried forward, to be set off against taxes in future years. PAT is at Rs. 14.01 crore basically flat on a quarter-on-quarter basis. It was 13.95 crore last quarter, 21.02% of revenue against 23.19% in the last quarter. Receivables have increased to Rs. 65.09 crore against Rs. 55.26 crore at the end of the March quarter. We had committed a decrease and we find that the DSR has still increased to 90 days from 83 days last quarter and we used to run 60 days till December. We have collected Rs. 20 Crore this month and are consciously focusing on a reduction in this figure.

Operating cash flow for the quarter before working capital changes is Rs.12.56 crore. Net working capital has increased by Rs.16.3 crore and with Rs. 6.74 crore out go on capex, our liquid funds have decreased to Rs. 73.38 crore against Rs. 81.8 crore in March. With increased collections this month we are back to Rs. 85 crore today. In terms of forex cover we have significantly increased our coverage and we have coverage of USD 22.65 million as of date and USD 21.51 million at the end of June. The current coverage is at 41.74 and it includes a 3-year cover of about USD 3.5 million. At the end of March we were at just about USD 7 and odd million, so this is a significant change. We have, as a policy, decided to cover 50% of our exposure for 3 years and are working towards this target. In terms of client concentration our top 5 clients have contributed 66% of revenue against 61% in the previous quarter. With revenues commencing from the ACOM business in Japan this was more or less foreseen by us. Now we come to the order book position. The order book position is Rs. 289 crore including Rs. 248 crore product business and Rs. 41 crore of services business. This is after adjusting for the rupee appreciation. Without the rupee effect the order book would be at about Rs. 311 Crore. In US dollar term it is at about USD 71 million. I will now handover to Niraj for his comments, thank you.

Niraj Vedwa: Thank you Pramod and good afternoon to everybody. This has been a good quarter for product wins. We received 8 new products orders for 23 modules and all of them have been for the FinnOne™ product. It is worthwhile to mention that during the full last year we received only 22 new product orders and 1st quarter of this year we have received 8 new product orders. These orders have been bagged from leading financial institution in Dubai, a leading bank in South East Asia and from other banks and financial institutions in India. We also have had a very high visibility in terms of branding, marketing, public relations across different geographies. Our partnership program is adding more members across the globe and we have added 2 new partners to sell our products in different parts of the world.

Our alliances with Oracle, IBM, HP, Sun is moving to new areas of co-operation in marketing and sales. We do have a very healthy product prospect base and are looking at getting higher realization from license. We are also talking to our customers on rate revision for onsite and off-shore contracted rates for services around our product business. In terms of recognition we were awarded the **Partner of the Year 2007-Fastest Growing** in the ISV or independent software program by Oracle. And as also been commented by Vishnu we are increasing our sales force across the globe to be able to go and penetrate the market which is available to us. That's from my side. I now handover to Ravi Verma, who is the Global Head - HR to take you through HR. Thank you.

Ravi Verma: Thank you Niraj. And good afternoon to everybody. Quarter 1 has been quite challenging and our strength has moved from 1532 to 1571. One of the major exercises which we have recently done is compensation revision and looking at market dynamics by demand and supply situation, we have rewarded our performers and compensation increases have been to the extent of 24.5%. With this revision we have also introduced certain organizational development initiatives at the organizational level. The performance appraisal system has been automated basically to bring in more transparency and openness in the organization, which is very critical for any IT environment. Pay for performance has also taken an important role in this compensation structuring and we hope that this is going to drive higher performance from our employees. Attrition has been a key concern like any other IT company. However, with competitive compensation, which we have just done, and exposure to high-end development work in our company with regard to the BSFI environment we expect that this year attrition would be under reasonable limits. At present our attrition is nearly 19%. RP had earlier indicated that productivity of our resources is the area of attention. We are closely monitoring our project timelines and the quality of resources deputed at development centers as well as at our all customer locations. We have formulated Resource Management Group, which is constantly driving and monitoring deployment of resources and assessing the proper utilization and deployment. The emphasis has been on leadership development especially at the team leader level for better execution and delivery of the project. We have undertaken various initiatives in this arena including job rotation etc and are giving special focus to it. Now I handover to Dr. Asha from Quality.

Dr. Asha Goyal: Thank you Ravi. Good afternoon to everybody. Nucleus is very focused on quality for improvement, innovation and process automation to be responsive with respect to current cost pressures. Nucleus senior management held a workshop for helping create a culture of knowledge building at all levels and sharing assets for organizational use to enhance performance. To empower our professionals for better management of software products and projects in today's challenging environment. Nucleus has initiated an advanced training for them on quantitative software management. Thank you.

Himmi Gupta: Thank you Dr. Asha. Ladies and gentlemen. We are now open to question and answer session.

Moderator: Thank you very much ma'am. We will now begin the Q&A interactive session. Participants who wish to ask questions please press * and 1 on your telephone keypad. On pressing * and 1 participants will get a chance to present their questions on first in line basis. Participants are requested to use only handsets while asking a

question. To ask a question please press * and 1 now. The first question comes from Mr. Ramesh Damani.

Ramesh: Hi good afternoon to all gentlemen out there and Asha.

Vishnu R. Dusad: Good afternoon Ramesh.

Ramesh: If you are in the product business I would assume salaries would be a lesser component of sales, but here we are seeing that faster than the sales growth salaries are sky rocketing, is it because of some bench?

Vishnu R. Dusad: Clearly we are not building any bench whatsoever. Salary is a huge component of the total cost. Obviously part of it is going towards the future product development which is making the salary component even for a product company like us so huge.

Ramesh: But should we not see the productivity gain in the product share going up. Should not we expect to see productivity gains coming in, may be good results?

R.P. Singh: If you recall the last time I had said that we are now focusing on the implementations of the new methods, which would allow us to get the product live at customer sites in shorter periods. That really is productivity gain and this is repetitive activity and even this quarter there are productivity improvements demonstrated in the results because actually we have not increased the team size at all. We have concentrated on how to cut down on implementation effort that goes into each and every new order as a percentage effort that goes in. I think that focus has come in and we have also been able to demonstrate result of it. I think there is going to be a clear improvement we see in the next few quarters.

Ramesh: Mr. Singh. Vishnu just talked about investment in new product development. How much is the salary component if you look into that and how much is on the ongoing work?

Pramod : I can take that question. We have about 160 -170 people currently in product development and product management and the wage bill for that should be in excess of about Rs. 10 Crore.

Ramesh: And what was it in the corresponding quarters?

Pramod : What is that, pardon?

Ramesh: What was that amount in the corresponding quarter?

Pramod : I will give you the figure for the year. That team has been ramped up by about 20 people in this quarter; we do intend to take some more people in this team.

Ramesh: So the financial impact is being about how much?

Pramod : The financial impact on the account of appraisals which have been effected, for India is about Rs. 4.5 crore in the quarter and for Singapore is about Rs. 0.5 crore

which are our two major places where we have people. So the total impact is about Rs. 5 Crore because of appraisals.

Ramesh: Okay thanks.

Moderator: Thank you very much sir. Next in line we have Mr. Nimesh Joshi from CLSA.

Nimesh: Hi there is couple of questions; one on the wage hikes the 24.5%. Are these higher end wage hikes targeted towards people in product teams or even people in the services team have been given these kind of hikes?

Ravi : See it is all market driven and function driven. You will appreciate that the wage increases cannot be constant and same in all the functions. So if a function is demanding this kind of a wage in the market we have taken that into consideration, accordingly we have done it. So it is varying in the organization. For certain functions hikes are different, say, for support function it is different, for delivery function it is separate. Also of course it is performance based.

Nimesh: Yes I understand. My basic question was usually we have seen across the services sector, with the average hike has been around 15 to 16% so this 24.5% are definitely on the higher side so I wanted to just check whether this is directed to the product development team because that is what your crucial people are?

Ravi: I will explain to you. What has happened is that earlier our appraisal cycle was July and after our revision many other companies have increased their compensation budgets and when we did the survey in the market we found that gap was not only 24.5%; it is even slightly more. We had to take a call on how much we can absorb even if outside environment i.e. service sector giving a rise of 15%. There is a possibility that because of backlog and earlier revision the compensation increases have widened so there was a conscious call that may be we would not be able to match up what has happened in the market but what is acceptable. One side it is 16% and other side a very calculated 24.5%.

R.P. Singh: If I can add to this, you know relative to the services kind of operations that others have, our business in the services is not really just what is called warm bodies. Our engagements are very specific to turnkey projects, which are custom developments, so it is not supplying skills but actually delivering software solutions. So per se while you in a way might have a point that the product expertise is higher there. Great difference in the value delivery from this team as well, that is why wage hikes would be quite similar.

Pramod: I have answered Ramesh's question earlier. I just wanted to say, actually my total personnel cost has gone up by about Rs. 5 crore plus, but the India effect is Rs. 3.6 crore and Singapore is about Rs. 0.5 Crore and balance comes from other activities such as new recruits, staff welfare etc.

Nimesh: Do you plan to continue ramping of people on the product side ?

Vishnu R. Dusad: I think we would continue to hire people both on the product side as well as on the services side considering the strong pipeline that we have. This hiring would be staggered over a period but we continue to hire people.

Nimesh: So has the attrition come down, sorry to ask. I do not know what was it the last quarter.

Ravi: No it is by and large at the same level, attrition has not gone up or down. It is hovering at about 19%.

Nimesh: This is on the last 12 months basis or do you give quarterly?

Ravi: No this is for this quarter that we have annualized and for full last year it is more or less same.

Nimesh: Okay. Thank you.

Vishnu R. Dusad: Thank you.

Moderator: Thank you very much sir. Participants are requested to limit to one question in the initial round, you can take the followup questions later. Next we have Mr. Brijesh Parekh from HDFC securities.

Brijesh: Your services business is showing degrowth; any specific reasons for that?

Pramod: For the services business i.e. projects and professional services; if you look at them on a quarter on quarter basis it is showing 8% negative and year-on-year about 12%. The 8% of course is largely due to the Forex effect. The year-on-year of course is lower because I think we have mentioned in a earlier call that we used to do some services business in the US earlier which was very low margin, so we deliberately got out of it. As Vishnu has stated we are looking at maintaining these revenue levels at close to or better than last year's levels.

Brijesh: And sir your order book is also being stagnant for past three quarters even though I considered rupee appreciation?

Pramod: You know till December 2006 we used to be having an order book ranging between Rs. 120 to Rs. 140 Crore only. After that of course once we got the ACOM order and some other orders, order bookings reached 300 Crore plus. So when you do such a large order booking in one quarter, against that all other quarters start looking slightly lower. I can only request Niraj to book another similar order. The replacement of that order is not as easy as it looks.

Brijesh: Sir as I have joined late in the con call, can you repeat the status of the ACOM order?

R. P. Singh: What I have mentioned that we are nearly coming to the completion of requirements stage which has been going on onsite as well as offshore. We had their senior management visiting us to review and were quite satisfied with the progress. At this moment we are absolutely on target with the plan.

Brijesh: So do you expect the revenue accruing from next quarter?

Pramod: No. Revenues have started accruing already. We have started revenues from the month of March 2007 and this quarter we had revenue each month.

Brijesh: Okay and sir last thing about the salary cost. Each and every time the salary hikes just dampen the margin. Is it going to continue over the future period because next year also there would again be salary hike?

Pramod: See if you look at it, we used to run about a 30% EBITDA earlier and we ran for 2 years or so despite salary hike and then we came to about 28.5% last year despite salary. Yes in the first quarter in which it is effective, you know 31st March we are paying X and 1st April we are paying X plus 24% and obviously that margin effect remains, but as the company grows and especially when our growth is not linear with people this get absorbed.

Brijesh: And, sir, do you think the salary hike is more in the product side like 24% and slower in the services side. The services side is almost being stagnant for 5 to 6 quarters. Previously you have done well in the past 2 years at the 30% level because there was a growth in the services component, but now it has almost stopped. Is it because of that?

Pramod: Well in all fairness a part of our services come out of Singapore and the Singapore increase is obviously in the single digit category. The other part of services takes place in Japan where there are large engagements and those people are extremely skilled. You know as Vishnu and Ravi said earlier we are not doing bodies there.

Brijesh: Okay thank you.

Vishnu R. Dusad: Thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Rajesh Kumar, an individual investor.

Rajesh: Hi good afternoon ladies and gentlemen, my question is today you said in CNBC in an interview about dollar raise. What I think is the raise in short term period only. So what steps you will take to maintain your long-term margin when it will come down to 37 to 38 range because with every percentage drop in dollar; there is decline in margin for the software company?

Pramod: Every one percent decline in dollar normally tends to have a 35 to 40 basis points decrease in margin that is what is commonly stated which you are right. Please continue. What is the question?

Rajesh: So my question that your earnings also come from South East Asia and other European countries where your earnings don't come in dollar so why your results have been flat this time. We expected that the profit of at least Rs. 18 to 20 Crore this time?

Pramod: I can answer the exchange part of course. Most of our business is done in US dollars. Our Japan business is entirely in US dollars. Apart from about 15% of our business in Singapore which was done in Singapore dollar. In Europe we have one client GMAC who is also billed in US dollars, so at the moment our US dollar exposure is

definitely on the much higher side than regional spread makes out be and that is the reason for the effect directly translating to our top line as well as the EBITDA level. The next question you ask about what is the policy for the future and I think we have mentioned that we were covering only 7 million dollars as of March end we are up to about \$22 million now and the Board has taken a decision that we should be covering about 50% of our revenues on a three year basis so that is the policy we are going to follow i.e. we will be hedged for 50% for three year revenues forecast in the future and we hope this would be reasonable and we are willing to review as we go along.

Vishnu R. Dusad: That is as far as the short term hedging is concerned. In terms of long term, which appears to be a valid question from your side, we are continuing to work on improving productivity of all our colleagues and also creating an environment where people would be able to learn fast and deliver far greater value. So as RP has mentioned we have started delivering value in multiple ways. One of the ways is going in for a short term implementation, bringing down the duration of implementation from lets say 6 months or a year to 3 to 4 months and that we are seeing this is already delivering immense value to our customers and likewise we are improving our products in such a manner that it will be far more easier for our customers to use the products to run their business profitably and that is how we would be able to get better pricing for our products. These are some of the ways by which we would be increasing the long-term value for our customers and in turn long-term value for our shareholders. Does that answer your question?

Moderator: Mr. Rajesh. Your questions have been answered sir?

Rajesh: Yes my questions have been answered, thank you.

Moderator: Thank you very much sir, next in line we have Mr. Ravichandran of Unifi Wealth Management.

Ravichandran: Good evening gentlemen.

Vishnu R. Dusad: Good evening Ravi.

Ravi: Can I have the absolute personnel cost for Q1 of last year, Q1 of this year, as well as Q4 of last year?

Pramod: The personnel cost for the quarter ended June 2007 is Rs. 31.85 crore across all the functions. It was Rs. 26.42 crore in March 2007 quarter and Rs. 22.20 Crore in June 2006.

Ravi : Now I am just going to re-phrase the question which Ramesh Damani has asked. See if we look at our margins in 2005 it used to be something like 22%; same the margin which we have achieved in the recent quarter. Our product used to contribute something like 26% of our overall revenue and we have been maintaining in every call that whenever the product revenue as a percentage of overall revenue increases the margin will increase I mean that is the stand we have been maintaining and this is in fact how it is supposed to be and as we have product revenue increase from Rs. 26 crore to Rs. 38 crore, Rs. 38 crore to Rs. 52 crore, and probably now it is Rs.62 or 63 crore, the margins are supposed to increase because as far as the product business is concerned the employee cost is fixed cost, it is not services business cost where the employee cost is a

kind of a variable cost. So under these circumstances is it right to assume that you were increasing the number of people in the product development side much faster in recent times as compared to earlier?

Vishnu R. Dusad: Yes you are absolutely right and you know it is essentially the increase in our market share which is giving us the confidence that on the long-term basis we are taking the right decision in terms of increasing the investment in product development.

Ravi: Fine.

Vishnu R. Dusad: And we have always maintained that you know Nucleus is going to be a long term company so we feel confident that the investments that we are making are in the right direction.

Ravi: It is now out of 1571 employees, something like 10% are in product development side. How was it in the last year, say last year you have something like 1000 employees; how many of them were in product development?

Vishnu R. Dusad: Product Management and Product Development as totally independently activity is a relatively you know recent phenomena. I think we had also mentioned in one of the call. Earlier it was very difficult for us to specify what percentage of the total team was doing pure product development and what percentage was doing product development and delivery. Now you know since last 4 to 6 quarters we have been tracking it closely and now we would have far better grip on the product profitability of the modules that we have started development of in the last 4 to 6 quarters.

Ravi: So as far as the Japanese order is concerned: it will go live by January 2009. This would be Q1 of calendar 2009.

Vishnu R. Dusad: Yes. We are talking about March 2009.

Ravi: As far as the license revenue for this order is concerned it is going to be captured equally over the 8 quarters?

Pramod: It would not be equally on the eight quarters, but it would be proportionate to the work done. What happens is that it will start at a particular level, it will move up as the project nears completion and it starts to come down when it get closer to completion.

Ravi: Okay thanks a lot. Wish you all the best.

Pramod: We might be safe to say that you know it would approximately be equal each year.

Ravi: Okay I got it, thank you.

Vishnu R. Dusad: Thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Deven from Prudential ICICI.

Deven: Good evening everybody.

Vishnu R. Dusad: Very good evening Deven how are you?

Deven: Very fine, I have a couple of questions. First question is as of today in terms of the order backlog you mentioned 289 Crore; so how much is GMAC order and what is the rest?

Pramod: About GMAC order we have been generally telling everybody over a period of time as in how much is balance

Deven: In terms of backlog, yes.

Pramod: In terms of backlog of ACOM order we never give you the final figure so I cannot tell you how much is the balance?

Deven: Okay then what will be the GMAC?

Pramod: GMAC I can tell you, it should be approximately USD 4 million which is left.

Deven: Yes and this is only for the Europe implementation.

Pramod: See there are two components to it Deven. There is a license, which is a global license, excluding North America and there is an implementation. Now let us assume for discussion, otherwise we will never end this discussion, both are same and assume both are equal today; 2 million dollars of license and 2 million dollars of customization is left. Now in case of license we will not get any further revenues on after 2008. If GMAC chooses to extend our contract beyond 2008 for other countries then we will continue receiving implementation revenues.

Deven: Okay and this is excluding North America so what is the progress on North American front.

Pramod: North America, Vishnu would like to answer this question?

Vishnu R. Dusad: Not as of now Deven, but we are getting more and more confident that with the kind of response that we are getting; some day we will be able to convince them that it is the right value proposition for them.

Deven: Okay in terms of two things one is the reference side in the Asia and Japan and the second is the award for the best retail-banking product. How has this capitalized in terms of getting new orders and was mentioned earlier in the call that you got 8 new product orders against 22 new orders last full year for the first quarter. So how is the average deal size?

Vishnu R. Dusad: In both ways Deven you know we are looking at very positive signals. Average deal size is also now increasing and we are able to get better pricing for services. However, I would request Niraj to comment on this further.

Niraj: Thank you Vishnu, in terms of the orders, we saw 8 orders in the first quarter itself. Very interesting sign and obviously we have leveraged a lot on this because this is

especially published across, this magazine shuttles across the world and this award is recognized very well within the banking and financial community across the globe. So we have leveraged it quite well and you know we are talking to all customers the fact that Nucleus has been growing from strength to strength and has reached this level. Recognition has really helped us as customers are now saying that they want to look at somebody who is tried and tested and somebody has a successful track record. I think that is what we are standing here; you know with all these implementations going very successful; the customers now see Nucleus solutions as tried and tested first of all and where implementations have been a great success and hence this has really helped us. Also when in magazines such as you know there is Award of IBS, which endorses it; that can be leveraged well. We got actually printed copies of those magazines and sent it across to most of our prospects and to existing customers. We ran a mailer campaign, we circulated copies of the magazine to our clients and we obviously included the copies of the award in RFP bids. This has really helped us.

Deven: In terms of average order size, one of your competitor mentioned that deal size is going above \$1.5 or \$2 million. Would it be a right statement to make?

Niraj: I cannot comment on that, but definitely we are getting higher prices.

Deven: So in terms of the average deal size if you exclude the large orders like GMAC and ACOM what will be the average deal size progression as compared to last year?

Niraj: I would request Pramod to answer that in terms of progression over last year because I have not done those calculations, so Pramod may be you can answer that?

Pramod: Deven as we have said earlier you know, deal sizes in India if the dollar is at 40 rupees we are looking half a million dollars in India for the entire suite of products and in the Middle East and Africa we look at a million dollar plus. In Indonesia and other East Asian countries it is probably about 700 to 800 thousand dollars and that is the way we continue to be at the moment. As we said in the beginning, as we get into more countries the market is going more competitive, right, so I do not think we should say today that pricing would continue to rise. I think we have reached a new stage and probably stay here for sometime right now. We can move up as we get more markets.

Moderator: Mr. Deven I am sorry to interrupt can you come back for the followup question sir?

Deven: I have one last question please.

Pramod: Thank you. Deven carry on please.

Deven: In terms of both market share and attraction of Indian product companies; is your visibility and strength in competitive bidding increasing? Is your market share likely to be increased further?

Niraj: I would say I mean in terms of the wins if we have to substantiate, yes, we are getting more numbers. I mean we have to look at the trend, so the trends are up, for example, Nucleus receiving more number of RFPs that is obviously a very healthy sign in terms of top of the mind recall from customers. Our participation in events is obviously creating a lot a branding and then we have partners like IBM, Oracle etc. with whom we,

having increased the interaction and going to various markets through their sales force so that is also getting us a very high visibility. So I would say that in certain markets definitely we are getting very high visibility and attraction. India is one market, South East Asia is another one, Middle East and Africa have also started showing some very good results so I think we are getting increased attraction at least.

Deven: Thank you very much.

Moderator: Thank you very much sir. May I request the participants to limit to one question in the initial round? Next question comes from Mr. Nilang Mehta of HSBC Asset Management.

Nilang: Good evening everybody.

Vishnu R. Dusad: Very good evening.

Nilang: Sir I have just two questions, one is I wanted to just understand the incremental order book which we have increased in Q1, the 8 product orders which you have got, how much that would have added to the order book that is question one and second question is related to our entry into the US market. What is the timeframe and the strategy there because we have been talking about looking at the US market from almost one and a half years now; so have we progressed further on that front and when do you think that we would tend to enter their through acquisition or even organically?

Pramod: I will answer the first part of the question but actually I am not answering it because we actually do not give product order value of 8 orders; how much is the value on a quarter-to-quarter basis, so it will be a little difficult for us to start this practice, it is reasonably confidential information.

Nilang: Okay sir no problem.

Vishnu R. Dusad: And as far as the US market is concerned I am very happy to let you know that the offering that we are investing on for the US market, is becoming clearer and clearer has huge potential and we are working at some groups there. What the time it takes I still cannot talk about but confident whenever it starts happening it will be something sizable.

Nilang: But sir can you give some clarity in terms of what is exactly our strategy for the entry into the US market. Are we looking at a partnership mode or are we looking at doing an acquisition there?

Vishnu R. Dusad: We are getting partnership and we are looking at IP led business. You know earlier we are not working on the US market for any conventional services business and the best part that I can mention is that the IP that we have worked on and that we are you know still working on is relatively simpler but seems to be very, very powerful for that market.

Nilang: Thank you very much sir.

Vishnu R. Dusad: Thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Gaurav from Sharekhan Limited.

Gaurav: Hi Pramod, sorry I just logged on a little late so if you could just repeat the impact on the margin and also the other income please.

Pramod: I beg your pardon. I missed the first part. The other income I heard, other income is Rs. 2.68 Crore.

Gaurav: Due to rupee appreciation impact on the margin and also the other income?

Pramod: We said that we have a 628 basis point decrease in EBITDA out of which 241 basis points is due to exchange and the balance is largely due to personnel cost.

Gaurav: Okay how much was salary hike on an average?

Pramod: Salary hike for India was at about 24.5%.

Gaurav: Okay.

Pramod: You wanted something about other income, is it?

Gaurav: Yes

Pramod: There is no gain in fact there is a loss - forex loss of about a Crore plus which is lying in the expenses.

Gaurav: Okay and sir this salary hikes are quite very aggressive. Do you think you will continue to give such hikes year-after-year because last year also salary hikes were very aggressive?

Ravi: See this is Ravi here. It is very difficult to say that what would be the salary hikes in the future as difficult to assess how would be the market trend. You will appreciate that being a product company, our model is not like services company where in most of the people are freshers. We have experienced people and compensation hikes have been done accordingly. As you would have read in the newspaper few days back that the industry is talking about where the salary hikes are going to go, we will line our salaries with the industry levels.

Gaurav: Okay so the salary adjusting levels now are in line with your key competitors or there is still some gap there?

Ravi: It appeared to a tricky question. We can say yes we are reasonably comfortable right now. Let us see how the market rate is. It is actually cascading effect despite all the issues on market shares the way that it is happening. There may be increase in compensation cost by 17 to 18% but when it comes to new hiring it is at a different rate so that also gives it is a push factor. So today the answer is we are competitive.

Gaurav: Okay how many employees we have added this year?

Ravi: The figure as on date is we are 1571 on this quarter end and we have added about.....

Pramod: We have mentioned in the first quarter about 400 for full year.

Ravi: Something like that.

Gaurav: Okay sir thanks a lot.

Vishnu R. Dusad: Thank you.

Moderator: Thank you very much sir, next in line we have Mr. Hitesh of UTI mutual fund.

Hitesh: Hello.

Vishnu R. Dusad: Hello yes please.

Hitesh: Sir we have recruited 20 people and we are investing good in product development. So what is the kind of investment we are doing and what is the plan going forward on this team. Would it at the end of 2008-2009 be 300 people team?

Vishnu R. Dusad: Yes we would like to on an ongoing basis continue to expand this team so that in the long term you know we are able to reap the benefits of all our investment this way. We have started the investment in our lending products 11 to 12 years back and today we are you know able to reap those benefits. Likewise we would on an ongoing basis like to continue to invest aggressively for next decade.

Hitesh: Sir what kind of new lines we are entering other than lending, can you just put a light on that?

Vishnu R. Dusad: See the next product suite that we are already been working on for past 4 to 5 years is the Cash Management suite and for this product we have very prestigious 10 plus customers; this is also going to be our next flagship product.

Hitesh: Okay Sir anything on Risk Management front, are we investing on?

Vishnu R. Dusad: We have a small team, which is working on operational risk.

Hitesh: Right, just wanted to know, is there any of the product in the pipeline whose market is similar to the current FinnOne™ lending product?

Vishnu R. Dusad: Certainly we have a product which is you know in the process of getting launched it is FinnOne™ Forecaster which will make use of the lending data and help our customers - banks and financial services company understanding the likely delinquencies better, the product will help them to come up with better credit policies. So this is the product that is in pipeline.

Hitesh: One question how is our sales team currently ramped up, can you just put a number on that and number of new offices we have opened this quarter or in the last one or two quarters?

Vishnu R. Dusad: Niraj would you like to address that question?

Niraj: Sorry I could not hear the question.

Hitesh: Yes sir how the sales teams have ramped in last two quarters and how many new offices how many offices we have opened in the last quarters?

Niraj: So I think in terms of the sales people we have both pre-sales and sales; we have added about 12 people and we are looking at putting additional 6 to 7 people on sales itself. In terms of offices we have announced I think about a quarter back that we had for the Middle East operations you know opening an office in Sharjah. We have just you know opened the office and our sales team has already moved to Dubai where we have now two permanent sales people based in Dubai to cater to Dubai market.

Hitesh: What is the total sales team of the company?

Niraj: The total team in the company for direct sales who carry a target is roughly about 20 to 22 people.

Hitesh: So we have added about 12 people on in this team?

Niraj: No this 12 people are there in sales as well as in pre-sales. I think in sales we have added about 4 people.

Hitesh: Okay sir I just wanted to know in the order book, the new orders what you have taken are the incremental order coming directly or they are coming through partners?

Niraj: These orders have come directly from our direct sales force.

Hitesh: So you see the trend changing. Given the recognition your product is getting you are getting incremental orders directly rather than through else?

Niraj: So actually what we have done is that for the some of the newer markets you know we are starting to leverage the partners' presence but where we are traditionally present like India or even Middle East or in South East Asia I think we would do most of our sales directly and there would be of course indirect channel also but not very, very significant, at the moment it is not very significant.

Hitesh: Okay sir thank you.

Vishnu R. Dusad: Thank you.

Moderator: Thank you very much sir, next in line we have Mr. Aseem Gupta from DSP Merrill Lynch.

Aseem: Hello.

Pramod: Yes very good afternoon.

Aseem: Just two to three questions what is the attrition level that the management would be comfortable at?

Ravi: I would like to put it in on a single digit if you ask me that is comfortable figure but looking at the market trend you know it would be about 14% to 15% which will be remarkable improvement.

Aseem: And as it was mentioned in the call earlier that the EBITDA has moved from 30% to 28.5% for FY07. What is the kind of number that we can expect for say this year and going forward is it possible that we sustain at the 28.5% or say number closer to that going forward.

Pramod: I think we should wait for another quarter before making any prediction on EBITDA and you know while the rupee has stabilized a little bit, last two to three days again it is showing signs of strengthening even further. We went to 40 50 and then we have been held on 40 40 then it broke 40 30, so it is a little uncertain today. It is still early to make these predictions and as you know we actually did not give an EBITDA guidance also this year as we did last year and last year we gave 30 and 30 plus guidance and we got 28.5 odd as such, let us wait for a little while and probably we will have better information for you.

Aseem: One last question can we just get some idea where we stand as far as salaries are concerned say at which percentile would we be in, just some idea?

Ravi: See I would say that I can have a percentile which we are maintaining depending on the performance so it could be anything from you say 30th percentile to 80th percentile. So I think since being a product business, continuity of people is very important. For good performance with 30th percentile compared to other ones the range we have, it is not percent it is the percentile, is 30th to 80th.

Aseem: Sir is this is the case in case of our competition also because there also we will have some good performance and some average performance, but say on an apples-to-apples basis where we will we stand in terms of IT industry in general?

Ravi: Okay see if IT industry is a very big arena so we are most concerned about our competitors as well as from where we are hiring and where we are losing; so if we talk about that the average is about 72 percentile.

Aseem: Okay thank you sir.

Vishnu R. Dusad: Thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Ruchit Mehta from HSBC.

Ruchit: Yes hi good evening everybody, Sir just tax rate it is just about 5% to PBT, so obviously you had something to set off withholding tax. So how should one expect withholding tax going forward and also the tax to PBT ratio?

Pramod: See what is happening today of course is that you know earlier we had X amount of withholding taxes and no MAT. Now we have a minimum tax at a stipulated

rate as applicable to other domestic companies and against that we set off payments made overseas of withholding taxes. Actually we are getting a net-net credit today because we get a credit of the payment of withholding taxes and then the MAT credit can also be carried forward against future taxes.

Ruchit: So would effective tax continued to be around 5% to 6%?

Pramod: No it will remain where it is today.

Ruchit: Just about 5% to 6% and withholding tax also come down as an absolute figure, I mean around the same 30 to 40 lakhs per quarter?

Pramod: Yes withholding tax will also come down now, as the revenue from Japan goes up. This figure can rise but then the profitability depending on how much the book profit and MAT is but yes it will not be back to that you know a time almost close to 4 or 4 plus levels.

Ruchit: Okay just the selling & marketing, G&A expenditure what percentage of revenue or levels are we comfortable with for the full year?

Pramod: We have been looking at you know increasing marketing expenses. Traditionally, we have been low so we have been looking at whether we need to spend some more money there and we closed it at about 8.11% last year so we would expect it to a range between 8 and 10% and general admin we really look at about 7%.

Ruchit: Okay thank you.

Vishnu R. Dusad: Thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Govind Dalal an individual investor.

Govind: Hello you re-correct my name. I am Govindlal Galida, an individual investor, shareholder of the company. Exactly I do not have any question. You admitted in statement at the time of announcement of bonus your contribution of servicing around equity after bonus issue also, I wanted to get reconfirmation, now in the current situation of rupee appreciation are you still comfortable in holding what you said, this is one and second on NDTV you have told that you are confident of getting even bigger size order than what you got from ACOM of Japan so what is the status of those orders right now?

Vishnu R. Dusad: Thank you for the interest and for both the questions the answer is yes we are confident of getting the bigger orders and we are confident of servicing better equity base.

Govind: Thank you very much sir.

Moderator: Thank you very much sir. Next in like we have Mr. Hitesh of UTI mutual fund. Mr. Hitesh your line is open sir.

Hitesh: Hello.

Vishnu R. Dusad: Yes please.

Hitesh: Sir just on this invoicing front how much percentage is in Yen?

Pramod: It is about 5%.

Hitesh: And sir this ACOM order would be Yen denominated?

Pramod: No it is dollar denominated and as I mentioned to you that at least till two days ago there was a currency worse than dollar to rupee was Yen.

Hitesh: Okay so overall if you see Yen is 5% and how much would be dollar denominated- 50 to 60%.

Pramod: Dollar is about 70%.

Hitesh: Okay thank you.

Vishnu R. Dusad: Thank you.

Moderator: Thank you very much sir, at this moment there are no further questions from the participants, I would now like to handover the floor back to Ms. Himmi Gupta for final remarks.

Himmi Gupta: Thank you ladies and gentlemen and I will now handover to Mr. Vishnu for the closing commend.

Vishnu R. Dusad: I would like to thank all of you for the continued interest in Nucleus Software and would like to reassure you that your company continues to build a long-term value for all the stakeholders. Thank you very much.

Moderator: Thank you very much sir. Ladies and gentlemen thank you choosing WebEx' Conferencing Service. That concludes this conference call, thank you for your participation. You may now disconnect your lines. Thank you and have a nice evening.