



**NUCLEUS
SOFTWARE**

Q2 FY 08 Earnings Conference Call

Oct 29, 2007

MEMBERS OF NUCLEUS MANAGEMENT

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

CONFERENCE CALL PARTICIPANTS

- Mr. Prince, Span Capital Services
- Mr. Ruchit Mehta, HSBC Asset Management (India) Pvt. Ltd
- Mr. Dipen Mehta, Dipen Mehta Shares & Stock
- Ms Grishma Shah, Edelweiss Securities Ltd.
- Mr. R. N. Manindra, Ramesh Damani Finance
- Mr. Vivek Shah, Enam Asset Management
- Mr. Govind Lal, Individual Investor
- Mr. Ravvichandran M., UNIFI Wealth Management Ltd.
- Mr. Rajiv Ghosh, Wealth Management Advisory Services Ltd
- Mr. Krupal Maniar, ICICI Securities Ltd
- Mr. Gaurav Dua, Sharekhan Limited

Analyst/Investor Conference Call

October 29, 2007

Moderator

Good afternoon ladies and gentleman. I am Monali, the moderator for this conference. Welcome to Nucleus Software Exports Limited Q&A conference call. For the duration of the presentation, all participant lines will be in the listen-only mode. After the presentation, a question and answer session will be conducted for the participants connected through international bridge. After that the question and answer session will be conducted for the participants in India. I would now like to hand over to Ms. Himmi Gupta of Nucleus Software. Thank you and over to you mam.

Himmi Gupta

Good afternoon, ladies and gentlemen. I am Himmi Gupta, member of the Investor Relations team. We welcome you all to the Investor Conference Call of Nucleus Software to discuss the financial results for Quarter and Half-year, which ended on September 30, 2007. We have with us Mr. Vishnu R. Dusad (CEO and Managing Director), Mr. R. P. Singh (President - Global Delivery), Mr. P. K. Sanghi (Chief Financial Officer), Mr. Prakash Pai (Head – Product Management Group), Mr. Niraj Vedwa (President and Head Global Sales & Marketing) and Mr. Ravi Verma (Global Head – HR). First, we will commence with brief comments on the performance of the company and after that we will be open to the question and answer session. I would now hand over to Mr. Vishnu R. Dusad, CEO and Managing Director, Nucleus Software for his brief comments.

Vishnu R. Dusad

- Consolidated revenue for software products and services for the quarter has increased by 27.74%, to Rs. 70.37 crore against Rs.55.08 crore, on the yearly basis.
- For the half year, consolidated revenue has increased by 30.69%, at Rs. 137.02 crore against Rs. 104.85 crore, for the corresponding half year of the previous year.
- Product business continues to lead our growth. For the quarter, revenue for the product business at Rs. 49.16 crore is 70% of total revenue, year-on-year growth of 74.5%. 70% is a very substantial part of our total pie and we are proud of that.
- For the half year, product revenue at Rs. 93.33 crore is 68%, year-on-year growth of 78%.

- In the projects and services business, revenue for the quarter has decreased by 21%, at Rs. 21.21 crore against Rs.26.93 crore, on a year-on-year basis.
- For the half year, this revenue has decreased by 17%, at Rs. 43.70 crore against Rs 52.48 crore. Services business has not seen volume expansion and the exchange rate changes have had a direct impact. We are actively addressing volumes in this business to maintain the absolute numbers.
- Net profit for the quarter has increased by 16.75%, to Rs. 16.18 crore against Rs. 13.86 crore, on a year-on-year basis.
- EPS is at Rs. 5 for the quarter against Rs. 4.30 for the corresponding quarter of the previous year, which is adjusted consequent to the bonus issue in August 2007.

Our strategy continues to be Product centric and we are:

- Investing in both functional- and technology-related development
- Penetrating new markets
- Building talent

Industry is settling down to the exchange rate scenario and while in the short term, we will hedge aggressively, the medium term solution is to increase value to our customers thereby improving realization.

Global growth forecasts for 2007 and 2008 are still 4.5% and 4.8% respectively, despite the turmoil in the credit markets in the last quarter. Growth of retail assets is our business driver and we see:

- a. New opportunities in Middle East, Africa, and India
- b. Technology replacement opportunities in Japan

While infrastructure is currently more than adequate for the next 12 months, we are also actively considering new locations and purchase of land for future expansion with SEZ benefits

I now handover to RP for his comments on Global Delivery.

R. P. Singh

Thanks you Vishnu. I wish you all a very good afternoon. If we look at contribution by region, we see a continued growth from the Far East that has grown from 45.1% in the previous quarter to 48.34% in the current quarter. The contribution from Europe and UK has grown as well from 6.1% in the last quarter to 7.85% in quarter two. India has shown a drop in its contribution from 14.36% in the previous quarter to 9.65% in this quarter. Rest of the World that mainly consists of South Asia, has increased its contribution to 3.36% from 1.98% in the previous quarter. Other regions have generally shown marginal changes.

We implemented 28 product sites which include 11 of Customer Acquisition System (CAS), seven of Loan Management System (LMS), eight of Collections, one for General Ledger (GL), and one for BankONet. In comparison, you may remember my sharing with you in the last call that we completed 17 implementations in the first quarter of this year.

In the last quarter call, I had mentioned that we are taking multiple steps to improve operational efficiency. The results are evident, the growth in revenue as well as growth in the number of implementations that were delivered in this quarter without a change in the operational capacity.

The GMAC implementation for BeNeLux is progressing very well. We have delivered the solution and testing activities have started onsite. Talks on the next roll out plan for the next few countries is also getting initiated this month. On the ACOM front, there is pretty similar news of good progress. In fact we expect the first deliverable to go live in January 2008. That is from my side. I will now hand over to Pramod.

Pramod K. Sanghi

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

- On a sequential basis, revenues have grown by 5.6%.
- Product revenues have increased sequentially by 11% at Rs. 49.16 crore against Rs. 44.17 crore last quarter. This includes Rs. 2.95 crore of product revenue from third party products, which we offer to our customers as a combined solution. We had mentioned it in the last call also. In the previous quarter, this revenue was Rs. 3.84 crore. The margin on these products are in the range of 15% to 25% with operating and net margins being similar.
- Revenue from other streams of business that include projects and services has decreased about 6% sequentially.
- Cost of delivery has reduced marginally to 61.55% against 62.30% of revenue in the last quarter.
- Marketing expenses are at 6.33% of revenue against 7.23% in the last quarter.
- G&A expenses are 6.61% against 6.26% in the last quarter.
- EBITDA margin is 25.51% against the revised 24.17% in the last quarter. The revision is only a re-grouping. There is no revision in numbers as such. We had earlier reported EBITDA after a Rs. 1.31 crore net exchange loss in Q1. In Q2 and on a half-year basis, profits from forex are a positive number. Hence the EBITDA number of Q1 gets regrouped because that

expense nets off against other income for the period. There is no effect at either PBT or PAT level in Q1.

- Other income is at Rs. 3.18 crore against Rs. 1.39 crore last quarter. The components require a little attention. Gain on exchange, which is Mark to Market (MTM) of all the hedges less whatever losses we may book on realization is Rs. 1.68 crore for the quarter against a loss of Rs. 1.31 crore in the last quarter. Investment income is at Rs. 0.86 crore against Rs. 2.19 crore last quarter. Investment income variation is due to the timing of investments in mutual funds.
- Forex gain, as I mentioned is the MTM gain on the hedges as reduced by losses on realization. Withholding taxes are at Rs. 0.76 crore; they were at about Rs. 0.34 crore in the previous quarter. We have a domestic tax set off of Rs. 1.18 crore.
- We have stated earlier that with effect from this financial year, because of MAT, overseas income has become taxable to the extent of 10%. However, withholding tax benefits are available against MAT liability.
- Depreciation has increased. We are running at almost Rs. 3 crore, Rs. 2.98 crore for the quarter against Rs. 2.5 crore last quarter.
- Taxes have gone up with some taxability in Japan, Singapore, and in India. They are at Rs. 1.21 crore against Rs. 0.6 crore last quarter. We have availed a MAT credit of Rs. 1.18 crore. PAT is at Rs. 16.18 crore, 15.5% up on a QOQ basis. It is at 23% of revenue against 21% in the last quarter.

Just two or three half year numbers;

- Turnover at Rs. 137 crore is up by 30.7% for the similar period.
- EBITDA is 24.86% for the half year against 29% last year.
- PAT is Rs. 30.19 crore, up 10.77%.
- EPS is Rs. 9.33 against Rs. 8.45.

Last quarter, we had committed a turnaround in receivables, and we are pleased to deliver some results on this. Receivables have come down to Rs. 51.05 crore against Rs. 65.09 crore last quarter, and the DSR has fallen to 67 days against 90 days. Operating cash flow before working capital is positive at Rs. 20 crore. With net working capital going down by Rs. 10.18 crore. Our liquid funds, which are cash and bank balances plus investments in liquid mutual funds, and fixed maturity plans have increased to Rs. 103.20 crore against Rs. 73.30 crore in June.

In terms of forex cover, we have significantly increased our coverage and we have coverage of US\$27.58 million, as of date. This is the protection we have. If we look at the cover, the way it is calculated by the bank as well as the Reserve Bank, then the coverage stands at about US\$45 million. The current coverage is

at Rs. 41.15 and it includes a three-year cover of about US\$3.3 million. We had announced last quarter that we have decided to cover 50% of our exposure for three years. We have not reached this figure as yet, we are still working towards it.

In terms of client concentration, top five clients have gone up with ACOM revenues increasing, it is at 69% of revenue against 66% in the previous quarter.

The final thing about the order book, we are at an order book of Rs. 281 crore, including Rs. 238 crore product business and Rs. 43 crore of service. In US terms, the order book is \$68.8 million. I will now hand over to Prakash for his comments on the product development. Thank you.

Prakash Pai

Thank you Pramod and good afternoon everybody. As part of our technology upgrade strategy, we had started the migration of our flagship product FinnOne™ Lending to the Java J2EE platform. Migration is in progress and the product would be released in the first half of next year.

Product Management Team (PMG) has focused on enhancing and stabilizing the products to ensure success of the company's strategy, to undertake vanilla implementations. Since January 2007, we have been successful in convincing our customers to undertake the vanilla implementation, which is an implementation without any customization. The richness of the business functionality and the stability of the product have made this possible. The delivery team has successfully implemented more than 25 vanilla implementations since January 2007.

At the end of the half-year, we have successfully released upgraded versions of FinnOne™ Customer Acquisition System and Collections System. These releases are now being implemented at our new client locations.

To maintain our competitive edge in the market place, apart from the technology upgradation being undertaken, the product is being enhanced to cater to the growing needs of financial institutions in areas of captive auto financing, dealer financing, collateral insurance management, sales lead management, business partner incentives, and payments management.

On the Cash@Will™ front, a new release of Cash@Will™, our Cash Management System has been released this half year. This new release will address the growing needs of customers' requirements in Cash Management, specifically in the areas of Payments and Liquidity Management. I now hand over to Niraj.

Niraj Vedwa

Good afternoon everybody, and I just wanted to start by saying that Nucleus Software has been listed among the best 200 under a billion companies in Asia by Forbes Asia magazine, which I think is a very strong testimony to what we have been doing in the product business, building intellectual property, and

having number of customers across the region. This is a very substantial accolade for the work that we have done. Also, we received an award from Oracle for the best ISV in terms of the growth that we have given and this was conferred to us a month back in Thailand.

During the quarter, we have received five new customer orders for products for 13 modules, and for the 6-month period it is 11 new customers for 36 product modules. We have got lot of these orders from Middle East and African region, which continues to show very good traction for new business. Besides, we have huge number of prospects that have been developed also in Japan, South East Asia, and we are beginning to get some traction in Europe. As Pramod mentioned earlier, we have got the receivables down to 67 days and also wanted to say that we had a very good participation at SIBOS which is the Premier World Banking Conference held in Boston, and we had one of the very large booth. We did receive a lot of enquiries for our products. There has been an increase in the number of bids that we have participated in. In the last quarter, we have more than 40 places or organizations where we have put in our bids for proposal, and we also had more than 60 product demonstrations across the region; so, this goes to show that there is an increased request, which is coming from customers for these products. On the whole, that is just a quick summary, which I wanted to give, and we do have some very good prospects for the coming quarter and we are quite hopeful of closing those deals. I now hand this over to Ravi Verma who heads HR to give his brief.

Ravi Verma

Thank you Niraj and Good afternoon to everybody.

Q1 has been very challenging like last quarter and our manpower has moved from 1571 to 1635. One of the major exercise which we have recently undertaken is to drive performance through clearly-defined objectives for each and every Nucleite. This is going to help us in achieving the productivity benchmarks as well as the company's objectives.

Like always, attrition is a key concern. Last time I had shared with you the compensation increase, so we think that with competitive compensation, clarity in roles and responsibilities and exposure to high-end development work in our company with regard to BFSI environment, we expect that attrition is going to be under reasonable limits. At present, the attrition is around 21%.

Productivity is again one of our major areas of attention and we are closely monitoring our project time lines and quality of this resources deputed at development centers as well as at our customer locations. As I had talked to you last time, our resource management team is closely and constantly monitoring and driving required resources for optimization.

There has been emphasis on leadership development, especially at the team lead level, for better execution and delivery of our project. The newly-appointed team leaders are undergoing many developmental trainings which are going to help the

organization in effective man management. Now, I will hand it back to the moderator.

Moderator

Thank you very much Sir. At this moment, I would like to hand over the proceedings to International moderator to conduct the Q&A for participants connected to SingTel. After this, we will have a question and answer session for participants at India bridge. Thank you and over to you Aichu.

Aichu

Thank you Monali. We will now begin the question and answer session for participants connected to the international bridge. Please press 01 to ask a question. At this moment, there are no questions from participants connected to the international bridge. I would like to hand the proceedings back to Indian operator, Monali. Monali, go ahead please.

Moderator

Thank you Aichu. We will now begin the Q&A interactive session for Indian participants. Participants who wish to ask questions may please press *1 on your telephone keypads. On pressing *1 participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking questions. To ask a question, please press *1 now. First in line, we have Mr. Prince from Span Capital.

Prince

Hi! Congratulations to the management for a decent set of numbers. Actually, I joined the call a bit late. Can you just confirm me the order book please?

Pramod

We have talked of an order book figure of, I think, Rs. 281 crore. Order book is Rs. 281 crore of which Rs.238 crore is product and Rs.43 crore is services.

Prince

And this is executable over how long, for which period, one year?

Pramod

If you look at the services part, it is of course executable over the next six months. The product business, there are different sets of numbers for this year, next year, and beyond FY09 also. I can tell you that beyond FY09, really is about Rs. 50 crores, and 08-09 would be approximately Rs. 60 to Rs.65 crores.

Editors note: Mr. Sanghi has revised this statement later in the call as follows:

“The services part is all executable within the next six months. Rs. 238 crore is product order book. Of this, Rs. 50 crore is beyond FY09, of the balance Rs. 188 crore, about Rs.60 to 65 crore will be one year from now”.

Prince

That is quite helpful. Also, can you just update us on your Japanese business please? How is that going and how big that can be over a period of time?

Vishnu Dusad

As we have been mentioning that ACOM is our first implementation of a Japanese financial services company, and whenever we talk to our prospective customers they tell us that they are observing this deal very closely. We are very confident that the moment this goes live, we will have at least a few more customers lined up.

Prince

And how long do you think this can happen and when will this project be live?

Vishnu Dusad

It is expected to go live in first quarter of 2009.

Prince

Yes, that is quite helpful. Thank you.

Moderator

Thank you very much Sir. Next in line, we have Mr. Ruchit from HSBC.

Ruchit

Hi, Good afternoon Sir and congratulations for a great quarter. I just wanted to understand in terms of the attrition part, we always have had it a little high and last quarter we gave a very substantial salary hike to the employees. Are we looking at some sort of another salary hike in this quarter or in coming few quarters? What is the outlook over there?

Pramod

We have done the annual review for people in April 2007. The previous review was done in July 2006, so this was after a nine month period. At the moment, there is no thought of any kind of mid-term appraisal. It would now fall due in April 2008.

Ruchit

Okay. So, no further mid-term is expected at the moment. And just on the FX gain part, I missed on that a little bit. Can you just explain, has that been completely moved to the other income or it is above the line, at EBITDA level or so?

Pramod

I beg your pardon, exchange part?

Ruchit

The FX gains, have we booked it in other income or it gets adjusted above the EBITDA line?

Pramod

No. There is no exchange gain before EBITDA.

Ruchit

Okay. It is completely in other income?

Pramod

Completely other income and in fact as I mentioned the loss in the first quarter has also moved after the EBITDA level.

Ruchit

Okay, your Q1 EBITDA would have fallen, that's why, okay. And could you just give a sense of how your pipeline is looking. Do you see any issues in terms of banks delaying decision making in taking up new orders or new products, any signs of worry among customers that they may or may not book orders going forward?

Pramod

See, the mileage in the countries where we work, we find the demand continues to be robust. We work mainly as you are aware in India, Middle East, Africa, South East Asia, and Japan. Currently, we do not have any major clients in US, where probably a question is coming from that in the US there could be some slowdown in product orders from banks.

Ruchit

Okay. So right now you are not seeing any issue on the demand environment at least?

Niraj

No, in fact I had mentioned a little time back that in terms of the number of bids in the last quarter, we had bid for almost 40 new deals that we have put in our proposals, and at the same time we had 60 product demonstrations across the region. So, we do not see any downside at the moment, and in fact it looks quite positive and healthy.

Ruchit

Just on the deal sizes, today the kinds of deal sizes that you are bidding for compared to say a couple of years back, what would have been the change in that. I mean would it up, say 10% to 20%, or would it be flat?

Niraj

We cannot give the percentage, but on the whole if you look at the Middle East and African region we are getting much better licenses and better rates from these regions. We are also getting some better rates in India also. So, it is much better than what we were getting previously.

Ruchit

Finally, on the services side of the business, there is de-growth in this quarter and even last quarter was not that great. Going forward, should we expect it will be muted again and we have flattish sort of revenues?

Pramod

We are looking at maintaining the absolute numbers, which used to be there last year. We will not be able to cover all of it because of the exchange difference; the target is to maintain the absolute number.

Ruchit

For the yearly basis, you will be flat?

Pramod

Yes, year-on-year, if we are flat we would be quite happy actually.

Ruchit

Okay Sir. Thanks a lot.

Moderator

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

Dipen Mehta

Sir, as I understand, that despite having minimal sales or rather limited sales to the US market, our exposure to the US dollar is considerably higher perhaps because you are billing in the US dollar. So, any thoughts in trying to convert that particular strategy of quoting in dollar and now trying to quote in the local currency because a lot of our sales come from Asia-PAC and Europe, where the currencies are quite stronger unlike the US dollar?

Pramod

Okay, two parts to this. If you look at our revenue mix, more than 40% comes from Japan. Japan at the moment is completely denominated in dollar. Unfortunately, the option to switch into their local currency which is Yen, has not been something very feasible because Yen itself has been weak against the US Dollar. So, in fact there is a double effect, but we are still looking at trying to see whether we should diversify some part of our Dollar billing to Japan to Yen. Then we have actually two risks, we have a Dollar-Rupee risk and a Dollar-Yen risk at the same time. The other part is of course the GMAC contract, which is also denominated in US Dollar. General Motors is a US-based company and they are comfortable in US Dollar. Middle East, we are looking at if can we switch. Their currency of course in Dubai is the Dirham as such, it is fixed to the Dollar, and it is not fixed to the Euro, but we are looking at option if we can switch to something. At the moment, our exposure levels in dollars have not changed.

Dipen Mehta

That means it seems difficult that we will be able to reduce from this 70-80% dollar kind of exposure, which we have.

Pramod

Immediately, that 70% is not going to change very much.

Dipen Mehta

Alright Sir. Thank you.

Moderator

Thank you very much Sir. Next, we have Ms. Grishma from Edelweiss Securities.

Grishma

Hello. This is Grishma. I wanted to know about the 25% stake in GMAC that we are going to sell. I mean, how is that going to help and why are we selling?

Pramod

We have taken this stake in GMAC in 2004 and our objective really was to gain deep insight into the business of one of the larger auto industry and finance player and look at the best practices. Now three years have passed and we have

gained reasonable insight into the business processes as well as having a strategic alliance with them. GMAC has announced substantial plans for expansion in India. When they are expanding their capital base and so on, then we did not think it appropriate to increase our investment there. We continue to have excellent relationship with the management as well as the IT team there.

Grishma

We had purchased at around Rs. 13.69 crore. So, now how much would we be getting?

Pramod

It is subject to Reserve Bank approval, but of course it would be slightly higher than what we have paid.

Grishma

And that would come in the other income this year?

Pramod

It would arise in the other income either in this quarter or the next quarter.

Grishma

Okay, also you have adjusted for the exchange loss in Q1 2008. Can you take me through that and if I am correct, I see the General & Admin expenses to be adjusted for that.

Pramod

It is more of an accounting entry really. Net-net there was an exchange loss typically arising from realization of receivables which was at about Rs. 1.31 crore in Q1. That was part of the admin expense last time, because it was net loss. So, it came before the EBITDA level. In September quarter, net-net we have an exchange gain of Rs. 1.68 crore. So, then what happens is that you regroup the expense in the first quarter, you know it gets set off against the income on a half yearly basis, the EBITDA change.

Grishma

Then your margins will shoot up for Q1 if I adjust that?

Pramod

Margins for Q1 is now regrouped to stand at 24.17%.

Grishma

Yes. And your net margins would be at 22.9

Pramod

Net margins will not change.

Grishma

So then where is the adjustment below EBITDA coming for other income?

Pramod

Other income figure for Q1 will fall.

Grishma

It was 27 million.

Pramod

Yes, it will go down by 13 million or so.

Grishma

13 million, okay, so then it would come down to around 21%?

Pramod

There can be no change in the PBT or the PAT level.

Grishma

Okay. I heard Mr. Dusad quoting in one of the Sunday articles of Business Line, that we would also focus on the consulting function. Can you explain me that?

Vishnu Dusad

What has happened is, over the years we have gained reasonable amount of insight into the way the business should be run and the way product offerings should be made and so on and so forth. So, we want to leverage that. We have recruited some people from the banking side who would advise our existing few customers about the product offering or the way they should be defining their processes and so on, and that is what I had meant in that interview.

Grishma

Okay. Initially, we mentioned during this conference call that we will try to maintain our service revenues in absolute terms, and if we are trying to focus on consulting, you mean to say, that there will not be an immediate traction in terms of revenues coming from the consulting side, but going ahead you see this as becoming or contributing good levels?

Vishnu Dusad

Yes, we do. We do consider it in that manner.

Grishma

Okay, fine. Thanks.

Moderator

Thank you very much Mam. Next in line we have Mr. R. Manindra from Ramesh Damani Finance.

Manindra

Hi! Mr. Damani first wanted to apologize for not being able to listen to the call and he wanted to congratulate you on a good quarter, and his question was, the order book was Rs. 280 crore and you said that about a Rs. 110 crore is after this year, logically leaving about Rs. 170 crore for the next six months.

Pramod

In fact, I would like to make a small correction there, that we normally calculate it on a year-to-year basis. We do not calculate it on financial year basis as such.

Manindra

Next one year would be?

Pramod

I said, the services part is all executable within the next six months. And if you look at the product business, I said about Rs. 50 crore would be beyond FY09, Rs. 60 - 65 crore, which is actually after one year from now. Otherwise, it would tantamount to actually giving guidance now.

Manindra

The question we have is about the order book being replenished. With the current order book being used, you will be left with a small order book. Comment

Pramod

Order book replenished, of course it has fallen from Rs. 289 crore to Rs. 280 crore, and it is a continuous process of executing orders and booking orders; so, there will be quarter-to-quarter variations.

Manindra

Okay. No further questions.

Vishnu

And kindly convey our regards to Mr. Damani.

Manindra

I will do that for you Sir.

Vishnu

Thank you.

Moderator

Thank you very much Sir. Participants who wish to ask questions, may please press *1. Next in line, we have Mr. Vivek from Enam Securities.

Vivek

Hi, this is Vivek from Enam Asset Management Company. The question is regarding our move to a probable SEZ. I read in an article in the Economic Times there was some trouble with the move to Noida potentially for Nucleus. Can you tell me more about it and any other plans we have?

Pramod

We had in fact taken an in principal approval from the UP Government for an SEZ, which is of course subject to our acquiring land in the Noida-Greater Noida area. Obviously, we have not been able to acquire that land and consequently the approval that had been there for almost one year has been withdrawn by the UP Government, which is fair. Now, we are looking at options outside the state, and there is availability of land in multi-product SEZ, as well as there is availability of land on a standalone basis where we can set up our own SEZ.

Vivek

Do we have anything short listed?

Pramod

We have three-four locations in mind, but we would not like to talk about them at the moment. But yes, as I said, it has been discussed at the Board level and we have taken a decision to make this investment in land, which will be an SEZ area.

Vivek

Okay. Thank you.

Moderator

Thank you very much Sir. Next in line is Mr. Govind Lal from UTI Securities.

Govind Lal

Hello, I want to correct. I am Govind Lal Girdhari, an individual investor, and company name is PCS Securities not UTI Securities.

Mr. Vishnu, in the last conference call also I had discussed the issue which I am going to discuss now. It is almost six months since we have announced bonus. At that time you told that you are very confident about servicing the enhanced equity. After almost five months, in an interview on NDTV, you told that big orders, of almost ACOM size, are in pipeline. Almost two quarters have gone since you announced the results. I wanted to know, when can we see the enhanced equity reflect in numbers and, when are bigger orders you talked about expected to be received?

Pramod

Let me first answer some parts of the question, and then Vishnu will close the position on these questions. When we talk of large orders, we talk of pipeline, we talk of expectations. Orders take time to materialize and for product companies that is one question, which needs to be answered. And we of course have mentioned the time when Vishnu has mentioned in a TV appearance that we are expecting those large orders from Japan in the future. Please keep in mind that the ACOM order took three years to come and sales cycle tends to be long. Of course the second order in any economy after the first order is achieved comes much faster, but to predict the date is like impossible. Second part of the question is in terms of servicing of capital. We are confident, if you look at our EPS even today, we are looking at an EPS of Rs.5. An EPS of Rs.5 translates if you just multiply by four, to an EPS of Rs.20. So I think an EPS of Rs. 20 on Rs.10 share is a reasonable servicing of capital. Thank you.

Vishnu Dusad

When I said that we are confident of servicing the enhanced capital, we were looking at sustained return on net worth, which we feel we are delivering and we will deliver in the quarters to come. Would you like to know anything more?

Govind Lal

No, it is fine. Thank you.

Vishnu Dusad

Thank you.

Moderator

Thank you very much Sir. Next is a follow up from Ms. Grishma of Edelweiss Securities.

Grishma

I just wanted to know the capex plans for this year since the land acquisition is delayed.

Pramod

Land acquisition will probably materialize within this financial year. We expect to spend anywhere from Rs. 10 crore to Rs. 25 crore, depending on the location, on purchasing the land.

Grishma

Okay, and is it additional to that around Rs. 20 crore?

Pramod

No, additional to that, today, we have really spent less, I would say about Rs. 7 to 8 crore maximum, on hardware, software, and other equipments really.

Grishma

Okay. I realize that we have slowed down our pace of hiring new people to the company. What kind of figures are we looking to end the year end?

Pramod

As of now, what we are doing really is that we are hiring trainees from campuses and we would expect that we would end at about anywhere between 1750 to 1800 people at the end of the year.

Grishma

Okay, fine. Thank you.

Moderator

Thank you very much Mam. Next is a follow-up from Mr. Ruchit of HSBC.

Ruchit

Just about the profitability, considering that you have seen an improvement sequentially, because of the forex adjustments. Should we see, as the product revenues keep on getting booked more and more, incrementally margins to just keep on rising?

Pramod

Ruchit, last year we used to talk of a 30% kind of EBITDA level and we delivered a 28%+ EBITDA margin for year. This year we are really looking at maintaining at 25%+ kind of EBITDA margin, which is what we are close to at the moment.

Ruchit

Okay. Just about the tax rate, it is a little low, but adding back the withholding taxes, what sort of tax should be budgeted?

Pramod

Tax continues to be at 5% to 6%.

Ruchit

But, once you go into the fiscal 10, 10A benefits would go away, and then would you revert to full tax rate?

Pramod

As we mentioned that we are looking at SEZ options so, whatever projection you are looking at incremental business from March 09 onwards that would continue to be tax-free, whereas the existing business would tend to become taxable.

Ruchit

Okay. Your capex, I just missed, it is going to be how much? Is it Rs. 40 odd crore this year, because that is what you had mentioned the last time?

Pramod

Yes, I think so, something like that.

Ruchit

Thank you Sir.

Vishnu Dusad

Thank you.

Moderator

Thank you very much Sir. Participants who wish to ask questions may please press *1. Next, we have Mr. Ravvichandran from Unify Wealth Management.

Ravvichandran

Good afternoon and congratulations for a good set of numbers. I missed the initial part of the call. May I know the number of employees as well as cash in books?

Pramod

The cash is Rs. 103 crore and the number of employees is 1635 as of September end.

Ravvichandran

And the receivables?

Pramod

The receivables are at Rs. 51 crore. Last quarter the number of people was 1571, we had 1635 in September end.

Ravvichandran

Last time we were discussing about the good number of employees in the product development business, which was supposed to become billable probably in the coming quarter. What is the situation now?

Pramod

I do not think we talked about that in the last conference.

Ravvichandran

This was a special discussion, 160 people only doing product development.

Pramod

You are absolutely right, there are 160+ people in product development. They are not billable. They are the people who create the product and maintain it. This gives rise to our license and product revenues in the future. We have to continue to invest to get the gains from the product.

Ravvichandran

Okay, fine. Thanks a lot.

Moderator

Thank you very much Sir. Next in line is Mr. Rajiv from Wealth Management.

Rajiv

Good afternoon Sir and congratulations for a great set of results. The first question is that you discussed the order book and if I am correct you said that the order book for FY09 and beyond is Rs. 50 crore, and FY09 means March or you said calendar year, I did not get it?

Pramod

What I meant was that FY09 is March 2009 only; beyond that is Rs. 50 crore.

Rajiv

Okay, and FY09 is Rs. 65 crore approximately.

Pramod

I beg your pardon. Rs. 238 crore is my product order book, let me repeat for everybody concerned, and Rs. 50 crore is beyond FY09, of the balance Rs. 188 crore, about Rs.60 to 65 crore will be one year from now.

Rajiv

Okay, fine. Another thing Sir, can you throw some light on the profitability going forward; because, I guess you got the ACOM order which was something like Rs. 90 or 100 crore at a fixed price. Am I correct?

Pramod

Well, initial order is of course at a fixed price and the order value we have stated was approximately Rs. 150 crore.

Rajiv

Oh yes. So, the cost of the rupee will be there and further margins would be under pressure.

Pramod

Yes. What is the question? We have mentioned in the call that we are looking at a 25% EBITDA going forward.

Rajiv

Okay, you said this year, what is expected for FY09 also, if you can give some idea of that?

Pramod

In all fairness, we do not give either revenue or profitability guidance. EBITDA also, we talk only about the current financial year.

Rajiv

Okay, thank you Sir.

Pramod

Thank you.

Moderator

Thank you very much Sir. Participants who wish to ask questions may please press *1. Next we have Mr. Krupal Maniar from ICICI Securities.

Krupal Maniar

Hello Sir. Sir, I just would like to know we have close to Rs. 100 crore plus cash in books. So, any specific uses in terms of, say, acquisition or something like that?

Vishnu

We are looking at our likely first acquisition, a very small company. That is one of the objectives in the directions in which the cash would be used.

Krupal Maniar

Any specific area we are looking for?

Vishnu

It could be in Europe or in the US. We are talking to a couple of them.

Krupal Maniar

Okay, can you throw some more light on your product FinnOne™ in terms of different additions of the module. I think we have added one module Forecaster? So, how is the traction for that?

Vishnu Dusad

I am requesting Prakash to talk about it.

Prakash Pai

Krupal, as we mentioned last time, the Forecaster, we have just launched it. We are yet to get the first customer on it. Meanwhile, we are enlisting the functionalities, as I mentioned in the call, to cover up the whole of captive auto financing, dealer financing, insurance management, and business partner incentives and payments management. This would ensure that we will be able to expand the scope of our existing products and this would be helping us to have a bigger say in the market.

Krupal Maniar

What is the traction for the cash management solution, because I think this product we have since last four to five years and we are not seeing any sizeable share of this product coming into.

Niraj

In the last quarter, out of the five new product customers we had, one of the customer was for cash management. At this time I can say that we are actually pursuing about eight to nine cash management deals and we are quite hopeful of closing some of the deals in the coming few months. So, there is a lot of traction, which is going on. There are long-sale cycles for cash management, because cash management is very specifically in the Asia market, and in Asia market we are seeing almost a 12-month cycle for decision for cash management. At the same time we have eight to nine cases, which we are following very actively and we are quite hopeful as I mentioned. So, we would see some more revenue coming from the cash management.

Krupal Maniar

Sir, when we mentioned that we had close to 40 new deal bids in Q2, can you just let us know what was in last quarter or you know some few quarters back what was the trend?

Niraj

The trend has been increasing, I mean I would say that it has been increasing in the range of, let us say, 25 to 40. That is how it would have probably moved in the last few quarters. We typically would be getting about five to seven bids in a quarter, a couple of quarters back, which then moved to about 10 bids a month, and now, as I said, we have participated in about 40 bids in the last quarter. So, there is an increase in the trend, and also to add on it, most of these are coming from India, Middle East, and Africa.

Krupal Maniar

Okay, Sir. Thanks a lot.

Moderator

Thank you very much Sir. Next, we have Mr. Gaurav Dua from Sharekhan.

Gaurav Dua

Hello Sir. Sir, where do we see our SG&A expenses as percentage of the sales? What should be the stable thing that you are looking at?

Pramod

We look at delivery cost at 60%, SG&A at 15%.

Gaurav Dua

There could be some increase in the second half there?

Pramod

I am sorry, I did not get your question.

Gaurav Dua

First half had been I think 13% odd.

Pramod

Yes, we are running at about 13% odd and we look at about 15%. We expect marketing expense to rise.

Gaurav Dua

Okay Sir, thanks.

Moderator

Thank you very much Sir. Participants who wish to ask questions, may please press *1. At this moment, there are no further questions from participants. I would like to hand over the floor to Mr. Vishnu Dusad for final remarks.

Vishnu Dusad

I would like to thank you all for being here on the call and your continued interest. As always, we are here to make sure that we are safeguarding all our stakeholders. Thank you.

Moderator

Ladies and gentlemen, thank you for choosing WebEx conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.
