



**NUCLEUS
SOFTWARE**

Q2 Earnings Conference Call

Oct 17, 2005

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. Prakash Pai, Head - Product Management Group
- Mr. Niraj Vedwa, Head - Global Sales and Marketing

CONFERENCE CALL PARTICIPANTS

- Mr. Atul Penkar, Emkay Share and Stock Brokers Pvt. Ltd.
- Mr. Dipen Mehta, Dipen Mehta Share and Stock Brokers Pvt. Ltd.
- Mr. Surendra Goyal, SSKI Securities Pvt. Ltd.
- Mr. Nitish Ojha, Amricorp Capital Pvt. Ltd.
- Mr. Dharmendra Grover, Artemis Advisors Pvt. Ltd.
- Mr. Anil Sarin, Prudential ICICI Mutual Funds
- Mr. Malik, Mata Securities
- Mr. Jayesh Gandhi, Birla Sun Life Asset Management Company Limited
- Mr. Dipen Mehta, Dipen Mehta Share and Stockbrokers
- Mr. Ramesh Damani, Ramesh Damani Finance Pvt. Ltd.
- Ms. Anita Negi, India Infoline

Nucleus Software

Investors/Analysts Conference Call

October 17, 2005

Moderator

Good evening, ladies and gentlemen. I AM PARIMALA, the moderator for this conference. Welcome to Nucleus Software Conference Call. For the duration of the presentation, all participants' lines will be in listen-only mode. I will be standing by for the question and answer session. I would like to handover to Ms. Poonam Bhasin of Nucleus Software. Thank you and over to Ms. Bhasin.

Poonam Bhasin

Thank you Parimala. Good evening, ladies and gentlemen, I AM POONAM, Company Secretary, Nucleus Software Exports Ltd. We are thankful to you all for joining us today to discuss the financial results for the quarter and half year ended September 30, 2005. Today, we have our Managing Director, Mr. Vishnu R. Dusad, President Global Delivery Head, Mr. R. P. Singh, and Chief Financial Officer, Mr. P K Sanghi, Product Management Group Head, Mr. Prakash Pai, and Global Sales and Marketing Head, Mr. Niraj Vedwa, to answer all your queries. We will commence with a brief overview of the performance of the company during the quarter and half year ended. After this, we are open to questions. I now hand over to Vishnu, Managing Director of Nucleus Software.

Vishnu R. Dusad

Thank you, Poonam. Good evening, everybody. We thank all of you for taking time out to be with us today on this call for the second quarter and half year results, ended September 30th. I AM extremely happy to announce an increase of 48% growth on year-on-year basis in consolidated revenues from software products and services to Rs. 35.72 crore against revenue of Rs. 24.12 crore in the corresponding quarter of the previous year. For the half year, the consolidated revenue is 52% higher at Rs. 68.56 crore against Rs. 45 crore in the corresponding half-year period in the previous year. Net profit of the quarter is Rs.8.78 crore against Rs. 3.38 crore in the corresponding quarter previous year, an increase of 159%. Net profit for the half year is Rs. 17.36 crore against Rs. 6.33 crore in the corresponding half-year, an increase of 177%. EPS for the quarter is Rs. 5.45 against an EPS of Rs. 2.11 for the corresponding quarter previous year, and for the half year, EPS is Rs. 10.81 against Rs. 3.93 for the corresponding half year last year.

As you know, our focus has always been on creating world-class intellectual property and we are extremely encouraged by the product business growth in the last three quarters. Product revenues in the quarter are Rs. 12.83 crore, which is 36% of total revenue. In the previous quarter, product revenue was Rs. 11.32 crore; and when I say previous quarter, I AM referring to the quarter ending June, which was 34.7% of total revenue. For the half year, product revenue is Rs. 24.14 crore, which is 35% of the half-year revenue. To provide the right perspective for the whole year last year, the product-

related revenue was Rs. 26.42 crore, which was only 20% of the total revenue. In comparison with the six-month period last year, product segment revenue has increased by 180% while revenue from projects and services has increased by 2%. We are on target for growth of the product segment, and today, our products are finding increasing acceptance all over the world. With our business model continuing to yield positive results, we are now planning to invest further in product development and add new products to the portfolio. Banking and financial services focus will continue and it is our dream to create products, which enable consumer loans of small to big amount and to be highly technology driven. In terms of employee strength, we continue to scale up. We added 54 employees during the quarter, taking the total to 989 from 878 as on March 31, 2005, and now I would like to invite my colleague, R. P. Singh, who is our President and Head, Global Delivery, to share his part of the update. Over to you, R. P.

R. P. Singh

Thank you, Vishnu, and good evening everyone. This quarter again saw Europe's contribution to our revenue go up a notch, to 14.50% from 12.19% last quarter. For the entire last year, this contribution stood at 4.53%. India grew to 9.40% from 7.59% in the last quarter and 8% in the last full year. Southeast Asia and the Far East, our largest contributors, stood at 68% as against 75% in the last quarter and 80% in the last year. On one of our key initiatives, the implementation at GMAC, Italy, the first European country rollout, the progress is moving well, and we should be able to go live within the calendar year, as planned. The implementation of our LOS at GMAC China is delayed a bit because of infrastructure readiness at the customer site, but now we should be able to complete the project within this quarter. This quarter, we also focused on testing our product implementations for larger scale on the scalability front. FinnOne, of course, is already supporting portfolios in excess of five million loans with upwards of 3000 users working on it at the same time, but with the growth envisaged in the Indian financing market and our entry into markets with very large scale operations, these tests give us greater confidence of supporting our customers on their businesses, and help them grow smoothly.

I, now, handover to Pramod, our CFO, for his update.

Pramod

Welcome, everyone! I will come to the sequential numbers, which I am sure of, are of great interest. Consolidated revenue is up by 8.70% over the previous quarter. Software development expenses have increased to 50% of revenue against 51% in the previous quarter with SG&A expenses at 17% of revenue against 18% in the previous quarter. The EBITDA is at 30% compared with 32.8% in the quarter ended June 30. Operating margins have fallen primarily due to increase in staff costs, as we have effected increments, effective July 1 for both India and Singapore operations, which accounts for 9% plus of our people. Total expenses on personnel have risen in the quarter by Rs. 1.65 crore, which is 4.0% of the quarter's revenue. With general and administrative expenses falling in both absolute and percentage terms, we have contained the impact to 2.8% at the EBITDA level. The impact of higher product segment revenue is also favorable on the EBITDA, but it is partly offset by the lower margins in the services business. Depreciation for the quarter is up at Rs. 1.4 crore against Rs. 1.25 crore in the previous quarter, as we have fully depreciated software licenses of Rs. 0.25 crore, which are individually below Rs. 5000. We do not expect this kind of expenditure in the

immediate quarters again. Net profit after tax is Rs. 8.78 crore, up by 2.2% over Rs. 8.59 crore in the previous quarter and we have largely absorbed the salary increase at least in the absolute numbers if not in the operating margin numbers at the moment. The EPS is 5.45 compared with 5.34 in the previous quarter. As Vishnu has mentioned earlier, and I would also like to emphasize that product revenue for the half year are Rs. 24.14 crore against 8.43 crore in the first half-year of the previous year and Rs.17.98 crore in the second half of the previous year. You know, growth in this segment is far greater than the growth in the projects and services space and has enabled us to increase and maintain margins. In terms of receivables, we are running days of sales receivables at 59 days, as of September 30 against 72 in June, and 55 in March. We had mentioned in June that the June figure was an anomaly because of delay from one of our clients, and all of those payments were realized in July. Total net receivables are at Rs.23.3 crore. In terms of capex, we spent about Rs.1.51 crore, largely on computers and networking equipment. The expenditure on the cafeteria and recreation block will really start coming in this quarter and we would probably spend about Rs.4 crore and commission the block by February-March; so, there would be some impact of depreciation only in the last quarter. In terms of foreign currency coverage, we continue to cover about three months. We have \$ 3.6 million covered through vanilla forwards at this point of time. We continue to hold Rs. 61.33 crore cash in terms of cash in bank and investments in mutual funds. The operating cash flow for the quarter has been positive at about Rs. 8 crore. I will now handover to Prakash Pai, who is Head of the Product Management team. Thank you very much.

Prakash Pai

Good evening, everybody. The product development continues to enhance our product capabilities to help our customers meet new business challenges. Keeping in view the emerging micro finance markets, the Lending product is enhanced to meet the requirements of the micro-financing business. Our first implementation would be in the first quarter of 2006, with one of our customers. The FinOne lending products have been enhanced to meet the requirement of various regulatory requisites, such as provisioning and service charges, thereby bringing it up to regulatory requirements. The new release of the FinOne Collections product was completed this quarter, and the next release of this product will be made in March 2006; so, we have just come out with a new release and plan to get another one in March. The new release of our Customer Acquisition System, which consists of the loan origination, credit cards, housing finance, and corporate loans, is now being implemented in South East Asia, Middle East and in the Indian market. At one of our customers' site in Malaysia, the Cash Management suite will go live next month. Our Fraud Management System, which was until now focusing on the card transaction frauds, is now being enhanced to monitor even the ATM transaction frauds, and in line with our increased business volumes of our customers, a major focus in the coming months would be on benchmarking all our products on very high volumes of both, accounts as well as transactions. I now hand over to Niraj, e Head of Global Sales and Marketing.

Niraj

Good evening, everyone. Just a brief summary on some of the sales wins that we had for the quarter. We added six clients during the quarter and further strengthened our relationship with the 105 clients that we have spanning the globe. We have bagged some significant orders in the product space. Two of the major banks in UAE have placed orders with us for our flagship product FinnOne, and they will be implementing the complete suite, which includes Loan Origination, Lending, as well as Collection systems. Now, both of these banks have substantial market share in the retail banking space in this market. Also, one of the largest private banks in India will be implementing the FinnOne Collections product for automating debt collection for retail banking operations. One of the world's largest banks will be implementing our product Finance Against Securities, for loans against shares. Another large mortgage company in Japan will be implementing our FinnOne Housing and Mortgage product which would be implemented in the course of the next couple of months. Also, we had announced earlier that we had one cash management deal with one of India's largest private banks as well as one of India's largest public sector banks. We have now enhanced the relationship of these contracts to include many more products and will be implementing the complete Cash Management solution for both these banks in India. Between the two of them, they control a majority stake in the Indian market. So, this has been a very good quarter for our product business and we have a lot of requests from customers. We are quite hopeful of continuing this success story on the product wins. During this quarter, we also participated in one of the largest banking events in the world, CYBOS, which was held in Copenhagen. Our products were very well received and we have had a lot of enquiries for our products from across the globe. This is just a brief summary, especially on the products business. I now hand over to Poonam.

Poonam

Thank you, Niraj. We are now open for the question-and-answer session.

Moderator

Thank you very much, Madam. We will now begin the Q&A interactive session. Participants who wish to ask question, please press *1 on the touchtone-enabled telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, please press *1, now. First in line, we have Mr. Atul from Emkay Shares. Go ahead, Sir.

Atul

Good evening, Sir, and congratulations on the good set of numbers. Sir, can you give us a broad outlook on your product business. Are you seeing any increased number of inquires and how is your average ticket size moving?

Niraj

Well, yes we have had a substantial increase in the number of RFPs. These are requests for proposal that we are getting, and we are getting them from all over the world. It is from India, from Middle East we are now getting requests even from Africa;

we have started getting from various parts of South East Asia as well as Japan, and the number of enquires that we have got in comparison with the previous year's first six months is almost up by 40% , so, there is a substantial increase in number of responses that we have given back during the year.

A:tl

O kay, and about the average size of the products sold, how is that moving?

Niraj

In fact now the inquires that are coming, are coming for a full suite, so for example, if it is for retail finance, they are looking at the full module, all the three modules, which includes at the front-end, the Loan Origination System or the Customer Acquisition System that we have. Then, on the back-end, we have the full Lending products and then the Collection. So, the whole suite, which consists of three or four modules, is generally what the customers have been asking for, and on the cash management side also, we used to see the products basically having three modules. Some of the customers used to ask for one module, but now they have started asking for the full cash management solutions. So, it is, obviously, on the increase.

A:tl

O kay, great! And, what is the order position as of now and can you just give the break-up between products and services?

Vishnu R. D usad

Yeah, this is Vishnu. The orders in hand today are of Rs.110 crore and out of this, Rs. 63 crore worth of orders are for products.

A:tl

Rs.63 crore.

Vishnu R. D usad

Yeah.

A:tl

O kay. I mean, we have seen a margin decline in the first half. I mean, we had salary hikes during the previous two quarters. What is the outlook margins in the second half? Do we see any margins going back to 34-35% ?

Vishnu R. D usad

Yeah, I think so we should be able to get back to 34% .

Atul

O kay, and Sir, lastly, we have seen a decline in tax rate during the quarter, so going forward, what is the kind of tax rate we can work with?

Pramod

Atul, see the taxes; there are two-three components of the tax. Our India operations to the extent of income from India is taxable in India. Indian foreign exchange earnings are, of course, exempted within India, and then of course, in Singapore and Japan, we have some taxation. On an overall rate, I think it is slightly higher than before. If you look at the numbers, we have a current provision of Rs.58 lakh in this quarter and we had about Rs.71 lakh in the last quarter, but then, for the whole year last year, we had only Rs.130 lakh. So, I would say, if you want to look at it as a percentage of turnover or something, it would probably run at about 2% or so.

Atul

O kay, and lastly, Vishnu, you talked about introducing new products. Can you just elaborate more on what is the kind of products you are looking at?

Vishnu R. D usad

See, essentially, we are talking about enhancing our Lending suite to begin with. For example, today we do not have module for something like student loans, so those new modules we would be adding to the Lending suite. Then, as far as our existing modules are concerned, even today, our Auto-Loan module is only 75% compliant of the US requirement. So, we do need to add additional 25% requisites to make it 100% US-ready. Those are the areas we want to focus on now very aggressively and our team is working in that direction.

Atul

O kay. Thanks a lot and all the best

Vishnu R. D usad

Thank you.

Moderator

Thank you, Mr. Atul. Participants, who wish to ask questions, please press *1 now. Next in line, we have Mr. Dipen Mehta from Dipen Mehta Shares and Stockbrokers. Go ahead, Sir.

Dipen Mehta

Sure. Can you tell me what the client concentration is for the second quarter for the first six months?

Pramod

Client concentration in the first quarter was running at about 78% and it would be marginally down to about 70% in this quarter as the Top 5 clients.

Dipen Mehta

Okay, and per se this ratio, I mean, what appears to be on the high side, so what is the company's strategy to the kind of de-risk its business model?

Vishnu R. D usad

We are very much cognizant of that and we are talking to a couple of major players in terms of developing long-term relationships. So, we are reasonably confident that in the next few quarters, these relationships and these discussions would fructify and we would be able to bring this number substantially down.

Dipen Mehta

Does the main change from quarter-to-quarter depend upon the implementation in the order or generally the Top 5 names remain the same?

Vishnu R. D usad

Typically, Top 3 remain the same, fourth and fifth change sometimes.

Dipen Mehta

Okay. Depending upon the orders on hand, once like, for example, you have got an order from the Middle East Bank, so, maybe next quarter they maybe among the top 5 and then maybe once the implementation is over, they would move away from the Top 5 and someone else would come. Is that the correct understanding?

Vishnu R. D usad

Yeah, that is how it happens as far as the fourth and fifth are concerned, but our effort is also to reduce the contribution, not obviously the absolute amount, but reduce the contribution of Top 3 itself. We are targeting to bring it down to less than 40% in the next four quarters.

Dipen Mehta

The contribution from the Top 5 down to 40% in the next four quarter?

Vishnu R. D usad

Of Top 3.

Dipen Mehta

Top 3, you are expecting it to be 40% to be in the next four quarters?

Vishnu R. D usad

Yes, that's right

Dipen Mehta

And as against what, they would be at about 60% just now?

Vishnu R. D usad

Yes, that's right

Dipen Mehta

O kay. Normally, once you get the order, what is the average implementation period, if at all, you can quantify?

R. P. Singh

Typical implementation period would be anywhere between six and nine months, and of course, it also depends, if it is the implementation of the entire suite. Normally, these are sequenced, to be deployed one after the other.

Dipen Mehta

O kay, but we recognize the revenue when the complete implementation is done to the satisfaction of the customer or when do we recognize that, okay now, this is product that we sold.

Pramod

No, we recognize revenue proportionately as the work is completed.

Dipen Mehta

O kay.

Pramod

We divide the work in various phases of design, development, SIT, UAT, and at each stage, we are in a position to measure the total work done. And, in the same percentage of course, the expenses are getting booked and revenues being accrued.

Dipen Mehta

O kay. Right now, will it be possible for you to disclose the total population of our products, I mean, how many customers would be using our software in totality?

Niraj

See, in terms of number of products and modules, we have more than 150, which are implemented. These are implemented in over 20 countries, and with the backlog of orders that we have, we will be able to cross 50 country mark in the next two to three years on a conservative basis. Now, in terms of number of customers, we have close to 100 customers, who have implemented our products.

Dipen Mehta

O kay. Thank you.

Vishnu R. D usad

Thank you.

Moderator

Thank you very much, Mr. Mehta. Next in line, we have Mr. Surendra Goyal from SSKI Securities. Go ahead, Sir.

Surendra Goyal

Yeah, Good evening Sir.

Vishnu R. D usad

Good afternoon.

Surendra Goyal

If we look at the quarterly P & L, withholding taxes have come down sharply year-on-year. Why is that?

Pramod



Withholding taxes are primarily charged on our income from Japan and depending on the onsite-offshore mix, it can vary.

Surendra Goyal

O kay, so what you are saying is that your revenues from Japan have been more offshore in the quarter than in the comparable quarter last year, right?

Pramod

If it is lower, then the offshore would be more.

Surendra Goyal

O kay, and secondly with Rs.110 crore odd of order book, you have good visibility for FY 06 for the next two quarters. Could you just talk about visibility. What kind of visibility do you have for FY 07?

Pramod

See, in terms of FY 06 or 07, you are aware that we don't actually give guidance in terms of numbers as such, right? But if you just look at the product orders, product orders we have fetched are of about Rs. 63 crore in which, of course, there is a GMAC order component which is in excess of Rs. 40 crore, pending to be executed over the next three years. The balance Rs. 24 crore we would expect to execute within the next seven to eight months.

Surendra Goyal

O kay.

Pramod

O kay, and the project business is largely driven from our larger clients and it is all repeat business.

Surendra Goyal

O kay, thanks a lot and just one last question: Today's newspapers just talk of India and Japan to take up the issue of withholding tax later this week. Any comments on that?

Pramod

This has been going on for years, and there is a 20% withholding tax from Japan on whether it is software or any other services, depending on where they are performed and the government on both sides have been talking to each other, and NASSCOM has been representing that this should be reduced because 20% of revenue is a huge tax on profitability. So, let's see what happens, but it works both ways because the Indian government also has to see how much revenue it is going to lose or not lose.

Surendra Goyal

Right but for them it has already been reduced to 10% for Japanese companies.

Pramod

No, that's a technical issue, which was done in the budget. That is a very specific kind of provision, which is not a general provision for everyone.

Surendra Goyal

Okay, thanks a lot

Vishnu R. Dusad

Thank you.

Moderator

Thank you Mr. Goyal. Next in line we have Mr. Nitish from Amricorp Capital. Go ahead, Sir.

Nitish

Hi, this is Nitish from Amricorp. Your Far East numbers are declining in quarter-on-quarter. What is happening over here?

Vishnu R. Dusad

Which number are you looking at, Nitish?

Nitish

Your revenue by geographical segment has fallen.

Pramod

Yeah, my Far East is showing about 38.3% in June quarter and about 37.6% in this quarter, so it is more or less steady. Far East business is largely the project business, and that is steady at the moment. With the new orders from Japan in the mortgage business it will again start rising.

Nitish

Okay, and on the services side, what is your onshore-onsite revenue mix?

Pramod

In this services business, I would say almost 90% of this is onsite.

Nitish

Do you see a trend towards the offshoring or do you expect it to continue on the onsite basis?

Pramod

See, this is not a focus area for us. See, there are two types of work which we do, we do large engagements in Singapore out of our subsidiary there, with people who are permanently based in Singapore and that is kind of a near shore kind of work rather than an offshore and onsite kind of work. Otherwise, we don't really get into too much of these engagements; in Japan also, we do onsite and offshore work for two of our larger clients, but in other geographies, we really don't really do much onsite-offshore mix. It is all product implementations, for which of course, the development takes place. Here, the customization and the onsite implementation take place at the requested client site.

Nitish

Okay, fair enough. Any pressure on billing rates or how the billing rates are shaping up? 

Pramod

None whatsoever, we have been at the lower end of the spectrum earlier, so we always feel that we can get as we go along with our product maturity. We will get better rates in future.

Vishnu R D usad

Which we have started getting. Our rates for services related to products are increasing and even otherwise our rates are either stable or increasing.

Nitish

I see about like what-- 5% , 8% upward.

Vishnu R D usad

Five percent we can say.

Nitish

Five percent all right and congratulations on the encouraging set of numbers.

Vishnu R D usad

Thank you.

Moderator

Thank you, Sir. Next in line, we have Mr. Dharmendra from Artemis Advisors. Go ahead, Sir.

D harmendra

Yeah, good evening. Just probably if I have missed I am sorry, but I just wanted to ask you about the status of G MAC implementation, and secondly, if you can give me some break-up of the investment that you are holding as on September 30, 2005?

R. P. Singh

On the G MAC front as you would know there are two initiatives going on. one is the implementation of the entire servicing suite in Italy which is a first of the countries of the global rollout. That is already moving on, and the product has been installed there. The UAT etc are in progress, and we should be able to get that live before this calendar year, which was targeted. The other initiative was the introduction of our origination package, which is the LOS to be initiated in China first. That project is a little behind schedule; we should have probably had it in action by now, but because of some infrastructure prerequisites that had to be mobilized or it to be used over the Internet, there is a little delay in that, but we should be able to get that also under wraps within this quarter.

Pramod

The second part of your question-D harmendra, we are holding about Rs. 61.34 crore is cash and investment out of which Rs. 18.4 crore is banks and fixed deposits and Rs. 42.98 crore is an investment in mutual funds which is in liquid mutual funds or in some FMPs of a year.

D harmendra

How about your investment in G MAC India?

Pramod

G MAC India that is a long-term investment. I mean, I am not counting those figures.

Jagmohan

Because 43 plus 18 you said, so that's 61, you are not counting that G MAC India?

Pramod

I am not counting G MAC India. That is a Rs. 13.50 crore investment which is a longer-term investment. I am talking of current investments in terms of, which can be liquidated; well apart from the FMP, it can be done at a day's notice. And, FMPs also can be done if you want to pay a minor penalty on that.

D harmendra

Okay, coming back to the first question. The LOS in China, when do you think you will kick off, and how much and where by the end of the year you will be on this project?

R.P. Singh

See, currently, the project is only to get it live in China. It has already kicked off and we have been, in fact, ready for delivery. Now, it just needs to be deployed with the infrastructure ready and that is, I am sure, will be through this quarter. So, once this goes live, that is when it gets considered for whether this is going to fit into the global picture or not

Dharmendra

And, in the past three quarters, we have seen the profits remaining stagnant. It is also the fact that because you were ramping up the whole thing. When, do you think, you can give us some guidance as to when do you think we can see some ticker happening in that going from 85-86 million kind of profitability that we have been doing in the last few quarters?

Vishnu R. D usad

I guess all that we can say is that we continue to be very, very bullish on both our pipeline as well as the business in hand. And, the other thing that you need to appreciate is building credibility in product business is a gradual process, but when it starts moving, then it can move suddenly, so it is very difficult to put a date as to when would it move from the 85 million to the next level.

Dharmendra

But in terms of project schedules that you would have, is there any definite milestone that you have because you were earlier talking about mining more clients in the Europe as soon as you implement the G MAC project?

Vishnu R. D usad

Sure, all those things are absolutely going on schedule and the only thing again, one has to say is that that will also take time, it could be two quarters, four quarters, six quarters before someone places an order.

Dharmendra

Any update on G MAC US implementation or projects that you were looking at?

Vishnu R. D usad

See, in the earlier part of the call, we talked about you know 25% products being only 75% ready and not 25% ready; that number has come out of discussions in that direction only.

Dharmendra

But is there any firm direction that has been taken up from the project?

Vishnu R. D usad

See, progressively, we get a feeling that whatever we have delivered to the marketplace and even to organizations like G MAC is more and more relevant. That is the feeling we get by interacting with our existing customers or Top 50 customers, and that is the feeling we have across the board and that's how we are saying that okay we will further accelerate our investment plan. That's all I can say at this juncture.

D harmendra

Okay, thanks a lot

Moderator

Thank you, Mr. D harmendra. Next in line, we have Mr. Anil Sarin from Prudential ICICI Mutual Funds. Go ahead, Sir.

Anil

Good evening, Vishnu, and Good evening, Mr. Sanghi. Congratulations on the good results.

Vishnu R. D usad

Thank you, Anil.

Anil

I just wanted to know. I have come in a little late in the conference call and I just wanted to know what is the revenue from products and what is it from services?

Pramod

Anil, the revenue from products is Rs. 12.83 crore, and from projects and services, it would be Rs. 22.89 crore.

Anil

Can this be taken into the future as well?

Pramod

You know the product revenue was Rs. 11.3 crore last quarter and was Rs. 12.83 crore this quarter, and this is running at about 30% of the total revenue. That's the kind of number we expect to maintain, and the total numbers would also keep on rising.

Anil

Yeah, sure. This thing now it is on a steady basis that one can talk about. In the past the revenue from products has gone up and it has gone down as well in certain years?

Pramod

Yeah, it's quite right Now the orders which we have are -obviously the G MAC order, which is implemented over four years gives us a large visibility of revenue from that order over a longer period and even the other, in the first quarter, you know in the first quarter we had booked five orders for products. I can share that information now that is first quarter of last year we had booked zero products order. So today the non-G MAC business order book is about R s. 24 crore, which is probably the highest we have had, apart from G MAC .

Anil

O kay, when does this greater proportion of orders start reflecting in the margins from the product business?

Vishnu R . D usad

It has started reflecting and at the same time what happens is, for example, if professional services part of our business goes up, then the margins there comes down and likewise if Indian part of the products business goes up, again margins come down. So the margins are fairly closely linked with the product mix.

Anil

O kay, thank you so much.

Vishnu R . D usad

Thank you Anil.

Moderator

Thank you Mr.Sarin. Next in line, we have Mr. Malik from Mata Securities. Go ahead sir.

Malik

Hello good evening everyone.

Vishnu R . D usad

G ood evening.

Malik

Very very congratulations for a good result I have a couple of questions. Actually if the half year revenue is R s. 68.56 crore, if for the coming two quarters you carry on with the same revenue, then your revenue will be R s. 137 crore, so I can say 32.9% growth in the top line, is it so? You will maintain the same growth for the coming two quarters?

Vishnu R. D usad

O nce again I repeat that we don't give guidance. That's all.

Malik

That is true, but I can take it as rough estimation?

Pramod

Your arithmetic is as good as yours you know. I mean you can see the numbers are in front of you for two quarters R s. 32.84 and R s. 35.72 crore, so reasonable estimation I am sure you can do.

Malik

O kay, I want to know one more thing. I want to know what is the contribution from G MAC side in your R s. 68.56 crore revenue for the half-year?

Pramod

We have publicly stated earlier that the G MAC order, which is around R s. 50 crore for us and it is being revenue at the rate of almost equally over 48 months., So about you can take a figure of anywhere between R s. 6.5 to 7.5 crore.

Malik

O kay, one more question. How many new projects your company is going to bid for and what is your expected success rate in that?

N iraj

O ur average sales cycle would be anywhere from five to six months, and in the first six months of this year, we have bid for more than 60 projects. Now in terms of success ratios, it is difficult to say, but I can just share this figure that we have bid for more than 50 projects. This is on the products area and this is from all around the world. It is not centered around one region, but it is across multiple geographies, continents, and countries. So we have started seeing some results as we have announced a couple of wins which have happened in the last one or two months. We are quite confident of many more wins like this in the current quarter also.

Malik

I want to just know that what will be your capital expenditure for FY 06?

Pramod

FY 06, we should totally have about R s. 8 crore.

Malik

Rs. 8 crore. O kay, thank you, Sir. Best of luck for the coming quarters.

Vishnu R. D usad

Thank you very much.

Moderator

Thank you, Mr. Malik. Next in line we have Mr. Jayesh G andhi from Birla Mutual Funds.

Jayesh G andhi

Hello, this is Jayesh G andhi here. First of all, congratulations on an excellent set of numbers. Again pretty much in line with what was expected. I have just one question. With the cash kitty at your end increasing every quarter, are we looking at acquisitions and what strategy do you have in mind for that, if you could just elaborate on that?

Vishnu R. D usad

As far as strategy on acquisitions is concerned we are very much open. If some good product company comes our way and we find it interesting and if the cultures of the company match, etc., etc., then we would be very open to that kind of an idea. And parallelly, we are also, as we mentioned in the earlier part of the call that we are getting slightly more aggressive on investment on the product front so that would further give us better utilization of this cash, and in any case we do want to keep some reasonable cushion for ourselves so in case there is a bad patch for a couple of quarters, we should be able to see it through without affecting our investments on the product front

Jayesh G andhi

O kay, thank you.

Vishnu R. D usad

Thank you, Jayesh.

Moderator

Thank you, Mr. G andhi. Next is a follow-up question from Mr. Dipen Mehta of Dipen Mehta Share and Stockbrokers. Go ahead, Sir.

Dipen Mehta

I just wanted to know a little bit more about the services business because you did say that that was basically most of it was onsite. So, I just wanted to understand if it is just an add-on service which will move more or less in line with the growth in the products or is it a separate focus area where you are operating a niche service onsite? Could you just give an overview of that particular business and what are the major growth drivers over

there and how you are doing the marketing, and how you are trying to be more competitive in that kind of business?

R P Singh

A large part of it would be independent of the product but definitely in the banking domain and services, it would include the entire variety. For instance, of course for traditional engineering stuff like customization and supporting implementations worldwide from our hub in Singapore. Singapore is our largest team engaged in services and it is supporting nearly 100 countries from there for one of our large customers in multiple applications. It is about 60 to 70 applications, which are supported. That is one activity. In addition to that we also run project management services for a handful of our large customers, and as mentioned last time, we have introduced testing services as yet another capability and that is also being deployed for various testing engagements in the Asia Pacific and in American area.

Dipen Mehta

What if you did a Rs. 22 to 23 crore is what we did in services in Q 2. How much would it be because we did Rs. 14 crore worth of product, most of this will be directly linked to product?

R. P. Singh

I think, literally, they are independent of each other.

Pramod

I would like to mention here that the product includes product-related services of customization and implementation.

Dipen Mehta

Okay, what you are telling is that projects are a completely different division and not related to products.

Pramod

No, they would be separate. There could be a customer who has taken some products, like the customer in Singapore has also taken a product from us, but the larger part of the business with them will be project-based where we do a standard application development and subsequent maintenance.

Dipen Mehta

And, if you could disclose in terms of revenues product wise, are you disclosing that or even approximately like CAS would be how much, percentage of the 12.83 which we did in Q 2?

Vishnu R. D usad

Largely, we are two major product lines, one is the FinnOne suite, which is in the lending space and the other is the Cash@will which is the wholesale banking and cash management solution. Well, Cash is a recent product for us. It really started in 2002-2003. We don't give these exact numbers, but we could separately furnish them to you. It's not an issue. Normally, I would say that today maybe out of the about Rs. 12 crore, about 2% is now coming from Cash, but it can change because the larger amount and orders do count at the moment

Dipen Mehta

The idea was to understand the dependency. My idea was that we try and look at client concentration and I was just trying to understand product concentration, how would that move because end of the day that's one of the risks associated with a product company. So, if you could throw some more light on the product concentration?

Vishnu R. D usad

See, the two products, product lines that we have, Lending and Cash Management, we are at a very very nascent stage; globally, the retail assets would be to the tune of upwards of \$10 trillion, and as of this moment, our product supports something like \$20 billion worth of retail assets. So, we are less than 1% clearly.

Dipen Mehta

Okay. The other question relates to the license fees for these products. At least some of the products which have been around for maybe two or three years, have you generally been able to increase the list price for these products, if you could just throw some light on that count I am sure each product pricing would depend upon a lot of other issues, like which modules are taken implementation and maybe discounts for bulk licenses. I am sure you would have all those permutations and combinations, but just to get a feel of, are you able to sell the same couple for 10% more than what you did last year or year before last? Give us some input over there.

Niraj

Yes, I think over the last year, yes, we have been able to, we have obviously revised our prices also, and we have introduced some different combinations of pricing which include portfolio-based pricing, include user-based pricing, so we have introduced these various combinations. We have also introduced the increase in the module price, if there is a bulk combination the customer goes in for, and then we have obviously some discounts. However, at a macro level, yes, we have been able to not only increase the license prices, we have also been able to increase the onsite and the offshore services price.

Dipen Mehta

Which are linked to the product sales?

Vishnu R. D usad

That is right

Dipen Mehta

Okay, and I was just observing in the top holders holding more than 1%. There is an Arun Jain, is it the same Polaris ory ?

Pramod

Yes, Arun Jain was the co-promoter with Vishnu and Yogesh Andlay when they started out in 1986, and he still has a holding in the company, but he is not associated with the management

Dipen Mehta

Okay, thank you.

Pramod

Thank you.

Moderator

Thank you, Mr. Mehta. Next in line, we have Mr. RAMESH DAMANI from RAMESH DAMANI Finance. Go ahead, Sir.

Ramesh

Good evening, Vishnu and your team. Congratulations on a good quarter. I guess all our questions have been answered, but I just wanted to congratulate you on a good quarter, and keep it up for the next half of the year.

Vishnu R. D usad

Thank you very much, Ramesh for being here. I was waiting to hear your voice and you have not disappointed. Thank you.

Ramesh

No, I listened and enjoyed listening to the con-call. So, thanks again and good luck for the next quarter.

Vishnu R. D usad

Thank you very, very much.

Moderator

Thank you, Mr. DAMANI. Participants who wish to ask questions, please press *1 now. Next in line, we have Ms. Anita Negi from India Info line. Go ahead, MA'AM.

Anita

Hello!

Vishnu R. D usad

Yes, welcome Anita.

Anita

Thank you, and congratulations on a good set of numbers. I just have some basic question about your onsite-offshore mix in terms of revenue and your number of employees deployed?

Pramod

We are slightly different from the standard services company. We are in the product space and if you would like to have numbers, I can probably give you some kind of numbers that we have about 160 people in Singapore. We have about 50 to 60 people onsite in Japan all the time. We may have some more than 15 people in the US, but it's not really so. Our numbers are not dependent on this onsite-offshore kind of mix and work because we largely do product implementation, for which there is a license fee proportion, there are different buckets of revenues of customization and development taking place, so this pattern does not really hold for us.

Vishnu R D usad

Let me just add one more line to what Pramod has mentioned. What we essentially end up doing is whenever our people are free from projects, they move into product development and likewise, whenever we need people for additional people for a project they move from product development side, so that way, we are able to keep our teams 100% occupied.

Anita

O kay, thanks a lot and all the best

Pramod

Thank you.

Moderator

Thank you, Ms. Negi. Participants who wish to ask questions, please press *1 now. At this moment, there are no further questions from participants. I would like to hand over the floor back to Ms. Poonam Bhasin for final remarks. Over to you, MA'AM.

POONAM

Thank you, Parimala. We thank you all for the participation in our investors' conference call and we look forward to speaking to you in the next quarter. I now hand over to Mr. Vishnu for the closing comments.

Vishnu R. Dusad

Thank you very much, ladies and gentlemen. It was very nice to see so many of you joining in for the call and it does encourage us to continue to excel in terms of servicing our customers as a whole. Thank you very much once again.

Pramod

Thank you from all of us. 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 and have a nice evening.
