



**NUCLEUS
SOFTWARE**

Q3 Earnings Conference Call

Jan 17, 2006

MEMBERS OF NUCLEUS MANAGEMENT

- Mr. Vishnu R. Dusad, Managing Director
- 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. Ravvichandran, Unify Wealth Management Ltd
- Ms. Kavita, Finance Insights
- Mr. Anurag, Brics Securities Ltd.
- Mr. Ramesh Damani, Ramesh Damani Finance Pvt. Ltd.

Nucleus Software
Investors/Analysts Conference Call
January 17, 2006

Moderator

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

Poonam Bhasin

Thank you, Sunil. Good evening ladies and gentlemen. I am Poonam, Company Secretary, Nucleus Software Exports. We are thankful to you all for joining us today to discuss the financial results for the quarter and nine months ended December 31, 2005. Today, we have our Managing Director, Mr. Vishnu R. Dusad, 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 nine months ended. After this, we are open to questions. I now handover to Mr. Vishnu Dusad, Managing Director of Nucleus Software.

Vishnu R. Dusad

Thank you, Poonam, and good evening everybody. Once again, I would like to thank you for taking your time out to be with us today on this call for the third quarter and nine months results ended December 31, 2005. I am extremely happy to announce 38% growth on year on year basis in consolidated revenues from software products and services at Rs. 37.4 crore against revenue of Rs. 27.08 crore in corresponding quarter of the previous year.

For the nine months period, the consolidated revenue is 47% higher at Rs. 105.96 crore against Rs. 72.12 crore in corresponding nine months period in the previous year. I must mention that in the last financial year we crossed Rs. 100 crore top line for the first time and this year we have achieved that in the first three quarters, this nine month figure of Rs. 105.96 crore is higher than financial year 2005 full year turnover of Rs. 103.14 crore.

Net profit for the quarter is Rs. 8.82 crore against Rs. 5.89 crore in corresponding quarter of the previous year, an increase of 50%. Net profit of nine months is Rs. 26.16 crores against Rs. 12.12 crore in the corresponding period, an increase of 115%. EPS for the quarter is Rs. 5.47 against an EPS of Rs.3.66 for the corresponding quarter of the

previous year, and for the nine-month period it is Rs. 16.27 against Rs. 7.6 for the corresponding nine-month period last year.

Our focus on products and services continues in banking and financial services sector. Product revenue in the quarter is Rs. 14.14 crore, which is 38% of the total revenue. In the September 2005 quarter, product revenue was Rs. 12.83 crores, 36% of the total revenue. For the nine-month period, product revenue is Rs. 38.27 crores, 36% of the revenues. In comparison to nine months period last year, product segment revenue has increased by 128%. For the financial year 2005, the product related revenue was Rs. 26.42 crore, 26% of the revenue.

Projects & Services revenue is Rs. 23.27 crore for the quarter against Rs. 22.89 crore in the September quarter. We are looking at new relationships in this area, and to address new opportunities, we are setting up a fully owned subsidiary in Netherlands to address opportunities coming out of Netherlands as well as rest of Europe. The initial capitalization shall be 100,000 Euros and we expect the subsidiary to be operational next month. Markets are not a limitation for our growth and today our challenges lie in recruiting and training manpower for speedy execution for product related business and other domain related projects. Simultaneously, we have to continuously invest in our new products and new features for existing products. We have drawn up an ambitious plan to increase our manpower strength by at least 200 persons in this quarter. We are currently 982 persons.

Now I would like to invite my colleague Prakash, who is the head of Product Management team to brief you both on Delivery as well as Product Development.

Prakash Pai

Good evening everybody and thank you, Vishnu. The product development continues to enhance our product capabilities to help our customers meet new business challenges. As mentioned in the last quarter, our lending product has been enhanced to meet the requirements of the emerging micro finance market. Our first implementation would be in the first quarter of 2006, with one of our new customers. The FinnOne customer acquisition system that covers both retail and corporate loan origination will see its first implementation of corporate loan origination functionality with a customer in Indonesia. The retail origination functionality, as you all know, has been deployed in several of our customer locations. We are seeing increased queries for both retail and corporate loan origination in the market. Our first customer from the African continent has also selected this product.

Continuous investments have been made in our existing Lending and Collection systems and new releases of the same would be made towards the end of this quarter. The BankONet product and Internet banking, which was launched in the earlier quarters, has been successfully implemented at a client site in Southeast Asia.

Our Finance Against Securities product will see its first implementation in the Middle East in this quarter. This would be the second installation outside India. Our Fraud Management system has been enhanced to cover the areas of ATM fraud and the same has been implemented at one of our customer locations here. Our Cash Management system continues to meet new successes with a deal successfully implemented at a client site in Southeast Asia. This product has been short listed by two large public sector banks in India for implementation in the subsequent months.

This quarter has seen a growth in the contribution of Southeast Asia and Far East from 68% last quarter to 71% this quarter. This is mainly due to new product implementation in Philippines and Japan. Europe dropped from 15% in the last quarter to 8% in this quarter as the GMAC Italy roll out went into the last stages. The roll out has been delayed due to the incorporation of regulatory changes and new requirements and we see it going live by the end of this quarter. First cycle of user acceptance test has gone through successfully and migration of the entire portfolio is also completed. We have started increasing the bandwidth at the management level to prepare ourselves for the growth ahead. A separate delivery unit for managing the cash management products has been setup. The quarter saw a series of implementation of our products, both in India as well as internationally. We are in advance stage of implementation of our products in the Middle East, the market that is now becoming an emerging market for us.

I now hand over to Pramod Sanghi, our CFO.

P. K. Sanghi

Good afternoon. Welcome everyone. If we look at the numbers on a quarter-on-quarter basis, consolidated revenue is up by 4.69% over the previous quarter. Software development expenses have increased to 58.45% of revenue against 56% in the previous quarter. Selling, general, and administrative expenses are 14.63% of revenue against 14% in the previous quarter. Therefore, EBITDA is just below 27% compared to 30% for the previous quarter. Operating margins have fallen primarily due to increase in cost of delivery and a loss of Rs. 31 lakhs on account of foreign exchange fluctuation, which is reflected in the administration expenses.

Cost of delivery has increased, and there is increase in onsite travel by about a crore as there have been additional travel costs in this quarter to meet project deadlines. We have also incurred local costs in Italy for the GMAC project, which includes testing services. Depreciation for the quarter is lower at about Rs. 87 lakhs against Rs. 1.4 crore in the previous quarter. This reduction has taken place as we had booked full depreciation on software licenses purchased last quarter, which is not obviously applicable again, and certain assets have completed the useful life in the last quarter.

Withholding taxes are just below a crore against Rs. 63 lakhs in the previous quarter. This is a function of Japan revenue, which has increased to about Rs. 16 crore from Rs. 12.4 crore in the previous quarter. Our net profit after tax is Rs. 8.82 crore, marginally higher against Rs. 8.78 crore in the previous quarter. As Vishnu mentioned EPS is Rs. 5.47.

We had stated in our earlier calls that we were looking at 33% to 34% EBITDA for the full year as a target. We are now running just below 30% for the nine months period and we look at maintaining this for the year. In terms of receivables, we are running days of sales receivable at 45 days as of December 31, 2005, against 59 in September. Net receivables are at Rs. 18.62 crore. Cash flow has been strong and operating cash flow is positive at about Rs.13 crore for the quarter. With no significant outflow liquid funds, the company is at a new high figure of Rs. 74 crore plus, of which Rs. 47.48 crore is in mutual funds and the balances are with banks and fixed deposits and current accounts. September 30, 2005, we were at Rs. 61.34 crore.

In terms of capex, we capitalized Rs. 1.4 crore largely on computers and software, and capital WIP increased by about Rs. 80 lakhs for the cafeteria complex. In terms of foreign currency coverage we have currently about 1.5 million dollars which is approximately I would say about 40 days coverage through vanilla forwards.

I will now hand over to Niraj who looks after global sales and marketing to give a brief overview.

Niraj Vedwa

Thank you, Pramod, and good afternoon everybody and thanks for joining this call. I would just like to summarize the sales achievement for the quarter. This has been a very good quarter in terms of new orders, and both in terms of products and product business. We received four new orders during the quarter, which were substantial from across the region. One of the largest rural banks in Philippines has selected our core retail-banking product, which would include our lending system, our deposit and saving systems, to be implemented in Philippines. One of the very large, rather one of the top two large retail banks in UAE has selected our margin lending product, and as Prakash had said this is going to be the second implementation of our margin lending product outside India.

One of the very large NBFC which has signed joint venture with one of the very large Asian bank to launch full retail operations in the country has signed with us to implement the whole retail banking platform and this would be implemented during the next three to six months in different modules. Prakash also mentioned about us getting into micro lending segment, we have bagged a contract from the large micro lending companies in India.

We have also announced in our press release last quarter that we had signed six new orders, I am happy to share two names during this call. One of the customers is RAK Bank in UAE, which is the fourth largest retail bank in the UAE and they had finalized with us in last quarter for the complete retail-banking platform, which includes Loan Origination, Lending and Collection system. The project is in a very good shape; we would very soon be going ahead with the implementation. The other major implementation is with a very large mortgage lender in Japan, by the name of NCC mortgage and that project is also shaping up extremely well.

Besides these two orders, I just wanted to add on that, in a nine month period we have closed 14 orders for 25 modules which would be implemented, so it has been a very good year so far in terms of product business, again standing testimony to our product vision and product strategy, and we are quite confident of a lot of deals being closed in last three months of this financial year. We have had increased acceptance of the product. In fact, one of the other points, which I would like to highlight, is that a lot of our relationships are now changing into global relationship. With one of the contract that we have signed which would be implemented in India, we have signed an extension of the contract to be implemented in six countries in a phased out manner and that would be a very large implementation for us. Also one of our existing relationships with one of the largest private banks in India, which is now going global in a big way, we would be implementing our product in a multi-country roll out. So, as we go on we see increased global rollouts of our products from GMAC to Arab Bank, which we had announced initially, to these new contracts that we have got.

Also, our relationship with partners IBM, Oracle, Sun, and HP is moving to new levels and there is an increased acceptance of the product and a joint marketing activity in various regions across the world including collaterals, joint collaterals, joint participation in events and joint bids for various contracts.

Well that is the summary from my side, I hand it over back to Poonam to take the next step.

Poonam Bhasin

Thank you, Niraj. Ladies and gentlemen, we are now open to question and answer session.

Moderator

Thank you very much Mam. We will now begin the Q&A interactive session. Participants, who wish to ask questions, please press *1 on your telephone keypad. On pressing *1, participants 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. Surendra Goel from SSKI.

Surendra Goyal

Good evening everyone.

Vishnu R. Dusad

Good evening Surendra.

Surendra Goyal

First question what is the order book at the end of the quarter and could you please break it up into products and services?

Niraj Vedwa

The total orders in hand which are to be executed is Rs. 110 crore out of which Rs. 68 crore are for product business and the balance is for services business, which are project and the associated services for the projects.

Surendra Goyal

So this is broadly similar to what we had at the end of last quarter, right?

Niraj Vedwa

Yes.

Surendra Goyal

Okay. Secondly on the margin side, last quarter you had indicated the margins in the range of 33% and now I think if I got it right you said that in less than 30% range, which you have had in the last nine months despite product contribution continuing to move up, so what is the change, any particular reason for this change in outlook on margins?

P. K. Sanghi

As I mentioned that, a) we did have some foreign currency losses in this quarter, about Rs. 30 odd lakhs or so, and we are incurring additional expenditure in Italy on the GMAC project with the new change requests and other things being done. Certain costs do increase when the project extends from a 12-month period to a 15-month period.

Surendra Goyal

But are these recurring kinds of expenses?

P. K. Sanghi

No, we do not expect these to be recurring kind of expenses, but the first implementation of course is the major implementation for the GMAC account and we would like to put in all our efforts in making it a success.

Surendra Goyal

Okay, so now despite improved product contribution, , you expect margins to be broadly in a similar range to what we saw in the last nine months?

P. K. Sanghi

I mean we did talk about 32%, 33% or 34% in the last quarter, and we are now at 27% I do not think it would be fair on our part to talk about anything in excess of 30% for the quarter which is currently on.

Surendra Goyal

Right, okay. Thirdly, what is the outlook on the non-product revenues, like last few quarters, couple of quarters, three quarters, we have seen it broadly bare flat, so what is the outlook on the services side of the business?

Niraj Vedwa

The outlook on the services side is also extremely good as we have large relationships on the services side with global customers, global banks, and the business has been growing and we do expect an increase in the absolute revenue of course, but in terms of contribution probably similar to what we have in this quarter for services and the product business, perhaps we would be able to maintain a similar kind of ratio.

Surendra Goyal

Okay, thanks a lot.

Moderator

Thank you very much, Mr. Goyal. Next in line we have Mr. Atul Penkar from Emkay Shares.

Atul Penkar

Good evening sir.

Vishnu R. Dusad

Good evening, Atul, how are you?

Atul Penkar

I am fine, sir. I had a follow up question on the margins, maybe for the quarter we are looking at about 30% margin, but going forward as we see increased contribution from products, how do you see margins will be in the next year or so?

P.K. Sanghi

Our long-term target for EBITDA remains at about 33-35%.

Atul Penkar

So the quarter where we saw about 27% a margin is a quarterly phenomenon, unlikely to repeat going forward?

P. K. Sanghi

Yes, we do not expect it to be repeated.

Atul Penkar

Okay, and sir what is the current active clientele you have?

Niraj Vedwa

We have total 116 clients as of today.

Atul Penkar

What was the employee addition that happened during this quarter and what are your targets there?

P. K. Sanghi

We did not have net additions in this quarter. We are more or less at the same level, and as Vishnu mentioned we are looking at aggressively recruiting about 200 people in this quarter.

Atul Penkar

Sir your relationship with HP, IBM as your partners, any consents there? Any business that you are looking forward to from these partners?

Niraj Vedwa

Yes, in fact we have got the LOIs from two of the very large nationalized banks in India, and obviously I am not able to announce the names today, , and we had gone for a joint bid along with one of the partners i.e. HP and the deals have been closed by HP and we should be signing the contract with them to execute our cash management product and also our leasing product in those banks. They are one of the largest nationalized banks, and so this is the first success. Besides this, we are also short listed in at least four cases in the last two bids with two of the leading players and they are present in the global markets.

Atul Penkar

And sir out of this total product revenues, how much was license and how much was implementation and maintenance, if you can break up?

P.K. Sanghi

Atul, we still do not give out the actual license figure, we have been giving the total product revenue relating to license, customization, implementation and annual maintenance but license figure is confidential information, which we do not share in detail.

Atul Penkar

Okay. Sir we are expecting the Italy implementation to complete in the next quarter, after that completion which is the next geographical area you are trying to move to?

Vishnu R. Dusad

They have talked to us about UK and Benelux to be started parallel.

Atul Penkar

Okay. I am through with it.

Niraj Vedwa

What Vishnu mentioned to you is that we have started doing the pilot which is called the CRP, which is basically a discussion to finalize the gap and that process is going to start now, which is for UK and Benelux, and Benelux is basically 3 countries which is Belgium, Netherlands and Luxemburg, so those will be the next implementations.

Atul Penkar

Okay, thanks and all the best.

Moderator

Thank you very much, Mr. Penkar. Next in line we have Mr. Ravichandran from Unify Wealth.

Ravichandran

Good evening, Sir. Out of this total order book outstanding on the product side, can I have a breakup between GMAC and others?

P.K. Sanghi

For GMAC, we would have about Rs. 36 crore to Rs. 37 crore order book and the balance would be others.

Ravichandran

And how is your overall ticket size moving in the recent times in terms of RFPs, and the size of the orders, which you received, in recent times?

Niraj Vedwa

In terms of the RFPs, this year perhaps has been an extreme high, we have received close to 80-90 different RFP bids that we have already given our proposals to, so it has been increasing substantially during the year, and even the ticket size. What is really happening is that very large banking corporations are acknowledging our implementations and our focus on these areas and these are some of the very large banks and large auto financial or captive auto finance companies across the world. They are extremely large ticket size, and as I said before a lot of RFPs are coming for multi-country roll outs which is something which were very few in the past, but now we see a lot of multi-country RFPs being sent to us and from very large banking corporations across the globe.

Ravichandran

As far as the implementing your product in GMAC is concerned in the last conference call you said you are ready only to the extent of 75% and you are working on filling up the gap there, how are you progressing on that gap?

Vishnu R. Dusad

This is Vishnu addressing on behalf of RP, as he is busy in a client call. We are progressing very well there, the users have approved the functionality, there were some changes related to Bank of Italy reporting the interface between the regulator and the institution, so those have been made, and the entire database has been migrated once to the satisfaction of the user. Now final user testing is about to start and then we are secured.

Ravichandran

And any update on China?

Vishnu R. Dusad

China again let me bring you _back on the situation there, the regulator, both I guess on the political side as well as on the financial services side, is extremely strict and careful about how Internet is used in the country and that is where this particular implementation has run into bit of rough weather, you know, GMAC still along with its joint venture partner, is working around the system to get this implemented and we do hope that beginning March this implementation should start.

Ravichandran

Thank you.

Vishnu R. Dusad

Thank you.

Moderator

Thank you very much, Mr. Ravichandran. Participants who wish to ask questions please press *1 now. Next in line we have Mr. Dipen Mehta from Dipen Mehta Share and Stock Brokers. Over to you Sir.

Dipen Mehta

Just wanted to understand that why is there not any change in the order book position, even last time at the conference call I was there and I recollect you saying that the order book and the RFPs and all are looking extremely healthy, but the order book remains at the same level, even now you have said that you have won 4 new orders, I recollect you saying substantially large orders, so what do you mean by substantially large orders when in fact there is hardly any increase in the order book position from point to point?

P. K. Sanghi

We had mentioned last time the product order book was around Rs. 60 crore plus and now we have given a figure of Rs. 68 crore.

Dipen Mehta

So that is Rs.8 crore increase on the overall

Niraj Vedwa

Post the execution this is the increase... You got it?

Dipen Mehta

Means even after executing you have got an Rs.8 crore increase in the order book, from Rs.60 crore it has gone to Rs.68 crores, is that right.

P. K. Sanghi

Yes, you can say that broadly.

Dipen Mehta

You know for the last 3 or 4 quarters, you are almost at the same level of top line and bottom line About Rs. 35-38 crore for top line and bottom line of about Rs.8.5 to Rs.9 crore or so, therefore when do you see the next level of scaling up, do you see that happening in the current quarter, next quarter, I know you do not give any guidance, but when do you see your company going to the next level in terms of revenue and growth?

P. K. Sanghi

If you look at it, we are now concentrating on how to increase revenues from the delivery side of the business, you know, the product license business has been growing over the last few quarters and this is why we have announced that we need to recruit about 200 more people and we expect them to become revenue earning right away. So that is the major step we are taking to increase the revenues, to go from this level to the next level again, and I would like to make a small correction, last quarter we had about Rs. 63 crore of product orders, so the order book has changed by about Rs. 5 crore.

Dipen Mehta

I am bit unclear about the new recruitment of 200 people, I mean, whether they will be on the implementation side or services side and how does that transfer into additional revenue could you just throw some more light sir?

Vishnu R. Dusad

Okay, most of them, I would imagine 70-80% of them, it could even as high as 90% of them, would be on the product implementation side where we are looking at around 20 business analysts whose focus would be essentially to understand customer's business, the dynamics in the customer's market and making use of our intellectual property to deliver value for the customer. So that is the role that the 20 odd business analysts would play, the others would be project managers another similar number, and project leaders, and rest would be people who would be doing the customizations and implementation.

Dipen Mehta

So am I right in understanding that basically we have a decent order book position in place, and now we are trying to scale up our implementation, our delivery ability and therefore when that takes place the business on the whole will scale up, is that a correct understanding sir?

Vishnu R. Dusad

Yes, you have a absolutely correct understanding and we are also preparing for the pipeline that is there, the strong pipeline that is building up.

Dipen Mehta

Just one last question sir, you know, recently there was some clarification on the withholding tax with the Japanese government, is there any effect on the company's operations, I believe you do get lot of revenue from Japan as well?

P. K. Sanghi

Well till now the treaty has not been revised, though we keep on hearing that the rate is going to move from 20% to 10% of revenue.

Dipen Mehta

Thank you and all the best sir.

Moderator

Thank you very much, Mr. Mehta. Next in line we have Ms. Kavita from Finance Insights.

Kavita

Hello gentlemen, I have a question regarding Virstra Technology, one of your Indian subsidiary. Can you just tell us about what kind of business is the subsidiary into, and if I understand it has made around Rs. 4 crore earnings in 2005, so what is the subsidiary's contribution in the first 9 months of 2006?

Vishnu R. Dusad

Okay I would request Pramod to give you the financial numbers and then I will explain the business.

P. K. Sanghi

The Pune subsidiary, we do not release exact subsidiary numbers but if you look at our standalone numbers and look at our consolidated numbers for the quarter you will find that the total profit is Rs. 8.82 crore and profit on standalone side is about Rs. 6.26 crore, so subsidiaries overall have a profit of Rs. 2.56 crore.

Kavita

Fine. But I just wanted to understand what kind of operating margins and profit margins does this particular subsidiary earn?

P. K. Sanghi

We do not get into the margins of individual subsidiaries, but as far as the business model is concerned the subsidiary, Vishnu will brief you on the business model.

Vishnu R. Dusad

See this is the new business model that we have experimented with for specific customers where we are supporting their infrastructure, we are helping them in their technology risk management, we are helping them with their security infrastructure, and we are also handling some of the calls originating in Japanese language out of Pune. So this is the nature of business that we have at our Pune subsidiary, essentially it is technology infrastructure support.

Kavita

Okay. Thank you so much.

Moderator

Thank you very much, Ms. Kavita. Participants who wish to ask questions please press *1 now. We have a follow-up question from Mr. Dipen Mehta.

Dipen Mehta

Sir if you could just throw some light on the client concentration, I believe it was about, about 78% in the first half for top 10 customers, what is the exact status now Sir, for top 5 rather?

P. K. Sanghi

We are at about 76% for the top 5 for the quarter.

Dipen Mehta

And 3 clients more than 10%, is that also the same?

P.K. Sanghi

Yes, that remains the same.

Dipen Mehta

Any specific global trends, which tend to benefit the company given its niche focus, I mean, any specific trends where you feel that you should be able to grow higher as and when the trend actually evolves and gathers momentum?

Niraj Vedwa

One of the trends that we have been noticing is that globally, the world is coming out of the recession post 9/11, and due to ongoing retail boom which is happening, there is increase demand for the retail banking applications, that is one. In Europe we see a lot of replacement marketing i.e. increase in the replacement market for core banking or legacy system. Thirdly in Middle East which has been quite dormant for the last so many years, there has been a sudden increase in the number of proposals that are being requested for now, and we do see that in South East Asia because of the increase in the oil prices, certain economies are not doing too well and there we have seen that the demand for replacement systems has kind of gone down, but overall it is quite good for both retail banking as well as cash management system.

Vishnu R. Dusad

Just like to add to what Niraj has mentioned what is happening is that some of the countries where the banks were running across the branches, those countries, especially the ones like India are now moving aggressively in the direction of centralized banking solutions and these movements again would both bring the cost of banking, transaction cost in the banking industry down and would create substantial opportunity for solution providers like us, whose solutions are being used lets say, at one of our client location, 4000 to 5000 users log into the system from across the country, therefore more and more such banks would be using these kind of solutions.

Dipen Mehta

And what will be the cash balances on 31st December 2005?

Vishnu R. Dusad

We are holding cash in mutual funds and banks over Rs. 74 crore.

Dipen Mehta

Okay. Thank you.

Moderator

Thank you very much, Mr. Mehta. Next in line we have Mr. Ramesh from Ramesh S. Damani.

Ramesh

Hi Vishnu.

Vishnu R. Dusad

Hi Ramesh, thank you very much for being here.

Ramesh

I just wanted to make a suggestion Vishnu, when you release the results, could you release the consolidated results other than the standalone because it creates all sort of price distortion among the people.

Vishnu R. Dusad

Yes Ramesh, I mean, this has been a concern at our end also, somehow you know the regulators want that the standalone results also be published, and when we send out both the results together, the stock exchanges upload the standalone results first for some reason and followed by the consolidated results, and you know, investors unnecessarily keep getting worried. This has happened second time around now.

Ramesh

Yes I know, anyway maybe you can tell the media at least for the consolidated results first. Vishnu I missed the early part of the conference, what is the logic behind setting up a subsidiary in the Netherlands, I just missed that, so might be you covered it but I missed it.

Vishnu R. Dusad

No, essentially what we want to do is to have a local presence on the Continental Europe, and as our European implementations come along, it will help us getting visas etc., to our onsite people who go for implementation, and likewise we visualize some reasonable opportunities in onsite services business also. So that is the reason the board has just approved formation of subsidiary and by end of this month we are expecting the subsidiary to be operational.

Ramesh

Market, is full of rumors that Nucleus is bidding with ING, can you confirm or deny that?

Niraj Vedwa

Well, we are bidding, definitely, we have been in lot of discussions with them and I think that is all we can say at the moment that we are in discussion mode. We have submitted proposals and they are looking at it.

Vishnu R. Dusad

Ramesh, we have met some seniors there at ING, and they do need substantial help, so that is how things are.

Ramesh

Great, and what is happening to GM, does that bother you in terms of your relationship in GMAC?

Vishnu R. Dusad

Not at all, Ramesh, because you know GMAC continues to be absolutely an integral part of GM's business, and in any case there is beginning of good news, which has also now started coming out of GM.

Ramesh

Okay great, Vishnu good luck for the next quarter.

Vishnu R. Dusad

Thank you very much.

Moderator

Thank you very much Mr. Ramesh. Next in line we have Mr. Anurag from Brics Securities.

Anurag

Hello sir, Good Evening, Sir. If we consider the utilization rates, what must have been our utilizations rates for both onshore, offshore, and near shore?

P. K. Sanghi

Anurag, see, Nucleus does not really follow the services model as such. If you look at it, utilization rate reflects a bench capacity; as such today they are absolutely full. We are looking for people and trying to hire more people to execute faster. We have utilization rate running at 99%.

Anurag

And what will be your period to execute the current order book?

P. K. Sanghi

See what happens in the project space is that the orders tend to get executed in about a 6-month period, and we keep on booking new orders also at the same time. Some customers, even regular customers give us orders on a month-to-month basis, or some give us on a 6-month basis also, and as far as the product business is concerned, obviously the GMAC part will continue for three more years, and the other product orders would be completed within calendar year 2006.

Anurag

Okay sir, and considering the growth in project business vs. product business because there is no much change in client concentration, so can we assume that growth in both project and product business has been always same?

P. K. Sanghi

No, no, if you look at the numbers, the project business has not been growing very much, I mean, it has been running at about Rs. 19.5 crore on the project side, even if we include services it is about Rs. 23 crore per quarter. When we recruit more people, number of them would work on the product side and there are some interesting opportunities in the project space, which would also be taken up.

Anurag

Okay sir, all the best for the next quarter.

Moderator

Thank you very much, Mr. Anurag. Next in line, we have a follow up question from Mr. Dipen Mehta.

Dipen Mehta

Even I joined a bit late. If you could please disclose the figures for Q3 again in terms of breakup from products, projects and professional services please?

P. K. Sanghi

The product number is Rs. 14.13 cores, which is 38%, the project number is Rs. 19.64 crore, 53%, and the services business is Rs. 3.62 crore which is just around 10%.

Dipen Mehta

Thank you very much.

Moderator

Thank you very much, Mr. Mehta. Next in line we have Ms. Kavita with a follow up question.

Kavita

When you all say professional services, you give a separate segmentation? What exactly does it mean by professional services?

P. K. Sanghi

See, the first part is the product business, which is based on our IPR. The second part is the projects business where it is in the domain and the project management lies with us. In the professional services, we are still in the domain but the project management lies with the customer.

Kavita

Okay, and I had one more question, if we look at the services growth, it has almost remained stagnant in the past 3 or 4 quarters, and at the same time the employee addition which you are talking of around 200 net for the next quarter it is mainly in the product division, right? So can you all see any growth coming from the services segment as well in the coming years?

P. K. Sanghi

Yeah, concentration remains in the product business and which is where the margins are also growing. As far as the project business is concerned we have very large clients with whom we have old relationships, and of course we do look at the relationships with large banks internationally but it is not something we sell on a regular basis. The focus is on selling products.

Kavita

Okay, so the active clients which you mentioned 116, it is entirely in the services part.

P. K. Sanghi

No, the projects and services part of course includes two of our largest customers.

Kavita

Okay. Thank you so much.

Moderator

Thank you very much, Ms. Kavita. 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.

Poonam Bhasin

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

Vishnu R. Dusad

Once again I would like to take this opportunity to thank you all for being here with us and for your keen interest. I would also like to say thank you for all the support that you have in the form of your personal share holdings and your client share holding. Thank you very much.

Moderator

Ladies and gentlemen, thank you for choosing WebEx conferencing service. That concludes this conference call. Thank you for your participation. Thank you and have a nice evening.
