



NUCLEUS SOFTWARE

Q1 FY 09 Earnings Conference Call

July 21, 2008

MEMBERS OF NUCLEUS MANAGEMENT

- | | |
|-----------------------|--|
| - Mr. Vishnu R Dusad | CEO & Managing Director |
| - Mr. R.P. Singh | President- Delivery |
| - Mr. Pramod K Sanghi | President-Finance & Chief Financial Officer |
| - Mr. Niraj Vedwa | President- Sales and Marketing |
| - Mr. Prakash Pai | President- Product Management |
| - Mr. Ravi Verma | President, Human Resource |
| - Dr. Asha Goyal | Vice President and Head of Quality |

CONFERENCE CALL PARTICIPANTS

- | | |
|---------------------|------------------------------|
| - Mr. Sudan | Valley Quest Research |
| - Ms. Grishma Shah | Edelweiss Securities |
| - Mr. Narendra Nath | Primus Investment |
| - Mr. Ankur Arora | ING Investment |
| - Mr. Vinod Kumar | Span Capital |
| - Mr. Krupal Minair | ICICI Securities |
| - Mr. Rajiv Gosh | Wealth Management |

Nucleus Software Exports Limited
Quarter Ended June 30, 2008, Results Conference Call
July 21, 2008

Moderator:

Good evening ladies and gentleman. I am Manjula, the moderator for this conference. Welcome to the Nucleus Software Exports Limited conference call. For the duration of the presentation, all participants' lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for participants connected to International Bridge. After that, the question and answer session will be conducted for participants in India. I would like to hand over to Ms. Aparajita Mohan. Thank you and over to you ma'am.

Aparajita Mohan:

Thank you. Good afternoon ladies and gentlemen. I am Aparajita Mohan, a member of the Investor Relations team. We welcome you all to the conference call of Nucleus Software to discuss the financial results for the quarter ended June 30th, 2008. We have with us Mr. Vishnu R. Dusad, Managing Director and CEO; Mr. R. P. Singh, President - Delivery; Mr. P. K. Sanghi, President - Finance and Chief Finance Officer; Mr. Prakash Pai, President - Product Management; Mr. Niraj Vedwa, President Sales and Marketing; Mr. Ravi Verma, President Human Resource; and Dr. Asha Goyal, Vice President and Head of Quality. First we will commence with the brief comments on the performance of our Company, and after that we will open for the question and answer session. I hand over to Mr. Vishnu R. Dusad, Managing Director and CEO of Nucleus Software, for his brief comments.

Vishnu R. Dusad:

Thank you Aparajita and good afternoon ladies and gentlemen. Thank you very much for joining this call.

- Our consolidated revenue for software products and services for the quarter has increased by 24% to 82.9 crore against 66.66 crore on a year-on-year basis.
- EBITDA has declined by 12% to 14.19 crore from 16.06 crore on year-on-year basis. With foreign currency loss of 7.48 crore, net profit for the quarter has declined by 43% to 8.02 crore against 14.01 crore on a year-on-year basis.
- EPS is 2.48 for the quarter against 4.34.
- Product business continues to be buoyant. Revenue for the product business at 57.26 crore is 69% of the total revenue. Year-on-year this has grown by 30%.

- In the projects and services business, revenue at 25.64 crore for the quarter has increased by 14% against 22.48 crore on a year-on-year basis.

While we are taking all necessary actions to increase revenue and profitability, I would like to reiterate that we are a Product Company and feel proud that we have achieved international recognition for our products, which are implemented across 30 countries with leading institutions. Product Company's revenues by definition have to be looked at with a long-term perspective as they do depend on timing of booking of new orders and the start date for implementation.

While our markets are not affected significantly by the prevailing economic condition, we have observed delays in conclusion of order negotiations. In this quarter, the number of new projects started has fallen and has affected the reported numbers. The performance appraisal cycle for Company is April and a four crore addition to cost has also happened at the same time. We believe that quarterly figures do not necessarily represent the long-term potential of the Company and that with our constant efforts to deliver quality and prized performance, we will continue to grow both revenue and profits in the medium term.

On the infrastructure front, our new subsidiary, Nucleus Software Limited, has received approval from the office of the Development Commissioner, SEZ, Government of India, for proposed unit at Mahindra World City, SEZ at Jaipur. We have subsequently signed the lease on June 30th and taken possession of 17.4 acres of land. Our investment in the subsidiary on June 30, 2008, is 12.51 crore, which has been utilized for land and stamp duty. I now hand over to RP for his comments.

R. P. Singh:

Thank you Vishnu and good afternoon to all. I would like to start with some good news. We successfully launched the first ACMS that is Automatic Contract Machines, at an ACOM branch in Japan. Four loan contracts were booked within the first day. We have also staff launched the first ATM in ACOM. This is indeed a historic moment for both Nucleus and ACOM, and I think a great milestone before we move on to the second phase of the roll out. We further strengthened our global footprint in the Middle East with two customers, South East Asia with one, apart from two more in the Indian subcontinent. Ten product modules went live, FinnOne™ Suite contributing eight of them, while Cash@Will contributed another two.

Update on the GMAC front: after BeNeLux, which I shared last time, which went live in March, we started on three more countries. We have in fact completed the requirement phase for 2 more countries with sign offs in place. The progress is completely in line with the planned roll outs early next year. Discussions on the next set of countries have also started. That is all from me now, and I hand it over to Prakash.

Prakash Pai:

Good afternoon everybody. As you are aware Nucleus now has two main products with the FinnOne™ catering to the requirements of retail financing and Cash@Will catering to the needs of cash management business.

To maintain a competitive edge in the market place, a new release of all our key modules of FinnOne™, Cash, LMS, and collection has been made this quarter. This new release will enrich our products in the areas of captive auto financing, dealer financing, insurance management, sales lead management, business partner incentives and payment management. In addition to this, to meet the growing needs of Islamic Banking, our FinnOne™ product is being further enhanced to meet the specific business requirements of our Islamic Banking customers, mainly located in the Middle East. This new release would be made by end of September 2008. We are confident that Nucleus products will continue to add business value to our esteemed customers and prospective clients. I now hand over to Pramod Sanghi, our CFO.

Pramod Sanghi:

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

- On a sequential basis, revenues have grown by 6%. Product revenue at 57.26 crore is 9% higher than 52.34 crore last quarter.
- Traded products included in this is 9.66 crore against about 90 lakhs in the previous quarter.
- Revenue from projects and services at 25.64 crore is flat sequentially against 25.71 crore. With the ramp-up in the previous quarter and the appraisal effect, cost of delivery has increased to 68% against 59% of revenue in the last quarter.
- Marketing expenses are at 8.4% of revenue against 6.8% in the last quarter with increased overseas salaries.
- G&A expenses are at 6.8% of revenue against 7.2% in the last quarter.
- EBITDA margin for the quarter is 17.12% against 26.76% in the last quarter. This is after salary review effect of Rs. 4 crore for the quarter, which translates to a 480 basis points effect.
- Forex loss for the quarter is 7.48 crore after accounting for mark-to-market losses of 9 crore on 33.2 million dollars of dollar-rupee option. In addition, on 7.3 million dollars of forward contracts, which are designated as highly probable forecasted transaction, we have taken a mark-to-market loss of Rs. 1.21 crore to hedging results. On June 30th, we had a total hedge of 42.47 million US dollars as an average booking rate of 41.13, which of course is mark-to-market at 42.88 as of the quarter end.
- As of March 31st, we had a coverage of 50.49 million dollars.
- Our revenues continue to be dollar denominated largely and 74% of our revenues in the last quarter were in dollars.
- Other income at 6.33 crore includes 5.52 crore of the GMAC India investments. We have exited our GMAC India shareholding and have received a full consideration of 16.87 crore in the middle of July.

- Withholding taxes at 2.18 crore are same as last quarter. Current and deferred taxes are at the negative figure of 5 lakhs against 3.06 crore last quarter.
- The MAT set off for the quarter is 0.5 crore against 2.52 crore previous quarter. Therefore, total taxes including withholding are 1.63 crore against 2.74 crore last quarter. Depreciation is at Rs. 3.37 crore, a slight increase from 3.24 crore last quarter.
- PAT at 8.02 crore has decreased at 49.9% in comparison to last quarter figure of 16.02 crore.
- Receivables net are at 71.47 crore against 67.81 crore last quarter, and the DSR is 78 against 79 last quarter.
- Operating cash flow for the quarter before working capital changes is Rs. 11.3 crore, and our cash and mutual fund investment balances are marginally higher at 96 crore against 94 crore as of March.

In terms of client concentration, our top five clients have contributed 74% of revenue as against 75% in the previous quarter, and finally we look at the order book position. The order book at quarter ended is 322 crore consisting of product Rs.277 crore and projects Rs.45 crore. As of March, it was more or less the same at 318 crore, of which products was 276 crore and services 42 crore. I now hand over to Niraj for his comments. Thank you.

Niraj Vedwa:

Thank you Pramod, and good afternoon to everybody. This quarter, we have 6 new product orders for 27 modules for FinnOne™ and Cash@Will . 5 are for FinnOne™ and 1 for Cash Management. These orders came from India, Middle East, Africa, and from China. Our prospect pipeline levels are very healthy, and at this moment, we have more than 100 product proposals that we are following up. Middle East and Africa look very good. Japan looks very promising, South East Asia, we expect a slowdown. Europe, on account of our recent investments into sales peoples and offices, is looking encouraging. Last quarter, we have submitted more than 30 products proposals through RFP's, and more than 78 product demos were given across the world.

We changed our sales process to focus on purchase orders signed contracts and advance before booking sales. We do believe that this has helped us immensely in positioning for early contract closures. The sales team is now focusing very strongly in closing orders from across the world. Thank you, and I now hand this over to Ravi Verma to talk about the HR.

Ravi Verma:

Thanks Niraj. In Q1, manpower numbers have increased from 1936 to 1976. The low net additions have been on account of redeployment of existing resources from one project to another. Actually, we are looking at each requirement critically before taking the hiring decisions. We may hire some freshers to augment our new projects, which

will also bring down our compensation cost structure. The attrition has been under control and is hovering round 18%. We have introduced a new method of training which is on the lines of Toyota. It is called Toyota Way training and which is catching momentum and is contributing immensely to skills and product knowledge upgradation of the employees. Now, I hand it over to Dr. Asha, Quality.

Dr. Asha Goyal:

Thank you Ravi. Good afternoon to all. Quality focus in Q1 has been on institutionalization, and the first audit cycle for the year has taken place and enhanced automation in the standard NSSP process. IBU Dashboard had been made available. A QA helpdesk has been setup and more than 100 queries have been resolved. To strengthen the foundation, extensive QA training is being done. The number of participants have already touched 500. With this, I hand it over to Aparajita Mohan.

Aparajita Mohan:

Thank you Dr. Asha. Now, we are open to the question-answer session.

Moderator:

Thank you very much ma'am. 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-answer session for participants at India bridge. Thank you, and over to Zainab.

International Moderator:

Thank you Manjula. We will now begin the question and answer session for participants connected to the International Bridge. Please press 01 to ask the question. At this moment, there are no questions from participants at the international bridge. I would like to hand over the proceedings back to India moderator, Ms. Manjula. Over to you ma'am.

Moderator:

Thank you very much Zainab. We will now begin the Q&A interactive session for India participants. Participants, who wish to ask questions, please press *1 on your 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 Sudan from Valley Quest Research. Over to you.

Sudan

Hello.

Vishnu:

Hello. Yes please.

Sudan:

Good afternoon sir.

Vishnu:

Very good afternoon to you.

Sudan:

Sir, out of your product revenue of 57 crore, can you give the break up of how much was from FinnOne™ and Cash@Will?

Pramod :

We have got 4.5% percent of the revenue from Cash@Will.

Sudan:

4.5%?

Pramod :

That is right.

Sudan:

Okay and sir out of your total order book of 322 crore, products is 277 crore, am I right?

Pramod :

That is correct.

Sudan

And rest is ?

Pramod :

Rest is projects and services. We have two large clients in Singapore and in Japan where we do application development and maintenance for these banks.

Sudan:

Okay and after this

Pramod :

We have two large clients in Japan and in Singapore where we do application development and maintenance services.

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Sudan:

Okay, and it is executable over how many months?

Pramod :

The services business, normally which is forecasted is, executable over six months.

Sudan:

Product, in this quarter only?

Pramod :

Product revenues are executable over a longer period of time. The normal orders are executable within a year of booking, but some orders and some revenues will be on that also.

Sudan:

Okay, and sir I did not get your figure of, how much you have hedged and as what way?

Pramod :

Our hedging as of 30th June is 42.47 million dollars, which is hedged at 41.13 MTM

Sudan:

Okay.

Pramod :

and it is mark-to-market at 42.88.

Sudan:

Okay and this is for how many quarters?

Pramod :

Well, if you look at in terms of revenue, it should be approximately 2 quaters

Sudan:

Two quarters?

Pramod :

Just slightly more than two quarters, you know.

Sudan:

So, any guidance for second quarter?

Pramod :

We do not give any guidance for any quarter actually.

Sudan:

Okay. Thank you sir.

Pramod :

Thank you.

Moderator:

Thank you very much sir. Participants who wish to ask questions, may kindly press *1 on your telephone keypad. Next in line, we have Ms. Grishma Shah from Edelweiss Securities. Over to ma'am.

Grishma Shah:

Hi. I just wanted to know your employment plans for the entire year? How are you going to plan it and why?

Ravi :

As far as our employments plan, what we have is hiring plan, hiring numbers.

Grishma:

Sorry?

Ravi :

Are you talking about the Hiring Numbers

Grishma:

Yes. The number of additions

Ravi :

Addition okay. See this quarter, we are planning as I said that most of the positions are going to be for freshers

Grishma:

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Okay.

Ravi :

And we are still deliberating because of, you know, the results which we have shared with you and also I have talked to you that we are reviewing each and every position very critically. We are at crossway, we are reviewing each and every hiring numbers.

Grishma:

Okay.

Ravi :

What I can tell you is that the hiring is going to be very cost effective and also hiring is going to be on account of freshers.

Grishma:

Okay

Ravi :

This possibly, sometime later once we have done it, we will be sharing.

Grishma:

See, I just want to understand one more thing is that, we have never had 67% of sales or software development expense, I mean over the past few quarters. So, what kind of salary hikes are we seeing in say software development, selling and marketing and general and admin.

Pramod:

The salary hikes have largely been consistent across functions Grishma

Grishma:

Okay.

Pramod:

and for India-based staff, it is around 15%.

Grishma:

Okay, sir have we not seen a positive impact of USD depreciation in this quarter for our revenues?

Pramod:

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Yes, there would be a plus impact on the revenues as the, revenues would be translated at monthly rates applicable during the quarter.

Grishma:

Okay, so what was that impact?

Pramod:

Grishma, that impact on a gross level on revenue would probably be about 3 crore plus.

Grishma:

Okay.

Pramod:

Here would be an effect on expenses also which I will have to quantify separately.

Grishma:

Okay. What is that?

Pramod:

No, I have not quantified it, but I will give that later.

Grishma:

Okay, okay.

Pramod:

Apart from Singapore, where all the expenses are in foreign currency, large establishment we do have certain foreign currency expenses.

Grishma:

Okay, I also wanted to understand one more thing. In your press release, you have said that, there has been a fall in the new projects or the new product implementations. Can you explain that?

Pramod:

What we have mentioned here is that you know, new implementation starts, have not taken place as anticipated. You know, we could have an order there, we expected to start commencement of work, and booking of revenue in April, but sometime because of

customer delays, sometimes because of customer contract closures, we are unable to start the business at that point of time. So, that business gets postponed.

Grishma:

Okay and what happens to the cost associated with those orders. Have we already booked it in this quarter or we book it as and when, you know, we complete the order along with it?

Pramod:

See, to the extent that there is a ramp-up which has taken place, the staff cost will keep on getting booked. You cannot postpone staff cost.

Grishma:

Okay...

Pramod:

Right?

Grishma :

Okay. So, there is also an impact. If I understand correctly, there is also an impact because some projects might get started in the next quarter. There is also an impact of the delay in the expenses that we see in these quarters. Right?

Pramod :

No, see if I have ramped-up say 50 people for a project, and I do not start the project, I am not booking revenue but I am booking cost.

Grishma:

Yes, so, there is an impact of that in this quarter?

Pramod :

That is correct.

Grishma:

Okay, and what would have been the value of the new projects that were supposed to start, but since they are a little slow to start or slight delay?

Pramod :

Well, they were about six million dollars.

Grishma:

Six million dollars, okay. Sir, I just want to understand, I mean, on what basis do you plan our entire, you know, employment, if you plan it internally, it is based on what and how do you plan it?

Pramod :

Okay, Grishma, see we are a product Company, correct?

Grishma:

Correct.

Pramod :

We have to anticipate future demands and have a plan, and we make a hiring plan according to it, which you know, is a very standard management staff , everybody does it, okay.

Grishma:

Okay.

Pramod :

Now obviously, this can lead to timing difference of orders that people join in. So, what companies like us tend to do is that we hire larger number of fresher right

Grishma:

Okay.

Pramod:

We train them, even if we carry them on the bench for sometime, the cost will be lower.

Grishma:

Okay.

Pramod:

Otherwise, when we get one or two projects, we do get the people laterally.

Grishma:

Okay, okay. Fine, that is it from me. Thanks.

Moderator:

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Thank you very much ma'am. Next in line, we have Mr. Narendranath from Primus Investment. Over to you sir.

Mr. Narendranath:

Yes, hi good afternoon.

Vishnu :

Very good afternoon.

Mr. Narendranath:

Good afternoon. I just want to check one thing. I think you mentioned that the traded product amount was 9.6 crore in this quarter versus 90 lakhs in the first quarter last year. Is that correct?

Pramod:

Again 90 lakhs in the last quarter, that is sequentially I was talking, correct.

Mr. Narendranath:

Okay, so sequentially, it was 90 lakhs in the fourth quarter FY '08....

Pramod:

Correct

Mr. Narendranath:

9.6 crore in this quarter?

Pramod:

That is right.

Mr. Narendranath:

Okay sir, if I reduce that, then in terms of the value addition done by the Company the revenues have actually fallen. Am I reading it correctly?

Pramod:

Absolutely. You are reading it correctly, and if you had heard the last question which was asked, we did say that our some new starts were delayed.

Mr. Narendranath:

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Yes, six million dollars value, yes, I heard that. Okay. That is one, second is, can you give us some idea on ACOM, I mean, as you said it is a big milestone, it was a big order won sometime back, the phase one has gone live. Can you tell us about the progress being made, which has already been made, and what is the outlook in terms of revenues and potentially further order bookings in Japan as a whole as an outcome of this order in the next 12 to 24 months?

Vishnu :

I think as RP mentioned, this is a very major milestone for us as well as for ACOM and also for the Japanese Financial Services Industry I would say.

Mr. Narendranath:

Correct

Vishnu:

Because for the first time in the Japanese Financial Services Industry any Indian Company, you know, when I am saying Japanese, I am referring to Japanese-owned Japanese financial institution....

Mr. Narendranath:

Correct.

Vishnu:

I am not referring to foreign-owned Japanese institution.

Mr. Narendranath:

Correct

Vishnu:

So, for a Japanese Financial Institution, it is for the first time that something has gone live which is not Japanese or not American

Mr. Narendranath:

Correct.

Vishnu R. Dusad:

and that itself is a huge, huge indication and as we had mentioned earlier that people are watching this project very closely, and you know, as Niraj had mentioned we are very, very buoyant about what is likely to happen in Japan.

Mr. Narendranath:

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Okay, okay, and this ACOM order will this get completed in the next 12 to 24 months. Is there a timeline for it?

Vishnu:

Yes, yes. It is in that timeline.

Mr. Narendranath:

Okay, and in all practical purposes this is the first billing you will take now, since the project has gone live?

Vishnu:

No, no, billing has been happening on monthly basis.

Mr. Narendranath:

Okay.

Vishnu:

It is the first milestone, I would refer, the milestone of going live.

Mr. Narendranath:

Okay, okay.

Vishnu:

Yes, because their testing levels are of different order, the way the thoroughness and the robustness that they look for in systems, you know, is of different scale altogether.

Mr. Narendranath:

Sure.

Vishnu:

So, all those hurdles we have very successfully crossed, and, now the client has started using this system.

Mr. Narendranath:

Okay, would you be able to give me some sense of what percentage of the order size has already been booked in revenues?

What I am saying is, you know, I think the order size was 150 crore or thereabout. What percentage of that has already been booked in revenues so far?

Pramod:

We do not actually give project-wise numbers, but I can only tell you that we started booking revenues in March 2007, was the first month

Mr. Narendranath:

Okay.

Pramod:

And now we are 13 months into the project, and we probably have another 15 to 18 months to go to closure.

Mr. Narendranath:

Okay, okay, and on the performance bonus or the salary review side, you said there was cost of 4 crore in Q1 FY '09, that was on a performance bonus or that was a salary increase?

Pramod

That was a salary increase.

Mr. Narendranath:

Salary increase, that is the 15% for offshore employees?

Pramod:

That is correct.

Mr. Narendranath:

Okay, and was there a significant or a material increase for the onsite employees as well?.

Pramod:

See, we do not have that services structure where we have onsite employees because our offshore employees only travel abroad for project implementations.

Mr. Narendranath:

Okay.

Pramod:

Apart from Singapore, where we have about 220 people on rolls and that figure, Ravi, is about.

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Ravi :

It is in single digit.

Pramod:

It is a single digit now.

Mr. Narendranath:

Okay, okay. Just last couple of questions. One is the top five clients, was that 74% of revenues?

Pramod:

That is correct.

Mr. Narendranath:

Okay, and in HR, if I heard correctly the net addition was 40 people?

Vishnu:

That is correct

Mr. Narendranath:

Right, and from what you said is that you are looking at the hiring plan very closely because given the market environment. So, from what I understand is there has been a delay in project starts and obviously potentially you might have gone slow on hiring and the fresh hiring is contingent on some of this actually getting activated. Would that be a fair read of it?

Pramod:

That would be correct and as I said earlier that some hiring of freshers can take place....

Mr. Narendranath:

Sure.

Pramod:

because we do need to build up some strength for the future.

Mr. Narendranath:

Okay and the last question is on the cost side. Even the selling and marketing expenses have gone up significantly. Is that once again related to the employee cost or is it more staff being added or there is anything exceptional in the number?

Pramod:

All three of it actually.

Mr. Narendranath:

Okay.

Pramod:

We have made some appointments overseas, I can be very specific, one person has joined in Holland in this quarter.

Mr. Narendranath:

Okay.

Pramod:

We have moved three people from India, one to Dubai, one to Japan, and one from Singapore to the US.

Mr. Narendranath:

Okay.

Pramod:

So, salaries have gone up because of overseas posting. Number of people have also gone up.

Mr. Narendranath:

Right.

Pramod:

Yes and as we are addressing more markets at the moment, our travel cost have also gone up much.

Mr. Narendranath:

Okay, okay, okay, and the last question is just on the European side. I mean, if I understand correctly, the only customer which is there on the product side is GMAC. Has there been any traction or you know visibility on the client side in the European space?

Niraj Vedwa:

Yes, this is Niraj, and I will take this question.

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Mr. Narendranath:

Okay.

Niraj Vedwa:

See, I think we mentioned last time that Europe is a market which we want to significantly track, and we have you know increased our sales force to six people as we had said last time.

Mr. Narendranath:

60 people?

Niraj Vedwa:

No, six people.

Mr. Narendranath:

Sorry, how many people?

Niraj Vedwa:

six people.

Mr. Narendranath:

six people.

Niraj Vedwa:

So, we have six people in UK. We have two people, you know, in Netherlands, and we have about two people who are operating out of, you know, Indian offices. So, they travel up and down. So, that is the investment that we have done, and we are talking to a lot of auto finance companies and a lot of banks in the region, and you know just looking as I said in my initial output report that Europe is looking very promising.

Mr. Narendranath:

Okay.

Niraj Vedwa:

So, I think, I can only say that it is looking very promising. We have already established contracts and demonstrations have already started.

Mr. Narendranath:

Okay.

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Niraj Vedwa:

So, that is where we are, and a couple of RFPs have also been collected.

Mr. Narendranath:

Okay. Okay, super. Thanks a lot for all the answers.

Moderator:

Thank you very much sir. Next in line, we have Mr. Ankur Arora from ING Investment Management. Over to you sir.

Ankur Arora:

Hi, coming straight to the question on the margin front. Actually, while you said that salary level has been increased by 4 crore and which had an impact, the numbers are just not too low, essentially even if you look at the overall cost on the software development expenses or the sales and marketing and everything taken together, the numbers are just not tallying up? Can you just explain a bit further that what is the outlook on this and how these things are going to shape up in the future?

Pramod:

No, I have not understood how the numbers does not shape up?

Ankur:

Okay.

Ankur:

See actually, if you look at the last quarter numbers, you have 46 crore of software development expenditure which went up to 56 crore and selling expenditure also went up from 5 crore to 7 crore. Now, all these numbers....as you said, the salary expenditure increase has been roughly to the tune of around 4 crore. The expenditures have gone up and the revenues have not really come in. Can you just provide some outlook on the future that how you are seeing these numbers to shape up in the coming quarters?

Pramod:

Okay, I think one number which you are probably missing here, and it is not apparent here is that cost of delivery will include cost of traded goods also, and the traded good numbers, you know, as the revenue have gone from 9.7 crore that number has also gone up significantly.

Ankur:

Okay, okay, okay, what are the margins like on that segment right now, gross margin?

Pramod:

I think that also run at, actually they run at about 30%.

Ankur:

Around 30% margin?

Pramod:

See, when you take that number, then you know it will account for a large portion of the increase in the delivery cost.

Ankur:

Okay. See, as you said, okay, if few of the projects are delayed and your cost has gone up, the margins will really take a beating. The problem basically now is when do you see the project delays which had happened to really start flowing in the revenue all over again?

Pramod:

Well, I think what I understand today that two of those projects have already started, and we do expect to start commencing those projects within the next 30 days, most of them at least though.

Ankur:

Can you just.....

Pramod:

I said that two of those projects have already commenced, and we do expect most of them to be commenced in the next 30 days.

Ankur:

In the next 30 days, so essentially all that 6 million worth of projects which you are saying will get commenced within this quarter itself, within the next 30 days itself.

Pramod:

Yes, and let me say commenced, right, so....

Ankur:

Yes, of course, I understand that the revenue will not get included in that, but....

Pramod:

Nucleus Software Export Ltd.

Yes.

Ankur:

In that case, you expect the revenue growth to be once again be back on track because as I have seen on a sequentially basis you have degrown on the product side, so that growth rate has to be back on track, am I reading it correctly then?

Pramod:

You are absolutely correct that our product business which is our own throughput has to grow for the Company to grow. That is something which has happened now for a very long time, and I think there is a blip this quarter, and we do hope to bring it back on track.

Ankur:

So, we can expect a similar kind of numbers, which we are seeing in the recent quarters to come in from the next quarter onwards because essentially that profitability has got stuck on almost at half, and if your profit sales of investment, it has eventually grown almost 3 crore, that is 80% in the last quarter itself, so....

Pramod:

Let me assure you that all of us are working really hard to make this happen, and we are optimistic about the future as I mentioned right in the beginning.

Ankur:

Thank you, thanks a lot.

Pramod:

Thank you.

Moderator:

Thank you very much sir. Participants who wish to ask questions, may kindly press *1 on your telephone keypad. Next in line, we have Mr. Vinod Kumar from Span Capital. Over to you sir.

Vinod Kumar:

Hi.

Pramod:

Hello.

Vinod:

Nucleus Software Export Ltd.

My question is regarding the new development center going to come in Rajasthan, and how it is going to help for your finances?

Vishnu:

I am sorry, you are asking us about the.....

Vinod:

New development center you are going to come with.

Vishnu:

Our development center, see we are aware that we are a STPI unit today, so the STPI benefits would start expiring next year, and totally would expire by 31st March 2010, and as we do expect to maintain our cumulative rate of growth, our compounded rate of growth in the future also, we would require new people as well as new facilities, and that is why we are moving, the new business would go to the SEZ where there would be attendant tax benefits.

Vinod:

Okay, can you give the numbers of your cash flows and debtor days please?

Pramod:

The debtor figure was 71.47 crore, 30th June. Debtor days is 78.

Vinod:

Cash flow sir?

Pramod:

Cash flow before working capital changes is 11.3 crore positive, and total cash with us is 96 crore against 94 crore last quarter.

Vinod:

Thank you, helpful.

Moderator:

Thank you very much sir. Next in line, we have Mr. Ravichandran from Unified Wealth Management. Over to you sir.

Mr. Ravichandran:

Good evening sir.

Vishnu:

Very good evening.

Mr. Ravichandran:

My first question is the traded goods for FY '08, can I have the number for year as a whole, last year?

Vishnu:

You want the full year figure? Last year, full figure is 12.83 crore.

Mr. Ravichandran:

You talked about the delay in project implementation. May I know the reasons behind this delay, and why do you feel it is just going to be 2 weeks or one or two months' delay, and whether you are seeing any kind of trend for this delay, or it is just, you know, temporary blip?

Vishnu:

No, there are two reasons. One, the most of our new business which we are booking is coming from the Middle East and Africa. We find that in Africa we prefer to commence work on the order as well as booking revenue after we sign the contract, and we do not like to start booking revenue without receiving advance payment from the customers because there is some element of country risk in certain countries, so as several of the orders in Africa, we have not been able to start them unless the contract closure and the payments come in, and in certain other projects in the Middle East, basically it has become that the customer has asked for certain GAAP studies to be undertaken, and asked us to be very clear about implementation costs before we start delivering the product.

Mr. Ravichandran:

So, the 6 million figure you have given is an yearly figure?

Pramod:

No, 6 million figure was the figure of orders in hand where we have been unable to do any significant work in this quarter.

Mr. Ravichandran:

Okay, that is right, and as far as the traded goods are concerned, you said, even on the traded goods, you make some 30% margins. If it is so, the drop from 20 plus to 17% has come as surprise, I mean, traded goods are also very much comparable with your regular business?

Pramod:

Yes, that is right because when we do main traded good, which we offer to our large customers, is a credit card solution, so it would normally have similar margins to our products.

Mr. Ravichandran:

Okay, and as far as the forex item is concerned, you have given two breakups actually, 32.2 and another 1.21 something, which I could not follow you. Can you just repeat it?

Pramod:

No, no, what we said was that we have booked Forex losses of 7.5 crore in this quarter, which includes a mark-to-market component on 32 million dollars of options, and on forward contracts of 7.3 million, we have taken a loss of 1.21 crore to a hedging reserve. Am I clear?

Mr. Ravichandran:

Yes, okay, thanks a lot sir.

Moderator:

Thank you very much sir. Next in line, we have Mr. Govind from PCA Securities. Over to you sir.

Mr. Govind:

Good evening sir.

Vishnu:

Good evening.

Mr. Govind:

I want to know one thing regarding this profit on sale of investment, substantially it has gone up year on year, 195 lakh versus 510 lakhs, so this is one time or recurring in nature, what is this sir?

Pramod:

There are two types of investments which are figuring in this quarter at least. One of course is that the as a part...most of our cash is held in mutual fund investments, and part of it is in one-year FMP's. So, one-year fixed maturity plans, when they mature, in that quarter only that entire revenue gets booked.

Mr. Govind:

Yes.

Pramod:

So, fair amount of the portion is from that, and there is a first gain on the investment which you made in GMAC India four years ago.

Mr. Govind:

Yes.

Pramod:

That is of course something which will not happen again.

Mr. Govind:

Okay, in this 510 lakhs versus 195 lakhs, so this FMP is how much and that another sale is how much?

Pramod:

Just one second. I think it will be fair to say that the non-FMP would be about slightly over 2 crore.

Mr. Govind:

So, this is only one time?

Pramod:

Yes, that is an amount over 2 crore is not that was a specific investment which has been in cash now.

Mr. Govind:

Yes, so this is not recurring in nature.

Pramod:

This is not recurring. That is correct.

Mr. Govind:

Okay, then this remaining part is this interest income of FMP?

Pramod:

The remaining amount is largely on maturity of FMP's, which will also not happen. It is not necessary, it happens every quarter.

Mr. Govind:

Yes.

Pramod:

It depends on the timing of each maturity.

Mr. Govind:

Yes, that is what, in pipeline, there is not much redemptions further FMP's. This kind of income we can not expect, no, in due course?

Pramod:

Well, as of now, I have about 40 crore in FMP's. Unless I go into too much detail and tell you maturity of each, it is difficult to say, but yes, you are....they do tend to get bunched up at times.

Mr. Govind:

Okay, thank you very much.

Pramod:

Thank you.

Moderator:

Thank you very much sir. I repeat, participants who wish to ask questions, may kindly press *1 on your telephone keypad. Next in line, we have Mr. Rajiv Ghosh from Wealth Management. Over to you sir.

Rajiv Ghosh:

Good afternoon sir.

Vishnu:

Good afternoon.

Rajiv:

Sir, can you share the details of the order book in the last quarter?

Pramod:

Yes, we have stated that the order book at the quarter end is 322 crore.

Rajiv:

Okay.

Nucleus Software Export Ltd.

Pramod:

Consisting of product 277 and projects and services 45 crore.

Rajiv:

Okay. Sir, we are seeing that order book for the products is not going up at all for some quarters now. When can we expect, break from this?

Vishnu:

See, we are working on some major customers in some of the geographies, and we do hope that over a few quarters or next few quarters, we would be able to take this order book position to higher level.

Rajiv:

Sir, any kind of number or even some kind of indication you have give on that?

Niraj Vedwa:

This is Niraj. I think I have mentioned earlier that you know we are following the more than 70 product proposals and last quarter gives you an indication that 30 RFPs that we have committed. Now, these are RFP means these are request for proposals, which have come from customers, and these are from across the world.

Rajiv:

Okay.

Niraj Vedwa:

We have given more than 70 product demonstrations in the last quarter, so I think these are only good indicators. Basically, we need to go out and close that business, and there is business in the market, and as Vishnu had said that there are some delays in getting orders, but there is no slowdown that we are seeing as far as our RFPs are concerned or the rate at which we are doing this demonstration, so that continues to be very healthy. We are putting all our time into closing of orders now.

Rajiv:

Okay sir. Sir, second question is that sir the withholding taxes have gone up. Can you share us some light on that and No.2 is that the business in Far East, the segmental profits have dipped quite significantly. Is this because of....what is the account for that?

Vishnu:

The withholding tax figure, if you look at it, okay, if you are comparing it to June 2007, of course it looks much higher, but if you compare it to March 08, it is more or less the same.

Rajiv:

But for the full year, it was 4 crore last year. Now, it is 2 crore.

Vishnu:

Yes, of course. This is also is the function of how much total profit is made by the standalone Company because there is a MAT set-off which is available against it.

Rajiv:

Okay, but any reason why the profits from Far East have come down to the level?

Vishnu:

We will have to go into more detail of this and get back to you. If you send me a mail, I will be able to respond to that.

Rajiv:

Okay sir, thank you.

Moderator:

Thank you very much sir. Next in line, we have Krupal from ICICI Securities. Over to you sir.

Mr. Krupal:

Thanks. Sir, just wanted to know, in the March quarter, we added close to like 260 people, and out of that close to 250 were in the product, so whether that addition was based on some visibility or just create some bench?

Pramod:

As I mentioned Krupal that, you know, we had ramped up for additional business, and that has resulted in addition to cost in this quarter, there is no doubt about it, and as the project which we had anticipated got delayed in start. Therefore, the impact is visible in the profitability.

Mr. Krupal:

Okay. In terms of wage hike, are we now in line with the industry or we are still having some gap?

Ravi :

This issue of gap and the line will always exist. Either side we can talk about it. It is a cat and rate race, , but I think probably by and large what I think is that we are well placed. We are not very high placed. We are controlling the cost considering our line of

business. This news which I shared with you that we have been able to control attrition to large extent also indicates that it is reasonable, but attrition is also not into single digits, so we cannot say that we are the best, so we are somewhere in between.

Mr. Krupal:

Okay, sir if you see our product revenue, like last year we have grown by 65% and if we say comparable like say Q1 FY '09, the YOY growth was 83%, and in this first quarter, we are starting with a run rate of close to 30%, is this the run rate we are looking going forward?

Vishnu:

No, at this point of time, it is very difficult for us to say anything, Krupal. As mentioned earlier, we are working hard to, create breakthroughs and also deepen our existing relationships.

Mr. Krupal:

Okay.

Vishnu:

But I don't think we can make a comment at this juncture.

Mr. Krupal:

Okay. Sir, there was a news like...there is a financial unit of GE which got merged with one of our clients, whether that would have any impact on us?

Vishnu:

We do hope that our product would get deployed there.

Mr. Krupal:

Okay, so are you in talks with that particular client or have we some visibility towards that?

Vishnu:

Yes, of course, you know, the moment the news is out, we would first rush to the client, and there are indications that our product may get used, and it is public news, Krupal, it is on their website.

Mr. Krupal:

Yes, yes, and sir, on the margin outlook like we are down close to 10% sequentially, so can you give me some broad sense what is the margin outlook because I think last month also we were of the opinion that 25% EBITDA margin, it is still possible for the Company going ahead. So, are we still maintaining our stand?

Vishnu:

Again, Krupal, it will be very difficult for us to say anything at this juncture. We are, you know, continuing to do variety of things to improve margins, but where we would be able to take them over the next few quarters, it is very, very difficult to say.

Pramod:

Krupal, you know, once we have delivered 17 this quarter, we would hesitate before saying something for the rest of the year. We would prefer to deliver something and then talk about it.

Mr. Krupal:

Okay, and sir, if we see, I mean, like top 5 clients actually have moved from say 63% in FY07 to 68% in FY08, and in the first quarter, we are starting with 74%, it correct to say that you non-top 5 clients have actually not been growing?

Vishnu:

This means that we need to add more non-top 5 clients and at a higher pace, and that is about it. We are confident that, that will happen over the next few quarters.

Mr. Krupal:

Okay sir, thank you very much.

Vishnu:

Thank you.

Mr. Krupal:

All the best, thank you.

Moderator:

Thank you very much sir. I repeat, participants who wish to ask questions, may kindly press *1 on your telephone keypad. Next, we have a follow-up question from Ms. Grishma from Edelweiss. Over to you sir.

Grishma:

Yes, sir, if you can, you know, just give me a breakup in terms of how much of project and services in terms of our revenue this quarter?

Pramod:

Project and services should be 31%.

Grishma:

No sir, together you said 25 crore. I just want a break-up in terms of how much projects and how much services.

Pramod:

Actually now, nowadays we are clubbing this figure.

Grishma:

You are clubbing.

Pramod:

Yes, we have started clubbing this figure because it did not make any sense.

Grishma:

Okay.

Pramod:

See, earlier Grishma, we used to book some services in the US, which we discontinued, so now everything is ADM for us, so there is no two classifications are not required.

Grishma:

Okay fine, thank you so much sir.

Vishnu:

Thank you.

Moderator:

Thank you very much ma'am. Next, we have a followup question from Mr. Narendranath from Primus Investment. Over to you sir.

Mr. Narendranath:

Yes, hi. Just one followup question. I am not sure whether you give the utilization rate, but clearly what has happened is that there was a significant amount of hiring in fourth quarter last year, and then the project starts have been delayed, so that is why the margins got impacted, but can you give us some sense, because of this excess bench, what was the cost of it or some utilization level, some metric which will allow us to form an opinion, what was the impact on the margins because of this bench.

Pramod:

See, in these kind of situations, by default what we do is our teams, they start working on product development, and I am very happy to let you know that our teams have developed 2 mobile based modules during this period, and soon we would be starting beta of those modules. These are the corrections and customer acquisition system.

Mr. Narendranath:

Right.

Pramod:

So, you know, that is the way the utilization always remains, great.

Mr. Narendranath:

Okay, what I was trying to say is that the number of once again, I don't think so you give this metric, so if you can give us some flavor is that the number of the percentage of people who get billed, I guess that would have fallen in the last quarter because of the hiring which happened to the fourth quarter. Would it be safe to say that, that contraction in the utilization rates so to speak would be on 5 to 10%.

Pramod:

Yes, you may presume that.

Mr. Narendranath:

That is a fair number to assume.

Pramod:

Yes.

Mr. Narendranath:

Okay sir, thanks.

Vishnu:

Thank you.

Moderator:

Thank you very much sir. At this moment, there are no further questions from participants. I would like to handover the flow back to Ms. Aparajita Mohan for final remarks.

Aparajita Mohan:

Thank you everyone for joining us in this call. I would like to handover to Mr. Vishnu for his closing comments.

Vishnu R. Dusad:

Thank you Aparajita, and I once again would like to take this opportunity to thank all of you for the questions and for joining us into this call, and we continue to look forward to a bright future. 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.