



**NUCLEUS
SOFTWARE**

Q1 Earnings Conference Call

July 18, 2005

MANAGEMENT MEMBERS OF NUCLEUS

- 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 - Global Sales and Marketing Head

CONFERENCE CALL PARTICIPANTS

- Mr. Deven Sangoi - Birla Sun Life Asset Management Company Limited.
- Mr Dhramendra Grover - Artemis Advisors Pvt. Ltd.
- Mr. Atul Penkar - Emkay Share and Stock Brokers Pvt. Ltd.
- Mr. Gopal Ritolia - BRICS Securities
- Mr. Dhiraj Sachdev - Ask Raymond James & Associates Private Limited
- Mr. Ramesh Damani - Ramesh Damani Finance Pvt. Ltd.
- Mr. Hitesh Shah - ABN Amro Asia Equities (India) Ltd.

NUCLEUS SOFTWARE

Investor/Analyst Conference Call

July 18, 2005

Moderator

Good evening, ladies and gentleman. I am Ganesh, 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 like to hand over the floor to Ms. Swati of Nucleus Software. Thank you and over to you, Madam.

Swati

Thank you Ganesh. Good evening, ladies and gentlemen. I am Swati. I am member of the Investor Relations Team. We are thankful to you all for joining us today to discuss the financial results for the quarter ended June 30, 2005. Today, we have our Managing Director, Mr. Vishnu R. Dusad; Mr. R. P. Singh, President and Head, Global Delivery; Mr. P. K. Sanghi, Chief Financial Officer; Mr. Prakash Pai, Head - Product Management Group; and Mr. Niraj Vedwa, Head - Global Sales and Marketing to answer all your queries. We will commence with brief comments on the performance of the company during the quarter. After this, we are open to questions. I now hand over to Vishnu, Managing Director of Nucleus Software.

Vishnu R. Dusad

Thank you Swati. Good evening, everybody. We thank you all for taking time out to be with us today on this call for the first quarter results ended June 30th.

I am happy to announce an increase of 57% on year-on-year basis in consolidated revenues from software products and services to Rs. 32.84 crore against Rs. 20.93 crore in the corresponding previous quarter. Net profit for the quarter is Rs. 8.59 crore against Rs. 2.94 crore in the corresponding quarter previous year, an increase of 192%.

EPS on expanded capital after 1:1 bonus in August 2004 is Rs. 5.35 for the quarter against the adjusted EPS of Rs. 1.83 for the corresponding quarter previous year.

The product business continues to look good and product revenues in the quarter are Rs. 11.31 crore, which is 34% of the total revenue. For the whole year, last year, it was 26% of the total revenue. In our last quarter, we had spoken of taking this percentage to 35% and we are on target.

With acceptance of products, it is time to look forward and invest in both product capability and infrastructure to provide end-to-end solution to our clients. The Board of Directors have formally approved the commencement of phase II of our Noida facility. I would like to take this opportunity

to invite those of you who have not visited us to include a visit to our facility whenever you are in Delhi next. We will be constructing a 700 plus seats facility at the existing campus. We expect to achieve this in a timeframe of 12-15 months. This would take up our capacity of Noida facility to 1400 seats, and we expect to spend something like Rs. 15-18 crore on this facility.

In terms of employee strength, we continue to scale up. We added 57 employees during the quarter, taking the total to 935 from 878 as on March 31, 2005. 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 RP.

R. P. Singh

Thanks Vishnu, and good evening, everyone.

Just continuing on the happenings of quarter and so on, the geographical revenue profile has started changing, and this quarter Europe has gone and touched 12.15% of the revenue against 4.5% for the entire year last year, and 10% in the previous quarter, so this is growing. Japan, Korea, and South East Asia continued to be strong as usual at 75% of revenue against 79% for the last full year and 76% in the previous quarter. India is at 7.55% against 8% in the last full year and 8% in the previous quarter.

Of course, one of our strategic initiatives in Europe, our GMAC implementation for Italy is progressing as per schedule and we expect to go live as per target, which is within this calendar year 2005. This quarter, we derived 77% of revenue from top five clients against 78% of the revenue in the last full year, and 79% in the previous quarter. Three clients contributed more than 10% individually of our total revenues against two in the last full year and previous quarter. So that is changing the scenario.

Another update was the initiative taken on the testing services, which was actually an in-house capability being built over the last four years. Last quarter and last year, this has also been offered to our customers for testing their software capabilities and software deliveries. This has also contributed heavily to the growth and thus is also increasing the offerings that we offer to our customers.

I now want to hand over to Pramod, our CFO, for his update.

Pramod

Welcome everyone. If you look at the sequential numbers, consolidated revenue is up by 6.88% over the previous quarter. Software development expenses are running at 51% of revenue against 49% in the previous quarter. With SG&A at 16% of revenue against 16.47% in the previous quarter, no major change, EBITDA is at 32.84% compared to 34.45% in the previous quarter. Operating margins are within our expected range, and 161 basis point reduction is primarily due to increase in staff costs, on the delivery side, which are at 31% of revenue against 29% in the previous quarter.

We have effected salary increases for our Pune subsidiary from April 1, 2005. The other increases would come into play from July 1, 2005, for the rest of the company.

Net profit after tax is Rs. 8.59 crore, marginally up by 0.6% over Rs 8.54 crore in the previous quarter, and the EPS has increased to Rs. 5.34 compared to Rs. 5.30 in the previous quarter.

In terms of receivables, we are running days of sale receivable at 72 days as of June 30. We were at 55 in March, and this is a increase, which has taken place due to delay in payment by one of our larger clients due to their internal restructuring. We expect major payments to be realized within July and should be at 55-60 days at the end of July again.

In terms of capex, we spent about Rs. 2 crore, largely on computers and networking equipment. In the current financial year, we would capitalize about Rs. 7 crore of assets, including the recreation-cum-cafeteria block. The new 700-seat facility, which Vishnu mentioned will cost between Rs. 15-18 crore, would be operational in FY07 and there would be no capitalization during this year. It would, of course, have some effect on the cash position as the payments take place.

In the last quarter, depreciation at Rs. 1.25 crore is about 25% higher than the previous quarter. This includes about Rs. 11 lakhs for software licenses, which we have purchased, capitalized, and fully written off. With increase in debtors and capex, the liquid funds are marginally lower at Rs. 60.2 crore as of June 30 against Rs. 61.67 crore on March 31.

In terms of foreign currency coverage, we continue to cover about 3 months. We have about \$ 2.8 million of coverage as on date.

I will now hand over to Prakash Pai, who is the Head of the Product Management Team. Thank you.

Prakash

Welcome everybody. In this quarter, we launched a new product module, FinnOne™ Corporate LOS. With the addition of this module, the Customer Acquisition System will now be able to cater to the origination needs for small and medium enterprise loans. We find that this segment is one of the focus areas of most of our existing customers as well as the banking industry as a whole. Our Liquidity Management module has been added to our Cash Management product. This new module has already been implemented at our client site in India and would soon be implemented at our client site in South East Asia. Most of the product modules that we had launched in the last quarter as well as in this quarter have been sold and would be implemented for our clients in the South East Asian market. We continue to invest in our existing products by enriching the functional coverage and upgrading it to leverage the new technologies.

I now hand over to Niraj who is Head - Global Sales and Marketing.

Niraj

Hello everyone, and welcome to this conference. Last quarter has seen an increase in the number of proposals that we have committed in the product area, standing testimony to our vision on

products. We received five product orders from customers across the world, which included Nigeria, one of the largest banks. Also, one of our existing customers in Indonesia is going ahead with another product after successful implementation of one of our products; and we also got our first product order from the United Arab Emirates. Our product pipeline looks extremely strong and orders in hand continue to be in excess of Rs. 100 crore as in the previous quarter.

On the partnership front, we have added two new partners who help us in selling and supporting our product in different areas. We have moved up in our relationship with Oracle from being a certified partner to a Certified Advantage Partner. With IBM, we have moved from SV advantage partner to Optimized Premier partner. With Sun, we have moved from being a member partner to Tier I I force partner; and with HP, we have moved from being a DSPP partner to Tier I partner worldwide.

That is all from me. I will hand over back to Swati.

Swati

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 your 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 their handsets while asking a question. To ask a question, please press *1 now. We have our first question from Mr. Deven Sangoi of Birla Sunlife.

Deven

Good afternoon, and congratulations on a good set of numbers. My question is can you give the split between the product and services revenue?

Pramod

Rs. 11.32 crore is the Product and the Product-Related revenue,.Projects is Rs. 19.32 crore, and Professional Services are Rs. 2.2 crore.

Deven

Okay, similar split in the order book?

Pramod

We continue to have product orders at about 60% percent of the order book. The order book is in excess of Rs. 100 crore.

Deven

Okay, and as far as the GMAC implementation is concerned, you told that you are doing it in Italy, how do you see, what are the country-wise roll out plans for the next two to three quarters?

Vishnu

As the implementation is progressing, the headquarters at GMAC International Operations, they are now closely debating which countries they would like to go in for next, and I guess by the end of August or sometime in September, we would come to know. It could be UK or Germany.

Deven

Okay, and in terms of the relation with GMAC, is it only related to product or has there been any movement towards software development for them?

Vishnu

No, it is an open relationship, and we would be looking at engaging with them in every single manner.

Deven

Okay. I have a few more questions. I will come back later. Thank you.

Moderator

Thank you very much, Sir. We have our next question from Mr. Dharmendra Grover of Artemis Advisors.

Dharmendra

Hi! Good evening. Just one question primarily on the order intake during the quarter. What is the quantum of the order intake, and you have also mentioned three wins, which you have done, on the order side. If you can throw so more details on that as to what is the size and what is the implementation schedule?

Niraj

Well, the total new orders that we have booked in the quarter are in excess of Rs. 27 crore. There are three significant product orders from three customers. One is from one of the largest banks in Nigeria who has gone in for our FinnOne retail complete product suite, which includes loan origination, lending, as well as Collection product, and it is a significant order. The second order that we have received is from one of the top five banks in United Arab Emirates and this is again for FinnOne product, which is more for delinquency or debt management. The third order that we have got is from our existing customer, which is Bank Danamon in Indonesia, who has already implemented our Collections Product. They have also placed an order on us for Loan Origination System. Then, we have got another order from our existing customer in India for Cash

Management,. At the end of the last quarter, we were 100 crore plus, and after executing the delivery we are still in excess of Rs. 100 crore plus of orders.

Dharmendra

What is the implementation schedule for these orders?

Niraj

The implementation in all the three, already the kick offs have happened and we are making complete plans in at least one of the cases, in other cases have initiated implementation. However, the normal cycle is six to eight months. For the implementation schedule, I would like to hand over to RP.

R.P. Singh

These orders would be all within this financial year.

Dharmendra

Okay, thank you.

Moderator

Thank you very much, Sir. Participants who wish to ask questions may please press *1 now. We have our next question from Mr. Atul of Emkay Shares.

Atul

Good afternoon to all of you and congratulations on a good set of numbers. Basically, I wanted to understand if any significant development, that is, we have strong presence in Asia and South East Asia, any new breakthroughs in the US geography as such?

Vishnu

Our focus on the US is continuing to be very strong. We are talking to the right set of people, the analysts, the players, the end customer. We are reasonably confident that in the next few quarters we would have our first order coming out on auto loan side. We do have one product implementation there, and we are investing substantially in market research. Our market research tells us that this should be a distinct possibility and that should further help us strengthen our position.

Atul

And for GMAC we have been implementing Loan Management and Collections Module, and GMAC China we have been implementing Loan Origination Module., What is the status of we actually implementing loan origination module for GMAC International operations?

R. P. Singh

I think that is on the cards. It is a pilot implementation at GMAC China. It is from both sides, pilot project and pilot for GMAC so that we can see the product functioning on the ground. We are hopeful. Let us see how it can help their business and decisions happening.

Atul

Okay, and lastly what was the quantum of salary hike given this quarter, in percentage terms?

Pramod

Atul, we are looking at overall salary increases across the company would run at about 15% - 16%. Some effect has come in the last quarter and the balance effect would start from this quarter.

Atul

Okay, thanks a lot.

Moderator

Thank you very much, Sir. We have a follow-up from Mr. Dharmendra from Artemis Advisors.

Dharmendra

Sorry to be back. I just wanted to understand the margin compression, which has happened during this quarter. What are the primary reasons for it and when do we come back to the 34-35% that we had spoken about in the last call?

Pramod

I think we are within a range of 33-34-35%. I don't think it would be possible for us to deliver 34 or 35% exact every quarter, but we expect that the salary increases would be absorbed with the increase in product revenues, which will take place with the new orders coming into focus in this quarter and the newer quarters. We are reasonably confident that we will be on target.

Dharmendra

Thanks.

Moderator

Thank you very much sir. Participants who wish to ask questions may please press *1 now. We have our next question from Mr. Gopal from BRICS Securities.

Gopal

Hi, I just wanted to understand what has caused this sharp decline in Far East revenue and details about a sharp increase in the South East Asian revenues. Far East revenues have decreased by 15% quarter-on-quarter and there has been a sequential increase of 40-odd percent in the South East Asian revenues.

Pramod

Some of our Far East revenues have moved to actually Taiwan because some part of our billing to our customer was moved to, some project which they were doing jointly with us in Taiwan; that has had an effect on that. There is a small decrease in the offshoring component of the Japan business. And Singapore and South East Asia and Malaysia continue to be strong. In fact, we are doing a large product implementation in Malaysia, which has added to the South East Asian revenues this quarter.

Gopal

Okay. Thanks.

Moderator

Thank you very much sir. We have our next question from Mr. Dhiraj Sachdev of ASK Raymond James.

Dhiraj Sachdev

Hi, everybody. Congrats on good numbers. I just wanted to know, excluding GMAC how has the licensing revenue grown over a period of time?

Pramod

If you look at it , Dhiraj, the.... Just one second.

Niraj

While Pramod comes up with the figures, this is Niraj,, I would just like to add here that in the last three to four quarters we have had significant product orders excluding GMAC. As you are aware that we have signed a contract with Arab Bank, which will see the implementation of our entire retail product in more than 21 countries worldwide. We have also had significant product wins from locations like Europe, , Malaysia, Indonesia, Philippines and India. In all we have been doing this product license revenue over the quarters. We had 15 product wins during the course of last financial year, and this time we have had 5 product wins in the first quarter itself, which should indicate that the product business is receiving increased acceptance in the market. Also, while we are talking about this orders, there has been an increased number of requests that have come to us from all round the, you know, different parts of the region for responses to various product proposal, and that has increased very significantly. So, that is where I can talk about how the numbers have been doing, the exact figures Pramod it is over to you.

Pramod

Dhiraj, the GMAC number is about 36% last quarter and about 32% this quarter of the product part of revenue.

Dhiraj Sachdev

Okay. And excluding GMAC, I am obviously seeing there are new client wins and new orders apart from GMAC, so excluding GMAC what is the kind of licensing revenue growth we have seen in this quarter?

Pramod

We don't give licensing revenue figures.

Dhiraj Sachdev

No, I don't need the absolute figure, I just need the growth...

Pramod

Yes, from 9.6 crore last quarter product revenue, we have gone to 11.3 crore. And differential of GMAC is maybe around 55-60 lakhs. The balance comes from the newer products.

Dhiraj Sachdev

Fine. Thank you.

Moderator

Thank you very much sir. We have our next question from Mr. Ramesh from Ramesh Damani Finance.

Ramesh

Hi Vishnu.

Vishnu

Hi Ramesh, how are you?

Ramesh

Good sir. Congratulations on a good quarter sir. Couple of questions, really first, you know, in terms of this Free Trade Agreement that India has tied up with Singapore, and you know, a large part of your business originates in Singapore, can you just tell us a sense of how it can help

Nucleus. And secondly, you had started a pilot project with GMAC in China I understand,. Can you give us an update on how that is going?

Vishnu

The first part, we are working with the Singapore government to leverage this Agreement. One is, of course, indirectly we are working with at least two of their major investee banks, one is ICICI Bank and the other is Bank Danamon Indonesia. They have seen the quality of our deliveries at both these banks, and we are confident that they would leverage this substantially with us.

We have had meeting with the senior government officials recently and we feel that much closer cooperation will emerge in the next quarters to come. We have been working with EDB for quite sometime. We were looking at developing intellectual property based in Singapore also because that is what they have been encouraging, and we feel, now that this would start taking shape.

We are also talking to the banks who have been given licenses as the Indian bank in India, and they would be benefited by our understanding of the local banking much better because at least with one of them we have been working already there in Singapore,.

As far as the implementation in China is concerned, it is progressing well, and RP would like to say something on that.

R. P. Singh

Actually the project is already underway. In fact, what we are doing right now is setting up the infrastructure at GMAC China for the roll out. So once that infrastructure is ready, we are there to roll it out. So I think it is question of weeks now, I think 4-8 weeks, , we should be able to get it rolling.

Ramesh

So you mean the pilot is over. It is now full-fledged project?

R. P. Singh

It is a pilot in the sense that it is a pilot for overall GMAC. Of course, it is a full-fledged implementation for China. However, from the larger perspective it is being seen as a pilot implementation.

Ramesh

Okay. And then once it rolls out, you have a chance perhaps to rolling it out across all GMAC in Asia, Europe, perhaps...?

R. P. Singh

That is definitely what we look forward to.

Ramesh

Okay, great. Thanks and good luck for the next quarter.

Vishnu

Thank you.

Moderator

Thank you very much sir. Participants who wish to ask question may please press *1 now. We have a question from Mr. Hitesh Shah from ABN Amro.

Hitesh Shah

Hello, congratulations on a good quarter. Just wanted to know, you said that salary hike has been given, but the full effect is not there in this quarter. So just wanted to know how the salary hike, how much percentage of the salary hike has been given this quarter, and how much are you planning to see the effect of it in the next quarter?

Pramod

We expect that in this current quarter we would probably have a figure of about 1.3 crore as an effect.

Hitesh Shah

Again, can I get a break up of cost of revenue for previous quarter and this quarter, how much of it was the personnel and salary related expenses?

Pramod

Yes, you can, just give me a minute... The total personnel expenses for us for the last quarter was 13.3 crore, and we expect this to increase to about 14.7 crore in the quarter which, has started in July.

Hitesh Shah

Okay. And what was it for the March ending quarter?

Pramod

It was Rs. 12.35 crore.

Hitesh Shah

Thanks. The other thing I wanted to know was, our product share in the overall revenue mix has gone up, in spite of that we don't see improvement in the margin, is it just because related to the wage inflation or do you see any other factor?

Pramod

See, on overall basis we are at 32.8% margins . The product revenues have gone up. The wage inflation has definitely come into play here. At the moment more of delivery kind of revenue, which has costs associated with it in the product implementation are being booked. The licensing part gets booked over a period of time.

Hitesh Shah

Okay. I just wanted to understand, is there any other factor which has contributed to margin being stable in spite of increase in the product share?

Pramod

What I am saying is that the product margins at the moment, which are coming in are more from the delivery side. When they come in more from the license side, then the contribution is much higher.

Hitesh Shah

Okay. Can we get a rough estimate of how much is the un-booked revenue on the licenses side as of today, total pending order book?

Pramod

We have stated that we have about 60 crore of product related orders, which includes both license and delivery revenue pending as of the end of the quarter.

Hitesh Shah

Okay. Thank you and all the best.

Moderator

Thank you very much sir. Participants who wish to ask question may 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. Badal for final remarks.

Ms. Badal

Thank you, Ganesh. We thank you all for your participation in our investor conference call, and we look forward to speaking to you in the next quarter. I now hand over to Vishnu sir for the closing comments.

Vishnu

Once again, I would like to thank you all, and would also like to emphasize the fact that our product story is gaining more and more acceptance across within geographies, and we continue to be bullish on our strategy. Thank you once again.

Moderator

Thank you. 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.

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