



**NUCLEUS
SOFTWARE**

Q4 Earnings Conference Call

Apr 27, 2006

MEMBERS OF NUCLEUS MANAGEMENT

- Mr. Vishnu R. Dusad, Managing Director
- Mr. Pramod Kumar Sanghi, Chief Financial Officer
- Mr. Prakash Pai, Head - Product Management Group
- Mr. Niraj Vedwa, Head - Global Sales and Marketing
- Mr. Ravi Verma, Head of Global HR
- Mr. Manoj Tandon – Vice President, Corporate Affairs

CONFERENCE CALL PARTICIPANTS

- Mr. Anurag, Brics Securities Ltd.
- Mr. Sunil Jain, Finance Insights Wealth Advisors Ltd.
- Mr. Atul Penkar, Birla Sun Life AMC Ltd.
- Mr. Manjum Bashni, Sundaram Asset Management Company Ltd.
- Mr. Ravvichandran, Unify Wealth Management Ltd
- Mr. Devender, Religare Securities Ltd.
- Mr. Mithun, Kotak Securities Ltd
- Mr. Gaurav Dua, Sharekhan Securities Ltd.

Nucleus Software
Investors/Analysts Conference Call
April 27, 2006

Moderator

Good evening ladies and gentlemen. I am Sanjay, the moderator for this conference. Welcome to the Nucleus Software conference call. During the presentation, all participants' phone lines will remain in listen-only mode. I will be there for the question-answer session after the presentation. I would now like to handover to Ms. Poonam Bhasin, Company Secretary for Nucleus Software Exports Ltd. Thank you and over to Ms. Bhasin.

Poonam Bhasin

Thank you Sanjay. Good afternoon ladies and gentlemen. I am Poonam Bhasin, the Company Secretary. We are thankful to all of you for joining us today to discuss the financials of the quarter and year ended March 31, 2006. Today, we have our Managing Director Mr. Vishnu R. Dusad, Chief Financial Officer Mr. P. K. Sanghi, Global Head for Product Development Mr. Prakash Pai, and Global Sales and Marketing Head Mr. Niraj Vedwa to answer your queries.

We would also like to introduce two new members of management team, Mr. Manoj Tandon, who has joined us as Vice President – Corporate Affairs. Manoj is a graduate of IIT Kanpur and IIM Lucknow and has 20 years of experience in the IT industry, both in India and overseas. Mr. Ravi Verma, who has joined us as Head of Global HR. Ravi has 25 years of core HR experience across various industries, including the IT industry and the biotech industry.

We will commence with a brief comment on the performance of the company during the quarter and year ended March 31, 2006. Post this we are open to questions. Before I hand over to Mr. Vishnu R. Dusad, I would like to remind you that all forward-looking statements involve risk and uncertainties, and should not be interpreted on a standalone basis, but on the basis of the current and past performance of the company.

I would now handover to Mr. Vishnu Dusad, Managing Director and CEO of Nucleus Software Exports Limited.

Vishnu R. Dusad

Thank you Poonam. I thank all of you for taking out time to be with us today on this call. Before we talk of numbers, I am extremely happy to announce that GMAC Italy, our first European implementation of FinnOne under the GMAC global contract has gone live on April 4th, 2006. This is a major step in our product journey, and I would like to thank all stakeholders, customers, and nucleites for making this possible.

Now, we are very happy to announce that there is increase in consolidated revenue from software products and services to Rs.148.05 crore as against Rs.103.14 crore last year, an increase of 43.5%. Net profit for the year is Rs.37.08 crore against Rs.20.75 crore in the previous year, an increase of 79%. EPS is Rs.23.04 for the year against Rs.12.9 for the previous year. This has been a benchmark year for us in terms of product business. Revenue for the product business consisting of license, customization, implementation, and annual technical support, has crossed Rs.50 crore for the first time this year and stands at Rs.56.83 crore, an increase of 135% over the previous year's figure of Rs.26.43 crore. For the year, the product business contributes 38.4% of the total revenues, and we are confident that this will continue to rise.

IPR-led growth is our objective and today our product portfolio and worldwide implementations give us immense strength for the future years. It is our dream that our products will be implemented in all countries on the globe, and we are getting closer with more than 100 countries likely to be covered in next three years.

In the project wing, we continue to deliver to our large banking customers, and new opportunities are being mined with them. We have also completed a new multi-facility block at our Noida campus. While the ultimate plan is to use it for recreations, cafeteria, and a 600 seater auditorium, we are putting 180 seats in the block, pending the construction of new development block, for which contracts would be awarded and work will begin in May 2006.

I will reiterate that as a company we do not believe in giving revenue and profitability guidance. I would rather stress on our product portfolio, the number of users, the customer base of our customers, the customer acceptance, and the exciting opportunities in the banking space where we have domain expertise. With increased acceptance of our product across the globe, we are confident that we will continue to create shareholder value and economic wealth for our customers. We have added 190 associates in financial year 2006, and our total strength has increased from 878 in March 2005 to 1068 in March 2006. Attracting and retaining talent is one of our biggest challenges and we are laying new focus on the proactive HR function to empower our people and scale new heights of productivity while enjoying world-class facilities.

We have taken immense pride in our financial reporting and corporate governance practices, and it gives me great pleasure to share that we have received Institute of Chartered Accountants of India's award for excellence in financial reporting for the year 2004-2005. We have been awarded the silver shield for the second best annual reporting in the category of information technology communication and entertainment enterprises. The citation states that the award signifies that the accounting policies followed by the enterprise are the best amongst the participating enterprises.

We are conscious of the need to reduce geographical and client concentration risks, and we are constantly looking at new markets and customers. The scalability of operations is another area, which demands constant attention, and we are restructuring ourselves to effectively address the market.

Now, I would like to hand over to my colleague Pramod Sanghi who is our Chief Financial Officer. Over to you Pramod.

Pramod Kumar Sanghi

Thank you Vishnu and welcome everyone. Our operating margins in Q4 has risen to 32.06% from 26.92% in Q3, and are 30.48% for the whole year, this is as against 26.24% for financial year 2005. During the last conference call in January 2006, we had maintained that we will be at 30% plus level for the year and we have met our projections in this regard. The increase in margins over last quarter has come as product related revenues have increased from Rs.14.13 crore in Q3 to Rs.18.55 crore in Q4, a 31% increase. Revenue from other streams of business, that is projects and services, has increased marginally during the period. I have mentioned that the product revenues for Q4 are approximately 44% of the total revenue for the quarter and we had mentioned earlier that we are looking at taking this up to 45% - 50% and more in three successive years. I think, we are progressing faster than we anticipated and we should hit the 50% mark definitely during the next financial year. Net profit margin has also improved to 25.9% in Q4 against 23.57% in Q3 and is 25.05% for the year against 20.12% last year.

In terms of receivable, at 23.83 crore we are running in days of sales receivables at 51 days as of March 31, 2006. DSR for the company is normally below 60 days, which is as well within industry norms. Operating cash flow after working capital changes is Rs.28.06 crore for the year and Rs.6.98 crore for Q4. We have a capex of Rs.9.14 crore for the year, and our cash and cash equivalent including mutual fund investments has increased to Rs.77.48 crore in March 2006 against Rs.61.67 crore in March 2005. Out of the capex spend last year, we have spent Rs.5.71 crore on servers, desktops, and other hardware and software solutions and there is a net spend of Rs.2.5 crore on the multi-facility block. Capex for FY2007 is projected at Rs.30 crore with Rs.20 crore on the new facility for 800 people, which will be commissioned during the financial year. We have incorporated a new subsidiary in Holland, Nucleus Software Netherlands B. V. in February 2006 with a capital of 100,000 Euros. Geographically, we had been strong in the eastern side of the hemisphere earlier and we are now looking at increasing our presence in the western hemisphere. I will now handover to Niraj, our Global Sales and Marketing Head who will introduce you about our products, sales, and market. Over to you Niraj.

Niraj Vedwa

Thank you Pramod and Good Afternoon everyone. We have had a very good year in terms of new business acquisitions and this has been across all continents. So, this year we have added 24 new clients taking the total client portfolio to 120. We received 18 new product orders, which is more than double of what we got last year for 38 different modules of FinnOne and cash management and these orders came from Australia, Middle East, Africa, Nigeria, Philippines, Japan, Indonesia, Malaysia, and India. So there are product orders from all these areas. Leading top four banks in the Middle East rather in UAE, and also the top banks in Philippines and India have chosen FinnOne to implement lending solutions; and leading banks in Malaysia, Singapore, and India chose the cash management solutions, and all this was recognized by IBS publishing which ranked Nucleus FinnOne product as the eighth highest selling back office banking solution in the world for the year 2005, so we are in the top 10 list at number 8. Besides this product business that we have got, we have made some fair inroads in terms of new business acquisitions. Some of our relationships with the existing clients have really increased and in future, we see these relationships growing.

We are also buoyant about the European market and as Pramod mentioned that we have opened a subsidiary in Netherlands to address that market. We are talking to a

lot of customers and we are quite confident of making some inroads for our product business there. GMAC Italy went live this month on April 4, 2006 and now we are now looking at multiple implementations for GMAC contract. So on the whole, we have had a good year in terms of product business. This continues to be buoyant and the order book position that we have in hand now stands at Rs.131 crore. So, that has been the journey on the product side and on the business side we have also moved a long way in terms of partnership and alliances. We have increased our partnership levels with HP, IBM, Intel, and Oracle and we see a lot of regeneration campaigns, events, public relations, and advertising happening jointly. We have also increased our number of partners across the globe to sell and support our products, and we continue to be buoyant on this line of business.

I now handover to Prakash Pai to speak about technology.

Prakash Pai

Good evening everybody and thank you Niraj. The product development investment continues to pay rich dividend this year, as well. We have made a major breakthrough with one of our popular products for loan originations. This year, the corporate module of our FinnOne customer acquisition system has been successfully launched. We have already received orders from three major banks in South East Asia. The product is also being implemented at a customer site in Africa. We are seeing tremendous interest in this segment. We plan to further enhance features of corporate customer acquisition systems for meeting market expectations and ride over competition in this sector. Our investments in FinnOne continue at a rapid pace. We have successfully released new versions (version 3.3) of our collection product, which will be implemented in our customer locations in the Middle East and Southeast Asia. This new release includes features, which makes this product way ahead of competitors. The already successful Cash@Will product, which caters to the needs of cash management of corporate customers have been enhanced. A new module called liquidity management has been added to it and there was ready market for this functionality and we have received good response from the market. This module has been successfully implemented at our client site in Southeast Asia and India. BankONet, our Internet banking solution was launched this year and it has been successfully implemented in a leading bank in Malaysia. This was the first time when a Nucleus product reached out to the end user directly. With rise in the client of Internet banking, we see a major potential in this sector. New investments have been planned in areas of captive auto finance, dealer funding, and Islamic banking, as far as lending solutions are concerned.

In field of cash management, investments will be made in building products related to emerging sectors of global remittances, channel financing, electronic bill presentment, and payment. In another remarkable achievement, our flagship product FinnOne went live in GMAC Italy.

On the delivery side, this quarter has seen a growth in the contribution of Europe to total revenue at 10.09% from 7.95% in the previous quarter. Middle East and African markets have contributed 7.59% against 3.55% in the previous quarter. This is mainly due to the product implementations at GMAC and new product implementations in Dubai, Nigeria, Saudi Arabia, and Jordan.

For the year, the contribution of the Far East and Southeast Asia has decreased from 80.4% in the financial year 2005 to 69.2% in the financial year 2006 whereas the contribution of Europe has increased from 4.53% to 11.10% in the same period. As Vishnu has mentioned that GMAC Italy went live first week of April 2006, and we are

now gearing up for its implementation in other European countries, which is under active discussion with the GMAC management. We have augmented our delivery capability by recruiting three people for independent business unit at the IBU Head levels. Now, we are recruiting at all levels in view of the increased business in hand. Just to let you know, I have spoken on behalf of my colleague R. P. Singh who is currently in Europe. So, I have covered both delivery as well as investment aspects of the products. I now handover to Poonam.

Poonam Bhasin

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

Moderator

Thank you very much madam. We will now begin the Q&A session. Participants who wish to ask questions, please press *1 on your telephone keypad. On pressing *1, participants will get a chance to ask 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. Our first question comes from Mr. Anurag of Brics Securities.

Anurag

Good evening Sir. Congratulations on good numbers. I have one question, if we look at this quarter; the software development expenditure has not grown much. Does it mean that you have not recruited many employees in this quarter?

Pramod Kumar Sanghi

This quarter net taken employees recruited is not significant. We expect to recruit more people in the current quarter.

Anurag

Okay, so what would be your recruitment plans in FY07?

Vishnu R. Dusad

I would request Ravi Verma to answer that question.

Ravi Verma

This is Ravi Verma. As far as this quarter is concerned, we are planning to add another 250 people.

Anurag

Out of current order book of Rs.131 crore, what would be the component of GMAC project?

Pramod Kumar Sanghi

Rs.36 crore at the moment.

Anurag

Thanks a lot

Moderator

Thank you very much Sir. To ask the questions, participants are requested to please press *1. Our next question is from Mr. Sunil Jain of Finance Insight.

Sunil Jain

Good evening sir. This is Sunil Jain. Congratulations on very good numbers. I have two questions. First is on GMAC Italy, which you have said has gone live in April 2006; so whether all the revenue will be booked in the current month?

Pramod Kumar Sanghi

No, revenue of course is booked on a project completion basis and this is a four-year contract. As we put in efforts we will book revenue accordingly. I suppose by now everybody knows that the initial order value was about \$12.5 million which was about Rs.54 crore plus, and we would have booked about 37% of the revenue till now, and the balance revenue would accrue over the years till December 2008. The major milestone here is that Italy is our first implementation under this particular programme and it is very important because it is one of the most difficult countries to start with.

Sunil Jain

Second question on the service and project part. We do not see any growth over there. What is the reason sir exactly?

Pramod Kumar Sanghi

Basically, we want to focus on product-led growth and the entire sales and marketing team is focused towards selling products on a global basis. Projects and Services business, of course come from our existing large customers. As we mentioned in the comments, there are some new opportunities opening and we keep on looking at them and increasing our presence with these customers.

Sunil Jain

So, in the coming year, as you said about 250 employees will be recruited, will they all be in product segment only?

Vishnu R. Dusad

Yes, 250 employees will be recruited in this quarter and most of them would be for product development and implementation.

Sunil Jain

Sir, whether you give any growth guidance?

Pramod Kumar Sanghi

No we do not give any guidance.

Sunil Jain

But we can expect similar growth possibilities as in the past?

Pramod Kumar Sanghi

Well, we are very confident of the future.

Vishnu R. Dusad

We can reasonably say that yes we will maintain at least similar momentum.

Sunil Jain

As you see services segment is not growing at all or is growing at very low rate, would that mean product has to grow at very fast rate?

Niraj Vedwa

Yes, you are right. As both Vishnu and Pramod has said, our strategy is basically product driven and we want to focus on product and the growth in products will be much higher than the growth in services and projects.

Sunil Jain

Okay Sir. Thank you very much.

Vishnu R. Dusad

Thank you.

Moderator

Thank you very much Sir. Our next question comes from Mr. Atul Penkar of Birla Mutual Fund.

Atul Penkar

Good afternoon Sir and congratulations on good set of numbers. There is couple of questions from my side. Can you just breakup the total order book in terms of products and services?

Pramod Kumar Sanghi

Atul, the product order book is about Rs.80 crore plus and balance Rs.50 crore plus is the projects and services.

Atul Penkar

Can you just give some details about the orders won during the quarter and which of them have been very significant ones?

Niraj Vedwa

We cannot release the customer names, but I would just like to say that some of the top banks in Middle East have signed contracts with us. Some of the press releases we can talk about, for example in Dubai or let us say UAE, we closed the deal with RAK Bank, and RAK Bank is in the top three in terms of retail banking and we have closed the deal for full retail banking suite for them. We have also closed a deal in Nigeria, First Bank of Nigeria, which is the largest bank there. We have closed deals with the top three or four banks in Indonesia for Finnone. We have closed our first order in Australia for product business. In Japan, we have closed two very big deals for product business. This is for a very large NBFC auto financial organization and there we will be implementing a whole range of products and along with that, the services will be quite substantial. In India, we have closed lot of deals. Some of them we have announced, like we have signed with Cholamandalam-DBS, which have come into the country. We have signed with Centurion Bank of Punjab. We have increased our relationship with ICICI Bank. With State Bank of India, we had announced sometime back. So, the concentration is all across and some of the top banks of Philippines, like BPI has signed with us, and in fact in Philippines now we have 14 banks and financial institutions working for us, so that is the leadership position that we have in Philippines. So, the contribution of product business is from all across and we have seen a lot of contracts coming in from Middle East and African Continent. The other interesting part is that contribution for license has also been increasing substantially from these contracts.

Atul Penkar

Okay great, and in terms of GMAC Italy, what is the roadmap there, which country goes next?

Niraj Vedwa

We have to implement in about 39 countries globally under GMAC contract. We already implemented in five countries of Asia Pacific before we got this contract. Those were India, Thailand, Taiwan, Indonesia, and China, and a part of this contract, which is both for Europe and Latin America, and some other remaining parts. The first implementation is Italy. Now, we have plans of covering about another four countries in Europe itself within the course of this year.

Atul Penkar

Okay, and in terms of pricing model, are you seeing any shift from onetime license fees to maybe transaction based or per user basis kind of revenue model?

Niraj Vedwa

Already for some of the contracts that we have got, we have negotiated in such a way that there will be an initial license price and then there will some portfolio based pricing. As the portfolio grows, they need to pay us some extra money. Some of

these types of contracts have happened. So as to answer your question, this year we have seen a lot of requirement coming in from customers to have a different kind of pricing model, such as transaction and we have done it also.

Atul Penkar

Okay and for FY06, what has been the client concentration?

Niraj Vedwa

I will give it over to Pramod.

Pramod Kumar Sanghi

Yeah, top 5 is reduced from 78% to 73%.

Atul Penkar

Okay, and the top most or the top two?

Pramod Kumar Sanghi

Lets not get into top 2 and 3, as you know who our top customer is.

Atul Penkar

Okay, my last question is to Vishnu. Vishnu, where do you see your company maybe three years down the line?

Vishnu R. Dusad

I think Atul this is a very good question. What I would like to say is, as Niraj has mentioned, we are getting very good response from the market in the sense that some very respected global names are proactively getting in touch with us, which is to our knowledge at least a very rare kind of a situation to happen and that gives us the confidence that yes, we are sitting on a very sizeable opportunity and we need to make sure that we leverage it fully. So, we are preparing very strongly in that direction.

Atul Penkar

Okay, and in terms of, you know, are you looking any kind of strategic partner in the company?

Vishnu R. Dusad

Strategic partner, what does it mean?

Atul Penkar

Strategic investor or maybe similar to what Oracle is in I-Flex or some similar kind of?

Vishnu R. Dusad

Not yet. Atul you know us very well now

Atul Penkar

Okay. Thanks and All the Best Sir.

Vishnu R. Dusad

Thank you.

Moderator

Thank you very much Sir. Our next question is from Ms. Manjum Bashini of Sundaram Mutual.

Manjum Bashni

Sir, could you give us some sense of attrition levels in the company & salary hikes that you are thinking of, some scenario of the same?

Ravi Verma

As far as attrition is concerned, we are at par with the market trends and we have taken some initiatives for which we are yet to make an announcement internally and because of those initiatives, we do expect that attrition levels are going to come down further. As far as the salary hikes are concerned, we are doing some exercise internally. We have done some benchmark, and in next say about 15-20 days, we will be opening up the communication for the employees. This is as far as attrition and compensation is concerned.

Manjum Bashni

Could you give some idea on kind of salary hikes that you are coming up with?

Ravi Verma

It is still under finalization. I think, maybe after some time, which I said that, it would take another say about 15 days time to freeze it. What I can say is that we are looking at the market data and we are doing exercise based on it. We are still at the analysis stage and it will take a little bit of time to finalize it.

Manjum Bashni

Okay, and what would be the manpower addition in terms for full year FY 07, you have quoted 250 people in the first quarter?

Ravi Verma

That is for the first quarter, but as far as the year is concerned, it is going to be approximately 500.

Manjum Bashni

Okay, and could you give some idea on the progress on GMAC China?

Niraj Vedwa

GMAC China trial project on LOS project was on hold and it continues to be on hold because of some regulatory issues, which GMAC China needs to address. As far as Nucleus is concerned, we have delivered the product. We expect that this will get sorted out during this quarter and they would get into the acceptance mode and production mode.

Manjum Bashni

Sir, could you give us some sense on the pricing environment on the services front and also some idea of the utilization levels and the bench going forward since you are hiring up to 500 people next year?

Pramod Kumar Sanghi

In terms of pricing levels, our pricing power is actually improving every year and we have been at the lower end of the spectrum in terms of pricing. The pricing, which we are getting for licenses, for implementation, and customization are actually better than what we were getting in the past. We do not really get into the onsite-offshore kind of rates like a services company because this is a product-led company. Yeah, I mean we really do not run any bench as such because we have people in the product team and there is actually more than sufficient work for them. As Ravi and Vishnu mentioned that we are planning to recruit 250 people in this quarter and actually we require them to look at the project, which are in hand, so really there is no bench at the moment.

Manjum Bashni

So do you see this trend of improving margins continue into the first two quarters of the year as you, ramp up?

Pramod Kumar Sanghi

We expect to maintain margins level; Salary hike would come into play and it would be a challenge for us to meet the margins at current levels, which is at 30% plus for last year, while retaining people and searching the best talent. But we are confident that we will maintain these kinds of margins going forward with the increase in the product business.

Manjum Bashni

And could you give us some sense on the new product modules that are now in development phase.

Niraj Vedwa

Prakash will just brief you on that.

Prakash Pai

Two of our prime products are FinnOne, which is in the retail lending space and Cash management, which is lead by Cash@Will. As I mentioned earlier, our new investments that we have planned cater to the needs of the captive auto finance companies, which we feel are big target segment that we would like to go after with the success of GMAC. We are also looking at the other captive auto finance companies and would make significant investments to meet the needs of these companies, coming up with new modules, which would cater to the needs of dealer funding. We are also looking at the emergence of significant markets for the Islamic banking, so we would be making these investments in our retail segment that we have talked about and on the cash management side we are looking at global remittances, channel financing, the electronic bill presentment, and payments module. As we talked earlier that we have increased our focus on the SME segment which we are finding it as a new segment and we have started off with the corporate loan origination system, primarily targeted for this SME market. As mentioned earlier that we have already started our implementations at three locations in Indonesia to market the same product across the various markets that we are at present

Manjum Bashni

Thank you and last question could you give some more idea on the GMAC deal in terms that over the next four years what is the kind of potential that you see on a continuing basis.

Pramod Kumar Sanghi

At the current point of time we would of course look at the existing contract which will go up to 2008, but Neeraj will speak to you more about the opportunities in the GMAC space whether it is North America or in other products.

Niraj Vedwa

Okay within GMAC, we have been talking to them of a lot of initiatives and there are discussions, which are on and not only in the retail side but also on the dealer funding side. There are discussions also on the North American product business so this will take a little time. There are some discussions on securitization going on. So these are some of the areas in which we have our core strength and they look up to us for these. These discussions are going on at this stage. I can only say that we are discussing with them on these opportunities and the existing contract of course goes on till 2008.

Manjum Bashni

And you talked about Islamic banking, what is the kind of potential that exists there that you could address?

Niraj Vedwa

Among the contracts that we have won in the Middle East, most of the organizations have got an Islamic banking subsidiary or an NBFC already, and it would see an extension of our existing contract to get into Islamic banking on commercial basis; so, these discussions are already on. We see a lot of potential there because Islamic banking has become the order of the day and almost every major bank or institutions in the Middle East is getting into Islamic banking. That means that the product needs to be certified on Islamic Banking, which Prakash and the team are already working on getting our products on the Islamic banking. So, we hope that the existing contracts will first get extended into the Islamic banking and NBFCs of these organizations, and parallel, we would break some new accounts in this region.

Manjum Bashni

Thank you.

Moderator

Thank you very much Sir. Our next question is from Mr. Ravvichandran of Unify Wealth Management.

Ravvichandran

Good evening and congrats for good set of numbers.

Vishnu R. Dusad

Thank you very much.

Ravvichandran

This is on GMAC, whether our company is internally ready to go and install our product in US and Canada. We do not know when GMAC will ultimately agree, but how far we are ready and how much time it is going take for us to get ready?

Niraj Vedwa

The way GMAC organizes is North America and then there are international operations. As far as the international operations are concerned we have obviously have the contract till 2008 and as far as North America is concerned they are using main frame based system which is not a product but it is the customized solution developed by an American vendor. They are looking at number of vendors for a solution and these discussions are on, but to say that in terms of the product how much we fit, that exercise is already been on and there seems to be a little gap and which is what we are attempting to cover.

Ravvichandran

I mean to what extent you will have to travel. In one of our interactions, you said you are prepared only to the extent of 75% because what I understand is the features available in US market are compared to the kind of features available in other

markets are somewhat different and the US clients require more features and probably we have to add these features to successfully implement your product in US and the Canadian markets. Whether you are ready for that, what I was told in one of the interactions is that you are 70% and 75% ready about six months back, what extent we have traveled and when we will be ready? If GMAC says okay we are giving you the order, will you be ready to go and install it or you need to do some exercise internally to go and install the product? To what extent you will have to travel internally?

Prakash Pai

As we said earlier also that our products have been mapped with general requirement for the US market and we meet about 75 - 80% of the needs of a typical US finance company, so the balance 20 odd percent we would build it once we get a confirmed customer with whom we could work and implement it.

Ravvichandran

Would GMAC Revenue be about Rs.3 crore every quarter?

Pramod Kumar Sanghi

That is more or less correct.

Ravvichandran

And on this OPM you have indicated that the product revenue is going to improve from about 44% which is in Q4 to probably 50% for whole of next year and OPM is about 32% plus for Q4, so is it fair enough to assume that the 32% OPM can be maintained in spite of the increase in product revenue due to probable increase in salaries.

Pramod Kumar Sanghi

No, we did not say that 44% was the OPM in the product business.44% was the contribution of the product business to the total revenue.

Ravvichandran

Okay.

Pramod Kumar Sanghi

Okay, therefore what we are saying here is actually that you know we are at 32% in the last quarter and we are at 30% plus for the year. On a yearly basis, we are looking at maintaining the 30% plus operating margin and the major contribution to this to meet the increasing salary bill would come from the product business and that is the whole area for us to concentrate on.

Ravvichandran

Okay, and how many implementations, we had in the last financial year that is FY06?

Niraj Vedwa

See the new contracts that we won were for 38 new product implementations.

Ravvichandran

Okay, and is it possible to get a break up between employees in projects and employees in product, I mean they always move from one division to another according to the requirement, but generally how is it out of 1000 employees?

Pramod Kumar Sanghi

Well, if you look at it we would be having approximately 350 people plus in the product business and then we have another about 400 plus in the project business, total about 800 and we would be having about 200 plus in the non-delivery function including marketing & sales

Ravvichandran

Out of 500 people who will be recruited in the current financial year, would 100 employees are going to be on the product side?

Pramod Kumar Sanghi

No, out of the 500 people who will be recruited, we expect that 350 would be on the product side, there would of course be another 70-75 more gain in the product side, in the product development function, and of course the balance would go towards other services, QA, QCT, marketing, HR, and so on.

Ravvichandran

Okay.

Pramod Kumar Sanghi

We do not really anticipate any major recruitment in the project space, of course if we get another large engagement we will recruit more people.

Ravvichandran

Right and my final question what is giving you the confidence of increasing the employee level from 1000 to 1500 in just one year and increasing the number of implementation from 250 to 350 and it is very interesting it will be a great achievement, what is giving you this confidence and what can go wrong in the assumption?

Pramod Kumar Sanghi

This is, of course, due to the business we have in hand with us today. Some of our customers even the regular project clients place orders with us on a month to month basis and we do not really take them in the order book unless the order is received every month, but these customers have been with us for 5 years and if we start adding all that revenue up my total business in hand actually comes closer to Rs.200 crore which at present quoted as Rs.131 crore

Ravvichandran

Right. Thanks a lot and wish you All the Best.

Pramod Kumar Sanghi

We recruit people, but to recruit 500 or 250 people in this quarter would not be possible. You can imagine the expense for recruiting 250 people immediately.

Ravvichandran

That is right. Thank you Sir and wish you All the Best.

Pramod Kumar Sanghi

Thank you.

Moderator

Thank you very much Sir. Our next question is from Mr. Devender of Religare Securities.

Devender

Good evening Gentleman and congratulations on excellent set of numbers.

Vishnu R. Dusad

Thank you.

Devender

My question is regarding to ESOPs basically which you have granted. Can u give some details on the pricing of this?

Pramod Kumar Sanghi

The ESOPs, which have been granted in our last meeting, announced recently have been granted at market price on that day which was 357.

Devender

Secondly my question is regarding the cash usage, though I do understand that for the first time that you are sitting on huge cash reserves, but if you could throw some light as to what sort of usage u are going to plan? Are u looking for acquisitions? What would be the normal usage for the cash, which u possess now?

Pramod Kumar Sanghi

We have stated that we will spend about Rs. 30 crore in capex in the existing facility. We have to house all these new people who will be joining us. We are also looking at an SEZ option for the future and we are looking at perhaps buying 25 acres of land and starting that project. So, we need to keep our cash reserves for those expansions in the future, which could take place in two-three years.

Devender

Is SEZ is basically for the tax deduction, which will happen to us?

Pramod

Well, the tax benefits, which are offered by the Government of India, are for industry to use.

Devender

Okay. Thanks Sir and wish you All the Best in future.

Pramod Kumar Sanghi

Thank you.

Moderator

Thank you very much sir. Our next question comes from Mr. Mithun of Kotak Securities.

Mithun

The question is on in terms of your revenues on the product side. How much would be license and how much would be AMC?

Pramod Kumar Sanghi

We do not give the license figures because that is for reasons of market intelligence.

Mithun

Okay.

Pramod Kumar Sanghi

The AMC figure runs at about Rs.1.2 crore a quarter at the moment.

Mithun

Okay and in terms of the cash surplus that you have, are you looking at any acquisitions as well?

Vishnu R. Dusad

The way we look at this question of acquisitions is ideally we feel that the power of our intellectual property is now getting validated more and more and we can have phenomenal growth based on our existing intellectual property. So, now we are not exactly proactively looking for acquisitions. However, if some very interesting proposition comes along, we are open to look at it and as you know people do approach us with such proposals.

Mithun

Okay.

Mithun

And in FY06, what proportion of revenue is from product and what do you think that proportion would be in FY 07?

Pramod Kumar Sanghi

We had 38% overall product business as a percentage of total revenue in FY06, but in the last quarter Q4, it was 44% and as we mentioned earlier, we look at something between 45 and 50% to come from the product space.

Mithun

Okay and that would be primarily the FinnOne product?

Prakash Pai

There are two products, suites, as we talked about, one is FinnOne, which is in the retail financing space, and the other one is Cash@Will which is in the cash management space.

Mithun

Right.

Prakash Pai

So both these products would be contributing to this growth.

Mithun

Okay what share is each?

Pramod Kumar Sanghi

Approximately at the moment, FinnOne contributes about 85% to 90% of the total business of the product space because cash is a recent product and the numbers of implementations today are about 5.

Mithun

Thank you Sir.

Moderator

Thank you very much Sir. Our next question comes from Mr. Gaurav Dua of Sharekhan Securities.

Gaurav Dua

I want to know about average order size and how it is moved over the years?

Niraj Vedwa

The average order size that we are seeing of course is more regional in nature but what we are saying that the orders in Middle East go beyond the million dollars. It could be anywhere in the range of from 1 million dollars to 2 million dollars and the contracts in Southeast Asia are smaller in nature, depending again whether it is a developed economy or you know a developing economy. So in a bigger market we may still get up to a million but in a smaller markets we may get up to half a million kind of contracts.

Gaurav Dua

How is it moved over the year, lets say past two years?


Niraj Vedwa

It moved substantially and has been increasing over the years.

Gaurav Dua

One more thing, can you give us some basic sense on the kind of margins you make in this product business and in service side of the business?

Pramod Kumar Sanghi

The way we do it is that we are any case expensing all our product development cost every year. So, the license revenue technically apart from marketing  sense really goes to bottom line, that is about 90% margin coming from that area. If you look at product-related services and the projects, they both would have similar margins of 25% to 27%. Some services business, which we classify separately, has an average margin of about 8 %- 9%.

Gaurav Dua

Okay Sir Thanks a lot.

Moderator

Thank you very much Sir. Participants who wish to ask questions may please press *1 now. At this moment, there are no further questions from participants. I would like to handover the floor back to Ms. Poonam Bhasin.

Poonam Bhasin

Thank you Sanjay. We thank you all for the participation in our investor conference call and we look forward to speak to you in the next quarter. I now handover to Mr. Vishnu for the closing comment.

Vishnu R. Dusad

Once again I would like to thank you all for spending so much of your precious time with us and for your keen interest in Nucleus. We would like to reassure you that the entire team here is just working towards the best interest of all the stakeholders, including the investors and we thank you once again.

Moderator

Ladies and gentlemen, thank you for choosing WebEx Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice evening.
