

Nucleus Software Exports Limited
Second Quarter and Half year Ended September 30, 2010



Q2 FY 11 Earnings Conference Call October 25, 2010

Members of Nucleus Management

- Mr. Vishnu R Dusad
- Mr. Niraj Vedwa
- Mr. Pramod K Sanghi
- Mr. Ravi Verma

Managing Director & CEO
Chief Operating Officer
President Finance & CFO
President and Head HR

Conference Call Participants

- Mr. Krupal
- Mr. Vikram
- Ms. Sharayana
- Ms. Grishma
- Ms. Shikha
- Mr. Sanjeev

ICICI Securities
Bay Capital
Ticker Plant
Envision Capital
Swiss Securities
Share Khan Securities

Nucleus Software Exports Limited
Second Quarter and Half year Ended September 30, 2010

Meenakshi:

Thank you Savita, and here I accord a warm welcome to all of you who have joined us for this investor conference call at Nucleus Software for the quarter and six months ended September 30, 2010. We have with us today Mr. Vishnu R. Dusad, our CEO and Managing Director; Mr. Niraj Vedwa, our Chief Operating Officer. Both of them are joining us from Amsterdam where they have gone for the SIBOS Conference, and then we have Mr. Pramod. K. Sanghi, President and Chief Financial Officer; and Mr. Ravi Verma, President and Head HR who are with us. We will begin with the opening comments on the performance of the company straight from the CEO, and after that, we will be open for the question and answer session. With this, I hand it over to Vishnu.

Vishnu

Thank you Meenakshi and good afternoon ladies and gentlemen. I am pleased to announce the results for Second Quarter and half year ended September 30th, 2010.

There is a strong growth momentum building up with banks realizing the significance of technology in aiding decisions. As an IPR-led Company we are well poised to ride the growth wave and align our intellectual capital to the dynamic requirements of the banking sector.

Now I will take you through the numbers.

- **Our Consolidated revenue** is at Rs.70.19 crore against Rs. 70.75 crore in the corresponding quarter previous year.
- **Revenue from product business** for the quarter is at Rs. 50.58 crore, 72% of the total revenue against Rs. 39.08 crore, 55% of the total revenue for the corresponding quarter previous year.
 - **Product revenue from own business**, the Nucleus IP for the quarter is Rs. 48.78 crore, 70 % of the total revenue against Rs. 37.70 crore 53 % of revenue for the corresponding quarter previous year.
 - **Projects and services business revenue** for the quarter is Rs. 19.61 crore, 28% of total revenue against Rs. 31.68 crore, 45% of the revenue for the corresponding quarter previous year.
 - The product business overall is showing a year on year growth of 29% reflecting the overall improvement in the business scenario.

Nucleus Software Exports Limited
Second Quarter and Half year Ended September 30, 2010

- **EBITDA** for the quarter is Rs. 11.71 crore, 16.69% of revenue against Rs. 11.95 crore, and 16.89% in the corresponding quarter previous year.
- The margins also reflect the Product business growth.
- **Net profit** for the quarter is Rs.8.90 crore (12.68% of revenue), against Rs. 9.88 crore (13.97 % of revenue) in the corresponding quarter previous year.
- **EPS** for the quarter at Rs.2.75 as compared to Rs. 3.05 in the corresponding quarter previous year.
- **For the half year, our consolidated revenue from software products and services** is Rs. 136.33 crore against Rs. 151.29 crore for corresponding half year.
- **Revenue from the product business** for the half year is at Rs. 93.53 crore, 69% of the total revenue against Rs. 86.38 crore, 57% of the total revenue for corresponding half year.
 - **Product revenue from own business**, Nucleus IP based business , for the half year is Rs. 88.30 crore, 65% of the total revenue against Rs.79.29 crore , 52 % of revenue for corresponding Half year.
 - **Projects and services business revenue** for the Half year is Rs. 42.80 crore, 31 % of total revenue against Rs. 64.90 crore, 43 % of the revenue for corresponding Half year.
 - For the half year also overall product business is showing an 8 % growth on a YoY basis.
- With weak quarter 1 numbers , **EBITDA** for half year is Rs. 16.43 crore, 12.05% of revenue against Rs.27.98 crore, 18.48% of revenue in the corresponding half year
- Sustained improvement in top line and margins is the challenge and we believe the business environment is conducive for the same
- **Net profit** for half year is Rs. 14.20 crore, 10.41% of revenue against Rs. 20.01 crore, 13.23% of revenue for corresponding Half year.
- **EPS** for half year is at Rs. 4.39 against Rs. 6.18 for corresponding period previous year.

Nucleus Software Exports Limited
Second Quarter and Half year Ended September 30, 2010

- **Our total Current investments and bank position** is at Rs. 184 crore as on September 30, 2010 against Rs. 181 crore as on June 30, 2010.
- In terms of **manpower**, we are at 1562 as on September 30, 2010 against 1528 as on June 30, 2010.

We believe this is the time and opportunity for Nucleus to take the next steps forward, improve the offerings in the market, penetrate new markets, adapt the business model to the changing environment and deliver high customer satisfaction.

Pramod:

Good afternoon everybody. This is Pramod Sanghi and welcome to the conference call.

- **On a sequential basis, revenues** are at Rs. 70.19 crore up by 6.13% as compared to Rs. 66.14 crore previous quarter.
- **Product revenue** at Rs. 50.58 crore (72.07% of revenue), 17.79 % up against Rs. 42.95 crore (64.94 % of revenue) previous quarter
 - **Revenue from own Products** is Rs. 48.78 crore, 23.42% up against 39.52 crore previous quarter and this is a major positive sign
- **Revenue from projects and services** is at Rs. 19.60 crore, 27.92% of revenue against Rs. 23.19 crore, 35.06% of revenue previous quarter.
- **Cost of delivery** has decreased to 63.93% of revenue against 70.28 % previous quarter with improvement in the revenue mix towards Products. . For the half year, it is Rs. 91.36 crore (67.01% of revenue) against Rs. 101.51 crore (67.11% of revenue) for the corresponding period previous year.
- **Marketing expenses** are at 9.82% of revenue this quarter, against 11.56 % of revenue previous quarter. In absolute terms, this is Rs. 6.90 crore against Rs. 7.67 crore previous qtr. For the half year, they are Rs. 14.56 crore (10.68% of revenue) against Rs. 12.40 crore (8.20% of revenue) for the corresponding period previous year. The current run rate is reflecting the increased spend on sales and marketing planned this year

Nucleus Software Exports Limited
Second Quarter and Half year Ended September 30, 2010

- **G&A expenses** are at 9.56% of revenue this quarter, against 11.59% of revenue previous quarter. In absolute terms, this is Rs. 6.71 crore against Rs. 7.28 crore previous qtr. This figure is extremely high and we are looking at better controls on the same to improve profitability. For the half year, they are Rs. 13.99 crore (10.26% of revenue) against Rs. 9.40 crore (6.21% of revenue) for the corresponding period previous year.
- **Total expenses** in the quarter are at Rs. 58.48 crore, reduction of 4.*% against Rs. 61.43 crore previous quarter. For the half year, they are Rs. 119.90 crore against Rs. 123.31 crore for the corresponding period previous year.
- Increased revenues and lower expenses as compared to the previous quarter resulted in higher **EBITDA** at 16.69% this quarter as compared to 7.12% in the previous quarter. For the half year, EBITDA is at 12.05% as compared to 18.48% for the corresponding period previous year.
- **Other income** is at Rs. 2.04 crore against Rs. 2.19 crore previous quarter. For the half year, it is Rs. 4.23 crore against Rs. 5.33 crore for the corresponding period previous year.
- **There is a foreign exchange loss** of Rs. 1.62 crore against a profit of Rs. 1.50 crore previous quarter. This is a result of Dollar appreciation to 44.90 on Sep 30 against 46.70 in Jun end and the effect on receivables and other foreign currency denominated current assets at the same time there is a Rs. 0.09 crore loss on forwards which is part of the revenue stream.

For the half year there is a foreign exchange loss of Rs. 17.83 lakhs against Rs. 3.94 crore for the corresponding period previous year.
- **Withholding taxes** are Rs. 29 lakhs against Rs. 12 lakhs last quarter. For the half year, they are Rs. 0.41 crore against Rs. 0.09 crore for the corresponding period previous year.
- **Total taxes including withholding taxes** are 8% of PBT against 11% of PBT last qtr at a group level.
- **Depreciation** is Rs. 2.37 crore against Rs. 2.47 crore previous quarter. For the half year, it is Rs. 4.84 crore against Rs. 6.21 crore for the corresponding period previous year.

Nucleus Software Exports Limited
Second Quarter and Half year Ended September 30, 2010

- **PAT** is Rs. 8.90 crore, 12.68% of revenue against Rs.5.29 crore, 8 % of revenue previous quarter. For the half year, it is Rs. 14.20 crore against Rs. 20.01 crore for the corresponding period previous year.
- In terms of **foreign currency hedges**, we had on Sep 30, USD 11.52 million dollars of forward contracts at an average rate of 46.85 which are designated as highly probable forecast transactions. There is a mark-to-market gain of Rs. 132.19 lakhs which is taken to hedging reserve in the balance sheet. We do not have any option outstanding as on Sep 30, 2010.

Jun 2010 we had a total hedge of USD 12.25 million.

- **Current Coverage** is USD 12.02 million at an average rate of 46.81.
- With regard to **receivables**, we are at Rs. 40.90 crore against Rs. 42.69 crore previous quarter and the **DSR** as on 30th September is at 53 days against 59 days as on June 30th.
- **Top 5 clients** at 57 % against 64% last quarter.
- **The order book position** is Rs. 199.59 crore including Rs. 164.14 crore of products business and Rs. 35.45 crore of projects and services business, against Rs. 190.12 crore last quarter with Rs. 156.82 crore of products and Rs. 33.31 crore of services.
- The breakup of cash and cash equivalents is as follows :
 - Liquid fund schemes of mutual funds is Rs. 89.11 crore
 - Fixed maturity plans of mutual funds is Rs. 27.31 crore
 - Fixed deposits of banks is Rs. 43.18 crore and the balance is held in current accounts.

Niraj:

I would like to cover the operations and a quick summary on sales. I will start with sales first. We have had 15 product order wins which is a repeat of what we did in quarter one. So, at the end of the first six months of the current financial year, we are now at 30 product orders, against 31 orders in the entire last year. In terms of booking, the product booking is 138% of what we had booked in the entire last year as far as product

Nucleus Software Exports Limited
Second Quarter and Half year Ended September 30, 2010

business is concerned. We have also added nine new customers and these 15 orders which we have won in the quarter will be for implementation of 44 new product modules.

If you look at the first six months, 30 product orders and 23 new customers have been added for implementing 92 product modules across the globe. The market has opened up and at the same time the number of RFPs and the number of demos have increased. All the critical trends which are important for acquisition of business are also looking very positive. We have more no. of RFPs and more demos and more partners that we have added across the world.

We have also participated in a number of events in Europe, US, especially in auto finance area as well as in the Eastern and central Europe, the CIS country banking event and right now I am speaking to you from SIBOS, which is the world's largest banking events and we have one of the largest booth here. This exhibition is attended by almost 7,500 to 8,000 bankers from across the world and a lot of our customers already have come and visited us since morning. Our order book, as Pramod has said has improved from Rs. 190 to Rs. 199 crore.

Now, a look at the number of steps that we have initiated to make the operations more productive. We have added a couple of new units, to improve the productivity as well as efficiency have started showing results. We have a Central Development Group which is consolidating the requirements from each and every region. So all the customization is done at a central level and this has resulted in an improvement in productivity. We have centralized all our support activity from across the world at a central unit called the Global Customer Care and this has already yielded a lot of productivity and efficiency and the customers are very happy to see that there is a focused group which is supporting them all the time.

We have created a new group for technology and it is called the Core Technology Group, in Nucleus. It is responsible for incubating and bringing in new technologies in Nucleus and embed the best of technologies into our products, so that we have a competitive, advantage for our products, both in terms of technology as well as in terms of functionality.

We are ensuring that each and every code which goes out of Nucleus is 100% tested. We have a new Quality Assurance head, and we are focusing heavily on ensuring that what ultimately goes out to the customer is of the highest quality. We do not have any overruns on the projects, and once we deliver the projects, customer sees a very high quality delivery and hence with all these measures that we have taken, we feel will generate higher Voice of Customer responses. We are there purely because of customers and we ensure that customers have the highest Voice of Customer rating.

Nucleus Software Exports Limited
Second Quarter and Half year Ended September 30, 2010

All these are our focus areas to ensure that we are able to scale up our operations and which lead to a higher per person revenue. In this quarter too, we are looking at repeating what we have done in terms of product business, compared to what we did in quarter one and quarter two. This has been a record year as far as products are concerned.

In terms of the big numbers, I think there is a lot of progress which is happening and this progress is not just happening in one or two areas, it is happening in many areas. Japan which has traditionally been a market, where we have been picking up some of the large orders, there are a couple of cases that we have been following up for sometime, and now we have increased our traction and momentum in terms of presentation, in terms of giving proposals and discussions with the customer. In Europe, we have bid for at least three RFPs where, the deal size is very large and we have a big sales presence now in Europe through partners and our own sales forces. We are seeing a lot of traction in those large accounts, where we want to break in and these are cases where we have submitted RFPs and proposals and we have been shortlisted in the final evaluation along with some other vendors.

We are seeing a lot of momentum in the Latin American region, and we do expect a sustained business to start coming in from that area. We have created a core group within Nucleus to attack the large accounts, called the GAM, which is the Global Account Management and LAM team, which is the Large Account Management team. These focus groups have started attacking an identified set of customers, and there has been some very good visible progress which has been made. We do feel that these groups will be able to generate high volume business that we are looking at. This is as far as the opportunities are concerned. And the RFPs and the responses that we have bid to customer enquiries, they have come in from all across the world. These orders are not only from our traditional areas like South-East Asia or Middle-East, but they are from all around the world, whether it is Latin America or North America or Caribbean region or the Mainland Europe, Eastern Europe, CIS countries, Mediterranean belt, Africa, South East Asia, North Asia, Japan market or even Australia. We are getting RFPs from all around.

This demonstrates our strategy, of using either direct sales force, or indirectly through partners and system integrators- the large ones as well as the large companies like, IBM, Oracle etc., is paying good dividends. We have these RFPs, we have a sales team which is going for the closures and we have a complete fulfillment team which is ensuring that we have the highest quality of demonstrations. With all of them, we are confident that we would be able to break into all these markets, into big accounts and generate the kind of numbers that, everybody has been looking at. Of course, from our perspective, in this quarter, as a strategy, we are working towards being able to get 15 more product contracts in this quarter itself. That would make it 45 contracts in the first nine months

Nucleus Software Exports Limited
Second Quarter and Half year Ended September 30, 2010

of the year, which would be higher than our traditional range of 25 to 33 or 32 kind of orders for the whole year.

On the services side, as Pramod mentioned, there was a drop in the services revenue due to certain consolidation at large account levels, but now we have a complete team which is in place and they have already broken into some accounts and the results have started showing. We do expect that, as we move onwards with these accounts, we would be able to increase the services business. We will be able to show an increase in numbers with the services team now in place and a lot of cross-selling happening across different regions.

With business orders in hand and the efficiencies and scale of operations that we have, we are confident that we should be able to get the business and deliver business with the highest Voice of Customer ratings.

Ravi:

Q2 has been a quarter for business growth challenges. We have continued our focus to manage most of our requirements with the internal resource movements as far as possible and improving productivity of the existing teams. We have also increased our focus on hiring to meet the new business needs as well as to take care of the vacant positions against employee separation. Manpower numbers have therefore been on increase to meet new business needs and has increased from 1528 to 1562. We have taken a batch of 108 fresher's through Nucleus School of Banking and Technology (NSBT) who will complete the training by 31 Oct 2010 and will be inducted in projects from 01 Nov 2010.

Development and Training focus continued on Project Management, Business Analysis and Role realignment of employees post promotions. Project management and planning tools developed internally were further enhanced and new version was launched for all new projects. This tool is helping the projects in proper planning and monitoring productivity of the resources. Project Dashboard is being extensively used by BU heads and Management to track the projects proactively for preventative actions to avoid any last minute surprises.

We had initiated more measures to improve the productivity of employees. In this regard we have already issued the Project Incentive policy for recognizing the good projects and creating excitement amongst employees to achieve superior project completions on time, on budget and on schedule with high customer satisfaction.

Attrition levels were on increase as per the industry trends; however we have been able to meet the business needs by hiring new talents and better utilization of existing resources.

Nucleus Software Exports Limited
Second Quarter and Half year Ended September 30, 2010

Vikram from Bay Capital

Vikram:

As you mentioned that your cumulative order book is around Rs. 195 to Rs. 200 crore, so what is the expected duration over which revenues against these orders would be booked?

Pramod

A large number of these orders tend to be booked within 12 months generally, but there would be certain orders which would be booked beyond that period also. To give you specific figures would be like giving guidance.

Vikram:

So, most of the revenues would be booked against these orders in the next two quarters. Would that be fair to assume?

Pramod

That would not be fair to assume. I said for the product business, our normal period to book revenue against product orders can extend from 9 months to a year. There could be certain multiple country orders like the one we received last quarter in the cash management area, (which we announced in last quarter) can take several years to complete and revenues will be recognized over that period.

Vikram:

Sir, your revenues from Europe and UK have increased sequentially by over 80% in this quarter. Is this a result of improved traction or is this an aberration?

Pramod

We have added a new customer in Europe and the existing customer business has also increased. We would like to maintain the business at least at this kind of level in absolute numbers.

Vikram:

So, we can interpret this increase as sustainable from Europe at least.

Nucleus Software Exports Limited
Second Quarter and Half year Ended September 30, 2010

Pramod

Certainly

Vikram:

There was some news regarding a large order from Dhanlaxmi Bank, can you guide us on the size and duration of this order?

Pramod

We don't give you order value and Niraj will talk about the duration.

Niraj

It is under implementation, the first part of the project has already gone live in a record time and the rest of the order will be executed in the January to March quarter.

Vikram:

Is this just for product implementation or going forward that will translate into services revenues also?

Niraj

It is right now a product order which we will implement for FinnOne™ Retail Lending solution. After that this project will go under the annual technical support and maintenance and customization and maintenance revenues will come. We will talk to them about other products, etc., but as of now, that is the order that we have.

Vikram:

My last question was on recent news item that you have acquired some 17 acres of land in Jaipur for IT SEZ. Just wanted to check if there is an update on this front?

Pramod

The Jaipur land was acquired almost 3 years ago but we have started construction of our first unit which would house up to 250 people. And we expect it to be complete before March 2011.

Vikram:

Nucleus Software Exports Limited
Second Quarter and Half year Ended September 30, 2010

Including this construction, what would be our total planned capex for this year?

Pramod

For this construction cost, we had said the capex was about Rs. 4.5 crore and if you add other capex, I don't think we will go beyond Rs. 10 crore in any case.

Shikha from Swiss Securities

Shikha:

My question is on the revenue front. Our revenues in this quarter have been almost flat vis-à-vis last year and quarter on quarter there has been growth of 6%. What kind of revenue growth driver do you see for the year and the following year? What are the projects in the pipeline?

Niraj

I have said that for the current year, we have already won 30 product orders. Our total order pipeline has gone up to Rs. 199 crore as Pramod had mentioned. Firstly the order booking has been growing, secondly these orders are coming from all across the regions, thirdly we have increased number of RFPs and demos that we are giving and the market has also opened up. We have large number of partners, and our own sales force as well, and we are looking at getting at least 15 more product orders in this quarter which will take us to 45 orders in the first nine months of the year. I also mentioned to you that in the last full year we did, 31 product orders and we have done 30 in the first six months of this year itself, which is equivalent to 138% of the order booking that we did for the full year and we have done in the first six months itself.

In terms of the product orders, we are very positive and excited. The markets have opened up and that has increased the opportunities. We have to now close these opportunities and generate business.

I had also mentioned that we are focusing on the large accounts. We have mentioned that there is lots of traction happening in Europe and Japan in the large accounts.

Shikha:

How much of that much will be percolated in this year FY 11?

Niraj

Nucleus Software Exports Limited
Second Quarter and Half year Ended September 30, 2010

As Pramod has mentioned before, we don't give guidance, we give you the orders in hand position. Some of the orders are executable between 4 to 6 months; some of them may take more time, depending on the contract. So, it is a combination of all, and we do not give any guidance on what we will execute in what period except for the fact that these are the numbers and this is how the order book position is increasing. You will have to draw your own analysis.

Shikha:

Second question is on the G&A expenses. G&A expenses have actually shot up a lot there any particular reason there, I mean, any particular part of G&A and how are we trying to control it?

Pramod

There is certain provisioning for receivables which we have taken in this G&A expense for the quarter, which we hope will not arise in the future.

Shikha:

So margins are going to improve going forward because the provisioning will not happen again?

Pramod

We would not like to make provisions every quarter.

Shikha:

Also in terms of hedging, I actually missed out the position in the balance?

Pramod:

The hedging position as of September 30 was 11.52 million US Dollar and as of today, it is 12.02 million US Dollar.

Shikha:

At what rate do we have it?

Pramod

Nucleus Software Exports Limited
Second Quarter and Half year Ended September 30, 2010

This is 46.81.

Shikha:

We see a good traction in Europe, but then Singapore and Middle East as well as domestic front has been almost flat or in the downward trend only. Any particular reason there. Why Singapore and Middle East are not performing. Are we done with the orders there?

Niraj

No, as I said, the orders have come in from across all geographies and we have to get a lot of orders from all these areas. So, it is a combination of what is executed, how it is executed, contracts etc., probably Pramod can throw more light on it but as far as from the sales perspective, there is no slowdown.

There was a slowdown on the services side but now we have a new team and we have picked up a services contract. So, we will only see an increase from where we are on the services side. The services contract won is from a customer in Malaysia. We have picked up some other projects from different parts of the South Asian regions, and as far as the products are concerned, in Middle East, we have been receiving a lot of product orders and this will continue. So, there is no decline in the business as such.

Shikha:

Can you explain what is withholding tax for this quarter?

Pramod

We still enjoy certain tax exemptions in India, so when we deal with foreign countries, then payments made to India will attract some withholding taxes from certain countries depending on nature of revenue. The withholding tax which cannot be claimed in India then becomes an expense for us.

Shikha:

Our tax rate sir is pretty low, I mean, any reason there, or it is the same reason you quoted for withholding tax.

Pramod

Nucleus Software Exports Limited
Second Quarter and Half year Ended September 30, 2010

The tax rates are low because as of now we have 2 or 3 STPI units which are entitled for the exemption till March 2011.

Shikha:

After that, are we assuming a full tax rate?

Pramod

After March 2011, as of today, STPI sunset clause kicks in, so there is no tax exemption available to STPI units, so existing units would attract tax at full rate and of course whatever work we do in the SEZ would be tax free.

Sharanya from TickerPlant

Sharanya:

You had just mentioned that your focus is on increasing the market share and also entering new geographies. What is your plan going forward?

Niraj

Today, we are present in almost all geographies. We are there in US through our own office and Latin America, we have partners and we have started getting business from these areas. We have got an office in UK in Europe as well as in Amsterdam and then we have partners, in the Mediterranean region we have partners and in Northern Africa also we have partners.

In Dubai, we have our own office and similarly we have an office in India, Singapore, Seoul in Korea, Manila and Tokyo. So, we are covered globally through our own offices and our own sales force which exists in these areas and also partners. As of now, we have 11 people of different nationalities who are in our sales team. As I mentioned earlier, we are getting RFPs from all around the world, and for the large deals we are getting good traction in both Europe and Japan.

Sharanya:

Regarding your market share for the future. Like you have mentioned you are going to increase your market share to what percentage?

Niraj

Nucleus Software Exports Limited
Second Quarter and Half year Ended September 30, 2010

I mentioned to you that for this year, we have already done 30 product orders, and traditionally Nucleus has been doing between 25 to 30 product orders every year. Because of the increased penetration that we have now all across the world either directly through our own sales force or indirectly through our partners, we have been able to source more RFPs and more demos are happening and because of which we have got these 30 orders in the first 6 months itself. And we are hopeful that we will be able to do another 15 in this quarter for the product business, so we are talking about 45 product orders which in itself is a big thing. Once the order inflow starts increasing, one has to source more enquiries and then to win maximum number of orders, that is how the market share will come, so we want to obviously win every possible deal that comes out in the market.

To quantify that in market share percentage will be very different or difficult, because there are various ways of calculating the market share, it could be portfolio based or could be size of product business. But if you get maximum number of orders and we are able to increase what we have been doing in the last 4 to 5 years, we would automatically get the market share.

Sharanya:

What is your current attrition rate for this quarter?

Pramod

Current attrition rate runs between 20% and 25% per annum.

Grishma from Envision Capital

Grishma:

Just wanted to understand whether we have got new orders during the quarter from the existing clients, is that understanding correct?

Niraj

No, these are not from existing clients only. It is a combination of existing and new, as I have mentioned that we have got 15 product orders and there are 9 new customers. So 9 are from new customers and 6 will be from existing customers. Out of the 30 that we have picked up in the year, I think we have also mentioned in the press release that there are 23 new customers.

Grishma:

Nucleus Software Exports Limited
Second Quarter and Half year Ended September 30, 2010

So how are the new partners that we have appointed doing, are they also responsible for all the orders, how is that progressing, any update?

Niraj

It is a combination of both partners as well as our direct sales force. We have in this quarter, picked up a number of orders which have come from partners and number of orders which have come directly. For example, we picked up some orders in India which are all directly by our sales force. We also picked up a couple of orders in Philippines also mostly through our direct sales force and probably one of them has come in through partners. We have picked up orders from African continent and they have come through partners. Also the orders picked up from Middle East, most of them are won directly and one or two will be through partners.

I would still say that at the moment, approximately 70% of the orders won would come directly and 30% would come through partners. This is an interesting sign of what we are trying to do, but the good thing is around the sourcing front, the RFPs that we received. A lot of the RFPs are coming through partners from various markets, where for us the cost of sales would be very high if we were to establish our own offices or place our own people.

Grishma:

I just wanted to know what kind of work we are doing for a telecom player in Philippines.

Niraj

Before Vishnu answers, I will just mention to you that during this quarter, we have just released the telecom version of our collections product, which is for retail collections and is applicable basically for the telecom companies to collect money from people like us.

This version has been launched and I am happy to state that we have got our first order from a customer in Philippines from one of the large operators in Philippines. Now we are going to introduce this product to all the telecom companies across the globe.

Grishma:

Nucleus Software Exports Limited
Second Quarter and Half year Ended September 30, 2010

Is that different from the cash management system that we have or it is just a modification for collection here?

Vishnu

In a postpaid kind of a scenario, it is very much similar to an installment loan, where either the installment is due or, the postpaid bill is due. In case of a default, you initiate a letter or you initiate a call or do a followup. This is a functionality that is common across retail lending as well as telecom and this is a variation we have done to our collections product. This is different from the cash management product where the collection is slightly of a different nature.

Grishma:

You would also try to introduce the same product in India, what kind of competition would you face for this product, would there be any existing players already offering a product of the similar kind?

Niraj

There are existing players who have telecom collections product. But nevertheless we have a huge market share in India, almost close to 40 customers in India, on the banking side, who use our different products and most of them would use our collections products, so we have a huge advantage. When we go back to these telecom operators, even if there are other products, they look at us in a more positive way purely because we have the size to operate, and this is not just in India, even if you go to Philippines, we have 20 customers there.

If we go to Middle East, we have more than 30 customers in Middle East, and in Africa, we have almost 18 customers, this gives us a huge advantage. In each country, leaving aside India, most of the other countries would have probably 2 or maximum 3 telecom operators. And today if we have a product running in more than 40 countries, we could straight away go to those 40 countries and pick up the list of telecom operators, and approach them that we have a product and we already have a product running for the financial industry and availability.

Krupal from ICICI Securities

Nucleus Software Exports Limited
Second Quarter and Half year Ended September 30, 2010

Krupal:

Demand is looking strong; do you think there could be some issues on execution front because in the past we had some execution issues?

Niraj

On the execution side, as I said we have changed our organization structure to make it more scalable and more accountable and this is highly process driven. We have an SBU layer, which is the Strategic Business Units which is based on geographies and the SBU head is now responsible for generating the business and delivering profitable business.

The moment an order comes, there is a centralized business analyst pool which is responsible to get the requirements and then to do the requirement mapping with the customers. This group has been set up, so that any ambiguity before the order and post the order is taken care of, this is what we have done from the requirement perspective.

Then, we have created a very high process oriented quality assurance team, and every piece of code which goes out of Nucleus is tested. Then we have a Delivery Assurance Group, which is responsible to look at each and every project from the metrics perspective. We have automated our each and every delivery cycle on our internal systems to automatically generate all kinds of project health parameters. These are the steps that we have taken to ensure that our execution capability scales up to the number of orders we are getting. This is the first thing.

Secondly, we have been scaling up with the large contracts and we see that in a number of countries cultural issues are important and that is the reason we have now people of 11 nationalities in our sales and account management team. We have Japanese, a Korean a Singaporean, a Chinese, a Russian, a Latin American an Egyptian, a Tunisian, a British and a Dutch person with us now.

On the project management side, we have a French project manager. We are also hiring an Arabic project manager. So, these are things that we are doing to make sure that we understand the culture better and they understand us better. We have a lot of language experts who are there in our teams because we are now operating in different geographies and different languages, so these people help us in crossing the language barrier and our system is now scalable because we are optimized for performance.

Nucleus Software Exports Limited
Second Quarter and Half year Ended September 30, 2010

We have taken all these steps and we do feel that they will start showing results and we will be able to help us scale up to the No. 1 position in terms of the number of contracts that we get including the large contracts.

Krupal:

Thanks, that was helpful. Just in terms of wage hike, are you planning any wage hike for the second half?

Pramod

While we are looking at various methods to look at attrition, we have not taken any decision as yet on the remuneration changes.

Krupal:

So would this be for a particular band of people or would it be across the Company?

Pramod

No, we have not taken a decision as yet but yes it is one of the options under consideration.

Sanjeev from Share Khan Investments

Sanjeev:

What is the percentage of revenue we are getting currently from the SEZ unit?

Pramod

As of now, there is no SEZ unit in operation.

Sanjeev:

What is our MAT for FY 12, that what percentage will be getting from SEZ and what is the tax rate for FY 12?

Pramod:

Nucleus Software Exports Limited
Second Quarter and Half year Ended September 30, 2010

Today we have 1,500 people and we have 'x' amount of revenue and that SEZ unit will have a maximum of 250 people at this point of time for the next year. We would look at getting some new business, so we are probably looking at anywhere between 15 to 30% of revenue.

Sanjeev:

15% to 30%?

Pramod:

It depends on what kind of new business comes there.

Sanjeev:

Any update on utilization of cash that you have?

Pramod:

As we have said earlier, we are looking at acquisitions and the Board had given directions in the last quarter for the same. Vishnu had also announced it, that we should be looking at acquisitions in different geographies for either expanding our customer base or to look at products within the banking space which would help us increase our value.

Vishnu

This is Vishnu. I would once again like to thank all of you for joining this call and would like to reiterate our commitment to or deliver value to all the stakeholders. Thank you very much.