

Creating possibilities with
the power of PEOPLE
PRODUCT
PASSION

Report Junction

ANNUAL REPORT 2006



**NUCLEUS
SOFTWARE**



As a committed team we shall strive for
...being a trustworthy, customer oriented
organization ...an open and warm environment
where everyone is respected, listened to,
encouraged to excel ...actively creating and
exploring opportunity for the growth of our
customers and our organization

Report  junction.com



Nucleus Software wants to be a dependable world-class organization. We shall foster the spirit of entrepreneurship within the organization through individual development. Our endeavor is to provide our national and international customers with competitive Information Technology solutions. We shall achieve this Quality Service by comprehending their need through close interaction and by creating a global network.

Letter to the



Dear Shareholder,

It gives me immense pleasure and sense of deep satisfaction to share the results of your Company for the financial year 2005-06.

Consolidated revenue from operations for the year 2005-06 was Rs.148.05 crore, against Rs.103.14 crore in the previous year, an increase of 44%. The total operating expense for the year 2005-06 was Rs.102.92 crore against Rs.76.07 crore in the previous year, representing an increase of 35%. Consequently the operating profit for the year was Rs.45.13 crore, 30% of revenue, against Rs.27.07 crore, 26% of revenue in the previous year.

Consolidated net profit for the year 2005-06 was Rs.37.08 crore, against Rs.20.75 crore in the previous year, representing an increase of 79%.

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 115% over the previous year's figure of Rs.26.42 crore. For the year, the product business contributes 38.39% of the total revenues, and we are confident that this will continue to rise.

The Company continues to enjoy high level of liquidity. 'Cash and Bank balances' and 'current investments' were at Rs.77.48 crore as on March 31, 2006 against Rs. 61.67 crore as on March 31, 2005. We continue to examine proactively means of increasing the returns on these amounts without taking any risk.

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. Leading banks in the Middle East, Philippines and India have chosen FinnOne™ to implement lending solutions; and leading banks in Malaysia, Singapore, and India chose the Cash Management solutions.

We are pleased to report that our flagship product FinnOne™ has been ranked as the eighth highest selling back office banking solution in the world for the year 2005 by IBS Publishing.

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 the next three years.

Product Development Investments continues to pay rich dividend this year, as well. We have made a major breakthrough with one of our core products for loan origination. This year, the corporate module of our FinnOne™ customer acquisition system has been successfully launched. We plan to further enhance features of corporate customer acquisition systems to meet market expectations. The Cash@Will™ product, which caters cash management needs of corporate customers has been enhanced into a new module "Liquidity Management". BankONet™, our Internet banking solution was launched this year and it has been successfully implemented in a leading bank in Malaysia.

With rise in Internet banking usage, we see major potential in this product segment. New investments have been planned in areas of captive auto finance, dealer funding, and Islamic banking in the Loan Operations. The cash management, investments will be made in building products related to global remittances, channel financing, electronic bill presentment, and payment.

We have commissioned a new Multi Facility block at the existing campus in NOIDA, U.P. India. Consisting of a basement plus three floors, this block adds 29,827 sq.ft. to the existing 78,528 sq.ft. Development Center and 7,208 sq.ft Utility Block. We have provided flexibility in this block to cater to multiple requirements. Looking into future requirements, we have already commenced construction of the second facility at its NOIDA campus, which will seat 700+ additional personnel.

We have incorporated a new subsidiary in Holland, Nucleus Software Netherlands B. V. in February 2006 with a initial 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.

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 to scale new heights of productivity while enjoying world-class facilities. With ambitious growth and development plans, we are planning to recruit 500 associates this financial year, with 75-80% of the associates being deployed in the 'Product Business'.

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 Report 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 further report that we are fully compliant with the statutory provisions of clause 49 of the Listing Agreement. In addition to it, we have also put in place several non-mandatory recommendations including Training of Board Members, Whistle Blower Policy, Remuneration Committee and Shareholder Rights. Your Company is committed to maintain the highest standards of Corporate Governance and has implemented several best Corporate Governance practices, over and above the statutory requirements, as prevalent globally.

We wish to place on record the outstanding commitment and hard work of all Nucleites, who are contributing to the rapid growth of the Company. We also wish to thank our customers, business associates, shareholders and members of the Board for their continued support.

Vishnu R Dusad
Managing Director
Date: April 27, 2006



NUCLEUS SOFTWARE EXPORTS LTD.

BOARD OF DIRECTORS

Lt. Gen. T P Singh (Retd.)	Chairman
Vishnu R Dusad	Managing Director
Suresh Joshi	Director
Arun Shekhar Aran	Director
Prithvi Haldea	Director
Sanjiv Sarin	Director

COMPANY SECRETARY

Poonam Bhasin

BANKERS

Citibank
HDFC Bank

AUDITORS

BSR & Co.
(formerly Bharat S Raut & Co.)
Chartered Accountants


NUCLEUS SOFTWARE EXPORTS LTD.
CONTENTS

	<i>Page</i>
★ Year at a Glance	3
★ Directors' Report	5
★ Annexure to Directors' Report	16
Financial Statements of Nucleus Software Exports Ltd.	
★ Management's Discussion and Analysis of Financial Condition and Results of Operations	25
★ Auditors' Report	42
★ Balance Sheet	46
★ Profit & Loss Account	47
★ Statement of Cash Flow	48
★ Schedules	50
★ Balance Sheet Abstract	76
★ Statements under Section 212	77
Consolidated Financial Statements	
★ Management's Discussion and Analysis of Financial Condition and Results of Consolidated Operations of Nucleus Software Exports Ltd. and its Subsidiary Companies	86
★ Consolidated Financial Statements	105
★ Financial Statements of Subsidiaries	134
★ Report on Corporate Governance	143
★ Shareholders' Referencer	166
★ Segment Information, Historical Perspective and Ratio Analysis	180


NUCLEUS SOFTWARE EXPORTS LTD.
Year at a Glance

Rs. in crore, except per share data

For the year ended March 31	CONSOLIDATED PERFORMANCE	
	2006	2005
Revenue from Operations	148.05	103.14
Operating Profit (PBIDT)	45.13	27.07
Profit after Tax	37.08	20.75
PBIDT as a % of Revenue from Operations	30.48%	26.24
PAT as a % of Revenue from Operations	25.05%	20.12%
EPS	23.04	12.90
Dividend Per Share	3.50	2.50
Dividend Payout	5.64	4.02
At the end of the Year		
Total Assets	115.59	84.28
Net Fixed Assets	33.70	28.39
Investments	61.37	48.71
Current Assets	65.30	52.27
Cash and Cash Equivalents	77.48	61.67
Working Capital	20.50	7.01
Net Worth	115.51	84.25
Share Capital	16.11	16.09
Reserves and Surplus	99.41	68.15
Market Capitalisation	587.91	287.54
No. of Shareholders	7,528	7,553
No. of Shares (Face Value of Rs.10.00)	16,104,812	16,090,812

Notes:

- 1) Market Capitalisation is calculated by considering the closing market price of the scrip at the close of the year.
- 2) While calculating the figures of group, the intergroup transactions have been ignored.



NUCLEUS SOFTWARE EXPORTS LTD.

Year at a Glance

All figures in USD'000, except per share data

For the year ended March 31	CONSOLIDATED PERFORMANCE	
	2006	2005
Revenue from Operations	33,181	23,554
Operating Profit (PBIDT)	10,114	6,181
Profit after Tax	8,310	4,738
PBIDT as a % of Revenue from Operations	30.48%	26.24%
PAT as a % of Revenue from Operations	25.05%	20.12%
EPS	0.52	0.29
Dividend Per Share	0.08	0.06
Dividend Payout	1,264	919
At the end of the Year		
Total Assets	25,905	19,246
Net Fixed Assets	7,552	6,483
Investments	13,753	11,124
Current Assets	14,634	11,937
Cash and Cash Equivalents	17,365	14,083
Working Capital	4,594	1,600
Net Worth	25,888	19,239
Share Capital	3,610	3,675
Reserves and Surplus	22,279	15,563
Market Capitalisation	131,758	65,664

Notes:

- 1) Market Capitalisation is calculated by considering the closing market price of the scrip at the close of the year.
- 2) While calculating the figures of group, intergroup transactions have been ignored.
- 3) Above figures have been calculated at 1US\$ = Rs.44.62 and 1US\$ = Rs.43.79 for the year ended March 31, 2006 and March 31, 2005 respectively.


NUCLEUS SOFTWARE EXPORTS LTD.
Directors' Report

To the Members,

Your Directors have immense pleasure in presenting the seventeenth Annual Report of the Company together with the Audited Statement of Accounts for the year ended March 31, 2006.

1. FINANCIAL RESULTS - Nucleus Software Exports Ltd.

(Rs. Crore)

Year Ended March 31	2006	2005
Revenue from Operations	94.37	67.03
Software Development Expenses	43.37	35.06
Gross Profit	51.00	31.97
Selling and Marketing Expenses	7.31	5.05
General and Administration Expenses	7.86	6.58
Operating Profit before Interest and Depreciation	35.83	20.34
Interest	—	—
Depreciation	3.93	3.05
Withholding Tax Charged off	3.21	3.74
Operating Profit after Interest, Depreciation and Withholding Taxes	28.69	13.55
Other Income	2.53	3.10
Profit Before Tax	31.22	16.65
Provision for Tax		
— Current	1.92	0.65
— Fringe Benefit	0.43	—
— Deferred	0.09	0.17
— Earlier Years Written Back	(0.15)	—
Profit After Tax	28.93	15.83
Dividend	5.64	4.02
Dividend Tax	0.79	0.56
Amount Transferred to General Reserve	10.00	10.00
Profit Retained in Profit and Loss Account	23.75	11.25
EPS (Equity Shares, par value Rs. 10/- each)		
Basic	17.97	9.84
Diluted	17.93	9.82



NUCLEUS SOFTWARE EXPORTS LTD.

FINANCIAL RESULTS - Consolidated Results of Nucleus Software Exports Ltd and its Subsidiaries

(Rs. Crore)

Year Ended March 31	2006	2005
Revenue from Operations	148.05	103.14
Software Development Expenses	80.50	59.71
Gross Profit	67.55	43.43
Selling and Marketing Expenses	11.75	8.22
General and Administration Expenses	10.68	8.14
Operating Profit before Interest and Depreciation	45.12	27.07
Interest	—	—
Depreciation	4.76	3.54
Withholding Tax Charged off	3.24	3.92
Operating Profit after Interest, Depreciation and Withholding Taxes	37.12	19.61
Other Income	3.07	2.59
Profit Before Tax	40.19	22.20
Provision for Tax		
— Current	2.69	1.30
— Fringe Benefit	0.43	—
— Deferred	0.14	0.15
— Earlier Years Written Back	(0.15)	—
Profit After Tax	37.08	20.75

2. RESULTS OF OPERATIONS

a) Nucleus Software Exports Ltd. - Standalone

Total revenue for the year increased to Rs.94.37 crore from Rs.67.03 crore in the previous year, representing an increase of 41%. Total operating expenses for the year were Rs.58.54 crore against Rs.46.69 crore in the previous year, an increase of 25%. Operating profit (EBITDA) increased to Rs.35.83 crore, 38% of revenue, from Rs.20.34 crore, 30% of revenue, in the previous year. In absolute terms, the operating profit grew by 76% over the previous year.

With a significant increase in both revenue and margins, the profit after tax for the year increased to Rs.28.93 crore, 31% of revenue from Rs.15.83 crore, 24% of revenue in the previous year, registering a growth of 83%.

b) Consolidated Operations

Revenue from operations, on consolidated basis, was Rs.148.05 crore for the year against Rs.103.14 crore in the previous year, an increase of 44%. Total operational expenses for the year were Rs.102.92 crore against