



Nucleus Software Exports Limited

**Q3 FY 13 Earnings
Conference Call
February 4, 2013**

Members of Nucleus Management

- | | |
|------------------------|---|
| - Mr. Vishnu R Dusad | Managing Director & CEO |
| - Mr. Pramod Sanghi | President Finance & CFO |
| - Mr. R.P. Singh | President |
| - Mr. V. Muralikrishna | Executive Vice President, Global Head,
Sales and Marketing |
| - Mr. Manu Arora | Vice President and Head, Human Resources |

[Note: This transcript has been edited for improved readability]



Neha:

I offer a very warm welcome to all of those who have joined us for this Nucleus Software earnings conference call for the quarter and nine months ended December 31, 2012. With us today we have for discussion Mr. Vishnu R. Dusad, our Managing Director and CEO, Mr. Pramod Kumar Sanghi, President Finance and CFO, Mr. R. P. Singh, President, Mr. V. Muralikrishna, Executive Vice President, Global Head, Sales and Marketing and Mr. Manu Arora, Vice President and Head, Human Resources. As you are quite aware that we do not provide any specific revenue earnings guidance, anything said during this call which reflects our outlook for the future or which can be construed as a forward-looking statement must be reviewed in conjunction with the risk that the company faces. An audio and transcript of this call will be available on our website shortly. We are now ready to begin with the opening comments on the performance of the company, straight from the CEO, and post that we will be available for the Q&A session. With this, I would now hand it over to Vishnu.

Vishnu R. Dusad:

Thank you Meenakshi and good afternoon ladies and gentlemen. I am pleased to once again get in touch with you at this earnings call for the third quarter and nine months ended December 31, 2012. It gives me immense pleasure to share with you that we have received the most coveted accolades this quarter:

- NASSCOM Corporate Awards for **Excellence in Diversity and Inclusion 2013** awarded Nucleus Software with special recognition under the **Best IT services & product company** (less than 5000 employees) category.
- Annual Report and Accounts of the Company for year ended March 31, 2012, have been adjudged as the **BEST** under the relevant category of the '**ICAI Awards for Excellence in Financial Reporting**'. Nucleus Software has won **GOLD SHIELD** for the fifth consecutive year.
- The Company was honored for the '**Best Online Annual Report**' globally in the technology sector & the Best in '**Most Improved Financial Disclosure Procedures**' in the regional rankings for India for the year 2012 by IR Global Rankings (IRGR).
- The Company received the **Titanium Award for Investor Relations, Corporate Governance and Environment Responsibility** in the Asset Triple A Corporate Awards 2012.



Let me take you through the numbers.

- **Our Consolidated revenue** for the quarter is Rs. 74.63 crore in the quarter against Rs. 74.00 crore in the corresponding quarter previous year.
- **Product business revenue** for the quarter at **Rs. 49.67 crore**, 67% of the total revenue against **Rs. 52.33 crore**, 71% of the total revenue in the corresponding quarter previous year.
- **Product revenue from own business**, for the quarter is at Rs. 48.28 crore, 65% of the total revenue against Rs.51.07 crore, 69% of total revenue in the corresponding quarter previous year.
- **Projects and services business revenue** for the quarter is at Rs.24.96 crore, 33% of total revenue against Rs. 21.67 crore, 29% of total revenue in the corresponding quarter previous year.
- **EBITDA** for the quarter is at Rs. 12.51 crore, 17% of total revenue against Rs.10.05 crore, 14% of total revenue in the corresponding quarter previous year.
- **Taxes** are at Rs.3.61 crore against Rs.5.51 crore, in the corresponding quarter previous year.
- **Net profit** for the quarter is at Rs. 12.33 crore, 17% of total revenue, **up by 22%** against Rs. 10.07 crore, 14% of total revenue in the corresponding quarter previous year.
- **EPS** for the quarter is at Rs.3.81 against Rs.3.11 in the corresponding quarter previous year.

For the Nine Month period ended December 31, 2012, our consolidated revenue from software products and services is at Rs.220.32 crore up by 4% against Rs. 212.19 crore in the corresponding period last year.

- **Revenue from product business** for the nine month period is at Rs.148.07 crore, 67% of the total revenue against Rs. 154.59 crore, 73% of the total revenue in the corresponding period previous year.



- **Product revenue from own business**, for the nine month period is at Rs.142.98 crore, 65% of the total revenue against Rs. 150.71 crore, 71% of total revenue in the corresponding period previous year.
- **Projects and services business revenue** for the nine month period is at Rs.72.25 crore, 33% of total revenue against Rs. 57.60 crore, 27% of total revenue in the corresponding period previous year.
- **EBITDA** for the nine month period is at Rs. 33.63 crore, 15% of revenue against Rs. 26.28 crore, 12% of revenue in the corresponding period previous year.
- **Taxes** for the nine month period are Rs. 10.44 crore against Rs. 11.83 crore, in the corresponding period previous year.
- **Net profit** for the nine month period is at Rs. 34.72 crore, 16% of total revenue, **up by 31%** against Rs. 26.55 crore, 13% of total revenue in the corresponding period previous year.
- **EPS** for the nine month period is at Rs.10.72 as against Rs. 8.20 in the corresponding period last year.
- **Our total Current investments and bank position** is at Rs. 249.44 crore as on, December 31, 2012 against Rs. 234.76 crore as on September 30, 2012.
- In terms of **manpower**, we are at 1562 as on December 31, 2012 against 1622 as on September 30, 2012.

Nucleus' vision is to be a leading global end-to-end products & solution provider; a customer-oriented global organization committed to the highest level of quality for its products and services. With our solutions and services, and our business model; we are poised to make the most out of the times to come and deliver maximum value to our customers, shareholders and all other stakeholders.

Before I close, I would like to introduce Pankaj Bhatt, who has joined us as EVP – Global Delivery Head. Pankaj brings in over 28 years of rich experience with NSN, TCS and HCL. Pankaj has established and groomed several long-term relationships in global multi-cultural environments and has held leadership positions in various areas of IT services. He holds a Ph.D. in Computer Science and Software Engineering. With his versatile



experience and technical expertise, we are confident that he will ensure quality deliverables and increase customer satisfaction.

With this I would hand it over to Pramod for a detail on the financials.

Pramod:

Good afternoon everybody. This is Pramod and I welcome you all to this conference call.

- **On a sequential basis, revenue** for the quarter is at Rs.74.63 crore, 4.02% higher than Rs. 71.75 crore previous quarter.
- **Product revenue for the quarter is at Rs. 49.67 crore**, 66.56% of the total revenue against Rs. 47.82 crore, 66.65% of revenue previous quarter.
 - **Traded revenue from products** included in this product revenue is at Rs. 1.40 crore, 1.87 % of revenue for the quarter, against Rs. 35 lakhs, 0.48% of revenue previous quarter.
 - **Revenue from own Products** for the quarter is at Rs. 48.28 crore, 64.69% of revenue, against Rs. 47.47 crore, 66.16% of revenue, previous quarter.
- **Revenue from projects and services** for the quarter is at Rs. 24.96 crore, 33.44% of revenue, against more or less similar figures Rs. 23.93 crore, 33.35% of revenue, previous quarter.
- **Cost of delivery** including development cost is 62.46% of revenue, 63.32% of revenue in the previous quarter. In absolute terms this is Rs.46.62 crore against Rs. 45.43 crore previous quarter. For nine months, it is Rs.140.95 crore (63.97 % of revenue) against Rs. 144.45 crore (68.08% of revenue) for the corresponding period previous year.
- **Marketing expenses** are at 11.41% of revenue this quarter, against 10.63% of revenue previous quarter. In absolute terms, they are at Rs.8.52 crore against Rs.7.63 crore previous quarter. For nine months, they are Rs.25.77 crore (11.70% of revenue) against Rs.22.19 crore (10.46% of revenue) for the corresponding period previous year.
- **G&A expenses** are at 9.36% of revenue this quarter, against 9.38% of revenue previous quarter. In absolute terms, they are at Rs.6.98 crore against Rs.6.73 crore previous quarter. For nine months, they are at Rs.19.97 crore (9.06 % of revenue) against Rs.19.26 crore (9.08% of revenue) for the corresponding period previous year.
- **EBITDA** is at Rs. 12.51 crore, 16.77% of total revenue this quarter, an increase of 4.65% against Rs. 11.96 crore, 16.66% of revenue previous quarter. So the operating margin



ratios remain the same. For nine months, **EBITDA** is at Rs. 33.63 crore, 15.26% of revenue, an increase of 27.97% against Rs. 26.28 crore, 12.39% of revenue in the corresponding nine months previous year.

- **Depreciation** is at Rs.1.61 crore against Rs. 1.37 crore previous quarter. For the nine month period, it is Rs.4.58 crore against Rs. 5.69 crore for the corresponding period previous year.
- **Other income from investments and deposits** is at Rs.3.70 crore against Rs.3.92 crore in the previous quarter. There is also a foreign exchange gain of Rs. 90 lakhs against a loss of Rs. 1.83 crore in the previous quarter. Dollar at December end was 54.98 whereas it was 52.84 end of September 2012. **Total other Income for the quarter** is Rs.5.04 crore against Rs.2.56 crore last qtr. For the nine month period, **Other income from investments and deposits** is at Rs.11.24 crore against Rs.8.33 crore for the corresponding period previous year. **Total other Income for the nine month period** is Rs.16.10 crore against Rs.17.78 crore for the corresponding period previous year.
- **Total taxes** are at Rs.3.61 crore, 22.63% of PBT against Rs. 3.05 crore, 23.20% of PBT previous quarter. For the nine month period, taxes are at Rs.10.44 crore, 23.11% of PBT against Rs. 11.83 crore, 30.82% of PBT for the corresponding period previous year.
- **PAT** is at Rs.12.33 crore for the quarter, 16.52% of revenue against Rs. 10.10 crore, 14.07% of revenue previous quarter. For the nine month period, it is Rs.34.72 crore, 15.76% of revenue against Rs. 26.55 crore, 12.51% of revenue for the corresponding period previous year.
- **EPS** for the quarter is at Rs. 3.81 against Rs. 3.12 previous quarter. For the nine month period, EPS is Rs. 10.72 against Rs. 8.20.
- In terms of foreign currency hedges, on Dec 31 we had USD 10.45 million dollars of forward contracts at an average rate of 56.58. There is a mark-to-market gain of Rs. 55 lakhs which is taken to hedging reserve in the balance sheet. These would result in hedging gains and would affect revenue in the subsequent quarters. In Sep 2012 we had a total hedge of USD 10.60 million at an average rate slightly lower at 56.28 and there is mark-to-market gain of Rs. 2.23 crore. Today, the dollar-rupee seems to trading at about 53, so there is a major change from December end till today.
- With regard to **receivables**, we are at Rs. 58.70 crore against Rs. 59.94 crore previous quarter. The DSR is more or less slightly lower; 72 days against 77 days on September 30, 2012.
- **Top 5 clients for the quarter** are at 48% against 49% previous quarter.



- **The order book position** is Rs. 250.16 crore including Rs. 128.92 crore of products business and Rs. 121.24 crore of projects and services business in Dec 31, 2012 against Rs. 247.89 crore including Rs. 109.49 crore of products business and Rs. 138.40 crore of projects and services business in Sep 12. In Dec 11, order book was for Rs. 266.69 crore including Rs.119.40 crore of products business and Rs.147.29 crore of projects and services business.
- Total cash flow continues to be positive. **Total Cash and cash equivalents** as on 31st December, 2012 are Rs. 249.44 crore against Rs. 234.76 crore as on Sep 30, 2012. This includes balances in current accounts of 20.13 crore, liquid fund schemes of mutual funds 67.81 crore, 65.01 crore in fixed maturity plans and fixed deposits with banks of 96.49 crore.

I will now hand it over to R.P. for a brief on products.

R. P. Singh:

Thank you, Pramod, and good afternoon everyone. I am pleased to inform you that we started rolling out the next generation CASH@will ; cash management solution, in the market. The receivable liquidity management and financial supply chain management modules are already out in the new technical architecture that we have been working on. Work is still on, on the last of the core modules, which is payments, and is in progress.

We have already started talking to existing customers for transitioning to the new product, and it would probably fructify in the coming quarter. On the FinnOne™ front, the Java release of our loan management module is out. This release makes it more efficient in terms of network and hardware utilisations and gives our customers a wider choice in terms of infrastructure; application servers and related things. Thus offering an opportunity to lower their TCO. This is already in the market for our new customers.

Our mobile solutions have also hit the market. MCollect, aims at making collections operations more efficient. So not only does it provide information on mobile to collection agents in the field but also allows them to receive cash, print receipts, service typical customer requests like account statements and balance enquiries. FinnOne MCollect is already live with three of our customers and is operational. This is my update on the product initiatives. Thank you, and over to V.M.K for an update on sales and marketing.



V. Muralikrishna:

Thank you, R.P., and a very good afternoon, ladies and gentlemen. I am happy to report that Q3 FY 2013 has been a better quarter for us. We were able to win nine new product orders for 25 product modules. We have also added four new customers to our customer list. In addition, on the people front we have been able to strengthen the team in multiple areas; sales, marketing and strategic alliances and we look forward to significant contribution to the organisation from these members.

On the marketing front, we have participated in several key industry events; FIBAC, WIRBC, Nordic Event; all communicating our commitment to the industry that we are in. We also conducted customer meet in Dubai for our customers in the Middle East and had the occasion to host the Chairman of a large international customer of ours in India. Both these initiatives are aimed at deepening relationships with our current customers. Also in the month January 2013, we announced consolidation of our position in the Philippines market through a joint press conference with two of our customers, the First Valley Bank and the Bank of Florida.

I am also happy to report that in this quarter one of our customers VP Bank of Vietnam won the Celent Model Bank Award for implementing our FinnOneTM Solution. It is these kind of awards that excite us the most because this shows how we are adding value to our customers. With this over to Manu.

Manu Arora:

Thank you, Murali. Good evening, ladies and gentlemen. In this quarter, the top priority area for us in the HR function was to focus on talent engagement and recognition; and initiatives around development of our top-performing employees. We also started our transformation journey by conducting an in-depth feedback and assessment exercise around the current and emerging expectations from our workforce. Our talent acquisition ideology of hiring the top talent continues to be effective as well. As in this quarter, we have given employment offers to some of the bright and promising young talent in some of India's top premier engineering colleges.

Some of the priority areas we have identified for the next quarter are around our performance management process and brand positioning activities in a challenging talent market where we would like to engage with talent in different parts of the country and abroad to create a truly diverse workforce. I will now hand it over to Neha. Thank you very much.



Sudhakar Prabhu from Span Capital:

First of all, let me congratulate Nucleus and the team for all the awards and also for good set of a numbers this quarter. After couple of disappointing quarters, I think this quarter was good in terms of growth and even the margins have stabilized. My question is slightly from a longer perspective. Where do we see the Company three to five years down the line? And what will drive growth for the organisation ?

Vishnu:

Our new products are already taking good shape, as updated by RP. And when we start seeing the implementations, we expect growth trajectory to kick in. That is the time we look at sustained growth in the coming years.

Sudhakar:

When do you see that? Do you think it will take a couple of more quarters for things to stabilise?

Vishnu:

I think in a couple of more quarters we would have stabilised fully and then we will move into the growth trajectory.

Sudhakar:

What kind of aspirations do you have in terms of revenue? The reason why I am asking you this is if I look at your balance sheet for the last five years, revenue has been stuck at around Rs. 300 crore and if you look at margins also, margins have been falling consecutively. What kind of revenue targets do you have three to five years down the line. Do you think you can be a Rs. 500 crore company?

Vishnu:

Certainly, we would be looking at least those numbers but we will not be able to give you any specific guidance at the point.

Sudhakar:



Do you think you have all those products which can take you there? From the numbers which I see; I think the market is more or less mature and concentrated that is why probably you have not been able to drive sales. Do you think right now you have all those products which can take you there?

Vishnu:

Yes, as we are mentioning, our new releases would have overcome, some of the issues that we have in terms of old technology. And with this, the growth will start coming in.

Sudhakar:

And in terms of margins, do you think you have hit the bottom and margins can improve from here?

Vishnu:

Yes, I think we are looking at slowly improving our margins as well.

Sudhakar:

Do you have any stated dividend policy? Also your cash is now equal to your market capitalisation?

Pramod:

We have been distributing about 30% of our profits for the year and this is the dividend policy at the moment, and it is up to the board to take whatever decisions they like to take in this regard.

Sudhakar:

Lastly, how do you plan to utilise your cash position?

Vishnu:

We had mentioned earlier that we would be looking at acquisitions. However, because our team was not in place, we had suspended the acquisition activity. Now we are ready to start looking at proposals that may come our way and look at some proposals proactively. We will have our first acquisition over the next four quarters.



Sudhakar:

This would be in the products space or in the services space?

Vishnu:

In the products space.

Grishma Shah from Envision Capital:

Grishma:

If one had to look at the nine-month numbers the product revenues are down by around 4%, apart from the new product launches that you have, please give us a brief on what would drive the future growth rate for our product business?

Vishnu:

Deepening of markets. There are some markets; more than ten countries where we have essentially one implementation per country. That is where we are going to deepen our presence and we will have our second, third, fourth customers coming in some of these countries. This is what will bring in growth.

Grishma:

US market has seen a good growth for us, if one had to look at it on a nine-month basis, if you could highlight, is it just FinnOne or FinnOne and CASH@will or is it a combination of products and services.

Vishnu:

As far as US market is concerned, we will be entering with FinnOne but we cannot tell you how much time it will take for us to make an entry there.

Grishma:

We mentioned that around Rs. 15 crore of revenues is what we have derived from the US market this year.

Pramod:



As we mentioned earlier, this is our revenue arising from running of a credit-card-services operation in the US for a customer in the Caribbean. It is a credit card-related operation. It is neither FinnOne™ nor Cash@Will™.

Grishma:

Amongst the other geographies where we are operating, which one do you think is looking more promising for the next three to five years?

Vishnu:

Europe clearly seems to be the next geography for us to derive growth from; and with our conventional geographies like, South East Asia, Middle East Africa, also we can see a good traction.

Grishma:

But by and large not much growth has been seen in terms of revenue in the traditional geographies; on a nine-month basis, any particular reason?

Vishnu:

I think the decision making continues to be slow. It is happening but not at the pace that we expect it to be. That does not mean that there is no demand. It only means that customers are as of now conscious in terms of taking aggressive decisions.

Grishma:

Can you also update us about your tie-up with one of the big IT, Indian IT player? What is happening on that front? Is there any significant progress?

Vishnu:

Typically these partnerships take a long time to materialise into something concrete. We continue to be in touch with partners and build better strategy. We are confident that we start getting some results from next year onwards.

Grishma:



On the cost side there has been a lower outsource technical service expense both during the quarter and on a nine-month basis, any particular reason for this?

Pramod:

We in fact do not do very much outsourcing of buy-out services or service from outside. So these were like there in the previous year but much lesser in the current year.

Grishma Shah:

Would a tax rate going in the next financial year be the same as what we have experienced on nine-month basis?

Pramod:

It could be marginally higher. Certain part of our other income comes in on a tax free basis. But otherwise if you look at the business income it would be fair to assume a full corporate tax rate on it.

Grishma Shah:

We have not hired people during the quarter, is that understanding correct?

Management:

If we net of, it would have gone down but there would have been fresh hiring in the quarter too. There would be some attrition, but there would be some hiring also. Overall I think at the current level of revenue, we are okay with this number of people; maybe we are marginally here and there. With increased in revenue focus in the future, hopefully we would hire again.

Mr. Vinod Datar, from VD Datar & Company.

Vinod:

Congratulations for getting award from the Institute of Chartered Accountants of India, of which I am also one of the members. The PBT for the current quarter has increased from Rs. 15.58 crore to Rs. 15.94 crore during current quarter. On the contrary tax expenses are lesser by Rs. 1.90 crore during the current quarter. Why such a less tax



expenses although PBT has increased during this quarter. Can you throw some light on this lower tax provision?

Pramod:

Tax provisions are made on a cumulative basis for the nine-month period and there is no change in any accounting practice which would affect taxes. If you are looking at the consolidated figures it would depend on our tax status in different countries and subsidiaries also to some extent. It is also affected by the amount of other income which is coming in dividend, tax fee.

Neha :

Thank you so much, everybody, for joining us in this call. Now, I would like it over back to Vishnu for his closing comments.

Vishnu:

I would like to take this opportunity to thank all of you for your continued interest in Nucleus, and would like to reassure you of our commitment to deliver value to all our stakeholders. Thank you.