



Nucleus Software Exports Limited

Q3 FY15

Earnings Conference Call

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Members of Nucleus Management

Mr. Vishnu R. Dusad	Managing Director and CEO
Mr. R P Singh	Director & Head, Global Product Management
Mr. Pramod. K. Sanghi	Chief Financial Officer
Mr. Pankaj Bhatt	Executive Vice President, Professional Services
Mr. Rahul Krishna	Executive Vice President, Human Resources

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



Meenakshi Sharma:

A very warm welcome to all of you at this Nucleus Software Earnings Conference Call for the Quarter and nine month period ended December 31, 2014. For discussions we have here from the management team, Mr. Vishnu R. Dusad, our Managing Director and CEO, Mr. R.P. Singh, Director and Head, Product Management, Mr. Pramod K. Sanghi, CFO and Mr. Pankaj Bhatt, Executive Vice-President, Professional Services.

Nucleus Software does not provide any specific revenue earnings guidance. Anything which is said during this call it will reflect our outlook for the future or which may 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 would be shortly available on the investors' section of our website www.nucleussoftware.com. With this, we are now ready to begin with the opening comments on the performance of the company for the quarter ended straight from the CEO and post that; we would be available for the Q&A session. With this, I now pass it over to Vishnu.

Vishnu R. Dusad:

Thank you, Meenakshi and good afternoon, ladies and gentlemen. I am pleased to connect with you at this earnings call for the third quarter of the financial year 2014-15. The last quarter ended on a positive note for us. We ventured into new strategic markets, creating opportunities for the Company to increase its client base and initiatives. Building new customer relationships and strengthening the old ones has been a key to our growth and that's what we focused on in the last few quarters. We are very positive about the upcoming year and the opportunities it brings along. We are looking forward to an exciting year ahead.

Going forward we remain committed to further enriching the experience of our customers and investing in improving productivity. Strategic transformation is making great progress on the business front and culture, diverse nationalities bring in local nuances and industry expertise. To that effect, we have brought in some of the best leaders across the globe to join our sales, marketing, HR and product development functions. There have been additions to our senior management team as part of this transformation journey, and I am very pleased to introduce, Rahul Krishna who has also joined in this call. He joined us as Global Head of Human Resources; Mohammad Shamim, joined us as Senior Vice-President of Sales for India, Middle East and Africa and Daragh O'Byrne, joined us as Global Head of Marketing.



During this quarter, we have further strengthened our tie-ups with global academic and management institutions such as Waseda University, MIT, and India's premium institutes. With this, I would now hand over to Pramod to give you the run off numbers.

Pramod K. Sanghi:

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

- **Our Consolidated revenue** for the quarter is at Rs. 86 crore against Rs. 86.8 crore QoQ, and Rs. 90 crore YoY. For the Nine Month period it is Rs. 252.2 crore against Rs. 258.5 crore for the corresponding period of the previous year.
- **Overall Revenue in foreign currency including India Rupee revenue** is US\$ 13.9 million for the quarter, against US\$ 14.1 million QoQ and US\$ 14.9 million YoY. **For the Nine Month** period it is US\$ 40.9 Million, against US\$ 43.6 Million for the corresponding nine month of the previous year.
- **Product revenue for the quarter** is at Rs. 62 crore, against Rs. 62 crore QoQ and Rs. 61.4 crore YoY. **For the Nine Month** period it is Rs.180.2 crore, against Rs.178.8 crore for the corresponding period of the previous year.
- **Revenue from projects and services** for the quarter is at Rs.24.1 crore, against Rs. 24.9 crore QoQ, and Rs.28.6 crore YoY. **For the Nine Month period** it is Rs. 72 crore, against Rs. 79.7 crore for the corresponding period of the previous year.
- **Cost of delivery including cost of product development** for the quarter is 58.7% of revenue, 57.8% of revenue in September '14 quarter. In absolute term this is Rs.50.5 crore for the quarter against Rs.50.2 crore in the previous quarter. For the nine-month period, it is Rs.151.6 crore, (60.1% of revenue) against Rs.155.3 crore, (coincidentally again 60.1% of revenue) for the corresponding period of the previous year.
- **Marketing and sales expense** for the quarter is 12.1% of revenue at Rs.10.4 crore against Rs.11.6 crore in the September 14 quarter which was 13.4% of revenue. For the nine-month period, marketing and sales expense is at Rs.32.6 crore, 12.9% of revenue against Rs.26.0 crore, 10.1% of revenue in the corresponding period of the previous year.
- **G&A expense** for the quarter at Rs.10 crore which is 11.7% of revenue against Rs. 9.5 crore in the September 14 quarter, 10.9% of revenue. For the nine-month period,



G&A expense are Rs.27.3 crore, 10.8% of revenue against Rs.25.8 crore, 10% of revenue for the corresponding period of the previous year.

- **EBITDA for the quarter** is at Rs. 15 crore (17.5% of Revenue), against Rs. 15.5 crore (17.9% of Revenue), QoQ and Rs. 19.4 crore (21.6% of Revenue), YoY. **For the Nine Month period, EBITDA** is at Rs. 40.7 crore, 16.1% of revenue, against Rs. 46.5 crore, 18.0% of revenue in the corresponding period of the previous year.
- **Other income from investments and deposits** is at Rs. 9.1 crore against Rs. 4.9 crore QoQ, and Rs. 7.8 crore YoY. **Total other Income for the quarter** is Rs. 12.3 crore against Rs. 6.8 crore last qtr and Rs. 7.6 crore in qtr ended Dec 2013. **For the nine month period, Other income from investments and deposits** is at Rs. 19.6 crore against Rs. 14.9 crore for the corresponding period of the previous year. Foreign exchange gain for the nine months is Rs. 1.3 crore against Rs. 2 crore in the corresponding period of the previous year. **Total other Income for the nine months** is Rs. 25.8 crore against Rs. 17.1 crore for the corresponding period of the previous year.
- **Total taxes** are at Rs. 4.6 crore, 19.2% of PBT, against Rs. 6.6 crore, 33.9% of PBT previous quarter, Rs. 1.8 crore, 7.1% in Dec. 13 qtr. **For the Nine Month period, Taxes** are Rs. 13.6 crore, 23.6% of PBT against Rs. 12.8 crore, 21.9% of PBT in the corresponding period of the previous year.
- **Net profit** is at Rs. 19.6 crore for the quarter, 22.8% of revenue, against Rs. 12.8 crore, 14.8% of revenue QoQ and Rs. 23.4 crore, 26% YoY. **For the Nine Month period** it is at Rs. 44.1 crore, 17.5% of total revenue, against Rs. 45.5 crore, 17.6% of total revenue in the corresponding period of the previous year.
- **EPS** for the quarter is at Rs. 6.0 as against Rs. 4 in the previous quarter and Rs. 7.2 in Dec'13 quarter. **For the nine month period** EPS is at Rs. 13.6 against Rs. 14.0 in the corresponding period of the previous year.
- In terms of **foreign currency hedges**, on Dec 31, 2014 we had USD 10.0 million of forward contracts at an average rate of Rs. 63.8. There is a mark-to-market loss of Rs. 0.6 crore which is taken to hedging reserve in the balance sheet.
- **Revenue contribution from the top 5 clients for the quarter** is 45% against 43% previous quarter.
- **The order book position** is Rs. 235 crore including Rs. 177.1 crore of products business and Rs. 57.9 crore of projects and services business. **In Sep 30, 2014** the



order book position was Rs. 240.5 crore including Rs. 185.1 crore of products business and Rs. 55.4 crore of projects and services business.

- **Total Cash and cash equivalents** as on Dec 31, 2014 are Rs. 327.1 crore against Rs. 305.7 crore as on Sep 30, 2014. This includes balances in current accounts of Rs. 29.2 crore, liquid fund schemes of mutual funds Rs. 81.7 crore, Rs. 40 crore in fixed maturity plans, fixed deposits with banks of Rs. 127.5 crore and investments in tax free bonds of Rs. 48.6 crore.
- With regard to **receivables**, we are at Rs. 54.3 crore against Rs. 72.1 crore previous quarter. The DSR is 58 days against 75 days in previous quarter.
- During the quarter, **there is a gross addition of fixed assets** of Rs. 1.7 crore, consisting primarily of Rs. 0.4 crore hardware and Rs. 1.0 crore on software licenses.

With this, I now hand it over to R.P. Singh for his update on products.

R.P. Singh:

Thank you, Pramod, and good evening to all. As mentioned in the last call, our focus this quarter has been on two fronts. The first one, on strengthening engineering practices in terms of velocity and quality by on boarding senior leaders and bringing out some process changes. This ideally sets the platform for our ability to build larger set of new business functionalities and innovative ideas in each release going forward. We have decided to come up with two releases each year for each of the products and this will help us maximise new capabilities in each release and that probably is going to be a key focus of this initiative.

In parallel, we have been focusing on exploring new regions and segments for business potential and product fitment. This is aimed at building the foundation for expansion in new regions as well as segments of business and preparing the product for the same. We are attending conferences and have engaged with leading institutions to get this information and move forward with this learning.

This is s all from my side. Over to Pankaj.



Pankaj Bhatt:

Thank you R.P. Good afternoon, ladies and gentlemen. In the quarter ending December 2014, we completed the implementation of two product modules. These include one module for our FinnOne™ mobility suite and one for FinnOne™ Neo. In the nine months ending 31st December 2014, we have implemented 10 modules across regions. We are also progressing well with our efforts in optimizing our customer support and enchantment processes. I am very happy to inform you that on this front, the feedback from our customers has been very positive.

Thank you very much and with this I will hand it over to Meenakshi.

Meenakshi:

With this, we would be open for the Q&A session now.

Sudhakar Prabhu:

Good evening. Thanks for having the call, a couple of questions. First of all if I look at your performance this year, we see a slight de-growth this year, so how would you explain that?

Pramod K. Sanghi:

You are referring to the revenue number; it is more or less flat at about Rs. 6 crore lower for the nine-month period against Rs. 258 crore in the last period. Well, no particular reason for it. We are in the process of transformation and changing our methods of selling, as well as the way we do business. So there is some short term delay in terms of, finalizing business as well as executing it. In addition, we have launched two new products this year which RP can talk about, which is really our focus this year.

Sudhakar Prabhu:

In terms of key market areas, which are the geographies that you are targeting for these products and what would be your key market for these products?

R.P. Singh

We already have launched our product in the markets that we existed in and we are moving them now into the developed markets. We are in the developed markets looking at segments where the product segment is the highest and then addressing that



market segment within the region. These would be the newer developed markets that we have.

Sudhakar Prabhu:

In these markets, you will be targeting directly or have you tied up with someone, or what could be your strategy?

R.P. Singh

Currently we are going directly and in the recent quarters we have actually strengthened the sales teams there and added to the teams there.

Vishnu R. Dusad:

We have also added senior marketing officials, as I have mentioned in the opening remarks. We have Daragh O'Byrne who would look after global marketing from Ireland, and then we have David Turner, who would be based out of U.K.

Sudhakar Prabhu:

In terms of outlook for the next year, do you think in terms of revenue growth, we can see some growth next year?

Vishnu R. Dusad:

Certainly.

Sudhakar Prabhu:

Sir, my second question is on your cash position. We have this cash lying around of approx. Rs. 300 crore and it has been going up quarter-on-quarter and the company has been talking about some inorganic growth, but we haven't seen anything. So your take on that?

Vishnu R. Dusad:

We are making sure that the existing intellectual property that we have, and which is delivering value to 150 customers in 50 countries, that starts moving, it is precious intellectual property. Now we have a team which would make sure that we are able to generate, pull and then push for the same. We will make use of the cash after that.



Sudhakar Prabhu:

But would you be acquiring anything or would you be open to buy back or higher dividend payment, any thoughts on that?

Vishnu R. Dusad:

We are keeping the cash for small technology acquisitions at a later date.

Sudhakar Prabhu:

Would that be in the product space?

Vishnu R. Dusad:

It will be certainly in the product space only.

Dhiraj:

Good evening to all of you. How should we read this order book number, Rs. 177 crore versus Rs. 186 crore previous quarter. How is the trend, if you have to analyse over the last couple of years, in terms of whether this order book reflects increasing number of customers, ticket prize? Just to get the sense of lead indication of shape of things to come?

Vishnu R. Dusad:

Clearly, we are experiencing, it may not be reflected on the order book as on today or as on 31st December, but clearly we are experiencing far substantially improved prices for our IP, and also far greater acceptance for our new IP from existing customers. That is the indicator that we have got in the last couple of quarters, it is not visible in the form of order book yet, but we are confident that it will happen.

Dhiraj:

Pramod, did mention about the transformation and delays. If I look at last four, five years you have been stuck at somewhere close to consolidated revenues at somewhere close to about Rs. 300 crore. It has been around four to five years, and I believe a year-and-a-half back when we met, we talked about investments in sales, people, etc which would bare fruits. It's becoming some kind of a patient wait for us in terms of growth



coming back. When is that inflection point you believe that, because that you started with the conversation that new people have joined the Board and on the sales side as well. So the investment still continues. When will we see that the investment phase on the sales marketing initiatives, some transformation that you talked about; and, Pramod, if you can elaborate that transformation a little bit more, what is causing delay and what is this new way of sales that will have a positive impact? When and what are these transformation aspects, where we can see growth coming back?

Vishnu R. Dusad:

Clearly, some of the transformation elements are the way we do business and the culture of the organization. When we say, the way we do business, we are talking about instead of, may be 100 plus branches of our software code, we are talking about a single trunk which will cater to these 150 customers and going forward hundreds of customers being serviced out of a single code base. That is a very substantial change in the way we do business. Our earlier model; which we are now slowly tapering off and getting into the new one, did not allow us to deliver value that was coming into the product consistently to all our customers. That was a big, limitation of the earlier model. That is what is this undergoing change and it will take some time, but we are already seeing some good positive response to this new way of doing business; this is one. The cultural side, what we believe is our intellectual property is adding value to the existing customers and it can add value to many more customers as long as local people, who understand the nuances of doing business in their respective geographies, local professionals, when they communicate the value it would be very obvious, very clear to our prospective customers. That is what is the transformation that we are bringing about. We have hired a senior professional in South Africa and we are setting up an office there. We have, as I mentioned, hired two senior marketing professionals in Europe. We have a team of five Japanese in Japan. We have a number of people from South-East Asian geographies; I mean countries in South-East Asia. And we will be having people in the US, again, locals. So that is the diversity we are bringing into the culture and we visualise substantial benefits coming out of this diverse team that we are building, who would be able to deliver value to our customers in these geographies; in their own language, in their own culture.

Dhiraj:

But when will this transformation on the products side get completed, which will scale up the ability to serve all the customers alike?



That probably is another strategic change that we want to do. The scale up that we envisage on the sales would not require that kind of scale up in the implementation or in than the product, because the approach we are going to take it is to take the products general availability version and release and then deliver quick value to our customers with what we have; rather than do it the old way of take 9 to 12 months to just implement the solution after making it; adapting it to each customers as a requirement, and then losing the value of the product. What we see in the new strategy is that, that scale up may not be a big drag because we would be cutting down implementation times with customers and the ability to roll it out as is there is basis and get value delivered.

Dhiraj:

Have you seen any competition intensifying or products like Indus etc or in terms of features or product qualitative aspects, how do you see the environment?

R.P. Singh:

I would not comment on the markets that we are yet to get into, but in the current market that we have or been in, I think it is pretty much the same, nothing really has changed so far.

Dhiraj:

We mentioned about new releases of products; are these product enhancements, new versions or catering as new modules, new functionality for the banks or how incremental it can be for growth?

R.P. Singh:

I think just to go back to a year or two, we actually got on to building the new avatar of our products, basically to bring in new technology, new thoughts and everything. What we have come out with is the base platform, the base product which can go into the market. Of course, there are continues ideas which are coming, from our own researchers, its coming from interaction with customers, it is coming from exploration of the newer markets of what is happening there or what would happen there. All this feedbacks keep going into what we call our product backlog, and then based on our strategy of the region, market, we actually prioritise to bring them into the road map and thus plan it, and as I mentioned, we are looking at two releases every year. The idea



to go for two releases was; that every six months we will have some new capabilities both on business functionality, ease of use, higher value delivered because of some efficiency that we may have built into the process that will get implemented at the business side. On the other side on technology, with new technology getting adapted to, used. Those are the kind of things; each one of them would be incremental, some of it would be probably compliance with the practices in a new region that we want to enter. A lot of this would be new efficiencies and new business values that we want to add, which is what has been coming in, and may have come in from various costumers of ours and, of course, adapting new ideas that keep coming in. Each one will be significant, and that is why in my talk I had mentioned that what we want to bring in to our operations is even higher level of efficiency, so that each release can be packed with much more than what we are able to do today. That probably is one improvement we will be working on.

Dhiraj:

R.P Thanks for that. Hopefully, you know, the way other income has kept pace in the last five years it has gone up two-and-a-half times, we should hope that the new releases and products should double the business at least over the next three to four years.

Meenakshi Sharma:

Many thanks to all of you for attending this Nucleus Software Earnings Conference Call for the quarter and nine month period ended December 31st, 2014. For the closure comment, may I now pass it on over to Vishnu.

Vishnu R. Dusad:

I take this opportunity to thank all of you for joining this conference call and we would like to reiterate our commitment to building a long-term institution which delivers value to its customers and all of the stakeholders. Thank you.