



Nucleus Software Exports Limited

Q3 FY17

Earnings Conference Call

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Members of Nucleus Management

Mr. Vishnu R. Dusad	Managing Director and CEO
Mr. R P Singh	Executive Director & Head, Global Product Management
Mr. Ashish Nanda	Chief Financial Officer
Mr. Avnish Datt	Executive Vice President, Global Head Strategy
Mr. Ashutosh Pande	Head, Financial Inclusion

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



Gaurav Agarwal:

Good afternoon, everyone. This is Gaurav from investor's relation team at Nucleus Software. A very warm welcome to all of you for this Nucleus Software earnings conference call for the third quarter and nine month ended December 31st, 2016. 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. Ashish Nanda, CFO; Mr. Avnish Datt, Executive Vice President, Global Head Strategy and Mr. Ashutosh Pandey, Head, Financial Inclusion.

As you all are aware, Nucleus Software does not provide any specific revenue earnings guidance. Anything which is said during this call which may reflect our outlook for the future or which may be constructed 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 investor 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 December 31st, 2016 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, Gaurav, and good afternoon, ladies and gentlemen. I'm pleased to connect with you at this earnings call for the third quarter and nine month ended December 31, 2016.

In Q3 we built on the strong performance that we saw in Q2. Our newer solutions are continuing to gain good traction - our Cloud-based lending solution has gained the third customer, since it was launched in the middle of last year and our newly launched lending analytics solution has gained its second customer.

More than a decade ago we had a vision to make Rs. 100 loan possible and profitable. Our ongoing investment has enabled us to understand the challenges at the grassroots level and that's why we invented PaySe™ - our digital cash solution. The recent demonetization initiative by Honourable Prime Minister, Shri Narendra Modi and our successful pilot of the PaySe platform where around 60 million rupees worth of transactions have been processed has provided the impetus. The stage is set for banks, micro finance institutions and non-banking financial companies to rapidly extend the capabilities to their customers. We are talking to a number of organizations about the strategic possibilities.

Over to you, Ashish.



Ashish Nanda:

Thanks, Vishnu. Good afternoon everybody. This is Ashish and I welcome you all to this conference call. Key Highlights from Financials are:

REVENUE

- **Our Consolidated revenue** for the quarter is at Rs. 93.1 crore against Rs. 95.6 crore QoQ and Rs. 86.5 crore YoY. **For the Nine Months** it is Rs. 278.7 crore against Rs. 256 crore for the corresponding nine months of the previous year.
- **Overall Revenue in foreign currency including India Rupee revenue** is US\$ 13.8 million for the quarter, against US\$ 14.2 million QoQ and US\$ 13.1 million YoY. **For the Nine Months** it is US\$ 41.3 Million, against US\$ 39.6 Million for the corresponding nine months of the previous year.
- **Product revenue for the quarter** is at Rs. 71.8 crore, against Rs. 75.1 crore QoQ and Rs. 65.1 crore YoY. **For the Nine Months** it is Rs. 216 crore, against Rs. 189.9 crore for the corresponding Nine Months of the previous year.
- **Revenue from projects and services** for the quarter is at Rs. 21.4 crore, against Rs. 20.5 crore QoQ, and Rs. 21.3 crore YoY. **For the Nine Months** it is Rs. 62.7 crore, against Rs. 66 crore for the corresponding Nine Months of the previous year.

EXPENSES

- **Cost of delivery including cost of product development for the quarter** is 63.1% of revenue, against 64% of revenue QoQ and 65.1% of revenue YoY. In absolute terms this is Rs. 58.8 crore against Rs. 61.2 crore QoQ and Rs. 56.3 crore YoY. **For the Nine Months**, it is Rs. 179.9 crore (64.6% of revenue) against Rs. 170.8 crore (66.7% of revenue) for the corresponding Nine Months of the previous year.
- **Marketing & sales expense** for the quarter is 10.4% of revenue, against 11.9% of revenue QoQ and 16.9% YoY. In absolute terms this is Rs. 9.7 crore against Rs. 11.4 crore QoQ and Rs. 14.6 crore YoY. **For the Nine Months**, they are at Rs. 32.8 crore (11.8% of revenue) against Rs. 42.5 crore (16.6% of revenue) for the corresponding Nine Months of the previous year.
- **G&A expense for the quarter** is 11.2% of revenue, against 9.3% of revenue QoQ and 11.3% YoY. In absolute terms this is Rs. 10.4 crore against Rs. 8.9 crore QoQ and Rs. 9.8 crore YoY.



For the **Nine Months**, they are at Rs. 28.4 crore (10.2% of revenue) against Rs. 30.9 crore (12.1% of revenue) for the corresponding Nine Months of the previous year.

- **EBITDA for the quarter** is at Rs. 14.2 crore (15.3% of Revenue), against Rs. 14.1 crore (14.8% of Revenue), QoQ and Rs. 5.8 crore (6.7% of Revenue), YoY. For the **Nine Months**, **EBITDA** is at Rs. 37.5 crore, 13.5% of revenue, against Rs. 11.8 crore, 4.6% of revenue in the corresponding Nine Months of the previous year.
- **Other income from investments and deposits** is at Rs. 5.7 crore against Rs. 6.1 crore QoQ, and Rs. 4.9 crore YoY. **Total other Income for the quarter** is Rs. 8.5 crore against Rs. 6.1 crore QoQ and Rs. 5.7 crore YoY.
For the Nine Months, **other income from investments and deposits** is at Rs. 17.6 crore against Rs. 16.2 crore for the corresponding period of the previous year. **Total other Income for the Nine Months** is Rs. 21.2 crore against Rs. 20.4 crore for the corresponding period of the previous year.
- **Total taxes** are at Rs. 3.6 crore against Rs. 3.5 crore QoQ and Rs. 1.4 crore YoY. **For the Nine Months**, **Taxes** are Rs. 8.9 crore, 18.1% of PBT against Rs. 4.6 crore, 20.1% of PBT in the corresponding period of the previous year.
- **Net profit** is at Rs. 15.9 crore for the quarter, 17.1% of revenue, against Rs. 13.7 crore, 14.3% of revenue QoQ and Rs. 7.0 crore, 8.1% YoY. **For the Nine Months** it is at Rs. 40.4 crore, 14.5% of total revenue, against Rs. 18.3 crore, 7.2% of total revenue in the corresponding period of the previous year.
- **EPS** for the quarter is at Rs. 4.91 as against Rs. 4.23 in the previous quarter and Rs. 2.16 in Dec 15 quarter. **For the Nine Months** it is at Rs. 12.49 against Rs. 5.66 in the corresponding period of the previous year.
- In terms of **foreign currency hedges**, on December 31 we had USD 4.80 million dollars of forward contracts at an average rate of 69.05. There is a mark-to-market gain of Rs. 10.47 lakhs which is taken to hedging reserve in the balance sheet.
- **Revenue contribution from the top 5 clients for the quarter** is 45% against 45% previous quarter.



- The **order book position** is Rs. 345.3 crore including Rs. 300.8 crore of products business and Rs. 44.5 crore of projects and services business. **In September 30, 2016** the order book position was Rs. 334.5 crore including Rs. 298.5 crore of products business and Rs. 36.0 crore of projects and services business.
- **Total Cash and cash equivalents** as on December 31, 2016 are Rs. 429.8 crore against Rs. 412 crore as on September 30, 2016. This includes balances in current accounts of Rs. 24.2 crore, liquid fund schemes of mutual funds Rs. 181.8 crore, Rs. 32 crore in fixed maturity plans, fixed deposits with banks of Rs. 71.5 crore, investments in tax free bonds of Rs. 77.7 crore and Rs. 42.6 crore in Preference shares.
- With regard to **receivables**, we are at Rs. 82.8 crore against Rs. 61.6 crore previous quarter.
- During the quarter, **there is a gross addition of fixed assets** of Rs. 0.68 crore, consisting primarily of Rs. 0.19 crore computers equipment's and Rs. 0.33 crore on other assets.

With this, I now hand over to R. P. for product updates.

R. P. Singh:

Thank you, Ashish, and Good evening, everyone. Wish you a very happy new year.

At the beginning of the quarter we launched our analytics engine which is a new module or revamp module of forecaster which we used to offer. It is a specialized piece of software enabling non-analytics users to conduct a lending-related analytics. We actually wanted to simplify the analytics in a way that any business user is able to extract trends from data and that's being the whole theme behind the new product. I am absolutely delighted to announce that we bagged two orders for the module within the first quarter itself. We now look forward to a speedy implementation so that we can validate the value we expect to deliver, so hope for good news next time.

We are seeing continued growth in demand of Neo on Cloud, as Vishnu did mention that our first customer- is fully in business operations now and it took us only about 3 to 3.5 months to transition him on to the Cloud and that has led to the new demand that we are seeing. Constant efforts are on to improve the on-boarding effort so that it becomes a pleasure to move customers on Neo on Cloud.



I am happy to report that the December end also saw another release of FinnAxia coming out. This is very satisfying and we have been consistently adding value to our product every 6 months which was what we really set out with. In this release, we added up complete Internet portal for liquidity management and built largely regional compliances in addition to many smaller improvements that were on card. The release is already on its way to 3 of our customers.

That's all. Over to Avnish.

Avnish Datt:

Thanks, R. P. and good evening, everybody. Best wishes for a great year ahead.

Like Vishnu and R. P. already shared we had a very interesting quarter with both our relatively new offerings getting traction in the market. We had two success stories with analytics and we also had an interesting closure with mobility, so as we can see the digital story is building up nicely around mobility and our analytics platform. We also continue to build more traction around our Cloud offering. We closed two Cloud deals with a relatively large and established group and I see a pipeline building up both on analytics and Cloud, as we get on to the last quarter of the year.

We did a very interesting event in India to communicate the readiness of our Cloud platform not just from a technology perspective, but also to accommodate the newer members of the lending fraternity and communicating to the market that we are commercially also now catering to the ones who are either on the growth path or getting into licence activity now.

So I hope the next quarter would continue the same traction and that's all from my side. I will pass it on to Ashu.

Ashutosh Pande:

Hi. Good evening, everyone. This is Ashutosh Pandey.

As regards to this quarter, I'd like to start with a positive news that in December we submitted our CISA audit reports to the Reserve Bank and we are one step closer to obtaining our PPI license. We also matured the PaySe card offering and within a fortnight after demonetization we converted our Noida campus into a cashless campus. We now have two revenue paying customers and we have had significant learning on how to take the digital cash solution to the unconnected and unbanked Indians. With demonetization we do expect our engagements to increase with banks, micro finance institutions and NBFCs.

With that, I will hand over to Gaurav.



Gaurav Agarwal:

Thank you, sir. With this, we are now open for the Q&A session.

Moderator:

Thank you very much, sir. So, participants, with this, we will start the interactive session. If you wish to ask any question, please press "0" followed by "1" on your telephone keypad and wait for your name to be announced.

Deepan Shankar:

Good evening, everyone. Thanks for the opportunity. Just wanted to have an update on FinnOne Neo conversion, anything happened during the last quarter?

Avnish Datt:

Hi, Deepan. This is Avnish. So I talked about the two deals they are on Cloud, but they are basically FinnOne Neo offering on Cloud.

Deepan Shankar:

Okay. Any of our existing client conversion?

Avnish Datt:

Deepan, no, these are new customer acquisitions and we are right now focussing in that segment more than the existing clients.

Deepan Shankar:

Okay. Sir, on PaySe platform, so how are we planning to monetize this?

Vishnu R. Dusad:

This is Vishnu. The way we are going to monetize this is by putting some road on exiting our entry of cash into this platform and the other way we are going to monetize this is through the float that we will have whenever the money is put into the platform.

Deepan Shankar:

Okay. Sir, any idea or colour we can throw up on this license and non-license revenue for the quarter?



Ashish Nanda:

Deepan, as you understand, the breakup which we track is the products business versus the projects business which is there. So if you want those numbers, I can repeat them for you.

Deepan Shankar:

No. Those we have got it. Okay, sir, thank you. I will come back.

Vishnu R. Dusad:

Thank you.

Jaspinder Singh:

Hi. Good evening, everyone. Congratulations on the great quarter. Few questions out here. A question for you, Vishnu, you all started on the transformation journey three years back, would you say you are at the end of the transformation or you still got some ways to go out here?

Vishnu R. Dusad:

I would say we are somewhere around two-thirds of the transformation because the product as such is ready and we are having customers who are ready to run their business using the product as it is. However, we have still some more time to go before we can continue offering the products to bigger customers also in a similar manner.

Jaspinder Singh:

Okay. And who would you say our main competitors are right now in the space?

Avnish Datt:

Jaspinder, this is Avnish. The competition actually comes from three or four different quadrants for us. One, of course, is the internal IT organizations when we are pitching to large banks. Many of these large banks have very large internal IT teams, with a team of coders who sometimes might prefer the route of creating something of their own. That has been a one place from where we face competition for a very long time. Amongst the traditional competitive space there are one who are by and large small, not startups, but, small outfit who cater to relatively smaller NBFIs. There are also core banking providers on whose platform you can do lending or corporate banking, but, of course, they are not specialist, however, for uncomplicated needs to some financial institutions that may suffice, so that's another place where we get competition from.



I think the nature of the industries that competition which is exactly like us which is niche specialist, they are really far and few between.

Jaspinder Singh:

Okay. Thanks. So when you look at the market space right now, so if you look at the company, the company is basically I think you gave a number of 9 months, you did around 65 million in revenues or something like that in US dollars, right. Is the market space that small or are you just having difficulty growing over the last 30 odd years?

Vishnu R. Dusad:

So market space is certainly not small. Yes, you are right. Earlier we had a difficulty in terms of having not chosen our model with precision which is what, you know, while we are proud to have 150 customers, we did have number of releases of our products or number of versions of our product and that is what we are trying to set right over last three years as you very correctly highlighted in our transformation journey and now over next couple of years we would be ready to move faster.

Jaspinder Singh:

Okay. So, Vishnu, so you are saying your two-thirds of the journey is complete and we need another couple of years for the rest of the journey to be completed?

Vishnu R. Dusad:

That's right.

Jaspinder Singh:

Would you say right now most of the investments in the product is complete and now it's basically trying to get the sales team to basically sell more?

Vishnu R. Dusad:

I would say both.

R. P. Singh:

This is R. P. here. I don't think that these are products in which we can bring the investments to the end. I think there is too much happening in the market, there are new regions to explore, so I think the investments into the product would continue.



Jaspinder Singh:

R. P. I completely agree in the sense of industry, right, but I think it's time to by when you already transition into the Cloud, you got a successful initial customers and you are moving forward from this, so that's what I meant by at least transitioning your model over, right, so that was the key thing.

R. P. Singh:

I was just going to say that you are right about the fact that it's time that the returns need to, start and while the investment continue.

Jaspinder Singh:

Correct. No. I think that was the key thing, right? So I think because if I look at your P&L, you are making more money from your other income than the business generating profit.

Vishnu R. Dusad:

So, absolutely on the dot on that count.

Jaspinder Singh:

Right. So that need to change as you move forward, right, so that is the key thing.

R. P. Singh:

True. Yes.

Jaspinder Singh:

And, it's a question for Ashutosh on PaySe. On that move, Ashutosh, so congratulations on the product and the offline cash solution. Now what is the channel strategy for selling the product and positioning the solution, is it through the banks and NBFCs, etc and can that be commercialized or what is going to be the revenue model out there?

Vishnu R. Dusad:

The revenue model that was mentioned earlier is essentially on two counts, one is the float that we would have when the money is put in the escrow and the other one is entry and exit which is going to be much, much lower than what is happening right now, extremely small percentage of entry and exit that would come into the platform, this is the revenue model.



Coming to channel, we think that micro finance institutions, FMCG companies and banks, these are the three segments when they come together they would be able to leverage this platform most effectively because not just one of them would be able to benefit from it individually. So we are talking to FMCG companies, we are talking to micro finance institutions and we are talking to banks how they can come together and leverage the platform and we are getting reasonable response to our discussions.

Jaspinder Singh:

Okay. Would the payment banks be a good channel as these begin to grow out there?

Vishnu R. Dusad:

Yes. There would be another good channel for leveraging this platform.

Jaspinder Singh:

Vishnu, is the focus more India-centric or also more the other emerging markets?

Vishnu R. Dusad:

As of now, we want to make sure that we leverage the current opportunity that is in India and having said that we are simultaneously talking to at least two countries in African continent.

Jaspinder Singh:

Of the revenue that exist today within the product business, how much of it is subscription revenue?

Ashish Nanda:

So the Cloud business has primarily has started only recently, so from a subscription model as far as these revenues are concerned, they are smaller. However, there is a revenue stream that comes from the maintenance side of the product. However, we don't track it in a manner which I can share the number right away. Just to give you the idea on the subscription side there are only three orders on the Cloud lending solution. We hope to grow that side as a repeat business which is there. It is very small right now, but that is where we want to go up, as we have only three customers right now which are either completed or are in the pipeline to be implemented.



Jaspinder Singh:

Okay. Sir, on the active customers somebody said about 150 customers, how many are actually active revenue paying customers today?

Vishnu R. Dusad:

Yes, we will not be able to give you the exact, precise number, but it will be in that range.

Jaspinder Singh:

All 150 actually pay revenue today. Okay, that's it from my side. Thank you.

Vaibhav:

Hi, sir. Thank you for providing me this opportunity. Unfortunately, I missed the order book number, can you repeat that for me, please.

Ashish Nanda:

So the order book position is at Rs. 345.3 crores including Rs. 300.8 crores of the product business and Rs. 44.5 crores of the projects and services and for the corresponding last quarter the numbers were Rs. 334 in total order book, out of which Rs. 298.5 were for product business and around Rs. 36 crores were projects and services business.

Vaibhav:

Right. Clear enough. My second question is actually what I asked nearly about 6 to 9 months ago on the quarterly call, I just want to know more about the progress on succession planning of the company because last time, Vishnu told that there is a committee which is going to take a decision on succession planning very soon, but actually I am not seeing anything in the stock market disclosures yet.

Vishnu R. Dusad:

Yes, I don't think I can report any progress on that front yet. We will certainly report something next quarter.

Vaibhav:

Okay. Fair enough. Thank you. That's it from my side.



Vineeta:

Sir, good evening and thanks for taking my question. Actually I joined the call little late, so sorry if the question is repeated or already answered. Sir, I just want to know the revenue contribution from FinnOne Neo and FinnAxia, if you can break it in that manner.

Ashish Nanda:

We track it as a product business because from primarily both the business are of different kinds, so in a product business what we track is on an overall business; I can repeat the numbers for you, the product revenue for the quarter was Rs. 71.8 crores. So if that suffices the answer to you, we don't track it separately for FinnAxia versus FinnOne.

Vineeta:

Yes. Okay. And, sir, next one how will we position PaySe and what is your revenue expectation from this product?

Vishnu R. Dusad:

You know, PaySe is very early in its lifecycle when it comes to revenue, so we were not really looking at any major revenue numbers in next few quarters.

Vineeta:

Okay. Thank you. That's all from my part.

Moderator:

Thank you very much. Sir, this time we have no more questions in the queue. I would like to hand it over back to you for any final or closing comments.

Gaurav Agarwal:

Thank you. With this, we would now like to thank all our investors for joining us today for this earnings conference call. I would now pass it on to Vishnu for his final closing comments.



Vishnu R. Dusad:

I take this opportunity to thank you for your interest in Nucleus Software and I reiterate our commitment to deliver value consistently to all our stakeholders. Thank you.