



Q4 & FY 12 Earnings Conference Call April 30, 2012

Members of Nucleus Management

- Mr. Vishnu R Dusad
- Mr. Pramod K Sanghi
- Ms. Viveka Ragukumar
- Mr. Mukesh Batra

Managing Director & CEO
President Finance & CFO
Executive VP, Global Delivery
Senior VP, Product Development &
Management Group

**Meenakshi:**

Thank you, Souradeep, and I offer a very warm welcome to all of you who have joined us for this Nucleus Software Earnings Conference Call, for the quarter and year-ended March 31st 2012. We have with us today for discussion Mr. Vishnu R. Dusad, our Managing Director & CEO; Mr. Pramod K. Sanghi, President-Finance and CFO; Ms. Viveka Ragukumar, Executive VP Global Delivery and Mr. Mukesh Batra, Senior Vice President, Product development and management group.

As you are aware we do not provide specific revenue or 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. We will now begin with the opening comments on the performance of the Company straight from the CEO, and post that we will be opened to the Q&A session. With this I would like to pass it on to Vishnu.

Vishnu:

Thank you Meenakshi and good afternoon ladies and gentlemen. I am pleased to once again connect with you all at this earnings call for the Fourth Quarter & Year Ended March 31, 2012.

Before I take you through the numbers, I would like to share some of the accolades that we have won during the year.

- **FinnOne™** has again been ranked '**World's No. 1 Selling Lending Software Product**' (for year 2011) and ranked **fourth** in global sales across all banking products by IBS Publishing, UK.
- Annual Report and Accounts of the Company for year ended March 31, 2011, have been adjudged as the BEST under the Category XI – Service Sector (other than financial services sector, transport services (Turn over less than Rs. 500 crore) of the '**ICAI Awards for Excellence in Financial Reporting**'. Nucleus Software has won GOLD SHIELD for the fourth consecutive year.
- Annual Report for the year 2011 has also won the Platinum award under Technology-Software category and has been ranked fourth worldwide in the Top 100 Annual Reports in the Vision Awards by the League of American Communications Professionals (LACP).
- South Asian Federation of Accountants (SAFA) adjudged Nucleus' Annual Report as the recipient of '**Certificate of Merit**' for the Best Presented Accounts and Corporate Governance Disclosures Award 2010 in the category 'Communication & Information Technology' for 2010 Annual Report.
- Also Nucleus was **ranked amongst the Top 5 Companies** for Best Corporate Governance Practices in India by IR Global Rankings 2011.

We are glad to have received a great response from banks across the globe towards our lending solutions, which has helped us retain the number one position in this space. We will continue to invest in differentiating our offerings and innovating to provide the best solutions to the industry. The recognitions



reinstate FinnOne™'s global leadership in the banking and financial industry and are a clear testimony of our commitment to a strong governance philosophy based on trust, accountability and ethics.

- **Our Consolidated revenue** for the quarter is at Rs. 70.07 crore up by 7 % against Rs. 65.54 crore in the corresponding quarter previous year.
- **Revenue from product business** for the quarter is at Rs. 50.4 crore, 72 % of the total revenue against Rs. 48.92 crore, 75 % of the total revenue in the corresponding quarter previous year.
- **Product revenue from own business**, for the quarter is at Rs. 46.64 crore, 67 % of the total revenue against Rs. 44.20 crore, 67 % of total revenue in the corresponding quarter previous year. This line of business has grown by 6 % on a YoY basis.
- **Projects and services business revenue** for the quarter is at Rs. 19.66 crore, 28 % of total revenue against Rs. 16.62 crore, 25 % of total revenue in the corresponding quarter previous year.
- **EBITDA** for the quarter is at Rs. 9.27 crore, 13 % of total revenue against Rs. 3.95 crore, 6 % of total revenue in the corresponding quarter previous year.
- **Taxes including withholding taxes** are at Rs. 1.14 crore against a negative figure of Rs. 14 lakhs, in the corresponding quarter previous year.
- **Net profit** for the quarter is at Rs. 8.79 crore, 13 % of total revenue, up by 98 % against Rs. 4.44 crore, 7 % of total revenue in the corresponding quarter previous year.
- **EPS** for the quarter is at Rs. 2.72 against Rs. 1.37 in the corresponding quarter previous year.

For the year ended March 31, 2012, our consolidated revenue from software products and services is at Rs. 282.25 crore up by 4 % against Rs. 270.48 crore in the previous year.

- **Revenue from product business** for the year is at Rs. 204.99 crore, 73 % of the total revenue against Rs. 193.57 crore, 72 % of the total revenue in the previous year.
- **Product revenue from own business**, for the year is at Rs. 197.35 crore, 70 % of the total revenue against Rs. 181.33 crore, 67 % of total revenue in the previous year. This line of business has grown by 9 % on a YoY basis.
- **Projects and services business revenue** for the year is at Rs. 77.26 crore, 27 % of total revenue against Rs. 76.91 crore, 28 % of total revenue in previous year.
- **EBITDA** for the year is at Rs. 35.55 crore, 13 % of revenue against Rs. 30.48 crore, 11% of revenue in the previous year.
- **Taxes** including withholding taxes for the year are Rs. 12.96 crore against Rs.3.53 crore, in the previous year. From April 2011 onwards, taxes have been calculated in India at full rate as STPI exemption is over.



- **Net profit** for the year is at Rs. 35.34 crore, 13 % of total revenue, up by 34 % against Rs. 26.34 crore, 10 % of total revenue in the previous year.
- **EPS** for the year is at Rs. 10.91 as against Rs. 8.13 in the previous year.
- **Our total Current investments and bank position** is at Rs.196.32 crore as on Mar 31, 2012 against Rs. 197.56 crore as on Dec 31, 2011.
- In terms of **manpower**, we are at 1656 as on Mar 31, 2012 against 1677 as on Dec 31, 2011.

We witnessed a year on year growth driven by good product sales and successful implementations across locations in FY12. Asian and Middle Eastern markets saw a great demand for our products. In a situation where the financial institutions across the globe are facing macroeconomic and regulatory challenges, and are therefore extremely cautious in making investment decisions, an increasing demand for our solutions, gives us a boost to continue innovating and customizing technology for future client needs.

Against the backdrop of uncertainty, we are confident that the demand for solutions like our flagship product, FinnOne™ which offer the best return on investments, will only upsurge. We are optimistic about the organization's performance and growth in FY13 and will continue leveraging our presence in the international markets to expand our client base.

Now an update on Sales and Markets

We have been continuously investing in sales and marketing in existing and new markets. We have bagged some important orders this quarter based on our strength and ability to innovate and customize products. This quarter, we won 6 new product orders for 16 modules and added 3 new customers. For the year, we won 22 new product orders and added 13 new customers for 58 product modules.

During the quarter, we participated in the Marketforce and the IEA's 13th Annual Conference Retail Banking in Europe. We also attended Asian Banker's Indonesia International Banking Convention and 16th Vehicle Finance Conference & Exposition.

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

Pramod:

Thank you Vishnu and good afternoon everyone and I welcome you to this conference call.

- On the quarterly numbers on a sequential basis, **revenue** for the quarter is at Rs. 70.07 crore, 5.32% lower than Rs. 74 crore previous quarter.
- **Product revenue for the quarter** is at Rs. 50.40 crore, 71.94% of revenue, down by 3.68% against 52.33 crore, 70.71% of revenue, previous quarter.



- **Traded revenue from products** included in this product revenue is at Rs. 3.76 crore, 5.37% of revenue for the quarter, against Rs. 1.26 crore, 1.70% of revenue previous quarter.
- **Revenue from own Products** for the quarter is at Rs. 46.64 crore, 66.56 % of revenue, against Rs. 51.07 crore, 69.01 % of revenue, previous quarter.
- **Revenue from projects and services** for the quarter is at Rs. 19.66 crore, 28.06% of revenue, down by 9.26 % against Rs. 21.67 crore, 29.29 % of revenue, previous quarter.
- I may mention that with the new Schedule VI implementation and the recent guidelines from SEBI and the stock exchanges, as of now functional reporting is not allowed for publishing the financial results. So the results which are being published as per Clause 41 of the listing agreement are slightly different, but we will in the call be consistent and report numbers which we have been looking over the past so many quarters and years. Therefore, cost of delivery is 69% of revenue for the quarter 68% of revenue in the previous quarter. In absolute terms this is Rs. 48.35 crore against Rs. 50.40 crore previous quarter. For the year, it is Rs. 192.81 crore (68.31% of revenue) against Rs. 183.40 crore (67.81% of revenue) in the previous year.
- **Marketing expenses** are at Rs. 6.75 crore for the quarter, 9.6% of revenue. In the previous quarter they were at Rs.6.49 crores, 8.8% of revenue. For the year, marketing expense is at Rs.28.94 crore (10.25% of revenue) against Rs. 30.21 crore (11.17% of revenue) in the previous year.
- **G&A expenses** are at Rs. 5.69 crore for the quarter, 8.13% of revenue. In December quarter, they were Rs. 7.05 crore, 9.53% of revenue. For the year, G&A expenses are at Rs. 24.96 crore (8.84% of revenue) against Rs. 26.39 crore (9.75% of revenue) in the previous year.
- **EBITDA** is at Rs. 9.27 crore, 13.22% of revenue this quarter, against Rs. 10.05 crore, 13.59% of revenue previous quarter. You will note that while turnover has gone down, we have at least maintained the EBITDA percentage, the minor fall of about 37 basis points. For the year, EBITDA is at Rs. 35.55 crore, 12.59 % of revenue as compared to Rs. 30.48 crore, 11.27% of revenue in the previous year.
- **Depreciation** is at Rs. 1.76 crore against Rs. 1.74 crore previous quarter. For the year, it is Rs. 7.45 crore against Rs. 9.28 crore in the previous year.
- **Other income from investments** is at Rs. 5.17 crore against Rs. 2.95 crore in the previous quarter. For the year, this investment income is at Rs. 13.51 crore against Rs. 8.73 crore for the previous year.
- **In the Other Income there is a foreign exchange loss** of Rs. 4.05 crore against a gain of Rs. 3.29 crore previous quarter. Dollar moved from 53.15 end of December to 50.88 end of March, and this is the resultant loss on receivables and other unbilled assets. For the year ended, there is a foreign exchange gain of Rs. 3.34 crore in Other Income against a loss of Rs. 74 lakhs in the previous year.
- **Total other Income for the quarter** including investment income, foreign exchange, loss or gain, and certain miscellaneous income is Rs. 2.43. crore against Rs. 7.26 crore last qtr. For the year it is Rs. 20.21 crore against Rs. 8.67 crore for the previous year.



- **Total taxes including withholding** are at Rs. 1.14 crore, 11.46% of PBT against Rs. 5.51 crore, 35.36% of PBT previous quarter. For the year, taxes are at Rs. 12.96 crore, 26.84% of PBT against Rs. 3.53 crore, 11.81% of PBT in the previous year. From April 2011 onwards, taxes have been calculated in India at full rate as the STPI exemption is over.
- **PAT** is at Rs. 8.79 crore for the quarter, 12.55% of revenue against Rs. 10.07 crore, 13.60% of revenue previous quarter. For the year, it is Rs. 35.34 crore, 12.52% of revenue against Rs. 26.34 crore, 9.74% of revenue in the previous year.
- In terms of foreign currency hedges, we had on Mar 31, USD 12.00 million dollars of forward contracts at an average rate of 51.87 which are designated as highly probable forecast transactions. There is a mark-to-market loss of Rs. 0.09 crore which is taken to hedging reserve in the balance sheet. We do not have any option outstanding as on Mar 31, 2012. Dec 2011 we had a total hedge of USD 11.75 million at an average rate of 49.45. Current hedge position as of today is US \$ 13.75 million at an average rate of 52.11
- With regard to **receivables**, we are at Rs. 87.83 crore against Rs. 50.34 crore previous quarter. There is a reason for this change and there is also a reason for the total number. The receivables on a quarter-on-quarter basis have gone up because we have done major billings to our customer in Japan at the end of March on closure of the particular contract. Overall we have changed the grouping of total trade receivables this quarter and have not netted off customer advances and unearned income of Rs. 20.74 crore. However we have calculated DSR after removing these advances as receivables have to relate to revenue. The **DSR** as on Mar 31st is therefore at 87 days against 48 days on Dec 31st, 2011. We will be back to that below 60 days number by the end of the current quarter.
- Client concentration has fallen. **Top 5 clients for the quarter are** at 45% against 53% previous quarter, for the full year they are 47%.
- **The order book position** is Rs. 270.29 crore including Rs. 118.81 crore of products business and Rs. 151.48 crore of projects and services business, against Rs. 266.69 crore including Rs. 119.40 crore of products business and Rs. 147.29 crore in Dec. 31, 2011. In March 11, order book was for Rs. 275.27 crore including Rs. 157.86 crore of products business and Rs. 117.40 crore of projects and services business.
- **Total Cash and cash equivalents** as on 31st March, 2012 are Rs. 196.32 crore against Rs. 197.56 crore as on Dec 31, 2011. The breakup of cash and cash equivalents is as follows:
 - a) Cash in current accounts of Rs. 21.50 crore
 - b) Liquid fund schemes of mutual funds is Rs. 29.19 crore
 - c) Fixed maturity plans of mutual funds is Rs. 74.94 crore
 - d) Fixed deposits with banks is Rs. 70.69 crore

I will now hand over to Viveka for some comments on the global delivery. Thank you.

Viveka:

Thank you, Pramod. Good afternoon to all of you and a warm welcome to the call. I would give you a quick update on the delivery. In the quarter four we successfully implemented 46 product modules across



the globe. As we stated before, the focus has been on adopting agile process and increasing customer satisfaction. With respect to agile process, we completed training the entire delivery organisation on adopting agile process, and all the delivery projects started from January onwards now follow the agile process. This has helped in increasing our visibility to customers and improve customer satisfaction. They participate in our product sprint review and are observing progress related to customizations and the features that they would receive very much upfront in the life cycle.

With respect to increasing the customer satisfaction, we have also done some restructuring of the delivery organization; where focus was imparted on single point of contact. With multiple growth in customisation and support, they have been restructured to provide more attention to customer challenges and to increase the turnaround time for all the fixes.

The focus was also on improving product performance for our customers where the volumes have significantly increased and increased turnaround-time, for all the fixes that was delivered. The focus for this quarter is going to be on reducing the implementation cycle, the duration of implementation and also offer more value to customers for less.

That is the update on delivery. And with this I would like to pass on to Mukesh who will give you update on product development. Thank you.

Mukesh:

Thank you Viveka. Good Afternoon everybody. We are continuing on our journey to adopt agile methodologies for our product development. Our teams are trained now and doing better with respect to adopting lean and agile practices with each sprint execution.

We initiated the exercise of gathering requirements from customizations from all our customers and including the same in our new development product backlog. We have made significant progress in the area by involving all the expertise available in the Company. We are also working closely with our clients while prioritizing the features for development.

We are following component based approach where we are developing small pieces of working software end to end including functional and performance verification of the components. This is helping us de-risk any major rework need later. We have successfully built a few components with this approach for the next version of Lending and Receivables products. We have completed development of Financial Supply Chain Management module in our Cash Management offering and working with a couple of beta clients on implementation.

This is a summary update from product development.

Neeraj Marathe from HU Consultancy

Neeraj:

My question was about the cash and cash equivalents that we have in our books. From my understanding we do not have any organic or inorganic growth of a huge nature lined up and still we carry a lot of cash in our balance sheet. What plans do we have for the same? Why are we not doing any buy back? Our valuations are historically in a lower band right now compared with what they used to be before.



Alternatively why don't we return money to shareholders in the form of some innovative instruments such as bonus debentures?

Vishnu:

As far as the reasons for holding the cash is concerned, we are a long term institution and we would want to keep some resources for rainy days. Hence we feel that this kind of money is necessary for us to be in the product space because we are aware of the fact that because of the product business, revenues can be lumpy, and that is essentially the reason we hold on to such volumes of cash.

Neeraj:

But still the volume of cash that we hold on books seems to be pretty large compared to our entire volume of business, so are we expecting a lot of rain?

Vishnu:

No, we are not expecting any rains. We are expecting bright sunshine. This is essentially something that we would like to feel comfortable about.

Pramod:

About two years ago we had mentioned that we were looking for an acquisition in developed markets and we had earmarked a certain amount for it. Subsequent to that, we have not made substantial progress in that, but it is not something we are not looking at on a permanent basis. It is not that we have discontinued our plans to look at acquisition. Actually the larger amount of this money would be earmarked for an acquisition, the timing of which of course is something which is not immediate.

Srivatsan Ramachandran from Spark Capital

Ramachandran:

In terms of the medium-term roadmap for products, what do you see? We did hear that you are looking at more component based architecture, but in terms of the technological key structure, it can be helpful if you just look at more Java-based pack completely. All your products have already been migrated to Java or are in the process of migration to Java. In terms of stack, is the stack agnostic or at this point of time more preference for any specific either a data Oracle or IBM or Microsoft stack?

Mukesh:

While we have a current product in the market, we are continuously innovating to ensure that with regard to the new products that are coming up, we are up in the curve and we have all the latest technologies built in our products. This is what we are working on. Right now some of the products that we have, are not have on the latest SOA-based architecture; which we are doing now. So all our new developments that we are doing, we are doing in a multiple layer component-based SOA architecture.



Ramachandran:

But in terms of the technology; if you are looking at the top two or three products that you sell the maximum, how would you rate it on a technological platform. Is it more because increasingly even you see a large player like Temenos moving to a Java based platform, so COBOL or C++ is increasingly becoming outdated. So just want to know where we are on migrating some of our products, at least the top selling products into these platforms.

Mukesh:

If you see our current product, FinnOne, we have already moved most of it on Java, so it is not on old technology. Earlier it was on Oracle, and our current strategy is not to stop there but take it to the next level where it is more service-based architecture; which is where our new product development is happening right now. And we will be bringing a new generation version which will be further advanced.

Ramachandran:

What about Cash@Will?

Mukesh:

Cash@Will is also similar. Right now what we have is largely on forms, some modules we have developed on Java and we have plans to upgrade the whole stack to a multiple-layer SOA-based architecture. I did mention that in financial supply chain management module, that is completely on multi-layer Java architecture which is already complete, and we are working on the other modules also. So receivables also we have made significant progress and similarly on other modules also.

Ramachandran:

We have been seeing good traction in the emerging market but in terms of developed markets, it has not been so successful. Just want to understand what it would take for either FinnOne or a Cash@Will to be purchased by some of the big banks or the western countries, be it US or Europe. What are the parameters on which we typically lose out to in the bigger banks especially in the western markets?

Vishnu:

I just want to highlight the fact that our product, FinnOne, is running in at least eight European countries. We feel we are among the very few Indian product companies with such presence in so many countries, in developed parts of the world, including US and Japan where we have implementations. One of our implementations has gone live very recently in Switzerland; and I would request my colleague, Viveka, to talk about it.

Viveka:

We have implemented the FinnOne product for Life Finance in Switzerland and it is live. There are two aspects to product development, one which Mukesh talked about which is on the new product technology and the new roadmap that we have. The other one is, on the existing product. We have been moving to the latest technologies as the database; and like for example our product was tested on Web



logic and Oracle, now Oracle has moved to Exalogic and Exadata, and we have tested and benchmarked our product on Exalogic and Exadata. Oracle also claims the performances ten times better, and we have also proven that by testing our product on these technologies, and it is now available for customers for deployment. On the new product side, even the current product, if you look at FinnOne, it is more of a SOA-based. This would work on the web server, and we are also looking at offering it as a SaaS-based service to low-end customers, people who do not want to buy license to get on-premise product. We are looking at offering low cost solutions for them, 'pay-as-they-use' type of a model, while the current product caters to all of it. Our focus and objective is to build a product which is more generic. If you look at what banks and financial institutes need, it is more of about generic framework and pluggable components.

What we are looking at structuring the technology stack in such a way that the multiple components could integrate, one with the business layer and one could be on the process side. We are working on IBPM and other process tools. The components can either be plugged into the process and it could also plugged into the service bus/middle ware like TIBCO type of a tool. That is where our invention is now happening and are creating a very flexible dynamic scalable stack which could run on multiple data bases. That is the vision and we are working towards it.

Ramachandran:

My last question is on the services business. What would you look at strategically for the services business at this point in time? It has been flat for quite some time. In terms of our next two-year, three-year timeframe, is it a plan to retain the services business or would you be happy ramping it down or you want to take it to the next level?

Pramod:

We have always stated that we are a product Company and would like to continue all our work in that space. We of course had been doing services for some of our large customers in the product space and we are continuing to work with them, and we have added two new customers in the services space, one in the Caribbean and other one in Singapore. They are also in the banking space. While they are not looking at basic kind of standard services provided by other IT players to the BFSI segment, but specialized services in the banking domain is what we look at, and we are hopeful that this will start going again.

Aruna Giri from TrustLine

Aruna Giri:

This is regarding the tie-up with Wipro. Last year you announced the alliance with Wipro in terms of go-to-market strategy. Just want to know the progress in that. Has there any deal been struck from that relationship, and how does the pipeline look?

Pramod:

With Wipro we have been bidding for several large contracts. In the past 15 months, we would have bid for three major contracts, in different geographies, one in the US, one in India and one in Mauritius. These contracts have not been won, but the effort continues to work with Wipro and I suppose that we will succeed in finding an opportunity.



Vishnu:

I would say these are early days and partnerships like these evolve over a period of time. Both the partners need to understand each other and then collectively go to the market, which is what we are doing, and we are very hopeful about this partnership.

Aruna Giri:

When do you think any concrete or deals that would happen with Wipro in the next two quarters?

Pramod:

It would be very difficult to give a date for this, because we would normally bid along with Wipro for only large contracts; if there is a multiple technology requirement and hardware, software, different vendors are involved. These opportunities do not come up every day, but we are talking to them definitely in Europe as well as in other locations.

Vishnu:

At least in four regions we are talking to them very proactively.

Aruna Giri

Currently if you look at the market valuation, it is almost equal to the cash surplus, what the Company is holding, which means the market is not valuing much of your business. How do you address this particular gap? The stock has been cheap for quite some time, for almost four to five quarters stock has not been moving much. In spite of this, there is a huge cash surplus which the Company is holding. The business is valued just about Rs. 10-15 crore net of the cash. One of the concerns that the market has is; Company has been a little insensitive to the investors demand for some special dividend or buyback.

Most of the times when we ask this question the response has been that this surplus has been kept as a reserve for some acquisitions. Acquisitions have never come so far, and also many a time management has always maintained that the acquisition is going to be in the range of 10-15 million dollars. Why is it that the Management is not sensitive to investors? if it continues this way, probably more and more analysts will lose interest in the Company, it will attract lesser analysts in the coming days. This is a serious concern, the Management has to take it very seriously and give it a thought; because it cannot be brushed aside every time when we raise this question that this is kept as a reserve for acquisitions.

Vishnu:

I would like to first of all clarify that we have been talking about this reserve being for rainy days, which we have repeated earlier in the call, and since last six quarters we have added this additional point about acquisition. Now while we are looking at acquisitions, as of this point of time we are slightly slow on that front essentially till the time our Management team is complete, which we hope would be completed within this quarter and that is the time we will start aggressively looking at acquisition.



Aruna Giri:

So even if it is for acquisition, what is the quantum when the Company is looking at?

Vishnu :

We will maintain the same number. It will not be more than 10 million dollars.

Aruna Giri:

In that case why the Company is not responding to the very popular investor request, given the valuation of your Company? We tracked a lot of small and midcap companies in the IT space, in the last four quarters we have seen many companies being revalued and they have rewarded the investors. Your Company with a leading product platform like FinnOne; it is really surprising for an investor to understand the Management is not keen in terms of responding to the investors' interest.

Pramod:

We do understand that the valuation of the Company has not moved very much and is equal to and has remained equal to the cash held by the Company. You are all analysts listening to this call, so let me state it that primarily this is a function of our inability for the last two, three years to achieve top line growth.

Aruna Giri:

That is part of the reason

Pramod:

That is the basic reason. EBITDA margins have fallen from where they used to be, but we still earn Rs. 10 a share and consistently we have been earning. The basic issue is the top line growth. We are very sensitive to that issue; and all our efforts are towards achieving top line growth. And that is what we are looking at. In all fairness, we are conservative in Management of our cash reserves. Buyback is something; which in a conservative Company is not really considered in great depth.

Aruna Giri:

One point which I would like to raise is if the Company stock is so cheap, then the natural and logical question which is raised in the investor's mind is why is the Management not raising stake? And the easiest way to raise the Promoter's stake is through buyback when the Company is flushed with cash. So where is the disconnect?

Pramod:

No, I do not think this is the forum for discussing Promoter's stake holding.



Aruna Giri:

It is not the Promoters; I am just saying that it is a natural logical step one would look at. The business is so cheap; it is available at such attractive valuation. The other point is even if it is not buyback, even if it is not any special corporate action, even the dividend payout ratio could not move up. When you are making about 10 times earnings per share, the dividend payout could increase, given in the context of high surplus.

Pramod:

We are paying between 25-30% of the distributable profits for the year.

Aruna Giri:

Yes we understand that. Actually it is not very convincing. I just wanted to put on the table that this is a serious concern. We would like to see much more sensitive Management towards the investor interest.

Pramod:

Okay, we will make a note of your thought on this, and yes, you are right that some people also have indicated the same to us earlier.

Aruna Giri:

We have strong investment interest in your Company. We like the Company, we like the brand, we like the platform, we like your tie-up with Wipro. We track lots of small and midcap IT companies, we understand IT space as well. But I think this is a serious concern from a genuine investor, you must take note of it.

Pramod:

Thank you. We will take a note of it.

Vishnu:

Thank you very much for voicing your concern.

Manik Taneja from Emkay Global

Manik:

I just wanted you to give us an update on the outlook for our products business, and in that context the sales and marketing investments that we envisage to make. Also if you could talk about addition to the sales and marketing team.



Vishnu:

As I had mentioned in response to earlier questions, we would have our Management team ready by end of this quarter. The other thing that I wanted to highlight was that we are picking up on marketing activities very aggressively. In the month of June we will have our first conference along with Financial Times in London. Prospective customers who would like to consider our offerings would be invited. There is a sizeable replacement market that is still to be tapped, that is where we feel that we will be able to make a beginning. We are going to add something like 15-20 more sales people over the next quarter or so, and that is how we will become far more aggressive on the marketing front in this particular year.

Manoj Dua

Manoj:

I think dividend should be more because for the minority investor, only thing the Company/ Management can get is the valuation or the dividend. If the Company is not getting a proper valuation, I think the payout should be more to reward the minority investor, that is what minority investor can hope for.

Vishnu:

Thank you very much for your comment. We will certainly make a note of this.

Sunil Jain from Nirmal Bang Securities

Sunil:

What could be the market size for our product?

Vishnu:

The way we look at market size for our product; the flagship product, I am talking about FinnOne right now and then we will talk about the cash management as well. Product takes care of mortgages, automobile loans, personal loans, education loans and so on. And the global retail assets of the banking industry and non-bank finance companies are of the tune of 30 trillion dollars. Today the size of assets that our product support, nearly 200 customers all over the world in more than 50 countries, is of the tune of 150 billion dollars. So essentially it is half a percent of global retail asset and 200 times of that is the market size.

Sunil:

But whether this market was growing or not? I am trying to find out since last five years we have got stuck up in the annual turnover of say around 280 crores or something. Is this not market growing or it is only we are not able to grow?



Vishnu:

As far as the global market is concerned it is either at the same level or slightly it might have shrunk over last 3-4 years. As far as our growth is concerned, these decisions do take time. They are not overnight decision. Banks are very conservative on this kind of decision. They have been running the mainframe-based systems for decade, and unless they are 200% sure about the ability of the vendor to cater to their needs, they would not like to move. Additionally like what Viveka had talked about in terms of Exadata, Exalogic, etc, those are some of the additional pressure points that would help banks take decisions in favour of solutions like us and we are absolutely hopeful and confident that over the next three to five years our product will move into far bigger customer locations.

Sunil:

If we compare our product with any other competitor, how are we placed? No doubt performance wise I had seen FinnOne is getting awards every year and it is well accepted everywhere, but market-wise are we able to take share from them or not?

Pramod:

If you look at the IBS rankings as well as numbers of order book, we still believe that we are functionally ahead of our competitors. That is the reason why we are selected by customers, largely in emerging markets and in India. For the developed markets, for the US we are not claiming product readiness at the moment, and that is why we are unable to enter that market for FinnOne.

In Europe with respect to our offering, there is GMAC and it is more auto-finance based but that itself is a huge market. With auto companies actually coming back in the last one, one-and-a-half years, while they have not been growing in Europe as in terms of auto sales, but our enquiry base from this sector is going up, and we need to look at that to capitalise on it.

Competition is not something which is affecting us greatly, it is, as Vishnu said, convincing the larger customers say in Europe who changed from legacy systems which actually includes all the auto-finance captains.

Sunil:

So you mean to say one of the problems is our size, because our size is quite small and that is why we are not able to get proper response from the large customer in the European market?

Pramod:

No, I do not think it is. I think, as far as reputation is concerned size is no longer a constraint for Nucleus. It used to be maybe seven/eight years ago but size is not the question. We have done implementations now in ten, eleven countries, exact number is there, Viveka can talk about it. But this business works on references, and all our customers are still there with us, they give us repeat business. I was just looking at some numbers, and somewhere between 80-85% of our business is coming from customers who were there even in 2011. So the question is the growth has to come from new customers, and that new customer addition is something which we would like at a much faster pace. It has not happened to that



extent for the last two, three years, but let us see, we are hopeful that large orders from customers in Europe will be the game changer for the Company.

Sunil:

You said that though there is a problem in the market in all, but our competitor, like if I am not able to compare it like-to-like product but even if we see other product companies, like FLEXCUBE and all, they have grown substantially in the last five years.

Pramod:

No, core banking is not something we compete with.

Sunil:

No, you are not competing, but that is also a product Company, that is also going to the same customer where you also go in that way.

Pramod:

That is right. Normally core banking changes precedes changes in the retail loan systems technology adaptation by the bank as such, but I am not sure of the OFSS numbers of growth. Of course they had delivered better numbers this year. But if you noticed even the Indian core banking players, penetration in the US is extremely limited if not zero. In Europe, yes, in the Central Europe they have started, in Western Europe, I think, one or two large majors have won transformation projects from the major banks. But their growth, let us not talk about them in any case, I do not think it is correct to get with our discussion on their plans as such. But we believe that we need to do more aggressive marketing in Europe, there is no doubt.

Sunil:

My concern was, like since we had stayed steady for the last five years and we are not able to grow, whether the product has reached to its life cycle peak or something like that or is that filling the cup?

Viveka:

Products have rich feature sets, it caters to the developed markets, the only need is to upgrade the technology stack and make the user interface much more flexible and attractive. This is what we are planning to do in our technology roadmap. Once we do that I am sure we should be able to address the developed market demands. It is more about the flexibility, usability part of the product rather than the features set. It is rich in feature set.

Sunil:

I would like to have comment from CEO , how do we see the future in the next five years? I am not talking about any guidance for the next quarter or next one year, but in the next five years can we double from here?



Vishnu:

Thank you very much for talking about an extremely relevant time line, because for an enterprise product Company, that is what is very, very relevant. I had mentioned in response to earlier questions that as of now our product has only half a percent of the global retail asset. So what we have talked about doubling over these five years, that is certainly – we can and we will.

Meenakshi:

Thank you all for being in this call and with this I would hand it over back to Vishnu for his closing comment.

Vishnu:

I would like to take this opportunity to thank you very much for your sustained interest in Nucleus Software, despite the valuation being equal to the cash equivalent. But let me once again reassure you that we are eager to create value for our customers and in turn value for all our stakeholders including shareholders. Thank you very much.