



Q4 FY14

Earnings Conference Call

May 05, 2014

Members of Nucleus Management

Mr. Vishnu R. Dusad	Managing Director and CEO
Mr. Pramod. K. Sanghi	President Finance and CFO
Mr. R P Singh	President & Head, Global Product Management
Mr. V. Murali Krishna	Executive Vice President and Head, Sales and Marketing
Mr. Pankaj Bhatt	Executive Vice President, Global Delivery
Mr. Avnish Datt	Executive Vice President, Global Strategy

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



Meenakshi Sharma:

Thank you, Sourodip. I would want to welcome all of you to this Nucleus Software Earnings Conference Call for the quarter and year ended March 31st 2014. For discussions from the management team, we have with us Mr. Vishnu R. Dusad, our Managing Director and CEO; Mr. Pramod K. Sanghi, President Finance and CFO, Mr. R. P. Singh, President and Head Product Management, Mr. V. Murli Krishna, Executive Vice President and Head Sales and Marketing, Mr. Pankaj Bhatt, Executive Vice-President, Global Delivery and Mr. Avnish Datt, Executive Vice President, Global Strategy.

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. And 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 may now pass it over to Vishnu.

Vishnu R. Dusad:

Thank you, Meenakshi and good afternoon, ladies and gentlemen. I am pleased to talk to you at this earnings call for the first quarter and year ended March 31st 2014. This has again been a good year for Nucleus Software. We continued our focus on product innovation and organizational transformation.

This has yet again been a good year for Nucleus Software. We continued our focus on product innovation and organizational transformation. We continued to enrich our product pipeline, and also added to our leadership and management bandwidth.

Some of the highlights this year were the launch of our integrated transaction banking product suite FinnAxiaTM, geographical expansion into new markets like Australia and Europe, and talent acquisition at various levels. We also focused on further strengthening our domain skills. Senior leaders from some of the leading global banks joined our product and pre-sales teams, creating a cutting-edge intellectual pool. This would allow us to build more robust global best practices and processes into our product upgrades.

As a result, we have registered revenue and profitability growth throughout FY14. What's perhaps more important than the quantum of growth, is the quality of our



business growth. We were able to get some large orders, expand some of our existing relationships and created a growth platform for coming years through our product focus.

To sustain our growth momentum, we will continue investing in our products, market expansion and integrated talent development. In the years to come, customer centricity will continue to be a key driver in Nucleus Software's commitment to deliver value and growth. We have been moving towards strategic customer engagements and business value transformation right through last year. We will continue doing that with enhanced skill building and talent management of our skills and business development organization.

It also gives me immense pleasure to share with you some of the awards and accolades that we have won during the quarter. Nucleus Software's FinnOne™ has again been ranked as global number one lending software solution for the sixth consecutive year by IBS Publishing, UK in their Sales League Table 2014.

Annual report including financial statements of the company for the year ended March 31st 2013 was inducted into the hall of fame by the Institute of Chartered Accountants of India in the category service sector other than financial services with turnover less than 500 crores of the ICAI award for excellence in financial reporting for the year 2012-2013. Nucleus Software was declared winner of the Best Corporate Governance of India 2014 of the World Finance Corporate Governance Award 2014. We were awarded at the corporate office forum and awarded for second consecutive year under the category Financial and Investor Relations Award 2013 organized by World CSR Congress. This award indicates the power of the brand that is getting built on a sustained basis.

Pramod Sanghi:

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

- **Our Consolidated revenue** for the quarter is at Rs. 87.69 crore, a fall of 2.5% QoQ and a growth of 19% YoY. **For the Year ended March 31, 2014, our consolidated revenue** is at Rs. 346.22 crore, a growth of 18% against previous year.
- **Product revenue for the quarter** is at Rs. 59.12 crore, a fall of 3.7% QoQ and a growth of 19.2% YoY. **Product revenue** for the year is at Rs. 237.96 crore, a growth of 20.37% against previous year.



- **Revenue from projects and services** for the quarter is at Rs. 28.56 crore, similar to the last quarter and a growth of 19.9% YoY. **Projects and services revenue** for the year is at Rs. 108.26 crore, a growth of 12.7% against previous year.
 - **Overall Revenue in foreign currency including India Rupee revenue** is US\$ 14.12 million for the quarter, a fall of 5.2% QoQ and a growth of 6.1% YoY.
- **For the year, overall Revenue in foreign currency including India rupee revenue** is US\$ 57.74 million, a growth of 6.8% against previous year.
- **Cost of delivery including cost of product development for the quarter is at 59%** of revenue and for the year it is at 61% of revenue. For the year, it is Rs. 211.72 crore, a growth of 14.1 % previous year.
- **Marketing & sales expenses** for the quarter is at 10.17 crore, 12% of revenue; and for the full year, 36.17 crore, 10% of revenue
- **G&A expenses for the quarter** is at 5.93 crore, 7% of revenue; for the year, 31.75 crore, 9% of revenue.
- **EBITDA for the quarter** is at Rs. 20.10 crore, a growth of 3.3 % QoQ a growth of 63.8% YoY. **EBITDA** for the year is at Rs. 66.58 crore, (19% of revenue), a growth of 45% against previous year.
- **Other income from investments and deposits** is at Rs. 3.78 crore against Rs. 7.77 crore QoQ, a fall of Rs. 4 crore primarily due to annual FMPs of Rs. 49.01 crore maturing in previous quarter and Rs. 6.82 crore FMPs which matured in quarter ended March. Other income includes foreign exchange loss of Rs. 0.64 crore against a loss of Rs. 0.30 crore previous quarter. **Total other Income for the quarter** is Rs. 7.48 crore against Rs. 7.65 crore last quarter and Rs. 4.15 crore in quarter ended March 2013.
 - For the year, **Other income from investments and deposits** is at Rs.18.68 crore against Rs.15.66 crore in the previous year. Foreign exchange gain for the year is Rs. 1.35 crore against a gain of Rs. 2.97 crore in the previous year. **Total other Income** for the year is Rs. 24.55 crore, against Rs. 20.25 core previous year.
- **Total taxes** are at Rs. 6.08 crore, 24.4 % of PBT, against Rs. 1.78 crore, 7.1% of PBT previous quarter; which was lower due to effect of weighted deduction for R&D expenditure for calendar year 2013, entirely booked in last quarter after the requisite approvals were received. Therefore, the tax for the year is more



representative which is at Rs. 18.86 crore, 22.7% of PBT against Rs. 14.89 crore, 24.5% of PBT previous year.

- **Net profit** is at Rs. 18.84 crore for the quarter, 21.5% of revenue, a fall of 19.4% QoQ in INR terms and a growth of 80.3% YoY. For the year net profit is at Rs. 64.34 crore, 19% of total revenue, a growth of 42% against previous year.
- **EPS** for the quarter is at Rs. 5.82. **EPS** for the year at Rs. 19.87 as against Rs. 13.95 in the corresponding previous year.
- A final **dividend** has been recommended at 30% (Rs. 3.00 per share) against a similar dividend in the previous year. The Board also recommended a special dividend of 30% (Rs. 3.00 per share) on account of completion of 25 years of the Company. Therefore total dividend payout will be Rs. 6 per share.
- In terms of **foreign currency hedges**, on March 31 we had USD 9.25 million of forward contracts at an average rate of Rs. 64.55. (As on date, we have coverage of 10.55 million \$ at an avg. rate of 64.10)
- **Revenue contribution from the top 5 clients for the quarter** is 41% against 40% previous quarter. For the year it is 39% against 47% previous year.
- **The order book position** is Rs. 259 crore including Rs. 194.45 crore of products business and Rs. 64.46 crore of projects and services business. **In Dec 31, 2013** the order book position was Rs. Rs. 233 crore including Rs. 156.75 crore of products business and Rs. 76.50 crore of projects and services business. **In March 2013**, order book was is Rs. 262.06 crore including Rs. 143.98 crore of products business and Rs. 118.07 crore of projects and services business.
- **Total Cash and cash equivalents** as on 31st Mar, 2014 are Rs. 322.50 crore against Rs. 299.45 crore as on 31st Dec, 2013. This includes balances in current accounts of Rs. 20.97 crore, liquid fund schemes of mutual funds Rs.95.35 crore, Rs.103.92 crore in fixed maturity plans, fixed deposits with banks of Rs. 78.20 crore and investments in tax free bonds of Rs. 24.07 crore.
- With regard to **receivables**, we are at Rs. 41.72 crore against Rs. 67.97 crore previous quarter. The DSR is 44 days against 70 days in previous quarter.



- During the year, **there is a gross addition of fixed assets** of Rs. 17.90 crore, consisting of Rs. 6.28 crore hardware and Rs. 11.63 crore software licenses purchased from third parties.

R.P. Singh:

Thank you, Pramod. Good afternoon, everyone. We made a good progress on the products front in the last year. We launched our renewed transaction banking product earlier this year under the name FinnAxia™, offered to our customers who are already live with the product. One of them is an existing customer while the other is a new one, this gives us a credible base to build on in the coming year. On the lending products side, I am happy to share that the re-architected FinnOne™ product is presently under user acceptance at our beta side. We hope to go live with the new platform very soon. With the base products out now, one of the key initiatives for the coming year is to establish an agile and strong product life cycle management process, a process that will enable us to bring in an innovative and new best practices into the product twice a year so that we are able to deliver continuous value to our customers year after year. Life cycle process coupled with the new architecture will help us upgrade our product installations with additional operational and business benefits repeatedly.

We are also going to establish user forums, customer advisory board and value teams internally to enhance our engagement with our customers across our levels and roles. Engagements through these teams will ensure we are in tune with our customers' changing business and future strategies.

V. Murli Krishna:

Hello, everyone, a very good afternoon. This is V. Murli Krishna, V.M.K., here to take you through the sales, marketing and alliances highlights for Q4. The last quarter of the financial year continued to register a healthy growth. Q4 has been a positive quarter for us and we have added three new customers worldwide. This quarter, Nucleus Software won a total of 14 product modules across market. In the area of marketing and alliances, a key highlight was the marketing activities on FinnAxia™, the integrated transaction banking suite with a customer launch in Singapore, internal and external digital campaign media interactions, etc. We continue to reach out to customers and other stakeholders with events, seminars, email campaign and newsletters for greater brand visibility and presence. We are also concentrating on key alliances with identified partners in geographies like Africa, South East Asia for deeper penetration in these markets. Our dialogue with various consulting firms, analysts and SI organizations continues to create relationship with these key influencers.



I would like to end by sharing the good news that our flagship product FinnOne™ has been ranked number one in the Annual Sales League table by IBS Publishing of UK for the sixth year consecutively. This leadership position is an endorsement of our customer-centricity and strong customer references and this award is a step ahead in that direction.

Pankaj Bhatt:

Good afternoon, ladies and gentlemen. In the quarter ending March of 2014, a total of 13 product modules were fully implemented across regions. Out of these, 12 were implemented for our lending product FinnOne™, and one for our transaction banking product FinnAxia™. For the year ending March 31, 2014, a total of 51 products modules were implemented. We continue to focus on excellent product implementation with a special attention on project management and functional areas. We have initiated dedicated programmes to continuously assess and upgrade this competency.

Sudhakar Prabhu from Span Capital:

What has been the initial customer response for FinnAxia™ product?

R.P.:

The customers are extremely happy with the new platform. As a matter of fact, we first upgraded an existing customer from the old Cash management product of ours to the new one. The best part was that, we were able to upgrade him to our new product within six months. That not only gave them new capabilities which they have been asking for, but more importantly it was a big test for our strategy of being able to innovate, bring out new releases and give back to the customer by keeping them on the core product. They have become our reference sites for the new sales that are going on.

Sudhakar:

After launching of this product, has the average deal size increased?

VMK:

We have seen a significant uptick in the average deal sizes that we have been signing. It is happening through different levers that we are able to now pull and push. We are very happy to see that the trend is very heartening because it means that we are able to deliver value to our customers.

Sudhakar:

Is it possible for you to quantify what is the average deal size you target or the deals which have been won by you?



VMK:

We may not be able to share such numbers. But in general I can say that the trend is very positive, and we are very happy with that.

Sudhakar:

When would new version of FinnOne™ be launched?

R.P.:

We will be launching it in the current financial year.

Sudhakar:

Right now you are around 57 million \$ in terms of annual revenue. I know you do not give an outlook or future guidance, but at least in terms of aspiration, do you plan to be an 80 to 100 million \$ company in the next 3 to 5 years And also can margins grow from 18% to 20% to 22% over a period of time?

Vishnu:

Yes, certainly. We would at least try and maintain the margin.

Sudhakar:

In the last call, you mentioned that you would come up with a certain way of using this cash, any progress on that?

Vishnu:

The Board has recommended a special dividend this time for Rs. 3 per share.

Sudhakar:

I think that's around Rs. 20 crore even if you take additional Rs. 3 per share of special dividend. But you are still left with around Rs. 300 crore of cash.

Pramod:

That is a great improvement from last year.

Sudhakar:

Any progress on the inorganic growth you were talking about?

Vishnu:

As far as I am concerned, we now have taken a bit of a back seat. We are focusing more on communicating the value of our existing product to both our existing and prospective



customers. Going by what we have experienced in this financial year, we feel that this is what would add immense value to both our customers and to the organization.

Kush from Care PMS:

What would be the growth results for coming year, and geography wise which areas do you see growing more?

VMK:

Broadly you can classify market into existing markets and new markets. The existing markets will continue to drive a large part of our business which is India, South East Asia, Middle East and Africa. But moving ahead, we expect more revenues coming from Europe, US, Japan and Australia. So there are conscious efforts that are going on in terms of investments in the areas of business development and even product improvement to enable us to strengthen our position in those markets. Overall for the coming year, the centre of gravity will continue to be in the current markets and emerging markets will start contributing to the overall revenue numbers as well.

Kush:

Can you throw some light on billing whether it is transaction based or lump sum and how do we deal with the client?

VMK:

There are different models that are available in the market outright purchase, transaction-based etc. We, as an organization, are flexible, open to multiple models of engagement. We offer our clients transaction-based model which is very limited and as and when any client expresses interest, we are happy to engage in such discussions with them.

Kush:

Major would be outright model?

VMK:

Yes. That's correct.

Kush:

What would be our capacity utilization, employee utilization and attrition rate?

Pramod:

In services, we have utilization of approximately 90% plus and on the product side; because we do both development as well implementation there is never a question of



people not being utilized. People are used for product development if there are any peaks or troughs in terms of implementation.

Kush:

A couple of calls ago, we were told that product business is seeing good growth going forward also. And with regard to services business, our order book is slowing down. Will this trend continue?

Pramod:

The focus of the Company is totally on the product business and IT-led growth. Vishnu, would you like to add?

Vishnu :

Services part of our business, the way we look at it is, it complements our product part of the business in the sense that we offer services only in the domains where we are operating, where our products are and also on some of the latest technologies. And this is how both these segments of the business complement each other.

Meenakshi:

We thank you all for your interest and time in Nucleus Software and attending this earnings conference call. For the closing comments, I would like to pass it on again to Vishnu.

Vishnu:

Once again, thank you very much for joining this call. You know, your interest in our company is extremely important to us and we want to reiterate our commitment to build a long-term organization to add value to not just customers, but the society at large. Thank you.