



Nucleus Software Exports Limited

**Q2 FY 13 Earnings
Conference Call
October 22, 2012**

Members of Nucleus Management

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

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



Meenakshi:

I offer a very warm welcome to all of those who have joined us for this Nucleus Software earnings conference call for the quarter and half year ended September 30th 2012. With us today we have for discussion Mr. Vishnu R. Dusad, our Managing Director and CEO, Mr. Pramod Kumar Sanghi, President Finance and CFO, Mr. R. P. Singh, President, Ms. Viveka Ragukumar, our Executive Vice President, Global Delivery, Mr. V. Muralikrishna, Executive Vice President, Global Head, Sales and Marketing and Mr. Manu Arora, Vice President and Head, Human Resources. As you are quite aware that we do not provide any specific revenue earnings guidance, anything said during this call which reflects our outlook for the future or which can be construed as a forward-looking statement must be reviewed in conjunction with the risk that the company faces. An audio and transcript of this call will be available on our website shortly. We are now ready to begin with the opening comments on the performance of the company, straight from the CEO, and post that we will be available for the Q&A session. With this, I would now hand it over to Vishnu.

Vishnu R. Dusad:

Thank you Meenakshi and good afternoon ladies and gentlemen. I am pleased to once again get in touch with you at this earnings call for the Second Quarter & Half Year Ended September 30, 2012.

Let me take you through the numbers.

- **Our Consolidated revenue** for the quarter is at Rs.71.75 crore down by 3% against Rs.73.91 crore in the corresponding quarter previous year.
- **Revenue from product business** for the quarter is at Rs.47.82 crore, 67% of the total revenue against Rs.55.18 crore, 75% of the total revenue in the corresponding quarter previous year.
- **Product revenue from own business**, for the quarter is at Rs.47.47 crore, 66% of the total revenue against Rs.53.03 crore, 72% of total revenue in the corresponding quarter previous year.



- **Projects and services business revenue** for the quarter is at Rs.23.93 crore, 33% of total revenue against Rs. 18.74 crore, 25% of total revenue in the corresponding quarter previous year.
- **EBITDA** for the quarter is at Rs.11.96 crore, 17% of total revenue against Rs.10.75 crore, 15% of total revenue in the corresponding quarter previous year.
- **Taxes** are at Rs.3.05 crore against Rs.4.57 crore, in the corresponding quarter previous year.
- **Net profit** for the quarter is at Rs.10.10 crore, 14% of total revenue against Rs.11.45 crore, 15% of total revenue in the corresponding quarter previous year.
- **EPS** for the quarter is at Rs.3.12 against Rs.3.54 in the corresponding quarter previous year.

For the Half Year ended September 30, 2012, our consolidated revenue from software products and services is at Rs.145.69 crore against Rs. 138.19 crore, up by 5% in the corresponding half year of the previous year.

- **Revenue from product business** for the half year is at Rs.98.40 crore, 68% of the total revenue against Rs.102.26 crore, 74% of the total revenue in the corresponding half year of the previous year.
- **Product revenue from own business**, for the half year is at Rs.94.70 crore, 65% of the total revenue against Rs.97.64 crore, 71% of total revenue in the corresponding half year of the previous year.
- **Projects and services business revenue** for the half year is at Rs.47.29 crore, 32.46% of total revenue against Rs.35.93 crore, 26% of total revenue in the corresponding half year of the previous year. This line of business has increased by 32% on a YoY basis for the half year.
- **EBITDA** for the half year is at Rs. 21.12 crore, (15 % of revenue), an increase of 30.15 % against Rs. 16.23 crore, (12% of revenue) in the corresponding half year of the previous year.
- **Taxes** are at Rs. 6.83 crore against Rs. 6.32 crore, in the corresponding half year of the previous year.



- **Net profit** for the half year is at Rs. 22.39 crore, 15 % of total revenue, up by 36% against Rs. 16.48 crore, 12% of total revenue in the corresponding half year of the previous year.
- **EPS** for the half year at Rs. 6.91 as against Rs. 5.09 in the corresponding half year of the previous year.
- **Our total Current investments and bank position** is at Rs. 234.76 crore as on September 30, 2012 against Rs. 222.80 crore as on June 30, 2012.
- In terms of **manpower**, we are at 1622 as on September 30, 2012 against 1644 as on June 30, 2012.

We do recognize that the time to come would be challenging, especially with an acceleration of competitive dynamics. We are gearing up to meet these challenges by following a structured approach of:

- Diversifying across geographies, customers
- Making software solutions suit customer needs
- Achieving operational excellence
- Making strategic investments

As we work to serve our customers better by building products based on mature and superior technology, we , as ever, will continue to keep paramount in our minds the importance of advancing our outstanding reputation through integrity and ethical business conduct.

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

Pramod:

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

- **On a sequential basis, revenue** for the quarter is at Rs.71.75 crore, 2.97% lower than Rs. 73.95 crore previous quarter.



- **Product revenue for the quarter** is at Rs.47.82 crore, 66.65% of revenue against Rs.50.58 crore, 68.40% of revenue previous quarter.
 - **Traded revenue from products** included in this product revenue is at Rs.35 lakhs crore, 0.48% of revenue for the quarter, against Rs.3.35 crore, 4.53% of revenue previous quarter.
 - **Revenue from own Products** for the quarter is at Rs.47.47 crore, 66.16% of revenue, against Rs.47.23 crore, 63.87% of revenue, previous quarter.
- **Revenue from projects and services** for the quarter is at Rs.23.93 crore, 33.35% of revenue, against Rs.23.37 crore, 31.60 % of revenue, previous quarter.
- **Cost of delivery** including development cost is 65% of revenue, 68.20% of revenue in the previous quarter. In absolute terms this is Rs.46.64 crore against Rs.50.43 crore previous quarter. For the half year, it is Rs.97.07 crore (66.63% of revenue) against Rs.94.05 crore (68.06% of revenue) for the corresponding half year of the previous year.
- **Marketing expenses** are at 9.80% of revenue this quarter, against 11.79% of revenue previous quarter. In absolute terms, they are at Rs.7.03 crore against Rs. 8.72 crore previous quarter. For the half year, they are Rs.15.75 crore (10.81% of revenue) against Rs.15.70 crore (11.36% of revenue) for the corresponding half year of the previous year.
- **G&A expenses** are at 8.54% of revenue this quarter, against 7.62% of revenue previous quarter. In absolute terms, they are at Rs.6.12 crore against Rs.5.63 crore previous quarter. For the half year, they are at Rs.11.76 crore (8.07% of revenue) against Rs. 12.21 crore (8.84% of revenue) for the corresponding half year of the previous year.
- **EBITDA** is at Rs.11.96 crore, 16.66% of revenue this quarter, against Rs.9.16 crore, 12.39% of revenue previous quarter.
- For the half year, **EBITDA** is at Rs. 21.12 crore, 14.50% of revenue, an increase of 30.15% against Rs. 16.23 crore, 11.74% of revenue in the corresponding half year of the previous year.



- **Depreciation** is at Rs.1.37 crore against Rs. 1.59 crore previous quarter. For the half year, it is Rs.2.96 crore against Rs.3.95 crore for the corresponding half year of the previous year.
- **Other income from investments** and deposits is at Rs.3.92 crore against Rs.3.62 crore in the previous quarter. There is a foreign exchange loss of Rs.1.83 crore against a gain of Rs. 4.76 crore previous quarter. Dollar closed end of September at 52.84, while it was at 55.66 end of June 2012, 48.97 as on September 30, 2011. **Total other income for the quarter** is Rs.2.56 crore against Rs. 8.50 crore last qtr. For the half year, **Other income from investments** and deposits is at Rs.7.54 crore against Rs.5.72 crore for the corresponding half year of the previous year. **Total other income for the half year** is Rs.11.06 crore against Rs.10.52 crore for the corresponding half year of the previous year.
- **Total taxes** are at Rs.3.05 crore, 23.20% of PBT against Rs. 3.78 crore, 23.52% of PBT previous quarter. For the half year, **Taxes** are at Rs. 6.83 crore, 23.38% of PBT against Rs. 6.32 crore, 27.71 % of PBT in the corresponding half year of the previous year.
- **PAT** is at Rs.10.10 crore for the quarter, 14.07% of revenue against Rs. 12.30 crore, 16.63% of revenue previous quarter. For the half year it is at Rs. 22.39 crore, 15.37% of total revenue, up by 36% against Rs. 16.48 crore, 11.93% of total revenue in the corresponding half year of the previous year.
- In terms of foreign currency hedges, we continue hedging approximately \$1.75 million a month for the next six months, On Sep 30 we had USD 10.60 million dollars of forward contracts at an average rate of 56.28. There is a mark-to-market gain of Rs. 2.51 crore which is taken to hedging reserve in the balance sheet. These would result in hedging gains and would affect revenue in the subsequent quarters. In Jun 2012 we had a total hedge of USD 11.45 million at an average rate of 53.73. Current hedge position is US \$ 11.80 million at an average rate of 56.11.
- With regard to **receivables**, we are at Rs.59.94 crore against Rs. 72.69 crore previous quarter. The **DSR** as on September 30th is therefore at 77 days against 89 days on June 30, 2012.
- **Top 5 clients for the quarter** are at 49% against 48% previous quarter.
- **The order book position** is Rs.247.89 crore including Rs.109.49 crore of products business and Rs.138.40 crore of projects and services business in Sep 30, 2012 against Rs. 266.52 crore including Rs. 109.59 crore of products business and Rs.



156.94 crore of projects and services business in June 12. In Sep 11, order book was for Rs.237.25 crore including Rs.117.30 crore of products business and Rs.119.95 crore of projects and services business.

- **Total Cash and cash equivalents** as on 30th September, 2012 are Rs. 234.76 crore against Rs. 222.80 crore as on Jun 30, 2012. So there is a positive cash flow this quarter of approximately 12 crore. This includes balances in current accounts of Rs.25.76 crore, liquid fund schemes of mutual funds Rs.100.13 crore, Rs.16.50 crore in fixed maturity plans and fixed deposits with banks of Rs. 92.37 crore.

R.P. Singh:

On the product front we have been working on extending our products to Mobile devices. I am happy to share that we launched FinnOne mCollect in this quarter. It is a solution for field Collectors who follow up and collect installments from defaulting borrowers. mCollect helps Collectors to view the assigned cases and plan their day. They can schedule calls or visits, make them; report on the progress using mCollect. This helps in improving productivity as the Collectors now don't need to go to their offices to pick their day's tasks and they can log in their day end reports from anywhere. Instant receipts can be printed & handed over to the payer on the field. SMS & email confirmations are sent in parallel. This brings in higher levels of transparency for the end-customer. Collectors can view the entire case details, history, trigger statement request for customers, simulate foreclosure computation right of his mobile phone, be it an Android, Windows or a Symbian device. The good news is that mCollect is already in action with a large Indian bank. Collection agencies of the bank are using it in the field, printing receipts and recording on-the-field reports in 5 cities already.

We are looking forward to bringing more business capabilities to the mobile in the current quarter.

V. Muralikrishna:

First let me start by saying that being relatively new in the organization, I am offering my initial impressions on my first 3 months in the company. In the time I have spent here, I have had the opportunity to meet with our customers in Middle East and India and I must say that I am impressed by the strong franchise of customer base that we have built over the years. I am confident that we will be able to build upon this strong base of customers to contribute to our growth by delivering value to them.

We have bagged some important orders this quarter, 5 new product orders for 14 modules. On the marketing front, we participated in the industry events like FIBAC 2012



– the FICCI Banking event. We have also conducted our own events to connect with our customers – in India and Philippines and conducted campaigns on our new offerings like mCollect as mentioned.

Viveka:

For the Quarter Ended September 30, 2012, 37 product modules successfully implemented across regions while for the half year Ended September 30, 2012, 51 product modules were successfully implemented across regions.

In terms of the development process; we rolled out Agile process adoption. I am happy to inform you that more than 75% of projects, both development and implementation projects, have adopted Agile. The benefits are obviously passed on to customers. The customers are getting to see what they are going to receive upfront, every sprint, in every two weeks. This increases the satisfaction level of our customers. We talked about increasing satisfaction level last quarter. We continue our journey in restructuring. Delivery and the customer CR teams got merged. Now the focus is going to be on identifying a relationship manager for each of the customers. That is going to be the focus for this quarter. Each customer would get to speak to one person for all his requests and he would be a satisfied customer if he's serviced by one single relationship manager. In order to facilitate that happening, we have started rolling out knowledge management portal across the organization. We created all the reusable components that we have been creating for most of our customers. There is a huge repository of components, huge repository of all the changes that we have done for our customers, so which will really help the delivery teams to pick the customizations done for one customer and pass on the value to the other customers. Hence, the focus for the current quarter Q3, is going to be on reusability of the implementation effort and also increasing the customer satisfaction.

Manu:

It has been a pleasure and a learning experience for me having completed a quarter in the organization myself. I joined in the beginning of last quarter, or this quarter actually.

In this quarter the top priority areas for us in the Human Resources function have been strengthening of our organizational capability through on-boarding the right skill set for our product development and the sales and marketing organization and to further increase the focus on training of our existing employees. We have also started focus groups on identification of opportunities for the continuous improvement in our people



processes. For example, we are working on increasing the rigor and quality of our hiring process to make sure that we have the right talent on board in the organization.

Total headcount saw a marginal decline from 1644 to 1622 over the last quarter. 28 employees joined in Q2 as against 34 in the last quarter.

The Training focus was around imparting training on latest technology areas. We had a high number of our employees being trained on the newer technology areas along with an on-going focus that we have on building competence across all modules of our products. The training person days in the organization are increasing quarter on quarter.

Some of the priority areas identified for next quarter are around leadership development and benchmarking our policies and processes to enable business expansion.

Chirag from HDFC Mutual Fund:

Chirag:

My first question was on the margins. Clearly there has been a substantial improvement in margins in the second quarter, and I wanted to understand whether these margins are sustainable going forward.

Pramod:

Yes, margins have improved in this quarter. I think we can look at similar margins going forward, subject to currency.

Chirag:

My second question was, what kind of tax rate can we expect for the full year?

Pramod:

23-24% of PBT should be fine.

Chirag:

What has driven as the margin improvement, because clearly this is the highest margin we have seen in the last seven/eight quarters, you have come at 16.5% versus what



used to be 12-13-14%. Just wanted to understand what has driven this and why do you feel that this is sustainable?



Pramod:

Margins went down earlier because currency has had its own movement. In this quarter currency has been at a better rate. Though there is a fall in rupee, the rupee has appreciated towards the end of the quarter only, but the average revenue realization is at a better rate as such. The manpower nos. are more or less similar. There is a little bit of change in the pyramid as such in terms of per person cost should have reduced likely. The other thing is that to some extent trading revenues going down is better at times for margins.

Sudhakar Prabhu from Span Capital:

My first question is, is it possible for you to share the dollar revenue and profit number for this and the previous quarter?

Pramod:

I can share the dollar revenue number; it is USD 13.42 million for the quarter and USD 13.73 million for the previous quarter.

Sudhakar Prabhu:

My second question is can you throw some light the five product order wins in this quarter? When can we see this ramping up and what is the delivery schedule?

Pramod:

These orders tend to be executed within 9-12 months of booking of order and we would see revenues starting from this quarter.

Sudhakar Prabhu:

How is the pricing in these orders? Have you seen competition increasing or was it more or less stable during the quarter?

Pramod:

No, competition I think is largely stable. There is no significant change happening in terms of competition as of now.



Sudhakar Prabhu:

The order book, compared to Q1, it is on the lower side, your thoughts on the same?

Pramod:

I think Vishnu in a call today has mentioned kind of order booking, we are looking at the next two quarters and we hope order book will start going up.

Sudhakar Prabhu:

Lastly, are you looking at any inorganic opportunities, or has anything fructified in the last 2-3 quarters?

Pramod:

No, I think we said it in the last quarter also that we will start looking at acquisition opportunities starting next financial year, and after that we will see what comes up and how long it takes to close it. As of now we are not looking at any acquisition opportunities and we are unlikely to do so till March end.

Sudhakar Prabhu:

What are the areas you are looking for acquisition, would it be in the same product space or different one?

Vishnu:

As far as that is concern, we would be looking at two kinds of acquisitions. One would be in geographies where we are not present and the functionality that our product does not have, and also we would look at offerings that we can take to our existing customers. So these are the two kinds of acquisition targets we would be looking at six months from now.

Sharvan Goyal from UTI Mutual Fund:

Current investment and cash and cash equivalents is close to Rs. 235 crore while our other income is pretty small, close to Rs. 3 crore. What is the yield on the cash and current investments?



Pramod:

The amount we have earned from investment income for the quarter is Rs. 3.92 crore. This translates to almost Rs. 16 crore a year, which gives you a yield of approximately 8%. Regarding Fixed deposits, income which comes there in is between 9 and 10% per annum. And liquid funds are on a dividend paid basis, so the yield would be about 6.5 to 7.

Sharvan:

Our receivables have sharply come off in the last two quarters. Is there any one off in that?

Pramod:

There is no one off in receivables. Of course end of March we did have higher receivables because one of our clients was scheduled to pay us towards April and which they did. That was a large payment which came in all together. But after that it is steady and we are working better.

Sharvan:

In terms of growth, what kind of growth are we targeting going forward?

Vishnu :

See, as a policy we do not provide guidance. But with the kind of a pipeline that we have and also the kind of pipeline that is building up on our offering side, we continue to be very optimistic.

Sharvan:

So probably we are targeting better growth as compared to last year's growth?

Vishnu:

I would not like to comment on the numbers but yes, we are looking at improvement over the last year.



Grishma from Envision Capital:

I just wanted to know you are targeting higher sales and better product deal pipeline to be precise for the second half. Could you highlight what geography or markets are we targeting and what are the kind of challenges and opportunities for us?

Vishnu:

As far as geographies are concerned we are present in different places right from Japan up to Brazil and soon our implementation is to be happening in Chile. So we cover almost all the time zones. In terms of challenges I guess we facing challenges in Europe because despite the fact that we have implementations in nine countries, which are essentially single implementations, and we are working in those markets for our next ten. But decision making in Europe as of now is very, very slow and that is the biggest issue. Other markets are ready but again deal making is slow. We hope that things would improve and we will have a better order book in quarters to come.

Grishma:

Between the two quarters, the product order book has been largely flat. Is that we are working with some new products and therefore we are marketing them and that's taking a longer time or it's just a general slowdown within the markets?

Vishnu:

No, I would say, it is combination. While we are working on the new products as RP has mentioned; we are working on taking our collections and customer acquisition system on mobile. The collections module is already on mobile and it has gone live and is delivering value to our first customer. The customer acquisition system when it goes live on mobile, it will again add substantial value to not just our direct customers but our customer's customers because they would be able to input their details while they are in the field and they would be able to get some kind of an approval literally within minutes. So that is what we are expecting out of these products. And as they are out in the market we are getting good response but we should be able to close few orders in coming quarters.

Grishma:

Anything on the number of RFP's that we have been currently working on?



Vishnu:

Yes, we continue to work on our sales pipelines and different customers are at different levels. Some are the at the introductory levels. For some we have submitted our RFPs long time back and for some we are in the negotiation stages and so on.

Grishma:

This mobile collection system and the customer acquisition systems, would we be going to the same set of clients and offering an additional solution or approaching new clients, or how are you going to sell this?

Vishnu:

To begin with, we are focusing on our existing customers because these two modules; mobile modules they work seamlessly with our existing modules and at the same time these modules can be used by other systems also.

Grishma:

Simultaneously we will also be working on releasing the advanced version for FinnOne also?

Vishnu:

Yes, that work continues to go strong.

Grishma:

On Capex front, what would you want to share?

Pramod:

There is no particular Capex happening, at the moment. We have, an addition of Rs. 1.8 crore in the quarter primarily on some hardware and software. We do not have any major Capex plans.

Grishma:



What about that facility at Jaipur?

Pramod:

Jaipur facility was commissioned in July last year. We have commissioned a 250-seater facility but at the moment there are only about 30 - 40 people using that facility. As business grows I think that facility will expand.

Grishma:

Are there no other Capex plans as such?

Vishnu:

Not as of now. Eventually whatever investments are happening, they are on product development and which we write to the revenue account. And we have sufficient capacity. We are about 1,600 and odd people and we have even touched a peak of 2000 in an earlier year. We have sufficient capacity available to ramp up.

Grishma:

What about the hiring plans for the rest of the year?

Vishnu:

As of now we expect it to be at similar numbers, end of the year.

Grishma:

And how about the attrition number or the rate currently for the company?

Pramod:

Let me say it is in single digit.

Vinod from VD:

As our cash surplus is nine times equity capital, do you have any plan in your mind to reward your shareholders with bonus shares?



Vishnu:

I think our share capital is already 32 crore and we want to make sure that we continue to service this capital adequately over the years. As and when we feel that we are ready for the next capital expansion, that is the time we will decide about bonus shares.

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

Vishnu:

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