



Q2 FY14

Earnings Conference Call

October 21, 2013

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. Manu Arora	Vice President and Head, Human Resources

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



Meenakshi Sharma:

Thank you, Yogesh. And here is offering you a very warm welcome to all of you who have joined us for this Nucleus Software Earnings Conference Call for the quarter and half year ended September 30th, 2013. For discussions, we have here from the management team, Mr. Vishnu R. Dusad, our Managing Director and CEO; Mr. Pramod Kumar Sanghi, President Finance and CFO; Mr. R. P. Singh, President and Head, Product Management; Mr. V. Murali Krishna, Executive Vice President and Head, Sales and Marketing; Mr. Pankaj Bhatt, Executive Vice-President, Global Delivery; and Mr. Manu Arora, Vice President and Head, Human Resources.

You are quite aware that Nucleus Software does not provide any specific revenue earnings guidance. Anything said during the call which reflects our outlook for the future or which may be construed as a forward-looking statement must be reviewed in conjunction with the risk that the company faces. An audio and transcript of this call would be shortly available on our website www.nucleussoftware.com. With this, we are now ready to begin with the opening comments on the performance of the company, straight from the CEO, and post that we would be available for the Q&A session. With this, I now pass it over to Vishnu.

Vishnu R. Dusad:

Thank you Meenakshi and good afternoon ladies and gentlemen. I am pleased to once again get in touch with you at this earnings call for the Second Quarter & Half Year Ended September 30, 2013.

The first half of the year has seen us register a healthy growth. Access to new markets and our focus on realizing the full potential of mobility has enhanced our performance. As we move ahead, product innovations, seamless implementation across geographies and nurturing long term customer relationships will continue to be the driving force for strengthening our global leadership position.

Let me take you through the numbers.

- **Our Consolidated revenue** for the quarter is at Rs. 82.25 crore up by 15% against Rs. 71.75 crore in the corresponding quarter previous year.



- **Revenue from product business** for the quarter is at Rs. 54.95 crore, 67% of the total revenue against Rs. 47.82 crore, 67% of the total revenue in the corresponding quarter previous year.
- **Product revenue from own business**, for the quarter is at Rs. 52.36 crore, 64% of the total revenue against Rs. 47.47 crore, 66% of total revenue in the corresponding quarter previous year.
- **Projects and services business revenue** for the quarter is at Rs. 27.30 crore, 33% of total revenue against Rs. 24.93 crore, 33% of total revenue in the corresponding quarter previous year.
- **EBITDA** for the quarter is at Rs. 12.82 crore, 16% of total revenue against Rs. 11.96 crore, 17% of total revenue in the corresponding quarter previous year.
- **Taxes including withholding taxes** are at Rs. 4.18 crore against Rs. 3.05 crore, in the corresponding quarter previous year.
- **Net profit** for the quarter is at Rs. 10.94 crore, 13% of total revenue against Rs. 10.10 crore, 14.07% of total revenue in the corresponding quarter previous year.
- **EPS** for the quarter is at Rs. 3.38 against Rs. 3.12 in the corresponding quarter previous year.

For the Half Year ended September 30, 2013, our consolidated revenue from software products and services is at Rs.168.57 crore against Rs. 145.69 crore, 16% higher year on year .

- **Revenue from product business** for the half year is at Rs.117.43 crore, 70% of the total revenue against Rs.98.40 crore, 68% of the total revenue year on year
- **Product revenue from own business**, for the half year is at Rs.105.84 crore, 63% of the total revenue against Rs.94.70 crore, 65% of total revenue year on year
- **Projects and services business revenue** for the half year is at Rs.51.15 crore, 30% of total revenue against Rs.47.29 crore, 32% of total revenue year on year
- **EBITDA** for the half year is at Rs. 27.04 crore, (16% of revenue), an increase of 28% against Rs. 21.12crore, (15% of revenue) year on year
- **Taxes** are at Rs. 11 crore against Rs. 7 crore,



- **Net profit** for the half year is at Rs. 22.11 crore, 13% of total revenue, against Rs. 22.39 crore, 15% of total revenue year on year
- **EPS** for the half year at Rs. 6.83 as against Rs. 6.91 in the corresponding half year of the previous year.
- **Our total Current investments and bank position** is at Rs.290.01 crore as on Sep 30,2013 against Rs.284.23 crore as on June 30,2013.
- In terms of **manpower**, we are at 1650 as on September 30, 2013 against 1,622 as on September 30, 2012.

Going forward, the company is looking at profitable growth by penetrating deeper into fast growing markets like Africa, Middle East and Australia. As a part of the transformational initiatives, Nucleus Software continues to invest in strengthening the sales and marketing backbone.

With this I would hand it over to Pramod for details 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. 82.25 crore, against Rs. 86.32 crore previous quarter, the fall primarily due to fall in trading revenue.
- **Product revenue for the quarter** is at Rs. 54.95 crore, 66.8% of the total revenue against Rs. 62.47 crore, 72.4% of revenue previous quarter
- **Revenue from own Products** for the quarter is at Rs. 52.36 crore, 63.7% of revenue, against Rs. 53.47 crore, 62% of revenue, previous quarter.
- **Traded revenue from products** included in this product revenue is at Rs. 2.59 crore, 3.2% of revenue for the quarter, against Rs. 8.99 crore, 10.4 % of revenue previous quarter. There is a fall in this of about Rs. 6.4 crore.
- **Revenue from projects and services** for the quarter is at Rs. 27.30 crore, 33.2% of revenue, against Rs. 23.85 crore, 27.6% of revenue, previous quarter.



- **Overall Revenue in foreign currency including India Rupee revenue** is US\$ 13.49 million for the quarter against US\$ 15.24 million in the previous qtr. Excluding India Rupee Revenue, the foreign currency revenue is US \$ 10.89 million for the quarter against US \$ 11.39 million previous qtr. India rupee revenue is Rs. 16.55 crore this quarter against Rs. 21.84 crore in the previous qtr. Overall **Revenue in foreign currency including India rupee revenue** for the half year is US\$ 28.73 million against US\$ 27.15 million in the corresponding half of the previous year. Excluding India Rupee Revenue, the foreign currency revenue for the half year is US \$ 22.28 million against US \$ 22.08 million India rupee revenue for the half year is Rs. 38.38 crore this quarter against Rs. 27.29 crore in the corresponding half of the previous year.
- **Cost of delivery including cost of product development** is 63.5% of revenue, 57% of revenue in the previous quarter. In absolute terms this is Rs. 52.19 crore against Rs. 49.51 crore previous quarter. A large part of this increase comes from manpower cost related to new trainees they were hired during the quarter. For the half year, it is Rs.101.70 crore (60.3% of revenue) against Rs.97.07 crore (66.6% of revenue) for the corresponding half year of the previous year.
- **Marketing & sales expenses** are at 10.21% of revenue this quarter, against 10.17% of revenue previous quarter. In absolute terms, they are at Rs.8.39 crore against Rs. 8.78 crore previous quarter. For the half year, they are Rs.17.17 crore (10.2% of revenue) against Rs. 15.75 crore (10.8% of revenue) for the corresponding half year of the previous year.
- **G&A expenses** are at 10.8% of revenue this quarter, against 10.3% of revenue previous quarter. In absolute terms, they are at Rs.8.84 crore against Rs.8.87 crore previous quarter. For the half year, they are at Rs.17.71 crore (10.5% of revenue) against Rs. 11.76 crore (8.1% of revenue) for the corresponding half year of the previous year.
- **EBITDA** is at Rs. 12.82 crore, 15.6% of total revenue this quarter, against Rs. 14.22 crore, 16.5% of revenue previous quarter.
 - For the half year, **EBITDA** is at Rs. 27.04 crore, 16% of revenue, an increase of 28% against Rs. 21.12 crore, 14.5% of revenue in the corresponding half year of the previous year.
 - **Depreciation** is at Rs.1.78 crore against Rs. 1.57 crore previous quarter. For the half year, it is Rs.3.35 crore against Rs.2.96 crore for the corresponding half year of the previous year.



- **Other income from investments and deposits** is at Rs. 3.61 crore against Rs. 3.52 crore in the previous quarter. Other income includes foreign exchange gain of Rs.0.36 crore against a gain of Rs.1.93 crore previous quarter. Dollar closed end of September at 62.89, against 59.38 end of June 2013. **Total other Income for the quarter** is Rs. 4.08 crore against Rs. 5.34 crore last qtr.
- For the half year, **Other income from investments** and deposits is at Rs.7.13 crore against Rs.7.54 crore for the corresponding half year of the previous year. Foreign exchange gain for the half year is Rs. 2.29 crore against Rs. 2.93 crore in the corresponding half year of the previous year. **Total other Income for the half year** is Rs. 9.42 crore against Rs. 11.06 crore for the corresponding half year of the previous year.
- **Total taxes** are at Rs. 4.18 crore, 27.6% of PBT against Rs. 6.82 crore, 37.9% of PBT previous quarter. Income tax for June 13 qtr. included a onetime Rs. 1.58 crore tax on dividend from our wholly owned subsidiary in Singapore; Rs. 9.31 crore received during the June 13 quarter. For the half year, **Taxes** are Rs. 11 crore, 33.2% of PBT against Rs. 6.83 crore, 23.4 % of PBT in the corresponding half year of the previous year.
- **PAT** is at Rs. 10.94 crore for the quarter, 13.3% of revenue against Rs. 11.17 crore, 12.9% of revenue previous quarter. For the half year it is at Rs. 22.11 crore, 13.1% of total revenue, against Rs. 22.39 crore, 15.4% of total revenue in the corresponding half year of the previous year.
- **EPS** for the quarter is at Rs. 3.38 against Rs. 3.45 previous quarter. For the half year EPS is at Rs. 6.83 against Rs. 6.91 in the corresponding half year of the previous year.
- In terms of **foreign currency hedges**, on Sept 30 we had USD 9.15 million dollars of forward contracts at an average rate of 60.60. There is a mark-to-market loss of Rs. 3.33 crore which is taken to hedging reserve in the balance sheet. In June 2013 we had a total hedge of USD 10.10 million at an average rate of 56.80 and there was mark-to-market loss of Rs. 3.62 crore. Today, the dollar-rupee is trading at 61.50
- **Revenue contribution from the top 5 clients for the quarter** is 40% against 42% previous quarter.
- **The order book position** is Rs. 220.41 crore including Rs. 129.56 crore of products business and Rs. 90.85 crore of projects and services business in Sep. 30, 2013 against



Rs. 224.08 crore including Rs. 123.83 crore of products business and Rs. 100.25 crore of projects and services business in June 30, 2013.

Total Cash and cash equivalents as on 30th Sep, 2013 are Rs. 290.01 crore against Rs. 284.23 crore as on 30th June, 2013. This includes balances in current accounts of Rs.20.69 crore, liquid fund schemes of mutual funds Rs.90.24 crore, Rs.117.26 crore in fixed maturity plans, fixed deposits with banks of Rs.51.82 crore and investments in tax free bonds of Rs. 10.00 crore.

R. P. Singh:

Thank you Pramod and good afternoon everyone. This quarter, we launched our mobility suite of solutions. The suite has three product offerings, addressing three different areas of business operations and loan management. mCAS is aimed at helping our customers to improve operational efficiency of the new loan acquisition process, specifically aimed at the fleet on the street. The second module is mServe which empowers end customers or borrowers to access the loan details on the mobile, simulate various situations, transact on them. This not only helps reduce cost of servicing for our customer but also enhances the entire experience for the end borrower. The third is mCollect which was the first product module we rolled out. It helps enhance data collection efficiency, of the field force which is on the move.

Recently at an event held jointly with Religare Finvest, we released the business case studies outlining the successful implementation. Religare Management also shared with the audience the value they derived by implementing mCollect in terms of efficiency and cost-reduction. On the other side, the new gen-next transaction-banking product has also been released successfully. At SIBOS we showcased it to a select audience. SIBOS is a global banking symposium focussing specifically on payments and transaction banking, and that is why we thought we will showcase and get a feel of the market. The good news is the fact that as we speak, we are in the process of going live with one of our first customers. While we are already in the line with two new orders, where the new product is going to be rolled out, one of them incidentally is a global bank with a multi-country implementation that we will be starting very soon. That is all from me and I would like to hand over to Murali. Thank you.

V. Murli Krishna:

Thank you, R. P. Very good afternoon, ladies and gentlemen. I am extremely happy to share that Q2 FY 2014 has been a positive quarter with regard to the Sales and Marketing efforts of Nucleus Software. The Company added five new customers this quarter. We have won 5 new product orders worldwide and 2 product modules have



been successfully implemented across geographies. For the Half Year Ended 30th September, 2013, we won 7 new product orders worldwide, added 6 new customers and successfully implemented 12 product modules across geographies.

An important milestone we achieved was the launch of the Mobility suite of our FinnOne™ product. Our efforts to work closely with our customers continued as we expanded our sales force globally. We strengthened our sales and marketing team in multiple areas, which include sales, marketing and alliances.

Our marketing efforts continue to deliver results aligning with our overall objectives. We progressed in our outreach programs for key audiences with focused participation in events and customer announcements. This quarter saw Religare Finvest Limited (RFL), the SME-focused lending arm of Religare Enterprises Limited (REL) and one of India's largest capitalized NBFCs, announcing its successful collaboration with Nucleus Software's FinnOne™ mCollect, a mobility product, to enhance its loan servicing and collection software capabilities. We participated in SIBOS 2013, the flagship event of transaction banking and FIBAC, FICCI driven banking event in India, Nucleus Software had the opportunity to meet industry players and share its innovation driven products with the audience in these events. We also initiated other programs to improve our brand visibility and presence through online and traditional media. Our media relations efforts continued to gain traction as we witnessed a steady growth of our communities in the digital world.

Under our Alliances umbrella, our efforts were spent in further strengthening the eco system. We established working relationships with more System Integrators and are exploring further collaborations across the globe. We have successfully on boarded with 9 Channel Partners across the globe this quarter. Our efforts to keep in touch with global Analysts also continued.

I would like to conclude by saying that all our efforts are centered around adding value to our customers. We believe that with our portfolio of products and rich global market expertise, we are in the right position to enable value driven growth for our customers. With this I would hand it over to Pankaj.

Pankaj Bhatt:

Thank you, VMK and a Good afternoon, ladies and gentlemen. In the quarter ending September 30th, 2013, as VMK also mentioned earlier, two product modules were successfully implemented across regions. So consequently, in the half year ending September 30th, 2013, total of 12 product modules have been implemented. Customer satisfaction through experience in products implementation and customer care remains



our primary focus for Q3 and beyond. To further strengthen this, we have created a separate unit for our transaction banking product delivery to address the need of our customers globally. This is all from my side. With this I would hand it over to Manu, thank you.

Manu Arora:

Thank you, Pankaj. Good evening, ladies and gentlemen. This quarter has been very important to us as we have been focussing on increasing our organisational capability. We have inducted 267 new hires, out of which we have taken 200 graduate engineers becoming a part of the Nucleus family from all over India. We have kept a special focus on increasing the diversity at our workplace in hiring these numbers from different institutes and different academic streams. This quarter, we continue to strengthen our focus on high-performance culture by implementing simple and objective performance management processes and introducing reward mechanisms for our key talent. We will continue to build running engagements with the academic world in the ongoing quarter as well. That is the update from my side. I will now hand over to Meenakshi. Thank you.

Kavita from Nirmal Baang:

Thanks for taking my question. I have a query on the order book position. From the last two quarters, it has been going down. Could you throw some light on this?

Pramod:

Order book position has largely stabilized in this quarter. We have delivered certain amount of revenue. If you would have noticed, in the first quarter; number of product orders were very low and we believe that the order book will start picking up in this quarter.

Kavita:

Which segment and geographies do you foresee growth and demand coming from?

Pramod:

Our focus remains on the product business. In terms of geographies, we are looking at Africa, Middle East and Southeast Asia; in terms of immediate demand and in future it will be Europe.

Kavita:

In current quarter, there are other expenses of Rs. 20 crore, was there any one-time expense here?



Pramod:

There are no major one-time expenses. There could be some expenses which would occur in one-quarter and some in other quarter. The only one-time expense could be when we had trading revenue of Rs. 6.75 crore in the last quarter for a specific hardware-cum-software order for our Oracle product; hence there would be a cost associated with that. That would lead to a reduction in the current quarter numbers.

Vishnu:

In the current quarter, as Pramod was highlighting, the higher expense is more due to our participation in the industry event called SIBOS which was held in Dubai this year in the month of September.

Kavita:

There is also a dip in the revenue of 5% on a quarter on quarter basis. Is there any revenue which has not got billed in this quarter and can we expect it happening in the next quarter?

Vishnu:

No, that is not the case. As we said earlier, there was a sizeable order which was essentially a third-party product, last quarter and this time there is no similar order. So, that is the reason for the dip in quarterly revenue as compared to last quarter.

Dhiraj Sachdev from HSBC:

My question is related to the product business. We have been witnessing new client order wins over the last two or three quarters, but it seems to not get reflected in the form of a significant ramp up in revenue. The revenue growth has still been muted on the product side. We have also launched the new mobility products. When can we see some visible signs of product ramp up happening?

Vishnu:

I think this quarter and the next quarter we are visualising some good numbers on the mobility product front. There has been a reasonable interest amongst our customers for this product suite and we expect it to convert into good orders.

Pramod K Sanghi:

We are seeing traction in the transaction banking and cash management area and as R. P. Mentioned, we have done a preview of a new product recently. The number of responses which are now coming and even orders which are getting closer to



finalisation is a definitely a good signal. In the last two-three years we have hardly done any new business. And that would be additional business. For FinnOne we see Africa as a new geography; and other geographies are also looking much better than what they looked six months ago. We do feel that product business, now, is looking more positive than what it was six months to a year ago. We have recruited people across geographies. As we spoke last time in detail, strength of people on the ground in sales and marketing and alliances is much more than what it was 12 months ago.

Dhiraj:

India revenue has seen a decline. Is there anything specific on the AMC side? Can you let us know why this region has seen de-growth on a sequential basis?

Pramod:

That is because we had one-time traded product revenue of Rs. 6.75 crore in the last quarter.

Dhiraj:

Regarding the Cash lying in the balance sheet, what is the Management intention? For better capital efficiency, 5% yield is a sub-optimal return from shareholders point of view. What is the thought process within the Board, within the Management to utilise it for the benefit of the shareholders?

Vishnu:

Essentially we are keeping it in reserve on three accounts. One is on account of an acquisition that we would be doing. The acquisition would be in for either acquiring an intellectual property which would increase our number of offerings to our existing customers; essentially extending our suite of offerings; and other could be in the direction of acquiring certain customers in developed parts of the world. Hence part of the cash is kept in reserve in that direction. The other part is essentially with the intent of continuing our investments aggressively for years to come; even if for some quarters we have some difficulties, we do not want to suspend or reduce our investment, and we want to continue making sure that our investments do not stop. The third is an indirect benefit with regard to our customers; especially in the developed part of the world, when they are not sure about placing a product order with a company like ours; this cash reserve gives them that comfort that this company is going to be around for decades to come. Since once a customer has placed an order, that customer is going to be dependent on us for at least a decade and we want to provide them that comfort through.



Dhiraj:

I have a big debate or discussion on this and a difference of opinion as well. One is that your R&D cost is about Rs. 27-30 crore and this can be meted out of your recurring annual profits. Hence investment will be an ongoing phenomenon. Second is stripping off even 20-30% of the cash, which is Rs. 50-60 crore will not make a difference to the customer regarding the decades of experience that Nucleus has to offer and will last till perpetuity. Acquisition is not yet identified. So there is no visible allocation of cash, which is prudently getting applied and which is sitting in the balance sheet with 5% yield. Therefore my question again would be, is there any thought process which is really put across in a very deep manner within the Board to reward the shareholders?

Vishnu:

We are building a long-term institution, that has a stated goal and whatever is required in that direction, we will continue to do that. There would be some differences of opinion with very prestigious and esteemed investors, like you, but we are open to debate. We are open to listen to you, and will keep decisions.

Dhiraj:

Thank you so much, sir. Just a feedback from my side, there are quality institutions which have utilised cash by the way of buyback of shares and dividends, and they have lasted forever and they have been rewarding the shareholders, and have sustained their business momentum. An extreme conservative approach of keeping the cash, could be unhealthy in terms of return on capital employed or from a capital efficiency point of view. Hence, I would suggest you take this feedback closely and positively.

Vishnu:

Certainly, we want to thank you very much for continuing to give us this feedback, and we would once again bring it up to the Board next time we are meeting.

Jatin Khemani from Aadhar Securities:

When you look at the last six years of performance, the Company has not really grown in terms of top line. So are we catering to a stagnated niche market, or if that is not the case, what is stopping us from tapping the market? I want to know two things: one, size of the market opportunity and second, growth potential from here on?

Vishnu:

The size of the opportunity is very substantial. We have attempted quantifying it earlier. But we were waiting for our new release to be ready. We were also ready for the sales and marketing machinery to be functional, which is in place and is now out in a field to



reach out for opportunities and convey the quality of our offerings. I am happy to let you know that this message is being heard in a number of geographies and now we are confident that we will be able to get back on the growth track after five years of stagnation.

Jatin:

Who is our closest competitor and how does it look in terms of size compared to us?

Vishnu:

If you look at the retail loan space; we have the usual suspects within the Indian IT space. If you look overseas, you will also find the larger players, some core banking players also compete with us. I do not think it will be appropriate for us to get into competitors' names in a call. But having said that, I think in the Indian space we do win a large majority of retail loan orders which are placed in India. In the Middle East, especially in Dubai, we are very dominant and if you look at the total number of deals, also ranked by IBS, we have been ranking number one for the past five years

Sudhakar from Span Capital:

If you see your sequential revenue growth, it seems to have registered a fall. How do you explain this because in spite of steep Rupee depreciation, the revenue seems to be down?

Pramod K Sanghi:

I have mentioned this earlier that we had one off revenue from a third-party product of about Rs. 6.75 crore in the June quarter.

Sudhakar:

Why is there a fall in sequential EBITDA of 1% because generally if you see in the trading products the margins are very low. So how do you explain the fall in margins?

Pramod K Sanghi:

Trading products have a margin similar to our overall EBITDA margin and secondly, we have had some expenses, a growth in expenses which are primarily arising from investments in people and marketing.

Sudhakar:

What has been the initial response of the customers, now that you have already launched the FinnOne Mobility product?



Pramod K Sanghi:

FinnOne mobility products have been launched and the customer response as R. P. mentioned, has been very good. Two of the customers who are using the product have derived significant quantifiable benefits from the same. Further penetration should happen within the next two quarters from our existing customers.

Sudhakar:

Is there a scope for margin improvement going forward once you are able to get a higher number of deals for these products?

Pramod K Sanghi:

See, margin improvement in Product Company is a function of product orders and license revenues. As we grow product revenues and product orders, it will automatically grow. In the absence of the same, it does not grow; I would be categorical in that.

Sudhakar:

Coming back to the inorganic growth, we have been talking about closing one or two deals since the last few quarters. Are we very close to finalising one of them or you think we are still far away?

Vishnu:

We are still scanning, going through the proposals, nothing close to closure as yet.

Sudhakar:

Do we see anything finalising this year?

Vishnu:

We are trying hard, but I am not too sure.

Jatin:

Sir, I have a follow-up question on cash allocation. We understand the three points you mentioned about acquisitions and all. But, just trying to understand, what is the threshold of cash level beyond which Management would be comfortable maybe announcing a special dividend or consider a buyback?

Pramod:

I don't think we have looked at it from that perspective as such. But as Vishnu said earlier; we do take into account suggestions made by people and we will give it a due consideration. I do not think there is a specific number in mind as such.



Meenakshi:

We thank you all for joining us in this earnings conference call. And with this, I would like to give it back to Vishnu for his closure comments.

Vishnu:

I would like to take this opportunity to thank you very much for your interest and also the suggestions which we continue to look forward to. And thank you very much for the interest.