



Nucleus Software Exports Limited

Q2 FY17

Earnings Conference Call

October 21, 2016 & October 24, 2016

Members of Nucleus Management

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

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



Gaurav Agarwal:

Good afternoon, everyone. This is Gaurav from investor's relation team at Nucleus Software. A very warm welcome to all of you for this Nucleus Software earnings conference call for the second quarter and half year ended September 30th, 2016. For discussions, we have here from the management team Mr. Vishnu R. Dusad, our Managing Director and CEO; Mr. R. P. Singh, Director and Head, Product Management; Mr. Ashish Nanda, CFO; Mr. Avnish Datt, Executive Vice President, Global Head Strategy; Mr. Pankaj Bhatt, Executive Vice President, Professional Services; and Mr. Ashutosh Pandey, Head, Financial Inclusion.

As you all are aware, Nucleus Software does not provide any specific revenue earnings guidance. Anything which is said during this call which may reflect our outlook for the future or which may be constructed as a forward-looking statement must be reviewed in conjunction with the risk that the company faces. An audio and transcript of this call would be shortly available on the investor section of our website www.nucleussoftware.com.

With this, we are now ready to begin the opening comments on the performance of the company for the quarter ended September 30th, 2016 from the CEO and post that, we would be available for the Q&A session. With this, I now pass it over to Vishnu.

Vishnu R. Dusad:

Thank you, Gaurav, and good afternoon, ladies and gentlemen. I'm pleased to connect with you at this earnings call for the second quarter and half year ended September 30th, 2016.

To meet their customers' expectations of personalised real-time digital experiences, banks and financial institutions are reshaping their business model with strong focus on digital and analytical capabilities. They realise the urgent need to transform, they understand that technology can be a business enabler and we are continuing to help them take advantage.

In the second quarter we saw continuing traction in our Cloud business and digital solutions. We have helped customers all over the world go live and I'm proud to say that FinnOne, our market leading lending solution helped a leading bank in India win a technology excellence award.

Over to you, Ashish.



Ashish Nanda:

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

REVENUE

- **Our Consolidated revenue** for the quarter is at Rs. 95.6 crore against Rs. 90.0 crore QoQ and Rs. 84.7 crore YoY. **For the Half Year** it is Rs. 185.6 crore against Rs. 169.5 crore for the corresponding half year of the previous year.
- **Overall Revenue in foreign currency including India Rupee revenue** is US\$ 14.2 million for the quarter, against US\$ 13.4 million QoQ and US\$ 13.1 million YoY. **For the Half Year** it is US\$ 27.6 Million, against US\$ 26.5 Million for the corresponding half year of the previous year.
- **Product revenue for the quarter** is at Rs. 75.1 crore, against Rs. 69.2 crore QoQ and Rs. 62.3 crore YoY. **For the Half Year** it is Rs. 144.2 crore, against Rs. 124.8 crore for the corresponding half year of the previous year.
- **Revenue from projects and services** for the quarter is at Rs. 20.5 crore, against Rs. 20.8 crore QoQ, and Rs. 22.4 crore YoY. **For the Half Year** it is Rs. 41.3 crore, against Rs. 44.7 crore for the corresponding half year of the previous year.

EXPENSES

- **Cost of delivery including cost of product development for the quarter** is 64.0% of revenue, against 66.7% of revenue QoQ and 69.1 % of revenue YoY. In absolute terms this is Rs. 61.2 crore against Rs. 60.0 crore QoQ and Rs. 58.5 crore YoY. For the half year, it is Rs. 121.2 crore (65.3% of revenue) against Rs. 114.5 crore (67.5% of revenue) for the corresponding half year of the previous year.
- **Marketing & sales expense** for the quarter is 11.9% of revenue, against 13.1% of revenue QoQ and 15.3% YoY. In absolute terms this is Rs. 11.4 crore against Rs. 11.8 crore QoQ and Rs. 12.9 crore YoY. For the half year, they are at Rs. 23.1 crore (12.5% of revenue) against Rs. 27.9 crore (16.5% of revenue) for the corresponding half year of the previous year.
- **G&A expense for the quarter** is 9.3% of revenue, against 10.0% of revenue QoQ and 13.6% YoY. In absolute terms this is Rs. 8.9 crore against Rs. 9.0 crore QoQ and Rs. 11.5 crore YoY. For the half year, they are at Rs. 17.9 crore (9.7% of revenue) against Rs. 21.1 crore (12.5% of revenue) for the corresponding half year of the previous year.



- **EBITDA for the quarter** is at Rs. 14.1 crore (14.8% of Revenue), against Rs. 9.2 crore (10.2% of Revenue), QoQ and Rs. 1.7 crore (2.0% of Revenue), YoY. For the half year, **EBITDA** is at Rs. 23.3 crore, (12.6% of revenue), against Rs. 6.0 crore, (3.5% of revenue) in the corresponding half year of the previous year.
- **Other income from investments and deposits** is at Rs. 6.1 crore against Rs. 5.7 crore QoQ, and Rs. 5.4 crore YoY. **Total other Income for the quarter** is Rs. 6.1 crore against Rs. 6.6 crore QoQ and Rs. 7.0 crore YoY.
For the half year, other income from investments and deposits is at Rs. 11.8 crore against Rs. 11.3 crore for the corresponding period of the previous year. **Total other Income for the half year** is Rs. 12.6 crore against Rs. 14.7 crore for the corresponding period of the previous year.
- **Total taxes for the quarter** is at Rs. 3.5 crore against Rs. 1.9 crore QoQ and Rs. 1.1 crore YoY. **For the half year, Taxes** are Rs. 5.4 crore, 17.9% of PBT against Rs. 3.2 crore, 22% of PBT in the corresponding period of the previous year.
- **Net profit** is at Rs. 13.7 crore for the quarter, 14.3% of revenue, against Rs. 10.8 crore, 12.0% of revenue QoQ and Rs. 4.5 crore, 5.4% of revenue YoY. **For the half year** it is at Rs. 24.5 crore, 13.2% of total revenue, against Rs. 11.3 crore, 6.7% of total revenue in the corresponding period of the previous year.
- **EPS** for the quarter is at Rs. 4.23 as against Rs. 3.34 in the previous quarter and Rs. 1.40 in Sept'15 quarter. **For the half year** it is at Rs. 7.57 against Rs. 3.50 in the corresponding period of the previous year.
- In terms of **foreign currency hedges**, on Sep 30 we had USD 6.37 million dollars of forward contracts at an average rate of 68.73. There is a mark-to-market gain of Rs. 63.57 lakhs which is taken to hedging reserve in the balance sheet.
- **Revenue contribution from the top 5 clients for the quarter** is 48% against 41% previous quarter.
- **The order book position** is Rs. 334.5 crore including Rs. 298.5 crore of products business and Rs. 36.0 crore of projects and services business. **In June 30, 2016** the order book position was Rs. 369.9 crore including Rs. 325.1 crore of products business and Rs. 44.8 crore of projects and services business.
- **Total Cash and cash equivalents** as on Sep 30, 2016 are Rs. 412.0 crore against Rs. 394.5 crore as on June 30, 2016. This includes balances in current accounts of Rs. 25.5 crore, liquid fund schemes of mutual funds Rs. 160.9 crore, Rs. 32 crore in fixed maturity plans, fixed deposits with banks of Rs. 73.8 crore, investments in tax free bonds of Rs. 77.7 crore and Rs. 42.1 crore in Preference shares.
- With regard to **receivables**, we are at Rs. 61.6 crore against Rs. 77.9 crore previous quarter.



- During the quarter, **there is a gross addition of fixed assets** of Rs. 1.05 crore, consisting primarily of Rs. 0.29 crore computers equipment's and Rs. 0.74 crore on software licenses.

I'll now hand it over to Avnish for sharing his updates.

Avnish Datt:

Thank you, Ashish. Good afternoon, everyone. A very warm welcome on our investor call for second Quarter. Let me start with the highlights on the business acquisition side. So, we concluded discussions on our first analytics product sale for an Indian bank this quarter. I'm also happy to share with you that we have some very strong interests from both Middle East and Africa also for the analytics product, very proud to share that. We concluded discussions for selling our entire Mobility suite to a large bank in India. We also are in the process of finally drying the ink on some of the discussions that we concluded during this quarter on the lending product sale to some of the financial institutions in India.

In addition to that, we participated in our annual Mecca for transaction banking which is Sibos. This was in Geneva this time and based on the preparation and also the enrichment in the product, we had close to around a hundred meetings with a combination of banks from Europe, US, Africa, Middle East and India. Some of them are very promising discussions, very early stages, though, and we will continue to update you on the progress.

On the products side, I'm happy to share that we had the new version released of both origination and servicing of the lending product. We added a couple of new lines of businesses, also feature enrichment, which is what continues to maintain our innovative lead over the rest of the competition risk market.

With that, I will hand it over to Pankaj.

Pankaj Bhatt:

Thank you Avnish. Good afternoon, ladies and gentlemen. This quarter we implemented ten product modules across the globe which includes one implementation in Europe. So, thus we have extended our existing presence in Europe. We also completed our cloud implementation for NBFC, again giving them the complete suite of products.



In the ten modules that we implemented, we had two of our mobility suite products. Another highlight of this quarter was we took one of our banks live in Mauritius. The retail lending platform went live in two countries, Mauritius and Madagascar.

Now, with this, I'll hand over to Gaurav.

Gaurav Agarwal:

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

Moderator:

Thank you very much, sir. So, participants, with this, we open it for Q&A session. If you wish to ask any question, please press "0" then "1" on your telephone keypad and wait for your line to be unmuted.

Apurva:

Thanks for the opportunity. So, I just wanted to understand what is happening in India. If I look at like six quarters results our Indian business has grown significantly whereas the other geography is not contributing to the overall top line growth.

Ashish Nanda:

Let me give you the financial perspective and then we can go on to Avnish for his perspective from the sales side. India, as you see, has contributed in this quarter by almost 25 crores as against 22 crores in the previous quarter and in the same quarter last year it was around 14 crores. Your findings are absolutely correct. Primarily what you are seeing is more traction in terms of our repeat business also in India. That is also adding to a significant growth in the current quarter which is there. There has been also some of the new contracts we have mentioned in our previous quarters, in the cloud as well as some of the leading banks taking on to our new product. So, that has also contributed to our growth. I'll request Avnish to give more insight, but from a finance side, what we see is that as the focus on the new product came in, we wanted to have in the market where we are leaders and pioneers in our software. Probably that's the reason for this initial growth but we hope to see growth in the other geography also. Over to Avnish for more detailed background from a strategy perspective and sales perspective.



Avnish Datt:

Thanks, Ashish. So, as Ashish explained, I think what we see is a lot more traction and probably relatively quicker conversion in the Indian market right now aided both by a strong macroeconomic growth and the fact that we have an unassailable lead over anybody else in this market. I'm expecting in the subsequent quarters more activity from an acquisition perspective in other geographies and we are also seeing a little bit of easing off of macroeconomic pressure in Middle East. The decisions though continue to take far longer. Selective activity in Africa is also becoming a little bit more positive so we'll probably see a little bit more activity happening from those geographies in the coming quarters now.

Apurva:

Sir, do we have any particular products which is contributing to the growth?

Ashish Nanda:

So, not specifically any particular product. It is a combination of both the products. As you have been tracking us for some time now, it's a product business and as when the implementation goes the revenues are there. So, there's no specific product but it was a combination of products and the repeat business which we get in terms of AMCs and the change request from the product itself. So, the growth is coming from the overall product side but no specific product, so to say.

Apurva:

Okay. Fair enough, sir. I'm not tracking this company on a regular basis. This is the first time I'm looking at your company, so pardon me. So, I will take that questions offline with any of the concerned person.

Ashish Nanda:

Sure.

Apurva:

But two more things. So, what is the order pipeline and if you can throw some light based on different geographies that will be more helpful. In terms of margins, if I look at margins in different geographies then I'm seeing some sort of lumpiness. If you can justify these two things.



Ashish Nanda:

Order book position if you had seen us in the last call, the order book position is standing at 334.5 crores including 298.5 crores of product business and 36 crores of projects and services. There are geographical, though we do not track profitability on a geography wise but on a segment basis if you look at the direct cost which are there, yes, there are geographies that are more profitable than the other, and it can be because of the kind of services which are offered in a particular geography. If there are AMCs, they are ought to have higher margins than the product on the implementation side of it. That's the basic reason for it.

Apurva:

Okay. So, if I break up, if I look at your product business, so how much is coming from license and how much from AMC or maybe implementation?

Ashish Nanda:

See, as you say that you've joined the call for the first time. We do not bifurcate between the AMC and the license in that manner. We give the bifurcation on a product versus projects and services which are there.

Apurva:

Okay. Got it. Out of this 298 crores, can you break it up in to different geographies?

Ashish Nanda:

Geographically I don't have handy right now, so when you will come for specific questions with our investor relations team, probably we can have a detailed discussion around that.

Apurva:

Fair enough, sir. Thank you very much and all the best.

Deepan:

Thanks a lot for the opportunity. Sir, just want to understand FinnOne Neo upgrades have you seen any additions during the quarter, particularly any client from India?



Avnish Datt:

Sorry, can I have your name again?

Deepan:

Deepan Shankar from Trustline.

Avnish Datt:

Deepan, not specifically in this quarter but as we had informed in the earlier calls we had seen activities from some of the largest banks for FinnOne Neo upgrades.

Deepan:

So, the progress is on but not happened during the quarter. That's the idea?

Avnish Datt:

Yes. During this particular quarter we did not have any new upgrade.

Deepan:

So, just want to get two update. Capital Small Finance Bank, one of our competitor have announced that they have got transaction banking deal with a bank, Small Finance. So are we also participating in lending product deals with that bank and how are we tracking on that?

Avnish Datt:

Sorry, which bank is that?

Deepan:

Capital Small Finance Bank.

Avnish Datt:

No, Deepan it's not in our active engagement at this time.

Deepan:

Okay. With regard to IDFC Bank the lending product deal so whom did we lose to? Just to get a sense of local competition how is it doing?



Avnish Datt:

Deepan, when we get in to the market there are deals that we choose to pick, there are deals that we choose to walk away from. We normally do not comment on competition.

Deepan:

Okay. So, any cloud deals during this quarter?

Avnish Datt:

No, not specifically in this quarter. We had our first cloud go live already that happened around four months back and we have a substantial number of active loans running through that customer on our cloud. Our second implementation is about to go live now.

Deepan:

Okay.

Ashish Nanda:

So, just to add what Avnish said, there are multiple engagements which are in pipeline, discussion with various customers in cloud based.

Deepan:

Okay. So, how do you see the overall industry growth? Are we facing any cyclical kind of challenges? Or we are expecting any kind of pricing pressure from our clients?

Avnish Datt:

Deepan, let me answer you two ways. One, it depends from geography to geography. It's always a function of what is the growth base of banks on the asset side in a given geography, what is the current sentiment. In terms of pricing, one thing that we consciously did was because we had new product launches, we are absolutely top of the end in terms of our global recognition also. Our licenses are right now much more aligned to the business value that we deliver to the banks. In terms of making it palatable we have many different combination, so we have a transaction based pricing, we have user based pricing, we of course have the traditional license based pricing and so on. So, banks have a lot of flexibility in the way they want to choose. That might depend on whether the bank is just starting operations or has very strong growth plans compared to a small base today. So, we could tailor it accordingly. The TCO could be spread out over a longer



period of time. But in terms of pricing pressure we really haven't seen any pricing pressures when we are doing business value selling.

Deepan:

Okay. So, you have informed that we don't split license and the AMC but overall can we get that, is our license revenues growing currently?

Ashish Nanda:

So, on an overall basis license revenues are growing and AMCs are also growing from that perspective, so we scheme it as a whole as a product business as we mentioned.

Deepan:

Do we expect our license to grow better than AMC? That's what we want to understand.

Ashish Nanda:

So, very clearly unfortunately Gaurav did not announce in the beginning of the call for our investors. Here we don't give any futuristic guidance on that so I'll be sorry not answering.

Deepan:

Okay, thank you. I'll come back to the queue.

Ashish Nanda:

Thank you.

Sangeeta:

Hi. Good afternoon. This is the first time I am also attending the call. I just wanted to get some understanding about the way the business work. Now, what we've seen in the numbers this time is that there's a substantial improvement in the margin. The top line growth however is about 11 odd percent. Now, what I wanted to get a sense from you is that, I know you don't give guidance, but as a business what kind of growth, top line growth is this business basically, you know, would it typically generate, would it be say, the 10 to 15% or it would move up to 15 to 20%. If you can just give a broad sense on that. The second thing is that improvement in margins that we've seen, what actually lies behind it and how sustainable is it? Is this part of a journey



that we are likely to see continuing or is there going to be volatility from year to year? If you could just give, again, a broad sense from that that would be great.

Ashish Nanda:

Sangeeta, I may not be answering it directly is the fact that, you know, we don't give a guidance, again, what kind of growth this kind of business should generate. I'll be as a CFO, being wanted to have a different kind of growth than what Avnish as a sales head and a strategy head would want. So, we will not be giving any guidance from that perspective, however we would love to grow in a manner where it is seen as a positive side from all the sides and all the stakeholders. As far as the margin is concerned if you look at our past, it has more to do with revenues, higher revenues on a quarter on quarter basis with a similar kind of constant growth as a organization which we have been following as a discipline. Whether these are continual, sustainable we would love to do the sustainability so that we give value to our stakeholders as we give to the shareholders as well as we do value to our customers. However, from a sustainability perspective we are in the transformation journey, you may not be aware of that because you don't track us, but we are in investment phase where we are investing continuously on product as well as sales. So, whether this will continue or not will totally depend upon how these things pan out as a result of the investment which we have either made in the past or which we are going to make in future both on product as well as sales side of it.

Sangeeta:

Thanks. So, typically what happens is that company go through a certain investment phase and then that phase tapered off, right? For some time if you're setting up capacity, that's the way it would function. You make your investments and then over a period of time the investment start getting utilize. So in that journey, where are we? Are we still continuing to be in an investment phase or, because your numbers seem to indicate that the investment itself is a little bit behind us so the extent of investment is behind us, is that the correct interpretation?

Ashish Nanda:

See, investments again, you know, as an organization we are a conservative organization and we would like to be cautious about with every money which we spend upon. But to answer the question specifically, are we through with our investment stage. The answer to that is we'll be continuing with some more investment looking at how the future is looking like. But we will not shy away from making an investment is the point which I am trying to make there. We are still in the phase where we will be investing specifically in product.



Sangeeta:

Okay. One last question which I had really was on the cash side, if I look at your balance sheet almost two-thirds of the balance sheet is in cash which obviously generates much lower return than the business is generating. Is there a specific reason for keeping so much cash and are you likely to revisit that in any way?

Ashish Nanda:

Sangeeta, because you are there on the call for the first time. See this has been a question in our every consistent quarterly earning calls which we have. We would like to retain the cash for the right reason and purposes from that perspective, for our investment in the product itself which is there. No specific reason right now to keep that much of cash but we would like to hold on to cash for a higher comfort level. You are right it'll generate lesser of the profits as it would have been doing in business but we would like to retain the cash on that side.

Sangeeta:

Right. So, I mean are you retaining cash because you hope to get a good acquisition opportunity at some point because your business itself generate so much cash and you've been funding your investments through that. So, what is the reason for keeping cash over and above what you're generating from the business in any case?

Ashish Nanda:

See, we are waiting for the right opportunity, I would say. From a perspective right acquisition where our thinking is aligned, people are aligned, products are aligned on multiple facets, unfortunately we have not been able to have the right players that we would have invest. We would love to invest. We are always on a lookout but we'll do it for the right purpose and for the right money from that perspective.

Sangeeta:

Okay.

Andre:

Hi. I'm Sangeeta's partner Andre here. I had a very quick question, since we are also looking at the business for the first time. Can you explain to me, what's the nature of your business which



generate such high ROEs? Your intrinsic ROEs are very, very high. So, can you just explain to me what is it about your business that makes them such an intrinsically high ROE business?

Ashish Nanda:

Mr. Purushottam, I would like you to invite to our office whenever it's convenient to you. It'll be a slightly longer discussion and we'll be more than happy to get along with you to explain what our business is all about, so if you can spare some time maybe in our follow up we can pick up separately with our investors cell and there we can take you through with our business model, please.

Andre:

Wonderful. We are based in Bombay and we are happy to come across to Delhi any time. So, any time after Diwali work for you?

Ashish Nanda:

Sure, See one of the things Mr. Purushottam you would also understand is that the beauty of our business is we are a product business. Once I sell multiple times and the beauty of being a software product is the cost of replication is actually practically nil. So, that's the leverages which we have. So, if you look at our numbers also, if there's a rise in our revenues in a particular quarter, the significant number adds direction to the bottom line. So, fundamentally it a software product business if you look from that side, that's the basic fundamental leverage we have, from that side.

Andre:

Right, Okay, thank you.

Viraj:

Hi. Thank you for the opportunity and congratulation on a decent set of numbers. Just had a couple of question. First is, if you look at your order book which we split out on a quarterly basis, we've been in the range of 340 to 370 crore in that range for the last seven and eight quarters now, so we have been talking about a lot of transformation initiative and from investment in terms of even marketing for last three to four years, but this is not getting translated in terms of us managing a section of range, especially in countries like Middle East and elsewhere you know, where if you see the overall competitive environment, quite a lot number of them are by other



players as well. So, if you can spell out what exactly has been the limiting factor, what is, which is holding us in terms of able to scale up in those markets?

Avnish Datt:

So, Viraj, thanks for that. I think there are two or three factors at play. One, as we assured earlier, we launched the new product, but we also changed the way we were positioning the value to the customers. So, there was a lot of change both in the way we were engaging with them and also a change that we were requesting or demanding from the way the customers were engaging with us. So, basically the engagement would happen at a much more senior level, the business heads, the CEOs who would typically be involved, the decision would go right up to the board level. So, that elongated the cycles of selling a little bit. What didn't help was some of the macroeconomic headwinds that we faced, and I would say we probably are seeing some of the trailing effects especially in Middle East and Africa where all capital expenses decisions were either being postponed or were being very, very critically examined, so that extended the discussion while we are hoping some of them would mature in the subsequent quarters but we definitely saw a lot more prolonged sales cycles than we had seen so far.

Viraj:

No, I understand that. I have been on calls for quite number of time and I really understand that we have been changing the sales model, we have been investing quite heavily in products and in terms of sales and marketing, but that phase we have already been for couple of years now, more than a year in fact, at least. So, if you talk about the markets which you talked about at least Middle East, far east, there've been quite a number of successful events by other players from India in the same domain which you compete in, in terms of product and services which they operate much wider than what we offer, and that's what the customers in those markets are primarily looking when they are looking for these kind of investments and these kind of peripheral products instead of just purely a lending platform or purely a transaction. Are you looking at complete suite in terms of treasury management, risk management and other things one-stop shop offering or is it more to do with the pricing where we are not willing to compromise in terms of what we offer to customers? So, if we can just provide some clarity on where we are losing our assets that would be very helpful.

Avnish Datt:

So, I think you've touched three or four themes. Let me go one by one and give you a sense of how things are different. So, of course, one thing is that we would continue to stay very focused.



Our endeavour is to go deeper in what we already know and not extend ourselves too thin and have a very wide range of products although given our cash reserves it's always an easy option but that is what we don't choose to do. We also are taking very, I would say very strong stance and posture on the way we are signing our agreements. So, one, our license prices are now being proposed at a much higher level given it's a new product, very new architecture, very contemporary and so on. Also, the agreements are far more symmetrical now that we negotiating around. So, those are also the factors that typically make the cycle longer. What we've also done is as we have shared I think in a few other calls also, we are being very selective with the engagement so if the maturity of the procurement process on the customer side is that it is basically a procurement organization, that is buying purely on the basis of feature functionality then we may decide not to really pitch very strongly. We would typically pitch where the business is involved and in the end we have a good expectation of license price.

Viraj:

Okay. Just to follow to that, we've been talking about lot of investments and new products and after FinnOne Neo, we have also introduced FinnAxia, another new product, we have also introduced a Cloud version, mobility analytics based offerings. That we've been doing for last three to four years, so in terms of revenue mix, how much we are getting traction from say FinnOne Neo versus FinnAxia kind. Even if you are not able to provide a specific number, just a range. It would be very helpful for us to appreciate that kind of product investment which we are making in products actually helping us salute some positive revenue out of it. So, that will be very helpful for us to add some colour on it.

Avnish Datt:

Sorry, so that we understand your question well, are you talking about a broad split between lending and transactional banking?

Viraj:

Yes. If you can.

Avnish Datt:

From a pipeline perspective I would say if I look at my cumulative pipeline, it would probably be split, I would say around 70 - 30 in favour of lending right now.



Viraj:

Pipeline of the current order book or the pipeline which you are currently in negotiation?

Avnish Datt:

No, the opportunity pipeline, not the order book pipeline.

Viraj:

Okay. So, in terms of order book or revenue streams, if you can give me the number.

Ashish Nanda:

See, it'll be more tending towards slightly higher on the lending side right now, FinnOne being our flagship product and there's FinnOne Neo post there. So, primarily it is more tilted towards FinnOne right now but we are doing all our efforts to ensure that all our new offerings which are as you rightly mentioned whether it is mobility, whether it is analytics, we hope to see that figure changing as you progress and when the products becomes mature in the market and more and more people are have already tasted the success of the other offerings which are other than the FinnOne and the FinnOne Neo which is there, be it transaction banking, be it analytics, be it cloud offering, be it from the perspective of mobility piece.

Viraj:

Okay. Just at the starting of the call you mentioned about us being open to any potential acquisition opportunity in Middle East in coming quarters, is that the right thing which you said?

Ashish Nanda:

No. Though we mentioned about the fact when a question was raised around utilization of cash so what I mentioned there was that we are open for the acquisition provided it matches or suits our needs which are there, however, nothing of Middle East so to say, we are looking, we are touting for an opportunity which is anywhere in the world. It depends upon how greatly it fulfils the need for which we are looking out.

Viraj:

Okay. Last question was, on U.S. market. If we look at the current revenue traction of any other large player from the Indian continent, there's very limited success in term of scaling up in those markets, typically access to the relationship. Access there becomes very important, so how are



we going about, if you just provide us roadmap of how we're looking at, if at all we are looking at and what is the roadmap there.

Avnish Datt:

So, right now the market that we are looking at building up our depth is really Australia, Japan and Europe, again very selectively, because Europe has multiple countries, different languages and so on. We would then see what is the best way to address US. I mean US remains a very complex market especially from a product standpoint. Whatever activity we see is really more from an Indian company standpoint, it's more for services companies but from product standpoint it's far more complex, so that is something that would really follow after we have established base in the other markets that we are focussing on outside of India.

Viraj:

Okay. The mix which you gave between FinnOne and FinnAxia on the revenue and order book, you said higher said on the current 70-30 on the pipeline, so it's may be somewhere around plus 90 for FinnOne and then 10% for FinnAxia and the rest?

Ashish Nanda:

Just put it there and not to drive with any further imagination, so we'll put it to where we said earlier, it's more tilted towards the lending product because that's the oldest and the place where people know us. We would love to rise in the pie for the other projects which are there. Let's leave it there.

Viraj:

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

Digant:

Hi, sir. Good to see some good numbers after a very long time. It's been a long wait for all of us. So, I wanted to ask this that our order book right from the March 2015 quarter has been close to 350 crores, and I think the number which you gave on the is 335 crores right for this quarter?

Ashish Nanda:

Correct.



Digant:

Yeah. So, just wanted to check, we haven't seen a build up in the order book but we are seeing some revenues so I assume that some of the order that we won in around, in the March and the June '15 quarters they have probably been completed, the deployment is completed. So on the new order wins except for domestic, how is it going around in Europe and US, because I believe we did a lot of high cost hiring in those geographies especially on the marketing side.

Avnish Datt:

So, our marketing is really to develop all the new markets other than India that some of which we have been attending to for a while, some that we kind of opened up. US as I just explained is a little more complex, so we probably have to have a little bit of a midterm strategy for US. In Europe we have started seeing traction in fact we got a new customer in Europe a few quarters back. We are expecting more activity with new customers as well as upselling to the existing customers and we would see some results very quickly in Europe. So, Europe is I would say the pipeline build and the development is on track. US is something that we would have to reconvene and see.

Digant:

Okay. On your employee cost I'm seeing that it's now been like five, six quarters that we've been close to the range of 60 crores. So I think in early March 2015 we increase from, say, 48 crore kind of level to 60 crores and we have been constantly there for the last five quarters so what's the outlook on that, you know, we have done most of our investment so we should expect an inflation rate of growth here or probably that we could be even lower in terms of employee cost.

Ashish Nanda:

That will be there but as I mentioned few minutes back from a product perspective the investment, we are still looking for investment but we want to do it on the right talent probably which is there and also we are very mindful of where we spend. So, you can look at our cost, primarily at the control, if you look at our last five quarter from that side, so we are very cautious about it but we would like to still spend some money more on investments of the product side of it and some part on the sales and marketing side of it as may be required to develop our new line of businesses or may be new geographies as Avnish just mentioned a few minutes back.



Digant:

Right, Okay. My last question is that in the past we had profitability levels of 15 to 20 crores per quarter and it's been like six quarters of restructuring and trying to negotiate with the client and having a different revenue model, so now do you think that we are closer to reaching that number than farther like?

Ashish Nanda:

Giving a futuristic approach, we would love to be on where we were and growth is always there on our mind. We ensure value to share holders as we deliver value to everybody, all our stakeholders. But it'll totally depend upon our investments which we want to do in the product, how it looks like, and it's not a short term that we looking forward to. So, we would love to be there where we are but it totally depend upon how we get the right talent for our product which our biggest challenge but it is one of the things top of our minds right now.

Digant:

Right, Thank you from my side.

Shalabh:

Thank you gentlemen and congratulations on good set of numbers. Sir, the first question is, you mentioned that probably some investments, there'll be some continuation in the investments especially in employees and therefore the employee cost may go up. Wanted to check, are there any specific regions where you are still looking to do more investments?

Ashish Nanda:

Very clearly from a perspective of product it's a continuous business where we want to be and the more depth we can create in our product will give us some competitive edge also from that perspective, so that's a basic reason for investment at the product side of it to be market leaders in terms of the edge and in terms of where we stand in the competition.

Shalabh:

No, sir. On the marketing side I was referring to.



Avnish Datt:

So, similar. There are two parts to this. On the sale side we will probably see incremental investments but otherwise the markets that we are now focussing on already have teams in place so I don't think we are going to see any dramatic investments on the marketing side which is more brand building, communication and so on. We will continue to see the similar trend of investment.

Shalabh:

Sure, second question is, now it's been some time that we have had FinnOne Neo and we have been investment across some new geographies, any geography where the results have not been as per our expectation or probably things have been longer than what we had expected earlier.

Avnish Datt:

I would say for several reason, like I was mentioning a few minutes back, Middle East for example taking longer, Australia it is taking longer but we are seeing some very firm traction so initially would we have been happier if there were more orders of course but we are satisfied with at least a level of activity that's happening and we would mature some of them pretty soon. Japan, while we have already had implementation delivery and support presence for a long time we put in place a business development team which already turned in some new logos and there's a pipeline that's building up, so that's all I think more or less aligned with what our broad expectations were. I would say it's only US where we would have to rethink what is the best way to approach that market.

Shalabh:

Sure. So, as you said some time back US being a very complex market and probably a different market, so do we currently have a team for the US or as and when we approach that geography probably we'll have one?

Avnish Datt:

So, we currently don't have a direct team in the U.S. but there are some opportunities that, some dialogue that are happening and we are managing those dialogues from a central team here in Noida.



Shalabh:

Okay, because I remember one of your earlier annual reports, not this year but probably last or last year one of your senior guys was positioned in US as head of sales or head of that market. Is that recollection correct or am I not recollecting it correctly?

Avnish Datt:

No, your recollection is absolutely correct. We had somebody looking at business development which is why we now have an outlook on that market. Now we have some firsthand feel of that market now which is why I made the comments about US little while back.

Shalabh:

Sure, Sir coming to the Indian markets, again couple of quarters back we won a big mandate from one of the biggest private sector bands and I think that implementation probably is already over. After that have been able to win any other bigger mandate from our existing clients for an upgrade in to FinnOne Neo?

Avnish Datt:

So, we've actually won multiple mandates from our clients for FinnOne Neo including some upgrades and so yes, we have multiple mandates all under implementation right now at various stages. Some parts already delivered, some parts is still in the process of being delivered.

Shalabh:

Just related to that, sir, if you can also help us understand when the existing client upgrades from the earlier version of FinnOne to FinnOne Neo, is there a significant incremental revenue which can come from that upgrade or it is not the case like that?

Avnish Datt:

Yes. So, with an existing customer it becomes more nuance. The straight answer to your question would be, yes, the new product is a completely new product, grounds up, new architecture and so on. So, it's not really technically just an upgrade, it is really a new product sale. So, when we position it even to existing customers we position it as a new license sale and not just a technical upgrade of the old product.



Shalabh:

Sure. Very helpful, sir. Lastly, the customers which are already there on your earlier platform and are still probably on defence or they're still not decided to upgrade. Are we still continuing with the exercise of customization because they would have taken our product at different points of time earlier and now they are still not upgraded to the new version?

Avnish Datt:

So, I think it's a very good question. Most of the customers today who are on FinnOne or the old product, we continue to provide them support by way of customizations and building new features but we do it in a very selective fashion, so the idea is to make sure that the feature is not "cosmetic" or very low value but add some significant business value to them. How we do is at our end and at the customers' end, we insist that senior business people have a look at it even before they place the order and that's how we continue to provide support. We are being very selective in who we talk to when it comes to moving them to the new product. Until the time those customers whom we don't move to the new product we will continue to provide customizations but in a very selective way.

Shalabh:

Sir, any update on PaySe? I remember it was going under trial with some of the district in southern India so any update, anything on PaySe that you would like to comment?

Ashutosh:

On PaySe we have now gone live with two MFIs. That's the first B2B space that we have chosen to sort of you can say make an entry of PaySe. Primarily because there is qualified business model that is being seen as a value delivered by PaySe to the customers and also there is a revenue model that we have been able to build for PaySe. We have recently crossed 150 groups, SHG groups, each group comprising between 10 to 15 members. Pretty much on a daily basis we are moving funds from the various rural areas in to the banking system. Our PaySe platform is now integrated with the banking system through IMPS so it's on an average less than 30 seconds to transfer funds from the village which has been collected in physical cash through the PaySe system in to a bank account. That actually has, in words of our customers, given them saving in time, saving in money as well as it's helping save life because the agents who were initially carrying cash are no longer carrying it and don't have a threat.



Shalabh:

That is very helpful. Sir, these two customers, which we have got where PaySe has gone live will these primarily be microfinance companies?

Ashutosh:

This just first engagement we've done. That the very first engagement because there we've understood the business model. PaySe as a platform is digital cash, so anywhere physical cash is being used today, those are all the segments we will be targeting PaySe.

Shalabh:

Sure. In terms of revenue model, is this like transaction based or it's a monthly rental on the hardware that we have also sold. Broadly if you give some indication in terms of what's the revenue model?

Ashish Nanda:

Revenue model as Ashutosh has mentioned, there is a concept which is getting proved. So we'll be putting on to the revenue models looking at the overall study once we conclude that and then we'll be putting that into play in market looking at the situation and looking at how does the overall business operate like.

Shalabh:

Sure. No problem. Thank you, sir, and all the very best to you.

Ashish:

Thank you.

Lalit:

Thanks a lot. Two, three quick questions. Of the 335 order book how much has been expected in terms of revenue recognition and hedge to as well as in the FY-18?



Ashish Nanda:

As the orders are matured over the period of time and the implementation are also longer it can take anywhere between 18 months to 24 months for total consumption of the order book which is there at hand.

Lalit:

Any Brexit related impact which you are seeing in the euro zone related area?

Ashish Nanda:

Not significant right now.

Lalit:

So, the discretionary spending is going up?

Ashish Nanda:

In the organisation, from Nucleus perspective?

Lalit:

From Nucleus perspective. On the client side related, on the spending been done on the IT related by the clients in the euro zone area.

Ashish Nanda:

Yes, we have seen some traction but not as high as we would have expected it to. This is all there is some destability in the region overall.

Lalit:

Okay. I see a hedging, I think a foreign exchange loss, so can you please explain on your hedging policy. Is it naturally hedged or what is the policy being following by Nucleus.

Ashish Nanda:

See, generally the policy as we mentioned about in the last call in terms of foreign currency hedges on 30th September we have USD 6.3 million odd dollars forward contract at on average rate of 68.73. There was a mark to market gain of 63.57 lakh which has taken to Hedging



reserves on balance sheet. So, we follow the accounting standard which requires us to not recognize till the time the contracts are matured. We follow a policy post the natural hedge, we take a policy of 50 to 75% depending on how the markets are moving.

Lalit:

Since it's a product business, so in your balance sheet I could not find something on the intangible related, so can you please explain your intangible recognition policy, how does it work?

Ashish Nanda:

Yeah. Just for the benefit of you and the people who would have joined the call, for the first time. We are a very conservative company and we charge everything to the profit and loss account. We don't capitalize our intangibles.

Lalit:

So nothing goes, so there's zero, absolutely zero on the intangible policy?

Ashish Nanda:

As of now and as we progress depending on how the accounting requirement change or probably how the company sees the future. Probably in the future we might say capitalize but as of now there is no recapitalization.

Lalit:

Okay. I could not find that in your balance sheet. I think it's under other expenses of 16 crores. Can I have the break up, if the ready break up is available of 16 crores, how much has been charged to P&L on that?

Ashish Nanda:

Pardon. Which line item are you referring to?

Lalit:

On the intangible, since you are saying everything has been charged expense of, I could not find out in your expenses or probably the employee benefit expense if I have to assume that all your employees based on the accounting standard 26, para 41, you're not charging anything. So, is my



understanding correct if your employee benefit expense or the major intangibles which you are forming part of?

Ashish Nanda:

You are right. People cost is the biggest cost which we have on development side of it so it is on the personal cost which is there.

Lalit:

Okay. So, on your working capital cycle, what is the normal cycle? How many months or days?

Ashish Nanda:

See, on our working capital we are cash positive as you are saying even if you look at the entire accruals on a quarter-on-quarter basis, it is more than the overall profits which we have earned during the quarter which is there.

Lalit:

Because I see some stress on the balance sheet. Yes, cash and bank balance from your current assets, your current liabilities have remained the same but your current assets have increased so just wanted to understand more on your number of days on working capital cycle.

Ashish Nanda:

The working capitals, Debtor side has improved. If you recall during my last call, the receivables were at 61.6 crores as against 77.9 crores in the previous quarter where revenues have gone up during the quarter, from 90 crores to 95 crores.

Lalit:

Okay. Fair enough.

Kaustav:

Can you please dwell a little bit in to the keen interest seen from Middle East and Africa for your analytical project?



Avnish Datt:

In Africa the active discussion that we are having which is, it seems very close to conclusion is with financial institution that is largely in to providing lending to slightly below prime candidates. They have a fairly large loan book and they're looking at optimizing the target segment, the selection of the target segment and also applying the learnings from the analytics platform in to their collection strategies.

Kaustav:

And what about the Middle East market?

Avnish Datt:

Middle East, very similar, value proposition except that in Middle East it's really a fairly large bank that we are talking to.

Kaustav:

So, from what I understand is this should be the deal like this and maybe more news or these two deals you're talking about in specific it should be concluded in the next six. I mean you should start recognizing revenues by FY-18, right?

Ashish Nanda:

Yeah, hope to do that once the contracts are in place and stuff like that.

Kaustav:

So, am I getting this right, you're confident about a new revenue stream from Middle East and Africa and even though it's a lumpy business you're confident under rival of Europe, you know, in terms of profitability as he was mentioning earlier, so could I assume in terms of future directions, if you don't give guidance, can I assume that traction would be coming from these three streams in the near future, like in one year time horizon?

Ashish Nanda:

Same, two things which I want to mention here. One, we don't give guidance but however to mention your point, yes, we hope to have our other projects also doing much better than what we have been doing in that past. They are new products. But please do keep in mind that some of these deals which are analytic deals versus the cloud deals are smaller deals in comparison to



the FinnOne and the FinnAxia transaction banking, license software deals are there. So, just do keep that in mind and we'll have to restrict our answers in view of the overall guidance for the future as far as that is concerned.

Kaustav:

Okay. So, I wanted to talk to you about general shift in the IT industry. I mean if I generalize you see a shift from traditional staff services to cloud based services, you have all these big tech companies all the management saying that, you know, and it's pretty evident that it's shifting to a cloud based service so, from Nucleus' perspective in let's say three year time perspective how much traction do you see your company getting from this shift in the IT industry to cloud services?

R.P. Singh:

So, definitely we see a lot of activity on the cloud side. As a matter of fact, I think we activated and by the way part of our technology re-architecture was to ensure that technically and architecturally we support cloud in the new products. In any case we actually launch a little less than a year back we put together our cloud strategy. The results are, A, as we mentioned that the first cloud site is already live with us and kicking and we do see a lot of traction within India on the cloud for the small and medium size finance companies and soon able to look at having exploring these kind of opportunities outside as well.

Kaustav:

Okay. Thank you.

Moderator:

Thank you very much, sir. With this I would like to hand it over back to the management for any final or closing comments. Over to you sir.

Gaurav Agarwal:

Thank you. With this now I would like to thank all our investors for joining us today and having this discussion with us. So thank you and have a nice day.