



**Nucleus Software Exports Limited**

**Q2 FY19**

**Earnings Conference Call**

**Oct 29, 2018**

**Members of Nucleus Management**

<b>Mr. Vishnu R. Dusad</b>	Managing Director
<b>Mr. Ravi Pratap Singh</b>	Chief Executive Officer
<b>Mr. Ashish Nanda</b>	Chief Financial Officer
<b>Mr. Avnish Datt</b>	Executive Vice President – Global Head Strategy
<b>Mr. Pankaj Bhatt</b>	Executive Vice President – Professional Services
<b>Mrs. Debyani Sinha</b>	Global Head - Human Resource Group
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*[Note: This transcript has been edited for improved readability]*



**Gaurav Agarwal:**

Good afternoon, everyone. This is Gaurav from investor relations 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 30<sup>th</sup> 2018. For discussions, we have here from the management team Mr. Vishnu R. Dusad, our Managing Director; Mr. RP Singh, CEO; Mr. Ashish Nanda, CFO; Mr. Avnish Datt, Executive Vice President, Global Head Strategy, Mr. Pankaj Bhatt, Executive Vice President, Professional Services, Ms. Debyani Sinha, Global Head, Human Resource; and Mr. Prakash Pai, President, 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 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 the investor section of our website, [www.nucleussoftware.com](http://www.nucleussoftware.com). With this, we are now ready to begin with the opening comments on the performance of the company for the quarter ended September 30<sup>th</sup> 2018 from the MD and post that we would be available for the Q&A session. 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 30<sup>th</sup> 2018. I am delighted to report that our business continues to grow as more customers in more places are seeing the benefits of our revolutionary solutions. In the second quarter, we welcomed 8 new customers, won 10 new product orders and completed 12 product module implementations worldwide. There has been a marked increase in engagement by banks and other financial institutions across all business lines which is reflected in both our signings and pipeline growth. FinnOne Neo Cloud continues to gain tremendous momentum gaining 10 new customers in 2018 alone bringing the total to 25 today. I expect that many more will soon be using FinnOne Neo Cloud to revolutionize financial services.

Over to you, RP.

**Ravi Pratap Singh:**

Thank you, Vishnu. Good afternoon everyone on the call. Thanks to the hard work put in by the committed team, I think we have had another satisfying quarter and Ashish will be sharing that with you and elucidating on the detail. One of the biggest milestones as Vishnu mentioned is getting 25 customers on boarded on to our cloud platform. I think we were very hopeful about our offering, being able to take world's leading lending platform to a larger target segment and I think that strategy has held through very beautifully. Innovation continues to be engrained as a way of living at Nucleus and is evolving pretty well in terms of productisation of new ideas and toolification for efficiencies in our



implementation. We continue to work at enhancing our customers' experience with Nucleus. We realized our larger strength is the longevity of Nucleites which have resulted in a core team of highly experienced lending and transaction banking technology experts which probably cannot be compared with any other held anywhere in the world. We keep renewing ways of channelizing the strength to deliver new value to the market. I would at this moment hand over to Ashish to say the details of our performance this quarter.

**Ashish Nanda:**

Thanks RP and Good afternoon everybody. I welcome you all to this conference call.

**Key Highlights from Financials are:**

**REVENUE**

- **Our Consolidated revenue** for the quarter is at Rs. 121.5 crore against Rs. 112.6 crore QoQ and Rs. 100.4 crore YoY. **For the Half Year** it is Rs. 234.1 crore against Rs. 194.8 crore for the corresponding half year of the previous year.
- **Overall Revenue in foreign currency including India Rupee revenue** is US\$ 17.8 million for the quarter, against US\$ 17.0 million QoQ and US\$ 15.5 million YoY. **For the Half Year** it is US\$ 34.8 Million, against US\$ 29.9 Million for the corresponding half year of the previous year.
- **Product revenue for the quarter** is at Rs. 96.0 crore, against Rs. 90.2 crore QoQ and Rs. 78.9 crore YoY. **For the Half Year** it is Rs. 186.2 crore, against Rs. 152.1 crore for the corresponding half year of the previous year.
- **Revenue from projects and services** for the quarter is at Rs. 25.5 crore, against Rs. 22.4 crore QoQ, and Rs. 21.6 crore YoY. **For the Half Year** it is Rs. 47.9 crore, against Rs. 42.7 crore for the corresponding half year of the previous year.

**EXPENSES**

- **Cost of delivery including cost of product development for the quarter** is 66.1% of revenue, against 67.7% of revenue QoQ and 67.6% of revenue YoY. In absolute terms this is Rs. 80.3 crore against Rs. 76.3 crore QoQ and Rs. 67.9 crore YoY. For the half year, it is Rs. 156.6 crore (66.9% of revenue) against Rs. 133.8 crore (68.7% of revenue) for the corresponding half year of the previous year.
- **Marketing & sales expense** for the quarter is 7.0% of revenue, against 7.9% of revenue QoQ and 9.2% YoY. In absolute terms this is Rs. 8.5 crore against Rs. 8.9 crore QoQ and Rs. 9.3 crore YoY. For the half year, they are at Rs. 17.5 crore (7.5% of revenue) against Rs. 17.5 crore (9.0% of revenue) for the corresponding half year of the previous year.

- **G&A expense for the quarter** is 8.1% of revenue, against 8.1% of revenue QoQ and 9.6% YoY. In absolute terms this is Rs. 9.9 crore against Rs. 9.1 crore QoQ and Rs. 9.6 crore YoY. For the half year, they are at Rs. 19.0 crore (8.1% of revenue) against Rs. 19.6 crore (10.1% of revenue) for the corresponding half year of the previous year.
- **EBITDA for the quarter** is at Rs. 22.8 crore (18.8 % of Revenue), against Rs. 18.3 crore (16.3% of Revenue), QoQ and Rs. 13.7 crore (13.6% of Revenue), YoY. For the half year, **EBITDA** is at Rs. 41.1 crore, (17.6% of revenue), against Rs. 23.8 crore, (12.2% of revenue) in the corresponding half year of the previous year.
- **Other income from investments and deposits** is at Rs. 3.3 crore against Rs. 6.2 crore QoQ, and Rs. 7.2 crore YoY. **Total other Income for the quarter** is Rs. 3.8 crore against Rs. 6.9 crore QoQ and Rs. 8.2 crore YoY.  
**For the half year, other income from investments and deposits** is at Rs. 9.5 crore against Rs. 14.5 crore for the corresponding period of the previous year. **Total other Income for the half year** is Rs. 10.7 crore against Rs. 15.8 crore for the corresponding period of the previous year.
- **Total taxes** are at Rs. 5.5 crore against Rs. 5.9 crore QoQ and Rs. 4.5 crore YoY. **For the half year, Taxes** are Rs. 11.4 crore, 23.7% of PBT against Rs. 9.0 crore, 24.9% of PBT in the corresponding period of the previous year.
- **Net profit** is at Rs. 19.1 crore for the quarter, 15.8% of revenue, against Rs. 17.6 crore, 15.6% of revenue QoQ and Rs. 15.7 crore, 15.6% YoY. **For the half year** it is at Rs. 36.7 crore, 15.7% of total revenue, against Rs. 27.2 crore, 14.0% of total revenue in the corresponding period of the previous year.
- **Other Comprehensive Income** is at Rs. (3.1) crore for the quarter, against Rs. 0.3 crore QoQ, and Rs. (0.6) crore YoY. **For the half year** it is at Rs. (2.8) crore against Rs. (4.3) crore, in the corresponding period of the previous year.
- **Total Comprehensive Income which includes Net Profit and other comprehensive Income** is at Rs. 16.1 crore for the quarter, against Rs. 17.9 crore QoQ and Rs. 15.0 crore YoY. **For the half year** it is at Rs. 34.0 crore, against Rs. 22.8 crore in the corresponding period of the previous year.
- **EPS** for the quarter is at Rs. 6.59 as against Rs. 6.06 in the previous quarter and Rs. 4.93 in September'17 quarter. **For the half year** it is at Rs. 12.65 against Rs. 8.47 in the corresponding period of the previous year.



- In terms of **foreign currency hedges**, on Sep 30 we had USD 5.65 million dollars of forward contracts at an average rate of 70.05. There is a mark-to-market loss of Rs. 155.7 lakhs which is taken to hedging reserve in the balance sheet.
- **Revenue contribution from the top 5 clients for the quarter** is 39% against 38% previous quarter.
- **The order book position** is Rs. 377.9 crore including Rs. 330.9 crore of products business and Rs. 47.0 crore of projects and services business. **In June 30, 2018** the order book position was Rs. 394.4 crore including Rs. 343.9 crore of products business and Rs. 50.5 crore of projects and services business.
- **Total Cash and cash equivalents** as on September 30, 2018 are Rs. 466.9 crore against Rs. 479.8 crore as on June 30, 2018. This includes balances in current accounts of Rs. 38.4 crore, various schemes of mutual funds Rs. 161.6 crore, Rs. 61.9 crore in fixed maturity plans, fixed deposits with banks of Rs. 38.8 crore, investments in tax free bonds of Rs. 95.6 crore and Rs. 70.6 crore in Preference shares.
- With regard to **receivables**, we are at Rs. 80.2 crore against Rs. 83.2 crore previous quarter.
- During the quarter, **there is a gross addition of fixed assets** of Rs. 4.1 crore, consisting primarily of Rs. 1.9 crore on Computers equipment's and Rs. 0.7 crore on software.

Now, I will hand it over to Avnish for sharing the updates.

**Avnish Datt:**

Thank you Ashish and good Afternoon everybody on the call. The quarter started with a very good note on our cloud business where we were recognised by AWS in one of their significant events as an AWS specialist partner primarily for the traction that our cloud business continues to find with our customers and also to appreciate the rapidity with which we are acquiring new customers and also implementing them and making them go live. In terms of brand building and go-to-market, we continued to invest through both kinds of events, participating in some of the landmark events in banking and lending and also hosting B-Spoke events. In terms of geography focus, most of our marketing events were organized in South-East Asia, some of them in Japan and we also participated in MEBIS in Dubai. Towards the end of this quarter, we hosted our first partner week where we saw our partners coming in from South-East Asia, Japan and Africa, and this was basically both recognition of the partners' contribution and also fresh enablement of our partners to continue to contribute to our business. In terms of general go-to-market updates, our journey, both on cloud and our in-premise products continued in terms of new product orders adding both product orders from existing customers as well as acquisition of new logo.

That is all let me pass it on to Gaurav now.



**Gaurav Agarwal:**

Thank you, sir. We are now open for the Q&A session.

**Rahul Jain:**

Hi, Sir. Congratulations on good numbers. First question is on the order book. If I look at the product order book is at Rs. 330 crores. I mean this is relatively weak given the trend that we have seen in last couple of quarters. I understand there has been good implementation in this quarter, so any flavour you could give in terms of this data you know how we need to monitor, is it not growing or any attributes?

**Ashish Nanda:**

Hi, Rahul, Ashish this side. Rahul, you rightly pointed out from order book perspective the current quarter, there has been some delays in some of the order bookings which are there. When I say delays, it primarily means postponement from the customer's side in conclusion of the contract. The pipeline still remains healthy. However, in terms of decision-making, there are some big orders which are there on the pipeline, which we would have loved to have concluded in the current quarter but got postponed primarily because of some negotiations which are yet to conclude with the customers. Some of them are also postponed primarily because of the negotiation at the contract level despite commercial being negotiated and closed but legalities of the contracts are yet to be negotiated on some points were there. Yes, this quarter has not been as good as you would like it from order booking perspective, but let me assure you, from a pipeline perspective, everything is healthy.

**Rahul Jain:**

Ok, so if I have to understand a bit more in terms of the nature of this postponement, has it to do anything with the recent NBFC kind of a news flow that we have been hearing. What is the impact of that thing on our business in general and specific to this quarter also, and also as you said pipeline remains healthy, how much of this delay has already been converted in the month of October if you could give that?

**Ashish Nanda:**

Ok. As far as NBFC is concerned, fortunately we have not been on the receiving side as you have said. Rather I would say cloud which is the primarily NBFC, we have seen a lot of traction. Six new logos got added from our prospective cloud. So NBFC has not yet come in as far as we are concerned in the current quarter. Yes, in October also it is not a very healthy number to look at, but as you know, once the quarter passes by there is a lag both in terms of the customers, life has started becoming more quarter to quarter and everybody pushes back towards November and December. We are seeing healthy traction starting November very clearly. We hope to conclude and make up the lag which is there, but as of nothing to report from an October perspective which is it, nothing significant. There are closures but nothing significant which I can share with you right now, but we are very hopeful to conclude to have healthy quarterly conclusions which are there.



**Ravi Pratap Singh:**

Actually, the kind of product business that we are into of course you know you do have predictable bookings for any logos or existing customers giving out fresh orders, but as soon as you come into the new customer segment, it is not as predictable as you would love to have them and that at times goes into moving your quarters or stop like that whether it is on the pricing negotiation or/and the contracting and we are a little more particular about both of these adjustments.

**Lalit Dua:**

Hi, I am Lalit from Rajasthan Global. So I would like to suggest the management that you have now approximately the same cash that what you had when you had done your previous buyback and the kind of market capitalization that we enjoy and the kind of cash that we have. If we deduct the cash from the market cap and if we compare the valuations of correspondingly other companies which are operating in the similar space, that is approximately nothing. So I can give you few examples, look at the market cap of Intellect, look at the market cap of Majesco and others. So I think cash you have already done a buyback in the past and you have demonstrated how the management can increase the stake. It also solves lot of purpose which I need not deal at length because you have already done it, so my suggestion to you is it is high time once again you should do a buyback whereby the promoters do not participate. An approximate buyback of approximately 27 to 28 lac shares will ensure that you reach the maximum possible stake of 75%, and not only it will be EPS accretive and it will also result in creation of wealth for those shareholders who would like to stay. It will also result in optimum balance sheet structure and increase in return of capital employed and return on net worth for the company. I know you already know buyback more than me since you have already gone through the process.

**Ashish Nanda:**

Thank you for bringing it again, second quarter consecutively. Last quarter also from your organisation a similar request had come in. The answer would remain the same that we will look at an opportune time for our buyback, but yes we appreciate valued investors like you and we would definitely take into the account whatever is right for the organization and we will come back to you.

**Lalit Dua:**

No, even the market also have substantially corrected, so the stock price has from the highs of 600 has come to the lines of 372. Even your cash has also increased and it is almost on the similar lines what you had in the past, and if you look at your market capitalization for the sake of repetition as compared to the market cap of other companies and if you deduct the cash because the rival companies do not have. I would not say rival companies. I would say peer competitive group companies even do not have cash. So if you deduct the cash from the market cap, I think our stock looks at abysmal low PE ratios.

**Ashish Nanda:**

Sure Lalit, thank you for bringing to our notice and we will definitely look into it.



**Lalit Dua:**

One last question. Do you have benefit from this dollar appreciation?

**Ashish Nanda:**

Yes, we definitely would benefit from dollar appreciation.

**Lalit Dua:**

So what has been the benefit of dollar appreciation in the current quarter in terms of EBITDA or in terms of basis points?

**Ashish Nanda:**

In terms of EBITDA, very clearly Rs.3.5 crores is an approximate number which would have added to our EBITDA only because the dollar for the current quarter which is there or the dollar movement which has been there in terms of the previous quarter movement.

**Lalit Dua:**

And what is our hedging policy?

**Ashish Nanda:**

Hedging policy is we go for pure vanilla hedges and we hedge actually 50% of the net outstandings which are there.

**Lalit Dua:**

So let us assume in the current quarter from October to December, we will get the complete advantage of the dollar appreciation that has taken place.

**Ashish Nanda:**

Not necessarily because as I mentioned our policies to hedge 50% and 50% remains open. 50% will get the benefit, but as you know the dollar has started rising from March itself. If you look at, first April is the real time when the dollar started appreciating and we have a policy of hedging 6 monthly hedges which are there so very clearly now there are the old hedges and it's a cyclic term so some benefit comes in and then there are mark to market loss which I updated also. We booked almost Rs 1.55 crores as a mark to market hedges loss also which has gone to the balance sheet in the current quarter. So it is a mix of both.

**Lalit Dua:**

And there is no kind of a bad debt or something because of this NBFC turmoil?





**Ashish Nanda:**

As far as this is concerned, there is no bad debt, but yes, as an organization being conservative, we are provided for roughly 3 crores in the current quarter as far as some of the investment which we felt might not be recoverable, but there is no bad debt so to say.

**Lalit Dua:**

And whatever cash we have of this 464 crore rupees none is invested in IL&FS?

**Ashish Nanda:**

That is what I mentioned about the fact. Other than IL&FS, no NBFC right now has announced that they are going through a turmoil of a certain kind and what we estimated from the markets. It is primarily on account of IL&FS only.

**Lalit Dua:**

Okay, okay. Thank you very much.

**Ashish Nanda:**

Thanks Lalit. Thank you so much.

**Sarvesh Gupta:**

Thank you Sir for giving me the opportunity to ask some questions and congratulations for a very good set of numbers. So the first question is that given that we are on our 20% kind of a growth trajectory, is this sort of sustainable in the coming years in the ballpark of this numbers or is it that this is particularly strong year that we are going through because of the changeover to maybe cloud or existing customers.

**Ashish Nanda:**

Sarvesh, as you know, in the beginning of the call only Gaurav mentioned that we do not give any future guidance on the revenues which is there. See, sustainability we would love to have this kind of sustainability rather we would be gunning for more, but as of now from a guidance perspective, nothing can be shared on the call which is there. That is the policy of the organization.

**Sarvesh Gupta:**

Understood. And you know, just alluding to the last question, now we have reached like 19% kind of an EBITDA margin this quarter, so in terms of basis points how much of that has been because of the dollar rising.

**Ashish Nanda:**

Rs 3.5 Crores on a 121 crores, I will just let you know on that.



**Sarvesh Gupta:**

Two hundred basis point around.

**Ashish Nanda:**

Yes, roughly around that.

**Sarvesh Gupta:**

Ok and thirdly you know just reiterating the earlier question on buyback, so I think you know as Ashish you would understand that for wealth creation, one thing is operational performance which of course you have done very well but other part is capital allocation, and now your net worth is equivalent to your cash which you are having in the balance sheet, so basically it means that the 100% of the capital, there is hardly any capital employed in the business, 100% of shareholders' capital is in the form of cash, so what you do with that cash is very important for wealth creation. If you just deploy it at 7% liquid funds then over the long-term, shareholders are also going to get similar sort of a return which would be subpar, so you know I would also request you to consider the fact that earlier we had also alluded to the fact that there is a one-year gap between 2 buybacks, but now that one-year gap is also over, so I think we should definitely reconsider the option of a buyback.

**Ashish Nanda:**

Sure Sarvesh, and just to let you know, management is also aware of the situation and capital allocation situation. Those discussions keep on happening and whenever something relevant will happen, definitely you will be told, but what you are saying makes a lot of sense, and I made a note of it and we will come back to you as soon as whenever we have something with that.

**Sarvesh Gupta:**

Thanks Ashish.

**Ashish Nanda:**

Thanks Sarvesh.

**Rahul Jain:**

Hi, to Avnish's earlier comment on first partner event, any flavour you could give on that and also additional to that any incremental input on the FinnAxia front how we are seeing that, what are the pipeline for that product and how it is different from a year back?

**Ashish Nanda:**

Rahul, sorry, I missed your first question. I will take up the FinnAxia and then you can come back with your first question. FinnAxia pipeline is looking very healthy and specifically, Rahul, there are new



geographies from where we are seeing a lot of traction. That is really offering hope for FinnAxia of a different kind which is there. Pricing also has started improving which is clear reflection of the strength of the product in the market. Rahul can you repeat the first question. Sorry, I missed the first question on that.

**Rahul Jain:**

Avnish said about the first partner week, so anything on that if you could share.

**Avnish Datt:**

Rahul, we had started as we have been reporting in the quarterly calls. We have started investing in creating a partner network especially focusing in geographies where local cultural sensibilities play a role in customer engagement, in winning new deals and so on. So we had focused on South-East Asia, in Japan as well as in Africa. The partner week that we organised this time was basically to bring those partners in, and it was really the first time when all of them came in together and then share with them the road map, what is coming in the new release of the products and understand from them how they see the pipeline build up and so on. So it was really in a way the first time that we got all of them together. It also creates a feeling of community with the partners.

**Rahul Jain:**

So what is the percentage contribution to the total deals by these partners?

**Ashish Nanda:**

As Avnish mentioned, we have recently started cultivating them. The percentage is fairly low right now, nothing well significant, but very clearly the kind of response we are getting from the market and the kind of engagement we are having with customers is demonstrating that we are on the right track and we will definitely benefit out of these partnerships in long-term.

**Rahul Jain:**

And lastly if you could tell me this services segment. I mean there was positive surprise from a performance perspective and even from an order book also it has been going up for some time, so what we should see because it is entirely different from what we have been doing in the past in this space.

**Ravi Pratap Singh:**

So, on the side, we have always been doing services though our entire growth parameter driver has been the product. I think, as you would recall about a year and half back, we had talked about a restructure that we did in the organization. So we have actually got five businesses now that are moving independent of each other. Out of those, four of them are all around our products and one of them is now focusing on services and ever since it became an independent business with an independent focus



and a business leader driving it, it is growing as well independent of the rest. So I would say that because of the restructure that we went about, it is a renewed focus of a business manager on that.

**Rahul Jain:**

So since it is independently observed, so this business should also be seen in terms of the growth because his personal focus would be only to drive that business.

**Ravi Pratap Singh:**

That is right. Having said that, we still have that clear focus of staying experts in the area of financial services. It is still a supporting business. It is one of our anchor businesses that we talk about. So yes, it is something that would give us growth but I think we still see our product as being the larger growth driver.

**Rahul Jain:**

Of course, lastly if I could, what is the EBIT margin for the services business and what was the dollar revenue for this quarter?

**Ashish Nanda:**

We do not track that separately, as Rahul I mentioned last time also from our perspective which is there. From a dollar revenue overall perspective that I mentioned I will repeat it for your benefit. Overall revenues for foreign including India rupee revenue was at USD 17.8 million for the quarter as against USD 17 million QoQ and USD 15.5 YoY. On a half yearly basis, our USD revenue is 34.8 million versus USD 29.9 million for the corresponding previous year.

**Rahul Jain:**

Perfect. Thank you. That is it from my side.

**Ashish Nanda:**

Thanks, Rahul.

**Deepan Shankar:**

Firstly I just want to understand even after strong addition of 8 new customers, our order book has come down so if you are understanding it the customers have added towards the end of the quarter or we can expect better order book in Q3 also.

**Ashish Nanda:**

See, as I mentioned in the beginning itself, yes, we hope to have better order book which is there. At the end of the day, you also understand, sales is a tricky business though I am not from the sales, but I



understand it from a perspective that closures do take and our kind of sales is very, very different intuitional sales which are happening. So we expect to have better order book, definitely because very clearly in the second quarter there were lags from the customers as towards closure of it which we hope to close in the third quarter. So definitely we expect the third quarter to be better, but again not to give you any guidance from that perspective because that is not the organization philosophy as well as the policy. That's all I can say.

**Deepan Shankar:**

And again on these NBFC slowdown expected in India, are we foreseeing any kind of this decision slowness by these NBFCs toward investment or even our own customers in the cloud model you would have assumed the few growth numbers so that also are we seeing any slowdown on that surface.

**Ashish Nanda:**

See, it is a matter of conjecturing only because the world is facing it. However, as of now, the way the pipeline of cloud is and the way our discussions are happening with the customers, we do not foresee at least till the end of the year anything happening because that where typical we have projected ourselves and that is where the pipeline and the review is happening. However, it is anybody's guess and conjecture the way NBFCs and way it has been talked in the market of the liquidity crunch in the market, anything can happen. But as of now, what we are having in the pipeline and the discussion with the customers, we are not facing that challenges right now, is all I can say.

**Deepan Shankar:**

Okay. And this IL&FS exposure we are mentioning that is related to financial investment what we are holding?

**Ashish Nanda:**

Purely from financial instrument that also you are aware that their rating, the financial instrument with which we are invested was AAA and straight away to the D. I was just wondering from a perspective of how much to rely on the ratings which are there, but it is just to answer your question plainly, it was purely on a financial instrument where we are invested in IL&FS for which the exposure for which a provision has been taken.

**Deepan Shankar:**

And this investment in the new building for development purpose, we have been discussing, so any updates on that front.

**Ashish Nanda:**

Nothing, nothing new on that front, and as when we close something concrete, we definitely would love to come back on that but nothing concrete as of now.



**Deepan Shankar:**

Thank you sir and all the best.

**Ashish Nanda:**

Thank you.

**N. Puranik:**

Hi, Vishnu. I want to know about how the maturity curve has developed in terms of your product now. You have gone through several cycles of product release and versions, and if you can take us through how the product has matured from the minimum viable product to earlier stage of project to product which can cater to the large audience. How mature it is in terms of functionalities, technologies, the next generation technology and the relevance.

**Vishnu R. Dusad:**

Thanks a lot, Puranik for listening in and narrating this very critical question. I will answer part of it and then I will request RP to answer the rest of it. I think as you very correctly raised the question, product has moved from MVP to I would not say fully matured but close to maturity level of certainly functionality and also in terms of performance and so on, and when it comes to usage of technology, very interesting work is happening in terms of purification, etc. which RP would highlight. So I think we can say with reasonable confidence that when it comes to lending suite this would be one of the best in the world.

**N. Puranik:**

Yes, in a confidence you are saying the confidence or the conviction curve on a scale of 1 to 10, where are you today from, say for example 5-10 years ago to now because that is very important in terms of how do you negotiate and contract with the customer especially when it comes to the licensing revenue, so if you can give some idea on that. That will be useful.

**Ravi Pratap Singh:**

One of the biggest financial indicators very correctly put by you is the licenses and very clearly I think licence components of our deals have gone up and that is you know I would say one part of the proof of the footing. I think apart from that, it is difficult response to give on that, a scale, because 10 years back it was the older product which had actually reached different levels of maturity with different customer, I mean that was our bigger problem. That if we had 10 big customers, all the 10 maturities are very, very different. Today we would have reached the same maturity or surpassed it in some perspective; however, the best part is that it is all into one core product which is what everyone is using. That of course is probably the biggest improvement which has happened. Other than that, indicators of the maturity are of course at the lower end, I would say relatively simpler, not too simple, are of the 25 customers who were onboarded on cloud. Some of them may have very simple solutions, but some of



them are actually complex businesses themselves, and what has happened is as a track we have seen that we have been able to get them onboarded as I have mentioned I think earlier calls in about 4 days to 3 to 4 months, so with those cycles, times is also an indicator of where the product has reached. Of course, the most ultimate is we are working with the larger players in the country. Some of them have actually partially gone live. One of them is live with most the product lines. One of them is using it for part of it and one of them is just about to move across and roll it out, and that of course is another level of maturity that talks of not only on the capability of handling such varying businesses but also on a scalability of how this technology is able to scale up to handle numbers which are in millions actually, rather than thousands. So keeping all these 3 in mind, ours in the last quarter, coming back into the IBS league table on the lending side with the new product. That is a nice part. We went off the league table for a couple of years and that is the time we were consolidating and rebuilding the new product, but once the new product was launched, within a couple of years, we were back into the top 2 in the league table and those are indicators of how the maturity is reaching and of course the licence value very correctly said is one of biggest.

**N. Puranik:**

I think the most interesting thing you have done in the last couple of years is to take the cloud version much more seriously in terms of getting the product maturity and the market axis.

**Ravi Pratap Singh:**

That is absolutely right. I think when we took that decision, our traction on cloud has surpassed our own expectation.

**N. Puranik:**

Do you have any enterprise customers on cloud or deliberately you are not taking them on cloud because the reason is if you have some enterprise customers also that gets you good endorsement in terms of product maturity, so if you can give some idea on that.

**Avnish Datt:**

Actually Mr. Puranik, we started off with reasonably sized enterprise customers only, and I think there are some customers out of these 25 who would have book sizes of around 1500 to 2000 crores, and there are of course many who are either start-ups or 50 to 100 crores, but there are several with book sizes of 500, 600, up to 1500.

**Ravi Pratap Singh:**

Which I would call enterprise because they would have other products also running. In fact, one of the cloud implementations has about a 1000 plus users using the system at the same time.



**N. Puranik:**

You are saying one of the cloud users is 1000 plus users?

**Ravi Pratap Singh:**

That's right. User has really exploited it to take it to front and sales agents as well as the offshore. It is really implemented beautifully.

**N. Puranik:**

But this includes the main solution or the point solution like the analytics management?

**Ravi Pratap Singh:**

It has everything. It has right from the sales to credit decisioning to servicing the loan all through its lifetime and then of course the collections were bated. And by the way, he is also using the mobility.

**N. Puranik:**

How is the deal size getting better, much better now?

**Ravi Pratap Singh:**

The cloud as we may have said earlier, a cloud is something that we have priced on usage based whether it is transaction or portfolio size, so that has the potential to grow.

**N. Puranik:**

And what about the enterprise version. What is the average deal size?

**Avnish Datt:**

Size, it will be very difficult to say. It is actually dependent on geography, also depends on the portfolio. It depends on the number of modules they have taken and so on, so it will be difficult to say.

**N. Puranik:**

And the licensing as a percentage has improved a lot now.

**Ravi Pratap Singh:**

Oh, yes.

**N. Puranik:**

Good. What 10-20% or greater than that?





**Ashish Nanda:**

Sir, it has improved as a percentage in terms of the overall deal size, what component we are getting and we can easily assume 10% to 20%.

**N. Puranik:**

That is very good. So how is the pipeline quality in terms of when they are getting executed and the potential, more importantly the potential?

**Ravi Pratap Singh:**

We have got a lot of the cloud types which would add up to repeated annuity kind of a business model. At the other end we are talking to larger deals outside India where there is something that we have been working on and we hope to close those. Those are then enterprise solutions with larger values.

**N. Puranik:**

What you need to do to be a 500-crore company in terms of taking the product maturity to the next level, getting the market focus better in terms of building larger sales organization, getting more key account selling guys. You said any of those things you are trying to do.

**Ravi Pratap Singh:**

I think the core focus that we are trying to do right now is to improve the sales, focus, the way we engage, basically improving the sales experience and the effectiveness of that. I think that is important at this movement in the cycle of growth.

**N. Puranik:**

You have been doing many new hires recently, the last one year?

**Ravi Pratap Singh:**

Yes, you mean otherwise, yes, I mean overall yes.

**N. Puranik:**

So what's your sales team now?

**Ashish Nanda:**

Around 34

**N. Puranik:**

34, I see and how many champion sales guys who can win million-dollar deals.



**Ashish Nanda:**

Each one of them. We look at them as a champion but very clearly we would love to see them all bringing million-dollar deals.

**N. Puranik:**

So 34 million dollar a quarter?

**Ashish Nanda:**

Mr. Puranik, I would love to have that in the kitty very soon, but to answer your question we would love to have all.

**N. Puranik:**

Wonderful, wonderful. See, I bet I did not hear about this IL&FS. What is the amount invested in IL&FS?

**Ashish Nanda:**

Mr. Puranik around 6 crores was in the preference shares in two entities.

**N. Puranik:**

Luckily yes, you are not more than 6 crores.

**Ashish Nanda:**

Yes, even this includes mutual funds everything put together and preference shares primarily 6 crores.

**N. Puranik:**

So I think you have provided for 100%,

**Ashish Nanda:**

50% as of now, we are looking for market.

**N. Puranik:**

I think you should provide 100% because these are IL&FS. It is better to be safe. When it comes back, it is fine.

**Ashish Nanda:**

Yes, understood.

**N. Puranik:**



Good. All the best to you.

**Vishnu R. Dusad:**

Thank you very much. Thanks for your continued interest.

**Sarvesh Gupta:**

Sir, on more question, on FinnAxia can you give us some sense of what is the sales mix in favour of FinnAxia and what kind of growth rates are we seeing in that particular product.

**Ashish Nanda:**

See Sarvesh, very clearly right now from a sales point, in comparison to FinnOne it is quite low, so right now is not the right time to even look at that separately.

**Sarvesh Gupta:**

5-10% percent Sir as of now?

**Ashish Nanda:**

You can say around that itself, but when you look at on a futuristic side of it, we do not give projections, so I am sorry I cannot help you there.

**Sarvesh Gupta:**

But what is the kind of growth rate that we are seeing?

**Ashish Nanda:**

Growth, in any case, we are looking at robust growth because the number of FinnAxia right now is small.

**Sarvesh Gupta:**

Understood and secondly on your talent hiring and retention strategy, you know, most of the good software engineers for example would want to work in Bangalore kind of a market and all the sexy start-ups, so how do you compete in this talent market especially with respect to the software engineers who can come and do the work for you?

**Ashish Nanda:**

See, one of the clear understanding is on the attrition side of it which is significantly improving from our perspective and very clearly we are trying all our best to understand them more, they have a different requirement, and we are trying to match their expectations from that perspective. Attrition has definitely gone down as far as the organization is concerned so that gives us more hope from our perspective that we are on the right trajectory and doing something right for the young boys and girls to



be retained and to work for us and the one of the thing which we offer which I understand as an accountant is the experience of the kind of niche experience in one particular area which is lending specifically and to work on world's best product is something which many of the youngsters do not get what we offer. And as RP mentioned, innovation is one of the drivers. We encourage them on the campus to be as innovative as possible probably that is helping us in reducing the attrition.

**Ravi Pratap Singh:**

We are kind of fortunate. I do not think we need too many people and the kind of output we get from the engineering colleges and we try to hire a lot of people fresh out of college. One of the things that we keep looking at those people who do not get too impressed with the stuff that you talked about. With the startup of Bangalore and Hyderabad, and for the kind of numbers. We really need people who work hard, who want quality work because I think there we have a lot to offer. I think as an organization, one of course is the fact that we have got work which is very serious in product that is being built, so the experience that you gain is high. We are a small team and thus everybody is involved and can learn a lot. I think because of that experience we do find those who put work as a high priority and probably when looking at the attrition, I think we are doing a fair job at the hiring because we are able to retain a lot of them.

**Sarvesh Gupta:**

Understood, Sir. Thanks a lot.

**Vishnu R. Dusad:**

And just to add to RP's and Ashish's point, one is of course high quality work that we offer and people who get to work on world-class products. Additionally, we give them a work environment and work that would give substantial impact on the society. For example, 75% of the country's loans either get originated or serviced or collected on our platform and that something at least the one that we are looking forward to they also look forward to create the similar impact, and with our new offering of micropayments and microloans, we are working clearly towards our vision of making 100-rupee loan possible and profitable.

**Sarvesh Gupta:**

Thanks a lot, Vishnu. That's very good to hear. Thank you.

**Vishnu R. Dusad:**

Thank you.

**Gaurav Agarwal:**

We would like to thank all our investors for joining us today for this earnings conference call. I would now pass it on to Vishnu for his closing remarks.



**Vishnu R. Dusad:**

I also would like to thank you all for your continued interest in Nucleus Software and I take this opportunity to reiterate our commitment to build a business which is long term and taking care of all the stakeholders. Thank you very much.