



Nucleus Software Exports Ltd

Key Stock Indicators

NSE Ticker :	NUCLEUS	CMP (as on 25 Apr 2011 —Rs/share):	96.6	Shares outstanding (mn) :	32.4
Bloomberg Ticker :	NCS:IN	52-week range up to 25 Apr 2011 (Rs)(H/L):	168.00/72.50	Free Float (%) :	42.6
Face value / Share :	10.0	Market Cap as on 25Apr 2011 (Rs mn):	3,127	Average daily volumes (12 months) :	66,474
Div. Yield (%) :	2.6	Enterprise Value as on 25 Apr 2011 (Rs mn):	2,463	Beta (2 year) :	1.3

Nucleus Software Exports Limited (Nucleus) was incorporated in 1986. The company is into development and marketing of software products and services for the banking, financial services & insurance (BFSI) sector.

KEY HIGHLIGHTS

Serves single domain — BFSI

Nucleus offers a comprehensive set of solutions to the BFSI sector. The company's offerings include customer acquisition system, loan and collection management system, liability management system, forecaster system, customised Islamic banking solutions and others. The company has two divisions: Products and projects & services. In FY10, the products division contributed ~60% of total revenues while remaining 40% was contributed by the projects & services division.

Far East market is company's biggest market

The company has a presence across the globe. It serves Southeast Asia, Europe, the USA, Canada, Africa, the Middle East, the Far East, India and others. The company has subsidiaries in Singapore, the USA, Japan, the Netherlands and India. Nucleus segments its revenue profile into six geographies — India, Far East, Singapore, Europe and Middle East and others. In FY10, the Far East markets contributed ~43% of total revenues (against 49% in FY09), India ~13% (11% in FY09), Singapore ~15% (13% in FY09), Europe ~6% (~7% in FY09), Middle East ~13% (10% in FY09) and other nations ~10% (10% in FY09).

KEY RISKS

- Client concentration risk and geographic concentration risk — in FY10, the company derived 67% of revenues from Top 5 clients and 43% from the Far East region
- Foreign exchange risk — exports contributed ~87% of total revenues in FY10
- Anti-outsourcing legislation
- High employee cost and attrition level

Stock Performances vis-à-vis market

	Returns (%)			
	YTD	1-m	3-m	12-m
NUCLEUS	-31	12	-15	-38
NIFTY	11	4	3	10

Note:

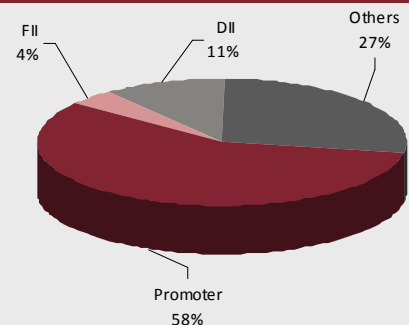
- 1) YTD returns are since Apr 01, 2010 to Apr 25, 2011.
- 2) 1-m, 3-m and 12-m returns are up to Apr 25, 2011.

Key Financial Indicators

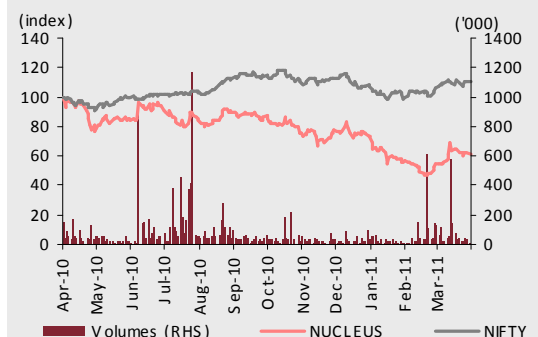
	Mar-08	Mar-09	Mar-10
Revenue (Rs mn)	2,910.1	3,303.6	2,936.1
EBITDA margins (%)	26.1	16.0	19.2
PAT (Rs mn)	617.4	322.6	384.0
PAT margins (%)	21.2	9.8	13.1
Gearing (x)	-	-	-
EPS (Rs /share)	19.1	10.0	11.9
PE (x)	10.0	5.1	8.1
P/BV (x)	2.8	0.7	1.2
RoCE (%)	34.0	19.1	20.5
RoE (%)	32.3	14.1	15.0
EV/EBITDA (x)	7.9	1.1	4.4

n.m. : Not meaningful

Shareholding (As on March 31, 2011)



Indexed price chart



Nucleus Software Exports Ltd

BACKGROUND

Incorporated on January 9, 1986, Nucleus provides integrated IT-based products and solutions to entities dealing in the BFSI sector. Its solutions are used in financial institutions for cash management, loan and deposit management, internet banking, credit card management and others. The company's flagship product is FinnOne, which provides solutions for retail banking operations through modules such as customer acquisition system, loan management, delinquency and recovery management. Other products such as Cash@Will and BankONet offer solutions in the area of cash management and internet banking, respectively.

Nucleus segments its revenue portfolio under two heads — products and projects-services. The products division constitutes revenues generated from development of solutions, license fees, customisation and implementation of products and aftersales technical support services. The projects & services division includes revenues generated from development of software, data migration services, consultancy services and others. In FY10, products division contributed ~60% to total revenues and projects & services division contributed ~40%. The company is headquartered in New Delhi and has subsidiaries in India, Japan, the Netherlands, Singapore and the USA. It has branch offices in India, Korea, the Philippines, the UAE and the UK.

COMPETITIVE POSITION

Peer Comparison

	Nucleus Software Exports Ltd	Oracle Financial Services Software Ltd	Vakrangee Software Ltd	Thinks of Global Services Ltd
	Mar-10	Mar-10	Mar-10	Mar-10
Revenue (Rs mn)	2,936.1	28,764.9	4,277.0	828.6
EBITDA margins (%)	19.2	35.1	18.7	15.9
PAT (Rs mn)	384.0	7,738.5	235.5	66.7
PAT margins (%)	13.1	26.9	5.5	8.1
Gearing (x)	-	-	0.3	-
EPS (Rs/\$ share)	11.9	92.3	10.5	6.6
PE (x)	8.1	22.9	34.7	9.2
P/BV (x)	1.2	4.8	3.3	0.9
RoCE (%)	20.5	30.6	12.0	19.8
RoE (%)	15.0	23.5	10.1	11.5
EV/EBITDA (x)	4.4	15.4	11.0	0.8

n.m: Not meaningful

FINANCIAL PROFILE

Top line drops, but EBITDA margin improves in FY10

In FY10 top line declined 11.1% year-on-year (y-o-y) to ~Rs 2.9 bn, primarily as a result of slowdown in global economies. During the year, revenues from the products division declined ~21% y-o-y, while the project & services division showed a moderate growth of ~9% y-o-y.

EBITDA margin improved to 19.2% in FY10 from 16% in FY09 due to effective implementation of cost control measures, which saw administrative costs and marketing expenses decline as a percentage of total revenues.

PAT grew to ~Rs 384 mn in FY10 from ~Rs 322.6 mn in FY09, on account of better operating profit and decrease in depreciation costs, interest expenses and foreign exchange loss.

Key Financial Indicators

	Units	Mar-08	Mar-09	Mar-10
Revenue	Rs million	2,910.1	3,303.6	2,936.1
EBITDA margins	Percent	26.1	16.0	19.2
PAT	Rs million	617.4	322.6	384.0
PAT margins	Percent	21.2	9.8	13.1
Revenue growth	Percent	30.7	13.5	-11.1
EBITDA growth	Percent	16.9	-30.3	6.2
PAT growth	Percent	14.3	-47.8	19.0
Gearing	Times	-	-	-
RoCE	Percent	34.0	19.1	20.5
RoE	Percent	32.3	14.1	15.0

INDUSTRY PROFILE

IT services

Indian IT services revenues are estimated to be around \$34 billion in 2009-10, registering a CAGR of 20 per cent from 2004-05 to 2009-10. During the same period, IT services exports, which accounted for 80 per cent of the revenues, are estimated to have grown at a CAGR of 22 per cent to \$27 billion in 2009-10. The industry is highly dependent on the US and UK markets, which contribute to around 75 per cent of export revenues. With IT services deriving a large portion of its revenues from exports, the sector's profitability is highly correlated to foreign exchange movements. An appreciating rupee is thus a key risk factor. Also, as human resource is the main input in IT services, issues related to non-availability of skilled labor, attrition and wage inflation would also impact Indian IT players.

Nucleus Software Exports Ltd

ANNUAL RESULTS

Income Statement

(Rs million)	Mar-08	Mar-09	Mar-10
Net Sales	2,887.2	3,284.0	2,917.8
Operating Income	2,910.1	3,303.6	2,936.1
EBITDA	760.0	529.7	562.7
EBITDA Margin	26.1	16.0	19.2
Depreciation	118.5	132.8	113.3
Interest	4.0	85.6	81.3
Other Income	48.5	109.9	71.1
PBT	645.1	348.3	439.1
PAT	617.4	322.6	384.0
PAT Margin	21.2	9.8	13.1
No. of shares (Mn No.)	32.4	32.4	32.4
Earnings per share (EPS)	19.1	10.0	11.9

Cash flow

(Rs million)	Mar-08	Mar-09	Mar-10
Pre-tax profit	686.1	421.2	439.2
Total tax paid	-30.6	-40.7	-70.2
Depreciation	118.5	132.8	113.3
Change in working capital	-334.7	-40.0	13.6
Cash flow from operating activities	439.3	473.3	495.9
Capital Expenditure	-159.3	-183.4	-18.7
Investments and others	-215.6	742.8	-796.1
Cash flow from investing activities	-374.9	559.4	-814.8
Equity raised/(repaid)	9.4	0.5	-
Debt raised/(repaid)	-	-	3.9
Dividend (incl. tax)	-130.6	-94.7	-94.4
Others (incl extraordinary)	-36.4	-52.1	15.3
Cash flow from financing activities	-157.6	-146.3	-75.2
Change in cash position	-93.2	886.4	-394.1
Opening cash	268.3	175.0	1,061.4
Closing cash	175.0	1,061.4	667.5

n.m.: Not meaningful;

Balance sheet

(Rs million)	Mar-08	Mar-09	Mar-10
Equity share capital	323.7	323.7	323.7
Reserves and surplus	1,836.3	2,085.3	2,390.4
Tangible net worth	2,159.9	2,409.1	2,714.1
Deferred tax liability:asset	-0.2	-15.1	-30.1
Long-term debt	0.0	0.0	0.0
Short-term-debt	0.0	0.0	3.9
Total debt	0.0	0.0	3.9
Current liabilities	487.0	600.6	462.1
Total provisions	190.9	192.5	203.8
Total liabilities	2,837.6	3,187.1	3,353.8
Gross block	950.3	1,120.2	1,126.4
Net fixed assets	591.6	642.1	547.5
Investments	905.6	162.9	959.0
Current assets	1,340.4	2,382.1	1,847.3
Receivables	678.1	801.0	576.8
Inventories	0.0	0.0	0.0
Cash	175.0	1,061.4	667.5
Total assets	2,837.6	3,187.1	3,353.8

Ratio

	Mar-08	Mar-09	Mar-10
Revenue growth (%)	30.7	13.5	-11.1
E BITDA growth(%)	16.9	-30.3	6.2
PAT growth(%)	14.3	-47.8	19.0
E BITDA margins (%)	26.1	16.0	19.2
Tax rate (%)	4.7	11.7	15.7
PAT margins (%)	21.2	9.8	13.1
Dividend payout (%)	15.7	25.1	21.1
Dividend per share (Rs)	3.0	2.5	2.5
BV (Rs)	66.7	74.4	83.8
Return on Equity (%)	32.3	14.1	15.0
Return on capital employed (%)	34.0	19.1	20.5
Gearing (x)	-	-	-
Interest coverage (x)	190.7	6.2	6.9
Debt/E BITDA (x)	-	-	-
Asset turnover (x)	3.6	3.2	2.6
Current ratio (x)	3.1	3.2	4.2
Gross current assets (days)	160	246	204

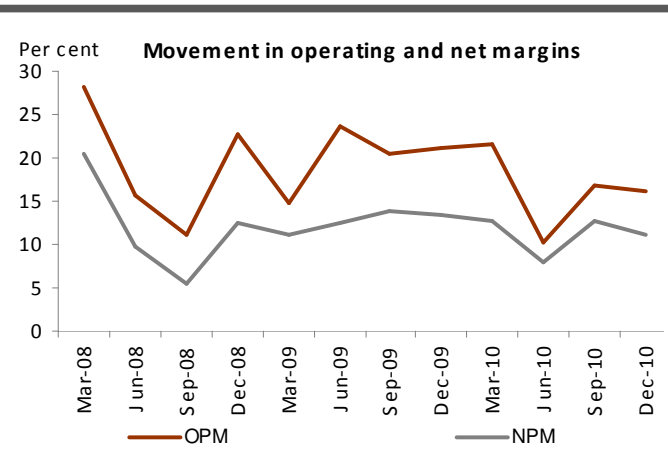
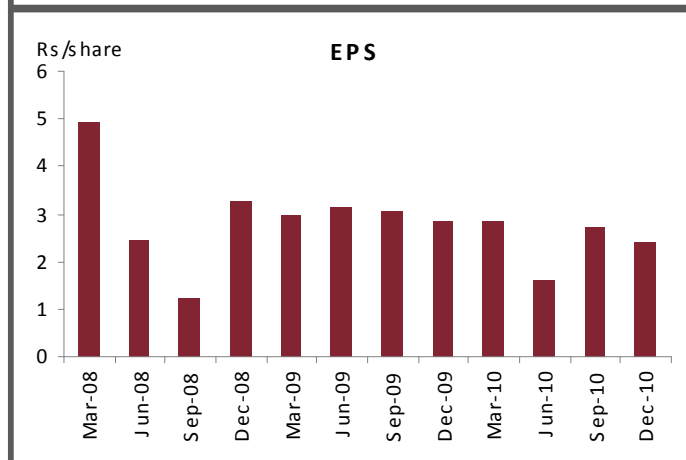
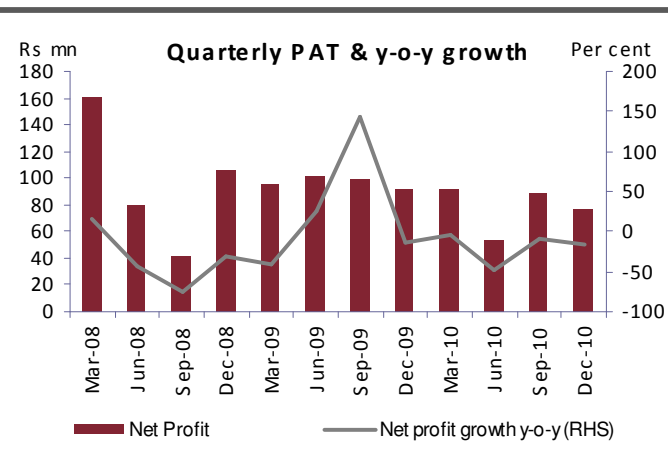
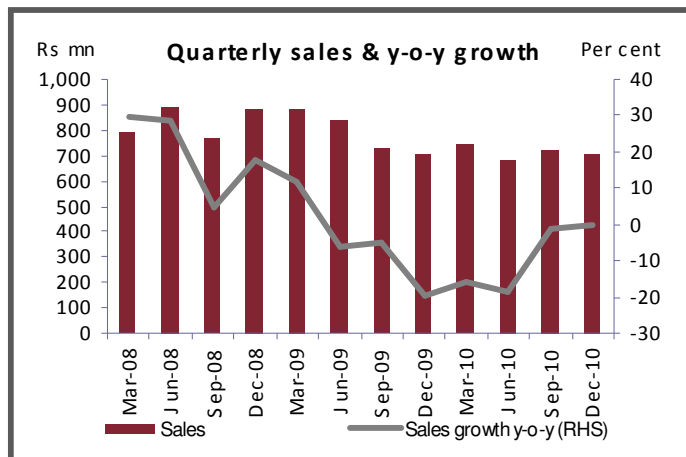
QUARTERLY RESULTS

Profit and loss account

(Rs million)	Dec-10	% of Rev	Dec-09	% of Rev	Sep-10	% of Rev	Dec-10	% of Rev	Dec-09	% of Rev
No of Months	3		3		3		9		9	
Revenue	707.0	100.0	707.4	100.0	722.3	100.0	2,112.6	100.0	2,273.4	100.0
EBITDA	111.1	15.7	145.2	20.5	117.8	16.3	311.8	14.8	478.1	21.0
Interest	-	-	-	-	-	-	-	-	-	-
Depreciation	22.4	3.2	27.6	3.9	23.7	3.3	70.8	3.4	89.7	3.9
PBT	88.7	12.5	101.0	14.3	94.1	13.0	240.9	11.4	331.5	14.6
PAT	77.1	10.9	92.0	13.0	89.0	12.3	219.0	10.4	292.1	12.8

Nucleus Software Exports Ltd

FOCUS CHARTS & TABLES



Shareholding Pattern (Per cent)

	Jun 2010	Sep 2010	Dec 2010	Mar 2011
Promoter	59.5	59.5	59.6	57.4
FII	8.5	6.7	6.6	4.3
DII	7.4	9.5	9.5	10.8
Others	24.6	24.2	24.3	27.4

Board of Directors

Director Name	Designation
Janki Ballabh (Mr.)	Non-Executive Chairman, Non-Executive Director
Vishnu Rampratap Dusad (Mr.)	Managing Director, Promoter-Director
Arun Shekhar Aran (Mr.)	Non-Executive Director
Prithvi Haldea (Mr.)	Non-Executive Director
Sanjiv Sarin (Mr.)	Non-Executive Director

Additional Disclosure

This report has been sponsored by NSE - Investor Protection Fund Trust (NSEIPFT).

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