



Banking Technology SIMPLIFIED



ANNUAL REPORT 2011 - 12

Nucleus Software Awarded **Gold Shield** for **Excellence in Financial Reporting, 2011** for the Fourth Consecutive Year by Institute of Chartered Accountants of India (ICAI)



Mr. Pramod K Sanghi, President Finance & CFO of Nucleus Software received a **Gold Shield** on behalf of the Company, at a ceremony held on January 06, 2012 at Chennai, by Dr. M Veerappa Moily, Hon'ble Union Minister of Corporate Affairs, on January 06, 2012.

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Annual Report 2012 cover page theme

Nucleus Software, with its comprehensive array of solutions and services, provides its customers with opportunities to simplify, streamline and integrate their processes. Thereby optimizing each transaction flow resulting in cost reduction and quicker turnaround time. In brief, we at Nucleus are engaged in making Banking Technology Simplified.

Cautionary statement regarding forward-looking statements

Certain statements in this Annual Report are based on assumptions and expectations of future events and may be considered as forward-looking statements. Such statements must be reviewed in conjunction with the risks that the Company faces. Although the Management has considered future risks as part of the discussions, future uncertainties are not limited to the Management perceptions.



Janki Ballabh

Chairman's Message

Dear Shareholders,

At the onset of each new fiscal, I get this opportunity to re-connect with you and to share with you some of the challenges as well as the achievements during the year gone by and my thoughts on the current year, and beyond.

The Global Information Technology (IT) Industry Scenario

The global economy has been witnessing extraordinary instability. Governments and corporations across the globe are doing everything possible to reverse the trends and bring about new measures to infuse sustainable growth. In specific, the Euro Zone is passing through an unprecedented crisis and the US economy, though showing some improvement in recent times, still remains sluggish. This global uncertainty, rapidly changing business cycles and a flood of cutting edge technologies are now placing huge challenges on corporations to adapt, and do so quickly. A new progression is for the IT and business to converge; while IT was perceived as a support role earlier, corporations are now viewing it as a competitive differentiator, and almost a pre-requisite for the next leap ahead. This has opened up great opportunities for innovative and forward-looking companies like Nucleus to be even more agile, collaborative, and relevant.

Your Company fully recognizes more than ever before that the impact of IT on each one of us has become more far reaching as its transformational effect spreads to several sectors of the economy and society via innovations, the emergence of new industries, and the advent of the age of hyper-connectivity. We believe that in this new era, IT will be closely linked to continued economic growth worldwide. The importance of IT goes beyond its role as a driver of future economic growth as smart devices and cloud services are destined to become a greater part of our daily lives. By strategically integrating technology as part of overall economic growth plans, companies would do good to capitalize on the hyper connected global economy and increase their global competitiveness.

More importantly, IT will significantly reduce geographic limitations, allowing people around the globe to communicate and share information and ideas freely, in the emerging integrated and interwoven world. Technological innovations will propel global economic growth and that is where companies like Nucleus, who have chosen to develop products, will create a growth trajectory not only for themselves but for all their customers and other stakeholders.

The Year in Retrospect

We started off with a clear target of strengthening the Nucleus Management team with induction of high-caliber talent from the industry, in order to prepare the Company for future growth. We were able to achieve success with the technology functions, both Delivery and Development, though global positions in Sales and Marketing and HR remained open which we are now hoping to close in the first half of the current year. We achieved growth in both topline and operating margin in rupee terms with favorable exchange rate movement, while the Dollar revenues remained nearly flat. Challenges in the form of product development and time-to-market still remain; and these will be in focus in the current year.

I am pleased to inform you that our ongoing investments in differentiating our offerings and pursuing innovation to provide best solutions to the industry helped us maintain our Number One position in the Lending Solutions space. Your Company's flagship product FinnOne™ was recognized for the fourth consecutive year in 2011 as the best-selling lending solution in the global banking industry by IBS Publishing. The recognition reinforces FinnOne™'s global leadership in the banking and financial services industry.

On another front, it is a matter of great pride that in recognition of the transparency, compliance with accounting and secretarial standards, and investor-friendly disclosures, your Company won the Gold Shield for the fourth year in a row for Excellence in Financial Reporting from The Institute of Chartered Accountants of India.

It is also a matter of delight that Gartner, the Information Technology Research Company included Nucleus as a sample vendor for Packaged Retail Loan Origination Applications in one of its report released during the year. Gartner also evaluated FinnOne™ in an analysis focused on packaged commercial loan origination applications. Our high standards of quality and service and novel determination is reflected in our products; which continue to make banking easy and approachable for all across the globe.

Looking Ahead

Global trends are likely to expand the addressable market for technology and business services three-folds, from the current USD 500 billion to approximately USD 1.5 trillion by 2020. Today's core markets are expected to grow by more than one and a half times, contributing 20 percent of the incremental growth. The remaining 80 percent is likely to come from new verticals, customer segments and geographies. *(Source : Nasscom Perspective 2020 : Transform Business, Transform India).*

The changed landscape will unravel huge opportunities for technology companies. It therefore becomes imperative for your Company how best it is able to use this opportunity. With a more focused strategy for growth, your Company will continue to work with concerted efforts for obtaining enhanced global market share. This should lead to both topline and bottomline growth, with better realizations.

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

- Diversify across geographies, customers
- Make software solutions suit customer needs
- Achieve operational excellence
- Strategic investments and alliances

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

Acknowledgments

I wish to express my sincere thanks to the various officials of the Central and State Governments, our bankers and financial institutions for their on-going support and assistance to the Company. I would also like to thank all our customers, dealers and vendors who we have been increasingly regarding as a part of the Nucleus Family.

Above all, our team at Nucleus is and shall remain our core strength. The Nucleites, with their competence and dedication, continue to navigate through highly challenging situations to provide our customers with analytical, flexible and tailor-made solutions.

I would also like to thank my fellow Board members, business associates and shareholders for supporting the Company through the year, as in the past.

Janki Ballabh

Chairman

April 29, 2012



CEO'S Message

Dear Shareholders,

It is my pleasure to present a brief report on the performance of your Company for the financial year 2011-12.

We continued to receive a good response from banks across the globe towards our lending solutions, which helped us maintain our Number One position in this space. Your Company's flagship product FinnOne™ was recognized **World's No. 1 Selling Lending Software Product for the fourth consecutive year in 2011** by IBS Publishing, UK. FinnOne™ emerged a winner with 14 global sales for year 2011 and has also been ranked fourth in global sales across all banking products. The recognition reinforces FinnOne™'s global leadership in the banking and financial industry. We are grateful to our customers for this honour and reposing trust in us which always makes us work harder to reach newer heights of success. Developing 'Made in India' software products is our dream which we have been pursuing and it makes me happy to report that our products continue to get global recognition.

Annual Report and Accounts of your Company for the year ended March 31, 2011, were adjudged as the BEST under the relevant Category XI of the 'ICAI Awards for Excellence in Financial Reporting' for the fourth consecutive year. A GOLD shield was presented to the Company. Our Annual Report and Corporate Governance Disclosures are not only recognized in India but are also getting international recognition; the Annual Report for the year 2011 also won the Platinum award under Technology-Software category and ranked fourth worldwide in the Top 100 Annual Reports in the Vision Awards by the League of American Communications Professionals (LACP), USA. South Asian Federation of Accountants (SAFA) adjudged Nucleus' Annual Report as the recipient of 'Certificate of Merit' for the Best Presented Accounts and Corporate Governance Disclosures Award 2010 in the category 'Communication & Information Technology' for 2010 Annual Report. Practicing Best principles of Corporate Governance is a way of life at Nucleus, and I am proud to share that your Company was **ranked amongst the Top 5 Companies** for Best Corporate Governance Practices in India by IR Global Rankings 2011.



These awards reinforce both in form and substance, our commitment to transparency in our statutory, legal and regulatory requirements and compliance with the accounting and financial reporting practices.

The year gone by was relatively a tougher one for banking solutions market, as banks continued to work with limited budgets and defer decision-making on implementation of new solutions. We are glad to have delivered a better financial performance for the financial year by registering a growth in revenue of 4 percent over the previous year, leading to consolidated revenues of ₹ 282 crore. We continued with our disciplined approach and focus on managing costs.

Consolidated net profit for the year is at ₹ 35.34 crore, higher by 34 percent over the previous year. Earnings per share for the year improved to ₹ 10.91 per share against ₹ 8.13 previous year. Your Company has been regularly paying dividend since 2000-01 and the Board of Directors have recommended a dividend for the twelfth consecutive year; of 25% (₹ 2.50 per equity share of ₹ 10 each), subject to the approval of the shareholders at the forthcoming Annual General Meeting.

Our Product business revenue for the year registered a growth of 6 percent over the previous year, to ₹ 204.99 crore, which is 73 percent of the total revenue for the year. This Product revenue includes ₹197.35 crore of product revenue from own business, which registered a growth of 9 percent over the previous year. Revenue from projects and services is at ₹ 77.26 crore, which is 27 percent of the total revenue for the year. Revenue from this line of business has remained more or less static with respect to the previous year.

We are conscious of the need of overall revenue growth, which would enable us to sustain ourselves in this era of intense competition. The global economy was almost shaken with various events; crisis in Eurozone, slow recovery in the United States, political instability in the Middle East and subsequent rise in crude oil prices. Back home, amidst the given global scenario, the Indian economy retains enough resilience to be