

TRANSFORMING

The Future

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



Mr. Prithvi Haldea, Non-Executive, Independent Director and 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 23, 2013 at Mumbai.

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Annual Report 2013 cover page theme

Nucleus Software is embarking on a makeover which will take it to the next level. With the objective to gear up for rapid growth, transformational initiatives are underway focused on enhancing customer experiences. An organization wide effort to strengthen operational processes, employee empowerment and co creation initiatives is in progress for sharpening customer centricity. This affirms the Company's focus on providing sustained value to our customers.

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.

Chairman's Message



Janki Ballabh



Dear Shareholders,

Once again, around the same time as last year, I am re-connecting with you to share the achievements during the year gone by and to tell you about how we plan to deal with the challenges ahead to make the best happen for your Company.

Information Technology around the world

Today is a time of cautious optimism, after a long period of economic uncertainty that has transformed the global economic realities. While uncertainty in the Euro zone and the risk of political deadlock in the US still persist and could disrupt economic recovery in the developed economies, the risk of a financial and economic meltdown with unprecedented consequences now seem more remote than it did a year ago. Overall, the environment is improving; developed economies are striving to return to higher levels of competitiveness and at the same time, the developing and emerging economies are focusing on innovation as a prerequisite to achieve high economic growth rates to leapfrog towards higher levels of economic and social prosperity.

Information Technology is being increasingly recognized as an important tool for efficiency gains by the Corporate Sector, allowing it to maximize its output and free its resources for more productive investments. Your Company is an integral facilitator of this corporate endeavour, expediting the progress through IT, and also empowering the citizens of both the developed and emerging economies with easy and enriching access to technology.

“Smart mobility” has evolved into a key accelerant for growth and cross-industry adaptation of transformational technology megatrends for the top 100 global technology companies. Your Company is gearing to help optimize this new technological trend.

Preceding Twelve Months

We started off the year with a clear target of increasing customer satisfaction through greater interaction with them at various stages of the product development lifecycle; creating high performance culture through building managerial capacity. Our focus on rebuilding the Top Management team was realized during the year, with the hiring of highly qualified and experienced professionals from the Industry. We were also able to achieve significant success by restructuring our delivery organization. With growth in differentiated customization and support, this restructuring has aided in meeting increasing customer expectations. Through dedicated efforts, we were also able to reduce the implementation cycle, and offer more value to customers. We are also addressing the challenges of product development with a new team for effective co-ordination across functions.

We have also recomposed the Board of Directors necessitated by recognition of diversity. The Board inducted Mr. N. Subramaniam, an eminent Private Equity Manager on July 11, 2012 and Professor Trilochan Sastry,

Professor at Indian Institute of Management Bangalore on April 27, 2013 as Additional Directors. Both Mr. Subramaniam and Professor Sastry are noted experts and bring rich and varied experience to the Board. These stalwarts will surely bring their experience, expertise and insights to our Board.

Moreover, in recognition of the proposed policy of Rotation of Directors in the Companies Bill 2012, Mr. Arun Shekhar Aran, an Independent Non-Executive Director of the Company, who has served for 18 years on the Board, resigned with effect from April 27, 2013. The Board of Directors considered and accepted his resignation. Mr. Aran was instrumental in laying strong foundations for the Company and has contributed immensely in guiding the Company over his long tenure. We thank him for his contribution and wish him good luck.

In the year under review, we have achieved growth both in our topline as also in our operating margin (in rupee terms though the Dollar revenues saw some decline).

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 fifth consecutive year in 2012 as the Global No. 1 Lending Software Solution by IBS Publishing, UK in their Sales League Table 2013 for Banking Product Sales. 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 again won the coveted Gold Shield for the fifth year in a row for "Excellence in Financial Reporting" from The Institute of Chartered Accountants of India.

Your Company's HR practices are also being appreciated and the prestigious NASSCOM Corporate Award for Excellence in Diversity and Inclusion was bestowed upon your Company for 'Best IT services & Product Company' in the relevant category.

Looking ahead...

The year gone by can be best characterized as the year of transformation for the global IT industry which went into expanding in newer verticals and geographies, attracting new customer segments, and transforming itself from being just technology partners to becoming strategic business partners. The Company shall move strongly in that direction. Increase in global technology spending and opportunities created through adoption of disruptive technologies are also expected to propel growth in the current year.

Customers today are increasingly seeking technology providers who understand their businesses and also their challenges. Our customers are looking for deeper customer insights and improved ways of delivering

services to their customers. Our customers across the globe are focused both on revenue growth as well as increasing their profits, primarily by enhancing productivity and offering differentiation. Technology for our customers is no longer a cost but an investment, and it is going to be the key enabler for them to drive productivity and simplify their business processes to reduce operational costs. Your Company's domain-specific solutions, product leadership, customized approach, strong delivery capabilities and global footprint, make us an ideal partner for our customers. We are also increasingly aligning our offerings more closely to the business priorities of our customers.

My fellow members at the Board and I strongly believe that technology creates growth prospects and unravels opportunities for organizations to achieve their goals. This belief pushes us towards inventing and also exploring new geographies so that we can touch the lives of billions of people around the world.

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 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 a part of the Nucleus Family.

Above all, our team at Nucleus is and shall remain our core strength. Nucleites, with their competence and dedication, continue to navigate through highly challenging situations to provide our customers with analytical, flexible and tailor-made solutions. Our performance has been driven by the commitment and perseverance of our employees. I would like to heartily acknowledge their immense contribution to our growth.

I would also like to thank my fellow Board members and business associates for their whole-hearted support to the Company through the year, as in the past.

And finally, my profuse thanks to our shareholders – both institutional and individual – for their deep and abiding trust in the company.

Janki Ballabh
Chairman

April 27, 2013

CEO's Message



Vishnu R Dusad

*D*ear Shareholders,

Over the past decade, the world has become increasingly “hyperconnected.” We live in an environment where the internet and its associated services are accessible and immediate, where people and businesses can communicate with each other instantly. The exponential growth of mobile devices, big data and social media are all drivers of this process. Consequently, we are beginning to see fundamental transformations in society which are redefining relationships between individuals, consumers and manufacturers. With the dawn of this era of new opportunities, redefining the way business is done, I feel energised and confident of the goals set by Nucleus Software to take it into the next orbit.

I take great pleasure in presenting a brief report on the performance of Nucleus Software for the financial year 2012-13.

The year gone by has been a significant one for Nucleus Software. Our customer base in 50 countries and focus on domain-rich expertise helped us sustain Nucleus Software’s improved performance. The Company’s flagship product FinnOne™ was recognized as Global No. 1 Lending Software Product for the Fifth consecutive year in 2012 by IBS Publishing, UK in their Sales League Table 2013 for Banking Product Sales. FinnOne™ has also been ranked tenth globally in all banking product lines. This is a reiteration of our commitment to deliver world class products and it makes me happy to report that our products continue to get global recognition. With continued focus and aggression on our goals, we will soon reach higher levels of global stature.

Annual Report and Accounts of Nucleus Software for the year ended March 31, 2012, were adjudged as the BEST under the relevant Category X of the ‘ICAI Awards for Excellence in Financial Reporting’ for the fifth 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.

Nucleus Software was honoured for the ‘Best Online Annual Report’ globally in the technology sector & the Best in ‘Most Improved Financial Disclosure Procedures’ in the regional rankings for India for the year 2012 by IR Global Rankings (IRGR).

The prestigious NASSCOM Corporate Award for Excellence in Diversity and Inclusion was also bestowed upon Nucleus Software for ‘Best IT services & Product Company’ in the relevant category.

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

The year gone by was relatively a tough one for banking solutions market, as technology budgets with banks were limited and decision-making process on adopting new technology was slow. I am pleased to report a growth in revenue of 4 percent over the previous year, leading to consolidated revenues of ₹ 294 crore. With a disciplined approach, EBITDA margins registered a growth of 303 basis points. Consolidated net profit for the year is at ₹ 45.17 crore, higher by 28 percent over the previous year. Earnings per share for the year improved to ₹ 13.95 per share against ₹ 10.91 previous year. Nucleus Software has been regularly paying dividend since 2000-01 and the Board of Directors have recommended a dividend for the thirteenth consecutive year, this year of 30 percent (₹ 3.00 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 is at ₹ 197.69 crore, which is 67 percent of the total revenue for the year. This product revenue includes ₹ 191.89 crore of product revenue from own business. Revenue from projects and services is at ₹ 96.07 crore, which is 33 percent of the total revenue for the year.

Operating cash flow for the year after working capital changes is ₹ 74.77 crore against ₹ 13.47 crore in the previous year. Nucleus Software continues to enjoy a high level of liquidity with 'Cash and Bank balances' and 'Current Investments' at ₹ 266.72 crore as on March 31, 2013 against ₹ 196.16 crore as on March 31, 2012. Nucleus Software has been conservative in its investment policy over the years, maintaining a reasonably high level of cash and cash equivalents which enables the company to completely eliminate short and medium term liquidity risks.

Consistent decline in growth outlook of global economy for the past two years and continuing Euro zone debt problems posed major threat to the global currencies. Indian Rupee was unable to return as a strong currency and ended the year historically on the weakest ending level of 54.28 to a Dollar, weakening by more than 6.50 percent over the previous year when it was 50.88 on March 31, 2012. During the year, Nucleus Software followed a well-defined policy of hedging close to receivables through Forward Contracts which are designated as Highly Probable forecast transactions. At the year end, Nucleus Software had US\$ 10.50 million of hedges compared to US\$ 12.00 million at the beginning of the year.

Coming to Sales and Marketing, we won 20 product orders for implementing 65 product modules from all over the world. With these orders, Nucleus Software added 10 new customers during the year. We also continued our focused participation in events and increased interactions with customers. We participated in Retail Banking Forum in Europe and reiterated our focus on the Philippines market through a joint announcement with customers.

I am also glad to share that some of our customers have received awards and industry recognitions for their implementation of our products. FinnOne™ implementation at CIMB, Malaysia received the Process Excellence Award for Collection and Debt Management at the prestigious BPA Trailblazer Awards. Vietnam Prosperity Bank's Loan Origination system, powered by Nucleus Software's FinnOne™ CAS, LMS and Collections was recognized with Model Bank Award by Celent (March 2013).