



NUCLEUS  
SOFTWARE



# Driving Innovation

in financial services



• FinnOne Neo™ made available in the cloud

• Launched PaySe™, the world's first offline digital cash solution

• Won the Model Bank Vendor 2016 Award by Celent

• 10 time winner - world's best-selling lending solution

• Recognized as one of the five most significant mobile banking solution vendors by Forrester

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## 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

Chairman



## Dear Shareholders,

Since the dawn of the information technology age, computers have largely been used to make existing processes and procedures faster, easier and more streamlined. In short, computers have been mostly used in evolutionary rather than revolutionary ways. However, the world has now entered a new era – where technology advances in multiple fields are being combined to create truly new opportunities. The sharing economy – as demonstrated by companies such as Airbnb and Uber – is an example. But before we get caught up in the hype, we need to remember that to be successful, these companies must fulfill their customers' needs, i.e. if their customers don't value their offerings, the companies won't be successful. We, at Nucleus Software, remain committed as ever in our focus to provide the best products and services to our customers.

### THE YEAR GONE BY

For three decades our mission has been to help our customers succeed by leveraging the latest technologies, and in the last year too, we continued to execute that mission. We launched new versions of our products – FinnOne Neo™ and FinnAxia™. We created FinnOne Neo™ for Mutuals and FinnOne Neo™ for NBFCs – solutions that are designed to meet the needs of specific business verticals. To deliver more agility and flexibility at a lower cost; we made our flagship solution FinnOne Neo™ available in the cloud. We released FinnAxia™ 3.0, which has been designed to address the ever changing needs of banks' corporate customers. Today, the world is moving towards the complete digitization of payment transactions to deliver increased customer convenience, more security and higher speed. We brought an innovative twist to the world of digital payments by introducing the world's first offline digital cash solution PaySe™. It has been designed to mimic cash transactions with easy to use, one press 'Pay' and 'Receive' functions. PaySe™ will result in a "Less Cash" ecosystem eventually leading to a "Cash-Less" ecosystem for the majority of low value financial transactions. By bringing the cost of cash down, the solution will facilitate the cost effective delivery of small loans.

With our deep experience in banking and financial services we know how to help our customers transform to the next level. We regularly share our expertise and experiences on how to shape the future of finance in prominent business forums, events and seminars worldwide. We continued to raise our profile as a market leader in lending and transaction banking space. Adding to our long list of awards and recognitions, we were included among the world's top 5 mobile banking solution providers by Forrester Research and we were honored with the Celent Model Bank Vendor award for adding value to our customers.

However, in today's fast-paced world, no company can rest on its laurels, and so we need to be cognizant of the transformation happening around us, and importantly how we can take advantage of these changes.

### CHANGING CUSTOMERS, CHANGING NEEDS

In many parts of the world, particularly Europe and the United States, Generation Y or Millennials are having an impact as they move into the workforce – by 2050 they will make up half of the

global workforce. They grew up during a severe financial crisis and are more accustomed to a technology powered global network than any previous generation. There are many misconceptions about millennials but it is clear that their demands from financial services providers are creating serious challenges. They want to be treated as individuals, with personalized products and services. They would like their bank to understand their needs, ideally before they know they need them. They expect digitized banking, easy access to real-time information and a relationship based approach. Delivering on these capabilities while keeping the costs low enough to drive profits, is clearly a challenge for banks today.

As Albert Einstein said “in the middle of difficulty lies opportunity”, so the key challenge for financial services providers is to deliver what their customers need and, when and where they need it. We believe that this creates tremendous opportunities for Nucleus Software, as the key enabler will be the use of innovative technology solutions.

## **INCREASING VOLATILITY**

In FY2016 it became clear that one of the features of the business world after the financial crisis is the increasing volatility. A number of factors weighed on the global economy, including potential Grexit and Brexit, market corrections in the Eurozone and the crash of the Chinese stock market. These factors and many more combine to increase volatility, and when “news” is shared world-wide in a matter of seconds with the increased speed of global communications, the result is even more volatility.

This seems to be the new normal and so business must adapt to it, as George Bernard Shaw said “progress is impossible without change, and those who cannot change their minds cannot change anything”. From a business perspective, the keys to success are to be close to the market, close to customers’ needs and to be willing and able to change rapidly to meet those needs. Again, we believe this creates tremendous opportunities for us as technology plays a fundamental role in delivering business agility.

## **DISRUPTIVE INNOVATION**

We are undergoing an intense period of disruption – barely a day goes by without another story of a long established company restructuring its operations or going out of business. In the United Kingdom, articles such as “10 High Street stores of 1976 that have disappeared” are being written. In the United States, organizations as diverse as McDonald’s, Office Depot, Barnes & Noble, Walgreens, Aeropostale and American Eagle Outfitters are shutting many of their stores, and some are shutting all of their stores.

While numerous factors are at play, including changing demographics reducing the profitability of stores in certain locations, the effect of online retailers and fast-fashion stores such as H&M and Zara cannot be overstated. These new champions have adapted to the changed dynamic and have built their business models around agility, powered by innovative technology.

## **IS FINANCIAL SERVICES NEXT?**

A decade ago, many retail bankers were trying to make their businesses more like the retail industry, in effect trying to turn retail banking into bank retailing. Concept stores were created – including co-locating with coffee bars and putting financial products into boxes which customers brought to the checkout to buy. While these were concepts that indicated the thinking at the time, they clearly didn’t deliver the answer to the problem at the time. Today, that problem is set to get worse.



When these challenges are combined with technologies such as blockchain, many are predicting a very bleak future for financial services. However, as Bill Gates once said “we always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten.” At Nucleus Software, we believe that banks and other financial services providers have a set of unique advantages over their potential disrupters. The key to unleashing these advantages is to combine a strong vision for the future with the technologies needed to deliver that vision.

## WHAT'S NEXT FOR NUCLEUS SOFTWARE ?

To keep ahead of these challenges, banks and other financial institutions need to have the right strategies, business models and technologies. Not only must they execute on today's initiatives, but also radically innovate and transform themselves for the future. Innovation and technological advancement are inextricably linked with the very essence of banking. We believe that developing a customer-centric business model, simplifying business and operating models, enabling innovation, and proactively managing risk, regulations and capital are some of the key elements, which, if handled carefully, can help banks win customers and generate long-term growth. As a pioneer in providing solutions to the banking and financial services industry, we are committed to helping our customers achieve this and do much, much more.

## ACKNOWLEDGEMENTS

Before I conclude, I would like to sincerely thank the various officials of the Central and State Governments, and our bankers and financial institutions for their continued support and assistance. I would also like to thank our customers – who place their trust in us and our partners, vendors and suppliers for their consistent support.

I would also like to convey sincere thanks to the entire team at Nucleus Software for their dedication and contribution to our endeavour. My thanks also go to my fellow Board members and business associates for their invaluable assistance and advice throughout the year.

**Finally,** I would like to express my deepest thanks to you, our shareholders, for your commitment, belief and trust in our Company.

I am very confident that our Company will do better in the years to come.

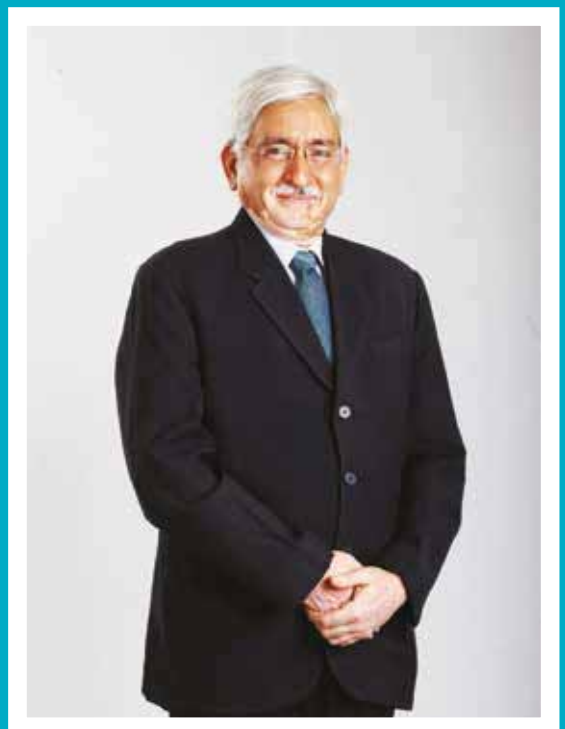
**Janki Ballabh**  
Chairman

May 4, 2016

# // CEO'S MESSAGE

Vishnu R Dusad

Managing Director & CEO





## Dear Shareholders,

It has been an exciting year for our Company. We continued to make good progress on our transformation journey, and as I look back, I am both proud and humbled by what we have achieved through the year. Working together as a team, more than 1500 passionate, dedicated and talented individuals combined to deliver our success.

This teamwork and the resulting success continue a long term trend. For the last three decades, we have been working with some of the world's most innovative banks and financial service companies. We have built up a wealth of knowledge about global best practices - we know what works and what doesn't. And of course we know how technology can help as well. I am delighted to share that every day in 50 countries, 150,000 people working for 150 companies use our systems to process 26 million transactions and manage loans with a total value of \$147 billion. In transaction banking, just one of our customers uses our systems to process over \$3 trillion worth of transactions each year in 16 countries.

### BUSINESS HIGHLIGHTS

In FY2016, we launched the world's first offline digital cash solution PaySe™, to empower the bottom of the pyramid and to reduce the cost of cash. We have ensured that our solutions' comprehensive functional coverage can be deployed quickly and cost effectively in the cloud. Our solutions can be deployed on a wide range of industry standard cloud platforms, including Microsoft® Azure and Amazon Web Services (AWS).

We also announced our collaboration with Red Hat, the world's leading provider of open source solutions. We launched new versions of our award winning lending solution FinnOne Neo™ and our sophisticated transaction banking solution FinnAxia™. The new releases have been designed to meet the needs of specific customer segments, for example the Mutuals sector in Australia and the Non-Banking Financial Company sector in India. As a part of the Company's strategic growth initiatives, the Board approved a proposal to acquire a mobile technology solutions company.

We continued to build our customer base by adding 6 new customers, winning 13 new product orders and implementing 28 product modules worldwide. It was interesting to see that this included organizations across the value chain – from our traditional banking market to new market entrants such as the FinTech companies and NBFCs. As a part of our transformation journey, we increased our focus on Australia and Japan with the appointment of senior sales leaders

in those markets. I am glad to share that we demonstrated how we help customers achieve their business goals while participating in 30 industry forums in 5 continents. This includes: 11th Annual Loan Origination Excellence Summit 2016 in Australia, ENG's Automotive Finance Summit in Europe, Sibos 2015 in Singapore, the 7<sup>th</sup> Annual Retail Banking Africa 2015 in Africa, ABTEC 2015 in the Middle East and FIBAC 2015 in India. We also shared our expertise and experience in an exclusive webinar on Loan Collections Technology: Accelerating Digital Transformation and Minimizing Loan Delinquencies, organized in association with CEB TowerGroup.

## **CHANGING PERCEPTIONS**

We are delighted to see that the difference we make and the value we continue to bring to our customers is being acknowledged by leading industry analysts. This year, we have been recognized as one of the five most significant mobile banking solution vendors by Forrester Research, Inc. in The Forrester Wave™: Mobile Banking Solutions, Q4 2015. We also won the inaugural Celent Model Bank Vendor 2016 Award for helping multiple clients achieve technology or implementation excellence.

A large number of our customers, including Bank of Queensland, bob Finance and Bussan Auto Finance have chosen to speak in public on the value they attribute to our partnership. This shows how prominently we are aligned with our customer needs and our commitment to deliver world class services.

## **CONTINUING OUR TRANSFORMATION JOURNEY**

Powerful forces are reshaping the financial services landscape. The dramatic increase in technological capabilities, changing customer expectations, and rising regulatory requirements are creating an imperative to change. To get ahead of these challenges, banks need to retool their operations. Not only must they execute on initiatives today, but they must also radically innovate and transform themselves for the future. More than ever before, technology is shaping the next evolution in banking.

I believe that banks should be able to deliver more customer centric products, offer services anytime, anywhere, over the channels that customers want, take advantage of digital technologies and leverage analytical capabilities to win customers and sustain growth in the future. We will continue to ensure that our solutions are ready to cater to these evolving needs, so that our customers can take advantage of the opportunities presented.

## **FINANCIAL PERFORMANCE**

In FY2016, we recorded annual revenues for the year of ₹ 348.7 crore against ₹ 353.1 crore for the previous year. Overall Revenue in foreign currency including India Rupee revenue for the year is US\$ 53.4 Million, against US\$ 57.1 Million for the previous year. Product revenue for the Year was up and it now represents 75% of total revenue at ₹ 261.7 crore, against 72% of total revenue at ₹ 255.6 crore for the previous year.