

Annual Report 2006-07

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SOFTWARE**

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*"You ask me if I keep a notebook to record my great ideas.
I've only ever had one."*

Albert Einstein





*"An invasion of armies can be resisted, but not an idea
whose time has come."*

Victor Hugo

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Thinking our way up

Report



Junction



*"Discovery consists in seeing what everyone else has seen
and thinking what no one else has thought."*

Albert Szent-Gyorgi

Dear Shareholder,

It gives me immense pleasure and sense of deep satisfaction to share the results of your Company for the financial year 2006-07.

For the first time, in the financial year 2004-05, 19 years after the Nucleus story began, we achieved Rs. 100 crore revenue and it has taken us just 2 years to achieve the next Rs. 100 crore revenue. Consolidated revenue for the year 2006-07 at Rs. 221.19 crore, recorded an increase of 49.40% over revenue of Rs. 148.05 crore in the previous year. Total operating expense for the year was Rs. 157.91 crore against Rs. 102.92 crore in the previous year, representing an increase of 53.43%. Consequently the operating profit for the year was Rs. 63.28 crore, 28.61% of revenue, against Rs. 45.13 crore, 30.48% of revenue in the previous year. Operating margins showed a fall of 187 basis points with the Company ramping up for future growth. Staff costs at Rs. 101.22 crore, 45.76% of revenue increased by 68.01% over Rs. 60.25 crore in the previous year, 40.70% of revenue.

Consolidated net profit for the year was Rs. 55.15 crore, against Rs. 37.08 crore in the previous year, representing an increase of 48.73%. EPS for the year was Rs. 34.22 against Rs. 23.04 for the previous year.

The Board of Directors had declared an interim dividend of Rs. 3.50 per share in March 2007 and the same was paid to all shareholders of the Company on the record date of March 22, 2007. In view of the robust business performance and optimistic future outlook, the Board of Directors has recommended issue of bonus shares in the ratio of 1:1 i.e. one equity share for every share held. The bonus issue is subject to the approval of the shareholders in the forthcoming Annual General Meeting.

The year has been marked by several milestones in line with our IPR led strategy. For the first time IBS publishing of UK ranked us as No. 1 worldwide for wins in the Retail Lending Software space. This is the result of our focused investment in products, to stay ahead of the market both functionally and technically and in line with customer needs and expectations. We booked the largest single product order in our history from a leading consumer finance Company in Japan, to implement FinnOne™ and provide related services from India. Our first product implementation in

Europe went live in Italy, opening up further opportunities in the geography.

Revenues from the product business at 54% of total revenue crossed the 50% mark for the first time. Revenue from the product business consisting of license, customization, implementation and annual technical support, crossed Rs. 100 crore for the first time this year at Rs. 119.76 crore, an increase of 110.73% over Rs. 56.83 crore in the previous year. Almost the entire growth in top line was from the Product Business, with 'Projects and Services' revenue at Rs. 101.43 crore for the year, growing by 11.19% over Rs. 91.22 crore in the previous year.

Operating cash flow for the year after working capital changes is Rs. 38.73 crore with receivables showing a rise from Rs. 23.83 crore in March 2006 to Rs. 55.26 crore in March 2007. The Company continues to enjoy high level of liquidity. 'Cash and Bank Balances' and 'Current Investments' were at Rs. 81.89 crore as on March 31, 2007 against Rs. 77.48 crore as on March 31, 2006. Income from investments consisting of Capital Gains and Dividends at Rs. 3.53 crore increased by 123.42% over Rs. 1.58 crore in the previous year with firming of money market rates and our proactive stance to maximize the same without assuming additional risk. We continue to invest conservatively in Liquid Plans and Fixed Maturity plans of Mutual funds.

After the end of the financial year, we have seen a rapid appreciation of the Indian Rupee against the US \$ and at Rs. 41.18 to the Dollar on the Board meeting date, there is an appreciation of 5.87% in a month. With net foreign exchange inflow of Rs. 127.69 crore in the parent Company and the Indian subsidiary, and expenses in Indian rupees, this appreciation has a direct effect on both revenue and profitability and we are consciously working to mitigate the risk by hedges as well as optimizing cost structures over the long run.

We booked 22 new product orders for 74 modules for FinnOne™, our retail loans Suite and our Cash@Will™, cash management product. This booking was our best ever and we added 21 new clients. Our footprint grew in Japan, Africa, Middle East and South Asia. Japan, Europe and North America are the future markets for sustained long term growth and we plan to ramp up our



"We are what we think. All that we are arises with our thoughts. With our thoughts, we make the world."

Gautam Buddha

sales and marketing efforts in these markets in the coming years. We participated in a significant manner at SIBOS 2006 in Sydney and MEFTEC in Bahrain. These banking events enable us to showcase our technology and solutions to a global audience of key decision makers.

We are pleased to inform you that 39 new FinnOne™, 3 new Corporate Customer Acquisition System (CAS) and 3 new Cash@Will™ sites went 'live' during the year. We continue supporting portfolios of more than 10 million contracts at one site along with 7000 concurrent users. The challenge is in meeting the increasing customer expectations of product capability, increasing transaction volumes and time for execution.

On the product development front, we released new and improved versions of our products FinnOne™ Loan Management System (LMS), FinnOne™ Deposits, FinnOne™ Finance Against Security (FAS) and FinnOne™ CAS. Two new significant market segments have been addressed this year by launching new modules. FinnOne™ Forecaster has been introduced to meet the requirements of the potentially strong area of business analytics for customer acquisition.

FinnOne™ today covers business requirements of banks, financial institutions and captive auto finance companies. The FinnOne™ product suite is capable of handling retail and SME businesses, both of which are the key businesses of any banking institution. As part of our technology upgrade strategy, we are migrating our flagship product FinnOne™ LMS to the Java J2E platform. Improved documentation and manuals has been a long attending requirement of our customers and we have successfully launched new editions of manuals for all our products.

Our strategy for future growth is to be a leading global player in our specialty area of retail loan with implementations in all continents and all countries. To meet our strategic goals we are continuing to recruit aggressively, creating additional infrastructure for future requirements. Our second facility with 750+ seats, at the existing Noida campus in the NCR region has become operational and the Board of Directors have given approval for commencing work on phase III, within the campus, which will add another 800 seats. We have opened a branch office in Sharjah, UAE this year to accelerate

addressal of business opportunities in the Middle East market

With ambitious growth and development plans, we have added 464 associates in financial year 2007 against our target of 500 associates, and our total strength has increased from 1068 in March 2006 to 1532 in March 2007. Attracting and retaining talent is one of our biggest challenges and we are laying new focus on the proactive HR function to empower our people to scale new heights of productivity while enjoying world-class facilities.

Your Company has always been at the forefront in adopting best practices in corporate governance and continuously improving our financial reporting standards. As part of our roadmap for business excellence, we have prepared consolidated US GAAP financials for the first time for financial years ended March 31, 2005 and March 31, 2006 and KPMG have completed their audit of the same.

On behalf of the Board, I reiterate our pride in being selected amongst the top 25 companies adopting "Good Corporate Governance Practices" by the Institute of Company Secretaries of India for 2006. Further our Annual Report for the financial year 2005 received 'Merit Award' for "Best Presented Accounts Award" in January 2007 by the South Asian Federation of Accountants in the category of "Communications and Information Technology". Earlier in the year, Nucleus was ranked 13th in Dataquest Top 20 Best Employers Survey 2006, which is a prestigious and comprehensive IT Industry survey conducted amongst 200 IT employers across India.

This year saw many achievements and we are confident that with the determination and strong will of Nucleites, guidance of our Board Members and well-wishers, and with the support of our customers, business associates and shareholders, we will set many new milestones in future years and Nucleus will continue to meet stakeholder expectations.

Vishnu R Dusad
Managing Director

April 30, 2007



*“The vertical thinker says: I know what I am looking for.
The lateral thinker says: I am looking but I won't know
what I am looking for until I have found it.”*

Edward de Bono

The passion to push the frontiers of imagination drives us to not only create cutting-edge products, but to customize them to the depth desired by our customers. With a sharp focus on retail banking and cash management - the backbone of the new economy, we empower our customers to reach their customers in regions, time-frames and ways that optimize their business.

Today, our flagship product FinnOne™ is the World's #1 Highest

Selling Lending Software, with a majority of the banks in India and a growing number in over 22 global markets as our customers.

And, with the successful launch of FinnOne™ Forecaster, FinnOne™

Risk Manager and FinnOne™ CASCORP (for SME lending), we have

expanded our products portfolio to tap the most dynamic and growing sunrise segments in banking and financial services.