

Annual Report 2009 - 10

CHASE THE LIMIT



...seize the dream



**NUCLEUS
SOFTWARE**

CHASE THE LIMIT...



**NUCLEUS
SOFTWARE**

www.nucleussoftware.com

Contents

CEO & MD's Message	02	Schedules	53
Chasing The Limits...	08	Balance Sheet Abstract	78
Banking on Innovation; Innovation on Banking	10	Statement under Section 212	79
Limits mark the beginning of a new realm	12	Management's Discussion and Analysis of Financial Condition and Results of Consolidated Operations	80
Chasing Excellence	14	Risk Management Report	92
Year at a Glance	17	Consolidated Financial Statements	100
Directors' Report	19	Financial Statements of Subsidiaries	128
Annexure to Directors' Report	29	Report on Corporate Governance	137
Management's Discussion and Analysis of Financial Condition and Results of Operations	34	Shareholders' Referencer	156
Auditors' Report	46	Corporate Social Responsibility	168
Balance Sheet	50	Economic Value Added	169
Profit & Loss Account	51	Segment Information, Historical Perspective and Ratio Analysis	170
Statement of Cash Fow	52	Notice of Annual General Meeting	177

Dear Shareholder,

I present to you the performance of your Company for the financial year 2009-10. Before I update you on the financial results, I take immense pride in sharing with you that your Company's flagship product FinnOne™ has been recognized as the number one best selling Retail Lending Software by IBS Publishing for the second consecutive year in 2009. The ranking re-instates Nucleus' leadership position in lending software and is a strong endorsement of our vision, mission and commitment to customer satisfaction.

It also gives me great pleasure to report that the Annual Report and Accounts of our Company for the year ended March 31, 2009, were adjudged as the BEST under the category 'Information Technology, Communication and Entertainment enterprises' of the 'ICAI Awards for Excellence in Financial Reporting', by the Institute of Chartered Accountants of India (ICAI), for the second consecutive year. We received a GOLD shield in the category. The award reflects and reinforces Nucleus' commitment towards adhering to statutory, legal and regulatory requirements and compliance with the accounting and financial reporting standards, codes and practices.

In terms of financial performance, consolidated revenue for the year 2009-10 was Rs.291.78 crore against Rs.328.40 crore in the previous year. With total expenses at Rs.237.70 crore in comparison to Rs.278.80 crore in the previous year, the consolidated EBITDA increased to Rs.54.08 crore in comparison to Rs.49.60 crore in the previous year.

Consolidated net profit for the year was Rs.38.40 crore, against Rs.32.26 crore in the previous year. EPS for the year was Rs.11.86 against Rs.9.97 for the previous year. The Board of Directors have recommended a final dividend of 25%, Rs.2.50 per



share, which is subject to approval of the shareholders in the ensuing Annual General Meeting.

The year gone by has been extremely challenging with a falling top line. As committed to you in the previous year, we focused on cost reduction and hence operating margins have grown by 343 basis points to 18.53% for the year against 15.10% in the previous year. Major emphasis will be laid in the current year on regaining top line growth and increasing the market share. Increasing productivity to compensate for the increasing manpower cost will have to be dealt with great emphasis. The steep appreciation of Rupee against all major currencies is another external factor which will need closer management. New technologically superior versions of our key products will be launched during the current year and we are confident of maintaining our competitive edge.

Nucleus' vision is to be a leading global end-to-end products & solution provider; a customer-oriented global organization committed to the highest level of quality for its products and services. Continued R&D effort and investment enables Nucleus to maintain a technology edge in rapidly evolving market and introduce new innovative products & solutions. Nucleus Software generates 60% revenue from IPR led business & services. Post downturn, we are witnessing organizations in the markets expanding, especially those with focus on higher quality and improving IT efficiencies. Internationally also there has been a resurgence in the activities in the banking industry. Recent reports have shown signs of recovery in demand from the banking, financial and insurance verticals also, with the banks hiking their discrete expenditures to upgrade and strengthen their systems. In such times, FinnOne™ solution would be the best option for the lenders as they look forward to managing


their lending business effectively.

Our Product business revenue at Rs.173.95 crore, accounted for 59.62% of revenue for the year, against Rs.219.96 crore, 66.98 % revenue in the previous year. This includes Rs.151.12 crore of product revenue from own business against Rs.200.72 crore in the previous year. The Company continues to focus and invest on development of niche Banking Products.

Operating cash flow for the year after working capital changes is Rs.45.45 crore against Rs.37.52 crore in the previous year. Receivables are at Rs.57.68 crore against Rs.80.10 crore. Other Current Assets are at Rs.30.95 crore against Rs.29.43 crore. The Company continues to enjoy a high level of liquidity. 'Cash and Bank balances' and 'Current Investments' were at Rs. 162.40 crore as on March 31, 2010 against Rs.122.18 crore as on March 31, 2009.

The rupee strengthened against all major currencies during the fiscal year 2009-10 because of continued foreign capital inflows seeking higher yields, better fiscal position and high economic growth. Volatility in foreign exchange markets create large risks for us with 87.39% of our revenue denominated in foreign currency. Our total hedges were of US \$10.40 million at the end of the year at an average of Rs.46.50. This includes US \$0.40 million of options which are marked to market at the year end rate of Rs.45.09 and US \$10.00 million of forwards, on which a mark to market gain of Rs.1.37 crore is in the hedging reserve.

Amidst the progression post-recession, we won 31 new product orders for 87 product modules of FinnOne™, our retail loan Suite and Cash@Will™, the cash management product. In all, 84



product modules went live in the year. An increasing trend has been witnessed in ‘requests for proposals’ (RFP) from across the globe and 280 product demonstrations were held during the year. Deal closure decisions have been delayed due to various unforeseen circumstances such as crisis in different parts of the world, which led to temporary holding of decisions, and we expect such decisions to start happening soon.

During the year, Forrester Research recognized Nucleus for its banking platform deals in 2008 and as an industry vertical specialist in their report “Working with Tier Two Offshore Providers”. There have also been some good endorsements from Gartner and Celent as well, during the course of the year. We also participated in numerous banking events globally, like the Asian Banker Summit 2010 in Singapore, SIBOS, the largest banking event at Hong Kong and sixth CEE retail banking event at Vienna. We were the platinum sponsors in the largest banking event in MEFTEC in Middle East.

As far as markets are concerned, now we are operating in almost all the markets. We have increased our sales presence in Europe and Latin America, and are confident of generating some business from these markets. We also added 12 channel partners across the globe during the year.


To keep pace with emerging trends across the globe, a number of product releases were done and some new developments were initiated. A new Java version of Cash@Will™, the Cash Management product, was released during the year. It is pertinent to mention that some of the modules released during the year such as Forecaster / Lead Management / Customer Service module and Dealer Funding have started gaining high visibility and a number of orders have been won for these modules. We

are also working towards CMMI level III certification and achieving 100% compliance for all our processes. During the year, we had high number of successful deliveries across the globe, and a very high customer satisfaction rating from many customers.

This year was very challenging from the HR perspective, as we planned to manage most of our requirements with internal resource movements and improving productivity of the existing teams. Selective hiring continued for skills not available internally and we adopted a judicious approach in our hiring decisions. Resources were re-aligned and moved internally. Short term ramp-up requirements of projects were fulfilled by hiring temporary contract staff. Efforts on training and skills enhancements were further enhanced. We continued our efforts of capturing product knowledge and translating it in to Computer Based Trainings (CBT's), which ensured building of knowledge repository at organizational level. The manpower strength as on March 31, 2010 was 1558.

In order to rationalize operations, the Board of Directors of your Company, in the previous financial year, approved closure of two wholly owned subsidiaries viz. Nucleus Software (Australia) Pty Ltd., Australia and Nucleus Software (HK) Ltd., Hong Kong subject to necessary regulatory approvals. During the year, Nucleus Software (HK) Ltd., Hongkong, was de-registered as per the applicable laws of Hongkong and Nucleus Software (Australia) Pty Ltd., Australia was de-registered on April 5, 2010 as per the applicable laws of Australia.

I feel great in sharing with you that for the fourth consecutive year, your Company has been ranked amongst the “Top 25 companies adopting Good Corporate Governance Practices” by



the Institute of Company Secretaries of India.

The Indian IT sector is showing signs of recovery and this is a good sign for all the players in this sector. Positive signs shown by the US and European markets are further fueling the growth of Indian IT sector. Recent reports have shown signs of recovery in demand, especially from the banking, financial and insurance verticals with the banks hiking their discrete expenditures to upgrade and strengthen their systems. Nucleus with its services solutions and business model is poised to make the most out of the times to come and deliver maximum value to our customers, shareholders and all other stakeholders.

We have great aspirations and have to work hard, with persistence. We need support from fellow Nucleites, guidance of our Board Members and well-wishers, our customers, business associates and shareholders for achieving our vision and mission. Meanwhile, I also take the opportunity to thank all of you and request you to be with us in making this journey of Nucleus Software a very exciting and thrilling one.

Vishnu R Dusad

Chief Executive Officer & Managing Director

Date: April 25, 2010



“chase the limits...”