



# TRANSFORMING BANKING TECHNOLOGY

ANNUAL REPORT  
2010 - 11

**Nucleus Software wins Gold shield for Excellence in Financial Reporting, 2010 by Institute of Chartered Accountant of India(ICAI)**



**Mr. Vishnu R Dusad, CEO & Managing 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 4, 2011 at New Delhi, by Shri Salman Khurshid, the Hon'ble Union Minister of State, (I/C) for Corporate Affairs, in the presence of Shri R. Bandyopadhyay, Secretary, Ministry of Corporate Affairs.

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## CHAIRMAN'S MESSAGE

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ear Shareholders,

As we get into the new fiscal, let me share with you some of the challenges as well as the achievements during the year gone by. I would also like to broadly outline how we shaped as an organization and how we have now defined our strategy to transform Nucleus into a next generation corporation.

## The emerging IT industry

The software industry is currently undergoing a sea change across the entire spectrum, from the structure of its business models to the delivery of products and services to the customers. As the industry recovers from the downturn of 2008-2009, many companies are now focusing on how best to take advantage of the plethora of changes brought about by innovation and technology advancements.

The Information Technology industry contributes to the overall productivity and growth of an economy because of the high levels of competitiveness and innovation it brings to almost the entire gamut of manufacturing and services, and the enabling role it plays in changing the way all businesses are done every day. The industry faces mutually reinforcing forces; for example, cloud computing and mobile computing are reshaping software provider strategies in several areas; the design and deployment of software, the delivery channels for software, and the economics of software licensing. This nascent trend is already reshaping software provider and customer strategies away from the traditional packaged/on-premise software model to a flexible, on-demand services model across a range of platforms: mobile, desktop, data centre, and cloud. The industry has a strong track record of successfully adapting to change, and it will surely benefit and draw new strengths from these changes.

Developing and commercializing software products has traditionally had significant challenges like investments in product development, branding, and marketing. With growth strategies led by innovation and intellectual property becoming more main stream, we believe that the Indian software product industry is now well placed for the next phase of growth. For Nucleus, value creation is driven by customer relationships and the ability to develop products that can meet their evolving needs.

## **An year of challenges, and of investments for Nucleus**

The year gone by has been an extremely challenging one for your Company with a falling top line. This, along with significant investment in people, products and marketing, led to a major decline in profitability. Investing in new markets for growth meant an increase in marketing expenditure. In addition, we continued to face intense pressure on employee compensation on one hand and high attrition rate on the other. The Board took some major decisions to reorganize the Company's top management team, necessary to take a major leap forward.

## **Looking back with satisfaction**

Our investments in marketing have started yielding results. During the preceding year, despite global competition, we booked record orders. Nucleus was recognized as a 'Global Pursuer' in a survey of vendors of globally deployed banking platforms by Forrester Research Inc., in recognition of our global banking platform deals in 2010. Your Company's flagship product FinnOne™ was recognized for the third consecutive year in 2010 as the number one bestselling Retail Lending Software by IBS Publishing.

Our products FinnOne™ and Cash@Will™ have been recognized worldwide with our products serving numerous countries across the globe. More importantly, we have made life simpler and better for the common man, the ultimate beneficial owner, across many countries by enabling financial institutions to process and manage loans.

We have gone through difficult times primarily on account of the global crisis which created a tight credit squeeze and liquidity, leading to most banks and financial institutions postponing their decisions on the lending systems. 2010 was the beginning of revival and with the orders that we have now won, we are preparing to move into a new direction.

## **Looking ahead**

We expect our concentrated efforts and enhanced market share in products to translate into better realizations. We are implementing a new strategy for increasing visibility in the European markets with strategic tie-ups. We believe that major growth would be led by larger engagements and value offerings. We are also planning to associate with some large companies especially in Europe to get a better access to the developed economies as also a deeper

penetration in our existing markets. Your Company has also now decided to look at inorganic growth seriously.

As we enter the new year, we do so with the satisfaction of knowing that through personal, professional and organizational determination, we have overcome several elements of challenges. We are also better geared to take on new challenges that will keep appearing. To accomplish this objective, your Company will continue to pursue innovation through new product developments, investment in growth opportunities and evaluate new markets and geographies for expansion.

On another front, in recognition of transparency, compliance with accounting and secretarial standards and investor-friendly disclosures, I am pleased to inform you that your Company won the Gold Shield for the third year in a row for excellence in financial reporting from the Institute of Chartered Accountants of India.

## **Acknowledgments**

I wish to express my sincere thanks to the various officials of the State and Central Government, banks and financial institutions for their on-going support and assistance to your Company. I would also like to thank all our dealers, customers and vendors who have contributed immensely to building our strong foundation and who we are sure would be with us as we drive into the future.

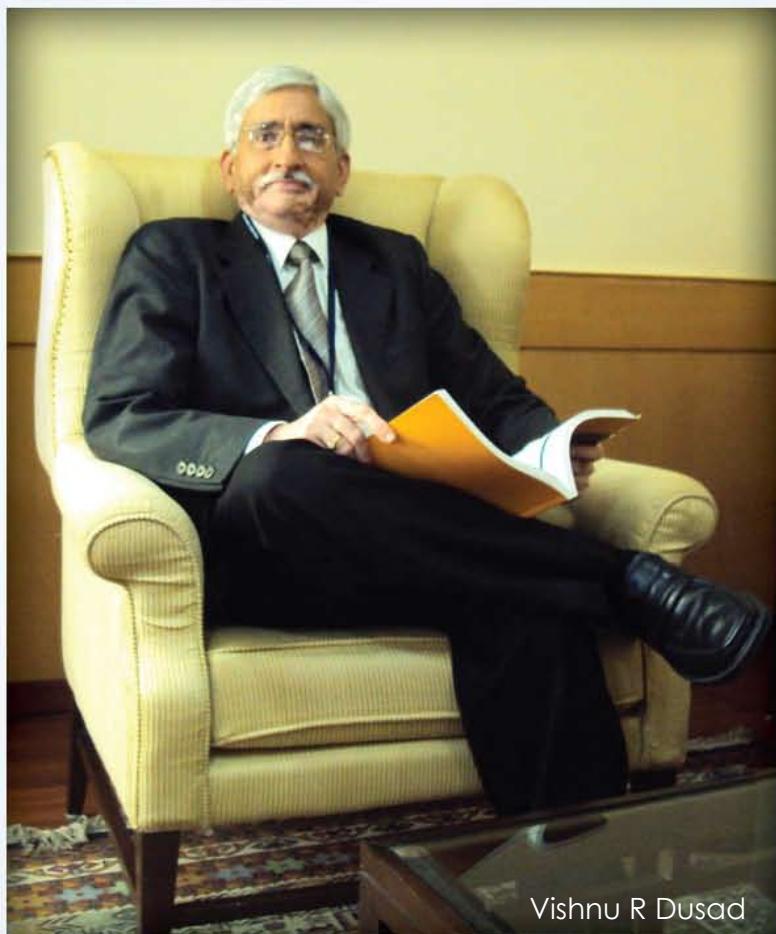
But above all, our people are our core strength. Their ability to navigate through highly challenging situations is the DNA of Nucleus. For our people, the consistent hallmarks remain: respectful and conscientious care of customers, keen sense of their evolving needs and employing the best resources to provide analytical, flexible and tailor-made solutions.

I would also like to thank my fellow Board members, business associates and shareholders who have always supported the Company whole-heartedly.

**Janki Ballabh**

**Chairman**

**Date: May 1, 2011**



Vishnu R Dusad

## CEO'S MESSAGE

**D**ear Shareholders,

I take this opportunity to present to you a brief report on the performance of your Company for the financial year 2010-11.

There are many positives that the Company had in the preceding year. I take immense pride in sharing with you that your Company's flagship product FinnOne™ has been recognized as the number one bestselling Retail Lending Software by IBS Publishing for the third consecutive year in 2010. FinnOne™ emerged a winner with 27 global sales for year 2010 and has also been ranked third in global sales across all banking products. With this recognition FinnOne™ reaffirms its global leadership position. We are grateful to our customers for this honour and for reposing trust in us for the third year in a row. Innovation and IP creation are the foundation of our efforts, and brick by brick we are making progress every year to provide 'Made in India' software products which compete globally.

It also gives me great pleasure to report that the Annual Report and Accounts of our Company for the year ended March 31, 2010, were adjudged as the BEST under the relevant Category VIII of the 'ICAI Awards for Excellence in Financial Reporting' for the third consecutive year. A GOLD shield was presented to the Company. The award re-affirms our dedication towards pursuit of excellence, which is just not limited to our products and services but also in our business operations and is a clear testimony of our long standing belief in best corporate practices. This award reinforces 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.

On the other hand, I would like to share my concerns regarding our financial performance. The consolidated revenue for the year 2010-11 was Rs. 270.48 crore in comparison to Rs. 291.78 crore in the previous year. With total expenses at Rs. 240.00 crore in comparison to Rs. 237.70 crore in the previous year, the consolidated EBITDA is at Rs. 30.48 crore in comparison to Rs. 54.08 crore in the previous year. Consolidated net profit for the year is Rs. 26.34 crore, against Rs. 38.40 crore

in the previous year. EPS for the year is Rs. 8.13 against Rs. 11.86 for the previous year. Despite lower profits, 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.

Our Product business revenue for the year is Rs. 193.57 crore, 71.57% of revenue for the year, against Rs. 173.95 crore, 59.62% of revenue in the previous year. This includes Rs. 181.33 crore of product revenue from own business against Rs. 151.12 crore in the previous year. The revenue derived from Projects and Services is Rs.76.91 crore in comparison to Rs. 117.83 crore in the previous year. While the Product business has shown traction and growth during the year, the projects and services business has declined by a far larger percentage and resulted in a decline in the top line. Overall revenue growth is critical for meeting our strategic objectives and we are conscious of the need to achieve the same.

Operating margins are under pressure with lower revenues coupled with investments in people, products and sales & marketing. Overall expense remained under control though employee remuneration continues to rise. It is not out of place to mention that attrition levels across the industry have been at unprecedented levels during the year and the competition within industry to recruit from each other at higher remuneration will affect the ability of the Indian industry to compete globally.

The impact of the global meltdown in 2008 was felt severely by your Company, resulting in lower revenues and profits on a consolidated basis in 2009-10 after a peak previous year. Significant challenges on account of vendor consolidation and budgetary constraints of major services customers have since continued resulting in further lower revenues in the past year. During the current year, your Company is confident of at least reversing the downward trend, and is gearing towards a higher revenue and profits in the ensuing years.

In such a scenario, major emphasis in the current year will be on revenue growth. Enhanced market share in products will translate to better realization and we are implementing a new strategy for increased visibility in European markets. Emerging markets across the world will continue to provide stability and growth would be led by larger engagements and value offerings.