



**NUCLEUS
SOFTWARE**



‘ICAI Awards for Excellence in Financial Reporting’

Nucleus Software's Annual Report including the financial statements for the year ended March 31, 2013, was inducted into the coveted Hall of Fame by the Institute of Chartered Accountants of India, in the category, Service sector (other than financial services) with turnover less than Rs. 500 crore, of the ‘ICAI Awards for Excellence in Financial Reporting’ for the year 2012-13.



Mr. Vishnu R Dusad, CEO and Managing Director and Mr. Prithvi Haldea, Non-executive, Independent Director of Nucleus Software received the award on behalf of the Company.

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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.

From the Chairman's Desk



Janki Ballabh

Dear Shareholders,

Warm greetings to all of you in this 25th year of your Company's remarkable history, started by young entrepreneurs with "value creation" being the driving force.

As I write to you, the political environment in our country has changed dramatically. This has led to widespread hope of an economic upsurge. Our citizens are rightfully expecting a higher GDP growth accompanied by rising living standards across the entire social strata. We, at Nucleus Software, are committed to developing technology solutions for financial inclusion which, we believe, will enrich the people of our country as a whole.

Information Technology around the world

Nearly six years after the global financial crisis, the world economy is witnessing signs of revival this year, pulled along by a recovery in the high-income economies. Global economic indicators are showing visible improvements. However, one does not have to be especially astute to see that there are still dangers that lurk beneath the surface. The Euro Area is out of recession but median incomes

are still declining in several countries. Deflation is a new threat in Europe. Quantitative easing in the US is being wound up while rising in Japan, with expectations of similar steps in the EU. Central banks in these countries are committed to keep interest rates close to zero for some years and there is a fierce debate on how this affects the less developed/ emerging economies. We, in India, saw turbulent currency markets in July and August 2013 with steep depreciation of the Rupee. High volatility creates uncertainty and risks are to be continuously monitored.

Information Technology industry in India is expected to clock export revenues of USD 84-87 billion in FY 15 maintaining a growth rate of 12-14 per cent (*Source: Nasscom*). IT services and software products will lead this growth. Increase in IT adoption by companies will lead to a significant shift towards emergence of new technologies. The role of IT in organizations will evolve from being "order takers" to transformative "business partners".

Information Technology is continuing to play a critical role in growth of the banking sector, the industry segment your Company caters to. Larger banks are successfully implementing the basic IT infrastructure to run their operations, and the next tier is also moving towards greater IT adoption through increased usage of technology and replacement of legacy systems, to meet the growing and ever-changing business requirements. To effectively leverage this opportunity, IT companies are today required to grow and nurture their capabilities, governance models and IT talent management. End user satisfaction and value creation will remain most critical and will require greater attention.

Preceding Twelve Months

Our focus in the year was on transformation of your Company to achieve growth in revenue and profitability as well as to rightly position your Company in the future. Product companies need to innovate constantly; product development and 'go to market' strategies are key to success.

Mobile technology is changing how individuals are understood and engaged. Your Company is now building a team to develop new products and applications to exploit the huge benefits of this technology. Our R&D centre, duly recognised by

the Department of Scientific and Industrial Research, Government of India launched two new path breaking product suites: **FinnAxia™** integrated transaction banking offering and the **FinnOne™** Mobility product suite. The Mobility suite, consisting of FinnOne™ mCAS, mServe and mCollect, have been tailored to cater to specific market needs in origination, lending and collections operations management to help our customers achieve operational efficiency through turnaround speed, control and transparency. FinnAxia™, a product in the global transactional banking space, consisting of corporate solutions for receivables and collection management, payments, liquidity management and financial supply chain, is the product of the future with our customers demanding and receiving solutions which increase capital and transaction efficiency.

Our long experience and deep understanding of the banking sector worldwide and more so in the lending and cash management space and the track record of product implementations across geographies makes us a trusted and reliable partner for leading banks. Our competitive strengths include global reach and distribution, market coverage, extensive domain expertise, and excellent relationship with customers. The changing market dynamics are transforming the way our clients operate, which is driving incremental demand for our solutions, consulting expertise, and services around intellectual property. Our depth of service capabilities is enabling us to become involved earlier in the planning and design process to assist our clients as they manage their growth.

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 worldwide in the Lending Solutions space. Your Company's flagship product FinnOne™ was recognized for the sixth consecutive year as the **Global No. 1 Lending Software solution**, by International Banking Systems (IBS), UK in their Annual Sales League Table 2014. 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 your Company continues to get recognition world over for transparency, compliance, accounting and secretarial standards, and for investor-friendly disclosures. The Annual Report, including the financial statements, of your Company for the year ended March 31, 2013, was inducted into the

coveted Hall of Fame by the Institute of Chartered Accountants of India, in the relevant category, of the **'ICAI Awards for Excellence in Financial Reporting'**. This elevation was in recognition of your Company having won this annual award for fifth year in a row.

Looking ahead...

New market segments and product innovation is the key to growth, underlining the importance of identifying new markets and championing emerging technologies. I would also add that the need to focus on products which deliver on the ever-changing customer requirements is equally vital. It is now even more important to deliver and package solutions in a manner that helps our customers deliver better to their end users, but which are also most cost efficient.

We are proud of software applications and services that we have developed over many years with substantial input from our customers to provide them with comprehensive business solutions. We understand the needs of our customers and have developed innovative services that can give them a competitive advantage and reduce their operating costs. Our expertise is driving meaningful value and cost savings to our clients through more efficient operating processes and improved service quality and speed for our clients' customers.

As the overall global economic environment improves, Nucleus Software is gearing up to address the vast business potential that the recovering geographies are throwing up. By remaining aware and certain about our strategy and growth plan and working more diligently, we are confident of creating an organization that retains its core values, and leverages the changes in the environment.

Our mission is to achieve sustainable revenue and earnings growth through providing superior solutions to our customers. Our strategy in future will be built on the pillars of:

- Global Diversification
- Expand Client Relationships
- Buy, Build or Partner to Add Solutions to Cross-Sell
- Support Our Clients Through Market Transformation, and
- Continually Improve to Drive Margin Expansion

My fellow members at the Board and I have a strong belief that the passion with which your Company was incorporated twenty five years back needs to be re-lived by each one of us connected with Nucleus; be it our employees, shareholders, customers, vendors or dealers. It will be only then that we will be able to use this best suited metamorphosis tool of the twenty first century, that of technology, to make a meaningful change in the lives of billions of people around the world.

As we keep working towards the common goal, we will continue to keep paramount in our minds the un-wavering importance of 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 Software family.

Above all, Nucleites, our team at Nucleus Software, remains the true source of our confidence and success. With their competence and dedication, they continue to bring smiles on the faces of our customers. I acknowledge their contribution and am hopeful that this team grows into a phenomenal force in times to come.

I would not want to miss the opportunity of thanking my fellow Board members and business associates who have, at all times, provided us with their whole-hearted support.

My profuse thanks, of course, are to our shareholders; both institutional and individual, for their deep and abiding trust in the Company.

Finally...

We are building a smarter, more competitive and more humane Company. Our Company's business model, which is both sustainable over the long term and fueled by some of the world's most attractive high-growth markets and technologies, will provide stronger benefits to our shareholders. Our road map is not just a list of targets; it is a management model built on developing multiple ways to create value.

I trust you share our excitement about your Company's performance and the way in which Nucleites are building on our solid past to build an even brighter future.

Janki Ballabh
Chairman

May 3, 2014

CEO's Message



Dear Shareholders,

As we complete 25 years of the Company, I am extremely happy to re-connect with you at a very interesting phase in the life-cycle of your Company; a time when it has grown in size and matured in terms of delivery capabilities and footprint; and faces a unique opportunity to enhance its role as a full-service, value-adding partner to the industry. Everyone here at Nucleus is feeling energised and confident of the goals set; to take Nucleus Software into the next orbit. Going forward our Strategy is to further strengthen the Intellectual Property centric approach; delivering seamless transition experience and continuous Value to our customers. We will continue building trusted partnerships with all our stakeholders, consolidating our market leadership, adhering to Nucleus Values.

The year gone by, has been a significant year for your Company. Nucleus is one of the few Indian IT companies whose products have high acceptance amongst the top tier banks and financial institutions across the globe, and this has once again been proven by FinnOne™ bagging the prestigious **Global No. 1 Lending Software solution** award from International Banking Systems (IBS), UK, for the sixth consecutive year. This award is a reiteration of the consistent value your Company delivers to its customers through adept domain knowledge in the lending and transaction banking space. Over the last few years, we have created a profound understanding of our customer's industry and business. We have learnt from the best, and applied that understanding to invest in some of the most acknowledged IT products for the banking and financial services industry.

I am pleased to share with you some accolades and awards which reflect our best practices in governance. Our Annual Report including the financial statements of the Company for the year ended March 31, 2013, was inducted into the coveted Hall of Fame by the Institute of Chartered Accountants of India; in the relevant category, of the **'ICAI Awards for Excellence in Financial Reporting'**. Your Company was also honored as the **Third Best Ranked Investor Relations Website in the India region** for the year 2013 by IR Global Rankings (IRGR). Your Company's Corporate Governance practices are being recognised globally and Nucleus was declared as the winner of **"Best Corporate Governance - India - 2014"**, of the World Finance Corporate Governance Awards – 2014. These awards reinforce 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.

Off late we have noticed new trends in the banking sector. Tough competition and the increasing burden of regulatory compliance have compelled the banks to seek ways to increase operational efficiency and reduce costs with superior and niche banking technology. Your Company views this as an opportunity and took several steps during the year that helped us deliver a year of superior earnings growth.

I am pleased to report that this year we have achieved our highest revenues ever; ₹ 346 crore, a growth of 18% percent over the previous year. Our disciplined management of costs helped us register a growth of 361 basis points in EBITDA margins to 19%. Consolidated net profit for the year at ₹ 64 crore is higher by 42 percent over the previous year. Earnings per share for the year improved to ₹ 19.87 per share against ₹ 13.95 previous year. Your Board of Directors have recommended a dividend for the fourteenth consecutive year; of 30 % (₹ 3.00 per equity share of ₹10 each), and a special dividend of 30% (₹ 3.00 per equity share of ₹ 10 each), on account of completion of 25 years of the Company; subject to the approval of the shareholders at the forthcoming Annual General Meeting.

Operating cash flow for the year after working capital changes is ₹ 66 crore against ₹ 75 crore in the previous year. The Company continues to enjoy a high level of liquidity with 'Cash and Bank balances' and 'Current Investments at ₹ 298 crore

as on March 31, 2014 against ₹ 267 crore as on March 31, 2013. In addition, the Company holds investments in tax free bonds issued by public sector enterprise of a face value of ₹ 25 crore on a 'hold to maturity' basis. The Company 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. These funds are available for the future growth of the Company.

The Indian Rupee continued to depreciate during the year, especially against the US\$ and closed the year at ₹ 59.88. High inflation coupled with a high current account deficit led to extreme volatility and the Reserve Bank adopted extraordinary measures to stabilise the currency. With gold imports being regulated, the current account deficit has fallen drastically in the second half of the year and the Rupee has stabilised in the 60-62 range. Currency movements remain a difficult call and we continue to hedge close to receivables through Forward Contracts. At the year end, the Company had US\$ 9.25 million of hedges compared to US\$ 10.50 million at the beginning of the year.

Coming to marketing and sales, we won 14 product orders for implementing 39 product modules from all over the world. With these orders, your Company added 9 new customers during the year. We continued reaching out to our customers and other stakeholders with events, seminars, emailing campaigns and newsletters for greater brand visibility and presence. We also concentrated on key alliances with identified partners in geographies across the globe for ensuring deeper penetration world-wide. Our dialogue with various consulting firms, analysts continues to create strong relationships with such key influencers.

Today, we are on the threshold of a new digital paradigm, where ambitious banks will find ways to cater not only to their core customer base, but to the tens of millions of unbanked and underbanked who are rapidly being co-opted by alternative providers of banking services. Whatever be the case, banks will be forced to rethink their processes and systems; to be more agile and to make their analytical capabilities more insightful. The time to begin the transformation is now.

To address the increasing dependence of financial institutions to service their customers on mobile devices, your Company expanded its offerings with the introduction of complete Mobility product suite to help customers meet the dynamic business needs ensuring superior customer experience.

Nucleus Software's FinnOne™ mCAS, mServe and mCollect each offer unique business benefits to customers; both operational efficiency and customer delight. FinnAxia™ another product suite launched during the year; is a future-ready transaction banking product suite that offers Banks' customers' with end-to-end solutions addressing their working capital needs. With its various comprehensive platforms; FinnAxia™ helps Banks respond to its customers and market requirements with agility as well as capitalize on new product opportunities.

There is significant headroom in the addressable market size, while we continue to focus on the low hanging fruit. The global economy is showing signs of a paradigm shift, with Asia starting to establish itself as the global economic leader. India's growth, will play a key role in the transition of Asia into a global economic power. Technology researcher Gartner Inc. forecasts a 3% growth in global IT spending, touching \$3.8 trillion in 2014. There is an opportunity to transform business landscape with enhanced IT adoption, and in turn create a significant contribution to global GDP.

Going forward, we remain committed to further enriching the experience of our customers and investing in additional infrastructure and productivity improvements. Senior members in Strategy, Product development, and Sales and Marketing were hired during the year, as a part of the strategic mission of your Company. Total manpower numbers stood at 1,520 at the end of the year.

Our greatest competitive strength of course, is our people. We are fortunate to have a team of dedicated professionals, who are working more closely than ever before to realize the full potential of Nucleus. I would also like to extend my heartfelt thanks to you, our shareholders, our customers all over the world; for retaining your trust in us; through all times.

As we talk, I am getting reminded of Swami Vivekananda's saying, and would like to close my message with his inspirational words.....

"Our duty is to encourage every one in his struggle to live up to his own highest idea, and strive at the same time to make the ideal as near as possible to the Truth "

Vishnu R Dusad
Chief Executive Officer & Managing Director

Date: May 3, 2014

The Road to Transformation

"The universe is change; our life is what our thoughts make it."- Marcus Aurelius Antoninus

We are today facing a very interesting and complex business environment. There are multiple, equally intense transformational triggers present at the same time- tipping point in globalization, significant shifts in technology, rising energy costs and increasing challenges of regulatory compliance. To add to the complexity, as the life spans of these trends continue to shorten, organizations need to learn to respond with speedy, flexible solutions to be able to flourish in the marketplace.

Nucleus Software has responded to the dynamic business conditions by an overall organizational transformation. Now in its 25th year, there is a renewed passion for perfection and relentless commitment to deliver world-class products to our customers.

Several strategic initiatives are underway. A pan-organization effort to strengthen operational processes, employee empowerment and co-creation initiatives have been proceeding for sharpening customer centricity.

Some of the highlights this year were the launch of our integrated transaction banking product suite FinnAxia™, award winning success of the Mobility platform in the marketplace, geographical expansion into new markets like Australia and sustained talent development initiatives.



Integrated Talent Development and Management



As a product-centric organization, our key focus remains on attracting the top talent from the industry while continuing to focus on strengthening our existing talent. Several strategic people-focused initiatives were launched during the year. The focal point has been on capability building and giving our people a value proposition which is unmatched in the industry.

Our endeavour has been on:

- Leadership and Talent Pipeline building through:
 1. Leadership hiring in all focus geographies
 2. Campus hiring for technical and management streams
 3. Talent Development across different verticals through employee performance and career growth plans based on Nucleus Career Growth Model (NCGM)

4. Investment in functional (product/ technical/ domain/ project management/ quality) and non-functional (leadership and professional skills) areas across all levels

- Driving performance led culture which will enable people to learn, perform and grow
- Investment in newer markets to ensure that we have true global presence along true global workforce

Nucleus Software has been consistently recognised globally for its innovative products, processes and Corporate Governance practices and we are determined on expanding this growth story through our unique people capabilities.