Nucleus Software Exports Ltd.

"Nucleus Software "Quarterly earnings Conference Call for the First quarter Ended 30 June 2020"

August 10th, 2020

SPEAKERS: **Management, Nucleus Software Exports Ltd.**

Moderator: Good day Ladies and gentlemen, I'm Harpreet Kapoor, the moderator of this call. Thank you for standing by and welcome to Nucleus Software quarterly earnings conference call for the first quarter ended 30th June 2020. For the duration of the presentation, all participants' lines will be in listen only mode. We will open the floor for Q&A post the presentation. I would like to now hand over the proceedings to Ms. Swati Ahuja, over to you Swati.

Swati Ahuja: Thank you. Good afternoon, everyone. This is Swati from investor relations team at Nucleus Software. A very warm welcome to all of you for Nucleus Software earnings conference call for the first quarter ended June 30th 2020. For discussion we have here from the management team, Mr. Vishnu R. Dusad, our

Managing Director and acting CFO; Mr. RP Singh, CEO; Mr. Tapan Jaiswal, colleague from Finance Team; Mr. Parag Bhise, Executive Director; Mr. Avnish Dutt, Executive Vice President, Global Head Strategy; Mr. Pankaj Bhatt, Chief Transformational Officer; Mr. Prakash Pai, Chief Evangelist Officer; Mr. Pradeep Kapur, Global Head Corporate affairs, Ms. Debyani Sinha, Global Head HR and Mr. Ashish Khanna, Business Consultant Financial Inclusion. As you all are aware, Nucleus Software does not provide any specific revenue earning guidance. Anything which is said during this call, which may reflect our outlook for the future, or which may be construed as a forward looking statement must be reviewed in conjunction with the risks that the company faces. An audio and transcript of this call would be shortly available on the investor section of our website www.nucleussoftware.com. With this, we are now ready to begin with the opening comments on the performance of the company for the quarter ended June 30th 2020 from the MD, and post that, we will be available for the Q&A session. With this I now pass over to Vishnu sir.

Vishnu R. Dusad: Thank you Swati and good afternoon, ladies and gentlemen.. I am pleased to connect with you at this earnings call, which takes place in slightly less than a quarter as the last one had got held almost after two months on the close of the last quarter. As you are noticing, the situation continues to be uncertain all over the world with some countries managing to slowly get out of the COVID-19 while the rest of them getting deeper into it, even six months after the outbreak. While there is talk about the vaccine, we are still far from getting the date by which it will be ready, and then the date by which it will get administered to large populations like India. So as can be expected, the board and the management are keeping a close eye on developments, and are and will continue to take decisions that are in the long term interests of the variety of stakeholders. Simultaneously we're making an attempt to convert this calamity into an opportunity to learn new things and learn them fast. For example, apart from continuing to deliver value to all our customers in our conventional and new ways, we have created a platform where completely new ideas are being explored. We are confident with this new approach to looking at our role as solution providers, we will continue to not only enhance our award winning world class solutions, but also come up with new solutions as well. Over to you, RP.

RP Singh: Thank you Vishnu and good afternoon, everyone. Frankly this quarter will go down in history as a special one, I think for a lot of us. But I think I'm really happy that we responded to the COVID fallout, with the three steps that we took or rather three and a half in a way. First step was to establish full business continuity. I think we excelled at this and we transitioned into work from home much before the lockdown really hit us and our timely actions ensured that customer was not impacted at all. Service levels of product support were maintained seamlessly. Product releases, just to remind you the six monthly releases we used to come out with, including special service packs were all rolled out on as per schedule. And I think I do feel that the revenue numbers which are visible are a direct result of the service quality that we maintained and delivered to our customers despite the COVID situation and the work from home environment. As a second step, we assessed the possible outcome of the pandemic in terms of its size and length and its impact on business. We quickly took some drastic decisions on expense control. We decided to hold back some rather necessary and critical expenses as well. Basically, in order to get some more time to understand the uncertain circumstances which are, you know, still in front of us. This has resulted in EBITDA numbers which are also visible in this Quarter One of this year. Of course, needless to mention that the EBITDA numbers that are visible today are not a new benchmark because it is still a result of many critical expenses that we have held back temporarily just so that we can get some breathing time to check how the future unfolds. The third step was to align practices and product to the new normal. I think a lot of us have been talking about the new normal setting in and it's pretty clear that while the COVID situation will continue for a longer period, even thereafter, the new normal will set in. For implementation methodologies which were more dependent on physical presence have undergone a change at Nucleus. While we are still working on bringing in more changes, all our ongoing implementations are going on smoothly in our adapted remote implementation practice that we have put in place. The other dimension of the third step was on the product roadmap. So we've also attempted to align our product roadmap to the unfolding new normal. The situation is demanding high digitalization from financial institutions amongst other process changes. In this quarter, we were able to quickly release new digital channels like the WhatsApp self servicing, email approvals and many other work from home enabling or self service enabling capabilities in our products. Teams are continuing to comprehend these new needs that are evolving and rapidly aligning the roadmap to the same. Net-net, we are at Nucleus all happy to have delivered a satisfactory Q1. I must share that teams have really responded proactively and responsibly in the tough times that the whole world is reeling under. Thank you very much, over to you Tapan.

Tapan Jaiswal: Thank you RP Sir. Good afternoon everyone. Key highlights from financial are our consolidated revenue for the quarter is at INR 128.4 crores against INR 138.2 crores Q on Q and INR 124.1 crores Y on Y. Overall revenue in foreign currency including Indian rupees revenue, USD 17.3 million for the quarter against USD 19.4 million Q on Q and USD 17.7 million Y on Y. Product revenue for the quarter is at INR 107.1 crores against INR 111.9 crores Q on Q and INR 97.2 crores Y on Y. Revenue from projects and services for the quarter is at INR 21.3 crores against 26.3 crores Q on Q and 26.9 crores Y on Y. As for expenses, cost of delivery including cost of product development for the quarter is 62.6% of the revenue against 60.9% of the revenue Q on Q and 69.4% of revenue Y on Y. In absolute terms, this is INR 80.4 crores against 84.2 crores Q on Q and INR 86.1 crores Y on Y. Marketing and sales expense for the quarter is 1.6% of revenue against 5.2% of revenue Q on Q and 7.4% Y on Y. In absolute terms this is INR 2 crores against INR 7.2 crores Q on Q and INR 9.2 crores Y on Y. General and administration expenses for the quarter is 6.9% of revenue against 11.3% of revenue Q on Q and 8.8% Y on Y. In absolute terms, this is INR 8.9 crores against INR 15.6 crores Q on Q and INR 10.9 crores Y on Y. EBITDA for the quarter is at INR 37.1 crores against INR 31.2 crores Q on Q and INR 17.9 crores Y on Y. Other income from investments and deposit at INR 10.7 crores against INR 8.7 crores Q on Q and INR 8 crores Y on Y. Total other income for the quarter is INR 13 crores against INR 10.3 crores Q on Q and INR 6.5 crores Y on Y. Net profit is at INR 36.3 crores for the quarter against 28.1 crores Q on Q and INR 16.6 crores Y on Y. Earnings per share for the quarter is at INR 12.51 as against INR 9.69 in the previous quarter and INR 5.71 in June 2019 quarter. Revenue contribution from the top five clients for the quarter is 29% which is same as previous quarter. The order book position is INR 450.4 crores including INR 404.4 crores of product business and INR 46 crores of projects and services business. In March 31st 2020, the order book position was INR 444.2 crores including 405.5 crores of product business and INR 38.7 crores of projects and services business. Total cash and cash equivalent as on 30th June, 2020 are INR 613 crores against INR 559.2 crores, as on 31st March 2020. This includes balances in our current account of INR 34.3 crores, various schemes of mutual funds at INR 349.1 crores, INR 55.1 crores in fixed maturity plans, fixed deposits with balance of INR 10.5 crores, investment in tax free bonds of INR 101.4 crores, INR 42.4 crores in preference shares and INR 20.3 crores in investment in fixed deposit with NBFC. With regards to receivables, we are at INR 80.1 crores against INR 90.2 crores in the previous quarter. Now I'll hand it over to Swati.

Swati Ahuja: Thank you Sir. We this we are now open for the Q&A session. I will now pass this to Harpreet, over to you.

Moderator: Thank you so much Swati. With this we will open the floor for Q&A interactive session. Participants, if you wish to ask a question you may please press zero and then one on your telephone keypad and wait for your line to be unmated. I repeat; you need to press zero and then one. First question of the day we have from Barjatya from HNI investments. Your line is unmated, please go ahead.

Vaibhav Barjatya: Thank You for providing this opportunity. So it is a good set of numbers but so this, your sales and marketing cut that you have done. Now, given the times of COVID things have definitely changed the way we are going to sell our product or travel will be restricted and all those things. So do you think for next one year or till the time the COVID situation is not resolved, our sales and marketing will be at same level in spite of you know, our market of course being getting affected?

RP Singh: Yeah sure, I think that's a valid possibility. I think the way we are looking at it, you are right, I mean there are some cost cuts which have been imposed by COVID itself and some which are voluntary. To be very frank the travel cost is something that probably will obviously remain under a huge lockdown because of COVID till the COVID situation improves. Thereafter, I mean to be be very frank at this moment, it looks like the new normal would also be a lower travel situation. I hope that's the new normal that we've set into. As far as marketing is concerned, you're right, I mean a lot of our expanses used to be on physical events, which are also under lockdown. But we are always, you know, with the numbers improving and this situation not being unfolding well; I think we will look at options of alternate ways to spend the marketing dollars. I think that may move up over the next quarters, but this is, as and when we find effective alternate ways of using that, investing those funds. So at this time, as I mentioned in the talk that we've put our total ban on any expenses; so this is a very unique way but slowly we will look at alternate modes and there are options which are available today. So, this may not be as extensive as standard marketing expenses but let's see how the things unfold and how we can, because we need to be active. We need to keep traction on with our customers and prospects. So we will find alternate ways of engaging them.

Vaibhav Barjatya: Okay, got it. And lastly, you know, I'm sure, and a couple of other people will also raise this question that, you know, we continue to accumulate cash. And I mean, I cannot find a year in company's last two decade history, or even if we go through the time of the IPO year we have not lost cash in any year. Now in spite of that we continue to hold that, I mean, cash was near about 600 crore, approximately 600 crores. So, there has to be a plan rather than just to not have that money in the low yielding asset because, ultimately, while the shareholders have the better option to deploy all of that money, and I understand the competitive approach of the management and that is where the disconnect is, you know, for me management is more conservative and shareholders like to know, So I would sincerely request management that being conservative is good for the shareholders but there should be a re-look at the dividend distribution policy of the company.

Vishnu R. Dusad: Yeah, thank you. Thank you for your continued interest. This is Vishnu, and as we have been mentioning in the past, we would like to be conservative and as you noticed in the month of March; in fact, we had to decide to revoke the interim dividend that we had taken. And then we are of course, live to the situation as it is still unfolding. So, we've given the interim dividend also and we will at the same time continue to be conservative.

Vaibhav Barjatya: Yeah, okay that's it from my side.

Moderator: Thanks for your question. Next, we have Rajeev from Doordarshi advisors. Your line is unmated, please go ahead.

Rajeev Agrawal: Yeah, great. Thanks for taking my question. My first question is it seems to me that the Q1 results came out quite strongly as compared to the guidance that we or as compared to what we had mentioned in the Q4 con-call, where you were very concerned about the NBFCs not dispersing loan and that may have an impact on the company. So can you please elaborate on what you think has changed between then when we had the con-call and sort of the subsequent period, which gave us an opportunity to provide these types of results?

RP Singh: So one, we must appreciate that at any time, we do operate with a lot of work in hand. And so, one point is of course, there is work in hand, we are moving ahead with that. The first thing that we had forecasted is impact actually more on new sales and that time, I must say that even there we are pleasantly surprised that we were able to book orders. So there is definitely a very bold approach that businesses are ensuring and probably we're also fortunate to be working with the stronger businesses who know that they have to utilize this period for probably consolidation and creating competitiveness. It is very clear that, you know, the fact about bookings being low and business being slow, that is a fact still, by the way, and that fact is pretty much there. Of course I must say that it's not -- it's definitely higher than what we had end result and whether this is going to continue this way or I mean, we still can't forecast the next quarter. But the signs are definitely that everyone is taking it in a way more aggressive manner, which is really nice. So there is of course still mixed signals from various corners; there are some countries which are opening up and we see a lot of traction in some other countries and there are other countries who are going slow. So there is still that mixed thing. And of course, probably we are three months more aware of what this pandemic is leading us to. So it's a mix of all that, and that's what I would say. And then the first quarter in any case, everything is -- you know, a lot of the revenue is from work in hand which could get impacted for sure, but something that has been secured.

Rajeev Agrawal: Got it. So, I mean, clearly that Indian geo performed very well for us and even Australia, I think there we have been having a very decent traction. It has continued to perform.

RP Singh: Sorry. No, no, you tell me. Just complete the question.

Rajeev Agrawal: Yeah, so I just wanted to understand from your perspective, what are the geographies that you feel pretty excited about both in terms of what you have in terms of orders, but also in terms of prospects?

RP Singh: So from a prospect perspective as well as combined with I think the COVID situation, I think, you know, and as you would know that one of the -- Australia is doing pretty well on the COVID side, and thus would continue to be promising. And isolated countries in the Southeast Asian belt are handling the COVID well and thus continue to be, So overall market probably is impacted, but we still have these pockets of countries who have managed COVID well and thus we can see a lot of traction continuing, I mean not getting stretched like in some other countries.

Rajeev Agrawal: And would you say in some of these geographies you have actually gained market share or is that the spend has actually gone up in these countries?

RP Singh: In any case, wherever we have gained is because of market share. And of course every different region has different spend patterns, but I think we would have largely benefited from market share.

Rajeev Agrawal: In AGM I think Vishnu had mentioned about a new product that the company is working on; is there any timeline around that new product and at what point would you be willing to share some details around that?

Vishnu R. Dusad: Okay, as far as the new product is concerned you know, till the time we get some traction it is a work in progress. So the kind of product that we are talking about, it involves changes in the very way we make payment, and then that too at the grassroots levels. So, we are -- on an ongoing basis we do field tests, we are learning from the field tests, you know how the market is set at that level, are we applicating all the things. Otherwise it is essentially a work in progress and till the time we see a very clear track that's how it will remain. So that's all we can say at the time.

Rajeev Agrawal: Sure. Lastly on the other expenses, I think the previous question had also asked you on that. I mean I think we have control those expenses very tightly which will obviously grow our EBITDA quite nicely. As you said the travel possibly will remain but maybe the marketing costs will go up as we see opportunities. So what would be a good base to consider for other expenses and if we can get some sort of a sense of how much can these go up by from Q1 as we see opportunities to spend money on marketing?

RP Singh: So while I may not be able to give you a percentage or number but I do want to mention that while travel and marketing is the easier one to look at, we've actually held back a lot on the personnel side. We held back on -- you know at our senior level on incentives of last year, we have kind of nullified incentives or variable pays for this year. We have -- by the way we have confirmation of these kids on probation who are pending confirmation, we are kind of holding those. Those are the very really the necessary expenses. So, the personnel is expected to go up as soon as we feel a little more comfortable about the situation. Increments, as I mentioned, has been held back. So it is a lot of personnel related expenses that directly on remuneration or even otherwise on welfare, I think we've held back in addition to any of the standard So you know, while in the COVID situation the travel is not one of -- you know, comeback, but marketing as I talked of alternate management, but the personnel is something that would probably will consider as we move on. I mean, one by one; there are just multiple decisions we have taken on the personal side.

Vishnu R. Dusad: Yeah, I think we are making sure that the balancing; the tough balancing between multiple stakeholders is as close to what it should be as possible. Yeah, sorry, I think there is another question.

Rajeev Agrawal: Yes, I was going to ask the personal expenses will show up in the employee cost line right and so right, so the financial year 2020 numbers, we could put some additional sort of inflation factor on top of that, as your pace run rate. Is that the way to think of that?

RP Singh: So one is the inflation and one is the held back stuff. You may know there are, as I said, probations which are pending and then those probations that are at an entry level which are kind of a bigger jump that we get. So it is that in addition to the inflationary increment that we would probably consider some time.

Rajeev Agrawal: Okay, great, thanks a lot. Those were my questions.

Moderator: Next, we have Deepan Shankar from Trustline CIMS. Your line is unmuted.

Deepan Shankar: Thanks a lot for the opportunity and congratulations for a good set of numbers. First of all I just wanted to check with you that recently Reserve Bank has permitted small value offline transactions for single payment of 200 on pilot basis. So with this approval, how will be the traction on our product of PaySe will be there?

Vishnu R Dusad: Yes, that's a very good question and we are in regular contact with RBI and immediately after their announcement we had reached out to them. We were talking to them in any case, and after the announcement got in touch with them once again, so yes, we are hoping that we'll be able to get a pilot going very soon.

Deepan Shankar: Okay, okay. So how far will it take, how much time? Okay, how much time it will take?

Vishnu R Dusad: Yeah, as I mentioned in the answer to the earlier question, these are solutions which are going to change our average grassroots level habits which have been around for centuries and so on. So there are a lot of nuances that have to be looked at, modified and enhanced before you can make an impact at the grassroots levels. We are noticing good traction in some pockets, but we would not be able to put a timeline as to how soon we will be able to turn the corner.

Deepan Shankar: So are we showing any timeline in case of national launch from the pilot launch? So what kind of timeline they are referring to?

Vishnu R Dusad: No, as of now they're only talking about pilot launch. They haven't talked to us about national launch yet.

Deepan Shankar: Okay, Okay. And also, how has been this order book pipeline, considering the focus of the financial institutions now towards collections and also bringing more efficiencies, how are we seeing the pipeline?

RP Singh: So I think as Tapan has shared there is , we have booked new orders this quarter. I mean the traction, so the pipeline continues to be strong as earlier, it is just that I think the conversion is not at the same rate, there are – you know, there are people taking decision and then there are people who are wanting to just watch for another month or two and see if there's anything else behind it. So I think it's a question of -- so the need, demand, traction and pipeline exists, and let's see how the -- what impact COVID has on the sentiment as we move forward. Otherwise it is looking okay.

Deepan Shankar: Okay. Lastly, Q on Q we have seen like 15 crores kind of decline in the other expenses. So out of this, how much do we expect to be sustainable in the coming quarter?

RP Singh: So Vishnu can add to that. As I mentioned, I think at this moment we're holding back everything as – you know, when and how, how much and when do we let release the necessary expenses is something that might unfold in, -- not everything in this quarter but I guess in the coming quarters, so it is difficult to quantify it but as I mentioned, there are personnel expenses we are holding back and we probably will take multiple small decisions to go ahead with those expenses and not just in this quarter but going forward as well. Vishnu?

Vishnu R. Dusad: Yeah. So the way initially I would respond to what RP has further add to what RP has said; while the first quarter has gone off alright and then the second hopefully will be alright, we are still visibly unclear about what is the impact of all this on the next two or four quarters. So that being the case you know, being conservative we would want to be very, very carefully trying to balance the entire situation, and then take this decision. As RP said, we'll take the smaller decisions which will help us do that balance.

Deepan Shankar: Thank you and all the best.

RP Singh: Thank you.

Moderator: Next we have Milind Shah from Urmil Research Consultancy. Your line is unmated.

Milind Shah: Hello. Congratulations for excellent numbers in this difficult time and my question was taken over from other question, so it is okay and best of luck for the next quarter.

RP Singh: Thank you, thank you very much. Thank you very much. I do want to mention that, especially on the bottom line, that number is impacted with a lot of held back expenses. So please do understand that, you know, these are – which is something that we will have to release, so I don't want you to expect this as a benchmark. We are holding back.

Milind Shah: But you have done an excellent job in this difficult time, so it is great.

RP Singh: No definitely, thank you very much. It is really a very hard work done by the teams.

Moderator: Next we have Samarth Singh from TPF Capital. Your line is unmuted.

Samarth Singh: Yes, hi, thank you for the opportunity. Only one question and I realize we had some orders in this quarter, but did we have any new clients as well?

RP Singh: If I'm not mistaken, most of them are new clients. Of course, we've been pursuing them for a while now. So a lot of them are new clients.

Samarth Singh: That's great.

RP Singh: Tapan, would you have a number or we could share the numbers?

Tapan Jaiswal: Hello? Could you repeat again, sir?

RP Singh: The new customers or existing customers' new business. The question was, are there new customers signed up and I can already count four new customers, but is there any specific numbers or – so just to say from a sentiment time, this is not rolling business but we've actually added new customers as well which is very inspiring to be frank.

Samarth Singh: Yeah, that's very impressive. That was my question you've answered, congratulations.

Tapan Jaiswal: Thank you. Thank you.

Moderator: Next is Umang Shah from Amsec TNS. Your line is unmuted, please go ahead.

Umang Shah: Yeah, thank you for the opportunity. My first question is that the moratorium is going to be or is not expected to be extended beyond 31st August, and some of the customers that we have are very small NBFCs in India. So for now at least, are we anticipating any threats from your customers with respect to payment or with respect to loans?

RP Singh: See, that is uncertain times that we live in. So you're right. I mean, this could have some cash flow impacts on some -- a lot of customers. And a lot of the customers, I can tell you are also going to be reviewing their priorities, their expenses, their investment decisions, and we don't know which way those decisions go. So you're right, I mean the moratorium, we'll put and they'll forget the moratorium, and I'm an absolutely sure there's a lot of restructuring and RBI talked of restructuring as well. So there's a lot of restructuring which is also expected, and some people may be able to manage that and some may not. So we don't know how it will unfold and that is the uncertainty of life today.

Umang Shah: Perfect, perfect. Thank you, this is helpful. So you not provided for any of these expenses till now right, like any anticipation of any non-payment or anything?

RP Singh: We've done it only for what is visible.

Umang Shah: Okay. Second question was sir if you could tell me what percentage of your installed base has migrated from FinnOne to Finnone Neo or is it that – is it in such a way that the legacy system will remain to be legacy system for more time to come?

RP singh: So, we will have to go back, actually we very deliberately decided to – you know, we had a lot of happy customers on the older system and they were satisfied and wanted to stay put with their status quo and a few years back we took that decision that we are not going to make it a revenue generating machine that everyone has to move out. We really just need to keep our customers happy and that is how it is. So, relatively at the moment a larger part of the customer -- not total customers, a larger part of the original customers is probably still on the older platform. However, I think we are now moving back to them, because there is huge value that they can derive out of the new product which has really matured over the years, and we are always welcoming them to move over to the new model. So currently, yes, there are a lot of them but we are in the process now to move them. We were going slow with them there because they were kind of happy.

Umang Shah: Okay, and sir, what we have observed, some of these large companies in software like Adobe, they were moved from a perpetual license model to a subscription model due to which initially there was a significant drawdown or degrowth in the revenues as the clients continued shifting. And then overall, over a long term the revenue stabilized and they became more profitable. Do you think something like that is also going to be visible in Nucleus or is it going to be the case that because we have such a dedicated base of FinnOne the revenue delta won't be affected to a significant extent?

RP Singh: So see the drop is also because of suddenly a lot of the customers convert into this. So lot of the – you are right about the customer base, there is a steady base. But having said that, let me mention that for the last few years we've been now offering transaction based pricing also to our cloud customers. And you know it is not fair to compare but for hypothetical situation if that was being booked in the traditional manner, the numbers would have been different. However, we are at this time you know, going transaction banking – sorry, transaction base so that there are seeds of future growth which are getting sown at this time. And so, we have a combination because of the approach of some of the larger customers, who probably prefer to stick to, you know, for the moment CapEx based and traditional pricing models. We probably have a good combination moving but we are definitely going into transaction based but I think it can have some growth number impacts, but I don't know whether it is –you know, how that – whether it would largely impact, and that would be only if we go the same way for all our large customers. Vishnu, any comments?

Vishnu R. Dusad: No RP, I think that is the right way to describe it. These are very – thanks for bringing that Adobe example, and this is a very interesting phase in the life of a product company, where you move from a onetime player to this recurring revenue. And then we're also quite excited about it in a way, as to how our customers are going to like it or new leads are there.

Umang Shah: Okay, perfect. Perfect. Thank you so much. Wish all the best to you and all of Nuclietes.

Moderator: Next is Amit Joshi from Care TMS. Your line is unmuted.

Amit Joshi: Thank you for the opportunity. So I just wanted to know because of this COVID thing whether there has been some sort of a shift in the way this lending is being done or do you believe -- because what I'm trying to understand is because you mentioned that you know, you were expecting in the last con call that things are very uncertain if you don't know how things would work out, etc. But despite that the customers behaved aggressively is what you mentioned in your comment. So I'm just trying to understand what made them, your customers not to, you know, kind of build it aggressively or some steps. So either some change that has been there or is it just probably a one off quarter behavior?

RP Singh: So unfortunately I will probably still say that the future is uncertain, because let me share with you that while the numbers are good and we got new orders and everything but at the same time, by the way, we've also had situations where there are some customers of ours, who were small startups, they've actually closed down. I know one of our customers sold his portfolio to another customer and exited from the business. So there is all that happening as well. So there is a lot happening on both sides. Why I call it uncertain is because, well, this time we had the aggressive ones with interaction with us and tomorrow, there could be different types of – that is why we still think it is uncertain. It's not as bad and definitely it was not as bad as we thought but also it could be because of, you know, let me even go to the extent of saying that some fortunate win here and there which we were talking to the right customers and that's the fortune that probably that probably the win we have had. So I think there is no doubt that the whole industry is facing pressures on various fronts and as you mentioned, a lot of customers will need to alter their own processes by the way. They will have to go digital, they will have to have far more technology supported operations. Now, it's a question of who have the funds to make that happen. Some may not be able to do it in time or not afford it. So those are the combination which will happen. So, while you know, last quarter we've done pretty okay, I would still say that while things are looking better, but we are still uncertain. I'm sorry to repeat that same statement.

Amit Joshi: Okay, got it. Okay. And on the front of you know, of course, I think there has been a question probably being repeated year over year; that cash that is lying and you know, so how do I mean, in terms of any inorganic -- I mean, first of all, what about our existing product that we have? What kind of potential do you believe is left to be exploited out of it and for some to which you know, you will get an incentive to move or use your existing cash to go something inorganic. I mean, this time I've pulled in the two questions, but I hope you got my question.

Vishnu R. Dusad: Yes, yeah. So the way I will attempt answering your question is in following way. One, talking about how much is the potential left in the existing products, I would say huge. We've just about scratched the surface and their market and product would have direct – product would add image value directly. We're just getting the word across and that is what is taking time. So that is the answer to the first part of your question, the second part is about the inorganic opportunity. What we feel is that the challenges of cultural alignment when we do an acquisition are substantial, and then we would put the cash to use for our internal -- maybe accelerated explorations or development, and that's how we'll go about it rather than worrying about the manner of acquisition.

Amit Joshi: Rather than inorganic we would prefer to develop on your own, rather than acquiring something else.

Vishnu R. Dusad: That is right, we feel we are in much better control and then that's what you'd like to do. We have built the reputation which you would want to further enhance.

Amit Joshi: Okay, so any plans in that direction? I mean, you have like a couple of products which you mentioned initially in the pipeline, etc, but something big enough, which would allow us to go to that next level. You know some things in parallel to an inorganic growth of course, not exactly, but obviously the approach is different, but still something on that side and any thoughts, any plans?

RP Singh: So the immediate opportunity. So as Vishnu mention that the opportunity that we have right now and considerable opportunity is in the same product, because we are – if you look at the market share of the global world, I think we are far short of where we need to be and especially in the advanced and the paying markets, and I think that is a big opportunity in the current offering itself. So, and that means -- a little bit on what Vishnu was mentioning that if we have to then now spend on entry into various regions, geographies, market segments, I think we would rather use that there than in a buyout or something. We'd rather spend to acquire and expand this current offering than into the new geos. I mean while we have 50 geos, we still have – or plus geos, we still have many geos where we only have one customer or two. I think those are the bigger opportunities we are sitting on.

Amit Joshi: Okay, so I'm doing my last question, third question, but just to squeeze in that so basically the potential is, we know quite big, you know, many geographies to be explored. You mentioned we have just scratched the surface; we are very strong in the product where we operate. The industry outlook is also reasonably decent in that sense. So with all these things and the financial strength that we have, what stops you from taking those steps faster in terms of, you know, taking those steps so that we can reach out to those geographies or those we can tap the potential quickly. I mean, rather than slowly.

RP Singh: I think this is a very critical question and –

Amit Joshi: , I'm just trying to understand is what kind of difficulties that we are facing, so in the management bandwidth. Because sometimes that happens, you know, management has a limited bandwidth to reach out to geographies, etc. So I am just trying to understand that.

RP Singh: So I think – and this question was raised in the AGM as well, and it's a very critical question. I think it's something that we also need to apply our thoughts to, but I think initially, our whole thought process, especially now was the revamp of the new product and our ability to break into new markets. And I think we feel far more confident today with breaking into Australia, and our whole objective has always been to consolidate a region and then move to the next. I think with the product maturing the way it has matured, I acknowledge your point and I think not only do we need to be a little more aggressive and of course I'm sure aggressive, you need to create the bandwidth. I mean, very clearly with the current bandwidth it is always going to be limited. So, but the first point was that initially we prefer to enter a region and deliver value in that region. Ensure that there is customer satisfaction in the customers and then keep the snowball rolling. We need to look at how we can now roll four or five snowballing regions and I think we are more prepared than at this moment. So that is something that we need to unfold. And that is why we are confident that the current offering should be able to deliver value if play this game well.

Amit Joshi: Right. No, I think – another key reason is you know, our other income is around one third of our profit that we generate, and if it continues like this that percentage or the proportion will continue to increase. So you know, that is the concern that we have over the cash utilization. But yeah, thank you. Thank you so much and thank you for taking so much time.

Moderator: Next, we have Anuj Sharma from MCM Investments. Your line is unmuted.

Anuj Sharma: Yeah, thank you. Vishnu, this question is for you. Based on the past 3-6 months.

Vishnu R. Dusad: Sorry, could you repeat the last sentence again?

Anuj Sharma: Yeah, I am saying based on the last three and six months based on the customer inquiries and the demand trends, you know, how do you see the demand evolving in the next two-three years? I know it's uncertain, you said it is uncertain, but any thoughts as to how the demand will evolve? And how are we positioning ourselves for the changes, whatever you can think of over the last three to six months?

Vishnu R. Dusad: Okay, I think clearly one trend that is emerging is the bank and financial business companies are preparing themselves for the new normal by laying huge amount of emphasis on digitization of all their processes, and running the bank, again from, you know, if possible 100% of the bank employees being at home, especially the back office employees. So that is an indicator of how the demand is likely to evolve, and we are quite optimistic about that. And at the same time, we get to add that sentence which you already said. Having said that, because how the next couple of quarters are going to unfold, no one is clear in the world, we are also uncertain. But this digitization is clearly an [indiscernible]

Anuj Sharma: My next question is for RP. Based on our current existing client setup, you know, how much more wallet share can we gain? I mean, I know we have new geographies and new clients as a lever, but on the existing client base, how much more functionality and how much scope we have to drive up revenues currently?

RP Singh: Okay, so as you know we are okay, so getting the additional part of the wallet, I think there are two-three modes. One of course, as I mentioned, we keep getting rolling out these new capabilities on the product and there is the possibility of up-selling those. We have two product lines. So there is of course, cross selling opportunity there. Just to mention that, you know, independent of the product business, we do have a services business out of Chennai and Singapore, who do custom build of solutions and build custom solutions and that becomes the -- you know, these three then form the mode for additional digital you know, part of the wallet. However, I must say that for the product side, I think the new geos, new regions and new segments is the bigger opportunity that we have in front of us. Vishnu, you were saying something.

Vishnu R. Dusad: RP, that is ok

Anuj Sharma: Yes, and my third and final question is while you alluded to the some of the financial companies in India will go through significant uncertainty and fortunately we have been on the positive side till now, any list which you have drawn which points out that this percentage you might be vary of, of how other business models will evolve in the next couple of years or so? Any challenging part of the portfolio, which you have already seen some times, and we might be careful about.

RP Singh: Well, we've got some names on the watch list, but I think it's not – I mean we're not doing still categorizing as MPLS yet, but a lot of it is sentimental. It's easy for some of the smaller end players where you can see they're running out of funds or they're not -- you know, they're too dependent on equity being raised. And so those ones you can forecast a bit because a lot of the businesses will probably have to last out the tough times. They're not going to amazingly grow, they will have to survive. It's not time to grow, it's time to survive and time to consolidate now. So it's really looking at -- so I think the smaller one is much easier to figure out; the medium and the large, you can have some sense but and nobody saw ILF&S coming down, so I don't know about the rest.

Anuj Sharma: Thank you so much for that. Thank you.

Moderator: Last question of the day we have from Barjatya from HNI Investments. Your line is unmuted, please go ahead.

Vaibhav Barjatya: I have a follow up. So I'm quite surprised when you say that you have cut down on personnel expenses, because if I look at the numbers last quarter personnel expense was something around INR 77 crores which obviously includes all employees as well. And that has come down to 76 crores. Operating and other expenses are nearly half. So is it that the benefit of cuts is going to come going forward and then afterwards I mean, I'm just trying to allocate comments.

RP Singh: Yeah. So just to mention, again, the bigger cuts that I talked of was on the variable pay of seniors last year, and this year, a lot of the seniors which of course is not visible, but it would have -- you know, it really would have hit us in the end. The other one I'm talking about is – so we have interns and on probation hiring, which have been working -- some of our interns are running, worked with us six months before they come on board, so they undergo a huge change which is not a cut but it is a necessary -- it's more than an increment. I mean one is you stop the increment, the other is on boarding what you had you know committed and similarly our campus recruits that we are committed to hire. So those are the ones which are increments that we would have experienced. So that is -- and some of them are active with us. So some might still be one -- you know, some are still to join us, but some of them are already with us as interns and on probation. So those, they need to be confirmed, so that is the kind of thing going upward.

Vaibhav Barjatya: Got it. So this could have happened but they have kind of stopped it as of now and going forward ?

RP Singh: Correct. That's why you don't see it going down but it is something that was kind of committed which we have held back.

Vaibhav Barjatya: And lastly on the hedging policy we continue with that hedging policy? Or has it changed or what is the current hedging policy?

RP Singh: Vishnu? The hedging policy.

Vaibhav Barjatya: So do we continue to have that 6 month hedging policy or it has changed in recent years? And what is the current policy? Hedging, Forex hedging -- foreign exchange hedging.

Vishnu R. Dusad: Okay. So what we have done is we used to have 50% of our next six months Forex receivables as that hedge. So from six months it had come around to four months. We took the decision that okay; we are going to hedge only for four months. So that is the range.

Vaibhav Barjatya: Right, so four months of receivables and – I mean, your receivables are not four months. Obviously it will have some part of revenue as well, in terms of forecasted revenue

Vishnu R. Dusad: Yeah, that's right.

Vaibhav Barjatya: And lastly, I'm sorry to raise this point again but this is the only reason probably, you know that company probably needs attention which is capital allocation. I would seriously request the whole management team to reconsider it. Apart from that, as we have seen everything is working fine. It is just not for the current quarter I am seeing, but, you know I've been listening to your call since 2013-14 and I think we are doing just completely alright. But from a longer term perspective, this needs to be corrected, because it will be a significant drag to the overall performance.

Vishnu R. Dusad: We'll continue to make a note of this. We do hope that someday you would feel that we were right. Okay, thank you. Thank you very much.

Moderator: Thank you. So at this time, there are no further questions in between. So I would like to hand over the floor back to Swati for final remarks. Over to you, Swati.

Swati Ahuja: Thank you Harpreet. We would like to thank all the investors for joining us today on this conference call. I will now pass it on to Vishnu Sir for his closing comments, over to you Sir.

Vishnu R. Dusad: I would like to take this opportunity to thank you all for your keen interest in Nucleus Software. And I will reiterate our commitment on behalf of my 2000 plus colleagues for a long term commitment to building value for our stakeholders. Thank you very much.

Moderator: Thank you so much speakers for addressing the session. Thank you, participants, for joining in. That does conclude our conference call for today. You may all disconnect now. Thank you and have a pleasant evening.

Vishnu R. Dusad: Thank you.