



Nucleus Software Exports Ltd.

“Quarterly earnings Conference Call for the Quarter and Half Year Ended on 30 September 2021”

15th November 2021



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 quarter and half-year ended on 30th September 2021. 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. So, I would like to now hand over the proceedings to Swati Ahuja. Over to you, Swati.

Swati Ahuja:

Thanks, Harpreet. Good afternoon, everyone. This is Swati from Investor Relations team at Nucleus Software. A very warm welcome to all of you for this



Nucleus Software Earning Conference Call for the second quarter and the half-year ended as on September 30, 2021. For discussion, we have here from the management team, Mr. Vishnu R. Dusad, our Managing Director; Mr. Parag Bhise, CEO; Mr. Anurag Mantri, CFO and Executive Director; Mr. Tapan Jayaswal, colleague from the finance team; Ms. Prema Rajaraman, Global Head HR. 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. And 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 our opening comment on the performance of the company for the second quarter and the half-year ended on September 30, 2021 from the M.D. Post that, we would be available for the question-answer session. With this, I now pass it over to Vishnu, sir. Over to you, sir.

Vishnu R. Dusad:

Thanks, and a warm welcome to all of you for joining this earnings call as usual. I would like to thank you for your continued interest in Nucleus Software and I would request our CEO, Mr. Parag Bhise to take you through the proceedings. Over to you, Parag.

Parag Bhise:

Thank you very much, Vishnu and a warm welcome to everyone who's joined and thank you for joining this call. I hope you all had great festivities just last week. The second quarter has seen us emerging stronger after the COVID pandemic and the specific cyber security breach incident that we reported during the last call. We are out of it now. This turnaround would not have been possible without the untiring efforts of our leaders and our planning partners who have been very patient with us and who have supported us all this while and, of course, to whom we continue to deliver immense value for decades now. We also taken unprecedented calls to invest in our most important assets, that is our high performing associates who continuously deliver value and come out with world class platforms and ensure high customer delight. While these measures that we have taken have affected our profitability, but we are confident that we will be able to get back to our standard profitability endeavors in near term. We believe that this is an investment in our most important assets as we said and an investment in the future for taking us to the next level of business performance. Thank you very much once more. Over to you, Swati.

Swati Ahuja:

Thank you, sir. Tapan, sir, please put some light on financial highlights.

Tapan Jayaswal:

Thank you, Swati. Key highlights from financials are, our consolidated revenue for the quarter is at INR 114.1 crore against 108.4 crore quarter on quarter and INR 137 crores year on year. Overall our revenue in foreign currency including India rupees revenue is USD 15.5 million for the quarter against USD 14.8 million quarter on quarter and USD 18.6 million year on year.



Product revenue for the quarter is at INR 93.2 crores against INR 89.9 crore quarter on quarter and INR 114.7 crore year on a year.

Revenue from projects and services for the quarter is at INR 20.9 crore against INR 18.5 crore quarter on quarter and INR 22.3 crore year on year.

As for expenses, cost of delivery including cost of product development for the quarter is 81.5% of revenue against 81.2% of revenue quarter on quarter and 65.9% of revenue year on year. In absolute terms, this is INR 93 crores against 88.1 crore quarter on quarter and 90.3 crore year on year.

Marketing and sales expense for the quarter is 3.6% of revenue against 5.7% of revenue quarter on quarter and 3.6% year on year. In absolute terms, this is 4.1 crore against INR 6.2 crore quarter on quarter and INR 4.9 crore year on year.

General administration expenses for the quarter is 10.8% of revenue against 11.8% of revenue quarter on quarter and 6.1% year on year. In absolute terms, this is INR 12.4 crore against INR 12.8 crore quarter on quarter and INR 8.4 crore year on year. EBITDA for the quarter is at INR 4.7 crore against INR 1.4 crore quarter on quarter and INR 33.4 crore year on year.

Other income from investments and deposit at INR 8.4 crore against INR 8.8 crore quarter on quarter and INR 7.7 crore year on year.

Total other income for the quarter is at INR 9.5 crores against INR 10.8 crore quarter on quarter and INR 9.1 crore year on year.

Total expenses are at INR 2.4 crore against INR 3.1 crore quarter on quarter and INR 9.5 crore year on year.

Net profit is at INR 8.6 crore for the quarter against INR 6 crore quarter on quarter and INR 29.5 crore year on year.

Other comprehensive income is at negative INR 1.5 crore for the quarter against negative INR 3.2 crore quarter on quarter and INR 0.5 crore year on year.

Total comprehensive income which includes net profit and other comprehensive income is at INR 7.1 crore for the quarter against INR 2.8 crore quarter on quarter and INR 29 crore year on year.

EPS for the quarter is at INR 2.95 as against INR 2.07 in the previous quarter and INR 10.14 in September 20 quarter. In terms of foreign currency hedges on September 30, 2021, we had USD \$5 million of forward contracts at an average rate of 75.62. There is a mark-to-market gain of INR 24.36 lakhs which is taken to hedging reserves in the balance sheet. Revenue contribution from the top five clients for the quarter is 23% as against 26% in the previous quarter. The order book position is INR 546.8 crore including INR 514.8 crore product business and



INR 32 crores of projects and services business. On June 30, 2021, the order book position was INR 534.9 crore including INR 490.4 crore of product business and INR 44.5 crore of project and services business. Total cash and cash equivalent as on 30th September 2021 are INR 724.5 crore against INR 734.3 crore as on June 30, 2021. This includes balance in current account of INR 33.4 crore, various schemes of mutual funds INR 518.3 crores, fixed deposits of INR 29.9 crore, investment in tax free bonds of INR 115.1 crore, INR 27.8 crore in preference shares. With regards to the receivables, we are at INR 77.7 crore against 69.5 crore previous quarter. During the quarter, there is a gross addition of fixed assets of INR 2.81 crores consisting primarily of INR 0.5 crore in plant and machinery, INR 2.16 crore on software, INR 0.03 crores on computers and INR 0.12 crore on furniture and fixtures. Now, I'll hand over to Swati.

Swati Ahuja:

Thank you, sir. With this, we are now open for the question-and-answer session. I will now hand it over to Harpreet. Over to you, Harpreet.

Moderator:

Thank you, Swati. With this, we will open the floor for Q&A interactive session. So, I request you to please press '0' and then '1' if you wish to ask a question. I'll repeat, if you have a question, please press '0' and then '1' on your telephone keypad. First question of the day we have from Himanshu Upadhyay from Himanshu Upadhyay Company. Your line is unmuted.

Himanshu Upadhyay:

Yeah. Hi. I'm Himanshu Upadhyay from O3 Capital. Okay.

Moderator:

Okay.

Himanshu Upadhyay:

So, my first question is on the revenue, so, I was going through your annual reports and numbers. So, if we look at our revenue contribution of domestic market has increased from 27% to 38% in last five years. Exports have grown from 271 to 318 and domestic from 100 to 195 crore. Export is a bigger market and under penetrated market. Why is it so, that we have got more effectiveness in our sales in domestic versus global markets? And what are the challenges we are seeing in the global market that it is not at all growing or growing at a very, very feeble rate? Okay. Based on the order book, do you think this trend is reversing of slower export growth from here on? So, this was my first question.

Parag Bhise:

Okay. Thanks Himanshu, for raising this question. This is Parag here. I would answer that the domestic growth of course, we have seen is primarily because of our strategy of going ahead with the cloud business, which we have launched so far in India. And now we have started to expand it into the other geographies. So, India growth is because of that. There's no specific reason for not growing outside. As we've talked in the past, we've got traction in Australia, Middle East, we were seeing slowdown for a couple of years, but now, again, we started seeing traction there. So, no such specific reason. Of course, past one and a half years of pandemic, at that time the export traction was less. Somehow in India, we did not see any challenge after the initial few months of course, but the



moment the market opened up, the economy started opening up, India traction was fast to get. So, no specific reason of not going outside. We now got a few deals already in Vietnam, in Australia. In Middle East, as I said, we started to see traction. So, probably I can't predict but probably the trends would change. That's all I have to say right now.

Himanshu Upadhyay:

Based on the order book, what we have okay and the enquiries, do you think the exports will grow at, means at least in high single digit or low double digit? Is it possible or you think that is far off from current time.

Parag Bhise:

Giving a number won't be in any case, giving number is not our policy also, but I can tell you this that we are seeing customer traction. We are already seeing some contracts materializing I can only say that our existing customers who are on our older platform are also wanting to migrate to the Neo FinnOne and FinnAxia platforms. So, that's the traction we are seeing and which includes the export market as well. But I can't talk about any numbers in percentage terms right now.

Himanshu Upadhyay:

Okay. So, the question was not just on numbers, but yeah, the situation is improving that was what we were trying to understand. Okay, that is fine.

Parag Bhise:

Definitely improved.

Himanshu Upadhyay:

In last call you said that our growth strategy will be to increase the number of customers in particular geographies and gain market share, which would be your focused geographies where you think you can reach at least 25% market share in lending on retail side in next five years? Or you don't want to have any targets and how are you planning in those focused geographies? Some light you can throw, it would be helpful.

Parag Bhise:

So again, no numbers but I can tell you that as we talked in the past, references based business is probably the best way to grow in our business. So, wherever we have customers already, which is Australia region now, which is Middle East region, which is Southeast Asia region, Africa region, those are the areas where we expect to grow. Of course, if leads come from other markets, we will be more than happy to match on to them. But as regards our focus and our initiatives, we would operate in. we would like to grow these markets where we already have customers rather than exploring big time or investing big time in emerging markets.

Himanshu Upadhyay:

Okay, one last question, and then I'll join back in the queue. I have a question that we are a large player in our chosen field of retail lending and also most respected even by our customers when we meet your customers, so let's say CSL Finance or South India Bank, and we have seen your names in their con calls and annual reports in every place, okay. But single digit EBITDA margins currently and mid-teens in last few years are very difficult to accept. When we see a



ticketing solution company, which had a very tough last year, airline ticketing, but still margins better than us. The question comes, are we able to get the right money for the value we are providing to the customers? We also said that we will soon move back to over margins and we had a last few years the -- else than FY21, the margins were in mid-teens. Okay. So, do you target those mid-teens margin? And how are you pricing the product? And are you satisfied with the value you are getting from the money you are getting for the value you are providing to the customers? Just some of your thoughts and how are you working on those things will be helpful.

Parag Bhise:

Sure. Himanshu. Firstly, I'd say that that's a very good question and it's kind of striking a chord because the kind of investments we have done definitely and to activate the recent revisions that you're given that I just talked about. Keep the variation, this is a recent phenomenon. But otherwise, the kind of investments we've done, we definitely believe that our pricing should change. Of course, it's not so easy to change pricing, especially customers, which are there with us for past so many years. But there is a definite attempt to work on that. And we are getting some successes in that area. But definitely there is. So, to answer your question briefly, yes, definitely, we are looking at getting much more value, much more dollar value to our products and services in times to come for sure.

Himanshu Upadhyay:

Thanks. I'll join back in the queue for further queries.

Parag Bhise:

Sure. Thanks, Himanshu. Thanks very much for your questions.

Moderator:

Next is Vaibhav Jathitya from HNI Investment. Your line is unmuted.

Vaibhav Jathitya:

Yeah. Hi, sir. Thanks for providing the opportunity. So, just kind of follow up to the Himanshu's questions on the pricing. See, there is sharp rise in employee cost and per employee cost has shot up by around you know 25%. Otherwise, this increase would have happened in four or five years. Now this thing has happened in just a matter of six months, now this year. So, obviously to negate that impact, we need to have the pricing improvements. And as you earlier said that you know near term, we want to get back to our margins and on the other end, you also said that is a difficult thing with the existing customers. So, both of these things are I'm not able to tie up that if the existing orders that we have already secured earlier before March 2021, if we are not able to reprice them, how we are going to get back to our earlier margins is something I'm still trying to understand.

Parag Bhise:

Okay. So, it's not purely priority when I say pricing, it is not purely the performance pricing that I'm talking about because especially in our business where we have created a significant IP, our focus will be to get more and more of license renew and then related AMC renew rather than related based revenue. So, kind of the change in the structuring, if you may say the structuring of the less of



revenue which is dependent on more manpower and more, which is like dependent on our IP that is direction in which we are moving.

Vaibhav Jathitya:

Right. But that cannot be changed for the existing customer, right. We already have raised contract with the existing customer. So, that cannot be changed by existing. Am I understanding, right?

Parag Bhise:

That's true, but as I also mentioned, a lot of our existing customers are also wanting to move to our newer platforms. Right? So, we have more than 100 plus customers who are on our existing customers. So, when they move to the newer platform, you get an opportunity to work out new pricing structures.

Vaibhav Jathitya:

Got it. Got it. So, apart from the pricing structure, you know, on the employee cost front, what can we do to improve our margin endeavors? What is the possibility to reduce the blended employee cost burden? What kind of productivity improvements can be realistically possible?

Parag Bhise:

They're possible. I can tell you. So, two parts one is already answered. If the composition of our deals changes, of course, then we are not so much bothered about per person cost. Secondly, you know, if you see the quarter one to quarter two, we already shown improvement in our revenue. It's marginal but it is there. Our employee base has not grown so much. In fact, it has depleted a little bit. So, even at lesser number of people, we were able to deliver marginally better revenue and the reason for that is very high focus on operational efficiency. So, there is a theme running within Nucleus of operational excellence where all teams are looking at how they can improve their work better and it has already in some smaller way, starting to show results. That's how is answer.

Vaibhav Jathitya:

Got it. Got it. And, sir, secondly, you know, if I look at your segmental thing, so in few of our geographies, we have significant profit decline in comparison to our revenue decline in first half of 2022 is what I'm talking about. So, for example, in Middle East the revenue has declined only by 5 crore, but profit has declined by 15 crore and similarly for Australia, Australia as well Southeast Asia as well. So, apart from the increase in employee cost, are we facing any other issues in the cost structure on our international business or international segments? Otherwise, why would the revenue has not resulted in employee costs or other savings on the variable cost front because if the revenue is slowing down, obviously there should be some savings on employee cost and some of the other costs but that has not happened in the international side of the business. I'm just trying to understand any other cost pressure that we are facing there?

Parag Bhise:

No. So, I have not experienced any other cost pressures, but this point which you raised, I don't know. Tapan, if you have any ready answer for this, otherwise, we can respond later but to answer your question as such, no we are not facing any other cost pressures than the employee cost going up. But what you said, we need some reflection ready on at least with me is not there.



Okay. Because, you know, the profit decline has been very sharp in the international business as compared to the domestic business and it has been more than the revenue decline in first half. So, I was just trying to understand. if you can respond later on, on this thing.

Parag Bhise:

Okay. Thanks.

Vaibhav Jathitya:

Okay. I will actually come back in the question queue. It's I think fair to provide the opportunities to everyone [Audio Distortion] question.

Parag Bhise:

Sure. Thank you, Vaibhav. Thank you for your question.

Moderator:

Next, is Deepan Shankar from Trustline PMS. Your line is unmuted.

Deepan Shankar:

Good afternoon, everyone and thanks a lot for the opportunity. Could you throw more light on this BNPL platform? Is it completely newer platform or extension of offerings on the current platform? And also what kind of revenue potential are we forcing over next two to three years?

Parag Bhise:

So, BNPL is an extension in our FinnOne lending suite. BNPL, you know, is Buy Now Pay Later, which is a popular model, now becoming popular. It's an extension. So, you would know, Deepan that we come out with our product releases every six months. So, as part of one of the releases, we have come out of this, and we'll build upon this further. Revenue potential for a particular since it's not a different product plus numbers, you know, we don't project it like that. It will definitely value add into our offerings. There is already a set of customers who are interested in wanting to inherit this feature into their business. So, I can respond that that definitely this is a feature which people are looking forward to. But revenue predictions, of course we don't give.

Deepan Shankar:

Okay. And for the last two, three years, we have been saying that whole customers are moving or migrating. But this is not happening at a faster pace. So, can you share some names, few larger names who have already moved, are pending to migrate it?

Parag Bhise:

Means at this moment would be difficult, and I firstly, your observation is correct. We've not been able to move at a pace where we would want to definitely. And there is definitely one of initiatives that I mentioned briefly about it for the current year, and next year is to put very high focus on migrating our existing FinnOne and Cash and Liquidity customers to our newer platforms. It's going to be a focus area, our very definite focus area for next couple of years at least and I agree the rate of movement is not as far as earlier. Your observation is correct there.

Deepan Shankar:

Can you at least share in number perspective, how many have moved out of the total customers?



Difficult to share, but I would say either they are right now single digits or low double digits. I think that's what I can comment right now. But I can tell you that in progress, WIP, there are many customers who are WIP including large and small customers.

Deepan Shankar:

Okay, and lastly, that we have seen our product revenue has been declining from 115 crore last year to currently around 90-94 crore. So, what are the key reasons for the same and when are we expecting that to bounce back to old levels of product revenues?

Parag Bhise:

I think the traction as I mentioned is definitely from our customers who are wanting to get onto our products. Of course, there's equal traction from our services customers also. So, that's the good news. So, decline in revenue primarily would be the last one and a half, two years. Yes, there was a slowdown due to the pandemic but then we've seen an upturn, the cloud customers, which we have got typically the model there is exactly experiences. First initial years the revenues are lesser because there we typically engage with them on a growth based revenue model. So, as their portfolio increases, our revenues also increase in multiples. So that's what we are banking on and that's what we are experiencing. So definitely product based revenue growth is expected in the remaining part of this year and for the years to come, for sure.

Deepan Shankar:

Okay, lastly, if I may squeeze one last one, like couple of quarters back and also during AGM we had requested for more disclosure from Nucleus in terms of revenue split, license, AMC implementation and cloud subscription. So, any progress on that? So when we can disclose that kind of information?

Parag Bhise:

So frankly speaking, not yet Deepan. We will have to defer that. We've been focusing a lot on these critical issues that we talked about. We faced unprecedented challenges than the unprecedented revision exercise that we did consumed a lot of our energy because it was such a big decision. So, we've been pretty much occupied in these things, last couple of quarters. So, it will have to wait some time more but as you said that we have said we will go back to our board and come back to you. So, that we will do for sure. But our focus last few quarters has been on dealing with these major challenges that we faced.

Deepan Shankar:

Okay. Sir, at least you can share this cloud decline percentage over last two quarters?

Parag Bhise:

cloud decline? can you be more specific?

Deepan Shankar:

Cloud revenues decline over past sir

Parag Bhise:

Yeah. Go ahead please.

Deepan Shankar:

Yeah, cloud revenues declined over last two quarters.



Anurag Mantri:

Parag Bhise:

Anurag Mantri:

Deepan Shankar:

Parag Bhise:

Deepan Shankar:

Parag Bhise:

Deepan Shankar:

Tapan, is that true? Because that's not what my knowledge is. Tapan.

This is Anurag in the meantime.

Yeah, Anurag.

I'm afraid that is not the case. There is no decline in the cloud revenue so far. And just to extend what Parag has mentioned, while we are working on these actionables, as mentioned in the previous investors call as well that whether we can really go to the slice and dice of the implementation AMC and all these things that is something which we are not considering right now based on our discussions internally and with the board, if there is a change in the approach, we will definitely let you but as of now, this remains at the level what we are sharing the information.

So, if that is not the case, then how the revenue has declined, sir? If cloud also has not declined.

So, I think you're then talking about general revenue decline and not specific to cloud. Because I was a bit surprised on cloud because cloud is giving us good traction. So, overall revenue decline as if you were there in past investor calls also, Deepan, revenue decline in the past couple of quarters has been because of the multiple challenges that we faced, which we talked about time and again. First, the COVID, second wave, then the ransomware attack and then the massive attrition which not only Nucleus, the entire industry is facing it. So, these one after another, these multiple factors impacted us and which showed a definite decline in revenue. This quarter, marginal improvement is there and we expect the improvement to continue in the direction of at least positive. So, if that is the revenue decline you're talking about past couple of the reasons we talked about earlier. And I would only say that now the things are looking up.

But if we see over past two-three quarters, the entire industry has been performing quite robustly. So, only we are in that declining zone so that way we wanted to understand what is actually the reason?

So, we know our reasons and we've shared them in the past as well. The multiple challenges that we faced including some that were very specific to us and some which were generic, possibly commenting on how industry is doing, otherwise, won't be possible for me. But I can tell you --we talked very openly about our reasons of revenue decline and why they were there and why there is a change, you know, a positive change.

Sir, I'm sorry to say this, but the call is not giving much confidence on revenue traction at all. So, that's so kind of observation we wanted to make. And thank you and all the best.



Yeah, sure. I'm sure. I'm not sure if you attended because we've been talking about it at length in the past at least two investor calls, and this is the third one. So, you've gone into depths and we've been pretty transparent about the reasons of revenue decline from our side, the multiple challenges that we faced. But now that things are looking -- let's see that it only grows positive from here. That is our focus. Thanks. Thanks for raising this observation, Deepan.

Moderator:

Next is Vivek Ganguli from Nine Rivers Capital. Your line is unmuted.

Vivek Ganguli:

Thank you for the opportunity. Sir, two questions. One, in the first quarter, you all had this ransomware attack, and that obviously had an impact on your revenue profile. Now, that it is all in the past, would it be fair to assume that you all will again go back into the double digit growth track or there are other challenges which you are all struggling with. That is one. The second is you all had mentioned that you all will be coming out with a dividend policy and also on the, you know, the revenue break up, which is not asking for too much to begin with, given the industry and the transparency that is prevalent in the industry. So, you know, I was really wondering is the board so caught up that they can't take up these issues, which have been, you know, on the mind of the investor community for such a long time, and the other matters, which are as important and you all need to shed a light on that on the growth and the profitability, aspects of -- so, it's like two such strong competing factors that one displaces the other altogether. Thank you.

Parag Bhise:

Yes, thank you for asking such pointed question. So, first, on the revenue part of it, yes, ransomware is beyond us. It had an impact. There may be some residual impact, but we got out of it completely. You probably have also noted that the attrition challenges that we faced with the industry as a whole is facing are continuing, though because of the unprecedented measures, we have taken the rate of attrition has surely declined significantly, but getting the resource trend back to where we were, it takes time. So, we are already on a very strong initiative on hiring both laterals and freshers that we had talked about in the past, there was a press release also to that extent. So, yes, growth is expected in the quarters to come. The rate of growth depends on attrition because the impact of attrition has been much. It will take time to come back to normal. But definitely the trajectory is good. Apart from this, there are no challenges that have been fixed. I mean, apart from the attrition, rest of the challenges are beyond us. The attrition remains to be still a challenge for us and for the industry, but it's the impact is getting lower and just to give you which I talked about earlier also, the traction from the customers is very high. So, there is no strain on order book. There is a lot of work that customers are expecting us to do. Our capacity today is a challenge, which is what we are trying to build. But there are no other challenges at least those are seen today. How the industry dynamics will change tomorrow, that none of us can predict because industry is still very dynamic. If a new wave of attrition hits us, hits the industry, we don't know. But today the



things are looking right. We are building our capacity. The customer traction is there. That's how I would respond. I think the dividend policy, revenue, split, Anurag already talked about. Occupation of good and management we've taken some very, very significant decisions in last and overcome some very massive challenges. For sure, the management has been occupied. And we thought that is priority because getting back onto the growth trajectory was most important, taking care of our employees was most important. So, these decisions were unprecedented. We had to put a lot more time on it as compared to what we would do on an annual basis. So, yes, a lot of focus has been on there.

Vivek Ganguli:

Okay. Right. Thank you, sir.

Parag Bhise:

Thank you for your question, Vivek. And if there are any follow up question, then you please?

Vivek Ganguli:

No, no, I'll come back into the queue later on. Thank you.

Parag Bhise:

Sure. Sure. Thanks a lot.

Moderator:

Next is Kunal Sharma from SMC Private Wealth. Your line is unmuted.

Kunal Sharma:

Hello. Hello.

Parag Bhise:

Yeah. Yeah. You are audible, Kunal.

Kunal Sharma:

Yeah. Okay. So, just actually most of the questions have been answered. So, just the followup question on the margin as it drastically dropped down due to employee expense. So, earlier, you said that the exceptional due to the COVID issue and the ransomware attacks, so are we still facing issue as of now or is that so only because of the attrition, as you said earlier? So please shed some light on it.

Parag Bhise:

Sure. So, COVID is hopefully behind us and that's a world problem, not only Nucleus problem, but hopefully it is behind us. There are no residual impacts of COVID. Ransomware is behind us. There will be marginal impact because we could not work for a few weeks. But that's behind us. Attrition, as I mentioned, is still a challenge. We are building capacity and we are getting good traction there but I can't say we are out of it because the impact was much. So, that's what -- I hope I answered fully or if not then please do repeat the remaining part. Sorry for that.

Kunal Sharma:

No, no, no. Okay. Thank you.

Parag Bhise:

Okay. Thanks. Kunal.

Moderator:

Next is Rahul Jain from Daulat Capital. Your line is unmuted.

Rahul Jain:

Yeah, hello. Is my line audible?



Rahul Jain:

Yes, very much.

Yeah, yeah. Okay. So, firstly, a question to Tapan and also a small request, you know, because when you read this data, you know, there's too much data to be note down here, you know, it's little impossible to take down all that data that you read so fast. So, a, if you could, you know, give that data in the presentation of press release that we share, that could at least the key data that will be of help, but for now, you can possibly give me the revenue split between product and services and also the order book data if you can.

Parag Bhise:

So, Poonam, can we do that in addition to what we have already done, maybe Tapan can repeat what he shared earlier.

Poonam Bhasin:

Tapan, I think

Parag Bhise:

There's a background noise.

Poonam Bhasin:

Tapan, I think you will be able to read out that.

Tapan Jayaswal:

Hello, Poonam.

Poonam Bhasin:

Yeah, you'll be able to read out that differentiation between the product and services, the revenue break up.

Tapan Jayaswal:

Okay, so we are having this product revenue for the quarter is at INR 93.2 crores against INR 89.9 crore quarter on quarter and INR 114.7 crore year on year. So, this was a productive revenue and revenue of project and services for quarter is at INR 20.9 crores against INR 18.5 crore quarter on quarter and INR 22.3 crore YOY. Am I audible? Lot of disturbance is coming on the background actually.

Rahul Jain:

Yeah. So, if I heard I'm specifically asking only for this quarter. I think you said product is INR 93.5 crore and services is INR 20.9 crore. Have I noted down it perfectly?

Tapan Jayaswal:

Product is INR 93.2 crore and --

Rahul Jain:

Okay.

Tapan Jayaswal:

And project and services INR 20.9 crores.

Rahul Jain:

Okay. And similarly for the order book only for this quarter. What was the order book and what was the split?

Tapan Jayaswal:

So, total order book for -- we have this current position. Total book was INR 546.8 crore including INR 514.8 crore for product business and INR 32 crores for project and services business.

Rahul Jain:

Okay. You said 546.8 and 32 is product out of that?



Rahul Jain:

Tapan Jayaswal:

Rahul Jain:

Right. 32 is project and services.

Yes, sorry. 32 is project and 546.8 is total.

Right. That is a total order book position.

Right, right, right. Thank you. Okay. Now, the question for Parag if you could share input on, you know, two, three counts. Firstly, on the competitive landscape as we keep hearing more and more solutions are emerging on the origination segment, even from, you know, so called fintech guys. Secondly, I think there has been some discussion on part two normalization on profitability. Just I wanted to understand that is it clearly function of revenues? So, if we go back to pre-COVID revenue and some like, let's 10-15% growth on that, then I believe we should be more around the profitability we used to do pre-pandemic, not pre-pandemic but let's say what we used to have two-three quarters back. So, that is question number two. And thirdly, on the hiring, you said, with the press release that you would add 500 people. So, can you tell the current headcount, and what was the data in Q1 and Q2, last year as it a QoQ and YoY and based on that where you expect to end the year on the net basis? So if you could share your thoughts on these two things.

Parag Bhise:

Okay, so three questions. Swati, help me as there's a lot of background noise, can we do something about it? Oh, yeah, thank you.

Swati Ahuja:

Rahul

Parag Bhise:

So, three questions Rahul --

Harpreet:

Sorry, sir. Rahul, I have muted your line because this background noise from your lines. I'll unmute you later. Go ahead, sir, please.

Parag Bhise:

Yeah, thank you. Yeah, thanks. Thanks a lot. So, three questions. First, is the competitive landscape. Yes, competition from fintechs and all is there, there's no doubt about it. But we are observing it closely. Our product management team does keep doing a competition analysis and based on that, of course, inputs come from our product strategy as well as engagement strategy. So, right now, this much on this. On revenue, you said, if the profitability is only a function of revenue, I'll say no, because considering the employee costs have risen so much, share increase in revenue may not give us that level of profitability. So, that's where, in the earlier part of the call I talked about a change in competition. We definitely have to move towards a bigger chunk of revenue from license and related things like AMC and all and that's less percentage of revenue from which is manpower dependent. Manpower is getting scarce so much. In any case, manpower dependent revenue is going to be becoming challenging. That's my personal view going forward. Thankfully, we are in a business where we have IT based revenue, a large opportunity of IT based revenue. So, that is what will be



our focus. That's on revenue. For people, I'll ask Tapan to respond the specific number because you asked for some specific number. We have started hiring. I'll again repeat both laterally and from campuses. Just last month, we had launched a very focused campaign for referral where existing employees can refer to their friends and colleagues from the other organizations. For that matter, we reached out to ex-Nucleites also as we call them. So, that has been a big initiative that has given us traction. On the campus hiring, we are moving very good. There have been in the past couple of months, about 60 Campus Connects. We have already batches running in our NSBT, which is Nucleus School of Banking Technology, which is our training route where all fresh recruits come in. We expect by the end of -- okay, last quarter of this year, by the end of last quarter of this year that we should be fulfilling our numbers. You refer to the press release. So, that we should be on target to reach those numbers. So, that's why I'm only speaking of, Tapan, specific answers, I think Rahul asked, whatever answers you can give he was talking about if there is any, Tapan.

Tapan Jayaswal:

Okay. Yeah, so headcount as of 30th September was 1687 and in the last quarter, it was 1732. And on 30th September last year, 2020, it was 2064. Rahul, am I audible?

Rahul Jain:

Yes. Operator, can you unmute?

Swati Ahuja:

You're already unmute Rahul.

Harpreet:

Yeah, we can hear you.

Rahul Jain:

Yes, yes. Thank you and sorry for the background noise. So, if I heard you right, Tapan, you said 1687 now versus 1732 in the previous quarter and 2064 in the YoY?

Tapan Jayaswal:

Right. Absolutely.

Rahul Jain:

Yeah. So, okay. So, so, last bit from my side, since, you know, the way you are seeing the environment on the headcount side, do you think this remains a challenge to you be net hirer, you know, and that is also impacting on the revenue performance, you know, and it will be very, very tough, because a, the inflation is definitely very, very high and availability is very, very low. So, both way if you either you leave business on the table or you have option of having a very different cost structure, which you may not, you know, like to have on a sustainable basis. So, what's the view and what is the impact of that? And secondly, is that also the reason or any other reason, if you want to highlight why our order book is not culminating into a revenue growth performance, and it's been so many quarters now on that front.

Parag Bhise:

So, definitely, I talked about capacity challenge continues to be there. We are working on it. It's improving, but definitely, it's that kind of refers to your



question, the last one. Look, there are multiple initiatives that we are taking. There's no one answer to it. So, I talked about the composition change, that for sure, we have to work on that. I talked about pricing. That's another initiative that we're working on. I talked about improving our efficiency and the activity the larger you know, we're talking about an operational excellence where all teams are focusing on what they can do better with existing resources. And we saw some reflection of that in our marginal revenue increase. There is a lot of focus on quality that's going on. So, there is no one answer which can help us. It is a challenging situation, no doubt, but we are hopeful that a combination of all these things and plus the hiring that we are doing, that will also, in the months to come that will also start giving us results. So, combination, all these four-five things is what is going to give us the answer to your composite questions, Rahul.

Rahul Jain:

Yeah. So, are we saying that the supply side is the key factor for us to, you know, see this revenue culmination coming from the order book traction, which we are having for some time? So, if the supply side issue eases out, we can be back to double digit kind of a growth, purely from a current order book status perspective.

Parag Bhise:

So, when you say supply side, you're talking about the resources, I believe.

Rahul Jain:

Yes, yes.

Parag Bhise:

No, I'll repeat. Unfortunately, that is not the, fortunately and unfortunately. I am saying fortunately because our revenue model is not purely manpower based, that's the good part, that's a very positive part. We've built a great IT in the last decade. We already had great IT, but we have given it a new shape. So, our revenue is not purely manpower based. So, I would say, I said, I will not talk in general about industry, but companies whose models are purely manpower based are probably going to face more challenges. Our model is IT based and revenue related to IT like AMC, etc. I do hope you will be with all these initiatives that we talked about, definitely supply side plays a very vital role in it, especially because the kind of impact it had on us and it had on everyone. So, I'm not underplaying that, but that's not the only thing for sure. And the thing for us is that our revenue model is not purely manpower based. So, it will give us advantage but yes, manpower is required for executing that but it is not purely manpower based.

Rahul Jain:

Yeah, Parag, of course we had that impression and we understand the business model of a product business. But if you just look at the 16% YoY growth, despite having strong order situation, and headcount is also down, you know, almost 16-17% or a little more than that. So, that purely explain that there is some impact which is coming purely from our inability to, you know, complete orders on time. Maybe, you know, you are of course in a better situation. But, you know, the dots are connecting somehow, you know, which looks like a linear impact rather than any other factor.



No, no. Sure, sure. I'm not to be interpreted wrongly. I didn't say that -- because the attrition has been massive. So, I absolutely am not saying that there is no impact. Obviously, there is a significant impact. There's no doubt about it. What I was responding is that that's not the only factor. We have to work on many things and there are some which are definitely to our advantage or revenue. Our business model is definitely to our advantage. That's how our response is. So, year observation is very right. There is an impact because of manpower there's no doubt about it.

Rahul Jain: Thank you. Thank you for answering all my questions and best of luck for the time ahead.

Parag Bhise: Thank you so much for raising these questions, Rahul.

Moderator: We have a last question of the day from Imran Contractor individual investor. Your line is unmuted. Please go ahead.

Imran Contractor: Yeah. Good afternoon. Are we on course to recruit 500 people that we have mentioned in our press release? And can you elucidate some timeline for the buyback, which we intend to do?

Parag Bhise: Okay. So, first question and I answered that a little maybe there was disturbance

Imran Contractor: Yeah, I heard about it

Parag Bhise: Yeah, we are track. I would say broadly speaking, we are on track. We are getting good traction from the campuses as well as from lateral. I did mention about 60 Campus Connects, which we've already done. Some batches are running in our training school, which is NSBT.

Imran Contractor: Right.

Parag Bhise: Right now, today the numbers are less, but the pipeline is very strong. And yes, we are on target to reach that number.

Imran Contractor: Okay.

Poonam Bhasin: Parag, should I take question for timeline. Yeah. Good afternoon. This is Poonam Bhasin. Sir, we will be --

Parag Bhise: Yeah

Poonam Bhasin: Yeah. So, we'll be declaring the results of our postal ballot tomorrow. And then post that we have already announced that our record date will be November 27. So, after the declaration of the results, we will be filing the draft letter of offer with the SEBI. So, it will all depend that how much time SEBI will take for approval of our draft letter of offer. So, tentatively, we are targeting that, after



the approval from SEBI. We will be able to open the offer by mid or end of December, sir.

Imran Contractor:

Okay. And just one more question, will, this NSBT become a profit center, or it's going to be for internal recruits.

Parag Bhise:

I'll say it like this, that we're primarily using it for our internal purposes. Our focus is not, at least currently our focus is not that NSBT should be a profit center. We are more concerned that it gives us trained manpower. That's our focus. If it becomes a profit center, we will be very happy with that. Our focus is not that currently.

Imran Contractor:

Okay. Thank you very much. Thank you.

Parag Bhise:

Thank you so much for your question.

Moderator:

I would like to now hand over the floor back to Swati to take final remarks from speakers. Thank you so much. Over to you, Swati.

Swati Ahuja:

Thank you, Harpreet. So, we would like to thank all the investors for joining us today for this earning conference call. I would now pass it on to Parag sir for his closing comment. Over to you, sir.

Parag Bhise:

Thank you, Swati and thank you very much everyone, as usual for joining and for closing some very pointed questions. These are the kind of questions which keep us on our toes, which keep us thinking. Thank you very much for your confidence in us. And thank you for all your support. Thank you.

Moderator:

Thank you so much all the speakers. Thank you investors for joining the call. That does conclude our investor call for today. You may all disconnect now. Thank you. Have a pleasant evening.