

Strong order win drive revenue performance, Adj OPM up 400bps

- Nucleus revenues stood at Rs 1.37bn up 7% QoQ ahead of our estimates of 4.5% QoQ growth. Performance was led by sustained demand traction across markets (primarily in India) and is evident from sequential growth in Product Segment Order book by 9.5% QoQ at Rs 4.4bn, (up 6% on YoY basis).
- EBIT margin declined 430bps QoQ at 22% (DE 25.2%) as company made provision towards potential special bonus payout to employees in H2 amounting Rs150mn, which may get pay-out in Q3 or Q4 and may also add up to this kitty based on market situation. Nevertheless, apportioning this over full year, adj. OPM actually went up by 400bps.
- Management commentary improved further as they added 4 new clients and 10 product orders in the quarter, driving overall order book by 7% on QoQ basis. However, management also warned against potential decision making freeze in case concerns from COVID worsens.
- We are enthused by sustained demand momentum, strong order addition and tighter cost management which has helped in further uptick in our earnings estimates by 4%/13% for FY21/22E and maintain Buy rating on the stock with TP of Rs725 (implies 13x on FY23E earnings).

Demand strong as client progressing transformation agenda

Nucl has witnessed sustained traction in key markets (Australia, Vietnam, ME & India) as many NBFCs are proactively seeking transformation initiatives given focus on growth revival and improved competitiveness. In select cases, client also intent to leverage the current low-intensity time as ideal for doing a major IT overhaul. The current quarter momentum was led by Indian market wherein the revenues for the quarter grew about 14% QoQ accounting for about 76% of all incremental revenues.

Order bookings up 7% QoQ; Go live going as scheduled, remotely

Order booking in Product segment stood at Rs 4.04bn, (flat QoQ,) as it added 4 new client logos (includes Muthoot Fincorp), 10 product orders, while 17 module implementation went live. During Q2 company launched new version of Finnaxia (Transaction Banking) that would help resiliency of customer's supply chains. Also it has launched AI chat-bot for loan self-service on Whatsapp as a part of FinnOne Neo Digital Channel solutions. It has received top 3 retail loan origination solution award from Aite group

Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	1,370	1,282	6.8	1,284	6.7
Total Expense	1,033	1,074	(3.8)	910	13.5
EBITDA	337	209	61.6	373	(9.7)
Depreciation	36	32	12.2	36	(0.3)
EBIT	301	177	70.6	337	(10.8)
Other Income	91	114	(20.5)	130	(30.0)
Interest	3	3	(6.9)	3	3.8
EBT	389	288	35.3	464	(16.2)
Tax	95	77	23.4	101	(6.4)
RPAT	295	211	39.6	363	(18.9)
APAT	295	211	39.6	363	(18.9)
			(bps)		(bps)
Gross Margin (%)	33.3	37.1	(379)	40.9	(754)
EBITDA Margin (%)	24.6	16.3	834	29.1	(449)
NPM (%)	21.5	16.4	505	28.3	(681)
Tax Rate (%)	24.3	26.6	(235)	21.8	254
EBIT Margin (%)	22.0	13.8	821	26.3	(431)

CMP	Rs 577
Target / Upside	Rs 725 / 26%
NIFTY	11,669

Scrip Details

Equity / FV	Rs 290mn / Rs 10
Market Cap	Rs 17bn
	USD 225mn
52-week High/Low	Rs 755/ 156
Avg. Volume (no)	3,10,405
Bloom Code	NCS IN

Price Performance	1M	3M	12M
Absolute (%)	(14)	93	90
Rel to NIFTY (%)	(17)	87	91

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	67.6	67.6	67.6
MF/Banks/FIs	2.2	1.9	0.9
FIIIs	6.8	6.4	7.1
Public / Others	23.4	24.1	24.4

Valuation (x)

	FY21E	FY22E	FY23E
P/E	11.9	11.2	10.6
EV/EBITDA	6.3	5.5	4.5
ROE (%)	23.0	20.6	18.8
RoACE (%)	23.1	20.7	18.9

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	5,602	6,464	7,386
EBITDA	1,595	1,628	1,699
PAT	1,409	1,489	1,582
EPS (Rs.)	48.5	51.3	54.5

VP - Research: Rahul Jain

Tel: +9122 40969771

E-mail: rahulj@dolatcapital.com

Associate: Divyesh Mehta

Tel: +91 22 40969768

E-mail: divyesh.mehta@dolatcapital.com

Exhibit 1: Quarterly performance versus estimates

(in Rs mn)	Actual	Estimates		% Variation		Comment
		Dolat	Consensus	Dolat	Consensus	
Revenues (in US\$ mn)	18.5	18.0	17.5	2.4	5.6	Revenue beat was led by sustained demand momentum across Geos
Sales	1,370	1,341	1,309	2.1	4.7	
EBIT	301	338	412	(10.9)	(27.0)	OPM miss was on account of provisioning of about Rs150mn towards special bonus made for FY21.
EBIT, margin	22.0	25.2	15.0	(320 bps)	700 bps	
PAT	295	351	367	(16.1)	(19.8)	PAT beat was extended due to higher ETR of 24% in Q2.

Source: DART, Company

Change in Estimates

Factoring in for improved demand commentary across markets (although management committed only in near term) and a potential need for digitization for banks to create new channel for sales has led to increase in our growth estimates by 3%/5% respectively for FY21/22E. Also though the profitability for the quarter was miss, it was pertaining to one-time bonus factor in lieu of wage hike (not paid yet) and adjusted to that, OPM has actually improved during the quarter and thus we have built in ~270/290bps improvement for FY21/22E. We have also introduced our FY23E estimates factoring in 14% growth and OPM of 20.4% (down 200bps on certain cost rationalization on sales).

Exhibit 2: Change in Estimates

(in Rs mn, except EPS)	FY20A	FY21E			FY22E			FY23E
	Actual	Old	New	change	Old	New	change	New
Revenues (\$ mn)	73.9	73.7	75.9	2.9	82.5	86.2	4.5	97.2
YoY growth (%)	7.6	5.2	7.6		12.1	13.7		14.6
INR Revenue	5,208	5,477	5,602	2.3	6,188	6,464	4.5	7,386
YoY growth (%)	5.6	5.2	7.6		13.0	15.4		14.3
EBIT	796	1,253	1,436	14.6	1,206	1,450	20.2	1,506
EBIT margin (%)	15.3	22.9	25.6		19.5	22.4		20.4
PAT	890	1,353	1,409	4.2	1,313	1,489	13.5	1,582
EPS (Rs)	30.6	46.6	48.5	4.2	45.2	51.3	13.5	54.5

Source: DART, Company

Exhibit 3: Key Revenue Assumptions in Our Estimates

Key Assumptions	FY21E	FY22E	FY23E
Growth in INR revenues (%)	7.6	15.4	14.3
Growth in Product business (%)	13.1	16.4	15.0
Growth in Services business (%)	(14.1)	10.3	10.1
EBIT Margin %	25.6	22.4	20.4
EPS Growth (%)	58.3	5.7	7.5

Source: DART, Company

Exhibit 4: Quarterly and YTD Trend

Rs mn	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ (%)	YTD FY20	YTD FY21	YoY (%)
Revenues(\$ mn)	18	18	18	19	17	18	0.9	6.5	36	36	(0.9)
Revenue	1,241	1,282	1,303	1,382	1,284	1,370	6.8	6.7	2,523	2,653	5.2
Operating Expenditure	1,058	1,074	1,067	1,067	910	1,033	(3.8)	13.5	2,132	1,943	(8.9)
Cost of revenues	823	806	822	772	759	913	13.3	20.3	1,629	1,672	2.6
as % of sales	66	63	63	56	59	67			66	59	
SG&A expenses	235	268	245	296	151	120	(55.3)	(20.9)	503	271	(46.1)
as % of sales	19	21	19	21	12	9			19	12	
EBITDA	182	209	236	315	373	337	61.6	(9.7)	391	710	81.8
Depreciation	30	32	39	34	36	36			30	36	
EBIT	152	177	198	281	337	301	70.6	(10.8)	329	639	94.4
Other Income	62	111	88	100	127	88			173	215	
PBT	214	288	285	381	464	389	35.3	(16.2)	502	853	70.1
Total Tax	49	77	53	100	101	95			125	196	
Reported PAT	166	211	232	281	363	295	39.6	(18.9)	377	658	74.7
Reported EPS	5.7	7.3	8.0	9.7	12.5	10.1	39.6	(18.9)	13	23	74.7
Margins (%)							(bps)	(bps)			
EBIDTA	14.7	16.3	18.1	22.8	29.1	24.6	834	(449)	15.5	26.8	1,129
EBIT	12.3	13.8	15.2	20.3	26.3	22.0	821	(431)	13.0	24.1	1,104
EBT	17.3	22.4	21.9	27.6	36.2	28.4	597	(778)	19.9	32.2	1,227
PAT	13.4	16.4	17.8	20.4	28.3	21.5	505	(681)	14.9	24.8	986
Effective Tax rate	22.6	26.6	18.6	26.2	21.8	24.3	(235)	254	24.9	22.9	(202)

Source: Company, DART

What to expect Next Quarter

We expect improved growth performance in Q3 with 6% growth in revenues, backed by 7% growth in Order book position as of Q2. Also, given the normalization of provision made towards special bonus profitability is likely to go up sharply by ~540bps QoQ to 27.2%.

Exhibit 5: What to expect Next Quarter

(Rs Mn)	Q3FY21E	Q2FY21	Q3FY20	QoQ (%)	YoY (%)
Sales (US\$ mn)	19.6	18.4	18.4	6.2	6.4
Sales	1,439	1,370	1,303	5.0	10.4
EBIT	391	298	195	31.2	101.1
PAT	368	295	232	24.9	58.5
EPS (Rs)	12.7	10.1	8.0	24.9	58.5
EBIT Margin (%)	27.2	21.8	14.9	543.0	1,227.3

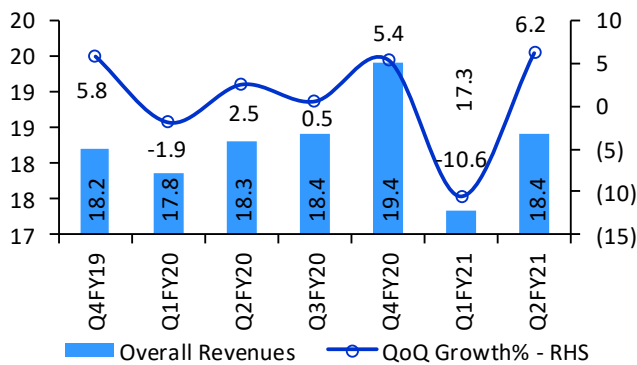
Source: DART, Company

Key Highlights of the Earning Call

- **Revenues** stood at Rs1.37bn up 6.7% QoQ and 6.8% on YoY basis. The traction was led by both Product (up 7.2% QoQ) as well as Services business (up 4.6% QoQ). India and Far East region contributed to most of the incremental growth, while strong order book growth (up 7% QoQ) and healthy commentary on pipeline adding to the confidence on growth sustenance.
- **Employee Benefit Expense** grew 20.3% QoQ to INR 913mn due to provision made for special bonus for personnel's (although this was not paid in the quarter). The employee count stood at 2,064 a decrease of 53 over the LQ (hiring freeze for the year continues).
- **Other Expenses** stood at INR 120mn de-grew 20.9% QoQ on account of further optimization in administration, training & recruitment and maintenance expenses. The current cost base is not sustainable but may revive gradually as situation on WFO normalises. The company is not billing travel expenses (client related) to its customer and thus equivalent amount is also not part of the revenues (the only cost advantage is limited to travel cost for sales/business development).
- **EBIT margin** declined 430bps QoQ at 22% as company made provision towards potential special bonus payout to employees in H2 amounting Rs150mn, which may get pay-out in Q3 or Q4. The company may increase the total payout in H2 based on the business situation.
- **Cash and cash equivalents**, including investments stood at **Rs6.5bn in Q2FY21** vs **Rs 5.1bn in Q2FY20** an increase of Rs1.4bn (27.6% YoY) on account of 39.6% YoY increase in Net profit and no meaningful investment in Capex/WC (FY20 – total incremental CE was Rs188mn).
- **Geography:** India (38.5% of Rev) grew 14% QoQ as the traction was led by NBFC's adopting cloud based offerings in their businesses, Far East (7.6% of Rev) grew 18% QoQ, South East Asia (19.2% of Rev) degrew 2% QoQ, Europe/U.K (5.3% of Rev) grew 6% QoQ, M.E (13.1% of Rev) degrew 7% QoQ, Africa (4.3% of Rev) grew 94% QoQ, Australia (7.4% of Rev) degrew 4% QoQ, RoW (4.5% of Rev) degrew 5% QoQ.
- **Segmental:** Product (83.8% of Rev) grew 7.2% QoQ, Project and Professional (16.2% of Rev) grew 4.2% QoQ.
- **Order book:** stood at INR 4,824mn grew 7.1% QoQ which includes INR 4,429mn in Product business which grew 9.5% QoQ and INR 395mn in project and services business which de-grew 14.1% QoQ. The new orders stood at INR 1,690mn grew 26% QoQ which includes INR 1,533mn in Product business grew 45% QoQ and Project and service business de-grew 45% QoQ to INR 157mn. The company gained 4 new customers, won 10 product orders, and implemented 17 product modules worldwide.
- **Product Launches:** FinnAxia - Digital transaction banking solution: It improve the resiliency of their corporate customers' supply chains. Launched AI chatbot for loan self-service on WhatsApp as a part of FinnOne Neo Digital Channel solutions for contactless lending helping corporate banks to enable customers to do banking in real-time and maintain stable supply chains.

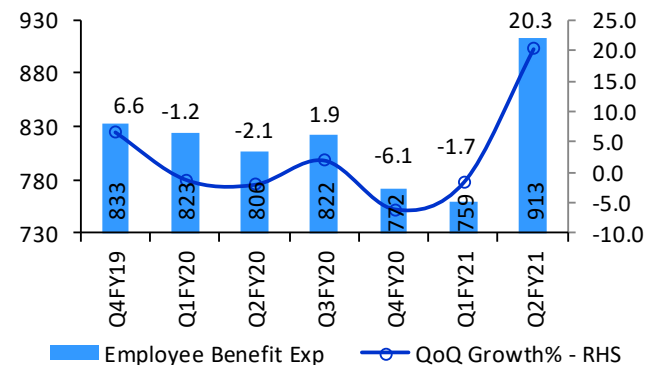
Charts

Exhibit 6: Revenues stood at \$18.4mn grew 6.2% QoQ



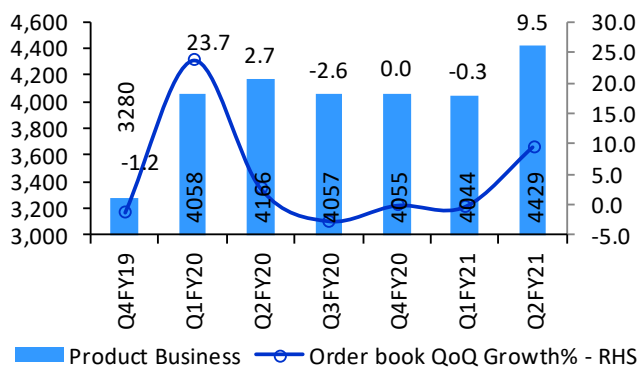
Source: Company, DART

Exhibit 7: Employee Benefit Exp stood at Rs 913mn grew 20.3% QoQ



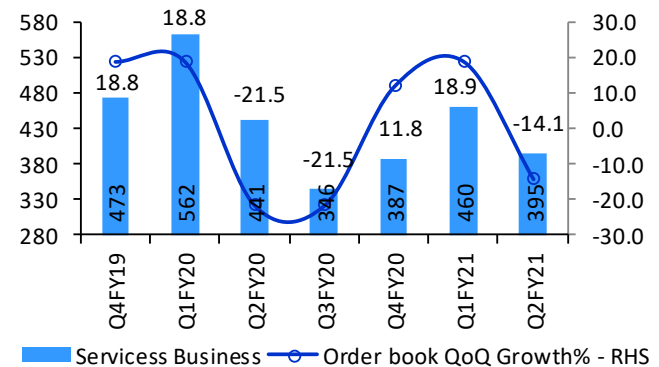
Source: Company, DART

Exhibit 8: Product business Order book stood at Rs 4,429mn grew 9.5% QoQ



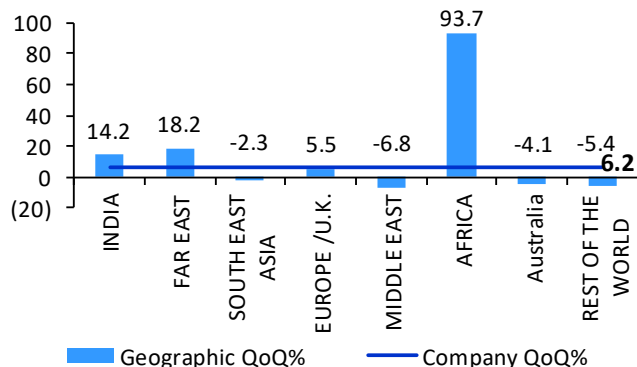
Source: Company, DART

Exhibit 9: Services business Order book stood at Rs 395mn de-grew 14.1% QoQ



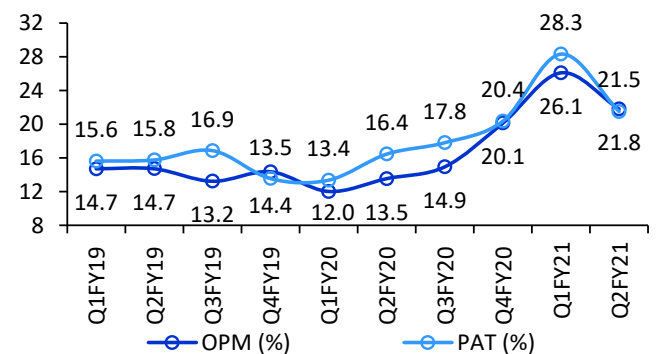
Source: Company, DART

Exhibit 10: Geographic QoQ growth vs Company QoQ growth



Source: Company, DART

Exhibit 11: Adjusted for Bonus provisions, OPM still improved 300bps QoQ



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	5,208	5,602	6,464	7,386
Total Expense	4,266	4,007	4,835	5,687
COGS	3,223	3,382	3,864	4,358
Employees Cost	0	0	0	0
Other expenses	1,044	626	972	1,330
EBIDTA	942	1,595	1,628	1,699
Depreciation	135	149	169	183
EBIT	807	1,447	1,460	1,516
Interest	11	11	10	10
Other Income	372	406	510	608
Exc. / E.O. items	0	0	0	0
EBT	1,168	1,842	1,960	2,114
Tax	278	433	470	533
RPAT	890	1,409	1,489	1,582
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	890	1,409	1,489	1,582

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	290	290	290	290
Minority Interest	0	0	0	0
Reserves & Surplus	5,318	6,377	7,516	8,748
Net Worth	5,609	6,668	7,807	9,038
Total Debt	0	0	0	0
Net Deferred Tax Liability	1	1	1	1
Total Capital Employed	5,610	6,669	7,808	9,039

Applications of Funds

Net Block	428	400	351	288
CWIP	0	0	0	0
Investments	0	0	0	0
Current Assets, Loans & Advances	7,206	8,338	9,577	10,920
Inventories	0	0	0	0
Receivables	902	1,028	1,151	1,255
Cash and Bank Balances	5,773	6,763	7,867	9,094
Loans and Advances	302	306	306	306
Other Current Assets	229	240	252	265
Less: Current Liabilities & Provisions	2,024	2,069	2,120	2,169
Payables	150	158	169	179
Other Current Liabilities	1,874	1,912	1,951	1,990
<i>sub total</i>				
Net Current Assets	5,181	6,269	7,457	8,751
Total Assets	5,610	6,669	7,808	9,039

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	38.1	39.6	40.2	41.0
EBIDTA Margin	18.1	28.5	25.2	23.0
EBIT Margin	15.5	25.8	22.6	20.5
Tax rate	23.8	23.5	24.0	25.2
Net Profit Margin	17.1	25.2	23.0	21.4
(B) As Percentage of Net Sales (%)				
COGS	61.9	60.4	59.8	59.0
Employee	0.0	0.0	0.0	0.0
Other	20.0	11.2	15.0	18.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	72.0	136.5	146.0	151.6
Inventory days	0	0	0	0
Debtors days	63	67	65	62
Average Cost of Debt				
Payable days	11	10	10	9
Working Capital days	363	408	421	432
FA T/O	12.2	14.0	18.4	25.6
(D) Measures of Investment				
AEPS (Rs)	30.6	48.5	51.3	54.5
CEPS (Rs)	35.3	53.6	57.1	60.8
DPS (Rs)	0.0	10.0	10.0	10.0
Dividend Payout (%)	0.0	20.6	19.5	18.4
BVPS (Rs)	193.1	229.6	268.8	311.2
RoANW (%)	16.6	23.0	20.6	18.8
RoACE (%)	16.9	23.1	20.7	18.9
RoAIC (%)	(1072.9)	(1122.7)	(1893.5)	(2639.6)
(E) Valuation Ratios				
CMP (Rs)	577	577	577	577
P/E	18.8	11.9	11.2	10.6
Mcap (Rs Mn)	16,743	16,743	16,743	16,743
MCap/ Sales	3.2	3.0	2.6	2.3
EV	10,970	9,980	8,876	7,649
EV/Sales	2.1	1.8	1.4	1.0
EV/EBITDA	11.6	6.3	5.5	4.5
P/BV	3.0	2.5	2.1	1.9
Dividend Yield (%)	0.0	1.7	1.7	1.7
(F) Growth Rate (%)				
Revenue	7.6	7.6	15.4	14.3
EBITDA	18.9	69.3	2.1	4.3
EBIT	16.4	79.3	0.9	3.9
PBT	21.2	57.7	6.4	7.9
APAT	19.2	58.3	5.7	6.2
EPS	19.2	58.3	5.7	6.2

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	747	1,055	1,064	1,089
CFI	(291)	(370)	(320)	(320)
CFF	(334)	56	160	258
FCFF	624	935	944	969
Opening Cash	445	568	1,308	2,212
Closing Cash	568	1,308	2,212	3,239

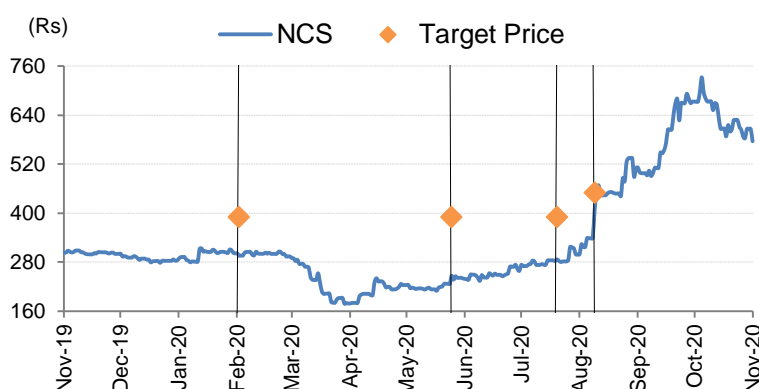
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Feb-20	Buy	390	296
May-20	Buy	390	246
Jul-20	Buy	390	287
Aug-20	Buy	450	406

*Price as on recommendation date

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
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Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745
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CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
Jubbin Shah	VP - Derivatives Sales	jubbins@dolatcapital.com	+9122 4096 9779
Ashwani Kandoi	AVP - Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	AVP - Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Dinesh Mehta	Co- Head Asia Derivatives	dinesh.mehta@dolatcapital.com	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Dolat Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

Analyst(s) Certification

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Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
