

# Nucleus Software Exports

Buy

# DART

DOLAT ANALYSIS & RESEARCH THEMES  
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Result Update

## Results ahead of estm; Order book intact; Commentary turns cautious

- Results were ahead of estm with a revenue growth of about 8.8% YoY at Rs 1.38bn (our estm at Rs1.32bn) and OPM at 20.3% against our estm at 16.5% - profit beat led by reversal of variable pay provisions.
- Order book stood at Rs 4.4bn, implies 18% growth YoY (flat QoQ) with new 8 new product order wins in the quarter, adding 4 new logos. It also completed 24 product module implementation in Q4 (65 for FY20). Order book is encouraging but management unsure about timely ramp-up of the order as initially planned.
- Profitability is likely to remain resilient as company has taken several cost measures such as compensation cut by Sr mgmt. team, no wage hikes and savings on travel/operational front.
- Despite the clear commentary by banks/IT peers towards investments in digital channel, we see the business may take a temporary hit on revenues given slower decision making in the short-term on new sales and delayed ramp-up in implementations. Thus, we continue to remain positive on its prospects given its superior product offering, tailwinds in cloud-based offerings, healthy order book and strong cross-sell opportunity and maintain our Buy rating with DCF based TP of Rs 390 per share (implies 1x on EV/Sales and 6x on EV/EBIT on FY22E).

## Client engagements have increased; not unsure about investment plans

Nucleus has witnessed increased engagements from client post lockdown towards enabling process in WFH environment and getting compliant towards changed regulations (Moratorium feature Service pack installed across client base – 90 clients took this). However, these were compulsive one-time engagement but the client sentiments in general is not encouraging as they haven't processed any loans in last two months and demand for consumer products is also weak. The clients are facing severe cash crunch and are requesting for pricing reduction in some instances, driving its conservative outlook in the near term.

## Clients spending for survival not growth; pricing cut may impact OPM

Clients currently are investing for survival and thus in short term demand pricing cuts to conserve cash. Nucleus is calibrating the environment but may accept some cuts case to case basis impacting OPM in FY21 by 150bps.

## Q4FY20 Result (Rs Mn)

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Revenue	1,382	1,270	8.8	1,303	6.1
Total Expense	1,067	1,069	(0.2)	1,067	0.0
EBITDA	315	201	56.8	236	33.2
Depreciation	34	19	84.3	39	(12.3)
EBIT	281	182	54.0	198	42.2
Other Income	103	63	63.1	90	13.8
Interest	3	0		3	(7.1)
EBT	381	245	55.3	285	33.7
Tax	100	73	35.8	53	87.8
RPAT	281	172	63.6	232	21.3
APAT	281	172	63.6	232	21.3
			(bps)		(bps)
Gross Margin (%)	44.2	34.4	979	36.9	724
EBITDA Margin (%)	22.8	15.8	697	18.1	464
NPM (%)	20.4	13.5	681	17.8	256
Tax Rate (%)	26.2	29.9	(375)	18.6	754
EBIT Margin (%)	20.3	14.4	596	15.2	516

CMP	Rs 246
Target / Upside	Rs 390 / 58%
BSE Sensex	30,672
NSE Nifty	9,029

## Scrip Details

Equity / FV	Rs 290mn / Rs 10
Market Cap	Rs 7bn
	USD 95mn
52-week High/Low	Rs 381/Rs 156
Avg. Volume (no)	57,873
NSE Symbol	NUCLEUS
Bloomberg Code	NCS IN

## Shareholding Pattern Mar'20(%)

Promoters	67.6
MF/Banks/FIs	1.9
FII	7.7
Public / Others	22.8

## Valuation (x)

	FY20A	FY21E	FY22E
P/E	8.0	8.9	7.8
EV/EBITDA	1.5	1.1	0.5
ROE (%)	16.6	13.8	14.5
RoACE (%)	16.9	13.8	14.5

## Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	5,208	5,172	5,699
EBITDA	942	870	1,010
PAT	890	806	920
EPS (Rs.)	30.6	27.7	31.7

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**DOLAT CAPITAL**

**Exhibit 1: Quarterly performance versus estimates**

(in Rs mn)	Actual	Estimates		% Variation		Comment
		Dolat	Consensus	Dolat	Consensus	
Revenues (in USD mn)	19.4	18.7	18.5	3.8	4.8	Revenue ahead of estimate as it execute its healthy order book.
Sales	1,382	1,327	1,342	4.2	3.0	
EBIT	281	219	NA	28.3	NA	EBIT margin improvement and beat was led by reversal of variable pay provisions.
EBIT, margin	20.3	16.5	NA	380 bps	NA	
PAT	281	232	213	21.3	32.1	PAT beat was part negated by higher ETR of 26% in Q4.

Source: Company, DART

**Change in estimates**

Revenue estimates have been curtailed by ~6% for FY21/22 owing to slower than expected conversion of order book into revenues given the ongoing uncertainty (order book is up 18% on YoY basis in FY20). However, given the proactive cost measures initiated by the management we have broadly maintained our OPM estimates at 14%/14.9% respectively. EPS estimates have declined given assumption of higher ETR (25.2% now versus 24% earlier).

**Exhibit 2: Change in estimates**

(Rs mn)	FY20			FY21E			FY22E		
	Old	Actual	% chg	Old	New	% chg	Old	New	%chg
Revenues(USD mn)	73.2	73.9	1	77.2	70.8	(8.2)	83.4	77	(7.6)
YoY growth, %	6.5	7.6		6.3	(0.7)		10.6	10.8	
Revenues	5,153	5,208	1.1	5,479	5,172	(5.6)	6,003	5,699	(5.1)
Growth %	4.6	5.6		6.3	(0.7)		9.6	10.2	
EBIT	736	796	8.1	761	723	(5.1)	903	851	(5.8)
EBIT mgns, %	14.3	15.3		13.9	14		15	14.9	
Net profits	841	890	5.9	853	806	(5.5)	986	920	(6.7)
EPS	28.9	30.6	5.9	29.4	27.7	(5.5)	34	31.7	(6.7)

Source: Company, DART

**Exhibit 3: Key assumptions in our estimates**

Metrics (%) YoY growth	FY21E	FY22E
Growth in INR revenues (%)	(0.7)	10.2
Growth in Product business (%)	0.8	10.8
Growth in Services business (%)	(6.4)	7.7
EBIT Margin %	14.0	14.9
EPS Growth (%)	(9.5)	14.2

Source: Company, DART

**Exhibit 4: Quarterly and YTD performance trend**

Rs mn	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	YoY (%)	QoQ (%)	FY19	FY20	YoY (%)
<b>Revenues(USD mn)</b>	<b>18.2</b>	<b>17.8</b>	<b>18.3</b>	<b>18.4</b>	<b>19.4</b>	<b>6.6</b>	<b>5.4</b>	<b>70.0</b>	<b>73.9</b>	<b>5.6</b>
<b>Revenue</b>	<b>1,270.0</b>	<b>1,240.5</b>	<b>1,282.2</b>	<b>1,303.3</b>	<b>1,382.3</b>	<b>8.8</b>	<b>6.1</b>	<b>4,840.3</b>	<b>5,208.3</b>	<b>7.6</b>
<b>Operating Exp.</b>	<b>1,069.2</b>	<b>1,058.3</b>	<b>1,073.7</b>	<b>1,066.9</b>	<b>1,067.4</b>	<b>(0.2)</b>	<b>0.0</b>	<b>4,047.9</b>	<b>4,266.3</b>	<b>5.4</b>
Cost of revenues	833.2	823.2	806.2	821.8	771.6	<b>(7.4)</b>	<b>(6.1)</b>	3,135.3	3,222.8	<b>2.8</b>
<i>as % of sales</i>	<i>65.6</i>	<i>66.4</i>	<i>62.9</i>	<i>63.1</i>	<i>55.8</i>			<i>64.8</i>	<i>61.9</i>	
SG&A expenses	236.0	235.1	267.5	245.1	295.8	<b>25.3</b>	<b>20.7</b>	912.6	1,043.5	<b>14.3</b>
<i>as % of sales</i>	<i>18.6</i>	<i>19.0</i>	<i>20.9</i>	<i>18.8</i>	<i>21.4</i>			<i>18.9</i>	<i>20.0</i>	
<b>EBITDA</b>	<b>200.8</b>	<b>182.2</b>	<b>208.5</b>	<b>236.4</b>	<b>314.9</b>	<b>56.8</b>	<b>33.2</b>	<b>792.4</b>	<b>942.0</b>	<b>18.9</b>
Depreciation	18.5	30.2	32.0	38.9	34.1			36.7	62.2	
<b>EBIT</b>	<b>182.3</b>	<b>152.0</b>	<b>176.5</b>	<b>197.5</b>	<b>280.8</b>	<b>54.0</b>	<b>42.2</b>	<b>693.1</b>	<b>806.8</b>	<b>16.4</b>
Other Income	63.1	62.2	111.0	87.6	100.3			270.9	361.1	
<b>PBT</b>	<b>245.4</b>	<b>214.2</b>	<b>287.5</b>	<b>285.1</b>	<b>381.1</b>	<b>55.3</b>	<b>33.7</b>	<b>964.0</b>	<b>1,167.9</b>	<b>21.2</b>
Total Tax	73.4	48.5	76.6	53.1	99.7			217.4	277.9	
<b>Reported PAT</b>	<b>172.0</b>	<b>165.7</b>	<b>210.9</b>	<b>232.0</b>	<b>281.4</b>	<b>63.6</b>	<b>21.3</b>	<b>746.6</b>	<b>890.0</b>	<b>19.2</b>
<b>Reported EPS</b>	<b>5.9</b>	<b>5.7</b>	<b>7.3</b>	<b>8.0</b>	<b>9.7</b>	<b>63.6</b>	<b>21.3</b>	<b>25.7</b>	<b>30.6</b>	<b>19.2</b>
<b>Margins (%)</b>						<b>(bps)</b>	<b>(bps)</b>			
EBIDTA	15.8	14.7	16.3	18.1	22.8	697	464	16.4	18.1	172
EBIT	14.4	12.3	13.8	15.2	20.3	596	516	14.3	15.5	117
EBT	19.3	17.3	22.4	21.9	27.6	825	569	19.9	22.4	251
PAT	13.5	13.4	16.4	17.8	20.4	681	256	15.4	17.1	166
Effective Tax rate	29.9	22.6	26.6	18.6	26.2	(375)	754	22.6	23.8	124

Source: DART, Company

**What to expect next Quarter**

We expect decline in revenues of about 12% QoQ in USD terms and decline in profitability - 680bps QoQ considering the impact of lower revenues.

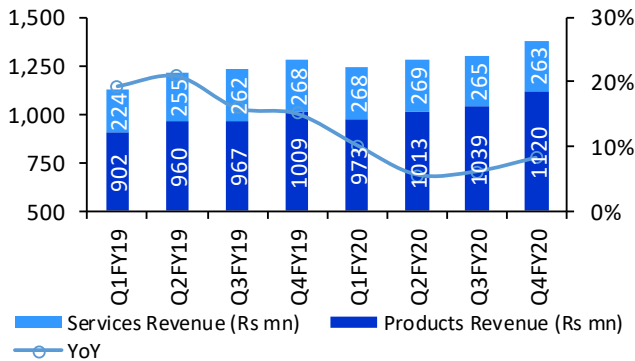
**Exhibit 5: What to expect next Quarter**

(Rs Mn)	Q1FY21E	Q4FY20	Q1FY20	QoQ (%)	YoY (%)
Sales (USD mn)	17.1	19.4	17.8	(11.8)	(4.1)
Sales	1,250	1,382	1,241	(9.6)	0.7
EBIT	166	278	149	(40.3)	11.5
PAT	189	281	166	(32.8)	14.1
EPS (Rs)	6.5	9.7	5.7	(32.8)	14.1
EBIT Margin (%)	13.3	20.1	12.0	(683 bps)	128 bps

Source: DART, Company

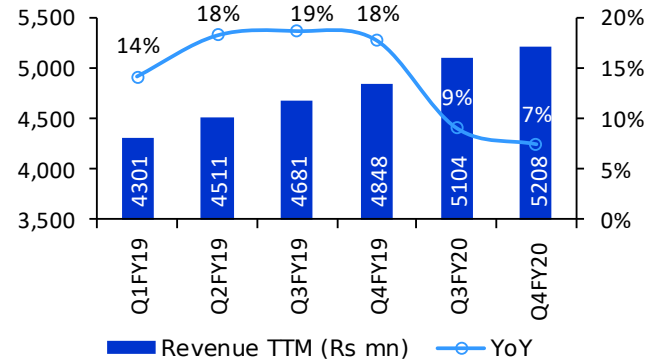
## Charting the story

**Exhibit 6: Growth is driven by Product Revenue**



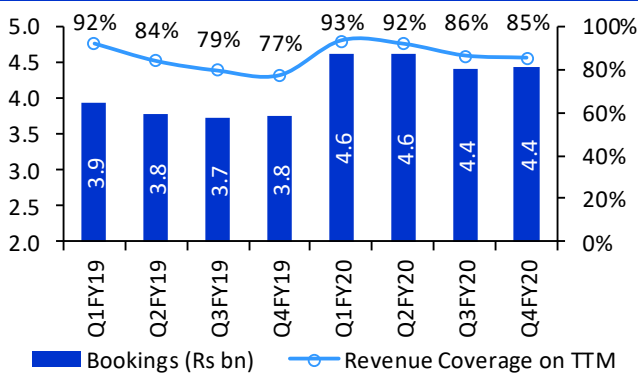
Source: DART, Company

**Exhibit 7: TTM Revenue Growth has slowdown....**



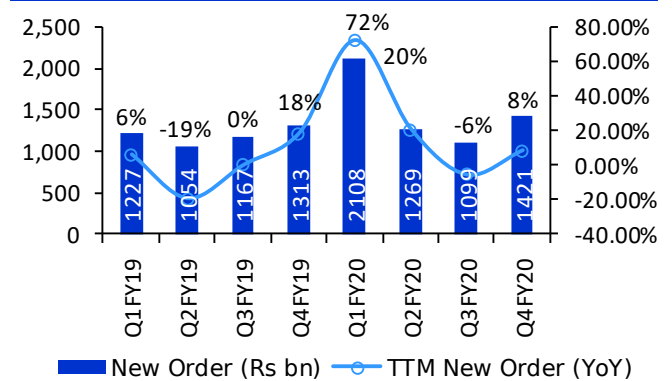
Source: DART, Company

**Exhibit 8: ...as Order Book Coverage has declined**



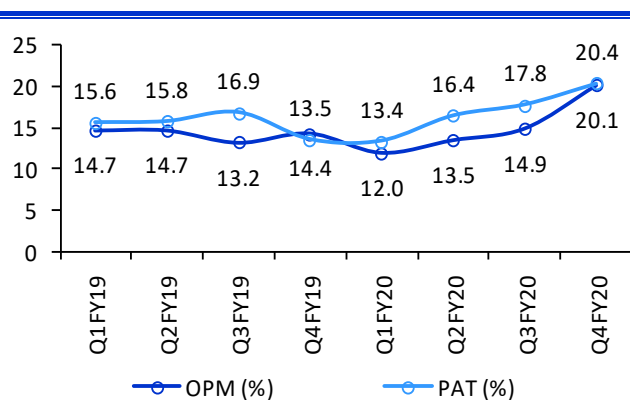
Source: DART, Company

**Exhibit 9: New Order intake has improved**



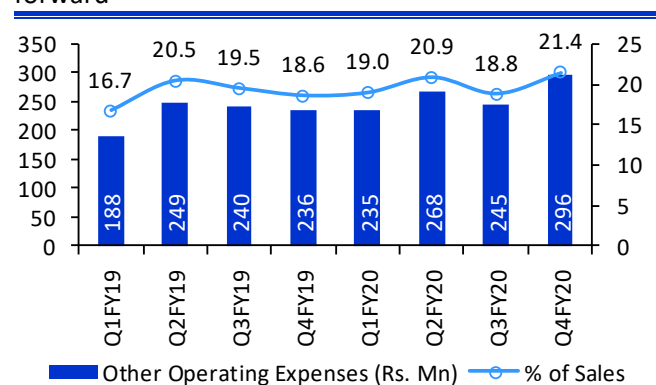
Source: DART, Company

**Exhibit 10: OPM and PAT improving steadily...**



Source: DART, Company

**Exhibit 11: SG&A leverage to control cost going forward**



Source: DART, Company

## Key takeaways from earnings call

- **Geographical commentary:** Revenue traction continued in India and Australia market that reported YoY growth in revenues of about 42%/333% respectively during the quarter. Going forward, it expects better traction in regions wherein the COVID impact is minimal. Australia being one such name at the moment – wherein it has about 35-45 more potential targets (Targeting Tier II/III - Credit Unions and Regional banks).
- **Wins and implementations:** Company added 8 product orders and 4 new logos during the quarter – 22 wins customer additions for the year (32 product modules). Completed 24 product module implementations in Q4 - total 65 for the year.
- **Order book:** Order book stood at Rs 4.44bn – Rs 4bn in product and Rs 0.38bn in Services. Order book implies 18% growth on YoY basis but has a risk of delay in ramp-up in FY21. Although do not see any risk on cancellations so far.
- **Cost cut measures in place:** Company has reversed the provisions towards variable pay in Q4 driving OPM for the quarter. For FY21 it has already effective salary cut for Sr leadership team, no wage hike for the workforce and calibrated cuts in travel/operational costs.
- **Dividend skipped:** After revoking interim dividend, Nucleus skipped annual dividend as well citing the need for conserving cash in current uncertain environment.
- **Additional director:** Mr Parag Bhise has been appointed as Executive director on the board. Mr Bhise has been looking after product engineering for both of the key product lines and has been associated with the company for over three decades.

**Exhibit 12: Operating Metrics**

Operating Metrics	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
<b>USD Revenues</b>	1,110	1,126	1,215	1,229	1,278	1,241	1,282	1,303	1,382
QoQ	4.7	1.4	7.9	1.2	3.9	(2.9)	3.4	1.6	6.1
YoY	18.5	19.4	20.9	16.0	15.1	10.2	5.5	6.0	8.2
<b>LTM Revenues rolling</b>	4,118	4,301	4,511	4,681	4,848	4,963	5,030	5,104	5,208
YoY growth	11	14	18	19	18	15	11	9	7
<b>Orders (USDmn)</b>									
Product Business	3432	3436	3310	3320	3280	4058	4166	4057	4055
Services Business	408	505	470	398	473	562	441	346	387
Total	3840	3941	3780	3718	3753	4620	4607	4403	4442
<b>Orders (YoY)</b>									
Product Business	20.4	13.0	(3.2)	(2.1)	(4.4)	18.1	25.9	22.2	23.6
Services Business	13.3	30.8	51.6	(11.6)	15.9	11.3	(6.2)	(13.1)	(18.2)
Total	19.6	15.0	1.3	-3.2	-2.3	17.2	21.9	18.4	18.4
<b>Revenue segments (USD mn)</b>									
Products	889	902	960	967	1,009	973	1,013	1,039	1,120
<i>Own</i>	880	893	952	961	1,002	965	1,005	1,032	1,117
<i>Trading</i>	9	9	7	6	8	6	8	8	3
SERVICES	221	224	255	262	268	268	269	265	263
<b>Revenue segments (YoY)</b>									
Products	23.4	23.2	21.7	13.8	13.5	7.8	5.5	7.4	10.9
<i>Own</i>	23.9	23.3	21.9	14.1	13.8	8.1	5.5	7.4	11.5
<i>Trading</i>	(12.2)	15.1	(4.5)	(21.6)	(13.7)	(31.1)	5.5	27.2	(63.9)
SERVICES	2.3	6.1	18.2	24.9	21.4	19.6	5.5	1.0	(2.1)
<b>Geography segments (USD mn)</b>									
India	352	368	379	341	402	347	429	459	570
Far east	160	146	160	161	165	143	122	145	126
South east asia	277	276	280	296	277	295	265	248	234
Europe /U.K.	111	114	119	137	134	138	101	75	65
Middle east	150	165	192	214	192	210	186	180	201
Africa	29	27	55	53	81	54	41	36	40
Australia	28	26	24	25	19	37	67	88	81
Rest of the world	4	5	4	2	2	15	72	72	65
<b>Geography segments (YoY)</b>									
India	26.9	37.0	20.8	2.6	14.1	(5.6)	13.2	34.7	41.9
Far east	7.1	(1.2)	3.6	0.7	3.1	(2.1)	(24.1)	(9.6)	(23.2)
South east asia	51.5	33.0	43.5	34.9	0.0	7.0	(5.7)	(16.1)	(15.6)
Europe /U.K.	(5.1)	2.9	17.1	54.6	20.3	20.7	(15.4)	(45.2)	(51.7)
Middle east	10.7	17.1	23.8	22.0	28.2	27.6	(3.4)	(16.2)	4.9
Africa	(6.3)	27.1	152.1	38.5	174.5	104.9	(26.1)	(31.7)	(49.9)
Australia	24.2	(1.6)	(9.4)	(4.1)	(32.5)	44.0	178.1	249.0	333.2
Rest of the world	(80.8)	(77.1)	(89.0)	(88.5)	(45.2)	223.4	1,792.1	3,013.0	2,739.1
<b>Total Employees</b>	1,851	1,971	2,082	2,072	2,054	2,058	2,128	2,125	2,137
Net Addition	4	120	111	(10)	(18)	4	70	(3)	12

Source: DART, Company

**Profit and Loss Account**

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
<b>Revenue</b>	<b>4,840</b>	<b>5,208</b>	<b>5,172</b>	<b>5,699</b>
<b>Total Expense</b>	<b>4,048</b>	<b>4,266</b>	<b>4,302</b>	<b>4,689</b>
COGS	3,135	3,223	3,311	3,625
Employees Cost	0	0	0	0
Other expenses	913	1,044	990	1,064
<b>EBIDTA</b>	<b>792</b>	<b>942</b>	<b>870</b>	<b>1,010</b>
Depreciation	99	135	147	160
<b>EBIT</b>	<b>693</b>	<b>807</b>	<b>723</b>	<b>851</b>
Interest	4	11	0	0
Other Income	275	372	354	379
Exc. / E.O. items	0	0	0	0
<b>EBT</b>	<b>964</b>	<b>1,168</b>	<b>1,077</b>	<b>1,230</b>
Tax	217	278	271	310
RPAT	747	890	806	920
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>747</b>	<b>890</b>	<b>806</b>	<b>920</b>

**Balance Sheet**

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
<b>Sources of Funds</b>				
Equity Capital	290	290	290	290
Minority Interest	0	0	0	0
Reserves & Surplus	4,795	5,318	5,774	6,343
<b>Net Worth</b>	<b>5,086</b>	<b>5,609</b>	<b>6,064</b>	<b>6,634</b>
Total Debt	0	0	0	0
Net Deferred Tax Liability	1	1	1	1
<b>Total Capital Employed</b>	<b>5,086</b>	<b>5,610</b>	<b>6,065</b>	<b>6,635</b>

**Applications of Funds**

Net Block	465	428	381	331
CWIP	0	0	0	0
Investments	0	0	0	0
<b>Current Assets, Loans &amp; Advances</b>	<b>6,388</b>	<b>7,206</b>	<b>7,708</b>	<b>8,363</b>
Inventories	0	0	0	0
Receivables	711	902	992	1,124
Cash and Bank Balances	5,074	5,773	6,163	6,656
Loans and Advances	314	302	306	311
Other Current Assets	289	229	247	272
<b>Less: Current Liabilities &amp; Provisions</b>	<b>1,767</b>	<b>2,024</b>	<b>2,024</b>	<b>2,060</b>
Payables	123	150	127	139
Other Current Liabilities	1,645	1,874	1,897	1,921
<i>sub total</i>				
Net Current Assets	4,621	5,181	5,684	6,303
<b>Total Assets</b>	<b>5,086</b>	<b>5,610</b>	<b>6,065</b>	<b>6,635</b>

E – Estimates



**Important Ratios**

Particulars	FY19A	FY20A	FY21E	FY22E
<b>(A) Margins (%)</b>				
Gross Profit Margin	35.2	38.1	36.0	36.4
EBIDTA Margin	16.4	18.1	16.8	17.7
EBIT Margin	14.3	15.5	14.0	14.9
Tax rate	22.6	23.8	25.2	25.2
Net Profit Margin	15.4	17.1	15.6	16.1
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	64.8	61.9	64.0	63.6
Employee	0.0	0.0	0.0	0.0
Other	18.9	20.0	19.1	18.7
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	177.7	72.0		
Inventory days	0	0	0	0
Debtors days	54	63	70	72
Average Cost of Debt				
Payable days	9	11	9	9
Working Capital days	348	363	401	404
FA T/O	10.4	12.2	13.6	17.2
<b>(D) Measures of Investment</b>				
AEPS (Rs)	25.7	30.6	27.7	31.7
CEPS (Rs)	29.1	35.3	32.8	37.2
DPS (Rs)	9.0	0.0	10.0	10.0
Dividend Payout (%)	35.0	0.0	36.1	31.6
BVPS (Rs)	175.1	193.1	208.8	228.4
RoANW (%)	15.4	16.6	13.8	14.5
RoACE (%)	15.4	16.9	13.8	14.5
RoAIC (%)	1696.7	(1072.9)	(554.0)	(1426.9)
<b>(E) Valuation Ratios</b>				
CMP (Rs)	246	246	246	246
P/E	9.6	8.0	8.9	7.8
Mcap (Rs Mn)	7,154	7,154	7,154	7,154
MCap/ Sales	1.5	1.4	1.4	1.3
EV	2,080	1,381	991	498
EV/Sales	0.4	0.3	0.2	0.1
EV/EBITDA	2.6	1.5	1.1	0.5
P/BV	1.4	1.3	1.2	1.1
Dividend Yield (%)	3.7	0.0	4.1	4.1
<b>(F) Growth Rate (%)</b>				
Revenue	17.5	7.6	(0.7)	10.2
EBITDA	35.1	18.9	(7.6)	16.1
EBIT	34.3	16.4	(10.4)	17.7
PBT	20.7	21.2	(7.8)	14.2
APAT	19.4	19.2	(9.5)	14.2
EPS	19.4	19.2	(9.5)	14.2
<b>Cash Flow</b>				
(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	561	747	486	574
CFI	(284)	(291)	(220)	(260)
CFF	(255)	(334)	4	29
FCFF	477	624	386	464
Opening Cash	423	445	568	838
Closing Cash	445	568	838	1,181

E – Estimates

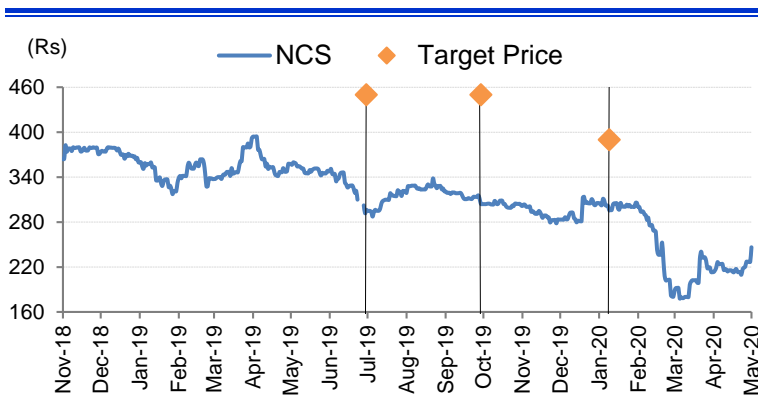


### DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jul-19	Buy	450	296
Oct-19	Buy	450	304
Feb-20	Buy	390	296

\*Price as on recommendation date

### DART Team

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