

### Results beats, commentary improves; too early to call it New Normal

- Nucleus revenues stood at Rs 1.28bn down 7% QoQ in line with our estimates. Performance was far better than the caution it shared in Q4 commentary. Order book in Product segment stood at Rs 4.04bn, (flat QoQ, as well as YoY basis).
- Profitability surprised significantly as it improved 600bps QoQ at 26% (best ever) versus our estimate at 15%. PAT beat was extended (reported Rs363mn, vs DE Rs210mn) led by 30% QoQ jump in Other Income and lower ETR of 21.8% (FY20: 23.8%).
- Management commentary improved materially as it witnessed better bookings and have healthy pipeline across product offering. However, management refrained to call it as New Normal and expect a potential risk of trend reversing again.
- However, we are enthused by sustained demand momentum and tighter cost management which has helped in revival our estimates largely back to pre-Covid levels. We maintain Buy rating on the stock with TP of Rs450 (implies 11x on FY22e earnings).

### Demand strong in few markets; others may invest for survival

Traction in few countries is visible as their economies have started opening up while remaining countries are in lockdown, overall giving a mix signals on future growth. (Few markets were unaffected such as Australia and isolated countries in SE Asia that were barely impacted by COVID). Company's customers are restructuring their business by analyzing their priorities and investment decision. Banks are getting incremental pressure to invest in Digitisation as they need to create new banking channels – It has introduced several self-servicing elements to its products (Whatsapp features, email-based-approvals ETC).

### Order bookings stable; Go live has come down

Order booking in Product segment stood at Rs 4.04bn, (flat QoQ,) as it added 4 new client logos (6 modules) during the quarter while 8 module implementation went live during the quarter (much lower against 24 Go-Lives in Q4). Clients are slowly adopting to remote delivery as well as Sales channel.

### Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	1,284	1,241	3.5	1,382	(7.1)
Total Expense	910	1,058	(14.0)	1,067	(14.7)
EBITDA	373	182	104.9	315	18.6
Depreciation	36	30	19.2	34	5.6
EBIT	337	152	122.0	281	20.2
Other Income	130	65	98.9	103	25.9
Interest	3	3	(10.3)	3	0.0
EBT	464	214	116.8	381	21.8
Tax	101	49	108.2	100	1.3
RPAT	363	166	119.3	281	29.1
APAT	363	166	119.3	281	29.1
			(bps)		(bps)
Gross Margin (%)	40.9	33.6	724	44.2	(330)
EBITDA Margin (%)	29.1	14.7	1440	22.8	631
NPM (%)	28.3	13.4	1495	20.4	795
Tax Rate (%)	21.8	22.6	(89)	26.2	(441)
EBIT Margin (%)	26.3	12.3	1403	20.3	597

CMP	Rs 406
Target / Upside	Rs 450 / 11%
BSE Sensex	38,206
NSE Nifty	11,270

### Scrip Details

Equity / FV	Rs 290mn / Rs 10
Market Cap	Rs 12bn
	US\$ 157mn
52-week High/Low	Rs 406/Rs 156
Avg. Volume (no)	171,556
NSE Symbol	NUCLEUS
Bloomberg Code	NCS IN

### Shareholding Pattern Jun'20(%)

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

### Valuation (x)

	FY20A	FY21E	FY22E
P/E	13.3	9.5	10.0
EV/EBITDA	6.4	4.1	3.6
ROE (%)	16.6	20.4	17.1
RoACE (%)	16.9	20.6	17.2

### Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	5,208	5,484	6,198
EBITDA	942	1,281	1,256
PAT	890	1,236	1,182
EPS (Rs.)	30.6	42.6	40.7

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**Exhibit 1: Quarterly performance versus estimates**

(in ` mn)	Estimates		% Variation		Comment
	Actual	Dolat	Consensus	Dolat	
Revenues (in US\$ mn)	17.3	17.3	18.5	0.3	(6.3)
Sales	1,284	1,280	1342	0.3	(4.4)
EBIT	337	195	203	73.4	66.2
EBIT Margin (%)	26.3	15.2	15.0	1,110 bps	1,130 bps
PAT	363	210	213	72.8	NA

Source: Company, DART

**Changes in estimates:** Factoring in for improved commentary (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 4%/7% respectively for FY21/22E. Also robust Q1 OPM performance, acceptance for remote delivery/sales along with better cost discipline expectations has led to significant jump in our profitability estimates – about 600bps/260bps in FY21/22E respectively.

**Exhibit 2: Change in estimates**

(Rs mn)	FY20	FY21E			FY22E		
	Actual	Old	New	% change	Old	New	% Change
Revenues (US\$ mn)	73.9	70.8	73.7	4.1	77.0	82.6	7.3
YoY growth (%)	7.6	(0.7)	5.3		10.8	12.1	
Revenues	5,208	5,172	5,484	6.0	5,699	6,198	8.8
YoY growth (%)	5.6	(0.7)	5.3		10.2	13.0	
EBIT (Adj-Hedging)	796	723	1,119	54.8	851	1,085	27.5
EBIT Margin (%)	15.3	14.0	20.4		14.9	17.5	
Net profits	890	806	1,236	53.5	920	1,184	28.7
EPS (Rs)	30.6	27.7	42.6	53.5	31.7	40.8	28.7

Source: Company, DART

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

Metrics	FY21E	FY22E	FY23E
Growth in INR revenues (%)	5.3	13.0	14.2
Growth in Product business (%)	9.7	13.1	15.0
Growth in Services business (%)	(12.0)	12.5	10.1
EBIT Margin %	20.4	17.5	18.4
EPS Growth (%)	38.9	(4.2)	29.6

Source: Company, DART

**Exhibit 4: Quarterly and Full Year Performance Trends**

(Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ (%)	YTD FY20	YTD FY21	YoY (%)
Revenues (in US\$ mn)	18	18	18	19	17	(2.8)	(10.6)	18	17	(2.8)
Revenue (inc. Fx gain)	1,241	1,282	1,303	1,382	1,284	3.5	(7.1)	1,241	1,284	3.5
Operating Expenditure	1,058	1,074	1,067	1,067	910	(14.0)	(14.7)	1,058	910	(14.0)
Cost of revenues	823	806	822	772	759	(7.8)	(1.7)	823	759	(7.8)
as % of sales	66	63	63	56	59			66	59	
SG&A expenses	235	268	245	296	151	(35.6)	(48.9)	235	151	(35.6)
as % of sales	19	21	19	21	12			19	12	
EBITDA	182	209	236	315	373	104.9	18.6	182	373	104.9
Depreciation	30	32	39	34	36			30	36	
EBIT	152	177	198	281	337	122.0	20.2	152	337	122.0
Other Income	62	111	88	100	127			62	127	
PBT	214	288	285	381	464	116.8	21.8	214	464	116.8
Total Tax	49	77	53	100	101			49	101	
Reported PAT	166	211	232	281	363	119.3	29.1	166	363	119.3
Reported EPS	166	211	232	281	363	119.3	29.1	166	363	119.3
<b>Margins (%)</b>										
EBIDTA	14.7	16.3	18.1	22.8	29.1	1,440	631			
EBIT	12.3	13.8	15.2	20.3	26.3	1,403	597			
EBT	17.3	22.4	21.9	27.6	36.2	1,891	860			
PAT	13.4	16.4	17.8	20.4	28.3	1,495	795			
Effective Tax rate	22.6	26.6	18.6	26.2	21.8	(89)	(441)			

Source: Company, DART

**What to expect in Q2FY21**

We expect improved growth performance in Q2 with 4.7% growth in revenues. However, we expect the cost savings both on people front as well as on SG&A would start normalizing Q2 onwards and as a result may see about 400bps decline in EBIT margins to 22%.

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

(` Mn)	Q2FY21E	Q1FY20	Q2FY20	QoQ (%)	YoY (%)
Sales (US\$ mn)	18.0	17.3	18.3	4.0	(1.5)
Sales	1,343	1,284	1,282	4.7	4.8
EBIT	296	335	174	(11.6)	70.4
PAT	318	363	211	(12.6)	50.6
EPS (Rs)	10.9	12.5	7.3	(12.6)	50.6
EBIT Margin (%)	22.0	26.1	13.5	(406bps)	848bps

Source: Company, DART

## Concall Key Takeaways

### Four point actions initiated to tackle COVID impact:

- **Business continuity and timely action** while transitioning WFH helped company to cap down the risk of customer getting impacted.
- **Maintaining of Product and service support** to the client including special service packs were executed as scheduled earlier
- **Controlling the expenses:** It was done even by cutting down necessary and critical expenses.
- **Aligning practices and the product to the new normal** as there was higher demand for digitization from financial institutions (need for addition of new self-servicing channels such as Whatsapp; Email based approvals to product offerings were done during the quarter).

### Key trends observed in the market place

- **Pipeline** remains strong with no new orders this quarter. Demand is there, but how it would shape is difficult to gauge. Clients are getting more aggressive on **digital spends to reduce cost**, and keep up with the competition.
- **Geographical basis the revenues** in Australia grew 31% QoQ at Rs106mn (probably given lower impact from Pandemic in that market and deep integration), and in South East Asia by 15% QoQ at Rs270mn (some markets reopened in this quarter). Revenues in many regions were stable (Eu, ME, RoW) while it declined by 30%/25% in Far East and Africa.
- **Non-affected markets:** Australia doing well and so are some of the other isolated countries in SEA that got less impacted by COVID.
- Country specific things are better but not sure if this is trends or just that they luckily got all the aggressive spenders as new logos. But is definite that **clients may see some challenge in solvency/liquidity side** in coming quarters especially for smaller NBFCs and thus remain cautious in general.
- **Too early to call it a trend:** Against their own expectations they rate Q1 performance as decent and expect Q2 to be okay, but still see it difficult to conclude on overall basis.
- **Products/Services revenue mix:** Product (83.4% of rev) grew 10.1% which constitute Own Products which grew 10.6% and Trading Products degrew 58.6%. Project and professional segmental Revenue (16.6% of Rev) degrew 20.5%.
- **Order book** stands at Rs4504 mn including Rs4044mn of Product business and INR 460mn of Project and Services. LQ it was Rs 4442 mn overall including Rs4055mn of product business and Rs387mn in Services.
- Nucleus appointed **Ms Ritika Dusat** as Executive Director of the company w.e.f. Aug 07, 2020. She was earlier Non-Executive Director of the company.

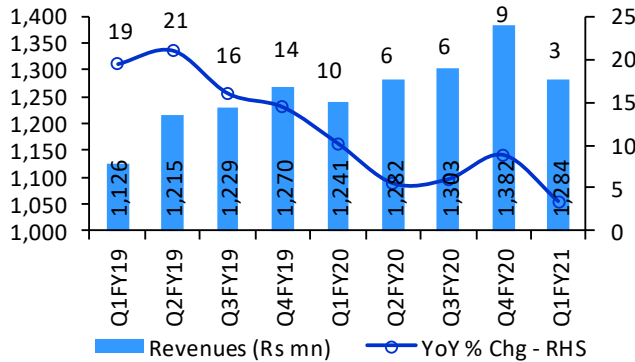
### Financial takeaways

- **Revenues** for the quarter declined 7% QoQ (up 3.5% YoY) at Rs1.28bn. Traction in Own Product continued as it grew 10.6% YoY basis. Revenue contribution from top 5 clients stood at 29% (same as previous quarter).
- **Cost of delivery including cost of product development** was (62.6% of Rev) at INR 804mn vs 60.9% of rev QoQ at INR 842mn LQ

- **Marketing and Sales expenses** stood at (1.6% of Rev) that is 7.2cr vs 5.2% of Rev LQ the lower marketing cost was on account of temporary cut down in Travel cost.
- **General and Administration** stood at 6.9% of Rev at INR 89mn vs 11.3% of Rev at INR 156mn QoQ due to cut down on senior level incentives and variables
- **EBITDA** is at INR 373mn vs INR 315mn LQ it improved on account of cutting down on critical and necessary expenses and Travel cost coming down due to current situation. The other expense came down significantly at 11.8% of sales vs 21.4% LQ improving EBITDA further. EBITDA Margin stood at 29.1% vs 22.8% but this improvement is one time and not sustainable.
- **Other income** from investments and deposit was INR 107mn vs INR 87mn.
- **Cash and equivalents stood at Rs 6.1bn** (LQ Rs5.7bn) breakup of the same is as follows:
  - Balance in current account of INR 343mn
  - Various schemes of mutual fund INR 2491 mn
  - Fixed deposits stood at INR 105 mn
  - Investments in FMPs stood at INR 1014 mn
  - Preference shares investments stood at INR 424 mn
  - NBFC investments stands at INR 181 mn.
- **OPM** improved 600bps QoQ to 26.3% as it saved dramatically on various cost items within other expenses (Travel, Legal, Marketing, Lower provisioning for DD etc). Looking forward to revive some of these spends in Q2 especially in Marketing wherein it is looking for newer ways to spend, digitally.
- **PAT** for the quarter stood at Rs363mn the increase in profit was led by robust operating performance and 30% QoQ jump in Other Income at Rs130mn and lower ETR of 21.8% (LQ: 26.2%).

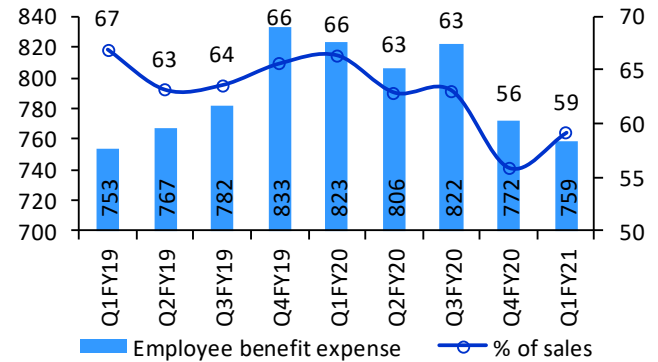
## Story in Charts

**Exhibit 6:** Revenues (Rs mn) decreased 3% YoY in Q1FY21



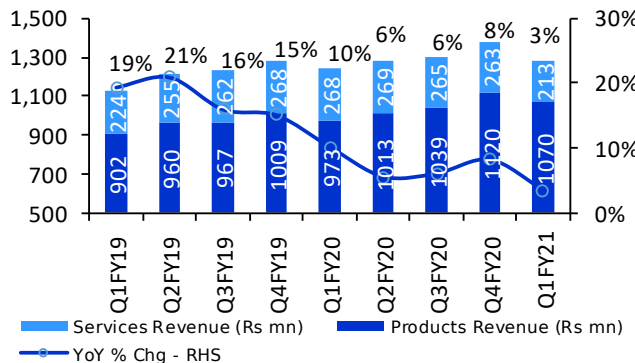
Source: Company, DART

**Exhibit 7:** Employee benefit Exp optimized further on cut in variables; no hire/hike/confirmations.



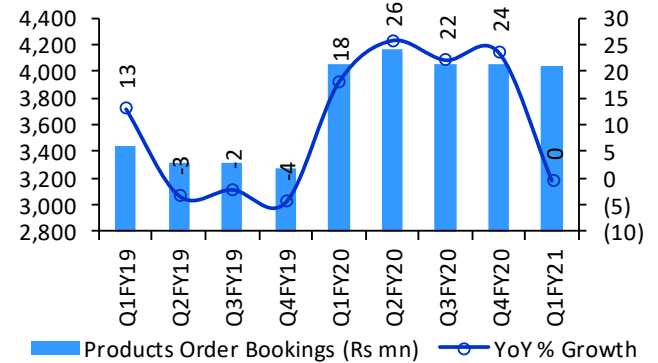
Source: Company, DART

**Exhibit 8:** Services revenues slipped, probably on slower client approval and supply-side challenges



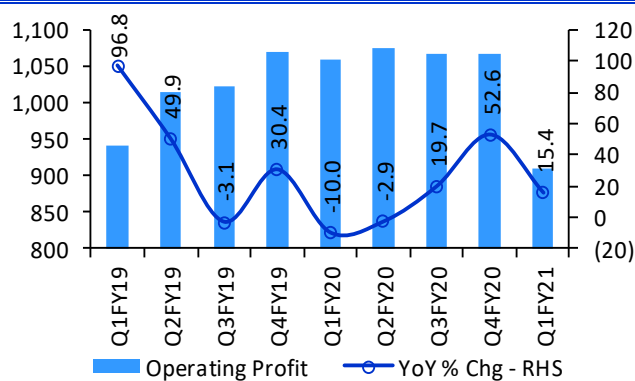
Source: Company, DART

**Exhibit 9:** Product order bookings remained flat QoQ at Rs4bn



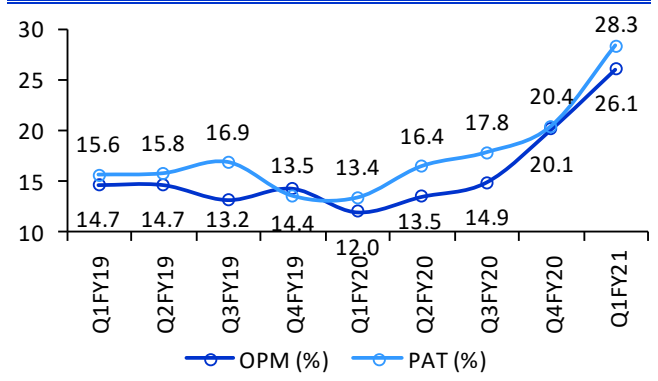
Source: Company, DART

**Exhibit 10:** Operating Profit grew 15% YoY in Q1FY21



Source: Company, DART

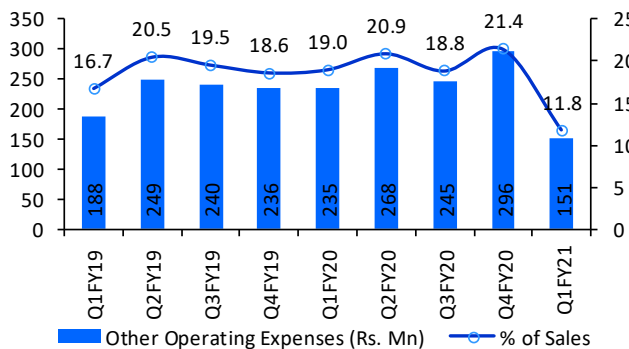
**Exhibit 11:** Other Income drives PAT margins inline with OPM



Source: Company, DART

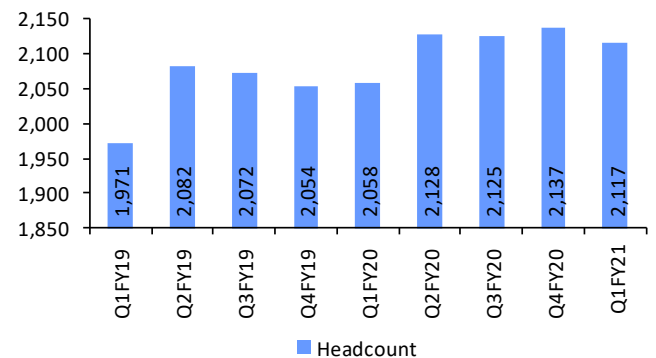


**Exhibit 12:** Other Operating Exp optimized significantly to mere 11.8% during Q1FY21



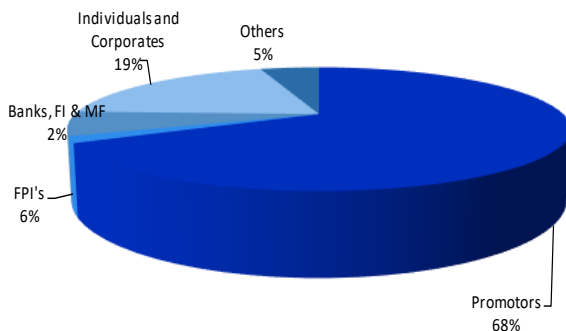
Source: Company, DART

**Exhibit 13:** Headcount decreased by 20 Employees in Q1FY21



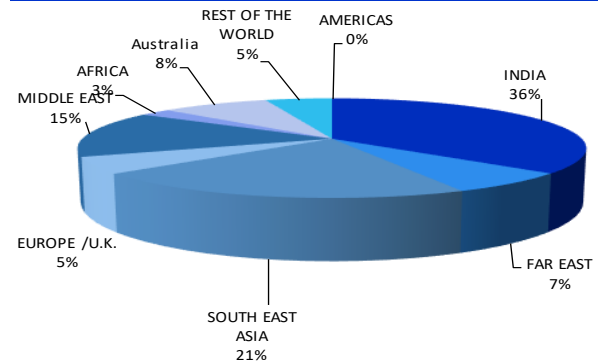
Source: Company, DART

**Exhibit 14:** Shareholding Pattern in Q1FY21



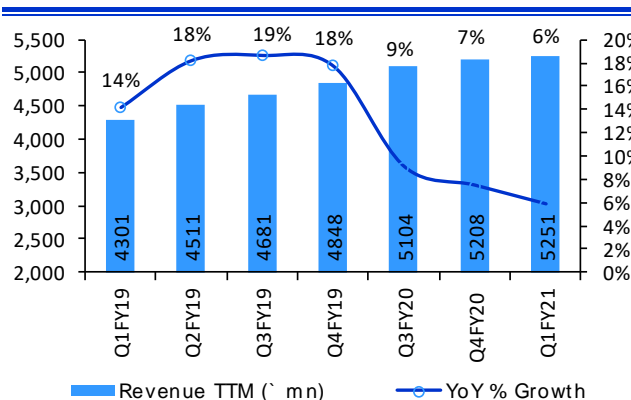
Source: Company, DART

**Exhibit 15:** Geographic Revenue Mix



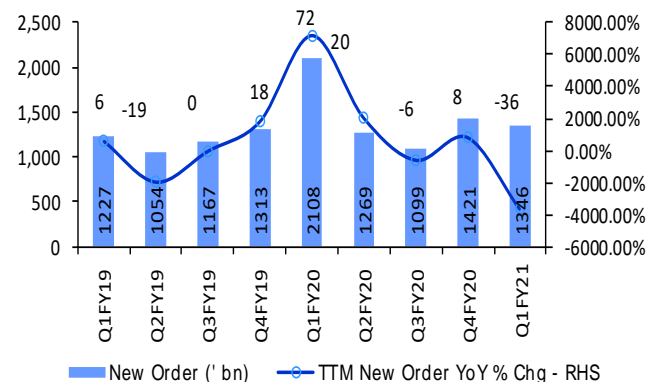
Source: Company, DART

**Exhibit 16:** TTM Revenue grew 6% YoY in Q1FY21



Source: Company, DART

**Exhibit 17:** New Order intake was down 36% YoY in Q1FY21



Source: Company, DART

### Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
<b>Revenue</b>	<b>4,840</b>	<b>5,208</b>	<b>5,484</b>	<b>6,198</b>
<b>Total Expense</b>	<b>4,048</b>	<b>4,266</b>	<b>4,203</b>	<b>4,943</b>
COGS	3,135	3,223	3,336	3,827
Employees Cost	0	0	0	0
Other expenses	913	1,044	867	1,116
<b>EBIDTA</b>	<b>792</b>	<b>942</b>	<b>1,281</b>	<b>1,256</b>
Depreciation	99	135	152	162
<b>EBIT</b>	<b>693</b>	<b>807</b>	<b>1,128</b>	<b>1,094</b>
Interest	4	11	10	9
Other Income	275	372	489	471
Exc. / E.O. items	0	0	0	0
<b>EBT</b>	<b>964</b>	<b>1,168</b>	<b>1,608</b>	<b>1,555</b>
Tax	217	278	371	374
RPAT	747	890	1,236	1,182
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>1,236</b>	<b>1,182</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	6,204	7,038
<b>Net Worth</b>	<b>5,086</b>	<b>5,609</b>	<b>6,495</b>	<b>7,328</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>6,496</b>	<b>7,329</b>

### Applications of Funds

Net Block	465	428	396	354
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>8,167</b>	<b>9,093</b>
Inventories	0	0	0	0
Receivables	711	902	1,052	1,223
Cash and Bank Balances	5,074	5,773	6,562	7,305
Loans and Advances	314	302	306	306
Other Current Assets	289	229	247	260
<b>Less: Current Liabilities &amp; Provisions</b>	<b>1,767</b>	<b>2,024</b>	<b>2,067</b>	<b>2,118</b>
Payables	123	150	155	168
Other Current Liabilities	1,645	1,874	1,912	1,951
<i>sub total</i>				
Net Current Assets	4,621	5,181	6,100	6,975
<b>Total Assets</b>	<b>5,086</b>	<b>5,610</b>	<b>6,496</b>	<b>7,329</b>

E – Estimates



### Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
<b>(A) Margins (%)</b>				
Gross Profit Margin	35.2	38.1	39.2	38.3
EBIDTA Margin	16.4	18.1	23.4	20.3
EBIT Margin	14.2	15.3	20.4	17.5
Tax rate	22.6	23.8	23.1	24.0
Net Profit Margin	15.4	17.1	22.5	19.1
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	64.8	61.9	60.8	61.7
Employee	0.0	0.0	0.0	0.0
Other	18.9	20.0	15.8	18.0
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	177.7	72.0	118.8	120.2
Inventory days	0	0	0	0
Debtors days	54	63	70	72
Average Cost of Debt	0	0	0	0
Payable days	9	11	10	10
Working Capital days	348	363	406	411
FA T/O	10.4	12.2	13.8	17.5
<b>(D) Measures of Investment</b>				
AEPS (Rs)	25.7	30.6	42.6	40.7
CEPS (Rs)	29.1	35.3	47.8	46.3
DPS (Rs)	9.0	0.0	10.0	10.0
Dividend Payout (%)	35.0	0.0	23.5	24.6
BVPS (Rs)	175.1	193.1	223.7	252.4
RoANW (%)	15.4	16.6	20.4	17.1
RoACE (%)	15.4	16.9	20.6	17.2
<b>(E) Valuation Ratios</b>				
CMP (Rs)	406	406	406	406
P/E	15.8	13.3	9.5	10.0
Mcap (Rs Mn)	11,799	11,799	11,799	11,799
MCap/ Sales	2.4	2.3	2.2	1.9
EV	6,725	6,026	5,237	4,494
EV/Sales	1.4	1.2	1.0	0.7
EV/EBITDA	8.5	6.4	4.1	3.6
P/BV	2.3	2.1	1.8	1.6
Dividend Yield (%)	2.2	0.0	2.5	2.5
<b>(F) Growth Rate (%)</b>				
Revenue	17.5	7.6	5.3	13.0
EBITDA	35.1	18.9	35.9	(2.0)
EBIT	34.3	16.4	39.9	(3.1)
PBT	20.7	21.2	37.6	(3.2)
APAT	19.4	19.2	38.9	(4.4)
EPS	19.4	19.2	38.9	(4.4)

### Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	561	747	771	742
CFI	(284)	(291)	(370)	(320)
CFF	(255)	(334)	138	121
FCFF	477	624	651	622
Opening Cash	423	445	568	1,107
Closing Cash	445	568	1,107	1,650

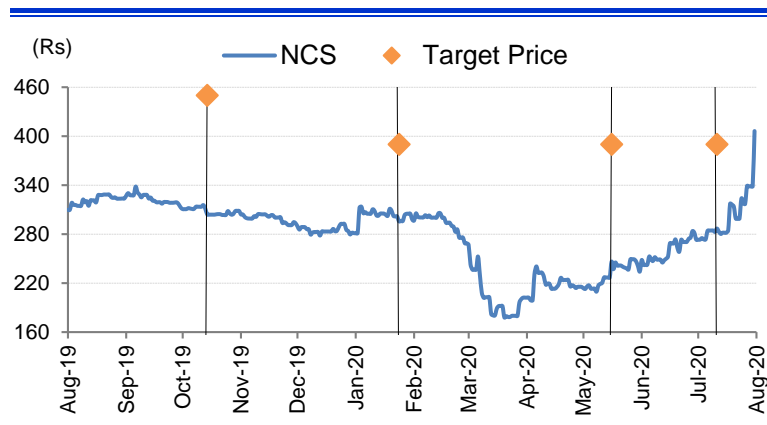
E – Estimates

## 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.)
Oct-19	Buy	450	304
Feb-20	Buy	390	296
May-20	Buy	390	246
Jul-20	Buy	390	287

\*Price as on recommendation date

## DART Team

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