

Company Report

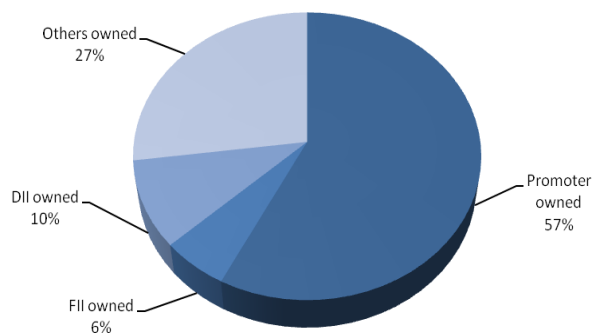
Nucleus software Exports Ltd.

5th February, 2014**BUY****CMP** **Rs.170.85****Target Price** **Rs.230.00**

BSE Code	531209
NSE Code	NUCLEUS
Market Cap (Rs Cr.)	553.55
52 Week High/Low	200.90/65.25
Industry	IT
Face Value	Rs.10.00
Shares O/S	3.24 Cr.

EPS	17.28
Book Value	122.12
P/E	9.89
P/B	1.40

Shareholding Pattern



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- Nucleus Software Exports Ltd. is a leading global banking software powerhouse providing innovative and pioneering products, services & solutions since 1989.
- The company has registered robust results for the quarter ending December 2013. Total income from operation has increased by 20.54% at Rs 89.96 crore for quarter under review as compared to Rs 74.63 crore for the quarter ended December 31, 2012. The increasing penetration in new markets has given a positive momentum. Operating profit climbed sharply by ~55% at about Rs.19.59 crores as against Rs.12.63 crores in the previous year quarter. Cost of delivery including cost of product development is 59.6% of revenue as against 63.4% of revenue in the previous quarter. The company has reported 89.68% rise in its net profit at Rs 23.39 crore for the quarter as compared to Rs 12.33 crore for the same quarter in the previous year.
- Revenue from product business for the quarter is at Rs. 61.41 crore against Rs. 49.67 crore, a rise of 23.63% y-o-y. Product revenue from own business, for the quarter is at Rs. 58.77 crore against Rs. 48.28 crore, a jump of 21.73% y-o-y. Projects and services business revenue for the quarter is at Rs. 28.55 crore against Rs. 24.96 crore, moved up by 14.39%.
- Revenue contribution from the top 5 clients for the quarter stood at 40%; similar to the preceding quarter. The geographies Africa, India and Middle East posted good growth for the quarter ended December 2013. Japan remained more or less the same.

Valuation

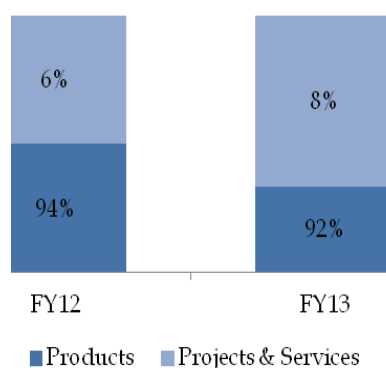
With new product launches and increasing penetration in new geographies, strong market share with good customer relationships and improving productivity; Nucleus Software Exports Ltd. growth looks promising. We believe the company is trading at an attractive valuation at 9.71x and 8.21x of FY14EPS of Rs.17.60 and FY15EPS of Rs.20.82. We initiate a 'BUY' on the stock with a target price of Rs.230 (appreciation of about 35%) with the medium to long term investment horizon.

Business Details

Nucleus Software is a leading software powerhouse providing innovative and pioneering software solutions for Banks and Financial organizations globally. Nucleus Software offers a host of competitive IT solutions and consultancy services designed to support the whole spectrum of business offerings across retail banking, corporate banking, cards and cash management. With over 150 customers across the globe, the company is consistently innovating with cutting edge and industry driven products in the domain.

FinnOne™, the flagship product of Nucleus Software, is a powerhouse of seamlessly integrated applications, designed to provide operational support, risk management and decision-making support to banks and financial services companies. FinnOne™ focuses on both, retail and corporate loans, thereby emerging as a comprehensive solution to back any line of the lending business. It is a comprehensive suite for Retail Banking applications comprising of modules like Customer Acquisition System, Loan Management, Delinquency and Recovery Management, Deposits and Finance against Securities. Cash@Will™ and BankONet™ are the offerings from Nucleus Software in the area of Cash Management and Internet Banking respectively.

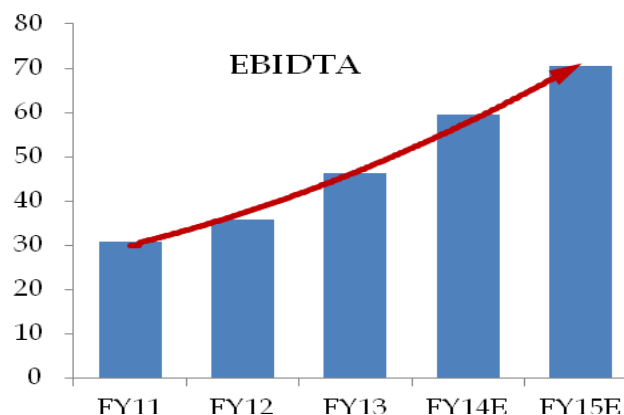
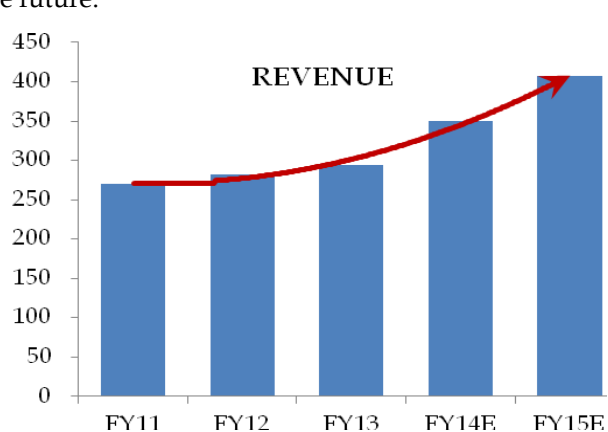
Revenue from Business Segments



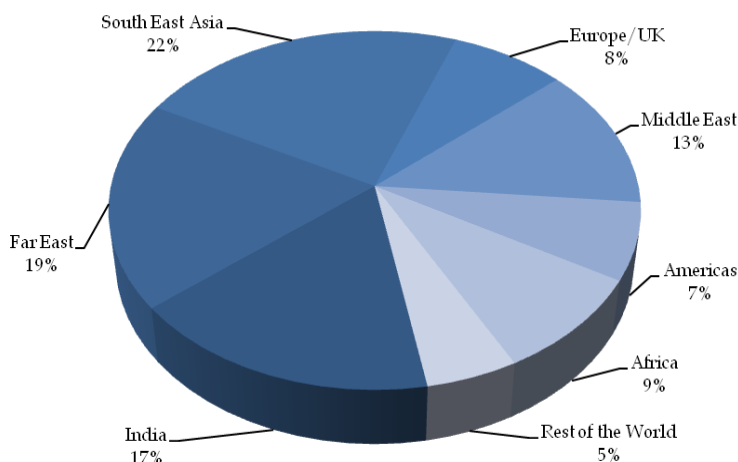
In addition, Nucleus Software offers comprehensive Transaction Banking solution covering Global Receivables, Global Payment & Liquidity Management and e-Financial supply chain management offers flexible, speedy & efficient execution of cash management processes. Nucleus Software also offers solutions to customers in the areas of Managed Infrastructure services and Application Development & Maintenance. The company has been able to create a global footprint of Customers and partners across multiple continents with multi-product, multiservice, multi-currency and multi-lingual implementations, leading to worldwide acceptability and customer satisfaction. Nucleus operates through integrated and well-networked subsidiaries in India, Japan, Netherlands, Singapore and USA.

Strong product base

The order book position is Rs.233 crores including Rs.156.75 crores of products business and Rs.76.50 crores of projects and services business as on 31st December 2013. The company won 8 new product orders worldwide in third quarter ended FY2014. 31 new product modules implementations went live across geographies. The new integrated transaction-banking product has gone live at one of the customers in the quarter December 2013. Two more are expected to go live in the coming quarter. The new product covers the entire spectrum of transaction banking, i.e. Payments, Receivable Collections including EIPP which is Invoice Presentment and Payments, Liquidity Management and Financial Supply Chain Management. There is also good progress on the new FinnOne™ version that the company has been working on. The company continues to do well in the markets where they hold strong market share and plans to increase its presence in the markets where they have one or two implementations only. A larger contribution to revenues comes from FinnOne™ as of now but in the coming quarters transaction banking percentage is expected to go up. Nucleus plans to launch new products going ahead which will add to the revenues the future.

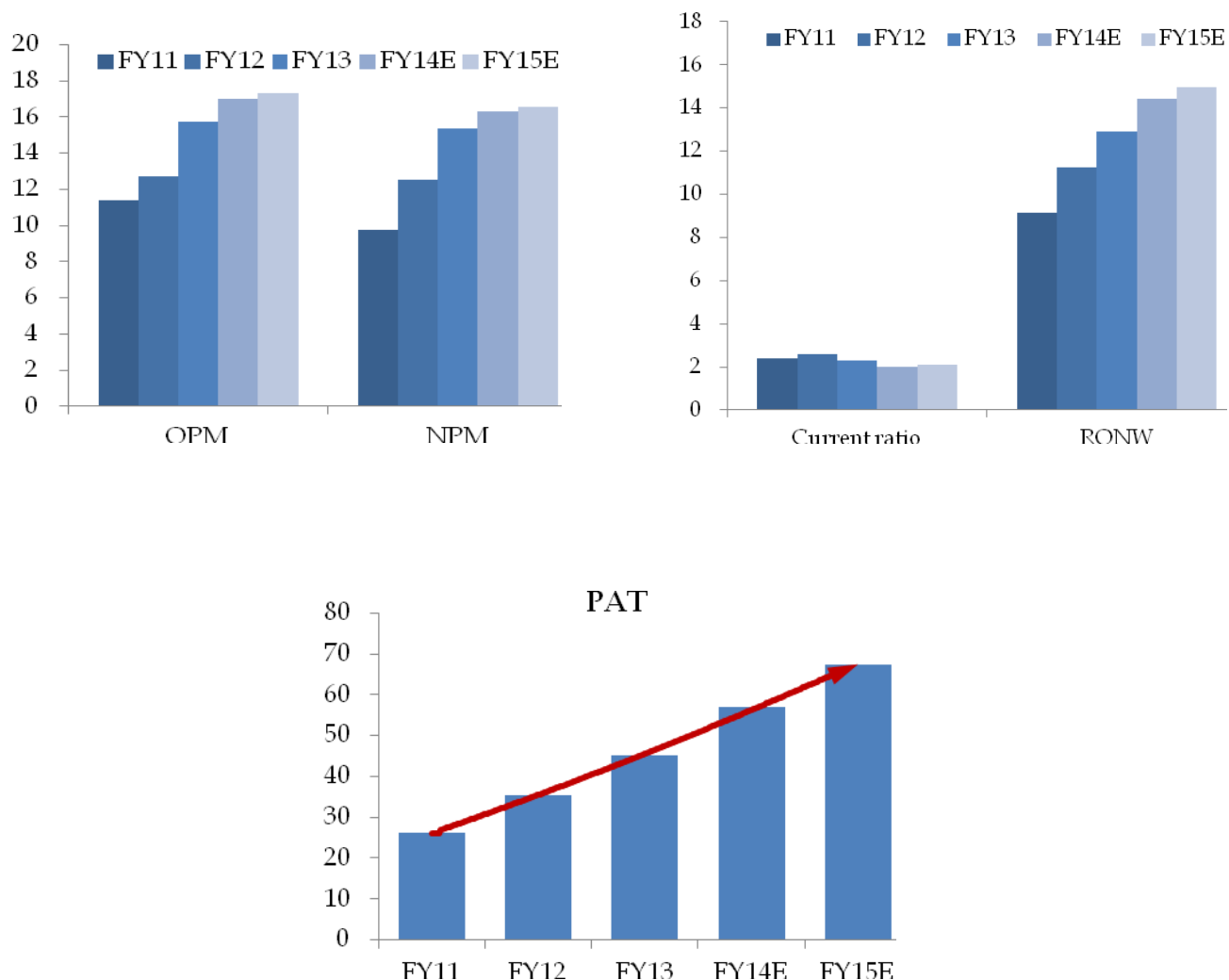


Revenues from various geographies Q3FY13



Broad base growth ahead

The Company continues to remain optimistic about FY15 with the focus to increase its current business. The company has good traction from its products across geographies. Product business is expected to perform better as the company's R&D cost on it has been high which is expected to result in higher revenues and better margins going ahead. The product business has been running at about Rs.50 crores run rate which is expected to accelerate to Rs. 60 crores run rate going ahead. It has added 3 new customers in the third quarter of FY2014 taking to the count of over 150 customers across the globe. It is focusing on emerging markets which is expected to remain positive and a firm growth is expected from developed markets. The company is focusing on prospective and existing customers for upgrade. The company is planning to increase its momentum with marketing programmes across various digital channels for greater brand visibility and presence. The company plans to maintain and improve the margins. A reasonable tax rate of 25% to 28% is expected in the coming years.



Consolidated Profit & Loss Account

Rs. Crore

Particulars	FY11	FY12	FY13	FY14E	FY15E
Net sales	270.48	282.25	293.76	349.57	407.25
Growth		4.35%	4.08%	19.00%	16.50%
Expenditure	239.69	246.38	247.42	290.15	336.80
EBITDA	30.79	35.87	46.34	59.43	70.45
Growth		16.50%	29.19%	28.24%	18.55%
EBITDA margin	11.38%	12.71%	15.77%	17.00%	17.30%
Other income	8.66	20.21	20.25	24.47	28.51
Depreciation & Amortisation	9.28	7.45	6.09	7.36	8.41
EBIT	30.17	48.63	60.50	76.54	90.55
EBIT margin	11.15%	17.23%	20.60%	21.89%	22.24%
Interest	0.31	0.33	0.44	0.55	0.66
PBT	29.86	48.30	60.06	75.99	89.89
Tax	3.53	12.96	14.89	19.00	22.47
PAT	26.33	35.34	45.17	56.99	67.42
Minority interest	0.00	0.00	0.00	0.00	0.00
Share of profits in Associates	0.00	0.00	0.00	0.00	0.00
Adjusted PAT	26.33	35.34	45.17	56.99	67.42
Growth		34.22	27.82	26.16	18.30
Net Profit margins	9.73	12.52	15.38	16.30	16.56
Exceptional item	0.00	0.00	0.00	0.00	0.00
Reported PAT	26.33	35.34	45.17	56.99	67.42
Equity Capital	32.38	32.38	32.39	32.39	32.39
Equity Shares	3.24	3.24	3.24	3.24	3.24
Adjusted EPS	8.13	10.91	13.95	17.60	20.82

Ratios

Particulars	FY11	FY12	FY13	FY14E	FY15E
Return on Equity	9.14	11.25	12.91	14.40	14.98
Debt/Equity	0.00	0.00	0.00	0.00	0.00
Asset turnover	0.74	0.69	0.64	0.67	0.69
Current Ratio	2.41	2.60	2.27	2.00	2.10
Book value per share	88.99	97.00	108.07	122.17	138.99

Balance Sheet

Rs. Crore

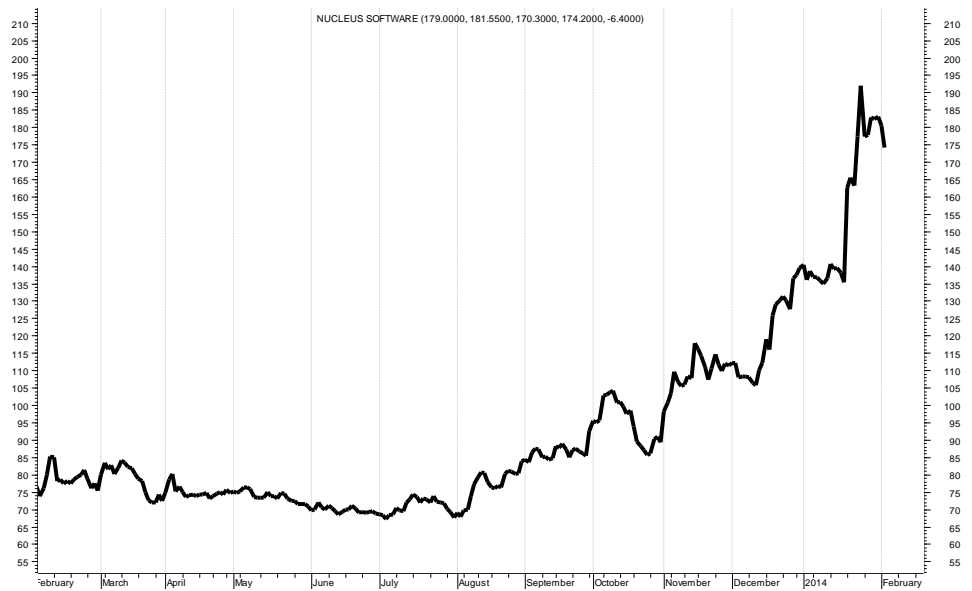
Particulars	FY11	FY12	FY13	FY14E	FY15E
Share Capital	32.38	32.38	32.39	32.39	32.39
Reserves & Surplus	255.79	281.76	317.60	363.26	417.73
Shareholders funds	288.17	314.14	349.99	395.65	450.12
Borrowings	0.00	0.00	0.00	0.00	0.00
Deferred tax liability	0.06	0.00	0.00	0.00	0.00
Minority Interest	0.00	0.00	0.00	0.00	0.00
Sources of funds	288.23	314.14	349.99	395.65	450.12
Gross block	110.32	119.22	123.53	145.66	168.29
Accumulated Depreciation	63.25	70.31	72.83	80.19	88.60
Net block	47.08	48.91	50.69	65.47	79.69
Capital work in progress	2.53	0.00	0.00	1.14	1.00
Investments	126.02	104.38	154.99	195.18	207.00
Deferred tax assets	5.42	5.66	6.08	6.41	6.41
Goodwill on consolidation	0.00	0.00	0.00	0.00	0.00
Inventories	0.00	0.00	4.95	0.00	0.00
Sundry debtors	46.90	87.83	69.80	71.37	83.40
Cash and bank balance	61.75	92.03	111.99	114.71	134.04
Other current assets	37.27	40.96	29.34	28.04	32.77
Loans and advances	37.53	31.30	31.13	40.78	47.66
Total current assets	183.45	252.11	247.20	254.91	297.87
Current liabilities and provisions	76.26	96.92	108.97	127.45	141.84
Net current assets	107.19	155.19	138.23	127.45	156.03
Misc exp	0.00	0.00	0.00	0.00	0.00
Uses of funds	288.23	314.14	349.99	395.65	450.12

Quarterly Financial Highlights

Rs. Crore

Particulars	Q3FY14	Q3FY13	Q2FY14	YoY%	QoQ%
Revenues	89.96	74.63	82.25	20.54	9.37
Expenditures	70.38	62.00	69.31	13.50	1.54
Operating Profit	19.59	12.63	12.94	55.11	51.39
Adjusted Net Profit	23.39	12.33	10.94	89.68	113.80
OPM%	21.77	16.92	15.73	485bps	604bps
NPM %	26.00	16.52	13.31	948bps	1269bps
Adjusted EPS	7.22	3.81	3.38	89.68	113.61

Past Price movement of the stock



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GROUP COMPANIES

HEM FINLEASE PRIVATE LIMITED

MEMBER-NSE

HEM MULTI COMMODITIES PRIVATE LIMITED

MEMBER-NCDEX, MCX

HEM FINANCIAL SERVICES LIMITED

NBFC REGISTERED WITH RBI

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Disclosure of Interest Statement	Company Name
1. Analyst Ownership of the Stock	No
2. Hem & its Group Company Ownership of the Stock	Yes
3. Hem & its Group Companies' Director Ownership of the Stock	Yes
4. Broking relationship with company covered	No

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