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TINY
TREASURE

August 2020

The Trick Is To
Spot Them At The
Larval Stage



BSE Code	: 531209
Time Duration	: 1 year
CMP	: ₹526.45 (as on 27 August, 2020)
Target Price	: ₹690

Nucleus Software Exports Limited Contributor To Digitisation!

Our Tiny Treasure for the month of August is Nucleus Software Exports Limited. It is the leading provider of lending and transaction banking products to the global financial services industry. Its software powers the operations of more than 150 customers in 50 countries, supporting retail banking, corporate banking, cash management, internet banking, automotive finance, and business areas. The company has processed almost 26 million transactions on a daily basis and has a loan book of USD 200 billion under its system.

Efficient business model

The company has the flagship products like FinnOne, which is lending software that helps originate, account for and disburse loans by banks and NBFCs globally. FinnAxia is an integrated global transaction banking solution used by banks worldwide to offer efficient and innovative global payments & receivables, liquidity management, and business internet banking services. Meanwhile, PaySe is the world's first offline digital payment solution, offering online capabilities designed & created with an aim to democratise money. Three of the top 20 global banks are its customers. These products have helped its customer banks and NBFCs to reduce credit processing and assessment time as well as witness a turnaround in the operational efficiency. After every six months, the company provides updates in its products to customers, which further improves the efficiency in the process.

In FY20, the company released FinnOne Neo 4.0 and FinnOne Neo 4.5, which supports gold loans, overdrafts, and a packaged loan application that comes under single application multiple product categories. It has also launched a geo-tracking application for microfinance sourcing channels. In June 2020, it launched FinnOne Neo 5.0, which offers advanced capabilities to completely digitise and automate the complex lending processes as required in an increasingly virtual world, accentuated by COVID-19.

Order book

During the June quarter of FY21, the company won six product orders and a total of eight module implementations that went

live worldwide. Its total order book stands at Rs 450.4 crore, which includes Rs 404.4 crore of product business and Rs 46 crore of project and services. The order pipeline is strong, giving revenue visibility for the next 1-1.5 years. The company expects to generate more orders in the upcoming quarters as the banks are investing in digitisation as they need to create new banking channels supporting self-servicing elements in its products.

Stable diversification across geographies

The company caters to customers situated all across the globe and a significant part of the revenue is derived from international sales, which accounts for nearly 58 per cent of the total revenue. The revenue mix for FY20 in terms of geography included India-42 per cent, Middle East-18 per cent, South East Asia-11 per cent, Europe-9 per cent, Australia-6 per cent, Far East-5 per cent, Africa-4 per cent and others-5 per cent. Lately, Australia and SE Asia were least impacted due to the COVID-19 pandemic and thus, revenue from these regions grew 31 per cent QoQ and 15 per cent QoQ, respectively in Q1FY21. Revenues in many regions except the Far East and Africa were stable during the quarter. Decent growth is expected from the domestic markets, Australia and SE Asia in the upcoming quarters.

Need for digitisation led by pandemic crisis

Digital lending is going to be one of the drivers for growth in the post-COVID-19 world. All businesses will have to adopt such technology, which will help in maintaining social distancing, become contactless, provide maximum services online, and at the same time, improve efficiency. Nucleus Software is one such company that has come up with such technology-based products that will help retail lenders offer contactless digital lending across the full loan lifecycle. The solution significantly reduces servicing time while lowering costs and delivering personalised experiences. The solutions cover the full loan lifecycle, from loan origination and loan servicing to delinquency management and collections. Recently, considering the recent pandemic situation, Muthoot Fincorp has adopted the solutions provided by Nucleus Software to provide its customers, a complete digital experience.

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Many such banks and NBFCs are expected to embrace the digitisation mode in the near term, led by the pandemic crisis. Also, the banks and NBFCs across the globe are facing a liquidity crisis in which, they will require such products that can improve efficiency, reduce time and costs during credit processing. Thus, companies like Nucleus Software have significant opportunities for growth and development.

Financial performance

Nucleus Software Exports' consolidated revenue for the quarter Q1FY21 came in at Rs 128.35 crore as against Rs 124.05 crore in the corresponding quarter last year, registering 3.5 per cent YoY increase. On a QoQ basis, the revenue dipped 7.1 per cent from Rs 138.23 crore. EBITDA for the quarter grew by 104.9 per cent YoY to Rs 37.34 crore as against Rs 18.22 crore in the corresponding quarter last year, with a corresponding margin expansion of 1,440 bps. EBITDA margin for the quarter stood at 29.1 per cent. On a QoQ basis, EBITDA grew by 18.6 per cent from Rs 31.49 crore. PAT for the quarter came in at Rs 36.33 crore as against Rs 16.57 crore in the corresponding quarter last year, with a YoY increase of 119.3 per cent. On a QoQ basis, PAT grew

by 29.1 per cent from Rs 28.14 crore.

As the company has an asset-light model, it has no debt on books and is thus a debt-free company. Over the years, the company has been consistently paying dividends to its shareholders. In FY20, its dividend payout ratio was 29.3 per cent.

Valuation

The company is trading at TTM P/E of 12.9x with a TTM EPS of Rs 37.45. In FY20, it delivered ROE and ROCE of 19.2 per cent and 24.5 per cent, respectively. The stable order book and well-diversified revenue across geographies give decent revenue visibility for the short-term. Its innovative new launches, constant updates, and new developments in the products help gain customer confidence leading to a stronger customer base. Considering the need of digitisation during and post the pandemic crisis, the company is capable of tapping opportunities in the market and attract new customers to adopt its software products. Also, its financial performance has depicted steady growth and is trading at an attractive valuation. We see a potential upside of 31 per cent with a target price of Rs 690 for the period of one year.

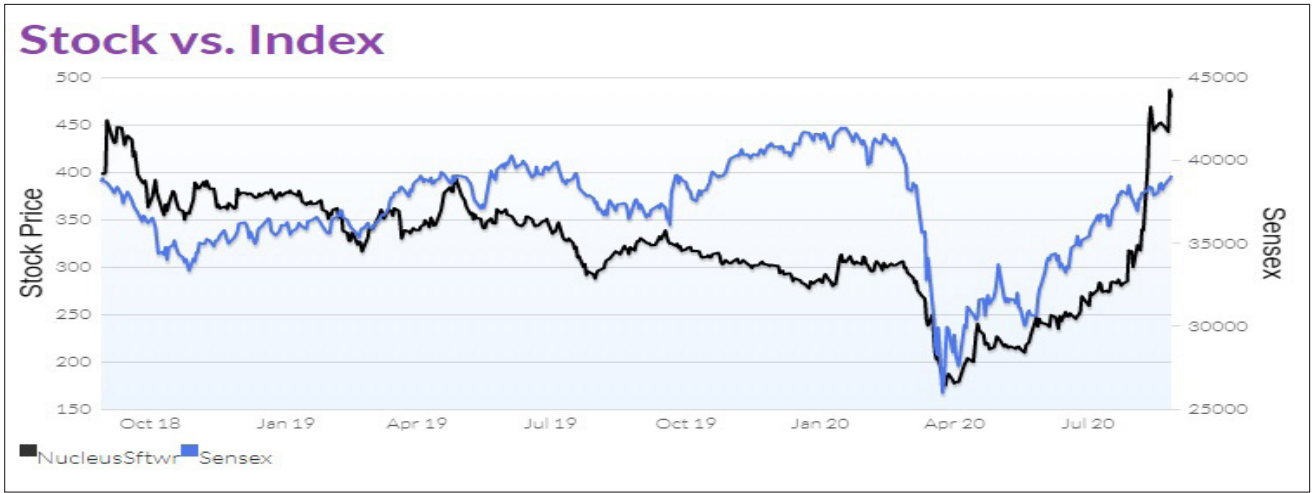
Inc/Exp Statement (Consolidated)

Description	202003	201903	201803	201703	201603
Net Sales	520.83	484.03	411.81	372.39	348.70
Total Income	558.07	514.13	440.57	405.03	375.29
Total Expenditure	426.62	407.40	353.16	319.01	318.57
PBIDT	131.45	106.73	87.41	86.02	56.72
PAT	88.99	74.54	62.55	66.16	32.47
Dividend %	90.00	90.00	80.00	50.00	50.00
Adj. EPS(Rs)	30.64	25.67	21.54	20.43	10.03

Quarter On Quarter (Consolidated)

Particulars	202006	202003	Q on Q Var %	201906	Y on Y Var %
Net Sales	128.35	138.23	-7.15	124.05	3.47
Total Expenditure	91.01	106.74	-14.74	105.83	-14.00
PBIDT (Excl OI)	37.34	31.49	18.58	18.22	104.94
PAT	36.33	28.14	29.10	16.57	119.25
PBIDTM% (Excl OI)	29.09	22.78	27.70	14.69	98.03
PBIDTM%	39.18	30.22	29.65	19.94	96.49
PATM%	28.31	20.36	39.05	13.36	111.90
Adj. EPS(Rs)	12.51	9.69	29.10	5.71	119.09

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