



NUCLEUS SOFTWARE EXPORTS LTD.

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August 22, 2022

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Dear Sirs,

Subject: Transcript of the Investor Earning Call of the Company

In pursuant to above mentioned subject, we are hereby enclosing the Transcript of the Earning conference Call of the for the Quarter Ended June 30,2022 held on August 16,2022.

This is for your information and records.

Thanking You.

Yours Sincerely

FOR NUCLEUS SOFTWARE EXPORTS LIMITED

**Poonam Bhasin
Company Secretary**

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Nucleus Software Exports Ltd.

“Quarterly earnings Conference Call for the Quarter Ended on 30 June 2022”

August 16th, 2022

SPEAKERS:

Management, Nucleus Software Exports Ltd.

Moderator: Good day ladies and gentlemen. I'm Gyanesh, your host for today's webinar. Thank you for standing by and welcome to the Nucleus Software Quarterly Earnings Conference Call for the quarter ended on 30th June 2022. For the duration of presentation, all the participants' lines will be in listen-only mode. We will have a question answer session after the presentation. So now without any further delay, I'd like to hand over the proceedings to Ms. Swati Ahuja. Over to you, Swati; thank you.

Swati Ahuja: Thanks, Gyanesh. Good afternoon, everyone. This is Swati from investor relations team at Nucleus Software. A very warm welcome to all of you for this Nucleus Software Earnings Conference Call for the quarter ended June 30th 2022. For discussion we have here from the management team Mr. Vishnu R. Dusad, our Managing Director, Mr. Parag Bhise, CEO and Executive Director, Mr. Anurag Mantri. CFO and Executive Director, Ms. Ritika Dusad, Executive Director and Chief Innovative Officer, Mr. Brijesh Khandelwal, Vice President Neo Business, Mr. Ashwini Arora, Senior Vice President Global Customer Success Team, Mr. Sanjeev Kulshrestha, Senior Vice President, Product Build, Mr. Ashish Khanna, Business Head Financial Inclusion, and Mr. Tapan Jayaswal, Financial Controller. As you all are aware, Nucleus Software does not provide any specific revenue earning guidance. Anything which is said during this call which may reflect our outlook for the future, or which may be construed as a forward looking statement must be reviewed in conjunction with the risks that the company faces. An audio and transcript of this call would be shortly available on the investor section of our website, www.nucleussoftware.com. With this, we are now ready to begin with the opening comments on the performance of the company for the quarter ended June 30, 2022 and post that we would be available for the question answer session. With this, I now pass it over to Vishnu Sir; over to you Sir.

Vishnu R. Dusad: Thank you, Swati, and a very warm welcome to all of you for this call, First Quarter call giving you an update about our performance during the quarter. We had a I would say another robust quarter where we've built strength all around; most of them are our internal strength building and some of them are external strengths

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also, which we will talk about. We continue to build a strong organization. And with those words, I would now like to invite my colleague, Parag to give us updates.

Parag Bhise: Good afternoon everyone and welcome you all to this investor call. As Vishnu just mentioned, we had another robust quarter. We are in fact, some of our implementations got completed in this quarter. Few of them on Cloud, one of them outside India, and we also completed one very complex multi-country implementation on our collections in this quarter. So that's on the implementation side. We had talked about price revisions. So I'm kind of preempting that question because our price revision discussions with some of our key customers have started; we had not expected to close them in this quarter, hence they are not yet reflected in the revenues. We have consciously delayed some of our AMCs which would have started earlier in this quarter, because we wanted to take them on revised pricing. So that impact is expected to come in Quarter 2 and Quarter 3. And on the attrition front, while it still continues to be a challenge but we are kind of seeing some trends in some improvements in the trends. It is too early to talk about them because it's just month of July and August that we have seen some improvements. But we will be watching them closely. So those are some of the few things which we wanted to update. Thank you so much. Yeah, Anurag would you like to comment now?

Swati Ahuja: Thank you sir.

Anurag Mantri: Yeah Parag, you've summarized it. After this Tapan will be placing the financial update.

Parag Bhise: Okay, yeah. Hello?

Swati Ahuja: Okay, thanks sir. Now I request Tapan Sir, please put some light on the financial numbers.

Tapan Jayaswal: Hi, good afternoon everyone.

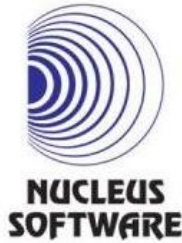
Swati Ahuja: Yeah, over to you sir.

Tapan Jayaswal: Yeah, key highlights from financials are our consolidated revenue for the quarter is at INR 128.8 Crore against INR 153 Crore quarter on quarter and INR 108.4 Crore year on year. Overall revenue in foreign currency including India Rupee revenue is USD 17 million for the quarter against USD 20.6 million quarter on quarter and USD 14.8 million year on year. Product revenue for the quarter is at INR 108 Crore against INR 129.6 Crore quarter on quarter and INR 89.9 Crore year on year. Revenue from projects and services for the quarter is at INR 20.8 Crore against INR 23.4 Crore quarter on quarter and INR 18.6 Crore year on year. As for expenses, cost of delivery including cost of product development for the quarter is 75.6% of revenue against 71.2% of revenue quarter on quarter and 81.2% of revenue year on year. In absolute terms this is INR 97.4 Crore against INR 108.9 Crore quarter on quarter and INR 88.1 Crore year on year. Marketing and sales expenses for the quarter is 3.3% of revenue against 3.5% of revenue quarter on quarter and 5.7% year on year. In absolute terms, this is INR 4.2 Crore against 5.4 Crore quarter on quarter and INR 6.2 Crore year on year. G&A expenses for the quarter is 9.9% of revenue against 9.2% of revenue quarter on quarter and 11.8% year on year. In absolute terms this is INR 12.7 Crore against INR 14 Crore quarter on quarter and INR 12.8 Crore year on year. EBITDA for the quarter is at INR 14.5 Crore against INR 24.7 Crore quarter on quarter and INR 1.4 Crore year on year. Other income from investments and deposit is at INR 3.9 Crore against INR 5.7 Crore quarter on quarter and INR 8.8 Crore year on year. Total taxes are at INR 4.7 Crore against 7.7 Crore quarter on quarter and INR 3.1 Crore year on year. Net profit is at INR 10.8 Crore for the quarter, 8.4% of revenue against 18.3 Crore for the quarter which is 12% of revenue quarter on quarter and INR 6 Crore which

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is 5.5% of total revenue year on year. Other comprehensive income is at INR 0.2 Crore for the quarter against negative 5.7 Crore quarter on quarter and negative 3.2 Crore year on year. Total comprehensive income which includes net profit and other comprehensive income is at INR 11 Crore for the quarter against INR 12.6 Crore quarter on quarter and INR 2.8 Crore year on year. EPS for the quarter is at INR 4.02 as against INR 6.67 in the previous quarter and INR 2.07 in June 30, 2021 quarter. In terms of foreign currency hedges on June 30, 2022, we had USD \$3 million of forward contracts at an average rate of 77.8. There is a mark to market loss of INR 52.9 Lakhs which is taken to the hedging reserve in balance sheet. Revenue contribution from the top five clients for the quarter is 26% against 29% in the previous quarter. The order book position is INR 562.5 Crore including 527.7 Crore of product businesses and INR 34.8 Crore of project and services businesses. In March 31, 2022 the order book position was INR 562.1 Crore including 515.3 crore of product business and INR 46.8 crore of project and services business. Total cash and cash equivalent as on June 30, 2022 are INR 551.1 Crore against INR 542.9 Crore as on March 31, 2022. This includes balances in current accounts of INR 39.5 Crore, various schemes of mutual fund INR 398.5 Crore, fixed deposits of INR 30.4 Crore, investments in tax free bonds of INR 77.5 Crore, INR 5.1 Crore in preference Shares. With regards to receivables we are at INR 68.2 Crore against INR 83.2 Crore previous quarter. During the quarter there is a gross addition of fixed assets of INR 0.53 Crore consisting primarily of INR 0.18 Crore on computers, 0.25 Crore on vehicles, 0.09 Crore on software and 0.01 Crore on plant and equipment. Now, I'll hand it over to Swati.

Swati Ahuja: Thank you sir. With this we are now ready to open the question answer session. I will now hand it over to Gyanesh; over to you Gyanesh.

Moderator: Thank you Swati. Now I request all the participants if you have any questions related to the topic you may please press zero one from your telephone keypad and wait for your name to be announced. So we have the first question from Mr. Vaibhav Barjatya from Honesty and Integrity Investment.

Vaibhav Barjatya: Yeah, hi sir. Thanks a lot for providing the opportunity. So, just wanted to know what is the number of employees for the June ending here? Is there substantial changes compared to last quarter?

Anurag Mantri: Vaibhav, thanks for asking this question, Anurag this side. The associates count as of 30th of June it stands at 1756, 1756.

Vaibhav Barjatya: 1756?

Anurag Mantri: 1,756. 1756.

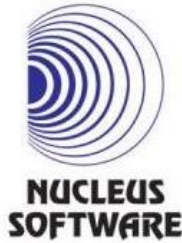
Vaibhav Barjatya: Okay. Okay, got it understand. So, if I compare employee cost, you know, what was there in June 2020 last -- the same quarter last year and this quarter? So on a per employee basis, if I take the kind of, you know, average employees and then -- so it has not -- on a per employee basis, the cost has gone up just by 7% while we always keep highlighting about the bold steps that we are taking, so just put a question what -- employee cost does not seem to have risen and increased a lot on a per employee basis. So if you can explain that that would be helpful.

Anurag Mantri: Sure. So, as we have updated in few last calls, we have taken significant and very significant measures with respect to taking good care of our human assets. And those increments have been quite high. The percentage overall you are referring to that is coming out because in this year, we have also on boarded a very, very high number of young talents, young minds, the freshers. So on one side, we are taking those calls to take care of our talents; on the other side we're also inducting a good number of freshers with both the objectives to actually increase

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our delivery capacity, and also to keep the balancing act with respect to our personal costs. So that's why I hope this answers.

Vaibhav Barjatya: Yeah, I mean, that was expected. But you know, 20%-25% salary increase, going down to 7% is quite a huge change. So I was just wondering if something else can explain that. But yeah, sorry, please go ahead. Yeah, yeah. Please go ahead, yeah.

Anurag Mantri: So induction of the freshers and actually -- and that too in a good number in totality; we are already close to 400 associates, and that's a big percentage. So that has helped us to keep the overall percentage increase under check while we could still offer or increase the personal cost for our experienced professionals. So that's been balanced out.

Vaibhav Barjatya: Got it, understand. And so I missed out on the introductory comment on AMC that you mentioned, because my network fluctuated if you can just explain that in detail. I mean you said that you've delayed some of the AMC contracts, so which will be reflected going ahead. So just wanted to understand what was that?

Parag Bhise: Yeah, so this is Parag here. What I had mentioned is that we've been talking about it; I think at least last two quarters that we will be working on AMC revisions with many of our customers. So, what I was saying is that those discussions are going on. But since these are like significant revisions they are taking time, we did not expect them to materialize in Q1, many of them and had we taken these AMCs on the existing run rate maybe would have -- we could have seen some more revenue in this quarter. But since we have consciously not accepted those AMCs on the current rate, we expect them to materialize in Q2 and Q3. That's what I was saying.

Vaibhav Barjatya: Okay, okay, got it. So, this rate thing is only related to AMC or on the kind of, you know, sale that we do on the product sale, license sale and an implementation revenue, are we changing rates there as well?

Parag Bhise: Yeah, everything actually, but the impact because since we have a large customer base already, the impact we are expecting, the positive impact we are expecting is primarily because of AMCs because rest is all -- your question is right. So we are revising everywhere, but the impact primarily we expect from AMC this year.

Vaibhav Barjatya: Okay, got it. Understand, yeah. That's it from my side, thank you.

Moderator: Next, we have Mr. Amit Saxena from AS1 Capital.

Amit Saxena: Yeah, hello. Is it possible to segregate or quantify the AMC revenue as a percentage of total sales, a rough figure?

Parag Bhise: Hello, hello, am I audible?

Amit Saxena: Yeah, yeah. Yeah.

Swati Ahuja: Yes sir.

Parag Bhise: Yeah, Amit, that kind of segregation, we don't provide. Sorry for that, that level of segregation.

Vaibhav: Okay. Another question that I had was related to the IT product business per se and, you know, Nucleus Software has this product, which is quite aged, a mature product, and has been selling this product for a long

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time. You know, generally how it works is, as I've seen that for most of the IT products companies, as product matures, the margins do expand considerably, maybe 30%-40% of the revenues, but that kind of expansion has never been seen for our company. So is it fair to say that, it depends, probably on the clients? I mean, we majorly serve within Asia and maybe I think 40% of the revenues come from India. So is it something because of the geographical presence, or is it something that we haven't gained scale as yet? Can you can you put some color on that?

Vishnu R. Dusad: Yeah, thank you. Thank you so much. This is Vishnu. Thank you for raising this very meaningful question. So there seems to be a -- in Asia there does seem to be, I will say this unfortunately, some bias against Asian products. So, what happens is if it is a product from developed part of the world, it can end up getting 10 times, at least 10 times more I think? So the challenge which we are attempting to address, and hopefully with the quality of the product, with the quality of the value delivery that our products do our customers would be able to get over this centuries old bias also. And we -- one of our core objectives of the company is to create these products from this very soil. And hopefully, we'll be able to fulfill this objective of ours over -- in the near future

Amit Saxena: Okay, thank you sir. That's all from my side.

Moderator: Thank you. Next, we have Mr. Vaibhav Barjatya from Honesty and Integrity Investments.

Vaibhav Barjatya: Thanks for the follow up. So just on the AMC front again; so we have not renewed the contract, so what does it mean? So how the customers are currently being serviced? Because if you've not renewed the contract, then your old contract is no longer enforced, so then, has the customer been using in-house team or they have contacted Nucleus?

Parag Bhise: Thanks. Thanks for asking. Thanks for asking that question. So there is no, absolutely no impact on the service level, we continue to support them. So we've given them those renewed proposals with extended date, because the rates revisions are significant. So we -- it's like an extension given, with -- so on one side, there's no impact on our support because we have just given them the extended date. But there is a date, so we will revise them by that date. So I hope that answers your question.

Vaibhav Barjatya: Right, but just to understand it better. So we continue to provide support services, which are already in our cost, right. On the revenue front, are we recognizing revenue at the old rate or we're not recognizing at all?

Parag Bhise: No, no, we are not. That's why you'll kind of see that reflecting in that in our Q1 revenues. Our Q1 revenues could have been better, would have been better had we recognized them at the old rates. That was the purpose of [Overlapping Conversation]

Vaibhav Barjatya: Okay, so we are not seeing it at all. Okay. Okay, got it. So the cost, but the costs are already there? Because we have been --

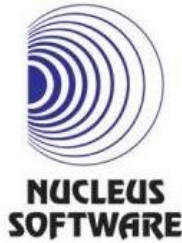
Parag Bhise: Yeah, that's okay. [Overlapping Conversation] We've taken that temporarily call.

Vaibhav Barjatya: Okay, got it. Understand. And I'm sorry to just keep repeating this point on every call, on call, but this cash accumulation is something that the board has to think seriously about. And, you know, I think there has to be some mechanism as cash moves out from the company otherwise, all the cash generate -- then generated just becomes, you know, 4%-6% yield for shareholders as well, the company also and for shareholders as well. So

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practically, you know, everything is getting reinvested at 4%-6%, eventually our company will become a 4%-6% yield company which is not a good outcome. So, there has to be some way to kind of, you know, so that the cash has to regularly go out from the company and given the fact that promoters are already close to 75% there's no other way but dividends. So I would request again to think about the dividend payout policy as a percentage of profits, and just pay out regularly. That's again a request and that's it from my side. Thank you.

Vishnu R. Dusad: Thank you very much. I think we have answered this question; unless you have anything additional to say we have answered this question earlier, as you know we have mentioned already, so unless you have anything additional to ask, we will just register what you have said. That's all.

Vaibhav Barjatya: Yeah, that's -- I just wanted to bring that point again, that there is no question here involved. So, you can move on to the next question.

Vishnu R. Dusad: Okay. Maybe I can just add additionally, because we've talked about it during this call; apart from the financial returns that an investor does look for you know, there is a concept of what is it that -- where is it that you are investing. So, that is how there is a concept of green investment, right. So, we would also request you to look at this investment from the financial re-- from -- apart from the financial returns, this investment as investment in intellectual property, in creation of intellectual property from this soil. So if that appeals your investment philosophy, then it is good, otherwise, you know, the buybacks have been happening.

Vaibhav Barjatya: Got it. Yeah, I understand Vishnu, this point. And in fact, I would like to see investment into intellectual property, and it should come into P&L, it should come into balance sheet, but as of now, it's all cash. So if you invest in sales, if you invest in form of expenses on intellectual property, it will come in the P&L and I will really appreciate it. There's no doubt about it. And I am a very strong believer in your company, in the honesty and transparency of your whole team et al and that's why I'm continuously on the con call. What -- I don't have any issues to invest there either in sales or in intellectual property, the issue is that it is sitting on the balance sheet and it is sitting in form of cash only and it keeps increasing. It has been more than 10 years now. 10 years earlier, we had 200-250 Crore of cash. Now, even after doing all these buybacks and everything, it has now increased to 550 Crore. So, it just keeps accumulating and that's where my problem is and if you invest in intellectual property, I will be the first one to praise you or if you invest in sales. That was the small point. I think that's it from my side, I will not raise it again from the next quarter.

Vishnu R. Dusad: No, thank you. Thank you very much for those very kind words, which we really appreciate your recognizing, and only additional point I would like to say is certain things, they really take time like this intellectual property, it takes a really long, long time. So, thanks for bearing the pressure, bearing with us; thanks for your patience. As I mentioned, we are fighting some slightly different kinds of battles here, you know, in terms of, as we mentioned, branding of intellectual property coming from one geography versus banding of intellectual property coming from another geography and so on. So, yeah, hopefully you'll get to see the results soon enough.

Vaibhav Barjatya: Sure, that's it from my side. Thank you.

Moderator: Thank you. So I request all the participants, if have any questions related to the topic, you may please press zero one from your telephone keypad. Next, we have Mr. Samarth Singh from TPF capital.

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Samarth Singh: Good afternoon. Thank you for taking my question. It is -- first question is regarding the pricing, you know, I'm glad that we're finally having these pricing discussions with our clients. Historically our AMCs, do they have an inbuilt price escalation like year on year prices escalation in them or do they not?

Parag Bhise: Yeah, our AMCs have that inbuilt clause but that's primarily to cover the inflation recourse, we are now essentially talking about a repositioning because of the value that we deliver and also because of the significant increases in the expenses that have happened. So it's essentially repositioning, that's why it is significant.

Samarth Singh: Okay. And these, the AMC, the price escalation, is this only for our new product, is this for FinnOne Neo or is this for the old Legacy FinnOne products as well?

Parag Bhise: No, no, old as well. Old as well.

Samarth Singh: Old as well, okay. And will you be able to give a breakup of what percentage of our revenues today come from FinnOne Neo versus the Legacy product?

Parag Bhise: Tapan, do we provide that backup? Or we don't? I don't think we provide.

Tapan Jayaswal: No, we don't provide those types of backups.

Samarth Singh: Okay, let me -- I guess I'll ask the question a different way. The opportunity of converting clients from Legacy to FinnOne Neo, is that opportunity still there or have most of our old clients already converted?

Parag Bhise: No, no, most of -- we have a large client base, so not -- most of our clients have not got converted yet. It's part -- it's a core part of our strategy this year and the next year to migrate clients from old product to new product.

Samarth Singh: Okay. And that would automatically see an increasing in pricing, if I'm not mistaken, is that right?

Parag Bhise: That would also see an increase in pricing for sure, yes.

Samarth Singh: Okay. So if you could just explain to me, I mean, we launched FinnOne Neo quite a while back and sitting on the outside, I can't tell but I'm assuming it was a much superior product. So why is it that there has been a sort of lethargy in terms of our clients moving from the Legacy product to FinnOne Neo, especially during the last two years where a lot of investments have been made into digitalization etc.?

Parag Bhise: Okay. I'll have to go back a little, and we would have talked about it in our calls maybe few quarters back; our earlier model of product was that we would encourage and end up doing a lot of customizations. So while the product, new product is superior, there's no doubt about it, but especially the old customers who have that mindset that they will get things done exactly the way they want is where we sometimes face challenges. And there are customers who got huge number of -- huge amount of customization done in the last many years, and for them to expect everything to come in on the new product exactly the way they've got it done in the old one is something which we don't encourage and agree to. So that is one place where we faced some challenges. But otherwise, conceptually, I would say most of our customers would want to move to the new product.

Samarth Singh: I see. Okay, that's very helpful. And one last question for Vishnu Sir. Sir, you talked about the issue of being able to sell a product coming from our -- basically our geography, but one of your ex colleagues, his

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business has been able to break that barrier. So what do you think they have done that has been successful that perhaps Nucleus can learn from and apply in our case?

Vishnu R. Dusad: I'm not very sure. Thank for raising this point, but I'm not really sure whom are you referring to. And in any case, we keep a close eye on the market and that is how we have learning. So yeah, thank you. Thank you for highlighting these developments.

Samarth Singh: Okay, that's it. Thank you.

Moderator: Thank you. For any questions, you may please press zero one from your telephone keypad. So that does conclude the conference for today, thank you all the participants and speakers for joining the session. On the behalf of Nucleus Software, wish you all a great day ahead. Thank you. You all may disconnect now.

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