

Technology

Earnings revisions

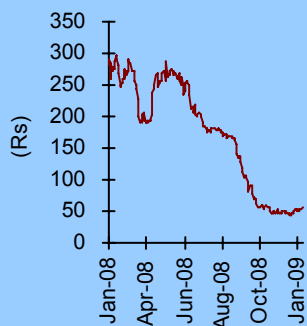
(%)	FY09E	FY10E	FY11E
Sales	↑ 1.9	0.0	↓ 4.6
EBITDA	↑ 12.5	↑ 12.2	↓ 3.8
EPS	↑ 14.7	↑ 13.0	↓ 4.1

Shareholding pattern

	Jun '08	Sep '08	Dec '08
Promoters	59.6	59.6	59.6
Institutional investors	16.8	16.5	14.5
MFs and UTI	5.9	5.6	4.1
Insurance Cos.	0.1	0.0	0.0
FII	10.9	10.8	10.4
Others	23.6	24.0	25.9

Source: www.nseindia.com

Price chart



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INDIA

Nucleus Software

HOLD

Maintained

Rs55

Above expectations, though concerns persist

Reason for report: Q3FY09 results review and earnings revision

Nucleus Software's (Nucleus) Q3FY09 revenues are up 11.6% QoQ to Rs843mn (I-Sec: Rs800mn) on the back of 22% QoQ increase in services revenue (ramp-up of deals announced in Q2FY09) and rupee depreciation. Products revenues remained flat in constant currency terms. Also, overall order book position is also flat at Rs3.59bn (US\$76.4mn), with order book of products declining 4% in rupee terms (6% QoQ decline in US dollar terms) to Rs2.83bn. Most delayed projects in H1FY09 have commenced/are expected to commence. In the current challenging macro environment, large order wins (which could replace revenues from ACOM) by Nucleus seem unlikely in the short term. At current market price of Rs55/share, the stock is trading at FY09E P/E of 5x. Net cash of Rs32/share would restrict the downside. Based on bleak revenue visibility and risk of high client concentration (top 5 clients contributing 72%), we maintain HOLD. Continual large-order wins providing long-term visibility remains an upside risk.

- ▶ **Bleak revenue visibility.** Contracts with ACOM, one of the company's top clients, would expire by December '09; though implementation and maintenance would continue beyond expiry, there would be significant loss of licensing revenues. Some of the recently awarded services contracts are project-based and for 9-15 months. Coupled with these and on account of Nucleus having various large troubled BFS clients, revenue visibility post December '09 seems bleak, unless Nucleus wins large orders.
- ▶ **EBITDA margin expansion of 700bps QoQ.** Despite bad debts & RDD of Rs24.3mn, EBITDA margin expanded 700bps to 18.1% (I-Sec: 15%) owing to higher productivity, cost rationalisations and rupee depreciation. Other Income was higher at Rs38.7mn due to premature withdrawal of FMPs and re-investing these in FDs, thereby leading to higher PAT at Rs105mn (I-Sec: Rs82mn).
- ▶ **Earnings revision; maintain HOLD.** With better-than-expected Q3FY09 results, we are upgrading our FY09E & FY10E EPS estimates 14.7% & 13% respectively. However, factoring in increased bleak visibility beyond FY10E, we have reduced our FY11E revenue and EPS estimates 4.6% and 4.1% respectively. Maintain HOLD.

Market Cap	Rs1.8bn/US\$44.5mn
Reuters/Bloomberg	NSEL.BO/NCS IN
Shares Outstanding (mn)	32.3
52-week Range (Rs)	298/44
Free Float (%)	30.4
FII (%)	10.4
Daily Volume (US\$'000)	90
Absolute Return 3m (%)	(21.1)
Absolute Return 12m (%)	(80.3)
Sensex Return 3m (%)	(8.7)
Sensex Return 12m (%)	(47.0)

Year to March	2008	2009E	2010E	2011E
Revenue (Rs mn)	2,887	3,299	3,748	3,911
Net Income (Rs mn)	616	353	434	355
EPS (Rs)	19.1	10.9	13.4	11.0
% Chg YoY	11.4	(42.8)	23.1	(18.3)
P/E (x)	2.9	5.0	4.1	5.0
CEPS (Rs)	22.7	14.8	18.1	16.3
EV/E (x)	1.1	1.3	1.2	1.3
Dividend Yield (%)	2.7	1.8	1.8	1.8
RoCE (%)	31.7	14.8	15.9	11.5
RoE (%)	31.8	14.8	15.9	11.5

Table 1: Q3FY09 results review

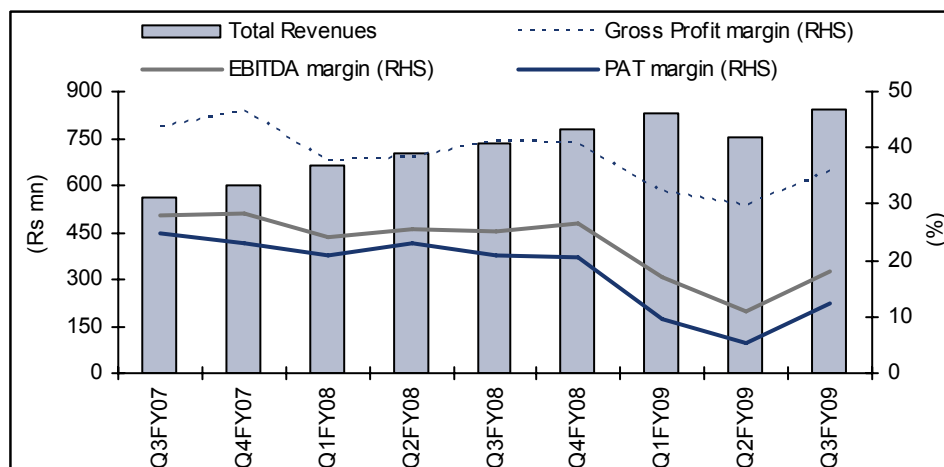
(Rs mn, year ending March 31)

Consolidated Income	Q3FY09	Q2FY09	Q3FY08	% chg (QoQ)	% chg (YoY)	I-Sec estimates	% variance
Total revenue	842	755	736	11.7	14.4	800	5.3
Product revenue	557	521	517	6.9	7.7	552	0.9
Project revenue	285	234	219	22.2	30.3	248	15.3
Software Development Exp	542	529	435	2.3	24.6	551	(1.6)
Gross Profit	301	225	302	33.6	(0.3)	249	20.6
Selling & Marketing Exp	66	72	63	(8.6)	4.4	68	(3.5)
General & Admin Exp	82	69	53	19.9	54.6	61	36.2
EBIDTA	152	84	185	81.1	(17.8)	120	26.6
EBIDTA (%)	18.1	11.1	25.1			15.0	20.2
Add: Other Income	28	10	13	171.2	111.7	19	46.0
Less: Depreciation	32	36	31	(10.8)	1.2	38	(15.8)
Less: Tax	43	18	11	140.1	273.0	19	118.7
PAT	106	41	155	158.6	(32.0)	82	28.8
PAT (%)	12.5	5.4	21.1			10.2	

Source: Company data, I-Sec Research

Chart 1: Consolidated revenues and margins

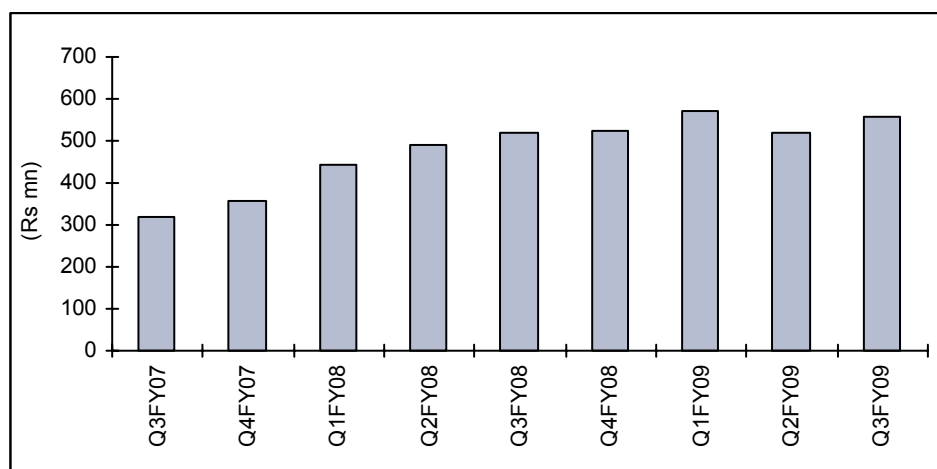
Revenues were up 11.6% QoQ mainly due to increase in services revenues and rupee depreciation. EBITDA margin increased a whopping 700bps QoQ



Source: Company data, I-Sec Research

Chart 2: Products revenues

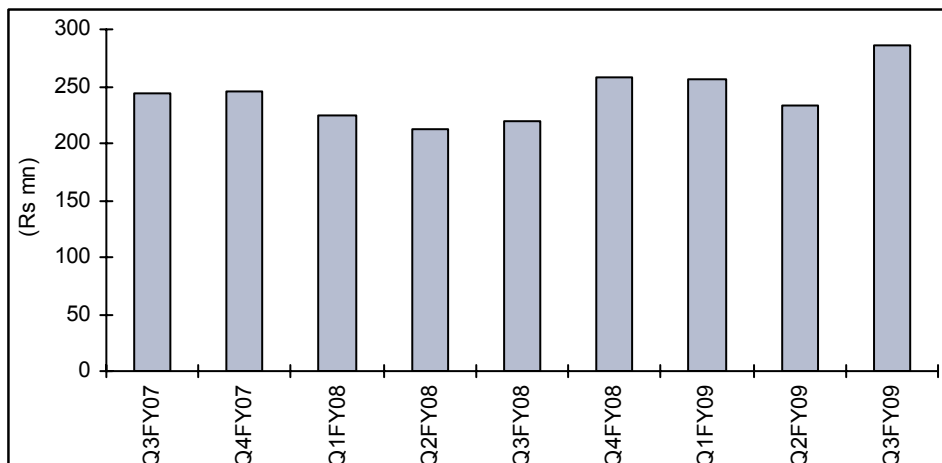
Products revenues registered 6.9% QoQ rise, primarily on account of rupee depreciation



Source: Company data, I-Sec Research

Chart 3: Services revenues

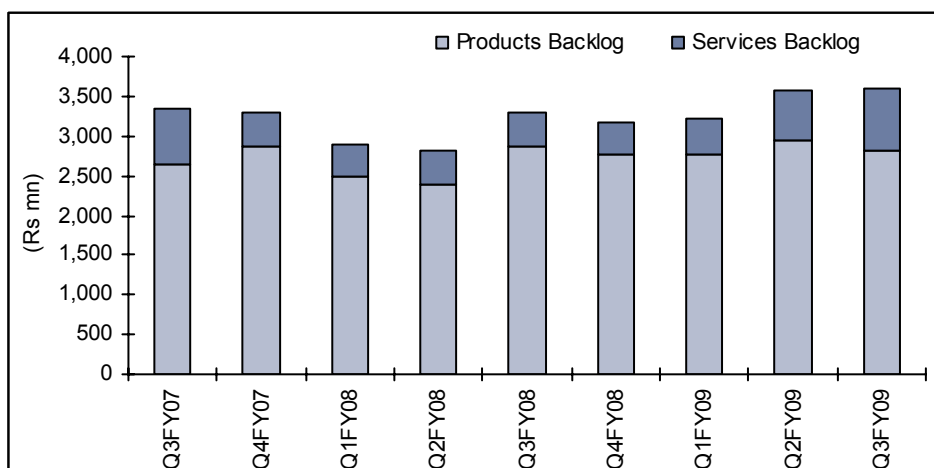
Services revenues were up 22.2% QoQ owing to ramp-up of some of the deals that were awarded in Q2FY09 with an existing client



Source: Company data, I-Sec Research

Chart 4: Order book position

Order book remained flat at Rs3.59bn; products order book was down 4% to Rs2.83bn, while that of services was up 25% QoQ to Rs760mn due to additional orders from existing clients



Source: Company data, I-Sec Research

As regards overall revenues, Europe, Middle East and RoW are witnessing increased traction; the Far East and India are almost flat

Table 2: Revenues – Geographical

(%)	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09	Q3FY09
India	14.4	9.6	11.3	9.5	9.4	12.3	10.6
Far East	45.1	48.3	53.5	53.8	53.1	50.8	49.8
South East Asia	16.3	15.2	12.3	14.3	14.9	15.6	16.8
Europe/UK	6.1	7.8	3.0	4.8	8.1	5.9	6.5
USA & Canada	1.6	1.5	0.9	0.4	0.3	0.3	0.3
Middle East	12.0	12.3	8.8	7.5	8.7	6.9	8.8
Africa	2.5	1.8	6.1	7.7	3.8	4.7	3.1
Rest of World	2.0	3.4	4.2	2.0	1.8	3.5	3.9

Source: Company data, I-Sec Research

Financial summary

Table 3: Profit and Loss Statement

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
Operating Revenues (Sales)	2,887	3,299	3,748	3,911
of which Products	1,974	2,235	2,546	2,816
of which Services	913	1,064	1,203	1,095
Operating Expenses	2,152	2,751	3,131	3,377
EBITDA	735	548	617	535
% margins	25.4	16.6	16.5	13.7
Depreciation & Amortisation	118	135	151	171
Other Income	70	46	83	92
Recurring PBT	686	459	549	455
Add: Extraordinaries	0	0	0	0
Less: Taxes	70	107	115	101
Net Income (Reported)	616	353	434	355
Recurring Net Income	616	353	434	355

Source: Company data, I-Sec Research

Table 4: Balance Sheet

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
Assets				
Total Current Assets	1,401	2,549	2,890	3,000
of which cash and deposits	225	1,043	1,199	1,268
Total Current Liabilities & Provisions	675	858	900	821
Net Current Assets	727	1,691	1,990	2,179
Investments	905	25	25	25
of which Strategic/Group	139	0	0	0
of which Other Marketable	766	25	25	25
Net Fixed Assets	561	677	825	954
Capital Work-in-Progress	30	50	0	0
Other Long Term Assets				
Total Assets	2,223	2,443	2,840	3,158
of which cash and equivalents	991	1,068	1,224	1,293
Liabilities				
Borrowings	0	0	0	0
Deferred Tax Liability	3	(93)	(93)	(93)
Equity Share Capital	330	330	330	330
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	1,890	2,206	2,603	2,921
Net Worth	2,220	2,536	2,933	3,251
Total Liabilities	2,223	2,443	2,840	3,158

*excluding revaluation reserves

Source: Company data, I-Sec Research

Table 7: Quarterly trends

(Rs mn, year ending March 31)

	Mar-08	Jun-08	Sep-08	Dec-08
Net sales	781	829	755	842
% growth (YoY)	29.8	24.4	7.2	14.4
EBITDA	209	142	84	152
Margin (%)	26.8	17.1	11.1	18.1
Other income	11	(12)	10	28
Extraordinaries Inc / (Loss)	0	0	0	0
Recurring Net Income	159	80	41	106

Source: Company data, I-Sec Research

Table 5: Cash Flow Statement

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
Operating Cash flow before W				
Cap changes	735	391	586	526
Working Capital Inflow / (Outflow)	(339)	(129)	(143)	(120)
Capex	(159)	(270)	(250)	(300)
Free Cash flow	236	(7)	193	106
Cash Flow from other Invst Act (Ex Capex)	(215)	880	0	0
Proceeds from Issue of Share Capital	0	0	0	0
Inc/(Dec) in Borrowings	0	0	0	0
Divided paid	(64)	(55)	(37)	(37)
Others	0	0	0	0
Increase/(Decrease) in Cash	(43)	817	156	69

Source: Company data, I-Sec Research

Table 6: Key Ratios

(Year ending March 31)

	FY08	FY09E	FY10E	FY11E
Per Share Data (Rs.)				
EPS(Basic Recurring)	19.1	10.9	13.4	11.0
Diluted Recurring EPS	19.1	10.9	13.4	11.0
Recurring Cash EPS	22.7	14.8	18.1	16.3
Dividend per share (DPS)	1.5	1.0	1.0	1.0
Book Value per share (BV)	67.2	76.8	88.8	98.4
Growth Ratios (%)				
Operating Income (Sales)	30.5	14.3	13.6	4.3
EBITDA	16.2	(25.4)	12.7	(13.4)
Recurring Net Income	11.8	(42.8)	23.1	(18.3)
Diluted Recurring EPS	11.4	(42.8)	23.1	(18.3)
Diluted Recurring CEPS	17.1	(34.8)	22.5	(10.2)
Valuation Ratios (x)				
P/E	2.9	5.0	4.1	5.0
P/CEPS	2.4	3.7	3.0	3.4
P/BV	0.8	0.7	0.6	0.6
EV / EBITDA	1.1	1.3	1.2	1.3
EV / Sales	0.3	0.2	0.2	0.2
EV / FCF	3.3	(97.0)	3.7	6.7
Operating Ratio				
Software Development Expenses/Sales (%)	60.4	66.4	66.2	68.2
SG&A/Sales (%)	14.1	17.0	17.3	18.1
Other Income / PBT (%)	10.2	10.1	15.2	20.2
Effective Tax Rate (%)	10.1	23.2	20.9	22.1
NWC / Total Assets (%)	25.1	51.2	53.2	54.8
Fixed Asset Turnover (x) on average	5.9	5.3	5.0	4.4
Receivables (days) on average	78	83	84	85
Payables (days) on average	30	30	30	30
D/E Ratio (x)	0.0	0.0	0.0	0.0
Return/Profitability Ratio (%)				
Recurring Net Income Margins	21.4	10.7	11.6	9.1
RoIC (Based on Avg)	59.4	26.1	27.3	21.8
RoCE (Based on Avg)	31.7	14.8	15.9	11.5
RoNW (Based on Avg)	31.8	14.8	15.9	11.5
Dividend Payout Ratio	9.0	10.5	8.5	10.4
Dividend Yield	2.7	1.8	1.8	1.8
EBITDA Margins	25.4	16.6	16.5	13.7

Source: Company data, I-Sec Research

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