

Nucleus Software

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Order book supports growth visibility

- Nucleus Software delivered strong Q4FY18 result, with 18% yoy growth in revenue at Rs1.1bn - slightly ahead of our expectation. Growth was driven by strong deal wins, as it added 10 new product orders, including 6 new customer wins.
- Commentary remains upbeat across markets, leading to improved pipeline and order book. Product segment order book grew by 20% in FY18. Adjusted for AMC revenue, order book growth stood at ~40% (this reflects traction in new order additions).
- Operating profit margin (OPM) declined by 140bps yoy to 14.3%, impacted by one-time special bonus announced for its workforce during Q4FY18. For FY18, OPM improved by 140bps to 12.4%.
- We expect Revenue/EPS CAGR of ~13%/18% over FY18-23E and maintain our BUY rating on the stock, with DCF-based TP of Rs640. ([click here to download our thematic note on Software sector](#)).**

Commentary confident; order book robust, traction to improve in FY19

Nucleus reported strong revenue growth of 18% yoy, driven by 24% yoy growth in the Products business while Services revenue grew by 2% yoy. Management commentary on new deal momentum remains constructive across markets, as the company is witnessing sustained traction in India, the Middle East and Australia. It has also been witnessing a better-than-expected response in the traditionally price-sensitive markets such as South-East Asia and Africa. The company secured 35 new Product orders and added 21 new clients. Growth in the Product segment's order book is being driven by healthy traction in its cloud-based offerings, which is supporting new client wins and improved cross-sell opportunities (clients taking more modules from Nucleus). Total Product segment order book stands at Rs3.4bn, up 20% yoy. Adjusted for AMC revenue, the order book grew by ~40% in FY18. We believe that the robust order book growth provides significant business visibility. Therefore, we expect overall revenue traction to improve over the next couple of years. EPS growth for FY18 was 7%, but we expect the profitability to improve in FY19 as non-linearity leads to robust revenue growth and modest fix cost (sales budget + R&D) going forward.

Business growth improving; Valuation compelling; Maintain BUY

Strong demand for existing solutions (Lending), a robust unexecuted order book, a widening product portfolio (corporate solution seeing good traction) and stability in the Services segment revenue lends comfort on revenue growth visibility. We also believe that the improved traction will support further margin improvement and cash generation (announced Rs8 dividend). Valuations are compelling: EV/Sales at 1.3x, EV/EBIT at 8.3x, PE at 15x FY20E estimates. We maintain BUY and DCF- based TP of Rs640.

Financial Snapshot (Consolidated)

(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Revenue	3,487	3,724	4,118	4,767	5,420
EBITDA	308	527	586	717	862
EBITDA Margin (%)	8.8	14.1	14.2	15.0	15.9
APAT	325	654	625	727	826
EPS (Rs)	10.0	20.2	21.5	25.0	28.4
EPS (% chg)	(49.8)	101.3	6.7	16.2	13.7
ROE (%)	7.3	13.4	12.7	15.0	15.4
P/E (x)	44.4	22.1	20.7	17.8	15.6
EV/EBITDA (x)	43.2	26.2	21.3	17.1	13.9
P/BV (x)	3.2	2.8	2.8	2.5	2.3

Source: Company, Emkay Research

CMP	Target Price
Rs 445 as of (May 4, 2018)	Rs 640 (■) 12 months
Rating	Upside
BUY (■)	43.8 %

Change in Estimates

EPS Chg FY19E/FY20E (%)	2.3/2.1
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY19E	FY20E
Emkay	25.0	28.4
Consensus	25.4	28.1
Mean Consensus TP (12M)	Rs 600	

Stock Details

Bloomberg Code	NCS IN
Face Value (Rs)	10
Shares outstanding (mn)	29
52 Week H/L	602 / 270
M Cap (Rs bn/USD bn)	13 / 0.19
Daily Avg Volume (nos.)	63,002
Daily Avg Turnover (US\$ mn)	0.4

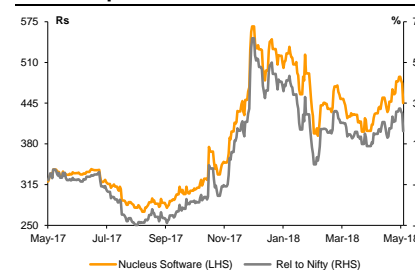
Shareholding Pattern Mar '18

Promoters	67.6%
FIIIs	9.2%
DIIIs	1.3%
Public and Others	21.9%

Price Performance

(%)	1M	3M	6M	12M
Absolute	6	12	27	39
Rel. to Nifty	1	14	25	23

Relative price chart



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Exhibit 1: Actual Vs Estimates

(in Rs mn)	Actual	Estimate (Emkay)	Consensus estimate	% variation		Comment
				Emkay	Consensus	
Revenues (in US\$ mn)	17	17	17	1.1%	0.5%	Mar'18 quarter revenue performance was better on topline basis but OPM were lower as it made one-time variable payment to its workforce.
Sales	1,110	1,090	1,150	1.9%	-3.5%	
EBIT	141	174	198	-19.1%	-28.8%	
EBIT, margin	12.7%	16.0%	17.2%	-330 bps	-450 bps	
PAT	173	187	202	-7.9%	-14.6%	

Source: Company, Emkay Research, Bloomberg

Exhibit 2: Quarterly result performance

Rs mn	Q4FY17	Q3FY18	Q4FY18	YoY (%)	QoQ (%)	FY17	FY18	YoY (%)
Revenues(US\$ mn)	14	16	17	23.8	4.8	55	63	14.7
Revenue	937	1,060	1,110	18.5	4.7	3,724	4,118	10.6
Operating Expenditure	790	873	952	20.6	9.0	3,197	3,532	10.5
Cost of revenues	612.8	667.7	785.6	28.2	17.7	2,453	2,770	12.9
as % of sales	65.4	63.0	70.8			65.9	67.3	
SG&A expenses	177	205	166	-5.9	-19.0	745	762	2.3
as % of sales	18.9	19.4	15.0			20.0	18.5	
EBITDA	147	187	158	7.5	-15.3	527	586	11.3
Depreciation	19	18	17			112	70	(37.2)
EBIT	128	169	141	9.8	-16.5	415	516	24.5
Other Income	82	53	74			289	282	(2.4)
PBT	210	222	215	2.1	-3.3	704	798	13.4
Total Tax	-12	41	42			77	173	124.8
Adjusted PAT	223	181	173	-22.5	-4.6	627	625	(0.3)
(Profit)/loss from JV's/Ass/MI						0	0	
APAT after MI	223	181	173	-22.5	-4.6	627	625	(0.3)
Extra ordinary items								
Reported PAT	223	181	173	-22.5	-4.6	627	625	(0.3)
Reported EPS	6.9	6.2	5.9	-13.6	-4.8	19	21	6.2

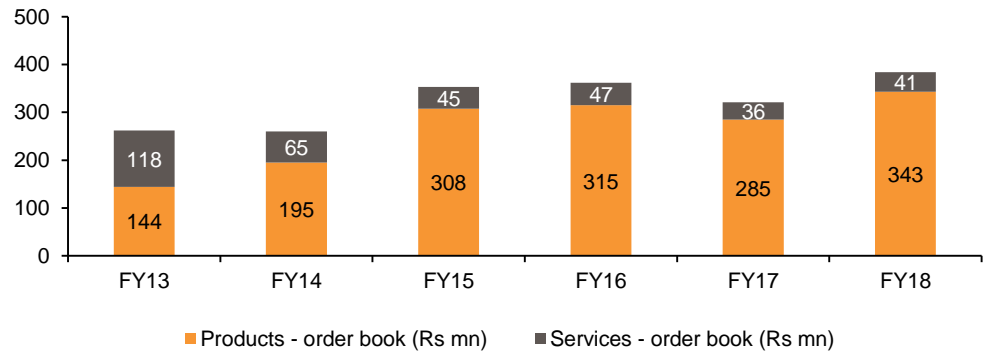
Margins (%)				(bps)	(bps)			(bps)
EBIDTA	15.7	17.6	14.3	(146)	(338)	14.1	14.2	10
EBIT	13.7	15.9	12.7	(101)	(323)	11.1	12.5	140
EBT	22.4	20.9	19.3	(310)	(161)	18.9	19.4	48
PAT	23.8	17.1	15.5	(822)	(152)	16.8	15.2	(165)
Effective Tax rate	(5.9)	18.5	19.6	2,550	108	10.9	21.7	1,074

Source: Company, Emkay Research

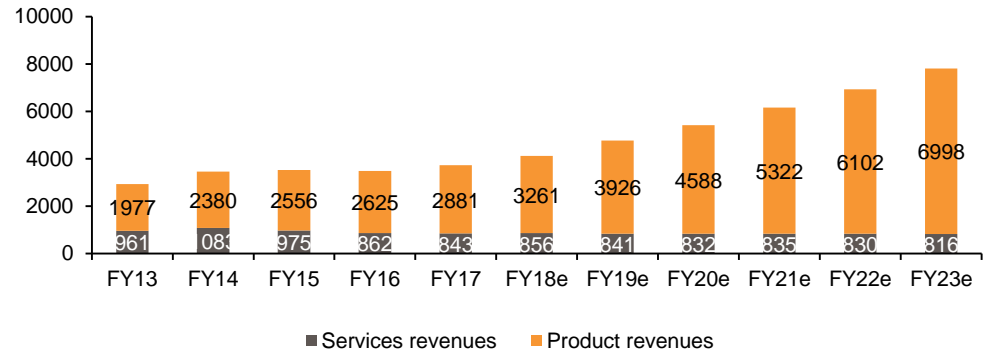
Exhibit 3: Change in estimates

(All fig in Rs mn except EPS)	FY18			FY19E			FY20E		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenues(US\$ mn)	63	63	0.3	73	73	-0.2	83	83	0.5
YoY growth, %	10.0%	11%		15.7%	16%		13%	14%	
Revenues	4,097	4,118	0.5	4,738	4,767	0.6	5,349	5,420	1.3
EBIT	545	511	-6.3	660	635	-3.8	766	768	0.4
EBIT mgns, %	13.3	12.4		13.9	13.3		14.3	14.2	
Net profits	640	625	-2.3	710	727	2.4	816	826	1.3
EPS	21.1	21	-2.5	24.5	25	2.3	28	28	1.1

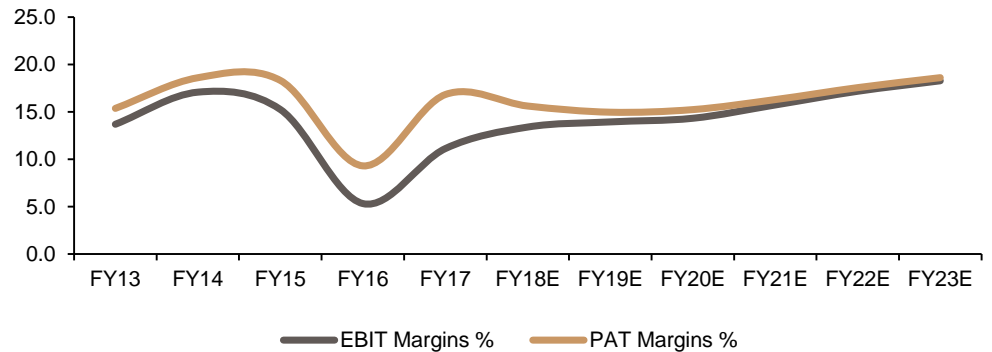
Source: Company, Emkay Research

Exhibit 4: Order book remain strong in the product business

Source: Company, Emkay Research

Exhibit 5: Product revenues to grow, services segment to stabilise

Source: Company, Emkay Research

Exhibit 6: Operating leverage will play out as growth pick up hereon

Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Revenue	3,487	3,724	4,118	4,767	5,420
Expenditure	3,179	3,197	3,532	4,050	4,558
EBITDA	308	527	586	717	862
Depreciation	122	112	70	81	92
EBIT	186	415	516	636	769
Other Income	259	321	288	297	299
Interest expenses	6	5	5	1	1
PBT	439	731	798	932	1,068
Tax	114	77	173	205	242
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	325	654	625	727	826
Adjusted PAT	325	654	625	727	826

Balance Sheet

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Equity share capital	324	324	290	290	290
Reserves & surplus	4,245	4,873	4,323	4,780	5,336
Net worth	4,569	5,197	4,613	5,070	5,627
Minority Interest	0	0	0	0	0
Loan Funds	13	0	0	0	0
Net deferred tax liability	0	0	0	0	0
Total Liabilities	4,582	5,197	4,613	5,070	5,627
Net block	524	451	452	441	429
Investment	2,447	4,201	4,140	4,340	4,640
Current Assets	2,838	1,851	1,881	2,111	2,501
Cash & bank balance	1,127	599	423	649	921
Other Current Assets	227	151	229	233	238
Current liabilities & Provision	1,227	1,306	1,860	1,821	1,943
Net current assets	1,611	545	21	290	558
Misc. exp	0	0	0	0	0
Total Assets	4,582	5,197	4,613	5,070	5,627

Cash Flow

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
PBT (Ex-Other income) (NI+Dep)	180	409	511	635	768
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(191)	538	347	(42)	3
Operating Cashflow	325	951	973	685	830
Capital expenditure	(58)	(36)	(10)	(70)	(80)
Free Cash Flow	267	916	963	615	750
Investments	(751)	(1,754)	61	(200)	(300)
Other Investing Cash Flow	883	1,012	0	0	0
Investing Cashflow	74	(778)	51	(270)	(380)
Equity Capital Raised	0	0	(1,171)	0	0
Loans Taken / (Repaid)	0	(13)	0	0	0
Dividend paid (incl tax)	(188)	(188)	(269)	(269)	(269)
Other Financing Cash Flow	(890)	(500)	170	0	0
Financing Cashflow	(1,078)	(701)	(1,200)	(188)	(177)
Net chg in cash	(679)	(528)	(176)	226	272
Opening cash position	1,806	1,127	599	423	649
Closing cash position	1,127	599	423	649	921

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY16	FY17	FY18	FY19E	FY20E
EBITDA Margin	8.8	14.1	14.2	15.0	15.9
EBIT Margin	5.3	11.1	12.5	13.3	14.2
Effective Tax Rate	26.0	10.5	21.7	22.0	22.6
Net Margin	9.3	17.5	15.2	15.2	15.2
ROCE	9.9	15.1	16.4	19.3	20.0
ROE	7.3	13.4	12.7	15.0	15.4
RoIC	19.7	59.0	230.7	968.6	1,048.6

Per Share Data (Rs)	FY16	FY17	FY18	FY19E	FY20E
EPS	10.0	20.2	21.5	25.0	28.4
CEPS	13.8	23.6	24.0	27.8	31.6
BVPS	141.1	160.5	158.8	174.6	193.8
DPS	5.0	5.0	8.0	8.0	8.0

Valuations (x)	FY16	FY17	FY18	FY19E	FY20E
PER	44.4	22.1	20.7	17.8	15.6
P/CEPS	32.2	18.8	18.6	16.0	14.1
P/BV	3.2	2.8	2.8	2.5	2.3
EV / Sales	3.8	3.7	3.0	2.6	2.2
EV / EBITDA	43.2	26.2	21.3	17.1	13.9
Dividend Yield (%)	1.1	1.1	1.8	1.8	1.8

Gearing Ratio (x)	FY16	FY17	FY18	FY19E	FY20E
Net Debt/ Equity	(0.2)	(0.1)	(0.1)	(0.1)	(0.2)
Net Debt/EBIDTA	(3.6)	(1.1)	(0.7)	(0.9)	(1.1)
Working Cap Cycle (days)	50.7	(5.3)	(35.6)	(27.5)	(24.4)

Growth (%)	FY16	FY17	FY18	FY19E	FY20E
Revenue	(1.3)	6.8	10.6	15.8	13.7
EBITDA	(53.2)	70.9	11.3	22.3	20.2
EBIT	(65.5)	123.1	24.5	23.3	21.0
PAT	(49.8)	101.3	(4.3)	16.2	13.7

Quarterly (Rs mn)	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Revenue	937	943	1,004	1,060	1,110
EBITDA	147	103	138	187	158
EBITDA Margin (%)	15.7	10.9	13.7	17.6	14.3
PAT	223	115	157	181	173
EPS (Rs)	7.7	4.0	5.4	6.2	5.9

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-17	Sep-17	Sep-17	Dec-17	Mar-18
Promoters	60.6	67.6	67.6	67.6	67.6
FIs	10.1	6.4	6.3	9.2	9.2
DIs	1.3	1.3	1.3	1.3	1.3
Public and Others	28.1	24.7	24.7	22.0	21.9

Source: Capitaline

Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

Completed Date:

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