

R S Software (India) Limited

February 20, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	25.00	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Total facilities	25.00 (Rupees Twenty five crore only)		

* Details of instrument/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities of R S Software (India) Limited (RSSL) is on account of the continued operating losses in 9MFY20 (refers to the period April 1 to December 31) coupled with depletion of the free cash and liquid investments over the years.

The ratings continue to remain constrained by weak financial performance of the company in FY19 (refers to the period April 1 to March 31) and 9MFY20, moderate order book position, company's exposure to foreign exchange fluctuation risk and dependence on the fortunes of global and domestic electronic payment industry.

The ratings, however, derives strength from its experienced promoters with long and established track record, expertise in maintenance services to electronic payment industry, new product development initiatives, comfortable financial position marked by negligible debt and satisfactory liquidity profile amidst deterioration due to funding of loss and elongated working capital cycle.

Key Rating Sensitivities**Positive Factors**

- Further rationalizing the employee cost (being the major cost driver) on a sustained basis

Negative Factors

- Further depletion in the cash and liquid investments from the current levels (9MFY20)
- Further deterioration in the cash losses beyond the current levels (9MFY20)

Detailed description of key rating drivers**Key Rating Weaknesses*****Weak financial performance in FY19 and 9MFY20***

The turnover of RSSL though witnessed a marginal improvement to Rs.61.04 crore in FY19 vis-à-vis Rs.57.39 crore in FY18, the company continued to report cash loss in FY19. (Rs.27.59 crore in FY19 as against cash loss of Rs.34.9 crore in FY18). During 9MFY20, RSSL reported turnover of Rs.45.29 crore as against Rs.40.09 crore during 9MFY19. The company continued to incur cash loss in 9MFY20 (Rs.19.27 crore during 9MFY20 as against Rs.27.59 crore during FY19).

High employee cost

Being a service oriented organization employee cost (including sub-contracting expenses) continues to be the major cost for RSSL (accounted for about ~62% of the cost of sales in 9MFY20 vis-à-vis ~64% in FY19). In view of snapping off its ties with Visa Inc. (once its major client) RSSL has adopted various cost rationalization measures to reduce its employee costs.

Foreign exchange fluctuation risk

The operation of RSSL involves providing software solutions globally (~75% of the revenue is derived from export sales) and hence is susceptible to the fluctuations in foreign currencies vis-à-vis Indian Rupee (INR).

Dependence on the fortunes of global electronic payment industry

RSSL's revenue is majorly derived from the global electronic payment industry. However, with increasing trend in usage of electronic payment networks across the globe, the possibility of downturn in the sector is minimal in medium term.

Key rating strengths***Experienced Promoters***

Mr. R. R. Jain (aged about 61 years), the promoter, is a B.S.C and an MBA in Marketing and Information Systems from University of California. Mr. Jain, a first generation entrepreneur, started his professional career in software consultancy in Los Angeles, USA. Mr. Jain having more than three decades of working experience in software & electronic payment services industry is at the helm of affairs of the company.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Long and established track record in providing maintenance in electronic payment industry

RSSL has a long and established track record of about three decades in testing, maintenance and development of various software packages including ERP, providing solutions and project management in the area of client server and web based technologies. Since inception, the company has developed and maintained mission critical applications for leading payment network operators based in North America, Japan and UK.

New product development initiatives

The Company has launched RBI backed digital payment platform called Unified Payment Interface (UPI) partnered with National Payment Corporation of India (NPCI) in order to integrate multiple systems into a 'uniform nation-wide and standardized business process for all retail payment systems. Furthermore, RSSL has done a launch of the Bharat Bill Payment System (BBPS). The company has also been developing digital payment platform, Payabbhi, through a 75% subsidiary, Paypermint Pvt Ltd.

Liquidity Analysis: Adequate

The liquidity profile of the company remains satisfactory (though depleting to fund the cash losses), with cash and liquid investment of Rs.25.65 crore (Rs.55.31 crore as on Mar'19) vis-à-vis nil borrowings from Banks/Fis as on Dec. 31, 2019, barring secured bank over drafts.

Industry Outlook

Indian IT and ITeS industry (including digital payment) is growing at a CAGR of 12.7% marked with the continuous increase in the non-cash transactions coupled with boom in the number of merchants accepting such payments. The global digital payments market is expected to touch ~\$10.7 trillion by 2026.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook and Credit Watch to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology - Service Sector Companies](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

R S Software (India) Ltd. (RSSL) was set up as a private limited company by one Mr R. R. Jain of Kolkata in December, 1987 (converted into a Public Limited company in February, 1992). RSSL is predominantly engaged in software development, maintenance, testing and software project management under client server and web-based technologies. This is done through on-site co-ordination and offshore execution. The major infrastructure of the company is located at Salt Lake Electronics Complex, Kolkata. RSSL has received various accreditations/certifications (including ISO 9001:2000 certification) for its processes.

RSSL has three wholly owned subsidiaries, Responsive Solution Inc. in USA, R. S. Software (Asia) Pte. Ltd in Singapore and Paypermint Private limited in India (incorporated on August 26, 2016). Responsive Solution Inc. and R. S. Software (Asia) Pte. Ltd is the marketing arm of RSSL with no significant cash flow. Paypermint Private limited was incorporated in Aug, 2016 in view of opportunities in online payment facilitation.

Over the years Visa Inc. was the major revenue contributor for the company (around 90%-95% till FY16). Though RSSL was trying to reduce the concentration risk, the same could not be implemented as the agreement between RSSL and Visa Inc. had several restrictive covenants. In view of the above, the company has discontinued its contracts with Visa Inc. and shifted its focus from service to product/ platform development, digital payments, in-country networks in order to tap growing opportunities.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)	9MFY20 (U/A)
Total operating income	58.53	62.18	45.29
PBILDT	-42.07	-31.69	-18.99
PAT	-25.73	-23.88	-21.30
Overall gearing (times)	0.06	0.11	0.14
Interest coverage	NM	NM	NM

A: Audited U/A: Unaudited NM: Not Meaningful

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	25.00	CARE BB+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	25.00	CARE BB+; Stable	1)CARE BBB; Stable (05-Jul-19)	1)CARE BBB+; Stable (04-Jan-19) 2)CARE BBB+; Stable (06-Aug-18)	1)CARE A-; Negative (25-Sep-17)	1)CARE A; Negative (16-Feb-17)
2.	Non-fund-based - ST-Bank Guarantees	ST	-	-	1)Withdrawn (05-Jul-19)	1)CARE A2 (04-Jan-19) 2)CARE A2 (06-Aug-18)	1)CARE A2 (25-Sep-17)	1)CARE A1 (16-Feb-17)

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Contact us

Media Contact

Mradul Mishra

Contact no. – +91-22-6837 4424

Email ID – mradul.mishra@careratings.com

Analyst Contact

Group Head Name: Mr. Abhishek Khemka

Group Head Contact no. +91 (0)33-40181610

Group Head Email id: abhishek.khemka@careratings.com

Relationship Contact

Name: Lalit Sikaria

Contact no. :+91 (0)33-40181607

Email ID: lalit.sikaria@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**