

R S Software (India) Ltd

September 25, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	24.50	CARE A-; Negative (Single A Minus; Outlook: Negative)	Revised from CARE A; Negative (Single A; Outlook: Negative)
Short-term Bank Facilities	0.50	CARE A2 (A Two)	Revised from CARE A1 (A One)
Total	25.00 (Rupees Twenty five crore only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of R. S. Software (India) Ltd (RSSIL) takes into account the deterioration in financial performance of the company in FY17 (refers to the period April 1 to March 31) and Q1FY18, and expected prolonged recovery in the performance. The ratings, however, continue to draw strength from its experienced promoters with long and established track record, expertise in maintenance services to electronic payment industry, comfortable financial position marked by negligible debt and strong liquidity profile amidst deterioration due to funding of loss and elongated working capital cycle. The ratings are further constrained by the discontinuance of its ties with Visa Inc.; the largest electronic payment service provider of the world, presence in an intensely competitive industry, moderate order book position, company's exposure to foreign exchange fluctuation risk and dependence on the fortunes of global and domestic electronic payment industry.

Growth in scale of operation with improvement in profitability, ability to acquire new clients in highly competitive software/platform development and capture new orders from the existing/new clients in service and maintenance segment without significant leveraging are the key rating sensitivities.

Outlook: Negative

The 'negative' outlook is on account of likely deterioration in RSSIL's financial risk profile in the medium term, on account of its moderate order book position and shifting of focus from service to product/platform development. However, RSSIL's ability to tap the growing opportunities in the digital payment industry in India and other developing countries with increase in order flow and better management of cost of operations would improve the financial profile and lead to revision in the outlook to 'Stable'.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters

Mr R. R. Jain, the promoter, is a B.Sc. 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.

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. Over the years, it has developed its core-competence in maintenance of payment networks globally and providing technology solutions to the users of electronic payment industry.

Expertise in electronic payment service segment

RSSL has been working with various large clients like VISA International Services Association (Visa), Visa EU, Global Cash Access, Lexmark, Gold Card Network, Discover, Maximus, Base Commerce, Secure Net, Nelnet, etc. in developing

applications across various platforms, along-with maintenance and testing, within the identified verticals. The clients are large electronic payment solution service providers of the world.

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 soft launch of the Bharat Bill Payment System (BBPS). The company is also trying to develop digital payment platform, Payabbhi, through a 75% subsidiary, Paypermint Pvt Ltd.

Endeavor to increase client base

In order to soften its dependence on Visa Inc. RSSL is gradually shifting its focus towards creating a diversified customer base and acquired orders from 20 different customers in the Fin-tech space (as on Mar. 31, 2017).

Debt - free company with strong liquidity profile

RSSL continued to remain a debt-free company FY17. Furthermore, the liquidity profile continued to remain strong with its large cash balance and liquid investments. RSSL has free cash & bank balance of Rs.23.23 crore and investments in liquid funds (current investments) of Rs.92.32 crore as on March 31, 2017 which significantly support its liquidity. Apart from these, RSSL has non-current investments in the form of bank deposits and mutual funds aggregating to Rs. 15.67 crore.

Key Rating Weaknesses

Deteriorated financial performance in FY17 and Q1FY18

RSSL's total operating income witnessed a significant decline of about 59% y-o-y in FY17 to Rs.70.70 due to decline in orders flow and execution of the same led by snapping of its ties with Visa Inc. (the major customer of the company contributing more than 80% of its total revenue in the past) with a view to reduce single client concentration and tap future opportunities in the digital payment industry across the developing countries. Higher contraction in total operating income vis-à-vis reduction in cost of operation led to significant deterioration in PBILDT margin from positive 0.38% in FY16 to negative 49.41% in FY17.

RSSL has posted operating loss of Rs.7.83 crore, net loss of Rs.5.78 crore as well as cash loss of Rs.5.18 crore in Q1FY18 on revenue of Rs.15.34 crore mainly due to decline in its revenue attributable to low order book and consequent lower execution of orders.

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 64% of the cost of sales in FY17). However, due to adoption of various cost rationalization measures the absolute employee cost was reduced from Rs.116.54 crore in FY16 to Rs.68.10 crore in FY17.

Foreign exchange fluctuation risk

RSSL is engaged in providing software solutions to the global payment solution industry and hence, is exposed to fluctuation in the foreign currencies vis-à-vis rupee (INR).

Moderate order book position

Order book position has witnessed significant moderation, post snapping of ties with Visa Inc, major revenue contributor. This has impacted the near term revenue visibility.

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. The Indian Fintech software market is forecasted to grow 100% in the next 3 years. The government of India has set a target for growth to 25 billion digital payment transactions during FY18.

Analytical approach: Standalone

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[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. In March 1994, RSSL made its maiden public issue of 25,50,500 equity shares (Rs. 10/- each), at a premium of Rs. 10/- each, aggregating Rs.5.10 crore.

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.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	171.43	70.70
PBILDT	0.65	-34.94
PAT	7.95	-17.54
Overall gearing (times)	0.00	0.01
Interest coverage (times)	1.46	NM

A: Audited 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

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.

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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	-	-	-	24.50	CARE A-; Negative
Non-fund-based - ST-Bank Guarantees	-	-	-	0.50	CARE A2

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	24.50	CARE A-; Negative	-	1)CARE A; Negative (16-Feb-17)	1)CARE A+ (06-Jul-15)	1)CARE A+ (07-Jul-14)
2.	Non-fund-based - ST-Bank Guarantees	ST	0.50	CARE A2	-	1)CARE A1 (16-Feb-17)	1)CARE A1+ (06-Jul-15)	1)CARE A1+ (07-Jul-14)

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