

**R S Software (India) Limited**

July 05, 2019

**Ratings**

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	25.00 (enhanced from 24.50)	<b>CARE BBB; Stable (Triple B; Outlook: Stable)</b>	<b>Revised from CARE BBB+; Stable (Triple B plus; Outlook: Stable)</b>
Short term Bank Facilities	0.00	-	<b>Withdrawn</b>
<b>Total facilities</b>	<b>25.00 (Rupees Twenty five crore only)</b>		

\* 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 FY19 (refers to the period April 1 to March 31) coupled with gradual depletion of the free cash and liquid investments over the years.

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, new product development initiatives, 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 weak financial performance of the company in FY19 (refers to the period April 1 to March 31), 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, capture new orders from the existing/new clients in service and maintenance segment and maintaining the cash & liquid investments are the key rating sensitivities.

**Detailed description of key rating drivers**
**Key rating strengths**
**Net Debt - free company with strong liquidity profile**

RSSL continued to remain a debt-free company as on Mar-19, barring secured bank over drafts. Furthermore, the liquidity profile continued to remain strong with its large cash balance and liquid investments. RSSL has free cash & bank balance of Rs.10.03 crore and investments in liquid funds of Rs.45.01 crore as on March 31, 2019 which significantly support its liquidity.

**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.

**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.

**Key Rating Weaknesses**
**Weak financial performance during FY19**

The turnover of RSSL witnessed marginal improvement to Rs.61.04 crore in FY19 vis-à-vis Rs.57.39 crore in FY18 backed by improved order book execution in Q4FY19. The losses at PBILDT level reduced from Rs.42.1 crore in FY18 to Rs.27.3

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

crore in FY19. Accordingly, the company reported cash loss of Rs.27.59 crore in FY19 as against cash loss of Rs.34.9 crore in FY18. The company currently (as on May 31, 2019) has an order book position of Rs.24.32 crore.

#### **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 FY19 vis-à-vis ~69% in FY18). 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.

#### **Liquidity Analysis: Adequate**

The liquidity profile of RSSL remains satisfactory for FY19 as evident from cash and liquid investment of Rs. 55.31 crore and nil borrowings, barring secured bank over drafts. Current ratio declined for FY19 which stood at ~2.90x from ~5.15x for FY18 majorly on account of decrease in current investment. Despite declining current ratio and cash and liquid investment due to incurring losses in couple of years, company's liquidity position remains satisfactory on account of nil long term debt obligations. Operating cycle improved to 50 days in FY19 as against 72 days in FY18.

#### **Industry Outlook**

Indian IT-ITeS industry is expected to grow between 8-11% in FY19, driven by an increase in discretionary spends in the IT space, growth across emerging verticals and healthy client additions, with increase in Total Contract Value (TCV) of new deal wins. Digital business for most firms will act as a catalyst for revenue growth of the industry in coming years.

**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.

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)
Total operating income	58.53	62.18
PBILDT	-42.07	-31.69
PAT	-25.73	-23.88
Overall gearing (times)	0.06	0.11
Interest coverage	NM	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**

**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 BBB; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	0.00	Withdrawn

**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 BBB; Stable	-	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)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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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