

RS SOFTWARE (INDIA)
 SOLID GROWTH PROSPECTS

Retail Desk

18 July 2014

Rating	Buy
CMP (₹)	384
Target Price (₹)	500
Upside (%)	30

Key Data	
BSE Code	517447
NSE Code	RSSOFTWARE
Reuters code	RSSI.BO
Bloomberg Code	RSST IN
Sensex	25641
Face Value (₹)	10
Mcap (₹ Cr.)	491
52 week H/L (₹)	204/102
2 Wk Avg Qty	161000

Share holding, June '14	Holding %
Promoters	38.5
Foreign	4.6
Corporates	10.2
DIs	2.8
Public	43.9

Performance (%)	3M	6M	12M
Stock-RSSIL	154.3	166.7	135.6
BSE 200	15.2	25.5	30.2
BSE 500	16.3	27.2	32.4

Q1FY15 & FY14 Results:

RSSIL has posted solid Q1FY15 results led by higher sales and increasing margins. During Q1FY15, net profit after minority share has gone up by 54.9% to ₹15.8 crore on 9.7% higher revenue of ₹98.6 crore. OPM and NPM stood at 25.8% and 16.5% Vs 20.4% and 12.3% respectively in Q1FY14. Q1FY15 EPS stands at ₹12.3.

During FY14, consolidated net profit after minority interest rose 44.6% to ₹51.2 crore on 20.0% higher sales of ₹381.9 crore. OPM and NPM stood at 22.0% and 12.2% Vs 18% and 11.2% respectively in 9MFY13. 9MFY14 consolidated EPS stands at ₹27.5. An interim dividend of 10% has been declared against 25% paid in the previous quarter. A 35% was paid for FY13.

Financial:

RSSIL is a zero debt company. The value of the gross block is ₹90 crore. As at 31 March 2014, the cash & cash equivalent including term deposits, investments in mutual funds and short term loans etc. stood at ₹102 crore or ₹80/share.

Company Description:

RS Software (India) (RSSIL) was incorporated as a private limited company on December 2, 1987 and was converted into a public limited company on February 5 1992. Over the years, RSSIL has grown with global leaders in the electronic payments industry backed by strong application management fundamentals that continue to power its core execution engine. RS Software's offices are located in the US, UK, Singapore and India, employing over 100 professionals. Some of the clients RSSIL serve are Visa, Visa EU, Visa CEMEA, Maclane, Pemco, Vignon.

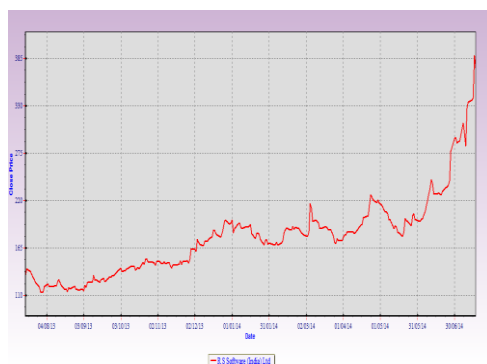
Business:

RSSIL is a vertically integrated technology solution provider to the electronic payments industry. It operates in four continents, with its US headquartered in Silicon Valley, offices in United Kingdom, Singapore and Corporate headquarters in Kolkata, India. RS Software has been in business for the last two decades providing solutions to Payment Networks, Processors, Acquirers, Issuers, ISOs and other major players in the electronic payments domain.

Key Financial: (Consolidated)

(₹ crore)

Year-March	Q1FY15A	Q1FY14A	FY12A	FY13A	FY14A	FY15E
Sales	98.6	89.9	264.0	318.2	381.9	450.0
PBIDT	25.4	18.3	39.7	54.0	83.9	108.0
Interest	0.2	0.2	0.5	0.9	0.9	1.0
PBDT	25.2	18.1	39.3	53.1	83.0	107.0
Depreciation	1.8	1.1	4.2	3.5	5.5	7.5
PBT	23.4	17.0	35.1	49.6	77.5	99.5
Tax	7.1	5.9	6.2	11.7	23.9	30.8
PAT	16.3	11.1	28.9	37.9	53.6	68.7
Minority Share	0.5	0.9	1.5	2.5	2.4	3.1
Net Profit	15.8	10.2	27.4	35.4	51.2	65.6
Equity			*11.5	*12.1	*12.8	12.8
Reserves			76.1	111.1	163.0	228.6
Book Value (₹)			76.2	101.8	137.3	188.6
EPS (₹)	12.3	8.0	25.0	29.3	40.0	51.3
OP Margin (%)	25.8	20.4	16.0	17.0	22.0	24.0
PAT Margin (%)	16.5	12.3	10.7	11.9	14.0	14.1
P/E					9.6	7.5

Price Chart:
<http://www.rssoftware.com>

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*Enhanced equity on conversion of warrants. For FY15.



Geographical Segments

During Q1FY14, USA accounted for 92% of sales whereas ROW (rest of the world) 8% of revenues. Domestic revenue accounted for about 0.4% of total sales.

Focus Areas

RS Software serves the needs of the leading organizations in the payments industry. Its proven methodologies, comprehensive set of services and continuing innovation are focused specifically on the needs of the space it has served exclusively since it opened its doors in 1991. No other provider in the space can deliver more industry knowledge and experience.

RSSIL utilizes a proprietary methodology that is based specifically on the unique dynamics of the payments industry to deliver a full range of software services to its clients.

It is specialists in credit, debit, prepaid and loyalty card processing and management. RSSIL's areas of focus include switching and authorization, clearing and settlement, risk and fraud management, dispute and chargeback, merchant management and business analytics.

Quality Certifications

RSSIL maintains the highest standards for compliance, security and quality including the ISO 9001:2008, SEI-PCMM Level 3 and ISO 27001:2005 Information Security certifications.

Prospects

The electronic payments industry globally is going through its major growth evolution at the same time, given the interesting intersection of technology advancements and cultural changes that facilitate the move from paper money to digital currency.

The volume and the value of electronic payment transactions are projected to grow multiple times in the next several years.

Payments appears to be a tremendously area ripe for disruption - new technologies are changing the relationship between consumers and merchants.

Globally the electronic payments industry has seen a "huge growth" with transactional revenues in the segment reaching worth of \$900 billion (nearly ₹54 lakh crore). The business of payments hinges on processing and storing large volumes of transaction data.

Outlook

RSSIL recognised that within its vertical it needed to cover the entire ecosystem - merchants, acquiring processors, issuing processors, payment networks (Visa/Master Card), financial institutions (banks), financial software product vendors and emerging players [e-commerce, mobile payments, Facebook payments (a subsidiary of Facebook)].

RSSIL recognised that a brand characterised by a competence in the core electronic payments system would translate into a first-mover advantage, distinctive recall, mission-critical presence in customer assignments, repeat customer engagements, growing assignment ticket size and increasing profitability.

RS Software's knowledge management system, RS School of Payments and RS Payments Lab form the foundation of its Global Execution Methodology that offers distinct value to all stakeholders of the Payments Industry.

Opportunity

There are a number of areas within the electronic payments space where RSSIL possesses competence but is relatively under-represented, a reality that should progressively correct, catalysing the Company's growth.

Electronic payment transaction processing services include developing software for merchants, financial institutions, government agencies and multi-national corporations. It also includes providing solutions and gateways for allowing online payments, which have great potential going forward.



A large percentage of the global population owns a mobile phone even though it is 'unbanked', a reality, which is expected to bridge through technology solutions like mobile payments.

More customers are progressing towards one-stop solutions in the area of electronic payments, strengthening the relevance of companies like RSSIL with a strong consulting and implementation focus. In view of these realities and reasons, it is expected that RSSIL to report sustainable growth in revenues, margins and profits, going forward.

Strength

RSSIL integrates knowledge management, innovation and specialised methodologies with over 20 years of an exclusive focus on payments to deliver the best-in-class services to a client list that includes the world's leading payments brands. RSSIL's technology solutions include Data Analytics, Business Intelligence and Data Warehousing.

RSSIL is engaged in offering both vertical and horizontal services customized for the payments industry. With 85% of retail payments still being made with paper money, the company is ideally positioned to build and maintain the core systems infrastructure for the Electronic Payments Industry.

Valuation & Recommendation

The demand recovery in the U.S. bodes well for its business given its exposure to the market. RSSIL continues to put significant thrust on innovations and in building competencies through the Payments Lab and School of Payments. RSSIL is confident that given the improving market conditions and the potential growth in the electronic payments industry, it will consistently tread a high growth trajectory.

RSSIL's sustained focus on merchant acquiring aspect of the payment landscape, procedural improvements in CRM, focus on e-mail marketing to generate strong business response and undergoing initiatives to strengthen the team and process - all give strong revenue visibility going forward.

At the CMP of ₹384, the share is trading at a P/E of 7.5x on FY15E. We reiterate BUY with an increased target price of ₹500 in the medium-to-long term at which the share will trade at a P/E of 10x on FY15E.

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