

Company Report

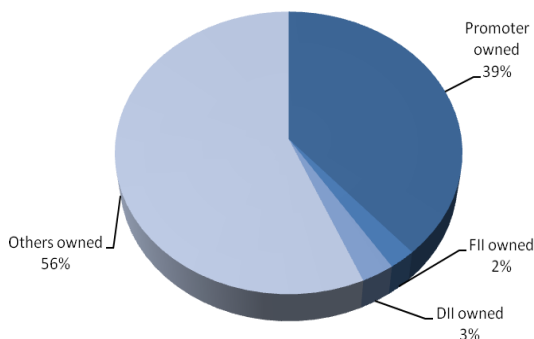
R.S. Software (India) Ltd.

11th August, 2014**BUY**
CMP **Rs.430.00**
Target Price **Rs.600.00**

BSE Code	517447
NSE Code	RSSOFTWARE
Market Cap (Rs Cr.)	550.61
52 Week High/Low	113.00/448.45
Industry	Information Technology
Face Value	Rs.10.00
Shares O/S	1.28 Cr.

EPS	39.97
Book Value	137.31
P/E	10.76
P/B	3.13

Shareholding Pattern



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- RS Software began its work in the payment industry 20 years ago and continues to leverage its early mover's advantage in this domain to strengthen its secular growth. Its payments expertise has helped clients address the convergence of payment types, the proliferation of mobile devices, the move to cloud computing and the introduction of new strategies, such as behavioral targeting. No other custom software provider delivers more industry-specific knowledge and experience to organizations competing for market share in the payments space.
- The company has registered robust results for the quarter ending June 2014. The revenues from operations grew by about 10% to Rs.98.62 crores vs. Rs.89.92 cr. in the like quarter previous year. Operating profit climbed sharply by ~42% at Rs.22.94 crores as against Rs.16.17 crores in the previous year quarter. The adjusted net profit stood at Rs.15.82 crore for the quarter as compared to Rs.10.19 crore; registering a growth of ~55%. On the margins front, operating margin climbed about 528bps at 23.26% as against 17.98% while net profit margin expanded 471bps at 16.04% from 11.33% y-o-y.
- Revenues from USA grew sharply by ~17% at Rs.91.07 crores from Rs.78 crores in the corresponding quarter last year; contributing 92.34% to the total revenues for the quarter. Rest of the World (ROW) revenues dipped by about 37% at Rs.7.55 crores; contributing by just 7.66% to the total revenues.

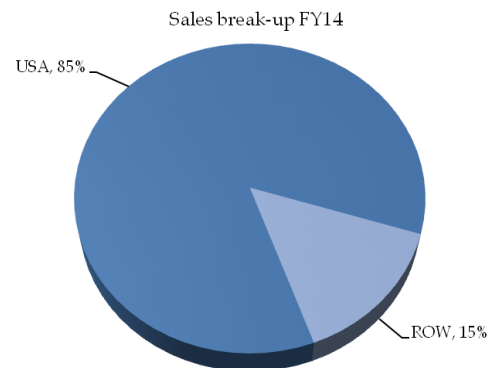
Valuation

With robust business model, strong fundamentals, debt-free status, wide market presence, esteemed clientele and growing electronic payment industry; RS Software Ltd. growth prospects and profitability looks optimistic. We believe the company is trading at an attractive valuation at 8.38x and 6.97x of FY15EPS of Rs.51.33 and FY16EPS of Rs.61.67. We initiate a 'BUY' on the stock with a target price of Rs.600 (appreciation of about 40%) with the medium to long term investment horizon.

Business Details

RS Software has focused exclusively on the payments industry since its inception in 1991. It has built solutions for the introduction of new standards such as EMV and new technologies such as mobile and contactless payments while mitigating the pain and cost associated with the legacy systems supporting them. RS Software serves a client list that includes the world's leading payments brands. It combines its flexibility with the globally recognized best practices in the RS Global Execution Methodology™ (RS GEM™). Within this proprietary methodology, it utilizes its RS School of Payments™, RS Project Delivery Framework™ and RS Customer View™ practices to maximize the impact of its payments expertise. The company offers a comprehensive range of services-

Customer Application Development- RS Software offers custom application development for platform, cloud, ecommerce and mobile environments using a comprehensive spectrum of development tools and methodologies. It is specialists in custom application development for credit, debit, chip, mobile, contactless, prepaid and loyalty card processing and management. It has developed state of the art solutions for payment gateways, merchant reporting, merchant onboarding, residual management, data warehousing, data analysis and business intelligence.



Quality Assurance & Testing- RS Software is dedicated to providing best in breed testing services that improve service levels, increase the efficiency of business processes, and improve time to market for new product and service offerings. It offers a diverse portfolio of testing services that includes functional testing, regression testing, security and compliance testing, integration testing, performance testing, compatibility testing and test automation.

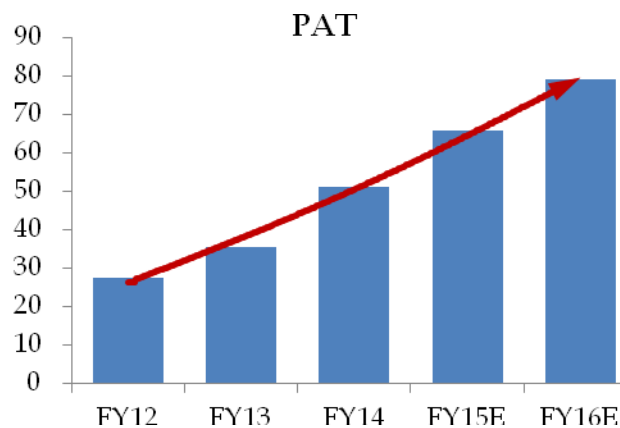
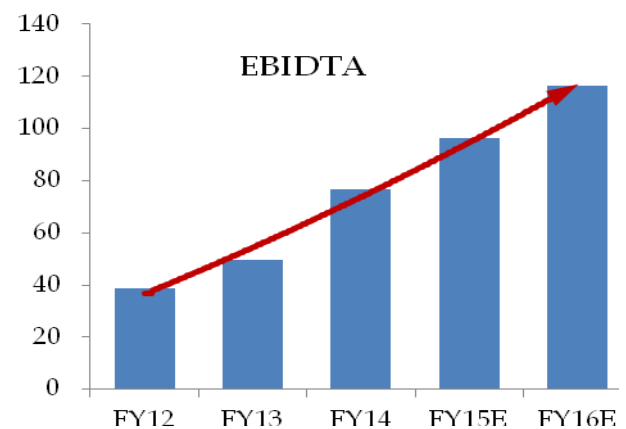
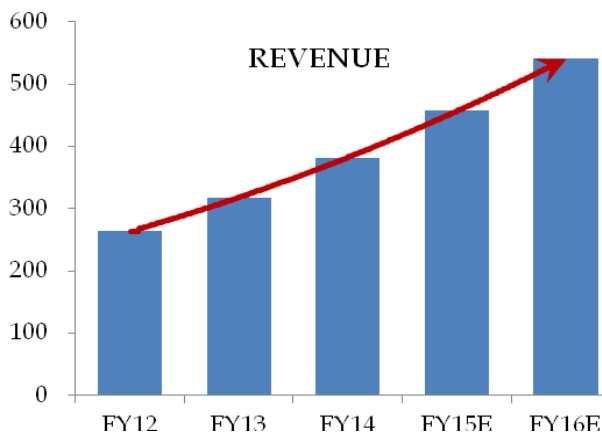
Application Management & Support- RS Software offers comprehensive application lifecycle management services that include maintenance of, adding new functionality to and providing support for existing applications. Its list of application management services includes: Application, process and performance assessment, application and platform migration support, application consolidation and modernization, reengineering and integration services and maintenance and support for high performance applications.

Strategic Consulting- The company helps clients improve their technology and business alignment. It conducts gap analyses, build remediation plans and develop roadmaps to improve returns on the customer's investment.

RS Software provides solutions to financial institutions, payment network providers, payment processors and technology companies in payment industry. It has developed and maintained mission critical applications for leading payment providers in North America, Japan and UK. With offices in the US, Canada, UK and India, RS Software employs more the 1,000 professionals with unmatched expertise in the payments space.

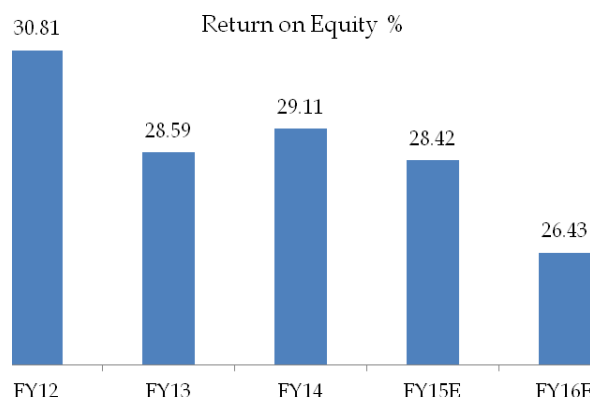
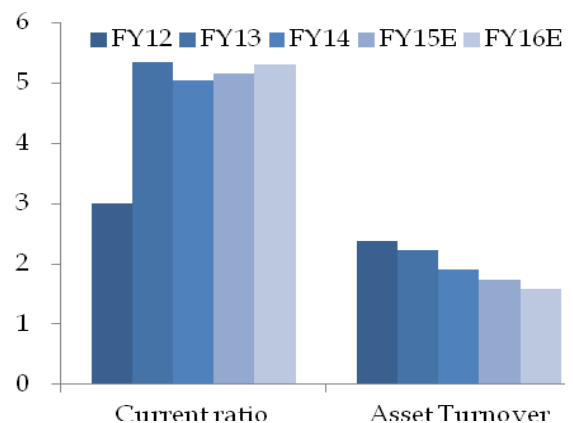
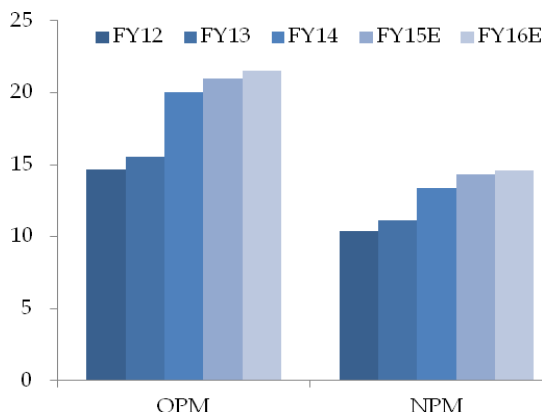
Strong player in electronic payment solutions

Global cashless revolution from paper money to digital currency has led to the tremendous growth in volumes and value of electronic payments, thus creating unprecedented opportunities for select digital payment companies like RS Software. The company, being an early mover, possesses more than a decade's rich experience in providing complex solutions in the area of clearing and settlement systems. The company has provided solutions to leading brands across the payment industry including: issuers, acquirers, processors, networks, merchants, established software providers and new emerging companies attempt to disrupt the existing ecosystem. The company is specialists in credit, debit, prepaid and loyalty card processing and management. Further, the customer is more focused towards one-stop solutions in the electronic payment domain, thus boosting the relevance to players like RS Software. The company is well placed to ride on the growing electronic payment industry.



Robust fundamentals

RS Software Ltd. has registered with excellent financials for the year ended March 2014. Revenues from operations surged by about ~20% at Rs.381.88 crores from Rs.318.16 crores in FY13. Strong sales has been driven robust revenue numbers from all around the world markets. Revenues from USA stood at Rs.325.87 crores from Rs.276.31 crores last year; witnessing a sharp growth of 17.94%. Rest of The World revenues grew sharply by 33.80% at Rs.56.01 crores from Rs.41.86 crores last year. Operating profit zoomed by about 54% at Rs. 76.49 crores from Rs.49.58 crores a year ago. Net profit skyrocketed at about Rs.51.18 crores as compared to Rs.35.44 crores; witnessing a growth of ~44%. Adjusted EPS stood at Rs.39.97 as against Rs.29.26. Operating profit margins expanded sharply by 445bps at 20.03% from 15.58% in FY13. Net profit margin jumped by 226bps at 13.4% vs 11.14% last year. Order book stood at USD 60 million for 2014-2015. The company has done some excellent strategic work with one of its major stakeholders in acquiring processor in Europe last year which has fuelled to a larger growth and is expected to continue for the next several quarters to come. The company enjoys zero-debt status. Further, revenues have been growth at a five-year CAGR of 21% translating into five-year EBIDTA CAGR of 36%. There has been a sharp five-year CAGR growth in PAT at 59% depicting the strong financial performance by the company since that time.



Consolidated Profit & Loss Account

Rs. Crore

Particulars	FY12	FY13	FY14	FY15E	FY16E
Net sales	264.03	318.16	381.88	458.25	540.74
Growth		20.50%	20.03%	20.00%	18.00%
Expenditure	225.26	268.59	305.38	362.02	424.48
EBITDA	38.77	49.58	76.49	96.23	116.26
Growth		27.88%	54.29%	25.81%	20.81%
EBITDA margin	14.68%	15.58%	20.03%	21.00%	21.50%
Other income	0.96	4.47	7.33	9.17	9.73
Depreciation & Amortisation	4.18	3.47	5.48	6.55	7.21
EBIT	35.55	50.58	78.34	98.85	118.78
EBIT margin	13.46%	15.90%	20.52%	21.57%	21.97%
Interest	0.45	0.94	0.88	0.90	0.95
PBT	35.09	49.64	77.47	97.95	117.83
Tax	6.23	11.71	23.88	29.38	35.35
PAT	28.86	37.93	53.58	68.56	82.48
Minority interest	0.00	0.00	0.00	0.00	0.00
Share of profits in Associates	1.43	2.49	2.40	2.83	3.51
Adjusted PAT	27.43	35.44	51.18	65.73	78.97
Growth		29.19	44.43	28.42	20.14
Net Profit margins	10.39	11.14	13.40	14.34	14.60
Exceptional item	0.00	0.00	0	0.00	0.00
Reported PAT	27.43	35.44	51.18	65.73	78.97
Equity Capital	11.47	12.11	12.80	12.80	12.80
Equity Shares	1.15	1.21	1.28	1.28	1.28
Adjusted EPS	23.92	29.26	39.97	51.33	61.67

Ratios

Particulars	FY12	FY13	FY14	FY15E	FY16E
Return on Equity	30.81	28.59	29.11	28.42	26.43
Debt/Equity	0.00	0.00	0.00	0.00	0.00
Asset turnover	2.38	2.23	1.90	1.73	1.58
Current Ratio	3.00	5.34	5.04	5.15	5.30
Book value per share	77.65	102.37	137.31	180.65	233.32

Balance Sheet

Rs. Crore

Particulars	FY12	FY13	FY14	FY15E	FY16E
Share Capital	11.47	12.11	12.80	12.80	12.80
Share application warrants	1.50	0.77	0.00	0.00	0.00
Reserves & Surplus	76.07	111.09	163.02	218.51	285.96
Shareholders' funds	89.04	123.97	175.83	231.31	298.76
Borrowings	0.00	0.00	0.00	0.00	0.00
Deferred tax liability	0.16	0.00	0.00	0.00	0.00
Minority Interest	0.00	0.00	0.00	0.00	0.00
Sources of funds	89.20	123.97	175.83	231.31	298.76
Gross block	83.81	87.50	98.51	109.11	120.16
Accumulated Depreciation	71.99	75.34	80.69	87.24	94.45
Net block	11.82	12.16	17.81	21.87	25.71
Intangible assets under dev.	0.25	0.37	0.74	8.73	12.05
Investments	33.22	29.68	54.17	64.37	75.70
Deffered tax assets	0.00	0.13	0.07	0.07	0.07
Inventories	0.00	0.00	0.00	0.00	0.00
Sundry debtors	27.23	37.98	46.59	62.57	84.48
Cash and bank balance	21.60	27.59	41.30	54.12	70.78
Other current assets	0.00	0.44	1.70	3.38	4.57
Loans and advances	17.04	34.40	38.94	49.04	68.49
Total current assets	65.87	100.41	128.54	169.12	228.31
Current liabilities and provisions	21.97	18.79	25.50	32.84	43.08
Net current assets	43.91	81.62	103.04	136.28	185.23
Misc exp	0.00	0.00	0.00	0.00	0.00
Uses of funds	89.20	123.97	175.83	231.31	298.77

Quarterly Financial Highlights

Rs. Crore

Particulars	Q1FY15	Q4FY14	Q1FY14	YoY%	QoQ%
Revenues	98.62	93.20	89.92	9.68	5.82
Expenditures	75.68	75.21	73.75	2.62	0.62
Operating Profit	22.94	17.99	16.17	41.87	27.52
Adjusted Net Profit	15.82	16.00	10.19	55.25	(1.13)
OPM%	23.26	19.30	17.98	528bps	396bps
NPM %	16.04	17.17	11.33	471bps	(113bps)
Adjusted EPS*	12.36	12.50	7.96	55.27	(1.12)

*Adjusted for current no. of equity shares

Past Price movement of the stock



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<i>Disclosure of Interest Statement</i>	<i>Company Name</i>
1. Analyst Ownership of the Stock	No
2. Hem & its Group Company Ownership of the Stock	Yes
3. Hem & its Group Companies' Director Ownership of the Stock	Yes
4. Broking relationship with company covered	No

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