



BOOK OF LISTS

THE ANNUAL REPORT FOR 2012-13 THAT EXPLAINS
THE RISE OF DIGITAL MONEY AND HOW RS SOFTWARE
IS ACCELERATING ITS ADOPTION

R.S. Software (India) Limited
Annual Report 2012-13

Forward-looking statement

In this annual report, we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements – written and oral – that we periodically make, contain forward-looking statements that set out anticipated results based on the management’s plans and assumptions. We have tried wherever possible to identify such statements by using words such as ‘anticipates’, ‘estimates’, ‘expects’, ‘projects’, ‘intends’, ‘plans’, ‘believes’ and words of similar substance in connection with any discussion on future performance.

We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions.

Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected.

We undertake no obligation to publicly update any forwardlooking statements, whether as a result of new information, future events or otherwise.

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The first word

The last time you bought something, did you pay by a credit card? The last time you bought a book, did you pay cash across the counter or simply clicked for it on an international website? The last time you wanted to transfer money across continents, did you carry a bag full of currency or simply asked your bank to transfer it electronically?

If the answer to all three is a 'yes', it only testifies to the growing preference for digital money.

Interestingly, the electronic payments industry is as complex as it is attractive. To provide readers with a lucid insight, we have deliberately chosen to restructure the report's format. From a conventional chapter-led approach to a list-centric treatment.

With the objective to enhance familiarity with one of the most attractive sunrise sectors in the world and the role being played by RS Software in facilitating it.

4 big reasons why the payments industry trend continues to be positive

- 1 Nearly \$11 trillion is spent globally each year (cash and cheques) providing a robust foundation for the growth of the electronic payments industry.
- 2 The global electronic payments industry is experiencing an unprecedented growth on account of an irreversible shift from paper to electronic payment forms, processing tens of trillions of dollars of payment transactions.
- 3 US payment transactions processing just on Visa & MasterCard networks have grown from 18% of non-auto retail sales in 1991 to 77% of non-auto retail sales in 2012 (estimated at \$4 trillion).
- 4 US consumer payments using cards are estimated to rise from 40% in 2006 to 60% by 2016 (Source: The Nilson Report).



Innovation leading to disruption

The immense potential of emerging payments presents new, valuable options for consumers and merchants to graduate from small time players to long-term winners.

For instance, credit card companies are partnering issuers, merchants and even competing companies to offer competitive products and services. In early 2013, Visa and JP Morgan Chase announced a venture called Chase

Merchant Services (CMS) where Visa will help its largest client JP Morgan Chase to set up its own processing capability. This will allow CMS an enhanced flexibility in setting terms of interchange with merchants, greater cooperation between issuers and acquirers without Visa standing in between with its rules. This is similar to American Express' own closed loop network. Overall, Visa could gain a



5 indicators of how the global electronic payments sector has translated into valuations

This industry since 1970 has grown ~10,000%, and it is now operating in 200 countries, serving 500 mn clients, and this year its revenues are expected to be in the range of \$1 trillion. Even as the last five years have been the most challenging in decades for the financial sector, major credit card companies - Visa, MasterCard, American Express and Discover Financial Services - outperformed the rise in the S&P 500 index. Benefiting from a shift to paperless payments, higher consumer confidence, lower bankruptcy and a higher utilisation of credit cards by businesses.

1 The Visa stock price has grown by **250%**

2 The MasterCard stock price has grown by **400%**

3 The American Express stock price has grown by **650%**

4 The Discover stock price has grown by **1,000%**

5 The RS Software stock price has grown by **1,100%**

Shares of RS Software are quoted and actively traded in NSE and BSE

market share and some incremental revenue due to the relaxing of rules. Around the same time, MasterCard made a deal with Alibaba Group, a large China-based e-commerce company, which gave MasterCard access to 6,000,000 merchants and 800 million users. Essentially the focus is shifting to merchants and consumers, and that is where brands will get built.

Platform plays are going to make 2013 an interesting year for payments. Payments have always been about

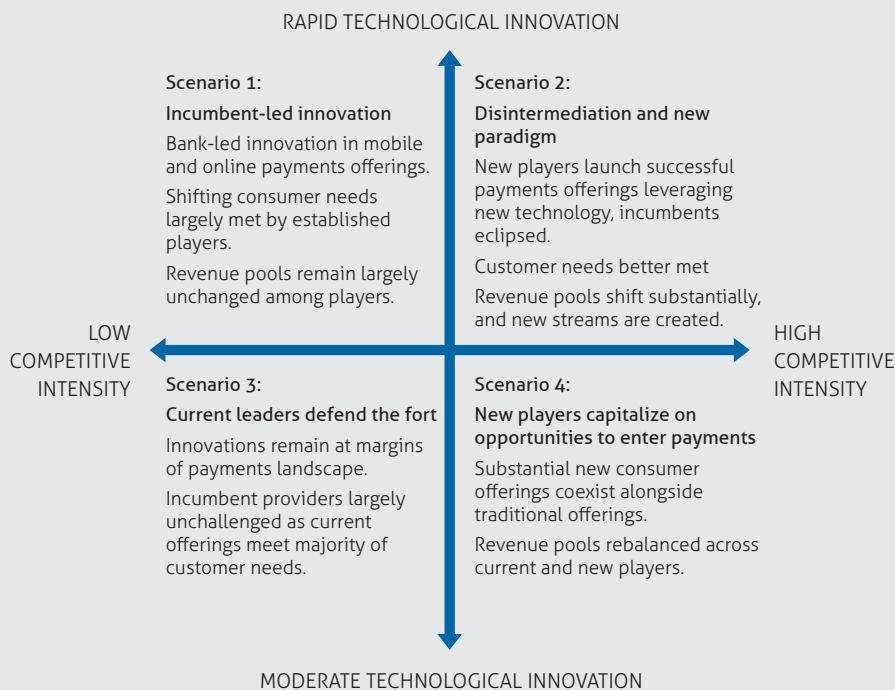
platforms; if 2012 was the year of the 'mobile wallet', 2013 will be the year of the 'platform play'. In 2012, Discover started a whole new trend in platform plays when it made its platforms available to others (PayPal most famously) to ignite its own payments. Innovations like PayPal, Google and Facebook are changing the way we live; the way we buy and pay for things.

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The pictorial representation below from McKinsey & Co. gives an overview of the evolution happening in the payments ecosystem:

Competitive intensity and technology Innovation will shape the future of payments



Payment Networks – The driver of change

Payment Networks are a critical and important player in today's electronic payments infrastructure (and this is where RS Software's largest and dominant experience lies). Therefore the pace and scale of change in the payments industry will be dictated by the dynamics of network competition and the success or failure of emerging payments offerings.

An alternate network can replace an existing network if it provides similar or better services, as with displacement of traditional mail by e-mail and mobile phones supplanting landline phones. As online and mobile networks grow in popularity and sophistication, their potential to displace existing networks increases.



3 unmistakable indicators that the world of electronic payments is rapidly becoming a part of our everyday lives

Innovation in computing and mobility enable point of sale capability - anytime and anywhere

- 1 Computing growth from 1980 has gone from 10M++ devices to current levels of 1B++ and estimated at 10B++ devices by 2020
- 2 Global mobile traffic has increased from 0% to 15% of the global internet traffic in the last five years, and growing rapidly
- 3 The smartphones and tablets environment is fast moving towards the wearables/drivables/flyables/scannables space

China's online payments standard, Alipay, is a compelling example of a new player leveraging the online network to offer a new payments standard – to the exclusion of incumbent payment networks. At present, mobile POS acceptance – fuelled by innovators like Square – is expanding the payments market into new merchant verticals, while online social networks such as Facebook and Zynga are fuelling innovation with multiple payment forms.

For payment networks, the

implications are more balanced. Their primary concern is to remain relevant to all parties and deliver mobile payments infrastructure to the market. Networks should consider expanding their clients to include mobile network operators as direct payments parties. Retailers have an opportunity to meet customer needs by allowing them to pay with the instrument of their choosing.

The major payment networks are increasing their focus on technologies that consumers can use to make

purchases – by simply entering a password on an e-commerce website or by tapping a smartphone against a merchant payment terminal. When paired with incentives, such services could increase transaction volume and provide new revenue streams for payment networks, banks and merchants.

5 indicators of the rich mobile telephony potential

1 While the global population is around seven billion, the total number of mobile phones is close to six billion, a global penetration of nearly 85%.

2 Developed countries like the US, the UK and Germany have a penetration of over a 100% while Hong Kong and Saudi Arabia have a penetration approaching 200% even as the mobile phone penetration in developing countries like India and China is close to 70%, representing a scope for expansion.

3 Mobile phones are extending financial services in lieu of an

underdeveloped banking system with transactions involving SMS-based payments, direct mobile billing using PIN and onetime password (OTP) authentication and mobile web payments.

4 The room for smartphones to grow is huge considering that there are only 1.5 billion smartphone users as against 6 billion mobile phone users in 2013

5 The global volume of money spent using mobile phones was around \$106 billion in 2011, rising to \$171 billion in 2012, and expected to grow to about \$617 billion by 2016.

There are only 1.5 billion smartphone users as against 6 billion mobile phone users in 2013

8 game-changers in the global payments industry and how they are transforming the industry structure

Improving operational efficiencies and lowering costs are no longer adequate for maintaining a competitive edge in the payments processing industry. Regulations, alternative networks, rapid adoption of new technologies by consumers, and payment innovations have created a competitive environment that requires processors develop their businesses with value-added services and products.

Opportunities for such offerings are available in a variety of areas such as data analytics, business intelligence; location-based marketing, and simplified payment options.

1 Regulation: Governments are shaping the competitive playing field within and across borders. In the wake of the financial crisis, rewriting the established rules.

2 Consumers: Consumers are

demonstrating a strong willingness to change their purchasing behaviour. As evidenced by de-leveraging in advanced economies, deeply entrenched behaviours are shifting, presenting the opportunity to recast preferences.

3 Technology: The rapid spread of smartphones and web access has attained sufficient scale to offer a compelling alternative to existing payment mechanisms.

4 Merchants: As a critical segment of the payments landscape, merchants are increasingly innovating POS mechanisms. Merchant-funded, personalised reward offerings may drive new products.

5 Competition: Banks, payment networks, processors and other payment incumbents are increasingly encountering competition from mobile carriers, internet players, software providers, retailers and

other new entrants as the landscape evolves.

6 Utility: Payments have traditionally been seen as a utility supporting other revenue sources, but it is now emerging as a distinct competitive advantage that needs to be achieved.

7 Convergence: The convergence of physical, online and mobile channels are forcing all key participants to re-platform their systems to give customers a unique experience, starting with pre-payment to payment to post-payment.

8 Prepaid cards: Banks run a significant risk of wide-scale disintermediation as millions of customers turn potentially to new lower cost alternatives. Prepaid cards represent a \$3.3 trillion opportunity, helping the under-banked and un-banked population, globally.



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Is the secular trend for growth of electronic payments ending soon?

Dee Hock is the founder CEO of Visa, and also the innovator of the electronic payments industry. He said "The problem is never how to get new, innovative thoughts into your mind, but how to get old ones out. Every mind is a room packed with archaic furniture. You must get the old furniture of what you know, think, and believe out before anything new can get in. Make an empty space in any corner of your mind, and creativity will instantly fill it."

Here is one of his several quotes, which only validates the continuing journey of innovation in the electronic payments industry: "Money had become nothing but alphanumeric data recorded on valueless paper and metal. It would become data in the form of arranged electrons and photons that would move around the world at the speed of light, at minuscule cost, by infinitely diverse paths, throughout the entire electromagnetic spectrum."

The long term secular growth trend is well founded and established.

Card penetration is high in the US, but still growing at higher rates than retail sales due to more merchant categories getting added to the

Electronic Payments Industry. Technology is enabling ~35 million casual merchants in the US, who are now leveraging electronic payments (thanks to companies like Square)

In 2012, \$1.2 trillion cash was in circulation around the US (~7% of GDP), and is present in a significantly higher level in other countries. Cash and cheques still constitute \$11 trillion a year for retail payments outside the US, particularly in emerging markets, ~85% of global payment transactions are still done using paper money

Mobile phones and tablets in the US can do to brick and mortar casual 35 million merchants what PayPal has done to online payments.

MPESA in Africa has shown how mobile payments can facilitate societal inclusion, which has helped motivate governments globally to target the electronification of payments.

Without a doubt, credit card companies are here to stay and likely to capitalise on two secular trends: move to a cashless society and respond to an ever-increasing focus by regulators to lower the fee structure between merchants and issuers of payment instruments.

Where RS Software comes in

Irrespective of whether McKinsey's four projected trends exist or any of these trends dominate over the others, stakeholders in the payments industry will need to build, enhance and consolidate their payment processing infrastructure. The result is that one can expect significantly large capital allocations to achieve this. The organisations involved in processing these payments make it all seem easy but it isn't. This is where providers like RS Software come in, a company helping build authorisation, clearing and settlement systems for more than 20 years.