>> The power to move money ... electronically

2005-06
Annual Report

R S Software (India) Ltd

FOREWORD

It was predicted that the pace of growth in IT will eliminate the use of paper in our offices. That did not exactly happen. But going by the trends in global payments, it will probably not be long before cheques and paper cash become a thing of the past.

By the end of the 2004-09 period, global electronic payment transactions are expected to touch a CAGR of around 13%. In contrast, there will be a 3.3% drop in cheque-based payments in the same period. By 2009, the global volume of all electronic retail transactions (both payments and transfers) plus all electronic wholesale transactions, are expected to peak at over 384 billion transactions. However, cheques will account for a little less than 45 billion transactions. Paper money, which has survived thousands of years of human history, countless revolutions and civilizations, is rapidly getting marginalized in the global retail markets.

It is the right time to be in the right place. Working in the global electronic payments domain, RS understands that legacy based payment systems have neither the scalability nor the bandwidth to cope with this growth in transactions volumes, over 60% of which in future will be on account of retail payments fuelled by the surge in Debit cards-based spending. And while the US will continue to be where the action is, Eastern Europe and the Asia Pacific will be the regions in which most transaction growth will get recorded.

For RS, it is also the right time to do the right thing; to focus on products or the products-based services space through both organic and inorganic growth strategies. To drive growth, RS has embarked on plans to marshal funds from the capital market, to attract high-tier technology professionals and domain experts from the talent market, and to put together a high profile team of international marketing consultants who can help RS create an effective global brand.

The good thing is that the action has already begun. The great thing is that our capabilities have started drawing traction in the market and we are showcasing our offerings now to leading payment systems companies, globally. If the electronic retail payment space is where all the action is, it is now time for RS to make its presence felt in that arena, confidently.

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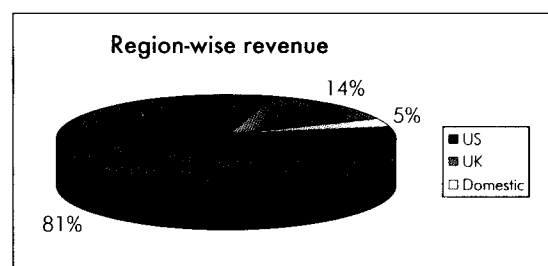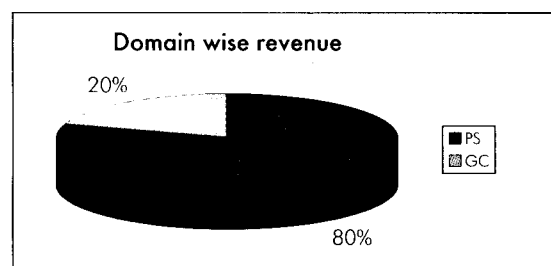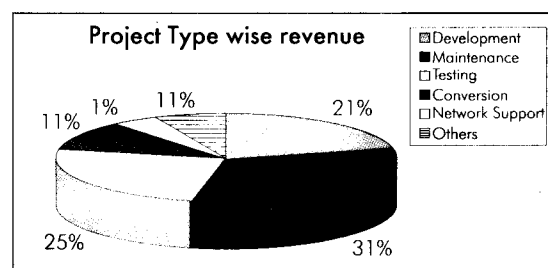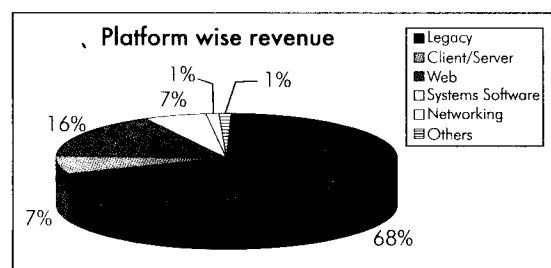
OPERATIONAL HIGHLIGHTS 2005-06 | RS

Execution

If 04-05 was a watershed year for RS thanks to a whopping ~42% YoY revenue turnaround - 05-06 saw a more balanced performance in terms of both topline and the bottomline. First time in many years, RS registered operating profits every quarter. It also brought to an end a period of great uncertainty that saw RS battling the financial aftermath of the meltdown years, and finally emerging out of it.

0506 was a year of greater focus for us in our chosen domain. We got quite a few new payment systems projects from existing accounts as well as from new relationships. Some of the names added to the revenue stream were Authorize.Net, Nova, Anshinsoft, Health Transaction Network, Verus Financial Management, Priority Payments etc., besides EXS testing that started at onsite.

Successful completion of the EXS Processing Payment Gateway project resulted in RS bagging the Authorize.net project. More significantly, it saw the roll-out of the RS proprietary Payment Gateway. This has now firmly put the company in the acquiring side of the payment systems domain. While building the EXS switch, RS not only acquired a high degree of knowledge in the area, but also translated it into a marketable solution.

On the Inovant front, there were two significant client visits. The ISD project that deals with the reengineering of authorization and settlement between ISD and Processors, started during the year. They are now in the process of building individual connector modules a pair of authorizer and settlement for each processor. RS would work as an extended team of ISD and as a pilot, develop the first connector module. If RS is able to deliver the project as per client expectation and within time, it can expect a steady inflow of orders to build 50+ such connectors. More significantly, RS would function as the only offshore arm of ISD for such development.

Platform wise revenue
- Legacy
- Client/Server
- Web
- Systems Software
- Networking
- Others

1%, 1%, 7%, 16%, 7%, 68%

Project Type wise revenue
- Development
- Maintenance
- Testing
- Conversion
- Network Support
- Others

11%, 1%, 11%, 21%, 25%, 31%

Domain wise revenue
- PS
- GC

20%, 80%

Region-wise revenue
- US
- UK
- Domestic

14%, 5%, 81%

Competency & Technology

During the fiscal, the Competency Group engaged in assignments that helped RS acquire a wider and deeper understanding of the entire payments systems space for acquirers, payment networks and issuers. As a part of these initiatives, new offerings have been designed, which will be rolled out to the market soon. These include RS owned IP like a transaction processing switch, a residual management system and a gift and loyalty card processing system. Prototypes of the switch (iFinSwitch), Merchant Boarding, Residual Management, and a Gift & Loyalty tool…have already been developed and are currently being tested.

On the new technology front, J2ME (Java Mobile Technology) architecture and Java frameworks have been adopted or implemented in various projects. Technologies like POS (Point Of Sale) devices were also brought within the purview of the competency roadmap. The Technology Organization put in place a Design Review process and Standards and Guidelines for Java and Testing, which is expected to significantly improve the delivery capabilities of Execution.

During the year, the web server migration was completed, and the company upgraded to the latest version of Oracle. Significant progress was also made in the area of corporate automation, as a result of which RS today is a more paperless and metric-driven organization then ever before.

HR & Sourcing

05-06 was a crucial year for HR. With the opening up of the market, both talent attraction and retention became critical success factors for businesses of all sizes and brands. HR came up with a host of initiatives, which helped RS keep attrition levels well within the industry ranges. This included among other things significant market correction of the compensation structure based on the Nasscom Hewitt Study in the early part of the year, as well as offering the next round of employee stock options to all deserving employees.

But the most significant initiative launched was to redefine the career paths for technology professionals into four distinct tracks: Project Execution, Client Interface, Domain, and Technology. This marked the beginning of a substantive exercise that involved definition of roles and responsibilities based on role, track tier and career expectations. Particularly, the HR team worked closely with the Technology organization to define the Technology track with greater clarity since majority of the lower tier professionals tend to opt for that track.

HR has also engaged itself in defining an attractive retention strategy that will help particularly the new employees to bond well with the RS family on the basis of organizational hygiene factors and career needs. The process of redesigning the performance appraisal structure and aligning it with business goals of the organization has also been initiated.

The Global Sourcing engine worked overtime to create a brand for RS in the employment market. This included networking with HR Consultants and engagement of Retainers, as well as publishing Ads in prominent national media. The focus for Sourcing has been to attract higher tier talent who can provide leadership to the company's future business. So far, RS has been able to generate good traction in the talent market, indication of which is evident in the enhanced service levels adopted by the Sourcing Team. A national network of top notch sourcing consultants has been identified and talks are going on to engage some of them as retainers. The Sourcing Team took help of the Technology Organization in redesigning all the recruitments tests that are now geared more towards high bandwidth ramp-up rather than vanilla skills.

However, considering the expected growth in the coming years, a fully integrated branding exercise needs to be implemented using PR and other media-based routes. So, Sourcing and Corporate Communications are jointly working on a strategy, which is expected to be launched sometime in the third quarter of the 06-07 fiscal.

Infrastructure

or the Infrastructure groups, the key focus area in the early part of the fiscal was to maintain compliance with the BS7799 Information Security guidelines in the organization. As a result of this initiative, clients' information assets are more secure today than ever before.

During the year, a substantial amount of investment was made in the area of facility that included both state-of-the-art technology as well as robust equipment. A new and powerful server replaced the old one in the VCEMEA project. Three rack-mountable servers have been procured for the RS Intranet, and a storage server for desktop backup has also been put in place. The Corporate LAN has also been secured by the implementation of gateway level antivirus software. A new firewall has now replaced the old one, and Intruder prevention System (IPS) has assumed the responsibility of keeping web attackers, hackers and crackers away. An e-mail encryption software was also installed.

And while Building 4 had its power backup strengthened thru the commissioning of a new DG set, a high quality video conferencing link was established between Building 4 (Kolkata) and our Milpitas office. These and other workplace enhancements created a major feel-good factor that contributed in improving the internal brand.

Training

05-06 saw a spectacular increase in the number of person training hours clocked during a year a whopping 41% over the previous fiscal. In the process, it crossed the 35,000 person-hour mark. While a large part of the knowledge and a skill delivered was with the help of prominent training vendors (Oracle India, Amitysoft, Kabira, STG International, QAI, KPMG etc.), there has been a significant increase in the in-house bandwidth of training skills. Particularly in the area of domain-based knowledge transfer. The organization's own SMEs are today recognized for their ability to impart training in the Payment Systems domain. And this recognition is not just limited to RS. In a recent association with IDRBT - the research wing of Reserve Bank of India - RS SMEs conducted knowledge sharing sessions in the area of electronic payments.

During the year, the Training group worked closely with the Competency Team to design and impart programs that included advanced sessions in the Acquiring Solutions space that included Merchant Boarding, Authorization, Risk & Fraud, Clearing & Settlement, Chargeback dispute etc., and in the Issuing space such as Card Management System. The number of regular training sessions in the technology space also increased substantially and included workshops in Software Testing and .Net, as well as sessions in Effort Estimation. A specially customized Induction program was conducted in collaboration with the Technology group for new recruits from premiere institutes who were given certificates on successful completion of the rigorous month-long program.

Significantly, for the first time, business domain specific inputs in Payment Systems were arranged for our professionals posted onsite. Technology modules organized onsite included Microstrategy, Kabira, UML, Dimension Modelling etc. Training was also conducted for Sales by the Competency / Business Support processes. With a view to complement Instructor led Training, the Training group has also acquired a host of computer based self learning modules (CBTs) in diverse subjects such as .Net, UDB, XML, Data Modelling, Java / JSP / Servlets, C++, Linux, Photoshop, Flash and even on Communication skills. It has also started collaborating with a CBT developer to convert our home-grown training resources into self-paced learning kits.

Quality & Benchmarking (Q&B)

In keeping with the mandate that all development projects in the organization must be brought under EQA process, Q&B expanded its team size and worked with Training to get their new team members inducted in Payment Systems. A total of 250 PDs of work has already been concluded during the fiscal for various development projects. During the year, Intertek conducted an integrated ISO 9001:2000 and BS7799 compliance audit and agreed to continue both the certificates. A Baseline Metrics Analysis Reporting process was also initiated for Execution to have a better and timely handle on all project delivery. Another significant step taken was to complete the test procedure definition each of the 10 Key Controls for VCEMEA so that implementation verification can be done using them. And since effective interlocks between processes are going to be a critical success factor for our future growth, an innovative system of cross-functional audit was put in place.

During the year, the Q&B team conducted two important surveys. Based on the findings, Q&B collaborated with Training to organize programs on information security guideline awareness, testing and project planning. Q&B also firmed up the Project Execution Costing process, which is expected to help Finance in tracking project profitability on the basis of actual effort rather than just headcount.

Branding

The Corporate Communications Team took significant steps during the year in enhancing both the external and internal face of RS. This included upgrading of the RS Website and making it more customer-focused, as well as creating a host of corporate collateral and marketing kits. Specific collaboration happened with the Sourcing Team towards design of kits for attracting retainers, and publication of recruitment ads in the media for attracting high-end talent. The entire set of company stationery was given a new look in keeping with the evolving image of the company. The Corp. Comm. team also worked closely with Finance to develop and present information required by the Lead Managers and SEBI for the proposed Rights Issue. A Press Conference held in February '06, which was attended amongst others by our new director Jonathan Kalman, received good media coverage.

BOARD OF DIRECTORS

RS

Mr. K. S. Bhatnagar, Chairman

Mr. R. R. Jain, Vice Chairman & Managing Director

Maj. Gen. A. Balasubramaniam (Retd.), Director

Mr. S. K. Jain, Director

Mr. Jonathan Kalman, Director

Mrs. S. Jain, Director

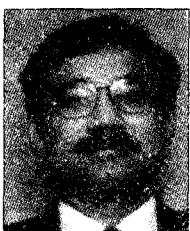Mr. S Khasnobis Nominee Director (ICICI)
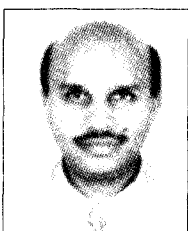
EXECUTIVE COUNCIL

Mr. R. R. Jain
CEO

Dr. Shurjo Ghosh
COO

Mr. Kunal Sen
VP Finance & Company Secretary

Mr. Bibek Shankar Das
VP Corporate

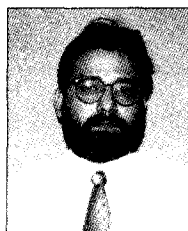**Mr. Rakesh Srivastava**
General Manager,
Business Development

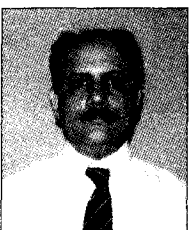**Mr. Vivek Chettur**
Global Sourcing Head

Mr. Debasis Bandyopadhyay
Associate Vice-President,
Execution

Mr. Aniruddha De Choudhury
General Manager,
Corporate Communications

Mr. Aniruddha Rai Chaudhuri
General Manager,
Quality & Benchmarking

Mr. Sanjib K. Mukherjee
Deputy General Manager,
Corporate HR

Mr. Prasun Maharatna
Manager,
HR & Sourcing (US)

Mr. Sabyasachi Chatterjee
CTO & Business Manager

NOTICE TO MEMBERS

The Eighteenth Annual General Meeting of R S Software (India) Limited will be held on August 18, 2006 at 3.30 pm at Sisir Mitra Hall, Webel Bhavan, Block EP & GP, Sector V, Bidhan Nagar, Calcutta 700 091 to transact the following business:

ORDINARY BUSINESS

1. To consider and adopt the Audited Balance Sheet as on 31.03.2006 and Profit & Loss Account for the year ended on that date and the Report of Auditors and Directors thereon.

2. To appoint a Director in place of Mr. Shital Jain who retires by rotation and being eligible offers himself for reappointment.

3. To appoint a Director in place of Maj. Gen. A. Balasubramanian who retires by rotation and being eligible offers himself for re-appointment.

4. To appoint Auditors and to fix their remuneration and for this purpose to consider and, if thought fit, to pass the following resolution as an Ordinary Resolution.

    "Resolved that pursuant to the provision of Sec 224 and other appropriate provision, if any, of the Companies Act 1956, Messrs Chaturvedi & Company to retire at the conclusion of the Meeting be and are hereby re-appointed Auditors of the Company to hold office from conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company at a remuneration to be decided by the Board of Directors of the Company".

SPECIAL BUSINESS

5. To consider and, if thought fit to pass, with or without modifications the following Special Resolution:

    "Resolved that the allotment of 562,500 Equity Shares arising out of 5625 zero interest Non-Convertible Debentures of Rs.10/- each, each Debenture having 100 detachable Warrants each entitling the holder to subscribe to one Equity Share at issue price of Rs.20/- each (including a premium of Rs.10/- per share) to the main Promoter, Mr. R R Jain on 10th January 1994 which was supposed to be done between the 2nd and 4th year from the date of allotment was extended by the Board for one more year i.e. till July 1999 be hereby approved and ratify the Board's decision."

6. To consider and, if thought fit to pass, with or without modifications the following Ordinary Resolution:

    "Resolved that Mr. Jonathan Kalman appointed as a Consultant at a fee US Dollar 100,000 per year and 45,000 Options be and are hereby approved and necessary approvals be obtained from different Authorities for payment of the said fee."

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