



At the heart
of the global
**digital payments
revolution**



How RS Software is strengthening its business model
around digital payments

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 forward-looking statements, whether as a result of new information, future events or otherwise.

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At the heart of the global digital payments revolution.

RS Software is working with the core digital payment system, building deep competencies in the areas of authorisation, clearing and settling electronic payment and addressing attractive global opportunities.

RS Software recognises that the unfolding of this opportunity represents a transition of landmark proportion in the history of humankind.

The rich potential of RS Software's business is reflected in the Company's burgeoning financials in 2014-15. Profit after tax grew 25.76% to ₹673.87 million and EBIDTA margin strengthened by 552 bps to 27.06% during the year under review.

The Chairman's overview

The payments industry transformation has gained fever pitch in response to the developments transpiring in the digital commerce space.



Consequently, the investor community has demanded the building of the necessary infrastructure to enable this change. By 2020, consumer experience and expectations – and the role of technology in meeting these expectations – will account for 70% of what shapes the evolution of the payments industry and the needs and expectations of commercial and corporate customers the remaining 30%.

The winners emerging in this paradigm shift might not be its strongest or most tech-savvy players, but those who respond best to industry change and market feedback. The payments business is filled with surprises, and no player (regardless of size) knows for certain which applications or value propositions will ultimately be most compelling to consumers. For example, today's consumers show an increasing preference for peer-to-peer money transfer services – such as Barclays' Pingit and Commonwealth Bank's Kaching – as popular balance-checking mechanisms. Both traditional and non-traditional players will do well to recognise the likelihood of unpredictable shifts in consumer behaviour, and to prepare backup plans that are robust and farsighted.

The well-defined and well-bounded payments industry is rapidly becoming history. Instead, it is becoming part of a much wider commerce ecosystem that comprises a mix of

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well-established players and new entrants, each flexing unique strengths as they pursue what is fast becoming the holy grail of online commerce.

RS Software is committed to make the most of this evolution in the digital payments segment, just as it continues to build and enhance the electronic payment infrastructure for the brick and mortar retail space. The latter has emerged as a significant 'asset' for the Company on the back of its 20+ years of sectoral experience. This will continue to be the 'cash cow' for the Company. The goal is to take this to the next level with the aid of best-in-class processors and networks globally, including building and enhancing the national payments infrastructure.

RS Software has taken the decision to reorient its business strategy to progress from a pure-play outsourcer to a hybrid recurring product/services revenue generator.

The payments industry has historically operated relatively in isolation within the ecosystem of bank and bank-related issuers, acquirers, processors and networks. These players not only built the industry, they were also instrumental in developing the standards and rules guiding participation. However, the old order is rapidly fading and a new one is taking its place. The question: how will this sea change reshape the established industry structure?

The players in the payments value chain are trying to gain a stronger foothold. They are coming to terms with the fact that their industry is part of a far broader commerce ecosystem. They are no longer insulated from the forces reshaping commerce in the areas of regulation, technology, retail and consumer behaviour.

While such momentous change may sound like a major challenge for industry incumbents, it also presents substantial opportunities. According to Mckinsey, global payments industry revenues in 2011 stood at approximately \$900 billion. The integration of emerging factors, including offer delivery, personalised marketing, and related business models, could increase those revenues

nearly seven-fold. As commerce and payments business models converge more rapidly, a relevant digital payments infrastructure needs to be built.

The ubiquity of smartphones has placed unprecedented computing power at the fingertips of millions of consumers. Today's smartphones function not only as communication devices, but as search tools, a platform for merchant offers, price comparison mechanisms, peer-to-peer money transfer systems, payments devices, gaming consoles and social networking tools. Meanwhile, mobile wallets are enabling merchants and manufacturers to market their wares in more efficient and relevant ways, with m-commerce as a percentage of e-commerce alone increasing from 11% in 2012 to 19% in 2014. Furthermore, m-commerce as percentage of total retail, which was a meagre 0.6% in 2012, has now increased to 1.6%. These are early days and companies choosing to focus here have their work cut out for themselves. It is not surprising that smart money is chasing such initiatives globally, including India.

Networks and acquirers are exposing the payments functions as secured application program interfaces, thereby breaking down entry barriers for new players. Aggregators and technology providers are developing digital payment platforms using these application program interfaces. They are adding value by integrating the commercial and the payment-related aspects and some are even integrating social media, analytics and risk management services and providing the entire service as white-labeled mobile application for initiating payments.

The global digital payments sector is expected to treble in just the next four years, catalysed not merely by a linear increase in transaction volumes but also through disruptive applications. What is evident is that what we have seen until now has only been a scratching of the surface; as the e-commerce revolution extends across continents and as people recognise the convenience of buying things without moving out, e-commerce volumes could grow 20-25-fold over the coming decade.

Despite spending the first decade of its existence as a quality software services provider, it selected to focus exclusively on the digital payments space from 2005 onwards.



So how does this transformation affect the digital payments ecosystem?

Earlier, much of the attention within the digital payments space was focused on hubs. However, over the last decade, there is increasing evidence that much of the industry action is transpiring among the spokes – acquirers, issuers and merchants – that are beginning to carve out a larger share of the market.

The remarkable aspect of this transformation is that a number of regulatory agencies are coming to grips with the virtual death of physical money. This is being reflected in governments announcing regulatory guidelines that are expected to increasingly streamline digital payments, not only within their countries but also across borders, indicating the coming of age of this commercial development.

The message is clear: the digital payment revolution is not merely facilitating e-commerce; it is restructuring the global economy.

So what will companies need to succeed in this exciting environment?

Corporates will need to tactically assess where the payments revolution is headed; they will need entrenched experience and proven competencies to provide value-added products and services.

RS Software possesses these distinctive credentials.

Despite spending the first decade of its existence as a quality software services provider, it selected to focus exclusively on the digital payments space from 2005 onwards. The Company has thereafter worked extensively with the largest digital payments hub in the world, specialising in core systems.

Over time, the rich learnings from the engagement resulted in the creation of the RS School of Payments™ and the Payments Lab within RS Software, graduating the Company from just another digital payments service provider into a centre of niche excellence.

The time has come for the Company to capitalise on opportunities unleashed by the vast transformation in the digital payments space in a strategic manner. The Company is investing increasingly in testing, risk / fraud management and analytic competencies; facilitating product platforms and, in so doing, is

At RS Software, we are optimistic of our prospects as we prepare the Company to define and achieve its vision 2025.



evolving into a hybrid model offering a bouquet of services and products.

The Company works extensively with payment network companies, who are present at the core of electronic payment processes. These networks drive much of the innovation and cutting-edge development that transforms the way we transact in a virtual world. A presence at the cutting-edge of change benefits RS Software in two ways: we are able to appraise the direction in which modern payment networks and technologies are headed and are able to adapt our technology response; we are able to provide services with speed around these inflection points, which evolves us into a preferred service provider.

The Company derives the principal portion of its revenues from one of the largest payment network companies; it has been doing so for years. RS Software is engaged in leveraging the rich experience of working with prestigious clients and widening its customer mix, broadbasing its risk framework and opening itself to new growth possibilities.

RS Software is not just another software company servicing the downstream needs of customers. The Company is engaged in creating and strengthening the digital payments infrastructure that makes it possible for millions of digital payment transactions to be conducted across the world every single minute. Subsequently, the Company is not just addressing peripheral opportunities arising from the business; it has carved itself a growing place at the heart of the global digital payments revolution.

At RS Software, we are optimistic of our prospects as we prepare the Company to define and achieve its vision by 2025.

The principal message that I wish to leave with our shareholders is that RS Software is committed to growing its presence in the electronic payments space, capitalising on the global transition from physical to digital payments, strengthening its business to capture every emerging opportunity and enhancing value for its shareholders.

Raj Jain
Chairman

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There are just two points that we wish to make in this report.

One, the global payments ecosystem is undergoing a dramatic transition.

Two, RS Software's business model lies at the very heart of this transition.

Making it an exciting proxy of an evolving industry space. A dynamic global payments player.
An integrated solutions provider.

RS Software delivers a comprehensive range of services developed and customised for facilitating efficient financial intermediation.



Overview

Incorporated in 1991 with an exclusive focus on the payments industry, RS Software has been providing best-in-class payment gateway services from its software development centre based out of Kolkata (India).

Over the last two decades, the Company aggregated a 929-member team and carved out a reputation in addressing the growing needs of some of the world's leading payment brands.

The Company is a respected software-driven payment services provider listed on the National and Bombay Stock Exchanges. The Company enjoyed a market capitalisation of ₹438.84 crore as on 31st March 2015.

The Company has an operational presence across four continents and global offices in the US, UK and Singapore.

Offerings

RS Software delivers a comprehensive range of services developed and customised for facilitating efficient financial intermediation.

Custom application development

RS Software offers application lifecycle management across platforms – cloud-based, e-commerce and m-commerce – using a vast array of cutting-

edge tools and methodologies. The Company's entrenched expertise allows it to ride the growth emanating from increasing penetration and emergence of new forms of payment and settlement systems.

Quality assurance and testing

RS Software provides standardised, specialised and automated offerings including integration, system, regression, performance, smoke, stress, security and certification testing. The Company works extensively with clients to decode their complex transaction blueprints and provide tested applications that enhance their payment infrastructure integrity.

Application maintenance and support

RS Software offers comprehensive application lifecycle management services that maintain and support existing applications and new functionalities. It delivers application and platform migration, reverse engineering, performance tuning and 24x7 production and help desk support.

Strategic consulting

RS Software leverages its experience in the payments industry, helping clients align their business with evolving technologies. It conducts gap analyses, builds remediation plans and develops roadmaps to augment returns on investments.

RS Software enjoys a perceptible presence across the digital payments value chain.

RS Software serves the needs of the leading organisations in the payments industry. In-depth expertise, all-inclusive services and relentless innovation have been the building blocks of its growth.

Making it an attractive proxy of this rapidly emerging space the world over.



Switching and authorisation

The recent years have seen a proliferation in the use of various payment instruments and growing regulatory requirements have complicated transaction processes.

Challenge: Switching and authorising transactions has become increasingly complex with a corresponding growth in the quantum of transactions, payment types, devices used and regulations enforced.

Result: RS Software makes it possible for leading client brands to address this growing volume while reducing downtime complemented by availability, scalability and security; its solutions have grown their capability from a throughput of 500 transactions per second to more than 20,000 transactions per second.

Clearing and settlement

Emerging markets, cross-border activity, regulatory changes and growth in payment types have made clearing and settlement increasingly complex.

RS Software makes it possible for leading client brands to address this growing volume while reducing downtime.
