



“RS Software India Limited Investor Conference Call”

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**MANAGEMENT: MR. RAJ JAIN – CHAIRMAN AND MANAGING
DIRECTOR, RS SOFTWARE INDIA LIMITED**

Moderator: Ladies and Gentlemen, Good Day and Welcome to RS Software India Limited Investor Conference Call. As a reminder, all participant lines will be in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Raj Jain– Chairman and Managing Director, RS Software India Limited. Thank you and over to you, sir.

Raj Jain: Hello! Good afternoon, everybody. Thank you so much for being on our call. These are amazing yet very unusual times. When I look at RS Software in this entire context, we are essentially pursuing a three-point strategy, and that is a transition away from our client concentration model which we have talked about before, it is also there on our investor communication letter on our website.

So our transition strategy is three pronged where the first part is about the move from legacy to digital and RS Software's ability to facilitate that for its clients. That is primary a services business. The second part of the strategy is to look at the in-country payment infrastructure just like what we have done for India, with UPI and BBPS. According to a report by McKinsey there are about 100 countries globally which are at different stages of their payment infrastructure, while some are more advanced like the Nordic countries others are at the early stages like India, countries in North America like the USA, Canada come somewhere in between, that should give you a perspective as to where we are headed. This part of the strategy is also enclosed by the regulations where the regulators like the RBI equivalent are influencing the move towards faster payments, immediate payments. India's response is the IMPS product and also the faster payment in terms of the UPI.

The third part of the strategy which is the most important one and the one on which we are going to spend more time on today is really about India. We decided to focus on India about 15 months ago and now given the demonetization impact I think Prime Minister Modi has compressed the acceleration move from five to seven years down to maybe two years. We can already see the push by all the different ministries, the Planning Commission and the Niti Aayog. We can see the push by the RBI too. We are confident that this is going to be consistent, it is going to move forward and beneficiaries are going to be companies like RS Software which are exclusively focused on the electronic payment space.

When we look at what is happening globally today and not just in India, we are seeing for the last five years, in the last three years more so out of five years, that fintech has gained immense pervasiveness across the globe. So much so that the largest part of angel investments are going towards the fintech industry, and within that payment is probably about 43% to 46% of that. You can well imagine the investor interest because they can see the potential growth that is happening in the space.

To give you some data points for India itself, mobile banking is already on the increase and today the share of mobile payments is currently less than one-tenth of a percent. We see this increasing significantly because Indian payment infrastructure has actually been built with mobile being the important factor. With one billion cell phones, I personally believe that this is like a revolution in the country, the second revolution; the first revolution took place back in the 90s when we moved to the cellular technology overnight from the landline telecom infrastructure. Now with the growth of the mobile phones and the building of payments infrastructure it is a very powerful combination. Interestingly India has been investing significantly in the last seven to eight years; it all began with aadhar investment starting way back in 2009. As we all know, aadhar already has over a billion people registered on it. And that is really the biometric validation of each one of us in India who have got the aadhar identity.

This has actually expanded further to what is called the India stack. Companies like Facebook, like Apple, like Google invest billions of dollars in creating their infrastructure and then they open up their platforms to the developer community at large and spend as much as about \$25 billion a year on the developer community, but it accelerates the appeal of their platforms. India has built its own India stack at government's own investment, aadhar being the first layer. Digital Locker being the second one, which is really where individual citizens of India can store their documents. The third is the e-KYC to know your customer and encourage the banking system. The fourth is the e-sign, electronic signature, the whole idea behind this really is that if you look at a society like India which has limited level of trust amongst itself in the system or amongst the people, the idea is to create digital information access about the individual which is likely to create the trust that is needed, especially for the financial transactions. The final layer of the India stack, which will monitor all the other four layers, is really the payment infrastructure, the UPI, the BBPS and that is really where our software comes in and it has done that.

Our ability to monetize on this further and with that continue to build the infrastructure is to build our own platforms and the platforms which will be customized for different areas where the payment transactions originate from different verticals. Look at the platforms as a part of the overall platform economy which is spreading globally. Companies like Ola, companies like Uber, companies like Airbnb and in India you have more and more start-ups coming up in this space. We actually see India as a large participant in the platform economy and RS Software is committed to be devoting a significant part of its three pronged strategy benefitting from the platform economy.

When we look at the electronic payments space, in India there are several reports that have been put forward by international organizations, like the one put out by Credit Suisse recently in collaboration with Google where they are talking about 10x growth in the electronic payment transactions over 2020, in the next four years. And this is before demonetization by the way, several months before. So we believe that this may actually get even further accelerated and therefore the opportunity for company like RS Software starts to build itself. It

is kind of difficult to define the timeframe right now, but we believe that we are here to benefit from this trend and there are all the data points that are today providing tailwinds to the three pronged strategy of RS Software. When you look at the in-country payment infrastructure, the regulators are pushing that. You look at the move from legacy to digital, in fact, both Gartner and McKinsey have pointed out that the IT industry from India is likely to be \$350 billion by 2025, that means an additional \$200 billion growth, provided the 80% opportunities moving forward can be capitalized which is all about digital which is really where we are. For India, which is really where I just spend a lot of time talking to you guys about, we see the move of demonetization as a super acceleration pack for the electronic payment and digital payment transactions.

I am open to questions now.

Moderator: Thank you. We will now begin with the question-and-answer session. We have the first question from the line of Bajrang Bafna from Sunidhi Securities. Please go ahead.

Bajrang Bafna: When we last met we talked about this, and hopefully Modi has done the right thing for the Company. Can you could just tell us in more detail about the platform which you were talking last time that will bring this MSME and SME into the loop where they can use this digital revolution and also if you could broadly just tell us where we stand today and by what time will we see this platform eventually going live and generating possibilities for the Company?

Raj Jain: Yes, I do remember our conversation. You would be hearing a lot more about it in the next 90 days. It is absolutely on schedule in terms of technology construct, as I had mentioned to you, it has been in the build now for over 18 months. We have adopted the technology boat from what we have deployed in building India's payment infrastructure as well as from Silicon Valley's latest development. You all probably know that our US headquarters is based in the Silicon Valley. In the past two and a half weeks post 8th November, 2016 the sales of kinara stores seem to have been impacted but the ones who were really ready to accept the digital payment transactions, have been doing fine. This has hit home the message that there is a significant benefit through the digital payment transactions and we believe that this trend is secular, we believe that this is going to be pervasive through the country. We also believe that Indian citizens have demonstrated that they have a high tolerance and the move towards this trend is going to be irreversible. When you combine all the four factors together, it becomes a four factor acceleration tab to the platform economy in the country. By 2020 we believe that the entire digital space could represent as much as about 15% of India's GDP. You will be hearing a lot more about our platform in the next 90 days, which is when we are looking at the launch. It is on schedule in terms of construct and moving very quickly on to the beta testing.

Bajrang Bafna: Just one more thing if you could add here, we have recently seen, earlier in India we used to talk only about Paytm but now we have seen that most of the banks are coming on their own, we have heard about SBIPay, AxisPay and ICICI Wallet that has come up. If you could just combine these things which are coming independently without any external agencies, and then one platform which will come, like Paytem probably, your platform will be coming, so if you

could differentiate where we will be focusing and what is that different thing which we will offer that will attract customers to come on our platform? That will be really helpful.

Raj Jain:

So, we definitely see, as a matter of fact there is a move from the government itself, because they want to accelerate the adoption of digital payment. There is not a direct but there is a lot of lobbying going on between the regulator and the banks in India encouraging all of them to actually have their own mobile wallet. So yes, you are quite correct that the banks are jumping under the band wagon and especially some of the banks which had been kind of slow, they have been pushed through this demonetization, and perhaps they have been pushed by the regulator. So yes, I do expect the banks to come out with their own wallets. Now, as I mentioned to you all before that when it comes to UPI transactions and UPI transactions are as it is interoperable between all the banks, that is the whole idea. Mobile wallets by the banks also will be interoperable. As of today, outside of the banks wallet like Paytm or Mobikwik are not interoperable and therefore there are challenges for the wallet holders in terms of cash out etc, they get locked into a specific wallet like Paytm, etc. The important thing where the need of the society is emerging and which is really where we intend to play is when you start looking at adoption increasing at a pretty rapid pace, the power of the data starts to play. We call this the SSII factor, which is stability, security, intelligence and inclusion. Our strategy for the platform is all about SSII and that will be the distinguishing factor for us to be able to provide this intelligence back to whether it is a merchant, whether it is billers, eventually maybe the consumers and enabling them to use the digital payment app as a positive asset that has an impact on their daily life.

Moderator:

Thank you. We have the next question from the line of Palani Appan from Florine Tree Advisors. Please go ahead.

Palani Appan:

When we met about 10 months ago, I thought the strategy was to replicate the successful implementation in a large country like India across the globe, but you seem to be talking more of the Indian opportunity now. Have the sides shifted after demonetization or something? I remember you talking about some deals from the US where a group of banks are talking to you about implementing a similar UPI kind of infrastructure there.

Raj Jain:

So, let us be very clear, the strategy has been consistently there. I do not know whether you joined in late, but I mentioned about a three pronged strategy that we are pursuing, number one is the move from legacy with digital which is really where McKinsey and Gartner are endorsing that they see 80% of the opportunities between now and the next 10 years to be in that space, so that is what I spoke to you about, the global opportunities and the strategy fitting in there. That is very much a part of the opportunity. Yes, on the second factor also the demonetization has accelerated the opportunity curve in India and therefore from equal we have given a higher weightage now to India strategy and we will see that we initiate it faster over fiscal 2018 and more over fiscal 2019 and fiscal 2020.

Palani Appan:

The second question is, we are not able to sort of get the grip with how much of proprietary competence has gone into UPI considering that UPI actually leverages IMPS network which is

also open to others who want to develop a platform. For example, somebody called Chiller claimed that they have done exactly bank-to-bank transaction which is a non-wallet using the IMPS platform as well. They are too small a company, but they are already in the market. I am not able to exactly put in a figure as to why or rather what is the unique thing about RS Software's platform which you would be launching maybe 18 months down the line and others already in the market?

Raj Jain: Okay, so we talked about two different things. Should I talk to you first about how is UPI different from IMPS, is that correct?

Palani Appan: I mean, UPI leverages IMPS, is there a significant value addition in UPI part itself or is it that IMPS is a core and anybody can come in and develop another UPI model to it?

Raj Jain: No, so the technology for UPI is absolutely different from that of the IMPS, but UPI transactions are riding on the rails and the network of IMPS. UPI is based on the API technology which is really what allows independent developers to be able to build applications on the UPI platform, which is what we are talking about. So at a macro level, look at this like when Apple introduced iPhone, so iPhone was like any other phone, what made it really different is by Apple building a platform for the iPhone where it opens its platform to developer community and they are building applications which are available on the Apple platform for the iPhone owners. Therefore the platform economy is really about deploying the digital technologies like the API interfaces to be able to build applications by people across the globe and making that available to the consumers. RS Software platform by the way is not 18 months away; it is about 90 days away and that platform is focusing on the principles of digital payment technology pretty much what we have done for building UPI and now building the Bharat Bill Payment network. We are deploying some of our learning's from the Silicon Valley organizations. Our goal is, as I mentioned, the four factor acceleration which is stability, security, intelligence and the inclusion. We believe that this is going to be a platform which is going to be distinctly different in terms of its deployment and in terms of its openness and appeal to the developer community.

Palani Appan: So just to understand, your customers on the platform are going to be the developer community and not necessarily the end user?

Raj Jain: No, the larger focus for the platform initially is going to be e-commerce, so merchants are going to be customers. The developer community is going to be able to download the SPKs and enable digitalization of the merchants or of the billers in the country.

Moderator: Thank you. We have the next question from the line of Shannon Thomas from Essar Capital. Please go ahead.

Shannon Thomas: I was going through the website of Pay-per Mint, i.e. paypermint.in and Payubiz so what I realize is that it is somewhat similar to a payment gateway. I want to understand why would

the existing merchants ship from CC Avenue or any other payment gateways to say Payubiz? Like, how is it different from any other payment gateways that we have in market today?

Raj Jain:

Sure. So, payment gateways as you know have been around for a long time. Companies like CC Avenue who has been in the business for about 16 years. When you look at the volume of transactions to be processed, currently between the e-commerce and travel, primarily the dominant two sources is about \$30 billion a year, reduced by the strength of the COD element in the e-commerce space which we believe soon will start to decrease significantly. This is likely to go 10x to 15x over the next four years. So not only you have a large need in the market but more importantly it is the ability of the platform to provide ease of use to the customers of the platform which I had mentioned a little while ago, the merchants, the billers, any source of the payment transactions. Then you start to look at developer community and then you start to look at eventually the consumers, the end user, not in the version one but on the roadmap for the platform where the consumers will have to get all the intelligence as well. The key differentiator for the platform whether it is Payaabhi or we continue to build our features the roadmap is always going to be how do you provide significantly more value back to our customers so that they are able to benefit from that. In fact, I strongly believe what Nandan Nilekani has been advocating as well, in due course of time the value of the platform is going to be by what it provides back to the customers and not a commodity feature of processing payment transactions. We do believe it is the ability of more and more providers and more and more customers and platform coming together which is what gives a network affect, and that is where the technology platform come into play.

Shannon Thomas:

And the second question I have is, just like you mentioned how UPI would kind of threaten the business of mobile payment wallet companies, but don't you think UPI would be a threat even for payment gateway companies because now you would not need a gateway, you just need probably the tag or the other identification and you can transact directly. For example, I want to buy something from Flipkart will I really need a payment gateway or the UPI infrastructure would be enough? I can directly send it through UPI infrastructure itself, right?

Raj Jain:

Let me clarify what I just told you 30 seconds ago. The value of a payment platform is not processing payment transaction, I mean, that is a pre-record, which is a necessity. The value is intelligence, the I in our SSII, that is most significant value to the people who come on that platform. To give you an example, there are large online payment players in the country today who are directly connected to the bank gateways; there is no payment gateway in between. But with all that what they are getting today is the ability to get the payment transaction processed and no intelligence coming back, although they have millions and millions of transactions, millions and millions of consumers who are their customer but nobody is focusing on utilizing that data to bring back intelligence. This is the road of the payment gateways and payment aggregators and this is really where their ability to integrate global technologies and global ideas and bring them home to the Indian market is going to be the differentiator.

Shannon Thomas:

And so this will start generating revenues starting from next 80 days?

Raj Jain: It is going to be launched, as we all know, I mean, today if we look at, the best example I can think of globally is Amazon, it started way back in 1996 and I have a copy of the first investor communication letter where they told their investors that do not expect anything from us in the short-haul, no dividends and no profits, we are here for the long-haul game. If you look at companies like Paytm in India, it is not making money. There is a large effort that is going to be required and the more stickiness you create on your platform is what will give you the return.

Moderator: Thank you. We have the next question from the line of Abhishek Jha, an individual investor. Please go ahead.

Abhishek Jha: Actually sir, I am new to this company, would like to get a few queries clarified. We had a partnership with Visa international for whom we were doing work for them for last 20 years and we were doing business of something around Rs. 350 crores per annum. Our current run rate is something around Rs. 70 crores to Rs. 80 crores per annum. Listening to your speech and everything, what kind of business are we expecting? It has been around two years since we are not doing business with Visa, that would be something around Rs. 500 crores business which we have lost or we would be losing in two years. What kind of opportunities do we look through all this, where are we investing and what we are doing?

Raj Jain: Sure. So, the decision to transition away from a 90% client concentration was a cautious decision, as we have articulated several times before, it is also available on the investor communication letter on our website. The reason for that are primarily two, and dominant within the two reasons is the first one which is, in the last three to four years the opportunity for fintech and for payments has increased multiple times more than what it was prior to that. The reasons for those are the development of the technologies with which you can build better consumer interfaces. Number two is the depth of the mobile penetration across the globe, especially countries like India and the common factor there is the demographic dividend as I call it, and that is the millennial generation which is quick to adopt to new technologies. So you look at these three factors combined together, you get a powerful tailwind in terms of the adoption of digital payments and benefiting from the analytics that come as a result of the digital payments era. Regulators across the globe are actually encouraging, there is not just RBI but its UK, Australia, US, everybody is encouraging the move towards the digital payment. The opportunity therefore for us as an organization where we have worked with global leaders over the past 25 years was much more to be leveraged than be focused on one client. In the short-term, yes there is pain, pretty much like what demonetization is causing the pain to individual citizens to you and I every day, but it is all for the long haul. We believe confidently that looking at the opportunity, a longer-term growth is a lot more potential for us and equally important, if not more important, is something that we have really taken care of and that is a client concentration risk. Which is also being pointed out by the investor community and we have taken care of that with this decision. So, yes there is a short-term transition but we are investing significantly, looking at the opportunity whether it is into our R&D, whether it is into our sales and marketing, whether it is into building of the platform or

building of the products. We have also strategically transitioned our cost structure to fit to our current needs and bulk of what we report right now is really function of the level of investments that we are making as an organization at a time where we have close to about Rs. 200 crores on our balance sheet.

Abhishek Jha: What kind of investment are we doing in product launches and R&D? And what is the kind of revenue that we expect over the next year say in FY18? Since we are launching our platform this year itself so the full year next year what kind of revenue do we expect out of that?

Raj Jain: In terms of our revenue from the platform economy we will be able to come out with some estimates more after the beta testing is done. In terms of our investment on the legacy digital transition, that is already in place and we are already benefitting from that because our focus now in the market place is only on the digital payment opportunities. In addition to that, which we are yet to launch, as I mentioned a part of three pronged strategy, is having had the experience of building India's digital payment infrastructure, we are now putting our implementation plan together to be able to go to different countries and offer exactly the same. This will all get reflected in the growth strategy of the Company and for our fiscal 2018 and fiscal 2019. We have said clearly in our investor communication letter that this is a strategy which will take us 24 to 36 months because we are building new markets, some of them are new geographies as well and it does take a while. We are absolutely clear that the independent research report whether it is McKinsey, whether it is Gartner and if you look at demonetization decision in India, so this is all like a tailwind for our strategy which has got finalized.

Moderator: Thank you. We have the next question from the line of Bajrang Bafna from Sunidhi Securities. Please go ahead.

Bajrang Bafna: Sir, if you could tell us some more details about this Bharat Bill Payment system, where does it stand today and when we can see this going live, getting operational and start generating revenues for the company? Also please provide revenue model for both UPI as well as BBPS for us?

Raj Jain: As you know both UPI and the Bharat Bill Payment Network is being built for the Government of India, and that is NPCI, it is they who have launched the UPI platform which was done by Governor Rajan on April 11 this year, the Bharat Bill Payment system is still being built and NPCI will be announcing as to when they will be ready. They have already had the soft launch on August 31st, and they will be announcing the date for the full commercial launch which I think would happen, my guess is sometime in the first quarter that is Jan, Feb, March quarter of 2017. In terms of the opportunity for RS Software, which is going to come in through us building our own platform and those are what I have just been talking about over the last half hour in response to the questions that these platforms are in the build stage now and will get launched over the next 90 days or so.

Moderator: Thank you. We have the next question from the line of Moiz Tambawala from Florine Tree Advisors. Please go ahead.

Moiz Tambawala: I would just like to ask about the UPI project that we have done, when you talk about taking it abroad do we have a product in place or is it going to be a custom solution development that you would do, do we have such plans?

Raj Jain: At a country level it is always going to be a customized solution, country has a different scenario. You do end up having reusable components in software and they get deployed as well.

Moiz Tambawala: Currently we have no products in development, is anything developing on a product level or are we going to continue being a service provider?

Raj Jain: There is definitely a development of the product that is happening around the UPI platform and that product or the framework gets customized for individual banks in India today.

Moiz Tambawala: And also, when we actually spoke about your Pay-per mint subsidiary a while back, so on that part could you say that with the payment platform you are going to be a payment gateway? You are going to be doing a per transaction billing system or are the revenues going to be in the form of you provide your platform to others who want to run payment gateways and do a licensing fee, how is it going to happen?

Raj Jain: So, number one, it is a payment aggregation platform and it is a platform where the architecture is going to allow the providers of various payment products to be able to come on that platform which is typically what the platform network affect is meant to be. The customers for the platform initially are going to be the merchants and the billers.

Moiz Tambawala: I am trying to understand, are they going to be licensing the platform and using your services or if you are going to be acquiring the merchants then the payment processing is going to be done by you?

Raj Jain: Yes, the business model is of a platform which we will be hosting ourselves and the pricing model is going to be per transaction. We will also offer value added capabilities in due course of time and then the value added capabilities will get priced separately.

Moiz Tambawala: And this platform is going to be focused only on Indian payment aggregators right now?

Raj Jain: No, the platform is built for emerging markets to begin with and will be launched first in India.

Moderator: Thank you. That was the last question, I now hand the floor over to Mr. Raj Jain for his closing comments.

Raj Jain: Thank you very much once again. Appreciate all the great questions. As I said, look at RS Software moving forward, not necessarily as a company in this traditional model of DIT services, it actually is a company focused purely on combination of services, products and platform and with a focus on the platform and on the Indian market looking at post-

demonetization opportunity and looking at the digital payments opportunity globally. We are going to a more payment industry focused organization as compared to being an IT services organization. Thank you for your time and look forward to our continuing communication in the future. Have a wonderful day. Thank you.

Moderator: Thank you. On behalf of RS Software India Limited, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.