

On a strong wicket

New investors on board make the Chennai-based Financial Software & Systems poised for growth



Mylandla: building a platform to service new needs

The Chennai-based e-payment solutions company, Financial Software & Systems (FSS), has new investors on board, with Jacob Ballas Capital India and New Enterprise Associates (NEA) together putting in \$60 million recently to pick up a 40 per cent stake in the company. This includes the 34 per cent stake that was held earlier by the Carlyle group and an additional cash infusion. The \$60 million deal is one of the biggest rounds of funding in IT in recent times.

Both Jacob Ballas Capital and NEA are gung-ho about their investment in

FSS. They believe that FSS has a unique business model and is poised for strong growth. "FSS is strongly positioned to tap the fast growing electronic payments sector in India and overseas through a bouquet of products and services," says Srinivas Chidambaram, managing director, Jacob Ballas Capital India.

Bala Deshpande, senior managing director, NEA, India agrees. "For NEA, FSS represents a compelling opportunity to participate in the fast growing and vibrant transaction processing space." Deshpande says that founder and managing director Nagaraj V.

Mylandla and director J. Rudhraapathy "have built a quality platform that is geared to deliver the ever new needs of their clients." Vinod Kumar, partner-director of the Chennai-based Veda Corporate Services, which put together the complex deal, says, "With the new vcs in place, FSS is all set to go into the next level of expansion." It is also likely to go in for a public listing around three years from now.

Set up in 1991 by Mylandla, the Rs240 crore-FSS is a combination of payment technology solutions and payment infrastructure businesses. It provides end-to-end payments transaction processing and solutions for banks, stock exchanges, insurance, telecom and healthcare sectors through its two divisions: FSS Technologies (FSS T) and FSS NeT. While FSS T provides products and services to manage front end payment systems as well as backend processing, FSS NeT, is a hosted payments services business set up in 2001, whose offerings include shared payments services, managing ATMs and Internet payment gateways, mobile payments, etc.

For instance, as part of its ATM deployment and management services, FSS NeT does ATM site selection, installation, cash optimisation and loading, etc. Under its mobile payments and value-added services, card holders can perform banking transactions such as account queries, fund transfers and mobile commerce transactions.

FSS claims to be the only company in India that provides hosted payments transaction processing services across all payments channels – such as ATMs, point of sale, Internet and mobile. Currently both the divisions of the company – FSS T and FSS NeT – contribute equally to the company's revenues. Mylandla points out that while there are players like First Data (in processing), FIS (in switching), Euronet (for ATMs) and Venture Infotek (for local point of sale), not too many companies can claim to have the end-to-end range of offerings that FSS has.

Chidambaram points out that the breadth of service offerings makes the FSS business model unique. "FSS addresses all major segments of electronics payments, as an

end-to-end player providing mission critical, fail-safe infrastructure and solutions, hosted transaction processing and backend services across multiple platforms such as ATMs, debit cards, internet and value-added payments," he says. "They have pioneered a unique business model for the electronic payments industry."

Early mover advantage

"FSS has a sound business model and has done well over the years," says Yash Sahni, formerly president and chief operating officer at Tata Consultancy Services, who has been watching FSS from its early days. "It has the early mover advantage in the managed shared ATM networks business and does not have too much competition in this space at the moment."

FSS has seen strong growth in the last decade. From Rs16 crore in 2000, the revenue has moved up considerably to currently stand at Rs240 crore, which Mylandla is now targeting to raise to Rs320-360 crore by 2011. Over the past two years, FSS has been turning in net profits to the tune of 18-20 per cent," says Mylandla. Currently, 65 per cent of the company's total revenue is from its global clients. However, going ahead, with the e-payment space in India expected to grow, Mylandla expects that the domestic market will account for around 60 per cent of the kitty.

FSS has development centres in Chennai, Mumbai and Siruseri on the outskirts of Chennai and offices in the US, Europe and the Middle East. It also has a data centre spread over 10,000 sq ft and equipped with state-of-the-art technologies. According to Mylandla, till now, FSS has invested Rs125 crore in setting up the infrastructure and for product development and he expects to put in another Rs200 crore for ramping up in the coming years. FSS has a 1,000-plus employee base and over 100 Indian and global clients. Its client list includes ABN AMRO, American Express, ICICI Bank, HDFC Bank and Indian Bank among others.

Looking back on the setting up of FSS, Mylandla explains that he had initially thought of entering the payments space after his stint in the

US with FDC, one of the largest third party service providers for card processing in the US (banks in the US have historically outsourced card transaction processing) and then with ACI, the leading US-based transaction payment processing company. In the early days, the revenues at FSS came from the technology solutions for retail and front-end banking. To begin with FSS started primarily as a channel partner to companies like ACI, along with offering support and maintenance for their products.

FSS followed this up with offering customisation. The next step was to start building its own products for



Rudhraapathy: raising the visibility of banks

card payment reconciliation, merchant management and transaction process middleware, etc.

But Mylandla and his team soon realised that the Internet, ATMs and mobile communications would change payments in a revolutionary way and decided to address this space. They also made the big leap from being only a solutions provider to also creating and building their own infrastructure and started offering hosted services. "If a bank wants to buy tech solutions, we customise; if it wants to outsource, then we offer our hosting services," says Mylandla. He believes that FSS' domain knowledge and the expertise that it has built over the years have enabled it to create solutions for its clients ahead of time. "This is the reason we can stay ahead of other entrants, as it will take

them considerable time to understand the market," says he.

"Banks are constantly looking to raise visibility through value added services," adds director J. Rudhraapathy, who heads FSS NeT. "ATMs and point-of-sale devices offer the next big opportunity for developing a whole menu of back-end solutions and services for us." Currently, 2,000 ATMs are connected to the FSS network. Rudhraapathy says that the plan is to add 5,000 more ATMs to the FSS network and also connect to over 300,000 merchant locations in the coming two-three years. Rudhraapathy adds that, with the government encouraging banking to extend into rural areas, the banks are likely to increasingly outsource their non-core banking functions. "At FSS, we have the expertise and the experience to take over these functions," says he.

With FSS being on a strong wicket, why did the Carlyle group, which first invested in the company in 2000 and later again in 2004 through First Carlyle Ventures Mauritius (FCVM), decide to exit? According to Shankar Narayanan, managing director, Carlyle group, it was purely because it was nearing the end of its fund cycle. "FCVM is extremely satisfied on its investment," says Narayanan. "FSS has consistently demonstrated strong growth and profitability and I am confident of its ability to continue its strong growth in the years to come." Narayanan adds that he is particularly impressed with the vision and business acumen of Nagaraj and Rudhraapathy who, he says, "have successfully created India's largest e-payments company."

Mylandla points out that FSS used both the rounds of Carlyle funding to expand and consolidate its business model. "When Carlyle wanted to exit in 2008, we could have used our cash to buy them out, as we have a cash surplus of Rs80 crore," says Mylandla. "But we felt that it was better to find a buyer for the Carlyle stake. It is a win-win for both."