CMS Info Systems – BUY

21 June 2023

NDR Takeaways

Strong core; rapid diversification in store

We recently hosted Rajiv Kaul (Exec. Vice Chairman and MD) and Pankaj Khandelwal (CFO) for investor meetings in Mumbai and the US. After having achieved 17%/20% revenue/Ebitda Cagr over FY09-23, CMS' revenue aspiration of Rs34-38bn by FY27 entails 17% Cagr (at mid-point). The managed services (MS) business should grow faster; 40-42% target contribution to overall revenue vs. 32% in FY23. While CMS would endeavour to maintain margin, the company's primary focus would be on ensuring revenue growth amid increasing competitive intensity. It would continue to explore inorganic opportunities which offer the right capabilities and meet healthy IRR thresholds. The stock is attractive at ~14x 1YF PE considering 20% EPS Cagr over FY23-25ii. Maintain BUY.

Cash management to benefit from ATM rollouts, more outsourcing and market share gains: In ATM cash management, continued ATM additions (3-4% pa), rising proportion of outsourcing (current 60% can increase to 75-80% over time) and market share gains (47% can potentially go to 60%) should drive volume growth. While regulatory tailwinds will aid realisation in the next 3-4 years, CMS targets 10-15% cash management revenue growth even in the medium-term.

Cash mgmt. revenue should be resilient even if cash in circulation drops: Cash management revenue is linked to the number of points served and not cash in circulation (CIC). Volume of cash handled by CMS grew 16% YoY in FY23; even if CIC comes off, higher velocity and movement of cash from unorganized to organized channels should act as tailwinds.

Revenue growth to take precedence over margins: MS revenue can potentially double as there are only 2-3 strong players. IoT-based remote monitoring capabilities can be extended to other verticals such as warehousing, retail, NBFC/insurance branches. Though CMS' industry-leading Ebitda margins could improve if competitive intensity is stable, the primary focus would be on revenue growth amid rising competitive intensity. Separately, risk costs (related to theft, pilferage and reconciliation issues) could potentially fall by 0.5-1% as % of revenue from the current ~5%, on cassette swap implementation.

Company update

CMP	Rs348
12-mth TP (Rs)	419 (21%)
Market cap (US$m)	654
Enterprise value(US$m)	601
Bloomberg	CMSINFO IN
Sector	Business Services

Price performance (%)

	1M	3M	1Y
Absolute (Rs)	8.1	19.0	51.3
Absolute (US$)	8.5	20.2	43.6
Rel.to Smallcap	(0.3)	(0.7)	18.7
Cagr (%)		**3 yrs**	**5 yrs**
EPS (Rs)		28.4	

Shareholding pattern (%)

Promoters	60.2
Pledged (as % of promoter share)	0.0
FII	12.6
DII	13.1
52Wk High/Low (Rs)	348/216
Shares o/s (m)	154
Daily volume (US$ m)	3.7
Dividend yield FY24ii (%)	1.3
Free float (%)	39.8

Stock performance

Financial summary (Rs m)

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Revenues (Rs m)	15,897	19,148	22,581	26,023	29,723
Ebitda margins ex ESOP charges (%)	25.7	28.8	29.0	28.9	28.7
Ebitda margins (%)	25.1	28.1	28.3	28.2	27.9
PAT ex ESOP charges (Rs m)	2,290	3,040	3,823	4,536	5,365
Reported PAT (Rs m)	2,240	2,973	3,738	4,436	5,246
Pre-exceptional EPS (Rs)	15.1	19.3	23.8	27.7	32.3
Growth (%)	32.3	27.8	23.6	16.6	16.3
IIFL vs consensus (%)			4.0	2.1	4.2
PER (x)	**23.8**	**18.1**	**14.6**	**12.5**	**10.8**
ROE (%)	20.0	21.1	21.6	21.3	21.2
Net debt/equity (x)	(0.2)	(0.3)	(0.4)	(0.4)	(0.5)
EV/Ebitda (x)	12.7	9.2	7.4	6.2	5.2
Price/book (x)	4.2	3.4	2.9	2.4	2.1
OCF/Ebitda (x)	0.6	0.8	0.7	0.7	0.7

Source: Company, IIFL Research. Priced as on 20 June 2023

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NDR: Key takeaways

A play on formalisation of the economy: Formalisation (43% of the economy is informal today), rising number of NBFC branches and retail outlets, and need for higher efficiency in working capital cycle are growth drivers for CMS. 18% annualized growth in organized retail would lead to higher demand for treasury management. E-commerce where 60-70% of transactions are still on cash-on-delivery (CoD) basis also adds a leg to revenue growth.

Cash management to benefit from ATM rollouts, more outsourcing and market share gains: ATM cash management revenue accounts for 60% of total cash management revenue. This business will be driven by:

- **ATM rollouts** - ATM count is expected to grow at 4% Cagr especially with leading banks stepping up their rollouts. In the medium term, ATM count should rise from the current 260k to 300k.
- **Increased outsourcing** – Currently, cash management is outsourced in 150k of the 260k ATMs. The proportion of ATMs outsourced for cash management is expected to increase to 70-75% in the medium term.
- **Market share gains** – CMS' market share has risen from 37% to 47% in the past three years. Since cash logistics is a high operating leverage business which favours scale players, there is potential headroom for CMS to take its market share close to 60%.

Realisation to see near-term boost from compliance related tailwinds: In the next few years, realization per ATM per month would also be boosted by compliance related tailwinds.

- Route compliance entails van and vault upgrade (65% of CMS' routes have achieved compliance).
- Cassette swap compliance will continue for 3-4 years and result in 10-15% higher realization. <10% of CMS' footprint has seen cassette swap implementation since banks have been reluctant to incur costs. With RBI mandating that implementation should be completed in top 30 cities in the next six months, the rollout is set to see some acceleration.

Cash mgmt. revenue should be resilient even if cash in circulation drops: Cash management revenue is linked to the number of points served and not cash in circulation (CIC). Volume of cash handled by CMS grew 16% YoY in FY23; even if CIC comes off, higher velocity and movement of cash from unorganized to organized channels should act as tailwinds.

Direct relationships with retailers should boost RCM: CMS provides RCM services to ~52k retail touchpoints. It has so far provided RCM services through banks rather than having direct relationships with retailers. The company intends to reach out to retailers directly. This will enable CMS to better tap the addressable market.

Significant scope to grow in MS: CMS has an order book worth Rs31.5bn in the MS segment. This business offers good revenue visibility since the contracts are for 5-7 years. MS revenue can potentially double as there are only 2-3 strong players.

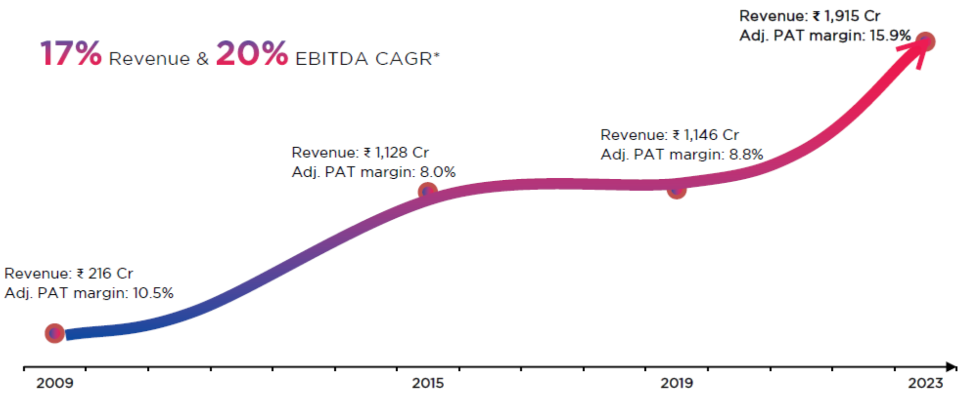
ATM managed services would benefit from PSU bank refresh cycle (80k+ ATM refresh cycle), private sector bank branch expansion (which will result in 20k+ ATM deployments) and total outsourcing deals (~100k ATMs to shift from bank capex to brown-label).

AIoT-based remote monitoring can be expanded to other verticals: CMS has developed 40 AI modules for remote monitoring of ATMs and bank branches. With >60% of ATMs and bank branches yet to have remote monitoring, the runway for growth is long. IoT-based remote monitoring capabilities can be extended to retail, NBFC, insurance offices, telecom towers, etc over time.

Revenue growth to take precedence over margins in the near term: 10ppt Ebitda margin expansion in the past three years was aided by a tuck-in acquisition, operating leverage, automation and efficiency improvements (3-4% pa in the past 4-5 years). Though CMS' industry-leading Ebitda margins could improve if competitive intensity is stable, the primary focus would be on revenue growth amid rising competitive intensity.

Cassette swap implementation can shave off risk costs by 50-100bps: Risk costs (related to theft, pilferage and reconciliation issues) could potentially fall by 0.5-1% as of revenue from the current ~5%, on cassette swap implementation.

Figure 1: CMS has delivered 17%/20% revenue/Ebitda Cagr between FY09-23



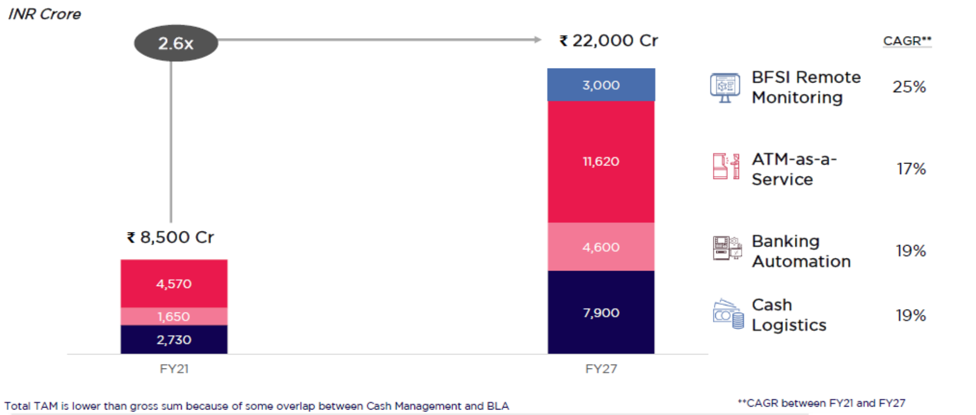
Source: Company, IIFL Research

Figure 2: Growth drivers

Cash Logistics	• 100,000 ATMs yet to be outsourced for Cash Mgmt. • Growth in organised retail; Direct2Retail and Cash-X solutions
ATM Managed Services	• PSU banking refresh cycle: 80,000+ ATM refresh cycle • Pvt. Sector branch expansion: 20,000+ new ATMs • Total outsourcing deals: ~100,000 ATMs will shift from bank capex to BLA
AIoT Remote Monitoring	• >60% of ATMs & bank branches • Expansion to NBFC, Insurance, Retail • Legacy base refresh cycle
Inorganic	• Track record of programmatic M&A: Rs. 250 Cr in 6 acquisitions with <3 year payback • Industry consolidation • M&A areas: Business Services, Fintech

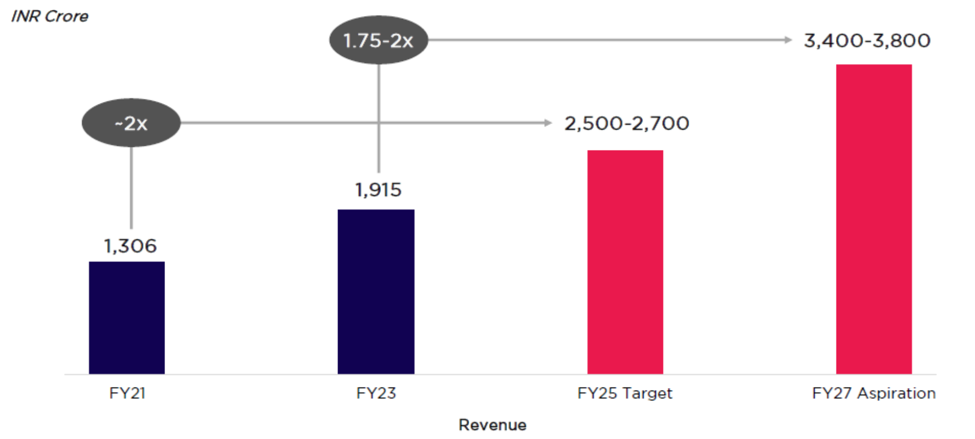
Source: Company, IIFL Research

Figure 3: Large TAM



Source: Company, IIFL Research

Figure 4: CMS is on target to achieve Rs25bn-Rs27bn revenue by FY25. The company's aspiration is to reach Rs34-38bn revenue by FY27. Potential revenue breakup in FY27 could be Cash Logistics (57-60%) Software (8-10%) and MS (30%)



Source: Company, IIFL Research

Figure 5: Consolidated P&L

Rsmn	FY22	FY23	FY24ii	FY25ii	FY26ii
Revenue	**15,897**	**19,148**	**22,581**	**26,023**	**29,723**
Growth YoY %	***21.7%***	***20.4%***	***17.9%***	***15.2%***	***14.2%***
Cost of goods sold	1,538	1,162	1,242	1,431	1,635
As % of revenue	*9.7%*	*6.1%*	*5.5%*	*5.5%*	*5.5%*
Employee costs	2,315	2,649	3,046	3,503	3,853
As % of revenue	*14.6%*	*13.8%*	*13.5%*	*13.5%*	*13.0%*
Service and security charges	3,207	3,816	4,403	5,075	5,796
As % of revenue	*20.2%*	*19.9%*	*19.5%*	*19.5%*	*19.5%*
Vehicle cost	1,509	1,584	1,806	2,082	2,378
As % of revenue	*9.5%*	*8.3%*	*8.0%*	*8.0%*	*8.0%*
Other expenses	3,330	4,559	5,685	6,607	7,758
As % of revenue	*20.9%*	*23.8%*	*25.2%*	*25.4%*	*26.1%*
Total Cost	11,899	13,770	16,183	18,698	21,420
Ebitda	**3,998**	**5,378**	**6,398**	**7,326**	**8,303**
Ebitda %	***25.1%***	***28.1%***	***28.3%***	***28.2%***	***27.9%***
Depreciation	918	1,318	1,429	1,547	1,573
Ebit	3,079	4,059	4,969	5,779	6,730
Ebit %	*19.4%*	*21.2%*	*22.0%*	*22.2%*	*22.6%*
Finance Charges	144	196	200	200	200
Other income	79	147	228	351	483
Profit before Tax	3,014	4,010	4,998	5,930	7,013
Tax expenses	774	1,038	1,259	1,494	1,767
Tax rate	*25.7%*	*25.9%*	*25.2%*	*25.2%*	*25.2%*
PAT	**2,240**	**2,973**	**3,738**	**4,436**	**5,246**
# shares* (mn)	149	154	157	160	163
EPS (Rs)	15.1	19.3	23.8	27.7	32.3

Source: Company, IIFL Research; we assume that 11mn ESOPs are exercised equally over the next four years

Figure 6: We use 13.4% cost of equity and WACC

Item	Value
Risk free rate	7.4%
Adjusted beta	1.0
Equity Risk Premium	6.0%
Cost of Equity	13.4%

Source: IIFL Research

Figure 7: Terminal growth rate assumptions

Item	Value
Terminal growth rate for Cash Management	3.0%
Terminal growth rate for Managed Services	5.0%
Contribution from Cash Management in terminal year	55%
Terminal growth rate %	3.9%

Source: IIFL Research

Note that we use the fully-diluted share count of 165mn (vs the current share count of 154mn) for TP calculation; assuming all ESOPs are exercised. CMS trades at ~14x 1YF PER, quite attractive considering 20% EPS Cagr over FY23-25ii.

Figure 8: Our DCF yields June-2024 TP of Rs419

	Rsmn
EV (March 2025)	65,970
Net debt (March 2025)	-9,658
Equity Value (March 2025)	75,627
Equity Value (June 2024)	68,821
#shares (mn)	165
TP (Rs)	419
CMP (Rs)	348
Upside	21.4%
Dividend per share (Rs)	4.7
Total Return	22.7%

Source: IIFL Research

Background: CMS Info Systems is is one of India's leading business services companies and India's largest cash management company based on number of ATM points and number of retail pick-up points , and offers its customers a wide range of tailored cash management and managed services solutions, including ATM network management, retail management and managed services. The Company manages the entire flow and management of money for the 1,50,000 business points that it serves every day - from when the RBI initially deposits cash in the bank's currency chests, to when cash is deposited back in banks after going through the various stages of the cash cycle.

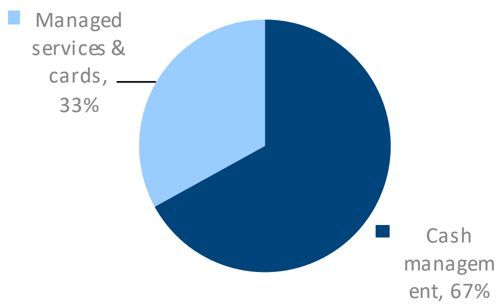
Management

Name	Designation
Rajiv Kaul	Executive Vice Chairman, Whole Time Director and CEO
Pankaj Khandelwal	President and CFO
Anush Raghavan	President – Cash Management
Manjunath Rao	President - Managed Services

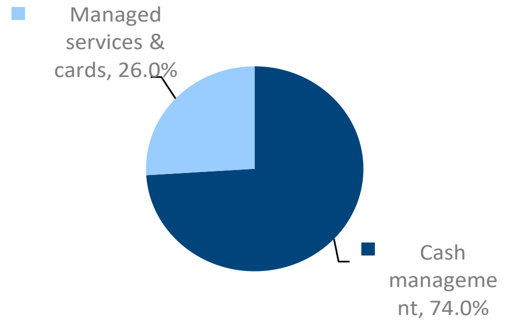
Customers: Banks, organised retail players, managed service providers for banks:

Competitors: AGS Transact, Brinks, FIS, FSS, NCR:

Segment-wise Revenue break-up (FY23)



Segment-wise Ebit break-up (FY23)



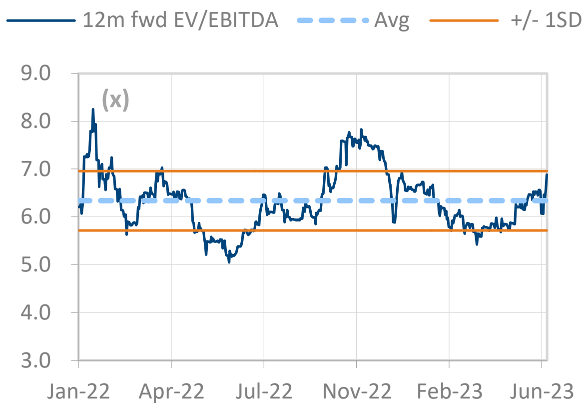
Assumptions

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Cash management revenue growth (%)	22.1	19.4	16.9	15.0	12.7
Managed services revenue growth (%)	34.5	24.8	21.3	16.1	17.8
Cash management Ebit margin (%)	23.9	25.4	25.6	25.5	26.0
Managed services Ebit margin (%)	16.5	19.8	21.8	22.6	23.1
Cash conversion cycle (days)	61.5	61.6	61.4	61.4	61.4
Capex to sales (%)	17.8	10.1	6.7	6.0	6.5

Source: Company data, IIFL Research

PE Chart

EV/Ebitd



Financial summary

Income statement summary (Rs m)

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Revenues	**15,897**	**19,148**	**22,581**	**26,023**	**29,723**
Ebitda	3,998	5,378	6,398	7,326	8,303
Depreciation and amortisation	(918)	(1,318)	(1,429)	(1,547)	(1,573)
Ebit	3,079	4,059	4,969	5,779	6,730
Non-operating income	79	147	228	351	483
Financial expense	(144)	(196)	(200)	(200)	(200)
PBT	3,014	4,010	4,998	5,930	7,013
Exceptionals	0	0	0	0	0
Reported PBT	3,014	4,010	4,998	5,930	7,013
Tax expense	(774)	(1,038)	(1,259)	(1,494)	(1,767)
PAT	2,240	2,973	3,738	4,436	5,246
Minorities, Associates etc.	0	0	0	0	0
Attributable PAT	**2,240**	**2,973**	**3,738**	**4,436**	**5,246**

Ratio analysis

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Per share data (Rs)					
Pre-exceptional EPS	14.6	19.3	23.8	27.7	32.3
DPS	1.5	1.0	4.7	7.0	9.5
BVPS	82.0	101.2	121.0	142.1	164.7
Growth ratios (%)					
Revenues	21.7	20.5	17.9	15.2	14.2
Ebitda	36.2	34.5	19.0	14.5	13.3
EPS	28.5	31.6	23.6	16.6	16.3
Profitability ratios (%)					
Ebitda margin	25.1	28.1	28.3	28.2	27.9
Ebit margin	19.4	21.2	22.0	22.2	22.6
Tax rate	25.7	25.9	25.2	25.2	25.2
Net profit margin	14.1	15.5	16.6	17.0	17.6
Return ratios (%)					
ROE	20.0	21.1	21.6	21.3	21.2
ROCE	24.7	26.2	26.8	26.8	26.9
Solvency ratios (x)					
Net debt-equity	(0.2)	(0.3)	(0.4)	(0.4)	(0.5)
Net debt to Ebitda	(0.7)	(0.8)	(1.1)	(1.4)	(1.6)
Interest coverage	21.4	20.7	24.8	28.9	33.6

Source: Company data, IIFL Research

Balance sheet summary (Rs m)

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Cash & cash equivalents	2,653	4,355	6,999	9,995	12,989
Inventories	635	742	875	1,008	1,151
Receivables	4,993	5,260	6,186	7,130	8,143
Other current assets	1,264	763	768	774	779
Creditors	2,459	2,252	2,656	3,061	3,496
Other current liabilities	1,599	1,096	1,096	1,096	1,096
Net current assets	**5,487**	**7,772**	**11,077**	**14,750**	**18,471**
Fixed assets	5,706	6,662	6,749	6,774	7,132
Intangibles	2,235	2,235	2,235	2,235	2,235
Investments	0	0	0	0	0
Other long-term assets	1,071	996	996	996	996
Total net assets	**14,499**	**17,664**	**21,056**	**24,755**	**28,833**
Borrowings	0	0	0	0	0
Other long-term liabilities	1,938	2,040	2,040	2,040	2,040
Shareholders equity	**12,561**	**15,625**	**19,016**	**22,715**	**26,794**
Total liabilities	**14,499**	**17,664**	**21,056**	**24,755**	**28,833**

Cash flow summary (Rs m)

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Ebit	3,079	4,059	4,969	5,779	6,730
Tax paid	(976)	(1,085)	(1,259)	(1,494)	(1,767)
Depreciation and amortization	918	1,318	1,429	1,547	1,573
Net working capital change	(1,366)	(1,318)	(661)	(677)	(728)
Other operating items	909	1,093	0	0	0
Operating cash flow before interest	2,565	4,068	4,478	5,154	5,809
Financial expense	(144)	(196)	(200)	(200)	(200)
Non-operating income	79	147	228	351	483
Operating cash flow after interest	**2,500**	**4,019**	**4,506**	**5,305**	**6,092**
Capital expenditure	**(2,833)**	**(1,933)**	**(1,516)**	**(1,573)**	**(1,931)**
Long-term investments	(144)	0	0	0	0
Others	(350)	(387)	0	0	0
Free cash flow	**(826)**	**1,699**	**2,991**	**3,733**	**4,161**
Equity raising	638	157	385	385	385
Borrowings	0	0	0	0	0
Dividend	(226)	(154)	(732)	(1,121)	(1,552)
Net chg in cash and equivalents	(415)	1,702	2,644	2,996	2,993

Source: Company data, IIFL Research

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A graph of daily closing prices of securities is available at http://www.nseindia.com/ChartApp/install/charts/mainpage.jsp, www.bseindia.com and http://economictimes.indiatimes.com/markets/stocks/stock-quotes. (Choose a company from the list on the browser and select the "three years" period in the price chart).

Name, Qualification and Certification of Research Analyst: Balaji Subramanian(MBA), Siddharth Zabak(Chartered Accountant)

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Key to our recommendation structure

BUY - Stock expected to give a return 10%+ more than average return on a debt instrument over a 1-year horizon.

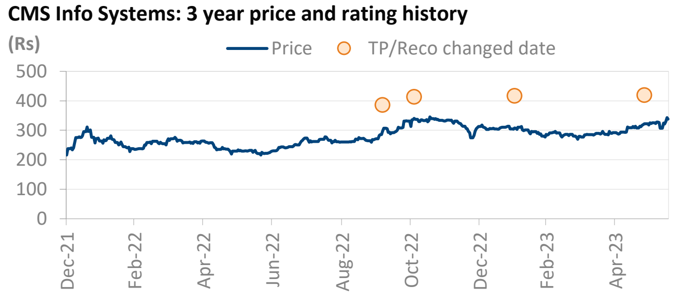
SELL - Stock expected to give a return 10%+ below the average return on a debt instrument over a 1-year horizon.

Add - Stock expected to give a return 0-10% over the average return on a debt instrument over a 1-year horizon.

Reduce - Stock expected to give a return 0-10% below the average return on a debt instrument over a 1-year horizon.

Distribution of Ratings: Out of 268 stocks rated in the IIFL coverage universe, 139 have BUY ratings, 4 have SELL ratings, 88 have ADD ratings, 3 have NR ratings and 33 have REDUCE ratings

Price Target: Unless otherwise stated in the text of this report, target prices in this report are based on either a discounted cash flow valuation or comparison of valuation ratios with companies seen by the analyst as comparable or a combination of the two methods. The result of this fundamental valuation is adjusted to reflect the analyst's views on the likely course of investor sentiment. Whichever valuation method is used there is a significant risk that the target price will not be achieved within the expected timeframe. Risk factors include unforeseen changes in competitive pressures or in the level of demand for the company's products. Such demand variations may result from changes in technology, in the overall level of economic activity or, in some cases, in fashion. Valuations may also be affected by changes in taxation, in exchange rates and, in certain industries, in regulations. Investment in overseas markets and instruments such as ADRs can result in increased risk from factors such as exchange rates, exchange controls, taxation, and political and social conditions. This discussion of valuation methods and risk factors is not comprehensive – further information is available upon request.



Date	Close price (Rs)	Target price (Rs)	Rating
26 May 2023	320	420	BUY
31 Jan 2023	304	417	BUY
03 Nov 2022	337	414	BUY
06 Oct 2022	286	386	BUY