

Growth to resume at normal clip after 1Q blip

While CMS' 13% YoY revenue growth was below estimates due to transient factors, PAT grew by a healthy 22% on better mix. On the earnings call, management stated that cash usage growth has been healthy including in metros despite the proliferation of UPI. Higher outsourcing by banks, improved progress on cassette swap implementation and rising penetration of organised retail are positives for the cash management business. The company expects remote monitoring and software business to account for 8-10% of overall revenue by FY27. Despite the 1Q revenue blip, we maintain estimates and expect CMS to achieve its Rs25-27bn revenue guidance for FY25. The stock trades at an attractive 15x 1YF PE, considering 20% EPS Cagr over FY23-25ii, debt-free balance sheet and healthy return ratios. We raise our DCF-based TP from Rs419 to Rs449 due to lower WACC and rolling forward to Sep-24. **Maintain BUY.**

1Q saw some revenue slowdown on transient factors: Cash management revenue growth at 12% YoY was lower than in recent quarters. There was some reduction in ATM activity due to unseasonal rains (which impacted rural consumption) and the withdrawal of Rs2000 notes. These weighed on revenue growth but Ebitda margin surprised positively on better mix.

Medium-term growth drivers intact: Key takeaways from earnings call: 1) Currency throughput on CMS' network rose 6% YoY to an all-time high of Rs3.3trn (with metros faring better at 10%). 2) Implementation of cassette swap regulation has witnessed an acceleration and CMS expects 1/3rd to be completed by end-FY24 (this will not only result in improved realisation but also reduce risk cost). 3) Managed Services (MS) order book remains healthy. 4) While CMS does not rule out an increase in competitive intensity, it feels that the market share loss risk is more for smaller/unorganised players as larger players like CMS have a moat due to scale advantage.

Maintain EPS; new Rs449: We attribute the marginal 1Q miss to quarterly fluctuations and maintain our projections. We expect CMS to continue its healthy growth momentum thanks to solid execution and maintain our ~20% EPS Cagr. We prune WACC by 30bps, inline with the fall in 10-year G-sec yields. Our TP of Rs449 implies a 15x 1YF PE on 2YF EPS.

Result update

CMP	Rs379
12-mth TP (Rs)	449 (19%)
Market cap (US\$m)	714
Enterprise value(US\$m)	661
Bloomberg	CMSINFO IN
Sector	Business Services

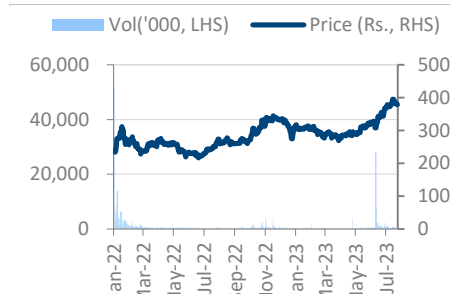
Shareholding pattern (%)

Promoters	46.5
Pledged (as % of promoter share)	0.0
FII	15.3
DII	21.0
52Wk High/Low (Rs)	395/257
Shares o/s (m)	154
Daily volume (US\$ m)	4.7
Dividend yield FY24ii (%)	1.2
Free float (%)	53.5

Price performance (%)

	1M	3M	1Y
Absolute (Rs)	9.9	33.2	51.9
Absolute (US\$)	10.2	33.3	47.7
Rel. to Smallcap	3.1	12.5	24.3
Cagr (%)		3 yrs	5 yrs
EPS (Rs)		28.4	

Stock performance



Financial summary (Rs m)

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Revenues (Rs m)	15,897	19,148	22,555	25,987	29,677
Ebitda margins (%)	25.1	28.1	28.2	28.0	27.8
Pre-exceptional PAT (Rs m)	2,240	2,973	3,702	4,447	5,263
Reported PAT (Rs m)	2,240	2,973	3,702	4,447	5,263
Pre-exceptional EPS (Rs)	15.1	19.3	23.6	27.8	32.4
Growth (%)	32.3	27.8	22.3	18.1	16.3
IIFL vs consensus (%)			2.4	1.7	4.9
PER (x)	25.1	19.7	16.1	13.6	11.7
ROE (%)	20.0	21.1	21.4	21.3	21.3
Net debt/equity (x)	(0.2)	(0.3)	(0.4)	(0.4)	(0.5)
EV/Ebitda (x)	13.4	10.1	8.3	6.9	5.9
Price/book (x)	4.5	3.7	3.1	2.7	2.3
OCF/Ebitda (x)	0.6	0.8	0.7	0.7	0.7

Source: Company, IIFL Research. Priced as on 24 July 2023

One-off items result in 3% PAT miss

Figure 1: P&L

Consol. (Rsmn)	1Q FY23	4Q FY23	1Q FY24	% YoY	% QoQ
Revenue	4,533	5,014	5,116	12.9%	2.0%
Cost of goods sold	317	223	233	-26.6%	4.2%
Employee costs	629	663	733	16.5%	10.5%
Security and service charges	913	975	1,011	10.7%	3.8%
Vehicle maintenance, hire and fuel cost	391	413	395	1.0%	-4.3%
Other expenses	1,044	1,300	1,269	21.5%	-2.4%
Total Cost	3,293	3,573	3,640	10.5%	1.9%
Ebitda	1,240	1,441	1,476	19.1%	2.4%
Ebitda%	27.3%	28.7%	28.9%	151bps	12bps
Depreciation and Amortization	297	355	364	22.3%	2.6%
Ebit	942	1,086	1,112	18.1%	2.4%
Finance charges	45	56	42		
Other income	24	47	67	177.6%	43.5%
Profit before Tax	921	1,078	1,137	23.4%	5.5%
Tax	231	278	294	27.1%	5.6%
PAT	690	799	843	22.1%	5.4%
PAT Margin	15.2%	15.9%	16.5%	125bps	54bps

Source: Company, IIFL Research

CMS' overall revenue grew 13% YoY was well below our estimate of 18%. Some adverse impact on ATM activity due to unseasonal rains and withdrawal of the Rs2000 currency note, and lower product revenue (typically lumpy) resulted in the revenue miss.

Total opex grew by 10.5% YoY with 27% decline in cost of goods sold partly offsetting the 22% increase in other expenses. These moves are consistent with a mix change in favour of services against products in 1Q.

Ebitda grew 19% to Rs1.48bn (vs. our est. of 23% growth).

PAT growth of 22% was also aided by higher interest income due to rising cash balance.

Figure 2: Both segments were impacted

Segment-wise results (Rsmn)	1Q FY23	4Q FY23	1Q FY24	% YoY	% QoQ
Cash Management Services					
Revenue	3,131	3,506	3,507	12.0%	0.0%
Ebit	770	934	939	21.9%	0.5%
Ebit%	24.6%	26.6%	26.8%	218bps	14bps
Managed Services					
Revenue	1,462	1,529	1,642	12.3%	7.4%
Ebit	296	285	328	10.6%	14.8%
Ebit%	20.3%	18.7%	19.9%	-31bps	129bps

Source: Company, IIFL Research

Cash management (67% of FY23 revenue) grew 12% YoY, below the 15-16% typical growth rate.

Managed services revenue growth also moderated to 12% YoY. Brown Label ATM business within managed services (and cash management to a lower extent) was affected by weakness in rural consumption due to unseasonal rains and the withdrawal of Rs2000 currency notes. Lumpy nature of sale of products also had an impact. CMS saw new order wins of Rs1.5bn in 1Q in the managed services business.

Highlights from earnings call

Currency usage robust; accelerated cassette swap implementation

- CMS continued to witness strong currency usage and saw the highest ever currency throughout at Rs3.3trn in 1Q (up 6% YoY). Metros at 10% growth outpaced semi-urban and rural markets.
- Cash usage has seen robust growth despite proliferation of UPI since 2016-17. The shift from informal cash to organised cash economy is playing out.
- Outsourcing of ATM cash replenishment by banks continues. Today, 60% of ATMs are outsourced vs. 50% a few years back. This proportion should continue to inch up going forward as PSU banks are increasingly getting comfortable with the outsourcing model. On-site ATMs (those at or adjacent to bank branches) are also increasingly witnessing outsourcing. Private banks have almost entirely outsourced cash replenishment.
- Implementation of cassette swap regulation has witnessed an acceleration and CMS expects 1/3rd to be completed by end-FY24.
- 1Q is a seasonally weak quarter for cash management. While 13% YoY revenue growth was lower than recent quarters, the company attributed this to normal ebbs and flows and stated that there is no change to the outlook.
- Formalisation and higher penetration organised retail will help RCM grow faster in the medium term.

Healthy momentum in managed services (MS)

- With Rs1.5bn fresh order inflow, the cumulative MS order book stood at Rs33bn, out of which 90% has been executed. There are large MS contracts in the pipeline.
- AIoT-based remote monitoring is now live on 20k+ sites with annualised revenue run-rate of Rs1bn+. This service is currently offered at ATMs and bank branches, within which CMS is the market leader with 25% share.

- The company is investing in AI modules for new use cases and looking at expansion into other verticals. CMS expects remote monitoring and software business to account for 8-10% of overall revenue by FY27.
- In the BLA market, CMS is a niche player only working with a few banks. The BLA market is 90k ATMs of which CMS has deployed only 5-5.5k ATMs. The company intends to keep revenue contribution from BLA at ~15% of revenue considering the capex intensive nature of this business.
- While the reported MS Ebit margin is lower than the cash management Ebit margin, this is also due to lower margins of the products business (part of MS). The services part of MS has higher margins.

Others

- Adjusted Ebitda margin (ex ESOP costs) stood at 29.6%.
- While CMS does not rule out an increase in competitive intensity including potentially from newer players, it feels that the market share loss risk is more for smaller/unorganised players as the larger players have scale and moats.
- CMS incurred Rs4.2bn capex in the past two years. It expects Rs1.5-Rs1.75bn capex in FY24.

Maintain EPS; new TP Rs449

CMS' 1Q performance was below our expectations due to some adverse impact on ATM activity due to unseasonal rains and withdrawal of the Rs2000 currency note. The company maintained its target of revenue for FY25 of Rs25-27bn. We largely maintain our forecasts.

We have reduced the WACC from 13.4% to 13.1% due to change in risk free rate from 7.4% to 7.1%. Our terminal growth rate has changed from 3.9% to 4%. After rolling forward to Sept'24, our new TP is Rs449.

Figure 3: Consolidated P&L

Rsmn	FY22	FY23	FY24ii	FY25ii	FY26ii
Revenue	15,897	19,148	22,555	25,987	29,677
Growth YoY %	21.7%	20.4%	17.8%	15.2%	14.2%
Cost of goods sold	1,538	1,162	1,279	1,559	1,781
<i>As % of revenue</i>	9.7%	6.1%	5.7%	6.0%	6.0%
Employee costs	2,315	2,649	3,055	3,514	3,865
<i>As % of revenue</i>	14.6%	13.8%	13.5%	13.5%	13.0%
Service and security charges	3,207	3,816	4,499	5,197	5,935
<i>As % of revenue</i>	20.2%	19.9%	19.9%	20.0%	20.0%
Vehicle cost	1,509	1,584	1,740	2,005	2,289
<i>As % of revenue</i>	9.5%	8.3%	7.7%	7.7%	7.7%
Other expenses	3,330	4,559	5,632	6,430	7,556
<i>As % of revenue</i>	20.9%	23.8%	25.0%	24.7%	25.5%
Total Cost	11,899	13,770	16,205	18,705	21,427
Ebitda	3,998	5,378	6,350	7,283	8,250
Ebitda %	25.1%	28.1%	28.2%	28.0%	27.8%
Depreciation	918	1,318	1,469	1,540	1,568
Ebit	3,079	4,059	4,881	5,742	6,682
<i>Ebit %</i>	19.4%	21.2%	21.6%	22.1%	22.5%
Finance Charges	144	196	169	169	169
Other income	79	147	284	428	590
Profit before Tax	3,014	4,010	4,995	6,001	7,102
Tax expenses	774	1,038	1,293	1,554	1,840
<i>Tax rate</i>	25.7%	25.9%	25.9%	25.9%	25.9%
PAT	2,240	2,973	3,702	4,447	5,263
# shares* (mn)	149	154	157	160	163
EPS (Rs)	15.1	19.3	23.6	27.8	32.4

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

Figure 4: We use 13.1% cost of equity and WACC

Item	Value
Risk free rate	7.1%
Adjusted beta	1.0
Equity Risk Premium	6.0%
Cost of Equity	13.1%

Source: IIFL Research

Figure 5: 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	51%
Terminal growth rate %	4.0%

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 15x 1YF PER, quite attractive considering 20% EPS Cagr over FY23-25ii.

Figure 6: Our DCF yields Sept-2024 TP of Rs449

	Rsmn
EV (Sept 2024)	69,120
Net debt (Sept 2024)	-9,683
Equity Value (Sept 2024)	78,803
#shares (mn)	165
TP (Rs)	449
CMP (Rs)	379
Upside	18.5%
Dividend per share (Rs)	4.7
Total Return	19.7%

Source: IIFL Research

Background: CMS Info Systems 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.

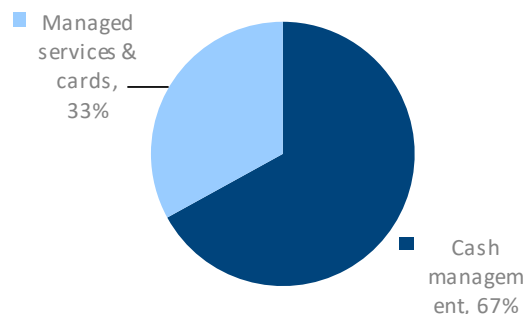
Management

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

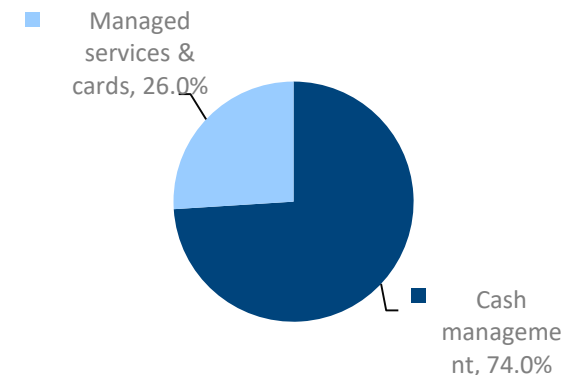
Customers: Banks, organised retail players, managed service providers for banks:

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	16.0	15.1	12.7
Managed services revenue growth (%)	34.5	24.8	21.3	16.1	17.8
Cash management Ebit margin (%)	23.9	25.4	26.2	26.5	27.0
Managed services Ebit margin (%)	16.5	19.8	20.5	21.3	21.8
Cash conversion cycle (days)	61.5	61.6	61.4	61.4	61.4
Capex to sales (%)	17.8	10.1	6.7	6.1	6.5

Source: Company data, IIFL Research

PE Chart



EV/Ebitda



Financial summary

Income statement summary (Rs m)

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Revenues	15,897	19,148	22,555	25,987	29,677
Ebitda	3,998	5,378	6,350	7,283	8,250
Depreciation and amortisation	(918)	(1,318)	(1,469)	(1,540)	(1,568)
Ebit	3,079	4,059	4,881	5,742	6,682
Non-operating income	79	147	284	428	590
Financial expense	(144)	(196)	(169)	(169)	(169)
PBT	3,014	4,010	4,995	6,001	7,102
Exceptionals	0	0	0	0	0
Reported PBT	3,014	4,010	4,995	6,001	7,102
Tax expense	(774)	(1,038)	(1,293)	(1,554)	(1,840)
PAT	2,240	2,973	3,702	4,447	5,263
Minorities, Associates etc.	0	0	0	0	0
Attributable PAT	2,240	2,973	3,702	4,447	5,263

Ratio analysis

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Per share data (Rs)					
Pre-exceptional EPS	15.1	19.3	23.6	27.8	32.4
DPS	1.5	1.0	4.7	6.9	9.6
BVPS	84.5	101.2	120.8	142.0	164.7
Growth ratios (%)					
Revenues	21.7	20.5	17.8	15.2	14.2
Ebitda	36.2	34.5	18.1	14.7	13.3
EPS	32.3	27.8	22.3	18.1	16.3
Profitability ratios (%)					
Ebitda margin	25.1	28.1	28.2	28.0	27.8
Ebit margin	19.4	21.2	21.6	22.1	22.5
Tax rate	25.7	25.9	25.9	25.9	25.9
Net profit margin	14.1	15.5	16.4	17.1	17.7
Return ratios (%)					
ROE	20.0	21.1	21.4	21.3	21.3
ROCE	24.7	26.2	26.7	27.0	27.1
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	28.8	33.9	39.5

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	7,007	10,020	13,023
Inventories	635	742	874	1,007	1,150
Receivables	4,993	5,260	6,179	7,120	8,131
Other current assets	1,264	763	770	775	781
Creditors	2,459	2,252	2,653	3,057	3,491
Other current liabilities	1,599	1,096	1,096	1,096	1,096
Net current assets	5,487	7,772	11,080	14,769	18,498
Fixed assets	5,706	6,662	6,708	6,741	7,103
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	21,019	24,741	28,832
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	18,980	22,701	26,793
Total liabilities	14,499	17,664	21,019	24,741	28,832

Cash flow summary (Rs m)

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Ebit	3,079	4,059	4,881	5,742	6,682
Tax paid	(976)	(1,085)	(1,293)	(1,554)	(1,840)
Depreciation and amortization	918	1,318	1,469	1,540	1,568
Net working capital change	(1,366)	(1,318)	(657)	(675)	(726)
Other operating items	909	1,093	0	0	0
Operating cash flow before interest	2,565	4,068	4,399	5,053	5,685
Financial expense	(144)	(196)	(169)	(169)	(169)
Non-operating income	79	147	284	428	590
Operating cash flow after interest	2,500	4,019	4,514	5,312	6,105
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	2,998	3,739	4,174
Equity raising	638	157	385	385	385
Borrowings	0	0	0	0	0
Dividend	(226)	(154)	(732)	(1,111)	(1,556)
Net chg in cash and equivalents	(415)	1,702	2,652	3,014	3,003

Source: Company data, IIFL Research

Disclosure : Published in 2023, © IIFL Securities Limited (Formerly 'India Infoline Limited') 2023

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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.

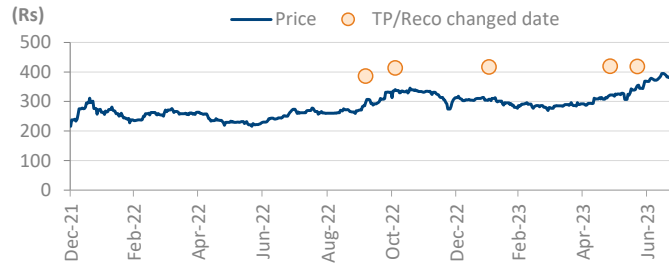
Add - Stock expected to give a return 0-10% over the average return on a debt instrument over a 1-year horizon.

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 270 stocks rated in the IIFL coverage universe, 141 have BUY ratings, 4 have SELL ratings, 85 have ADD ratings, 3 have NR ratings and 36 have REDUCE ratings

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CMS Info Systems: 3 year price and rating history



Date	Close price (Rs)	Target price (Rs)	Rating
21 Jun 2023	348	419	BUY
26 May 2023	320	420	BUY
31 Jan 2023	304	417	BUY
03 Nov 2022	337	414	BUY
06 Oct 2022	286	386	BUY