

CMS Info Systems | BUY

Another quarter of steady performance

CMS Info Systems' (CMS) 1QFY24 performance was a modest miss on revenue front, though strong margin performance led to beat on PAT (4% above JMFe). Revenue grew 13% YoY (+2% QoQ, 3% below JMFe), driven by steady growth in the cash management (CM) business (+12%YoY/flat QoQ, 2% below JMFe) and managed services revenue (12% YoY/7% QoQ, 2% below JMFe). EBITDA margin improved 150bps YoY/ 10bps QoQ (50bps above JMFe) on the back of efficiency gains and operating leverage. On the operational front, CMS business touchpoints in CM segment at 126k, +10% YoY, while it posted 6% YoY growth in handling of currency in 1QFY24 (highest-ever quarterly currency throughput of INR 3.3trn) and it won INR 1.5bn worth orders during 1QFY24 in managed services segment. CMS is firm on its long-term guidance of doubling revenue from FY21 to FY25. We broadly maintain our FY24-25 EPS estimates. The company remains on a strong footing given its robust business model (significant market leadership in the CM segment, strong track record of diversification and strong earnings growth and return profile (FY25E ROIC >40%). We roll forward our TP to June'24 of INR 465, valuing it at 17xJune'25EPS. Sharp reduction in cash in circulation and delay in compliance implementation remain key risks to our call.

- **Steady revenue growth momentum:** CMS' total revenue grew +13% YoY/+2% QoQ to INR 5.1bn (3% below JMFe) driven by cash management (CM) segment (+12% YoY/ flat QoQ, 2% below JMFe) and Managed services (MS) segment (+12% YoY/ 7% QoQ, 2% below JMFe). Company successfully implemented managed service mandate of 5200+ ATMs for large PSU bank, becoming the largest Managed Service provider for the bank. The steady growth momentum supports the management's revenue guidance of INR 25-27bn for FY25E (CAGR of c.17-18% over FY23-25E). Overall EBITDA grew by 19% YoY/+2% QoQ while PAT grew 22% YoY to INR 843mn (4% above JMFe).
- **Cash management profitability rises to record levels:** CM EBIT grew by 22% YoY/+1%QoQ to INR 939mn (1% above JMFe) while margin improved by 220bps YoY/10bps QoQ to record 26.8% in 1QFY24, primarily on account of efficiency gains and operating leverage. Further, MS EBIT grew by 11% YoY/+15% QoQ to INR 328mn and margin contracted 30bps YoY/+130bps QoQ to 19.9%. Management highlighted a strong momentum in cassette swap implementation and expects up to 40% implementation by FY24 and also expressed trend of optimism among retail organisations as many large modern retailers penetrating into tier 3 and below cities, which augurs well for the retail cash management business. During the quarter, ATMs under managed services grown to 18,000 (+500 ATMs QoQ) in June'23. CMS achieved no. 1 position in AloT remote monitoring in banking with 21,000+ live site and sustains its market leadership in the cash management business with 40% market share.
- **Maintain estimates; BUY:** We broadly maintain our FY24-25 estimates for CMS as it is on track to meet its medium-term guidance on the revenue front; margin performance has also improved consistently. We introduce Mar'26 estimates and roll forward to June'24TP of INR 465, valuing it at 17xFY25EPS. CMS remains on a strong footing given its robust business model (significant market leadership in the CM segment, strong track record of



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Recommendation and Price Target

| | |
|----------------------------|-------|
| Current Reco. | BUY |
| Previous Reco. | BUY |
| Current Price Target (12M) | 465 |
| Upside/(Downside) | 22.9% |
| Previous Price Target | 430 |
| Change | 8.1% |

Key Data – CMSINFO IN

| | |
|--------------------------|------------------|
| Current Market Price | INR379 |
| Market cap (bn) | INR58.4/US\$0.7 |
| Free Float | 46% |
| Shares in issue (mn) | 153.2 |
| Diluted share (mn) | 154.7 |
| 3-mon avg daily val (mn) | INR381.4/US\$4.7 |
| 52-week range | 401/247 |
| Sensex/Nifty | 66,385/19,672 |
| INR/US\$ | 81.8 |

Price Performance

| % | 1M | 6M | 12M |
|-----------|-----|------|------|
| Absolute | 9.9 | 21.4 | 51.4 |
| Relative* | 4.2 | 10.1 | 27.2 |

* To the BSE Sensex

Financial Summary

| Y/E March | FY22A | FY23A | FY24E | FY25E | FY26E |
|------------------------|--------|--------|--------|--------|--------|
| Net Sales | 15,897 | 19,147 | 22,694 | 26,219 | 29,801 |
| Sales Growth (%) | 21.7 | 20.4 | 18.5 | 15.5 | 13.7 |
| EBITDA | 3,998 | 5,377 | 6,508 | 7,104 | 7,804 |
| EBITDA Margin (%) | 25.1 | 28.1 | 28.7 | 27.1 | 26.2 |
| Adjusted Net Profit | 2,240 | 2,972 | 3,627 | 4,092 | 4,660 |
| Diluted EPS (INR) | 15.1 | 19.3 | 23.4 | 26.3 | 29.9 |
| Diluted EPS Growth (%) | 32.3 | 28.1 | 21.4 | 12.1 | 13.9 |
| ROIC (%) | 27.4 | 28.4 | 31.6 | 35.4 | 40.7 |
| ROE (%) | 20.0 | 21.1 | 21.7 | 21.5 | 21.6 |
| P/E (x) | 25.1 | 19.6 | 16.2 | 14.4 | 12.7 |
| P/B (x) | 4.5 | 3.7 | 3.3 | 2.9 | 2.6 |
| EV/EBITDA (x) | 14.2 | 10.5 | 8.3 | 7.3 | 6.3 |
| Dividend Yield (%) | 0.4 | 1.8 | 2.5 | 3.1 | 3.6 |

Source: Company data, JM Financial. Note: Valuations as of 24/Jul/2023

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

diversification and strong earnings growth and return profile (FY25E ROIC >40%). Sharp reduction in cash in circulation and delay in compliance implementation remain key risks to our call.

■ **Other key highlights:**

- CMS achieved highest ever quarterly ever currency throughput at INR 3.3trn in Q1FY24 (+6% YoY).
- Cash usage in Metro cities outperform tier 2, 3. Total business points for ATM and Retail Cash Management stood at 126,000 (+10% YoY) as of June 2023.
- During the quarter, new order wins were c. INR 1.5bn, cumulative order book stood at INR 33bn.
- Remote monitoring, which launched during FY21, has achieved Rs 1bn annual run rate, company is further investing into AI research and cases, expects remote monitoring and software business to contribute 8-10% of the revenue by FY27.
- Management guided for capex in the range of INR 1.5-1.7bn towards fleet up gradation, AI-IOT products and technology, remote monitoring, etc.
- While the management did not rule out possible new competition, especially from global players into India given regulatory norms in place (on compliance front) and level playing field, it suggested that players on weaker footing might be more impacted while larger players like CMS may not see material impact given the scale and network efficiency. However, the company will always try to achieve a balance between growth, market share and profitability.

Exhibit 1. 1QFY24 Financial performance

| INR mn | 1Q23 | 1Q24 | YoY | 4Q23 | QoQ | 1Q24E | Var |
|--------------------------|--------------|--------------|----------------|--------------|---------------|--------------|---------------|
| Revenue | 4,533 | 5,116 | 13% | 5,014 | 2% | 5,251 | -3% |
| Operating Expenses | 1,621 | 1,638 | 1% | 1,610 | 2% | 1,868 | -12% |
| Gross Profit | 2,912 | 3,477 | 19% | 3,404 | 2% | 3,383 | 3% |
| Gross Margin | 64.2% | 68.0% | 370 bps | 67.9% | 10 bps | 64.4% | 350 bps |
| Employee cost | 629 | 733 | 16% | 663 | 10% | 692 | 6% |
| % of revenue | 13.9% | 14.3% | 40 bps | 13.2% | 110 bps | 13.2% | 110 bps |
| Other Expenses | 1,044 | 1,269 | 22% | 1,300 | -2% | 1,200 | 6% |
| % of revenue | 23.0% | 24.8% | 180 bps | 25.9% | -110 bps | 22.9% | 190 bps |
| Total Expenditure | 3,293 | 3,640 | 11% | 3,573 | 2% | 3,760 | -3% |
| EBITDA | 1,240 | 1,476 | 19% | 1,441 | 2% | 1,491 | -1% |
| EBITDA Margin | 27.3% | 28.9% | 150 bps | 28.7% | 10 bps | 28.4% | 50 bps |
| Depreciation | 297 | 364 | 22% | 355 | 3% | 397 | -8% |
| EBIT | 942 | 1,112 | 18% | 1,086 | 2% | 1,094 | 2% |
| EBIT Margin | 20.8% | 21.7% | 100 bps | 21.7% | 10 bps | 20.8% | 90 bps |
| Other Income | 24 | 67 | 178% | 47 | 43% | 42 | 61% |
| Interest | 45 | 42 | -6% | 56 | -24% | 55 | -23% |
| Profit before tax | 921 | 1,137 | 23% | 1,078 | 5% | 1,080 | 5% |
| % margin | 20.3% | 22.2% | 190 bps | 21.5% | 70 bps | 20.6% | 170 bps |
| Tax expense | 231 | 294 | 27% | 278 | 6% | 272 | 8% |
| % | 25.1% | 25.9% | 80 bps | 25.8% | 0 bps | 25.2% | 70 bps |
| PAT | 690 | 843 | 22% | 799 | 5% | 808 | 4% |
| PAT Margin | 15.2% | 16.5% | 130 bps | 15.9% | 50 bps | 15.4% | 110 bps |
| Basic EPS | 4.5 | 5.5 | 21% | 5.2 | 5% | 5.3 | 4% |

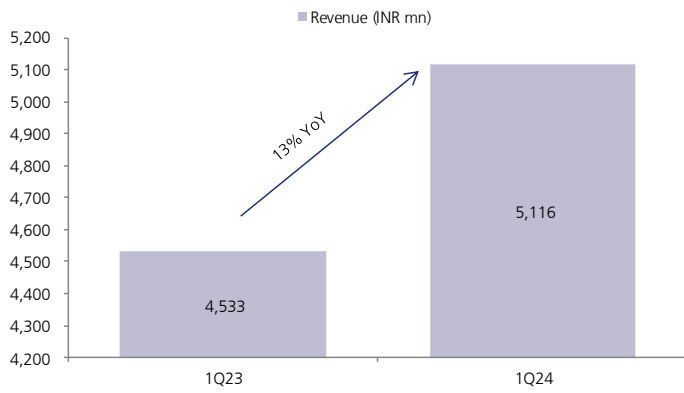
Source: Company, JM Financial

Exhibit 2. 1QFY24 segment performance

| INR mn | 1Q23 | 1Q24 | YoY | 4Q23 | QoQ | 1Q24E | Var |
|--------------------------|--------|--------|---------|--------|----------|-------|---------|
| Revenue | | | | | | | |
| Cash Management Services | 3,131 | 3,507 | 12% | 3,506 | 0% | 3,570 | -2% |
| Managed Services | 1,462 | 1,642 | 12% | 1,529 | 7% | 1,681 | -2% |
| Cards | 95 | 181 | 90% | 169 | 8% | 108 | 67% |
| Total | 4,533 | 5,116 | 13% | 5,014 | 2% | 5,171 | -1% |
| EBIT | | | | | | | |
| Cash Management Services | 770 | 939 | 22% | 934 | 1% | 928 | 1% |
| Managed Services | 296 | 328 | 11% | 285 | 15% | 319 | 3% |
| Cards | 1 | 14 | 958% | 21 | -35% | 1 | 1169% |
| Total | 1,067 | 1,280 | 20% | 1,240 | 3% | 1,249 | 3% |
| EBIT margin | | | | | | | |
| Cash Management Services | 24.6% | 26.8% | 220 bps | 26.6% | 10 bps | 26.0% | 80 bps |
| Managed Services | 20.3% | 19.9% | -30 bps | 18.7% | 130 bps | 19.0% | 90 bps |
| Cards | 1.4% | 7.6% | 620 bps | 12.5% | -500 bps | 1.0% | 660 bps |
| Total | 23.5% | 25.0% | 150 bps | 24.7% | 30 bps | 24.1% | 90 bps |
| Capital Employed | | | | | | | |
| Cash Management Services | 5,932 | 6,643 | 12% | 5,861 | 13% | | |
| Managed Services | 4,558 | 5,044 | 11% | 4,624 | 9% | | |
| Cards | 223 | 213 | -4% | 207 | 3% | | |
| Unallocable | 2,623 | 4,601 | 75% | 4,932 | -7% | | |
| Total | 13,335 | 16,501 | 24% | 15,625 | 6% | | |

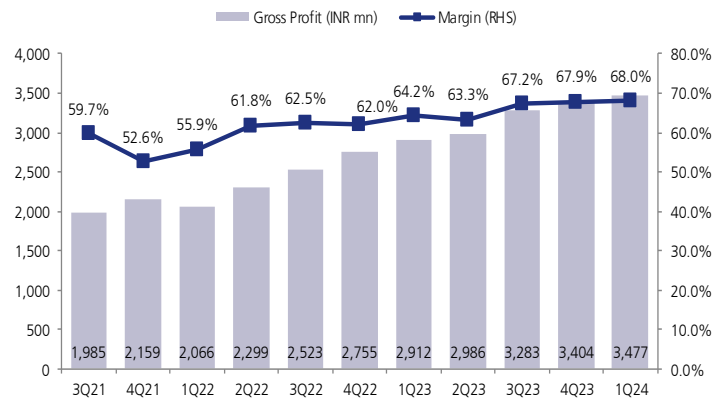
Source: Company, JM Financial

Exhibit 3. Revenue growth trend



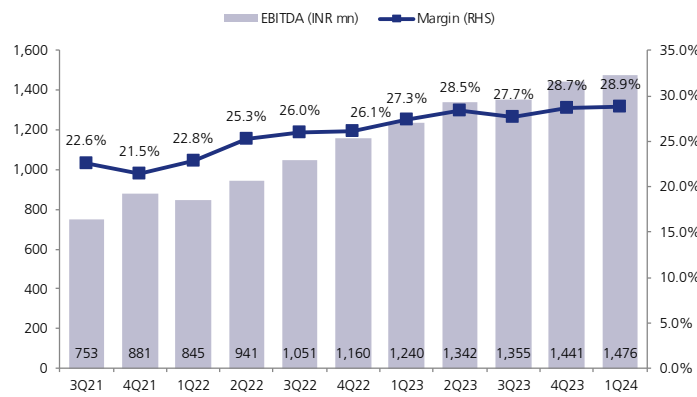
Source: Company, JM Financial

Exhibit 4. Gross profit and margin trend



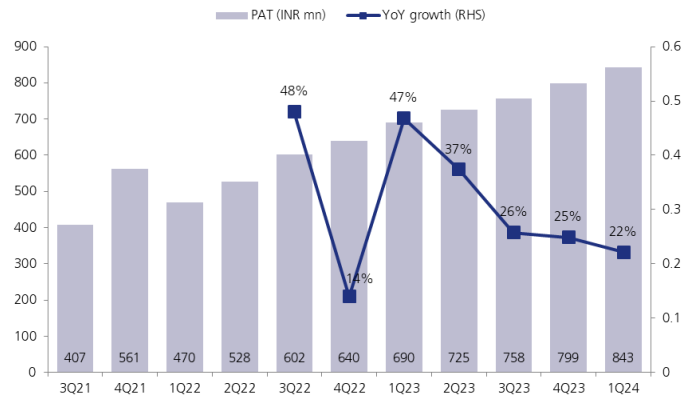
Source: Company, JM Financial

Exhibit 5. EBITDA and margin trend



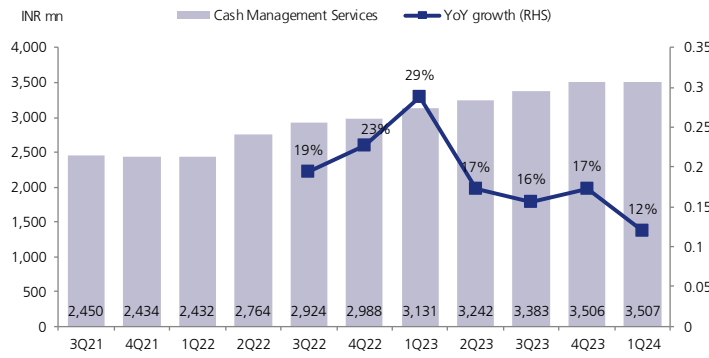
Source: Company, JM Financial

Exhibit 6. PAT and growth trend



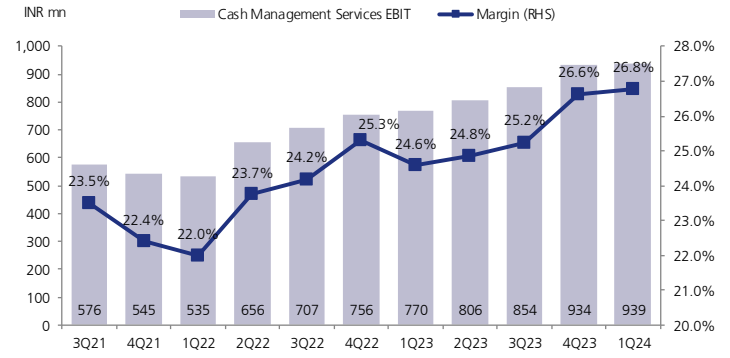
Source: Company, JM Financial

Exhibit 7. CM segment revenue and growth trend



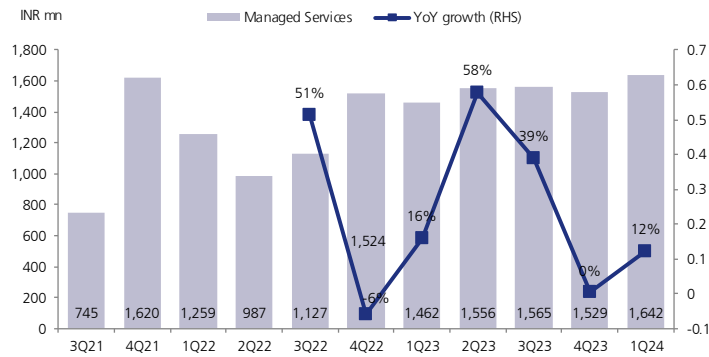
Source: Company, JM Financial

Exhibit 8. CM segment EBIT and margin trend



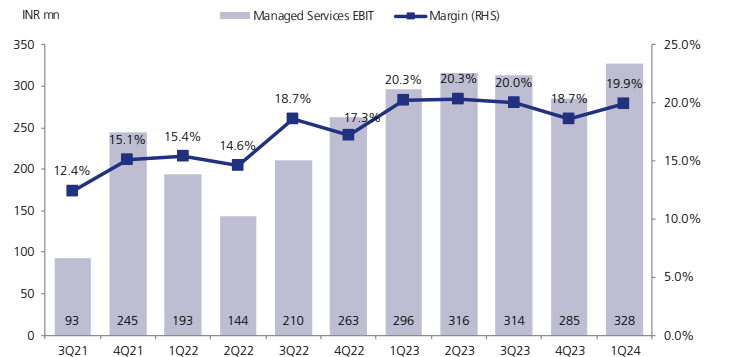
Source: Company, JM Financial

Exhibit 9. MS segment revenue and growth trend



Source: Company, JM Financial

Exhibit 10. MS segment EBIT and margin trend



Source: Company, JM Financial

Financial Tables (Consolidated)

| Income Statement | | (INR mn) | | | | |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|--|
| Y/E March | FY22A | FY23A | FY24E | FY25E | FY26E | |
| Net Sales | 15,897 | 19,147 | 22,694 | 26,219 | 29,801 | |
| Sales Growth | 21.7% | 20.4% | 18.5% | 15.5% | 13.7% | |
| Other Operating Income | 0 | 0 | 0 | 0 | 0 | |
| Total Revenue | 15,897 | 19,147 | 22,694 | 26,219 | 29,801 | |
| Cost of Goods Sold/Op. Exp | 6,254 | 6,562 | 7,520 | 8,668 | 9,727 | |
| Personnel Cost | 2,315 | 2,649 | 2,967 | 3,323 | 3,721 | |
| Other Expenses | 3,330 | 4,559 | 5,699 | 7,124 | 8,549 | |
| EBITDA | 3,998 | 5,377 | 6,508 | 7,104 | 7,804 | |
| EBITDA Margin | 25.1% | 28.1% | 28.7% | 27.1% | 26.2% | |
| EBITDA Growth | 36.2% | 34.5% | 21.0% | 9.2% | 9.8% | |
| Depn. & Amort. | 918 | 1,318 | 1,691 | 1,675 | 1,629 | |
| EBIT | 3,079 | 4,059 | 4,817 | 5,430 | 6,175 | |
| Other Income | 79 | 147 | 230 | 255 | 280 | |
| Finance Cost | 144 | 196 | 200 | 216 | 227 | |
| PBT before Excep. & Forex | 3,014 | 4,010 | 4,847 | 5,469 | 6,228 | |
| Excep. & Forex Inc./Loss(-) | 0 | 0 | 0 | 0 | 0 | |
| PBT | 3,014 | 4,010 | 4,847 | 5,469 | 6,228 | |
| Taxes | 774 | 1,038 | 1,220 | 1,376 | 1,568 | |
| Extraordinary Inc./Loss(-) | 0 | 0 | 0 | 0 | 0 | |
| Assoc. Profit/Min. Int.(-) | 0 | 0 | 0 | 0 | 0 | |
| Reported Net Profit | 2,240 | 2,972 | 3,627 | 4,092 | 4,660 | |
| Adjusted Net Profit | 2,240 | 2,972 | 3,627 | 4,092 | 4,660 | |
| Net Margin | 14.1% | 15.5% | 16.0% | 15.6% | 15.6% | |
| Diluted Share Cap. (mn) | 148.7 | 153.9 | 154.7 | 155.8 | 155.8 | |
| Diluted EPS (INR) | 15.1 | 19.3 | 23.4 | 26.3 | 29.9 | |
| Diluted EPS Growth | 32.3% | 28.1% | 21.4% | 12.1% | 13.9% | |
| Total Dividend + Tax | 226 | 1,040 | 1,451 | 1,841 | 2,097 | |
| Dividend Per Share (INR) | 1.5 | 6.8 | 9.4 | 11.8 | 13.5 | |

Source: Company, JM Financial

| Balance Sheet | | (INR mn) | | | | |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|--|
| Y/E March | FY22A | FY23A | FY24E | FY25E | FY26E | |
| Shareholders' Fund | 12,561 | 15,625 | 17,853 | 20,280 | 22,843 | |
| Share Capital | 1,532 | 1,544 | 1,547 | 1,558 | 1,558 | |
| Reserves & Surplus | 11,030 | 14,081 | 16,306 | 18,722 | 21,286 | |
| Preference Share Capital | 0 | 0 | 0 | 0 | 0 | |
| Minority Interest | 0 | 0 | 0 | 0 | 0 | |
| Total Loans | 0 | 0 | 0 | 0 | 0 | |
| Def. Tax Liab. / Assets (-) | -304 | -369 | -369 | -369 | -369 | |
| Total - Equity & Liab. | 12,257 | 15,256 | 17,484 | 19,912 | 22,475 | |
| Net Fixed Assets | 7,940 | 8,897 | 9,002 | 8,827 | 8,698 | |
| Gross Fixed Assets | 9,455 | 11,963 | 13,463 | 14,963 | 16,463 | |
| Intangible Assets | 2,061 | 2,061 | 2,061 | 2,061 | 2,061 | |
| Less: Depn. & Amort. | 4,013 | 5,331 | 7,022 | 8,697 | 10,326 | |
| Capital WIP | 437 | 203 | 500 | 500 | 500 | |
| Investments | 1,235 | 2,792 | 2,455 | 2,455 | 2,455 | |
| Current Assets | 9,077 | 8,955 | 12,413 | 16,007 | 19,707 | |
| Inventories | 635 | 742 | 879 | 1,016 | 1,154 | |
| Sundry Debtors | 4,993 | 5,260 | 6,234 | 7,203 | 8,187 | |
| Cash & Bank Balances | 1,418 | 1,563 | 3,879 | 6,409 | 9,096 | |
| Loans & Advances | 2,031 | 1,390 | 1,421 | 1,379 | 1,270 | |
| Other Current Assets | 0 | 0 | 0 | 0 | 0 | |
| Current Liab. & Prov. | 5,996 | 5,388 | 6,386 | 7,377 | 8,385 | |
| Current Liabilities | 2,459 | 2,252 | 2,669 | 3,084 | 3,505 | |
| Provisions & Others | 3,537 | 3,136 | 3,716 | 4,293 | 4,880 | |
| Net Current Assets | 3,081 | 3,567 | 6,027 | 8,630 | 11,322 | |
| Total - Assets | 12,257 | 15,256 | 17,484 | 19,912 | 22,475 | |

Source: Company, JM Financial

| Cash Flow Statement | | (INR mn) | | | | |
|------------------------------|---------------|---------------|---------------|---------------|---------------|--|
| Y/E March | FY22A | FY23A | FY24E | FY25E | FY26E | |
| Profit before Tax | 3,014 | 4,010 | 4,847 | 5,469 | 6,228 | |
| Depn. & Amort. | 918 | 1,318 | 1,691 | 1,675 | 1,629 | |
| Net Interest Exp. / Inc. (-) | 111 | 127 | -30 | -39 | -53 | |
| Inc (-) / Dec in WCcap. | -1,366 | -1,318 | -144 | -72 | -5 | |
| Others | 863 | 1,016 | 0 | 0 | 0 | |
| Taxes Paid | -976 | -1,085 | -1,220 | -1,376 | -1,568 | |
| Operating Cash Flow | 2,565 | 4,068 | 5,144 | 5,656 | 6,231 | |
| Capex | -2,833 | -1,914 | -1,797 | -1,500 | -1,500 | |
| Free Cash Flow | -268 | 2,154 | 3,347 | 4,156 | 4,731 | |
| Inc (-) / Dec in Investments | -430 | -1,313 | 338 | 0 | 0 | |
| Others | 0 | 0 | 230 | 255 | 280 | |
| Investing Cash Flow | -3,262 | -3,226 | -1,229 | -1,245 | -1,220 | |
| Inc / Dec (-) in Capital | 638 | 157 | 52 | 177 | 0 | |
| Dividend + Tax thereon | -226 | -154 | -1,451 | -1,841 | -2,097 | |
| Inc / Dec (-) in Loans | 0 | 0 | 0 | 0 | 0 | |
| Others | -406 | -525 | -200 | -216 | -227 | |
| Financing Cash Flow | 6 | -522 | -1,599 | -1,881 | -2,324 | |
| Inc / Dec (-) in Cash | -692 | 320 | 2,316 | 2,531 | 2,687 | |
| Opening Cash Balance | 1,335 | 643 | 1,563 | 3,879 | 6,409 | |
| Closing Cash Balance | 643 | 963 | 3,879 | 6,409 | 9,096 | |

Source: Company, JM Financial

| Dupont Analysis | | FY22A | FY23A | FY24E | FY25E | FY26E |
|---------------------|--|-------|-------|-------|-------|-------|
| Y/E March | | | | | | |
| Net Margin | | 14.1% | 15.5% | 16.0% | 15.6% | 15.6% |
| Asset Turnover (x) | | 1.5 | 1.4 | 1.4 | 1.4 | 1.4 |
| Leverage Factor (x) | | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| RoE | | 20.0% | 21.1% | 21.7% | 21.5% | 21.6% |

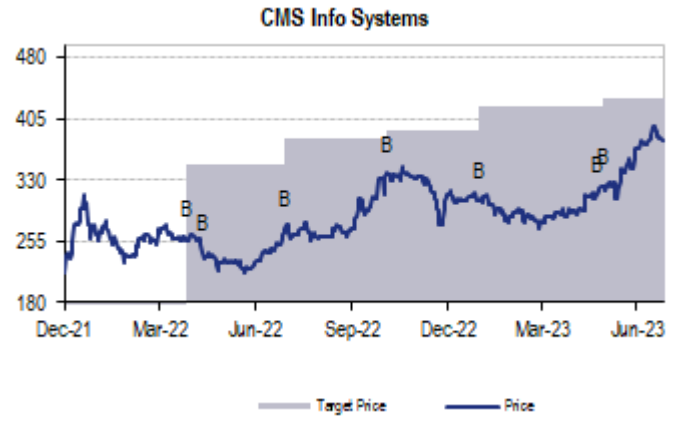
| Key Ratios | | FY22A | FY23A | FY24E | FY25E | FY26E |
|---------------------|--|-------|-------|-------|-------|-------|
| Y/E March | | | | | | |
| BV/Share (INR) | | 84.5 | 101.5 | 115.4 | 130.2 | 146.6 |
| ROIC | | 27.4% | 28.4% | 31.6% | 35.4% | 40.7% |
| ROE | | 20.0% | 21.1% | 21.7% | 21.5% | 21.6% |
| Net Debt/Equity (x) | | -0.1 | -0.1 | -0.2 | -0.3 | -0.4 |
| P/E (x) | | 25.1 | 19.6 | 16.2 | 14.4 | 12.7 |
| P/B (x) | | 4.5 | 3.7 | 3.3 | 2.9 | 2.6 |
| EV/EBITDA (x) | | 14.2 | 10.5 | 8.3 | 7.3 | 6.3 |
| EV/Sales (x) | | 3.6 | 2.9 | 2.4 | 2.0 | 1.6 |
| Debtor days | | 115 | 100 | 100 | 100 | 100 |
| Inventory days | | 15 | 14 | 14 | 14 | 14 |
| Creditor days | | 75 | 60 | 60 | 59 | 58 |

Source: Company, JM Financial

History of Recommendation and Target Price

| Date | Recommendation | Target Price | % Chg. |
|-----------|----------------|--------------|--------|
| 25-Apr-22 | Buy | 350 | |
| 11-May-22 | Buy | 350 | 0.0 |
| 28-Jul-22 | Buy | 380 | 8.6 |
| 2-Nov-22 | Buy | 390 | 2.6 |
| 30-Jan-23 | Buy | 420 | 7.7 |
| 23-May-23 | Buy | 420 | 0.0 |
| 29-May-23 | Buy | 430 | 2.4 |
| 25-Jul-23 | Buy | 465 | 8.1 |

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

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Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

| Definition of ratings | |
|-----------------------|---|
| Rating | Meaning |
| Buy | Total expected returns of more than 10% stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields. |
| Hold | Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months. |
| Sell | Price expected to move downwards by more than 10% from the current market price over the next twelve months. |

* REIT refers to Real Estate Investment Trusts.

Research Analyst(s) Certification

The Research Analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that:

All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and

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