




CMS Connecting Commerce[®]

CMS Info Systems Ltd.

SHINING STAR SERIES

Investment Thesis:

- ⇒ Market leadership in cash management business is a key differentiator, with business moats difficult to replicate
- ⇒ Multiple revenue streams, limited competition, and a large TAM provides headroom for growth in the managed services segment
- ⇒ Medium-term industry tailwinds to ensure a visible runway for business, further aided by economies of scale
- ⇒ Increasing operating leverage, healthy order book, and best-in-class balance sheet provide confidence about superior financial performance

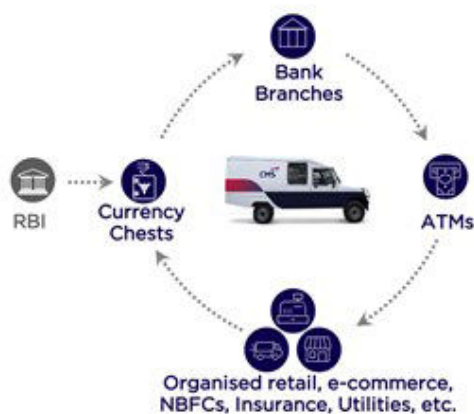
Company Background

CMS was incorporated in 2007 as a services company primarily offering IT maintenance services and evolved to become a leader in cash management for the country's BFSI and retail segments. Today, CMS Info Systems is a leading business services company providing logistics and technology solutions to banks, financial institutions, organized retail, and e-commerce companies in India. The company primarily operates through two business segments: cash management and managed services. The cash management segment includes ATM cash management, retail cash management, and cash in transit, whereas the managed services include banking automation, brown label ATMs (BLAs), managed services, software solutions, and remote monitoring technology solutions. It is important to note that CMS has expanded horizontally and vertically from a cash management business to business services outsourcing platform.

With 25,000+ employees and associates, the company serves 72,000+ ATMs, 52,000+ business commerce points, and 12,000+ bank branches across 97% of Indian districts. The company shares long-term relationships with reputed and well-established clients including SBI, HDFC Bank, Axis Bank, ICICI Bank, Citi Bank, Hitachi Payment Services Private Limited, Financial Software and Systems Private Limited, etc. The company enjoys a leadership position in various businesses such as cash logistics, ATM software solutions, and AIoT remote monitoring. Moreover, the company is ranked as one of the top-5 ATM cash management companies globally.

CMS made its debut on the NSE and BSE on 31 December 31 2021 through a successful IPO. The superiority of the business is evidenced by the robust financial performance as well where the company grew its revenue, EBITDA, and PAT by 9x, 13x, and 13x, respectively, over the last thirteen years (FY09-23 period). For the year ended 31 March 2023, the company reported consolidated revenues of Rs. 1,915 crores and PAT of Rs. 297 crores, with an EBITDA margin of ~29%.

Cash Logistics



Managed Services and Tech Solutions



Source: Company Reports, BP Equities Research

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook **Positive**

Stock

CMP (Rs.)	377
Target Price (Rs.)	466
BSE code	543441
NSE Symbol	CMSINFO
Bloomberg	CMSN.BO
Reuters	CMSINFO IN

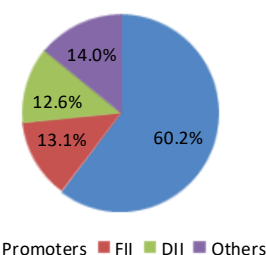
Key Data

Nifty	19,399
52 Week H/L (Rs.)	384/227
O/s Shares (Mn)	154
Market Cap (Bn)	58
Face Value (Rs.)	10

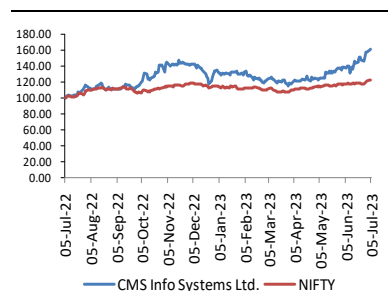
Average volume

3 months	1,116,230
6 months	659,730
1 year	540,090

Share Holding Pattern (%)



Relative Price Chart



Research Analyst

Shreyansh V.Shah
shreyansh@bpwealth.com
022-61596132

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Investment Rationale

Market leadership in cash management business is a key differentiator, with business moats difficult to replicate

The company's cash logistics business comprises ATMs, retail, and CIT wherein the company enjoys market leadership position. In the ATM cash management segment, the company's market share increased from 42% as of March 2021 to 47% in March 2022 based on the number of ATMs outsourced for cash management. The company is also a market leader in retail cash management and dedicated cash-in-transit vans segments. Apart from the leadership position, the company also benefits from strong revenue visibility as most of these revenue models are fixed/annuity-based (ATM: >90% fixed; Retail: >70% fixed; and CIT: 80% fixed). The revenue model of ATMs is linked to number of visits per ATM, while retail revenue model is linked to volume and number of points. As most of the revenue is derived from route-based operations, CMS follows a fixed monthly fee structure plus additional fees depending on variables such as extra operations, time of day, and distance travelled to help assess deep penetration in high-growth markets and coverage of semi-urban and rural (SURU) areas. It is interesting to note that revenues in the cash management business is not linked to cash in circulation (CIC). With the banking sector focusing on refreshing and expanding the ATM network in the country, the company is witnessing a very strong ATM RFP pipeline of ATMs and cash recyclers for the near future (both new rollout and outsourced ATM services).

“A prudent play of top-notch quality and scale”

“Fixed/annuity-based model provides revenue visibility”

We believe that the retail side of the cash management business will further support overall growth and has the necessary tailwinds such as the continued shift from unorganized to organized retail and a higher share of cash-on-delivery (CoD) transactions in e-commerce. Moreover, the runway for the segment is large, as the cash logistics market is expected to grow at a CAGR of 19% during the FY21-27 period to reach Rs. 7,900 crores in FY27. The company has also adopted value-incremental strategic acquisitions to register synergies in the cash logistics business. In 2011, CMS acquired Securitrans India Private Limited to scale up the cash management services, address cost controls, restructure operations, and optimize route operations, while in 2020, it acquired LogiCash to further expand its ATM cash management business.

“Leadership position to aid market share gains”

We expect the business to garner further market share going forward on the back of its leadership position, the scale of operations, inorganic growth opportunities, expected growth in the number of ATM rollouts, and the increasing trend of outsourcing in the cash management business.

Multiple revenue streams, limited competition, and a large TAM provides headroom for growth in the managed services segment

Over the last few years, the company has increasingly focused on managed services business whose contribution to overall revenues increased to 33% in FY23. The company's growing focus on managed services is evidenced by the fact that the company has grown its revenue 3X, while EBIT has grown 3.7x during the FY19-23 period. The EBIT margins have been consistently improving on the back of economies of scale which rose from 15% in FY21 to ~20% in FY23.

“Integrated managed services a key differentiator”

The robust performance has been on the back of new wins across BLAs, remote monitoring, banking automation products, and kiosks. As of 31 March 2022, CMS managed over 12,000 ATMs under Brown Label and Managed Services models, up from around 10,000 in the previous year. The company's remote monitoring business, which it entered in FY22 through the acquisition of Hemabh Technology Private Limited, has been doing exceedingly well (FY22: 25,000 sites order book) and is adding sites across ATMs, bank branches, and gold loan NBFC branches. CMS software solutions suite also continues to deliver wins with leading banks in the country including ALGO - AI-based ATM security software (FY22: 7,000 ATMs) and Multi-Vendor Solution (MVS) (FY22: 50,000 ATMs). The company is a leading AIoT player in the banking sector and is swiftly taking the lead with 21,000 live sites in operation.

“Technology services offers large headroom for growth”

Given the shift of banks to an asset-light BLA model for their new deployment and replacement, there is an increasing preference for integrated managed services companies and high-quality cash management players. We foresee a strong headroom for growth as contracts in managed services are relatively longer-term, which is expected to generate recurring revenue for four to seven years. Moreover, various segments such as banking automation, ATM-as-a-Service, ALGO software, and AIoT remote monitoring offer a large addressable market which we expect the company to capture at a fast pace owing to limited competition in these emerging segments.

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Managed Services Segments - Positioning, Revenue Model and TAM

Particulars	Banking Automation	ATM-as-a-Service	ALGO Software	AIoT Remote Monitoring
Market Positioning	14% market share	6% market share	Market leader	#1 in Banking
Revenue Model	Product sale + 7-10 years maintenance revenue	60% bank owned, 3-5 years fixed revenue 40% BLA; 7-10 years, transaction-based revenue	SaaS-like business model License sale + 7-10-year maintenance revenue	100% fixed recurring
Total Addressable Market (Rs. crores)	FY21: 1,650 FY27: 4,600	FY21: 4,570 FY27: 11,620	NA	FY21: 800 FY27: 3,000
Miscellaneous	Usability in ATMs, Currency recyclers, Self-service kiosks	NA	MVS - Unified & dynamic interface and management ATM access security software	Large opportunity as <40% ATMs and <30% branches secured today

Source: Company Reports, BP Equities Research

“New deployment and replacement by banks to aid revenues further”

Medium-term industry tailwinds to ensure a visible runway for business, further aided by economies of scale

Banks are increasingly focusing on outsourcing of their ATM networks to high-quality service providers to meet the RBI operating standards. The company seems to be in a sweet spot to benefit from the RBI compliance-related guidelines which include route compliance (van and vault upgrade) and cassette swap compliance. With 65% of CMS routes being compliant and a large opportunity in implementing cassette swaps (~10% of CMS footprint implemented cassette swap), we expect the company to benefit and register higher realization per ATM in the near-to-medium term. Moreover, there is an additional incentive for banks to opt for high-quality services as the RBI hiked the ATM interchange from Rs. 15 to Rs. 17 per transaction. We believe that the outsourcing of ATM networks is similar to IT services in terms of end-to-end outsourcing over a multi-year period with predictable revenue streams. With the RBI increasingly focused on moving ATM operations in India to global standards, we believe that the integrated end-to-end players with high quality and service levels are rightly placed to capture this growing addressable market opportunity. We expect banks to be at the centre stage as the Indian economy is poised to grow upwards of 6% in the next few years, with cash payments having a large share in loans, insurance, retail, and e-commerce. We believe that the expected increase in total ATMs in India, branch expansion plans by private banks and plans for an increase in outsourcing of ATMs by banks will provide tailwinds for market share gains over the medium-term.

“RBI compliance-related guidelines offers addressable market opportunity”

Mid-term Business Drivers

Cash Logistics	ATM Managed Services	AIoT Remote Monitoring	Inorganic
1,00,000 ATMs yet to be outsourced	80,000+ PSU banking ATM refresh cycle	Opportunity: >60% ATMs and bank branches	Synergetic six M&As of the past with <3 year payback
Growth in organized retail	20,000+ new ATMs by private banks	Expansion into end-users like NBFC, insurance and retail	
	1,00,000 ATMs to be outsourced to BLA		

Source: Company Reports, BP Equities Research

“Strong economic growth and consumption patterns to provide further tailwinds”

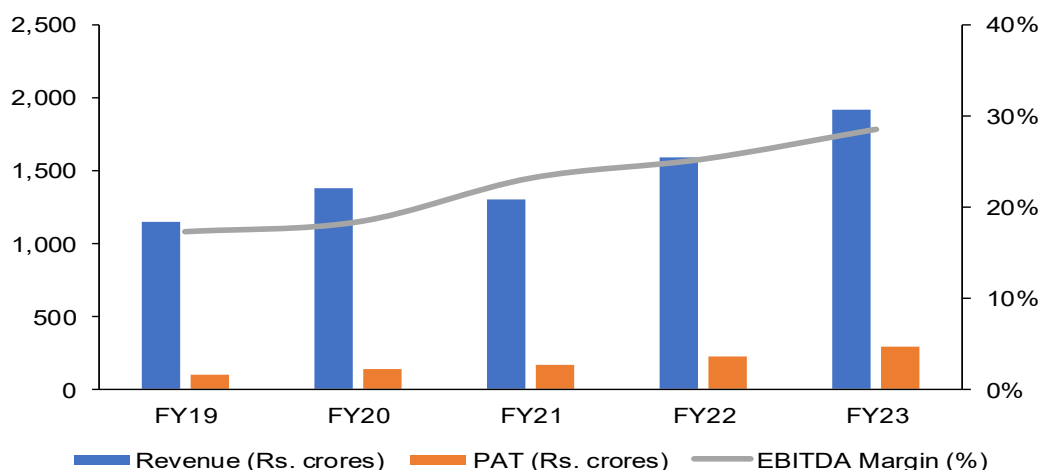
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Increasing operating leverage, healthy order book, and best-in-class balance sheet provide confidence about superior financial performance

The company's strong business performance has translated into a robust financial profile, with a near 14% CAGR in revenues and almost a 3x growth in EBITDA and PAT in the last five years. CMS revenue is supported by both cash management and managed services, although the recent investments by CMS have seen a higher contribution from the managed services segment. The company has also seen consistent improvement in margins due to increasing operating leverage and network density along with the use of technology to automate logistics operations. It has witnessed healthy internal accrual generation, reflected by the operational performance translating into cashflows wherein OCF/EBITDA is close to 75%. The company's liquidity remains strong, with cash, bank balance, and investment of Rs. 401 crores as on March 31, 2023. Additionally, the company's net-debt-free status, consistent dividend payouts, and improving RoE profile are some financial parameters that provide further comfort. The company aims to reach a revenue of Rs. 2,500-2,700 crores by FY25 from Rs. 1,915 crores posted in FY23 and aspires to almost double its revenue in the next four years. We anticipate the company to sustain its financial performance over the medium term, supported by a healthy order book under its managed services segment, increased revenue contribution from higher value-added services, and the likely increase in rate realizations for ATM and retail cash management due to the implementation of the RBI's stringent operating requirements for the cash management business in India. Moreover, strong accrual generation and the absence of any large debt-funded capex in the near future should keep the liquidity profile of the company comfortably placed going forward.

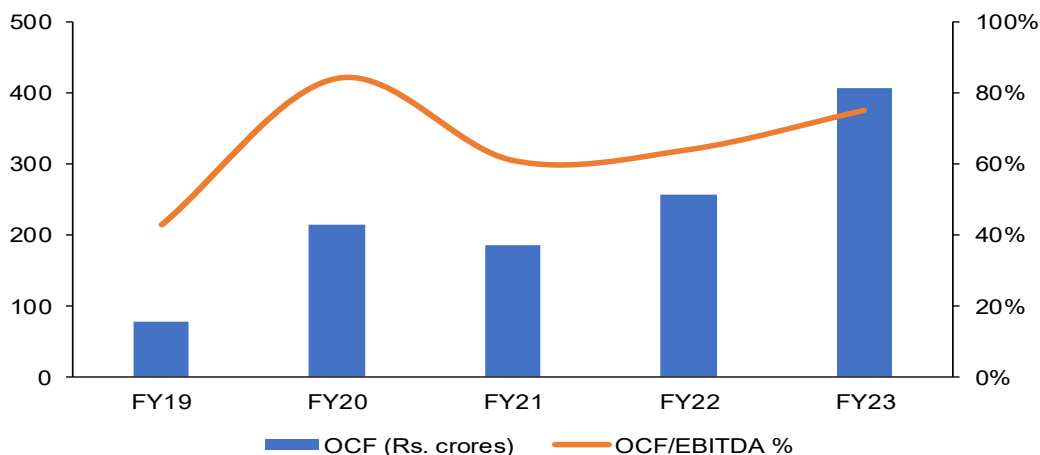
“Lowest unit economics in industry due to large scale and higher productivity”

Revenue, PAT & EBITDA Margin Profile



“Increasing operating leverage and network density to aid margins”

OCF and OCF/EBITDA %



“Net-debt-free status, consistent dividend payouts, and improving RoE profile instil confidence”

Source: Company Reports, BP Equities Research

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Competitive Landscape

Automation Solutions			Managed Services				Software and Technology			
Company	ATM supply	Kiosks	Installation	AMC/SLM	MS	BLA	Remote monitoring	MVS	OTC	End Pt. security
AGS	Mainly CDs	-	✓	✓	✓	✓	✓	-	✓	✓
CMS	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
FIS	-	-	-		✓	✓	-	-	-	-
FSS	-	-	-		✓	✓	-	-	-	-
Hitachi	Only CRs	-	Only CRs	Only CRs	✓	✓	Not in house	-	-	✓
NCR	Mainly CDs	-	✓	✓	✓	-	Not in house	✓	-	✓
OkI	Only CRs	-	✓	Only CRs	-	-	-	-	-	-

Peers Comparison

Companies	Market Cap (Rs. crores)	P/E (x)		EV/EBITDA (x)		ROE	
		FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
CMS Info Systems Ltd.	5,820	16.5	13.9	8.8	7.5	21.2	21.3
Peers							
SIS Ltd.	6,163	17	15	11.3	9.6	14.8	16.5

Companies	Revenue (Rs. crores)		EBITDA Margin		PAT (Rs. crores)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
CMS Info Systems Ltd.	2,266	2,633	28.3%	28.6%	359	427
Peers						
SIS Ltd.	12,826	14,493	4.8%	5.1%	370	473

Source: BP Equities Research, Bloomberg estimate, Company RHP

*Note:

- 1) AGS Transact Technologies Ltd.
- 2) FIS Global
- 3) FSS Technologies Pvt. Ltd.
- 4) Hitachi Payment Services Pvt. Ltd.
- 5) NCR Payment Solutions Corporation
- 6) OkI Payment Management Systems
- 7) CR - Change Request
- 8) CD - Change Directory

Key Risks

- ⇒ The regulated nature of the business and an increase in the usage and acceptance of alternative payment methods like net banking, mobile wallets, unified payment interface (UPI), credit cards, etc.
- ⇒ The inherent vulnerability of the business to the risk of cash loss in transit due to theft, fraud, and armed robbery.

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Valuation & Outlook

Over the years, the company has moved from one strength to the other: a) In the initial phase, it established itself as a strong player in the cash logistics business; b) Thereafter, moved to managed services to have a larger TAM; and c) Recently, launched high growth potential AIoT business. In line with the global trends where the cash management business is concentrated and served by large and high-quality players, we feel that the company has strong tailwinds linked to compliance implementation to take the business growth forward. As the ATM market continues to shift from bank-managed ATMs to end-to-end deployments of ATMs by service providers, the business of outsourcing ATM management will continue to grow fast in India. It is interesting to note that India is the world's third-largest ATM market and presents an enormous opportunity for entrenched players such as CMS Info Systems. The company's ability to generate strong cashflows aided by the lowest unit economics in the industry due to large scale and higher productivity makes it a key differentiating play in the industry which is consolidating as we move forward. Moreover, the company has positioned itself as a player which can offer an integrated offering and manage large and complex projects by consciously investing in key adjacencies and technology. We believe that CMS' wide geographic reach with pan India presence, long-term established relationships with its clientele, professional management team, and robust financial profile makes it a formidable player. Going forward, we believe that the company would further cement its dominant position in the cash management business in India owing to higher operating leverage and network density, the use of technology to automate logistics operations, a higher share of value-added solutions, and the launch of new business lines. **On the valuation front, we value the company based on 18x of FY25E earnings and arrive at a target price of Rs. 466 (24% upside from CMP) with a 12 months investment horizon.**

“ATM market continues to shift from bank-managed ATMs to end-to-end deployments of ATMs by service providers”

Key Financials (Consolidated)

YE March (Rs. crores)	FY20	FY21	FY22	FY23	FY24E	FY25E
Revenue	1,383	1,306	1,590	1,915	2,177	2,409
<i>Revenue Growth (Y-o-Y)</i>	20.7%	(5.6%)	21.7%	20.5%	13.7%	10.7%
EBIDTA	254	282	373	538	636	716
<i>EBIDTA Growth (Y-o-Y)</i>	28.3%	11.2%	32.0%	44.4%	18.2%	12.5%
Net Profit	135	169	224	297	345	400
<i>Net Profit Growth (Y-o-Y)</i>	40.1%	25.1%	32.9%	32.6%	16.2%	15.9%
Diluted EPS	9.1	11.4	14.6	19.3	23.3	25.9
<i>EPS Growth (Y-o-Y)</i>	40.0%	25.2%	28.4%	31.6%	21.0%	11.2%

Key Ratios

EBIDTA Margin (%)	18.4%	21.6%	23.4%	28.1%	29.2%	29.7%
NPM (%)	9.7%	12.9%	14.1%	15.5%	15.8%	16.6%
RoE (%)	16.8%	18.4%	20.6%	21.1%	21.2%	21.3%

Valuation Ratios

P/E (x)	41.5x	33.1x	25.8x	19.6x	16.2x	14.6x
EV/EBITDA	21.6x	19.4x	14.8x	10.7x	9.0x	7.9x
P/BV (x)	6.9x	5.9x	4.6x	3.9x	3.2x	2.7x
Market Cap. / Sales (x)	4.1x	4.3x	3.6x	3.0x	2.6x	2.4x

Source: BP Equities Research, Bloomberg estimate

Disclaimer Appendix**Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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Corporate Office:

4th floor,
Rustom Bldg,
29, Veer Nariman Road, Fort,
Mumbai-400001
Phone- +91 22 6159 6464
Fax-+91 22 6159 6160
Website- www.bpwealth.com

Registered Office:

24/26, 1st Floor, Cama Building,
Dalal street, Fort,
Mumbai-400001
BP Equities Pvt. Ltd.
CIN No: U67120MH1997PTC107392