ASIAN MARKETS SECURITIES

INSTITUTIONAL EQUITIES

INITIATING COVERAGE REPORT
25 | August | 2023

CMS Info Systems

Prithvish Uppal, CFA
prithvish.uppal@amsec.in
+91 98999 00146

Initiating Coverage

CMS Info Systems Ltd .

Financial Services

Asian Markets Rating	BUY

CMP (Rs)	360
Target (Rs)	450
Upside (%)	25%

Nifty: 19,293	Sensex: 64,977

Key Stock Data

Bloomberg	CMSINFO IN
Shares O/s Mn (FV INR 10)	154.4
Mkt Cap (USD Bn/INR Bn)	0.7/56.3
52-week high/low	409/250
6m daily avg vol (INR Mn)	416
Free Float % (Jun-23)	52

Price Performance

(%)	3m	1yr	3yr
CMSINFO	12.7	35.7	N/A
Nifty	6.1	11.8	75.5
NSE500	9.0	13.1	84.6
BSE Midcap	16.2	24.3	111.0

Shareholding Pattern

(%)	Dec-22	Mar-23	Jun-23
Promoter	61.0	60.2	46.5
FII	12.5	13.1	15.3
DII	9.8	10.2	19.0
Others	16.8	16.4	19.2

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FY23-26E Earnings CAGR	CF & Return Profile	Valuations
18%	High	Attractive

Cashing in on market leadership & sound business

CMS Info Systems, the cash logistics market leader, offers ATM cash management, retail cash management, cash-in-transit services, has a growing presence in the managed services business and is expanding into tech solutions through remote monitoring services and software solutions. From FY19 to FY23, it achieved significant growth with revenue, core EBIT, and PAT rising by ~14%, 30%, and 33% respectively. ROIC and RoE increased from 19% and 17% in FY20 to 23% and 21% in FY23. Debt-free, the company consistently grows CFO, paying out ~25% EPS as dividends in FY23. CMS is well-poised for ATM outsourcing, retail expansion, and remote monitoring demand, with projected growth at 15%, 18%, and 18% for revenue, core EBIT, and PAT from FY23 to FY26E, reaching an EPS of Rs. 31 by FY26E.

Indisputable leader in cash management and remote monitoring business

CMS has captured 47% market share in the ATM business and 37% in retail cash management as of FY23. In contrast, many competitors have either witnessed a decline in their market share or exited certain verticals entirely due to unfavourable business economics. In the emerging field of remote monitoring, CMS has reaped the rewards of its pioneering status, boasting an extensive installed base of 21,000 sites. The company has emerged as the preferred partner for several reasons, including its robust pan-India presence, impressive operational scale, and its ability to provide clients with a comprehensive array of solutions. We expect CMS to continue to outperform its peers and the market to undergo further consolidation.

Retail cash management, ATM outsourcing, & remote monitoring on the rise

Merely 4% of the total retail touchpoints, or 24% of organized ones, utilize cash management services (as on FY21). This is expected to increase, primarily due to the transition from unorganized to organized retail and the subsequent growth in number of retail touchpoints. Among the ~255,000 ATMs in operation, roughly 60% are entrusted to cash management companies. This is anticipated to rise as banks seek to curtail their operating expenses. The demand for remote monitoring services spans across sectors, driven by the rising need for high-quality AI-enabled security and surveillance solutions at an affordable cost.

Regulatory changes to give CMS an edge

Regulatory shifts, including the implementation of minimum operating standards, are expected to elevate compliance costs for cash logistics firms. Consequently, businesses with inefficient route economics may exit the market. For new entrants, rapidly establishing the scale, client base, and geographical reach of a company like CMS will prove to be challenging. Moreover, the regulation of cassette swapping is likely to result in increased revenues from banks. Thus, CMS Info Systems has an upper hand through its extensive operations, robust cash generation, and formidable balance sheet strength.

Valuations attractive: Initiate coverage with a BUY recommendation at 15x FY26E EPS

We initiate coverage on CMS Info Systems with a BUY rating and a price target of Rs. 450 based on discounted cash flow model (DCF), implying a FY26E P/E of 15x. Our EPS estimate for FY26E is Rs. 31. Our DCF model assumes an 12.5% discount rate (opportunity cost) and 3% terminal growth rate (inflation rate). We believe the market is excessively pessimistic on the company's prospects, and is not accurately pricing in the company's true revenue growth trajectory. We anticipate that a revision in expectations will result in substantial upside potential from the CMP.

Exhibit 1: Key Financials (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Sales	15,897	19,147	22,319	25,544	29,126
yoy (%)	21.7	20.4	16.6	14.5	14.0
Op. EBITDA	3,998	5,377	6,501	7,511	8,627
yoy (%)	36.2	34.5	20.9	15.5	14.9
Net Profit	2,240	2,972	3,599	4,231	4,929
yoy (%)	32.9	32.7	21.1	17.6	16.5
EBITDAM (%)	25.1	28.1	29.1	29.4	29.6
Net worth	12,561	15,625	18,491	21,820	25,688
Diluted EPS	14.3	18.7	22.6	26.6	31.0

Source: Company, AMSEC Research

Exhibit 2: Key Indicators

Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
RoE (%)	20.0	21.1	21.1	21.0	20.8
RoCE (%)	24.7	26.2	26.3	26.4	26.3
RoIC (%)	22.6	23.2	25.5	27.0	28.5
Net D/E	-0.1	-0.1	-0.2	-0.2	-0.3
PER (x)	18.5	14.8	16.1	13.7	11.7
P/BV (x)	3.2	2.7	3.0	2.6	2.2
EV/Sales (x)	2.5	2.1	2.4	2.1	1.7
EV/EBITDA(x)	9.9	7.5	8.2	7.0	5.8
Div Yield (%)	1.0	1.7	1.6	1.9	2.2

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Story in Charts

Exhibit 3: TAM for cash management is expected to grow 12%

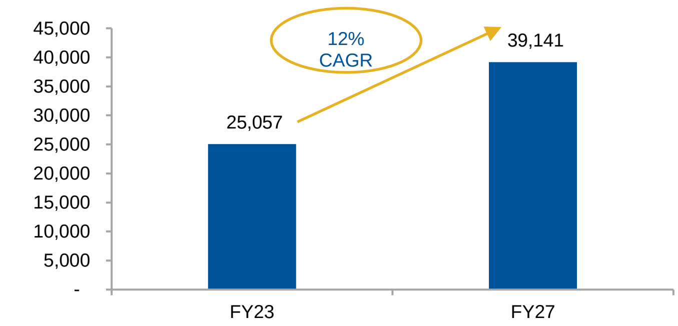


Exhibit 4: Highest market share in ATMs serviced (FY23 %)

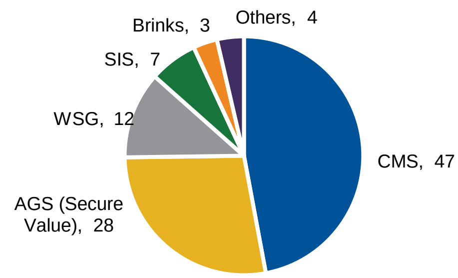


Exhibit 5: Expect overall revenue CAGR of 15% over FY23-FY26E, faster than industry

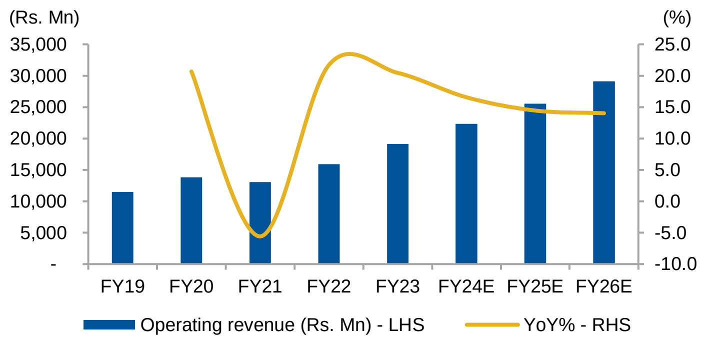


Exhibit 6: Cash management share declining while managed services is rising

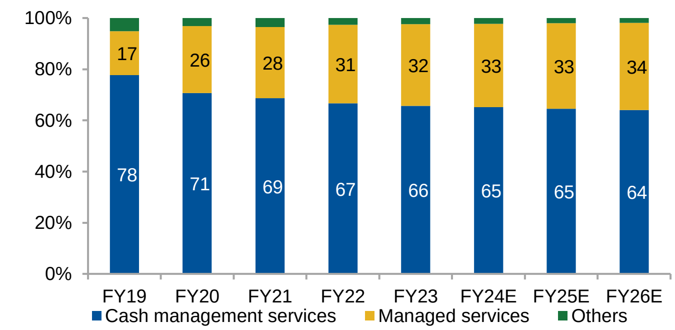


Exhibit 7: Cash management business to see ~14% CAGR FY23-FY26E

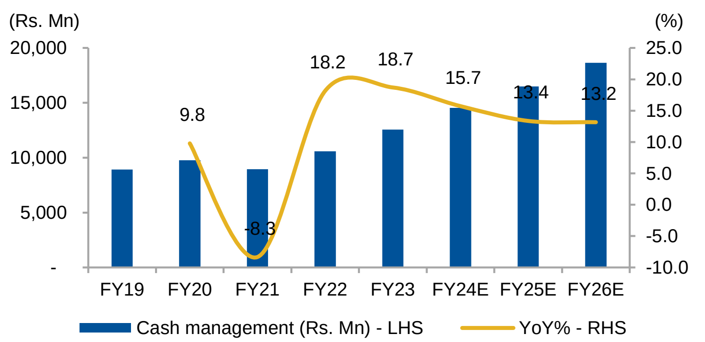


Exhibit 8: Driven by growth in outsourcing of ATMS…

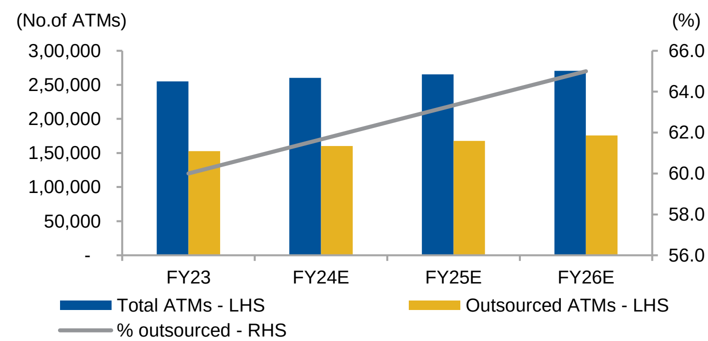


Exhibit 9: …leading to higher ATMs serviced by CMS

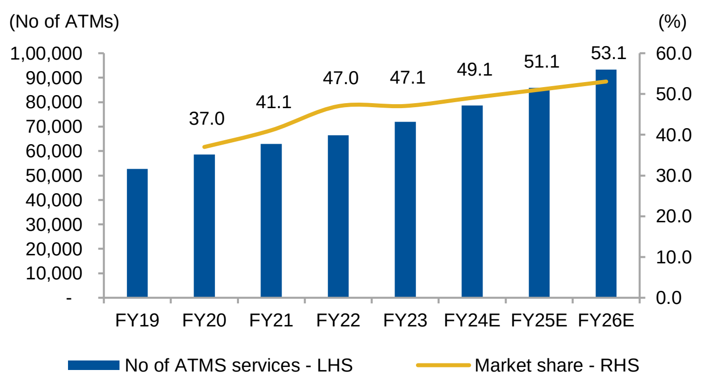
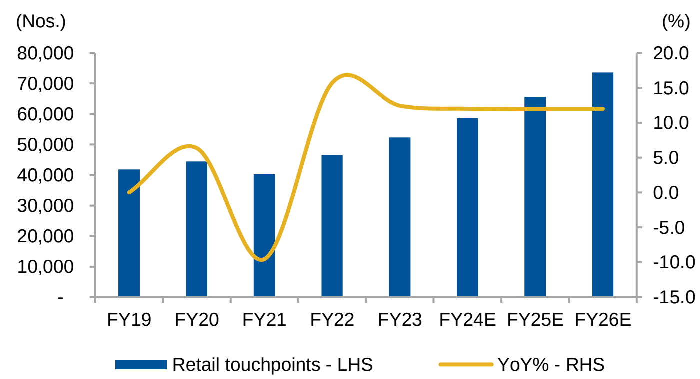


Exhibit 10: …growth in retail touchpoints



Source: Company, AMSEC research,

Exhibit 11: Managed services expected to grow faster at 18% CAGR FY23-FY26E

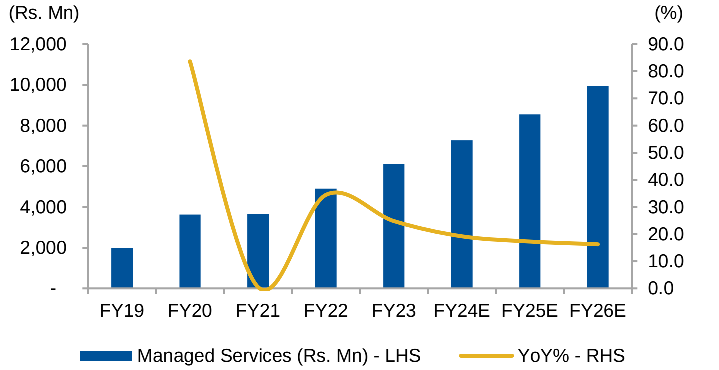


Exhibit 12: …with share of remote monitoring rising to 9% by FY26E (FY23-FY26E CAGR 35%)

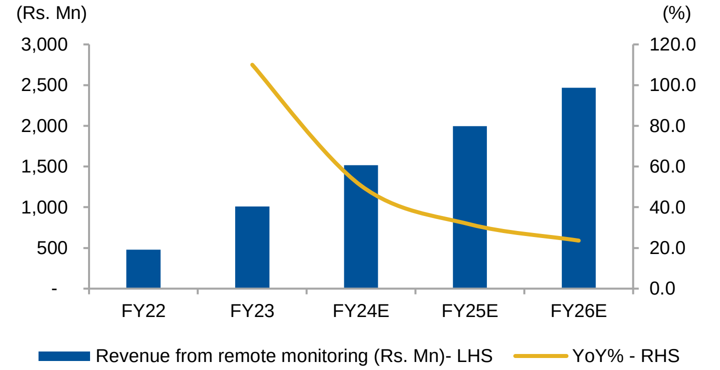


Exhibit 13: …Leading to 17% FY23-FY26E CAGR in EBITDA

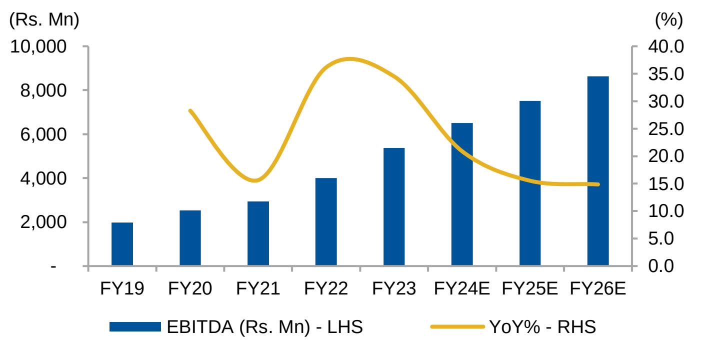


Exhibit 14: …and PAT CAGR of 18% FY23-FY26E

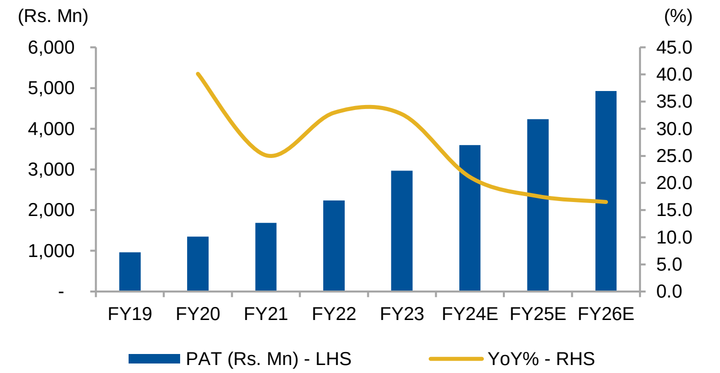


Exhibit 15: …along with modest margin improvement

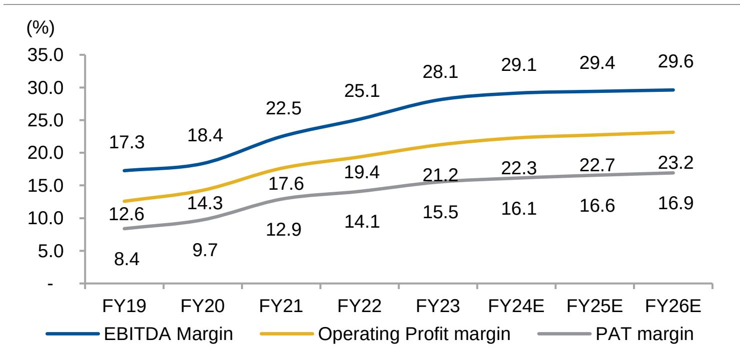


Exhibit 16: High cash generation with CFO expected to grow ~13% FY23-FY26E CAGR

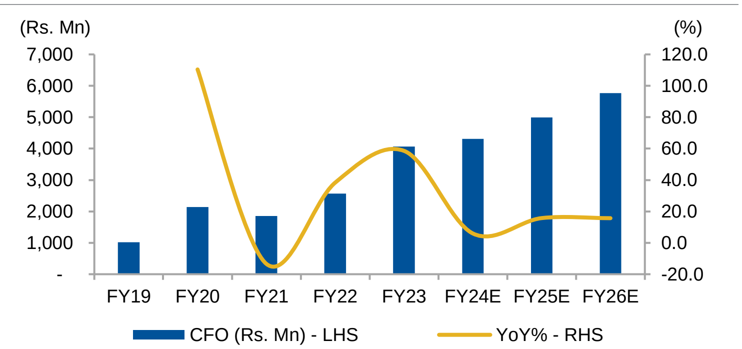


Exhibit 17: …translating to healthy FCFF growth of ~23% FY23-FY26E

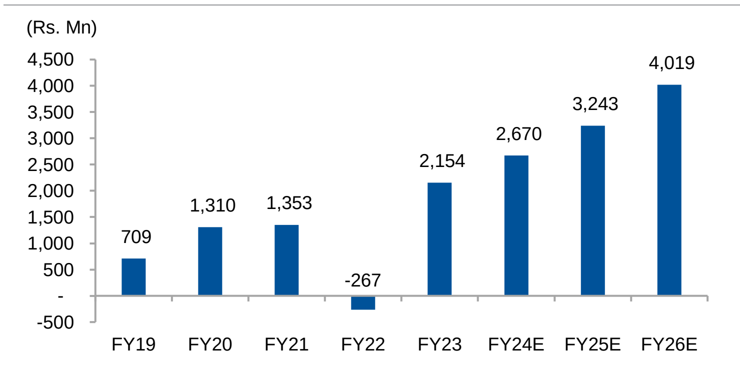
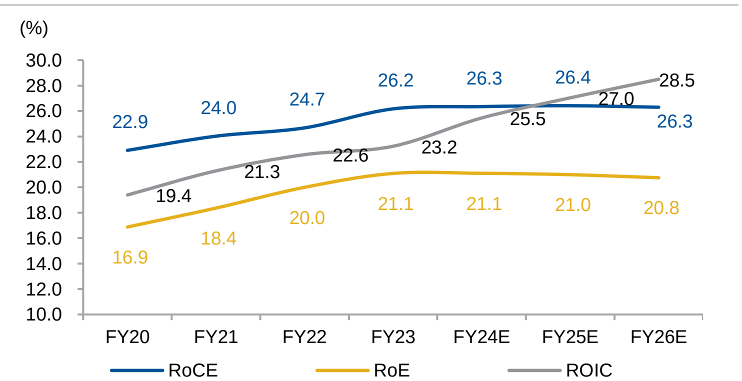


Exhibit 18: Return profile to trend upwards led by better margins



Source: Company, AMSEC research, PAT and EBITDA include ESOP expenses

Investment thesis

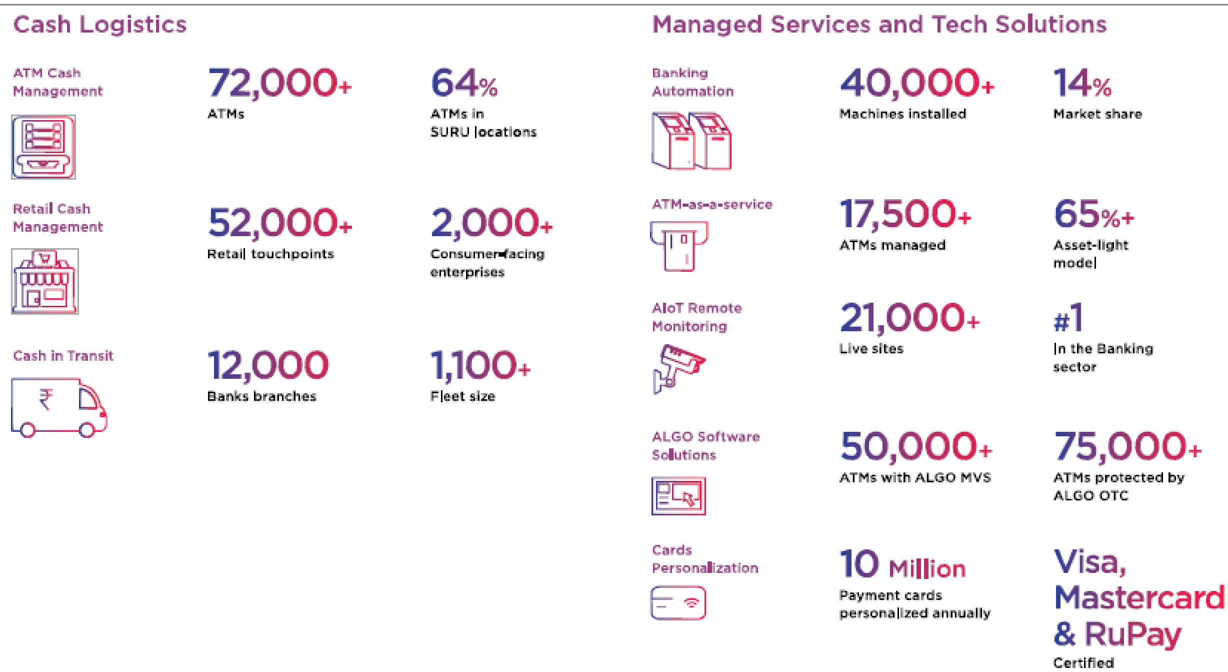
Market dominance across most segments

CMS Info Systems has firmly established itself as the preeminent player in the cash management sector. As of FY23, CMS commanded an impressive market share of ~47% in terms of number of ATMs, whereas its closest competitor, AGS – Secure Value, lagged behind with a 28% market share. While CMS has steadily expanded its market presence over the past three years, AGS has seen a decline. In retail cash management, CMS maintains a market share of ~37% in FY23, with Radiant Cash Management being its sole significant contender.

Additionally, CMS has pioneered the highly lucrative remote monitoring industry, boasting an extensive installed base comprising ~21,000 sites. The company's standing as the preferred partner of choice can be attributed to its robust pan-India footprint, operational scale, and its ability to offer clients a comprehensive suite of solutions.

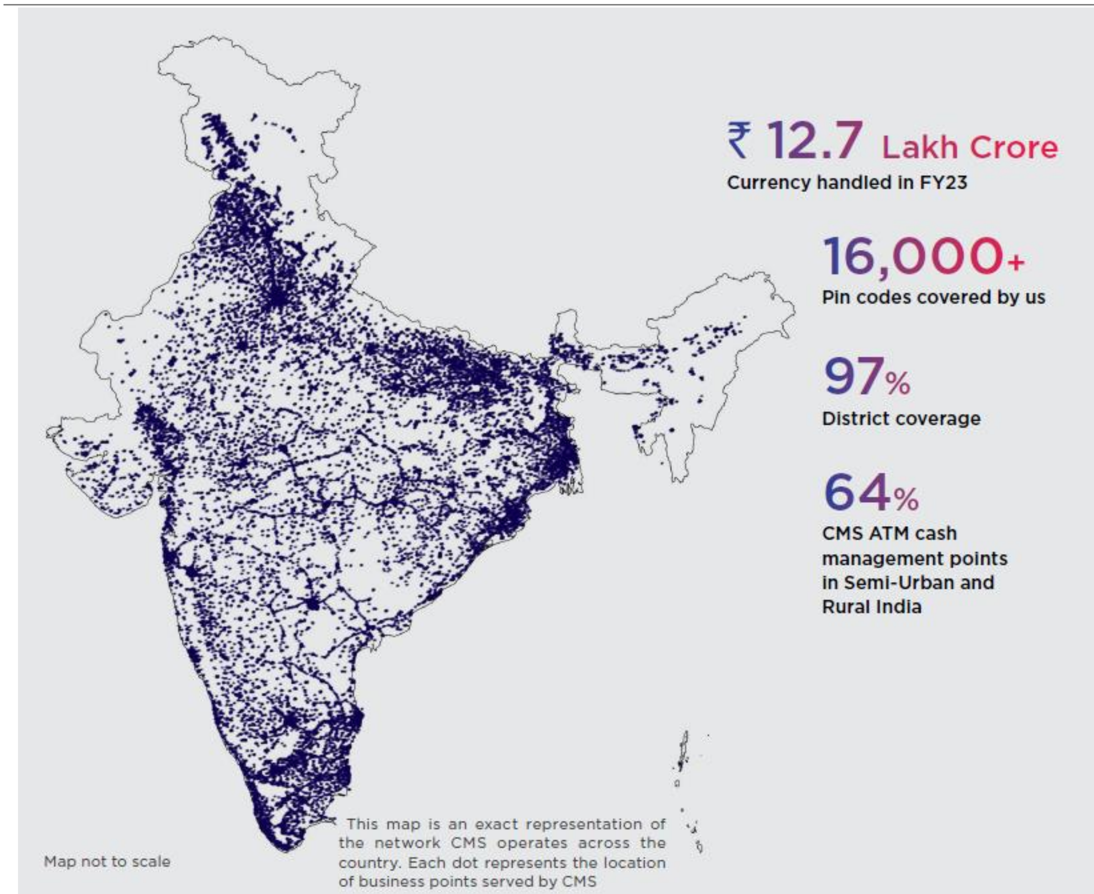
The company also maintains a leading position across managed services business. The company also has a market share of ~14% in the banking automation managed services segment with an installed base of 40,000 machines which can be ramped up through in-house production through its Chennai manufacturing facility. In the software business, the company works with >50,000 ATMs in the multi-vendor software business and over 75,000 ATMs in ALGO OTC (security).

Exhibit 19: CMS Info Systems has cemented its leadership position across various segments in the cash management and managed services business



Source: Company, AMSEC Research

Exhibit 20: Strong pan-India presence and extensive scale of operations



Source: Company, AMSEC Research

Exhibit 21: CMS manages the highest number of ATMs – FY23

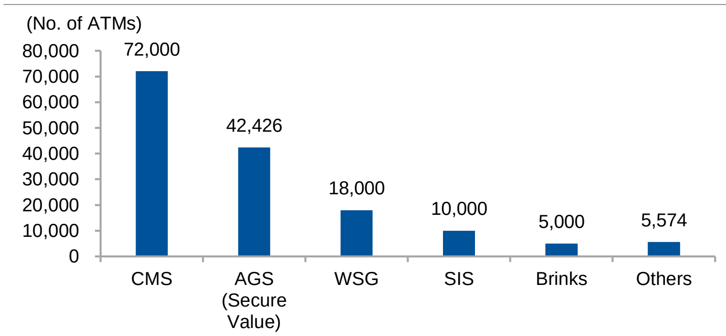


Exhibit 22: …with highest market share as on FY23

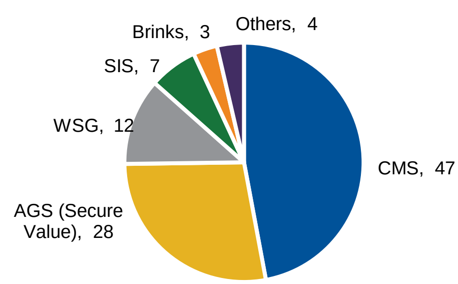


Exhibit 23: CMS has seen steady rise in market share

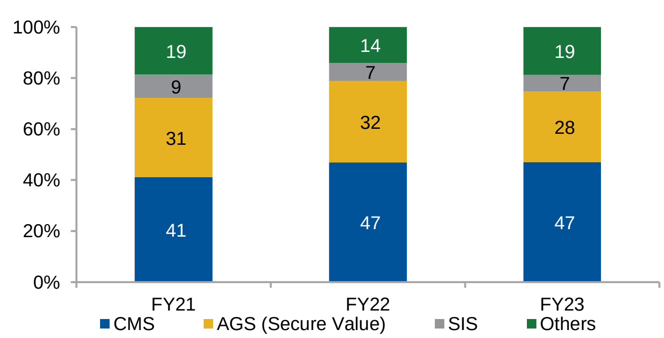
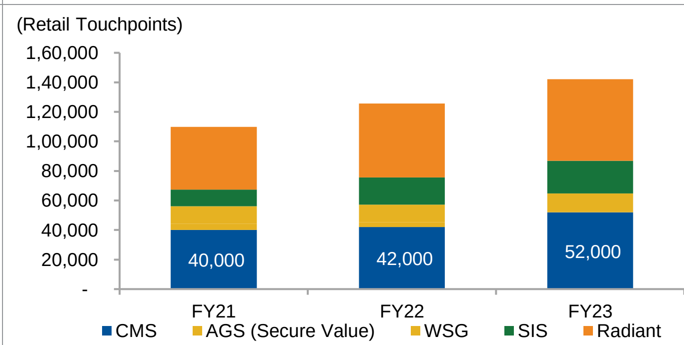


Exhibit 24: Industry Retail touchpoints have grown ~14% FY21-FY23 with maximum additions by CMS

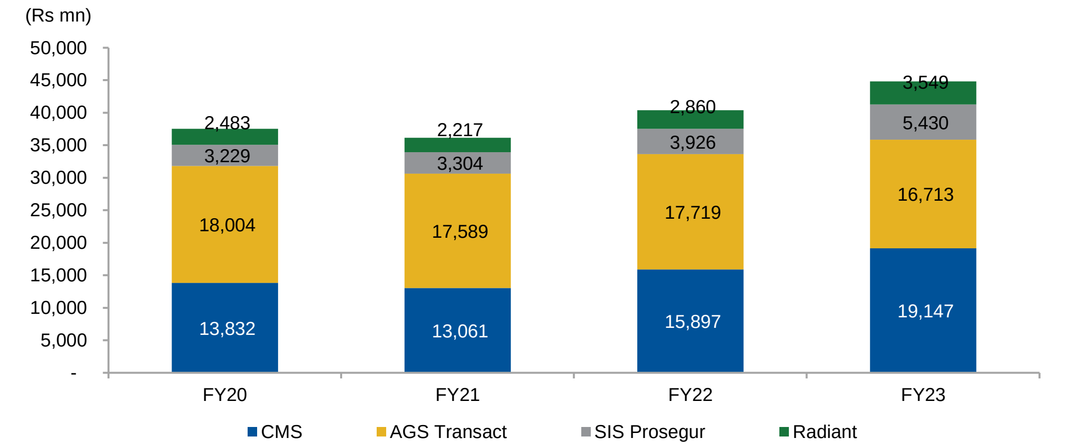


Source: Company, AMSEC Research

The sheer scale of operations and increase in market share have positioned CMS for revenue growth. We anticipate that CMS will maintain its lead, primarily driven by its strong market share gains amid consolidation.

From FY20 to FY23, the top four players in the cash logistics sector (CMS, AGS, Radiant, and SIS) experienced ~6% CAGR in revenue growth, while CMS saw ~11% CAGR. CMS' revenue share within the industry has concurrently risen from ~36% in FY20 to ~43% in FY23, primarily fuelled by its expanding market presence.

Exhibit 25: CMS reigns supreme in terms of revenue among peers*



*Source: Company, AMSEC Research, *AGS, Radiant and CMS revenues are total consolidated revenue, SIS only cash management*

Strong tailwinds in retail cash management

The retail cash management business remains significantly underpenetrated, mainly attributable to a large presence of unorganized retailers. Furthermore, robust expansion plans of large-format retailers, involving the establishment of additional retail stores, present a compelling catalyst for substantial growth in this sector.

The primary growth catalyst for CMS hinges on the expansion of its retail pickup points. According to Frost & Sullivan, the country boasts ~3 mn retail touchpoints, with ~453,000 or 15% under the organized retail category as on FY21. Among these organized retail touchpoints, about 110,000 utilize cash management services, equating to roughly 24% of the organized sector and a mere 4% of the total retail touchpoints. This data underscores the considerable untapped potential for growth. We estimate that by FY23, the total organized retail touchpoints employing cash management services would have likely grown to ~142,000

The retail cash management business is facing strong tailwinds driven by the factors below:

- **Increasing number of retail touchpoints**: The organised retail segment is expected to experience more rapid growth compared to the unorganized market, leading to higher demand for cash management services. Given CMS' leadership position, both in terms of the number of touchpoints and its ability to deliver these services at a competitive cost, we are confident that the company stands to reap disproportionate benefits from this trend.
- **Riding penetration in T2 & T3 cities**: Expansion by both traditional retailers and e-commerce giants will work to the advantage of CMS, and its extensive network simplifies the process for retailers seeking partnerships. Furthermore, the preference for Cash on Delivery (CoD) as the primary transaction method beyond major cities signals a continued opportunity for revenue growth in the Retail Cash Management (RCM) sector, where companies like CMS can notably benefit from their association with e-commerce firms.
- **RBI operating standards**: Compliance requirements have already precipitated industry consolidation, prompting companies to withdraw from the market due to elevated operating costs and low returns. CMS has robust financial stability and possesses the capacity to effectively meet these regulatory demands.

Exhibit 26: Total retail market share by segment (%)

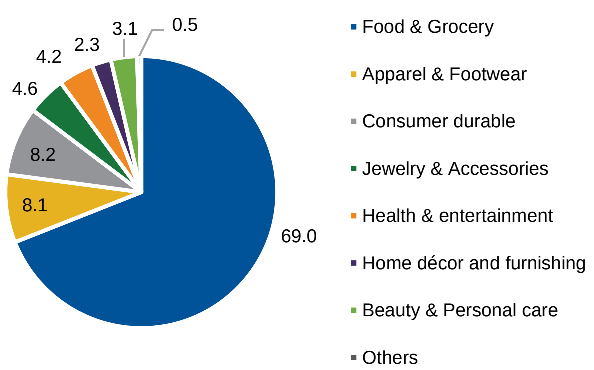


Exhibit 27: Of the ~3mn retail touchpoints, 15% are under organized sector as of FY21 (%)

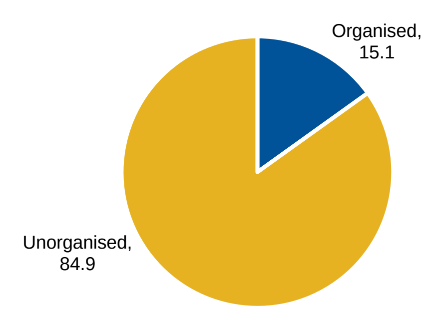


Exhibit 28: ~24% organized & 4% of total retail touchpoints employing cash management services (FY21)

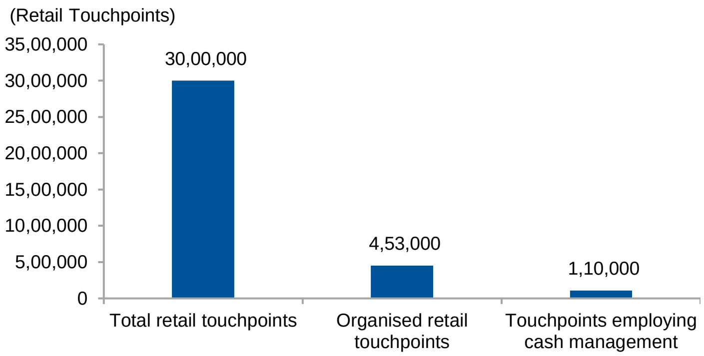
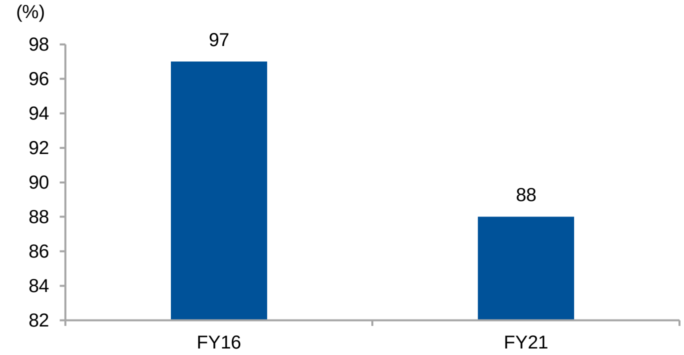


Exhibit 29: Cash remains the preferred mode of transaction despite a decline in retail transactions through cash



Source: Frost & Sullivan, AMSEC Research

Exhibit 30: CMS has added the one of the highest retail touchpoints in absolute terms since FY21

Retail touchpoints (Nos)	FY21	FY22	FY23	Change FY23 over FY21
CMS	40,000	42,000	52,000	12,000
AGS (Secure Value)	4,210	3,300	850	-3,360
WSG*	11,938	12,000	12,000	62
SIS	11,183	18,376	22,000	10,817
Radiant	42,420	49,980	55,373	12,953
Total retail touchpoints	**1,10,000**	**1,25,656**	**1,42,223**	**32,223**

*Source: Radiant RHP, Frost & Sullivan, AMSEC Research, *WSG estimated, **FY22&FY23 estimated*

Exhibit 31: We expect retail cash management revenue to grow 15% CAGR FY23-FY26E

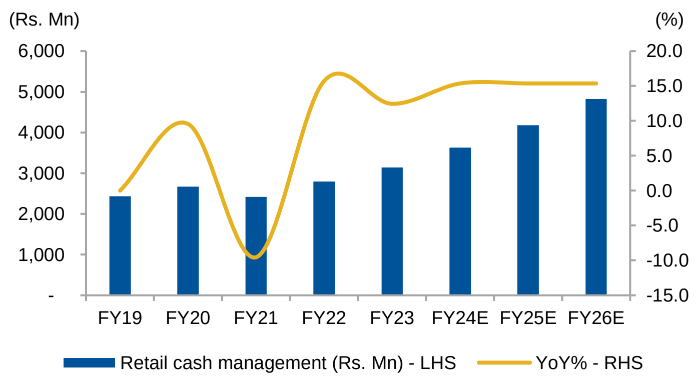
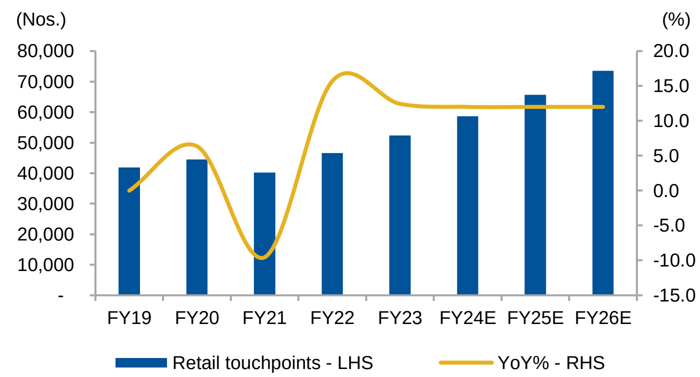


Exhibit 32: …driven largely by 12% CAGR in retail touchpoints



Source: Company, AMSEC Research

Managed services & remote monitoring on the rise

CMS's managed services business has grown significantly at 33% CAGR FY19-FY23 and now forms ~32% of the business mix vs 17% in FY19. This business has predictable revenues through long duration contracts.

The key drivers for managed services growth (ex-remote monitoring) are:

- **Replacement demand for ATMs and banking automation machines**: One of the key demand drivers for ATM product sale and Annual Maintenance Contracts will stem from replacement of ATMs which are anticipated to rise to ~50% of total ATMs according to Frost & Sullivan. Typically, an ATM has a life of 8-10 years. Additionally, other banking automation machines will also require replacement.
- **Demand for multi-vendor software (MVS) and ATM security software** : MVS provides a critical function to banks by removing the need for multiple reconciliation. Additionally, given the rise in frauds, demand for a robust security software will rise.
- **Demand for Brown label ATM (BLA) model**: Banks will look to outsource ATMs completely to managed service providers to reduce their operating and capital expenditure.

We believe CMS is well positioned to gain from these demand drivers. CMS has an installed base of 40,000 banking automation machines as on FY23 (14% market share). The company also has a manufacturing facility in Chennai. The company has a strategic tie-up with Hyosung (a Korea based company) which is one of the largest ATM manufacturers globally. CMS acts as the primary vendor to the customer and enters into warranty arrangements with OEMs for the machine supply and contractors for site development. PSBs award deployment contracts through tendering with stringent qualification criteria. Given CMS's pedigree, scale and relationships, it is expected to gain high share from banks for this business.

The company has over 50,000 ATMs with ALGO MVS and over 75,000 ATMs which are protected by ALGO OTC.

Brown label ATM's contribute ~15% of revenues and the company is cautious on the growth in the segment and will only undertake contracts which are economically feasible given that this business has variable revenue linked to no of transactions and is high on capex requirement.

Opportunity in remote monitoring

Remote monitoring business can be likened to a surveillance venture where the company deploys and maintains cameras and sensors at distant locations, including ATM and cash recycler sites. It then offers centralized monitoring services from a technologically advanced control room which manages ~21,000 sites. This system relies on proprietary software equipped with AI and self-learning capabilities to remotely detect potential threats, effectively supervising, and managing ATM networks and various sites. Any noteworthy issues or anomalies are promptly communicated to a team.

Exhibit 33: Unlocking cost efficiency for banks through Remote Monitoring Services

Time per shift (hours)	8
No of shifts	3
No of guards per shift	1
Salary per guard (Rs.)	20,000
Total cost	**60,000**
Remote monitoring charges (Rs.)	**5,000**
Cost saving for banks (Rs. / month per site)	**55,000**
Annual Cost saving for bank per site (Rs.)	**6,60,000**

Source: AMSEC Research

CMS ventured into the remote monitoring sector through an acquisition. During FY22, the company initiated remote monitoring at ~10,000 sites, surging to ~21,000 sites as of FY23. Notably, these monitoring activities are currently focused exclusively on ATMs.

Nevertheless, the applications of the remote monitoring business extend far beyond the realm of ATM services. We are confident that the company has the potential to deploy this service effectively across sectors, including warehousing, hospitality, banking, insurance, NBFCs, as well as educational institutions.

A remote monitoring contract is typically for 3 years, and the company realizes ~Rs. 4,000-Rs. 14,000 per site per month depending on the complexity of the system.

Exhibit 34: Expect remote monitoring sites to grow to ~48,000 by FY26…

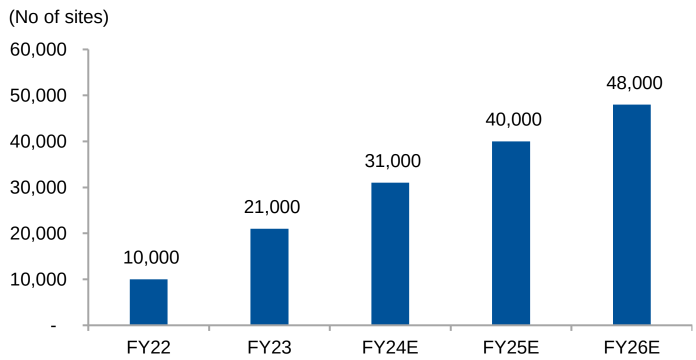


Exhibit 35: Expect managed services to grow ~18% CAGR FY23-FY26E

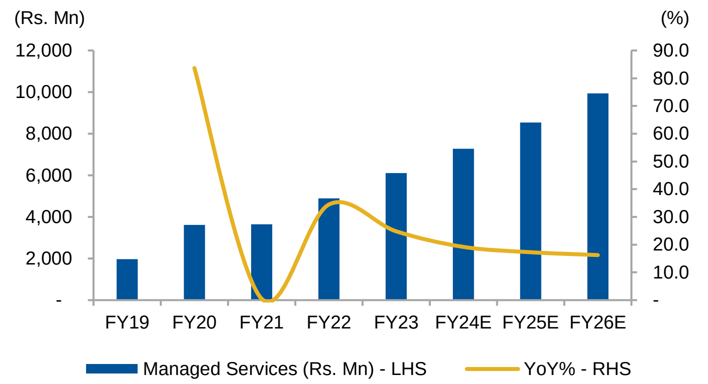
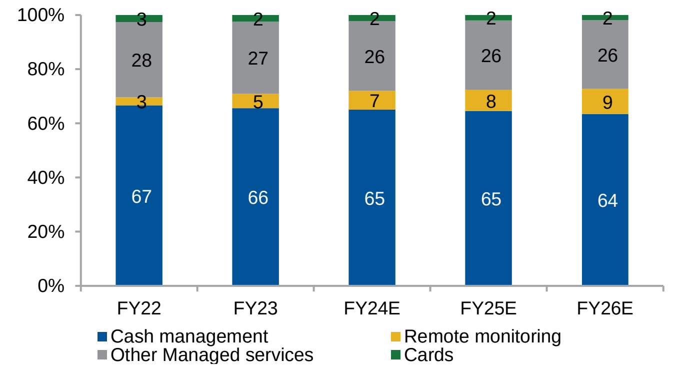


Exhibit 36: …resulting in revenue contribution rising to ~35% by FY26E



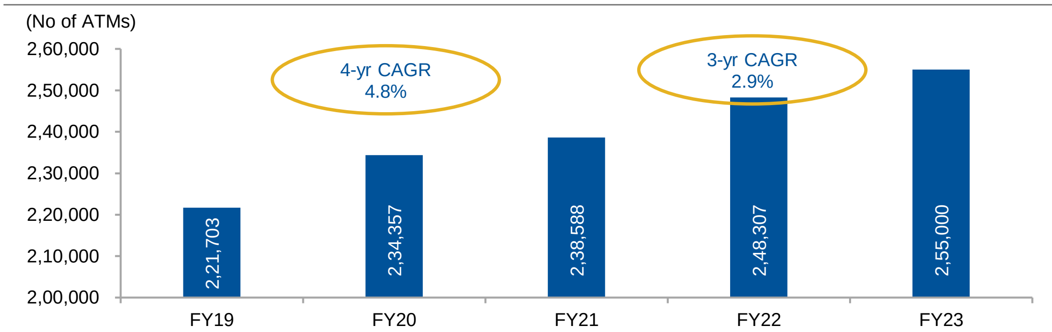
Source: Company, AMSEC Research

Cashing in on outsourcing opportunity

ATM deployment in the country has grown at a 5% CAGR over the last four years, though the growth rate has been modest of 3% over the past three years largely due to impact of Covid, the consolidation of PSBs and the RBI's directive to enhance their balance sheets leading to a reduction in the expenditures incurred by banks for ATM deployment.

Secondly, the concentration of ATM deployment has primarily been in metropolitan and urban areas, with only 51% of ATMs serving these regions, despite 65% of India's population residing in rural areas.

Exhibit 37: ATM growth of ~3% CAGR over 3 and 5 years



Source: Company, AMSEC Research

Private banks have largely adopted an outsourcing model for ATMs wherein their ATMs are managed by MSPs on a brown label ATM model. In contrast, PSU banks currently manage large network of their ATMs in-house. However, this is expected to shift as outsourcing offers an opportunity to banks to reduce operating expenses and lower their cost-to-income ratios. **Currently, ~60% of the 255,000 ATMs in the country are outsourced. We anticipate a gradual upswing in outsourcing, reaching ~65% by FY26E. This incremental shift expands the TAM for cash management companies.**

Exhibit 38: We expect ATM growth to be ~2% CAGR FY23-FY26E

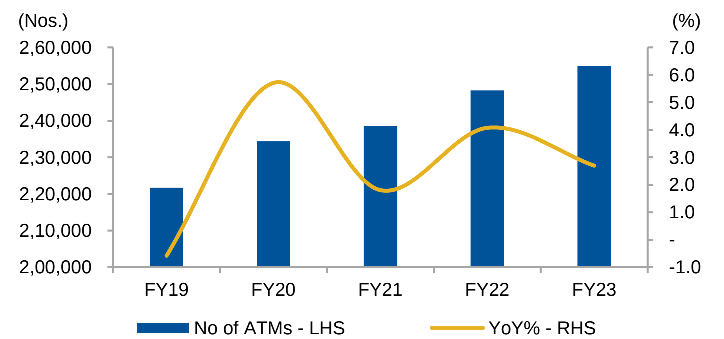


Exhibit 39: ATM outsourcing by banks is expected to rise to 65% by FY26E from 60% in FY23

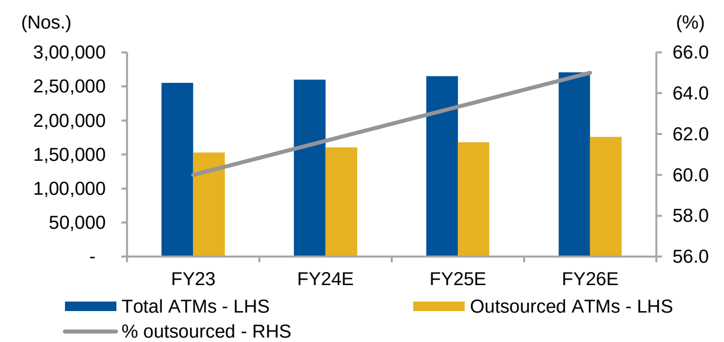


Exhibit 40: …leading to total ATM touchpoint growth of 9% CAGR FY23-FY26E for CMS Info Systems

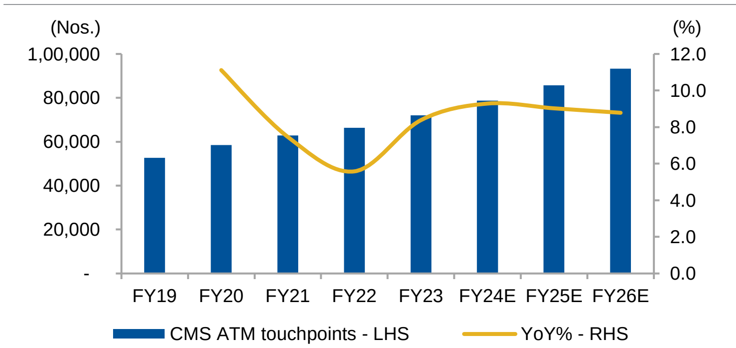
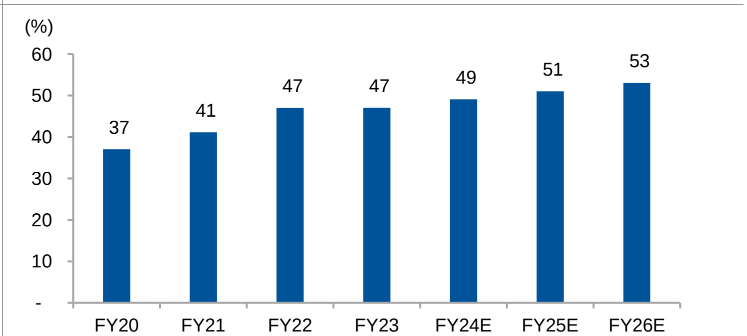


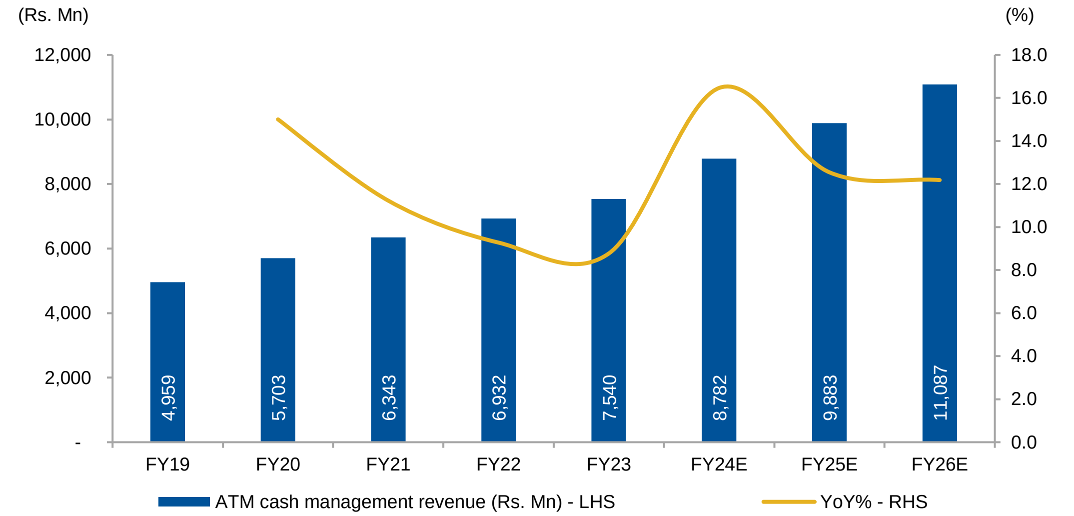
Exhibit 41: Market share expected to rise further from ~47% in FY23 to 53% in FY26



Source: AMSEC Research

Given CMS' scale of operations, geographical presence, financial strength, and the ability to provide services at an optimal cost due to route management, we believe that it will gain incremental market share from customers. Furthermore, the strategic decision of a significant player like SIS (which held a 7% market share in the ATM business in FY23) to reduce its exposure to ATM-related operations places CMS in a formidable position to further bolster its leadership position.

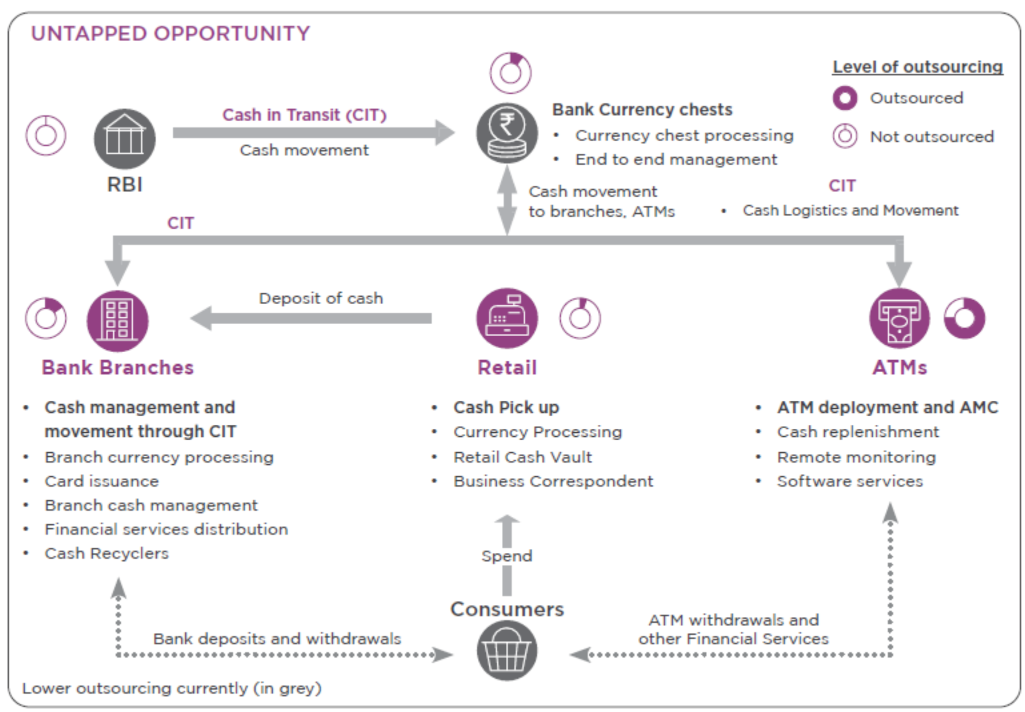
Exhibit 42: We expect ATM cash management revenue to grow by 13.7% CAGR FY23-FY26E



Source: AMSEC Research

However, the outsourcing opportunity extends beyond the ATM business. A large part of the CIT and retail cash management business also face tailwinds from potential outsourcing.

Exhibit 43: Outsourcing opportunity extends across the business verticals



Source: Company, AMSEC Research

Margins to improve amid high operating efficiencies backed by scale

CMS Info Systems' profit profile has consistently improved, driven by several factors including improved route optimization and efficiencies within its cash management operations. This progress is underscored by the advantageous effects of operating leverage, where revenue has advanced at a swifter pace than fixed costs.

The company's EBITDA / Core EBIT / PAT margin has expanded from 17% / 13% / 8% in FY19 to 28% / 21% / 16% in FY23. The result of such margin improvement has resulted in EBITDA / Core EBIT / PAT growth of 28% / 30% / 33% CAGR FY19-FY23.

We estimate margins to continue to improve as CMS continues to cement its dominant market position in cash management business and improves scale in remote monitoring business. We believe that CMS will remain the preferred partner for banks and managed service providers, primarily due to its comprehensive suite of offerings. While the industry lacks inherent barriers from patents, we firmly believe that entry barriers driven by supply-side factors do exist. Moreover, these barriers are fortified by regulatory changes enforced by the RBI and the Ministry of Home Affairs.

Exhibit 44: Robust operating efficiency has driven EBIT margin in cash management business

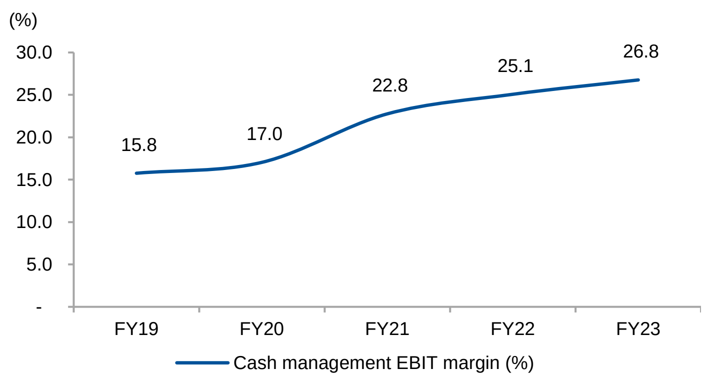


Exhibit 45: …aided by increased activities per route*

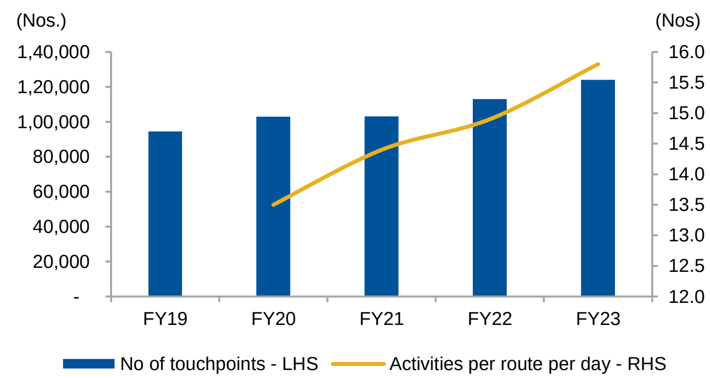


Exhibit 46: Managed Services EBIT margins have remained largely stable but ticked up in FY23 as scale kicked in

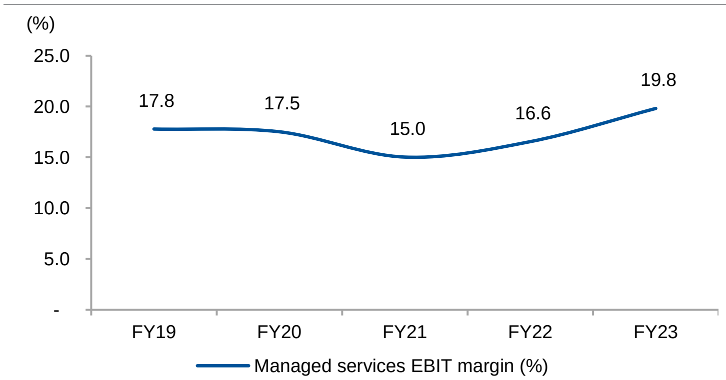


Exhibit 47: We expect Operating EBITDA to grow 17% CAGR FY23-FY26E

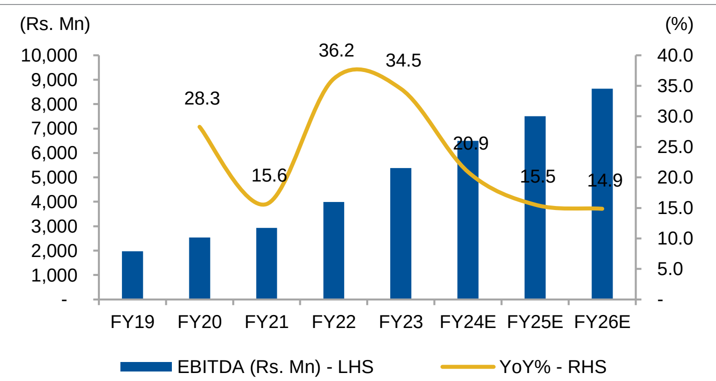


Exhibit 48: Expect core EBIT to grow 19% CAGR FY23-FY26E

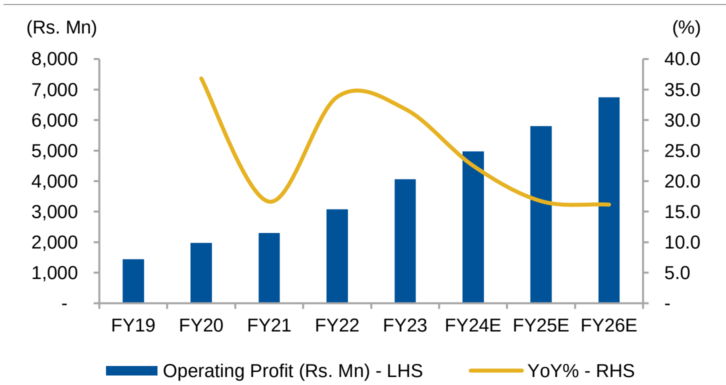


Exhibit 49: Expect PAT to grow 18% CAGR FY23-FY26E

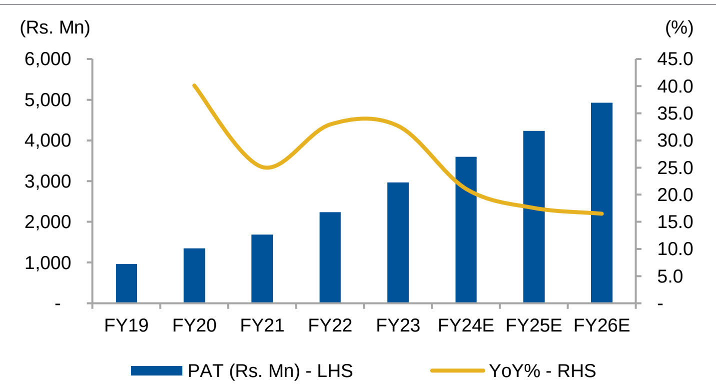
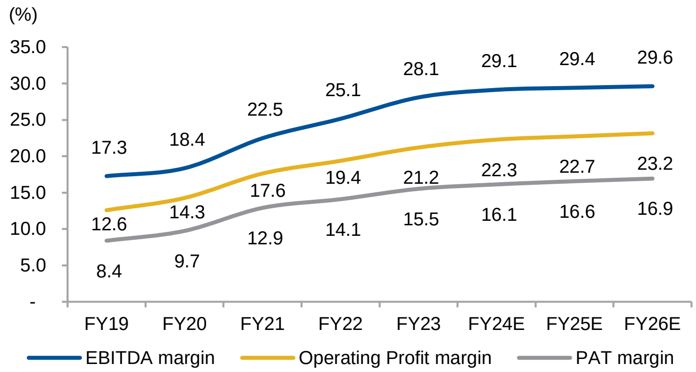


Exhibit 50: Expect moderate improvement in margins led by cost efficiency



*Source: AMSEC Research, *FY23 is estimated*

Exhibit 51: Summary of key financials

(Rs mn)	FY23	FY26E	CAGR 23-26E%
Cash Management	12,567	18,652	14.1
Managed Services	6,111	9,931	17.6
Cards	469	543	5.0
Total Revenue	**19,147**	**29,126**	**15.0**
Operating EBITDA	5,377	8,627	17.1
Operating EBIDTAM%	28.1	29.6	
Core EBIT	4,059	6,743	18.4
Core EBIT Margin%	21.2	23.2	
Reported PAT	2,972	4,929	18.4
Reported PAT Margin %	15.5	16.9	

Source: Company, AMSEC Research

Healthy cash generation + high ROIC and ROIIC = Strong value creation

The company has delivered strong return ratios as RoIC improved from ~19% in FY19 to 23% in FY23 indicating good capital allocation and value creation. CMS Info Systems has maintained high levels of operating cash flow, growing at a CAGR of 41% FY19-FY23. This growth has been propelled by a remarkable 33% CAGR in PAT, coupled with improvements in working capital requirements. Notably, Cash NOPAT surged by ~36% CAGR from FY19 to FY23.

While the business has heightened its reinvestment rate in recent years, primarily due to increased capex, these reinvestments have typically constituted ~40% of Cash NOPAT. Consequently, the company could maintain a Cash ROIC of 29% to 31% from FY19 to FY23, leading to an impressive FCFF growth of ~32% CAGR.

We expect the company to maintain a reinvestment rate of ~35%. This projection takes into account a reduction in capex from peak levels and lower working capital requirements attributed to fewer inventory days and improved payable terms. We, therefore, expect Cash NOPAT / CFO / FCFF to grow 14% / 13% / 23% FY23-FY26E.

Exhibit 52: Return ratios are expected to improve further

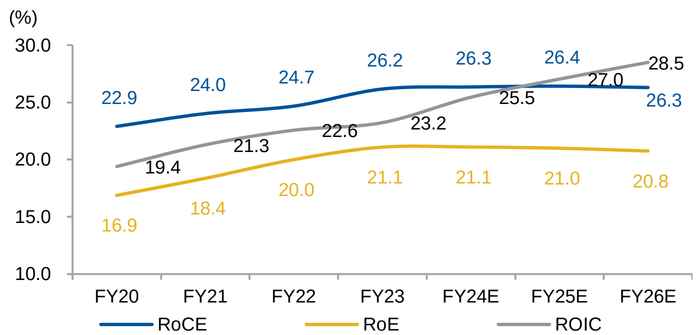


Exhibit 53: CFO has grown at 41% CAGR FY19-FY23; Expected to grow ~15% CAGR FY23-FY26E

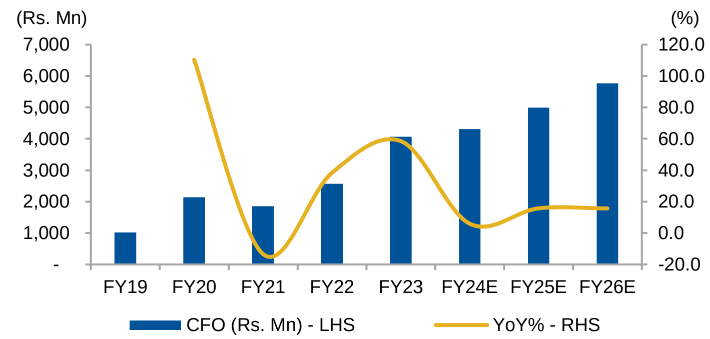


Exhibit 54: CFO to EBITDA and CFO to PAT ratios are healthy

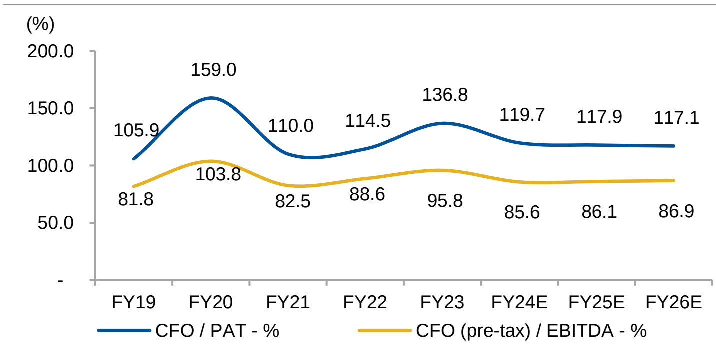


Exhibit 55: Cash consumed by working capital has been <10% of sales; expected to remain stable

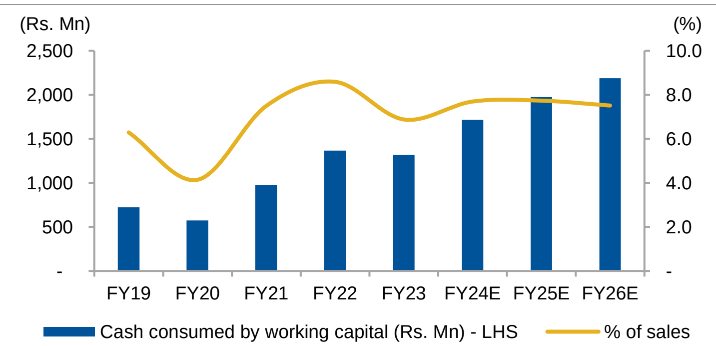


Exhibit 56: Capex is expected to be ~Rs. 1.5-1.7bn

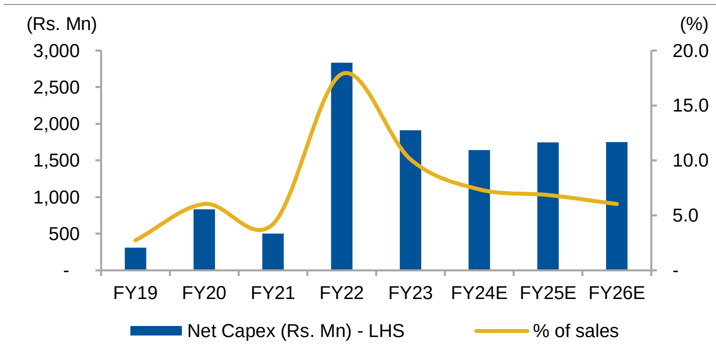


Exhibit 57: Reinvestments will remain at 35-40%

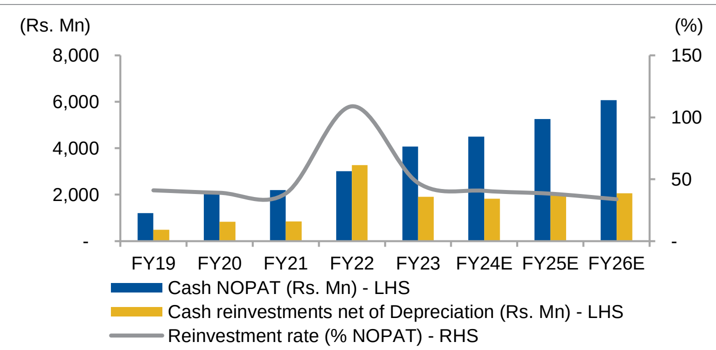


Exhibit 58: FCFF has grown 32% CAGR FY19-FY23; expected to grow 23% CAGR FY23-FY26

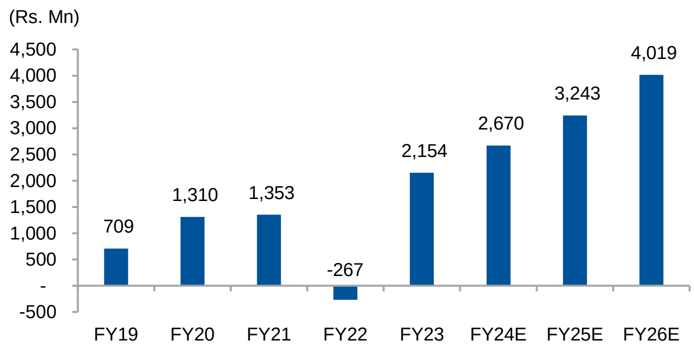
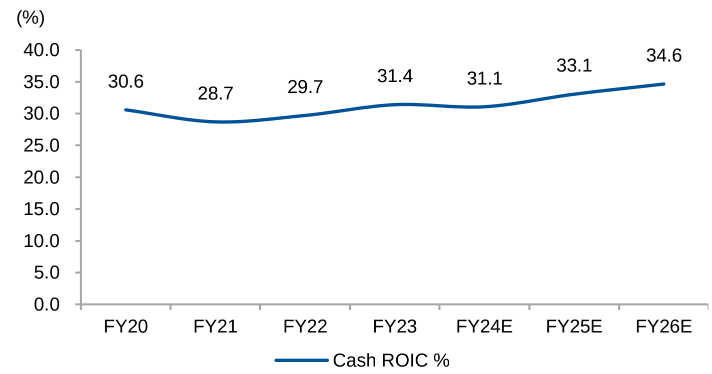


Exhibit 59: Cash RoIC has been strong and is expected to rise due to lower reinvestments and better margins



*Source: Company, AMSEC Research, *FY19 as per restated Financials*

Regulatory changes to give an edge to players with scale

The cash management and ATM business has witnessed significant regulatory changes in recent years, resulting in the emergence of certain entry barriers that favour established players with significant scale. This is poised to stimulate an uptick in ATM outsourcing by banks. Consequently, this development is expected to substantially expand the TAM for cash management companies like CMS Info Systems.

Some of the regulations are outlined below:

a) Private Security Agencies (Private Security to Cash Transportation Activities) Rules, 2018

In August 2018, The Ministry of Home Affairs introduced guidelines aimed at enhancing the operational standards of security cash transportation companies. These were specifically designed to bolster the security protocols employed by cash management firms. The guidelines encompass:

- Use of specially-designed and fabricated cash vans and live GPS tracking of cash vans
- Stipulate a cash carrying limit of Rs. 50mn per trip
- Mandating the training and certification of security personnel, which necessitates the presence of not only a driver but also two armed security guards, along with two ATM officers or custodians aboard each cash van
- No ATM should be replenished with cash after 9 pm in cities and 6 pm in rural areas.

b) RBI circular on 'Cash Management activities of the banks – Standards for engaging the Service Provider and its sub-contractor'

In April 2018, RBI imposed certain minimum standards for cash management companies as the reliance of banks on cash management companies increased. These measures include:

- Minimum net-worth of Rs. 1bn to be maintained at all times
- Minimum fleet size of 300, specifically fabricated (GPS enabled) cash vans, having separate passenger and cash compartments with a CCTV (with recording for at least 90 days) in both compartments
- Every cash van shall accommodate, in addition to a driver, 2 custodians and 2 armed gunmen (with valid gun licenses)
- Vaults in the cash vans shall be equipped with all fire safety gadgets, along with other security systems like emergency and burglary alarms, hotline with the nearest police station, lighting power back-up and interlocking vault entry doors
- All cash movements shall be carried out only in the daylight, with some relaxation for areas with local police guidelines

c) RBI circular on 'Cassette' – Swaps in ATMs

In April 2018, RBI mandated all banks to use lockable "cassettes" in ATMs, which shall be replaced only at the time of cash replenishment. Thus, there is a reduction in the physical handling of cash and reduction in theft.

These measures will lead to higher compliance costs for cash logistics companies and thereby lead to companies with poor route economics exiting the market. Additionally, cassette swapping will likely lead to higher realization from banks.

We believe that CMS Info Systems stands to gain disproportionately given the scale of its operations, strong cash generation and balance-sheet strength (leading company in terms of market share in both ATM and retail cash management).

Argument against reduction in cash usage is over-hyped

Cash in Circulation (CIC) is the sum of cash held by banks and currency held by the public. Despite the surge in UPI and digital payments, and the impact of the pandemic, the growth rate of CIC has been similar. Thus, cash still forms a sizeable part of the economy.

There exists a robust correlation between CIC and GDP. The introduction of demonetization significantly affected CIC growth. However, post-remonetization, factors such as the release of pent-up demand, wealth redistribution, and lower lending rates contributed to a swift V-shaped recovery in the total cash in circulation, nearly doubling its size. Therefore, in alignment with the expansion of nominal GDP, we anticipate that CIC will also experience concurrent growth. This projection bodes well for cash management companies**.**

Exhibit 60: Pace of currency in circulation (CIC) (Rs. Bn)

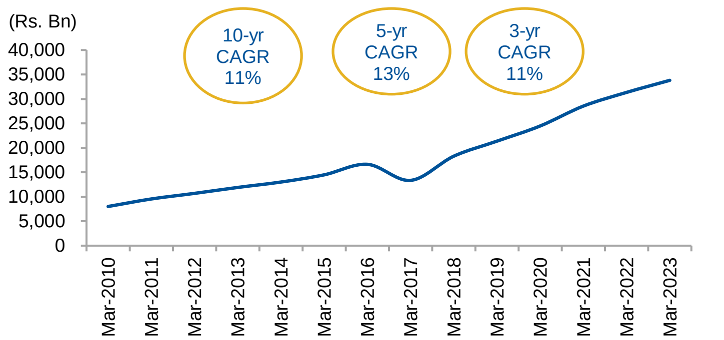
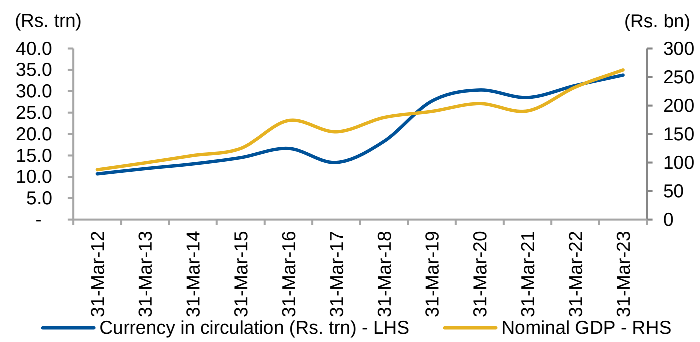


Exhibit 61: CIC and Nominal GDP are highly correlated



Source: RBI, Frost & Sullivan, AMSEC Research

The rise of UPI and digital payments

The widespread adoption of digital payment infrastructure, exemplified by the use of QR codes, has fueled a remarkable surge in UPI transactions over the past three years. The extraordinary growth of UPI during this period has been significantly propelled by the unique circumstances surrounding the COVID-19 pandemic.

Exhibit 62: The meteoric rise of UPI and digital payments in terms of transactions volume (mn)

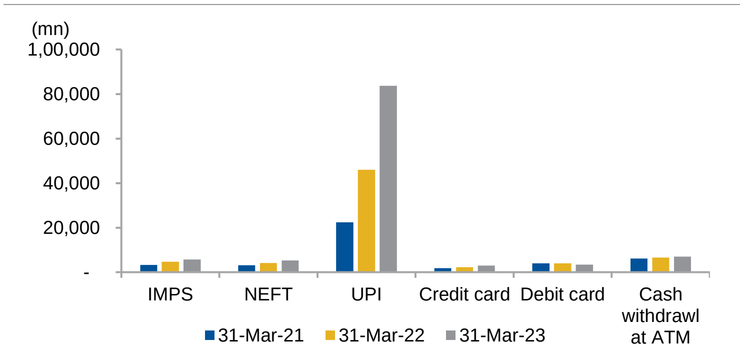


Exhibit 63: …though traditional channels are still preferred in terms of value (Rs. Bn)

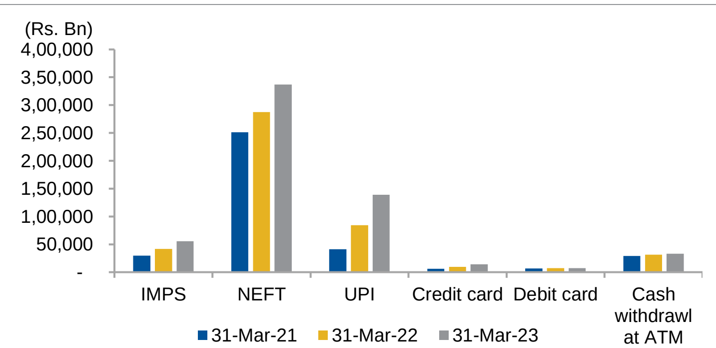
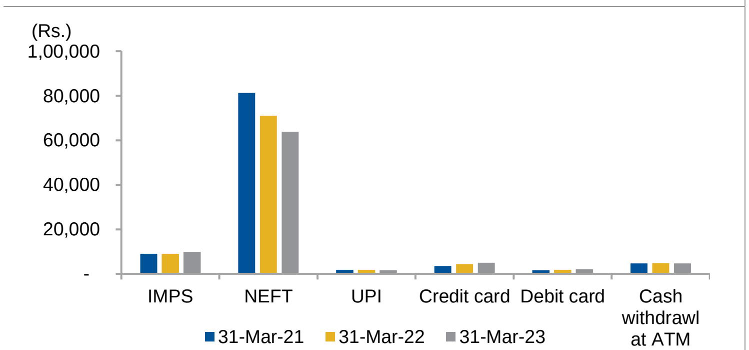


Exhibit 64: …however, UPI is preferred for lower ticket sized transactions (Rs.)

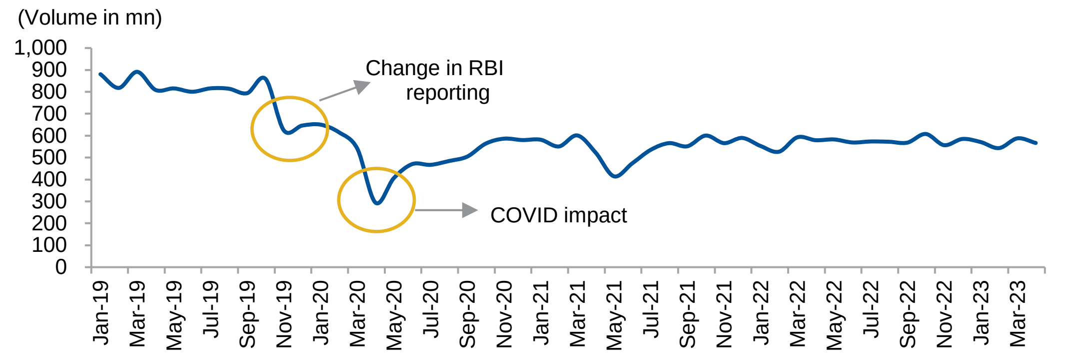


Source: RBI, AMSEC Research

ATM cash withdrawals don't see a major hit

Despite the influences of demonetization and the COVID-19 pandemic on ATM withdrawals, the long-term trend remains relatively stable. Average monthly cash withdrawal at ATMs has now settled at levels similar to those observed before the pandemic. This observation underscores that cash continues to be a favoured mode of transaction for many individuals.

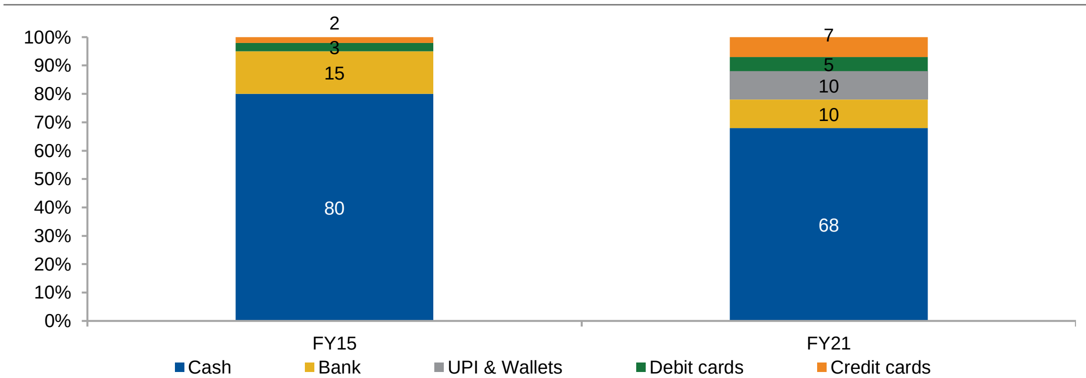
Exhibit 65: ATM cash withdrawals bounce back to pre-COVID levels



Source: RBI, AMSEC Research

In fact, cash is still one of the preferred means of payment and has been relatively resilient to the rise of UPI and digital payments.

Exhibit 66: Cash is king: Digital payments surge, but cash is the preferred transaction mode

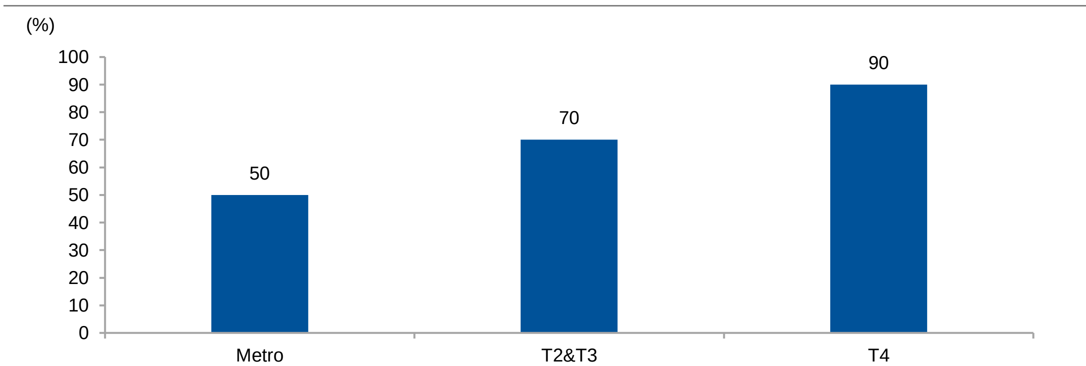


Source: RBI, Frost & Sullivan, AMSEC Research

Cash is king, especially in smaller cities

According to the Frost & Sullivan report, COD is the most popular mode for e-commerce delivery and accounted for >60% of e-commerce payments in FY20. This is expanding due to expansion into T2 & T4 cities.

Exhibit 67: COD as % of E-commerce Transactions, across tiers (FY20)



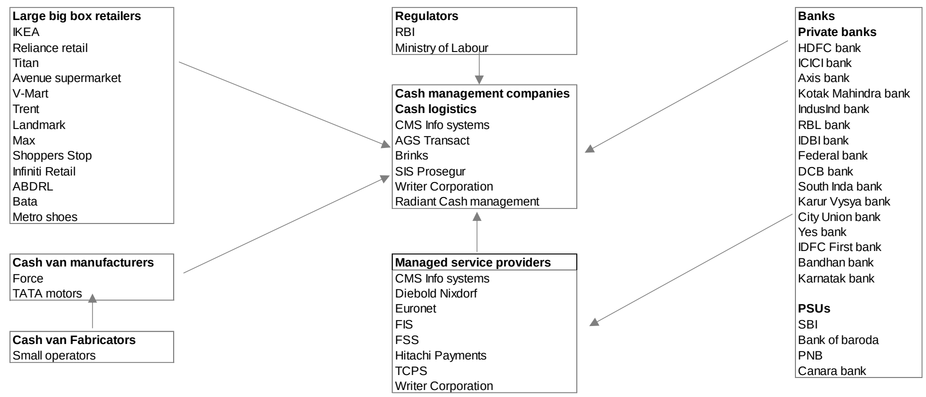
Source: Frost & Sullivan, AMSEC Research

Competitive Landscape

What makes CMS Info Systems Stand Out

CMS Info Systems functions as a pivotal player in the cash logistics and managed services arena, serving both the banking and retail sectors. Its business model is intricately tied to the quantity of cash touchpoints and has an indirect connection to the overall cash in circulation within the economy. The key participants in the value chain of cash logistics and managed services are:

Exhibit 68: Cash logistics & managed services business industry map



*Source: AMSEC Research, *Banks work directly with Cash management companies for Retail cash management*

Exhibit 69: CMS operates across the value chain while some peers provide select services

Company	ATM replenishment	Cash in transit	Retail Cash management	ATM managed services	ATM Equipment supply	ATM maintenance	Remote monitoring
CMS Info System	Yes	Yes	Yes	Yes	Yes	Yes	Yes
AGS Transact	Yes	Yes	Yes	Yes	Yes	Yes	No
Brinks	Yes	Yes	Yes	No	No	No	No
Diebold Nixdorf	No	No	No	Yes	Yes	Yes	No
Euronet	No	No	No	Yes	No	Yes	No
FSS	No	No	No	Yes	No	Yes	No
Hitachi Payments	No	No	No	Yes	Yes	Yes	No
NCR Corporation	No	No	No	Yes	Yes	Yes	No
OKI	No	No	No	No	Yes	No	No
SIS Prosegur	Yes	Yes	Yes	No	No	No	Yes
TCPS	No	No	No	Yes	No	No	No
Writer Corporation	No	No	Yes	Yes	No	No	No

Source: AGS RHP, AMSEC Research

Opportunity in cash management industry

We project the cash management industry to grow by ~14% CAGR over FY23-FY27E. This growth will be driven by several factors, including increased ATM outsourcing, higher realization through cassette swapping and regulations, a rise in retail touchpoints due to a larger share of the organized sector, and increased adoption of cash management services.

Our assumptions include a 2% CAGR in the number of ATMs and an increase in outsourcing from 60% (FY23) to 70% (FY27E). Additionally, we expect the average monthly realization per ATM to grow from Rs. 9,000 (FY23) to Rs. 10,000 (FY27E), translating to a ~10% CAGR in the ATM cash management business.

For retail touchpoints, we anticipate a 5% CAGR in their total number, reaching 38.3 million, with organized retail touchpoints comprising of 17% of the total. We assume ~35% of retail touchpoints will be employing cash management services in FY27E, compared to ~30% in FY23. Realization per retail touchpoint is expected to increase by 2%, resulting in a **~15% revenue growth in the retail cash management business.**

Exhibit 70: Total Addressable market for Cash management is expected to see ~12% CAGR over FY23-FY27E

	FY23	FY27E	CAGR
ATM cash management			
No of ATMs	2,55,000	2,76,020	2.0
Outsourcing (%)	60.0	70.0	
Addressable market size	1,53,000	1,93,214	6.0
Realisation per ATM per month	9,000	10500	3.9
Total revenue from ATM cash management (Rs. Mn)	**16,524**	**24,345**	**10.2**
Retail cash management			
Total retail touchpoints (000)	31,50,000	38,28,845	5.0
Organised retail touchpoints (000)	4,75,650	6,50,904	8.2
Organised retail touchpoints (%)	15	17	
Touchpoints employing cash management (%)	30	35	
Touchpoints employing cash management	1,42,585	2,27,816	12.5
Realisation per touchpoint per month	5,000	5,412	2.0
Total revenue from retail cash management	**8,555**	**14,796**	**14.8**
Total Cash management revenue	**25,079**	**39,141**	**11.8**

Source: AMSEC Research

The revenue for the top 4 players (CMS, AGS, Radiant and SIS) in the cash logistics business has grown by ~6% CAGR from FY20-FY23 with CMS registering faster than industry growth of ~11% CAGR during the same period. CMS's revenue share of the industry has increased from ~36% in FY20 to ~43% in FY23 driven by increase in market share.

Sector EBITDA witnessed strong growth at a CAGR of ~12% from FY20 to FY23, driven by improved operational efficiency. During this period, CMS outperformed the industry with EBITDA growth at ~28% CAGR. Consequently, CMS reported leading EBITDA margins of ~28% in FY23, surpassing the industry average of ~25%.

Exhibit 71: CMS has outpaced Industry revenue of ~6% CAGR FY20-FY23

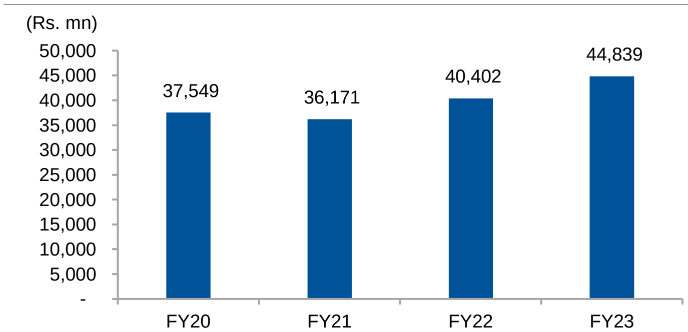


Exhibit 72: CMS leads in absolute revenue & growth

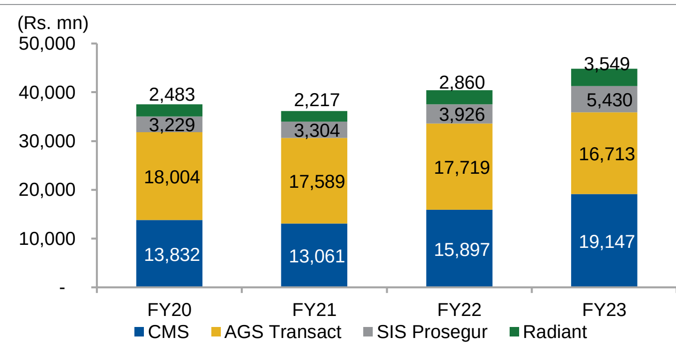


Exhibit 73: CMS manages the highest number of ATMs

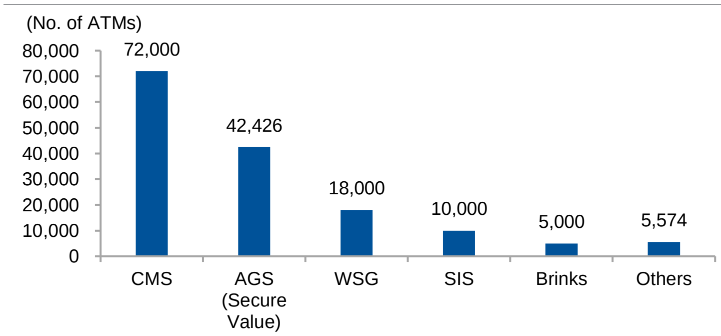


Exhibit 74: …with highest market share as on FY23 (%)

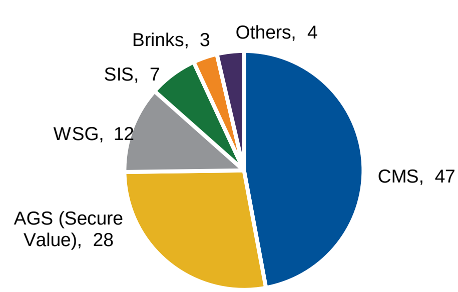


Exhibit 75: Industry Retail touchpoints have grown ~14% FY21-FY23 with CMS adding the highest number of touchpoints in absolute terms

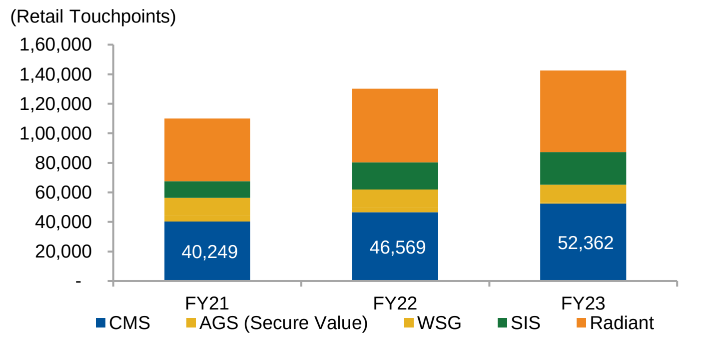


Exhibit 76: EBITDA has grown ~12% for the Industry

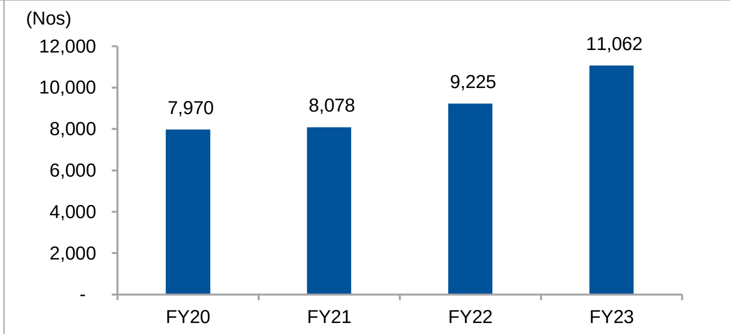


Exhibit 77: CMS has also led EBITDA growth in the industry

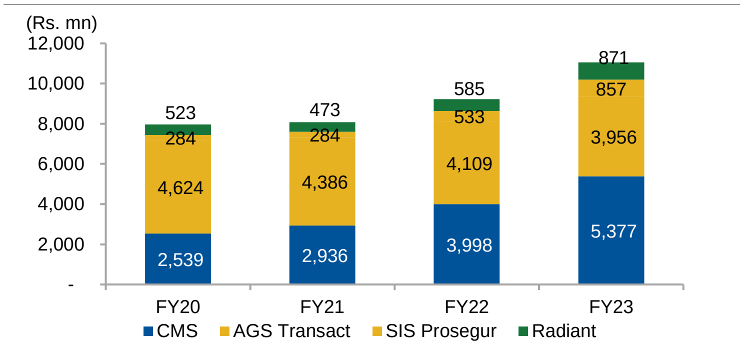
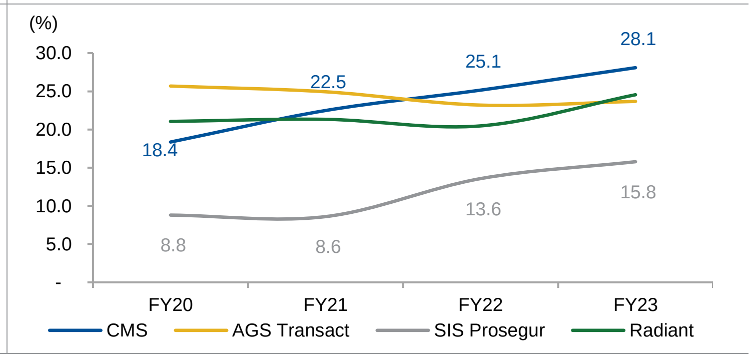
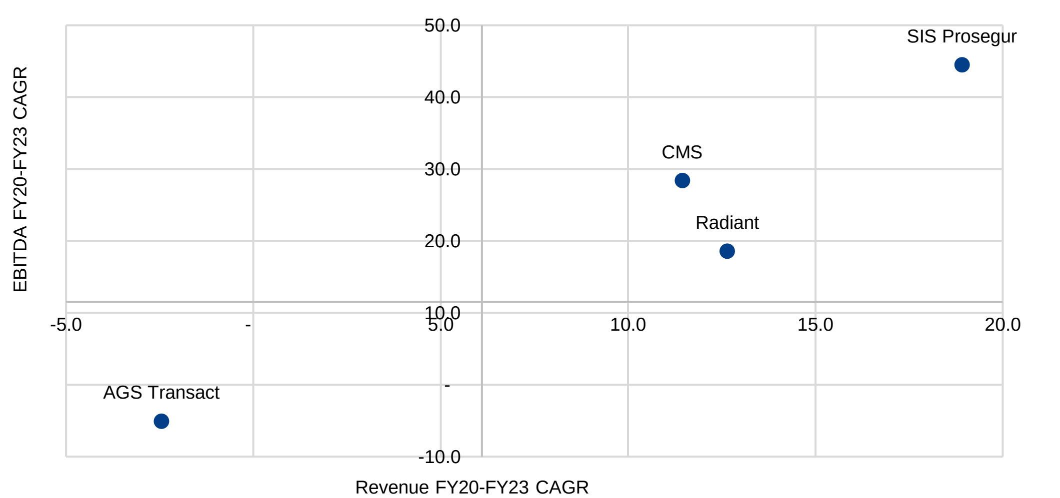


Exhibit 78: CMS' EBITDA Margin profile leads *



*Source: Company, Radiant RHP, Frost & Sullivan Report, AMSEC Research, *AGS EBITDA margin not exactly comparable as large part of business is BLA and capex heavy compared to CMS*

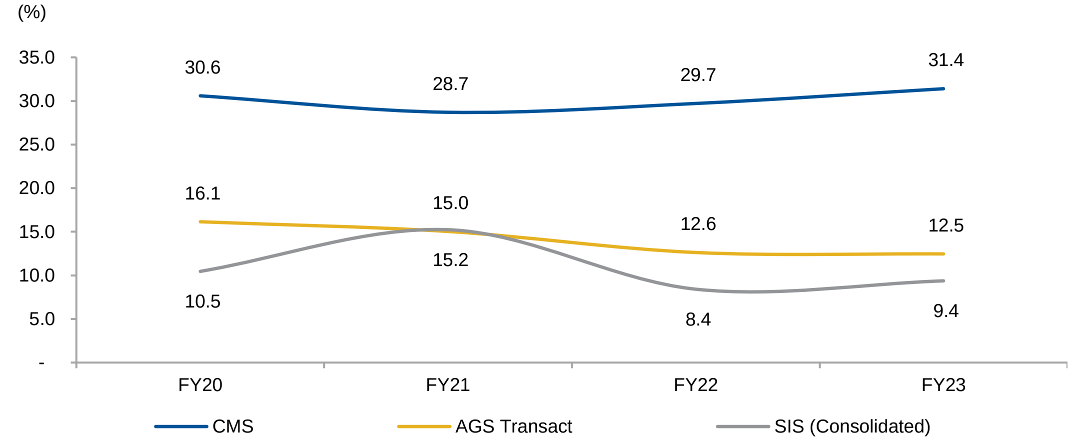
Exhibit 79: CMS ranks favourably among peers in terms of revenue and profit growth (%)



Source: Company, AMSEC Research

Compared to peers, CMS has been able to time its capex and reinvestment cycle better than peers resulting in industry leading CFROI (Cash NOPAT / Invested Capital). The CFROI for CMS is much above the hurdle rate (11% WACC), resulting in increasing economic profit generation.

Exhibit 80: CMS ranks better than peers for CFROIC due to better timing of investment cycle



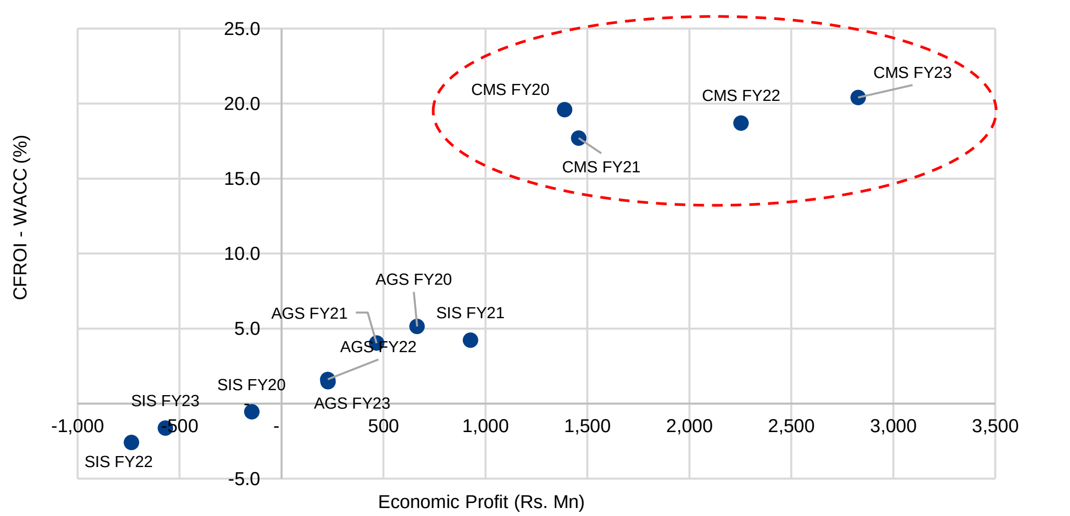
Source: Company, AMSEC Research

Exhibit 81: CMS has been consistently creating shareholder value vs peers

	Invested Capital (Rs. Mn)	CFROI (%)	Required return (%)	CFROI - WACC (%)	Economic Profit (Rs. Mn)
CMS FY20	7,088	30.6	11.0	19.6	1,388
CMS FY21	8,234	28.7	11.0	17.7	1,457
CMS FY22	12,047	29.7	11.0	18.7	2,254
CMS FY23	13,858	31.4	11.0	20.4	2,827
AGS FY20	12,925	16.1	11.0	5.1	665
AGS FY21	11,555	15.0	11.0	4.0	466
AGS FY22	14,003	12.6	11.0	1.6	227
AGS FY23	15,637	12.5	11.0	1.5	228
SIS FY20	27,059	10.5	11.0	-0.5	-146
SIS FY21	21,894	15.2	11.0	4.2	927
SIS FY22	28,463	8.4	11.0	-2.6	-736
SIS FY23	34,938	9.4	11.0	-1.6	-569

*Source: AMSEC Research, *CFROI = Cash NOPAT / Invested Capital*

Exhibit 82: Peer profit pool – CMS has generated the largest economic profit among peers



Source: AMSEC Research

Exhibit 83: How are the peers stacked up?*

Revenue (Rs. Mn)	FY19	FY20	FY21	FY22	FY23	FY20-FY23 CAGR
CMS	11,462	13,832	13,061	15,897	19,147	11.4
AGS Transact	18,057	18,004	17,589	17,719	16,713	-2.5
SIS Prosegur	2,873	3,229	3,304	3,926	5,430	18.9
Radiant		2,483	2,217	2,860	3,549	12.6
Industry		**37,549**	**36,171**	**40,402**	**44,839**	**6.1**

EBITDA (Rs. Mn)	FY19	FY20	FY21	FY22	FY23	FY20-FY23 CAGR
CMS	1,979	2,539	2,936	3,998	5,377	28.4
AGS Transact	4,250	4,624	4,386	4,109	3,956	-5.1
SIS Prosegur	17	284	284	533	857	44.5
Radiant		523	473	585	871	18.6
Industry		**7,970**	**8,078**	**9,225**	**11,062**	**11.5**

EBITDA Margin (%)	FY19	FY20	FY21	FY22	FY23
CMS	17.3	18.4	22.5	25.1	28.1
AGS Transact	23.5	25.7	24.9	23.2	23.7
SIS Prosegur	0.6	8.8	8.6	13.6	15.8
Radiant		21.1	21.3	20.5	24.5
Industry		**21.2**	**22.3**	**22.8**	**24.7**

*Source: Company, AMSEC Research, *All figures based on consolidated total revenue and EBITDA for CMS and AGS, SIS only includes cash revenue*

Global peer comparison

To understand the performance of companies operating in a similar business in the international market, we compare the performances of Brinks, Prosegur and Loomis.

We observe that companies Loomis has been the standout player delivering a growth of ~6% CAGR over last 3 years and 8% over last 5 years. Brinks has also seen good revenue growth, but Prosegur's performance has been weaker. These companies have a much lower operating margin compared to their Indian counterparts, indicating that the business is very much dependent on high degree of operating efficiency and asset utilization. Operating profit over the last 5 years has grown for Loomis and Brinks while Prosegur has witnessed a decline. Most companies also appear to be highly leveraged with Net Debt to equity rising substantially for Brinks, while Loomis's balance sheet is healthier.

Exhibit 84: Comparison of global peers

Brinks	CY17	CY18	CY19	CY20	CY21	CY22	3yr CAGR	5yr CAGR	10yr CAGR
Revenue (USD mn)	3,347	3,489	3,683	3,691	4,200	4,536	7.2	6.3	2.4
Operating Profit (USD mn)	274	275	237	214	355	361	15.1	5.7	8.3
Operating margin %	8.2	7.9	6.4	5.8	8.4	8.0			
PAT (USD mn)	17	-33	29	16	105	171	80.5	59.2	6.7
PAT margin %	0.5	-1.0	0.8	0.4	2.5	3.8			
Net Debt / Equity (x)	1.9	7.9	7.0	14.6	18.6	5.6			
RoE %	5.1	-14.1	16.8	10.0	83.6	59.8			

Prosegur	CY17	CY18	CY19	CY20	CY21	CY22	3yr CAGR	5yr CAGR	10yr CAGR
Revenue (EUR mn)	4,291	3,939	4,198	3,570	3,498	4,174	-0.2	-0.5	1.3
Operating Profit (EUR mn)	389	301	330	549	174	253	-8.5	-8.2	-2.1
Operating margin %	9.1	7.7	7.9	15.4	5.0	6.1			
PAT (EUR mn)	150	132	114	331	41	65	-17.2	-15.5	-9.3
PAT margin %	3.5	3.4	2.7	9.3	1.2	1.5			
Net Debt / Equity (x)	0.2	0.4	0.8	1.0	1.1	1.2			
RoE %	16.5	12.8	12.5	43.5	5.9	8.9			

Loomis	CY17	CY18	CY19	CY20	CY21	CY22	3yr CAGR	5yr CAGR	10yr CAGR
Revenue (SEK mn)	17,228	19,167	21,045	18,814	19,723	25,314	6.3	8.0	8.3
Operating Profit (SEK mn)	1,992	2,157	2,423	1,304	1,737	2,532	1.5	4.9	9.9
Operating margin %	11.6	11.3	11.5	6.9	8.8	10.0			
PAT (SEK mn)	1,428	1,538	1,646	716	1,104	1,602	-0.9	2.3	9.4
PAT margin %	8.3	8.0	7.8	3.8	5.6	6.3			
Net Debt / Equity (x)	0.5	0.5	0.8	0.8	0.7	0.6			
RoE %	20.9	19.9	18.3	7.8	11.7	14.2			

Source: Company, AMSEC Research

Business Overview & Financial Projections

CMS Info Systems delivers a comprehensive range of services that encompass various stages of the cash cycle, commencing from the initial issuance of cash by the RBI to currency chest banks and extending through the entirety of the cash circulation process until the point of deposit back into banks. Its clientele spans banks, financial institutions, organized retailers, e-commerce enterprises, and managed service providers (MSPs). CMS is the largest cash management company servicing 72,000 ATMs (~47% market share) and ~52,000 retail touchpoints (~37% market share).

The services provided at different stages of the cash cycle include:

a) **Cash-in-transit**: This service is provided to banks that run currency chests to enable them to distribute cash to bank branches.

b) **ATM cash management**: This service is provided on behalf of MSPs (Managed service providers) to enable them to distribute cash and replenish their ATMs with cash.

c) **ATM deployment and maintenance services**: This service includes the sale of ATM, passbook and other machines to banks (or on behalf of banks), Brown Label ATM services wherein the entire ATM is run by the company on behalf of banks, multi-vendor software solutions and remote monitoring services (surveillance services).

d) **Retail cash management**: This service is provided on behalf of banks to organized retailers and other corporates that require the cash collected from customers to be picked-up, reconciled and deposited with banks.

e) **Card personalization:** This service includes the personalization of credit and debit cards on behalf of banks for their customers.

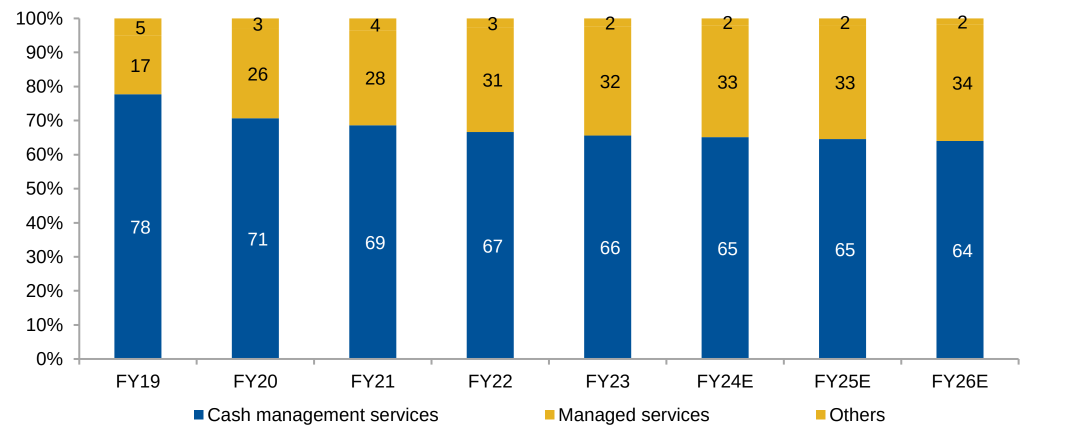
Exhibit 85: Omnipresent player: CMS Info Systems across the cash cycle

Source: Company, AMSEC Research

The company operates in **3 major business segments**:

- **Cash management services (66% of operating revenue FY23)**: CMS Info Systems' primary revenue source is its cash management business, which essentially operates as a cash logistics entity. This segment encompasses ATM cash replenishment, solutions for retail cash management, and dedicated cash-in-transit services via specialized vans. The profitability of this business is strongly influenced by operational efficiencies and effective route management.
- **Managed services (32% of operating revenue FY23)**: This service involves comprehensive project management provided to banks for end-to-end ATM management. It includes the sale and servicing of banking automation products like ATM machines, ATM software management services, brown label ATM deployment, and remote monitoring services.
- **Others (3% of operating revenue FY23)**: This segment primarily involves card personalization services provided to banks.

Exhibit 86: Business mix – Share of managed services on the rise (%) – We expect contribution from managed services to continue to rise



Source: Company, AMSEC Research

A) Cash Management Services

While cash management cash management services remain the largest revenue component, their contribution to the overall revenue mix has experienced a consistent decline since FY19. This is primarily attributed to rising contribution from the managed services segment. It's noteworthy that **CMS Info Systems derives a significant portion, ~78% of its revenues, from route-based operations within the cash management segment providing high operating leverage.**

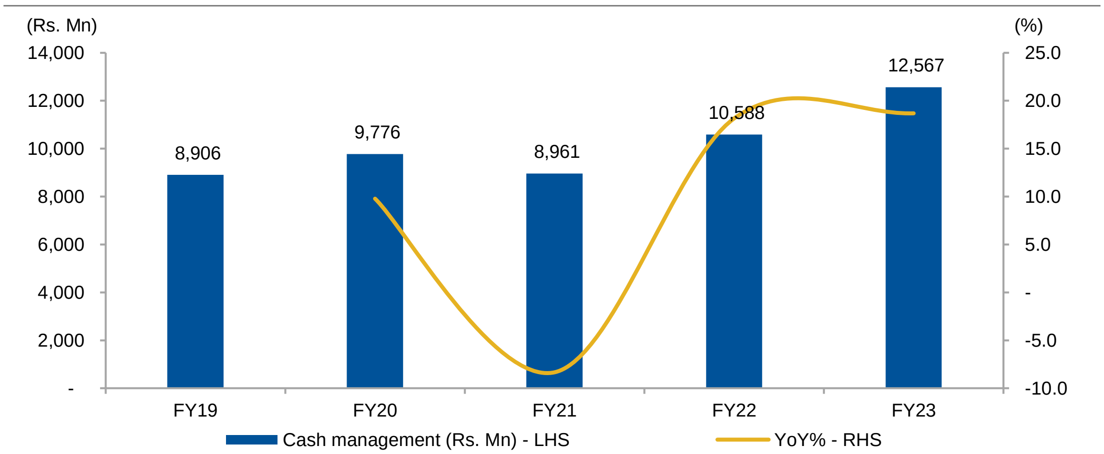
Cash management is a logistics-based business comprising:

a) ATM cash management

b) Retail cash management

c) Cash in transit services

Exhibit 87: Cash management business has grown at 9% CAGR over FY19-FY23



*Source: Company, AMSEC Research. *Net of inter-BU*

Efficiency in route management key to driving profitability

Given its nature as a logistics-driven enterprise, the profitability of CMS Info Systems in the cash management business hinges significantly on route efficiencies and route density. As the company consolidates more activities within a single route, operational efficiencies come into play, ultimately resulting in improved profit margins.

Notably, CMS's cash management business has consistently demonstrated margin growth, propelled by enhanced route efficiencies. This is evident in the expansion of EBIT margins, which have surged from around 16% in FY19 to a robust 27% in FY23.

Exhibit 88: Operating efficiencies aid EBIT margin in cash management

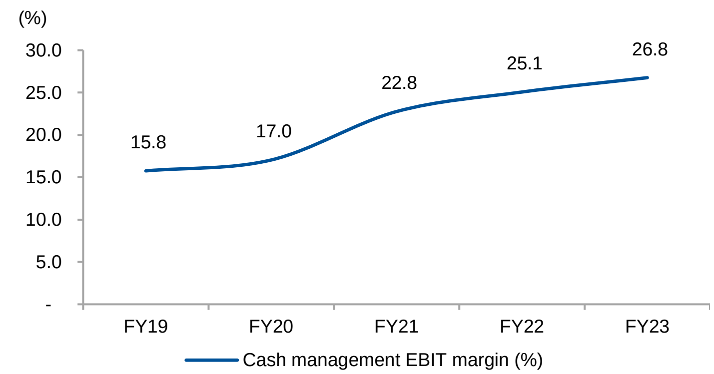
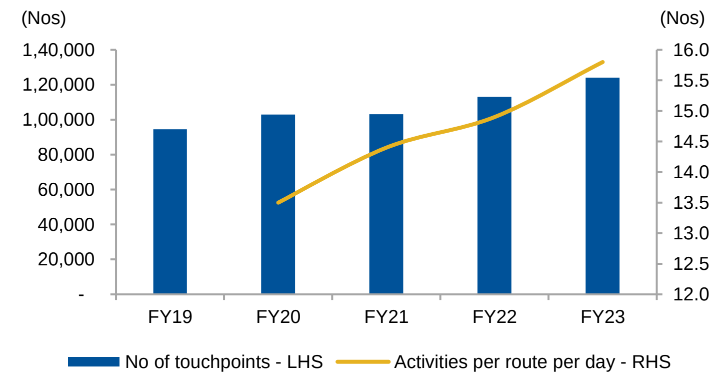


Exhibit 89: …driven by increased activities per route

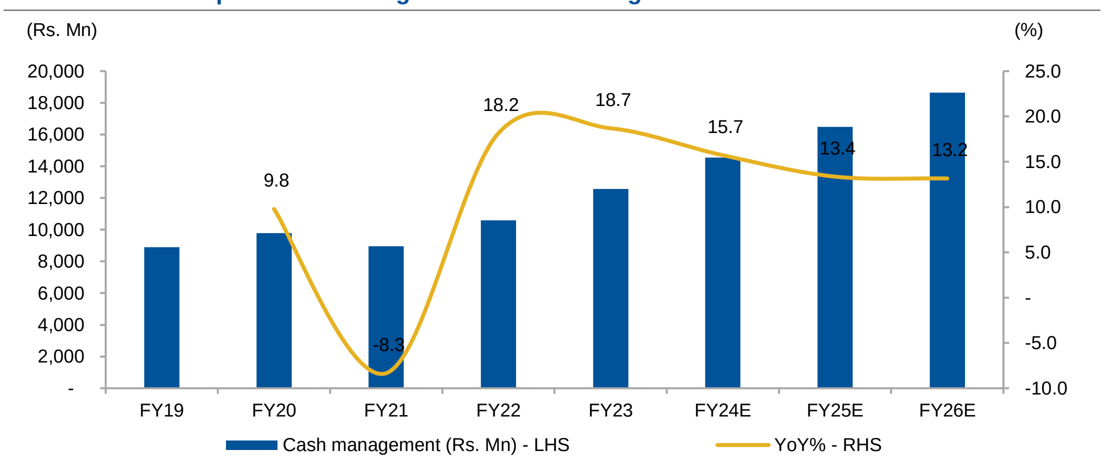


*Source: AMSEC Research, *FY23 is estimated*

We expect cash management business revenue to grow 14% CAGR FY23-FY26E driven by three main factors:

- Increased outsourcing of ATMs led by PSU banks
- Increase in realization in ATM cash management through cassette swapping
- Increase in retail touchpoints

Exhibit 90: We expect cash management business to grow at a CAGR of 14% FY23-FY26E



Source: Company, AMSEC Research

1A) ATM cash management

CMS Info Systems' ATM cash management services encompass various critical functions, including cash withdrawal, replenishment, evacuation, deposit services, end-of-day reporting, reconciliation, settlement, and first-line maintenance. These services are essential for maintaining ATM operations.

CMS primarily serves Managed Service Providers (MSPs) that manage ATMs on behalf of banks. CMS's unique offering lies in its ability to provide comprehensive end-to-end ATM management, both operationally and managerially.

The key drivers for revenue in the ATM cash management business are the number of ATMs serviced and the volume of ATM activities each month. Contracts typically span 1 to 3 years and employ a pricing structure based on activity volume.

There are 3 types of ATMs deployed:

a) **Pure bank owned ATMs**: In this model, the entire capex for the ATM is covered by the bank. This encompasses the acquisition of the ATM machine, leasing of the ATM premises, and all operational expenses required to run the ATM.

b) **Brown Label ATMs:** Banks delegate the capex responsibilities to a Managed Service Provider (MSP). The MSP, in turn, takes charge of procuring the ATM machine and assumes all associated management costs. The bank's involvement is primarily limited to lending its name to the ATM. Typically, the MSP collaborates with a cash logistics company to handle ATM replenishment activities. The MSP generates revenue based on the number of transactions conducted at the ATM.

c) **White Label ATMs**: Operated independently of any specific bank and are overseen by a third-party entity. These ATMs lack a bank's branding and function autonomously.

Exhibit 91: ATMs by type – FY19 vs FY23 – Brown label ATMs on the rise (Nos.)

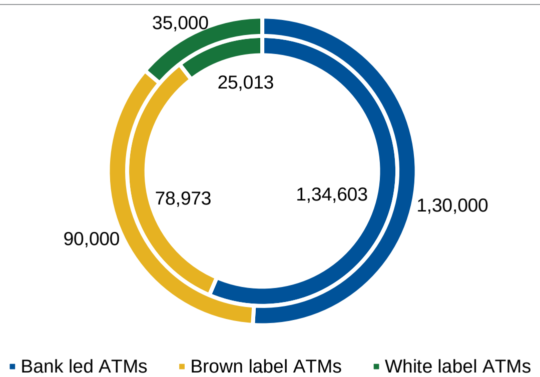
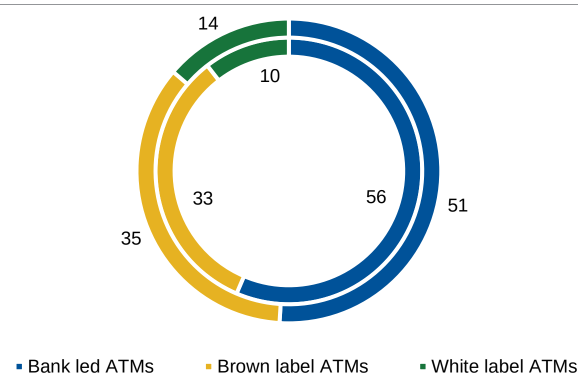


Exhibit 92: Split of ATMs by type – FY19 vs FY23 (%)

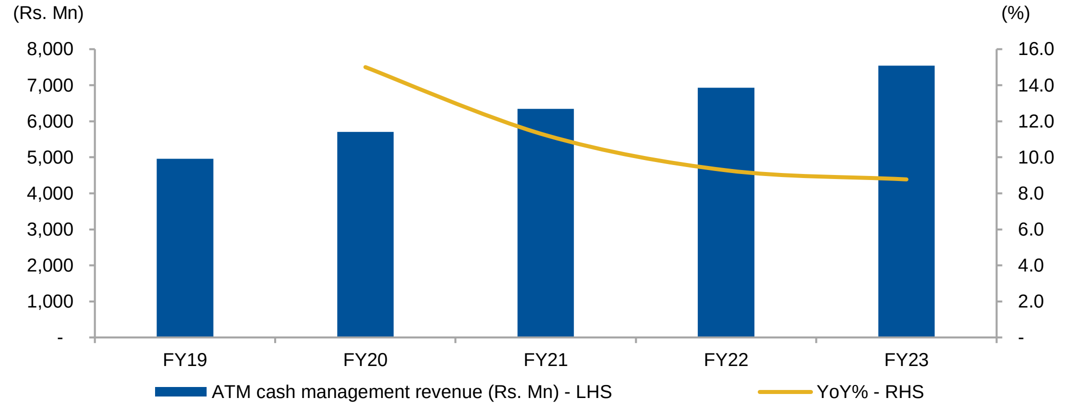


Source: RBI, AGS, AMSEC

How does CMS make money in the ATM cash management

In the ATM cash management business, CMS Info Systems primarily serves Managed Service Providers (MSPs), acting as the custodians of ATMs on behalf of banks. CMS's revenue model is intimately connected to the quantity of ATM touchpoints it services each month. Typically, contracts for ATM services have durations ranging from 1 to 3 years and adopt a pricing structure that operates on a slab-based system. The pricing is determined based on the number of visits made by CMS to the ATMs during the contract period.

Exhibit 93: ATM cash management revenue estimated to have grown at ~11% CAGR over FY19-FY23



Source: AMSEC Research

We expect the ATM cash management business to grow at a robust 14% CAGR from FY23 to FY26E. This growth will be driven by:

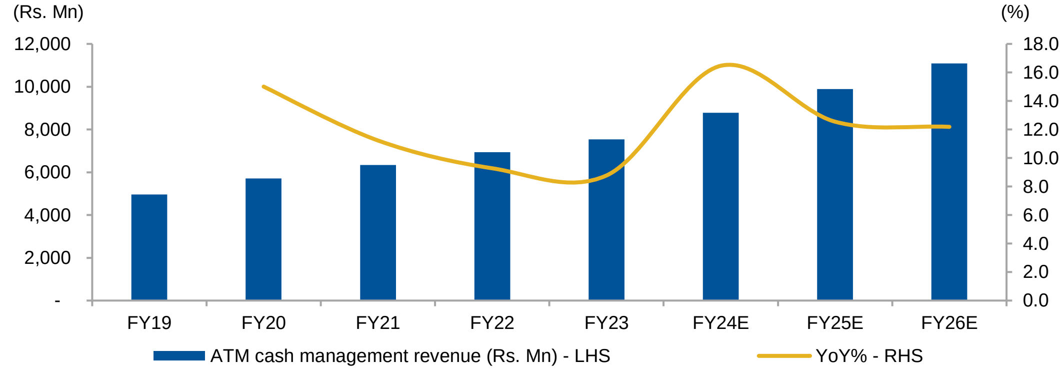
- Favourable regulations, particularly cassette swapping, leading to increased realization.
- Higher ATM outsourcing, primarily by Public Sector Banks (PSUs).
- CMS Info Systems gaining market share through industry consolidation and the exit of smaller players.
- ATM replenishment remains critical for banks to ensure cash availability, and any failure in this aspect can have significant repercussions.

Typically, banks select their cash management vendors based on:

- Geographical reach
- Quality of service
- Financial strength of the service provider
- Proven track record
- Project reference and certification from existing customers

CMS' extensive scale of operations, widespread geographical presence, robust financial foundation, and proficiency in offering cost-efficient services through route management positions it favorably to capture additional market share from its clientele. Moreover, the strategic decision by a major player like SIS, with a 7% market share in the ATM business in FY23, to reduce its involvement in ATM-related activities further fortifies CMS's potential to enhance its leadership position in the industry.

Exhibit 94: We expect ATM cash management revenue to grow by 13.7% CAGR FY23-FY26E



Source: AMSEC Research

Favorable Regulatory Developments and Scale Advantage: Recent regulatory changes in the cash management and ATM cash management business have introduced entry barriers that benefit established players with greater scale. These regulatory modifications are poised to amplify ATM outsourcing by banks, expanding the TAM for firms like CMS Info Systems. Key regulatory developments encompass cassette swapping, private security regulations for cash management companies, and the implementation of minimum standards for these firms.

Anticipating Increased ATM Outsourcing, Particularly by PSU Banks: Private banks have largely embraced an outsourcing model for their ATMs, entrusting their management to Managed Service Providers (MSPs) through a brown label ATM approach. In contrast, PSUs currently manage a substantial portion of their ATMs in-house. However, this landscape is expected to evolve as outsourcing presents an opportunity for PSU banks to curtail operating expenses and lower their cost-to-income ratios. Currently, out of ~255,000 ATMs nationwide, around 60% are outsourced. We project this outsourcing trend to gradually increase to approximately 65% by FY26E, thereby expanding the TAM for cash management companies.

Exhibit 95: Total ATM touchpoint growth of 9% CAGR FY23-FY26E for CMS Info Systems

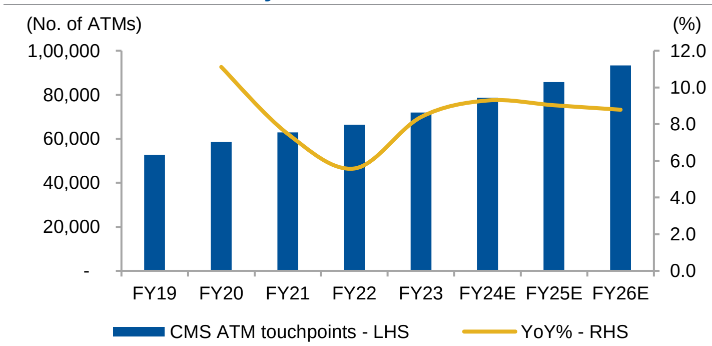
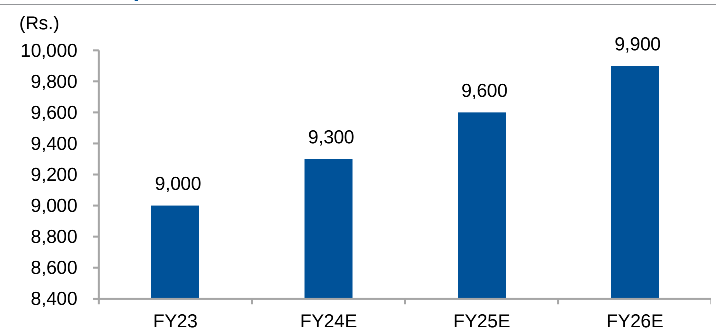


Exhibit 96: Cassette swaps will aid realization (3% CAGR FY23-FY26)



Source: AMSEC Research

1B) Retail cash management

The retail cash management business includes services like retail cash pick-up, currency processing, cash vaults, automated solutions, and smart safes. CMS Info Systems serves banks providing cash management services to retailers.

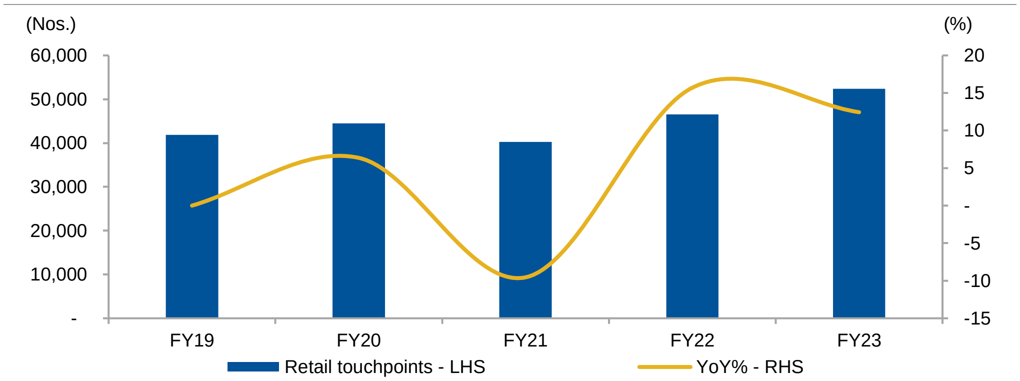
This sector, however, remains underpenetrated due to a prevalence of unorganized retailers. Moreover, the growth outlook is strong as large-format retailers expand their store networks.

The main growth driver for CMS is the number of retail pickup points. There are approximately 3 mn retail touchpoints in the country, with 453,000 in organized retail, constituting 15% of the total (FY21). Of these, only around 110,000 employ cash management services, representing 24% of the organized sector and just 4% of total retail touchpoints, indicating substantial growth potential.

The retail cash management business is facing strong tailwinds like:

- **Expanding Retail Touchpoints**: The organized retail sector is poised to outpace the unorganized market, driving increased demand for cash management services. CMS, a market leader in retail cash management, is well-poised to benefit due to its extensive touchpoint coverage and cost-effective services, amid route efficiency and logistics scale.
- **Penetrating Tier 2 and Tier 3 Cities:** As retailers and e-commerce players expand across geographies, retail penetration is expected to surge. CMS stands to gain from this trend, leveraging its nationwide presence to facilitate partnerships with retailers. Furthermore, COD remains the preferred mode of transaction in non-metro cities, presenting opportunities for Retail Cash Management (RCM) firms like CMS.
- **Adhering to RBI Operating Standards:** Stringent compliance requirements have already driven industry consolidation, prompting companies to withdraw due to elevated operating costs and diminished returns. CMS, with its robust financial standing, is well-equipped to meet regulatory requirements, further solidifying its position as the RCM market leader.

Exhibit 97: Retail touchpoints register 6% CAGR growth for CMS FY19-FY23, slowed by COVID



Source: AMSEC Research

Exhibit 98: We expect retail cash management revenue to grow 15% CAGR FY23-FY26E

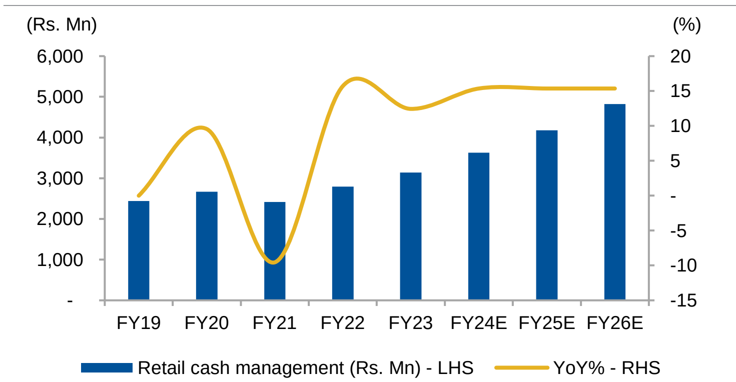
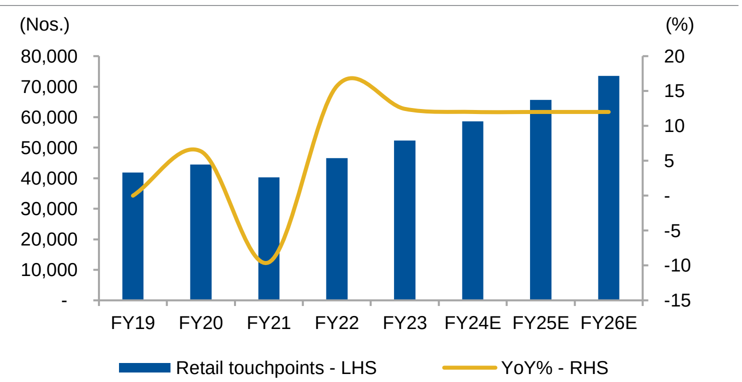


Exhibit 99: …driven largely by 12% CAGR in retail touchpoints



Source: AMSEC Research

B) MANAGED SERVICES

Managed services business experienced substantial growth, contributing ~32% of revenue in FY23 compared to 17% in FY19. This segment has achieved a robust revenue CAGR of 33% from FY19 to FY23. A significant portion of the managed services revenue is recurrent, stemming from long-term contracts. ~50-55% of revenues are recurring, highlighting the steady and predictable nature of this revenue source.

The managed services business comprises:

a) Banking automation, product sales & services
b) Brown Label ATM & Pure Managed services
c) ATM software solutions
d) AIoT Remote monitoring services

Exhibit 100: CMS' managed services business has grown 33% CAGR FY19-FY23

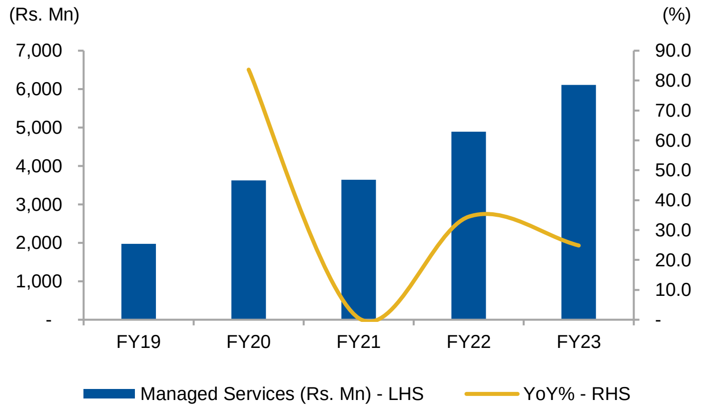


Exhibit 101: Stable managed services EBIT margins surge in FY23 as scale takes effect

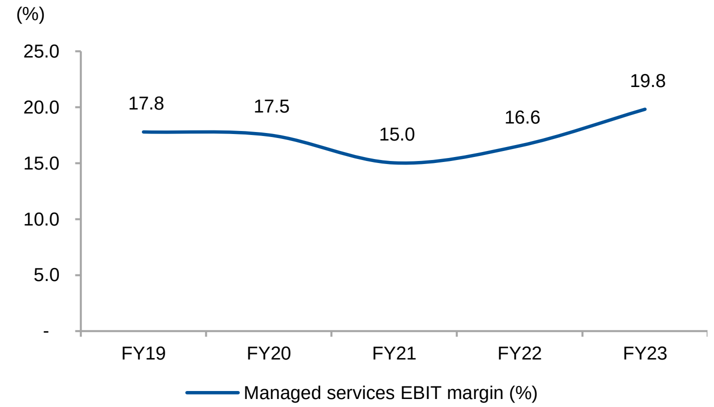
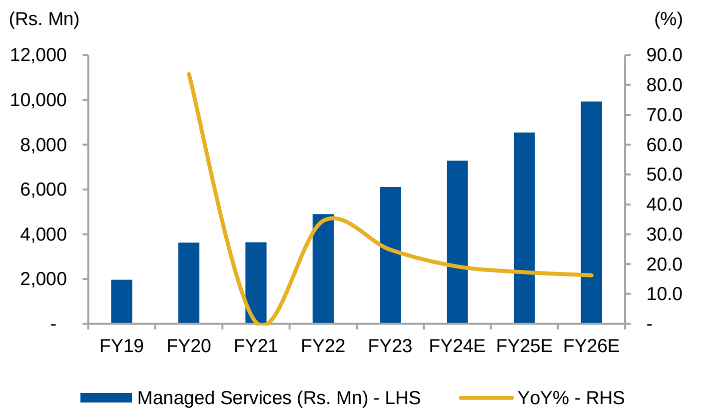


Exhibit 102: We expect managed services revenue to grow 18% CAGR FY23-FY26



Source: Company, AMSEC Research

1B) Remote Monitoring business

Remote monitoring business operates much like a surveillance enterprise. It involves deploying and maintaining cameras and sensors at distant locations, including ATM and cash recycler sites, and offering centralized monitoring services from a technology-enabled control center. Proprietary software plays a pivotal role in this process, leveraging AI and self-learning technology to remotely identify potential threats and oversee ATM networks and sites. Any detected issues are promptly communicated to a dedicated team responsible for overseeing around 21,000 sites.

CMS ventured into the remote monitoring sector through an acquisition. During FY22, the company initiated remote monitoring at ~10,000 sites, surging to ~21,000 sites as of FY23. Notably, these monitoring activities are currently focused exclusively on ATMs.

Nevertheless, the applications of the remote monitoring business extend far beyond the realm of ATM services. We are confident that the company has the potential to deploy this service effectively across sectors, including warehousing, hospitality, banking, insurance, NBFCs, as well as educational institutions.

A remote monitoring contract is typically for 3 years, and the company realizes ~Rs. 4,000-Rs. 14,000 per site depending on the complexity of the system.

Exhibit 103: Remote Monitoring - A rapidly growing venture, doubling site numbers in FY23 from FY21

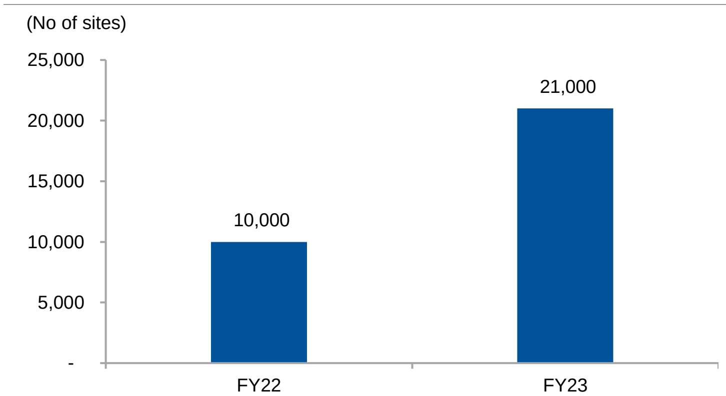


Exhibit 104: …resulting in exit revenue from the segment crossing Rs. 1bn in FY23

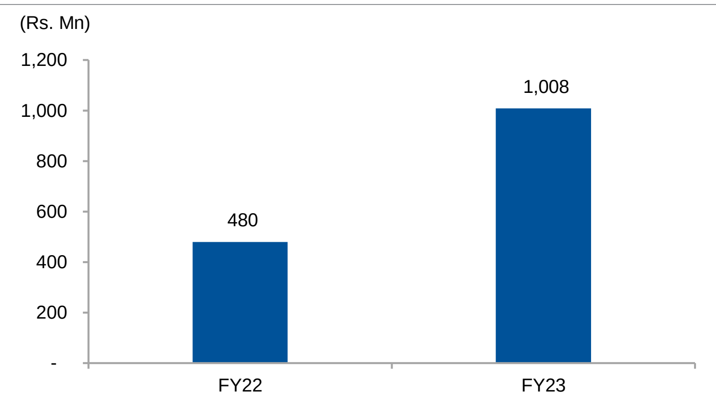
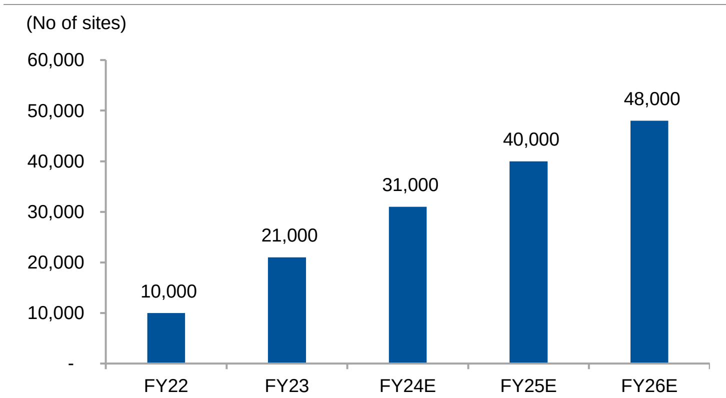


Exhibit 105: We expect remote monitoring sites to grow to ~48,000 by FY26…



Source: Company, AMSEC Research

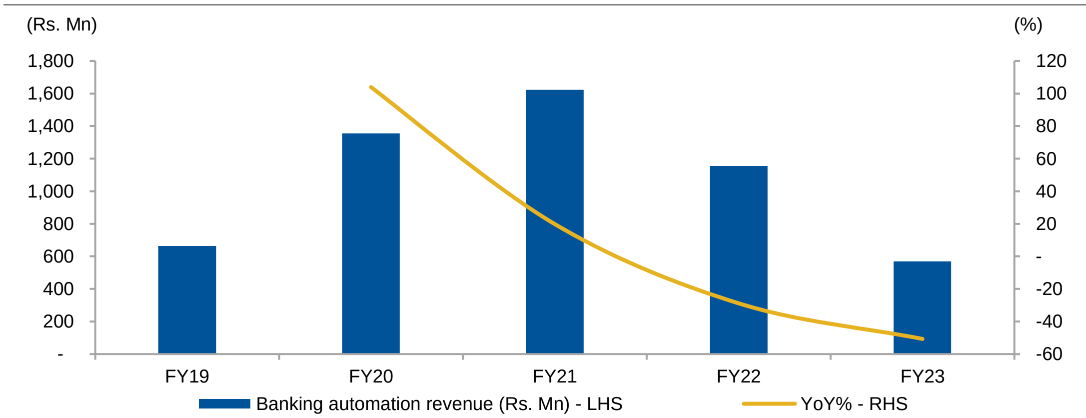
2B) Banking automation & product sales and service

Within the banking automation and product sales vertical, CMS offers a range of services. This includes the sale of ATM and various banking automation products like cash recyclers, passbook kiosks, and teller cash recyclers. Additionally, the company provides annual maintenance services for these products.

Typically, these products are procured from OEMs, with Hyosung, based in South Korea, being one such example. CMS then sells these products to banks. The revenue generated is tied to contractual agreements related to ATM deployments and encompasses a fixed price per ATM. This fixed price covers various components, including machine costs, logistics, taxes and duties, as well as site implementation, which includes expenses related to air conditioning, power supply, network connectivity, and UPS where applicable

This segment has declined by ~4% CAGR FY19-FY23. It should be noted that this business is linked to the capex cycle of banks and therefore is lumpy in nature.

Exhibit 106: Banking automation product sales have decline 4% over FY19-FY23



Source: Company, AMSEC Research

3B) Brown label ATM

Banks opt to fully outsource their ATM management to managed service providers (MSPs). Under this arrangement, MSPs assume the complete operational cost of ATMs, covering setup, ATM machine procurement, and day-to-day operation. The bank's role primarily involves lending its brand name. This approach translates into substantial cost savings for banks. Notably, private banks have widely embraced the BLA model, while PSU banks are gradually transitioning toward it.

Contracts in the BLA model typically span 5-8 years, with compensation structured in various ways, including transaction-based fees and fixed monthly fees. This setup inherently carries higher risk due to fixed costs and revenue contingent on transaction volume. CMS intends to maintain BLA contributions at ~ 15% of total revenue and exercises caution regarding its growth in this segment.

4B) Pure managed services

In contrast, a pure managed service represents an asset-light approach. Here, the ATM is owned by the bank, while the managed service provider assumes responsibility for second-line maintenance, reconciliation, Electronic Journal (EJ) management, cash forecasting, and a range of other services.

5B) ATM software solutions

In the ATM software solutions business, CMS offers two key services:

Third-Party Multi-Vendor Software: ALGO MVS (Multi-Vendor Software) enables banks to streamline their development and support operations by eliminating the need to maintain and enhance several distinct delivery infrastructures for each new function or service they provide. It helps bank centralize their ATM Channel Management to a single central command control to improve the customer experience and ensure the network has the latest security measures.

CMS ALGO: This is an automated ATM security software application featuring password management, facial recognition, and geo-tag-based validation, enhancing security across CMS's operations.

Moreover, multi-vendor software enables centralized ATM channel management, improving customer experiences and facilitating real-time updates. CMS introduced its multi-vendor software in FY17.

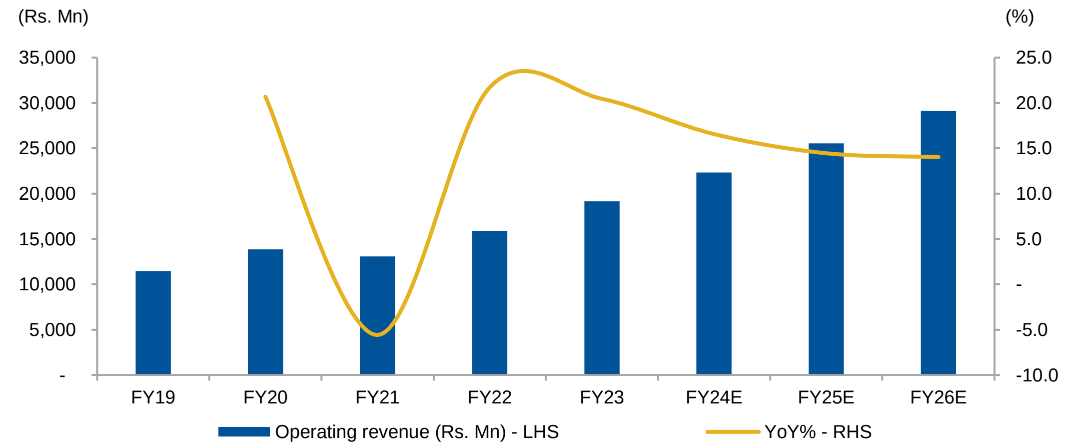
Exhibit 107: CMS' business prospects – Managed services to see faster revenue growth

	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Cash management services	8,906	9,776	8,961	10,588	12,567	14,542	16,484	18,652
YoY%		10	-8	18	19	16	13	13
Managed services	1,972	3,622	3,641	4,896	6,111	7,284	8,543	9,931
YoY%		84	1	34	25	19	17	16
Others	584	434	459	413	469	493	517	543
YoY%		-26	6	-10	14	5	5	5
Operating revenue	**11,462**	**13,832**	**13,061**	**15,897**	**19,147**	**22,319**	**25,544**	**29,126**
YoY%		**20.7**	**-5.6**	**21.7**	**20.4**	**16.6**	**14.5**	**14.0**

Source: Company, AMSEC Research

We therefore expect CMS to deliver ~15% CAGR revenue growth FY23-FY26E led by growth in managed services business. We expect remote monitoring to contribute more meaningfully to the overall mix. In the cash management segment, we expect retail to grow faster.

Exhibit 108: Overall revenue growth to be ~15% CAGR FY23-FY26E



Source: Company, AMSEC Research

IMPROVING PROFITABILITY METRICS DRIVEN BY SCALE AND EFFICIENCIES

CMS Info Systems' profit profile has steadily improved driven by better route optimization, efficiencies in the cash management business, operating leverage as revenue grew faster than fixed costs, changing business mix, and overall cost efficiency.

The company's EBITDA / Core EBIT / PAT margin expanded from 17% / 13% / 8% in FY19 to 28% / 21% / 16% in FY23. The result of such margin improvement has resulted in EBITDA / Core EBIT / PAT growth of 28% / 30% / 33% CAGR FY19-FY23.

We anticipate further margin enhancements as CMS solidifies its dominant market position in the cash management sector and scales its operations in the remote monitoring business. CMS is well-positioned to maintain its status as the preferred partner for banks and managed service providers due to its comprehensive offerings. Although the industry lacks patent-related barriers, supply-driven entry barriers persist, reinforced by regulatory changes mandated by the RBI and the Ministry of Home Affairs.

Exhibit 109: Total operating expenses as % of sales fall

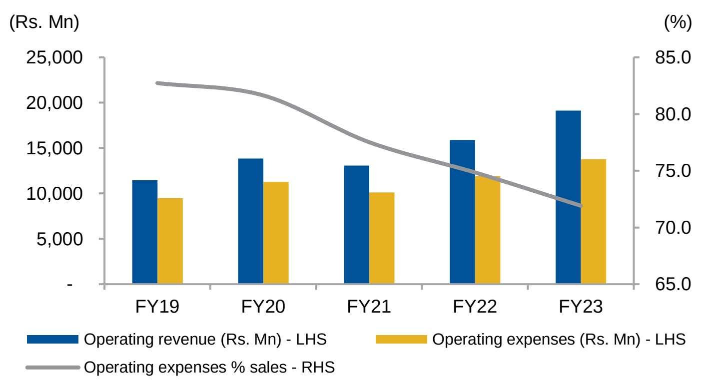


Exhibit 110: Expenses as % of sales remain stable

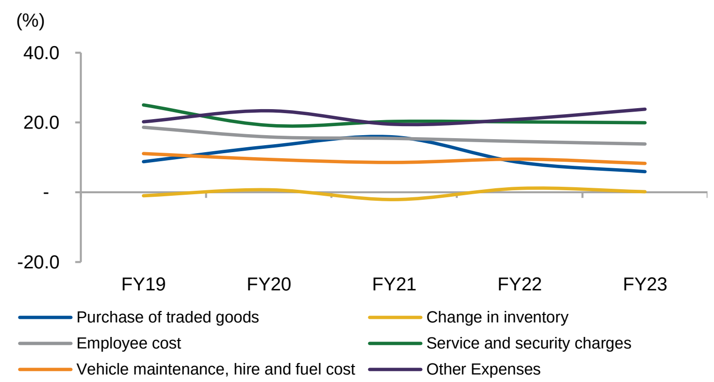


Exhibit 111: Operating EBITDA has grown ~28% CAGR FY19-FY23

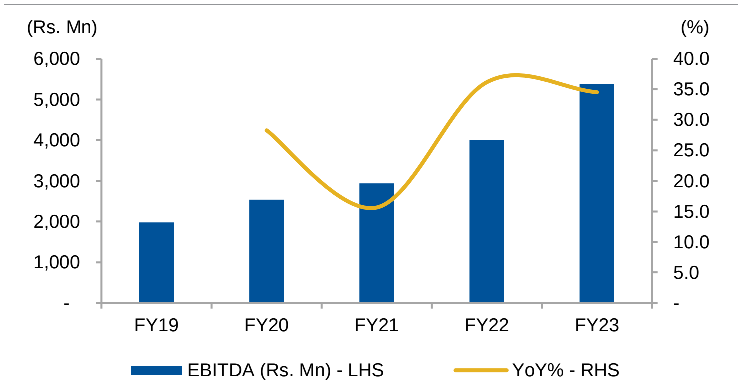


Exhibit 112: Expect Operating EBITDA to grow 17% CAGR FY23-FY26E

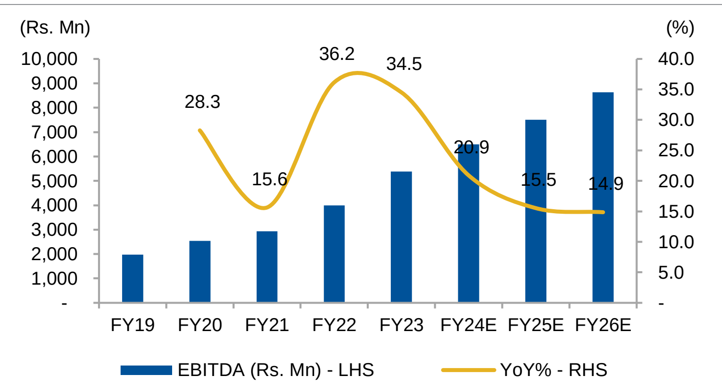


Exhibit 113: Expect EBITDA margin to stabilize at ~28-29%

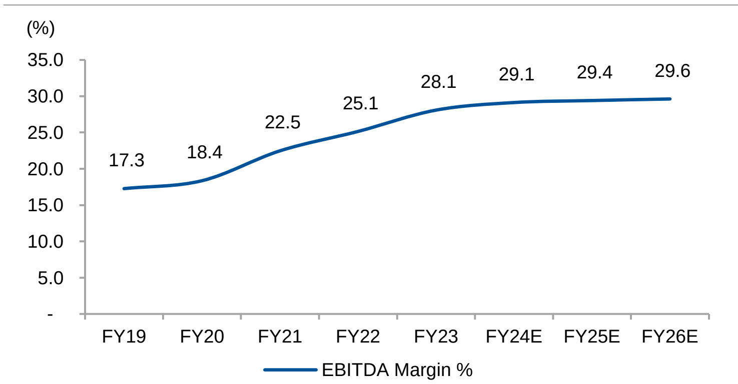


Exhibit 114: Depreciation expense has increased due to higher capex in recent years

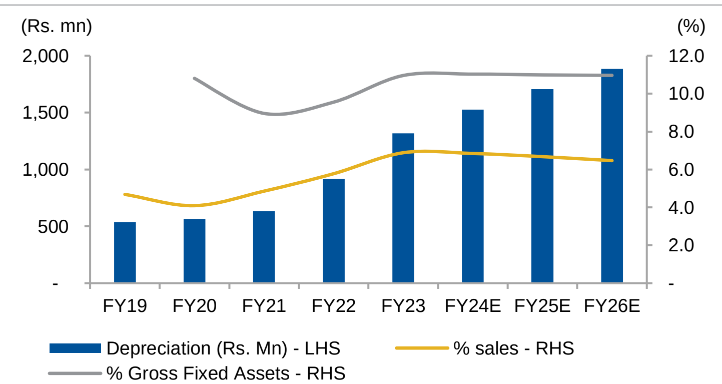


Exhibit 115: Core EBIT has grown ~30% CAGR FY19-FY23

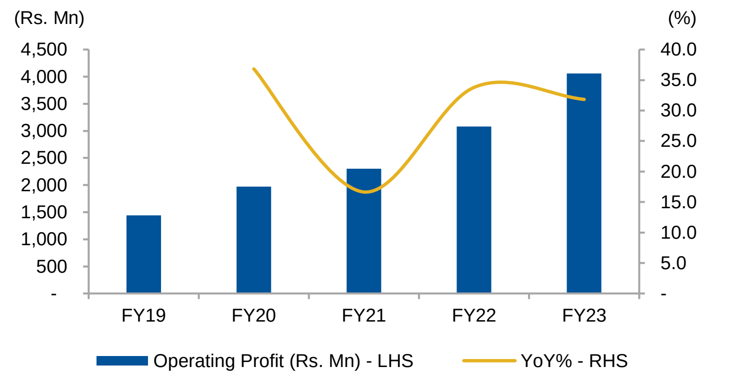


Exhibit 116: Core EBIT to grow 19% CAGR FY23-FY26E

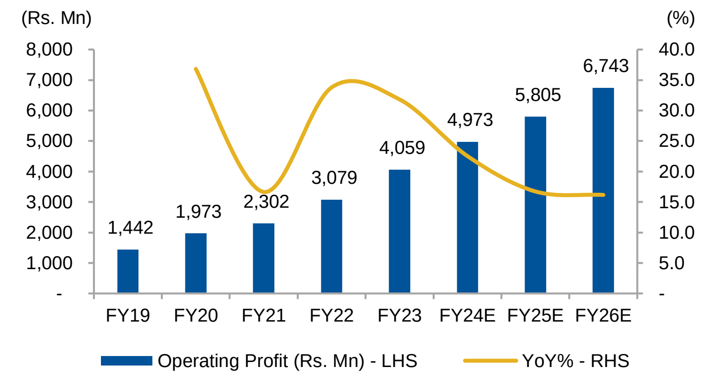


Exhibit 117: Expect Core EBIT margin of 22-23% FY23-FY26E

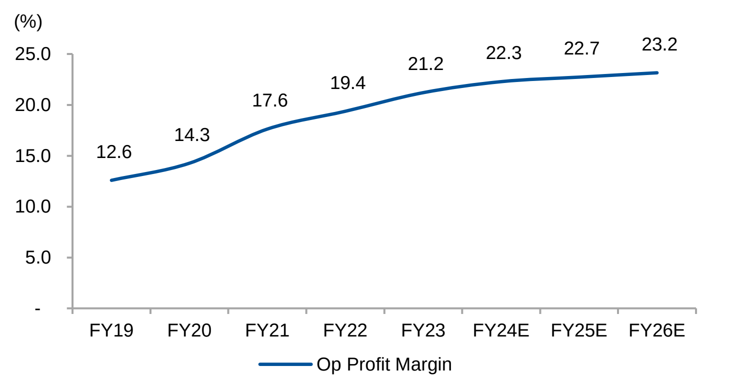


Exhibit 118: Reported PAT has grown ~33% CAGR FY19-FY23

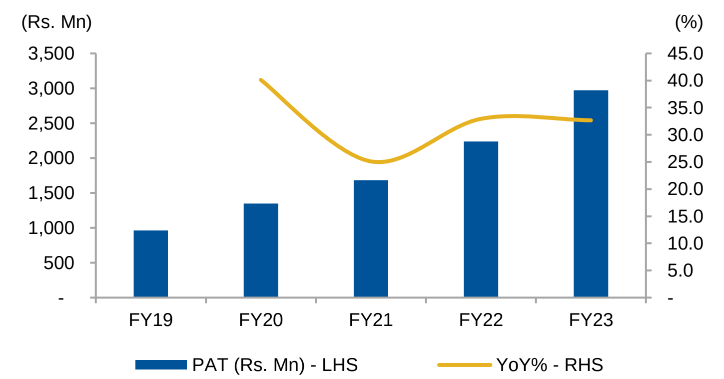


Exhibit 119: We expect PAT to grow 18% CAGR FY23-FY26E

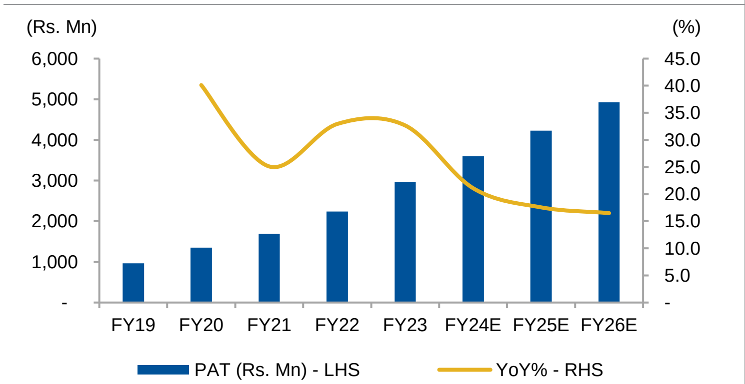
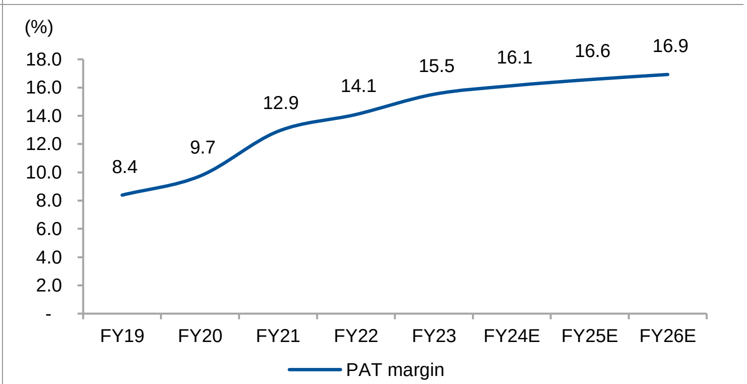


Exhibit 120: Expect PAT margin to be ~16-17%% FY23-FY26E



Source: Company, AMSEC Research

ROBUST BALANCE SHEET

CMS maintains a strong financial position, debt-free with substantial cash reserves (20% of assets in FY23), providing flexibility for organic and inorganic growth.

Working capital metrics are stable, with improved receivables turnover (~3x). Future working capital requirements are expected to remain steady.

Heightened capex in vehicles and remote monitoring sites impacted gross fixed asset turnover. Expected capex of Rs. 1.5-1.7 bn should maintain this trend. The payout ratio increased from 17% (FY22) to 25% (FY23) and is likely to remain similar.

CMS consistently delivers strong return ratios, with improved RoIC (19% in FY19 to 23% in FY23), reflecting prudent capital allocation. RoCE and RoE have also improved.

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Exhibit 121: Company has maintained ~20% cash to total assets ratio which is expected to rise

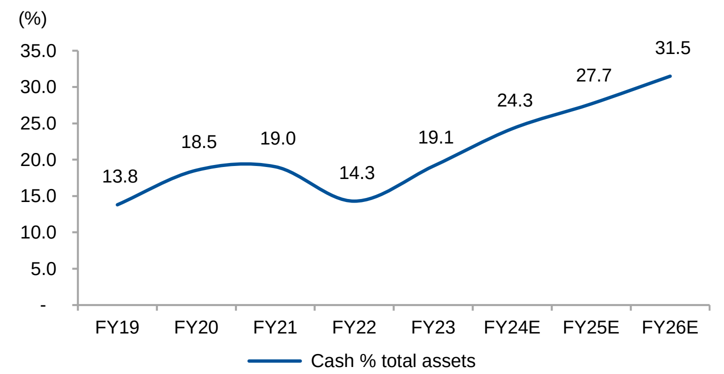


Exhibit 122: Gross receivable turnover ratio is high at ~3x

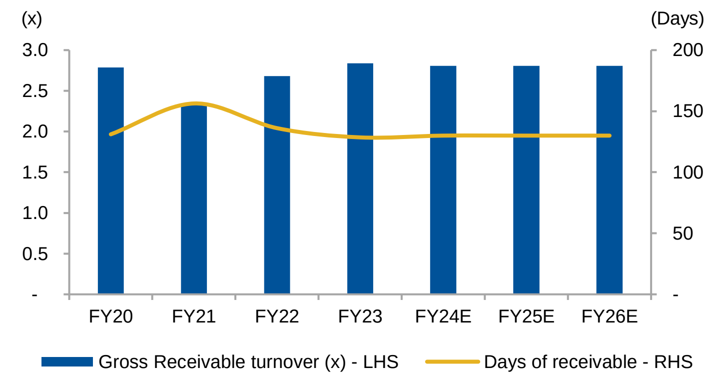


Exhibit 123: Non-cash working capital turnover remains high

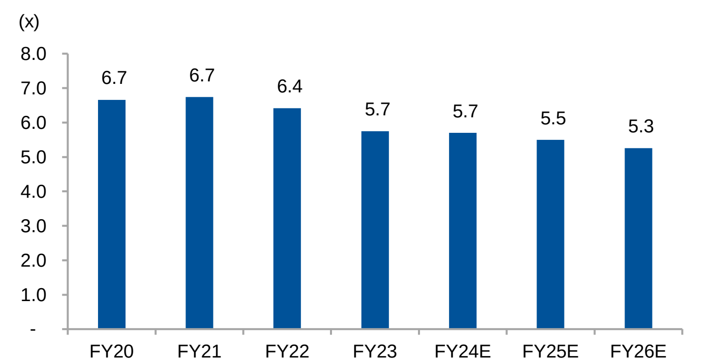


Exhibit 124: Gross fixed asset turnover declined

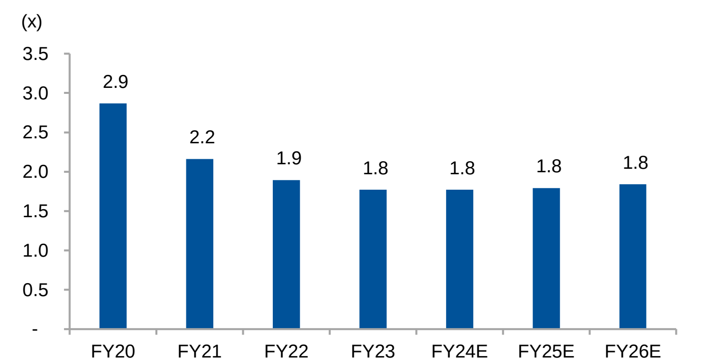


Exhibit 125: RoIC has steadily improved, indicating good capital allocation

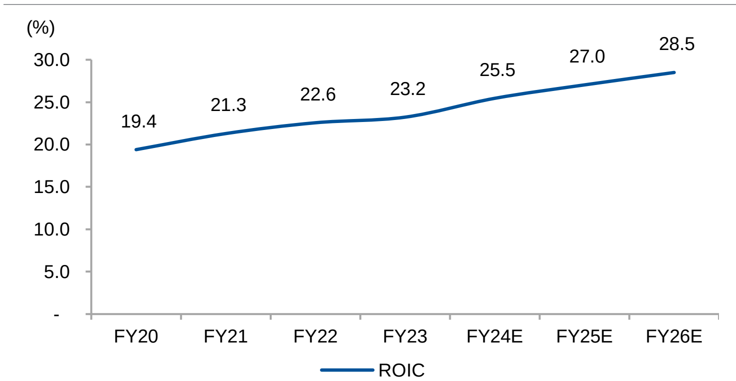
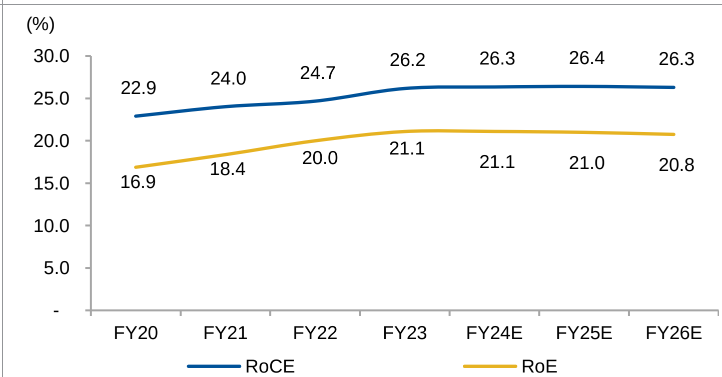


Exhibit 126: Strong return profile with promising prospects



Source: Company, AMSEC Research

Exhibit 127: DuPont Analysis of CMS Info Systems

Du-Pont	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Profit Margin (%)	9.7	12.9	14.1	15.5	16.1	16.6	16.9
Financial Leverage (x)	1.5	1.6	1.5	1.4	1.3	1.3	1.3
Total Asset turnover (x)	1.1	0.9	0.9	1.0	1.0	1.0	1.0
RoE - derived (%)	16.9	18.4	20.0	21.1	21.1	21.0	20.8

Source: Company, AMSEC Research

Exhibit 128: Net profit margin expansion driven by enhanced core business margins

Net Profit Margin (%)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Tax burden (PAT / PBT) - (x)	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Interest burden (PBT / EBIT) - (x)	1.0	1.0	1.0	1.0	1.0	1.0	1.0
EBIT Margin (EBIT / Sales) (%)	14.6	18.8	19.9	22.0	22.7	23.3	23.7
Net Profit Margin (%)	9.7	12.9	14.1	15.5	16.1	16.6	16.9

Source: Company, AMSEC Research

Strong Operating & Free Cash Flow generation

CMS Info Systems has consistently generated strong operating cash flow, growing at a CAGR of 41% from FY19 to FY23. This was fuelled by a 33% CAGR in PAT, coupled with improved working capital management. Cash NOPAT has also seen substantial growth, achieving ~36% CAGR from FY19 to FY23. The company's reinvestment rate has increased recently due to higher capex. However, reinvestments have typically represented around 40% of Cash NOPAT. Consequently, CMS has achieved a commendable Cash ROIC of 29-31% from FY19 to FY23. This performance has translated into FCFF growth of ~32% CAGR during the same period.

Looking ahead, we anticipate that CMS will maintain a reinvestment rate of roughly 35%. This expectation is based on reduced capex levels following a peak and improvements in working capital requirements, driven by decreased inventory days and more favorable payable terms. Consequently, we project that Cash NOPAT, CFO, and FCFF will grow by ~14%, 13%, and 23%, respectively, from FY23 to FY26E.

Exhibit 129: CFO has grown at 41% CAGR FY19-FY23; Expected to grow ~15% CAGR FY23-FY26E

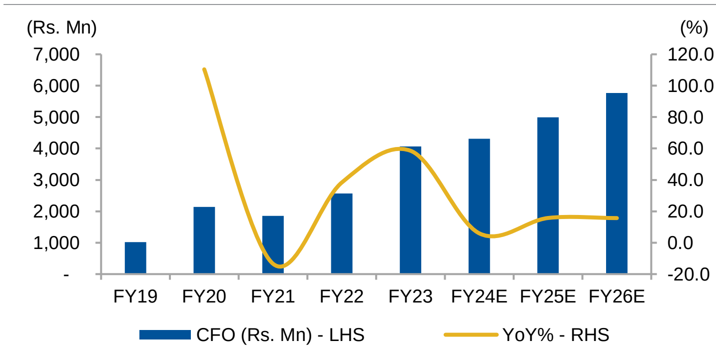


Exhibit 130: Healthy CFO to EBITDA & CFO to PAT ratios

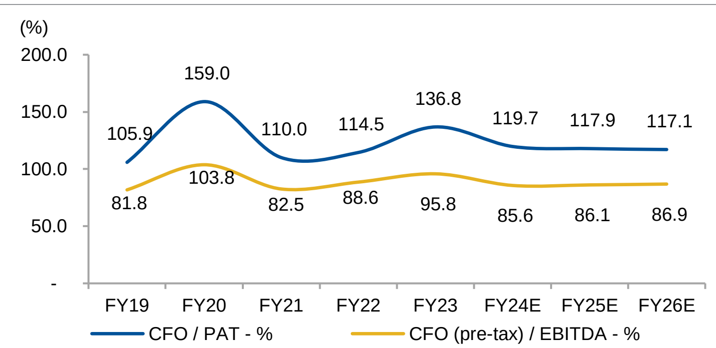


Exhibit 131: Working capital cash is <10% of sales

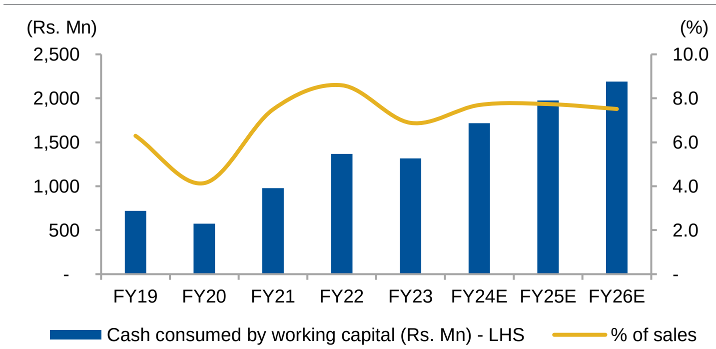


Exhibit 132: Capex is expected to be ~Rs. 1.5-1.7bn

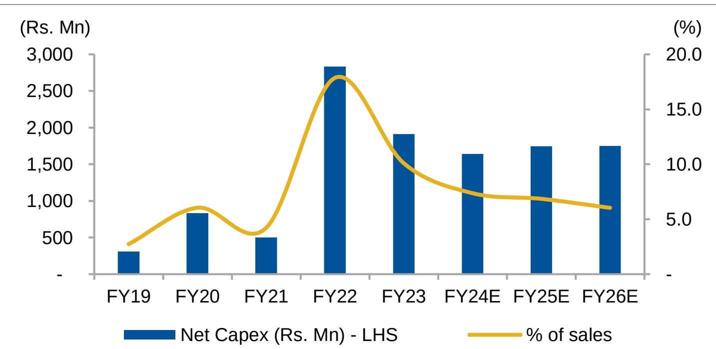


Exhibit 133: FCFF has grown 32% CAGR FY19-FY23; expected to grow 23% CAGR FY23-FY26

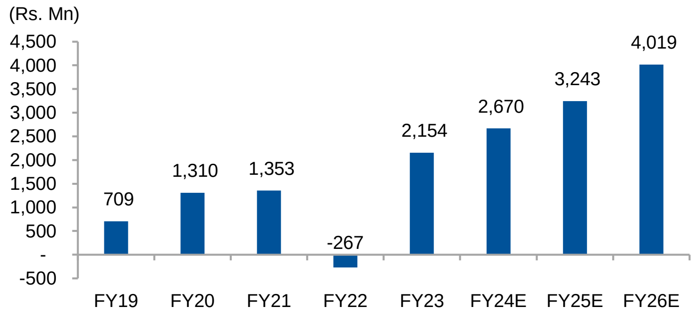


Exhibit 134: Cash flow ROIC has been strong and is expected to rise due to lower reinvestments and better margins

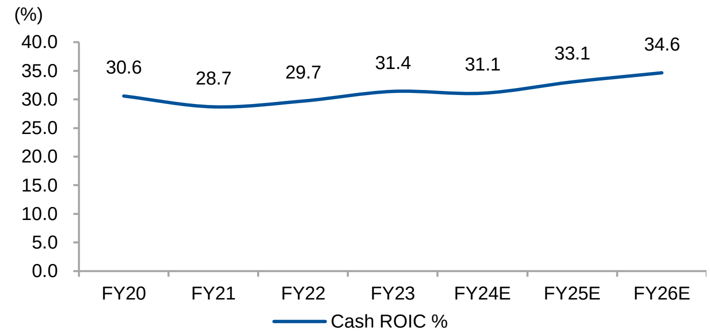
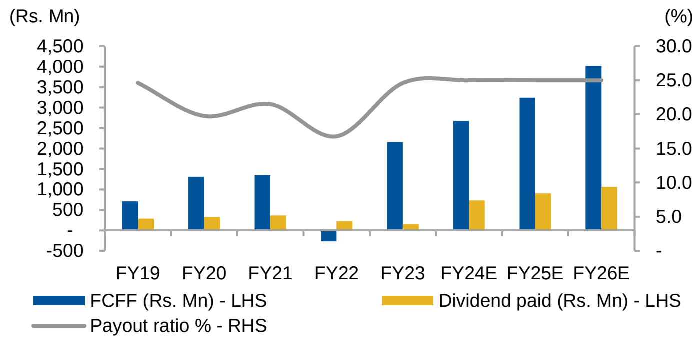


Exhibit 135: High ROIC enables ~25% payout ratio



Source: Company, AMSEC Research

Valuations: Initiate coverage with "BUY", 15x EPS FY26E, TP: Rs. 450

We initiate coverage on CMS Info Systems with a **BUY** recommendation and price target of **Rs. 450** based on discounted cash flow model (DCF), implying a FY26E P/E of 15x. Our EPS estimate for FY26E is Rs. 31.

Our DCF model incorporates a 12.5% discount rate, which we view as the opportunity cost of capital. This rate aligns closely with the pre-tax 10-year average NIFTY rolling returns. We opt not to use a CAPM approach to derive the WACC as we believe that beta primarily reflects volatility. Therefore, we consider 13% as the appropriate indicator of the opportunity cost of capital.

Furthermore, our model assumes a 3% terminal growth rate to account for long-term inflation. In our DCF analysis, we discount cash flows over a 10-year horizon, with the ROIC reaching the WACC (11%) in year 16. We assume that revenue and margins dovetail to 10% / 21% by FY34E post which revenue and margins decline steadily. At FY40E, ROIIC equals WACC, which we use as the terminal year.

To calculate FCFF, we take the difference between NOPAT (Net Operating Profit After Taxes) and the reinvestments made into working capital and capex (net of depreciation). We estimate a reinvestment rate of ~35%, with ROIIC equal to the WACC in the terminal year.

Exhibit 136: Peer comparison – How valuations stack-up

	EPS (Rs.)			BPS (Rs.)			P/E (x)			P/B (x)		
Company	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
CMS Info Systems	18.7	22.6	26.6	101.2	119.8	141.3	14.8	16.1	13.7	2.7	3.0	2.6
AGS Transact	3.0	6.5	8.7	44.1	43.5	63.0	15.4	8.7	6.5	1.1	1.3	0.9
SIS	23.4	24.2	31.9	160.1	181.4	277.2	13.7	18.6	14.1	2.0	2.5	1.6

Source: Bloomberg, AMSEC Research

Exhibit 137: Global Peers Valuations

			EPS (Rs.)			BPS (Rs.)			P/E (x)			P/B (x)		
Company	Currency	M-Cap (mn)	CY22	CY23E	CY24E	CY22	CY23E	CY24E	CY22	CY23E	CY24E	CY22	CY23E	CY24E
Brinks	USD	3,436.0	6.0	6.8	8.1	9.7			12.8	10.8	9.2	6.3		
Prosegur	EUR	913.8	0.1	0.1	0.1	0.1	0.2	0.2	10.5	8.5	6.5	4.6	3.9	3.0
Loomis	SEK	21,274.1	23.1	27.7	32.6	174.0	189.4	206.9	11.5	10.2	8.7	2.5	1.5	1.4

Source: Bloomberg, AMSEC Research

Exhibit 138: DCF Model for CMS Infosystems

(Rs. Mn)	FY23	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	FY33E	FY34E	FY35E	FY36E	FY37E	FY38E	FY39E	FY40E
Operating revenue	**19,147**	**22,319**	**25,544**	**29,126**	**33,063**	**37,367**	**42,043**	**47,093**	**52,513**	**58,292**	**64,414**	**70,856**	**77,548**	**84,441**	**91,478**	**98,593**	**1,05,713**	**1,12,761**
YoY%	20.4	16.6	14.5	14.0	13.5	13.0	12.5	12.0	11.5	11.0	10.5	10.0	9.4	8.9	8.3	7.8	7.2	6.7
Operating Profit	4,059	4,973	5,805	6,743	7,566	8,450	9,395	10,396	11,451	12,555	13,700	14,880	16,199	17,545	18,905	20,266	21,613	22,928
Operating Profit Margin	21.2	22.3	22.7	23.2	22.9	22.6	22.3	22.1	21.8	21.5	21.3	21.0	20.9	20.8	20.7	20.6	20.4	20.3
Cash Taxes	1,085	1,258	1,479	1,723	1,960	2,189	2,433	2,693	2,966	3,252	3,548	3,854	4,196	4,544	4,897	5,249	5,598	5,938
Tax rate	25.9	25.9	25.9	25.9	25.9	25.9	25.9	25.9	25.9	25.9	25.9	25.9	25.9	25.9	25.9	25.9	25.9	25.9
NOPAT	**2,974**	**3,715**	**4,326**	**5,020**	**5,606**	**6,262**	**6,961**	**7,704**	**8,486**	**9,303**	**10,152**	**11,026**	**12,003**	**13,001**	**14,009**	**15,017**	**16,015**	**16,990**
Non-cash expenses	1,093	785	933	1,055	1,323	1,495	1,682	1,884	2,101	2,332	2,577	2,834	3,102	3,378	3,659	3,944	4,229	4,510
Cash NOPAT	**4,067**	**4,500**	**5,259**	**6,075**	**6,929**	**7,756**	**8,643**	**9,587**	**10,586**	**11,635**	**12,729**	**13,860**	**15,105**	**16,378**	**17,668**	**18,961**	**20,243**	**21,500**
Capex	-1,914	-1,640	-1,745	-1,752														
Depreciation	1,318	1,528	1,706	1,884														
WC changes	-1,318	-1,718	-1,977	-2,189														
Reinvestments	**-1,913**	**-1,830**	**-2,016**	**-2,057**	**-2,425**	**-2,715**	**-3,025**	**-3,356**	**-3,705**	**-4,072**	**-4,455**	**-4,851**	**-5,287**	**-5,732**	**-6,184**	**-6,636**	**-7,085**	**-7,525**
FCFF	**2,154**	**2,670**	**3,243**	**4,019**	**4,504**	**5,042**	**5,618**	**6,232**	**6,881**	**7,563**	**8,274**	**9,009**	**9,818**	**10,646**	**11,484**	**12,325**	**13,158**	**13,975**
Reinvestment rate %	47.0	40.7	38.3	33.9	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0
ROIIC %	45.5	40.5	30.3	33.7	24.2	24.1	23.1	22.1	21.1	20.1	19.1	18.0	18.5	17.4	16.3	15.2	14.1	13.0
ROIIC - WACC%			17.8	21.2	11.7	11.6	10.6	9.6	8.6	7.6	6.6	5.5	6.0	4.9	3.8	2.7	1.6	0.5
Non-cash expenses % of sales	5.7	3.5	3.7	3.6	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
PV of FCFF		2,670	2,883	3,175	3,163	3,147	3,118	3,074	3,017	2,948	2,866	2,774	2,688	2,590	2,484	2,369	2,249	2,123
Cumulative PV of FCFF		2,670	2,883	6,058	9,221	12,368	15,486	18,560	21,577	24,524	27,391	30,165	32,853	35,443	37,927	40,296	42,545	44,668
Terminal Value		28,949	35,160	43,570	48,830	54,661	60,911	67,566	74,604	81,995	89,702	97,677	1,06,453	1,15,425	1,24,513	1,33,625	1,42,663	1,51,519
PV of Terminal Value		28,949	31,253	34,426	34,295	34,125	33,801	33,328	32,711	31,957	31,076	30,079	29,139	28,085	26,930	25,689	24,379	23,016
Total Value of Firm		**31,619**	**34,136**	**40,484**	**43,516**	**46,493**	**49,287**	**51,888**	**54,288**	**56,482**	**58,467**	**60,244**	**61,992**	**63,528**	**64,856**	**65,986**	**66,924**	**67,683**
Cash		4,017	5,988	5,988	5,988	5,988	5,988	5,988	5,988	5,988	5,988	5,988	5,988	5,988	5,988	5,988	5,988	5,988
Debt		-2,033	-2,345	-2,345	-2,345	-2,345	-2,345	-2,345	-2,345	-2,345	-2,345	-2,345	-2,345	-2,345	-2,345	-2,345	-2,345	-2,345
Equity Value		**33,603**	**37,778**	**44,126**	**47,159**	**50,136**	**52,930**	**55,531**	**57,931**	**60,124**	**62,110**	**63,887**	**65,635**	**67,170**	**68,499**	**69,628**	**70,567**	**71,326**

Key DCF Assumptions	
Required return	**12.5**
Terminal growth	**3.0**
Terminal Value	1,51,519
PV of Cash flows	44,668
PV of Terminal Value	23,016
Total Value	**67,683**
Net Debt	-3,643
Equity Value	**71,326**
No of shares O/S - diluted	159
Per share value	**450**

Source: Company, AMSEC Research

PRICE IMPLIED EXPECTATIONS ALSO GIVES COMFORT TO VALUATIONS

"Invert, always invert: Turn a situation or problem upside down. Look at it backward." – Charlie Munger

The main criticism of using the DCF model is that the forecasts become less certain as we increase the forecast horizon. Using the CMP as the starting point, we reverse-calculate the market implied forecast horizon.

To justify our valuation, we borrow wisdom from legendary investor Charlie Munger's mental model of Inversion and Michael J Mauboussin's *Expectation Investing model*. We use the CMP of Rs. 360 to arrive at the market implied revenue growth rate, competitive advantage period (CAP) and the market implied ROIC for the company.

Using the result, we try to conclude:

- What information is priced in the CMP?
- Is the information priced in justified?
- Are there any potential revisions in market expectations that could provide upside to our valuations?

At CMP, if the market is factoring in a 15% revenue CAGR at 21% operating profit margin, the forecast period is just 6 years. In other words, the market is discounting only 6-years' worth of growth free cash flows, after which, the market assumes free cash flow will grow by 3% terminal rate. If margin is assumed to be 18%, the competitive advantage period is still only 7 years. Thus, sensitivity to margins is lesser.

If the market is factoring in 10% revenue CAGR at 21% operating profit margin, the implied forecast period is 15 years-worth of growth free cash flow. **We therefore conclude that, logically, the market would be factoring in a 10% revenue CAGR at an 21% operating profit margin over a 15-year period.**

Exhibit 139: Years of cash flow discounted at different revenue growth and margins

		Revenue CAGR %										
		8	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**16**	**17**	**18**
Operating Profit margin %	**13**	19	19	19	19	18	15	13	11	10	9	8
	14	19	19	19	19	16	14	12	10	9	8	7
	15	19	19	19	19	15	13	11	9	8	8	7
	16	19	19	19	17	14	12	10	9	8	7	6
	17	19	19	19	16	13	11	9	8	7	7	6
	18	19	19	**18**	14	12	**10**	9	7	7	6	5
	19	19	19	16	13	11	9	8	7	6	6	5
	20	19	19	15	12	10	8	7	6	6	5	5
	21	19	18	**14**	11	9	8	7	6	5	5	4
	22	19	16	12	10	8	7	6	5	5	4	4
	23	19	15	11	9	8	6	6	5	4	4	4
	24	19	13	10	8	7	6	5	5	4	4	3
	25	17	12	9	7	6	5	5	4	4	3	3

Source: Company, AMSEC Research

Is revenue growth of 10% justified?

We believe that CMS can deliver revenue growth of 15% till FY27E, after which revenue growth is likely to decline towards 10% by FY34E. This translates to a revenue CAGR of 13%. **Hence, the market expectation for revenue growth that is built into the stock price is likely to be revised upwards**. The company is likely to benefit from growth in ATM and retail cash management as well as in the managed service business as it is well placed to gain market share and the market size is expected to grow.

Can margins sustain at 21%?

We believe the market expectation w.r.t to the operating margins are correct. We believe that CMS has sufficient operating leverage that can arise from better route optimization and improvement in margins from the managed services business which is presently a newer business. Therefore, we believe that margins can sustain at ~21%.

Why is the 15-year FCF justified?

We believe that CMS, given its competitive strengths and market position, can sustain high ROIC for at least 14-16 years. Taking inspiration from Bruce Greenwald's "Competition Demystified", we do believe that certain entry barriers do exist in the cash management business given the intense demand for operational efficiency and supply side entry barriers (due to economies of scale). Therefore, we believe that excess returns (ROIC) will sustain over cost of capital.

Conclusion – Investors to benefit from revision in company's revenue growth expectations

We believe that the market is unfairly discounting only 6 to 8-years' worth of cash flows at a 15% revenue CAGR. Additionally, revenue growth of 10% over 10 years also seems harsh. We expect revenue growth over the next 10 years to be ~13%. At a 12% revenue CAGR and 21% operating profit margin, the market is discounting only 8-years of cash flows.

A 15-year DCF model assuming 12% revenue growth and 18% operating profit margin, implies a TP of Rs. 450, a 25% upside from CMP.

Key risks to our thesis

Slower growth in retail cash management: Sales growth could be adversely impacted if the number of retail touchpoints grow slower than anticipated.

Slower growth in ATM deployment and outsourcing: The expansion of ATM cash management is contingent on the increased outsourcing of ATMs. Consequently, any deceleration in the outsourcing trend is anticipated to exert an adverse effect on the growth prospects.

Slower pick-up in remote monitoring business: Slower than anticipated growth in deployment of remote monitoring services could impact valuations negatively.

Inefficiencies stemming from poor route management: Inability to maintain efficiency in operations could lead to decline in margins and therefore hinder value creation.

Risk from new entrants: Loss in market share driven by competitive pricing from new entrants also poses a risk to the valuations.

Regulatory changes: Any adverse regulations from RBI could hurt growth and valuations.

Exhibit 140: Summary and key conclusions from CMS Info Systems' past performance

S.No	Parameter	FY19	FY20	FY21	FY22	FY23	FY20-FY23 CAGR	Remarks
1	CMP (Rs.)				265	277		CMP: Rs. 360
2	Market Cap (Rs. bn)				41	43		60
	Listing details							
3	IPO date						31-Dec-21	
4	IPO price band						205-216	
5	IPO open price						220	
6	IPO Type						Book building IPO	
	Financial Comparison (Rs. Mn)							
7	Revenue	11,462	13,832	13,061	15,897	19,147	11	Ex FY21, revenue has grown ~20% YoY. FY21 decline due to fall in cash management revenues
8	Revenue from cash management business	8,906	9,776	8,961	10,588	12,567	9	Strong growth in FY22 and FY23
9	Revenue from managed services	1,972	3,622	3,641	4,896	6,111	19	Contribution from this segment has been increasing
10	EBITDA	1,979	2,539	2,936	3,998	5,377	28	EBITDA growth has outpaced revenue growth. EBITDA grew by 28% CAGR FY19-FY23 vs 11% revenue CAGR. This has been led by slower increase in employee expenses, service & security charges and vehicle maintenance charges, hire & fuel charges
11	Operating Profit	1,442	1,973	2,302	3,079	4,059	27	Slower growth than EBITDA growth as depreciation expense as % of revenue has increased as company has increased capex in last 2 years
12	Adj Operating Profit	1,442	1,973	2,302	3,079	4,059	27	No adjustments required
13	EBIT	1,574	2,024	2,460	3,158	4,206	28	Growth helped marginally by improving other income as the company booked profit on sale of current investments as well as improved interest / dividend income due to higher investments on balance sheet. Investment yields were higher in FY23
14	PBT	1,499	1,951	2,378	3,014	4,010	27	Quantum of finance cost has increased since FY22 primarily on account of higher long term leases. Company has no borrowings and entire finance cost is related to leases
15	PAT	961	1,347	1,685	2,240	2,972	30	Tax rate has reduced from 36% in FY19 to 26% in FY23 leading to better PAT growth than PBT growth
16	Adjusted PAT	961	1,347	1,685	2,240	2,972	30	
17	Net worth	7,459	8,504	9,845	12,561	15,625	22	
18	Debt (incl Leases)	843	865	1,266	1,928	2,033	33	No borrowings. Debt comprises of leases. Long term leases have increased since FY22
19	Net Debt	-665	-1,607	-1,802	-725	-1,984	7	
20	Other Liabilities (ex current liabilities)	168	191	191	210	217	4	Mainly provisions related to employee benefits
21	Total Assets	10,927	13,327	16,118	18,557	21,012	16	
22	Fixed & Intangible Assets - net	1,806	2,267	3,529	5,880	6,836	44	Increased capex in FY22 and FY23
23	Working Capital	3,705	4,429	4,987	5,688	7,645	20	Increase in FY23 due to higher cash
24	Cash & cash equivalents	1,508	2,472	3,068	2,653	4,017	18	Strong cash generation in FY23 led by higher CFO
25	Non-cash working capital	2,197	1,958	1,919	3,035	3,628	23	Growth has been largely in line with revenue growth though non-cash WC requirement was higher in FY23 due to higher inventory
26	Other Assets	2,959	2,863	2,786	3,132	3,394	6	Largely goodwill (Rs. 2,061mn in FY23)
27	CFO - per company	1,018	2,142	1,854	2,565	4,068	24	CFO has increased steadily. Dip in FY21 due to lower revenue and higher working capital. Increase in FY23 due to higher PBT. Working capital requirement in FY23 was similar to FY22
28	CFI - per company	62	-1,194	-1,493	-3,262	-3,226	39	In FY23, higher CFO was used to do capex and invest in mutual funds and bank deposits
29	CFF - per company	-524	-576	-617	6	-522	-3	Largely lease interest and dividends. Positive in FY22 due to IPO proceeds
30	Capex	309	832	502	2,833	1,914	32	Capex has increased since FY22
31	Net new cash investments	-833	433	545	87	1,178	40	CFO generated in FY23 was used to make substantial investments in bank deposits and mutual funds. Should aid other income going forward. In FY19, Mutual fund investments were redeemed
32	FCFF	709	1,310	1,353	-267	2,154	18	Strong FCFF generation. Negative in FY22 due to capex
	Growth (%)							
33	Revenue - total		20.7	-5.6	21.7	20.4		
34	Revenue from cash management business		9.8	-8.3	18.2	18.7		
35	Revenue from managed services		83.7	0.5	34.5	24.8		
36	EBITDA		28.3	15.6	36.2	34.5		
37	Operating Profit		36.8	16.6	33.8	31.8		
38	Adj Operating Profit		36.8	16.6	33.8	31.8		

S.No	Parameter	FY19	FY20	FY21	FY22	FY23	FY20-FY23 CAGR	Remarks
39	EBIT		28.6	21.5	28.4	33.2		
40	PBT		30.1	21.9	26.8	33.0		
41	PAT		40.1	25.1	32.9	32.7		
42	Adjusted PAT		40.1	25.1	32.9	32.7		
43	Net worth		14.0	15.8	27.6	24.4		
44	CFO		110.4	-13.4	38.3	58.6		
	Per share data							
45	EPS	6.33	8.87	11.09	14.33	18.67	28	
46	Adj EPS	6.33	8.87	11.09	14.33	18.67	28	
47	Core EPS	5.77	8.64	10.35	13.96	17.98	28	
48	BPS	50.40	57.46	66.52	82.02	101.20	21	
49	CFO per share	6.88	14.47	12.53	16.75	26.34	22	
50	FCF per share	4.79	8.85	9.14	-1.75	13.95	16	
51	Dividend per share	1.60	1.80	2.45	1.53	1.00	-18	Dividend payout ratio maintained
52	Basic O/S shares	148.00	148.00	148.00	148.71	153.93	1	
53	Diluted O/S shares	151.95	151.91	151.91	156.33	159.21	2	Increase in FY22 due to IPO as ESOPs became dilutive
	Key ratios							
54	EBITDA Margin %	17.3	18.4	22.5	25.1	28.1	23.5	Steadily improved YoY as operating expenses as % of revenue has declined due to higher scale of operations. Margin improvement led by decline in employee expenses (FY19: 19% of sales; FY23: 14% of sales), service & security charges (FY19: 25% of sales, FY23: 20% of sales), and vehicle maintenance & fuel costs (FY19: 11% of sales; FY23: 8% of sales)
55	Operating profit margin %	12.6	14.3	17.6	19.4	21.2	18.1	Depreciation as % of sales has increased as company has done higher capex in recent years. This should decline going forward and thus operating profit margin should increase
56	Adj Operating profit margin %	12.6	14.3	17.6	19.4	21.2	18.1	
57	EBIT Margin %	13.7	14.6	18.8	19.9	22.0	18.8	Strong growth in other income - mainly from interest and dividend income as company has increased cash position due to strong CFO
58	PAT margin %	8.4	9.7	12.9	14.1	15.5	13.1	Finance cost on leases has increased since FY22 but tax rate has declined. Net benefit to PAT margin has been positive
59	Adjusted PAT margin %	8.4	9.7	12.9	14.1	15.5	13.1	
60	Capex / Sales (%)	2.7	6.0	3.8	17.8	10.0	9.4	Significant capex since FY22
61	Debt / Equity (x)	0.1	0.1	0.1	0.2	0.1	0.1	Company has no borrowings and debt is only in the form of leases
62	RoCE %	19.0	22.9	24.0	24.7	26.2	24.4	Company has not added any borrowings. RoCE improvement driven by EBIT margin improvement
63	Adj RoCE %	19.0	22.9	24.0	24.7	26.2	24.4	
64	RoIC %	13.3	19.4	21.3	22.6	23.2	21.6	ROIC improved due to operating margin expansion.
65	Adjusted RoIC %	13.3	19.4	21.3	22.6	23.2	21.6	
66	RoE %	12.9	16.9	18.4	20.0	21.1	19.1	Driven largely by margin improvement. Asset turnover and leverage have been stable
67	RoE - Adjusted PAT %	12.9	16.9	18.4	20.0	21.1	19.1	
68	Cash % of total assets	13.8	18.5	19.0	14.3	19.1	17.7	Healthy cash balance. Despite capex in FY23 cash % has increased. Company appears to have excess cash which it can invest further into growth opportunities
	<u>Du-Pont</u>							
69	Adj PAT margin	8.4	9.7	12.9	14.1	15.5	13.1	Margin improvement led by improvement from operating margins
70	Financial leverage	1.5	1.5	1.6	1.5	1.4	1.5	
71	Asset turnover	1.0	1.1	0.9	0.9	1.0	1.0	
72	**RoE - Adjusted**	**12.9**	**16.9**	**18.4**	**20.0**	**21.1**	**19.1**	**Margin improvement has been the main driver of ROE expansion**
	<u>Decomposition of PAT Margin</u>							
73	Tax burden (PAT / PBT) - (x)	0.6	0.7	0.7	0.7	0.7	0.7	Average tax rate FY19-FY23 has been 29.5%. Tax rate has improved from 36% in FY19 to 26% in FY23
74	Interest burden (PBT / EBIT) - (x)	1.0	1.0	1.0	1.0	1.0	1.0	Interest expenses were higher in FY22 and FY23 due to higher leases
75	EBIT Margin (EBIT / Sales) (%)	13.7	14.6	18.8	19.9	22.0	18.8	
76	**Net Profit Margin (%)**	**8.4**	**9.7**	**12.9**	**14.1**	**15.5**	**13.1**	Improvement in net profit margin led by better margin from core business as compared to reduction in interest cost or tax rate
	<u>Decomposition of Asset turnover</u>							
77	Receivable turnover (x)	2.9	3.3	2.8	3.2	3.7	3.2	Better collection. Days of receivable has improved to ~97 days in FY23 from 125 days in FY19
78	Inventory turnover (x)	27.5	32.7	19.7	20.8	27.8	25.2	Improved since FY21. Inventory pile up in FY21 which has reversed. No inventory write-downs. Inventory ~4% of total assets FY19-FY23

S.No	Parameter	FY19	FY20	FY21	FY22	FY23	FY20-FY23 CAGR	Remarks
79	Payables turnover (x)	7.0	6.4	4.6	5.8	8.1	6.2	Fall in FY21 due to increase in payables. In FY22, payables declined. Thus, ratio was higher and in FY23 payables were flat YoY, thus ratio is higher due to sales rather than reduction in payables
80	Other Non-cash CA turnover (x)	34.6	24.3	15.9	15.2	18.9	18.6	Comprises of largely prepaid expenses, capital advances, govt receivables. FY22 appears optically lower as IPO proceeds were held in escrow account (part of other financial assets)
81	Other CL turnover (x)	13.8	14.3	9.2	10.1	16.8	12.6	Other financial liabilities reduced in FY23 hence ratio is higher
82	**Non-cash Working capital turnover (x)**	**5.2**	**6.7**	**6.7**	**6.4**	**5.7**	**6.4**	
83	Cash turnover (x)	7.6	7.0	4.7	5.6	5.7	5.7	Increase in cash has led to fall in cash turnover ratio since FY19. However, since FY21 cash turnover has increased despite sales growth and strong cash generation. Company could be carrying excess cash which it can invest into growth
84	**Working Capital turnover (x)**	**3.1**	**3.4**	**2.8**	**3.0**	**2.9**	**3.0**	
85	Current Liability turnover (x)	4.7	4.4	3.0	3.7	5.5	4.2	
86	Net Fixed Asset turnover (x)	6.3	6.8	4.5	3.4	3.0	4.4	Lower in FY22 and FY23 due to capex
87	Other Assets turnover (x)	3.9	4.8	4.6	5.4	5.9	5.2	
88	**Total Asset turnover (x)**	**1.0**	**1.1**	**0.9**	**0.9**	**1.0**	**1.0**	**Decline in fixed asset turnover and cash turnover ratio offset by better working capital turnover leading to flat total asset turnover. Since capex has been done, Fixed asset turnover can increase and thus total asset turnover could be better leading to higher RoE**
	<u>Decomposition of Financial Leverage</u>							
89	Debt to Equity (x)	0.1	0.1	0.1	0.1	0.1	0.1	Stable
90	Debt to Assets (x)	0.1	0.1	0.1	0.1	0.1	0.1	Stable
91	**Assets to Equity (x)**	**1.5**	**1.5**	**1.6**	**1.5**	**1.4**	**1.5**	**Stable**
	<u>Cash flow ratio & other ratios</u>							
92	Dividend payout ratio	24.6	19.8	21.5	16.8	24.6	20.7	Payout ratio has been steady
93	CFO / PAT - %	105.9	159.0	110.0	114.5	136.8	130.1	
94	CFO (pre-tax) / EBITDA - %	81.8	103.8	82.5	88.6	95.8	92.7	Large part of EBITDA translating into CFO
95	CFO / Total Assets - %	9.3	17.7	12.6	14.8	20.6	16.4	Cash generation from assets has been improving
	<u>Reinvestment rate & NOPAT growth</u>							
96	Opening Invested Capital (Rs. Mn)		6,794	6,897	8,043	11,837		
97	NOPAT (Rs. Mn)	925	1,363	1,631	2,289	3,009		
98	Distributable NOPAT (Rs. Mn)		1,259	486	-1,505	1,205		
99	Closing Invested Capital (Rs. Mn)	6,794	6,897	8,043	11,837	13,641		
100	NOPAT growth (%)		47.4	19.7	40.3	31.5		Strong NOPAT growth funded by retained earnings indicating good capital allocation by management
101	Reinvestments (Rs. mn)		103	1,146	3,794	1,804		
102	Reinvestment rate (%)		7.6	70.2	165.8	60.0		
103	Distribution rate (%)		92.4	29.8	-65.8	40.0		
	<u>Split of NOPAT growth</u>							
103	RoIC (%) - On Opening Invested Capital		20.1	23.7	28.5	25.4		ROIC has consistently been higher than the cost of capital indicating value creation by management.
104	Reinvestment rate %		7.6	70.2	165.8	60.0		
105	**g due to last years ROIC %**			**1.5**	**16.6**	**47.2**		
106	**g due to change in ROIC %**			**18.2**	**23.7**	**-15.7**		
107	**NOPAT growth (%)**			**19.7**	**40.3**	**31.5**		
	Operating metrics							
108	No of ATMs (Industry)	2,21,703	2,34,357	2,38,588	2,48,307	2,55,000	3	Increase largely led by PSU and in SURU region. Addressable market size is 60%. This can grow further with outsourcing.
109	No of ATMs (CMS)	52,691	58,548	62,919	66,431	72,000	7	Company gaining market share over peers. As consolidation takes place further, CMS can benefit further.
110	No of retail touchpoints (CMS)	41,836	44,497	40,249	46,569	52,362	6	COVID impacted growth. Retail footprint offers good tailwind for growth.
111	Remote monitoring (CMS) - No of sites	-	-	-	10,000	21,000		Scalable business with possible expansion opportunities in other areas.
112	No of VANS		3,911	3,911	3,965	4,000		
	Segmental							
113	Cash logistics (Revenue - Rs.mn)	8,906	9,776	8,961	10,588	12,567	9	

S.No	Parameter	FY19	FY20	FY21	FY22	FY23	FY20-FY23 CAGR	Remarks
114	Cash logistics EBIT (Rs. Mn)	1,403	1,666	2,040	2,654	3,363	26	
115	Cash logistics - margin (%)	15.8	17.0	22.8	25.1	26.8	22.9	Margin has steadily grown due to better efficiency driven by better route optimisation
116	Managed Services (Revenue - Rs. mn)	1,972	3,622	3641.01	4896	6111.27	19	
117	Managed Services EBIT (Rs. Mn)	351	635	547.27	810.38	1211.12	24	
118	Managed Services - margin (%)	17.8	17.5	15.0	16.6	19.8	17.2	Margins lower than cash logistics due to lower scale

Source: Company, AMSEC Research

Exhibit 141: Summary of the last 8 quarters

(Rs. Mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Operating revenue	**3,721**	**4,037**	**4,441**	**4,533**	**4,717**	**4,883**	**5,014**	**5,116**
Purchase of traded goods	165	315	422	296	340	275	221	229
% of sales	4.4	7.8	9.5	6.5	7.2	5.6	4.4	4.5
Decrease / (Increase) in inventories	83	-20	6	21	15	-8	2	4
% of sales	2.2	-0.5	0.1	0.5	0.3	-0.2	0.0	0.1
Employee cost	567	626	594	629	663	694	663	733
% of sales	15.2	15.5	13.4	13.9	14.1	14.2	13.2	14.3
Service and security charges	792	827	845	913	953	975	975	1,011
% of sales	21.3	20.5	19.0	20.1	20.2	20.0	19.4	19.8
Vehicle maintenance, hire and fuel cost	381	390	412	391	423	358	413	395
% of sales	10.3	9.7	9.3	8.6	9.0	7.3	8.2	7.7
Other Expenses	791	846	1,000	1,044	981	1,234	1,300	1,269
% of sales	21.3	21.0	22.5	23.0	20.8	25.3	25.9	24.8
Total Operating expenses	**2,779**	**2,986**	**3,281**	**3,293**	**3,375**	**3,528**	**3,573**	**3,640**
% of sales	74.7	74.0	73.9	72.7	71.5	72.3	71.3	71.1
EBITDA	**941**	**1,051**	**1,160**	**1,240**	**1,342**	**1,355**	**1,441**	**1,476**
EBITDA Margin	25.3	26.0	26.1	27.3	28.5	27.7	28.7	28.9
Operating Profit	**717**	**827**	**886**	**942**	**1,000**	**1,031**	**1,086**	**1,112**
Operating Profit Margin	19.3	20.5	19.9	20.8	21.2	21.1	21.7	21.7
Total Other Income	**21**	**16**	**25**	**24**	**29**	**48**	**47**	**67**
EBIT	**738**	**843**	**911**	**966**	**1,029**	**1,078**	**1,133**	**1,179**
EBIT Margin	19.8	20.9	20.5	21.3	21.8	22.1	22.6	23.1
Profit before Tax	**699**	**813**	**868**	**921**	**979**	**1,032**	**1,078**	**1,137**
Profit After Tax (PAT)	**528**	**602**	**640**	**690**	**725**	**758**	**799**	**843**
YoY%				46.8	37.4	25.8	24.9	22.1
PAT Margin	14.2	14.9	14.4	15.2	15.4	15.5	15.9	16.5

Source: Company, AMSEC Research

Management background: At the helm of CMS Info Systems

Exhibit 142: Key Management Personnel

Name	Designation	Joining date	Profile
Rajiv Kaul	CEO & Executive Vice Chairman	July, 2009	Holds a bachelor's degree in engineering specialising in computer science from Birla Institute of Technology, Mesra and post-graduate diploma in business management specialising in marketing and finance, from XLRI, Jamshedpur. Was associated with Actis Capital LLP, London as a partner and with Microsoft Corporation (India) Private Limited in the capacity of general manager and managing director, India from where he moved to Redmond, USA as senior director of emerging markets including BRIC. Was formerly a member of RBI's Committee on Currency Movement, which was constituted post demonetisation to review movement of fresh currency.
Pankaj Khandelwal	CFO	July, 2009	Holds a bachelor's degree in commerce from University of Rajasthan and is a qualified chartered accountant from ICAI with over 27 years of experience. Prior to the demerger was associated with CMS Computers Limited as a CFO since May 8, 2006
Manjunath Rao Pare Parmeshwar	President- Managed Services Business	July, 2012	Holds a bachelor's degree in science, with specialisation in statistics from Madras University. Has been associated with NCR Corporation India Private Limited in the capacity of interim managing director, CashLink Global Systems Private Limited in the capacity of chief operating officer and Diebold Systems Private Limited in the capacity of director sales and marketing. Has over 34 years of experience in sales and marketing across sectors.
Anush Raghavan	President - Cash Management Business	October, 2009	Holds a bachelor's degree in academic laws from University of Mysore and a post-graduate diploma in management from IIM Ahmedabad. He has previously been associated with Hay Consultants India Private Limited in the capacity of an associate consultant. He is the president of Cash Logistics Association and Currency Cycle Association. He has over 14 years of experience in business management and business development.
Rohit Kilam	CTO	November, 2020	Holds a bachelor's degree in arts from University of Delhi and a post graduate diploma in business administration from KJ. Somaiya Institute of Management Studies and Research, Mumbai. His last role was in the capacity of head-technology at Aditya Birla Finance Limited. Prior to that, he has been associated Tata Consultancy Services Limited, IBM India Private Limited, Masan Group Corporation and Adani Enterprises Limited. He has over 20 years of experience in IT across sectors.
Sanjay Singh	Chief Human Resources Officer	July, 2021	He holds a bachelor's degree in science, with a specialisation in dairy technology from National Dairy Research Institute, Karnal and a post graduate diploma in personnel management and industrial relations from Institute of Management and Labour Studies, XLRI Jamshedpur. He has previously been associated with Cairn India Limited in the capacity of director, human resources and administration and member ExCo, Hi-Tech Gears Limited in the capacity of vice president and global CoE (human resources) and Strides Pharma Science Limited in the capacity of chief human resources officer.

Exhibit 143: Board of Directors

Name	Designation	Joining date	Profile
Shyamala Gopinath	Chairperson and Independent Director	November, 2017	She holds a master's degree in commerce from the University of Mysore. She is a certified associate member of the Indian Institute of Bankers and an honorary fellow of the Indian Institute of Banking and Finance. In the past, she has served as the Deputy Governor of the RBI, chairperson of the advisory board on Bank, Commercial and Financial Frauds and part-time non-executive director of HDFC Bank Limited. Currently, she is a director on the board of several companies including Colgate Palmolive (India) Limited, CRISIL Limited, CRISIL Ratings Limited and Grassroot Trading Network for Women.
Rajiv Kaul	CEO & Executive Vice Chairman	July, 2009	He holds a bachelor's degree in engineering specialising in computer science from Birla Institute of Technology, Mesra and post-graduate diploma in business management specialising in marketing and finance, from XLRI, Jamshedpur. He was associated with Actis Capital LLP, London as a partner and with Microsoft Corporation (India) Private Limited in the capacity of general manager and managing director, India from where he moved to Redmond, USA as senior director of emerging markets including BRIC. He was formerly a member of RBI's Committee on Currency Movement, which was constituted post demonetisation to review movement of fresh currency.
Jimmy Lachmandas Mahtani	Non-Executive Director	August, 2015	He holds a bachelor's degree in science in business administration, triple major in finance, marketing and international business from Georgetown University. He has over 21 years of experience in private equity and investment banking. He has been associated with Baring Private Equity Asia (BPEA) since 2006 and currently serves as a managing director of private equity investment team in India.
Ashish Agrawal	Non-Executive Director	August, 2015	He holds a bachelor's degree in engineering, with specialisation in electronics from SGS Institute of Technology & Science, Indore and a post-graduate diploma in management from Indian Institute of Management, Ahmedabad. He is also a qualified Chartered Financial Analyst (CFA) from the CFA Institute, USA. He has over 24 years of experience in private equity and investment banking. He currently serves as the managing director of Baring Private Equity Asia, Mumbai.
Tapan Ray	Independent Director	April, 2021	He holds a bachelor's degree in engineering with specialisation in mechanical engineering from Indian Institute of Technology, Delhi, bachelor's degree in law from Maharaja Sayajirao University of Baroda, master's degree in public policy from the Woodrow Wilson School, Princeton University, USA, master's degree in public administration from Maxwell School, Syracuse University, USA, diploma in international law and diplomacy and post graduate diploma in international trade and business law from Indian Academy of International Law and Diplomacy, Indian Society of International Law, post graduate diploma in international business operations from Indira Gandhi National Open University and an executive master's in foreign trade from Indian Institute of Foreign Trade. He is a retired Indian administrative officer wherein he served as the secretary to the ministry of corporate affairs, government of India.
Krzysztof Wieslaw Jamroz	Non-Executive Director	August, 2021	He holds a bachelor's degree in business studies from Birmingham City University and a master's degree in business administration from Schulich School of Business, York University, Canada. He has over 19 years of experience in logistics, cash management and investment banking. He presently serves as an executive chairman of the Board of Roadrunner Transportation Systems (RRTS) and executive chairman of Ascent Global Logistics.

Financials

Profit & Loss Account	FY22	FY23	FY24E	FY25E	FY26E
Cash management services	10,588	12,567	14,542	16,484	18,652
Managed services	4,896	6,111	7,284	8,543	9,931
Others	413	469	493	517	543
Revenue from operations	**15,897**	**19,147**	**22,319**	**25,544**	**29,126**
Operating Expenses					
Purchase of traded goods	1,361	1,132	1,339	1,533	1,748
Decrease / (Increase) in inventories	177	30	-29	-25	-28
Employee cost	2,315	2,649	3,094	3,613	4,220
Service and security charges	3,207	3,816	4,534	5,046	5,605
Vehicle maintenance, hire and fuel cost	1,509	1,584	1,751	1,967	2,226
Other Expenses	3,330	4,559	5,129	5,899	6,728
Total Operating expenses	**11,899**	**13,770**	**15,818**	**18,033**	**20,499**
EBITDA	**3,998**	**5,377**	**6,501**	**7,511**	**8,627**
Depreciation & Amortisation	918	1,318	1,528	1,706	1,884
Operating Profit	**3,079**	**4,059**	**4,973**	**5,805**	**6,743**
Other Income					
Finance Income	35	70	54	108	122
Others	44	78	44	44	44
Total Other Income	**79**	**147**	**98**	**151**	**166**
EBIT	**3,158**	**4,206**	**5,071**	**5,957**	**6,909**
Finance Cost	144	196	214	246	257
Profit before Tax	**3,014**	**4,010**	**4,857**	**5,710**	**6,652**
Total tax expenses	**774**	**1,038**	**1,258**	**1,479**	**1,723**
Profit After Tax (PAT)	**2,240**	**2,972**	**3,599**	**4,231**	**4,929**

Balance sheet	FY22	FY23	FY24E	FY25E	FY26E
Sources of capital					
Equity	1,532	1,544	1,544	1,544	1,544
Reserves & Surplus	11,030	14,081	16,947	20,276	24,144
Net Worth	**12,561**	**15,625**	**18,491**	**21,820**	**25,688**
Debt					
Long term debt	-	-	-	-	-
Short term debt	-	-	-	-	-
Total borrowings	**-**	**-**	**-**	**-**	**-**
Leases					
Long term lease	1,468	1,528	1,763	1,837	1,950
Short term lease	461	505	583	607	645
Total lease liability	**1,928**	**2,033**	**2,345**	**2,444**	**2,595**
Total other non-current liabilities	**210**	**217**	**253**	**294**	**342**
Total	**14,700**	**17,875**	**21,089**	**24,558**	**28,625**
Application of funds					
Gross Fixed & Tangible Assets	7,098	8,911	10,226	11,598	12,923
Accumulated Depreciation & Amortisation	3,455	4,105	4,813	5,611	6,493
Net Fixed & Tangible Assets	**3,643**	**4,806**	**5,413**	**5,987**	**6,430**
Capital work-in-progress & Intangibles under development	437	203	203	203	203
Gross Right of use assets	2,358	2,626	3,033	3,240	3,499
Accumulated Depreciation	558	800	1,097	1,402	1,732
Net Right of use assets	**1,800**	**1,826**	**1,935**	**1,839**	**1,767**
Goodwill	2,061	2,061	2,061	2,061	2,061
Total Financial Assets	**331**	**656**	**608**	**862**	**1,220**
Other non-current assets	741	677	677	677	677
Total Non-current Assets	**9,012**	**10,230**	**10,898**	**11,628**	**12,358**
Current Assets					
Cash and cash equivalents	2,653	4,017	5,988	7,834	10,278
Inventories	635	742	682	743	810
Trade receivables	4,993	5,260	6,237	7,105	8,069
Other current assets	1,264	763	872	990	1,121
Total Current Assets	**9,545**	**10,782**	**13,779**	**16,672**	**20,278**
Current Liabilities					
Trade Payables	2,459	2,252	2,304	2,647	2,786
Other financial liabilities	1,066	597	978	770	878
Other current liabilities	332	288	306	325	347
Total current liabilities	**3,857**	**3,137**	**3,588**	**3,742**	**4,011**
Working Capital	**5,688**	**7,645**	**10,192**	**12,930**	**16,267**
Total	**14,700**	**17,875**	**21,089**	**24,558**	**28,625**

Cash Flow Statement	FY22	FY23	FY24E	FY25E	FY26E
CF FROM OPERATIONS					
Profit before tax	**3,014**	**4,010**	**4,857**	**5,710**	**6,652**
Non cash charges	1,893	2,460	2,428	2,734	3,030
Operating profit before working capital changes	**4,907**	**6,471**	**7,286**	**8,444**	**9,682**
Cash provided / (used) by working capital	-1,366	-1,318	-1,718	-1,977	-2,189
Cash flow generated from operations	**3,541**	**5,153**	**5,568**	**6,467**	**7,493**
Direct taxes paid (net of refunds)	-976	-1,085	-1,258	-1,479	-1,723
Net cash flow from operating activities	**2,565**	**4,068**	**4,310**	**4,988**	**5,770**
CF FROM INVESTING					
Proceeds from sale of PPE	7	20	5	6	6
Purchase of PPE,Intangible assets (including CWIP and capital advances)	-2,840	-1,933	-1,645	-1,751	-1,758
Purchase consideration / Advance paid for acquisition of business	0	0	0	0	0
Net Investments in mutual funds	-87	-1,178	-844	-317	-351
Loan to others	-144	0	0	0	0
Net deposits with bank	-199	-134	-101	-57	-1
Net cash flow (used in) / from investing activities	**-3,262**	**-3,226**	**-2,584**	**-2,119**	**-2,104**
CF FROM FINANCING					
Proceeds from issue of equity shares	638	157	0	0	0
Dividend paid	-226	-154	-733	-903	-1,061
Finance costs on lease liability	-144	-184	-214	-246	-257
Payment of principal portion of lease liabilities	-262	-341	-292	-337	-351
Net cash flow (used in) financing activities	**6**	**-522**	**-1,239**	**-1,485**	**-1,668**
Net (decrease) / increase in cash and cash equivalents	**-692**	**320**	**487**	**1,384**	**1,998**
Opening Cash & Cash equivalents	1,335	643	963	1,450	2,834
Closing Cash & Cash equivalents	**643**	**963**	**1,450**	**2,834**	**4,832**

Ratios	FY21	FY22	FY23E	FY24E	FY25E
PER SHARE					
EPS Rs	14.33	18.67	22.61	26.58	30.96
CEPS Rs	13.96	17.98	22.15	25.87	30.19
Book Value Rs	82.02	101.20	119.76	141.32	166.37
DPS	2.53	4.75	5.85	6.87	8.01
VALUATION					
EV / Net Sales	2.5	2.1	2.4	2.1	1.7
EV / EBITDA	9.9	7.5	8.2	7.0	5.8
P / E	18.5	14.8	16.1	13.7	11.7
P / BV	3.2	2.7	3.0	2.6	2.2
FCF Yield (%)	-0.7	5.4	5.0	6.2	8.0
Earnings Yield (%)	5.4	6.7	6.2	7.3	8.5
GROWTH YOY%					
Sales Growth	21.7	20.4	16.6	14.5	14.0
EBITDA Growth	36.2	34.5	20.9	15.5	14.9
Net Profit Growth	32.9	32.7	21.1	17.6	16.5
Gross Fixed Asset Growth	43.6	18.7	14.7	11.7	10.5
PROFITABILITY					
EBITDA / Net Sales (%)	25.1	28.1	29.1	29.4	29.6
Core EBIT / Net Sales (%)	19.4	21.2	22.3	22.7	23.2
EBIT / Net Sales (%)	19.9	22.0	22.7	23.3	23.7

Ratios	FY21	FY22	FY23E	FY24E	FY25E
Net Profit / Net Sales (%)	14.1	15.5	16.1	16.6	16.9
OCF (Pre-tax)/ EBITDA (%)	88.6	95.8	85.6	86.1	86.9
OCF / PAT (%)	114.5	136.8	119.7	117.9	117.1
ROE (%)	20.0	21.1	21.1	21.0	20.8
ROCE (%)	24.7	26.2	26.3	26.4	26.3
ROIC (%)	22.6	23.2	25.5	27.0	28.5
Tax / PBT %	25.7	25.9	25.9	25.9	25.9
TURNOVER					
Debtors Velocity (Days)	136.1	128.5	130.0	130.0	130.0
Creditors Velocity (Days)	191.3	144.4	130.0	130.0	120.0
Gross Fixed Asset Turn	1.9	1.8	1.8	1.8	1.8
Total Asset Turn	0.9	1.0	1.0	1.0	1.0
LIQUIDITY					
Current Ratio	2.5	3.4	3.8	4.5	5.1
Quick Ratio	2.3	3.2	3.7	4.3	4.9
Net Debt-Equity Ratio	-0.1	-0.1	-0.2	-0.2	-0.3
Interest Coverage	21.9	21.4	23.8	24.2	26.9
PAYOUT					
Payout %	16.8	24.6	25.0	25.0	25.0
DPS (Rs)	2.5	4.8	5.8	6.9	8.0
Dividend Yield %	1.0	1.7	1.6	1.9	2.2
Du Pont Analysis - ROE					
Net Margin (%)	14.1	15.5	16.1	16.6	16.9
Asset turnover (x)	0.9	1.0	1.0	1.0	1.0
Asset to Equity (x)	1.5	1.4	1.3	1.3	1.3
ROE (%) (derived)	20.0	21.1	21.1	21.0	20.8
ROE (%) (arrived)	20.0	21.1	21.1	21.0	20.8
ROCE (%)	22.6	23.2	25.5	27.0	28.5

Recommendation rationale

Buy: Potential upside of	>+15% (absolute returns)
Accumulate:	>+5 to +15%
Hold/Reduce:	+5 to -5%
Sell:	< -5%
Not Rated (NR):	No investment opinion on the stock

Sector rating

Overweight:	The sector is expected to outperform relative to the Sensex.
Underweight:	The sector is expected to underperform relative to the Sensex.
Neutral:	The sector is expected to perform in line with the Sensex.

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709 - B Wing, Express Zone, Opp. Reliance Energy, Western Express Highway, Malad (East), Mumbai, Maharashtra 400 097. India
Tel: +91 22 4343 5000 Fax: +91 22 4343 5043 Email: research@amsec.in, Website: www.amsec.in