

## Healthy medium-term outlook, despite 2Q miss

**CMS' 15% YoY revenue growth was below estimates, due to rural weakness and a delayed start to the festive season. PAT growth at 16% also trailed estimates, on account of higher ESOP charges. After removing ESOP costs, PAT grew 25%. On the earnings call, management reiterated the FY25 revenue target of Rs25-27bn. While retail cash management (RCM) would be the key driver for the Cash Management segment, order book for Managed Services (MS) segment remains healthy. The company did not rule out a potential increase in competitive intensity across segments, though it expects superior execution to hold it in good stead. We cut EPS estimates by 4-5%; our Dec'24 DCF-based TP comes down to Rs436 from Rs449. The stock trades at 14x 1YF PER — attractive, considering 16% FY23-26ii EPS Cagr. Maintain BUY.**

**Lower revenue, higher ESOP costs drove 2Q miss:** Cash Management revenue growth at 11% YoY, was lower than in recent quarters, and despite a 12% growth in business points served. MS revenue growth remained healthy. While risk cost as % of cash management revenue fell from 6.8% in 1HFY23 to 6.1% in 1HFY24, higher ESOP costs weighed on reported Ebitda growth (+8.5% YoY).

**Healthy management commentary:** Key takeaways from the earnings call: 1) Currency throughput on CMS' network rose 6% YoY to Rs3.3trn (with metros faring better at 10%). 2) While the Cash Logistics segment revenue growth was driven by ATM cash management predominantly in the last two to three years, RCM should step up. 3) Rs5bn order inflow in 2Q in the MS segment largely pertains to asset-light businesses, and the revenue from this should accrue over three to five years. 4) Risk cost came down to 4.1% of the overall revenue in 1HFY24 vs 4.7% in 1HFY23. 5) The increase in receivables is due to seasonality, delay in payment by customers because of higher interest rate, and payment cycle yet to settle down in some of the recently won PSU bank orders.

**We cut EPS by 4-5%; new TP Rs436:** We cut EPS estimates by 4-5%, mainly due to higher ESOP costs. After rolling forward to Dec'24, our new TP is Rs436. Valuations remain attractive, considering healthy earnings outlook, strong return ratios and an asset-light business model with ~Rs4.7bn net cash.

## Result update

CMP	Rs359
12-mth TP (Rs)	436 (21%)
Market cap (US\$m)	675
Enterprise value(US\$m)	613
Bloomberg	CMSINFO IN
Sector	Business Services

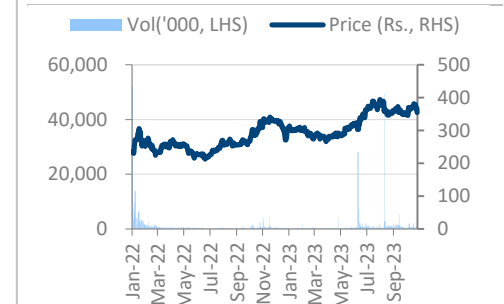
### Shareholding pattern (%)

Promoters	26.7
Pledged (as % of promoter share)	0.0
FII	23.8
DII	24.0
52Wk High/Low (Rs)	394/266
Shares o/s (m)	157
Daily volume (US\$ m)	7.5
Dividend yield FY25ii (%)	1.8
Free float (%)	73.3

### Price performance (%)

	1M	3M	1Y
Absolute (Rs)	5.0	1.3	12.4
Absolute (US\$)	4.9	(0.3)	11.7
Rel.to Smallcap	7.0	(5.0)	(13.5)
Cagr (%)		3 yrs	5 yrs
EPS (Rs)		28.4	

### Stock performance



### Financial summary (Rs m)

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Revenues (Rs m)	15,897	19,148	22,089	25,270	28,580
Ebitda margins (%)	25.1	28.1	27.5	27.5	27.4
Pre-exceptional PAT (Rs m)	2,240	2,973	3,519	4,231	4,960
Reported PAT (Rs m)	2,240	2,973	3,519	4,231	4,960
Pre-exceptional EPS (Rs)	15.1	19.3	22.1	26.1	30.1
Growth (%)	32.3	27.8	14.8	18.2	15.3
IIFL vs consensus (%)			(3.4)	(3.4)	(4.4)
PER (x)	23.8	18.6	16.2	13.7	11.9
ROE (%)	20.0	21.1	20.2	20.1	20.0
Net debt/equity (x)	(0.2)	(0.3)	(0.4)	(0.4)	(0.5)
EV/Ebitda (x)	12.7	9.5	8.3	7.0	6.0
Price/book (x)	4.2	3.5	3.0	2.5	2.2
OCF/Ebitda (x)	0.6	0.8	0.6	0.7	0.7

Source: Company, IIFL Research. Priced as on 26 October 2023

## Lower revenue, higher ESOP costs drive miss

Figure 1: P&L

Consol. (Rsmn)	2Q FY23	1Q FY24	2Q FY24	% YoY	% QoQ
<b>Revenue</b>	<b>4,717</b>	<b>5,116</b>	<b>5,437</b>	<b>15.3%</b>	<b>6.3%</b>
Cost of goods sold	355	233	369	4.1%	58.7%
Employee costs	663	733	850	28.2%	16.0%
Security and service charges	953	1,011	1,087	14.1%	7.5%
Vehicle maintenance, hire and fuel cost	423	395	413	-2.5%	4.5%
Other expenses	981	1,269	1,263	28.7%	-0.5%
Total Cost	3,375	3,640	3,981	18.0%	9.4%
<b>Ebitda</b>	<b>1,342</b>	<b>1,476</b>	<b>1,456</b>	<b>8.5%</b>	<b>-1.3%</b>
<b>Ebitda%</b>	<b>28.5%</b>	<b>28.9%</b>	<b>26.8%</b>	<b>-167bps</b>	<b>-207bps</b>
Depreciation and Amortization	342	364	364	6.4%	0.0%
Ebit	1,000	1,112	1,093	9.2%	-1.8%
Finance charges	50	42	41		
Other income	29	67	83	190.5%	24.6%
Profit before Tax	979	1,137	1,135	15.9%	-0.1%
Tax	254	294	292	15.0%	-0.7%
<b>PAT</b>	<b>725</b>	<b>843</b>	<b>844</b>	<b>16.3%</b>	<b>0.1%</b>
PAT Margin	15.4%	16.5%	15.5%	13bps	-96bps

Source: Company, IIFL Research

Figure 2: Segmental performance

Segment-wise results (Rsmn)	2Q FY23	1Q FY24	2Q FY24	% YoY	% QoQ
<b>Cash Management Services</b>					
Revenue	3,242	3,507	3,605	11.2%	2.8%
Ebit	806	939	953	18.3%	1.5%
Ebit%	24.8%	26.8%	26.4%	157bps	-34bps
<b>Managed Services + Cards</b>					
Revenue	1,638	1,823	2,061	25.8%	13.0%
Ebit	315	341	388	23.1%	13.8%
Ebit%	19.3%	18.7%	18.8%	-41bps	12bps

Source: Company, IIFL Research

CMS' overall revenue grew 15% YoY, below our estimate of 17%. A slowdown in Cash Management led to this. That said, 2H is seasonally strong as it accounts for 52-53% of full year revenue.

ESOP costs were Rs106mn in 2QFY24 vs Rs34mn in 1QFY24 and Rs21mn in 2QFY23. This drove the 28% jump in employee costs.

Total opex grew by 18% YoY, led by 28% rise in employee costs and Other expenses respectively (due to mix change).

Reported Ebitda grew 8.5% to Rs1.46bn (vs. our est. of 22% growth). Ebitda (after adjusting for ESOP charges) grew 15%.

PAT growth of 16% was also aided by higher interest income, due to the rising cash balance. PAT (after adjusting for ESOP charges) grew 25%.

Cash Management (67% of FY23 revenue) grew 11% YoY, well below the 19% growth seen in FY23. Delayed start to the festive season and lower rural activity led to this, despite a 12% increase in business points served.

Managed Services + card services revenue grew 25%.

MS segment saw new business wins of Rs5bn in 2Q, taking the 1H number to Rs6.5bn.

**Figure 3: After removing the impact of ESOP costs, the growth numbers were stronger**

Rsmn	2Q FY23	1Q FY24	2Q FY24	% YoY	% QoQ
Ebitda adjusted for ESOP	1,373	1,515	1,573	14.6%	3.8%
Adj. Ebitda margin	29.1%	29.6%	28.9%	-18bps	-69bps
PAT adjusted for ESOP	741	868	923	24.6%	6.3%
Adj. PAT margin	15.7%	17.0%	17.0%	127bps	1bps

Source: Company, IIFL Research

## Highlights from earnings call

### FY25 revenue guidance maintained

- CMS maintained its FY25 revenue guidance of Rs25-27bn. Managed Services and Tech Solutions segments can contribute to 40% of the revenue by FY25 (currently 38%).

### Retail cash management to be the main driver of cash management revenue growth

- In Cash Logistics, CMS crossed 5mn activities per quarter for the first time. Cash handled by CMS was up 6% YoY to Rs3.3trn. Growth in currency handled by CMS in metros was higher at 10%.
- On the RBI-MHA route compliance, CMS has achieved 70% compliance. Cassette swap compliance has seen completion of Phase I, with 15% compliance. CMS targets 25-30% by the end of FY24.
- Cash Logistics segment revenue growth was driven by ATM cash management predominantly in the last two to three years. Retail Cash Management (RCM) will step up, going forward.

### Managed Services: Healthy order book

- There are 51k RFPs for ATMs by banks in 2HFY24. Out of this, 20% will be new and 80% will be replacement-based. The ratio will be 2:1 between BLA and bank-owned ATMs. In BLA, CMS would continue to stick to its highly selective approach.
- Rs5bn order inflow in the MS segment largely pertains to asset-light businesses. The revenue from this will accrue over a 3-5yr period. The asset-heavy portions of the business (like BLA) typically have a longer 5-7yr contract period.
- AIoT Remote Monitoring business crossed Rs1bn annualised revenue in 4QFY23. The solution is currently live on 22k+ sites.

### Competitive intensity can potentially increase

- All businesses can see higher competitive intensity, but CMS banks on its strong execution skills to counter competition. The entry barriers in cash-in-transit vans are lower, but this could change with tighter

compliance norms. ATM cash management and retail cash management have higher entry barriers, since network effects are more pronounced.

### Others

- Jump in card revenue is due to execution of orders from a couple of PSU banks. 900mn cards have been issued in India. Growth drivers are the issue of new cards and replacement of existing cards post expiry.
- Adjusted Ebitda (after removing ESOP charges) grew 15% YoY (vs reported 8.4%) and adjusted PAT grew 25% (vs reported 16%).
- Risk cost is in line with the usual range of 4-6% of revenue (4.1% in 1HFY24 vs 5.1% in FY23). Reconciliation issues typically happen in ATM-related activities. This should eventually trend down as the mix changes towards MS and from the implementation of cassette swap regulation.
- ~8mn ESOPs were granted during 1HFY24. 75% of ESOPs were issued close to CMP and the remaining at 10% discount. 50% will be vested based on performance. The next three quarters will be Rs110mn charge per quarter. The charge should come down to Rs60mn/Rs20mn per quarter in FY25/26.
- The increase in receivables is due to seasonality (which typically goes up in 1H), delay in payment by customers due to higher interest rate, and payment cycle yet to settle down in some of the recently won PSU bank orders.
- CMS maintained its FY24 capex guidance at Rs1.5-Rs1.75bn, despite lower capex in 1H (Rs440mn).

## Trim EPS by 4-5%; new TP Rs436

Figure 4: Consolidated P&L

Rsmn	FY22	FY23	FY24ii	FY25ii	FY26ii
<b>Revenue</b>	<b>15,897</b>	<b>19,148</b>	<b>22,089</b>	<b>25,270</b>	<b>28,580</b>
<b>Growth YoY %</b>	21.7%	20.4%	15.4%	14.4%	13.1%
Cost of goods sold	1,538	1,162	1,385	1,716	1,940
<i>As % of revenue</i>	9.7%	6.1%	6.3%	6.8%	6.8%
Employee costs	2,315	2,649	3,303	3,878	4,266
<i>As % of revenue</i>	14.6%	13.8%	15.0%	15.3%	14.9%
Service and security charges	3,207	3,816	4,404	5,052	5,713
<i>As % of revenue</i>	20.2%	19.9%	19.9%	20.0%	20.0%
Vehicle cost	1,509	1,584	1,672	1,895	2,143
<i>As % of revenue</i>	9.5%	8.3%	7.6%	7.5%	7.5%
Other expenses	3,330	4,559	5,258	5,783	6,700
<i>As % of revenue</i>	20.9%	23.8%	23.8%	22.9%	23.4%
<b>Total Cost</b>	<b>11,899</b>	<b>13,770</b>	<b>16,023</b>	<b>18,323</b>	<b>20,763</b>
<b>Ebitda</b>	<b>3,998</b>	<b>5,378</b>	<b>6,066</b>	<b>6,946</b>	<b>7,817</b>
<b>Ebitda %</b>	25.1%	28.1%	27.5%	27.5%	27.4%
Depreciation	918	1,318	1,465	1,541	1,589
<b>Ebit</b>	<b>3,079</b>	<b>4,059</b>	<b>4,601</b>	<b>5,405</b>	<b>6,228</b>
<b>Ebit %</b>	19.4%	21.2%	20.8%	21.4%	21.8%
Finance Charges	144	196	164	162	162
Other income	79	147	308	467	628
<b>Profit before Tax</b>	<b>3,014</b>	<b>4,010</b>	<b>4,745</b>	<b>5,709</b>	<b>6,694</b>
Tax expenses	774	1,038	1,226	1,479	1,734
<b>Tax rate</b>	25.7%	25.9%	25.8%	25.9%	25.9%
<b>PAT</b>	<b>2,240</b>	<b>2,973</b>	<b>3,519</b>	<b>4,231</b>	<b>4,960</b>
# shares* (mn)	149	154	159	162	165
<b>EPS (Rs)</b>	15.1	19.3	22.1	26.1	30.1

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

**Figure 5: Ebitda and PAT – Reported and Adjusted for ESOP charges**

Rsmn	FY22	FY23	FY24ii	FY25ii	FY26ii
Reported Ebitda	3,998	5,378	6,066	6,946	7,817
Reported Ebitda margin	25.1%	28.1%	27.5%	27.5%	27.4%
Ebitda after removing ESOP costs	4,080	5,510	6,442	7,186	7,897
Adjusted Ebitda margin	25.7%	28.8%	29.2%	28.4%	27.6%
Reported PAT	2,240	2,973	3,519	4,231	4,960
PAT after removing ESOP costs	2,290	3,040	3,787	4,409	5,019

Source: Company, IIFL Research

CMS' 2Q performance was below our expectations, owing to delayed start to the festive season, rural weakness and higher ESOP charges. We cut our EPS estimates by 4-5%, mainly because of higher ESOP costs. After rolling forward to Dec'24, our new TP is Rs436 (vs Rs449 earlier).

**Figure 6: Estimate changes**

Rs mn	FY24			FY25			FY26		
	New	Old	Δ (bps)	New	Old	Δ (bps)	New	Old	Δ (bps)
Revenue	22,089	22,555	-2.1%	25,270	25,987	-2.8%	28,580	29,677	-3.7%
Ebitda	6,066	6,350	-4.5%	6,946	7,283	-4.6%	7,817	8,250	-5.3%
Ebitda%	27.5%	28.2%	-69	27.5%	28.0%	-54	27.4%	27.8%	-45
PAT	3,519	3,702	-4.9%	4,231	4,447	-4.9%	4,960	5,263	-5.8%
PAT%	15.9%	16.4%	-48	16.7%	17.1%	-37	17.4%	17.7%	-38

Source: IIFL Research

**Figure 7: We use 13.1% cost of equity and WACC**

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

Source: IIFL Research

**Figure 8: Terminal growth rate assumptions**

Item	Value
Terminal growth rate for Cash Management	3.0%
Terminal growth rate for Managed Services	5.0%
Contribution from Cash Management in terminal year	51%
Terminal growth rate %	4.0%

Source: IIFL Research

Note that we use the fully-diluted share count of 165mn (vs the current share count of 156mn) for TP calculation, assuming all ESOPs are exercised. CMS trades at 14.3x 1YF PER — quite attractive, considering 16% EPS Cagr over FY23-26ii.

**Figure 9: Our DCF yields Dec-2024 TP of Rs436**

	Rsmn
EV (March 2025)	64,596
Net debt (March 2025)	-9,536
Equity Value (March 2025)	74,133
Equity Value (Dec 2024)	71,886
#shares (mn)	165
<b>TP (Rs)</b>	<b>436</b>
CMP (Rs)	359
Upside	21.4%
Dividend per share (Rs)	6.5
Total Return	23.2%

Source: IIFL Research

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

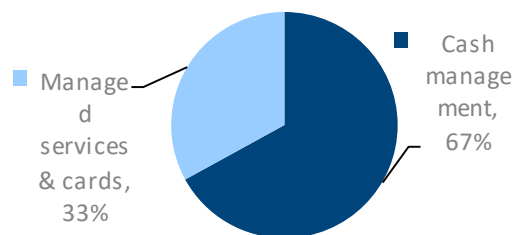
### Management

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

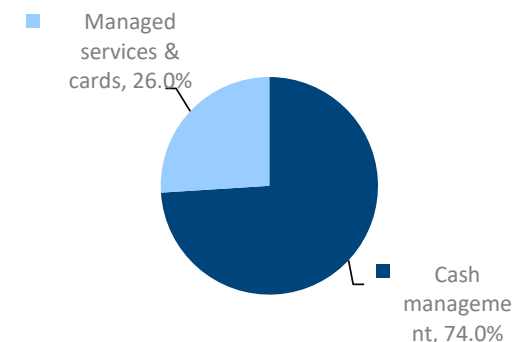
Customers: Banks, organised retail players, managed service providers for banks:

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

### Segment-wise Revenue break-up (FY23)



### Segment-wise Ebit break-up (FY23)



### Assumptions

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Cash management revenue growth (%)	22.1	19.4	12.4	13.5	11.8
Managed services revenue growth (%)	34.5	24.8	17.5	16.6	16.3
Cash management Ebit margin (%)	23.9	25.4	26.3	26.5	27.0
Managed services Ebit margin (%)	16.5	19.8	19.5	20.3	20.8
Cash conversion cycle (days)	61.5	63.0	63.2	63.2	63.2
Capex to sales (%)	17.8	10.1	7.1	6.9	7.0

Source: Company data, IIFL Research

### P/E



### EV/Ebitda



## Financial summary

### Income statement summary (Rs m)

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
<b>Revenues</b>	<b>15,897</b>	<b>19,148</b>	<b>22,089</b>	<b>25,270</b>	<b>28,580</b>
Ebitda	3,998	5,378	6,066	6,946	7,817
Depreciation and amortisation	(918)	(1,318)	(1,465)	(1,541)	(1,589)
Ebit	3,079	4,059	4,601	5,405	6,228
Non-operating income	79	147	308	467	628
Financial expense	(144)	(196)	(164)	(162)	(162)
PBT	3,014	4,010	4,745	5,709	6,694
Exceptionals	0	0	0	0	0
Reported PBT	3,014	4,010	4,745	5,709	6,694
Tax expense	(774)	(1,038)	(1,226)	(1,479)	(1,734)
PAT	2,240	2,973	3,519	4,231	4,960
Minorities, Associates etc.	0	0	0	0	0
<b>Attributable PAT</b>	<b>2,240</b>	<b>2,973</b>	<b>3,519</b>	<b>4,231</b>	<b>4,960</b>

### Ratio analysis

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
<b>Per share data (Rs)</b>					
Pre-exceptional EPS	15.1	19.3	22.1	26.1	30.1
DPS	1.5	1.0	4.7	6.5	9.0
BVPS	84.5	101.2	120.9	140.8	161.9
<b>Growth ratios (%)</b>					
Revenues	21.7	20.5	15.4	14.4	13.1
Ebitda	36.2	34.5	12.8	14.5	12.5
EPS	32.3	27.8	14.8	18.2	15.3
<b>Profitability ratios (%)</b>					
Ebitda margin	25.1	28.1	27.5	27.5	27.4
Ebit margin	19.4	21.2	20.8	21.4	21.8
Tax rate	25.7	25.9	25.8	25.9	25.9
Net profit margin	14.1	15.5	15.9	16.7	17.4
<b>Return ratios (%)</b>					
ROE	20.0	21.1	20.2	20.1	20.0
ROCE	24.7	26.2	25.3	25.6	25.8
<b>Solvency ratios (x)</b>					
Net debt-equity	(0.2)	(0.3)	(0.4)	(0.4)	(0.5)
Net debt to Ebitda	(0.7)	(0.8)	(1.2)	(1.4)	(1.6)
Interest coverage	21.4	20.7	28.1	33.4	38.4

Source: Company data, IIFL Research

### Balance sheet summary (Rs m)

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Cash & cash equivalents	2,653	4,355	7,074	9,801	12,591
Inventories	635	742	745	852	964
Receivables	4,993	5,260	6,354	7,269	8,222
Other current assets	1,264	763	747	759	770
Creditors	2,459	2,252	2,734	3,128	3,538
Other current liabilities	1,599	1,096	1,091	1,091	1,091
<b>Net current assets</b>	<b>5,487</b>	<b>7,772</b>	<b>11,095</b>	<b>14,462</b>	<b>17,918</b>
Fixed assets	5,706	6,727	6,717	6,910	7,318
Intangibles	2,235	2,170	2,170	2,170	2,170
Investments	0	0	0	0	0
Other long-term assets	1,071	996	1,147	1,147	1,147
<b>Total net assets</b>	<b>14,499</b>	<b>17,664</b>	<b>21,129</b>	<b>24,689</b>	<b>28,554</b>
Borrowings	0	0	0	0	0
Other long-term liabilities	1,938	2,040	1,878	1,878	1,878
<b>Shareholders equity</b>	<b>12,561</b>	<b>15,625</b>	<b>19,251</b>	<b>22,811</b>	<b>26,676</b>
<b>Total liabilities</b>	<b>14,499</b>	<b>17,664</b>	<b>21,129</b>	<b>24,689</b>	<b>28,554</b>

### Cash flow summary (Rs m)

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Ebit	3,079	4,059	4,601	5,405	6,228
Tax paid	(976)	(1,085)	(1,230)	(1,479)	(1,734)
Depreciation and amortization	918	1,318	1,465	1,541	1,589
Net working capital change	(1,366)	(1,318)	(1,262)	(640)	(666)
Other operating items	909	1,093	0	0	0
Operating cash flow before interest	2,565	4,068	3,574	4,827	5,417
Financial expense	(144)	(196)	(164)	(162)	(162)
Non-operating income	79	147	308	467	628
<b>Operating cash flow after interest</b>	<b>2,500</b>	<b>4,019</b>	<b>3,719</b>	<b>5,132</b>	<b>5,883</b>
<b>Capital expenditure</b>	<b>(2,833)</b>	<b>(1,933)</b>	<b>(1,566)</b>	<b>(1,734)</b>	<b>(1,998)</b>
Long-term investments	(144)	0	0	0	0
Others	(350)	(387)	600	0	0
<b>Free cash flow</b>	<b>(826)</b>	<b>1,699</b>	<b>2,752</b>	<b>3,398</b>	<b>3,885</b>
Equity raising	638	157	710	385	385
Borrowings	0	0	0	0	0
Dividend	(226)	(154)	(743)	(1,056)	(1,481)
Net chg in cash and equivalents	(415)	1,702	2,719	2,727	2,789

Source: Company data, IIFL Research

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

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#### **Key to our recommendation structure**

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

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

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

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

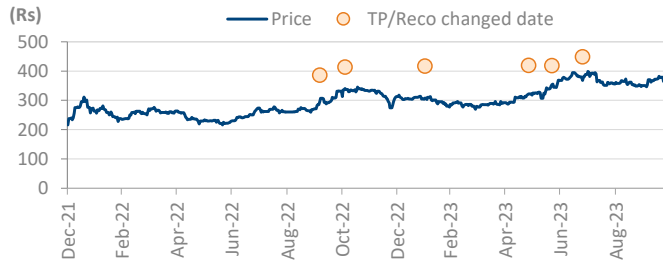
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CMS Info Systems: 3 year price and rating history



Date	Close price (Rs)	Target price (Rs)	Rating
25 Jul 2023	379	449	BUY
21 Jun 2023	348	419	BUY
26 May 2023	320	420	BUY
31 Jan 2023	304	417	BUY
03 Nov 2022	337	414	BUY
06 Oct 2022	286	386	BUY