

CMS Info Systems | BUY



ESOP expense overshadows strong margin performance

CMS Info Systems' (CMS) 2QFY24 EBITDA was 8% below JMFe, largely on account of ESOP charges (INR106mn vs. INR21mn in 2QFY23). Adjusted for ESOP charge, EBITDA was up 15% YoY. Revenue grew 15% YoY/6% QoQ driven by managed services (+17% YoY/+11% QoQ, 3% above JMFe) while cash management (CM) business continued to deliver healthy growth (+11% YoY/flat QoQ). Gross profit grew 20% YoY (+3% QoQ), but that was largely offset by employee cost (+28% YoY, high ESOP charges) and other expense (+29% YoY/ flat QoQ). EBITDA margin contracted 170bps YoY/210bps QoQ to 26.8%, mainly on account of ESOP expense (195bps; adj EBITDA margin at 28.7%). On the operational front, CMS a) won INR 5bn worth new orders during 2QFY24 in the managed services segment (INR 6.5bn in 1HFY24), b) posted 6% YoY growth in handling of currency in 2QFY24 to INR 3.3trln, and c) business touchpoints in CM segment stood at 129k, +12% YoY/+3% QoQ. CMS reiterated its FY25 revenue guidance (INR25-27bn). The company remains on a strong footing given its robust business model (significant market leadership in the CM segment, strong track record of diversification and strong earnings growth and return profile (FY25E ROIC >35%). We cut FY24 EPS by 4% while retaining FY25/26 estimates as we bake in ESOP expenses in our forecast. We maintain BUY with Dec'24TP of INR 460, basis 17xDec'25EPS. Sharp reduction in cash in circulation and delay in compliance implementation remain key risks to our call.

- Steady revenue growth:** CMS' total revenue grew +15% YoY/+6% QoQ to INR 5.4bn (3% below JMFe) driven by managed services (+17% YoY/ 11% QoQ) and cash management (CM) segment (+11% YoY/ 3% QoQ, 6% below JMFe). The steady growth momentum supports the management's revenue guidance of INR 25-27bn for FY25E (CAGR of c.17-18% over FY23-25E). Gross profit grew 20% YoY (+3% QoQ, 4% above JMFe); however, that was largely offset by higher other expenses (+29% YoY/ flat QoQ) and higher employee cost (+28% YoY/ 16% QoQ). As a result, EBITDA grew 9% YoY (-1% QoQ, 8% below JMFe) while PAT grew 16% YoY/ flat QoQ to INR 844mn (4% below JMFe). Adjusted for ESOP, EBITDA up 16% YoY and PAT up 25% YoY.
- CM EBIT margin improves 160bps YoY but dips 30bps QoQ:** CM EBIT grew by 18% YoY/+2%QoQ to INR 953mn while margin improved by +160bps YoY/-30bps QoQ to 26.4% in 2QFY24, whereas MS EBIT grew by 14% YoY/+10% QoQ to INR 362mn and margin contracted 50bps YoY/10bps QoQ to 19.9%. the management highlighted that phase 1 of cassette swap rollout on 15% ATM has been completed, and added it expects to complete 25-30% by 4QFY24. Business points for cash logistics business was at 129k (+12% YoY/+3%QoQ). In the MS business, the company won orders of INR 5bn in 2Q, taking the total order wins of INR 6.5bn in 1HFY24. The company's AloT and remote monitoring services is currently live at 22,000+ sites (vs. 21,000+ sites in 1QFY24).
- Maintain BUY:** We cut FY24 EPS by 4% while retaining FY25/26 estimates as we bake in ESOP expenses in our forecast. We maintain BUY with Dec'24TP of INR 460, basis 17xDec'25EPS. CMS remains on a strong footing given its robust business model (significant market leadership in the CM segment, strong track record of diversification and strong earnings growth and return profile (FY25E ROIC >40%). Sharp reduction in cash in circulation and delay in compliance implementation remain key risks to our call.

Achal Lohade
 achal.lohade@jmfl.com | Tel: (91 22) 66303081

Vineet Shanker
 vineet.shanker@jmfl.com | Tel: (91 22) 66303574

Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	460
Upside/(Downside)	28.2%
Previous Price Target	465
Change	-1.1%

Key Data – CMSINFO IN

Current Market Price	INR359
Market cap (bn)	INR56.2/US\$0.7
Free Float	66%
Shares in issue (mn)	155.4
Diluted share (mn)	165.5
3-mon avg daily val (mn)	INR625.5/US\$7.5
52-week range	409/261
Sensex/Nifty	63,148/18,857
INR/US\$	83.2

Price Performance

%	1M	6M	12M
Absolute	1.4	23.7	8.2
Relative*	6.2	18.8	2.4

* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	15,897	19,147	22,111	25,433	28,754
Sales Growth (%)	21.7	20.4	15.5	15.0	13.1
EBITDA	3,998	5,377	6,204	6,959	7,631
EBITDA Margin (%)	25.1	28.1	28.1	27.4	26.5
Adjusted Net Profit	2,240	2,972	3,482	4,083	4,655
Diluted EPS (INR)	15.1	19.3	21.0	24.3	27.2
Diluted EPS Growth (%)	32.3	28.1	9.0	15.4	12.2
ROIC (%)	27.4	28.4	29.3	33.7	38.4
ROE (%)	20.0	21.1	19.8	19.4	19.3
P/E (x)	23.8	18.6	17.1	14.8	13.2
P/B (x)	4.2	3.5	3.0	2.7	2.4
EV/EBITDA (x)	13.6	10.1	8.1	6.8	5.8
Dividend Yield (%)	0.4	1.9	2.3	3.0	3.4

Source: Company data, JM Financial. Note: Valuations as of 26/Oct/2023

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

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

■ Other key highlights from 2QFY24 post results conference call:

- The company has granted 8mn ESOPs to its employees in 1HFY24, to be vested over the next 3-4 years, basis time (50%) and performance benchmarks (50% of ESOPs). These ESOPs have been issued closer to the fair market price (weighted average of fair price and discount) and there is no deep discount on them. ESOP charges are expected to be INR350mn/240mn/160mn respectively in FY24/25/26 basis the Black Scholes model.
- The quarterly currency throughput handled by the company was INR 3.3trln in 2QFY24 (+6% YoY). While currency throughput in the metros was robust (+10% YoY), a slight weakness was seen in rural pockets.
- Retail Cash Management (RCM) has already started clocking INR 1bn annual run rate (22k touchpoints) and the company sees possible strong growth in this segment over the next few years on the back of the formalisation trend in the retail sector.
- Management highlighted that a total of 51,000 ATMs are expected to be awarded in FY24, of which 2/3rd are under BLA and the balance bank owned; 20% will be new ATMs and the balance is replacements.
- Risk cost (comprising reconciliation differences with stakeholders, insurance premium, provision for receivables, bad debts written off/back, etc.) has been ~4-6% and the company expects that to come down on the back of cassette swap and other regulatory compliances.
- Management guided for capex of INR 1.5bn-1.7bn in FY24, of which INR 410mn has been utilised in 1HFY24. Capex is largely towards fleet upgradation, AI-IOT products and technology, remote monitoring, etc.
- While the management did not rule out possible new competition, especially from entry of global players into India given regulatory norms in place (on the compliance front) and a level playing field, it suggested that weaker players might be more impacted while larger players like CMS may not see material impact given scale and network efficiency. However, the company will always try to achieve a balance between growth, market share and profitability.
- Receivable days increased 17 days in 1HFY24 (from 100 days in Mar'23 to 117 days in Sep'23) on account of a) new business from PSU banks (streamlining receivable cycle takes some time at the start of the service), b) lower sales in 1H on seasonality (109 days receivables in 1HFY23), and c) higher interest rates scenario also drives delay in payments.
- The company has set up an equipment manufacturing facility (capacity of 2k ATM per month and can be expanded further) recently to a) align with the Make in India policy, b) given the importance from controlling supply chain for banking infrastructure as PSU banks look for more integrated services (all everything). It expects to get some orders in 2HFY24 as certifications are going on right now.

Exhibit 1. 2QFY24 financial performance

INR mn	2Q23	2Q24	YoY	1Q24	QoQ	2Q24E	Var	1HFY23	1HFY24	YoY
Revenue	4,717	5,437	15%	5,116	6%	5,599	-3%	9,250	10,553	14%
Operating Expenses	1,731	1,869	8%	1,638	14%	2,161	-14%	3,351	3,507	5%
Gross Profit	2,986	3,569	20%	3,477	3%	3,438	4%	5,898	7,046	19%
Gross Margin	63.3%	65.6%	230 bps	68.0%	-230 bps	61.4%	420 bps	63.8%	66.8%	300 bps
Employee cost	663	850	28%	733	16%	729	17%	1,292	1,582	22%
% of revenue	14.1%	15.6%	160 bps	14.3%	130 bps	13.0%	260 bps	14.0%	15.0%	100 bps
Other Expenses	981	1,263	29%	1,269	0%	1,128	12%	2,025	2,531	25%
% of revenue	20.8%	23.2%	240 bps	24.8%	-160 bps	20.2%	310 bps	21.9%	24.0%	210 bps
Total Expenditure	3,375	3,981	18%	3,640	9%	4,019	-1%	6,668	7,620	14%
EBITDA	1,342	1,456	9%	1,476	-1%	1,581	-8%	2,581	2,933	14%
EBITDA Margin	28.5%	26.8%	-170 bps	28.9%	-210 bps	28.2%	-140 bps	27.9%	27.8%	-10 bps
Depreciation	342	364	6%	364	0%	407	-11%	639	728	14%
EBIT	1,000	1,093	9%	1,112	-2%	1,173	-7%	1,942	2,205	14%
EBIT Margin	21.2%	20.1%	-110 bps	21.7%	-160 bps	21.0%	-90 bps	21.0%	20.9%	-10 bps
Other Income	29	83	190%	67	25%	55	52%	53	150	185%
Interest	50	41	-19%	42	-4%	50	-19%	95	83	-12%
Profit before tax	979	1,135	16%	1,137	0%	1,178	-4%	1,900	2,272	20%
% margin	20.8%	20.9%	10 bps	22.2%	-130 bps	21.0%	-20 bps	20.5%	21.5%	100 bps
Tax expense	254	292	15%	294	-1%	297	-2%	485	586	21%
%	25.9%	25.7%	-20 bps	25.9%	-20 bps	25.2%	50 bps	25.5%	25.8%	30 bps
PAT	725	844	16%	843	0%	882	-4%	1,415	1,686	19%
PAT Margin	15.4%	15.5%	10 bps	16.5%	-100 bps	15.7%	-20 bps	15.3%	16.0%	70 bps
Basic EPS	4.7	5.4	15%	5.5	-1%	5.7	-5%	10.8	10.8	0%

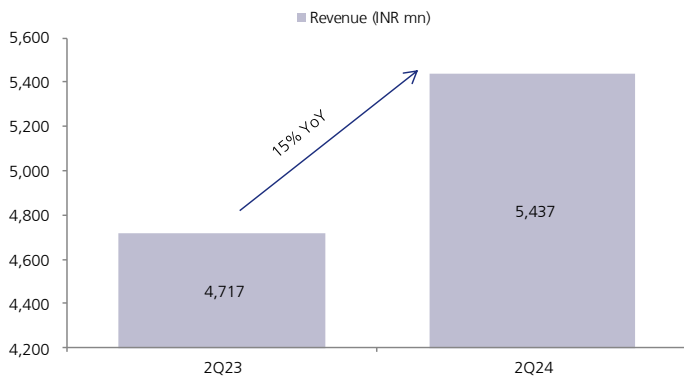
Source: Company, JM Financial

Exhibit 2. 2QFY24 segment performance

INR mn	2Q23	2Q24	YoY	1Q24	QoQ	2Q24E	Var	1HFY23	1HFY24	YoY
Revenue										
Cash Management Services	3,242	3,605	11%	3,507	3%	3,826	-6%	6,373	7,112	12%
Managed Services	1,556	1,821	17%	1,642	11%	1,774	3%	3,018	3,463	15%
Cards	82	239	193%	181	32%	163	47%	177	421	138%
Total	4,717	5,437	15%	5,116	6%	5,561	-2%	9,250	10,553	14%
EBIT										
Cash Management Services	806	953	18%	939	2%	995	-4%	1,575	1,891	20%
Managed Services	316	362	14%	328	10%	337	7%	612	689	13%
Cards	-1	27	-3079%	14	93%	11	132%	0	40	9968%
Total	1,121	1,341	20%	1,280	5%	1,343	0%	2,188	2,621	20%
EBIT margin										
Cash Management Services	24.8%	26.4%	160 bps	26.8%	-30 bps	26.0%	40 bps	24.7%	26.6%	190 bps
Managed Services	20.3%	19.9%	-50 bps	19.9%	-10 bps	19.0%	90 bps	20.3%	19.9%	-40 bps
Cards	-1.1%	11.1%	1220 bps	7.6%	350 bps	7.0%	410 bps	0.2%	9.6%	930 bps
Total	23.8%	24.7%	90 bps	25.0%	-40 bps	24.2%	50 bps	23.7%	24.8%	120 bps
Capital Employed										
Cash Management Services	5,823	6,755	16%	6,643	2%			5,794	13,398	131%
Managed Services	4,821	4,947	3%	5,044	-2%			3,242	9,991	208%
Cards	251	168	-33%	213	-21%			120	381	216%
Unallocable	3,080	5,164	68%	4,601	12%			2,106	9,765	364%
Total	13,975	17,034	22%	16,501	3%			11,263	33,535	198%

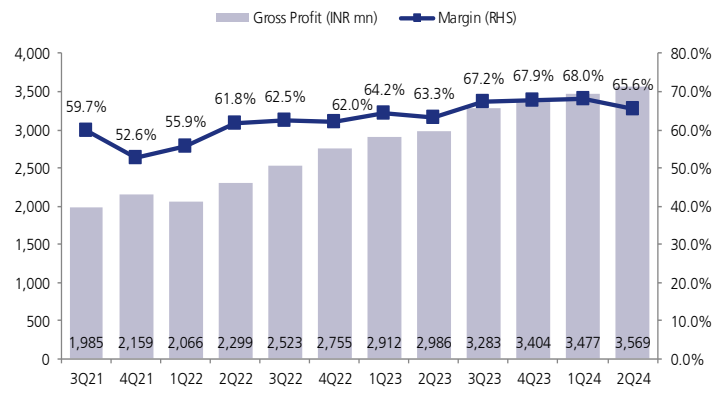
Source: Company, JM Financial

Exhibit 3. Revenue growth trend



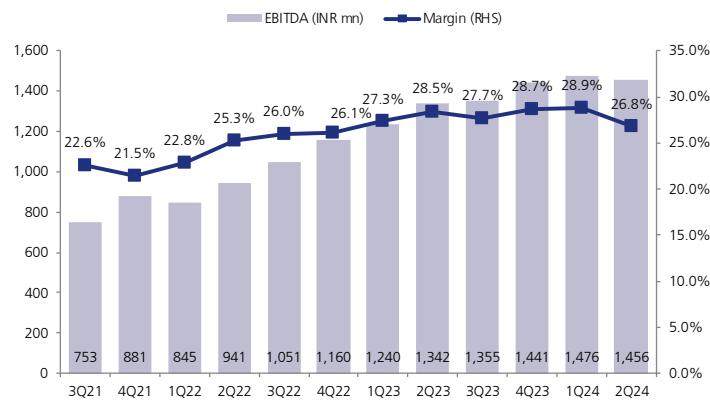
Source: Company, JM Financial

Exhibit 4. Gross profit and margin trend



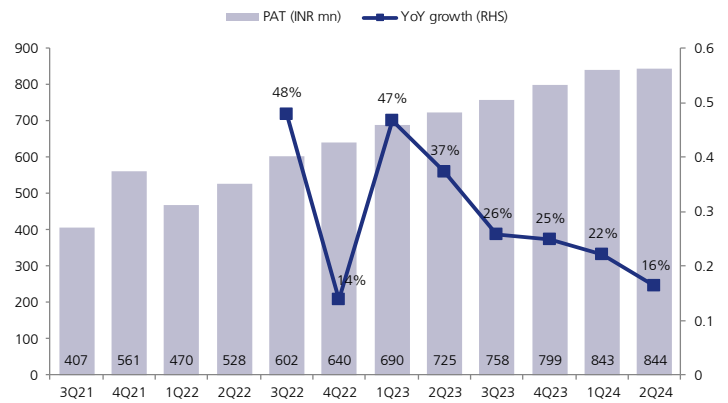
Source: Company, JM Financial

Exhibit 5. EBITDA and margin trend



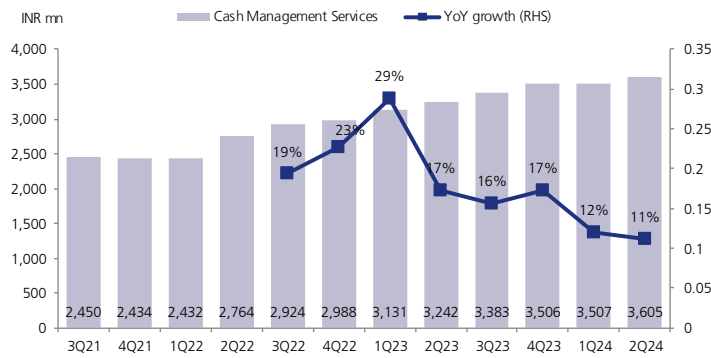
Source: Company, JM Financial

Exhibit 6. PAT and growth trend



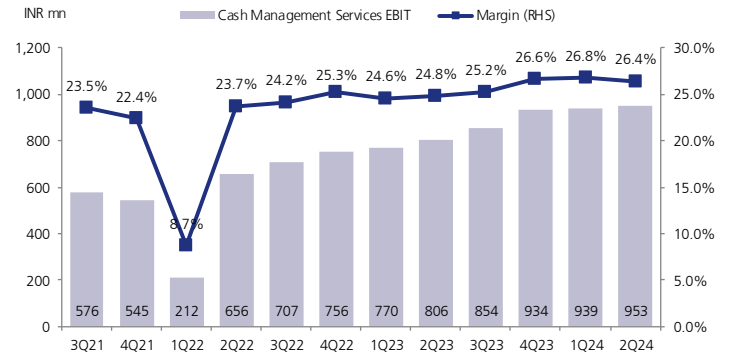
Source: Company, JM Financial

Exhibit 7. CM segment revenue and growth trend



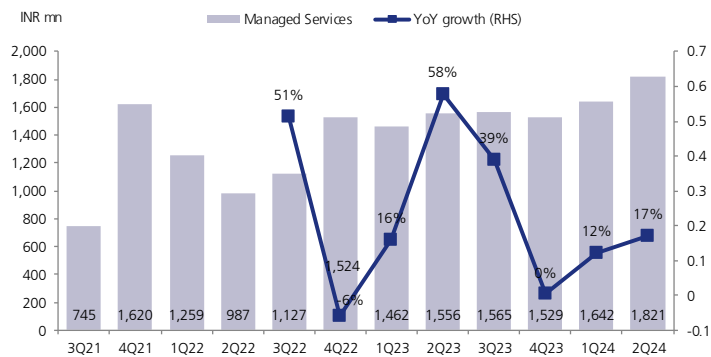
Source: Company, JM Financial

Exhibit 8. CM segment EBIT and margin trend



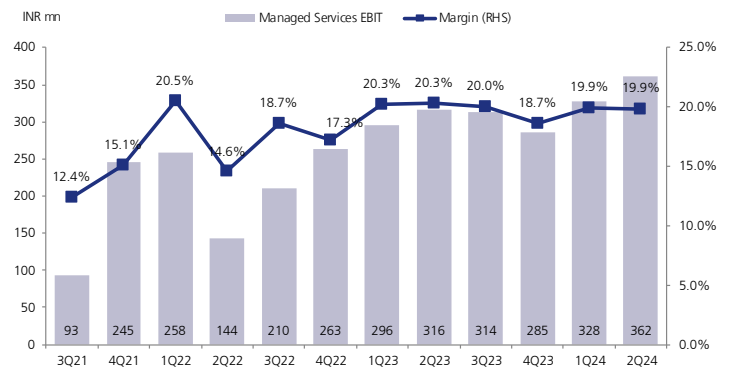
Source: Company, JM Financial

Exhibit 9. MS segment revenue and growth trend



Source: Company, JM Financial

Exhibit 10. MS segment EBIT and margin trend



Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	15,897	19,147	22,111	25,433	28,754
Sales Growth	21.7%	20.4%	15.5%	15.0%	13.1%
Other Operating Income	0	0	0	0	0
Total Revenue	15,897	19,147	22,111	25,433	28,754
Cost of Goods Sold/Op. Exp	6,254	6,562	7,241	8,028	8,852
Personnel Cost	2,315	2,649	2,967	3,323	3,721
Other Expenses	3,330	4,559	5,699	7,124	8,549
EBITDA	3,998	5,377	6,204	6,959	7,631
EBITDA Margin	25.1%	28.1%	28.1%	27.4%	26.5%
EBITDA Growth	36.2%	34.5%	15.4%	12.2%	9.7%
Depn. & Amort.	918	1,318	1,691	1,675	1,629
EBIT	3,079	4,059	4,513	5,284	6,002
Other Income	79	147	300	345	400
Finance Cost	144	196	160	173	181
PBT before Excep. & Forex	3,014	4,010	4,653	5,456	6,220
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	3,014	4,010	4,653	5,456	6,220
Taxes	774	1,038	1,171	1,373	1,566
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	2,240	2,972	3,482	4,083	4,655
Adjusted Net Profit	2,240	2,972	3,482	4,083	4,655
Net Margin	14.1%	15.5%	15.7%	16.1%	16.2%
Diluted Share Cap. (mn)	148.7	153.9	165.5	168.2	170.9
Diluted EPS (INR)	15.1	19.3	21.0	24.3	27.2
Diluted EPS Growth	32.3%	28.1%	9.0%	15.4%	12.2%
Total Dividend + Tax	226	1,040	1,393	1,837	2,095
Dividend Per Share (INR)	1.5	6.8	8.4	10.9	12.3

Source: Company, JM Financial

Cash Flow Statement		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Profit before Tax	3,014	4,010	4,653	5,456	6,220
Depn. & Amort.	918	1,318	1,691	1,675	1,629
Net Interest Exp. / Inc. (-)	111	127	-140	-172	-219
Inc (-) / Dec in WCap.	-1,366	-1,318	-679	-149	-82
Others	863	1,016	0	0	0
Taxes Paid	-976	-1,085	-1,171	-1,373	-1,566
Operating Cash Flow	2,565	4,068	4,354	5,436	5,983
Capex	-2,833	-1,914	-1,497	-1,500	-1,500
Free Cash Flow	-268	2,154	2,858	3,936	4,483
Inc (-) / Dec in Investments	-430	-1,313	338	0	0
Others	0	0	300	345	400
Investing Cash Flow	-3,262	-3,226	-859	-1,155	-1,100
Inc / Dec (-) in Capital	638	157	1,841	714	714
Dividend + Tax thereon	-226	-154	-1,393	-1,837	-2,095
Inc / Dec (-) in Loans	0	0	0	0	0
Others	-406	-525	-160	-173	-181
Financing Cash Flow	6	-522	288	-1,296	-1,562
Inc / Dec (-) in Cash	-692	320	3,783	2,986	3,321
Opening Cash Balance	1,335	643	1,563	5,346	8,332
Closing Cash Balance	643	963	5,346	8,332	11,653

Source: Company, JM Financial

Balance Sheet		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Fund	12,561	15,625	19,554	22,514	25,788
Share Capital	1,532	1,544	1,655	1,682	1,709
Reserves & Surplus	11,030	14,081	17,900	20,832	24,079
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	0	0	0	0	0
Def. Tax Liab. / Assets (-)	-304	-369	-369	-369	-369
Total - Equity & Liab.	12,257	15,256	19,186	22,145	25,419
Net Fixed Assets	7,940	8,897	8,702	8,527	8,398
Gross Fixed Assets	9,455	11,963	13,463	14,963	16,463
Intangible Assets	2,061	2,061	2,061	2,061	2,061
Less: Depn. & Amort.	4,013	5,331	7,022	8,697	10,326
Capital WIP	437	203	200	200	200
Investments	1,235	2,792	2,455	2,455	2,455
Current Assets	9,077	8,955	14,251	18,320	22,657
Inventories	635	742	857	985	1,114
Sundry Debtors	4,993	5,260	6,664	7,665	8,665
Cash & Bank Balances	1,418	1,563	5,346	8,332	11,653
Loans & Advances	2,031	1,390	1,384	1,338	1,225
Other Current Assets	0	0	0	0	0
Current Liab. & Prov.	5,996	5,388	6,222	7,156	8,091
Current Liabilities	2,459	2,252	2,601	2,991	3,382
Provisions & Others	3,537	3,136	3,621	4,165	4,709
Net Current Assets	3,081	3,567	8,029	11,163	14,567
Total - Assets	12,257	15,256	19,186	22,145	25,419

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin	14.1%	15.5%	15.7%	16.1%	16.2%
Asset Turnover (x)	1.5	1.4	1.3	1.2	1.2
Leverage Factor (x)	1.0	1.0	1.0	1.0	1.0
RoE	20.0%	21.1%	19.8%	19.4%	19.3%

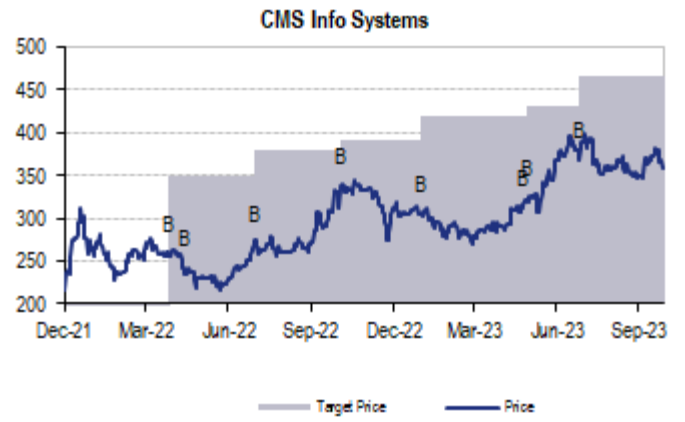
Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (INR)	84.5	101.5	118.2	133.9	150.9
ROIC	27.4%	28.4%	29.3%	33.7%	38.4%
ROE	20.0%	21.1%	19.8%	19.4%	19.3%
Net Debt/Equity (x)	-0.1	-0.1	-0.3	-0.4	-0.5
P/E (x)	23.8	18.6	17.1	14.8	13.2
P/B (x)	4.2	3.5	3.0	2.7	2.4
EV/EBITDA (x)	13.6	10.1	8.1	6.8	5.8
EV/Sales (x)	3.4	2.8	2.3	1.9	1.5
Debtor days	115	100	110	110	110
Inventory days	15	14	14	14	14
Creditor days	75	60	60	59	58

Source: Company, JM Financial

History of Recommendation and Target Price

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

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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

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

Registered Office: 7th Floor, Chery, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.

Board: +91 22 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com

Compliance Officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: sahil.salastekar@jmfl.com

Grievance officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: instcompliance@jmfl.com

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

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

* REITs refers to Real Estate Investment Trusts.

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