

SEPTEMBER 15, 2023

Initiating Coverage

Stock Details

Market cap (Rs Crore)	:	5,617
52-wk Hi/Lo (Rs)	:	410/254
Face Value (Rs)	:	10
3M Avg. daily vol(Lakh)	:	11
Shares o/s (crore)	:	16

Source: Moneycontrol, NSE, BSE

Financial Summary

Y/E Mar (Rs Crore)	FY24E	FY25E	FY26E
Revenue	2,262	2,638	3,072
Growth (%)	18.1	16.6	16.4
EBITDA	649	731	830
EBITDA margin (%)	28.7	27.7	27.0
PAT	368	407	469
EPS	23.4	25.4	28.9
EPS Growth (%)	23.8	10.6	15.4
BV (Rs/share)	114	133	152
Dividend/share (Rs)	5.7	7.0	9.0
ROE (%)	21.0	19.1	18.5
ROCE (%)	22.2	20.0	19.3
P/E (x)	15.2	14.0	12.4
EV/EBITDA (x)	8.1	6.9	5.8
P/BV (x)	3.1	2.7	2.3

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-23	Mar-23	Dec-22
Promoters	46.5	60.2	61.0
FII	15.3	13.1	12.5
DII	21.0	12.6	12.1
Others	17.3	14.1	14.4

Source: Moneycontrol, BSE

Price Performance (%)

(%)	1M	3M	6M
CMS Info Systems	-0.3	5.4	28.1
Nifty	3.4	7.2	18.0

Source: Moneycontrol, BSE

Price chart (Rs)



Source: Moneycontrol, BSE

CMS INFO SYSTEMS LTD (CMSISL)

PRICE Rs.357

TARGET Rs.419

BUY

Best bet to play on the formalization of the Indian economy

CMS Info Systems (CMSISL) is a market leader in Cash Logistics, ATM Software Solutions, and AIoT Remote Monitoring (Banking segment) businesses. It provides logistics and technology solutions to banks, financial institutions, organized retail, and e-commerce companies in India. It plays an essential role in connecting banks, businesses, merchants, and consumers by enabling commerce in a secure environment.

We believe the company will be a key beneficiary of industry tailwinds like 1) an increase in the number of ATMs (refurbishment of 80,000+ PSU bank's ATMs, Private bank branch expansion require 20,000 new ATMs), 2) higher ATMs outsourcing by banks (~1 lakh ATMs), 3) rising growth in organized retail, 4) opportunities in brown label ATMs (~1 lakh ATMs will shift from bank capex to Brown label ATMs), 5) fresh opportunities in Deep Tech AI and IoT solutions (60%+ ATMs and bank branches need AIoT, ~40% need newer technologies), 6) spreading wings to grab opportunities in NBFCs, Insurance and Retail), 7) ongoing industry consolidation, and 8) increasing compliance requirement and, hence, better pricing scenario. The company is aggressively focusing on businesses where it can be a market leader or a dominant player.

We initiate coverage on CMS Info Systems with a BUY rating and a target of Rs.419 (valued the stock at a PE of 14.5x FY26E (1x PEG), we expect revenue CAGR of 17% during FY23-26E). The stock is available at an attractive valuation at ~12.4x PE on FY26E considering a 14.5% EPS CAGR over FY23-26E.

What we like the most about the Company is its market leadership position in the cash management business, with strong business moats. Additionally, it enjoys a healthy order book, excellent balance sheet management, brilliant cash flow generation (Free Cash Flow positive), limited competition, strong management pedigree, operating leverage, and a large TAM that provides headroom for growth. In addition, industry tailwinds provide strong revenue visibility. Notably, CMS serves ATMs in 97% of India's districts (16k pincode) with its massive pan-India presence of ~4000 fleets/cash vans, enjoys strong customer relationships (100% customer retention), 1.5 lakh plus business commerce points served, 60k remote monitoring alerts processed daily, and diversifying into allied businesses. We expect possible value accretion through organic/inorganic foray into newer related businesses in the medium term.

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Key Rational

In FY23, the currency processed on its platform grew 16% yoy to Rs.12.7 lakh crore.

Robust business model.

Every large bank in India is a client of CMSISL.

It connects 126,000 ATMs and retail merchants through its nationwide logistics and technology platform.

- ❑ **Favourable sector tailwinds:** The government is taking multiple initiatives to formalize the Indian economy. India's informal economy is estimated to be around 43%. CMS Info System will be one of the key beneficiaries of the formalization of the Indian economy with a meaningful rise in retail outlets, NBFC branches, and demand for a better working capital cycle. Further, around 65% of orders placed on leading e-retail platforms in India are still on a cash-on-delivery (CoD) basis, which will also support a part of its revenue growth.
- ❑ **Cash Management Services (CMS) - Robust capability and strong execution track record:** CMS services segment contributes ~69% to its total revenue. With ~47% of the market share in outsourced ATM cash management, CMS Info Systems is the market leader in the cash management business. CMS segment operating profit has grown at a CAGR of 30% during FY20-23. Going forward, ATM cash management's revenue growth will be supported by both volume and realization. 1). Volume growth will be underpinned by new ATM additions (~4% annually), higher ATM outsourcing (from current 60% to 75%-80%), and market share gains (from 47% to around 60% market share) 2). Realizations to improve with higher regulatory requirements may be in the next 3-4 years. Growth in organized retail, Direct Retail, and Cash-X solutions also offer growth opportunities. With this, the company expects 10%-15% cash management revenue growth in the medium term.
- ❑ **Managed Services – An ocean of opportunities:** Managed services segment contributed ~31% to the total revenue in FY23. With management's laser-sharp focus on managed services, this segment will grow faster and can contribute 40-42% to the overall revenue, going ahead. Managed services revenue can potentially double given only 2-3 strong players in the Industry. With an order book of Rs.3,330 crore in the managed services segment, revenue visibility is strong. ATM managed services would benefit from the PSU bank refresh cycle (80,000+ ATM refresh cycle), private sector bank branch expansion (which will result in 20,000+ ATM deployments), and total outsourcing deals (~100,000 ATMs to shift from bank capex to brown-label).
- ❑ **High growth potential in AIoT business:** To grab the opportunities available in the emerging technologies and to maintain its leadership position, CMS Info Systems is investing ~Rs 50 crore in AIoT. Around 60% of the ATMs and 70% of the branches need remote monitoring in India indicating strong long-term growth opportunities. Notably, AIoT based remote monitoring can be expanded to other verticals such as retail, NBFC, insurance offices, telecom towers, etc in the medium to long term. For remote monitoring of ATMs and bank branches, it has developed 40 AI modules.
- ❑ **Addressable Market Growth:** CMSISL aims to increase its overall addressable market size by 17% CAGR (FY21-27E) to Rs.22,000 crore by FY27E. Within that, BFSI remote monitoring is expected to grow the fastest by 25% CAGR during FY21-27E. ATM-as-a-service is expected to grow by 17% CAGR during FY21-27E. Banking Automation and Cash Logistics are expected to grow by 19% CAGR during FY21-27E. As indicated earlier, in retail (RCM- Retail cash management), it connects more than 52,000 business commerce points (covering 97% of India). Currently, the company provides RCM services through banks rather than having direct relationships with retailers. However, the management aims to reach out to retailers directly, which will enhance the addressable market for the company.

- ❑ **Foray into the manufacture of banking automation products:** CMS Info Systems has commenced a new manufacturing plant with a manufacturing capacity of 2000 ATMs per month (ATMs, cash recycler machines, and self-service kiosks). The new facility will offer integrated banking automation solutions to its clients right from production to deployment to surveillance solutions of the complete ATM ecosystem.
- ❑ **Strong financial muscle will support acquisitions and strategic investments:** CMSISL is also looking for inorganic growth opportunities (technology-led small-size acquisitions with aggressive pay-back periods and attractive valuations). M&A will be in the areas of business services and Fintech. The company is a net cash company. Credit rating is AA+.

Key Risks and concerns

- ❑ Delays in compliance implementation.
- ❑ Potential entry of a cash-rich global player.
- ❑ Rising competitive intensity.
- ❑ UPI impacting cash over the longer term.
- ❑ Promoter stake reduced from 63.16% in June'22 to 46.48% in June'23.

BUSINESS BACKGROUND

Integrated banking solutions provider with end-to-end offerings.

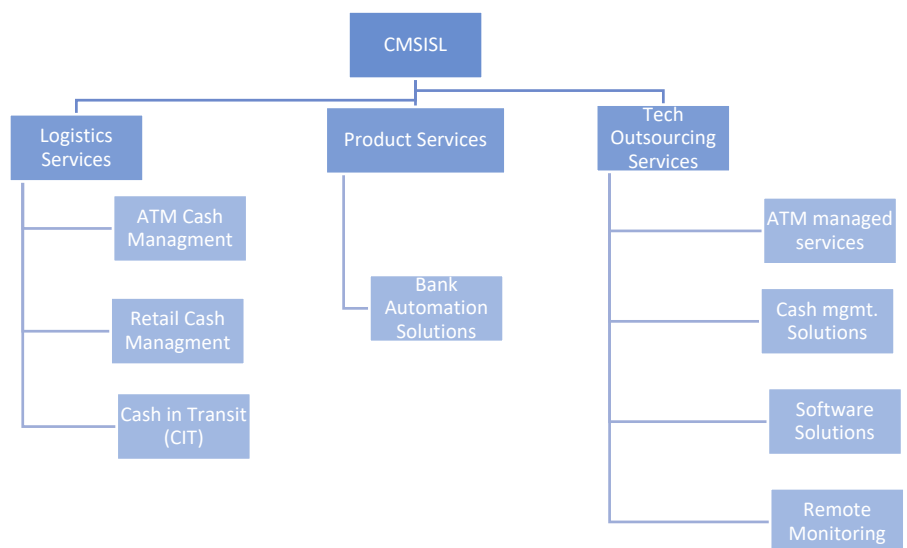
Key customers includes leading banks like SBI, HDFC, ICICI, Axis, PNB, etc.

Cash-in-transit services to the banks that run currency Chests.

Largest cash management company in India.

- CMS Info Systems provides logistics and technology solutions to banks, financial institutions, organized retail, and e-commerce companies in India. It helps in connecting banks, businesses, merchants, and consumers by securely enabling commerce.
- CMSISL businesses include Cash Logistics, Banking Automation, Managed Services, Remote Monitoring and Technology Solutions.
- With 25,000+ employees & associates, servicing 150,000+ business commerce points across 97% of Indian districts, it is a market leader in Cash Logistics, ATM Software Solutions, and AIoT Remote Monitoring (Banking segment) businesses.
- CMSISL has classified its business into three segments –
 1. **Cash management services** include end-to-end ATM replenishment services, cash pick-up and delivery, and cash-in-transit (CIT) services for banks;
 2. **Managed services** include banking automation product deployment and AMC; Brown Label ATMs and managed services for banks; Software solutions including multi-vendor software and automation solutions and Remote monitoring Technology solutions.
 3. **Card services** include revenue from trading in cards and card personalization services. Credit and debit card personalization services to banks.

Business segments



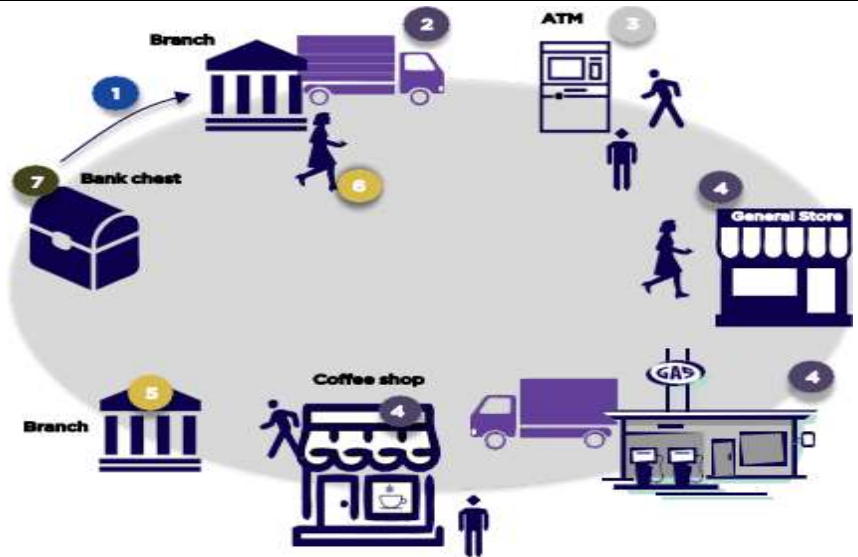
Source: Company

Cash Logistics Business – Biggest revenue contributor



Source: Company

CMS' presence across the cash value chain



Source: Company.

Key Clients

Bank	Cash Logistics			Managed Services & Tech Solutions			
	ATM	Retail	Cash-in-Transit	Banking Automation	ATM-as-a-Service	ALGO Software	AIoT Remote Monitoring
Large PSU Banks		✓	✓	✓	✓	✓	✓
		✓	✓	✓	✓	✓	✓
		✓	✓	✓	✓	✓	✓
		✓	✓	✓	✓	✓	✓
		✓	✓	✓	✓	✓	✓
Private Banks		✓	✓	✓	✓	✓	✓
		✓	✓	✓	✓	✓	✓
		✓	✓	✓	✓	✓	✓

Source: Company. Note: Indicative non-exhaustive list of customers and sectors served.

COMPANY HISTORY

CMS Info Systems Limited was originally incorporated as 'Subhiksha Realty Private Ltd', in Mumbai, as a private Ltd company on 26th March 2008. Later, the name of the Company was changed to 'CMS Info Systems Private Ltd' on 10th December 2008. Thereafter, the Company was converted into a public Ltd company on 24th December 2014, and the name of the Company was changed to CMS Info Systems Ltd on 27th January 2015. The Registered Office is in CBD Belapur, Navi Mumbai, Thane, Maharashtra.

Key Company details

Year	Key developments
2008	Incorporated as a private Ltd company, as 'Subhiksha Realty Private Ltd'
2009	The IT infrastructure management division of CMS Computers Ltd was demerged and transferred to Subhiksha Realty Private Ltd.
2009	As per the agreement, amongst CMS Computers Ltd, Blackstone FP Capital Partners (Mauritius) V Ltd, Ramesh Grover and certain other individuals/entities, Subhiksha Realty Private Ltd allotted two Equity shares for every three equity or preference shares of CMS Computers Ltd as consideration of the demerger which resulted in Blackstone FP Capital Partners (Mauritius) V Ltd acquiring 56.67% shareholding of Subhiksha Realty Private Ltd.
2011	The ATM and cash management division of CMS Securitas Ltd was demerged and transferred to Subhiksha Realty Private Ltd.
2015	The IT and print division of Subhiksha Realty Private Ltd was demerged and transferred to CMS IT Services Private Ltd.
2015	Subhiksha Realty Private Ltd was converted from a private Ltd company into a public Ltd company and the name was changed to its present name 'CMS Info Systems Ltd'.
2015	Sion Investment Holdings Pte. Ltd, an affiliate of Baring Private Equity Asia, acquired the entire shareholding of CMS Info Systems Ltd from Blackstone FP Capital Partners (Mauritius) V Ltd and other individuals/entities dated February 16, 2015.

Source: Company.

Key driving force

Highly qualified and experienced management supported by a diverse board

Name	Current Position	Qualification	Previous Experience
Shyamala Gopinath	Chairperson and an Independent Director.	Done Masters. Member of the Indian Institute of Bankers and an honorary fellow of the Indian Institute of Banking & Finance.	Ex-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 Ltd. Director at Colgate Palmolive (India), CRISIL Ltd, CRISIL Ratings Ltd, etc. Associated with the Indian Institute of Management, Raipur as the chairperson of the board of governors, Research and Information System for Developing Countries as a member, and Sanitation and Advisory Council of India Sanitation Coalition as a member of finance.
Rajiv Kaul	CEO, Vice Chairman, and Whole Time Director	Computer engineer from Birla Institute of Technology and MBA from XLRI, Jamshedpur.	Associated with CMSISL since July 1, 2009. Over 24 years of experience in - Technology, Private Equity and the Cash management industry. Currently, he is a member of RBI's Committee on Currency movement. His appointment is extended till July 2027.
Pankaj Khandelwal	President and CFO	Chartered accountant	Associated with CMSISL since July 1, 2009. Finance, legal and secretarial functions. Over 27 years of experience.
Manjunath Rao	President - Managed Services	BSC (specialization in Statistics) from Madras University.	Working with CMSISL since Jul'12. Drives an integrated technology-led services & solutions platform by offering Banking Automation, Software Solutions, and AIoT-based Remote Monitoring Services. Before CMS, Manjunath has been associated with NCR Corporation India as Country Manager and Interim MD and as COO at CashLink Global Systems.
Anush Raghavan	President – Cash Management Solutions	Bachelor's degree in academic law and a post-graduate diploma in management from IIM, Ahmedabad.	Associated with CMSISL since October 1, 2009. Currently, heading CMS' cash management business. Over 14 years of experience in business management and business development. He is the president of the Cash Logistics Association and Currency Cycle Association.

Source: Company.

Listing details:

CMS Info Systems Ltd was listed on 31st December 2021. IPO size was 37,560,975 equity shares (Rs.1,100 crore). The price range of CMS Info Systems IPO was Rs 205-216 per share. The total number of equity shares outstanding is ~15.44 crore as of 30th June'23.

Shareholding Pattern

Promoter details

- Sion Investment Holdings Pte. Ltd is the promoter of CMS Info Systems Ltd. It is a Singapore-based private company and was incorporated on 29th Jan'15.
- Promoter has reduced stake from 63.16% in June'22 to 46.48% in June'23.

Institutional investors holding greater than 1% of the total number of shares (June 2023)

Key Investors	% holding
SBI Small Cap Fund	9.72
ICICI Prudential Multicap Fund	4.51
Wf Asian Reconnaissance Fund Ltd	3.79
Aditya Birla Sun Life Trustee Private Limited A/C Aditya Birla Sun Life Small Cap Fund	2.75
Smallcap World Fund, Inc	2.63
Government Pension Fund Global	1.62
360 One Focused Equity Fund	1.58
Nomura India Investment Fund Mother Fund	1.47
Abu Dhabi Investment Authority - Stable	1.39
Goldman Sachs Funds - Goldman Sachs India Equity Portfolio	1.34
Abakkus Growth Fund-2	1.04

Source: BSE.

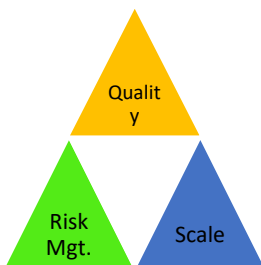


CMSISL is India's largest cash management player to benefit from sector tailwinds.

Capitalizing on the growing cash cycle.

On a strong footing given its robust business model. Strong track record of diversification, robust earnings growth and return profile.

Three pillars of cash logistics business



INVESTMENT ARGUMENTS

Our positive view of CMS Info System is underpinned by its leadership position in the Cash Logistics, ATM Software Solutions, and AIoT Remote Monitoring (Banking segment) businesses. Its cash logistic business is widest, the largest and deepest in India. The company has successfully added several allied businesses including Multi-vendor Software (MVS), Brown Label ATM (BLA), Cards, Product Sales, Spare-parts, etc.

Sector tailwinds

- **Favourable macro and industry trends:** India is on the cusp of a major transformation. Multiple initiatives have been undertaken by the government to formalize the Indian economy. India's informal economy is estimated ~43%.
- India is the fastest-growing large economy with banks at the center of economic growth and is in expansion mode. India's growth is supported by domestic consumption as it drives 67% of India's GDP. Cash-based payments have a large share in loans, insurance, retail, and e-commerce. We expect demand for cash management services to rise in the near term. Thus, retail growth will fuel consumption, which will open multiple growth opportunities for CMS Info Systems.
- We believe CMS Info System will be one of the key beneficiaries of the formalization of the Indian economy, as this will lead to a meaningful rise in retail outlets, NBFC branches, and the requirement for a better working capital cycle. Naturally, growth in organized retail will result in higher demand for treasury management. Further, around 65% of orders placed on leading e-retail platforms in India are still on a cash-on-delivery (CoD) basis, which will also support part of the revenue growth.

Cash management - Robust capability and strong execution track record

- CMS Info Systems' cash management business comprises ATM cash management (largest revenue contributor in cash logistics business), retail cash management, cash-in-transit (CIT) services (working with banks only), and other services. The CMS services segment contributes ~69% to its total revenue.
- With ~47% of the market share in outsourced ATM cash management, CMS Info Systems is the market leader in the cash management business. The company is replenishing more than 72k ATMs every alternate day.
- In retail (RCM- Retail cash management), it connects more than 52,000 business commerce points (covering 97% of India). In CIT services, it serves more than 12,000 bank branches every day.
- Its wide presence, robust infrastructure (vans, branches/offices), and strong customer relationships will continue to support CMSISL in improving its market share and margins.
- CMS segment operating profit has grown at a CAGR of 30% and revenue has grown at a CAGR of 6% during FY20-23. Going forward, the company's cash management business will benefit from ATM rollouts, more outsourcing, and market share gains.
- Going forward, ATM cash management's revenue growth will be supported by both volume and realization.

- Volume growth will be underpinned by new ATM additions (~4% annually), banks are expected to outsource higher ATMs (from the current 60% to 75-80% in the medium to long term), and market share gains (from the current 47% to around 60% market share). It is expected that 100,000 ATMs can be outsourced for Cash Management by banks.
- Realizations are also expected to improve with higher regulatory requirements, may be in the next 3-4 years.
- Growth in organized retail, Direct to Retail, and Cash X solutions also offers growth opportunities. With this, the company expects 10-15% cash management revenue growth in the medium term.

Cassette swap implementation

- The company's management has highlighted that it expects a strong momentum in cassette swap implementation. This has been reinforced by the regulator's push and industry-wide consensus. The management is now targeting a one-third cassette swap compliance of ATMs by the end of FY24. This will help the company in reducing the risk costs (related to theft, pilferage and reconciliation issues) by 0.5-1% as of revenue from the current ~5%.
- **Brief background:** The RBI circulars on "Cassette – Swaps in ATMs" dated April 12, 2018 and July 12, 2021 advise all banks to use lockable cassettes in their ATMs, which shall be used for cash replenishment instead of the counting and add cash methodology currently used, by cash management companies, such as CMS Info Systems Ltd. The banks have to implement this measure in a phased manner covering one-third of the ATMs operated by the banks every year.
- Earlier, the company has highlighted that the implementation of the "cassette swap" model is estimated to increase realization per ATM by Rs.1,000 per month for ATM cash management companies.

Managed Services – An ocean of opportunities

Integrated player with technology edge:

1. *Banking Automation Solutions,*
2. *ATM As-a-Service,*
3. *Software Solutions,*
4. *AI based Remote Monitoring.*

- Managed services segment contributed ~31% to the total revenue in FY23. The total number of ATMs that CMS Info Systems has installed and is being serviced is 18,000 plus as of Jun'23. With the laser-sharp focus on managed services, this segment will grow faster and can contribute 40-42% to the overall revenue, going ahead.
- Managed services revenue can potentially double given only 2-3 strong players in the Industry.
- With an order book worth Rs.3,300 crore (contracts are for 5-7 years) in the managed services segment, revenue visibility is strong.
- ATM managed services would benefit from PSU bank refresh cycle (80k+ ATM refresh cycle), private sector bank branch expansion (which will result in 20k+ ATM deployments), and total outsourcing deals (~100k ATMs to shift from bank capex to brown-label).
- Managed services include banking automation, product sales, deployment, and associated annual maintenance; end-to-end Brown Label deployment and managed services for banks.
- The management has highlighted that more than 22,000 ATMs are under its managed service business, of which around 7,000 ATMs are under end-to-end outsourcing. At the industry level, the company expects an opportunity

of 40,000-50,000 ATMs for banking automation products in the medium term (12-18 months).

- Technology Solutions ALGO MVS & ALGO OTC, cover 25% and 30% of ATMs, respectively in India.
- With ALGO MVS (vendor-agnostic software) banks gain cost and operational advantages by procuring ATM hardware and software components separately without being tied to one vendor for both. Behind the scenes, ALGO MVS allows for remote control monitoring and tracking electronic journals through dashboards, reporting, and security alerts, thus significantly eliminating the need for physical intervention across a large geography.

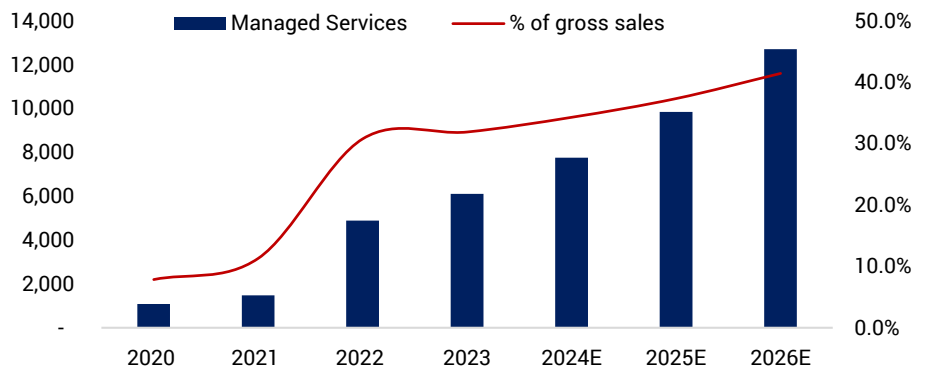
ALGO MVS and ALGO OTC



Source: Company

- ALGO OTC, launched in 2019, is an ATM security software application that revolutionizes cash replenishment through Artificial Intelligence and mobility. This innovative solution incorporates advanced features such as geofencing, GPS-enabled user face recognition, and integration with the maker-checker approval process, making it compatible with any bank or vault.

Managed Services revenue grew 78% CAGR during FY20-23



Source: Company and Kotak Securities – Private Client Group

High growth potential in AIoT business

Remote Monitoring powered by AI & IOT.

RMS with 2000 monitoring points in Jan'21 has grown to 20,000+ sites.

Future-ready remote monitoring.

Benefits: Risk mitigation, energy cost saving, staff monitoring & site compliance tracking.

Caters multiple industries - Banks, NBFCs, Hospitals, & FMCG sectors.

- AIoT integrates the power of AI (Artificial intelligence) and the Internet of Things (IoT) which enables intelligent decision-making and automation. AIoT allows the collection, analysis, and utilization of data in real time.
- To grab the opportunities available in the emerging technologies and to maintain its leadership position, CMS Info Systems is investing ~Rs 50 crore in AIoT. AIoT is part of the managed services and contributed ~Rs 100 crore revenue within the managed services segment in FY23. In FY24E, the management expects large PSU RFPs (request for proposal) for both automation and ATM as a Service business lines.
- The company has indicated that currently ~60% of the ATMs and ~70% of the branches need remote monitoring in India, highlighting strong medium to long-term growth opportunities. Notably, AIoT based remote monitoring can be expanded to other verticals such as retail, NBFC, insurance offices, telecom towers, etc which further opens multiple opportunities.
- For remote monitoring of ATMs and bank branches, the company has developed 40 AI modules. The company has already implemented AIoT across 26,000 sites. By implementing AI algorithms and IoT devices, the company assists financial institutions in identifying potential security threats and taking preventive measures to safeguard their ATMs and customer transactions.
- **AI-Driven Monitoring:** AI and Video analytics work on the feeds from CCTV cameras and detects potentially suspicious anomalies like intrusions, vibrations, glass breaks, smoke, etc. The system is also continuously learning to better understand and respond to these situations.

Key highlights of Remote Monitoring Services (RMS):

- More than 40 deep-learning AI modules for enabling business insights,
- Connected to over 10 lakh devices deployed across 20,000 plus live sites pan-India,
- Prevented 1000+ threats and 25% energy efficiency generated, since launch,
- Daily processes ~60,000 alerts with live monitoring at the centralized command center,
- Real-time problem solutions, drive efficiency and productivity for clients.

CMSISL is a leading business services provider serving BFSI & Retail Sector.

To win tomorrow, you must act today.

Addressable Market Growth

CMSISL is continuously generating healthy cash flows from its core business and simultaneously investing in building newer capabilities to expand its TAM (Total Addressable Market). This has become a virtuous cycle.

Higher outsourcing creates a large TAM opportunity



Source: Company

- CMSISL aims to increase its overall addressable market size from Rs.8,500 crore in FY21 to Rs.22,000 crore by FY27E i.e. 17% CAGR.
- Within that, BFSI remote monitoring is expected to grow the fastest by 25% CAGR during FY21-27E. ATM-as-a-service is expected to grow by 17% CAGR during FY21-27E. Banking Automation and Cash Logistics are expected to grow by 19% CAGR during FY21-27E.
- As indicated earlier, in retail (RCM- Retail cash management), it connects more than 52,000 business commerce points (covering 97% of India). Currently, the company provides RCM services through banks rather than having direct relationships with retailers. However, the management aims to reach out to retailers directly, which will enhance the addressable market for the company.

Foray into manufacturing of banking automation products

- CMS Info Systems has set up and commenced a new manufacturing plant in Chennai with a capacity to manufacture 2000 ATMs per month. With this, it forays into the manufacture of banking automation products such as ATMs, cash recycler machines, and self-service kiosks.
- The new facility will help CMS to offer integrated banking automation solutions to its banking clients right from production to deployment to surveillance solutions of the complete ATM ecosystem.
- Currently, there are two models of ATM management.
 - 1). Banks typically buy ATMs and then outsource them to managed service providers like CMSISL.
 - 2). Second model is end-to-end outsourcing, better known as brown-label ATMs, under which the entire process right from capex to sourcing of sites for ATMs is done by managed service providers such as CMSISL.

Strong track record of growth and balance sheet management.

Diversification to related services such AIoT and technology.

PAN India Footprint; 16K+ Pin codes covered.

Robust Growth Guidance

- CMS Info Systems has a strong growth track record. During FY09-23, the company has grown revenue at a CAGR of 17% and operating profit at a CAGR of 20%. Going forward, the Company aims for its revenue to grow by 14-19% CAGR during FY23-25E. Further, it aspires to grow revenue to Rs.3400-3800 crore by FY27E entails a CAGR of 15-19% during FY23-27E. Notably, this growth will be supported by organic initiatives only.
- The management would continue to explore inorganic opportunities which offer the right capabilities and meet healthy IRR thresholds.
- Given, CMSISL is the number one AIoT player in the Banking sector in India, the company expects AIOT to contribute 10% of its total revenue in FY27E.
- CMS Infosystem will spread its wings and will extend, IoT-based remote monitoring capabilities, to other verticals such as warehousing, retail, NBFC, and insurance branches. Interestingly, this will open newer revenue streams and will support future revenue growth.
- On a conservative basis, we have modeled revenue growth at a CAGR of 15% during FY23-26E underpinned by 1). Strong growth opportunities in the Cash logistics business a). Higher ATM outsourcing and b). Growth in organized retail, 2). Increased ATM managed services a). increase in total outsourcing deals i.e. around 1 lakh ATMs will shift from banks capex to BLA, b). Private sector branch expansion, 3). AIoT remote monitoring and 4). Inorganic growth opportunities.
- The company would like to maintain margin but its primary focus would be on ensuring revenue growth amid increasing competitive intensity.

Cash and Digital business co-exist in India

- We believe ATMs and digital businesses will co-exist in India. The management has highlighted that ATM transactions in India are ~50% more than debit/credit card online and offline transactions.
- India is a relatively middle-income country. A large part of the cash usage is for essential consumption. Rising inflation leads to higher cash movement from ATMs. In addition, the cost of cash logistics is relatively less than digital transactions.
- Cash management revenue is linked to the number of points served and not cash in circulation (CIC). Hence, revenue is safeguarded to that extent. Notably, the volume of cash handled by CMS grew 16% yoy in FY23.
- In India, if Bank holds currency in its chest, they pay no cost for it to the RBI. If the same currency leaves the chest, they have to pay interest costs. The interest cost of ~4% is far higher than the logistic cost. Hence, banks will require cash logistic services.
- Notwithstanding the sharp rise in digital payment penetration, we see a sharp jump in CIC in the past few years (apart from macro disruptions such as GST/Demonetisation in the past) reflecting the sustained co-existence of cash and digital payments.
- Globally, foreign cash logistics companies like Brink's and Loomis are growing by ~10% and the majority of the revenue is from the cash logistics business.

Quarterly result update

P&L Account (Rs. Crore)	Q1FY24	Q4FY23	Q1FY23	YoY (%)	QoQ (%)
Income from operation	512	501	453	13	2
Incr/(Decr) in stock	(0.4)	(0.2)	(2.1)		
Total Expenditure	364	357	327	11	2
EBIDTA	148	144	124	19	2
Depreciation	36	35	30	22	3
EBIT	111	109	94	18	2
Other income	7	5	2	178	43
Interest-net	4	6	4	(6)	(24)
PBT	114	108	92	23	5
Extra ordinary Exp/(Inc)					
Tax	29	28	23	27	6
PAT	84	80	69	22	5
Equity Capital	154	154	154	0	0
EPS (Rs)	5.5	5.2	4.5	22	5

Source: Company

Q1 is traditionally a weak quarter.

Q1FY24 further impacted by unseasonal rains affecting pockets of rural consumption, and withdrawal of Rs. 2k currency notes.

Strong margin performance led to PAT growth.

Ratio details

Particulars	Jun-23	Mar-23	Jun-22	YoY (bps)	QoQ (bps)
EBITDA Margin (%)	28.9	28.7	27.3	151	12
EBIT Margin (%)	21.7	21.7	20.8	96	8
Adj PAT Margin (%)	16.5	15.9	15.2	125	54
Other Income/PBT (%)	5.9	4.3	2.6	327	156
Tax/PBT (%)	25.9	25.8	25.1	76	4

Source: Company

Quarterly operational highlights

- Revenue increased by 13% yoy (+2% qoq) supported by steady growth in the cash management (CM) business (+12% yoy but flat qoq) and managed services revenue (12% yoy and 7% qoq).
- Overall EBITDA grew by 19% yoy and +2% qoq.
- EBITDA margin improved by 151 bps yoy and 12 bps qoq on the back of efficiency gains and operating leverage.
- **Operational performance:** Total business points for ATM and Retail Cash Management stood at 126,000 registering a growth of 10% yoy as of June 2023.
- It posted 6% yoy growth in handling of currency in Q1FY24 (highest-ever quarterly currency throughput of Rs. 3.3 lakh crore).
- Cash usage in Metro cities outperformed tier II and III cities, in Q1FY24. Management expects this trend to continue.
- Managed Services business won Rs. 150 crore worth of orders in the quarter.
- **Managed Services:** CMS Info System has successfully implemented the managed service mandate of 5,200+ ATMs for a large PSU bank. With this, CMSISL has become the largest managed services provider for that bank.
- Cash Management EBIT grew by 22% yoy and 1% qoq to Rs. 94 crores while the margin improved by 218 bps yoy and 14 bps qoq to 26.8% in Q1FY24, primarily on account of efficiency gains and operating leverage.
- Managed Services EBIT grew by 11% yoy and 15% qoq to Rs. 33 crores and margin contracted 30 bps yoy and +130 bps qoq to 19.9%.

- The company recently indicated strong momentum in cassette swap implementation. Further, it expects up to 40% implementation by FY24E. Additionally, management expressed a trend of optimism among retail organizations given large modern retailers penetrating tier-III and below cities, which augurs well for the retail cash management business.
- ATMs under managed services grew to 18,000 (+500 ATMs qoq) in June'23.
- CMS Info Systems achieved the number 1 position in AIoT remote monitoring in banking with 21,000 plus live sites and sustains its market leadership in the cash management business with a 40% market share.
- Remote monitoring, launched in FY21, has achieved Rs 100 cr annual run rate. The management is further investing in artificial intelligence (AI) research and cases, and expects remote monitoring and software business to contribute 8-10% of the revenue, going forward.
- PAT grew 22% yoy to Rs. 84 crore.
- The company has guided for capex in the range of Rs.150-170 crore towards fleet gradation, AI (Artificial Intelligence)-IOT (Internet of Things) products and technology, remote monitoring, etc.

Segment Performance

Segment Revenue Rs. Crore	Jun-23	Mar-23	Jun-22	YoY (%)	QoQ (%)
Cash Management Services	351	351	313	12	0
Managed Services	164	153	146	12	7
Card Services	18	17	10	90	8
Less: Inter-Segment revenue	(21)	(19)	(16)	38	13
Total	512	501	453	13	2

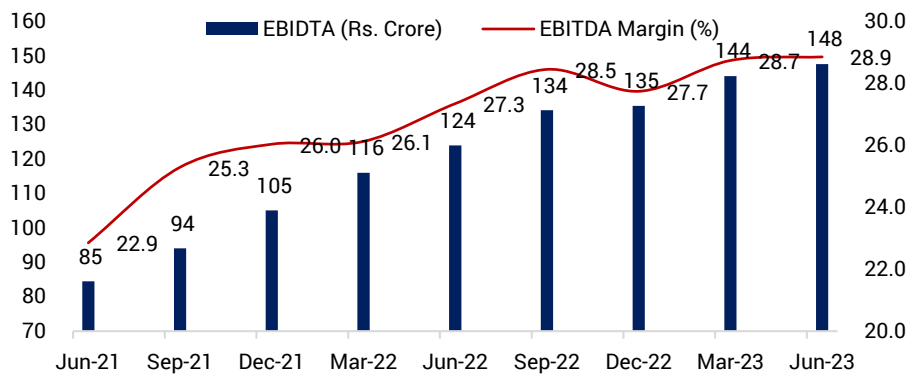
Source: Company

Segment EBIT (Adj for exceptional Rs. crore)

	Jun-23	Mar-23	Jun-22	YoY (%)	QoQ (%)
Cash Management Services	94	93	77	22	1
Managed Services	33	29	30	11	15
Card Services	1	2	0	958	-35
Total	128	124	107	20	3
Less - Unallocable expenses (net)	(17)	15	(13)	34	-209
Add - Other income	7	5	14	-51	43
Less - Finance costs	(4)	(6)	(11)	-60	-24
Less: tax expenses	(29)	(28)	(23)	27	6
Profit before tax	84	111	74	14	-24

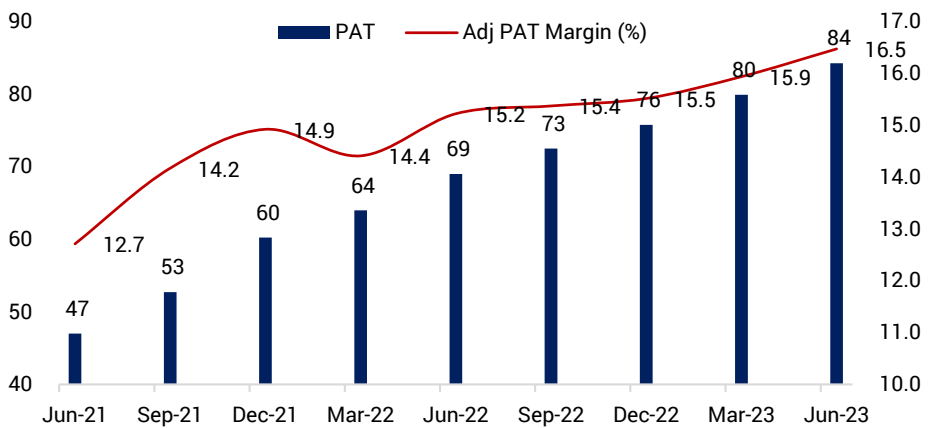
Source: Company.

EBITDA (Rs. Crore) and margin (%) trend



Source: Company

PAT and growth trend



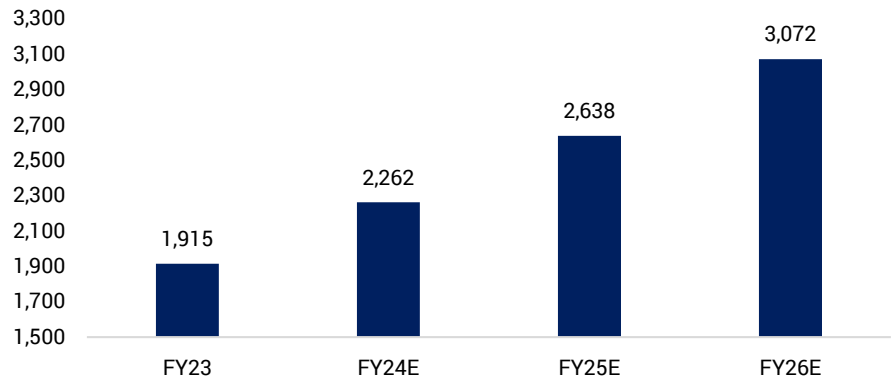
Source: Company

Overall summary of our key assumptions

- We are bullish on CMS Info System and have a strong view that it is likely to witness a meaningful improvement in its financial performance over FY23-26E.
- The company’s growth opportunity is linked to formalization and consumption in India’s economy. With formalization post-GST reforms, cash is growing robustly in the formal economy. Consumer spending patterns have shifted towards organized retail and e-commerce. In FY23, currency handled by CMSISL across India grew by 16%, and in metros, it grew by 19%. Consumers are using UPI for smaller payments, the ATM usage trend shows consumers withdrawing more cash per transaction.
- In FY23, consolidated revenue grew by 20% to Rs.1,915 crore, driven by growth across Cash Logistics and Managed Services business segments. Cash Management revenue grew by 19.4% yoy to Rs. 1,326 crore driven by strong volume growth and realization improvement led by compliance implementation. Managed Services revenue grew by of 24.8% yoy to Rs. 611 crore driven by ramp-up in ATM-as-a-Service business and execution of the Remote Monitoring order book.
- The company has reported improvement across all key financial metrics/ratios driven by further strengthening of its market leadership position, continuous operational efficiency improvement, and a higher share of value-added services in FY23.

- Going forward, revenue growth will be supported by both volume and realization. We expect revenue to grow by 18.1% yoy to Rs. 2,262 crore in FY24E, by 16.6% yoy to Rs. 2,638 crore in FY25E, and by 16.4% yoy to Rs.3,072 crore in FY26E.

Revenue trend (Rs. Crore)

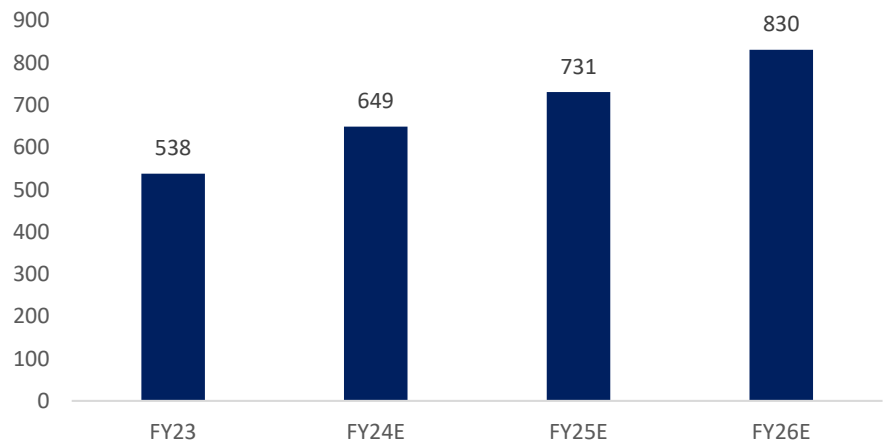


Source: Kotak Securities – Private Client Group

- CMS is firm on its long-term guidance of doubling revenue from FY21 (Rs.1,306 crore) to FY25 (Rs.2,638 core).
- **ATM revenue model:** The revenue model is linked to the number of visits per ATM and hence revenue variance is less than 2%. It’s an annuity model and more than 90% of the revenue is fixed. CMS Info Systems caters to 72,000 plus ATMs. The company replenishes ATMs every alternate day.
- **Retail revenue model:** The company partners with transaction banking to offer treasury solutions for corporates & retail (Cash-X). It’s an annuity revenue model that is linked to volume and points and 70% of the revenue is fixed. CMSISL connects to more than 52,000 business commerce points.
- Retail Cash Management have grown from 1,13,000 in Mar’22 to 1,26,000 by June’23, translating into an annual growth of 10%.
- **CIT (Cash-in-transit):** 80% of the revenue is fixed and contracts are for 3-5 years. The company caters to 12,000 bank branches every day.
- **CMS services** segment contributes ~69% to its total revenue. With ~47% of the market share in outsourced ATM cash management, CMS Info Systems is the market leader in the cash management business. CMS segment operating profit has grown at a CAGR of 30% during FY20-23. Going forward, ATM cash management’s revenue growth will be supported by both volume and realization. The company expects 10%-15% cash management revenue growth in the medium term.
- **Managed services** segment contributed impressive ~32% to the total revenue in FY23. With management’s laser-sharp focus on managed services, this segment will grow faster and can contribute 40-42% to the overall revenue, going ahead. Managed services revenue can potentially double given only 2-3 strong players in the Industry. With an order book worth Rs.3,300 crore (contracts are for 5-7 years) in the managed services segment, revenue visibility is strong.
- CMSISL’s total ATMs under BLA and Managed Services expanded from 12,000 ATMs in FY22 to 18,000 in FY23 led by large wins in Managed Services (Asset Light ATM Management) with public and private sector banks.

- **Artificial intelligence and Internet of things (AIoT):** In FY27E, the company expects AIoT to contribute 8% - 10% of its total revenue. Currently, CMS is the number one AIoT player in the Banking sector in India.
- **Capex:** Growth capex is towards the order book, scaling business lines (both in AIoT and ATM as a Service), and investment in fleet upgradation for network and for RBI compliance. In FY23, the company incurred a capex of Rs.193 crore.
- **Credit Rating:** In FY23, the outlook of credit rating has improved from stable to positive, and subsequently ICRA upgraded the Credit Rating to AA+ (stable) from AA.

Operating profit (Rs. Crore)



Source: Kotak Securities – Private Client Group

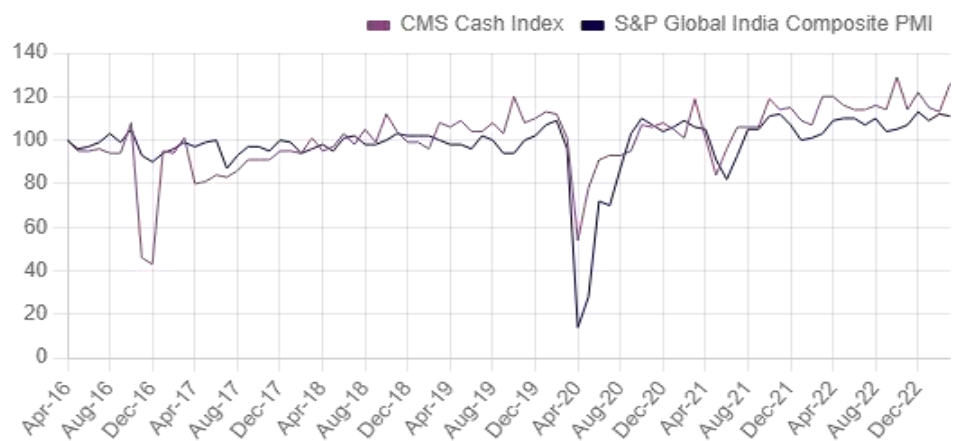
- **EBITDA Margin:** In FY23, the operating margin improved to 28.1% from 25.1% in FY22 aided by multiple factors including productivity improvement in the Cash Logistics business segment, changing business mix, and increasing share of value-added services.

INDUSTRY DETAILS

Cash Usage will co-exist with digital payments

- S&P Global Index Composite PMI (S&PGIPMI) gauges the economic activity (Expansion and Contraction) and CMS Cash Index (CCI) monitors the cash circulation (ATM and retail channels).
- The below chart highlights that, in India, economic growth has a strong correlation with cash in circulation except for unusual macro-economic activity. In Nov-Dec'16, post demonetization, CCI registered a sharp decline while S&PGIPMI also saw a decline but relatively lesser decline. Further, at the peak of the Covid-19 pandemic and lockdown, S&PGIPMI registered a sharp decline as compared to the CCI decline.
- India is the fastest-growing large economy. It is expected that it can grow at a rate of 6.1% over the next five years. Further, domestic consumption will drive ~67% of India's GDP. We believe India's retail growth will fuel consumption.
- India's bank has strengthened its balance sheet and expanding business activity. Hence, they are at the center of a growing economy. With Banks and NBFCs focusing on credit growth, we expect greater consumption and spending, both in digital and cash-based payments. These institutions will need to deepen their presence to serve their consumers by expanding branch networks. With increased scale, we see a trend towards higher outsourcing. CMSISL is uniquely poised to manage the needs of scale, reach and technology-oriented services.
- With each new branch adding two new ATMs in India, banks are well placed to broaden their presence, get closer to the consumer and capitalize on the credit growth.
- Cash-based payments have a large share in loans, insurance, retail, and e-commerce.

The strong correlation between CMS Cash Index and S&P Global India Composite PMI



Source: Company and Kotak Securities – Private Client Group

The Transformation of India's informal to formal economy

India is on the cusp of a major transformation. Several efforts have been made by the government to formalize the Indian economy. As per world economics, the size of India's informal economy is estimated to be 43.1%. The formalization will lead to a meaningful rise in NBFC branches, and retail outlets, and a need for higher efficiency in the working capital cycle. Growth in organized retail will result in higher demand for treasury management. Further, around 65% of orders placed on leading e-retail platforms in India are still on a cash-on-delivery (CoD) basis which will also support part of CMS' revenue growth.

Untapped Opportunity

Growth opportunities



Source: Company and Kotak Securities – Private Client Group. Note: Lower outsourcing currently (in grey).

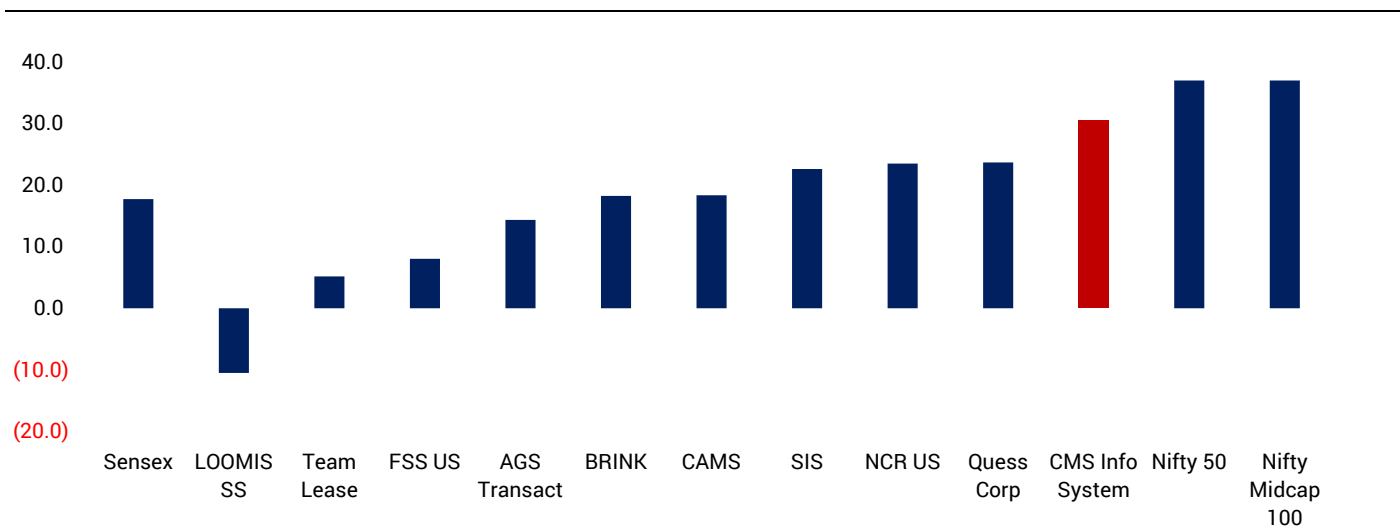
- Indian consumers have demonstrated the relevance and importance of cash in the Indian economy. India's monthly average cash replenishment at ATMs has grown by 10.1% in FY23. Average cash collection per point with e-commerce companies has increased by 1.3x in FY23.
- The formal retail cash collection in India by cash logistics and BC networks is about 15% of the cash dispensation through ATMs, micro-ATMs and bank branches, thereby providing a massive untapped opportunity from outsourcing across the Cash value chain. An integrated end-to-end outsourcing player is best placed to capture this growing addressable market opportunity.

Peer comparison

Company	P/E (x)		P/B (x)		RoE (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
India						
CMS Info System*	14.0	12.4	2.7	2.3	19.1	18.5
AGS Transact	7.6	NA	1.1	NA	15.2	NA
India Business Service						
Teamlease	25.7	20.6	4.0	3.4	16.7	18.0
Qess corp	14.7	11.5	2.2	2.1	15.7	16.9
SIS	12.9	10.1	1.6	1.8	16.8	17.2
CAMS	33.3	28.9	12.4	10.8	40.0	39.8
Global Peers						
LOOMIS (LOOMIS SS)	9.0	8.3	1.4	1.3	15.7	15.8
NCR US	7.3	5.9	1.6	1.3	30.2	28.0
FSS US	20.0	18.1	3.1	2.7	16.1	15.8

Source: Bloomberg and *Kotak Securities – Private Client Group. NA: Not Available.

Share price performance of last 6 months



Source: Bloomberg

VALUATIONS & RECOMMENDATIONS

Initiate with BUY (target price of Rs.419) implying 17.2% upside (available at 12.4x FY26E EPS)

- Our positive view on CMS Info Systems Ltd is underpinned by its leadership position in the segment that it caters to. We believe CMS will be a major beneficiary of emerging industry tailwinds such as 1) an Increase in the number of ATMs, 2) rising growth in organized retail, 3) opportunities in brown label ATMs, 4) fresh opportunities in Deep Tech AI, and IoT solution, 5) Strong expansion opportunities in NBFCs, Insurance, and Retail), 6) ongoing industry consolidation, and 7) increasing compliance requirement. The company is aggressively focusing on businesses where it can be a market leader or be at a dominant position.
- We initiate coverage on CMS Info Systems with a BUY rating and a target of Rs.419 (valued the stock at a PE of 14.5x FY26E, we expect revenue CAGR of 17% during FY23-26E). The stock is available at an attractive valuation at ~12.4x PE on FY26E considering a 14.5% EPS CAGR over FY23-26E.
- CMSISL serves ATMs in 97% of India's districts (~16,000 pincode) with its pan-India presence. It has ~4000 fleets, enjoys strong customer relationships (100% customer retention), 1.5 lakh plus business commerce points served, 60k remote monitoring alerts processed daily, diversifying into allied businesses, and excellent balance sheet management, brilliant cash flow generation (FCF positive), and net cash balance sheet (cash reserve of Rs.450 crore by FY23 end). We expect possible value accretion through organic/inorganic forays into newer related businesses.
- We value CMS Info Systems at 14.5x P/E on FY26E earnings (1x PEG: Price/earnings to growth ratio), which is justified by the 14.5% EPS CAGR over FY23-26E.

Valuation

Particulars	Unit	FY26E
EPS (FY26E)	Rs./share	28.9
Target – P/E	x	14.5
Target price	Rs./Share	419
Current Market Price (CMP)	Rs./Share	357
Potential upside/(downside)	percent	17.2

Source: NSE and Kotak Securities - Private Client Group

KEY RISKS AND CONCERNS

- Regulatory concerns.
- Any meaningful reduction in CIC (Cash-in-Circulation)/Cash Usage.
- Potential entry of a cash-rich global player. Rising competitive intensity.
- Risk costs (related to theft, pilferage, and reconciliation issues).
- UPI impacting cash over the longer term.
- High dependence on banks for business. Slowdown in ATM deployment.
- Promoter stake reduced from 63.16% in June'22 to 46.48% in June'23.

Financials: Consolidated

Profit and Loss Statement (Rs Crore)

(Year-end March)	FY23	FY24E	FY25E	FY26E
Revenues	1,915	2,262	2,638	3,072
% change YoY	20.4	18.1	16.6	16.4
EBITDA	538	649	731	830
% change YoY	34.5	20.6	12.7	13.6
Depreciation	132	161	194	218
EBIT	406	488	537	612
% change YoY	31.8	20.3	9.9	14.1
Other Income	15	24	27	35
Net interest	20	20	20	20
Profit before tax	401	492	544	628
% change YoY	33.0	22.7	10.6	15.4
Tax	104	124	137	158
as % of PBT	25.9	25.2	25.2	25.2
Profit after tax	297	368	407	469
Minority interest	0	0	0	0
Net income	297	368	407	469
% change YoY	32.7	23.8	10.6	15.4
Shares outstanding (Crore)	15	16	16	16
EPS (reported) (Rs)	19.3	23.4	25.4	28.9
CEPS (Rs)	8.5	9.9	12.3	13.2
DPS (Rs)	4.8	5.7	7.0	9.0

Source: Company, Kotak Securities – Private Client Group

Cash Flow Statement (Rs Crore)

(Year-end March)	FY23	FY24E	FY25E	FY26E
PBT	401	492	544	628
Add: Depreciation	132	161	194	218
Change in working capital	41	28	27	33
Chgs in other net current assets	-	-	-	-
Operating cash flow	492	624	711	813
Less: Tax	(104)	(124)	(137)	(158)
Cash flow from operations	389	500	574	655
Less: Capex	(227)	(311)	(344)	(368)
(Inc)/dec in investments	(156)	0	0	0
Cash flow from investments	(383)	(311)	(344)	(368)
Others	82	98	98	98
Increase/(decrease) in debt	0	0	0	0
Proceeds from share premium	0	0	0	0
Dividends	(73)	(90)	(112)	(146)
Cash flow from financing	9	8	(14)	(48)
Opening cash	142	156	354	570
Closing cash	156	354	570	809

Source: Company, Kotak Securities – Private Client Group

Balance sheet (Rs Crore)

(Year-end March)	FY23	FY24E	FY25E	FY26E
Cash and cash equivalents	156	354	570	809
Accounts receivable	526	621	725	844
Inventories	74	88	102	119
Loans and Adv & Others	139	152	167	184
Current assets	895	1,215	1,564	1,955
Misc exp.				
LT investments	279	279	279	279
Net fixed assets	890	1,040	1,190	1,340
Others	37	37	37	37
Total assets	2,101	2,571	3,070	3,611
Payables	225	262	306	355
Others	289	342	399	465
Current liabilities	514	604	705	819
Provisions	24	29	34	39
LT debt	0	0	0	0
Equity	154	157	160	163
Reserves	1,408	1,781	2,172	2,590
Total liabilities	2,101	2,571	3,070	3,611
BVPS (Rs)	97	114	133	152

Source: Company, Kotak Securities – Private Client Group

Ratio Analysis

(Year-end March)	FY23	FY24E	FY25E	FY26E
EBITDA margin (%)	28.1	28.7	27.7	27.0
EBIT margin (%)	21.2	21.6	20.3	19.9
Net profit margin (%)	15.5	16.3	15.4	15.3
Receivables (days)	101	100	100	100
Sales/gross assets(x)	1.3	1.3	1.2	1.2
Debt/equity ratio(x)	-	-	-	-
ROE (%)	21.1	21.0	19.1	18.5
ROCE (%)	22.5	22.2	20.0	19.3
EV/ Sales	2.8	2.3	1.9	1.6
EV/EBITDA	10.1	8.1	6.9	5.8
Price to earnings (P/E)	18.5	15.2	14.0	12.4
Price to book value (P/B)	3.7	3.1	2.7	2.3

Source: Company, Kotak Securities – Private Client Group

RATING SCALE (PRIVATE CLIENT GROUP)

Definitions of ratings

BUY	– We expect the stock to deliver more than 15% returns over the next 12 months
ADD	– We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	– We expect the stock to deliver -5% - +5% returns over the next 12 months
SELL	– We expect the stock to deliver < -5% returns over the next 12 months
NR	– Not Rated. Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
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NA	– Not Available or Not Applicable. The information is not available for display or is not applicable
NM	– Not Meaningful. The information is not meaningful and is therefore excluded.
NOTE	– Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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