

2QFY23: Healthy Growth To Stay

For 2QFY23, CMS reported a 37% YoY rise in profit to Rs725m, tad above our estimates with better margins. Revenues rose 27% YoY aided by growth in managed services & realisation lift from compliance revenues. While network expansion was limited, orderbook for cash mgt and RMS are healthy. Mkt share gains reflect its ability to invest by using cash-flows & low leverage. We raise est. & see 25% Cagr over FY22-25. BUY stays.

Healthy revenue growth and margin expansion. During 2Q, CMS' revenue growth of 27% YoY was led by 58% growth in revenues from managed services business and 17% rise in cash management business (68% of revenues). Volume of cash handled rose by 9% YoY/ -3% QOQ to Rs2.8tn and realisation rise reflected benefits arising from compliance related escalations. Ebitda margins expanded by 310bps YoY to 28.5%, aided by hike in realisations, higher contribution from services (vs. products) and operating efficiencies. Unlike other companies, CMS has seen 35% YoY increase in other income as its portfolio is mostly in overnight liquid schemes. Net profit rose 37% YoY to Rs725m.

Limited network expansion, but order wins point at healthy outlook. During 2Q, CMS didn't see QoQ growth in its cash mgt. points of 115k units. Still, we feel that order wins of Rs6bn (TCV over 4-5 years) indicates decent pipeline of additions to network as these get operationalised over next 6 months. There has been some delay in consummation of new bids for ATM management contracts, but we could see them coming through in 2HFY23. CMS also continues to ramp-up its presence in remote monitoring sites (order book of 25k of which 18k are sites live). Its healthy cashflows will support its capex plans which we expect to moderate from FY22 levels when it invested in brown-label ATMs.

Raise earnings; BUY call stays. A combination of pick-up in ATM rollout & outsourcing, expansion of commercial cash-collection network, increased compliance-services as well as ramp-up of remote monitoring system can drive growth. We raise estimates by 3-4% and expect CMS to deliver a 25% CAGR in profits over FY22-25, aided by 20% operating revenue growth and margin expansion (300bps over FY22-25). We maintain BUY with TP of Rs390 (Rs320 earlier) based on 26x Sep-24 EPS.

Exhibit 1 - CMS Info Systems: Key Metrics

Key Metrics	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin (%)	22%	25%	27%	28%	28%
Net Profit (Rsm)	1,685	2,240	3,103	3,627	4,341
PAT Growth (% YoY)	25%	33%	39%	17%	20%
ROE (%)	18%	20%	22%	21%	21%
P/S	16.9	12.9	9.2	7.8	6.6
P/E	29.5	22.3	16.6	14.2	11.9
P/BV	5.1	4.1	3.3	2.7	2.2

Source: Company Data, Jefferies

(FY Mar)	2022A	2023E	2024E	2025E
Net Profit	2,240.4	3,103.2	3,626.5	4,341.3
BV/Share	82.02	100.89	122.98	149.41
EPS	15.07	20.26	23.68	28.35
EPS Growth	32.3%	34.5%	16.9%	19.7%

TARGET | ESTIMATE CHANGE

RATING	BUY
PRICE	INR334.05*
PRICE TARGET % TO PT	↑ INR390 (INR320) +17%
52W HIGH-LOW	INR344.25 - INR212.55
FLOAT (%) ADV MM (USD)	34.6% 206.51
MARKET CAP	INR51.2B \$618.5M
TICKER	CMSINFO IN

*Prior trading day's closing price unless otherwise noted.

	CHANGE TO JEFe		JEF vs CONS		
	2023	2024	2023	2024	
REVENUE	NA	NA	NA	NA	
EPS	3.5%	3.6%	NA	NA	
2023 (INR)	Q1	Q2	Q3	Q4	FY
EPS	-	-	-	-	↑20.26
PREVIOUS					19.57

Prakhar Sharma * | Equity Analyst

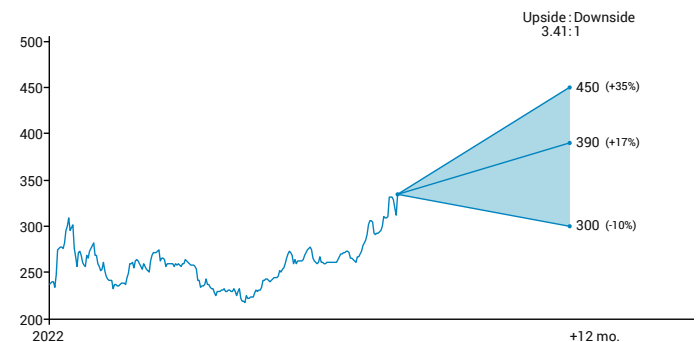
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The Long View: CMSINFO

Investment Thesis / Where We Differ

- CMS can gain market share as it leverages on its wider-reach, operational edge, stronger balance sheet, partnerships with leading banks and expansion into new verticals like remote monitoring systems and brown-label ATMs (BLA).
- Alike global markets in cash mgt., India can also consolidate further and CMS can be a beneficiary of this phenomenon.

Risk/Reward - 12 Month View



Base Case, INR390, +17%

- Top line CAGR of 20% over FY22-25
- PAT CAGR of 25% over FY22-25
- Average ROE of 21%
- Target Price of Rs390 based on 15x Sept-24 P/E

Upside Scenario, INR450, +35%

- Top line CAGR of 22% over FY22-25
- PAT CAGR of 28% over FY22-25
- Average ROE of 23%
- Target Price of Rs450 based on 17x Sept-24 P/E

Downside Scenario, INR300, -10%

- Top line CAGR of 17% over FY22-25
- PAT CAGR of 18% over FY22-25
- Average ROE of 18%
- Target Price of Rs300 based on 12x Sept-24 P/E

Sustainability Matters

Top Material Issue(s): 1) Responsible Business 2) Customer Privacy & Data Security 3) Carbon Emissions

Company Target(s): 1) Reduce its carbon footprint through the efficient use of its fleet 2) Increasing diversity and inclusion in its workforce.

Qs to Mgmt: 1) How does the Company plan to reduce its carbon emissions given the high usage of vehicles in its business? Do you plan to include EVs in your fleet? 2) What steps is the company taking to ensure strong data security? 3) What steps is the company taking to promote diversity at different levels? What are initiatives towards employee training/ reskilling?

Catalysts

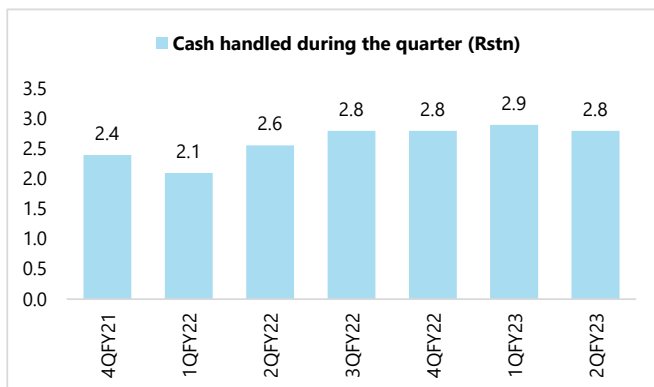
- Faster gain of market share through organic/ inorganic routes.
- Profitability can expand further through route-optimisation and upgrade of ATM-services.
- Key risks can arise from rapid digitisation of retail transactions and any adverse change in bank-partnership terms.

Exhibit 2 - CMS Info Systems: 2QFY23 Result Summary

CMS Info Systems (Rsm)	2QFY22	1QFY23	2QFY23	YoY	QoQ
Cash management services	2,764	3,131	3,242	17%	4%
Managed services	987	1,462	1,556	58%	6%
Others	96	95	82	-15%	-14%
Inter-segmental	126	155	163	29%	5%
Revenue from operations	3,721	4,533	4,717	27%	4%
Employee benefits expenses	567	629	663	17%	5%
Service and security charges	792	913	953	20%	4%
Vehicle maintenance, hire and fuel cost	381	391	423	11%	8%
Other expenses	791	1,361	1,336	69%	-2%
Total Expenses	2,779	3,293	3,375	21%	2%
EBITDA	941	1,240	1,342	43%	8%
EBITDA Margin (%)	25.3%	27.3%	28.5%	310 bps	111 bps
Depreciation and amortization expense	225	297	342	52%	15%
Other Income	21	24	29	35%	19%
Finance costs	39	45	50	27%	11%
Profit before tax	699	921	979	40%	6%
Total tax expense	171	231	254	48%	10%
Profit after tax	528	690	725	37%	5%
PAT Margin	14.1%	15.1%	15.3%	120 bps	14 bps
Other Metrics	2QFY22	1QFY23	2QFY23		
Cash Management					
Total business points	-	115,000	115,000	na	0%
Cash handled during the quarter (Rstn)	2.6	2.9	2.8	9%	-3%
Segmental EBIT margin (%)					
Cash management services	23.7%	24.6%	24.8%	110 bps	26 bps
Managed services	14.6%	20.2%	20.3%	570 bps	7 bps

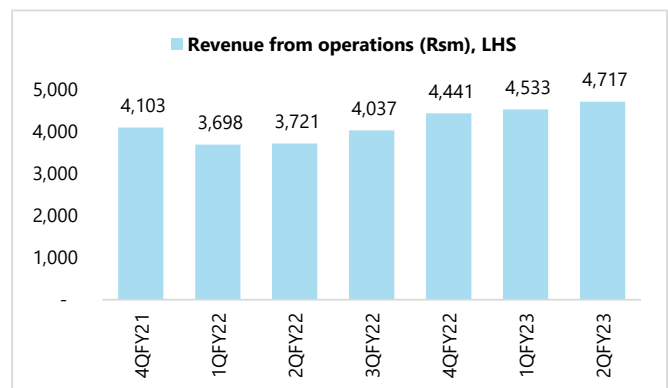
Source: Company Data, Jefferies

Exhibit 3 - Currency handled rose 8% YoY; QoQ decline is largely due to seasonality



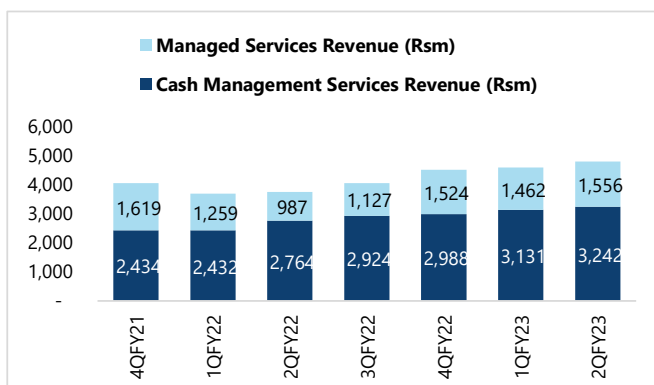
Source: Company Data, Jefferies

Exhibit 4 - Revenue growth was tad ahead of expectations



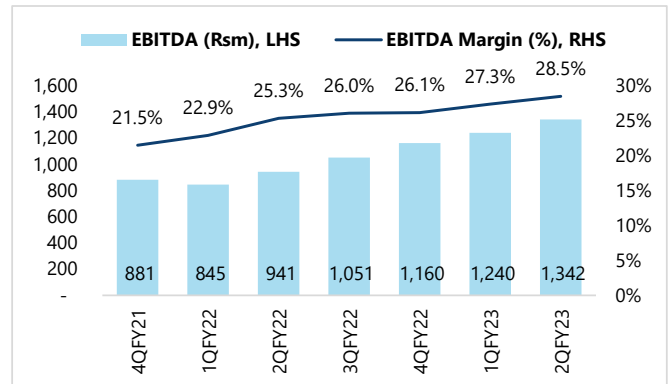
Source: Company Data, Jefferies

Exhibit 5 - Managed services segment led revenue growth



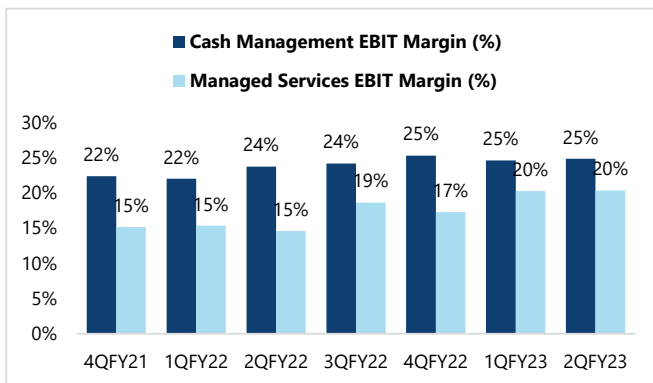
Source: Company Data, Jefferies

Exhibit 6 - Margin expansion reflects operational efficiencies, higher realizations (compliance-led) and revenue-mix



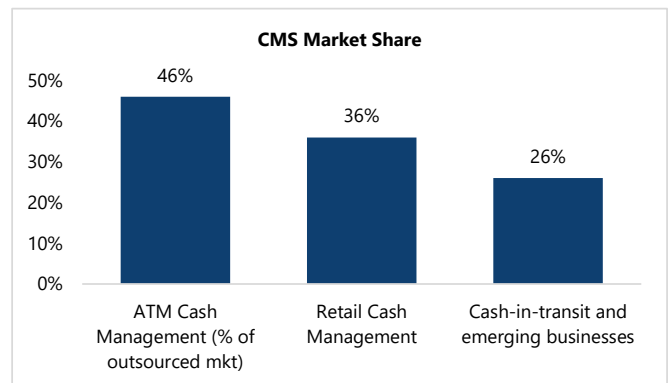
Source: Company Data, Jefferies

Exhibit 7 - Margins for both segments on a gradual uptrend



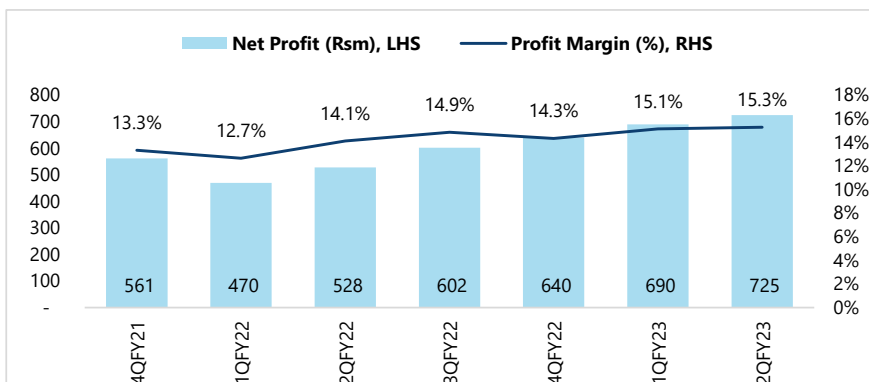
Source: Company Data, Jefferies

Exhibit 8 - CMS has dominant market shares across products



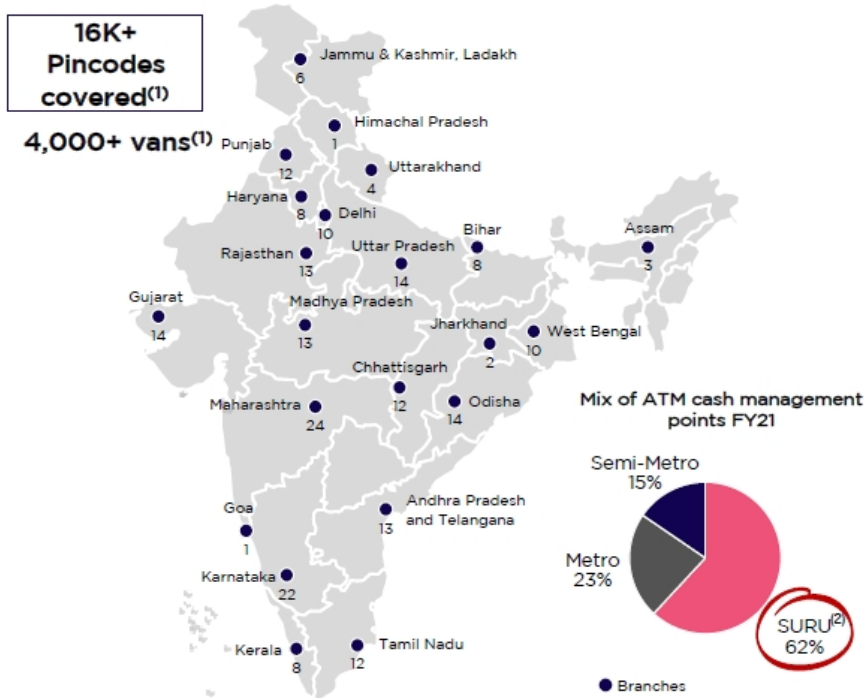
Source: Company Data, Jefferies

Exhibit 9 - Healthy PAT growth and a tad ahead of estimates



Source: Company Data, Jefferies

Exhibit 10 - CMS has 96% coverage in India, with presence across rural geographies



Source: Company Data, Jefferies

Exhibit 11 - CMS Info Systems: Profit & Loss

Profit & Loss (Rsm)	FY21	FY22	FY23E	FY24E	FY25E
Cash Management Services	9,094	11,108	14,048	16,253	18,732
Managed Services	3,640	4,896	6,528	8,020	9,508
Cards	460	477	518	563	612
Inter-Segment	133	584	675	919	1,068
Revenue from operations	13,061	15,897	20,419	23,916	27,785
Total expenses	10,125	11,899	14,811	17,330	19,942
Ebitda	2,936	3,998	5,609	6,586	7,842
Ebitda margin (%)	22.5%	25.1%	27.5%	27.5%	28.2%
Depreciation and amortisation expense	635	918	1,272	1,491	1,809
Operating Profit	2,301	3,079	4,337	5,095	6,034
Other income	158	79	92	126	176
EBIT	2,460	3,158	4,429	5,221	6,210
Finance costs	82	144	153	153	153
Profit before tax	2,377	3,014	4,276	5,068	6,057
Total tax expense	692	774	1,173	1,441	1,715
Profit after tax	1,685	2,240	3,103	3,627	4,341
PAT margin (%)	12.7%	14.0%	15.1%	15.1%	15.5%
PAT growth (% YoY)	25%	33%	39%	17%	20%

Source: Company Data, Jefferies

Exhibit 12 - CMS Info Systems: Balance Sheet

Balance Sheet (Rsm)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	1,480	1,532	1,532	1,532	1,532
Other equity	8,365	11,030	13,921	17,303	21,351
Total equity	9,845	12,561	15,452	18,835	22,883
Non-current liabilities	1,136	1,678	1,634	1,557	1,488
Current liabilities	5,137	4,318	6,042	6,420	7,357
EQUITY AND LIABILITIES	16,118	18,557	23,128	26,812	31,728
Property, plant and equipment	1,897	3,470	4,182	4,856	5,471
Right-of-use assets	1,211	1,800	1,734	1,628	1,530
Goodwill	2,034	2,061	2,061	2,061	2,061
Non-current assets	6,315	9,012	9,975	10,823	11,727
Investments	1,123	1,235	1,976	3,557	5,336
Cash and cash equivalents	1,335	643	1,046	2,961	1,789
Current assets	9,803	9,545	13,153	15,989	20,001
ASSETS	16,118	18,557	23,128	26,812	31,728

Source: Company Data, Jefferies estimates

Exhibit 13 - CMS Info Systems: Cash Flow Statement

Cash Flow Statement (Rsm)	FY21	FY22	FY23E	FY24E	FY25E
Profit before tax	2,377	3,014	4,276	5,068	6,057
Adjustments to reconcile PBT to net cash flow	1,025	1,892	1,410	1,612	1,896
Movement in working capital	(979)	(1,366)	(838)	972	(2,465)
Direct taxes paid (net of refunds)	(569)	(976)	(1,278)	(1,515)	(1,810)
Net cash flow from operating activities (CFO)	1,854	2,565	3,570	6,137	3,677
Purchase of PP&E and Intangibles	(551)	(2,840)	(1,783)	(1,965)	(2,346)
Investment in mutual funds	(545)	(8,305)	(741)	(1,581)	(1,779)
Investment in deposits with banks	(447)	(988)	-	-	-
Net cash flow from investing activities (CFI)	(1,493)	(3,262)	(2,525)	(3,546)	(4,125)
Dividend paid	(363)	(226)	(212)	(244)	(293)
Finance costs	(9)	(0)	(0)	(0)	(0)
Finance costs on lease liability	(73)	(144)	(153)	(153)	(153)
Payment of principal portion of lease liabilities	(172)	(262)	(278)	(278)	(278)
Net cash flow from financing activities (CFF)	(617)	6	(643)	(676)	(724)
Net (decrease) / increase in cash	(256)	(692)	403	1,915	(1,172)
Cash and cash equivalents at the beginning	1,591	1,335	643	1,046	2,961
Cash and cash equivalents at the end	1,335	643	1,046	2,961	1,789

Source: Company Data, Jefferies estimates

Exhibit 14 - CMS Info Systems: Key Ratios

Key Ratios	FY21	FY22	FY23E	FY24E	FY25E
EPS (Rs)	11.4	15.1	20.3	23.7	28.3
EPS Growth (% YoY)	25%	32%	34%	17%	20%
EBITDA (Rsm)	2,936	3,998	5,609	6,586	7,842
EBITDA Margin (%)	22%	25%	27%	28%	28%
EBITDA growth (% YoY)	16%	36%	40%	17%	19%
Net Profit (Rsm)	1,685	2,240	3,103	3,627	4,341
PAT Margin (%)	12.7%	14.0%	15.1%	15.1%	15.5%
PAT Growth (% YoY)	25%	33%	39%	17%	20%
ROA (%)	11%	13%	15%	15%	15%
ROE (%)	18%	20%	22%	21%	21%
BVPS	67	82	101	123	149
BVPS Growth (% YoY)	25%	32%	34%	17%	20%
DPS	2.5	1.0	1.2	1.3	1.6
Dividend payout (%)	22%	7%	6%	6%	6%
Dividend yield (%)	0.7%	0.3%	0.3%	0.4%	0.5%
P/S	16.9	12.9	9.2	7.8	6.6
P/E	29.5	22.3	16.6	14.2	11.9
P/BV	5.1	4.1	3.3	2.7	2.2
Mcap/ EBITDA	12.0	8.8	6.3	5.4	4.5

Source: Company Data, Jefferies Estimates

Exhibit 15 - CMS Info Systems: Target Price Computation

CMS Info Systems Target price (Sep-24e)	
EPS	26
P/E	15
Target price (Rs)	390
Target price rounded off (Rs)	390

Source: Company Data, Jefferies Estimates

Company Description

CMSINFO

CMS Info Systems Ltd is one of 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. CMS manages the entire flow and management of money for the 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.

Company Valuation/Risks

CMSINFO

We rate CMS Info Systems as BUY with a target price of Rs390 based on 15x Sept-24 PE. M&A led consolidation and diversification into newer/non-cash driven businesses can drive rerating. Key risks can arise from rapid digitisation of retail transactions and any adverse change in bank-partnership terms.

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(Article 3(1)e and Article 7 of MAR)

Recommendation Published November 2, 2022 , 12:22 ET.

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Jefferies Franchise Picks

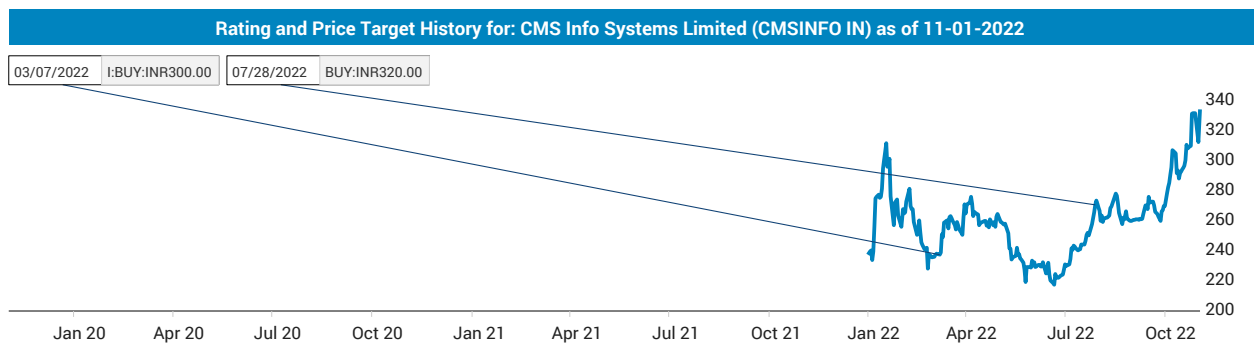
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Other Companies Mentioned in This Report

- CMS Info Systems Limited (CMSINFO IN: INR334.05, BUY)



Notes: Each box in the Rating and Price Target History chart above represents actions over the past three years in which an analyst initiated on a company, made a change to a rating or price target of a company or discontinued coverage of a company.

Legend:

I: Initiating Coverage

D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

Distribution of Ratings

	Distribution		IB Serv./Past12 Mos.		JIL Mkt Serv./Past12 Mos.	
	Count	Percent	Count	Percent	Count	Percent
BUY	2008	61.48%	77	3.83%	14	0.70%
HOLD	1111	34.02%	14	1.26%	2	0.18%
UNDERPERFORM	147	4.50%	1	0.68%	0	0.00%

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