CMS Connecting Commerce

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November 4, 2022

To,

BSE Limited
Listing Department,
1st Floor, PJ Towers,
Dalal Street,
Fort, Mumbai – 400 001
Scrip Code: 543441

National Stock Exchange of India Limited
Listing Department,
Exchange Plaza, C-1, Block-G,
Bandra Kurla Complex, Bandra(East),
Mumbai – 400 051
Symbol: CMSINFO

Dear Sir/Madam,

Sub: Earnings Call Transcript

Pursuant to Regulation 46(2)(oa) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed transcript of audio recording of post result conference call held on Wednesday, November 2, 2022 at 12:00 P.M. (IST) on Unaudited Financial Results (Standalone and Consolidated) of the Company for the quarter and six months ended September 30, 2022.

The transcript is also available on the website of the Company at www.cms.com.

You are requested to kindly take the same on your record.

Thanking You,

For **CMS Info Systems Limited**

PRAVEEN SONI

Digitally signed by PRAVEEN SONI
Date: 2022.11.04 19:25:31 +05'30'

CS Praveen Soni
Company Secretary & Compliance Officer
(Membership No. FCS 6495)

Encl: A/a

"CMS Info Systems Limited
Q2 FY '23 Earnings Conference Call"

November 02, 2022

MANAGEMENT: **MR. RAJIV KAUL – EXECUTIVE VICE CHAIRMAN, WHOLE TIME DIRECTOR AND CHIEF EXECUTIVE OFFICER – CMS INFO SYSTEMS LIMITED**
MR. PANKAJ KHANDELWAL – PRESIDENT AND CHIEF FINANCIAL OFFICER – CMS INFO SYSTEMS LIMITED
MR. ANUSH RAGHAVAN – PRESIDENT, CASH MANAGEMENT - CMS INFO SYSTEMS LIMITED
MR. MANJUNATH RAO – PRESIDENT, MANAGED SERVICES - CMS INFO SYSTEMS LIMITED

MODERATOR: **MR. AASIM BHARDE – DAM CAPITAL ADVISORS**

Moderator: Ladies and Gentlemen, good day and welcome to the Q2 FY 2023 Earnings Conference Call of CMS Info Systems Limited, hosted by DAM Capital Advisors Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Aasim Bharde from DAM Capital Advisors. Thank you and over to you.

Aasim Bharde: Yes. Thanks, Yashasvi. Hi, everyone. On behalf of DAM Capital Advisors, we are happy to welcome you all today on CMS Info Systems Q2 FY 2023 Earnings Call. From the management side, we have with us Mr. Rajiv Kaul, Executive Vice Chairman, Whole Time Director and CEO; Mr. Pankaj Khandelwal, President and CFO; Mr. Anush Raghavan, President, Cash Management and Mr. Manjunath Rao, President, Managed Services.

I now hand over the call to Mr. Kaul for his opening remarks.

Rajiv Kaul: Good afternoon, everyone. Thank you for taking the time to attend our FY 2023 Q2 earnings call today. We are pleased to inform you that we have been able to continue our growth momentum and have delivered another quarter of strong revenue growth, EBITDA growth and PAT growth.

On a Y-o-Y basis, our revenues in this quarter have grown by 27% to INR 472 crores, EBITDA by 43% to INR 135 crores and PAT by 37% to INR 73 crores. Both our businesses of Cash Management and Managed Services have seen strong growth, and this has helped us deliver our sixth consecutive quarter with an EBITDA growth of more than 20% year-on-year. This is a reflection and indicator of our market leadership, our focus on execution, a very methodical expansion strategy and being able to win large and complex end-to-end outsourcing deals in the banking sector.

Our order book continues to grow well, and we have added INR 600 crores of new wins in the first half of FY 2023. While there is a lot of focus on quarterly performance, we do want to reiterate and point out our H1 growth: our H1 revenue has grown by 25% to INR 925 crore level, PAT in the same period has grown by 42% to INR 142 crores.

I'm now going to request Pankaj, our CFO, to take us through the high level financial highlights.

Pankaj Khandelwal: Thank you, Rajiv. Our revenue from operations for Q2 stood at INR 472 crores, which grew by 27% on a year-on-year basis and net profit was INR 73 crores, which grew by 37% on a year-on-year basis. PAT margin in the quarter has expanded to 15.4% by 120 basis points between Q2 FY 2022 and Q2 FY 2023.

We are pleased to share that ICRA has improved the outlook on our rating to 'Positive' from 'Stable' and reaffirmed the rating at A1+ and AA. At a segment level, both of our major business segment had recorded strong revenue and margin growth. Revenue in our cash management business grew by 17% to INR 324 crores in quarter and 23% in H1 to INR 637 crores. EBIT from the business grew by 23% to INR 81 crores in quarter and 32% in first half of the year to INR 158 crores.

Similarly, revenue in our Managed and Technology Services grew by 58% to INR 156 crores in the quarter and 34% in H1 to INR 302 crores. EBIT for the business grew by 120% to INR 32 crores and 82% in the first half of the year to INR 61 crores.

With this, I now hand over the call to Anush Raghavan, President of our Cash Logistics Business for more insight into the business performance.

Anush Raghavan: Thank you, Pankaj, and a very good afternoon to everybody on this call today. In the second quarter, the revenues for our cash logistics business grew by 17% to INR 324 crores. Usually, the second quarter is seasonally a weaker quarter for us due to the monsoons and the *Shraadh* period, but we have still seen our activities grow 6% on a sequential quarterly basis.

The total currency handled by us also grew strongly at 12% on a Y-o-Y basis, indicating resilience of cash usage. In fact, this number has grown even faster in urban areas, recording a 23% growth on a Y-o-Y basis.

We continue to invest in upgrading our infrastructure in accordance with the RBI and MHA guidelines, and we are on track to achieving our compliance targets that we have set for the year. As we continue to invest in technology and automation for our day-to-day operations, it has helped us expand our EBIT margins by 110 basis points despite an inflationary cost environment.

With that, I now request my colleague, Manjunath Rao, to share with you an update on the Managed Services and Tech Solutions business.

Manjunath Rao: Thank you, Anush. Good afternoon, everybody. In Q2 revenues for our Managed and Technology Services business grew 58% to INR 156 crores. Our business contributed 33% of overall company revenue in the last quarter, compared to 26% a year back. With this scale up, our EBIT percentage has improved by 570 bps year-on-year.

In our AIoT Remote Monitoring business, we are now live at about 18,500 locations as of September 2022. This has been a phenomenal execution of our new business, which we incubated just two years ago. We are also expanding the software investments for developing use cases for new sectors.

In our banking automation and MS business, there are key RFPs and bids due in the coming six months, and we will share more on this as these contracts are decided and awarded.

With this, I will hand over to Rajiv to for his closing remarks.

Rajiv Kaul: Thank you, Manju. At the end of the last fiscal year, we had highlighted that our big focus on the current year is going to be on execution, given that we have a fairly significant order book to focus on. I'm happy to report that our execution of this order book despite many supply chain issues and an inflationary environment, as things are on track.

In addition to this execution, we are also doing well on our enterprise sales strategy of deepening our presence with different business lines across large PSU banks. This will enable us to have a more diversified base of business and also increase the share of our recurring revenues.

From a growth perspective, our approach has been very pragmatic and value oriented buying growth with a large acquisition or at a high valuation doesn't fit with a culture. Our M&A approach has hence been very programmatic and methodical, and we will always prefer to do small acquisitions to enter new business segments and leverage the CMS platform to scale them.

If you see over the last five years, we have expanded both horizontally and vertically from being predominantly a cash logistics business into a business services outsourcing platform, which is currently focused on the BFSI and the retail segments. Over the last decade, we have maintained a robust top line growth of 17% CAGR. For the FY 2021 to 2025 period, we have set our goals of doubling revenue at a CAGR of 18% to a INR 2,500 crores to INR 2,700 crore range. In the middle of FY 2023, I'm happy to share that we are on track to achieve this target.

Thank you for attending our call, and we can now move to questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, will wait for a moment while the question queue assembles. We have a first question from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: Rajiv and team good morning and congrats on a very strong financial trend. Couple of questions. Cash collection business from retail chains per se approximately how well the banks and NBFCs are growing their own cash management footprint and…

Moderator: I'm sorry to interrupt, Mr. Sarkar, your volume is very low.

Baidik Sarkar: Okay. I'm sorry about that. Is it better now? Am I bit more audible? Lovely. So Rajiv, I was asking that our cash collection business from retail chains per se is a function of how well the banks and our NBFC clients are growing their respective cash collection business and footprint? And then we follow suit with them.

So, if I were to ask you or Anush to paint a blue ocean of how growth in this business will generally look like over the medium to long-term trend, is there a number that you can quantify as things stand today?

And secondly, on your Managed Services business, there are several moving parts with the Brown label ATMs and now Remote monitoring, what is the pending execution of our order book here in respect to silos? And by when do you think we complete that pending execution? And post that, how does the new deal pipeline look? Thank you.

Rajiv Kaul: Baidik, thank you. I'm going to have Anush take your questions on the retail business, and then Pankaj can give you an update on the order book status.

Anush Raghavan: So I think with respect to how we are thinking about the long-term growth and the macro trends of those views are annual call to paint a more deeper picture in terms of how those things are trending.

But let me try and share with you how we are looking at that sector and given the last two, three years have been fairly volatile, what are some of the emerging trends that we are seeing right now. Broadly, when you think about the retail space in India and you compare -- sorry, when you look at the Cash Management sector in India and you compare that with any other developing, developed economy globally, you would broadly find that there is an even split of revenue between ATM, retail and then banking services in the form of cash in transit and currency chest management and so on.

In India, the growth has historically been a little bit more lopsided in bias towards the ATM, because it was that segment, which got a lot more tailwind in terms of banking outsourcing and BLA led growth. When you look at the overall retail space today, we estimate that the total addressable market is about 150,000. And when you try to look at this 150,000 in the context of what should be potential addressable market? We arrived at a number of anywhere between 700,000 to 1 million outlets where the service can be offered.

And like you rightly said, I think the only constraint or the only issue in terms of achieving this growth is how do banks and NBFCs think of deepening the penetration into this market. I think given what we see right now, both historically and currently, one of the reasons why banks tend to offer the solution, in addition to the fact that this acts as a value-added service to their current account customers, is that this provides them a very lucrative form of float and liquidity as compared to a fixed deposit or a savings account deposit, and I think when you look at that and use that lens to think of it from a macro perspective of where things are in the country today and how banks are looking at their liquidity position. I think, obviously, that acts as a tailwind for them to further deepen and focus on their sales efforts in growing the segment.

Rajiv Kaul: So Baidik, I think just to supplement what Anush was talking about the retail sector, this market or the segment did see a lot of churn thanks to COVID, unfortunately, because a lot of changes have happened in the sector.

We want to wait and see how a full year of non-COVID works out and pans out to be able to give you a longer term trend. Our going-in thesis for the sector is that this sector in the last 10 years has grown at a 10% to 12% CAGR. We think that this sector should grow faster, because of higher formalization and a more organized retail and e-commerce pickup in the country. But we would like to wait and see how this full year goes before we can give you a better commentary on a mid-term growth opportunity in the sector.

Baidik Sarkar: And if I can just harp on that question a bit more. Apart from the top few banks in India and probably SBI, do you see energy level from any other, say, the older generation private bank getting into this kind of business, because, I repeat myself here, your growth is dependent on their growth. So I'm just trying to see how the ecosystem generally is growing in the sector?

Rajiv Kaul: Sure. So the elements of change here are the following; one, e-commerce players need this service with just the private sector banks or multinational banks or public sector banks will have to cater to that need out there. So I think that's a big driver out here.

Similarly, from our side, as we built our enterprise sales strategy to focus on public sector banks for the large ATM outsourcing piece, we are also building a sales pipeline of working directly with many large, organized retail companies. This could be everything from a petrol pump to a department store and whatnot.

And I think that will show results over a period of time. Our approach is also to change this from a vanilla cash pickup service to more end-to-end outsourcing using retail cash vault, offering cash burial services and using far more technology to have a longer term growth story out here.

So I think we have seen this sector was started primarily by the multinational banks then the large Indian private banks have led the growth and deepening. And I think finally, when the midsized banks and as you said, NBFCs, insurance companies and also most importantly, the public sector banks adopt the outsourcing wave in the sector, I think you will see a very good growth.

And that's why even if I go to our pre-IPO days, we said this is a sector where we think the tailwind or the opportunity of growth is for the next decade or two decades, just given the level of outsourcing and how we rated on the quality or the type of outsourcing is still at a medium quality level, not on a high-quality level.

Baidik Sarkar: Got you. Thanks. And on the Managed Services?

Rajiv Kaul: Yes. So on the Managed Services, as we said that we have an order book when in this particular H1 is INR 600 crores, by this our new order book stands around INR 2,800 crores, out of which around more than 75% of the orders has been executed. I want to clarify that these orders are long-term in nature, and the revenue will accrue over a period of five to seven years.

Baidik Sarkar: Sure. And what is your new deal pipeline look like sir, by which I mean there is RFPs in the market as far as BLA and traditionally ATMs have confirmed, your RFPs around the remote monitoring business. Any color on that?

Rajiv Kaul: So I think there are significant -- so I mean, I think right now, what we know for sure is what we have won. And that's a number of INR 600 crores in H1. There are significant and important RFPs, which we have alluded to and talked about, there is a deal pipeline, which is quite robust, which is linked to the whole banking and public sector bank refresh and expansion cycle. We'll have to wait and see how many of them are closed out in H2. But, I think we will keep reporting as they happen, the decision-making in banks is not something we can influence and control. But I think our strike rate and win rate has been excellent in H1.

Baidik Sarkar: Sure. Thanks Rajiv for answers. Thank you.

Moderator: Thank you. Ladies and gentlemen, in order to ensure the management is able to answer all queries kindly restrict your questions to two at a time.

We have our next question from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: Good afternoon. Congratulations for the great earnings performance. My question is, you have talked about 70,000 ATMs in the recent presentation. Just wanted to understand, is this as of 30th September as of October? Or if you can highlight that?

Rajiv Kaul: Achal, I think our number of business points is something we've also said at the end of FY 2022, that's a metric, which we would like to report annually and not quarterly. I'm not sure, which presentation specifically are we referring to. But from a competitive intelligence perspective, I think we'll be comfortable sharing an update on our business points. At the end of September, our total business points would have been 115,000. And we will report to you the number end of March with a little more breakup at that time.

Achal Lohade: Okay. Actually, I'm looking at the slide 6 of the presentation, which you have just uploaded last night.

Rajiv Kaul: Updated last night, okay.

Achal Lohade: I'm looking at in the time line…

Rajiv Kaul: Sure. Let me just ask our team, just give me a minute.

Achal Lohade: Sure.

Rajiv Kaul: No, I think Achal that number of 70,000 of ATM is a number we had end of March 2022. That's the number we reported.

Achal Lohade: Okay. Understood. The second question I had, can you help us understand the absolute cash handled by us for the quarter and for the previous quarter? Is that possible?

Anush Raghavan: Yes. This is Anush. So I think that is about INR 3.1 trillion for the quarter.

Achal Lohade: This is for second quarter FY '23? And how was that for second quarter last year and also 1Q of this year, sir?

Anush Raghavan: Last year would have been about 275. So that 12% growth.

Achal Lohade: And for the first quarter?

Anush Raghavan: Yes. I think it should be around 305.

Achal Lohade: And just one more question. You have talked about the order wins. Is it possible to get some color like Rajiv, you mentioned that we had a significant strike rate. Can you help us understand the number of BLA ATMs we have won or RM sites we have won in the last six months, is that possible to quantify as well?

Rajiv Kaul: So Achal, again, these are competitively sensitive information. I think, as a management team, we would prefer to share this on an annual basis because that's the metric we set for ourselves to track ourselves on. I think that even the names of customers I think is linked to our agreement with the customers and the depending on what we can share when. So I think you'll have to be a little patient with us. And right now, the only thing we can tell you is that our order wins have been of INR 600 crores in H1.

Achal Lohade: And just last question, if I may, with respect to capex guidance, how do we work with that for FY '23, '24 and '25, a ballpark capex range given first half, there is partly any free cash generation. But I understand the Managed Services is obviously entails capex, but if you can still give some color as to how you look at the capex for current year and next few years?

Pankaj Khandelwal: So, in the last earnings call, we have given a guidance that we are expecting that the capex of around INR 200 crores to INR 225 crores. Of this, in H1, we have done a capex of around INR 135 crores. And our estimate is that will be able to end the year between INR 200 crores to INR 225 crores depending upon the execution of the number of orders we win. We expect that depending upon the new orders we win, and we are not very much focused on the BLA unless it gives the returns above our threshold. We don't foresee that our capex will be significantly higher than this number, rather, it is much lower than these numbers.

Rajiv Kaul: Based on what we know today, Achal, life can change. I think FY '22 and FY '23 are years we think are peak capex, it should reduce after that. But again, middle of the year is not the right time for us to be able to give you a long-term plan and the direction. We will give you FY '24 visibility at the end of this fiscal year.

Moderator: Thank you. Reminder to participants to press star and one to ask a question. We have our next question from the line of Balaji from IIFL. Please go ahead.

Balaji: Congrats on the great set of results. And thanks for giving me an opportunity. So I have a couple of questions. The first one would be, are you on track to achieve the INR 100 crores revenue mark from AIoT remote monitoring in FY '23? And now that you are almost 75% through your remote monitoring order book, how should one look at the visibility beyond FY '23?

And the second question would be on your costs. Your cost control has been fairly remarkable despite inflationary pressures. Could you elaborate a bit on the cost control initiatives that you are taking? And what more levers you have going forward? Thank you.

Rajiv Kaul: Thanks, Balaji. Let me quickly answer the first question, Anush, you can help you with the second question. On our AIoT business, we are on track to hit the INR 100 crores annual run rate. It was always the annual run rate target this year. It would not be INR 100 crores revenue. This said it would be INR 100 crores annual run rate, which means we will have a monthly revenue run rate of INR 8 crores - INR 8.5 crores. So we are on track to achieve that in the fiscal year. We are working, as Manju mentioned, we are working on new use cases. There are RFPs which hopefully should get closed in the second half of the year, which will give us an indication of the FY '24, FY '25 pipeline. As of now, we have an order book of 25,000 sites, out of which about 8,000 sites - 8,500 sites are live, and we hope to get the remaining live before the end of the fiscal year. On the cost side, I'll just let Anush give you a little bit of a peek into our approach on how we think about costs and the off market.

Anush Raghavan: So Balaji, I think we have, I think, shared a little bit of this in our last quarterly update as well. And obviously, we are sort of living in unique and interesting times from an inflation perspective. Usually, the first quarter is the one which bears typically the wage increase cycle when you sort of look at it in that context, it was the first quarter is usually where we sort of provide for all this and make those cost increases. And cost management for us is a function of trying to balance and focus on our margins from multiple perspectives. There is a lot of investment and effort that goes into tech and automation and consistently using that as a lever over a long-term time frame, not just a quarterly or annual basis to sort of always keep trying to get better efficiencies and better synergies. And along with that, trying to make sure from a productivity and SG&A cost perspective, what is the optimization that we can get.

And then there is also sort of trying to use pricing in an intelligent manner to sort of balance the needs of the market share as well as margins. So, to us, this is sort of, we don't think of this in terms of step increments in terms of doing it as a onetime effort. There's a lot of consistent effort that goes into it. What you are seeing as sort of our consistent improvement in terms of our EBIT margins over several quarters, really a testament to that. And we've continued to sort of evaluating the external costs and the macro picture in terms of how inflation trends. And, like I said, it's just a continuous process and effort.

Moderator: Thank you. We have our next question from the line of Nirmal Bari from Sameeksha Capital. Please go ahead.

Nirmal Bari: Congrats on the very good set of numbers. My first question was on this a clarification on the capex part, despite winning the INR 600 crores of additional orders in the first half, we don't anticipate that the full year capex will move up, right?

Rajiv Kaul: These order wins Nirmal, don't have any capital requirements. These are wins and a very capex-light model, not in the capex businesses.

Nirmal Bari: And secondly, for the first half, our capex was about INR 132 crores. So is it possible to give a rough breakup between capex on the cash management side and on the managed services or the BLA side?

Rajiv Kaul: So, I think from our side, we can tell you by the two businesses, not by specific business unit. But not by service. But I think from a Managed Services business and a Cash management business, we think our estimate would be that INR 132 crores would be split it almost on a 50:50 basis.

Nirmal Bari: It is around 50:50.

Rajiv Kaul: 50:50 basis.

Nirmal Bari: And secondly, on the receivables part, in Q4 last year, that is for the full year last year, we had some write-offs. And then at that point of time, it was said that it was because of some invoices mismatching or something. But even in the current first half, we have about INR 43 crores or INR 44-odd crores of receivables write-off. So should we consider this as a part of the business and this 4%, 5% kind of revenue as a percentage of revenue would be written-off every year? Why is this happening? If you can comment on that part?

Rajiv Kaul: So, sorry, I don't remember that time, there is no reason to have invoice mismatchin, etcetra.

I think there's some confusion maybe misunderstanding on that, on the reason for a write-off. I think the write-off would have been linked to more reconciliation, reconciliation issues, which are normal in our course of business.

Pankaj Khandelwal: So, we handle around INR 1 lakh crores of the cash every month. And there is some reconciliation in that. That resulted in some losses, which is basically, we have to write-off for the same. As of now, in the last three years or five years, it is ranging from 3% to 5%. And even this particular quarter is around 4%. So, as of now, it is based on the past track record and the current trend, it is ranging from 3% to 5%. Going forward, after we implement MHA or RBI or Cassette Swap, etcetera, we believe that this percentage will reduce.

Nirmal Bari: My last question is on the margin improvement in the Managed Services business. So generally, if we do some product sales over there, this is my understanding that if we do some product sales then typically, in those quarters, the margins tend to come down. So is this a 20% kind of margin that we are seeing in the last two quarters, does it have some play on that the mix is more oriented towards services and so the margins are higher, but in the next two quarters, if there is product sales, it may come down?

Pankaj Khandelwal: So yes, generally product margins are comparatively lower, and we end up doing the product only where we foresee that there is a lot of other services revenue associated with that. However, our total product revenue is in the range of around 2% to 5% of our total revenue. So it's not that significant. And on the MS [Managed Services] side also, if I will talk about only MS, it is ranging from 6% to 11% - 12% so far.

Rajiv Kaul: Yes. So the way you want to think of our product business or rather, I would call it the Banking Automation business is that, yes, if we have a quarter or a year where there is a significant revenue from that line coming in, it will have a lesser margin profile, but it's fairly accretive to us. And most importantly, it gives us a very long-term services revenue stream attached to that Banking Automation line of business we have. So I think it's important for us to keep building sustainable long-term revenue sources and also leveraging our investments and our engineers and our people on the field.

And the other way to think about it is that when we think of giving you all these forecasts and the longer-term forecast, we don't estimate our product and banking automation revenues to be a significant part. We like to think of that at capped at 5% to 10% of our revenue and not a large contribution to our revenue profile. So what you should look at is how the Services revenue tracking because in fact, this is a good half to look at when the product revenues are lesser, you get to see what are the base of services revenue, what is the EBIT profile of that business and that you should track and how that is trending over time.

Moderator: Thank you. We have our next question from the line of Kuber Chauhan from IDBI Capital. Please go ahead.

Kuber Chauhan: I just wanted to know that by any chance, are we facing any kind of a threat from UPI transactions or online transactions, which is currently booming around? And second question is on capex. So the capex which you mentioned, is it from internal accruals? Or are you planning for any additional loan? So these are the two questions.

Rajiv Kaul: So, on the capex, let me have Pankaj address that question first.

Pankaj Khandelwal: Yes. So all this capex has done on an internal accrual basis. We have, as on 30th September also, a cash balance of around INR 248 crores cash and cash equivalent available in our books. So all our capex is done from internal accrual.

Rajiv Kaul: And from a broader question of UPI versus cash, I mean this is a question we've been answering since pre-IPO days in every call. But I mean, UPI has had a phenomenal trend in the country for citizens, for everybody. Our answer, I'll keep it very brief, is that the prevalence of digital transactions is helping the country in many ways, including financial inclusion, Cash is a very important part of our culture and how we trust that in the country. It has affected, obviously, the growth rates of cash over the last four years to five years. However, we also feel that as India GDP grows, consumption grows, the rural markets grow, we see that cash will continue to grow well. Though digital may grow faster or slower at times, we'll have to see. And they're also coming from a smaller base rather than cash, which has been here for a century.

Kuber Chauhan: So any kind of -- I mean, what are the growth plans? This to move ahead from -- for our cash management division? So any kind of a guidance over that or perspective?

Rajiv Kaul: So I think our -- I'll right now use this quarterly call to stick to the goal of sharing our information and sort of a very broad strategy. Our Cash Management business, which was slightly less than 100% of our revenue in FY '14, FY '15, right now at the end of FY '22 is about 70% of our revenue. We estimate that this revenue contribution of our Cash Management business will be around 60% of our revenue by FY '25. And our Managed Services and Technology Solutions business will move up from zero in FY '14, FY '15 to 30% last year and around 40% in FY '25. This is assuming if we are not expanding into any other new sector in the next two years in which we have to wait and see how those expansion plans will do. In this business, we are still looking at a growth rate of 18% CAGR in revenue from FY '21 to FY '25.

Kuber Chauhan: So no threat from UPI transaction and online transaction, right? For the particular risk?

Rajiv Kaul: I think our business model is very different. And I think we have shown the resilience of the business model and the way we approach by our consistent growth of revenue and profit in the last so many years.

Moderator: Thank you. Reminder to participants to press star and one to ask a question. We have a next question from the line of Nitin Sharma from MC Pro Research. Please go ahead.

Nitin Sharma: Congratulations on great set of numbers. Two questions, if I may. I would like to understand more that what is driving the Managed Services performance in the first half? That is and then I have a follow-up.

Rajiv Kaul: Nitin, thank you for your feedback. I think if you go back to last year, and obviously, we were not listed at that time in September, we had won a significant order book at the end of COVID and walking into FY '22. The execution of the order book has started in H2 of last year, and you're seeing the quick ramp-up of that in FY '23. And therefore, when you look at the large bump up in managed services revenue from a half-to-half year basis. Part of it is also the base did not have the luxury of having a lot of the order book under execution of that time. And that has given us a significant jump up in this half.

Nitin Sharma: And basically, I would want to understand that is it fair to assume that the Security and Service charges will continue to grow nearly revenue growth rate Y-o-Y and some update on the RBI compliance status?

Rajiv Kaul: So let me have Anush, he'll take you through the compliance statement, and we'll come back to your security question.

Anush Raghavan: Sure. On the compliance front, as we had updated, we sort of set ourselves a goal of achieving about 65% compliance by end of fiscal '23. As things stand, we are on track towards achieving that number. We had also shared that from a longer-term perspective, we estimate that the compliance -- most of the compliance should be rolled out by FY '24, depending on ATM or retail segments. So from that three year perspective, we are sort of on track with our compliance execution.

Nitin Sharma: So on the last call, you mentioned that the cassette swap compliance was lagging behind. Is it still the case or it at par with your year-end goal?

Anush Raghavan: No, cassette swap, to be fair, I should call that out. When I talk about compliance, I'm talking more about the base RBI MHA compliance and achieving those 65% and close to completion by FY '24. I'm not talking about cassette swap here. Cassette swap continues to be a laggard from an overall industry perspective. Though as the market leader, we are reasonably well positioned to implement that in terms of the investments into our infrastructure and overall capability. But having said that, the RBI is continuing to urge the banks to ensure that they can meet the deadlines imposed which as of now is March 2024. So we will have to see how that evolves, but as we are sort of near the goal, there is a greater degree of pressure and urgency shown by the banks wanting to start ramping up their network towards cassette swap plans.

Nitin Sharma: Understood. And on the question on Services and the Security cost?

Pankaj Khandelwal: So these service and security costs are basically the outsourced employee and the security we take for our special for our cash fragment business and which is increasing in line with the increase in the revenue of the particular business?

Rajiv Kaul: It's not a straight-line correlation and we hope it's not because we hope to get more productivity benefits over time but it's mostly linked to our outsourcing of any staff which we need for our business and especially the security infrastructure we need to put in place for both RBI MHA compliance and for our cash management network.

Moderator: We have a next question from the line of Abhay Agarwal from Piper Serica Portfolio Management. Please go ahead.

Abhay Agarwal Thank you to the management team of CMS. My question is that I heard you use the phrase Banking Automation and because now it sounds like going beyond this Cash Management and almost a convergence of your Cash Management business with Managed Services business? And also, we recently saw the government launched 75 digital banks.

So my first question is, are you considering that digital bank branches to be an initiative that CMS can benefit from which goes beyond the cash management but literally running these branches? And secondly, the way the Managed Services business is growing and the fact that it probably doesn't require as much cash to grow as the cash management business, plus you have international clients where the growth can be much bigger.

So how much bigger can the Managed Services business be over the next three to five years as compared to the Cash Management business? These are my two questions.

Rajiv Kaul: So let me try and take them one by one. On the Banking Automation side, of course, is a fairly vast field we've been helping both public and private banks automate their branches so that the load at the front desk and the tellers can be much reduced. This is from ATM, self-service kiosks and cash recyclers and other solutions. And even it's going up to currency chest automation.

We have provided solutions to banks for that. The question, I think your remark on capital needs, I would like to correct you here is that our cash management business is not actually very capex intensive. Some parts of our business in Managed Services, like the brown label ATM business are capital intensive, and therefore, we don't have a big thrust in those sectors. We have been very clear that it's an area we will look at very judiciously if it meets our return metrics. And that's the way we have been very capital allocation-wise, we've been very stringent.

If you think of the company over the last decade, not more than INR 200 crores of equity capital has come into the company, most of it, the growth has been done by internal accruals only. From a perspective of the cash management versus managed services, what I would like to refer to is what we shared during the IPO time and later, the market size or the TAM at the end of FY '21 for our combined businesses was roughly about INR 8, 500 crores. That is expected to grow by 2.5 times to INR 22,000 crores by FY '27. Now the growth CAGR opportunity is almost similar for the Managed Services and the Cash Management. However, the Cash Management market in FY '27 is forecasted to be an INR 8,000 crores market and the remaining INR 14,000 crores is from both the Managed Services as well as the AIoT Remote Monitoring business. So it's a larger market. It's a larger market opportunity for sure. However, our goal is to focus on the businesses where we don't need to deploy too much capital, and we can continue our growth rate at healthy return metrics.

Moderator: Thank you. We have our next question from the line of Abhishek from Narayani Investment. Please go ahead.

Abhishek: First question, are you thinking starting new service line? Or are there any plan for inorganic acquisitions? Would you like to say something about it? And second question, what kind of EBITDA and the PAT margin are you expecting in H2 and the next two years?

Rajiv Kaul: Abhijeet, thank you for your questions. I think in line with the way we have done our last three quarter calls in this quarter call, we don't, as a management team, give any guidance on EBITDA or PAT. Our only guidance is on revenue for FY '25 which is to reiterate again, we have an 18% CAGR goal of growing our revenue from FY '21 to FY '25, which is to take a revenue of INR 1,300 crores to a roughly INR 2,500 crores - INR 2,700 crores range by FY '25.

In terms of service lines and inorganic acquisition, as a team, we are always focused on looking for adding on business lines and services in which we can scale and be a market leader and do well. We will share with you, if you would refer to our annual report letter or our earlier calls, I think we have alluded to the areas in which we are examining our expansion strategy. As of now, there is nothing definite. The last acquisition we made was in AIOT Remote Monitoring about 12 to 15 months ago.

And we continue to look at markets adjacent to us or new sectors. Our approach is to focus on our capital to enter new lines of sectors instead of investing in our current sectors where we think we should be able to grow our market share and business organically. Unless we get something very cheap.

Moderator: Thank you. We have our next question from the line of Sanjay from Real Group. Please go ahead.

Sanjay: So my first question is like, what the management take on RBI decision to come up with the CBDC. And as you already provided the revenue guidance. So are you keeping in mind that if it goes well, with the CBDC side, how it affects your revenue? And what will be your outlook on that?

Rajiv Kaul: I think if you look at our revenue model, it's a function of the number of business points we handle in the country. I don't think CBDC or increase in that will have any impact to our current business lines and the way we have structured our company. But from a CBDC perspective, our views are, you and I know the same what we read in the public domain.

The Central Bank is, like some other countries, trying to pilot it. The pilot has been launched for wholesale. It looks interesting. I think it's a fairly interesting idea to try this in wholesale, especially for intercountry remittances in rupees. From a retail perspective we, as of now, haven't really understood what use case will it serve and how will it help consumer or Indian citizen yet, given the fact that we've got a remarkable adoption of UPI in the country.

So CBDC retail is to be seen to see what it helps deliver in the country and what problem does it really solve. The wholesale one, specifically from a intercountry remittance in rupee trade and all, I think that looks like a promising opportunity for the country to explore like some other large developing countries like China are already doing.

Sanjay: So are you expecting any trend if it plays well down the line?

Rajiv Kaul: Not as enough for what we understand of CBDC pilots and early papers, we don't perceive this to be a threat to our current business model.

Moderator: Thank you. Ladies and gentlemen, in order to ensure that the management is able to answer all queries kindly restrict your questions to two. We have our next question from the line of Bhavin Shah from Sameeksha Capital. Please go ahead.

Bhavin Shah: So first of all, we own the stock, so we are believers. But I actually want to go back to the question of the cash in circulation. But I look at how everything is happening only use of cash, I can see is for black money and corruption and that's because I think every smallest, even the very bottom of the pyramid people are doing UPI-based transactions -- so if you can comment on that.

And then you have given a very interesting data on CIC, cash in circulation as a ratio of basically trying to show that in India the velocity is low. So is that velocity number decreasing, increasing or stable? How is that? And then on the remote monitoring, I think last presentation, you had shown a pretty large TAM, including the one in the nonbanking area. So how much is right now the revenues from remote monitoring and IT Solutions? And are you looking at the nonbank area?

Rajiv Kaul: So let me take the last part of your question first, and then Anush can talk to you about the cash in circulation of velocity questions. I will avoid any reference to cash we use for black money and all because that is not a business model which works to our advantage anyway. So I hope if that is happening, it comes down.

We only work in the organized channel, and that's the money we currently we handle because we work with the banks. From the perspective of remote monitoring, we have talked about large TAM, and that's our understanding the market opportunity across many sectors in the country. We have started focusing on the banking sector actually start because that's where our strength of enterprise relationships and our know-how last.

I think we have done well in that. We are expanding now to other elements of BFSI which is insurance, NBFCs and that sector. I think we want to play to our strengths to build our base as quickly as we can and become a market leader in the area. Over time, we do aspire to expand into the broader options there.

You have to keep in mind that this is a business we started 18 months ago. And then you have to think from a long-term perspective, we have already started building the software use cases for our new sectors. There will be pilots, we'll ever see what we win and lose. We're going to learn and see how we are able to do well in other sectors

But from a BFSI sector, I think we feel good and happy about our software. What we have most importantly delivered - the number of robberies and incidents which we have prevented or files and everything in a very short period of time. We feel very happy about the value we're adding to our clients. I think over time, as the quality keeps improving, our footprint increases, we should continue this, again, to build this into a good cash cow and into a high-quality business and number one market player in India.

We will be focused on the B2B side. We are not focused or intelligent enough to focus on the B2C side. I think, again, for this, end of year would be a good time to report on broader direction of these businesses instead at the midpoint, where I think the focus is on a lot on the current year execution. Anush, do you want to talk to the cash in circulation.

Anush Raghavan: Yes. I think with respect to cash, this is an interesting topic where everybody tends to have a certain rhetoric or an anecdotal view, mostly based on what we are seeing in the world around us. We sort of try to look at it as objectively as possible. And the only guidance that we can sort of give is basis that data and numbers that we are seeing.

Now and obviously, as a cash company, we've been tracking a lot of these numbers over a long period of time. We also evolved the CMS Cash Index in a way which sort of seeks to demonstrate what is actual intensity and usage of cash in terms of whether the ATM withdrawals or the retail cash usage -- and maybe below what we can try and do is, at the end of the third quarter, we will try and share with you given that the festival period has just gotten over.

And in the third quarter, we'll try and share with you some snippets from our Cash Index which will hopefully give you a sense of what are some of those longer-term trends. But right now, I'll just limit myself to two or three specific data points. Generally, the perception is that with the increasing penetration of digital and UPI, most of urban India is sort of migrating into that usage.

We have repeatedly reiterated the point that two-thirds of the work that we do is in semi-urban and rural India, where there is, in fact, a lot of work still to be done in terms of financial inclusion, in terms of improving people's access to banking and in terms of the need for the per capita incomes in those segments to increase if India has to sort of meet its broader macro aspirations.

But having said that, when I look at how cash is trending in metros and this is just the top six cities we've actually seen a 23% change in terms of overall increase of cash withdrawals through the ATM network on a year-on-year basis. So Q2 of FY '22 versus Q2 of FY '23 is 23% growth. And if I look at it on a sequential basis, that is 5%. For a long period, during the COVID, we have sort of seen that the Semi-urban & Rural India and Semi Metros has more or less achieved their pre-COVID cash usage levels and slightly exceeded that. Metros were lagging at 90-95%. But in the last six to nine months, we've sort of seen a dramatic shift in that usage.

Second, when you look at the overall cash volumes, which is beyond ATMs and we look at how those are trending. Now Q4 is usually the, you know, cyclically the strongest quarter in terms of, you know, because typically, you know, that leads to a spurt either due to tax payments or insurance payments and whatnot. But, you know, we shared with you the last call as well that this first quarter was the period of highest cash usage that we had seen across our network ever, even surpassing Q4. Q2 continues to build on the Q1 strength and as it stands that we have seen a 5% increase in the overall cash usage in Q2 even as compared to the fourth quarter.

You know, retail sector continues to show fairly strong degree of resilience. Sectors which were impacted for the last two years due to either as a function of lockdown, mobility issues or COVID, have also seen a strong resurgence. If I just look at Media and Entertainment, for example, that's up by 150% on a year-on-year basis. Aviation is, for example, up by 20%, while the other sectors are sort of tending to hold to their long-term trends.

Bhavin Shah: So the cash velocity ATM withdrawal as a percentage of CIC, is that increasing or decreasing for India, since you have this data from the past as well?

Anush Raghavan: I think in terms of cash velocity, the CIC has undergone a significant increase in the last two years. I think that was a step change and that CIC is obviously holding steady. I think it's just a 2% increase. But the usage of cash is a more smoother curve and that's continuing to increase slightly. So the base of that I think is a longer term trend. I think that should be reasonably steady. I don't think, we will have a look at the number in case there's a change, we'll come back to you. I don't think that number is changing much.

Rajiv Kaul: Bhavin, I may want to just join into this question a little bit and give a different perspective for the sake of not only you, but our other call participants, because this may not be understood very well by some people here. Our business model, even though the metric which an investor will look at is currency in circulation and velocity. We have a contrary view actually. We actually think that if this goes down, the need for our services and efficiency will even go up. Our business model is linked to the number of trips, is linked to the number of business points we cover. It's not linked to the amount of currency we carry or we manage, rightly or wrongly, whichever way, that's the business model in the country.

Now, if organized retail goes up in the country, whether it is a Reliance Retail store or it is a D-Mart store or it's e-commerce, there will be a cash transaction in that. The percentage of cash transaction may be 10%, 20%, 30%, it doesn't matter. But that means that business point will need to be covered on the cash logistics network. That is where we get the revenue from. Then now there may be a small amount of revenue linked to the amount of currency, but the majority is linked to the stock. And that we think is a long-term opportunity for decent growth in our industry on the retail side.

You come to ATM, the ATM management business and cash is linked to the number of ATMs, obviously we handle. And there we have more than 35% of ATMs just still in-sourced where the banks are not outsourcing it. The second element is how many trips do we need to make to that ATM in a month? That's where our pricing is linked to. And that over the last five years has not declined much. It has declined by max 10% after demonetization, because, again, the linkage here is to doing a just-in-time fill, so that banks and optimize on the currency, which is outside the network and on which they have to pay an interest. And we have seen pre-GST, post-GST, pre-COVID, post-COVID, the number of trips being fairly strong and robust out there.

Now the amount of money, which we put in each trip may go up or go down depending on seasonality. So again, you got to our Managed Services business, our linkage to the currency in circulation or the currency volume we handle isn't so much to our revenue, it is just to demonstrate to you the robustness of cash usage, because perception, like you said, cash is used mostly for black money is untrue, right? There is a lot of cash being used in the formal channels, which is traceable and trackable by the banks, which you and I sitting in a larger city may not be so aware of and we may perpetually be thinking differently.

Bhavin Shah: See what I meant is the need for incremental cash is primarily for corruption. And then that…

Rajiv Kaul: I mean that's your viewpoint, right? My point is I don't think we are a management team to comment on that. And neither are we qualified. My point of view is simple, if India will grow at 5%, 6% and 7%. Some part of that consumption growth at the rural sector will be taken care of by DBT, will be taken care of by UPI. Some of it will be done by cash. For us, the deepening presence of financial services in the country, the deepening prints of organized retail in the country is our opportunity for growth because they will -- our view is that all boats will rise at what rate we'll see, but all boats will rise as a country does well.

Moderator: Thank you. We have a next question from the line of Mukesh Kothari an Individual Investor. Please go ahead sir.

Mukesh Kothari: I mean just to take forward the last caller query on velocity of cash. I think if I read the trend in UPI and the current CBDC that RBI is proposing, the low cash velocity in India is actually a feature. It's not a buck, I mean, compared to other countries. Because other countries don't have similar systems except probably Brazil. So low cash velocity in fact is not an opportunity, I think, It's more of a design. What do you think about that?

Rajiv Kaul: Sorry, your question wasn't fully clear. Was there a question that the low cash velocity in India is not an opportunity or…

Mukesh Kothari: Yes, it's not an opportunity because other countries don't have a similar system the way India has? Like UPI and I mean, the other latest CBDC that RBI has come up with?

Rajiv Kaul: No, not really. I mean you go to even a developed country like America. There are many interpersonal payment solutions available. They may not be done by the national regulator like NPCI, but there are many applications by bank to bank which people have. There's Venmo which everybody in America will be using to transfer money to each other. There are digital wallets. It's not an invention of India. Digital wallets were invented 25 years ago. Whether you go to Japan, you go to China, you go to wherever. So everybody has their own system or different systems either by private sector or public sector are prevalent out there.

The comment on cash velocity and opportunity is, let me try and explain this one more time, is that if the currency in circulation goes down, let's assume, this is a hypothetical scenario. If it goes down, we feel that the banks will need to drive more efficiency of cash usage through velocity. Right now we think the system isn't that efficient. I think there are many hops which a company like us needs to make. RBI prints the money, the money needs to go to a bank's chest, from bank's chest goes to a bank branch, from there it goes to a bank ATM, then you want to withdraw the money, we spend it at a retail shop, then a company like CMS goes and picks up the money, then we bring it back to our world, we process it, then we go to a bank chest, the bank chest will keep it or take it back to RBI.

This can be far more efficient. It's something we have been trying to advocate for a long time as a leader in the sector. It hasn't been yet been streamlined, for whatever reasons there may be. We think that will streamline over a period of time. And I think as that happens, you're also keeping in mind that in India, the cost of cash or the cost of currency has been at a mid-single digit levels always. It's never been 2% or 0%. It's been 5%, 6%, 7% and 8%. When you have such cost of cash, whether you hold it in your chest or your ATM or branch, it is in the bank's interest to therefore have a higher efficiency of how frequently can the money come back to the vault rather than it be floating outside.

Part of it also is that as a country, a lot of us continue to hold a lot of cash at home or in our wallets instead of depositing it frequently back into a bank account and then withdrawing it when you need it. Either it's due to access or it's due to whatever reasons out there. So our contrary viewpoint for the long term, this is not something I foresee happening in the short term, is that when the velocity will improve, the need for a cash logistics company will be far more robust than even what you see today. Again, it's a viewpoint. We are you know, you and we can defer on it, but that's something we feel having been the sector of the business over the last 15 years.

Mukesh Kothari: And I take your point. My next question was on basically the market share. The currently top two players have around 72% market share, right? And I understand that it's a growing market that is a market will grow, but banks will also have their own constraints in terms of dependency risks that they have. So don't you think the top two players might not grow from year on despite the growth in market?

Rajiv Kaul: Sure. I mean, it's a valid point. When you're referring to the 72%, let me clarify for the sake of everyone else on the call, that's a number which is for the top two players in the ATM cash management space. The retail cash management has a different dynamic. The cash in transit has a different dynamic. The Managed Services have different market shares.

Now again, India can be different in India can be similar to other countries. But when we have examined this landscape across 10s of countries over the last decade in our experience, whether you take a large country like America or you take a smallish country, we have seen that for a company to be successful in this sector, this is a cash logistics business, which is also a risk management business, which people somehow don't realize at times. Scale is very important, because our scale gives you the network, the network and the ability to drive technology to manage your risk and also manage your operations at a reasonable cost.

And therefore, these industries have geared towards a two player three player, maybe a four market around the world, because others cannot survive. India, we saw -- I think when we were in the sector in 2009 and '10, there were four players. -- which quickly grew to almost eight or nine players in 2013, ’14 and ’15, which then shrank to a five-player market, which may shrink to three or two or may again expand. We don't know, right. Competitive dynamics on what companies want to do is not something which we can forecast so well. We think looking at the global trends, the only larger scale players can survive. Otherwise, it's very difficult to sustain this business for more than four, five years. And as you've seen in India, some companies have shut down, some had either losses or they couldn't manage to invest to grow the business. So that's our view, will the top two go from 72 to 90 or will it go to 60? We don't know.

Mukesh Kothari: Finally, one final question. How do you look at non-BFSI opportunities in terms of Cash Management? Say targeting petrol stations, company-owned company-operated petrol stations or say railways. Have you explored any such area, I mean, non-BFSI? I know there are no guidelines by RBI as such regulating this, but have you looked at this? That could be a potentially big opportunity?

Anush Raghavan: I think when we talk about BFSI, the reason we say that from a retail perspective is that while we offer our cash management solution to a wide variety of retail stores, we generally prefer to work through the banks, because it helps address concerns around compliance, source of money, reporting and AML and so on. But having said that, even if you look at our current split of retail business, it's quite diversified. We work with e-commerce companies, we work with petrol outlets, we work with organized retail and NBFCs, hospitality, education. And so from that perspective, we do not sort of set ourselves a bar in terms of the sectors that we work with. The only bar we set or the only standard we set for ourselves is we're preferring to operate through a banking channel.

Mukesh Kothari: What would be the ratio between BFSI and non-BFSI business? And do you think non-BFSI could grow?

Anush Raghavan: Obviously, I think when you look at the next decade or two decades, there is a lot of potential for retail to grow, especially with the entry of large-scale players in organized retail. Just to name some names, you've seen Reliance Retail, you've seen similar such companies having aspirations of significantly increasing their retail footprint. So I think that is going to be a large growth driver. We already operate, work and provide our services to many of them. So I think there will be a large degree of overlap or a similarity of our wallet market share of different types of retail sectors similar to the broader industry. I don't think we'll be very different from that.

Rajiv Kaul: And while we talk about the growth opportunity, I think it'll be good to just distract all of you also to think about other things which don't get attention on these calls. You think of something as basic as currency transportation. We think that's a sector which has grown quietly over the last 10 years at least a 10% clip every year. We think this will continue to grow well at a 10% to 15% clip, because at least just because every bank which you and I know of or we track or we invest into as a stock is looking to expand the number of branches in the country.

That expansion branches brings in its own currency logistics opportunity to carry cash back and forth to process it, to manage it. So again, my point is that there is a need at least in the foreseeable future for deeper financial inclusion and access. The DBU is one form of a way of trying to get a branch or a mini branch out there in a more automated manner without too many people involved out there. And I think all of them, again, in a DBU, you will have an ATM. You may have a currency recycler. They will consume cash. They will also have ways to open a bank account digitally without using too much human intervention. So our point remains that when you see financial inclusion drive in this country, you will see all boats will rise at a reasonable pace.

Moderator: Thank you. I would now like to hand the conference over to management for closing comments. Over to you, sir.

Rajiv Kaul: Thank you again for your time and your patience. I hope our commentary and our question-and-answer session will help you understand our business better. We, just to summarize, we are very focused this year on execution of our order book and making sure we build a good, sustainable and more predictable revenue base for all our investors in the coming years. I think we are well on track to meet all of our strategic objectives. The first half of the year has continued to be a good half on the back of a good FY '22. And thank you for your support and look forward to talking to you at the end of our Q3.

Moderator: On behalf of DAM Capital Advisors Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.