



ALPHA

24 NOV 2022

CMS Infosystems – Cash Management Services

Market Data	
CMP	Rs. 336
Date	23-Nov-22
Target Price	Rs. 405
Upside Potential	21.00%
52 Week High/Low	356/210
Market Cap	Small Cap
NSE Code	CMSINFO
Sector	Cash Management Services
Rating	Buy

CMS, headquartered in Mumbai, is India's leading cash management services provider. The company was incorporated in March 2008, by hiving off selected business segments of CMS Computers Limited. CMS was historically engaged in two broad lines of businesses, namely, IT services and print solutions (includes services like financial card management, print & digital solutions and IT infrastructure support, trading of IT equipment(s) & IT training services) and cash & ATM management. During FY2015, the IT business, along with the print division of CMS were carved out and demerged into a new company, namely, CMS IT Services Private Limited. Post the demerger, CMS is involved in cash management and managed services. The company has a PAN India footprint by covering 16K+ Pin codes covered with 4000+ Vans.



Products & Services: It operates in three business segments.

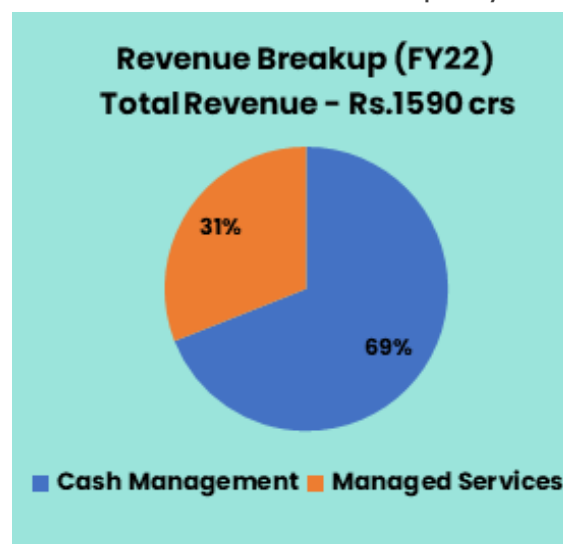
Cash management services - Includes end-to-end ATM replenishment services, cash pick-up and delivery, network cash management and verification services, inter-city & intra-city movement of currency and cash-in-transit services for banks.

Managed services - Includes Banking automation product sales and deployment, end-to-end Brown Label deployment and managed services for banks, common control systems and software solutions.

Others - Includes end-to-end financial cards issuance and management for banks and card personalization services.

SHP	Sep - 22 (%)	Jun - 22 (%)	Change
Promoters	63.01	63.16	-0.15
FPI	10.61	10.40	0.21
DII	12.09	11.65	0.44
Public & Others	14.29	14.78	-0.49
Pledged	0.00	0.00	0.00

Subsidiaries: As on March 31, 2022, the Company has 5 subsidiaries.



Margins - FY22	
Gross Profit	90%
EBITDA	25%
PAT	14%



Key Rationale

- **Strong Position** – Incorporated in 2008, CMS is the leading player across all verticals of cash management business. Along with its subsidiary (Securitrans India Private Limited), the company manages almost 70,000 ATMs (as of March 2022), which form ~46% of the total outsourced ATMs in India, and ~28% of the total ATMs in India. The company's clientele comprises reputed and well-established players with whom it has long-term relationships. Its clientele includes SBI, HDFC Bank, Axis Bank, ICICI Bank, Citi Bank, Hitachi Payment Services Private Limited, Financial Software and Systems Private Limited, etc. Incremental business from key clients has supported CMS's revenue growth over the years. The company's market share is 46% in ATM cash management, 36% in Retail Cash management and 26% in Cash-in-Transit (CIT) and Emerging Businesses.
- **Integrated Systems** – Managing and coordinating movements of large volumes of cash and various other services involves complex planning and logistics that can have a significant impact on performance and profitability. To maximise the scalability of operations, CMS leverages on customised systems and processes designed on internally developed applications that cater to the specific requirements of India's banking sector. For example, it has implemented technology platforms such as a) CMS Connect, which facilitates critical processes in ATM operations, b) CMS ALGO, a fully automated and mobility-based ATM security application that reduces the time spent on pre and post-route activities and during first line ATM maintenance calls and replenishments, and c) CMS AGILE, which offers automated reconciliation for predictive risk management.
- **Q2FY23** – On a YoY basis, Revenues in Q2FY23 have grown by 27% to Rs.472 crores, EBITDA by 43% to Rs.134 crores and PAT by 37% to Rs.73 crores. Both the businesses of Cash Management and Managed Services have seen strong growth, and this has helped the company to deliver sixth consecutive quarter with an EBITDA growth of more than 20% YoY. The Cash management business is up 17% YoY in Q2 despite slowdown in consumption, particularly in rural India. The managed services business is up 58% YoY backed by phenomenal execution of the AIoT Remote Monitoring Business.
- **Financial Performance** – The Revenue has grown at a CAGR of 12% from Rs.1146 crs in FY19 to Rs.1590 crs in FY22. Similarly, the PAT has grown at a CAGR of 33% from Rs.96 crs in FY19 to Rs.224 crs in FY22. The company's 3 Year average ROE stands at 18% (FY20-22) and the 3 Year average ROCE stands at 27% for the same period. The company maintained its zero debt position as on March 31, 2022 with a cash & cash equivalents of ~Rs.266 crs.

**Ratios - FY22**

ROE	18%
ROCE	25%
Div. Yield	0.00%
PE Ratio	23.00
Face Value	10.00
EPS	Rs. 14.63

Industry Analysis

Cash in circulation (CIC) – the total of cash with banks and currency with the public – grew at 19.8% between FY20 and FY21 to ~Rs.28.4 trillion with CIC/GDP at 15% in FY21. Notwithstanding Covid-led disruption and significant scale-up in digital payments, CIC grew 11% YoY in FY22, reflecting resilience to macro-economic deviations (e.g., GST, demonetisation, etc.). CIC is expected to grow at a CAGR of 10% over FY21-25E to Rs.41.5 trillion. India is the world's 3rd largest ATM market with significant under penetration in SURU (Semi-Urban and Rural) and low cash velocity. The number of ATMs deployed as of 2020 in India is 255k and the average ATMs per 100K population in India stands at 22 as on 2020 with 26 ATM per 100K population in Metro and 15 in SURU. India added 15k ATMs in last 15 months. The increase in demand for cash and cash-related services in India is expected to cause banks and other participants in India to deploy more ATMs, leading to 6.2% CAGR growth in ATMs to 365K by FY27.

Growth Drivers

India's organised retail market is increasing annually at 20-25% and is expected to contribute to 30% of the market share by FY25E. Increasing customer base in the form of e-commerce, organised retail chains, jewellers, gold loan companies and hospital chains are positively driving the cash management market.

The Indian cash management market is on a path towards consolidation, predominantly driven by players exiting the market space owing to strict compliance requirements and the increasing trust towards scale players.

In order to address ATM demand for new and replacement ATMs, banks are likely to prefer a Brown Label ATM (BLA) operational model to reduce capex costs while also ensuring that market demand is met. This is one of the key drivers for BLA market, which is expected to grow from 86,000 ATMs in FY21 to 180,000 ATMs by FY27E.



Peer Analysis

Competitors: SIS Ltd.

The Cash management market is in the consolidation stage and the top two players (CMS infosystems & AGS Transact) forms 72% of the overall market share. In those two, AGS transact is an unlisted player. SIS ltd is the only listed company which indirectly (through a Joint Venture) competes with CMS info in the cash management system. So, CMS info is more like a monopoly in the listed space and the overall market is near duopolistic by Value.

Company	CMP	Mcap.	ROE	ROCE	P/E	EPS
CMS Info	336	5177	18.00%	25.00%	23	14.63
SIS	389	5750	16.00%	12.00%	18	22.13

Outlook

CMS has demonstrated exceptionally strong and consistent performance with 33% CAGR in PAT between FY19-22, positive OCF/FCF in all the past 5 years (except FY22) and net cash balance sheet. CMS handled over Rs.11 lakh crore of cash in FY22, of which Rs.1 lakh crore in March alone – its highest ever in any month. The cash management business of the company which was near 100% of the overall revenue in FY14 and FY15 is now at 69% in FY22. The management is guiding that the same business will be around 60% of the overall revenue in FY25. On the other hand, the Managed services business was Nil contribution to the revenue in FY14 and FY15 and is currently 31% of the overall revenue in FY22. Going forward, it will be around 40% in FY25. The new wins in the orders in HIFY23 is Rs.600 crs. The current order book of the company stands at Rs.2800 crs, out of which more than 75% of the orders are executed. These orders are long term in nature, and the revenue will accrue over a period of five to seven years. The management also guided that the revenue will grow at a CAGR of 18% till FY25.



Valuation

We believe the consolidation of the market and the company's track record of incubating new businesses and scaling up its existing business will result in a high growth. Considering the healthy balance sheet, consistent cashflow generations, strong revenue growth potential and robust return ratios, we recommend a BUY rating in the stock with the target price (TP) of Rs.405, 20x FY24E EPS.

Risks

- **Business Risk** – Given the large volumes of cash it handles, CMS' business is exposed to various operational risks including armed robbery, end-customer or third-party fraud, theft or embezzlement by personnel provided by third-party service providers, etc.
- **Technological Risk** – The increase in alternate payment methods continues to remain a threat and the cash management business may face challenges if there is any significant shift in the use of digital payment methods instead of cash.
- **Regulatory Risk** – The cash management services have been regulated by the RBI with regular interventions and increase in compliance requirements, leading to increase in costs for the ATM service provider. Though the industry expects the same to be passed on to the customers, the scale and profitability remain vulnerable to any unforeseen adverse regulatory changes.

Source – Tickertape, Company's Website, BSE Website.

Thanks & Regards

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