

CMS Info Systems – BUY

29 January 2024

Result review



Healthy order book improves revenue visibility

CMS' 3Q performance was driven by 36% YoY growth in managed services (MS) segment, which resulted in this segment contributing an all-time high of 40% of consol revenue, ahead of the company's guidance of achieving it by FY25. Cash management revenue growth was more modest at 11%. Adjusted PAT (after removing ESOP charges) grew 22% YoY. With 17-19% revenue growth guidance for FY24, the implied 4Q growth at mid-point comes to 27%, which should be aided by robust order book in the MS segment. CMS now expects FY25 revenue in the upper half of Rs25-27bn guidance range. Management stated that while it has been balancing revenue growth and margins well for the past few quarters, it would prioritise market share gains over short-term margins in strategic areas. We maintain our 16% EPS Cagr over FY23-26ii and our TP rises from Rs436 to Rs457 on rolling forward to March-25. The stock trades at 14.8x 1YF PE. Maintain BUY.

Revenue beat driven by MS segment: Reported Ebitda/PAT grew 11%/15% YoY in 3QFY24. After removing ESOP costs, Ebitda/PAT grew 16%/22%. Adjusted Ebitda margin declined ~85bps YoY due to adverse mix and incubation costs of new businesses. New deal wins in MS segment were stellar. Cash management revenue saw YoY slowdown vs. FY23 due to lower pricing on a CIT contract. However, cash management has grown 3%/4% QoQ in 2Q/3QFY24 led by traction in retail segment on the back of CashX offering (treasury, risk management, working capital management).

Positive management commentary: Key takeaways from earnings call: 1) Strong deal wins in the MS segment in 9MFY24 provides improved revenue visibility for 4QFY24 and beyond; 2) CMS had 25% share of wins of the 33k ATM contracts awarded in 9MFY24; 3) Rs3.4trn cash handled by CMS in 3Q was the highest ever; 4) Risk cost as a % of revenue came down from 5.1% in FY23 to 4.1% in 1HFY24. It has trended down further in 3Q and CMS targets to take this below 4% in FY24; and 5) capex is likely to spill over from FY24 to FY25, while FY25 will also see some capex increase linked to new deal wins.

We maintain estimates: While we raise revenue estimates by 3-4%, the upgrade is driven entirely by the lower-margin MS segment. Consequently, we largely maintain Ebitda and PAT. Valuations remain attractive, considering healthy earnings outlook, strong return ratios and an asset-light business model with ~Rs5bn net cash. Key risk: margin pressure.

Result update

CMP	Rs390
12-mth TP (Rs)	457 (17%)
Market cap (US\$m)	733
Enterprise value(US\$m)	671
Bloomberg	CMSINFO IN
Sector	Business Services

Shareholding pattern (%)

Promoters	26.7
Pledged (as % of promoter share)	0.0
FII	23.8
DII	23.4
52Wk High/Low (Rs)	405/266
Shares o/s (m)	157
Daily volume (US\$ m)	1.9
Dividend yield FY25ii (%)	2.4
Free float (%)	73.3

Financial summary (Rs m)

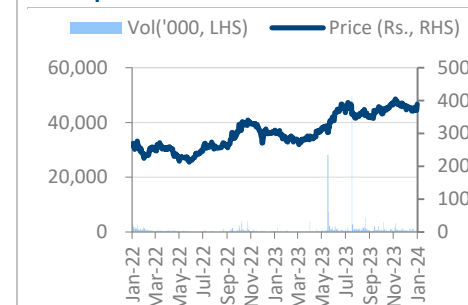
Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Revenues (Rs m)	15,897	19,148	22,631	26,135	29,821
Ebitda margins ex ESOP (%)	25.7	28.8	27.6	27.6	27.4
Reported Ebitda margins (%)	25.1	28.1	26.9	26.8	26.7
PAT ex-ESOP (Rs m)	2,290	3,040	3,808	4,440	5,015
Reported PAT (Rs m)	2,240	2,973	3,532	4,262	4,955
Reported EPS (Rs)	15.1	19.3	22.2	26.3	30.1
Growth (%)	32.3	27.8	15.2	18.6	14.3
PER (x)	25.9	20.3	17.6	14.8	13.0
ROE (%)	20.0	21.1	20.5	20.8	20.9
Net debt/equity (x)	(0.2)	(0.3)	(0.3)	(0.4)	(0.4)
EV/Ebitda (x)	13.8	10.4	9.1	7.8	6.7
Price/book (x)	4.6	3.9	3.3	2.9	2.5
OCF/Ebitda (x)	0.6	0.8	0.6	0.7	0.7

Source: Company, IIFL Research. Priced as on 25 January 2024

Price performance (%)

	1M	3M	1Y
Absolute (Rs)	0.9	6.0	25.9
Absolute (US\$)	0.9	6.0	23.6
Rel.to Smallcap	(4.7)	(16.2)	(31.7)
Cagr (%)		3 yrs	5 yrs
EPS (Rs)		28.4	

Stock performance



Revenue beat led by MS segment

Figure 1: P&L

Consol. (Rsmn)	3Q FY23	2Q FY24	3Q FY24	% YoY	% QoQ
Revenue	4,883	5,437	5,823	19.2%	7.1%
Cost of goods sold	267	369	522	95.8%	41.5%
Employee costs	694	850	861	24.1%	1.4%
Security and service charges	975	1,087	1,207	23.7%	11.0%
Vehicle maintenance, hire and fuel cost	358	413	401	11.9%	-2.8%
Other expenses	1,234	1,263	1,324	7.3%	4.9%
Total Cost	3,528	3,981	4,315	22.3%	8.4%
Ebitda	1,355	1,456	1,508	11.3%	3.5%
Ebitda%	27.7%	26.8%	25.9%	-185bps	-89bps
Depreciation and Amortization	324	364	377	16.3%	3.7%
Ebit	1,031	1,093	1,131	9.7%	3.5%
Finance charges	46	41	39		
Other income	48	83	78	63.8%	-6.1%
Profit before Tax	1,032	1,135	1,170	13.3%	3.0%
Tax	274	292	299	8.9%	2.4%
PAT	758	844	871	14.9%	3.2%
PAT Margin	15.5%	15.5%	15.0%	-56bps	-56bps

Source: Company, IIFL Research

Figure 2: Segmental performance

Segment-wise results (Rsmn)	3Q FY23	2Q FY24	3Q FY24	% YoY	% QoQ
Cash Management Services					
Revenue	3,383	3,605	3,750	10.8%	4.0%
Ebit	854	953	976	14.2%	2.4%
Ebit%	25.2%	26.4%	26.0%	77bps	-40bps
Managed Services + Cards					
Revenue	1,688	2,061	2,326	37.8%	12.9%
Ebit	324	388	411	26.6%	5.8%
Ebit%	19.2%	18.8%	17.7%	-156bps	-118bps

Source: Company, IIFL Research

CMS' overall revenue grew ~19% YoY, above our estimate of 17%.

ESOP costs were Rs119mn in 3QFY24 vs. Rs106mn in 2QFY24 and Rs37mn in 2QFY23. This drove the 24% jump in employee costs.

Total opex grew by 22% YoY

Reported Ebitda grew 11%. After removing ESOP costs (which have sharply risen since 2QFY24), Ebitda grew 16%.

CMS reported 15% YoY PAT growth to Rs871mn in 3QFY24, ~3% below our est. despite revenue beat. PAT (after adjusting for ESOP charges) grew 22%.

Cash management (67% of FY23 revenue) grew ~11% YoY, below our estimate of ~13%. This is largely led by lower realisations in a cash-in-transit contract post renewal earlier in FY24. The number of business points served by the cash logistics business grew by a healthy 10% in 3Q to 133k. The company highlighted strong traction in retail cash management.

MS + card services revenue grew ~38%, well above our est. of ~25%. Within this, MS grew ~36%, marking a significant acceleration from 15% seen in 1H. New deal wins in the MS segment stood at Rs6bn/12.5bn in 3QFY24/9MFY24, implying an acceleration in 3Q. The company stated that it won mandate for ALGO AIoT Remote Monitoring Solution for 2,000 new sites.

Figure 3: After removing the impact of ESOP costs, the growth numbers were stronger

Rsmn	3Q FY23	2Q FY24	3Q FY24	% YoY	% QoQ
Ebitda adjusted for ESOP	1,412	1,573	1,634	15.7%	3.9%
Adj. Ebitda margin	28.9%	28.9%	28.1%	-85bps	-87bps
PAT adjusted for ESOP	786	923	960	22.1%	4.0%
Adj. PAT margin	16.1%	17.0%	16.5%	39bps	-49bps

Source: Company, IIFL Research

Highlights from earnings call

Cash Management: Highest cash volume handled in 3Q; RCM doing well

- Outsourcing in the banking space and formalization in the retail space are the key growth drivers for the cash management segment. 4k total business points were added during 3Q, similar to 1H run-rate. 40+ new retail logos were on-boarded during 9M for CashX solutions (such as treasury solutions, risk management, working capital management).
- 12k ATMs (15%) have seen cassette swap implementation. On route compliance, 85% of ATMs are compliant. RCM is witnessing city-wise compliance rollout (40%+ compliance achieved). For CIT, CMS works with exclusively compliant contracts (except for a few PSU contracts). CMS is not focusing on clients who are not keen on compliance (such as WLA operators).
- As part of infra upgrade, CMS added 500 CIT vans during 9MFY24 and upgraded vaults.
- 33k ATM contracts closed in 9MFY24. CMS has a 25% market share in these wins. This also manifests in CMS' strong order book. At the industry level, contracts for 20k more contracts should close in 4Q and 1Q.
- Rs3.4trn cash handled by CMS in 3Q was the highest ever. Activity (which has direct linkages to CMS' revenue) grew 10% YoY.

MS: Strong revenue growth; strong order inflow

- MS segment contributed to 40% of overall revenue. CMS won orders for Rs6bn in 3Q taking the 9MFY24 order inflow to Rs12.5bn. Revenue from these orders would accrue over the next 5 years. In FY23, order wins were Rs9.5bn.
- CMS has won orders for 2k new sites for AIOT remote monitoring. CMS should be offering AIoT remote monitoring in 25k sites by end-FY24. Annual run-rate is >Rs1bn.

FY24 revenue guidance of Rs22.5bn-23bn; FY25 guidance of Rs25-27bn

- Strong order book and seasonal strength provides visibility on 27% growth implied by the midpoint of FY24 revenue guidance of Rs22.5bn-Rs23bn.
- FY25 revenue will be closer to the upper end of the range guidance (Rs25-27bn). The mix will be 60:40 between cash management and MS. MS has lower margins than cash management, which will result in some drag on margins due to mix. Productivity improvements will continue.
- CMS has a conscious strategy to keep revenue contribution from BLA to <15%.

COGS up and risk cost down due to mix change

- COGS went up due to higher salience of banking automation products. Vehicle hiring costs went down due to the addition of 500 vans.
- Risk cost as a % of revenue came down from 5.1% in FY23 to 4.1% in 1HFY24. It has trended down further in 3Q. CMS targets to take this below 4% in FY24. This is driven by primarily by compliance implementation and cassette swap rollout, as well as mix change towards MS.
- 75% of ESOPs have been issued close to CMP and 25% issued at 10% discount. 50% of these are linked to performance. There are no deep discount options or RSUs. In 4Q, ESOP costs will be Rs100-110mn. It will then fall to Rs60-70mn for the next four quarters and to Rs20-30mn subsequently.

Capex likely to be lower than earlier guidance, to spill-over to FY25

- Capex in FY24 is likely to be lower than Rs1.5bn-Rs1.75bn (earlier guidance) at Rs1-1.25bn. However, this is mostly due to spillover to FY25. Execution of order book would also result in capex in FY25. Out of the Rs12.5bn MS order book, only one-third will require some capex.

Others

- CMS has a higher degree of compliance than the rest of the industry.
- Competitive intensity remains high. CMS has been balancing revenue growth and margins well for the past few quarters. In strategic areas, CMS would prioritise market share gains over short-term margins.
- There is no major change in M&A philosophy. The focus areas are logistics, technology, inclusion; none of them are directly related to cash movement. The first two relates to banks and NBFCs. CMS would prefer to incubate a well-run company and improve its scale rather than foray into some large market.

Maintain estimates

Figure 4: Consolidated P&L

Rsmn	FY22	FY23	FY24ii	FY25ii	FY26ii
Revenue	15,897	19,148	22,631	26,135	29,821
Growth YoY %	21.7%	20.4%	18.2%	15.5%	14.1%
Cost of goods sold	1,538	1,162	1,562	1,829	2,087
<i>As % of revenue</i>	<i>9.7%</i>	<i>6.1%</i>	<i>6.9%</i>	<i>7.0%</i>	<i>7.0%</i>
Employee costs	2,315	2,649	3,286	3,859	4,245
<i>As % of revenue</i>	<i>14.6%</i>	<i>13.8%</i>	<i>14.5%</i>	<i>14.8%</i>	<i>14.2%</i>
Service and security charges	3,207	3,816	4,537	5,257	5,815
<i>As % of revenue</i>	<i>20.2%</i>	<i>19.9%</i>	<i>20.0%</i>	<i>20.1%</i>	<i>19.5%</i>
Vehicle cost	1,509	1,584	1,627	1,882	2,147
<i>As % of revenue</i>	<i>9.5%</i>	<i>8.3%</i>	<i>7.2%</i>	<i>7.2%</i>	<i>7.2%</i>
Other expenses	3,330	4,559	5,542	6,291	7,559
<i>As % of revenue</i>	<i>20.9%</i>	<i>23.8%</i>	<i>24.5%</i>	<i>24.1%</i>	<i>25.3%</i>
Total Cost	11,899	13,770	16,554	19,118	21,853
Ebitda	3,998	5,378	6,077	7,016	7,967
Ebitda %	25.1%	28.1%	26.9%	26.8%	26.7%
Depreciation	918	1,318	1,484	1,588	1,717
Ebit	3,079	4,059	4,594	5,428	6,251
<i>Ebit %</i>	<i>19.4%</i>	<i>21.2%</i>	<i>20.3%</i>	<i>20.8%</i>	<i>21.0%</i>
Finance Charges	144	196	161	157	157
Other income	79	147	325	481	593
Profit before Tax	3,014	4,010	4,758	5,752	6,688
Tax expenses	774	1,038	1,226	1,490	1,732
<i>Tax rate</i>	<i>25.7%</i>	<i>25.9%</i>	<i>25.8%</i>	<i>25.9%</i>	<i>25.9%</i>
PAT	2,240	2,973	3,532	4,262	4,955
# shares* (mn)	149	154	159	162	165
EPS (Rs)	15.1	19.3	22.2	26.3	30.1

Source: Company, IIFL Research; we assume that 11mn ESOPs are exercised equally over the next four years

Figure 5: Ebitda and PAT – Reported and Adjusted for ESOP charges

Rsmn	FY22	FY23	FY24ii	FY25ii	FY26ii
Reported Ebitda	3,998	5,378	6,077	7,016	7,967
Reported Ebitda margin	25.1%	28.1%	26.9%	26.8%	26.7%
Ebitda after removing ESOP costs	4,080	5,510	6,469	7,256	8,047
Adjusted Ebitda margin	25.7%	28.8%	28.6%	27.8%	27.0%
Reported PAT	2,240	2,973	3,532	4,262	4,955
PAT after removing ESOP costs	2,290	3,040	3,808	4,440	5,015

Source: Company, IIFL Research

We raise FY24/25/26ii revenue by 3-4%. As MS segment's contribution to revenue increases, the blended Ebitda margin could decline. Consequently, we maintain EPS for FY24/25/26ii.

Figure 6: Estimate changes

Rs mn	FY24			FY25			FY26		
	New	Old	Δ (bps)	New	Old	Δ (bps)	New	Old	Δ (bps)
Revenue	22,631	22,089	2.5%	26,135	25,270	3.4%	29,821	28,580	4.3%
Ebitda	6,077	6,066	0.2%	7,016	6,946	1.0%	7,967	7,817	1.9%
Ebitda%	26.9%	27.5%	-61	26.8%	27.5%	-64	26.7%	27.4%	-63
PAT	3,532	3,519	0.4%	4,262	4,230	0.8%	4,955	4,960	-0.1%
PAT%	15.6%	15.9%	-32	16.3%	16.7%	-43	16.6%	17.4%	-74

Source: IIFL Research

Figure 7: We use 13.1% cost of equity and WACC

Item	Value
Risk free rate	7.1%
Adjusted beta	1.0
Equity Risk Premium	6.0%
Cost of Equity	13.1%

Source: IIFL Research

Figure 8: Terminal growth rate assumptions

Item	Value
Terminal growth rate for Cash Management	3.0%
Terminal growth rate for Managed Services	5.0%
Contribution from Cash Management in terminal year	48%
Terminal growth rate %	4.0%

Source: IIFL Research

Note that we use the fully-diluted share count of 165mn (vs the current share count of 156mn) for TP calculation, assuming all ESOPs are exercised. CMS trades at 14.8x 1YF PER — quite attractive, considering 16% EPS Cagr over FY23-26ii.

Figure 9: Our DCF yields Mar-2025 TP of Rs457

	Rsmn
EV (March 2025)	67,092
Net debt (March 2025)	-8,348
Equity Value (March 2025)	75,441
#shares (mn)	165
TP (Rs)	457
CMP (Rs)	390
Upside	17.2%
Dividend per share (Rs)	9.4
Total Return	19.6%

Source: IIFL Research

Background: CMS Info Systems is one of India's leading business services companies and 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. The Company manages the entire flow and management of money for the 1,50,000 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.

Management

Name	Designation
Rajiv Kaul	Executive Vice Chairman, Whole Time Director and CEO
Pankaj Khandelwal	President and CFO
Manjunath Rao	President - Managed Services
Anush Raghavan	President – Cash Management

Customers: Banks, organised retail players, managed service providers for banks:

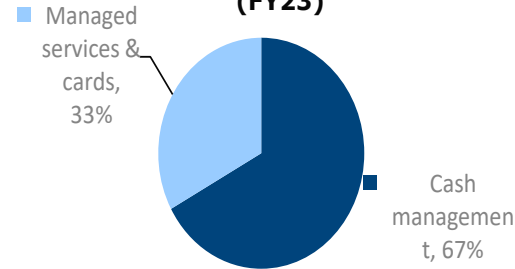
Competitors: AGS Transact, Brinks, FIS, FSS, NCR:

Assumptions

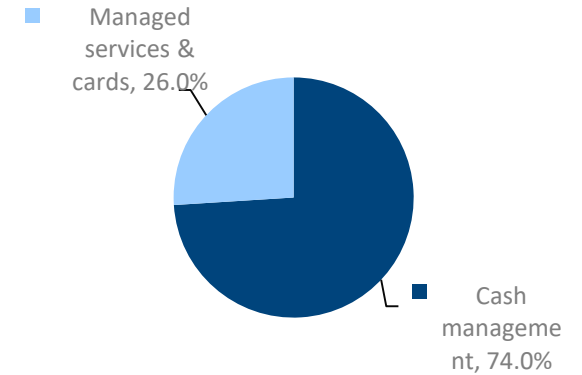
Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Cash management revenue	22.1	19.4	11.5	12.7	11.8
growth (%)					
Managed services revenue	34.5	24.8	30.2	21.1	18.4
growth (%)					
Cash management Ebit margin (%)	23.9	25.4	26.3	26.5	27.0
Managed services Ebit margin (%)	16.5	19.8	18.9	19.7	19.7
Cash conversion cycle (days)	61.5	63.0	63.2	63.2	63.2
Capex to sales (%)	17.8	10.1	5.4	9.0	7.9

Source: Company data, IIFL Research

Segment-wise Revenue break-up (FY23)



Segment-wise Ebit break-up (FY23)



PE Chart



EV/Ebitda



Financial summary

Income statement summary (Rs m)

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Revenues	15,897	19,148	22,631	26,135	29,821
Ebitda	3,998	5,378	6,077	7,016	7,967
Depreciation and amortisation	(918)	(1,318)	(1,484)	(1,588)	(1,717)
Ebit	3,079	4,059	4,594	5,428	6,251
Non-operating income	79	147	325	481	593
Financial expense	(144)	(196)	(161)	(157)	(157)
PBT	3,014	4,010	4,758	5,752	6,688
Exceptionals	0	0	0	0	0
Reported PBT	3,014	4,010	4,758	5,752	6,688
Tax expense	(774)	(1,038)	(1,226)	(1,490)	(1,732)
PAT	2,240	2,973	3,532	4,262	4,955
Minorities, Associates etc.	0	0	0	0	0
Attributable PAT	2,240	2,973	3,532	4,262	4,955

Ratio analysis

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Per share data (Rs)					
Pre-exceptional EPS	15.1	19.3	22.2	26.3	30.1
DPS	1.5	1.0	7.1	9.4	12.4
BVPS	84.5	101.2	118.5	135.9	153.6
Growth ratios (%)					
Revenues	21.7	20.4	18.2	15.5	14.1
Ebitda	36.2	34.5	13.0	15.4	13.6
EPS	32.3	27.8	15.2	18.6	14.3
Profitability ratios (%)					
Ebitda margin	25.1	28.1	26.9	26.8	26.7
Ebit margin	19.4	21.2	20.3	20.8	21.0
Tax rate	25.7	25.9	25.8	25.9	25.9
Net profit margin	14.1	15.5	15.6	16.3	16.6
Return ratios (%)					
ROE	20.0	21.1	20.5	20.8	20.9
ROCE	24.7	26.2	25.6	26.5	26.8
Solvency ratios (x)					
Net debt-equity	(0.2)	(0.3)	(0.4)	(0.4)	(0.4)
Net debt to Ebitda	(0.7)	(0.8)	(1.1)	(1.2)	(1.3)
Interest coverage	15.1	19.3	22.2	26.3	30.1

Source: Company data, IIFL Research

Balance sheet summary (Rs m)

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Cash & cash equivalents	2,653	4,355	6,943	8,613	10,520
Inventories	635	742	763	882	1,006
Receivables	4,993	5,260	6,510	7,518	8,579
Other current assets	1,264	763	755	769	783
Creditors	2,459	2,252	2,801	3,235	3,691
Other current liabilities	1,599	1,096	1,091	1,091	1,091
Net current assets	5,487	7,772	11,079	13,455	16,105
Fixed assets	5,706	6,727	6,361	7,115	7,762
Intangibles	2,235	2,170	2,170	2,170	2,170
Investments	0	0	0	0	0
Other long-term assets	1,071	996	1,147	1,147	1,147
Total net assets	14,499	17,664	20,758	23,888	27,184
Borrowings	0	0	0	0	0
Other long-term liabilities	1,938	2,040	1,878	1,878	1,878
Shareholders equity	12,561	15,625	18,880	22,010	25,306
Total liabilities	14,499	17,664	20,758	23,888	27,184

Cash flow summary (Rs m)

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Ebit	3,079	4,059	4,594	5,428	6,251
Tax paid	(976)	(1,085)	(1,230)	(1,490)	(1,732)
Depreciation and amortization	918	1,318	1,484	1,588	1,717
Net working capital change	(1,366)	(1,318)	(1,377)	(706)	(743)
Other operating items	909	1,093	0	0	0
Operating cash flow before interest	2,565	4,068	3,471	4,820	5,492
Financial expense	(144)	(196)	(161)	(157)	(157)
Non-operating income	79	147	325	481	593
Operating cash flow after interest	2,500	4,019	3,635	5,145	5,929
Capital expenditure	(2,833)	(1,933)	(1,229)	(2,343)	(2,363)
Long-term investments	(144)	0	0	0	0
Others	(350)	(387)	600	0	0
Free cash flow	(826)	1,699	3,006	2,802	3,566
Equity raising	638	157	710	385	385
Borrowings	0	0	0	0	0
Dividend	(226)	(154)	(1,128)	(1,517)	(2,044)
Net chg in cash and equivalents	(415)	1,702	2,588	1,670	1,907

Source: Company data, IIFL Research

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BUY - Stock expected to give a return 10%+ more than average return on a debt instrument over a 1-year horizon.

SELL - Stock expected to give a return 10%+ below the average return on a debt instrument over a 1-year horizon.

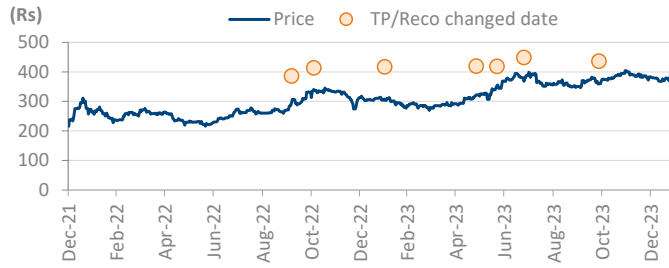
Add - Stock expected to give a return 0-10% over the average return on a debt instrument over a 1-year horizon.

Reduce - Stock expected to give a return 0-10% below the average return on a debt instrument over a 1-year horizon.

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CMS Info Systems: 3 year price and rating history



Date	Close price (Rs)	Target price (Rs)	Rating
27 Oct 2023	359	436	BUY
25 Jul 2023	379	449	BUY
21 Jun 2023	348	419	BUY
26 May 2023	320	420	BUY
31 Jan 2023	304	417	BUY
03 Nov 2022	337	414	BUY
06 Oct 2022	286	386	BUY