

10 March 2022

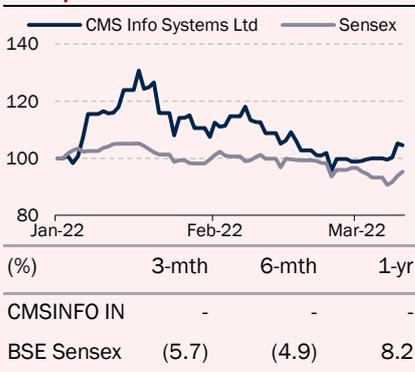
BSE Sensex: 55464

Sector: Services

Stock data

CMP (Rs)	249
Mkt Cap (Rs bn/USD m)	36.9 /483
Target Price (Rs)	360
Change in TP (%)	NA
Potential from CMP (%)	44.5
Earnings change (%)	
FY22E	↔
FY23E	↔
FY24E	↔
Bloomberg code	CMSINFO IN
1-yr high/low (Rs)	318/215
6-mth avg. daily volumes (m)	-
6-mth avg. daily traded value (Rsm/USDm)	-/-
Shares outstanding (m)	148.0
Free float (%)	34.4
Promoter holding (%)	65.59

Price performance – relative & absolute



CMS Info Systems Ltd. (CMSINFO) is a key outsourcing service provider to India's banking industry. It has the largest market share in ATM (~41%) and Retail Cash Management (~36%), and is a close second in the Cash-in-Transit market (~26% share). It started as a cash transporting player (housed within its Cash business; FY22 revenue share of ~67%), but eventually took over other cash-related activities like ATM product sales (plus servicing), running full-fledged ATMs, and their security (under Managed Services (MS) business; FY22 revenue share of ~30%). The expansion of its MS business has stretched CMSINFO's target addressable market (TAM) by ~3x, elongating its growth runway. We believe concerns surrounding digital modes replacing cash in the long term are unfounded; we are confident that both can co-exist. CMSINFO is a healthy ~20%/30% revenue/earnings CAGR story, with ability to generate 20%+ return ratios over FY21-24E (31-38% RoIC over forecast period.) We initiate coverage on the stock with an Outperformer rating, and a DCF-based target price of Rs360 (implied FY24E P/E of ~16x; 44% upside).

MS – The growth engine: Expanding presence across various MS verticals has expanded CMSINFO's TAM by ~3x. We believe the company is set to carve out a meaningful share in this market soon, as it has been a core and old partner for banking outsourcing activities since more than two decades. We expect this segment to post ~30% revenue CAGR over FY21-24E, and 30%+ margin (vs 21% in FY21), as the mix improves in favour of high-margin brown label ATMs (BLA) and remote monitoring (RM) segments.

Cash has its own growth legs: We estimate ~18% revenue CAGR (FY21-24E) in the cash business (with scale-driven margins steady at ~27%), as CMSINFO is looking to capitalize on higher realizations (compelled by banks complying with RBI norms). ATMs under management should also expand at ~10% over this period (aided by ~5% growth in ATM industry base plus higher outsourcing).

Able and proven leadership: Over the last two decades, CMSINFO's management (most of whom are with the company since 2009) has exercised calculated growth bets while also being focused on profitability/return metrics. This is reflective in the company's numbers (FY16-21 revenue CAGR of ~3%, but EBITDA/PAT CAGR at 18%/25% with RoCE range of 18-23%). With potential headwinds/opportunities in the medium-term for the industry, we expect the leadership to demonstrate its proven abilities in the future as well.

Key risks: (1) Structural drop in cash-in-circulation (CIC), (2) Banking industry headwinds (#1 client), (3) Higher-than-anticipated risk costs impacting margins

Key valuation metrics

Year to 31 Mar	FY20	FY21	FY22E	FY23E	FY24E
Net sales (Rs m)	13,832	13,061	15,839	19,650	23,175
Adj. net profit (Rs m)	1,347	1,685	2,286	2,988	3,682
Shares in issue (m)	152	152	165	165	165
Adj. EPS (Rs)	8.9	11.1	13.9	18.1	22.4
% change	40.2	25.1	25.1	30.7	23.2
PE (x)	28.1	22.5	17.9	13.7	11.1
Price/ Book (x)	4.4	3.8	3.4	2.9	2.4
EV/ EBITDA (x)	13.9	11.8	9.5	7.1	5.6
RoE (%)	16.9	18.4	20.8	22.5	23.4
RoCE (%)	22.5	22.7	25.0	27.2	28.2

Source: Company, DAM Capital Research

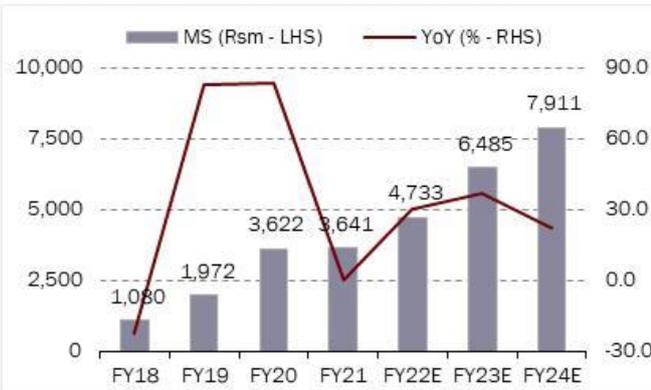
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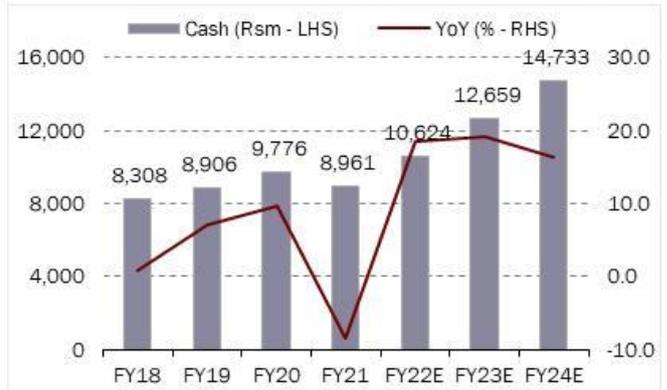
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Managed Services (MS) portfolio to grow fast at ~30% CAGR over FY21-24E, but compliance-driven tailwinds would mean that cash business too has its own growth legs (~18% CAGR)

BLA/RM to be key growth drivers for the MS business...

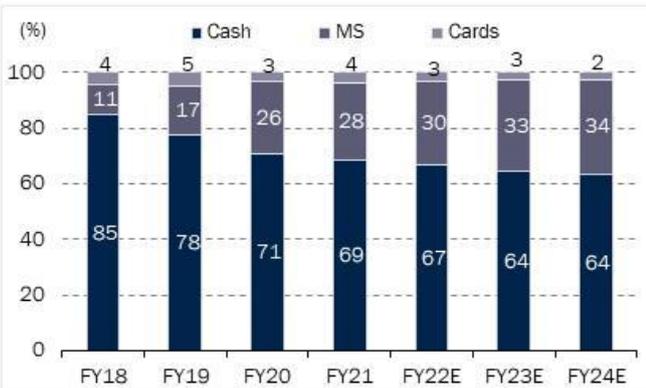


...while pricing to drive double-digit cash business in the near-term



Increasing share of high-margin MS (powered by higher margin BLA/RM) should translate to a ~500 bps EBITDA margin improvement for CMSINFO over FY21-24E

Increasing share of MS in the overall revenue mix...

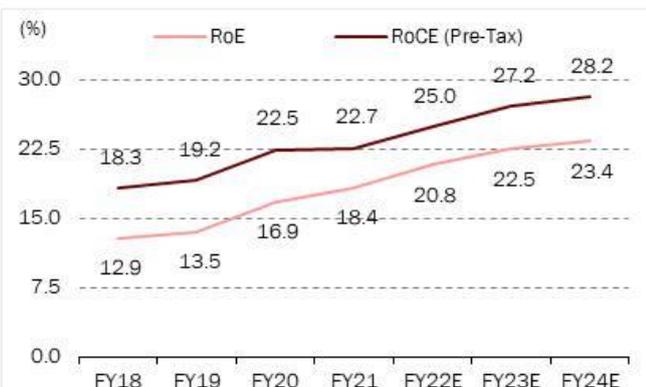


...to drive margin improvement at the consolidated level!



Prudent and profitable growth focus to drive strengthening return ratios and cash generation - which can be used for opportunistic (but prudent) bets like M&A or large orders, and/or dividends

Return ratios to strengthen as profitable growth remains key...



... which should aid healthy cash generation!



CMSINFO is a cash generating growth engine and is inexpensive at ~11x FY24E P/E. We initiate coverage with an Outperformer rating and a DCF-based target price of Rs360 (implied ~16x FY24E P/E).

INVESTMENT RATIONALE

- CMSINFO's venture into various service adjacencies (part of MS) expands its TAM to ~Rs85bn (as of FY21.) This is a high-growth (and high margin) space, which an old but proven banking services partner like CMSINFO (30% revenue CAGR over FY21-24E) will likely capitalize on, as several facets of ATM operations get outsourced in the coming years.
- At the same time, its core Cash Management business (40%+ RoCE in FY21) has its own growth legs in the near to medium-term (4-5 years), due to increased outsourcing of non-core cash handling activities by banks as costs rise due to Reserve Bank of India (RBI) compliance norms.
- CMSINFO is set to ride the growth wave profitably in both segments. Its proven leadership team focuses on profit metrics before green-lighting growth opportunities.
- Our estimate of robust ~21% revenue CAGR for CMSINFO over FY21-24E is premised on 1) rising costs, compelling banks to outsource multiple cash handling-related activities, and, 2) diminishing competition (as RBI norms push smaller players out of the market). Faster growth in MS (higher margins) implies spurt in EBITDA/PAT CAGR at ~30% over this period.
- The company is poised to capitalize on any major business opportunity that may arise, aided by healthy growth runway, strong return ratios, debt-free balance sheet, and cash balance.
- CMSINFO is inexpensive at ~11x FY24E P/E. We initiate coverage with an Outperformer rating, and a DCF-based target price of Rs360 (implied FY24E P/E multiple of ~16x).

Managed Services: Expanding addressable market

CMSINFO's venture into various sub segments across the cash distribution value chain (like BLA, RM, Software Solutions, etc.) not only expands its core TAM by ~3x, but also improves its core profitability, as BLA/RM margins tend to be higher. With costs on the rise for banks, and competition in disarray (given the unviable cost structures post RBI's compliance norms), CMSINFO's MS portfolio is primed for growth in the coming years. We estimate strong ~30% revenue CAGR in this business over FY21-24E, powered by the high-margin BLA/MS business. Consolidated EBITDA margin, as a result should expand, as revenue share from MS is slated to rise to ~34% by FY24E versus ~30% currently.

□ Focus on adjacencies expands addressable market by ~3x

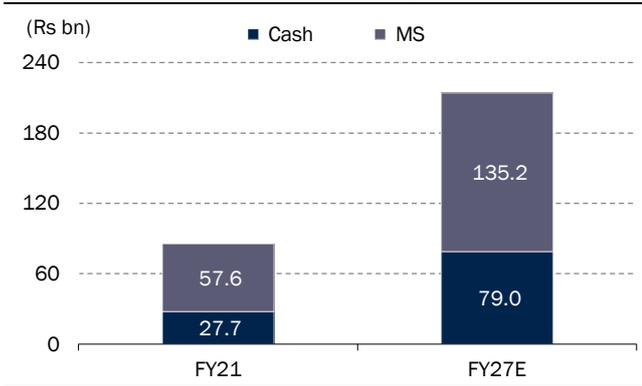
CMSINFO has built a dominant presence in its core cash management (CM) business, having carved out ~32% share in an estimated Rs28bn market (as of FY21; Frost & Sullivan estimate). However, by leveraging its relationships with client banks, the company has started taking over various other cash-related business activities, self-fashioning as one-stop go-to player for such clients. CMSINFO has been undertaking banking automation product sales (e.g., ATM machines, self-service kiosks, etc.) and their relevant servicing agreements, as well as debit/credit card printing for a long time now. However, in recent times, it has ventured into brown label ATMs (BLA; full-fledged ATM ownership/operation by CMSINFO) and remote monitoring (RM; of ATM sites, bank branches, etc.).

These entries (all housed under a broad label, 'Managed Services' (MS)) don't just ring-fence CMSINFO's position as the go-to service provider for its clients, but also expand its target addressable market. Adding together the industry potential of various sub-segments, Frost & Sullivan pegs the MS market at ~Rs58bn for FY21. This basically expands CMSINFO's playable market by ~3x to ~Rs85bn – with strong

By leveraging its relationships with client banks, CMSINFO is self-fashioning as one-stop go-to player for clients

growth potential for itself, as, unlike in the cash industry, the company is a relatively smaller player today.

Exhibit 1: Addressable market +3x through MS expansion



Source: Frost & Sullivan, DAM Capital Research

Exhibit 2: CMSINFO's recent business entries

Year	Segment Entries
Pre 2015	ATM, RCM, CIT
2015	Banking Automation Products
2017	Brown Label ATMs (through Clover acquisition)
2019	Software Solutions
2021	Remote Monitoring (through Hemabh acquisition)

Source: Company, DAM Capital Research

Directly, and at times (through other managed services players in specific ATM assignments), CMSINFO works with the same client in the banking industry. Given this backdrop, and the company's long track record, we believe that the incremental effort needed to gain market share across the MS sub-segments should be comparatively lesser (versus forging brand-new relationships). We highlight two interesting MS segments, viz. BLA and RM below.

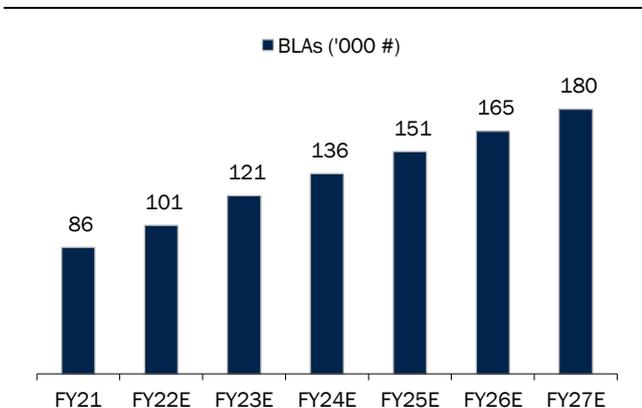
□ Brown Label ATMs: Fertile growth opportunity through outsourcing

As operating costs are trending higher, and as managing multitude ATMs is not a core competency of a bank, it would make sense to outsource the entire ATM to a third-party player with scale benefits

Brown Label ATMs (BLA) are a popular route through which banks provide ATM services to their customers, without the hassle of managing and/or owning such ATMs. In a typical BLA arrangement, a bank outsources the entire ATM (capex + opex) to a managed services player (like CMSINFO) and pays a pre-determined fee, while retaining its brand on the ATM. The bank is responsible for zeroing in on a rough location (for a new ATM), and supplying cash to the service provider for the BLA, while the MS player bears the responsibility of the entire capex and daily operations/costs.

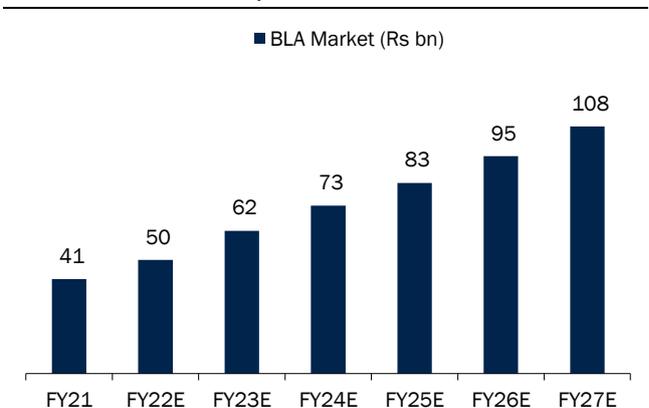
Considering that operating costs have been trending higher over the years (to meet RBI compliance norms), and as managing multitude ATMs is not a core competency of a bank, in many cases, it would make sense to outsource the entire ATM to a third-party player with scale benefits, who could manage this operation at a lower cost. While BLAs have been around in the Indian market fairly long, its acceptability is now rising amongst banks (especially PSUs).

Exhibit 3: BLA ATMs to double over FY21-27E



Source: RBI, Frost & Sullivan, DAM Capital Research

Exhibit 4: BLA market to post ~17% CAGR over FY21-27E



Source: RBI, Frost & Sullivan, DAM Capital Research

CMSINFO had traditionally shied away from bidding for BLA ATMs, since the space was plagued with competitive intensity and aggressive pricing. With competition fading, and losses mounting (stricter compliance norms would continue to drive costs higher for such players), the space became relatively easier for larger incumbents to venture into.

CMSINFO expects to take its BLA portfolio to ~6,000 by FY23E...

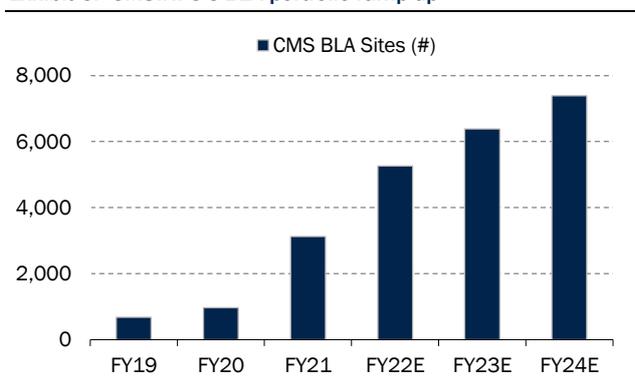
Although the company is a smaller player in this space, it is taking calculated steps in this segment, as competition in disarray. To increase its foothold here, CMSINFO acquired Clover Transaction Systems Pvt. Ltd. in 2017 (for ~Rs66m) – a company with BLA contracts in hand – and has since increased its BLA portfolio to 3,162 in FY21 (vs 430 in FY18). It expects to take this to ~6,000 by FY23E (especially through its ~3,000/900 ATMs contracts won from SBI/ a second PSU bank, respectively (both contracts have 20%/15% incremental bonus clause respectively, whereby ATM orders would increase by ~740 on the condition that certain contractual milestones are achieved on implementation).

Exhibit 5: India BLA Industry Landscape (FY22E)

Company Name	# of BLAs (Rough Estimates)
Hitachi Payment Services	18,000 – 20,000
AGS Transact Technologies	10,000 – 12,000
Euronet	8,000 – 10,000
FSS	8,000 – 10,000
EPS	8,000 – 10,000
FIS	7,000 – 8,000
CMS Info Systems	4,000 – 5,000
Others (Diebold, TSI, etc.)	10,000 – 15,000
Total	~80,000

Source: Industry, DAM Capital Research

Exhibit 6: CMSINFO's BLA portfolio ramp-up



Source: Company, DAM Capital Research

As the BLA owner bears the capex/opex, EBITDA margins in the segment tend to be higher (estimated at 25-40%). On average, a BLA ATM breaks even at 70-100 daily transactions. Revenue structure varies from site to site, but broadly falls in the following two categories:

- **Fixed Fee:** The bank and CMSINFO agree to a fixed monthly fee (plus any inflation-related escalations). This is usually done for ATMs, where daily transactions could be lower than the average expected for breakeven (low density footfall zones or smaller markets).
- **Transaction-based fee:** For BLAs (of large/leading banks, and/or those in high footfall zones), where transactions are expected to be higher than breakeven, CMSINFO's revenue would be linked to a percentage of the interchange fee (now at Rs17 and Rs6 per financial and non-financial transaction, respectively). As per our understanding, this would be Rs11-12/transaction for large banks (with wider ATM bases) and Rs16-17 for smaller banks.

...only if unit economics make sense

CMSINFO has the visibility to take its BLA ATM portfolio to ~6k by FY23E, but, true to its roots, it would remain opportunistic and only look at expanding this business if unit economics were to make sense (healthy margins/payback with an aspirational target of high teen IRRs at least.)

We remain sanguine that CMSINFO can achieve ~2k annual ATM additions to its BLA portfolio as the market itself is expected to double over the next 5 years (majorly driven by outsourcing of existing ATMs) and waning competitive intensity.

Exhibit 7: Offsite BLA profitability analysis

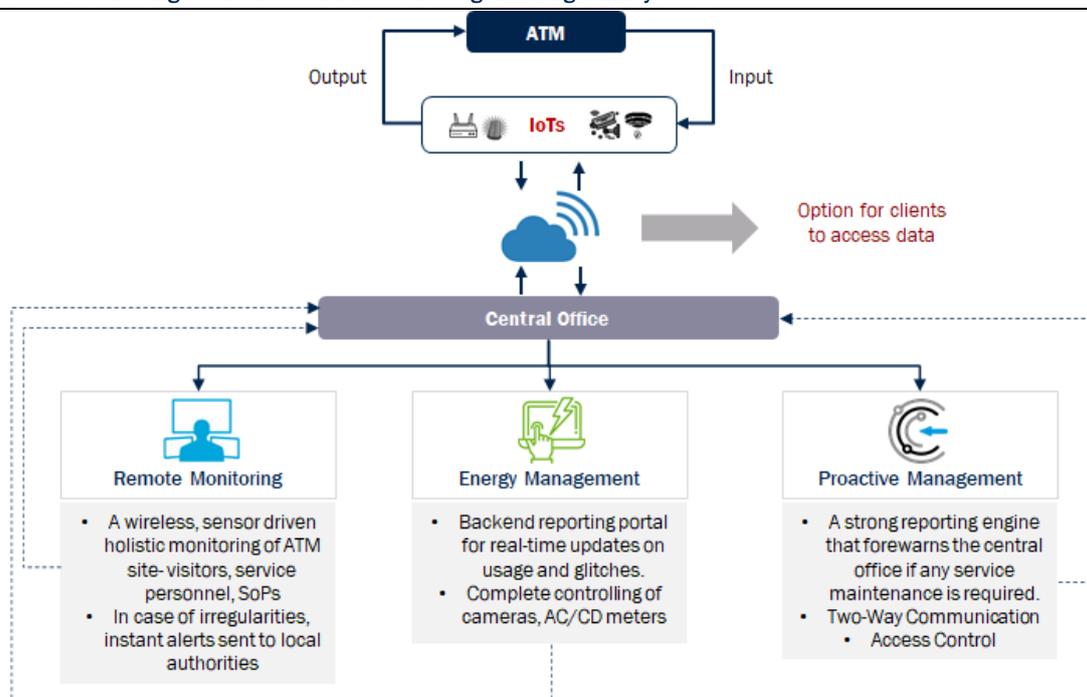
Parameters (Rs/transaction)	FY21
Cost	7.7
Revenue	11.0
Profit	3.3
Transactions for breakeven (#/day)	70
Payback period (years)	3.8

Source: India ATM Market Outlook to 2026, Ken Research, AGS Transact RHP, DAM Capital Research

Remote monitoring: An exciting high-growth space

Remote Monitoring (RM) involves deployment of sensors/cameras at ATM sites, which feed data to a central monitoring control room. Through this infrastructure, CMSINFO reduces the need for on location security personnel (while maintaining RBI’s guidelines of round-the-clock monitoring), thereby delivering a cost-effective solution to clients. The company has developed a proprietary technology to learn and detect anomalies and as per the situation, inform law-enforcement agencies (or third-party security agencies) or send maintenance employees (in case of any malfunctions) to reduce potential downtime.

Exhibit 8: Remote Monitoring Solution – Scalable business generating annuity income



Source: Company, DAM Capital Research

Exhibit 9: Inside CMSINFO's RM Central Control Room



Source: Company, DAM Capital Research

The company acquired Hemabh Solutions Pvt. Ltd. in July 2021 to widen its reach in RM...

While having developed these solutions in house, the company also acquired Hemabh Solutions Pvt. Ltd. (Rs210m cash purchase) in July 2021 to widen its reach in this space (2,200 sites on acquisition). Its own BLA order book plus new wins from large PSU banks should take CMSINFO's total sites upon execution to ~25k by FY24E, making it the largest player in this space.

Like BLA, RM too is a multi-year annuity/recurring business; however, the pricing here tends to be fixed over the typical agreement period (3-5 years). Margins in this space tend to be high, as back-end control room costs – engineers, equipment, AI analytics software, monitoring agents, etc. – can be spread out over a larger base, while capex can be eventually brought down through sourcing economies of scale for a large player like CMSINFO. Here too, the company would internally aspire for high teens or greater IRR (and short payback periods), in-line with the company's ethos of profitable growth.

Exhibit 10: CMSINFO's competitive advantages in RM

Technology	Tech platform and AI/ML data through existing sites has built a unique competitive advantage over peers.
Scale	Large-scale purchases from OEMs would drive lower per unit costs, thus reducing initial capex.
Relationships	Long-standing relationships with every key bank aids faster ramp-up of RM sites and build critical mass.
Cost of Capital	Large balance sheet helps CMSINFO versus rivals to expand faster. It also aids in M&A opportunities to build capabilities or enter new customer segments
Employee Network	500+ on-field engineers (as well as CM division on-ground employees) means that RM sites can be quickly serviced as and when a situation demands, and CMSINFO need not depend on third-party players for this.

Source: Company, DAM Capital Research

Currently, CMSINFO's focus is to build a critical base covering ATMs and eventually, banking sites (branches, vaults, etc.), post which it should be able to leverage its scale and experience to non-banking industry clients – e.g., NBFCs, gold finance companies, etc. Eventually, it is looking to offer this solution to non-BFSI industry segments like warehousing/logistics, industrial automation, etc., to reduce its dependence on the financial services sector.

...which could be a long-term sustainable growth driver for CMSINFO's MS segment if executed correctly

We believe RM (if executed correctly) could be a long-term sustainable growth driver for the MS segment, and the company as a whole, given its industry-neutral applications. The RM business can very well stand on its feet, and be a credible solution for non-banking/financial industry clients in future as by then, it would have built a credible track record in protecting banking sites (which, by its very nature, demands high levels of security.) CMSINFO's competitive advantages like scale, cost of capital, and client relationships should help the company in outpacing any potential competition in the segment in future.

□ High margin recurring/annuity business in the making

Through its MS portfolio offerings, CMSINFO is taking over various services that banks would normally perform outside the core cash logistics function. Using its scale and ready infrastructure, the company is well placed to perform the same activities at a reasonable price, while maintaining regulatory compliance. Given CMSINFO's historical track record of working with banks, we believe the company would find it relatively easier to make inroads in winning these service contracts by showcasing itself as a one-stop shop for banking-related B2B services.

Moreover, barring product sales, other segments like BLA, RM, and annual maintenance service contracts (AMC), tend to be multi-year recurring/annuity contracts lasting 5-7 years (also sticky in nature, with extensions being normal). As such, building up this piece would improve revenue clarity, and fetch higher margins at the same time, given the annuity nature of the business.

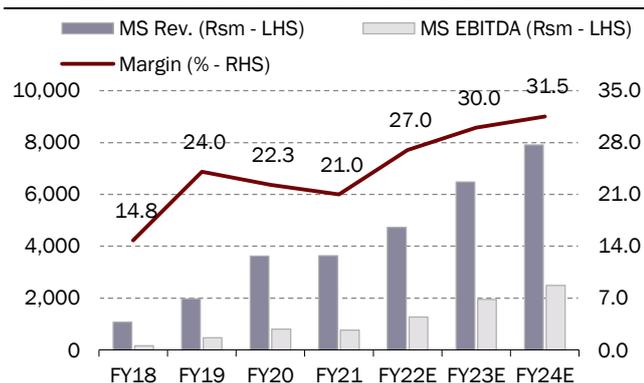
Exhibit 11: Managed Services - Increases revenue predictability while shoring up margins

Segment	FY22 Revenue share (est. % of consol. revenue)	EBITDA margin profile	Recurring nature	Remarks
Products	6-8%	Low	No. Depends on bank requirements	Pure trading business, but this opens the possibility of AMC/pure MS contracts
AMC/Pure MS	8-10%	High	5-7-year contracts	Includes second line maintenance and ad-hoc requirements. Lower end of the range for banking products like kiosks, higher end for ATM/cash recycler machines
Software	3-4%	High	5-year contracts	Multivendor operating software solution
BLA	10-11%	High	7-year contracts	CMSINFO targets a high teens IRR at a minimum here
RM	1-2%	High	5-year contracts	Revenue contribution is miniscule over FY22E) but should ramp up over FY23E
Cards	3%	Mid level	No. Depends on growth in banks' end customers, who need cards	Old cash-cow business. Volumes can be ad-hoc

Source: Company, DAM Capital Research; Note: Low - 0-10%; Mid level - 10-20%; High - 20%+

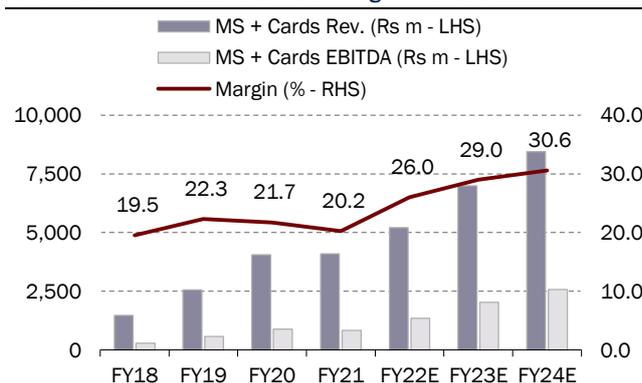
In the years ahead, we expect CMSINFO's MS portfolio to expand at a healthy ~30% CAGR over FY21-24E (~27% CAGR including Cards). We expect BLA/RM to drive growth, as the company ramps up presence here, driving the segment's EBITDA margin higher to ~30%+ by FY24E (vs 21% in FY21). We expect the company's overall EBITDA to expand at a healthy ~30% CAGR over our projected period, once MS increases as a proportion of CMSINFO's overall revenue, and as margins inch higher.

Exhibit 12: ~30% revenue CAGR over FY21-24E...



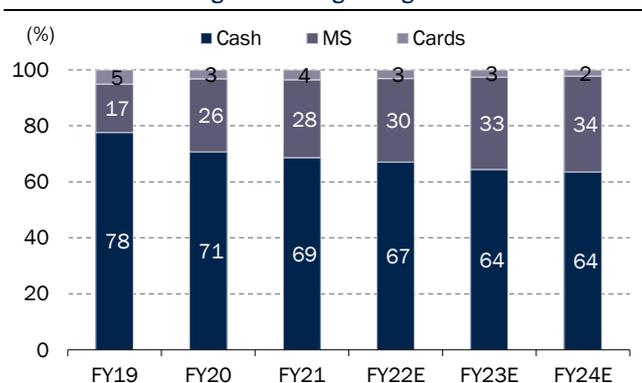
Source: Company, DAM Capital Research

Exhibit 13: ...with ~30% EBITDA margin in FY24E



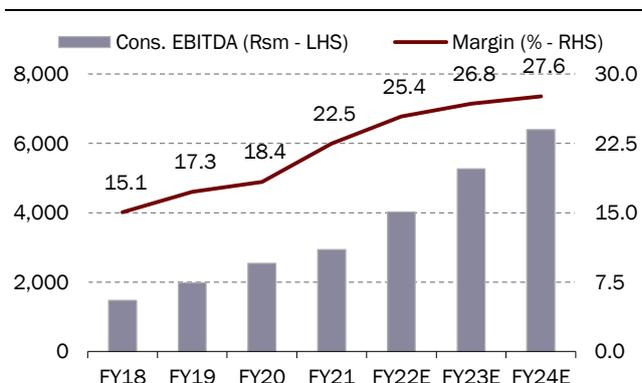
Source: Company, DAM Capital Research

Exhibit 14: Increasing share of high-margin MS business...



Source: Company, DAM Capital Research

Exhibit 15: ...to aid ~30% EBITDA CAGR for CMSINFO



Source: Company, DAM Capital Research

Cash: Fuelling CMS' growth engine

Rising compliance costs in cash logistics would not just drive increased outsourcing opportunities for CMSINFO, but also result in industry consolidation. Higher costs would render the businesses of smaller players (whose key USP is lower costs) unviable. CMSINFO, being the largest player in ATM/RCM, is primed for market-share gains, while higher costs also imply superior realizations in the near term (as compliance costs would pass-through until the network is fully compliant.) While we anticipate ~18% revenue CAGR over FY21-24E as a result, over the longer-run, this segment should deliver high single digit growth at least since RCM is still relatively underpenetrated, while CIT/DCV too has a long way to go before becoming fully outsourced.

□ Rising compliance cost push to drive outsourcing and consolidation

The cash logistics industry includes the following broad business segments:

- **ATM Cash Management (ATM):** Involves transporting cash from bank vaults and/or branches to various ATM sites.
- **Retail Cash Management (RCM):** Involves collecting cash from a bank's various retail clients (generated during the course of their operations) and bring them to the client's bank branch (effectively depositing it on clients' behalf).
- **Cash-In-Transit/Dedicated Cash Vans (CIT/DCV):** Involves transfer of cash from bank vaults to branches, from branches to bank vaults and between the vaults (or currency chest) of a bank across geographies.
- **Miscellaneous:** Bullion transportation/distribution (for Jewellery industry), document collections, soft loan payments from customers, etc., on behalf of a bank or an NBFC.

CMSINFO is primed for market-share gains, while higher costs also imply superior realizations in the near term

As transporting cash multiple times involved managing vehicles (not just a non-core operation for a bank but also a rising cost), these activities too were being gradually outsourced in last two decades. However, owing to lax regulations in this space, banks outsourced these activities to low-cost operators (which were not secure and at times ran below the radar as far as taxation was concerned).

In April 2018, after discussions with various stakeholders (and post learnings in the post-demonetization era), RBI brought in certain minimum standards that banks needed to comply with, as far as cash logistics were concerned (either performed in house or outsourced to third-party players). **While a detailed note on these regulations can be read in the Annexure of this report;** some notable features are:

- **Minimum net worth:** ~Rs1bn
- **Minimum fleet size:** 300 owned or leased vehicles
- **Vehicle specifications:** Specially fabricated for cash logistics (various specifications listed by RBI include GPS, separate compartments, jammers, etc.)
- **Minimum employees per vehicle:** 2 armed guards, 2 custodians, 1 driver.

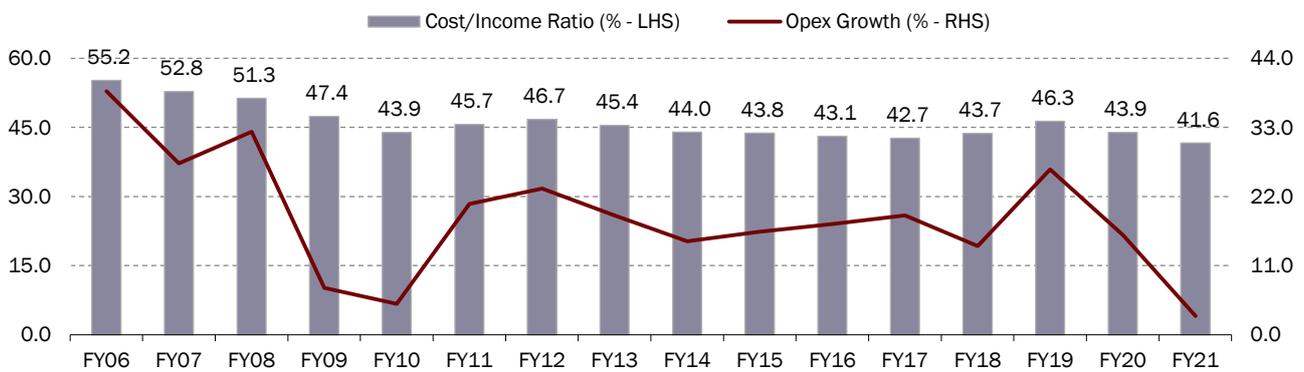
These minimum standards would not only drive costs higher for the cash logistics industry (disproportionately so for smaller players), but also result in consolidation (as many players may find it difficult to size up to these requirements). Although compliance to these norms has been slow, given various issues faced by the banking industry (compliance was estimated at ~10% of the network by Frost & Sullivan as of FY21), the same is expected to gather pace over the next 3-4 years, as banks are increasingly driving compliance (especially after SBI began mandating compliance from its outsourcing partners (in all new RFPs)).

CMSINFO can utilise their infrastructure for multiple banks, and thereby provide cost-effective solutions for cash management versus the banks themselves

The higher costs would be borne by banks eventually, given the need to comply and due to industry consolidation, as the bargaining advantage of larger players like CMSINFO would rise (smaller players would ideally exit the industry as their costs/capital intensity would skyrocket in the near term). **Frost & Sullivan expects the average ATM realisation for players like CMSINFO to rise by Rs2.8-3k per month (vs ~Rs8k currently) over the next 3-4 years, as the network (especially vans) turns compliant. Implementation of RBI's norms on lockable cassette swap in ATMs (announced in April 2018; the current deadline for it to be implemented is March 2022) would add another ~Rs1k per month to this figure.**

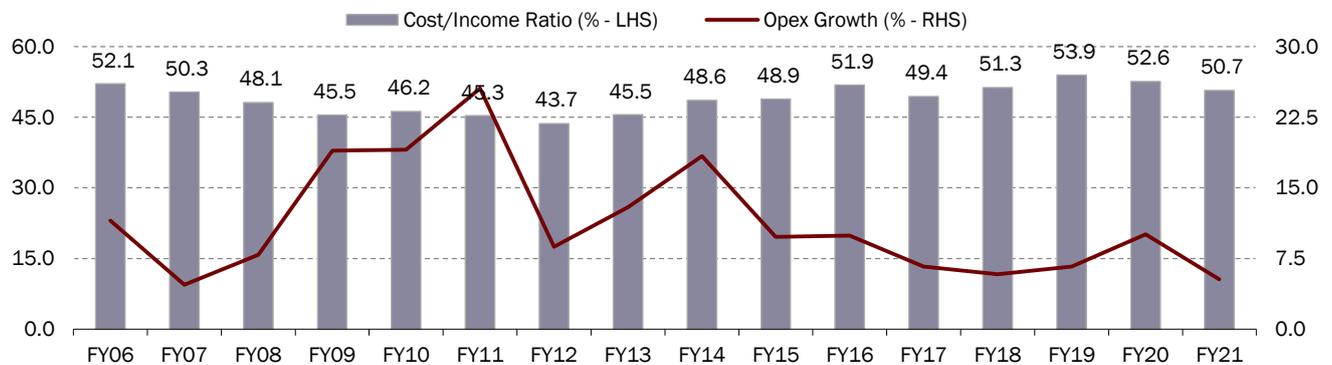
Given that banks' cost structures are still relatively high (although the same has fallen over the years, with rising outsourcing, especially in the case of private sector banks), we expect outsourcing of non-core services to continue, since operators like CMSINFO can utilise their infrastructure for multiple banks, and thereby provide cost-effective solutions for cash management versus the banks themselves.

Exhibit 16: Costs of private sector banks have come off over the years, partially due to outsourcing of non-core activities...



Source: RBI, DAM Capital Research

Exhibit 17: ...and expect Public Sector Banks to increase outsourcing as well

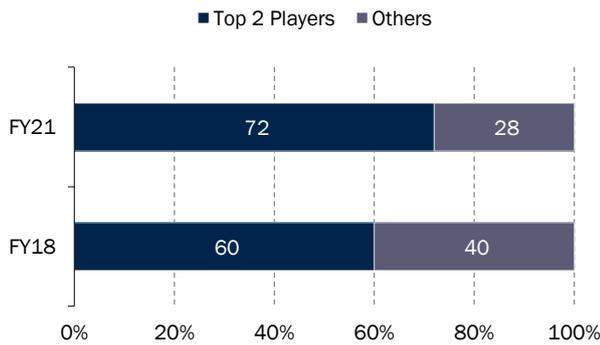


Source: RBI, DAM Capital Research

□ Consolidation to drive productivity and hence margins

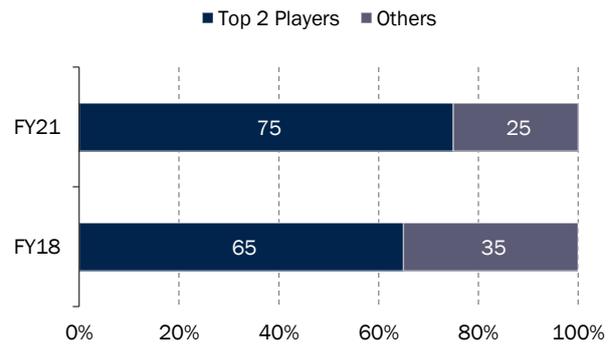
The inclement climate for smaller players in the cash logistics space has increasingly driven the market to a duopoly, with the top 2 players commanding significant market shares over last four years. As banks themselves are now laying the thrust on compliance, smaller sub-scale players are increasingly being pushed between a rock and a hard place, resulting in them ceding their market shares to larger players. We could see market share consolidation in favour of the top 2 players even further from ~70% in FY21 to ~90% by FY27E.

Exhibit 18: Top 2 players' ATM market share touched ~70% in FY21 (measured by number of outsourced ATMs)



Source: Frost & Sullivan, CMSINFO RHP, DAM Capital Research

Exhibit 19: RCM market is now concentrated between top 2 players as well (measured by retail touch points)



Source: Frost & Sullivan, CMSINFO RHP, DAM Capital Research

CMSINFO is the largest player in the ATM/RCM market, holding ~41%/~36% share as of FY21, respectively (measured as a % of total outsourced points.) AGS Transact Technologies (AGSTRA) follows at second place with ~30% share in the ATM market, while in RCM, Radiant Cash Management (RADIANT) is a close second. With the market consolidating in favour of larger players, CMSINFO, with its pan-India network, should be able to enhance its productivity (measured internally by number of touch points per route), in turn effectively improving its EBITDA margin.

CMSINFO saw a sharp jump in its Cash Business margins in FY21 (~27% vs the average ~20% seen over FY17-20), partly due to COVID-related cost efficiencies (including automation) put in place during the fiscal, partly due to improving market share (driving productivity), and partly due to synergistic acquisitions (leading to a better business mix, e.g. Logcash.) While some of the cost efficiencies could be clawed back in the face of an improved business environment, CMSINFO currently averages ~15 touch points per route (versus a maximum possible 22-25 points per route). As such, asset sweating should ensure that the company can hold on to the margin gains it has seen in the cash segment, and pull it slightly higher in the years ahead, as the market consolidates.

□ RCM – Healthy growth potential, as market penetration remains low...

RCM remains a largely under-penetrated market, but with interest rates sliding, and banks under pressure to cut costs, it is increasingly being seen as a revenue center

Retail Cash Management (RCM) remains a largely under-penetrated market today, as most retail touch points in India happen to be small unorganised retailers who generally do not have large daily cash volumes. In addition, for those players to whom RCM services made business sense, they used to enjoy this as a free service from their respective banks as higher interest rates (versus current levels) used to ensure that such a service could be paid for by the float income generated from the clients' respective accounts.

However, with interest rates sliding, and with banks under pressure to cut costs, RCM is increasingly being seen as a revenue center. As such, not many retail clients are ready to pay, but this number is slowly increasing, as organised retail penetration has been rising in the country. Frost & Sullivan believes while overall retail touch points would register ~36% growth to 4,100k over FY21-27E, organised retail touch points would nearly double to ~813k over this period.

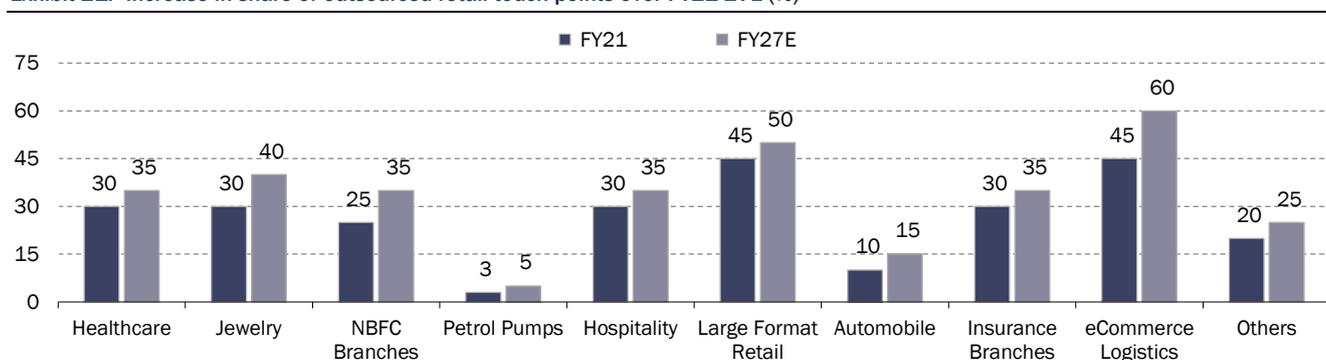
In addition, outsourcing penetration of such touch points (RCM's key market) is expected to increase from ~24% to ~28% over FY21-27E, thus increasing RCM related touch points from ~110k to ~224k over this period.

Exhibit 20: Growth in expected retail touch points over FY21-27E

Industries (#)	FY21	FY27E
Healthcare	970	1,428
Jewelry (Stores)	500	767
NBFC Branches	106	140
Petrol Pumps	80	127
Hospitality (HoReCa)	55	83
Large format retail	37	50
Automobile (showrooms, service centres)	30	34
Insurance branches	20	25
e-Commerce (distribution centres, 3PL points)	15	45
Others (railway stations, utility offices)	1,200	1,400
Total addressable touch points	3,013	4,099
Organised share (%)	15.0	19.8
Total organised retail touch points	453	813
Outsourcing penetration (%)	24.3	27.6
Retail touch points (for RCM)	110	224

Source: Frost & Sullivan, Radiant Cash Management DRHP, DAM Capital Research

Exhibit 21: Increase in share of outsourced retail touch points over FY21-27E (%)



Source: Frost & Sullivan, Radiant Cash Management DRHP, DAM Capital Research

As the industry potential rises, so would the playground for large players like CMSINFO rise in the medium to long run. In addition, since the RCM business uses the same infrastructure as the ATM business (vans, intermediate collection points, etc.), the potential to sweat these assets would support the company's bid to maintain and/or improve the EBITDA margins of its overall cash business.

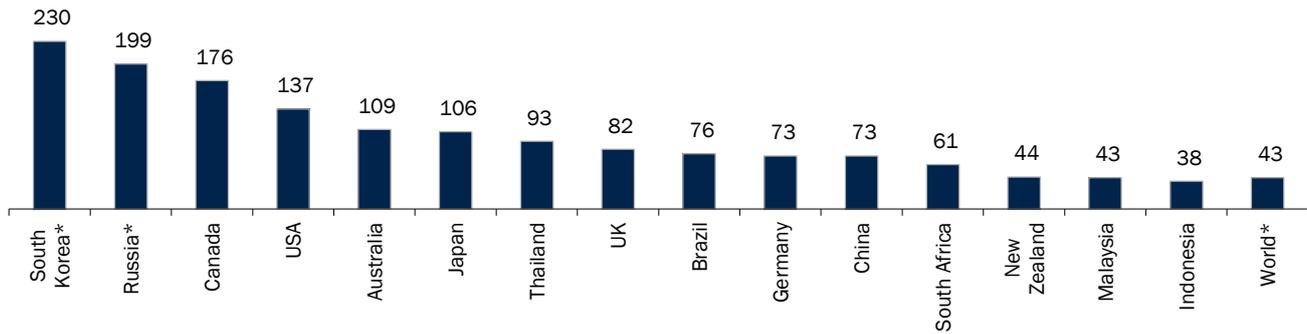
□ ... while ATM would see steady growth in the long run

Indians' cultural connect with cash, and general growth in the economy would necessitate the roll out of ATMs as well alongside other payment modes

The ATM cash management industry is seeing compliance-driven tailwinds on realisation, which we believe should peter out latest by FY25E, once the network approaches full compliance. We believe, the core ATM base too has growth drivers, even as winds of digital payments sweep the mainstream narrative. While 4G/smartphone penetration has enabled sharp growth in digital payment technologies and their usage, we believe, Indians' cultural connect with cash (shared by multiple global cultures, as seen by their cash in circulation to GDP (CIC/GDP) ratios), and general growth in the economy (driving growth in spending) would necessitate the roll out of ATMs as well (alongside other payment modes).

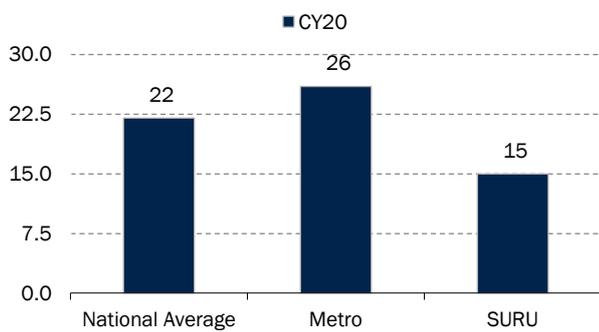
We see higher scope for ATMs in smaller markets, as metro markets are relatively closer to saturation levels (although there has been growth here as well in the last two years.) Banks would look to cover this space through the BLA route model (unless expected daily transactions are high enough to justify own capex). For CMSINFO, even if the BLA is not on its own books, it can still benefit from this drive by using its infrastructure to supply cash to these ATMs, thus deriving economic benefits from this expected expansion.

Exhibit 22: Global average ATMs (per 100k individuals) stands at 43... (CY20 data)



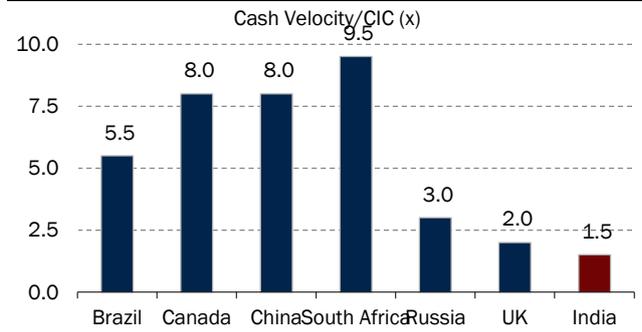
Source: IMF, World Bank, BIS, RBI, House of Commons Library (UK), European Association for Secure Transactions (EAST), CRISIL Research, India1 Payments DRHP, DAM Capital Research; *Data for CY19

Exhibit 23: ...while India's average is ~22, given lower penetration in semiurban/rural markets (SURU)



Source: Frost & Sullivan, CMSINFO RHP, DAM Capital Research

Exhibit 24: Low cash velocity (as % of CIC) versus national peers hints at better scope for ATM penetration



Source: Frost & Sullivan, CMSINFO RHP, DAM Capital Research

Moreover, we see the possibility of banks cutting down branch sizes even in large urban markets, by introducing more e-Lobbys (which would have multiple ATM machines (cash recyclers or dispensers) and other kiosks). This would also add additional ATM machines to the overall base, providing a larger opportunity pool for cash management players like CMSINFO.

The Exhibit below depicts the estimated market opportunity for the ATM cash management business for a market leader like CMSINFO (share estimated at 41% as of FY21). We have built three scenarios (as shown in Exhibit 27) wherein we estimate the possible ATM revenue growth for CMSINFO.

On our base case, we expect CMSINFO's market share to increase from 41.0% in FY21 to 43.5% in FY27E, translating into ~8% CAGR in its ATM base over FY21-27E

- **Base case:** We assume ~4% CAGR in ATM base over FY21-27E, and estimate the outsourced share of ATMs (to third-party cash management players) to rise from 58.6% in FY21 to 69.5% in FY27E. Within this, we expect CMSINFO to increase its own market share (within the outsourced ATM base) from 41.0% in FY21 to 43.5% in FY27E. This would translate into an ~8% CAGR in CMSINFO's ATM base over FY21-27E.
- **Bear case:** For our bearish scenario, we have assumed slow ~2% CAGR in ATM base growth over FY21-27E, while expecting the growth in outsourced share to remain same as in the base case (with costs likely to rise, the share of outsourcing is unlikely to slow). For CMSINFO, however, we have assumed ~160 bps growth in market share (within the outsourced ATM base) over FY21-27E to 42.6% by FY27E. This translates into ~6% CAGR in ATM base for CMSINFO over the forecast period.
- **Bull case:** Our ATM base numbers in this case is assumed similar to what Frost & Sullivan estimates would be the ATM unit growth over FY21-27E (at ~6% CAGR). Outsourced share assumptions remain the same as in the previous two cases. We also expect CMSINFO's own market share (within the outsourced ATM base) to surge to 46.0% by FY27 (vs 41.0% in FY21). Under this scenario, CMSINFO's ATM base should register ~11% CAGR over FY21-27E.

Exhibit 25: Keeping realization-driven growth aside, we believe, CMSINFO can expand its ATM revenues at 6-11% CAGR over FY21-27E

ATM base expectations	FY21	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	CAGR (%)
Bull Case:								
ATM Base (#)	255,000	270,700	287,400	305,100	323,900	343,900	365,100	6.2
Outsourced Share (%)	58.6	62.0	63.5	65.0	66.5	68.0	69.5	
Outsourced ATMs (#)	149,500	167,800	182,500	198,300	215,400	233,900	253,700	9.2
CMS Share (%)	41.0	42.3	42.8	43.3	44.0	45.0	46.0	
CMS ATM Base (ex BLA)	61,300	71,000	78,100	85,800	94,800	105,300	116,700	11.3
Base Case:								
ATM Base (#)	255,000	270,700	282,900	295,600	308,900	316,600	324,500	4.1
Outsourced Share (%)	58.6	62.0	63.5	65.0	66.5	68.0	69.5	
Outsourced ATMs (#)	149,500	167,800	179,600	192,100	205,400	215,300	225,500	7.1
CMS Share (%)	41.0	42.3	42.6	42.9	43.1	43.3	43.5	
CMS ATM Base (ex BLA)	61,300	71,000	76,400	82,400	88,400	93,200	98,100	8.2
Bear Case:								
ATM Base (#)	255,000	270,700	277,500	283,100	287,300	290,200	293,100	2.3
Outsourced Share (%)	58.6	62.0	63.5	65.0	66.5	68.0	69.5	
Outsourced ATMs (#)	149,500	167,800	176,200	184,000	191,100	197,300	203,700	5.3
CMS Share (%)	41.0	42.3	42.4	42.4	42.5	42.6	42.6	
CMS ATM Base (ex BLA)	61,300	71,000	74,600	78,000	81,200	84,000	86,800	6.0

Source: DAM Capital Research

Considering India's low ATM density and banks' increased focus to outsource their non-core operations, we expect both ATM growth and outsourcing share to rise in each scenario. Even in our bear case scenario, CMSINFO should see sustained 6% CAGR over FY21-27E (assuming no pricing growth.) Over the longer run, with compliance driven realisation in the base (post FY25E), we expect CMSINFO's ATM base to register a ~6% CAGR. This, coupled with a 1-3% realisation improvement should drive high single-digit growth in this business.

□ CIT/DCV – Outsourcing possibilities to accrue to leaders in the space

CMSINFO is a key player in the CIT/DCV space with ~900 DCVs

Unlike ATM/RCM, as far larger sums of cash is transported in the CIT/DCV segment (between branches and from vaults/chests to branches), and vans are dedicated to a particular customer, average unit realisation tends to be higher here (Rs180k-200k per van per month versus ~Rs8k per ATM in the ATM cash management business). At the industry level, the network too is highly compliant with RBI norms, and hence, we expect industry realisation to grow at modest 1-3% CAGR over the medium term (unlike ~10% odd for ATM/RCM).

While the overall CIT/DCV industry's growth fortunes would be linked to an expansion of the banking system (more branches, chests, etc.), the larger business opportunity here is the potential increase in outsourcing share, which at an estimated ~43% as of FY21, is low versus the ~60% for the ATM business. Given large cash sums involved at one go, banks have traditionally kept this piece in-house, but in a rising cost environment, this would also be an activity which could go the outsourcing route to economies of scale players like CMSINFO.

CMSINFO is a key player in this space with ~900 DCVs. SIS (through its JV with Prosegur) has ~900 – 1,000 vans and is also an important player in this space. Other players in this space include Checkmate (~300 vans) and Writers (~100 vans). As per our understanding, both Securevalue (subsidiary of AGSTRA) and Radiant Cash Management too are present in this space. Given that CMSINFO is a key player in the cash logistics value chain, and has relationships with all major banks, we expect the company to garner a fair share of the outsourcing pie as and when it expands in future.

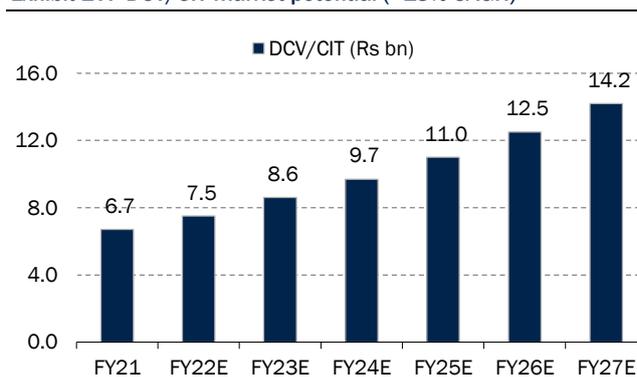
Exhibit 26: CIT/DCV vehicle market

Company Name	Vans (#)
CMSINFO	900 - 1000
SIS / Prosegur	900 - 1000
Checkmate	250 - 300
Radiant	200 - 250
Writers	75 - 100
Others	400 - 500
Total Compliant Vans	2,900 - 3,000
In-House + Non-Compliant Vans	3,700 - 3,800
Total DCV Vans	6,700 - 6,800

Source: Company, Frost & Sullivan, DAM Capital Research

Note: These are vans dedicated for CIT purposes. There are other companies who also provide these services but don't necessarily have vehicles earmarked specially for CIT.

Exhibit 27: DCV/CIT market potential (~13% CAGR)



Source: Frost & Sullivan, Radiant DRHP, DAM Capital Research

Moreover, outsourcing could also reach currency chests/vaults (centralised locations, where banks store hard cash). Frost & Sullivan estimates the number at ~4,100 chests for India, with a market size of ~Rs5bn as of FY21.

□ High RoCE + growth = cash generating machine

CMSINFO has delivered even during adversity in the recent past

CMSINFO has built an enviable position in the cash management/logistics space over the last decade. Insistence on profitable business mandates and its scale, imply that the company has delivered even during adversity in the recent past. This is visible from its cash segment financials. Since FY17, the banking industry (and with it, the cash logistics industry) has seen various hiccups like:

- Demonetisation
- Credit freeze in the aftermath of the IL&FS meltdown
- PSU bank consolidation
- COVID-19

All these events have bogged down banks, thereby resulting in ATM roll outs too suffering (~4% CAGR over FY16-21), which effectively impacted growth in the cash logistics industry. However, CMSINFO has managed to maintain its margins (and improved them in FY21, by focusing more on route productivity) and steadily improve capital turns. This led to strong RoCEs during this period, making the 'cash' business, a literal cash-generating machine. In addition to paying out dividends (20-30% payout over FY19-21), this cash is now being used to bolster its MS portfolio (expected to become a high-growth zone in future).

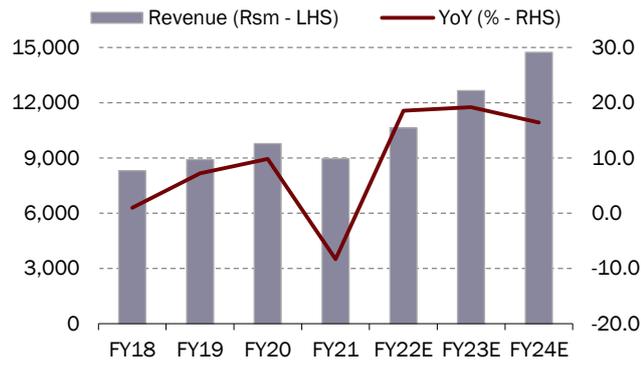
Exhibit 28: CMSINFO - Cash Business RoCE (DuPont analysis)

Key cash data	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Revenue (Rs m)	7,982	7,949	8,230	8,308	8,906	9,776	8,961
EBIT Margin (%)	17.4	11.7	15.7	16.9	15.8	17.0	22.8
CE Turnover (x)	1.6	1.7	1.8	1.9	2.3	1.8	1.9
RoCE (Pre-Tax) (%)	28.0	20.2	28.4	32.8	36.5	30.1	44.2

Source: Company, DAM Capital Research

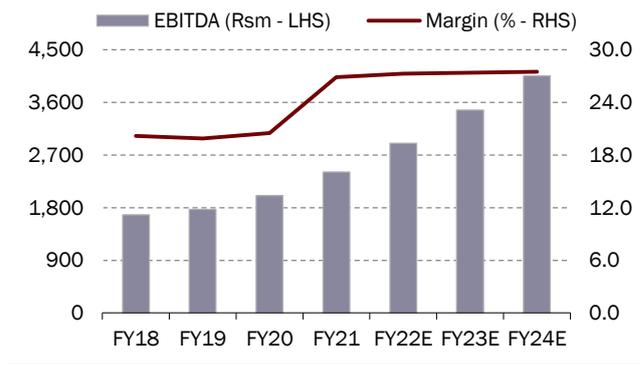
With winds of consolidation now developing into tailwinds for larger players like CMSINFO, we expect growth to pick up in this segment over FY21-24E, driven by both, new touch point addition (ATM/RCM) and higher realization. We pencil in ~19% revenue CAGR – 8% CAGR in new touch points and 12% in pricing improvement, while we expect the company to hold on to margin gains it made in FY21, over the forecast period.

Exhibit 29: Cash revenue to expand at ~18% CAGR...



Source: Company, DAM Capital Research

Exhibit 30: ...while margins to sustain over FY21-24E



Source: Company, DAM Capital Research

CMSINFO will likely maintain its strong return ratios in future

While the cash business grows, we believe CMSINFO would manage to maintain its strong return ratios in future, thereby enabling cash generation. The company would continue to deploy this cash in high growth avenues, currently being identified in the MS business.

Proven and agile managerial talent at the helm

Past business strategies (including exits and slow entries) and its results visible on profitability and return ratios (FY16-21 revenue CAGR of ~3%, but EBITDA/PAT CAGR of ~18%/25% respectively) are testimony that CMSINFO is captained by a solid team of professionals who not just have their eyes and ears on the ground, but also don't chase growth for growth's sake. We expect this corporate DNA to aid the company's profitable growth in the future as well as potential opportunities and possible headwinds arise on the path ahead.

□ Clear focus on profitable growth...

CMSINFO's management pivoted the business well to steer clear of opportunities that could have been drags over the long run

CMSINFO's management team has not only been prudent in focusing on growth (with sharp focus on bottomline), but has also pivoted the business well to steer clear of opportunities that could have been drags over the long run. We highlight the following instances in its journey to back this focus:

Exit from IT Infrastructure Services in 2015

As an investment holding of Blackstone PE, CMSINFO started out as an IT infrastructure company (acquired from CMS Computers Ltd.) in 2009, and in 2011, it acquired the ATM and cash management division of CMS Securitax Ltd. While CMSINFO held both businesses over 2011-2015, the cash management entity grew during this time, while the IT division was a relative underperformer (possibly since it was a me-too player in that space).

In 2015, prior to when Barings PE (through its holding company, Sion Investment Holdings Pte Ltd.) acquired Blackstone's 100% stake in CMSINFO, management decided to exit the IT division and focus on the cash management business, as it had begun to scale up. By then, the IT business was loss making, and the team gained clarity that it would do better concentrating its efforts on the cash management industry.

Steering clear of the BLA rush in 2013-15

In the earlier part of the decade, Ministry of Finance had directed PSU Banks to adopt the opex mode of deploying ATMs (or tapping the BLA mode). There was aggressive bidding for these ATMs (with per transaction fees at times as low as Rs6 versus the prevailing interchange fee of Rs15) when PSU Banks came out with tenders. CMSINFO did not participate in this land grab phase, as the pricing did not make economic sense (and was far from their internal IRR targets.)

As a result, the company remained a miniscule player in the BLA space, but over time, this avoidance reaped dividends, as other players started to bleed in the high-cost environment. Now, as the industry consolidates, CMSINFO is treading into the BLA space, but remains focused on profitable growth (new BLA/RM/RCM businesses all go through the same profitability filters).

These two instances are clear indications of management's intention to grow but profitably, without hurting the company's balance sheet. Even at the current juncture, it remains cognisant of the fact that digital payment modes could be a credible force to reckon with, and remains alert to potential entries in this space (most likely through the M&A route), without compromising on its stated profitability target.

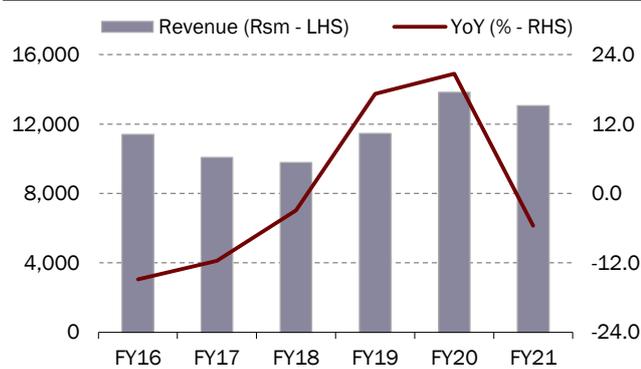
□ ...reflective in margins/balance sheet/return ratios

The cash logistics industry has gone through turbulent times (especially since FY16 onwards as stated earlier), but CMSINFO's focus on profitable growth and relative conservatism is visible in their profitability performance. Hence, even though revenue expanded at mere ~3% CAGR over FY16-21, EBITDA grew at ~18% over this

period. During this period, the company has paid down its debt (net cash company since FY17, gross debt free since FY18), resulting in faster PAT CAGR of ~25%. The company maintained its RoCE at 18-23% during this time, with RoE expanding ~600 bps to ~18%. The company has also been paying dividends (20-30% payout ratio) over the last three years.

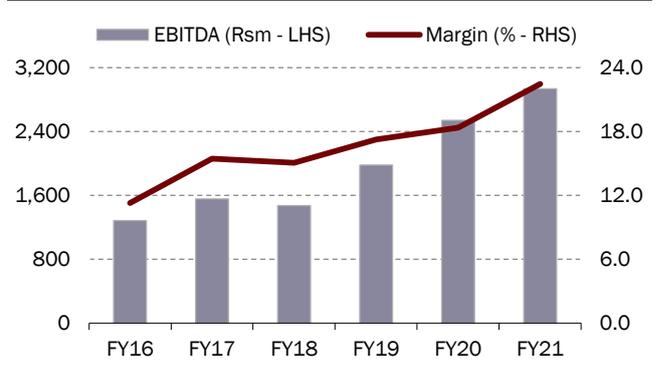
CMSINFO's financial performance is testimony to management's ability to shield the company during incremental times, while in readiness to grab opportunities as they open up.

Exhibit 31: Harsh industry climate has hit revenues...



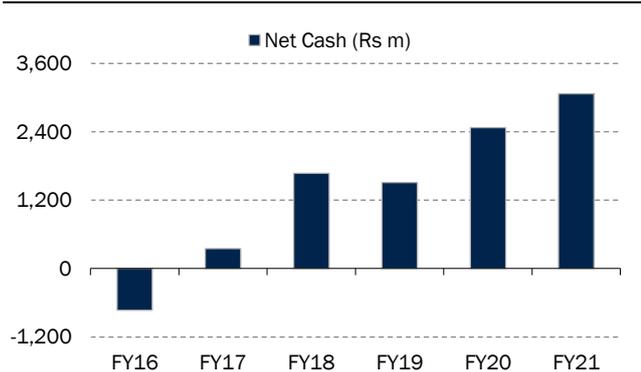
Source: Company, DAM Capital Research

Exhibit 32: ...but CMSINFO has improved its margins...



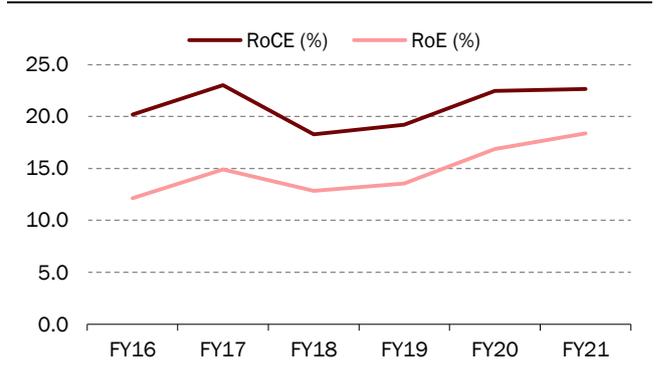
Source: Company, DAM Capital Research

Exhibit 33: ...and strengthened its balance sheet,...



Source: Company, DAM Capital Research

Exhibit 34: ...reflected from its strong return ratios!



Source: Company, DAM Capital Research

□ Building a resilient business to face potential headwinds

In the near term, CMSINFO should benefit from market share gains in its core/ legacy segments, while building presence in newer segments within the MS portfolio

CMSINFO has created a resilient business model, which is not just bulked up to capitalise on growth opportunities, but also can hold ground when the business climate turns adverse (as seen by the industry many times in last five years). Management's smart decisions in the past have not just made CMSINFO a dominant force in the industry, but also cemented its ability to capitalise on its market leadership position and strong balance sheet to catapult itself to capture newer growth avenues within its two core businesses.

However, the company remains alert towards potential headwinds in the industry over the long run, especially from digital payments. Given management's track record, it is fair to assume that the company would keep an eye on these headwinds and tackle this space only at the opportune time, while sticking to its core profitability/return ratio goals. While its strong balance sheet would aid potential entries in the long run, in the near term, the company should benefit from market share gains in its core/legacy segments, while building presence in newer segments within the MS portfolio.

KEY RISKS

Once the comfort levels for non-cash payment modes rise, the ATM industry could feel the hit

❑ Drop in CIC in favour of cashless payments

Although there is no evidence so far of a drop in cash usage in favour of digital payments globally, one cannot rule this out completely. Although non-cash payments pose inherent security risks and other costs, there exists a possibility that these costs may reduce, once scale increases (assuming security continues to improve). Once the comfort levels for non-cash payment modes rise, the ATM industry could feel the hit. However, even if this scenario pans out, we believe, it is a long way ahead in the future. Cash payments are being discouraged by the government, but this is more to do with large transactions than smaller-sized ones. For smaller transactions, cash would continue to enjoy a lion's share of the payment pie, in our view, and a preferred means for retail spends or other cash payments.

❑ Fortunes highly linked to the banking industry

Currently, CMSINFO's entire revenue is linked to the banking industry (ATMs, cash collected from customers for banks, RM sites, product sales, etc.) As such, any impact on the banking sector, especially client banks, could impact the company's revenues in future (contracted obligations should continue, but new business may see delays). In the recent past, CMSINFO has demonstrated relative resilience, despite the banking industry being hit with various turbulent pockets, but the risk of being almost entirely exposed to the sector remains.

❑ Higher-than-anticipated 'risk' costs could hit margins

About 4-5% of CMSINFO's revenue is provisioned towards potential risks (theft, reconciliation mismatches, cash lost in transit, etc.) The company has nearly two decades of experience in keeping risks at bay, and as revenues scale up- especially through its MS portfolio - this cost should ideally trend lower, in our view. However, any rise in risks could lead to higher provisions (or higher reinsurance premiums, which are actual cash outflows), which could negatively impact the company's margins. This should be partially mitigated as cassette swaps become more mainstream in India's ATM network.

❑ White-label ATM (WLA) proliferation in smaller markets

Currently, the semiurban/rural markets (SURU) remain highly underpenetrated for ATMs. Given the high costs involved here versus the lower transaction volumes, there is a possibility that white-label ATM (WLA) operators could be better positioned to do business versus BLA players, and capture a higher incremental share of ATM expansion. However, we understand, WLA as an industry still faces headwinds in terms of acceptability (unknown brands versus BLAs, which have a bank's branding) and service quality. As such, we believe, even if WLA economics may appear superior in such markets, the same would co-exist with BLAs, as SURU markets get seeded with ATMs in future. Also, WLAs open up the possibility for a player like CMSINFO to add new ATM points to its ATM cash management network (as well as ATM product sales + servicing), and hence the company can very well benefit from WLA proliferation (especially in rural areas.)

FINANCIAL ANALYSIS & ESTIMATES

- MS portfolio slated to expand fast at ~30% revenue CAGR over FY21-24E, as the company executes its BLA/RM contracts on hand. Cash business revenue should grow ~18% CAGR (on ~11% realization growth, aided by RBI compliance norms).
- While consolidated revenues are estimated to surge at ~21% CAGR over FY21-24E, EBITDA should exhibit strong ~30% growth over this period, as the contribution of MS portfolio (higher margins) to revenue increases by ~400 bps to 34% by FY24E.
- PAT to mirror EBITDA CAGR of ~30% on higher depreciation arising from BLA/RM capex on CMSINFO's books. However, FCF generation is estimated to remain strong in the years ahead (barring FY22E, as capex was high). Our estimate of cumulative ~Rs4bn FCF over FY22E-24E should support ~25% dividend payout over the forecast period.

□ Managed Services to grow faster, but cash has its growth legs too

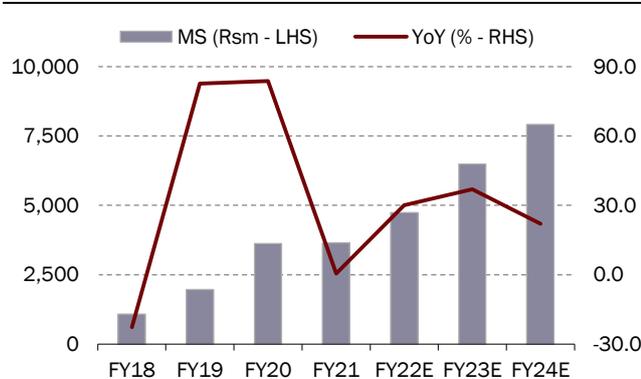
Our FY22E/23E estimates primarily build in contracts in hand, we expect steady unit additions on BLA/RM FY24E onwards

We expect CMSINFO's MS portfolio to become a major growth engine in the years ahead. In the past, this business was more focused on product sales and associated servicing contracts. With its recent focus on BLA/RM business, we believe these segments would provide the key push to MS segment's ~30% revenue CAGR over FY21-24E. Our FY22E/23E estimates primarily build in contracts in hand (which provide clarity), while we expect steady unit additions on BLA/RM FY24E onwards (there exists upside risks to our numbers if these grow faster).

Our revenue growth estimate of ~18% CAGR (FY21-24E) for CMSINFO's cash business is predicated on two factors:

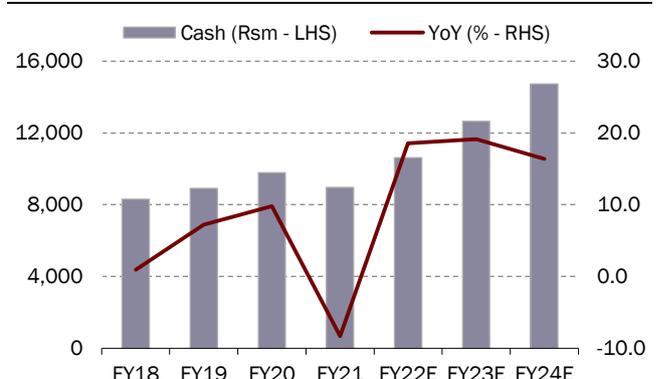
- **Higher number of touchpoints:** Steady market-share growth in ATM touch points (a combination of core ATM base growing, and outsourced ATMs share rising ~600 bps to ~65% by FY24E), rising RCM touch points (an under-penetrated industry) and higher outsourcing on the DCV/CIT vans front. In all, we estimate CMSINFO's touchpoints to rise at ~8% CAGR over FY21-24E.
- **Higher realization aided by RBI compliance norms:** We estimate ~11% CAGR in blended realization over FY21-24E. While we expect that the van network would be ~100% compliant by FY25E, if compliance implementation accelerates, realization growth could be higher over this period, before falling to low single-digit post that.

Exhibit 35: MS to grow faster over FY21-24E...



Source: Company, DAM Capital Research

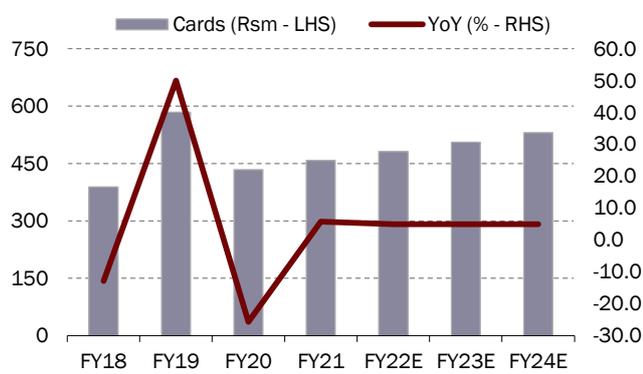
Exhibit 36: ...but cash business not far behind!



Source: Company, DAM Capital Research

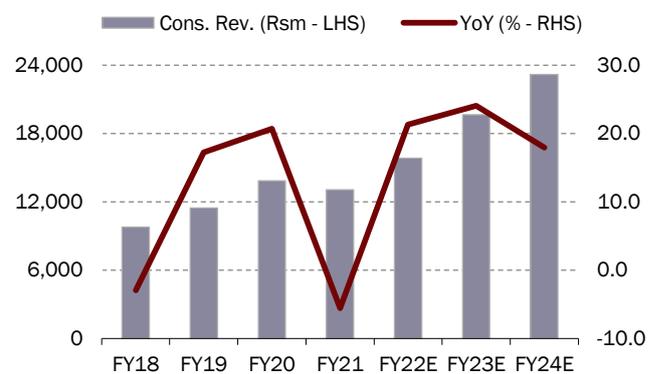
For CMSINFO's Cards business, we estimate steady ~5% revenue CAGR. All put together, this should drive the company's consolidated revenue by ~21% CAGR over FY21-24E.

Exhibit 37: Steady growth expected in cards



Source: Company, DAM Capital Research

Exhibit 38: Estimate ~21% revenue CAGR over FY21-24E



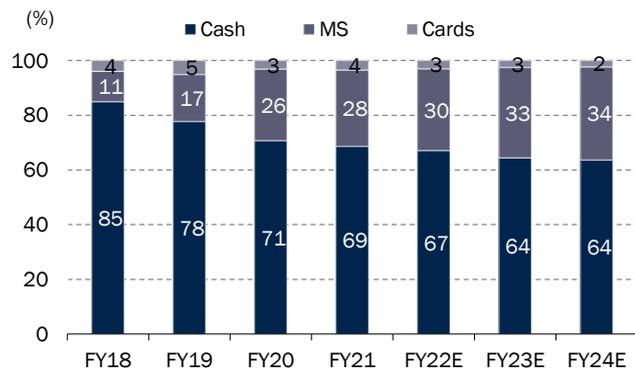
Source: Company, DAM Capital Research

Improving mix in favour of MS to drive margin expansion

CMSINFO's consolidated EBITDA margins should trend higher to ~28%

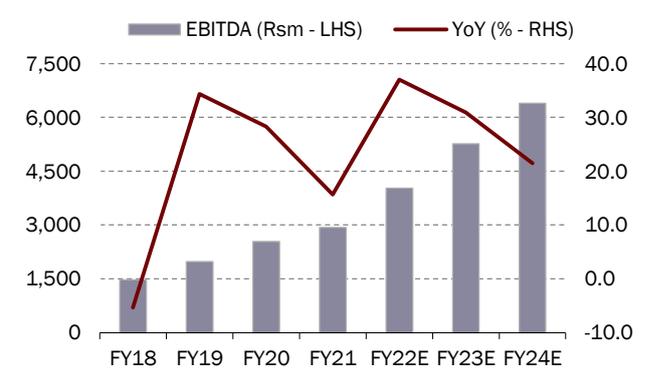
Pushed by faster growth over FY21-24E, the MS portfolio should contribute ~34% to the company's total revenue by FY24E (vs ~28% in FY21). BLA/MS, which are higher margin businesses, are expected to aid this growth. As a result, CMSINFO's consolidated EBITDA margins should also trend higher to ~28% (+500 bps over FY21-24E). EBITDA CAGR over this period is estimated at ~30%.

Exhibit 39: Mix to improve in favour of MS business...



Source: Company, DAM Capital Research

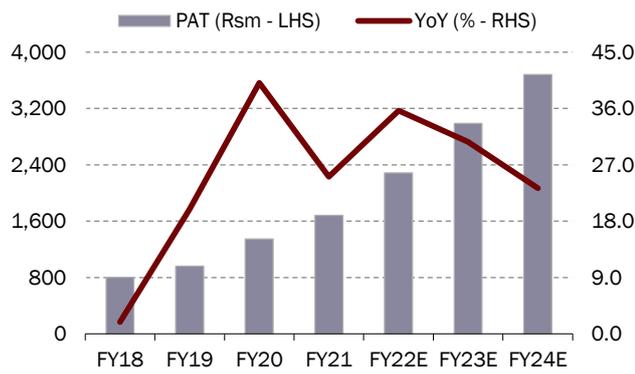
Exhibit 40: ...driving ~30% EBITDA CAGR over FY21-24E



Source: Company, DAM Capital Research

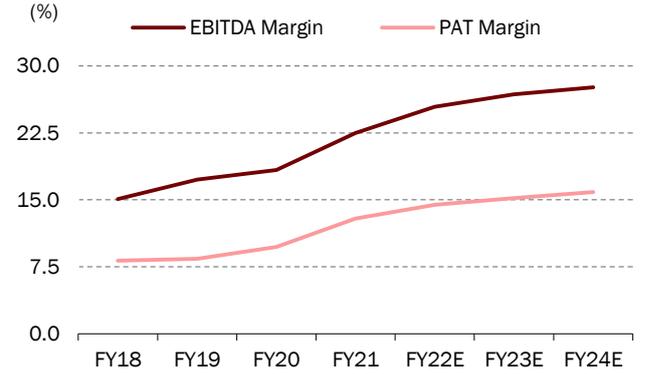
While BLA/MS margins may partially look optically higher (as capex-related costs are below EBITDA), CMSINFO's goals of expanding this business with profitability/payback metrics in mind, imply that net profit margins too should inch higher (we estimate ~300 bps over FY21-24E to ~16% in FY24E). As such, we expect PAT CAGR to mirror EBITDA growth of ~30% over this period.

Exhibit 41: PAT to mirror EBITDA CAGR of ~30%



Source: Company, DAM Capital Research

Exhibit 42: EBITDA/PAT margins to expand



Source: Company, DAM Capital Research

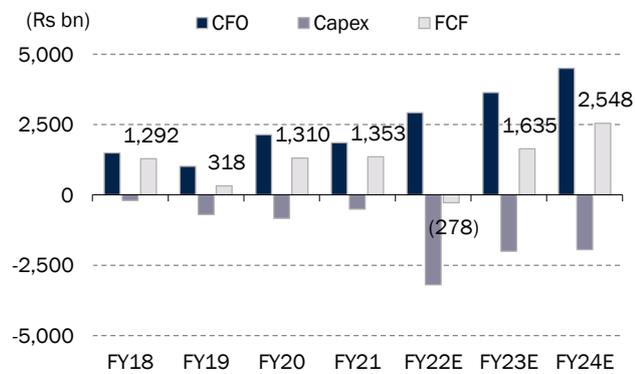
WC to range ~2 months; Free cash generation to pick-up

CMSINFO should be able to maintain its historical working capital (WC) level of ~2 months over our forecast period (FY21-24E). As is common across business verticals, the receivables cycle is usually 2.5-3 months long, but the company balances this partially by maintaining payables at ~1 month (dues to equipment vendors and others).

We have modelled ~25% payout for FY22E/23E/24E

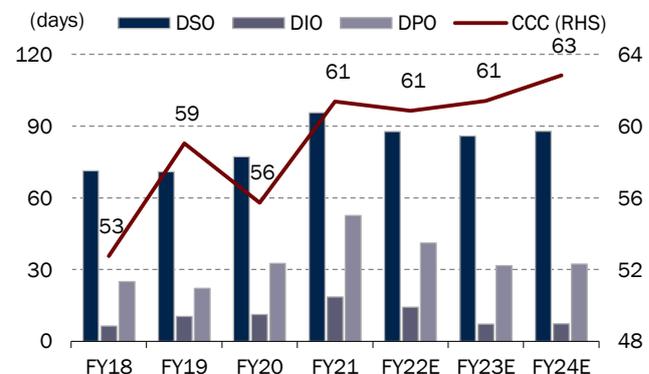
Most of the company's future capex would be restricted to the BLA/RM business. For FY22E, we expect higher capex (est. ~Rs3bn), given the large BLA wins (deployed during the year), and its Hemabh acquisition (~Rs210m). These could temporarily depress free cash generation, which we believe should pick up FY23E onwards (assuming the company does not venture into any major M&A activity; we estimate ~Rs2bn in capex for FY23E/24E each). We expect the company to remain debt free and expect any M&A/capex to be financed through internal accruals.

Exhibit 43: FCF generation to pick up FY23E onwards



Source: Company, DAM Capital Research

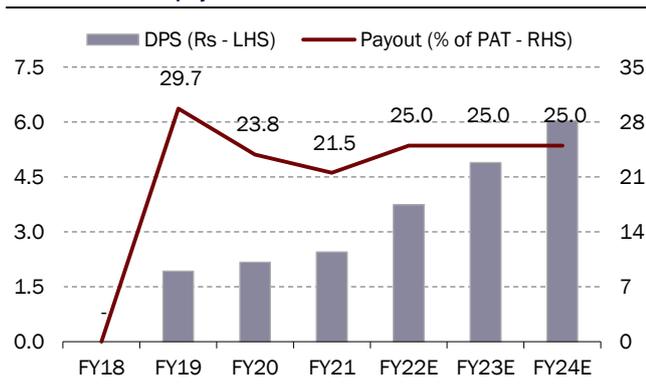
Exhibit 44: WC of ~60 days to be maintained



Source: Company, DAM Capital Research

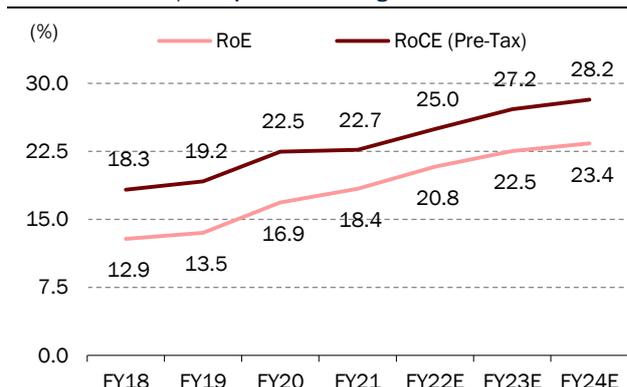
CMSINFO has started paying dividends since FY19 (20-30% payout), which we expect would continue. For now, given the potential consolidation in the industry, and the company's own thought process of retaining cash on the balance sheet for possible bolt-on acquisitions or any big-ticket (but lucrative) BLA/RM order, payout ratios will likely be restricted at ~20-30%, in our view. We have modelled ~25% payout for FY22E/23E/24E.

Exhibit 45: 25% payout estimated for FY22E-24E



Source: Company, DAM Capital Research

Exhibit 46: RoCE/RoE profile to strengthen



Source: Company, DAM Capital Research

Exhibit 47: RoE / RoCE DuPont analysis

DuPont Analysis (%)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
RoE:	12.9	13.5	16.9	18.4	20.8	22.5	23.4
- Net Profit Margin	8.2	8.4	9.7	12.9	14.4	15.2	15.9
- Total Asset Turnover (x)	1.2	1.1	1.1	0.9	0.9	1.0	1.0
- Leverage (x)	1.4	1.4	1.5	1.6	1.6	1.5	1.5
RoCE:	18.3	19.2	22.5	22.7	25.0	27.2	28.2
- EBIT Margin	11.8	12.6	14.3	17.6	19.3	20.4	21.2
- Capital Employed Turnover (x)	1.6	1.5	1.6	1.3	1.3	1.3	1.3

Source: Company, DAM Capital Research

OUTLOOK & VALUATION

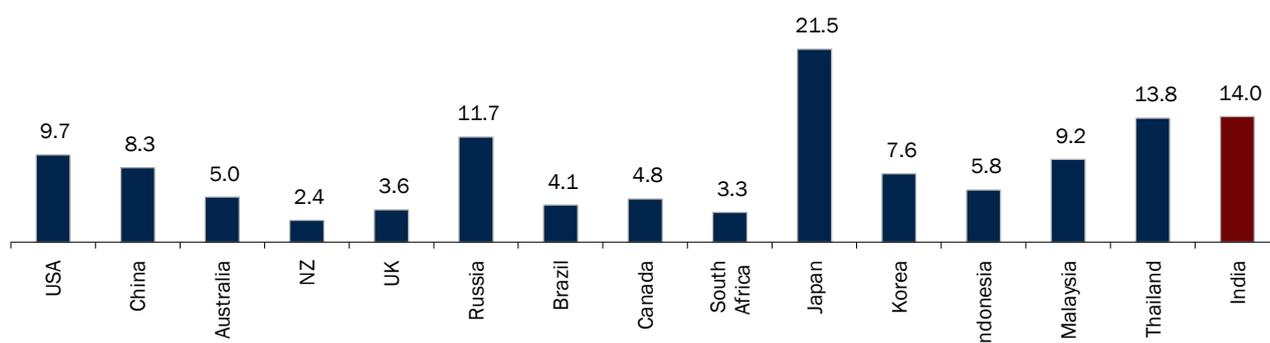
Both cash and digital payments can coexist

While markets have raised questions on the viability of cash as a means of payment in the long run versus digital alternatives (post demonetization and especially in the post COVID era), we believe, both cash and digital payments can coexist (as seen in developed and comparable emerging markets). In addition, CMSINFO too is attentive to the fact that digital payments are here to stay, and has therefore been busy transforming itself into a full-fledged banking industry outsourcing service provider (than being a mere cash logistics partner in its older avatar).

□ Can digital payments upend traditional cash?

Digital options have been available for long (NEFT/RTGS/IMPS), but the introduction of the United Payments Interface (UPI) has accelerated their adoption. However, we note even today there exist some stumbling blocks like (1) certain restrictions (daily limits, one-time user registrations, possible convenience or other fees), (2) reliability (dependence on internet connectivity, security concerns), and, (3) acceptability of cash as a more private/secure store of value versus digital (or stored in a bank). As such, we believe that both cash and digital payments should coexist – a trend that is visible in countries that have embraced non-cash as means of payments much earlier (seen from their respective CIC/GDP ratios.)

Exhibit 48: CIC/GDP ratios of major economies (CY20)



Source: Respective Central Banks, Bank of International Settlements, World Bank, CRISIL, India1 Payments DRHP, DAM Capital Research

Even though digital payment systems have proliferated in recent times (especially as funding for fintech firms skyrocketed), such firms have ended up disrupting other digital means (for instance, online wallets were disrupted by UPI-based platforms, which could be disrupted by RBI's NUE licenses, as the central bank looks to curb UPI's monopoly), rather than disrupting cash. We also note that such firms may end up using digital payments as a means to study their users and offer lending solutions (where RoEs are theoretically higher than in payments). This makes us strongly believe that major disruption to cash payments is a long time away.

□ CMSINFO's moats - Dominance in a boring space and long track record

The usual narrative one hears in today's world is, "Cash payments are considered passé and digital is the in thing". While we have put forth our arguments on why this may not necessarily be true in the case of cash payments, we believe, CMSINFO being player in a boring space like cash has its advantages, as there is a lesser probability of it being disrupted versus digital platforms (where disruptions have been and can continue to remain high). Being a dominant player with a large market share, only strengthens its position as a result. Moreover, CMSINFO has a long record of being a trusted partner with cash (CMS's own cash logistics company is in existence since late 2000s, but its subsidiary, Securitrans, entered this space in the late 1990s). We believe, these are credible competitive advantages in the company's favour, which cannot be easily dismantled by current and potential competitors.

❑ Busy expanding its target addressable market

We have illustrated how CMSINFO has expanded its target addressable market by ~3x, and is utilising its dominance in cash logistics (a high RoCE business) to carve out a niche in the MS space, to become a go-to partner for the banking industry for various non-core operating activities. This, in a way, reduces its risk of being exposed to just cash transportation. We believe CMSINFO has the capabilities to replicate its successes in the cash business on the managed services side as well.

❑ Inexpensive considering the growth runway

Despite its short trading history, the stock has been trading at a fairly inexpensive range of 12x-18x FY23E P/E, especially considering the potential growth opportunities. In the near to mid-term, both cash and managed services have enough legs to deliver strong revenue growth, but over the long term, we see cash as a mid-to-high single-digit growth business (aided more by RCM), with MS portfolio as the real growth engine. Also, the business has a high degree of visibility, as there are long-term contracts involved in most cases (which can and do get extended). As such, we have used DCF to value the company.

Despite its short trading history, the stock has been trading at a fairly inexpensive range of 12x-18x FY23E P/E versus potential growth opportunities

DCF assumptions:

- **FY22E-25E - high growth phase:** ~20% revenue CAGR – Cash/MS to expand at ~17%/25%, respectively, over this period.
- **FY25E-33E - fade period:** ~10% revenue CAGR – Cash to grow at ~7% annually, while MS could see ~16% growth over this period.
- **Terminal Growth:** 4%
- **WACC:** 13% (RFR – 7%; Beta – 1.2%; MRP – 5%; Cost of Debt – 0%)

Our DCF model target price of Rs360/share values the company at 16x FY24E P/E, which is inexpensive in our view, given 1) growth opportunities for the company, 2) its strong return ratios (~20%+ RoCE/RoE), 3) healthy free cash generation (estimated at ~Rs5bn cumulative FCF over FY21-24E), and, 4) estimated steady ~25% dividend payout.

We initiate coverage on the stock with an Outperformer rating.

Exhibit 49: DCF summary

Parameters	FY24E
WACC	13.0
Terminal growth (%)	4.0
Discounted cash flow total	
- Forecast period (FY22E-33E)	26,362
- Terminal value	28,744
Enterprise value	55,106
- Less: Net Debt	(3,576)
Equity value	58,682
Fully diluted shares outstanding (m)	165
Fair value per share (Rs)	360
Implied FY24E P/E	16.1

Source: DAM Capital Research

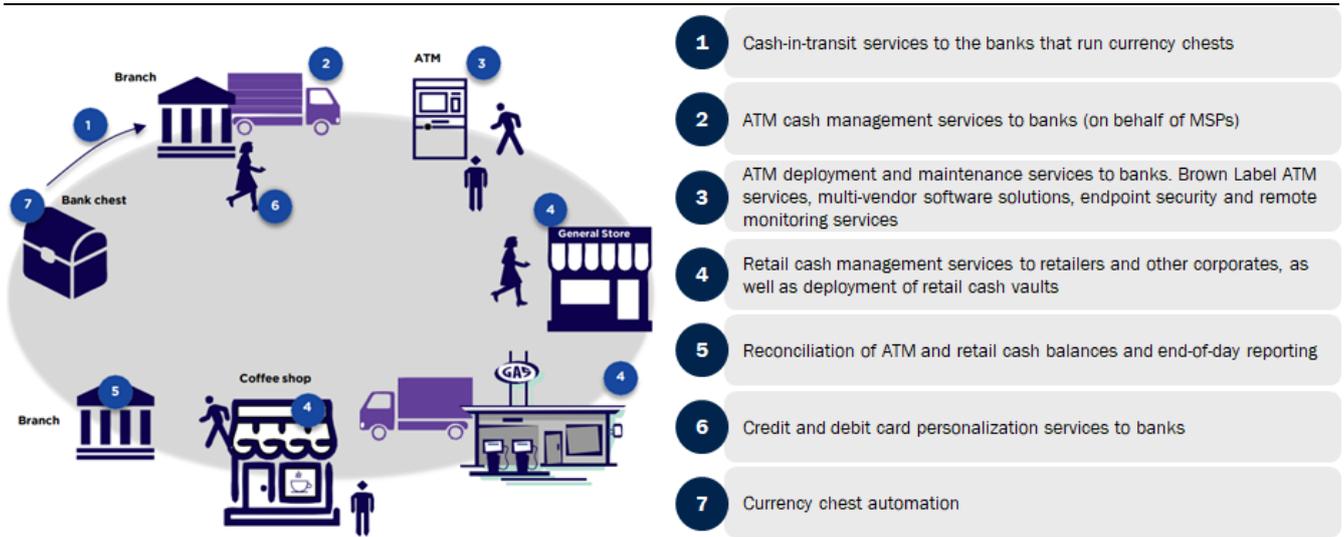
COMPANY BRIEF

□ Overview

The company was established in 2009, and has steadily grown since

CMS Info Systems Ltd. (CMSINFO) is a key B2B outsourcing services partner for India's banking industry. With its pan India presence (covering ~80% of postal codes; ~96% districts) and a fleet of 4,000 cash vans, the company has successfully integrated itself into the cash cycle and provides a services platform for banks across the cash management (~70% of revenue) and managed services (~30% of revenue) verticals. The company was established in 2009, and has steadily grown since (organically and through acquisitions), to become the largest ATM Cash Management (~41% market share) and Retail Cash Management (~36% market share) player, and a close second in Cash-in-Transit market (~26% share).

Exhibit 50: CMSINFO - Integrated across the cash value chain



Source: Company, DAM Capital Research

□ A brief on business segments

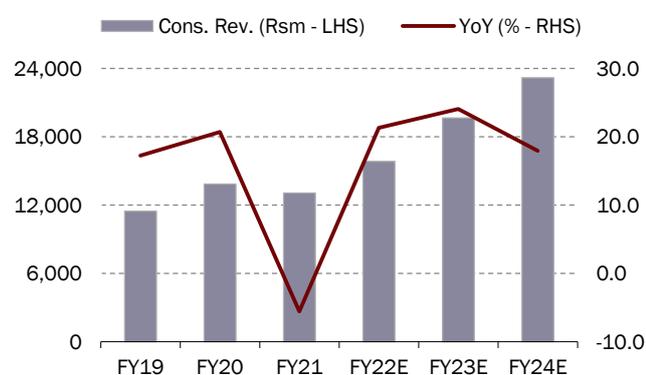
- **Cash Management:** Within this segment, CMSINFO transports cash from banks/vaults to ATMs, and from retail locations to banks. It also leases dedicated vans (and personnel) to banks to transport cash between branches and their own vaults.
- **Managed Services:** Through this segment, CMSINFO is diversifying itself into a banking B2B outsourcing partner. This includes product sales (ATM, and other hardware to banks), and its associated servicing contracts. Brown Label ATMs (where banks retain their branding, but outsource the ATM capex to service providers) and Remote Monitoring Systems are parts of this segment.
- **Cards:** This segment involves manufacturing, printing, embossing, and delivering credit/debit cards (plastic/metallic). Demand is a factor of a bank's individual requirement. CMSINFO has a manufacturing facility to cater to this business. This service can also be extended for various RFID smart cards.

Exhibit 51: A snapshot of the business segments

Segment name	Brief description	Revenue model	Typical contract duration
Cash			
ATM Cash Management	Transporting and filling banks' ATMs with cash	Fee per ATM visit per month (which varies, based on the number of trips, e.g., visits of 1-10 at say Rs7k, 11-20 at say Rs7.2k/ month)	1-3 years
Retail Cash Management	Collecting cash from various retail customers and depositing these in their respective bank branches	Fee per visit. For high cash volumes, there may also be a small percentage of fees linked to cash value	1-3 years
Dedicated Cash Vans / Cash-In-Transit	Special vans leased to banks for their inter/intra physical cash transfers	Wet lease model (vehicle/staff included) with stipulated maximum distance or hours used (if exceeded, there could be an additional fee)	1-3 years
Miscellaneous	Collection of bullion, documents, and soft loan collections	Per visit fee as negotiated by the end client	As per requirement
Managed Services			
Product sales	Sale of ATM and other machines to banks	As per product price	As per requirement
Servicing contracts	First and second line maintenance of machines (sold to banks)	Annual maintenance service contracts with a fixed fee for basic services. Complicated services could invite additional fees	5-7 years
Software	Software solutions made for various banking-related needs (includes multi-vendor operating software created for various ATM makes)	License-based fee (which would involve annual payments)	5 years
Brown Label ATMs	Outsourced ATMs, where a bank retains the brand, but the capex is borne by the service provider	Per transaction fee charged to banks (and in cases where daily transactions may be low, there could be a fixed fee)	7 years
Remote monitoring	Systems to e-surveil an ATM site or bank branch (reducing or eliminating the need for human intervention)	Per month negotiated fee	5 years
Cards	Manufacturing of credit/debit cards for banks' customers	Fees charged per card	As per requirement

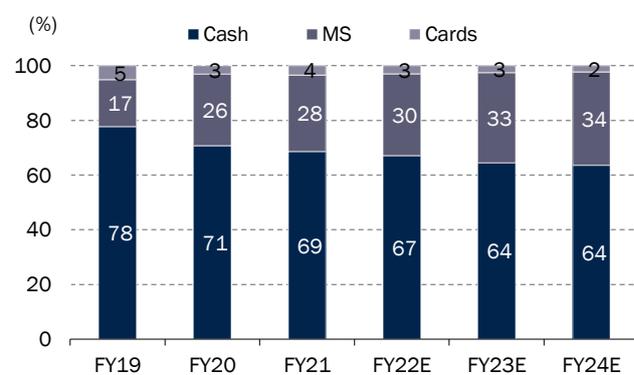
Source: Company, DAM Capital Research

Exhibit 52: Growth to accelerate over FY22E-24E



Source: Company, DAM Capital Research

Exhibit 53: MS contribution to increase in revenue pie



Source: Company, DAM Capital Research

Management profile

Exhibit 54: Key management personnel

Name	Designation	With CMSINFO Since	Remarks
Rajiv Kaul	CEO / Executive Vice Chairman	July 2009	<ul style="list-style-type: none"> 24+ years across tech, private equity, and cash management Previous experience includes Microsoft (India) and Actis Capital LLP Former member of RBI's committee on currency movement
Pankaj Khandelwal	President & CFO	July 2009	<ul style="list-style-type: none"> 27+ years of experience, including past assignments in Gajra Bevel Gears and NRC Ltd Currently responsible for finance, legal and secretarial functions
Anush Raghavan	President – Cash Management	October 2009	<ul style="list-style-type: none"> 14+ years of experience in Business Development and Management Previously associated as consultant with Hay Consultants India President of Cash Logistics Association and Currency Cycle Association
Manjunath Rao	President – Managed Services	July 2012	<ul style="list-style-type: none"> 34+ years of experience in sales and marketing across sectors Past assignments include CashLink Global Systems (COO), NCR (Acting MD, India) and Diebold Systems (Director – Sales & Marketing)
Sanjay Singh	Chief Human Resources Officer	July 2021	<ul style="list-style-type: none"> Previous associations with Cairn India, Hi-Tech Gears, ITC, GE and Strides Pharma Sciences
Rohit Kilam	Chief Technology Officer	November 2020	<ul style="list-style-type: none"> Past assignments include Aditya Birla Finance (VP Technology) TCS, IBM India, Masan Group and Adani Enterprises

Source: Company, DAM Capital Research

Board of Directors

Exhibit 55: Board of Directors

Name	Position	Member Since	Remarks
Ms. Shyamala Gopinath	Chairperson (Independent)	November 2017	<ul style="list-style-type: none"> Ex RBI Deputy Governor Other directorships include HDFC Bank, Colgate, CRISIL
Tapan Ray	Independent Director	April 2021	<ul style="list-style-type: none"> Ex Secretary – Ministry of Corporate Affairs Present MD/Group CEO of GIFT City (Gujarat) 34 years of experience in banking with SBI Led SBI's partnership with RIL to set up Jio Payments Bank Ltd
Ms. Manju Agarwal	Independent Director	January 2022	<ul style="list-style-type: none"> Co-Founder of PaySense (acquired by PayU for US\$185m)
Sayali Karanjkar	Independent Director	January 2022	<ul style="list-style-type: none"> MD at Barings PE 21+ years of PE experience. Associated with Barings since 2006
Jimmy Mahtani	Non-Executive Director	August 2015	<ul style="list-style-type: none"> MD at Barings PE 24+ years of experience. Worked as VP with Lehman Brothers (India) and Bank of America (USA) earlier
Ashish Agrawal	Non-Executive Director	August 2015	<ul style="list-style-type: none"> Was independent director until Dec 2019 Currently Executive Chairman at Roadrunner Transportation Systems and Ascent Global Logistics
Krzysztof Jamroz	Non-Executive Director	August 2021	<ul style="list-style-type: none"> 24+ years across tech, private equity, and cash management Previous experience includes Microsoft (India) and Actis Capital LLP Former member of RBI's committee on currency movement
Rajiv Kaul	Executive VC / Whole-Time Director / CEO	July 2009	<ul style="list-style-type: none"> 24+ years across tech, private equity, and cash management Previous experience includes Microsoft (India) and Actis Capital LLP Former member of RBI's committee on currency movement

Source: Company, DAM Capital Research

Key transformative acquisitions

Exhibit 56: Key acquisitions made by CMSINFO over the years

Target	Date	Price (Rs m)	Remarks
Securitrans India Pvt. Ltd.	Dec 2011	1,199	Expanded ATM segment market share
Clover Transaction Systems Pvt. Ltd.	Jan 2017	66	Expanded BLA capabilities/reach
Checkmate Services Pvt. Ltd.	Nov 2018	361	Increased CMSINFO's RCM touch points
Logcash (ATM Business)	July 2020	112	5,340 ATM contracts transferred
Hemabh Solutions Pvt. Ltd.	Sep 2021	210	Enhanced RM capabilities

Source: Company, DAM Capital Research

INDUSTRY OVERVIEW

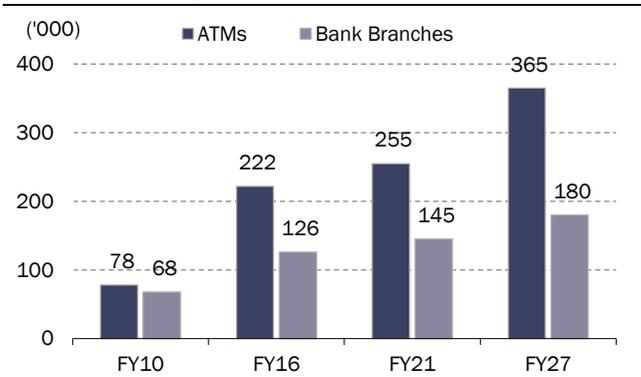
□ ATMs: Base to ramp-up over FY21-27E

India's ATM base is expected to resume its growth phase over FY21-27E (~6% CAGR) to touch ~365k by FY27E

India's ATM base grew at ~20% CAGR over FY10-16, but various industry headwinds over the subsequent periods (demonetization, PSB consolidation, IL&FS-led crisis that hit the sector and COVID) slowed the pace of growth to mere ~3% CAGR over FY16-21 and touched ~255k ATMs in FY21.

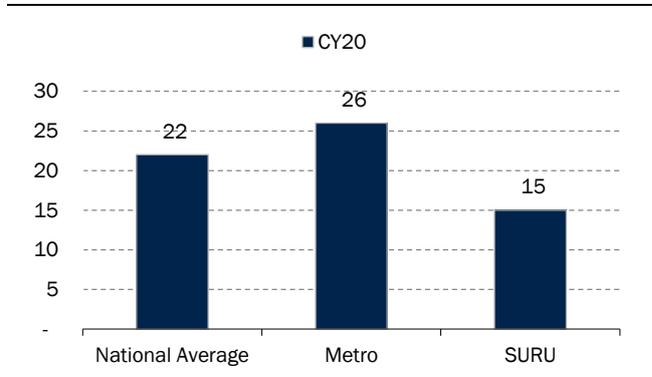
As per Frost & Sullivan, growth in India's ATM base is expected to resume its growth phase over FY21-27E (~6% CAGR) to touch ~365k by FY27E. A host of factors that underpin this growth include (1) government's financial inclusion goals (prodding the banking industry to expand further in semiurban/rural (SURU) markets), (2) recapitalization of PSBs, (3) general economic growth over the long run, especially in smaller markets, (4) relative under penetration, especially in semi-urban/rural areas, and, (5) increase in interchange fees (Rs17/Rs6 per financial/non-financial transaction, respectively, versus Rs15/Rs5 earlier).

Exhibit 57: Banking reach to pick up over FY21-27E



Source: RBI, CMSINFO RHP, DAM Capital Research

Exhibit 58: ATMs in SURU market underpenetrated



Source: RBI, CMSINFO RHP, DAM Capital Research

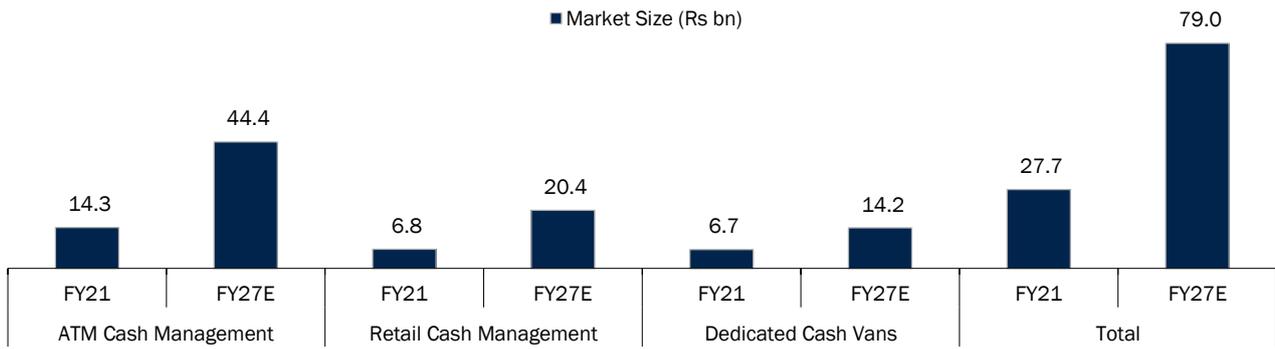
□ Cash Logistics: Compliance to help improve revenue growth

The cash logistics market grew at a healthy ~10% CAGR over FY10-21 to ~Rs28bn, as industry players not only undertook assignments which were earlier done by banks themselves, but also expanded their service offerings (e.g., cash processing, vault services, bullion management, etc).

Learnings from the demonetization period prompted the RBI to announce compliance measures for various aspects of the cash handling ecosystem, including ATM cash management (vans and employee specifications) and ATMs themselves (lockable cassettes) – **more details on this are in the Annexure**. The compliance push implies higher costs for these non-core operations, which a third-party outsourced service provider is in a better position to handle, given that they can sweat the cash infrastructure over multiple clients. Moreover, one of the key compliance measures is for banks to work with cash logistics players having minimum net worth of ~Rs1bn and a fleet size of at least 300 vehicles. As a result, smaller players would be forced to exit the industry, as banks comply with the RBI norms, thereby increasing the bargaining power for large players like CMSINFO.

As a result, the total addressable market within the cash logistics or cash management space should continue to expand in future. Frost & Sullivan has estimated this market to expand by ~3x over FY21-27E, and touch ~Rs79bn. Growth is expected across all three key segments of cash logistics – viz., ATM cash management, retail cash management and dedicated cash vans/cash-in-transit.

Exhibit 59: Cash logistics: Market size and potential by segments



Source: Frost & Sullivan, CMSINFO RHP, DAM Capital Research

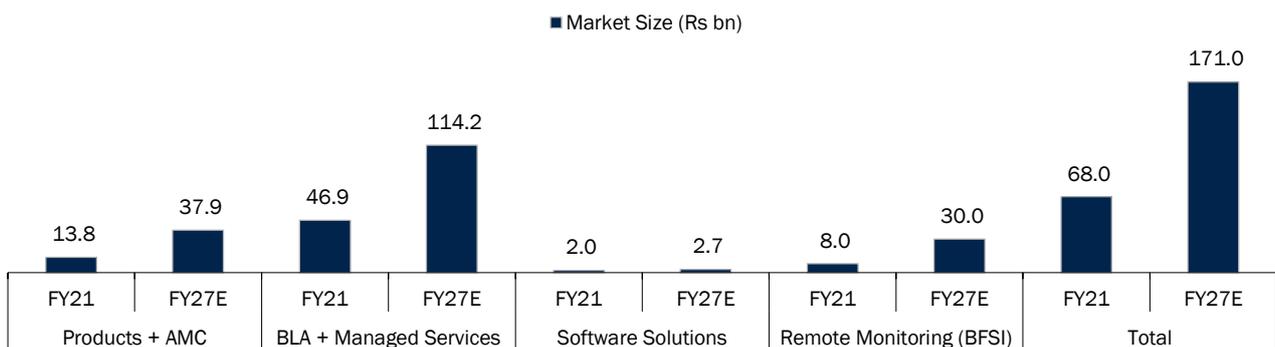
▣ **Managed Services: Making banks' lives easier**

India's BLA base is expected to rise from ~86k in FY21 to ~180k by FY27E

While ~110k new ATMs are slated to be added into the system over FY21-27E, further ~198k existing ATMs are expected to be replaced over this period. Of these, nearly half are expected to go the brown-label ATM (BLA) route (where the bank outsources the entire ATM capex to a third-party player and pays it on per transaction basis). Frost & Sullivan expects India's BLA base to rise from ~86k in FY21 to ~180k by FY27E (~50% of India's ATM base) - one of the key growth drivers in the Managed Services addressable market.

However, the market is also expected to grow through other sub-segments like plain-vanilla product sales (as branches (including e-Lobbys) increase and necessitate higher equipment). These one-time product sales would generate their individual after-market servicing-related contracts (AMCs as well spare operating parts for major maintenance work). In addition, remote monitoring of ATM sites is also expected to expand in a big way, as adoption increases (reduces/eliminates the need for human guards at such sites), and eventually this service is expected to be extended to banks/NBFC branches, as well as non-BFSI industry facilities in future, as awareness/adoption increases.

Exhibit 60: Managed Services market: ~2.5x growth over FY21-27E



Source: Frost & Sullivan, CMSINFO RHP, DAM Capital Research

ANNEXURES

RBI's compliance norms for cash logistics industry

Below is the verbatim copy of the RBI's compliance norms for cash logistics:

Standards for engaging the Service Provider and its sub-contractors (issued in April 2018; [Link to notification](#))

□ Eligibility Criteria

Minimum net worth requirement of Rs1bn and this level should be maintained at all times. The net worth requirement will come into force with immediate effect for all future outsourcing agreements of the banks. In case of existing agreements, the banks shall ensure that the net worth criteria is met as on March 31, 2019 (audited balance sheet to be submitted to the bank concerned by June 30, 2019) or at the time of renewal of agreement, whichever is earlier.

□ Physical / Security Infrastructure

- Minimum fleet size of 300 specifically fabricated cash vans (owned / leased).
- Cash should be transported only in the owned / leased security cash vans of the Service Provider or its first level sub-contractors. Each cash van should be a specially designed and fabricated Light Commercial Vehicle (LCV) having separate passenger and cash compartments, with a CCTV covering both compartments.
- The passenger compartment should accommodate two custodians and two armed security guards (gunmen) besides the driver.
- No cash van should move without armed guards. The gunmen must carry their weapons in a functional condition along with valid gun licenses. The Service Provider or its first level sub-contractor should also furnish the list of its employed gunmen to the police authorities concerned.
- Each cash van should be GPS enabled and monitored live with geo-fencing mapping with the additional indication of the nearest police station in the corridor for emergency.
- Each cash van should have tubeless tyres, wireless (mobile) communication and hooters. The vans should not follow the same route and timing repeatedly so as to become predictable. Predictable movement on regular routes must be discouraged. Staff should be rotated and assigned only on the day of the trip. With regard to security, additional regulations / guidelines as prescribed by Private Security Agencies (Regulation) Act, 2005, the Government of India and the State Governments from time to time must be adhered to.
- Night movement of cash vans should be discouraged. All cash movements should be carried out during daylight. There can be some relaxation in metro and urban areas though depending on the law and order situation specific to the place or the guidelines issued by the local police. If the cash van has to make a night halt, it necessarily has to be in a police station. In case of inter-state movement, changeover of security personnel at the border crossing must be pre-arranged.
- Proper documentation including a letter from the remitting bank should be carried invariably in the cash van, at all times, particularly for inter-state movement of currency.

- ATM operations should be carried out only by certified personnel who have completed minimum hours of classroom learning and training. The content of such training may be certified by a Self-Regulatory Organisation (SRO) of Cash-in-Transit (CIT) Companies / Cash Replenishment Agencies (CRAs) who may tie up with agencies like National Skill Development Corporation for delivery of the courses.
- The staff associated with cash handling should be adequately trained and duly certified through an accreditation process. Certification could be carried out through the SRO or other designated agencies.
- Character and antecedent verification of all crew members associated with cash van movement, should be done meticulously. Strict background check of the employees should include police verification of at least the last two addresses. Such verification should be updated periodically and shared on a common database at industry level. The SRO can play a proactive role in creating a common data base for the industry. In case of dismissal of an employee, the CIT / CRA concerned should immediately inform the police with details.
- Safe and secure premises of adequate size for cash processing / handling and vaulting. The premises should be under electronic surveillance and monitoring round the clock. Technical specifications of the vault should not be inferior to the minimum standards for Chests prescribed by the Reserve Bank. The vault should be operated only in joint custody and should have colour coded bins for easier storage and retrieval of different types of contents.
- All fire safety gadgets should be available and working in the vault which should also be equipped with other standard security systems like CCTV monitoring with recording for at least 90 days, emergency alarm, burglar alarm, hotline with the nearest police station, lighting power backup and interlocking vault entry doors.
- Work area should be separate from the cash area. The premises should be under the security of armed guards whose number should have reference to the scale of operations specific to the location but not less than five in any case.
- Critical information like customer account data should be kept highly secure. Access to the switch server should be restricted to banks. Interfaces where a bank gives access to the service provider or its sub-contractor to the bank's internal server should be limited to relevant information and secured.

Income statement

Year to 31 Mar (Rs m)	FY20	FY21	FY22E	FY23E	FY24E
Net sales	13,832	13,061	15,839	19,650	23,175
% growth	20.7	(5.6)	21.3	24.1	17.9
Operating expenses	11,293	10,125	11,816	14,383	16,779
EBITDA	2,539	2,936	4,023	5,266	6,396
% change	28.3	15.6	37.0	30.9	21.5
Other income	51	158	135	147	185
Net interest cost	73	82	139	156	167
Depreciation	566	635	964	1,265	1,494
Pre-tax profit	1,951	2,378	3,055	3,993	4,921
Deferred tax	0	0	0	0	0
Current tax	604	692	769	1,005	1,239
Profit after tax	1,347	1,685	2,286	2,988	3,682
Preference dividend	0	0	0	0	0
Minorities	0	0	0	0	0
Adjusted net profit	1,347	1,685	2,286	2,988	3,682
Non-recurring items	0	0	0	0	0
Reported net profit	1,347	1,685	2,286	2,988	3,682
% change	40.1	25.1	35.7	30.7	23.2

Balance sheet

As on 31 Mar (Rs m)	FY20	FY21	FY22E	FY23E	FY24E
Paid-up capital	1,480	1,480	1,526	1,526	1,526
Preference capital	0	0	0	0	0
Reserves & surplus	7,024	8,365	10,604	12,844	15,606
Shareholders' equity	8,504	9,845	12,130	14,370	17,132
Total current liabilities	3,999	5,137	4,840	5,642	6,447
Total debt	0	0	0	0	0
Deferred tax liabilities	0	0	0	0	0
Other non-current liabilities	825	1,136	1,397	1,559	1,684
Total liabilities	4,823	6,273	6,238	7,200	8,131
Total equity & liabilities	13,327	16,118	18,367	21,571	25,263
Net fixed assets	4,301	5,562	7,798	8,534	8,990
Investments	0	0	0	0	0
Cash	2,472	3,068	2,888	3,739	5,288
Other current assets	5,725	6,735	6,917	8,500	10,154
Deferred tax assets	273	248	248	248	248
Other non-current assets	557	505	516	549	583
Net working capital	4,198	4,666	4,965	6,598	8,995
Total assets	13,327	16,118	18,367	21,571	25,263

Cash flow

Year to 31 Mar (Rs m)	FY20	FY21	FY22E	FY23E	FY24E
Pre-tax profit	1,951	2,378	3,055	3,993	4,921
Depreciation	566	635	964	1,265	1,494
Chg in Working capital	259	180	(489)	(816)	(881)
Total tax paid	(604)	(692)	(769)	(1,005)	(1,239)
Net Interest	73	82	139	156	167
Others	35	312	238	119	89
Operating cash flow	2,302	2,894	3,160	3,754	4,587
Capital expenditure	(1,027)	(1,896)	(3,200)	(2,000)	(1,950)
Free cash flow (a+b)	1,275	998	(40)	1,754	2,637
Chg in investments	0	0	0	0	0
Debt raised/(repaid)	0	0	0	0	0
Net interest	(73)	(82)	(139)	(156)	(167)
Capital raised/(repaid)	0	0	570	0	0
Dividend (incl. tax)	(321)	(363)	(572)	(747)	(921)
Other items	84	43	0	0	0
Net chg in cash	964	596	(180)	851	1,550

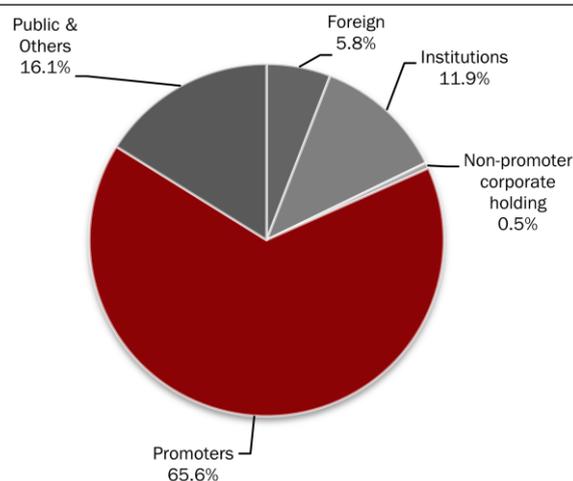
Key ratios

Year to 31 Mar	FY20	FY21	FY22E	FY23E	FY24E
EBITDA margin (%)	18.4	22.5	25.4	26.8	27.6
EBIT margin (%)	14.3	17.6	19.3	20.4	21.2
PAT margin (%)	9.7	12.9	14.4	15.2	15.9
RoE (%)	16.9	18.4	20.8	22.5	23.4
RoCE (%)	22.5	22.7	25.0	27.2	28.2
Gearing (x)	(0.3)	(0.3)	(0.2)	(0.3)	(0.3)
Net debt/ EBITDA (x)	(1.0)	(1.0)	(0.7)	(0.7)	(0.8)
FCF yield (%)	3.4	2.6	(0.1)	4.3	6.4
Dividend yield (%)	0.8	1.0	1.4	1.8	2.2

Valuations

Year to 31 Mar	FY20	FY21	FY22E	FY23E	FY24E
Reported EPS (Rs)	8.9	11.1	13.9	18.1	22.4
Adj. EPS (Rs)	8.9	11.1	13.9	18.1	22.4
PE (x)	28.1	22.5	17.9	13.7	11.1
Price/ Book (x)	4.4	3.8	3.4	2.9	2.4
EV/ Net sales (x)	2.6	2.7	2.4	1.9	1.5
EV/ EBITDA (x)	13.9	11.8	9.5	7.1	5.6
EV/ CE (x)	3.8	3.2	2.8	2.3	1.9

Shareholding pattern



As of Dec-21

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