

CMSINFO

Steady 4Q; Growth Drivers in Place

10 May 2022

Key Takeaway

For 4QFY22, CMS reported a 14% YoY rise in profit to Rs640m, tad below our estimates due to lower other income. Revenues rose by 8% YoY on higher base & core cash mgt-revenues rose by 23%. Ebitda margins expanded by 470bps aiding 32% YoY rise here. We see healthy growth ahead with network expansion, better realisation on compliance and ramp-up of new segments. We trim est. by 3-4%, but still see 22% Cagr over FY22-25 & maintain our BUY call.

Revenue growth led by Cash Management Services. During 4Q, CMS' revenue growth of 8% YoY came on a tad higher base that included higher income from product sales; but QoQ growth of 10% in revenues and 23% YoY growth in core cash-management-revenues point to healthy growth. While the revenues from managed services were down by 6% YoY, adjusted for lower revenues from product sales this segment also grew strongly. This is being led by 10% expansion in network to 113k touch points and 17% YoY growth in currency handled. EBITDA grew by 32% YoY reflecting growth in revenues and 470bps YoY expansion in margins to 26%. Margin expansion reflects better operating efficiencies and benefits from higher realizations arising from compliance related escalations. In fact, this could have been better if not for higher provision costs (for cash lost-in-transit, fines etc.) including some past liabilities from FY21 that weren't then due to Covid. Profit growth lagged Ebitda due to lower other income arising from MTM impact.

Steady cashflows and capex to moderate from here. CMS saw a marginal improvement in receivable days during FY22 and there is headroom for further reduction. Not only is operating cashflow up 50% YoY in FY22, but even capex has peaked unless there are new contract for brown-label-ATMs. Company has a well capitalized balance sheet with ~Rs3bn of cash and investments and negligible leverage will help insulate earnings against higher interest rates.

Healthy earnings growth; BUY call stays. A combination of pick-up in ATM rollout & outsourcing, expansion of commercial cash-collection network, increased compliance-services as well as ramp-up of remote monitoring system can drive growth. We marginally tweak estimates and expect CMS to deliver a 22% CAGR in profits over FY22-25, aided by 19% revenue growth and margin expansion (+250bps over FY22-25). A well-capitalized balance sheet offers comfort, any consolidation through M&A can offer newer growth avenues. We maintain BUY with TP of Rs300 based on 13x Mar-24 EPS.

Exhibit 1 - CMS Info Systems: Key Metrics

Key Metrics	FY20	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin (%)	18%	22%	25%	26%	27%	28%
Net Profit (Rsm)	1,347	1,685	2,240	2,797	3,394	4,094
PAT Growth (% YoY)	40%	25%	33%	25%	21%	21%
ROE (%)	17%	18%	20%	20%	20%	20%
P/S	14.1	12.2	9.3	7.2	5.9	4.9
P/E	26.6	21.3	16.1	13.3	10.9	9.1
P/BV	4.2	3.6	3.0	2.5	2.0	1.7

Source: Company Data, Jefferies

Estimate Change

India | Diversified Finance

RATING	BUY
PRICE	INR251.55 [^]
MARKET CAP	INR38.5B / \$497.4M
PRICE TARGET (PT)	INR300
UPSIDE SCENARIO PT	INR350.00
DOWNSIDE SCENARIO PT	INR220.00

[^]Prior trading day's closing price unless otherwise noted.

FY Mar

INR	2021A	2022A	2023E	2024E
EPS	11.39	↓15.07	↓18.27	↓22.16
Prev.		15.26	19.44	23.87
FY P/E	22.1x	16.7x	13.8x	11.4x

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Estimates				
INR	2021A	2022A	2023E	2024E
Net Profit	1,685.2	↓ 2,240.4	↓ 2,797.4	↓ 3,393.9
<i>Previous</i>		2,259.1	2,876.5	3,533.4
BV/Share	66.52	↑ 82.02	↑ 98.90	↑ 119.46
<i>Previous</i>		78.53	94.23	113.81
EPS	11.39	↓ 15.07	↓ 18.27	↓ 22.16
<i>Previous</i>		15.26	19.44	23.87
EPS Growth	25.1%	↓ 32.3%	↓ 21.2%	↓ 21.3%
<i>Previous</i>		34.1%	27.3%	22.8%
DPS	2.45	↓ 1.00	↓ 1.15	↓ 1.32
<i>Previous</i>		2.70	3.10	3.56

Valuation				
	2021A	2022A	2023E	2024E
P/B	3.8x	3.1x	2.5x	2.1x
FY P/E	22.1x	16.7x	13.8x	11.4x

Market Data	
52-Week Range:	INR317.90 - INR215.00
Avg. Daily Value MM (USD)	108.19
Float (%)	36.6%

The Long View

Scenarios

Base Case

- Top line CAGR of 19% over FY22-25
- PAT CAGR of 22% over FY22-25
- Average ROE of 20%
- Target Price of Rs300 based on 13x Mar-24 P/E

Upside Scenario

- Top line CAGR of 22% over FY22-25
- PAT CAGR of 26% over FY22-25
- Average ROE of 22%
- Target Price of Rs350 based on 14x Mar-24 P/E

Downside Scenario

- Top line CAGR of 17% over FY22-25
- PAT CAGR of 20% over FY22-25
- Average ROE of 18%
- Target Price of Rs220 based on 10x Mar-24 P/E

Investment Thesis / Where We Differ

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

Catalysts

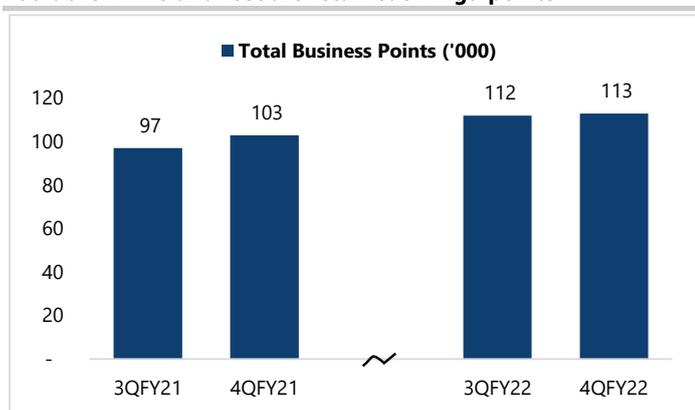
- Faster gain of market share through organic/inorganic routes.
- Profitability can expand further through route-optimisation and upgrade of ATM-services.
- Key risks can arise from rapid digitisation of retail transactions and any adverse change in bank-partnership terms.

Exhibit 2 - CMS Info Systems: 4QFY22 Result Summary

CMS Info Systems (Rsm)	Quarterly				
	4QFY21	3QFY22	4QFY22	YoY	QoQ
Cash management services	2,434	2,924	2,988	23%	2%
Managed services	1,619	1,127	1,523	-6%	35%
Others	109	122	88	-19%	-28%
Inter-segmental	59	136	158	168%	16%
Revenue from operations	4,103	4,037	4,441	8%	10%
Employee benefits expenses	533	626	594	11%	-5%
Service and security charges	764	827	845	11%	2%
Vehicle maintenance, hire and fuel cost	323	390	412	28%	6%
Other expenses	1,602	846	1,000	-38%	18%
Total Expenses	3,223	2,986	3,281	2%	10%
EBITDA	881	1,051	1,160	32%	10%
EBITDA Margin (%)	21.5%	26.0%	26.1%	470 bps	9 bps
Depreciation and amortization expense	186	224	275	48%	22%
Other Income	111	16	25	-77%	61%
Finance costs	29	30	43	48%	44%
Profit before tax	777	813	868	12%	7%
Total tax expense	215	210	228	6%	8%
Profit after tax	561	602	640	14%	6%
PAT Margin	13.3%	14.9%	14.3%	100 bps	-54 bps
Other Metrics	4QFY21	3QFY22	4QFY22	YoY	QoQ
Cash Management					
Total business points	103,000	112,000	113,000	10%	1%
Cash handled during the quarter (Rstn)	2.4	2.8	2.8	17%	0%
ATM managed services					
ATM network under MS	10,000	11,000	12,000	20%	9%
Tech/ software solutions					
RMS sites order book	-	20,000	13,000	na	-35%
ATM aglo order book	-	7,000	-	na	-100%

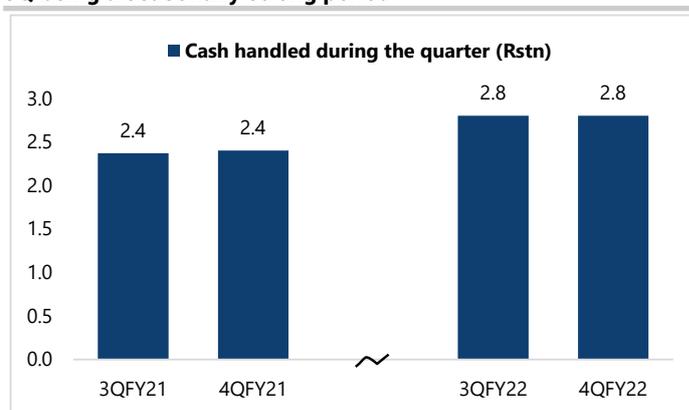
Source: Company Data, Jefferies

Exhibit 3 - CMS has expanded touch-points by 10% of which +60% are ATMs and rest are retail-cash mgt. points



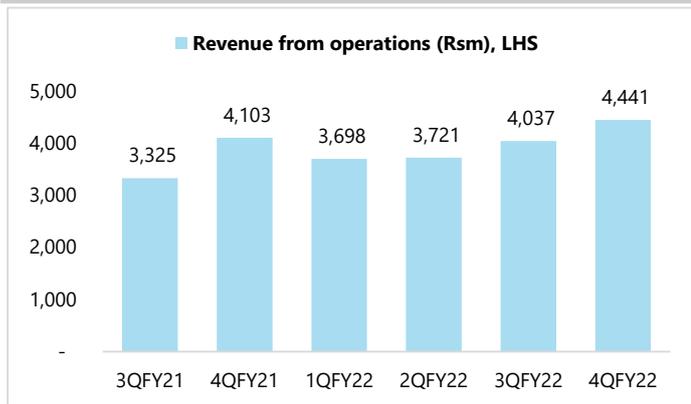
Source: Company Data, Jefferies (Data for 1QFY22 & 2Q22 not available)

Exhibit 4 - Currency handled rose 17% YoY & flat QoQ despite 3Q being a seasonally strong period



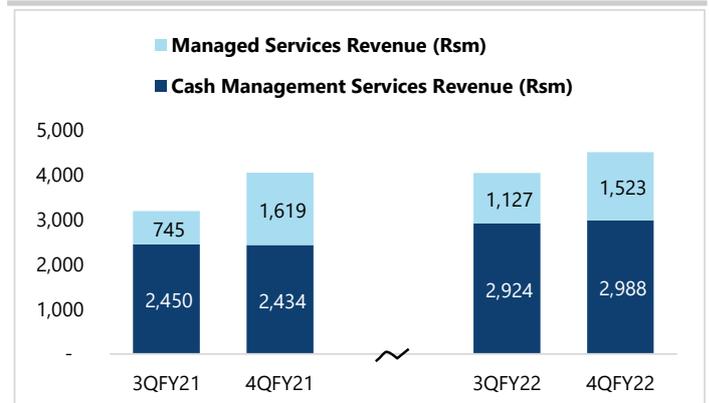
Source: Company Data, Jefferies (Data for 1QFY22 & 2Q22 not available)

Exhibit 5 - Revenue growth of 8% YoY comes on a tad high base of product revenues



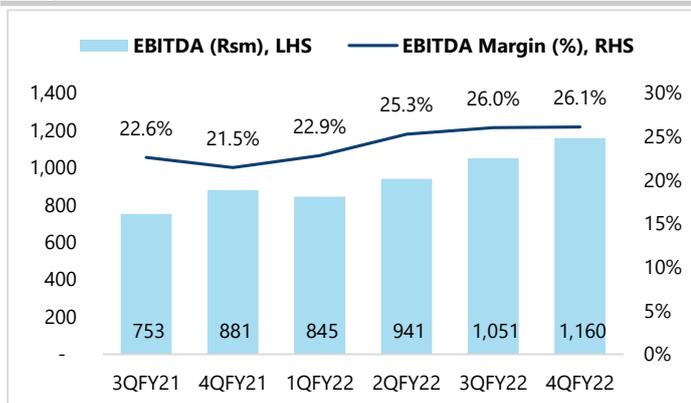
Source: Company Data, Jefferies

Exhibit 6 - Cash mgt. revenues rose by 23% YoY whereas Managed Service revenues fell by 6% due to lower product sales revenues



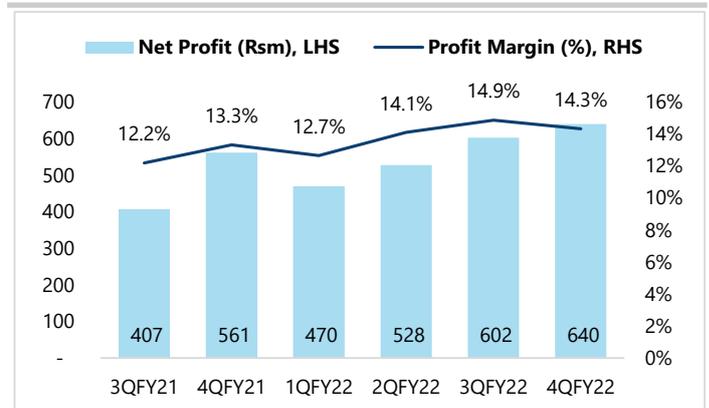
Source: Company Data, Jefferies (Data for 1QFY22 & 2Q22 not available)

Exhibit 7 - Expansion in Ebitda margin reflects better operating efficiencies and benefits from higher realizations arising from compliance related escalations



Source: Company Data, Jefferies

Exhibit 8 - Profit growth lagged behind Ebitda due to lower other income



Source: Company Data, Jefferies

Exhibit 9 - CMS Info Systems: Profit & Loss

Profit & Loss (Rsm)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Cash Management Services	9,843	9,094	11,108	13,619	15,897	18,351
Managed Services	3,622	3,640	4,896	6,252	7,654	9,062
Cards	434	460	477	518	563	612
Inter-Segment	67	133	584	795	892	1,037
Revenue from operations	13,832	13,061	15,897	19,594	23,222	26,988
Total expenses	11,293	10,125	11,899	14,437	16,954	19,484
Ebitda	2,539	2,936	3,998	5,157	6,268	7,504
Ebitda margin (%)	18.4%	22.5%	25.1%	26.3%	27.0%	27.8%
Depreciation and amortisation expense	566	635	918	1,232	1,487	1,804
Operating Profit	1,973	2,301	3,079	3,925	4,781	5,700
Other income	51	158	79	92	126	176
EBIT	2,024	2,460	3,158	4,017	4,907	5,876
Finance costs	73	82	144	152	152	152
Profit before tax	1,951	2,377	3,014	3,865	4,755	5,724
Total tax expense	604	692	774	1,067	1,361	1,630
Profit after tax	1,347	1,685	2,240	2,797	3,394	4,094
PAT margin (%)	9.7%	12.7%	14.0%	14.2%	14.5%	15.1%
PAT growth (% YoY)	40%	25%	33%	25%	21%	21%

Source: Company Data, Jefferies

Exhibit 10 - CMS Info Systems: Balance Sheet

Balance Sheet (Rsm)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	1,480	1,480	1,532	1,532	1,532	1,532
Other equity	7,024	8,365	11,030	13,615	16,765	20,566
Total equity	8,504	9,845	12,561	15,146	18,296	22,097
Non-current liabilities	825	1,136	1,678	1,607	1,533	1,465
Current liabilities	3,999	5,137	4,318	6,151	6,542	7,504
EQUITY AND LIABILITIES	13,327	16,118	18,557	22,905	26,371	31,066
Property, plant and equipment	1,206	1,897	3,470	4,218	4,887	5,498
Right-of-use assets	839	1,211	1,800	1,701	1,598	1,502
Goodwill	2,034	2,034	2,061	2,061	2,061	2,061
Non-current assets	5,131	6,315	9,012	9,937	10,792	11,693
Investments	566	1,123	1,235	1,976	3,557	5,336
Cash and cash equivalents	1,591	1,335	643	1,332	2,442	1,713
Current assets	8,197	9,803	9,545	12,968	15,579	19,373
ASSETS	13,327	16,118	18,557	22,905	26,371	31,066

Source: Company Data, Jefferies estimates

Exhibit 11 - CMS Info Systems: Cash Flow Statement

Cash Flow Statement (Rsm)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Profit before tax	1,951	2,377	3,014	3,865	4,755	5,724
Adjustments to reconcile PBT to net cash flow	1,257	1,025	1,892	1,370	1,606	1,890
Movement in working capital	(573)	(979)	(1,366)	(226)	388	(1,786)
Direct taxes paid (net of refunds)	(493)	(569)	(976)	(1,155)	(1,421)	(1,711)
Net cash flow from operating activities (CFO)	2,142	1,854	2,565	3,854	5,329	4,117
Purchase of PP&E and Intangibles	(836)	(551)	(2,840)	(1,783)	(1,965)	(2,346)
Investment in mutual funds	(433)	(545)	(8,305)	(741)	(1,581)	(1,779)
Investment in deposits with banks	71	(447)	(988)	-	-	-
Net cash flow from investing activities (CFI)	(1,194)	(1,493)	(3,262)	(2,525)	(3,546)	(4,125)
Dividend paid	(321)	(363)	(226)	(212)	(244)	(293)
Finance costs	(6)	(9)	(0)	(0)	(0)	(0)
Finance costs on lease liability	(67)	(73)	(144)	(152)	(152)	(152)
Payment of principal portion of lease liabilities	(182)	(172)	(262)	(276)	(276)	(276)
Net cash flow from financing activities (CFF)	(576)	(617)	6	(641)	(672)	(721)
Net (decrease) / increase in cash	371	(256)	(692)	688	1,110	(729)
Cash and cash equivalents at the beginning	1,220	1,591	1,335	643	1,332	2,442
Cash and cash equivalents at the end	1,591	1,335	643	1,332	2,442	1,713

Source: Company Data, Jefferies estimates

Exhibit 12 - CMS Info Systems: Key Ratios

Key Ratios	FY20	FY21	FY22	FY23E	FY24E	FY25E
EPS (Rs)	9.1	11.4	15.1	18.3	22.2	26.7
EPS Growth (% YoY)	40%	25%	32%	21%	21%	21%
EBITDA (Rsm)	2,539	2,936	3,998	5,157	6,268	7,504
EBITDA Margin (%)	18%	22%	25%	26%	27%	28%
EBITDA growth (% YoY)	28%	16%	36%	29%	22%	20%
Net Profit (Rsm)	1,347	1,685	2,240	2,797	3,394	4,094
PAT Margin (%)	9.7%	12.7%	14.0%	14.2%	14.5%	15.1%
PAT Growth (% YoY)	40%	25%	33%	25%	27%	27%
ROA (%)	11%	11%	13%	13%	14%	14%
ROE (%)	17%	18%	20%	20%	20%	20%
BVPS	57	67	82	99	119	144
BVPS Growth (% YoY)	40%	25%	32%	21%	21%	21%
DPS	1.8	2.5	1.0	1.2	1.3	1.6
Dividend payout (%)	20%	22%	7%	6%	6%	6%
Dividend yield (%)	0.7%	1.0%	0.4%	0.5%	0.5%	0.7%
P/S	14.1	12.2	9.3	7.2	5.9	4.9
P/E	26.6	21.3	16.1	13.3	10.9	9.1
P/BV	4.2	3.6	3.0	2.5	2.0	1.7

Source: Company Data, Jefferies estimates

Exhibit 13 - CMS Info Systems: Target Price Computation

CMS Info Systems Target price (FY24e)	
EPS	22
P/E	13
Target price (Rs)	296
Target price rounded off (Rs)	300
Current price (Rs)	242
Upside (%)	24%

Source: Company Data, Jefferies estimates

Company Description

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CMS Info Systems Ltd is one of India's largest cash management company based on number of ATM points and number of retail pick-up points, and offers its customers a wide range of tailored cash management and managed services solutions, including ATM network management, retail management and managed services. CMS manages the entire flow and management of money for the business points that it serves every day - from when the RBI initially deposits cash in the bank's currency chests, to when cash is deposited back in banks after going through the various stages of the cash cycle.

Company Valuation/Risks

CMSINFO

We rate CMS Info Systems as BUY with a target price of Rs300 based on 13x FY24 PE. M&A led consolidation and diversification into newer/ non-cash driven businesses can drive re-rating. Key risks can arise from rapid digitisation of retail transactions and any adverse change in bank-partnership terms.

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

Recommendation Completion May 10, 2022 , 12:38 ET.

Recommendation Distributed May 10, 2022 , 12:38 ET.

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Buy - Describes securities that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

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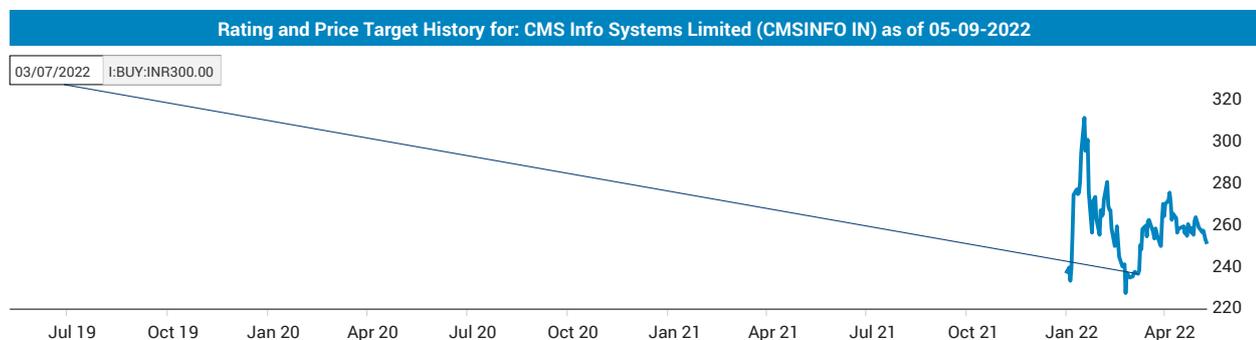
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Legend:

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D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

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Distribution of Ratings						
			IB Serv./Past12 Mos.		JIL Mkt Serv./Past12 Mos.	
	Count	Percent	Count	Percent	Count	Percent
BUY	1995	62.76%	135	6.77%	27	1.35%
HOLD	1055	33.19%	20	1.90%	2	0.19%
UNDERPERFORM	129	4.06%	0	0.00%	0	0.00%

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