

Cash Manager Is Set for Healthy Earnings Growth

24 April 2024

CMS is India’s leading cash management platform with 112k touchpoints and 25% share in Total ATMs. Industry Revenue can see 15% CAGR over FY21-27 with ATM roll-out, outsourcing and new norms. CMS can grow faster with network expansion, better operational/financial standings & new initiatives.

Investment Rationale

Cash in Circulation is expected to grow at CAGR of 10% YoY over FY21-25E:

Cash in circulation (CIC) - the total of cash with banks and currency with the public approximately **INR 34.59trn** with CIC/GDP at 15% in FY24. Notwithstanding Covid-led disruption and significant scale-up in digital payments, CIC grew 11% YoY from FY18-23, reflecting resilience to macro-economic deviations (e.g., GST, demonetization, etc.). **CIC is expected to grow at a CAGR of 10% over FY21-25E to INR 41.5trn.**

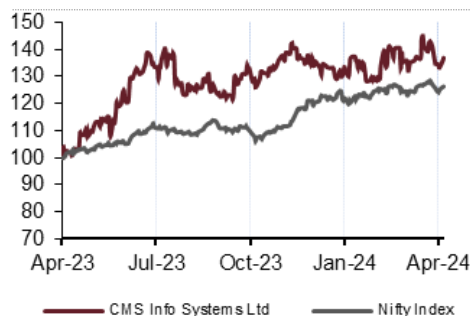
Leading player in a consolidating industry with Market Share of >40% in the outsourced ATM’s:

The cash management industry in India has continued to consolidate in recent years (similar to the global trend), with a number of large and medium scale mergers and acquisitions, resulting in two largest companies (incl. CMS) in the industry increasing their aggregate market share with respect to the **ATM segment from 60% in FY18 to 75% in FY23 (creating a duopolistic situation)**, while the number of companies with >5% market share fell from 6 to 4. The industry is consolidating due to changes in regulations that ensure cash management companies meet operating standards with respect to the handling of cash, as well as trends in customer preference favoring larger cash management companies with more scale and stable operations. **Based on number of ATMs, CMS has a market share of 24.7% whereas based on number of outsourced ATMs, it commands a market share of 41.1%.**

Rating	TP	(%)
BUY	553	42
Market Data		
Current price	Rs	390
Market Cap (Rs.Bn)	(Rs Bn)	63
Market Cap (US\$ Mn)	(US\$ Mn)	761
Face Value	Rs	10
52 Weeks High/Low	Rs	421.4 / 280
Average Daily Volume	('000)	545
BSE Code		543441

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Mar-24	Feb-24
Promoters	0	0
Public	100	100
Total	100	100

Source: BSE

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Big opportunity in SURU regions:

India has the highest number of ATMs deployed compared to some countries in the world but is significantly under-penetrated on a percapita basis.

Compared to the national average of 22 ATMs per 100,000 population, metropolitan regions have a higher ATM penetration of 26 ATMs per 100,000 population while the SURU region is severely underpenetrated with 15 ATMs per 100,000 population (vs globally average of 47 ATMs).

Thus, there is a big opportunity in SURU areas as millions of rural consumers now have a debit card and a bank account driven by rapid rise of Jan Dhan Yojana accounts and RuPay cards, but lack basic infrastructure such as an ATM to utilize them effectively. Thus, with a focus on rural areas, ATM penetration across Indian states is expected to increase in future.

Also, RBI mandates Indian banks to open 25% of any new branches in a given year in rural areas that do not have access to banking services, while private sector banks have been independently expanding their bank branches in the rural and semi-urban areas as a result of the opportunities created by rural economic growth arising from government initiatives in those areas.

ATMs expected to grow at a CAGR of 6.2% over FY21-27E:

In the coming years, 110,000 new ATMs are expected to be added; an additional 198,000 ATMs are likely to be added by replacement demand. More than half of these are expected to be deployed under the BLA model. The total number of ATMs is expected to increase to 365,000 by FY27E driven by pent-up demand and the need to address under-penetration in the SURU regions, shift from capex to opex-based deals for banks (e.g. BLAs), and additional upside expected due to increase in interchange fees. In order to address this demand for new and replacement ATMs, banks are likely to prefer a BLA operational model to reduce capex costs while also ensuring that market demand is met. This is one of the key drivers for the BLA market, which is expected to grow from 86,000 ATMs in FY21 to 180,000 ATMs by FY27E.

Cash payments continue to dominate:

Volume of cash transactions declined 12% during the Covid-19 peak vs. the months immediately preceding the pandemic. However, as the situation improved, average cash transaction volumes improved to 90% of the volume immediately preceding Covid-19. Despite events such as demonetization and Covid-19, cash continues to be the most preferred method of payment vs. other payment modes. Even in the Indian e-commerce market, **cash on delivery (COD) accounted for more than 65% of all e-commerce payments**, indicating the significance of cash for e-commerce payments. Though digitization initiatives led to an increase in payments using cards or Unified Payments Interface (UPI), **cash payments are expected to dominate the economy accounting for 61% of all payments in FY25E.**

Key regulatory changes affecting the ATM industry in India

Minimum standards for cash management service providers introduced by RBI:

In Apr'18, RBI introduced minimum standards for service providers and sub-contractors engaged in cash management activities due to banks' increasing reliance on outsourcing these activities. According to the standards:

- Minimum net worth of INR 1bn should be maintained at all times,
- A service provider must own or lease a minimum fleet size of 300 specifically fabricated cash vans, each cash van should be a specially designed and fabricated light commercial vehicle (LCV) having separate passenger and cash compartments, with CCTVs in both compartments,
- Each cash van should be GPS enabled and monitored live with geo-fencing mapping indicating the nearest police station during emergencies and
- Each cash van should have tubeless tyres, wireless mobile communication and hooters.

Currently, compliance is <20% nationally and with the prospects of being penalized for non-compliance, it is expected that by 2024, 90% of all service providers will be able to comply with these standards. **The realization for compliant ATMs is expected to increase by INR 2,800 to INR 3,000 per ATM per month on the basis of an expected increase in cost of meeting the compliance requirements (vans and crew member requirements).**

Cassette swap implementation:

In 2018, RBI recommended the use of cash replenishment with a "cassette swap" model to mitigate risks associated with open cash replenishment. This implementation was to be done in a phased manner with an initial deadline of 31Mar'21. With difficulties in implementing the lockable cassette system by banks given significant capex requirements, RBI has extended the timeline for implementation of the "cassette swap" model in all ATMs to 31Mar'22. **Cassette swapping penetration is at 3% currently and is expected to grow to 55% by FY27 in line with the increase in new and replacement ATMs. The implementation of the "cassette swap" model is estimated to increase realization per ATM by INR 1,000 per month for ATM cash management companies.**

Increase in the ATM interchange fee:

ATM interchange fee is paid by the card issuing bank to the operator of the ATM when a customer makes a transaction at an ATM that does not belong to the card issuing bank. With rising cost of ATM deployments and rising expenses for ATM maintenance, In Jun'21 RBI increased the ATM interchange from INR 15 to INR 17 for financial transactions and from INR 5 to INR 6 for non-financial transactions, effective from 01Aug'21. The increase in interchange fee can a) accelerate ATM deployments by banks, b) BLA model could become a preferred model.

DID YOU KNOW !!

A Brown Label ATM, also known as BLA ATM, is an automated teller machine where the money management and connectivity to financial systems are provided by a bank, referred to as the sponsor bank.

White Label ATMs (WLAs) are ATMs set up, owned and operated by non-banks.

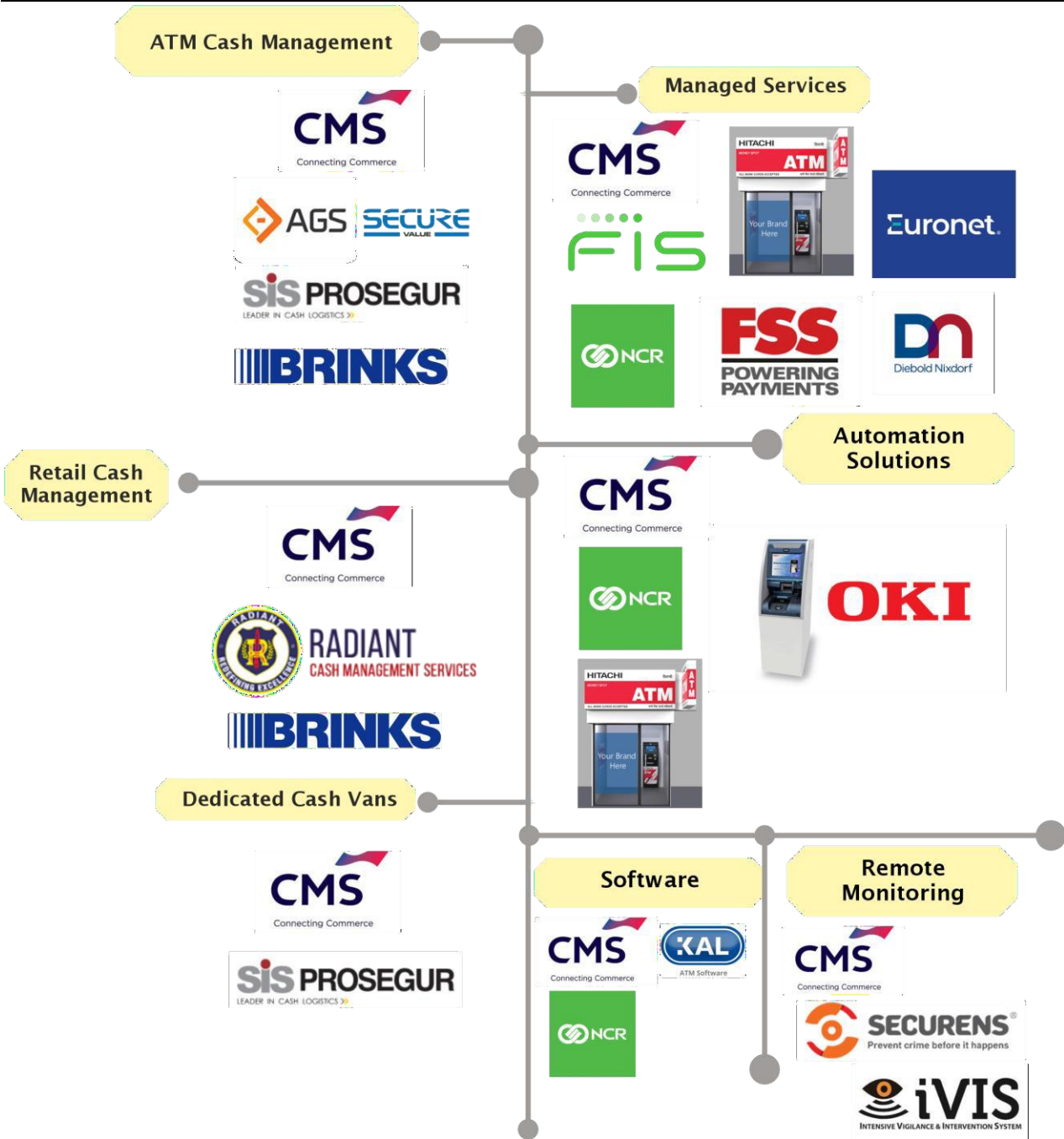
Monitoring of availability of cash in ATMs:

Effective 1Oct'21, cash-out at any ATM for more than 10 hours in a month will attract a penalty of INR 10,000 per ATM. In case of White Label ATM operators (WLAs), the penalty would be charged to the bank that is meeting the cash requirement of that particular WLA. The bank, may, at its discretion, recover the penalty from the WLA operator. Given that the bank outsources most of the work related to cash management at ATMs, we believe it is quite likely that this penalty could become a shared cost between banks, MSPs and cash logistics agencies, depending on the nature of lapses

Technology In Action: Dynamic Route Mapping.

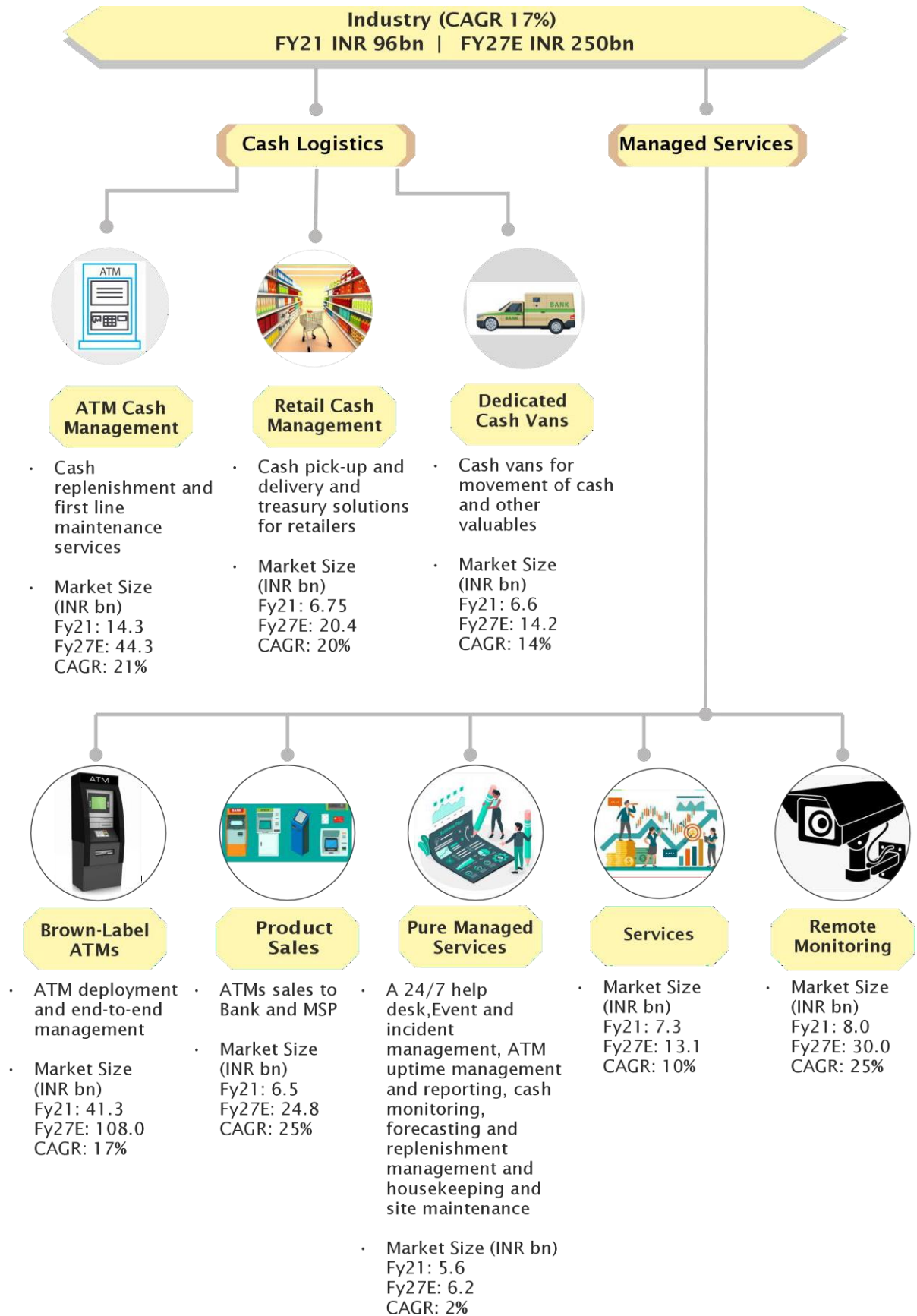
Focus in Chart

Exhibit 1: Competitive Scenario: ATM Managed Services



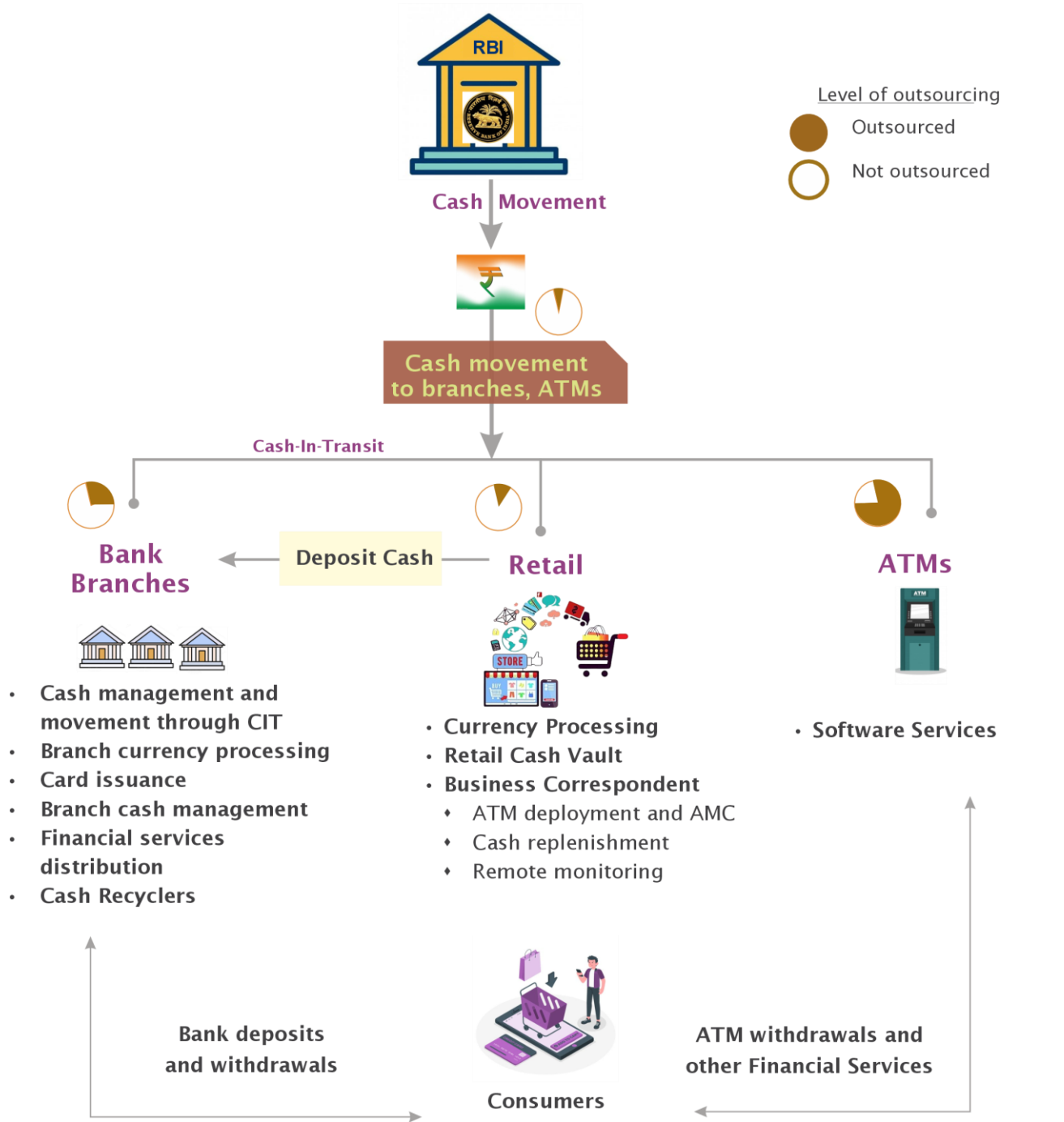
Source: Dalal & Broacha Research, Company

Exhibit 2: Market Size of different segments under cash logistics and management services



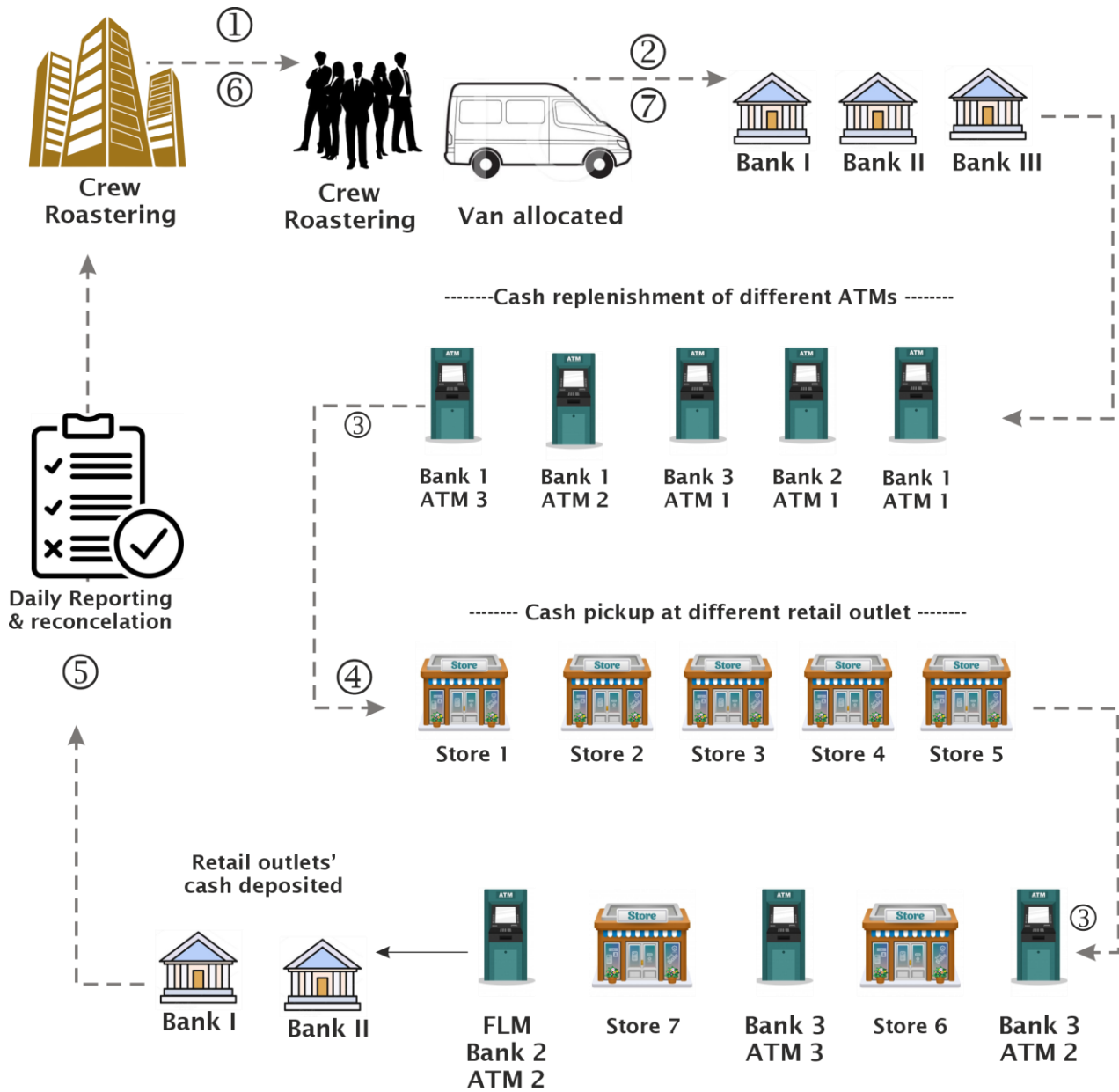
Source: Frost and Sullivan, RBI, Dalal & Broacha Research, Company

Exhibit 3: Size of Opportunity



Source: Dalal & Broacha Research, Company

Exhibit 4: Technology In Action: Dynamic Route Mapping



- ① CMS Connect - Indent Upload, Trip Sheet Generation
- ② Dispatcher module - Crew Allocation
- ③ ALGO - Automated OTC Generation
- ④ RCM Mobility - Real time RCM Transaction Reporting, QR code scanning etc.
- ⑤ CMS Connect - Real time ATM Transaction Reporting
- ⑥ CMS AGILE - ML based Reconciliation Tool
- ⑦ Fleet Manager - Integrated across OMCs, FasTags and vehicle telemetry

Source: Dalal & Broacha Research, Company

Valuation & Outlook

In our opinion, CMS infosystem is well poised for growth which will be driven by Retail cash management and Managed Services. The company can grow with sales growth of 19%-20% and PAT growth of 25-29% for upcoming years. The company has guided a revenue of Around 2250-2300 Crores by FY24 and around 2500-2700 Crores by FY25. The weightage of managed services in revenue would be 40% (Currently it is about 35%). Currently It trades 20 times P/E on TTM basis and 14 times P/E on FY26E. **We recommend a BUY Rating on CMS Info System with a Target Price of 553 based on 20x FY26EPS.**

Target Price Calculation

EPS(FY2026E)	28
P/E	20
Target Price	553
Current Price	390
Upside %	42%

Source: Dalal & Broacha Research, Company

Financials

Profit & Loss Account

P&L (Rs mn)	FY20	FY21	FY22	FY23	FY24e	FY25e	FY26e
Net Sales	13,832	13,061	15,897	19,147	23,699	26,443	29,531
Operating Expenses	-6,253	-5,613	-6,254	-6,562	-8,676	-9,196	-9,887
Employee Cost	-2,194	-2,016	-2,315	-2,649	-3,712	-3,985	-4,404
Other Expenses	-2,847	-2,496	-3,330	-4,429	-4,928	-5,530	-6,196
Operating Profit	2,539	2,936	3,997	5,508	6,382	7,731	9,044
Depreciation	-566	-635	-918	-1,318	-1,560	-1,802	-2,045
PBIT	1,973	2,301	3,079	4,189	4,822	5,929	6,999
Other income	51	158	79	147	167	216	186
Interest	-73	-82	-144	-196	-243	-271	-303
PBT	1,950	2,377	3,014	4,140	4,746	5,874	6,882
Profit before tax	1,950	2,377	3,014	4,010	4,746	5,874	6,882
Provision for tax	-604	-692	-774	-1,168	-1,383	-1,711	-2,005
Profit & Loss from	-	-	-	-	-	-	-
Reported PAT	1,347	1,685	2,240	2,842	3,364	4,163	4,877
MI	-	-	-	-	-	-	-
Owners PAT	1,347	1,685	2,240	2,842	3,364	4,163	4,877
Adjusted Profit	1,347	1,685	2,240	2,842	3,364	4,163	4,877

Balance Sheet

Balance Sheet (Rs mn)	FY20	FY21	FY22	FY23	FY24e	FY25e	FY26e
Equity capital	1,480	1,480	1,532	1,544	1,655	1,682	1,709
Reserves	7,024	8,365	11,030	14,081	17,444	21,607	26,485
Net worth	8,504	9,845	12,561	15,625	19,099	23,289	28,194
MI	-	-	-	-	-	-	-
Non Current Liabilites	825	1,136	1,678	1,745	1,845	2,131	2,517
Current Liabilites	3,999	5,137	4,318	3,642	3,965	4,438	4,883
TOTAL LIABILITIES	13,327	16,119	18,557	21,012	24,909	29,858	35,594
Non Current Assets	5,131	6,315	9,012	10,230	10,262	10,304	10,258
Fixed Assets	3,462	4,352	6,140	7,070	6,984	6,681	6,136
Right of Use Assets	839	1,211	1,800	1,826	1,817	2,124	2,550
Financial Assets	226	239	331	656	787	819	886
Deferred Tax Asset	273	248	304	369	369	369	369
Long Term Loans and Advances	197	99	226	196	188	188	188
Other Non Current Assets	134	166	210	112	118	124	130
Current Assets	8,197	9,804	9,545	10,782	14,647	19,553	25,336
Current investments	566	1,123	1,235	2,455	2,455	2,455	2,455
Inventories	430	895	635	742	909	1,014	1,133
Trade Receivables	3,345	3,491	4,993	5,260	6,493	7,245	8,091
Cash and Bank Balances	1,905	1,945	1,418	1,563	3,794	7,914	13,028
Short Term Loans and Advances	-	-	-	-	-	-	-
Other Financial Assets	1,454	1,916	276	30	76	76	76
Other Current Assets	496	434	988	733	933	1,105	1,269
TOTAL ASSETS	13,327	16,119	18,557	21,012	24,909	29,858	35,594

Source: Dalal & Broacha Research, Company

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