# CMS Info Systems Ltd

*Steady Q1; re-rating reflects increased investor comfort…*

**BUY**

RESULT NOTE

**26 July 2024**

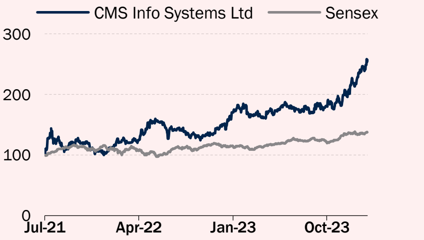
**BSE Sensex: 81333**

**Sector: Services**

**Stock data**

| | |
|---|---|
| CMP (Rs) | 556 |
| Mkt Cap (Rs bn/USD m) | 90.4 /1,080 |
| Target Price (Rs) | 650 |
| Change in TP (%) | 12.5 |
| Potential from CMP (%) | 17.0 |
| Earnings change (%) | |
| FY25E | (6.1) |
| FY26E | (1.9) |
| Bloomberg code | CMSINFO IN |
| 1-yr high/low (Rs) | 564/341 |
| 6-mth avg. daily volumes (m) | 1.8 |
| 6-mth avg. daily traded value | |
| (Rsm/USDm) | 737.3/8.8 |
| Shares outstanding (m) | 162.8 |
| Free float (%) | 100.0 |
| Promoter holding (%) | 0 |

**Price performance – relative & absolute**




| (%) | 3-mth | 6-mth | 1-yr |
|---|---|---|---|
| CMSINFO IN | 37.5 | 27.2 | 45.8 |
| BSE Sensex | 10.3 | 15.0 | 21.9 |

**CMS Info Systems (CMSINFO) remains pleasantly predictable as it steadily moves towards its FY25E revenue goal (well within reach) and given its cost-effective service platform for the broader BFSI industry, and its leadership stature, the company should continue to steadily grow over the medium-term as well. Since our reiteration note in March, the steady re-rating in the name (11x 1Y PE on listing; 19x today) suggests that the market too is easing its concerns and appreciating the CMSINFO story for what it truly is – a BFSI outsourced services partner and not just a cash handler. We reiterate our positive stance (BUY / TP Rs650 / 23x implied FY26E P/E) given its ~15% earnings CAGR (FY24-26E) / 25% RoCE.**

## Q1FY25 Result Highlights

- **Cash Management (60% of rev):** Rev flat qoq (+10% yoy) – election protocols affected cash movements; weather too impacted outdoor consumption. EBIT margin stable qoq. ~3k touchpoints added in Q1 (140k for ATM + RCM).
- **Managed Services (35%):** MS rev down 7% qoq, though margins are flat qoq but down 400bps yoy at 16% - higher product sales in the mix + drop in BLA-linked revenue (given elections/weather led footfall impact).
- **Cards (4%):** Flat yoy (seasonality led qoq drop). Margins jump qoq/yoy.
- **Misc. Points:** (1) ~3k touchpoints added in Q1 (140k for ATM + RCM); (2) ~Rs2bn MS/Tech Solutions order wins in Q1; (3) 2k sites RM order for a bank; (4) MS rev. on track to cross Rs10bn in FY25E (gross level; net should be ~Rs8.5-9bn); (5) Q1 ESOP Cost: Rs77m (vs Rs80m qoq; Rs25m yoy); (6) Cassette Swap Implementation to touch 35% of ATM base by March 2025.

**Key Positives:** N/A

**Key Negatives:** Elections driven CM revenue weakness.

**Financials:** ~6%/2% cut in FY25E/FY26E EPS – cut in MS segment margins.

## Valuation

On our DCF target price of Rs650, CMSINFO would be valued at ~23x FY26E P/E – we have reduced our WACC assumption (12.1% vs 12.6% earlier) reflecting the increasing comfort of the market on CMSINFO's business model.

**Key valuation metrics**

| Year to 31 Mar | FY22 | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|---|
| Net sales (Rs m) | 15,897 | 19,147 | 22,647 | 26,141 | 30,207 |
| EBITDA (Rs m) | 3,998 | 5,377 | 5,995 | 6,811 | 8,205 |
| Adj. net profit (Rs m) | 2,240 | 2,972 | 3,471 | 4,021 | 4,886 |
| Adj. EPS (Rs) | 14.3 | 18.7 | 21.4 | 23.2 | 28.2 |
| % change | 29.2 | 30.3 | 14.5 | 8.5 | 21.5 |
| PE (x) | 38.2 | 29.4 | 25.6 | 23.6 | 19.4 |
| Price/ Book (x) | 6.8 | 5.6 | 4.6 | 4.3 | 3.8 |
| EV/ EBITDA (x) | 20.8 | 15.5 | 13.7 | 12.9 | 10.5 |
| RoE (%) | 20.0 | 21.1 | 19.8 | 19.3 | 20.6 |
| RoCE (%) | 24.4 | 25.7 | 23.4 | 22.8 | 24.5 |

*Source: Company, DAM Capital Research*


**Aasim Bharde, CFA**
aasim@damcapital.in
+91 22 42022576

**Exhibit 1: Quarterly Results Snapshot**

| (Rs m) | Q1FY24 | Q4FY24 | Q1FY25 | QoQ (%) | YoY (%) |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| - CM | 3,507 | 3,882 | 3,871 | (0.3) | 10.4 |
| - MS + Cards | 1,823 | 2,647 | 2,394 | (9.5) | 31.3 |
| **EBIT** | | | | | |
| - CM | 939 | 984 | 986 | 0.2 | 5.1 |
| - MS + Cards | 341 | 434 | 408 | (6.0) | 19.5 |
| **EBIT Margin (%)** | | | | | |
| - CM | 26.8 | 25.3 | 25.5 | | |
| - MS + Cards | 18.7 | 16.4 | 17.0 | | |
| **Revenue*** | **5,116** | **6,271** | **5,994** | **(4.4)** | **17.2** |
| **EBITDA** | **1,476** | **1,554** | **1,523** | **(2.0)** | **3.2** |
| **Margin (%)** | **28.9** | **24.8** | **25.4** | | |
| **EBIT*** | **1,112** | **1,157** | **1,135** | **(1.9)** | **2.1** |
| Margin (%) | 21.7 | 18.5 | 18.9 | | |
| **PAT** | **843** | **914** | **908** | **(0.7)** | **7.7** |
| Margin (%) | 16.5 | 14.6 | 15.1 | | |

*Source: DAM Capital Research, Company; *Net of Intersegment*

**Exhibit 2: Quarterly Financials (Detailed)**

| (Rs m) | Q4FY23 | Q1FY24 | Q4FY24 | Q3FY24 | Q4FY24 | Q1FY25 | Comments |
|---|---|---|---|---|---|---|---|
| **Total Revenue** | **5,014** | **5,116** | **5,437** | **5,823** | **6,271** | **5,994** | **+17% despite elections/weather impact** |
| *YoY (%)* | *12.9* | *12.9* | *15.3* | *19.2* | *25.1* | *17.2* | |
| *QoQ (%)* | *2.7* | *2.0* | *6.3* | *7.1* | *7.7* | *(4.4)* | |
| COGS / SG&A | 3,573 | 3,640 | 3,981 | 4,315 | 4,717 | 4,472 | |
| **EBITDA** | **1,441** | **1,476** | **1,456** | **1,508** | **1.554** | **1,523** | |
| *YoY (%)* | *24.2* | *19.1* | *8.5* | *11.3* | *7.9* | *3.2* | |
| *QoQ (%)* | *6.4* | *2.4* | *(1.3)* | *3.5* | *3.1* | *(2.0)* | |
| ***EBITDAM (%)*** | ***28.7*** | ***28.9*** | ***26.8*** | ***25.9*** | ***24.8*** | ***25.4*** | ***Higher product contribution / Front-loading costs from incubations drives drop*** |
| Depreciation | 355 | 364 | 364 | 377 | 397 | 388 | |
| Other Income | 47 | 67 | 83 | 78 | 112 | 115 | |
| Financial Expenses | 56 | 42 | 41 | 39 | 40 | 37 | |
| **PBT** | **1,078** | **1,137** | **1,135** | **1,179** | **1,229** | **1,213** | |
| Tax Expenses | 278 | 294 | 292 | 299 | 314 | 305 | |
| **PAT** | **799** | **843** | **844** | **871** | **914** | **908** | |
| *YoY (%)* | *24.9* | *22.1* | *16.3* | *14.9* | *14.4* | *7.7* | |
| *QoQ (%)* | *12.3* | *5.4* | *0.1* | *3.2* | *5.0* | *(0.7)* | |

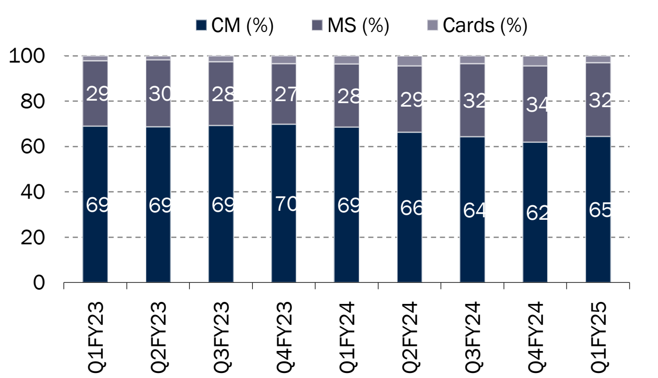
*Source: Company, DAM Capital Research*

**Exhibit 3: CMSINFO - Segment Revenue Performance**

| (Rs m) | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 | Q4FY24 | Q1FY25 |
|---|---|---|---|---|---|---|
| **Segment Revenue** | **5,014** | **5,116** | **5.437** | **5,823** | **6,270** | **5,994** |
| *YoY (%)* | *12.9* | *12.9* | *15.3* | *19.2* | *25.0* | *17.2* |
| *QoQ (%)* | *2.7* | *2.0* | *6.3* | *7.1* | *7.7* | *(4.4)* |
| **Cash Management Services** | **3,506** | **3,507** | **3,605** | **3,750** | **3,882** | **3,871** |
| *YoY (%)* | *`17.3* | *12.0* | *11.2* | *10.8* | *10.7* | *10.4* |
| *QoQ (%)* | *3.7* | *0.0* | *2.8* | *4.0* | *3.5* | *(0.3)* |
| *% of Total Revenue* | *69.9* | *68.6* | *66.3* | *64.4* | *61.9* | *64.6* |
| **Managed Services** | **1,529** | **1,642** | **1,821** | **2,126** | **2,373** | **2,216** |
| *YoY (%)* | *0.3* | *12.3* | *17.1* | *35.9* | *55.2* | *35.0* |
| *QoQ (%)* | *(2.3)* | *7.4* | *10.9* | *16.7* | *11.6* | *(6.7)* |
| *% of Total Revenue* | *30.5* | *32.1* | *33.5* | *36.5* | *37.8* | *37.0* |
| **Cards** | **169** | **181** | **239** | **200** | **273** | **179** |
| *YoY (%)* | *90.3* | *90.2* | *193.2* | *61.6* | *61.9* | *(1.5)* |
| *QoQ (%)* | *36.5* | *7.5* | *32.0* | *(16.6)* | *36.7* | *(34.6)* |
| *% of Total Revenue* | *3.4* | *3.5* | *4.4* | *3.4* | *4.4* | *3.0* |
| Less: Inter Segment Revenue | 190 | 215 | 229 | 252 | 258 | 271 |
| *% of MS Revenue* | *12.4* | *13.1* | *12.6* | *11.9* | *10.9* | *12.2* |

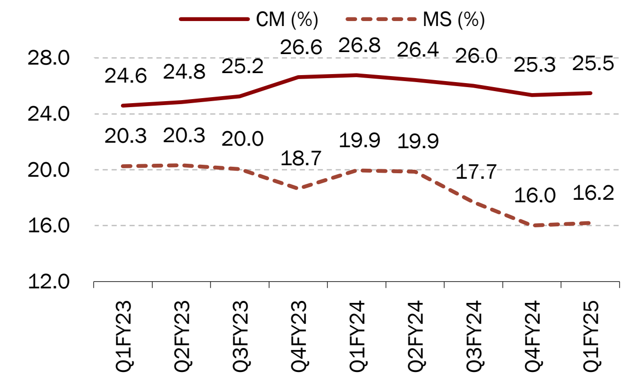
*Source: Company, DAM Capital Research*

**Exhibit 4: Revenue mix**




*Source: Company, DAM Capital Research*

**Exhibit 5: Product sales / Incubation costs weigh down margins**




*Source: Company, DAM Capital Research*

## ❑ Conference Call Highlights

- **RBI studying interchange fee hike:** If it goes through, it should drive ATM rollouts and drive growth for the entire cash logistics ecosystem.
- **Banks increasingly moving to a fixed-fee BLA model:** Per CMSINFO, banks appreciate the cost predictability of a fixed-fee model as these ATMs are mini-branches / customer service centres rather than profit centres.
- **Compliance update:** Similar to Q4 levels - 85% of ATM route networks compliant at industry level; 100% for CMSINFO's routes.
- **FY25E capex:** ~Rs3bn to be spent (largely growth capex) - includes carry-forward from FY24 (given fewer BLA roll outs then).
- **FY25E est. BLA rollout:** RFPs of ~20k ATMs to be launched in FY25E (incl. refresh ATMs) - assuming interchange fee is hiked.

**Exhibit 6: Financial Estimates**

| Key Assumptions | FY21 | FY22 | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|---|---|
| **Revenue (Rs m):** | **13,061** | **15,897** | **19,147** | **22,647** | **26,141** | **30,207** |
| - Cash Management | 8,961 | 10,588 | 12,567 | 13,790 | 16,558 | 18,805 |
| - Managed Services | 3,641 | 4,896 | 6,111 | 7,963 | 8,600 | 10,320 |
| - Cards | 459 | 413 | 469 | 894 | 983 | 1,081 |
| **Revenue Growth (%)** | **(5.6)** | **21.7** | **20.4** | **18.3** | **15.4** | **15.6** |
| - Cash Management | (8.3) | 18.2 | 18.7 | 9.7 | 20.1 | 13.6 |
| - Managed Services | 0.5 | 34.5 | 24.8 | 30.3 | 8.0 | 20.0 |
| - Cards | 5.7 | (10.0) | 13.7 | 90.4 | 10.0 | 10.0 |
| **EBIT Margin (%)** | **17.6** | **19.4** | **21.2** | **19.8** | **19.7** | **20.7** |
| - Cash Management | 22.8 | 25.1 | 26.8 | 27.9 | 26.0 | 26.5 |
| - Managed Services | 15.0 | 16.6 | 19.8 | 18.1 | 19.0 | 20.5 |
| - Cards | 8.3 | 7.7 | 6.9 | 14.4 | 20.0 | 20.2 |
| **Other Data Points:** | | | | | | |
| - Payout (%) | 21.5 | 10.1 | 5.2 | 32.7 | 30.0 | 40.0 |
| - RoCE (%) | 22.7 | 24.4 | 25.7 | 23.4 | 22.8 | 24.5 |
| - RoE (%) | 18.4 | 20.0 | 21.1 | 19.8 | 19.3 | 20.6 |
| - NWC (Days) | 54 | 57 | 64 | 64 | 68 | 75 |

*Source: Company, DAM Capital Research*

**Exhibit 7: FCFF Valuation Snapshot**

| Parameters | FY26E |
|---|---|
| WACC | 12.1 |
| Terminal growth (%) | 5.0 |
| **Discounted cash flow total** | |
| - Forecast period (FY26E-35E) | 40,562 |
| - Terminal value | 65,786 |
| **Enterprise value** | **106,348** |
| - Less: Net Debt | (6,585) |
| **Equity value** | **112,933** |
| Fully diluted shares outstanding (m) | 173 |
| **Fair value per share (Rs)** | **650** |
| Implied FY26E P/E | 23.1 |

*Source: DAM Capital Research*

**Exhibit 8: Revised Estimates**

| Revised Estimates | FY25E | | | FY26E | | |
|---|---|---|---|---|---|---|
| (Rs mn) | Previous | Revised | Chg (%) | Previous | Revised | Chg (%) |
| Cash Management | 16,558 | 16,558 | - | 18,805 | 18,805 | - |
| Managed Services | 8,600 | 8,600 | - | 10,320 | 10,320 | - |
| Cards | 983 | 983 | - | 1,081 | 1,081 | - |
| Total Revenue | 26,141 | 26,141 | - | 30,207 | 30,207 | - |
| EBITDA | 7,200 | 6,811 | (5.4) | 8,358 | 8,205 | (1.8) |
| OPM (%) | 27.5 | 26.1 | | 27.7 | 27.2 | |
| Net Income | 4,282 | 4,021 | (6.1) | 4,982 | 4,886 | (1.9) |
| EPS (Rs) | 26.3 | 24.7 | (6.1) | 30.6 | 30.0 | (1.9) |

*Source: DAM Capital Research*

## Income statement

| Year to 31 Mar (Rs m) | FY22 | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|---|
| **Net sales** | **15,897** | **19,147** | **22,647** | **26,141** | **30,207** |
| % growth | 21.7 | 20.4 | 18.3 | 15.4 | 15.6 |
| Operating expenses | 11,899 | 13,770 | 16,652 | 19,329 | 22,002 |
| **EBITDA** | **3,998** | **5,377** | **5,995** | **6,811** | **8,205** |
| % change | 36.2 | 34.5 | 11.5 | 13.6 | 20.5 |
| Other income | 79 | 147 | 340 | 366 | 423 |
| Net interest cost | 144 | 196 | 162 | 147 | 153 |
| Depreciation | 918 | 1,318 | 1,502 | 1,656 | 1,945 |
| Pre-tax profit | 3,014 | 4,010 | 4,671 | 5,374 | 6,530 |
| Deferred tax | 0 | 0 | 0 | 0 | 0 |
| Current tax | 774 | 1,038 | 1,199 | 1,353 | 1,644 |
| **Profit after tax** | **2,240** | **2,972** | **3,471** | **4,021** | **4,886** |
| Preference dividend | 0 | 0 | 0 | 0 | 0 |
| Minorities | 0 | 0 | 0 | 0 | 0 |
| **Adjusted net profit** | **2,240** | **2,972** | **3,471** | **4,021** | **4,886** |
| Non-recurring items | 0 | 0 | 0 | 0 | 0 |
| **Reported net profit** | **2,240** | **2,972** | **3,471** | **4,021** | **4,886** |
| % change | 32.9 | 32.7 | 16.8 | 15.8 | 21.5 |

## Balance sheet

| As on 31 Mar (Rs m) | FY22 | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|---|
| **Paid-up capital** | **1,532** | **1,544** | **1,628** | **1,628** | **1,628** |
| Preference capital | 0 | 0 | 0 | 0 | 0 |
| Reserves & surplus | 11,030 | 14,081 | 17,840 | 20,655 | 23,587 |
| **Shareholders' equity** | **12,561** | **15,625** | **19,468** | **22,282** | **25,214** |
| Total current liabilities | 4,318 | 3,642 | 5,516 | 5,494 | 5,764 |
| **Total debt** | **0** | **0** | **0** | **0** | **0** |
| Deferred tax liabilities | 0 | 0 | 0 | 0 | 0 |
| Other non-current liabilities | 1,678 | 1,745 | 1,602 | 1,772 | 1,887 |
| Total liabilities | 5,996 | 5,388 | 7,118 | 7,267 | 7,650 |
| **Total equity & liabilities** | **18,557** | **21,012** | **26,585** | **29,549** | **32,864** |
| Net fixed assets | 7,940 | 8,897 | 8,540 | 10,034 | 10,239 |
| Investments | 0 | 338 | 600 | 600 | 600 |
| Cash | 2,653 | 4,017 | 6,921 | 7,174 | 8,530 |
| Other current assets | 6,892 | 6,765 | 9,260 | 10,451 | 12,155 |
| Deferred tax assets | 304 | 369 | 390 | 390 | 390 |
| Other non-current assets | 767 | 627 | 874 | 900 | 950 |
| Net working capital | 5,227 | 7,140 | 10,666 | 12,131 | 14,922 |
| **Total assets** | **18,557** | **21,012** | **26,585** | **29,549** | **32,864** |

## Cash flow

| Year to 31 Mar (Rs m) | FY22 | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|---|
| Pre-tax profit | 3,014 | 4,010 | 4,671 | 5,374 | 6,530 |
| Depreciation | 918 | 1,318 | 1,502 | 1,656 | 1,945 |
| Chg in Working capital | (1,239) | (408) | (868) | (1,239) | (1,485) |
| Total tax paid | (774) | (1,038) | (1,199) | (1,353) | (1,644) |
| Net Interest | 144 | 196 | 162 | 147 | 153 |
| Others | 531 | 57 | (171) | 68 | 68 |
| **Operating cash flow** | **2,605** | **4,146** | **4,124** | **4,756** | **5,614** |
| Capital expenditure | (3,296) | (2,274) | (1,145) | (3,150) | (2,150) |
| **Free cash flow (a+b)** | **(691)** | **1,872** | **2,979** | **1,606** | **3,464** |
| Chg in investments | 0 | (337) | (263) | 0 | 0 |
| Debt raised/(repaid) | 0 | 0 | 0 | 0 | 0 |
| Net interest | (144) | (196) | (162) | (147) | (153) |
| Capital raised/(repaid) | 774 | 193 | 1,414 | 0 | 0 |
| Dividend (incl. tax) | (226) | (154) | (1,135) | (1,206) | (1,954) |
| Other items | (128) | (12) | 1,056 | 0 | 0 |
| **Net chg in cash** | **(415)** | **1,365** | **3,889** | **252** | **1,357** |

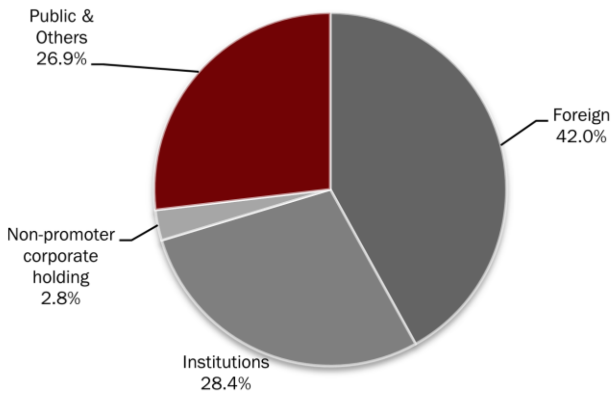
## Key ratios

| Year to 31 Mar | FY22 | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|---|
| EBITDA margin (%) | 25.1 | 28.1 | 26.5 | 26.1 | 27.2 |
| EBIT margin (%) | 19.4 | 21.2 | 19.8 | 19.7 | 20.7 |
| PAT margin (%) | 14.1 | 15.5 | 15.3 | 15.4 | 16.2 |
| RoE (%) | 20.0 | 21.1 | 19.8 | 19.3 | 20.6 |
| RoCE (%) | 24.4 | 25.7 | 23.4 | 22.8 | 24.5 |
| Gearing (x) | (0.2) | (0.3) | (0.4) | (0.3) | (0.3) |
| Net debt/ EBITDA (x) | (0.7) | (0.7) | (1.2) | (1.1) | (1.0) |
| FCF yield (%) | (0.8) | 2.1 | 3.3 | 1.7 | 3.6 |
| Dividend yield (%) | (0.3) | (0.2) | (1.3) | (1.3) | (2.1) |

## Valuations

| Year to 31 Mar | FY22 | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|---|
| **Reported EPS (Rs)** | **14.3** | **18.7** | **21.4** | **23.2** | **28.2** |
| Adj. EPS (Rs) | 14.3 | 18.7 | 21.4 | 23.2 | 28.2 |
| PE (x) | 38.2 | 29.4 | 25.6 | 23.6 | 19.4 |
| Price/ Book (x) | 6.8 | 5.6 | 4.6 | 4.3 | 3.8 |
| EV/ Net sales (x) | 5.2 | 4.3 | 3.6 | 3.4 | 2.9 |
| EV/ EBITDA (x) | 20.8 | 15.5 | 13.7 | 12.9 | 10.5 |
| EV/ CE (x) | 5.8 | 4.8 | 3.9 | 3.7 | 3.2 |

## Shareholding pattern




*As of Jun-24*

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|---|---|---|
| **Name: Rajesh Tekadiwala** | **Tel No. 022 -4202 2584** | Email Id - compliance@damcapital.in |

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**DAM Capital Advisors Limited**
One BKC, Tower C, 15th Floor, Unit No. 1511,
Bandra Kurla Complex, Bandra (East),
Mumbai 400 051.
INDIA

Board: +91 22 4202 2500
Fax: +91 22 4202 2504

**DAM Capital (USA) Inc.**
42 Broadway
Suite 12-129,
New York, NY 10004

Tel: +19087701300 / +18572056777

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