

Management Discussion and Analysis Report

INDUSTRY OVERVIEW AND OPPORTUNITY

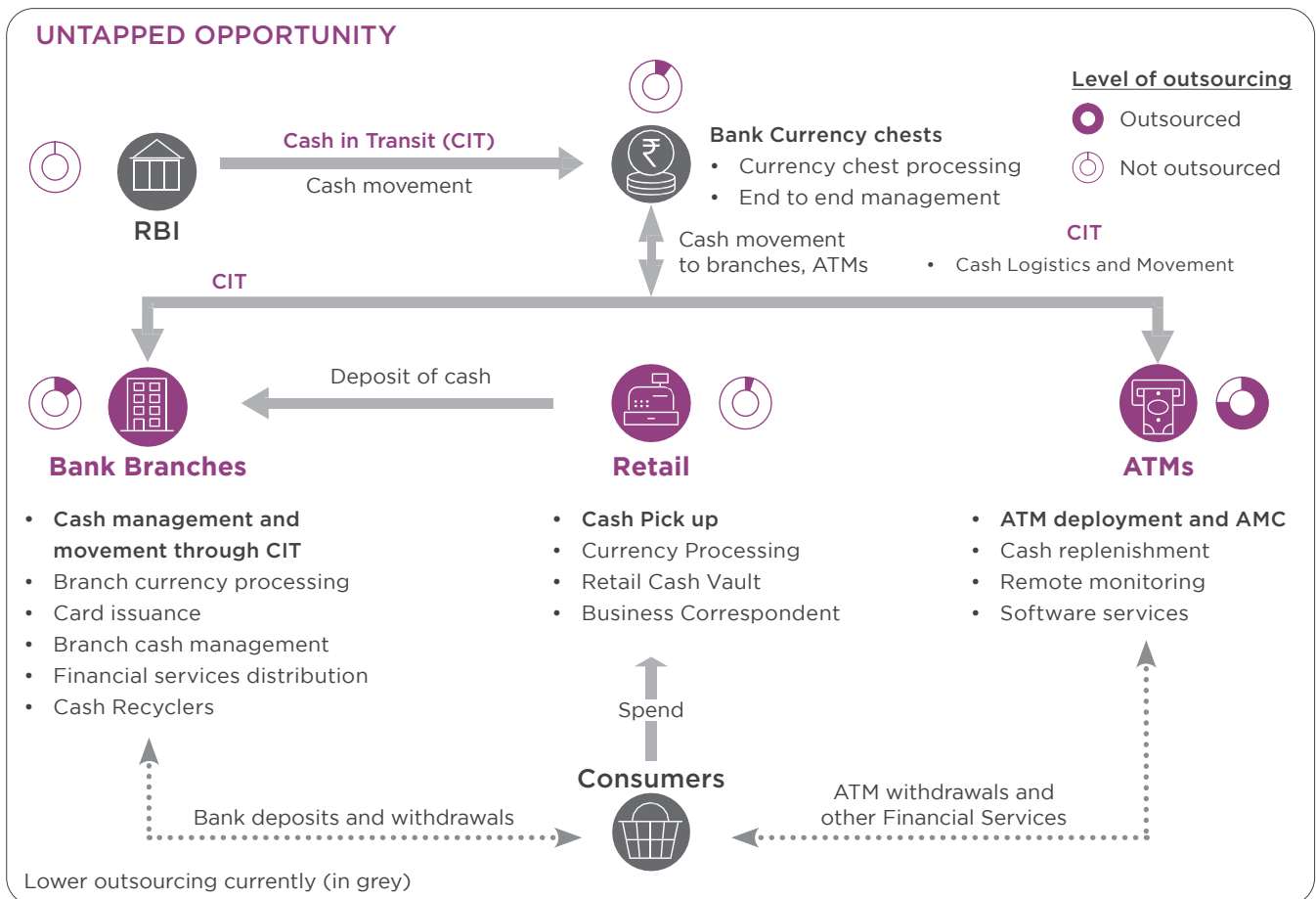
At the beginning of this year, the Economic Survey for 2022-23 projected the Indian economy to grow at 6.5% in 2023-24. Combine this with CRISIL Research forecast of over 6% average growth for the next five years and a steep growth in domestic consumption driving two-thirds of the GDP.

Banks have played a key role in India’s economic growth. With the growth in credit, low NPAs, and adequate capital adequacy ratio, the Indian banking sector today is significantly stronger than five years ago. Over the last five years banks have invested significantly in building digital capabilities. As they look at the next phase of growth, it has become imperative for banks to invest in expanding physical infrastructure.

With India poised for a period of robust growth, our banking physical infrastructure is well placed for expansion with most private sector banks announcing their network expansion plans for customer acquisition and public sector banks entering a refresh cycle of smart ATMs. With each new branch adding two new ATMs in India, banks are well placed to broaden their presence, get closer to the consumer and capitalise on the credit growth. In the coming period, banks will

increasingly focus on outsourcing their ATM networks to a high-quality service provider.

As India continues to witness rapid growth in its formal economy, it will act as a powerful tide lifting all payment mechanisms, including cash. Our recent ‘India Cash Vibrancy Report 2023’ illustrates the strong demand for cash transactions in India - from ATM cash withdrawal patterns across metropolitan, semi-metropolitan, semi-urban, and rural centres to sector-level analysis of business activity through retail cash management data. With a 10.1% growth in monthly average cash replenishment at ATMs and a strong 1.3X increase in average cash collection per point with e-commerce companies in FY23, Indian consumers have demonstrated the relevance and importance of cash in the Indian economy. The formal retail cash collection in the country by cash logistics and BC networks is today only about 15% of the cash dispensation through ATMs, micro-ATMs and bank branches, thereby providing massive untapped opportunity from outsourcing across the Cash value chain. An integrated end-to-end outsourcing player is best placed to capture this growing addressable market opportunity.



FINANCIAL OVERVIEW

₹ million	FY22	FY23	Inc/(Dec)	Inc/(Dec)
Revenue from Operations	15,896.71	19,147.30	3,250.59	20%
Other operating income	19.56	35.64	16.08	82%
Purchase cost	1,537.96	1,161.73	-376.22	-24%
Employee benefits expenses	2,315.45	2,648.89	333.44	14%
Service and security charges	3,207.18	3,815.65	608.47	19%
Vehicle maintenance, hire & fuel cost	1,508.78	1,584.29	75.51	5%
Other expenses	3,329.66	4,559.41	1,229.75	37%
EBITDA	4,017.24	5,412.96	1,395.72	35%
Other income	24.70	41.94	17.24	70%
Finance income	34.85	69.59	34.75	100%
Finance cost	143.90	196.15	52.25	36%
Depreciation	918.43	1,318.18	399.75	44%
PBT	3,014.45	4,010.17	995.72	33%
Tax	774.07	1,037.81	263.74	34%
PAT	2,240.38	2,972.36	731.98	33%
EBIDTA %	28.27%	25.27%	3.00%	
PAT %	15.52%	14.09%	1.43%	

Revenue

Consolidated Revenue from Operations for the company grew at 20% from ₹ 15,896.7 million in FY22 to ₹ 19,147.3 million in FY23, driven by growth across Cash Logistics and Managed Services business segments.

₹ million	FY22	% of Revenue	FY23	% of Revenue	YOY Growth
Cash Management	11,108.07	69.88%	13,262.80	69.27%	19.4%
Managed Service	4,896.29	30.80%	6,111.27	31.92%	24.8%
Cards	412.70	2.60%	469.24	2.45%	13.7%
Inter BU	-520.35	-3.27%	-696.03	-3.64%	33.8%
Total Revenue	15,896.71	100.00%	19,147.28	100.00%	20.4%

Cash Management revenue grew by 19.4% from ₹ 11,108.07 million to ₹ 13,262.80 million driven by strong volume growth and realization improvement led by compliance implementation.

Managed Services revenue grew by of 24.8% from ₹ 4,896.29 million to ₹ 6,111.27 million driven of a ramp-up in ATM-as-a-Service business and execution of the Remote Monitoring orderbook.

Purchase Cost

Purchase cost primarily includes purchasing ATMs, Recyclers, Kiosks, and Spare Parts for subsequent sale to Banks. Purchase cost dipped by 24% from ₹ 1,537.96 million in FY22 to ₹ 1,161.74 million in FY23 due to a dip in Product revenue.

Employee Benefit Expenses

Employee benefit expenses primarily include salaries, wages, bonuses, and employee welfare expenses. Employee benefits expenses grew by 14% from ₹ 2,315.45 million in FY22 to ₹ 2,648.89 million in FY23 on account of headcount addition due to business growth and an increase in per unit cost. However, employee benefit expenses grew slower than revenue growth on account of improvement in productivity and change in the business mix.

Service and Security Charges

Service and security charges include costs incurred for hiring (non-own payroll) employees. Service security expenses grew by 19% from ₹ 3,207.18 million in FY22 to ₹ 3,815.65 million in FY23 on account of headcount

addition due to business growth, compliance implementation, and an increase in per unit cost.

Vehicle Maintenance, Hire, and Fuel Cost

Vehicle maintenance, hire, and fuel cost include costs incurred for maintenance and fuel for running owned vehicles and vehicles hired for owned vehicles. Vehicle maintenance, hire, and fuel cost expenses grew by 5% from ₹ 1,508.78 million in FY22 to ₹ 1,584.29 million in FY23 on business growth and fuel/vehicle rate increase. However, it grew slower than revenue growth because

of productivity improvement, business mix changes, and an increased proportion of owned vehicles.

EBITDA and PAT

Both EBITDA and PAT growth outpaced revenue growth growing at 35% and 33%, respectively, resulting in margin expansion. EBITDA and PAT margin expanded by 300 basis points (bps) and 140 bps, respectively, between FY22 and FY23, aided by multiple factors including productivity improvement in Cash Logistics business segment, changing business mix and increasing share of value-added services.

Key Financial Ratios

₹ million	FY21	FY22	FY23
Ratios - Financial Performance			
EBITDA/Revenue	23.1%	25.3%	28.3%
Profit after tax/Revenue	12.9%	14.1%	15.5%
Ratios - Growth			
Revenue	-5.6%	21.7%	20.4%
EBITDA	18.9%	32.9%	34.7%
PAT	25.1%	32.9%	32.7%
Ratio - Balance Sheet			
Debt-Equity Ratio	-	-	-
Day Sales Outstanding (DSO)	140	115	100
Current Ratio	1.9x	2.2x	2.9x
Return on Net Worth (%)	18.4%	20.0%	21.1%
Net Operating Cash Flow/EBITDA	61.3%	63.9%	75.2%

- The Company has been zero net debt during the last five years resulting in a nil debt-equity ratio.
- We have delivered improvement across all key financial metrics/ratios driven by further strengthening of our market leadership position, continuous operational efficiency improvement and a higher share of value-added services.

SEGMENT WISE PERFORMANCE

Cash Logistics

Our Cash logistics business is the market leader in India with a 40% revenue share of the industry with market leadership across ATM, retail cash management (RCM), and cash-in-transit (CIT) segments. We have seen strong volume growth across all segments. Our total

business points for cash logistics across ATM and RCM have grown from 113,000 in March 2022 to 124,000 by March 2023, translating into an annual growth of 10%.

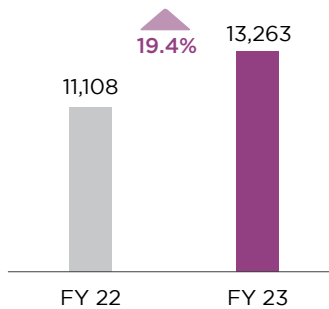
We are making significant investments in upgrading our network and have achieved two-thirds compliance on our network. This offers strategic advantage to a player like CMS with the RBI and banking sector’s focus on quality and compliance.

With focus on continuous operational efficiency, we have invested in technology for driving automation. We have improved our efficiency by more than 20% over the last four years because of all automation-related initiatives resulting in non-linear growth.

FINANCIAL PERFORMANCE - CASH LOGISTICS

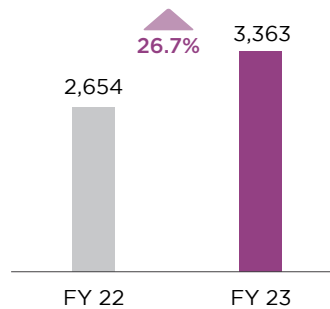
Revenue

(₹ in million)



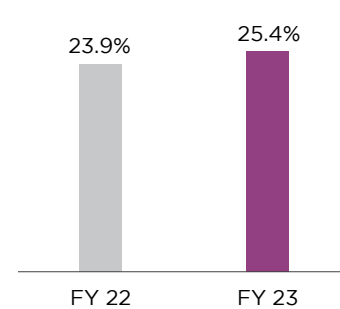
EBIT

(₹ in million)



EBIT

%



Managed Services

Our Managed Services business with capabilities across software, banking automation and integrated ATM-as-a-service offering has continued to grow strongly in FY23. The execution of the orderbook won in FY21 and FY22 and further wins of ₹ 9,500 Million in FY23 have driven growth in revenues as well as margin expansion in the fiscal year.

We have further enhanced offerings and competitiveness across the value chain by establishing an ATM manufacturing facility in Chennai, which has received ISO 9001: 2015 and ISO 14001: 2015 certifications.

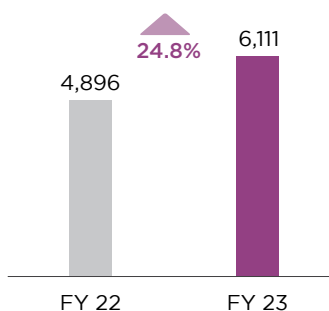
We have successfully scaled up to 21,000 sites as of Mar'23 to become the market leader in the Banking segment. We have expanded our AIoT Remote Monitoring solution to non-banking financial companies (NBFCs) and are also carrying out pilots in other industry segments.

Our market-leading position in the ATM software solutions suite continues to deliver wins with leading banks nationwide. ALGO MVS is deployed on 25% of ATMs, and ALGO OTC covers 30% of the ATMs in India.

FINANCIAL PERFORMANCE - MANAGED SERVICES

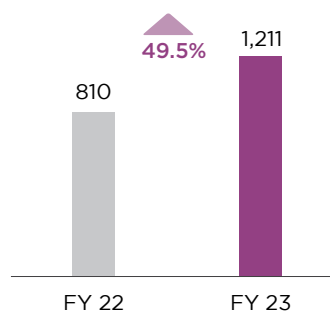
Revenue

(₹ in million)



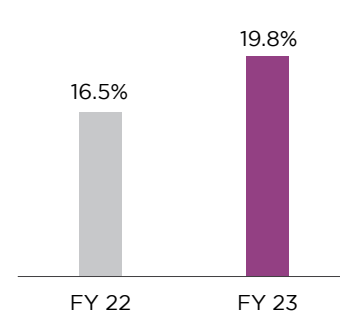
EBIT

(₹ in million)



EBIT

%



RISK MANAGEMENT

KEY RISKS				
Industry & Macro	Operational	Regulatory & Compliance	Cyber-Security & Information	Financial
<ul style="list-style-type: none"> Decline in cash usage Slowdown ATM deployment 	<ul style="list-style-type: none"> Thefts, robberies, frauds and embezzlement 	<ul style="list-style-type: none"> Wage code 	<ul style="list-style-type: none"> Infrastructure failures Cyber-attacks Disaster recovery failure 	<ul style="list-style-type: none"> Multi-year warranties to customers Penalties and chargebacks

Industry and Macro:

- Our Cash Logistics business model is linked to the number of touchpoints (ATM and retail cash management points) and activities and, hence not directly impacted by change in currency volume/currency in circulation.
- Strong focus on diversification of revenue streams.
- Selective bidding and participation in BLA business (only business with a direct linkage to transaction activity at ATM).
- Contracting structures to mitigate inflation impact.

Operational and compliance:

- Daily three-way reconciliation with banks and managed services providers.
- Comprehensive audit framework-ATM audit, route audit, cash vault audit, and branch process audit to highlight potential shortages.
- Team of ~200 auditors and former senior police and army personnel across the country.
- Use of ML-based behavioural tools for identifying high-risk custodians.
- Comprehensive insurance coverage across on-premise and in-transit incidents.
- Safety in transit: regular awareness campaigns, training through original equipment manufacturer (OEM) partners, and reward program.

Cyber-security and Information Risk

- Multiple best practices have been adopted to ringfence our business from any potential cyber security/infrastructure failure.
- Security Operations Centre runs 24*7 with real-time threat detection and monitoring.
- Constant updates with threat intelligence on the global MITRE attack framework.
- Advanced Veeam solution implemented for Data Backup and Recovery Software for ransomware mitigation on-prem infra.
- Multi-Cloud Environment extended to Azure and AWS.
- PCI-DSS compliance in place for Managed Services BU.
- Implementation of multifactor authentication (MFA) for all critical applications under progress.

Financial Risks

- Testing of internal financial controls by the finance team and auditors.
- Comprehensive internal audit.
- Direct bank confirmations/third-party confirmations.

INTERNAL FINANCIAL CONTROLS AND ADEQUACY

We have a well-covered risk management framework (mentioned above) that works at different levels across the institution. Our internal control systems are regularly tested for design, implementation, and operating effectiveness. We have established adequate internal financial control systems to ensure reliable financial reporting and compliance with applicable laws and regulations.

All resources are put to optimal use and adequately protected against any loss. All transactions are authorized, recorded, and reported correctly. The principles of risk avoidance, such as the segregation of duties and approval-based authorization matrix, form the core of the internal control system.

An extensive internal audit team and external consultants supplement our internal control systems.

Internal audits are conducted regularly by M/s. Grant Thornton Bharat LLP and their summary, as well as recommendations, are placed before the Audit Committee of the Board of the Company. The Audit

The audit committee reviews the Internal audit report and Internal Financial Control systems continuously.

BUSINESS SUSTAINABILITY

We are committed to the execution of all activities in a sustainable manner. Environmental, Social, and Governance (ESG) principles are embedded in our day to day operations with all applicable standards.

We continuously strive to reduce our environmental footprint and comply with regulatory requirements. We have taken many initiatives in this direction, with 100% of the company's new fleet addition in FY23 conforming to BS-VI norms and in compliance with the MHA and the RBI guidelines. In the mid-term, we focus on working with regulatory authorities to introduce a green fleet, with vehicles in more than 10 cities currently running on compressed natural gas (CNG) after shifting from

diesel and continuously increasing the proportion of CNG vehicles. We have made investments in improving energy efficiency through AIoT remote monitoring to reduce the energy consumption of air conditioners (AC) and other electrical equipment, subsequently addressing GHG emissions reduction. We improved our fleet fuel efficiency by more than 10%, installed sensor-based light switches in workstations and washrooms, and replaced all CFL lighting with LEDs in offices. We are strategically committed to extending the life and usage of our IT and electronic devices.

Community engagement and impact assessment of our business activities on the surrounding community is critical to our approach to promoting inclusive growth. We are an enabler of financial inclusion, with 64% of networks in semi-urban and rural areas. In FY23, we made available ₹ 12.7 Lakh Crores cash across India, contributing positively to inclusive growth and development. We go above and beyond in promoting diversity in our Board, currently having 3 Female Directors, which is 37.5% of the Board. Our comprehensive inclusivity framework on diversity and inclusion is reflected in our human resource (HR) Policy. We prioritize fair labor practices, value our employees by providing insurance covers ahead of other industry players, engage with families of high-performing employees, and encourage engineers to take up higher positions through our Engineers Achievers Club. We also provide access to scholarships for the children of employees. We offer various courses with access to technical information and skill-based training through our dedicated portal for Learning and Development. We are immensely proud of our Good-to-Great Ascent Development Program for mid and senior-level managers.

We ensure the highest standards of ethical conduct and compliance with all laws and industry standards through certifications like ISO 27001:2013 Information Security Management System (ISMS), ISO 9001:2015 Quality Management System (QMS), BS-VI Certification in compliance with MHA and RBI Guidelines, Restriction of Hazardous Substances Directive (ROHS) certification compliant procurement, CERT-IN Certification for

Remote Monitoring system, Payment Card Industry Data Security Standard (PCI DSS) certification, MasterCard and VISA certification, National Payment Corporation of India (NPCI): RuPay certification, etc. We engage with all stakeholders, including vendors and suppliers, to adopt high standards of responsible business conduct, environment, health and safety, and socially sustainable practices, adhering to our Code of Conduct. We engage with multiple suppliers and service providers and is strategically cognizant of the importance of its multiple suppliers and outsourcing service providers to adhere to environmental and social standards, regulations, and compliances. Our robust stakeholder engagement framework ensures the redressal of all stakeholder grievances reasonably, equitably and equitably.

To know more about our people-centric initiatives, refer the section 'Passion. Performance. Pride.'

To know more about our CSR initiatives, refer the section 'Driving Meaningful Social Impact Amongst Under-served Communities'.

For more information on our business responsibility approach, refer to the next section.

Cautionary Statement

Some statements in this management discussion and analysis describing the company's objectives, projections, estimates and expectations may contain certain 'forward-looking' statements within the applicable laws and regulations. Actual results could differ from those expressed or implied. Various factors may cause events or trends to vary significantly from those reflected or implied by these forward-looking statements and predictions. The company assumes no responsibility to publicly amend, modify, or revise any such statements. The company disclaims any obligation to update these forward-looking statements except as may be required by law.

For and on behalf of the Board

CMS Info Systems Limited

Ashish Agrawal

Director

DIN: 00163344

Rajiv Kaul

Executive Vice-Chairman

Whole-time Director & CEO

DIN: 02581313

Date: May 23, 2023

Place: Mumbai