

Management Discussion and Analysis Report

INDUSTRY OVERVIEW AND OPPORTUNITY

India continues to be the world's fastest-growing large economy, propelled by a favourable blend of factors. With a demographic dividend and a growing middle class, domestic consumption is fueling substantial economic expansion. The International Monetary Fund (IMF) is projecting GDP growth in India to remain strong at 6.8% in FY25 and 6.5% in FY26, with the robustness reflecting in continuing strength in domestic demand and a rising working-age population.

Indian banks play a pivotal role in the nation's growing economy. As the primary financial intermediaries, they facilitate financial inclusion, access to credit, and capital allocation, which are vital for economic expansion. Indian banks are in a goldilocks moment, with retailization driving credit growth.

We are a strategic extension to banks as their critical infrastructure solutions provider. We help financial institutions serve their customers better by transforming banking experiences.

India is experiencing robust growth in domestic consumption, fueled by several factors. An expanding middle class, rising urbanization, and increasing disposable incomes contribute significantly. Additionally, government initiatives promoting financial inclusion and rural development bolster purchasing power in previously underserved regions. India's retail sector is undergoing a remarkable surge, propelling consumption dynamics. Fueled by urbanization, rising incomes, and changing consumer preferences, retail growth becomes a primary driver of economic expansion. E-commerce further catalyzes this trend, enhancing accessibility and choice for consumers across demographics. Government initiatives promoting ease of doing business and modern retail formats contribute to the sector's vibrancy.

We also help retailers enhance efficiency and productivity by reducing costs across multiple facets of operations. During FY24, we onboarded over 40 major retail clients, offering end-to-end technological integration to automate processes, mitigate risks, and enhance working capital management efficiency.

Our overarching goal is to establish ourselves as India's foremost business services platform, harnessing our extensive network, advanced technology, and solution-oriented approach to address complex challenges for our banking, financial services, insurance and retail customers.

The second edition of our annual trends' compendium - the CMS Consumption Report 2024 spotlights the

consumption trends and retail hotspots of India, driven by increased cash-based spends. It is underpinned by the proprietary CMS Cash Index™ (CCI) covering more than 1,50,000 business points, with every second ATM and every third organized retail outlet in India being serviced by CMS Cash Logistics.

Key findings from the Report

- FMCG and Consumer Durables feature in the Top 5 retail sectors with high growth consumption in FY24 due to evolving consumer preferences with 16.76% and 3.74% increase in average spending, respectively.
- 4 key retail consumption trends highlight the positive shift in consumption-class Indians due to increased spending in Media & Entertainment, Aviation, Railways and E-commerce sectors.
- Consumption is reaching the grassroots even as Metros continue to hold sway with 10.37% increase in average ATM withdrawals for spends in Metros, followed by 3.94% increase in SURU locations.
- Delhi, Tamil Nadu, Uttar Pradesh, West Bengal, and Karnataka lead with highest growth in ATM withdrawals for spends in FY24.

CMS Consumption Report 2024 is available for download at www.cms.com.

At the industry level, there are clear drivers towards higher outsourcing across all our current lines of business. In Cash Logistics, there are more than 100,000 ATMs that are yet to be outsourced for cash management. The Organized retail sector is growing at eight to ten percent annually, with more than 550,000 touch points, and only less than one-third of these are currently outsourced for cash management. From a mid-term perspective, the market is also ripe for a broad play in currency chest outsourcing. India has about 4,000 currency chests, less than 300 of which are outsourced to third-party companies.

In Managed Services and Technology Solutions, there continues to be a strong growth opportunity linked to both the refresh and expansion cycle in the banking sector. Further, ATM management will shift from being bank-owned to the private sector. The AIoT Remote Monitoring business presents a large untapped opportunity within the banking and the broader BFSI sector as well as non-BFSI sectors.

M&A and partnerships continue to be a core part of our evolution with seven programmatic M&A deals in the last 15 years and a strong partnership with a large global OEM for banking automation products. In the coming years, we will continue to look for value-accretive M&A in the identified adjacencies.

Financial Overview

₹ million	FY24	FY23	Inc/(Dec)	Inc/(Dec)
Revenue from Operations	22,646.77	19,147.30	3,499.47	18.28%
Other operating income	47.34	47.12	0.22	0.47%
Purchase cost	1,948.63	1,161.73	786.90	67.74%
Employee benefit expenses	3,321.01	2,648.89	672.12	25.37%
Service and security charges	4,493.14	3,815.65	677.49	17.76%
Vehicle maintenance, hire & fuel cost	1,641.35	1,584.29	57.06	3.60%
Other expenses	5,247.93	4,559.41	688.52	15.10%
EBITDA	6,042.04	5,424.45	617.59	11.39%
Other income	156.22	41.94	114.28	272.49%
Finance income	136.59	58.12	78.47	135.02%
Finance cost	162.10	196.15	(34.05)	-17.36%
Depreciation	1,502.16	1,318.18	183.98	13.96%
PBT	4,670.59	4,010.17	660.42	16.47%
Tax	1,199.18	1,037.81	161.37	15.55%
PAT	3,471.41	2,972.36	499.05	16.79%
Adj PAT	3,744.95	3,041.80	703.15	23.12%
EBITDA %	26.68%	28.33%		
PAT %	15.33%	15.52%		

Revenue

Consolidated Revenue from Operations for the Company grew at 18.28% from ₹ 19,147.3 million in FY23 to ₹ 22,646.77 million in FY24, driven by growth across all the business segments.

₹ million	FY24	% of Revenue	FY23	% of Revenue
Cash Management	14,744.23	65.11%	13,262.80	69.27%
Managed Services	7,962.97	35.16%	6,111.27	31.92%
Cards	893.51	3.95%	469.24	2.45%
Inter BU	(953.94)	(4.22%)	(696.03)	(3.64%)
Total Revenue	22,646.77	100.00%	19,147.28	100.00%

Cash Management revenue grew by 11.17% from ₹ 13,262.80 million to ₹ 14,744.23 million driven by strong growth in retail cash management business where the number of points expanded by 25% in FY24.

Managed Services revenue grew by of 30.30% from ₹ 6,111.27 million to ₹ 7,962.97 million driven of a ramp up in ATM-as-a-Service business, growth in Banking Automation deployment 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 grew by 67.73% from ₹ 1,161.74 million in FY23 to ₹ 1,948.64 million in FY24 due to increase in our Product revenue.

Employee Benefit Expenses

Employee Benefit Expenses primarily include salaries, wages, bonuses, and employee welfare expenses. Employee benefits expenses grew by 25.37% from ₹ 2,648.89 million in FY23 to ₹ 3,321.01 million in FY24 on account of headcount addition due to business growth and an increase per employee. Employee Cost mentioned above included ESOP expenses amounting

to ₹ 365.55 million in FY24 compared to ₹ 92.80 million in FY23. Employee Expenses excluding the non-cash ESOP expenses grew at 15.62% compared to revenue growth of 18.28% on account of non-linearity in business and overall change in business mix.

Service and Security Charges

Service and Security Charges include costs incurred for hiring (non-own payroll) employees. Service security expenses grew by 17.76% from ₹ 3,815.65 million in FY23 to ₹ 4,493.14 million in FY24 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. Vehicle maintenance, hire, and fuel cost expenses grew by 3.60% from ₹ 1,584.29 million in FY23 to ₹ 1,641.35 million in FY24 on account of 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 Adjusted PAT

Adjusted PAT growth outpaced revenue growth growing at 23.12%, resulting in margin expansion. EBITDA margin saw a slight contraction of 165 basis points and PAT margin contracted by 20 basis points (bps), between FY23 and FY24, driven mainly because of non-cash ESOP expenses. Adjusted for these ESOP expenses, PAT margin has expanded by 65 basis points (bps).

Key Financial Ratios

₹ million	FY24	FY23	FY22
Ratios – Financial Performance			
EBITDA/Revenue	26.68%	28.3%	25.3%
Profit after Tax/Revenue	15.33%	15.5%	14.1%
Ratios – Growth			
Revenue	18.28%	20.4%	21.7%
EBITDA	11.39%	34.7%	32.9%
PAT	16.79%	32.7%	32.9%
Ratios – Balance Sheet			
Debt-Equity Ratio	-	-	-
Day Sales Outstanding (DSO)	116	100	115
Current Ratio	2.9x	2.9x	2.2x
Return on Net Worth (%)	19.78%	21.1%	20.0%
Net Operating Cash Flow/EBITDA	72.80%	75.2%	63.9%

The Company has been zero net debt during the last six 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 continues to be the market leader in India with pole position across the segments of the industry, viz., ATM cash management, retail cash management (RCM) and cash-in-transit (CIT). Our Company has a 40% revenue share of the organized cash logistics market in India.

We continue to see healthy growth in volume as well as realizations in our business. Our total business points for cash logistics (across ATM and retail) have grown from 124,000 in March 2023 to 137,000 by March 2024, translating into an annual growth in excess of 10%.

In FY24, we also launched and expanded our Retail 360 offering and direct to retail solutions for retail that has helped deliver a 25% annual growth in retail cash management points. We have invested in technology and done API integrations for more than 30 retail customers.

We continue to focus on driving operational efficiency and, in FY24 as well, have improved our route efficiency by 10% over FY23. As a market leader in the industry, CMS is also at the forefront of compliance. At the end of March 2024, 20% of CMS ATM base was replenished using the RBI-mandated Cassette Swap process.

Financial Performance – Cash Logistics

₹ million	FY24	FY23	Inc/(Dec)
Revenue	14,744	13,263	1,481
EBIT	3,850	3,363	487
EBIT %	26.10%	25.4%	0.7%

Managed Services

Our Managed Services business was incubated ten years ago riding on CMS' strength in the Cash Logistics business. Over the years, we have built capabilities across software, banking automation and integrated ATM-as-a-service offering.

There is a large banking expansion and refresh cycle underway with 10,000 new ATMs being added and another 40,000 being replaced. Banks are increasingly focusing on total integrated outsourcing with nearly half of the 50,000 replacements and additions expected to be under this model while the remaining are being procured under bank-owned model.

CMS, with its enhanced competitiveness across the value chain and integrated offering that also includes own ATM manufacturing facility in Chennai and in-house AIoT Remote Monitoring Solution stack, has been able to have its best-ever year for new order wins in FY24 clocking ₹ 18,500 million of order wins across services in Managed Services and Technology Solutions. This represents nearly doubling of the order wins in FY23.

We have further built on the successful adoption of our AIoT Remote Monitoring and scaled it up to a strong leadership in the Banking segment with over 25,000 sites. We are also investing in expanding our tech capabilities by expanding the AI library and use cases for different sectors. In FY24, we have conducted pilots in sectors ranging from NBFCs to insurance and quick commerce to EV charging networks.

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

₹ million	FY24	FY23	Inc/(Dec)
Revenue	7,962	6,111	1,851
EBIT	1,445	1,211	234
EBIT %	18.15%	19.82%	(1.67%)

Risk Management

The Company has established a formal risk management policy to ensure the highest standards of operational best practices and corporate governance.

Our Risk Management Policy sets out the objectives and elements of risk management within the organization and helps to promote risk awareness amongst employees and to integrate risk management within the corporate culture. The policy aims to ensure sustainable business growth with stability and to promote a pro-active approach in reporting, evaluating and resolving risks associated with the business. In order to achieve the key objective, the policy establishes a structured and disciplined approach to Risk Management, in order to guide decisions on risk related issues.

The Company has identified the following as the Key risks facing the organisation:

Industry and Macro	Operational	Cyber-Security & IT	Financial & Business	Regulatory & Compliance
<ul style="list-style-type: none"> Decline in cash usage Slowdown in ATM deployment 	<ul style="list-style-type: none"> Thefts, robberies, frauds & embezzlements Penalties and chargebacks Safety in transit 	<ul style="list-style-type: none"> Cyber attacks Infrastructure failures 	<ul style="list-style-type: none"> Mutli-year warranties to customers Financial frauds 	<ul style="list-style-type: none"> Non-compliance to applicable acts, rules and regulations Wage Code

Industry and Macro Risks

- 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. In addition, active work is being done to look at potential area of expansion into adjacencies.
- Selective bidding and participation in BLA business (only business with a direct linkage to transaction activity at ATM).

Operational Risks

- 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 behavioral 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 IT Risks

- 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.
- PCI-DSS compliance in place for Managed Services BU.
- Implementation of multifactor authentication (MFA) for all core applications.
- Periodic Phishing awareness assessment & prevention initiatives conducted.

Financial and Business Risks

- Testing of internal financial controls by the finance team and the auditors.
- Comprehensive internal audit.

Internal Financial Controls and Adequacy

We have a well-covered risk management framework (mentioned above) that works at different levels across the organisation. 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 pre-authorised, 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 independent 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 Committee reviews the Internal Audit Report on Internal Financial Control Systems periodically.

Business Sustainability

Maintaining transparency, ethical conduct, and ensuring accountability are not just tenets, but a CMS practice ensuring a culture of integrity throughout our organization.

ESG Highlights 2023-24

Environment	<ul style="list-style-type: none"> Implemented Vision AI solution at over 18,000 sites for smart energy management BS VI compliance on all new fleet additions 10%+ improvement in fleet fuel efficiency Multiple initiatives for energy efficiency : fleet (CNG), sensor-based LED lighting
Social	<ul style="list-style-type: none"> 35,000+ training hours invested for skill upgradation programs 76% people employed beyond Metros and Tier-1 cities c. 46% veterans in field leadership & governance roles from ex-armed & ex-civil forces
Governance	<ul style="list-style-type: none"> No cases of data breach No cases of breach of Code of Conduct

Cautionary Statement

Some statements in this Management Discussion and Analysis describing the 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.

On Behalf of the Board of Directors of
CMS Info Systems Limited

Shyamala Gopinath
Chairperson
(DIN: 02362921)

Rajiv Kaul
Executive Vice-Chairman,
Whole-time Director & CEO
(DIN: 02581313)

Place: Mumbai
Date: May 15, 2024