"CMS Info Systems Limited Q4 FY-24 Earnings Conference Call"

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MODERATOR:	**MR. ACHAL LOHADE – JM FINANCIAL INSTITUTIONAL SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Q4 FY24 Conference Call of CMS Info Systems Limited.

CMS Info Systems Limited is India's leading business service company providing logistics and technology solutions to banks, financial institutions, organized retail and e-commerce companies with presence across Cash Logistics, Managed Services, and technology solutions. The CMS platform today includes ATM and Retail Cash Management, banking automation, ATM as a service, AIoT remote monitoring, software solutions, and card personalization capabilities.

The Management Team will be using a presentation to take you through the highlights of the year. You can view the same through the web link. The same has also been uploaded on the website and the exchanges.

As a reminder, all participant lines will be in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over the Mr. Achal Lohade from JM Financial Institutional Securities Limited. Thank you and over to Mr. Lohade.

Achal Lohade: Thank you, Neerav. Good afternoon, everyone and we are very pleased to host you and the management team of CMS Info Systems for the Q4 and FY24 Earnings Conference Call.

We have with us today from the management team of CMS Info Systems Mr. Rajiv Kaul – CEO and Executive Vice Chairman, Mr. Pankaj Khandelwal – Chief Financial Officer, Mr. Manjunath Rao – President (Managed Services) and Mr. Anush Raghavan – President (Cash Management Services).

I now hand over the call to Mr. Rajiv Kaul for his "Opening Remarks and Presentation", post which we can open the floor for Q&A. Over to you Rajiv.

Rajiv Kaul: Thanks, Achal. Good afternoon, everyone. Pleasure to have you on call with us today as we finish FY24.

Just a quick financial highlight:

A very robust year both in terms of revenue and margin growth, we had 18% revenue growth and about 23% margin growth, while maintaining a very solid OCF conversion. Also end of the year our cash and cash equivalents grew from Rs. 450 crores last year to Rs. 780 crores, and the dividend payout recommended for the year by the Board is close to 25% of FY24 PAT.

If I move to, I am on Slide #3, moving to Slide #4 for those of you who are on the web link. The highlights of the year for us:

It's our fifth consecutive year of 20% PAT growth, while maintaining very high return ratios, our ROCE in this year expanded to 27.4%. It is also important year for us where we transitioned in ownership, and we have now become one of very few unique companies in India with a 100% public ownership. Now, this is something which has happened far ahead of any one of your expectations as investors and even as of my expectations, and hopefully this will take away one of the concerns you would have had about some potential overhang of the stock with a PE ownership.

Our win ratios this year:

We doubled our win rate; we had Rs. 1,850 crores of new order wins in our MS and Technology Solutions business. Two thirds of this happened in the second half of the year and we had alluded to delays in the order process cycle, but we saw a lot of them coming to close and getting awarded. And that provides us a good base of growth for the coming years.

Our MS and Tech business contribution to revenue grew to almost 40% ahead of our guidance for FY25. This was achieved in FY24 itself and most importantly for us, as a team, it was an important incubational year; we did talk at our Investor Day on May 23 about trying to incubate two new businesses. We have made tremendous progress in understanding the landscape, the opportunity set and what CMS can bring to the table. And therefore, we also have invested in talent. Earlier in the year we had a new CIO, Rajeev Bhatia, who joined us from a banking and tech perspective. He has worked with Infosys, Axis Bank, and was most recently at SWIFT as CIO. And towards the end of the financial year, we hired a senior President level officer. It's our first President level hire in the company after a gap of 12 years. Puneet Bhirani comes to us with some exceptional experience across tech and operations in companies like Mphasis, Byjus and Ola, and will lead consolidated operations for CMS.

Important as a team for us to talk about. I am moving to Slide #5, to talk about a longer-term track record., If you think of it from a last three-year perspective, our numbers are very solid, whether in revenue, PAT or EBITDA growth and expansion of margin profile. And I would like to remind some of you who may be new to our calls, our track record of growth and performance over our life cycle of the company from formation in 2009 to 2024, over a 15-year period, our revenue growth has a CAGR of 17%, our EBITDA CAGR of 19% and PAT CAGR of 21%. The last three years are substantially higher than that. And all of this is a result of our focus on building a business which is more predictable and therefore our focus is on generating and creating new service lines, which can deliver annuity and recurring business. And it helps us to make sure that there are no negative surprises to our shareholders.

In terms of when you at look at the bottom table, the PAT growth over the last 12 quarters, other than in Q4 FY22, each quarter had more than a 20% PAT growth year-on-year. And the revenue profile will show you how we have scaled from a Rs. 370 crores quarterly revenue in Q1 FY22 to Rs. 627 crores in Q4 FY24.

On Slide #7, this is important to us as we continue to build different business lines, as we continue to build our platform, some things culturally and the value system wise remained the same at CMS team. We look for business segments, in which we can build market leadership and they have a strong cash flow generation capacity, and so that we can continue to deliver high ROCEs. And that capital which we generate we look to invest in growth, whether in the same lines of business or new adjacencies, at the same time, paying a steadily increasing dividend to shareholders.

With that, I am going to pause, and we are going to dive deeper into a little more flavor of the various businesses. I am going to invite my colleague, Anush, to take you through some of the key business highlights and developments.

Anush Raghavan: Thank you, Rajiv. Good day to everybody on the call.

In the previous two years our Cash Logistics business has grown revenues at 20% CAGR. This was primarily driven by our ATM growth, increase in share and compliance revenues. As we enter FY24, we exited a contract in our CIT business, which has impacted our full year growth by 2.5% to 3%. However, since then we have been able to regain that volume through the year and end the fiscal on a positive note.

In our ATM Cash business, we had a flat volume for the year in line with the broader market. As ATM deployments, which were linked to RFP execution got delayed or deferred towards the end of the year, we instead focused our efforts on leveraging our network compliance to improve pricing and yield. This in turn resulted in our revenue growth for the ATM business. As we now enter FY25, we see volume growth coming back basis RFPs, which have been awarded, and rollouts which have commenced.

We have had very good traction in our overall business point addition and gained 13,000 points through the year. These are all attributable to Retail Cash Management or the RCM business. This represents a 25% growth in points for RCM and is a result of our efforts in FY24 to drive a very focused effort in expanding the market in the retail sector.

I am now on Slide #10. And I would like to sort of use this to talk you through the broader opportunity and what is our approach here, as this is not something that we may have detailed in the past.

The retail cash industry is today serving just about 150,000 business points. These have mostly been sourced by the banks basis their lending relationships. The overall opportunity here across organized retail, financial services, healthcare and utilities is more than 550,000 points. And this is growing at 8% to 10% annual growth. We have invested in a sales organization to drive this in a fairly focused sector-by-sector approach.

Now in the case of banks, the decision maker is usually the business or operations team. In retail when we talk to the senior leadership there, we usually engage with either the CFO or the treasury teams. And their challenges stemmed from being able to reconcile order sales to settlement cycles, having a store specific MIS and also figuring out what are the ways in which they can better handle in-store cash payments. We have leveraged our strength in technology and built several automation solutions which either get deployed in-store or get integrated via APIs with the retailers. This in turn creates a more sticky and resilient relationship for us over the mid to long-term.

As we move forward, we plan to integrate our AIoT remote monitoring, and offer an end to-end-solution towards retail outsourcing.

I will just switch gears now. And on Slide #11, and we will talk through Managed Service and Tech Solutions. We had a stellar Q4 with revenue growth of 56%, and a solid 35% growth for the full year. In addition to that, we were also able to secure incremental order wins of Rs. 1,850 crores, most of which will get deployed in FY25 with revenues accruing over a five-to-seven-year timeframe. In our remote monitoring business, we have crossed 25,000 sites. And this represents a 10x growth over the last three years. We are now developing our own integrated platform here, which will help in pitching for projects which are more complex and at the higher end of the technology curve.

In Slide #12, what you see are some broader trends of the overall ATM market. You see, ATMs in India have an average life cycle of eight to ten years. India today has about 250,000 to 260,000 ATMs as an installed base. So, you could expect that every year there will be about 25,000 to 30,000 ATMs, which come up for replacement, in addition to a growth of about 3% to 4% in the overall network. Given the fact that we had a massive expansion of the ATM network way back in 2012 - 2014, many of those are now due for replacement, and hence the current refresh cycle. Increasingly, during the replacement banks are wanting to outsource the entire ATM network management, which significantly increases the addressable market for companies like us. At CMS, we have had a 25% win-rate of contracts in FY24, and you need to understand and see this in the context of us being a relatively new entrant to the sector and we have a current market share which is in the mid-teens. What helps us with our win-rate is actually our vertically integrated platform, which not only reduces handoffs, but significantly improves uptimes and delivers a far superior quality of service and helps in better cost efficiencies.

Moving to Slide #13, and when you look at it from what is the CMS Enterprise Sales Strategy? It's actually quite simple. We just focus on two things. First is to increase the number of offerings to our customers and the second is to have a deeper penetration across key customers. We have gone from having only three services in the past to eight solutions right now. This portfolio approach has helped us with managing the cyclicality of any one business, and it also helps us become a partner of choice for customers. Over the years, the success of our enterprise sales strategy is evident in how we have been able to grow our strategic accounts. That is accounts which contribute more than Rs. 100 crores revenues per year, which used to be only three in FY21 and has now expanded to eight in FY24.

With that, I will just take a pause and hand over back to Rajiv to talk about FY25.

Rajiv Kaul: Thanks, Anush.

This is an important slide to sort of communicate two things from our side one, this hopefully gives you a view into the opportunity and how we think of the opportunity for us going ahead. And secondly, more importantly the slide helps you understand the value we bring to our customers and to make them trust us so that they can do more with us. Of course, all of this is dependent on our focus and ability to execute very strongly each year.

Before I give you the FY25 outlook, a quick reminder to those of you who may be newer to our calls, what are we finally achieving out here, what is the opportunity for CMS at a broad level. We are sort of linking our future to four themes, three themes are more, the formalization and consumption is really linked to a broader macro environment. As India grows, the GDP grows, GDP per capita increases. the GST led reforms lead to more formalization and this creates its own interesting opportunity for CMS. At the industry level, there is a very clear driver towards more and more outsourcing of current lines of business. And then, from a CMS perspective, when we think of us broadening our solution sets as we are able to launch new solutions and succeed with them that brings alpha for growth. So, if you want to drill down in Cash Logistics, Anush has already talked about the opportunity, the opportunity I want to point to is more mid-term, from a next five-year perspective, we see the market is ripe for a broad play in currency chest outsourcing. India has got roughly about 4,000 currency chests, less than 300 of them are outsourced to third-party companies. CMS does some of those, there is a lot of learning, and we feel that going forward with the upcoming technology refresh cycle in the way currency is processed by banks, there is an opportunity for this to become outsourced to large high-quality companies in the sector.

Managed services, we have talked about, here there is a very big opportunity and how ATMs will shift from being bank owned to being owned on private sector CAPEX. Our approach here is to be very conservative with the transaction-linked ATM model. This not somewhere we bet too much on, we prefer this outsourcing of ATMs and recyclers with the banks that are more open to doing this on a fixed cost basis, thereby reducing any potential risk in transactions in the coming decade.

Our AIoT business has done extremely well in the third year of operation, there is still a very large portion of ATMs and bank branches which are not yet deployed with this type of a solution. The 40%, which have deployed this in the last five to six years will come up for an upgrade and refresh cycle. We are investing into building very strong AI and machine learning-based solutions which will give us an edge over any other competitor. More importantly, we talked about the fact that there is going to be an opportunity to go beyond BFSI. We are looking and we are tapping in the immediate adjacency of NBFCs and insurance. But we are also seeing a large opportunity potentially coming up in the broader public sector arena out here.

M&A and partnerships have been a very core part of our evolution at the company, we have done about seven very programmatic small to medium size deals over the last 10 years. We have a very good partnership with a large global OEM on the ATM side. And we look to continue that in the coming years, we have already identified areas of expansion through M&A and partnerships which are listed here. And hopefully, in FY25 we hope to make some progress in scaling some of these efforts.

From an immediate interest to you, FY25 we had a target of doubling our revenue from FY21. I am going to Slide #16, which is basically sort of 2x growth, 18% type of CAGR. We have in the first three years overachieved in that; we are still guiding to the Rs. 2,500 crores to Rs. 2,700 crore revenue range, though we feel reasonably confident to be in the upper end of that range. Important to also, highlight a couple of things, the opportunity set where we are focused and where we have already got service lines, that presents a TAM opportunity of roughly Rs. 22,000 crores for the industry in FY27, thereby leaving enough headroom for us to grow in the coming decade.

Over the last three years, growth for us has been led by the growth across volume, market share and pricing on the ATM Cash side, the whole entry into Managed Services and BLA and our launch of the AIoT remote monitoring business. Where we sit today and of course this can change over time. But where we sit today and we think of what will drive the alpha in our growth, we think our Retail Cash solutions should grow at a substantially higher level than the rest of business. Our AIoT business is poised to further scale-up and to double from the current levels in the coming three years. Our integrated Managed Services solution stack is building out very well, whether its Software, Managed Services, fixed price contracts. And then if we are able to make headway into some of the new identified business lines, all of them provide the potential for alpha generation and growth in the coming three years.

With that, I am going to sort of pause and get Achal back on the line.

Achal Lohade: We can start the Q&A, Neerav.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is on the line of Kunal Sharma from SD Capital Financing. Please go ahead.

Kunal Sharma: So, wanted to ask, if I am not wrong, we have a ratio of 60%, 40%. 60% from the cash and 40% for the Managed Service business. So, however, the growth and margin are quite strong on the Managed Service side, so can we expect going forward the vice-a-versa, like 40% from the cash and 60% from the Managed Service. If you could just highlight the same?

Rajiv Kaul: Kunal, we were with the split was roughly 70:30 a few years ago, we guided towards getting to a 60:40 split by FY25. We have seen also our cash business grow very robustly, the margin profile of cash business is obviously much higher in MS. I don't see the reverse happening in the next two, three years, because all the business lines are growing fairly strongly. Now, if we were to have new service lines, which are not in the current stack today. And if they scale very well, then obviously the percentage contribution of both the MS and cash will be very different.

Kunal Sharma: Okay. So, but still, there's a growth from the Cash Logistics is still stand at nearly 10% to 11% despite growth in UPI. So, that is something I wanted to understand?

Rajiv Kaul: So, the cash business growth for us, let's comment and our business has grown at almost 20% for the last two years, the last year has grown at about 11%. If we look at some of the global strategics in the Europe or US, they are all seeing 7% to 10% growth in their Cash Logistics business. So, if you have to take a forecast, we have always guided our cash segment business growing at a 10% to 13% over a mid-range. And our Managed Services business should grow faster. So, I don't think you see a dramatic shift in contributions to the overall business unless we have some new big businesses which enter of our mix.

Kunal Sharma: Okay. Second question on, and there is a huge opportunity in the SURU area. So, how are we tapping those opportunity as far as the new ATMs and the Managed Services are concerned?

Rajiv Kaul: For CMS, we have a fairly large network already established in the country, 60%+ of our network was already in SURU. So, as and when any new retail stores in SURU are coming up for cash outsourcing or an ATM is being set up or available for outsourcing, CMS is one of the prime contenders to be doing that work because of our deep network already there. And we continue to expand our network. If you go to our platform slide, one of our biggest advantages and USPs is the depth of our network in the country.

Kunal Sharma: Okay, fair enough. Okay, there is a slide number seven, where the CAPEX during FY24 gone down drastically to 99 odd crore and which resulted into high ROCE. So, what is the reason behind that and what is the outlook for the FY25 in the CAPEX term?

Rajiv Kaul: So, it's a very good question. We have guided as a team to a CAPEX or sort of our CAPEX run rate needed about Rs 200 crores per year, but we also tell people given the nature of the order cycle, execution cycle, don't look at it year-on-year, look at it in chunks of three years. In the prior two years, we had a capital spend of roughly about Rs 200 crores approximately. This year because some of the project s got delayed to the second half and order placement cycle got deferred due to that, the CAPEX has slipped into FY25. So, FY25 CAPEX will be higher because of the under-spend in FY24.

Kunal Sharma: Okay, understood. And lastly, if you highlight on the CIC, what was the CIC during FY24, how was the industry trend in the cash circulation in India as compared to GDP?

Rajiv Kaul: The CIC growth which was reported recently was about 7% to 8%, if I am not mistaken. And CIC with GDP ratio, is 12% to 13% somewhere in that ratio.

Moderator: Thank you. Next question is from the line of Prakhar Sharma from Jefferies India. Please go ahead.

Prakhar Sharma: Just a couple of things. Rajiv, it's good to see the order book seeing a very strong growth between last year and this year. Could you help us just get a broader sense whether the order book has, broadly let's say, as you were saying just before this, a higher capital intensity and if that is true, then how should we look at like, is margins EBITDA margin is the right way to look at it, or we should look at operating margins, that is question number one.

Rajiv Kaul: You finish the second one, maybe I can give you a shorter answer.

Prakhar Sharma: Okay. The second one is basically how do we look at the market share gains in the ATM rollouts. You used to have like 44%, 45% market share at the time of IPO. So, I just want to get a broader sense of how your incremental or market share in the incremental rollouts, or even refreshes looking like, these are the two questions. Thank you.

Rajiv Kaul: Okay. So, the first question is a great question Prakhar really appreciate it. The way I would like, all of you to sort of think about and the way we think about it is we first look at our return on capital trends. Being a high cash flow generating company, we feel that we have the capability to deploy capital for getting better and better returns for our shareholders. And that's where we see we, we talk about ROCE numbers. From order book perspective, I would say, maybe two-thirds of that will need some capital deployment. Obviously, the ratios will be different, payback periods differ project-to-project. The one area where people get a little uncomfortable in the analyst community is really around the transaction-linked BLA business. Our returns there have been very good and very solid because we have been very picky., our total installed base of transaction-link brown label ATMs will not be even 5,000 ATMs. Maybe even less, less than 3,500 ATMs or something that's it. So, we have position-sized this business where we do it only if there is a high capital return. And if I had to think of the order book for the last year, less than 1/4th of that would be linked to this nature of business.

Your second question is around, in market share of ATM Cash, the ATM Cash market share was pre-IPO, I don't remember, I think that was 43%, 44%. And now, in the last four years this number I know has gone from 39% to 49%. I don't exactly have each in terms of percentage of new deployments or new wins. But I know the market share gain has been 10% over the last four years. And in this year, it would have increased nominally because this year was more of a flattish year because the orders have got issued and whatever December, January, February, March, the roll outs were starting to happen. But I would like to extend your question to give a broader answer to the folks on the call. As a team, we have said that it is our duty to focus on market share, revenue growth, margin profile sometimes, most times in that order. That's the way we think, we are very focused on maintaining and increasing our market share across all our lines of business. that's where our north star is. So, needless to say, when any new orders being placed, we are working hard to make sure we maintain our market shares.

Prakhar Sharma: Thank you Rajiv, just to reconfirm, your number of 44% around the time of IPO was correct. So, were you saying that 44% has gone towards like 49% or something like that?

Rajiv Kaul: That's right, that's correct.

Moderator: Thank you. Next question is from line of Abhishek Sinha, from Boat Capital. Please go ahead.

Abhishek Sinha: My question is around the increased receivables, as percentage of sales it has gone up to 32% in FY24 versus 37% in FY23. Could you please throw some light on why this has happened or is this going to subside soon?

Pankaj Khandelwal: So, it's Pankaj. Our AR is largely dependent on last quarter gross revenue, gross revenue means inclusive of GST. You will see that DSO based on that, March 24 DSO comes to around 87 days, which is improved from September, which was 95 days, and slightly increased from March 23, which was around 80 days. Some minor increases due to increased ratio of Managed Services and tech business, where the customers are largely PSU banks. And the payment cycle is around 10 to 15 days longer. So, that is the reason the AR is slightly increased from, DSO is slightly increased from 80 to 87 days.

Abhishek Sinha: Alright, thanks for your answer. The second question is on slide number #10. I wanted to understand, basically this Retail 360 solution that we have built is this built fully in-house and second, isn't this space already intensely, very competitive and what is our outlook on this one?

Anush Raghavan: Anush here. So, most things that we do in CMS, we take pride in using our core technology skills to be able to craft solutions to the needs of the customers. Perhaps the misnomer here is, when we talk about payment automation, you may be comparing us with pure play payment companies who are more focused on the digital payment side. What is of context to us, and in our parlance, we are talking of cash payment automation. And, in fact that is the space which is offering itself as a very interesting opportunity for us to be able to see how we blend our reach, our quality of service, and bring on board a lot of technology automation, to make a cash payment equivalent to a digital payment in the eyes of a retailer. The ease, the efficiency, the reconciliation and the fungibility.

Moderator: Thank you. Next question is from the line of Pranay Jain from Deal Wealth Capital. Please go ahead.

Pranay Jain: So, I wanted to understand the Cash Logistics business. Do we see where things are now moving, growth can be in line with our company average because we have been expanding pretty well on the business points network. And while our focus has been on ATM pricing and yield improvement, anything you can share on the wins over here?

Rajiv Kaul: Sorry, could you just repeat the last part of the question your voice wasn't very audible.

Pranay Jain: What is the kind of improvement we expect in ATM pricing and yield, over the next 12 to 18 months, along with the growth on the Cash Logistics business as we continue to expand our business points network?

Rajiv Kaul: Yes, Anush can answer that. But overall, we have already sort of mentioned this in the deck that we look at our Cash Logistics business the way it is today, which is ATM Cash Logistics, retail Cash Logistics and Cash-in-transit to grow in the midterm over the next three to five years at a 10% to 13% rate. This may go up a little bit if new lines of business such as currency check outsourcing come in. Or if we see a higher number of bank owned ATMs getting outsourced or getting faster outsourced to cash management. I don't think there is, is possible to give you a specific of what's the yield and pricing will look like we only talk about the past what we have done. And then we hope the future will be in line in the direction we understand the business.

Pranay Jain: So, are we taking any new measures for improving the ATM pricing or yield or we are quite satisfied with where we are at this?

Rajiv Kaul: This would be improper for me to comment on a broad call, that is I will try re-summarizing the approach we set. As a company and a team our focus is first on market share, next on revenue growth, third, on margins. We try and balance all of these three objectives every quarter every year. But, if you are a pick and choose, we focus on market share, and we can't predict competitive intensity in the future basis where we are today. We have had a good track record of growing this business at double digits throughout its history. And we hope to do that in the coming years.

Pranay Jain: All right. And my second question is, is it possible to share an outlook on the order book and order win momentum because, we haven't seen very good progress in increasing the wallet share. So, just wanted to get a sense, what could be the order win run rate as in, is INR 1,800 odd going to be similar momentum next year as well. And along with this, do we look for more room in margins or again, given the competitive intensity we expect margins to be where they are?

Rajiv Kaul: If you have to, let me take a step back and sort of take some pride in what this team does, our margin profile is world-class. They are very solid, much higher than most companies you can track anywhere in the world. I don't want to set expectations of a constant margin improvement. I don't think that's something which is unreasonable to expect. When you think of from an order win perspective. Last year, FY23 we had about INR 900 crores order wins. This year, we have had about INR 1,850, impossible to forecast a number for the year because there are so many factors, type of contracts that come from bidding, how people bid, we can't predict how people in the market will do. We will try and maintain a healthy order win ratio to make sure we are continuing to build an annuity line of business in line with our growth aspirations.

Pranay Jain: Alright, and anything on the M&A opportunities we think we can close in the next couple of quarters, or we are still far out. That's my last question.

Rajiv Kaul: You are trying to predict when a deal will close is a guessing game. I would really not know.

Pranay Jain: I was asking, if we see any inorganic kicker or not really?

Rajiv Kaul: No, we are working on opportunities. We have been working on opportunities. I can't forecast the time of closure. But we are working on inorganic opportunities fairly intensely.

Moderator: . Next question is from the line of Lakshminarayanan from Tunga Investments. Please go ahead.

Lakshminarayanan: Sir couple of questions. So, if I look at the ATM population in India. The last five years it has been growing around 1.5% CAGR, it's onsite growing at 3.5% while the offsite is declining 1%. Now given this how do you ensure growth in this particular market for us because you have talked about refurbishment, etc. In the next couple of years how do you expect growth there given this, or are we growing more in the onsite and less in offsite?

Anush Raghavan: Hi, Anush here. We should look at this as different parts of the value chain. Let me first tackle it from the ATM Cash business. One way to try and model for sense of what the future could look like over a mid to long term is to think about what the overall base should be, growth of the overall net worth which based on demand supply, how transactions are growing, what is the need for incremental ATMs in the country should be in the 3% to 4% range overall. That along with what could create incremental demand for us in terms of switch from what the banks are doing themselves to outsourcing, which is 80,000 to 100,000 ATMs which Rajiv referred to earlier, which is not currently outsourced for CIT, creates another 3% to 4% growth potential, that combined with further yield and pricing creates a sort of double digit growth opportunity for us in a 10% to 12% range. That's about the ATM Cash business. Coming to the Managed Service parts of the business that is sort of where the combination of replacement, refresh cycle as well as new purchases are critical. Like I said, on an average an ATM lifecycle is about eight to 10 years. So, one could anticipate that on an annual basis, now it doesn't happen perfectly every year, but there will always be some lumping together of RFPs and contracts, bank CAPEX or CAPEX by private players, but that in a longer-term horizon should create a 20,000 to 25,000 annual ATM replacement cycle. The key thing is here to think about that what are some of the larger external macro drivers which will spur either the growth of ATMs or incremental investment into the sector and the largest one has obviously switch on the interchange. Interchange sort of for us acts as an overall revenue, it helps increase overall revenue share for the industry. It helps, first and foremost white label participants increase investments in the sector followed by private sector banks, and then public sector banks.

Lakshminarayanan: Got it. What is the interchange

Rajiv Kaul: So, interchange is, to put it very simplistically is the fee that one bank pays another bank when their cardholder transacts at other bank.

Lakshminarayanan: Got it. In terms of the trade receivable write-off and impairment allowance of bad and doubtful assets, how it has panned out for this year and have you taken any increase in provisions?

Rajiv Kaul: I will hand it over to Pankaj for his answer.

Pankaj Khandelwal: So, provision for impairment and bad debts has reduced from 5%, last year to 4%. And as we guided earlier also that, because of the mix change from cash to MS & Tech, as well as more compliance, cassette swamp, timely reconciliation by banks and use of the technology has helped us to reducing that impairment and the bad debts reduced from 5% to 4%.

Lakshminarayanan: Got it. In terms of absolute amount what is that sir?

Pankaj Khandelwal: It was Rs 98 crore last year and these are Rs.90 crore.

Lakshminarayanan: Got it. Third question is that, if I just look at retail cash. So, what I understand from talking to some of the top private sector banks is that they are not adding any touch points, they are not providing this as a service to most of their clients. And because it's a cost center, which they want to progressively reduce. However, from our side, we have seen an increase in the touch points. So, just want to understand, how is it taking place because, individually these banks are reducing their service unless they are getting to the large clients, or is it coming from e-commerce for you?

Rajiv Kaul: If you take a slightly longer term and dive into the last eight years of what has happened to retail and more importantly organize retail. You see, there has been a fair bit of churn and choppy waters over there, starting with demonetization, implementation of GST, the onset of COVID. And from a physical or organized retail perspective, they also have to deal with the uncertainties around what happens to e-commerce, e-commerce growth and to what extent does it impact their business. It's only the last two, three years that a fair degree of clarity has certainly emerged. And we have seen organized retail invest for growth significantly and aggressively. That has given us the confidence to create our own organizational bandwidth and capabilities to engage with retail directly. Earlier we prefer to sort of engage with them through a bank. So, when I sort of share with you our detailed approach to how we are thinking of retail. You are absolutely right; the banks have a certain point of view. But, as I reiterated earlier, our goal here is to find a way in which we can be a collaborative partner to retail and to banks, bringing on board a solution set and our technology to just help with easing the whole payment cycle.

Lakshminarayanan: Got it. So, you are pushing from the retail, the person who pay you will be the retail and not the bank?

Rajiv Kaul: There is a broader market, banks are focused on a particular set of customers with basis the reach, basis, the amount of currency passing through and what not for where it makes sense for a bank to engage. There is a much broader market, which a bank may not be wanting to or willing to serve, which is the opportunity which we think, when Anush talked about the 5.5 lakh points out there, it's a much broader market that will need partnerships with banks, FinTech and with payment banks, which is the approach we are taking in being able to address the needs of that segment better.

Moderator: Thank you. Next question is from line of Divyanshu Mahawar from Dalal & Broacha Stock Broking. Please go ahead.

Divyanshu Mahawar: I have few couple of questions. The first question is, how AIoT remote monitoring solution will help NBFCs insurance and public sector. And the second question is, for FY27 the TAM is Rs. 22,000 crore approximate market size. So, what kind of market share you are thinking about it?

Rajiv Kaul: So, on your second question, we have sort of alluded to an aspiration to FY27. Give us some time when we do the detailed analysts day to talk about our FY27 targets are especially right now very focused on making sure that FY25 gets achieved. In terms of the remote monitoring sector. There is a, so there are very different technology type trends which are going out there, the entire monitoring space, the security space, in banking we sort of understand very well in banking, we are seeing a big move from disparate solutions at ATMs and branches moving to more of a converged solution. In retail, we are seeing a lot of analytics being on offer. In public sector, there is a very large, I wouldn't say opportunity, there's a large public sector deployments of CAPEX into new infrastructure, whether that is smart cities, whether that is railways. And all of that is coming along with the strong component of remote monitoring solution needed to run that infrastructure in a safer and more efficient manner. Including if you think about the entire electric vehicle recharging opportunity, there are solutions that's being created in telecom, we are seeing solution needs around telecom towers. So, our team is, as I said, we will first and foremost focus on BFSI. That's the sector where we have the network and reach and customer trust. And we don't want to lose that opportunity, we are executing well on that area. But we are also like in the retail side in cash, investing in building up a pretty strong sales team, we are right now building a strong sales team for remote monitoring to be able to cater to these types of solutions, the solution sets are deployed, and they run and maintain over a long period of time, but these are also very complex solutions. Some of this capability we already have built, some of the capability we will partner and some of that will have to build in the coming years.

Divyanshu Mahawar: And sir one last question, I just wanted to know that, if we look at the P&L side, on a purchase traded goods have been increased so much. So, can you put some light on it?

Rajiv Kaul: Yes, Pankaj will help you with that.

Pankaj Khandelwal: So, during this period, our sale for the ATM has increased from Rs. 57 crores in FY23 to Rs.140 crore in FY24. Earlier this year it was around 6% of the revenue and this year around 11% of revenue is coming from the ATM sale. So, that is the reason, the cost of the goods or if you have net with the inventory changes has improved.

Moderator: Thank you very much. Next question is from line of Neil from Value Quest Investment Advisors. Please go ahead.

Neil: So, my first question is around margins. So, if you just look at the margin for both the segments which is cash management and Managed Services, over the past three, four quarters, consistently the margins have been coming down. So, for Managed Services of course this is product mix increasing for us is affecting us. But what will be like reason other than that for the impact on margins and going forward how should we be looking at the margin level in coming quarters?

Rajiv Kaul: So, two things we will point to, one is look at margins on a full year basis, not just every quarter. There are different changes which happen, however when you think of specifically the Cash Logistics business and the second half of the year, that's the part of the year where we had to ramp up our investments for some of the new businesses in specialized logistics and collection services. So, the cost of that is currently housed within the cash BU. So, if you in fact, it's a good point you made, I don't know if I mentioned this in my overall remarks when I presented if you would actually, our PAT growth this year of 23% is after taking almost an 8 to 10 crore incremental expense in operating cost for incubating new businesses. And all of that is housed currently in our cash BU.

Neil: Okay, got it. So, now going forward in the next year 2025-26, we can expect this margin to be stable at this level?

Rajiv Kaul: This is something we had said during the IPO and every time we interact with investors saying: as a team, we retain the rights to invest some of our earnings back into incubating new businesses. We are not a team which is sort of comfortable going and buying into new sectors unless we understand the sector very well. So, some of this operating cost increase is a reinvestment into the business for us to look at expanding, I cannot tell you right now, how much will this number be, this 8, 10 crores will be in the coming year. But of course, we will try to make sure while we are investing in new businesses, we are not doing so at any high loss, the loss number should be manageable in the overall P&L we deliver.

Neil: Okay, got it. And my second question is around network compliance so, what level have we reach with respect to that, and do we expect any kind of cost benefit coming in as you go up that percentage?

Rajiv Kaul: As we have guided earlier, we were looking to complete our investments in achieving a compliant network in FY24 to a level of about 85%, which we have achieved. However, through the year we have focused our attention on the ATM Cash business to improve yields and pricing, we now feel confident of maybe inching that up even further closer to a 90% level.

Neil: Okay. So, now going forward no major benefit can we expect because mostly compliance has been fulfilled from all?

Rajiv Kaul: We will have the benefit of looking at our numbers and data over the four-year period. But as a team which has been here for about 10 - 15 years, we take a lot of internal pride in sort of crafting ways in which we continue to deliver productivity and efficiency gains. Fundamentally, we are a very strong operating leverage-oriented business, especially on our logistics and network business. So, there are always various initiatives and efforts to keep taking out that little bit of extra efficiency, whether we get it from incremental business, so we get it from infusing technology to what we do, or it just comes from managing our operating processes more efficiently. The part where we will continue to upgrade is really on the cassette swap. In FY24, we achieved about 20% cassette swap coverage. As, going back to some of our earlier updates, we had said that the cassette swap project is under the RBI regulation is sort of being driven by the Indian Bank Association, to ensure that they drive this on a consistent and homogeneous bases. 30 cities in India were earmarked for the first phase of expansion, that project or that phase of that 30 cities will almost complete by end of June, after which we expect an expansion to further set of 30, 45 cities. So, that effort will continue to play.

Moderator: Thank you. The first question is from the line of Akash Oza from CCIL. What is the payment card business under MS and IT, if you can give a brief on that?

Rajiv Kaul: The payment card business is one of our oldest business lines where we work with leading private sector banks and some public sector banks. And when they are issuing financial cards, a debit card or credit card to a customer, there is a lot, it's a Managed Service like business in which everything from the card sourcing, personalization, the data security and encryption is all done in a very high end secured facility which is audited and which is vetted by RuPay, Visa, MasterCard. And NPCI also audits this facility. So, there are three, four players in the sector where CMS is one of the high-quality players there. And we work, as I said, with large banks and issuing these cards to the consumers when they have new consumers or when there is a replacement.

Moderator: Thank you very much. The next question is from Avinash Patra, Individual Investor. Sir how are the new business lines shaping up. What is the competitive landscape and potential in these new business lines. Thank you.

Rajiv Kaul: So, let's talk about the debt collection business. The debt collection business needs as you would have seen from regulatory intervention there is a need for high quality players who are providing end-to-end services. We have launched the services and piloted them with leading NBFCs, there is a lot of interest in the customer sets to have a company of CMS's repute to be able to provide the solutions to them. Whether we can successfully launch it and scale it and make money is time will tell, but we think this is a humongous, large opportunity out there. It's obviously a challenging opportunity but we will take a strong stab in the coming years to see if we can become like we became the leader in Cash Logistics, if we can become the leader in an integrated collections tech, collections call center and collections field integrated company, as a partner of choice to banks and NBFCs. In specialized logistics, our focus is currently fairly narrow on the bullion space. Over time it can move into other high value logistics. It's a very large unorganized sector. But as the sector moves to formalization you look at jewelry stores and all moves from unorganized to formalized, as we see large jewelry chains increase their footprint in the country. And we think there is an opportunity for a good third player in the sector. We already doing this work for the last year, year and a half. And we hope to grow this. This obviously is a very small base right now. But we are again seeing a lot of traction in customers wanting a high-quality player as an alternative there.

Rajiv Kaul: Thank you very much. We will move on to the audio questions. The next question is from the line of Franklin Morales Equentis Wealth Advisory. Please go ahead.

Franklin Morales: I just wanted to know what the ESOP trajectory will be going forward.

Rajiv Kaul: You mean ESOP cost?

Franklin Morales: Yes.

Pankaj Khandelwal: So, this quarter the ESOP cost was around Rs 10 crore. And just to remind you that the ESOP, whatever we have issued, either it was issued on the weighted average fair market value, or maximum 10% discount. Around 75% of the ESOPs issued during last year were issued on a weighted average price and 25% on a 10% discount.

Rajiv Kaul: That's just our way of telling a shareholder that the ESOP issuance to employees is very closely aligned to our public shareholders.

Pankaj Khandelwal: The cost, this quarter cost was around Rs.10 crore. And going forward as we have guided you earlier also, in next two quarters that cost will be around Rs.10 crore and after that it will gradually reduce to Rs.6 crore, Rs.4 crore and Rs.3 crore.

Franklin Morales: Okay. This would be the quarterly run rate, what you mentioned?

Rajiv Kaul: Yes.

Rajiv Kaul: Yes, this is on the current set of ESOPs issued, if the NRC at any point issues any new ESOPs which are already approved by shareholders, there will be some impact to that which is difficult to predict right now.

Moderator: Thank you. Next question is from the line of Pradeep Rawat from Yogya Capital. Please go ahead.

Pradeep Rawat: So, my first question is regarding our cash logistic business. As you have mentioned in the presentation, our cash logistic business has grown 17% CAGR from FY21 to FY24. And the market growth outlook is for 19% CAGR from FY21 and FY27. So, I just want to know why are we underperforming the market?

Rajiv Kaul: Just give us a second while we move to the slide to have a look at it. So, I don't know if you can see the slide, we have the TAM slide out there from FY21 to FY27. However, FY21 to FY24 numbers is 17% roughly. The longer-term forecast opportunity here is on that, we will have to see how the ATM growth numbers pan out. This is predicated basis some ATM market growth which has lagged right now. If that picks up and outsourcing increases, then this number is, then it's a fair question. But as of now, we track basis our market share in the sector. Our market share in our both our ATM business has gone up, retail we have gained market share last year. CIT is the only business where we have been sort of flat.

Pradeep Rawat: Okay, understood. And the second question is regarding the operating margin. Our operating margin used to be 17%, and 18%, in pre COVID times, and now our margins are north of 25%. So, what led to this margin expansion and what levels of margin should we look forward in the coming years, any ballpark number would be fine or a range?

Rajiv Kaul: So, we have not given any margin guidance at all ever. We focus only on revenue growth aspiration, the margins have expanded for multiple reasons, in a network, and a route density business, as the business points you cover impacts margin, it is linked to obviously pricing growth. It's linked to mix change where we talked about yield where we are focusing more sometimes in a particular year on higher yield businesses. And it's been a good strong robust margin increase. And lastly, also just using a lot of technology to automate our back end and back-office functions. mix of margins to predict for the future impossible to know, we don't control the cost. We don't know how much the fuel price, wage prices, competitive pressures, like I said, we will be focused on market share and revenue growth. If they work well, the margin profile remains very strong.

Moderator: Thank you. Next question is from line of Yash Raj from Exponential Research. Please go ahead.

Yash Raj: My question is around Central Bank Digital Currency. So, earlier this month, there was an article in ET in which RBI told that they were working towards CBDC and CBDC is going to be, there would be a component of anonymity it will be non-interest bearing. And they are also working on the offline mode to leverage the UPI infrastructure. So, Rajiv, you had previously alluded that these CBDC is more relevant for corporates, especially for the cross-border transactions. But now that they are working on this offline mode, and you know, and they said that it would be non-interest bearing. Is there a change in that view or is that the same. Just wanted to get a sense for that.

Rajiv Kaul: No, it's impossible for anybody to predict what regulatory action can sort of drive in the coming years, I do still believe that CBDC functionality is very similar to what other modes of UPI offer. However, what the Central Bank has talked about in terms of making CBDC, not trackable and all of that, that would present a threat to other digital form of payments more than cash. That is my belief, I could be right or wrong, I don't know. There's also something which we haven't really seen pick up anywhere in the world yet therefore, very difficult to sort of gauge how this will pan out. It's easy to sort of look at experiments in other parts of world and say this works and that didn't work. And we will just see how this pans out.

Moderator: Thank you very much. Ladies and gentlemen, we will take that as the last question. I will now hand the conference over to Mr. Rajiv Kaul for closing comments.

Rajiv Kaul: Alright, thank you so much for attending the call. Thank you for the insightful questions. I hope you liked the format of this call where we were able to sort of give you a deeper dive, as we have promised end of the year is when we will be able to share more data points, operating metrics, financial metrics with you. And thank you for your support as analysts and shareholders of CMS, I hope you are happy with our performance, and we hope for your best wishes for the coming year.

Moderator: Thank you very much. On behalf of JM Financial Institutional Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.