CMS Connecting Commerce

CMSINFO/2307/010

July 27, 2023

To,

BSE Limited
Listing Department,
1st Floor, PJ Towers,
Dalal Street,
Fort, Mumbai – 400 001

National Stock Exchange of India Limited
Listing Department,
Exchange Plaza, C-1, Block-G,
Bandra Kurla Complex, Bandra (East),
Mumbai – 400 051

Scrip Code: 543441

Symbol: CMSINFO

Dear Sir/Madam,

Sub: Earnings Transcript

Pursuant to Regulation 46(2)(oa) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed transcript of recording of post Investors/Analyst meeting held on Monday, July 24, 2023 at 4.00 p.m. (IST) on Unaudited Financial Results (Standalone and Consolidated) of the Company for the quarter ended June 30, 2023.

The transcript is also available on the website of the Company at www.cms.com

You are requested to kindly take the same on record.

Thanking You,

For **CMS Info Systems Limited**

PRAVEEN SONI

Digitally signed by PRAVEEN SONI
Date: 2023.07.27 15:02:27 +05'30'

CS Praveen Soni
Company Secretary & Compliance Officer
(Membership No. FCS 6495)

Encl: a/a

"CMS Info Systems Limited
Q1 FY '24 Earnings Conference Call"
July 24, 2023

MANAGEMENT: **MR. RAJIV KAUL – EXECUTIVE VICE CHAIRMAN, WHOLE TIME DIRECTOR AND CHIEF EXECUTIVE OFFICER – CMS INFO SYSTEMS LIMITED**
MR. PANKAJ KHANDELWAL – PRESIDENT AND CHIEF FINANCIAL OFFICER – CMS INFO SYSTEMS LIMITED
MR. ANUSH RAGHAVAN – PRESIDENT, CASH LOGISTICS – CMS INFO SYSTEMS LIMITED
MR. MANJUNATH RAO – PRESIDENT, MANAGED SERVICES & TECHNOLOGY SOLUTIONS – CMS INFO SYSTEMS LIMITED

MODERATOR: **MR. BALAJI SUBRAMANIAN – IIFL SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to CMS Info Systems Limited Q1 FY '24 Earnings Conference Call hosted by IIFL Securities Limited. 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 the conference call, please signal an operator by pressing star then zero on a touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Balaji Subramanian from IIFL Securities. Thank you, and over to you, sir.

Balaji Subramanian: Thank you, Neerav. Ladies and gentlemen, good day, and thank you for joining us on the Post-Results Conference Call of CMS Info Systems Limited. It's my pleasure to introduce the senior management team of CMS who are here with us today to discuss the results. We have with us Mr. Rajiv Kaul, Executive Vice Chairman and CEO, Whole-Time Director; Mr. Pankaj Khandelwal, President and CFO; Mr. Anush Raghavan, President, Cash Management; and Mr. Manjunath Rao, President, Managed Services. We will begin the call with opening remarks by the management team. And after that, we will open the call for a Q&A session.

I would now like to hand over the call to Mr. Rajiv Kaul to take proceedings forward. Thank you, and over to you, Rajiv.

Rajiv Kaul: Thank you, Balaji. Good afternoon, everyone. Thank you for taking the time to attend our Q1 FY '24 call. As most of us have recently interacted at our Investor Day on May 25. This call is going to specifically focus on our Q1 FY '24 results. We continue to deliver consistent growth with revenue growth of 13% and adjusted PAT growth of 20% in the quarter.

We're happy that this is our fifth consecutive quarter with 20% year-on-year PAT growth. This is also a quarter where we hit the INR500 crores mark for our services revenue for the first time. Q1 is usually a seasonally weak quarter. Despite that, we have managed to grow on all of our key metrics. Our CFO, Pankaj will now take us through the financial highlights.

Pankaj Khandelwal: Thank you, Rajiv. Good afternoon, everyone. Our consolidated revenue has grown by 13% to INR512 crores with Managed Services and Technology Solutions now contributing around 36% to all our revenue. Our adjusted EBITDA has grown 19% to INR152 crores, and our adjusted EBITDA margin profile is now 29.6%, a year-on-year improvement of 160 basis points. Our adjusted PAT has grown by 22% to INR87 crores, making this 9 out of last 10 quarters of 20% plus YoY PAT growth.

These numbers are testimony to our market leadership and execution of our order book which we won over the last year. Both of our business segments have delivered strong results. I now hand over the call to Anush Raghavan, President of our Cash Logistics business for more insight into the business performance.

Anush Raghavan: Thank you, Pankaj. Good afternoon, everybody. Our cash Logistics business revenue has grown by 12% year-on-year to INR351 crores in the first quarter with an EBIT growth of 22% to INR94 crores. The EBIT margin has further expanded by 218 basis points year-on-year to 28.6% in this quarter.

In May, we had released our first cash vibrancy report, which is the first-ever report on cash usage trends in India, which highlighted the robust cash usage across geographies and sectors. We continue to see strong usage trends in currency in this first quarter. Our network had the highest ever currency throughput of INR3.3 lakh crores.

We also continue to see the trend of currency usage growing in metros with 10% year-on-year increase, outpacing the growth in semi-urban and rural India. Our business network has further expanded in this quarter and we currently service 126,000 business points, a 10% year-on-year growth.

On the compliance front, we are seeing a strong momentum in cassette swap implementation. This has been reinforced by the regulators push and industry-wide consensus. We are now targeting a one-third cassette swap compliance of ATMs by the end of FY '24.

With that, I now request my colleague, Manjunath Rao to share with you an update on the Managed Services and Tech Solutions business.

Manjunath Rao: Thank you, Anush. Our Managed Services and Tech Solutions business revenue has grown 17% year-on-year to INR182 crores in Q1 with EBIT growth of 15% to INR34 crores. Our EBIT margins stood at 18.7% in the quarter. We have successfully completed the execution of ATM managed services of 5,200 ATMs for a large public sector banks across 526 cities and towns in 26 states.

In our AIoT remote monitoring business, we are investing in building AI modules and are conducting pilots in other verticals. In this year, we expect to see key large PSU RFPs for both automation and ATM as a Service business lines. Just to close out, we reiterate our FY '25 revenue target of INR2,500 crores to INR2,700 crores. Thank you for your support and attending this call. We can now move to the Q&A.

Moderator: We'll now begin the question-and-answer session. The first question is from the line of Varun Darjee, individual investor.

Varun Darjee: Thank you and congratulations on the wonderful set of numbers. Sir, I wanted to ask a couple of questions. Thank you, first of all, for the very detailed transcript that was shared on the exchange website. So while I know the call is specifically for the Q1 results, I had a few questions around the business, right? You had mentioned that 40% of the ATMs are still being serviced by banks, while 60% is being outsourced to players like CMS, right? So how do you see the road map going forward for this existing 40%, which is managed by banks and the incrementals one that banks will deploy in, let's say, 2 to 5 years of time. What is the trend directionally that you see?

Secondly, on the trade receivable numbers as well. The trade receivable numbers is INR451 crores as of March 2023, that's broadly in that range for the last 2, 3 years, right? I was just curious to understand why is that number so high. Is that something that is peculiar to the industry? Would that number be very similar for your competitors as well?

Anush Raghavan: Varun, Anush here. I'll take the first part, and Pankaj will answer your second part of the question. As far as the outsourcing trend is concerned, and we have sort of shared this in some of our previous calls as well. This is a longer-term trend. 8-10 years back, perhaps there was a greater majority of ATMs, which banks were servicing themselves as opposed to what they were outsourcing.

With each new iteration of RFP and the outsourcing process, there is a greater percentage of ATMs, which banks choose to outsource. It's really a function of what is the comfort and the quality of outsourcing sophistication of that, which is being amounted by the banks, number one.

Second, a lot of these ATMs, which are serviced by the banks themselves are typically on-site branch ATMs which is the public sector banks. The private sector banks have almost completely outsourced their ATMs. And now as incrementally, the public sector banks are getting comfortable with moving to an end-to-end outsourcing of projects, we are seeing a greater number of ATMs which used to be branch managed moving to outsourced model, but this will still take time. This will still take a few years for those trends to continue. And what used to be 50% earlier has become 60% and we expect this to keep inching upwards. Pankaj?

Pankaj Khandelwal: On the trade receivables, one is that we don't comment on our competitors. As regards to CMS is concerned, if you see the FY '21 to '23 period, there is around 40 days DSO improvement.

Varun Darjee: Okay. Understood. And sir, as of June 30, 2023, how many ATMs would CMS manage? I think the last time that number was 72,000, right? What would be that number as of 30th June 2023. And what do you think the number two and number three players, of course, without putting in a name, how much would they be managing?

Anush Raghavan: So as far as the second one is concerned Varun, sorry, I can't really help you with that. But we also had mentioned this again in some of our earlier calls. As far as the detailed breakup of the business-wise statistics are concerned, we would prefer to share that on an annual basis. Quarterly frequency is not really appropriate for tracking these metrics. So what we do report on a quarterly KPI basis are more the consolidated business points.

Moderator: Next question is from the line of Prithvish Uppal from Asian Market Securities.

Prithvish Uppal: Congratulations on a really good performance. A couple of questions. First, I just wanted to understand the road map of the managed services business as well as, in particular, the AIoT business. How do you see that scaling up into the ambition of doubling the FY '21 revenue by FY '25. So how are we positioning specifically the AIoT business, like you spoke of certain pilot projects. So what has been the feedback there and in terms of increasing the number of touch points that we have in that business as well, how do we perceive vis-a-vis the competition? So that would be the first part of the question.

Second is, if you could possibly give a breakup of FY '23 the split of the cash management business within the ATM cash management, the cash in transit and the retail cash management business, that would be helpful. And thirdly, in terms of the cash flow- operating cash flow has been growing quite healthily. So just wanted to understand what are the uses of the cash that we're earmarking in terms - specifically in terms of growth. So where are we seeing investment opportunities going ahead? So these would be my three questions.

Manjunath Rao: Thank you, Prithvish. I'll take the -- this is Manjunath. I'll take the question on your remote monitoring services. As you know, our remote motoring service was launched in 2021, which is now at an annual run rate of about INR100 crores and is also the largest in the BFSI sector. We already have about 21,000 sites plus live and we are further investing in AI modules for new cases. And our overall MS and tech business has scaled to greater than 35% of the revenue. We are aiming for our RMS and software business to be about 8% to 10% of our revenue by FY '27. Does that answer your question?

Prithvish Uppal: Understood. So 8% to 10% by FY '27 is what we will be targeting in terms of the remote monitoring business.

Manjunath Rao: Yes. Remote Monitoring businesses + Software businesses

Prithvish Uppal: Okay. Okay. And this does not include the AIoT -- sorry this is the AIoT business.

Rajiv Kaul: The second question was around -- on cash. I think from an M&A perspective, I think just from a cash and books over the last 2 years, Pankaj, we invested how much money for capex?

Pankaj Khandelwal: So INR350 crores for the growth capex.

Anush Raghavan: We invested about INR420 crores of cash in the last 2 years for both growth and maintenance capex and we have given a general direction that this year, capital spend could be in the INR150 crores to INR175 crores range, which would include both expansion into adjacencies, growth capital for new wins we have and some maintenance capex and upgradation of our network.

I think we have -- there's 1 more question which we -- if you can just repeat. Yes, I think we don't give a breakup of segment -- subsegment wise split. I think what we have and what we share is broadly between our cash business and the MS. And within each businesses, then we don't give a detailed breakup.

Prithvish Uppal: Okay. Because I mean, my perspective actually was for asking that was specifically in terms of retail cash management and the opportunity, because last couple of years, the growth rate would have probably been slightly on the lower end because of the COVID and pandemic-related disruption. So just some color in terms of how we are seeing specifically the retail cash management business growing both in terms of touch points, pricing and just some color on that.

Anush Raghavan: Okay. I can try and help you with some of that Prithvi. I think during our investor day, we had shared some March-end statistic, which is a split of our business points by ATM and retail, which is roughly about 72,000 ATMs and about 52,000 retail touch points. That will give you a sense of what actually the business point split is, if not on the revenue.

As far as retail is concerned, if you look back the last few years, a lot of growth has been powered by the growth of the ATM network in the country as well as incremental outsourcing. And as we have alluded to it, that trend will continue into the mid- to long term, especially as banks seek to increase their footprint and also get into further end-to-end outsourcing. In addition to that, we are now seeing a strong aggressive intent on part of large, organized retail formats to expand their footprint in the country.

As we are recovering from the whole COVID impact and as consumer spending is coming back, a lot of them have both publicly and in our conversations, alluded to wanting to expand and open up especially on the physical infrastructure side, even people who were running pure play digital businesses are very keen to get into the physical side.

So I think when we think of it and we look at this from a mid- to long-term perspective, which is really for a 5- to 10-year story, I think the retail and the growth of retail, the growth of consumption of that will play and will have a significant tailwind into how it feeds into our business growth.

Moderator: Next question is from the line of Pujan Shah from Congruence Investment Advisers.

Pujan Shah: A few questions from my side. First question would be, as we are saying that the 40% of the ATMs have not been still coming out from the banks -- like managed by the banks. So are there any restrictions or it has been like that. I'm not able to understand that why it has been so slow from the bank side because all banks wanted to be an asset light or like that. So what could be the reason for this specific?

Anush Raghavan: So I think if I understood your question right, you're asking why our 40% of ATMs are even managed by the banks themselves. So I think earlier if you look at it, the banks used to only enter into pure managed services contracts for a fixed fee basis, not end-to-end outsourcing contracts. As a result of which the public sector banks especially found it convenient to continue managing the branch of the on-site ATMs themselves and outsource the off-premises off-site ATMs to managed service providers.

That trend is changing. As the public sector banks are getting more comfortable moving to end-to-end outsourcing. As and when those RFPs come up, those ATMs, which are managed by the branches switch into an outsourcing model.

Pujan Shah: Okay. Got it. And sir, as you announced that we will deploy from INR150 crores to INR175-odd crores of capital into expansion plus maintenance, so if we look at our historical capital flow, we have invested INR70 crores for the maintenance for last trajectory. Now if we consider that cost, so are we having any plan for the M&A specific, which we have been eyeing to and we are trying to acquire, are there any deal flow going on specific for that?

Rajiv Kaul: So the capital plan, which we have indicated to our investors at both the Investor Day and today is mostly for our growth and maintenance capex. This does not include M&A, it's very difficult to predict what will be the spend for M&A. I think that will be subjected to the opportunity. As and when we have anything to report on M&A, we will come and update you for sure.

For the maintenance capex, I think the ratio should remain the same as you've seen in the last 2 years. Our CFO shared with you, we have spent about INR420 crores, out of which roughly INR70 crores would have been in maintenance capex over two years. Similar ratio should continue for this year.

Pujan Shah: So major capex would be both for the BLA side because that's where we have been deploying that capital?

Rajiv Kaul: No, I think it is not when we think about our growth capex, it is towards the order book, it's towards scaling our business lines, both in AIoT, ATM as a Service, which you are talking about and also investment in fleet upgradation for our network and for RBI compliance. It will be a combination of these things and also investments are going into incubating the new business lines, we have shared at the Investor Day. And finally, for implementing the work we are doing on the technology side. It's across a whole spectrum of things.

Pujan Shah: Okay. And sir, current order book, as we have seen, I have seen that INR150 crores is from the managed service. So total order book size if you can spell it out?

Pankaj Khandelwal: It's INR3,300 crores.

Rajiv Kaul: So we report order book for our managed services business only specifically for that business and our cumulative order book over the last 2, 2.5 years, there is now a INR3,300 crores. INR150 crores is the addition to the order book in Q1 of this year.

Pujan Shah: Okay. And how much totally the order book has been completed over this accumulated order book?

Pankaj Khandelwal: 90%.

Pujan Shah: 90%. Okay. And last question from my side would be -- have you faced any union-related issue because in DRHP, I have read somewhere that we have faced – historically in '17, '18 faced issue related to the union base, and we have also closed out our Kolkata services in some of the parts. So have we faced the similar situation - in the previous 2 years?

Anush Raghavan: No, we're not. No. But those have been more once in a very rare occurrence situation. But having said that, entering into collective bargaining agreements, having long-term settlements where the unions is sort of part and parcel of our business, but we've not had any such situations in the last 2 years.

Moderator: Next question is from the line of Pratik Chheda from Guardian Capital Partners.

Pratik Chheda: So my question pertains to the cash management business. On this business, on a Q-o-Q basis, you've been seeing consistent growth of around 2% -- maybe 2% to 5% every quarter for the last 6, 7 quarters. But this quarter is sort of flat. So just wanted to understand, is there any one-off? Is there any delay in some execution of the projects?

Anush Raghavan: So Pratik, in our cash business usually has a Q1, which is seasonally a weaker quarter. Last year, Q1, we didn't see that trend simply because the some of year-on-ye growth last year was also linked to pre-COVID time. So I think Q1 is something we do see usually a dip basis Q4. Still, the cash business had the same revenue as in Q4, which is, I think, pretty good. There are some ups and downs which happen on business on a quarterly basis, but nothing significant, which will have a material impact.

Pratik Chheda: Got it. Second question I want to understand is on the margin side. Now on the cash management business, we reached EBIT margins of around close to around 26.8%. Now are these banks coming back and sort of sitting on the table and renegotiating pricing with you or how are you thinking about EBIT margin going forward? Have you reached a peak? Or is there any further improvement which can come in through operating efficiency or through pricing?

Anush Raghavan: As you've known us for some time now, we don't comment on margins. I think for the team to manage and balance our goals on revenue growth, margin and market share is something which we are working on every quarter. From a perspective of bargaining and negotiation, I think that is part and parcel of every B2B business.

What you and other investors will appreciate that what we have is a network density business where margins are blended over multiple customers and multiple business lines that we do run a route network, which is not very easy to either replicate or to disaggregate.

A significant part of the margin improvement in the last 2 to 3 years has also been with respect to growth in the network as well as automation efforts. So while we don't have any guarantee on margins maintaining themselves at a current rate, I think as a team, we've been very focused on trying to maintain a superior margin profile to the rest of the industry and our large market share and our market infrastructure helps us achieve that.

Moderator: Next question is from the line of Amarnath Bhakat from Ministry of Finance, Oman.

Amarnath Bhakat: Actually, my first question is relating to the promoter stake sale. If we look at from December 2021 up to now, the promoter stake is continuously getting reduced. And recently, there was a promoter sale, which is, of course, bought by somebody else. What is the reason? If the management was so strong, the outlook is so strong, what is the reason of this continuous promoter stake reduction?

Rajiv Kaul: So if you look at our promoter of CMS, our promoter Sion Investment Holding, a company based out of Singapore, which is, in turn, an investee company of Baring Private Equity Asia, which is a large PE firm in Asia. Baring and their holding companies, Sion have been investors in CMS for over 7 years. And as part of their own exit process, they will look at exiting their stakes in investee companies.

So you should think of this as a financial investor and not a strategic investor and the financial investors will have their own timelines and plans for exiting stakes and reducing them. In fact, many other investors have been keen to know as to how does the promoter stake go down because they feel this has to happen so that the stock can be more widely held amongst institutions.

Amarnath Bhakat: Yes. So that means we can expect a further selling from this Sion investment in the future time to come?

Rajiv Kaul: Yes. I mean, logically, yes. I mean we as the team obviously will not have insight or won't be able to comment on what Sion's plans may be. But logically, if you look at the trend of any PE shareholder, they would look at exiting their stakes over a period of time.

Amarnath Bhakat: Okay. The second question is a little bit on the strategy side. See, as you say, the opportunity size for the cash management is increasing. But on the other side, if we track the government different announcement, the government is continuously emphasizing on cash reduction or cash less transaction and accordingly the UPI-related transactions are getting prominence every month and month and the transaction there is just booming.

So in that context, I'm just trying to understand, though, the country like India, we know it cannot be a completely cashless because of our demographic. But the growth what you're projecting from the cash management services vis-a-vis the current range of the huge growth in the UPI transaction, how these 2 are going side by side? If I assume that UPI will take more prominence, which will be the case, will it not be affecting your cash management business going forward.

Anush Raghavan: Yes. So I think one of helpful background read to this in a more detailed manner would be what we published during our annual event. On May 25, we published a very detailed report, which was our Cash Vibrancy Report, which sought to try and explain using as much of our data as possible, where is currency coming from and where is it being spent in the country, and what are some of the more longer-term trends around that? It's available on the website. So it might help to clear some of the doubts

Amarnath Bhakat: Actually, I have seen in detail. The question is coming that whatever data has been presented to be very frank in that mean is mostly depending on the past data. The future, I'm talking about the way that UPI is getting acceptable even at the very lowest strata of the economy, including the bhajiwala and chaiwala and all.

And even we can see in our day-to-day transactions, our frequency to go to ATM to withdraw the cash or deposit the cash has substantially come down compared to what it was. I'm looking to the futuristic part; how do you give the kind of confidence to the investors that this is not going to impact your cash management business substantially?

Rajiv Kaul: So I think it's a fair point. And we think of it from a few prisms. One, what are we betting on here? We're betting on the fact that our growth. And when you think of CMS, you should think of it as an integrated platform for both cash logistics and managed services and AI remote monitoring. We serve banks, we help banks cut down their costs and managing their infrastructure better and cheaper. Some part of that revenue is from cash logistics areas, which is now 2/3rd of our revenue.

We feel there is a lot of opportunity in the coming 5 to 7 years, which will come from organic growth, which will be slower than before for sure but with higher outsourcing from banks, I think that should compensate. When you drill down into specific sectors like retail, where we feel that more formalization based on GST and more organized retail growth in India, will create an opportunity for retail cash management business to grow much faster than other cash logistics areas. That gives us the opportunity for growth.

The third has been our entire expansion into technology-related services. What we have done in managed services, in banking automation and then AI remote monitoring, which was 0% of revenue in FY '16 and now at 36% of our revenue. So we look at expanding our business lines into where we can add value to customers.

And we look at that as a way to grow. Now we think of it, yes, we are talking about the past, but that's the only data we have. We don't have forward data. We do think that India, there's a lot of potential for, I would say, informal cash to move to organized cash where it comes into a banking system.

When INR2,000 notes come back into the banking system, there is a velocity and a transaction opportunity for people to deposit and then to withdraw again. Yes, we do see UPI-led payments growing rapidly. But I think the whole digital payments is something which is not a 1-year phenomenon. We have seen that from 2016-17 onwards. Their growth rates have moderated but the nature of the digital payments, they will grow at a faster than cash, but we're also seeing cash growing fairly healthily and very robust numbers.

Amarnath Bhakat: Just one more thing. Regarding these AI and IoT related things. At the moment, I think you were doing only for this ATM part, the security part replacement of the physical security by this digital security. Is it possible to extend this business segment outside the ATM to other segment of the business, I mean in retail or somewhere?

Because this is the innovative product you guys have started. And probably, you are one of the first movers in doing this. So I'm just trying to extrapolate. Is this possibly can go beyond ATM in some point of time in the future or the business is restricted towards the ATMs only?

Manjunath Rao: Thank you, sir. In my earlier introduction, I did mention that we are investing in AI modules to expand into other sectors. ATM was the low-hanging fruit we moved in, and we have set ourselves very well. And we also have done many bank branches. And due to the recent MHA guideline, for the financial services, branches as well as for the NBFC sectors, there is an increased interest in the branch security systems.

So that's a new area. There's a lot of interest and it's growing but we are also setting up a lot of use cases piloting in hospitality, in pharma industries. So there's a lot of things going on at this moment, and we are incubating new businesses and new lines in this remote monitoring services.

Amarnath Bhakat: Okay. And my last question, sir, if you may allow just one more. What's your current market share at the moment? You were saying you are the market leader in the cash management and this retail management. Exactly what is your market share? Do you have the data?

Anush Raghavan I think if you look at it different parts of the cash business. There is the ATM cash management, retail cash management and then there is CIT. Each of those would have different market structures and will have different shares. But on the whole, if you look at our cash revenues, we'll be at roughly 40% plus revenue share of the overall cash market.

Amarnath Bhakat: And that other side of the business, wherever you were saying that you were the number 1?

Rajiv Kaul: So in AIoT, remote monitoring, we are number 1. I don't know our market share there because a lot of this ATM market is still in transition to move into the new technology standards. We would estimate we will be at least 25%. Let me not give you a number off the cuff, but we have the highest number of installed sites there right now compared to anybody else.

Moderator: The next question is from the line of Akshat Hariya from Multi-Act Equity PMS.

Darshan Shah: This is Darshan Shah from Multi-Act. I have two questions. One is, can you elaborate on the nature of cash losses that we report and how it is accounted in the income statement as there are multiple line items. And second is, when we look at cash loss percentage in the ATM business versus retail cash management, there is a significant difference between the two. So can you elaborate on what is leading to such a big difference?

Pankaj Khandelwal: So there are two types of cash losses. One is that the cash losses in transit, or the larger infidelity wherein whatever the difference, what we get from the insurance claim and total loss, we book as a cash loss in transit. The rest of the claims, which are the smaller in nature or the reconciliation losses, that is part and parcel of our AR provisioning. So if you see in any of our financials, there are three line items you will see. First one is the cash loss t. Second one is the bad debts and third one is a provision for doubtful debts.

Darshan Shah: Okay. So this provision relates to reconciliation difference – the provision for bad debts?

Rajiv Kaul: Yes.

Darshan Shah: Okay. So but when we look at it as a percentage of revenue, this number looks very significant. And even as a percentage of let's say, cash handled, it is very high when we compare it with the retail cash management. So we are unable to figure out what is leading to such high numbers?

Rajiv Kaul: So Anush can maybe tell you a little bit nuance between the ATM and retail side of the business and processes and what is the difference? Maybe that will help you understand this.

Pankaj Khandelwal: See one is that the quantum of the value of the currency we handle, like last year, we handled INR13 lakh crores in comparison to whatever the provision we have made on the losses that are insignificant. But generally, if I will calculate on the percentage of our revenue, it is coming to around 5% of our revenue.

Anush Raghavan: Yes. I think as far as the ATM versus retail is concerned, while I'm sure we don't break down the numbers by our business line. So you might be comparing it to other people, but we don't know what is the exact accounting that people apply. But generally speaking, ultimately, both ATM and retail have a very strong element of risk management to them.

Structurally, when you look at it, whether globally or in India, the ATM business or ATM cash logistics by itself has a slightly higher degree of risk cost because of the nature of the business, which is we are responsible for the safe logistics of the currency from the bank to our vault, the processing of this money, you put that money into an ATM. And then there is also the fidelity risk of the cash while it is at an ATM.

Second, there is also what used to be known as what Pankaj was trying to explain as reconciliation differences or what the industry sometimes call chargebacks. These are those transactions for which customers who make a transaction at an ATM and sometimes not receive the cash, make a claim on the bank. So a lot of those claims need to be processed and settled with the bank. So ATM by itself is an operationally a very different type of work. It is a lot more intensive; it involves a greater degree of risk.

And a lot of that is reflected into the pricing and the realizations that people are either pricing for it or charging for that. The difference in the retail cash operation is the reconciliation happens almost on a daily basis because you pick up money from a retail location, you process it, and then you submit it to a bank, it's almost sort of instantaneous.

Second, the ticket size sort of values at risk in terms of exposure are a little lesser. In terms of what one typically deals with at an ATM. But having said that, the nature of cash and transit exposure is reasonably similar for both.

Moderator: Next question is from the line of Aasim from DAM Capital Advisors.

Aasim: So my question is more hypothetical. I wanted to hear your thoughts on this. So ever since RBI compliance norms start to get implemented, it became a more level-playing feel for larger players. And so industry consolidation began in favor of the big guys. At the same time, the TAM, even if I just look at the ATM, RCM, CIT and maybe the BLAs put together, it looks quite lucrative per se plus at least your margin and return ratios are also fantastic enough to attract attention of competitors.

So my question is, what stops well-capitalized players to enter this space? They may not have the margins that you have given the network density for now. But if they do come in, then what does that do to industry pricing at least in the short term? Second, is there space for another player to coexist with the larger guys. And third, will banks work with the new player who might be open-minded on pricing as it has happened in the past? Or would banks also stick with larger guys given the network and penetration of you guys.

Rajiv Kaul: So Aasim, let me try and give you a perspective. And you have to keep in mind that over the last 6 months, we have been highlighting that the market is attractive, and with compliance norms kicking in. It becomes an attractive country and segment for large multinational competitors, new companies to think about, right? I don't think there is any two ways to think about it. I think it is an attractive market and can attract competition. And we have been alluding to the fact that we may see more competitive intensity in the coming year or two.

Coming to the second point about what so I think if anybody new who wants to get into this business and not just new, if you look at the history of the sector, there have been companies which have vacated a couple of the subsectors because it became unviable for them. They could launch back operations. There's nothing to stop them from trying to launch back operation. Now building scale, building that capacity and trying to run that network at a high-quality basis over time. Yes, it is possible. What impact can it have on pricing? That, I think, is a very difficult scenario for me to really give an answer on. People can enter the segment and give a discount to get business.

We feel that in this if there is a churn like that, there will be churn between the current 3-3.5 players where shares should start switching from, let's say, a lower quality player, whoever that may be or in whichever geography that may be, sometimes there are people with strength a in respective geographies. And it may move to a little bit to a newer player or a new multinational company wants to come into India because I think the compliance norms make it now worthwhile for them.

So that's what we could foresee. I'm sure share will shift between companies at that time. Will it move to from the strongest and the largest to the company? Or will it move from a weaker player to this? I think that is a scenario we'll have to wait and see when it actually happens. The second thing I think I want to clarify that this is a scenario which is possible, specifically, I guess, for the ATM side, which is where the compliance rollout has been more ahead of the other sectors.

Aasim: Okay, okay. But still, I think the one-line point, if I can take it is competition can and will most likely come in, but at least the larger guys have the moats already in place. So they should be ideally least affected at least in the medium term?

Rajiv Kaul: I mean, yes, again, like you said, it is hypothetical, and we'll have to see when these things pan out, what our response would be. But we have maintained that as a market share leader in the sector, we will have to be flexible and agile to balance our market share with our goals on revenue and profit. I think we have done a splendid job of managing and balancing these three. But every quarter, it is not possible to do this. And if there is a threat to market share, we will, of course, have to be very aggressive at that time.

Aasim: Sure, sure. And the second question is on BLAs. So actually, on the ATM cash management side, you have 72,000 ATMs right now. I presume on BLA, you would be, maybe 10% or maybe a little less or more than 10% out of those 72,000. Is there any rough percentage number of your ATM that you would want to be in BLA form in the future, say, maybe 40% to 50%. And also, like the 8% to 10% revenue goal for remote monitoring that you have said by FY'27, is there a similar revenue percentage goal in mind of BLAs as well?

Rajiv Kaul: So I won't comment on our current unit numbers for this quarter. I think we'll stick to the numbers we guided for in FY'23 end. What we have said, Aasim, both during IPO time and after IPO time is that we aim to keep our exposure in some way to the ATM as a service, which is the BLA business, to about 15% of revenue. We were, at the end of FY '23 at about 5,000-odd ATMs in that business. We are very focused in this business on very specific banks to work with. We are not a broad market player. We are a niche market player focusing on a few banks to work with.

The broader BLA market in India, our estimate is about 90,000 odd, out of which we'll be doing about 5,000, 5,500-odd right now. If there is anything which comes up for bid or for a project, which meets our return metrics, we'll, of course should be a good player given our integrated offerings to be able to bid for it. But given the nature of the business, the capital intensity and these are long-term projects, we, as a team, would like to position size this to about 15% of our revenue streams.

Moderator: Next question is from the line of Pranav Mehta from ValueQuest Investment Advisors.

Pranav Mehta: So a couple of questions. So if we look at the revenue growth for this quarter, at around 13% seems a tad lower than the average of, say, around 20-odd percent that we have been doing since the last couple of years. So just wanted your thoughts on what has led to this kind of number? And secondly, a slightly longer-term question on our margin profile.

So we've been able to improve our margins significantly in the last couple of years and the reasons are well articulated. But now as we move towards the FY '25 target of, say, INR2,600 crores revenue, how do you see the margin profile moving in the next couple of years at that scale. So these are my 2 questions.

Rajiv Kaul: Pranav, I think for your first question, the problem we're having is that with very strong performance in the last couple of years at 20% plus, then expectations get built into that. But if you think from our perspective, right from IPO time, we have guided towards the FY '25 revenue goal, which is what we are focused on, which is a revenue of INR2,500 or INR2,700 crores.

If you look at our last year number of INR1,915-odd crores, we are still guiding towards achieving that target in FY '25 that will mean a 15%, 16% growth average for the FY '24, '25. Q1 at 13%. I would not read too much into this. I think Q1 is usually, as I said, seasonally weaker quarter. We have still done reasonably well but we'll have to see what we are reading in the commentary of other quarterly earnings basis retail and consumption and inflation and spend.

We hope that growth continues in consumers because that will be important for our both ATM withdrawals and retail business in the coming quarters. One quarter is too early to start commenting on. I think we gave a fairly detailed presentation at the investor update. Maybe in the coming quarters at the end of H1, we'll have a better sense of how the year is moving from a macroeconomic perspective and specifically for our business. But as of now, I think we are in line to achieve our FY '25 revenue target. Margins, we have not guided towards at all. We have no margin guidance at all, and we will refrain from giving any margin guidance.

Moderator: Next question is from the line of Vaibhav from BMB Investment Management.

Vaibhav: My question is regarding -- as covered in the previous questions, you answered that even if the advent of the UPI transaction, if the revenue will somehow be lower than the revenue will be compensated by the other adjacent area you are operating it. But traditionally, it's been seen that the Managed Services part of your business is a little high capex intensive than the cash logistics. So can we expect that the return ratio will be lower if the contribution from the managed service will increase in the revenue part?

Rajiv Kaul: So I would like to point out a couple of things here. One, our revenue CAGR since inception in 2009 until now has been 17% through good and bad years, right? So it's a fairly high growth rate, which our team and company has maintained through ups and downs of the macro and the sector itself.

Coming specifically to your question on the capital intensity in some parts of our managed services businesses, I think what you should look at is if you think about -- if you look at our ROE numbers, our ROE has consistently increased over the last 3 to 4 years, despite peak capex in the last 2 years, our ROEs went from 20% to 21% in FY '22 to FY '23. What is happening is the fact that orders don't always come separately by segment.

Increasingly a bank, a large bank, will outsource end-to-end. And that component of the order will have many elements of our services. Some will have all our services; some will have some of our services. And therefore, margins will sort of blend across these revenue lines for us. So you already see the trend line in revenue in managed services. But you also have to keep in mind when you see our managed services EBIT margin, it includes the product automation business.

The product automation business by the nature of the business is a lower margin business but has no capital intensity at all. So if you think about our services business, I think our managed services business, the services, EBIT has grown very well. Obviously, it cannot match the EBIT percentages of the cash management business, which we have been running for the last 20 years. But I think it's a fairly healthy return. I think we are able to generate good return for the capital we are deploying.

Vaibhav: So it's like it's becoming a necessity part of the business that providing managed services become a kind of necessity when you go to the banks for the business?

Rajiv Kaul: I mean it's more than necessary. I think it's a large TAM. It's a large TAM which you can win with. It's about getting more wallet share. If a bank is spending INR100 on different services, and you are only operating in a INR30, if you think you've built the capability to offer them the remainder, you want to do that, right? At any enterprise B2B company would want to do more and more with the same customer.

So if you think of most of our large banks, 20 years ago, we did maybe only retail cash management, then we moved to ATM cash management, then we moved to cash in transit, then we moved to automation. In the last 5 years, we moved to BLA as a service. And now in the last 2 years, we have started doing remote monitoring services. So our goal will remain to grow with the BFSI sector, which is banks and NBFCs and offering them new services. So I think more than necessity, it is about expanding the TAM for us and the opportunity for us to grow.

Vaibhav: Okay. And regarding the cash on the books, do you think that the company is generating enough internal accruals, so dividend payout will be a good option considering the high capex cycle is behind us.

Pankaj Khandelwal: So in the past, you will see that we have given 25% rate of the dividend payout. And in the last 2 years, as I told at INR420 crores, we have spent for growth capex. We have not taken any loan and a fairly good amount is sitting on our books, around INR450 crores of cash and cash equivalents, which are sitting on our books as on 31st March 2023.

Moderator: Thank you. I now hand the conference over to Mr. Rajiv Kaul for closing comments.

Rajiv Kaul: Well, thank you, Balaji and IIFL team, for hosting the call for us. Thank you to all our investors for your continued support and intensive questions. I hope that we will deliver a good year for you in the coming 9 months. And we'll talk to you at the end of H1 and the second quarter then. Thank you so much.

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