CMS Connecting Commerce

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August 02, 2022

To

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

Scrip Code: 543441

Symbol: CMSINFO

Sub: Earnings Call Transcript

Dear Sir/Madam,

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 audio recording of post result conference call held at 4.00 p.m. (IST) on (Thursday), July 28, 2022 on Unaudited Financial Results (Standalone and Consolidated) of the Company for the quarter ended June 30, 2022.

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

You are requested to kindly take the same on your record.

Thanking You,

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Yours faithfully,

For **CMS Info Systems Limited**

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

Encl: a/a

"CMS Info Systems Limited Q1 FY23 Earnings Conference Call"

July 28, 2022

MANAGEMENT: **MR. RAJIV KAUL – EXECUTIVE VICE CHAIRMAN, WHOLE TIME DIRECTOR AND CEO**
MR. PANKAJ KHANDELWAL – PRESIDENT AND CFO
MR. ANUSH RAGHAVAN – PRESIDENT, CASH MANAGEMENT
MR. MANJUNATH RAO – PRESIDENT, MANAGED SERVICES

MODERATOR: **MR. DHIRAL SHAH – PHILLIPCAPITAL (INDIA) LIMITED**

Moderator: Ladies and Gentlemen, Good Day and welcome to the Q1 FY23 Earnings Conference Call of CMS Info System 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Dhiral Shah from PhillipCapital. Thank you and over to you, Sir.

Dhiral Shah: Thank you Jacob. Good afternoon, all. Thank you for joining us on the Q1 FY23 post Earning Conference Call of CMS Info System Limited. First of all, heartily congratulation to the management for the great set of Q1 numbers.

We sincerely thank the management to allow us to host the call. In the panel today, we have Mr. Rajiv Kaul – Executive Vice Chairman, Whole Time Director and CEO of the company, Mr. Pankaj Khandelwal – President and CFO of the company, Mr. Anush Raghavan – President of Cash Management and Mr. Manjunath Rao – President of Managed Services. I now invite Mr. Rajiv Kaul to begin the proceeding of the call. Thank you and over to you, Sir.

Rajiv Kaul: Thank you Dhiral. Good evening, everybody. I hope you can hear me clearly. Thanks for attending our Q1 Call. Before I dive into our performance, I want to share a couple of high level sectoral micro trends which are quite positive towards cash usage. Usually, Q1 is a softer quarter after a strong Q4 in the financial year as we notice. This year Q1 over Q4 on a quarter-on-quarter basis the cash-in-circulation has grown at 2.5% and even when we look at the data on the monthly cash withdrawals and the ATM channel that grown at a 6% quarter-on-quarter levels. So, I think that is very good healthy, macro level data I thought I will leave for you to digest and now let me just dive into the company.

I am very happy to say that we have been able to continue our momentum over the past year and despite a fairly inflationary environment we have still had our best and strongest quarter till date on all metrics of revenue, EBITDA and PAT. On a year-on-year basis, our revenue has grown by 23% to INR 453 crores. Specifically, our annuity revenue stream which is something which you should pay attention to and track us on has grown at a 38% year-on-year level and our PAT has grown at 47% which is a reflection of both the volume increase of our business and activities we do, the operating leverage in the business. **[Line dropped]** Sorry for the disconnection of the line I will just repeat the last line hopefully where I got disconnected I wanted to explain that the result is I want to commend our team for very strong execution, focus on very high quality service to our clients and our operating performance has been robust across all our business lines and product units, so it is an all-round good quality performance from across the team.

The one thing I want to sort of highlight here specifically here is our youngest and let us say the smallest business which is our remote monitoring business which we started in COVID is doing very well. You will remember that we have talked about an order book of 25,000 ATM sites we have gone live on 15,000 of that. So, we have executed 60% of the contracts already. This is a tough one because the supply chain issues of components here is quite a tough challenge to circumvent, but more importantly we have been able to do in a very quick time take a solution capability beyond ATM and we have already had very good proof points in the BFSI sector and started winning orders for bank branches, bank vaults and even Gold loan vaults and we have got some very good client names and references where we have started executing work. I am going to now request our CFO Pankaj to take us through the high-level financial highlights.

Pankaj Khandelwal: Thank you Rajiv and good evening, everyone. I will take you through the financial performance for the quarter. Revenue from the operation stood at INR 453 crores which grew by 23% on year-on-year basis. The net profit was INR 69 crore which grew by 47% on year-on-year basis. PAT margin has expanded to 15.2% by 250 basis points between Q1 FY22 and Q1 FY23. Our strong performance is on account of increase in volume of the cash activities and increased mix of the tax services.

Talking about the segmental results our both major business segment recorded very strong growth. Cash Management business recorded year-on-year revenue growth of 29% to INR 313 crores and EBIT growth of 44% to INR 77 crore. Managed Services business recorded year-on-year revenue growth of 16% to INR 146 crore and EBIT growth of 53% to INR 30 crores. In our managed services business if we remove the production components the services grew year-on-year by 71%. With this, I now hand over the call to Mr. Anush Raghavan – President of Cash Management for more insight into cash management business performance.

Anush Raghavan: Thank you Pankaj and Good evening to everybody on this call. First of all, I am pleased to share that all our three business lines across the cash verticals namely the ATM cash management, Retail cash management and the Currency in transit businesses have all demonstrated very strong growth. Overall, from a macro perspective we continue to see very strong trends across cash usage in India. Across the India ATM network we have seen a 6% increase over the last quarter in terms of the total currency dispensed. The total currency which was handled by the CMS team grew by 38% year-on-year and has been the highest ever in the history of the company. We continue to invest to expand our reach and presence and as on date we cover more than 16,000 pin codes across India.

On today's call let me also take the opportunity to share some more details to you in terms of what we are doing on the retail business. We have seen strong traction and sectors which were hitherto affected with the COVID headwinds namely organized retail, travel, hospitality and entertainment have seen some very interesting trends in terms of bounce back post COVID. Here our cash volumes are up by 22% on the year-on-year basis. Further on the back of this recovery and given the broader opportunity in the retail landscape we have been investing to create an end-to-end offering which brings together many different parts of the CMS solution set from our product automation to remote monitoring and cash management.

To the retail segment we offer an automation-based solution which takes care of the reconciliation, cash management and treasury processes. We are seeing very good traction over the last few months and today built up an order book from customers across fuel outlets, large, organized retail players, NBFCs and airlines. Going forward we will keep you updated as this business develops. I would now request my colleague Manjunath to share with you and update you on the managed services business.

Manjunath Rao: Thank you Anush. Good evening, everybody. On the Managed Services business I am very pleased to inform you that we have successfully completed execution of our SBI BLA order book ahead of time and are seeing very healthy transaction trends on the same. Our BLA estate has crossed now 5,500 units as of June 22. Our Remote Monitoring SaaS business is growing rapidly with 15,000 ATMs sites live and we have further expanded our Remote Monitoring SaaS solution capability to new areas like branches, vaults and have won contracts with leading private banks and gold loan companies covering close to 1,000 branches. For our Managed Services business and SaaS business we have set up a new state-of-the-art Tech center that is CERT-IN certified and has three times the capacity of the old center. I am also happy to announce that we have received ISO 9001:2015 quality certification for application and software development for banks and financial institutions. With this, I will hand over to Rajiv to do his closing comments.

Rajiv Kaul: I think I do not have really much to say. I think our focus remains on executing strongly and continuing the momentum. Before listing and during our earlier calls we have sort of given a guidance saying that our company revenue in FY21 was roughly INR 1,300 crores. Our goal remains to double that to roughly INR 2,500 to 2,700 crores by FY25. We are on track to hit those numbers. We started FY22 well. FY23 has also started off well and with the good wishes and luck hopefully we will get to that number soon.

In addition, I think this is an important year. It is in early stage right now, but still in disclosure I just want to share that as part of our efforts to look for newer revenue streams to grow in the country and this is really keeping an eye on FY25 to FY30 we are also kick-starting and incubating efforts beyond our businesses of Cash management and Managed Services. These are mostly going to be efforts initially which will be done group-up within the firm and as we learn and see what sticks and what works we will then look at how we can scale these businesses. Very early days, but that is an area where we already have shared that we will start investing our management time, effort and resources and FY23 when maybe by the time we have an analyst meeting we will be able to give you a little better update on how these efforts are going to look like. Thank you so much and we are happy to take any questions now.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Aasim Bharde from DAM Capital Advisors Limited. Please go ahead.

Aasim Bharde: I had a couple of questions so first one on the cash management business can you break out that how much of the growth is through new touch points and how much would be just your compliance driven pricing led growth?

Rajiv Kaul: The number is I do not think it is relevant to track on a quarterly basis. I think it is better or more useful to see on a year-on-year basis because it will move up and down. I think we would have given last year when we did the number, we talked about an equal split between volume which is business points and pricing impact it is almost the equal split in our numbers at the revenue line and I think in the profit line also I think between operation leverage I think we had explained that in the last call. Right now, I think Q1 basis would not be the right way to sort of track that number. We will wait for at least 6 months, 9 months to give you a sense of the breakup.

Participant: But for FY23 as a whole basically we can still assume that 50% of the expected growth should come from unit additions if I got you, correct?

Rajiv Kaul: We remember on compliance what we have indicated. We have said a couple of things before which is we expect compliances to finish by FY24 at the end of FY22 we were roughly 35% of our points were compliant in terms of earnings compliance revenues that should hopefully get to 60% - 65% by FY23 and 100% by FY24. We have indicated towards 18% growth rate CAGR over these years in our business and I think we are on track for that right now. And I would, for the sake of your question, I would think it is wise to maybe take a 50-50 split between volume and compliance or other pricing initiatives. It is just not compliances, there is inflation price and what not. So, pricing and volume I think if you take a 50-50 sort of a mix.

Aasim Bharde: Secondly just rather clarification I think in your opening remarks you mentioned about annuity revenue has grown 38% YoY while Pankaj mentioned that excluding products MS revenue grew 71% so the annuity portion that you talked about that does not include BLA and remote monitoring?

Rajiv Kaul: So, annuity for me I was talking at a company level which is both Cash Management and Managed Services and all of our businesses and I think Pankaj more specifically explained to you in the MS [Managed Services] BU segment if you have to think of it.

Aasim Bharde: And what would be the pipeline in hand currently on both BLA and Remote Monitoring?

Rajiv Kaul: So, Remote Monitoring I talked about the fact that we had an order book of 25,000 sites out of which 15,000 is executed. We have also got incrementally an order book of another 1,000 sites which is not ATMs, but that is on the bank branches and vaults that is where we are. In BLA we have executed almost 95% of the order book that is already up and running.

Aasim Bharde: And I mean in terms of the number could you be able to share that what kind of visibility do you have in terms of adding maybe over the next 24 months from now?

Rajiv Kaul: If you, Aasim, just go back to what we have said before we listed or around that time we had an order book of roughly INR 2,000 crore end of March quarter again I do not want to make this a quarterly habit because we are not L&T, but end of March quarter we were or full year FY22 we had an order book of INR 2,200. That order book is growing healthily that is your question number one. Second question you asked me sorry if you can repeat.

Aasim Bharde: Basically, I just wanted to get a sense that like one thing on the BLA side, for example, one thing would be basically ATM orders in hand and secondly the kind of visibility that you may open to bid for?

Rajiv Kaul: So, I think in BLA right now we have a BLA estate of about 5,500 machines. We are fairly conservative on the BLA business. I think we are looking at adding about 1,000 machines a year provided we can find an estate with the revenue and profit matrix which makes sense to our capital allocation. So, that is where we would stand. The business obviously comes in bits and pieces, like if you are able to win a good quarter you order book maybe a little more or little less, but from a directional perspective we think we will be adding about an average of 1,000 BLA machines a year.

Aasim Bharde: And just lastly this incubation that you just talked about at the end of your opening commentary like any sense that we would want to give which segments are you really looking for?

Rajiv Kaul: I think again whatever we were highlighting during our roadshows I think these are the sectors which are broadly around collections to create infrastructure on collections mechanisms in India both from logistics and technology side that remains an area of interest where we want to start accelerating the work and start investing time and resources. We are also looking at this, this will be more home grown and inside. I think from an investment perspective we continue to look for opportunities in the B2B Payments and in the whole Remote Monitoring side to see if we can find opportunities to invest in good upcoming technology companies.

Moderator: Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: Good afternoon. Thank you for the opportunity. Congratulations for the great set of numbers. My question was you talked about the CIC growth of 2.5% QoQ and 6% growth in ATMs cash resolved or cash handling the ATMs, would it be possible again this 6% QoQ for the industry how would our cash handling growth would have been?

Anush Raghavan: So, that number Achal would be between around 4% to 5% for us. So, when you compared Q1 to Q4, cash handled by CMS would be a 4% to 5% growth.

Achal Lohade: The second question we had with respect to the margins now I see that given the cost inflation we have done extremely well. Is it possible to get more color in terms of what kind of cost inflation have we seen, and have we been able to pass on that cost or it is the compliance driven pricing which is taking care of these cost?

Rajiv Kaul: Like it is a mix when you think of it, inflation pressures are both obviously in wages and fuel for the companies like us and some raw materials or some input cost. I think for us the fact that we have been able to, and this is the question which came in last quarter as a potential concern and as a team I think we have again dealt with inflation or high inflation environments before. We are trying our best to manage that what you see is a mix of the volume of business increasing and therefore operating leverage impact. And pricing changes which are not only limited to compliance. Even to the earlier question asked, Aasim's question, I just want you to know that there is compliance related pricing in some part of the estate, but there is also business where annual increases or inflation increases are either being discussed or closed out. So, you see that benefit of that and that is what you are seeing translated to the P&L in front of you and the last point I just state this in my commentary is that part of our vision of our overall margin increase what you see here is the fact that our large part of the revenue on Q1 is annuity and services revenue overall. The product linked revenue is lesser and that has a margin impact automatically, but we have still grown the overall numbers well.

Achal Lohade: And just one more question I had is it possible to get some more color in terms of number of cash points for the cash business what is the growth QoQ or YoY?

Rajiv Kaul: I think we are roughly about 115,000 touch points, but again I will tell people this is not a number you should see every quarter. I think this is more at least 6 months, 12 months basis is the number sort of track on because many times there will be some shifts on contract between banks and therefore our quarterly numbers is not the best way to keep querying about this, but 115,000 is roughly the numbers of points I remember that we have.

Achal Lohade: Any color you can give on the replacement / the new ATM deployment by the industry or the banks if you could talk about any development you like?

Rajiv Kaul: In our May call when we have finished the full year, we talked about last year the ATM install based in India grew by close to 10,000 units. It is only couple of months till then so nothing significant to report at this point and also the RBI data has not come out for the month of June yet. Again, this is the number which you want to track more on annual basis that then quarterly basis. To your second question on the replacement cycle or expansion cycle, there are large RFPs either underway in the process of getting bid or closed or RFPs coming out, but we feel that this will get bunched towards the second half of the year in the large public sector banks.

Moderator: Thank you. The next question is from the line of Sanjay Awatramani from Envision Capital. Please go ahead.

Sanjay Awatramani: Sir I wanted to know that if you can highlight the unit economics for the Brown label ATMs which we install?

Pankaj Khandelwal: Generally, for the Brown label ATMs we have a threshold of high IRR, and we generally go for that is the reason Rajiv has mentioned that we are looking only for 1,000 ATMs, BLA ATMs in a year. So, we ensure that our threshold IRR is met for any sort of BLA or CAPEX driven investment. It is very difficult for us to give you some sense of the unit economics in this call.

Rajiv Kaul: But are you trying to ask what are the cost elements of the business or you are saying what is our targets in this business I was not very clear on the question actually?

Sanjay Awatramani: Sir basically I was asking about the cost per se itself because as you mentioned that yearly you will be moving ahead with roughly in the range of 1,000 installation of ATMs or replacement of ATMs. So, I was asking perspective on the cost basis?

Rajiv Kaul: I think basis the 5,000 - 5,500 machines we have been running now, our estimate is that basis the investment required for a Brown label ATMs, I think our IRRs are in the high teens number that post tax IRR that is what we target in a Brown label ATM. Again, in prior calls we have explained a strategy. We think in any given year between 10,000 to 20,000 ATMs could get contracted out for BLA. We are focus on mainly the high quality, high yield, high transacting ATMs which are for this largest bank of the country. In our current estate of 5,000 Brown label ATM, almost 65% to 70% of that is with SBI.

Moderator: Thank you. The next question is from the line of Nitin A Khandkarr, an Individual Investor. Please go ahead.

Nitin A Khandkarr: My first question is about the industry size relative to its counterpart in the Western world, so when we look at the US, the top four companies account for revenue of, I guess, about $18 billion annually which includes some revenue from Europe as well I believe the size of the industry in India is about $2 billion. So, in the context of India's GDP related to the GDP of the US I believe the Indian industry could outpace its US counterpart in the next few years, what is your estimate of the industry size in India and what would be our strategy to outperform the industry in India going ahead?

Rajiv Kaul: Nitin our estimate when we look at the market data for India let me talk about that before we think global are roughly the TAM for this market in 2021 was about INR 8,500 crores and now when I talk about that includes everything from automation to managed services, brown label deployment, white label market, cash management and also remote monitoring. The industry estimates this TAM is likely to become an INR 20,000 - 21,000 crore market by FY27. So, I would not say billions of dollars given how revaluations are happening I prefer to talk of rupees because that is where we are working in. Now that is the size India is a reasonably cost effective for value focus market and also because of volume and we are the world's third or fourth largest ATM market in the world. So, I think there is pretty healthy competition and prices are pretty aggressive given just on market conditions that is why I could give you some sense to help you understand the market and the market directions possibly our basis industry estimate. As company for us basis the current lines of business we have, we have set out with the goal to double our business in four years from FY21 to FY25.

Nitin A Khandkarr: So, what would be your specific strategy if you could throw some color on that please?

Rajiv Kaul: We were predominantly a cash management company till FY15 post which we started expanding into adjacent spaces where we are selling to banks starting from automation solutions, software for the ATM networks, remote monitoring services at ATM sites and the bank branches and the brown label ATM deployment. Our approach here is that we were a service provider till FY15 and we want to become more of a solution company offering end-to-end solutions which encompass both logistics and technology solutions, help serve the bank because they have got a very distributed network in the country and they do not find people like CMS who can handle this with them and more of the value chain by giving them a mix of services both on logistics as well as on the technology side. So, our quality of service, our network, our reach, our integrated capabilities are already resulting us in delivering the best quality services to banks. Now this is a very difficult measure to measure, but we actually find that we have some of our customers in fact from internationally and from US and all saying why do not you come and start services here because we do not find companies with your capabilities or quality of service. So, that is the approach: keep high quality services, have a fantastic network to offer this so that customers come to you before they go to somebody else, use the economies of scale and operating leverage to be able to make up higher margin than anybody else and also run very tight operations with high automation to deliver a lowest unit cost and therefore maintain a margin profile. I am sorry it is a very large presentation, but I am trying to give a summary answer.

Nitin A Khandkarr: Secondly based on the consolidated data, EBITDA margin in Q1 will be highest in the last 7 quarters at least, how would you comment on the variable versus fixed components of the OPEX a small part of the EBITDA expansion is attributable to your company vehicle maintenance part which after peaking at 10.3% of revenue in Q2 FY22 has tapered off to 9.3% and 8.6% in the last two quarters this is in spite of the fact that the prices of fuel have been high since March itself after the Ukraine war broke out, so how would you comment on this particular line item and on the overall margin profile?

Anush Raghavan: I think over the last couple of calls and even during the roadshows and then some of our presentation you would see that we have sort of invested a fair bit of effort in bringing the technology that we deploy to manage our routes and I am speaking on the cash business because that is where lot of fixed cost and variable cost gets associated. We have just been able to do a far better quality of throughput in terms of the route management, the predictive analysis around productivity and just getting better control of that fixed cost. During COVID we were sort of able to really reap the benefits of being able to deploy the technology and get automation happening. There is also lot of automation that has been implemented and various other things which are in process of implementation for some of the management process be it things like ATM reporting, cash processing for instance. So, I think that combined with the synergistic benefits of certain scale and when we grow it helps us to sort of achieve to some extent a certain non-linearity in our margin profile.

With respect to the observation in terms of the margins I must tell you yes first quarter has been the best and like you rightly said it comes in the perspective of the inflationary headwinds being the most severe. We have in fact incurred expenses in first quarter also wage review across the board for the cash business so that is sort of already built in there. With respect to the maintenance expenses I think again over the last year and even this year deployed a significant capital to do a refresh of our fleet partly driven by compliance and partly driven by the fact that new vehicles help us achieve better efficiency and to some extent it has also helped us reduce the maintenance cost as well as reduce little bit of our hiring expenses so that is probably what you are seeing there.

Rajiv Kual: I think net net whatever improvements you see it takes a lot of effort on the ground by field teams to monitor and track. A lot of our internal automation which we do not sell to anyone else is really about running and improving how tightly we run our operations and to prevent any leakages. I think some of that benefit has been part of the reason why our margin profile is different compared to our competitors and how we try to maintain them and run the company.

Moderator: Thank you. The next question is from the line of Ravi Naredi from Naredi Investment. Please go ahead.

Ravi Naredi: Sir how much cash available in system by RBI and how much higher than last year?

Anush Raghavan: As of May or June the total currency in circulation by the RBI was INR 32 lakh crores which compared to March ending I think was INR 31 lakh crores so about an incremental INR 1 lakh crore or Rs. 1 trillion in circulation in this quarter.

Ravi Naredi: How we reduce the risk? Everything insured. If anything nuisance happened and our cash managed within Quarter 1?

Rajiv Kaul: I think the nature of business is the fact that there is risk and that is why we work with the banks and companies like us to manage the risk well. It is part and parcel of our cost I think from a revenue perspective almost 4% to 6% of the revenue is what goes towards our risk cost which could be theft, robbery, insurance, pilferages and what not. So, I think for keeping that tight and running that we have a large team we have almost 150 to 200 people across auditors and security advisors who are working across the country to keep these incidence under control.

Ravi Naredi: And this elevated net profit margin 15.2% in Quarter 1 will sustain in current year or maybe higher?

Rajiv Kaul: From our side what we guide towards is the fact that we have ambitious revenue growth goals which CAGR to an average of 18% CAGR we want to achieve. I think we should be able to maintain margins from as I said from FY21 to FY25 basis. Very different quarter by quarter exactly what will happen to margins, but we have done well I think last year we finished the year with 14.6% margins for the full year and PAT margins expanded from Q4 to Q1. We will try our best to maintain our profit levels.

Ravi Naredi: And this 18% growth we are hoping for next few years?

Rajiv Kaul: FY21 we were an INR 1,300 crores company roughly our target for FY25 is between INR 2,500 to 2,700 crores and if you take the mid number of INR 2,600 crore so that becomes a 2x in 4 years which is roughly 18% CAGR. In FY22 we had a 22% growth and I think from a guidance perspective I think that 18% CAGR from this base is what we would like to guide you towards.

Ravi Naredi: And last, CAPEX plan for current financial year?

Pankaj Khandelwal: In the last call we have given the sense that we are expecting Rs. 225 crore of CAPEX for the execution whatever orders in hand and we are in this quarter also in line with the investing according to that.

Moderator: Thank you. The next question is from the line of Jigar Valia from OHM Group. Please go ahead.

Jigar Valia: We would want to understand with regards to the employee cost and generally all the 20,000 plus including the drivers etcetera for the 4,000 vans these would all be on board or do we have contract staff as well and would want to understand typically on the attrition and normal staff inflation that you kind of generally see year-on-year?

Anush Raghavan: So, with respect to your first question typically we outsource the roles of drivers and security services. We have generally very few drivers and no security services on our payroll. We typically work through our partners or vendors for these services. So, those would be on contractual staffing. Rest of the team which handles the cash operations including the back office and the field would be in some cases on our payroll and in some cases we work with various staffing agencies.

You had a second question on attrition and inflation so yes I think if you sort of look at over the last few quarters the attritionary trends have been headwind for us as it has been for the industry and overall India. We sort of being trying to look at the overall numbers I think our attrition which used to be in the range of low 20s right now trending towards high 20 percentages. We have lot of HR team and people function working with different skilled development agencies to try and see how do we counter some of these attritionary measures and make sure. The focus is that to make sure that we continue to maintain high levels of serviceability, high up times and high quality of operations and so do not want to get that affected. So far we are keeping a high threshold on that. You had a question I think on the inflation aspect could you just detail that please?

Jigar Valia: I mean generally with this attrition or normally for the type of staff that you have typically what is the inflation that you kind of I mean in the past maybe going ahead these would be double digit inflation?

Anush Raghavan: No not double digit I think it is linked to multiple things it is linked to certain government wages and how they get revised I do not think there is a simplistic answer to how it gets done, but I think you should assume in typically it is in the range of about 5% to 7% inflation.

Jigar Valia: And including the contract staff what would be the total number of labor involved in the business?

Rajiv Kaul: We have overall roughly 23,000 team members.

Jigar Valia: So, this is including the outsourced?

Anush Raghavan: This is including employee associates, vendors.

Moderator: Thank you. The next question is from the line of Nirmal Bari from Sameeksha Capital Private Limited. Please go ahead.

Nirmal Bari: You had said that we have about 35% compliance at present and it would move to 65% by the end of the year, so if you can break it up between what is the level of network compliance and what is the level of compliance on cassette swap at present and where do we expect it by end of year?

Anush Raghavan: I think like Rajiv was mentioning on the call we think it is more appropriate to track this percentage and development on an annual basis than breaking it up down into quarter. Broadly when we say we would like to move from 35% as of last year end to 65% it will sort of happen in a smooth manner there is not really too much of lumpiness to this partly because there is a certain time of execution, buying the vehicle, getting the infrastructure and we are deploying them on the ground. So, it should sort of fall into that broad trend line. Again, when we referred to this compliance it is still more to do with the base RBI and MHA compliance.

On the cassette swap I think that is the project which generally is lagging behind the overall compliance given the fact the infrastructure requirement and upgrade needed by the banks in terms of some of the earlier procurement has a certain lead time. The RBI has given a mandate to all the banks that they should be completing this project by March 2023. So, many of these banks are in discussion with us and we think that implementation of the compliance should accelerate through this year.

Nirmal Bari: And would it be fair to assume that significant proportion of price increase that we are looking at from the compliance angle that would happen when this cassette swap compliance comes in?

Rajiv Kaul: No, I think the compliance is very complex. I do not think you can break it down to these numbers on a simple basis. Compliance has got network upgradation cost which is your vault, which is your vans, it is your security, it is also training. So, I think that we indicated in May that we were at a 50% compliance level by May as a company and we are trying to get to 70% - 80% compliance by end of this year. From a cassette swap perspective again if you take the specific of what would a cash management company earn on a cassette swap basis, forget the profit just as a revenue, I would think that on a blended basis everything you do for the ATM from cash management, compliance, cassette swap I think we will be roughly a 10% of the total revenue. From an overall compliance level it maybe a 20% - 25% of the revenue.

Now the banks need to invest, the banks need to source the cassette for the installed base of ATMs. So, I think that is where there are choke points or supply side constraints because India as I said is the world third largest ATM market, you cannot overnight go and start buying and have so many cassette landing up in the country. So, that sort of area which is only area which is going slow otherwise I think both from a regulator perspective and CMS as a largest coming sector I think we are moving along quite rapidly.

Nirmal Bari: My second question you said at the beginning of the call that it is important to look at the annuity revenue, so of the total revenue that we had how do you segregate annuity revenue for rest of the one-time product sales related revenue, what was it for the current quarter and the previous year itself?

Rajiv Kaul: At a management level, we have three levels of revenue we have product sale, we have annuity, we also have something we call recurring, but for the sake of simplicity and not confusing people, let us assume annuity is both annuity plus recurring. In FY22, of our overall revenue our annuity revenue would have been 92% of our revenues and that seasonally right now in Q1 is at 97%, but that is obviously product sales and automation, these are not seasonal, but they can get bunched up into certain quarters depending on order cycle, supply cycle, inflation cycles.

Nirmal Bari: The other question was on our Managed Services book, so now that we have executed almost 95% of the order book there, for the current year would the revenues kind of stagnate at the current quarterly level or if there would be growth what would be the figures for growth in that?

Rajiv Kaul: It is a good question, but let me just use your last question to help explain a little better of where we are and where we are coming from for the sake of knowledge for you and your other colleagues here. If I have to think back 5 to 6 years ago the product or the one-time revenue type business in our revenue may have been close to a 30% - 35% of our revenue. That is now down to a single-digit number. Now again we have nothing against that business, it just depends upon the volume of business and the margin profile. So, I think the idea is to make sure that we have more smoother annuity type revenue which is more predictable both from revenue and also from planning your network and cost and how you plan for growth. Second question on the order book before I go to the order book, I will again go back and say it, repeat it one more time, that our goal is on a four-year basis to achieve an 18% sort of revenue CAGR. If you take an 18% revenue CAGR as a goal for this year we have done x percentage of that for the first quarter and then therefore we have hope to grow at a particular rate roughly 4% every quarter-on-quarter to get to a number for our internal target for this year. So, probably obviously we are looking at that growth on a QoQ basis and therefore 18% on a YoY basis Q1 is very solid we have as I was telling other people in the day we still have 9 years period to finish. From an order book perspective we have from a current order book of INR 2,500 crores almost INR 1,900 crores is executed.

Now to your specific short term questions between last year to this year or this quarter I would say that you would see healthy growth because we started or execute the order book last year. We got some revenue recognition of that last year we will get a much larger one this year even next year we should see this grow very healthily, but this is at a point in time there are RFPs which are expected to come whether we win or lose we do not know, but depending on our win rate I think we should be able to our target again is to be able to keep growing our business at a 18% CAGR in the foreseeable future and that is how we would do last three to four months we have won RFP worth 250 crore already.

Moderator: Thank you. The next question is from the line of Amit Chandra from HDFC Securities. Please go ahead.

Amit Chandra: So, my question is more on the from the competition side so maybe if you can throw some light on what kind of competition we are seeing maybe in the Automation business or in the Managed Services or in the Cash Management particularly from companies like Hitachi, Euronet or AGS or SIS, so is there any increased competition that you are seeing in the market?

Rajiv Kaul: You know if you look at the overall industry you have given some of the names and these are leaders in their rights in respective industries. CMS is one of the more unique players which cuts across all the product lines whether it is Cash Management, Remote Monitoring, Managed Services, Automation or Software. So, we would maybe end up competing in some business types, but we would also be partner to many of these companies for some of the businesses they do. Is the competition increasing? I think competition in India for any business and sector is always very fair I do not think there is any dramatically new or lesser however I think if I think on a structurally basis what we have seen post demonetization and then GST and then COVID and now the higher interest rate regime there has been a share shift to stronger better quality players. There has also been consolidation in the sector between whether it is the MSP [Managed Services Provider] space or Cash Management space, there is some consolidation going there. We have seen the share of the top-two players increase steadily over the last couple of years, how that trend grew both in the future we do not know, but I think that is the global trend also because when you think of cash management you need large integrated companies which are able to cut across different product lines and are able to service the length and breadth of your country that is where the route dynamics and operating leverage and risk management comes into play. Do we see any new competitors right now? No, but companies have come and gone. I think CMS remains one of the largest and the strongest companies for the last decade in the sector.

Amit Chandra: Why I ask this question is because some of the competition specially in the cash management side have actually become your client because most of the Hitachi or FIS they are not doing cash management and they are mostly outsourcing and they are focusing more into Managed Services, so is that a trigger in terms of scaling up the Cash Management business?

Rajiv Kaul: We were the largest and the best cash management company in 2015, I think after that, that was not an aspiration anymore. Our goal was to simply say how do we increase our TAM [Total Addressable Market] again when we think of TAM our goal is to offer a high-quality service, earn fair margins and business scale. That is what we have done from our automation side where we are second largest OEM in the country. Today when you think of software we are the largest. When you think of remote monitoring, by the end of this year we will be the largest in the country. The only area where I have been very clear, to underline this in bold many times, is the Brown label business which is very capital intensive is something where we do not aspire to be number one that is why we do only 5,000 ATM. India may have 90,000 brown label ATMs we do only 5,000 of that and we may be go to 6,000 - 7,000 - 8,000 - 9,000 over the next three to four years we do not aspire to do 30,000 - 40,000 – 50s,000 ATMs.

So, from a perspective of, I think at the end of the day, in a market like India having more integrated offerings across the business is what makes sense because that is where we are able to deliver the most value to our customers, but we have also seen companies exist as specialist companies. They only do one product line in cash management and they have built scale. Now at what point will they sell out or sell or I do not who knows, but our approach has been to keep growing our TAM and line of services again also linked to what our customers want from us, what a Hitachi or a Euronet or an SBI or a Bank of Baroda wants from us is the way we are also trying to scale our business.

Amit Chandra: And sir in terms of more from macro perspective, because of UPI there is been push up for digital transaction do not you see that structurally the number of transactions for ATM is coming down and with the increase compliance and with the increased compliance cost do not you think there is structurally threat to the margins in this business especially on the BLA side?

Rajiv Kaul: I think this is the assumption we do not know, is cash growing lesser than UPI. Absolutely, is UPI taking over business from debit cards and credit cards and different payment wallets of course. However, this is not data based updated recently we will come out with this in the next couple of months when we look at the CMS Cash Index trends there is healthy growth of cash in our network across the country. I cannot compare ourselves to UPI when I look at cash and what CMS handles in cash management which is roughly 68% to 70% of our revenue because we have other business which is not linked to that. We do see healthy trend lines in semi-urban and rural where the growth levels are higher than metro and maybe urban and I think when I talk to industry players, I talk to bank Chairmen, I do not think they see that usage pattern in the majority of India changing dramatically over the short term it may change over the next 7 to 10 years and we do not know. Our goal as a team remains what - I remember when we have the management team came to CMS in 2009 we were predominantly an IT infrastructure player from where we morphed into a cash management company and now we have gone in technology solution and services. Our idea is to keep offering solutions to BFSI and retail and grow along with that. In fact we are seeing a very good pickup, as Anush talked about, very good usage or increase in cash volumes and retail specific sectors I think he highlighted in his talk and how do we bring solutions to them there will be an increase outsourcing from banks because banks are still not outsourcing a large part of their work. So, from an 8-year to 10-year perspective I think there is a fairly decent macro for reasonable growth for what we do today and as a team we have proven that we have been very agile in launching new services which is helping us grow the way we are.

Amit Chandra: My last question is on the cash management business. So in terms of the contracts that we have with the banks, so is it a long term contract or it is being revised yearly and is it based on around like per ATM with economic basis maybe you are charging per ATM per month basis or is it based on the number of refill, so how is the this in business structure there?

Rajiv Kaul: In the interest of time we are at 5 o'clock. I think this is disclosed in lot of detail in our RHP and DRHP documents because this will take us 10 minutes to explain to you across our business lines, but the contracts for Managed Services clearly run into multiyear recurring contracts. On the Cash Management side, we look at contracts more on annual or two year, three year basis because we want to have the flexibility to look at prices depending on inflation because the impact of both wages and fuel both upwards and downwards is significant in that business therefore we like to have a flexibility to look at pricing on an annual basis. Having said that our attrition of clients is almost as negligible as 0 and looking here a base of I know when we came here we were doing 4,000 or 5,000 ATMs, today we do more than 70,000 ATMs. I am just saying ATM, but retail and cash vans, all those metrics will also show a very good healthy growth.

Moderator: Thank you. The next question is from the line of Karan Bhanushali an Individual Investor. Please go ahead.

Karan Bhanushali: Congratulations on a good set of numbers. Your margins have improved year-on-year I wanted to ask if these can improve further?

Rajiv Kaul: I think from a margin perspective we are quite happy with the way our margins have been tracking last year and current quarter. As I have guided our investors over preceding calls we as a team think the opportunity after the whole COVID era and the consolidation in India before points us to larger share of revenues in the broader ecosystem we play in. We are quite focused on making sure that we increase our revenue market share in the industry, how we manage margins and as a management team managing revenue growth, profitability, profit margins. Market share is something which we have to be agile at every quarter and I think we will have to think of what we need to do from a longer term of the business interest of business rather than worry about short term measures. As of now yes they should, but it is not something which we would have any visibility, or we could give you some guidance on right now the market is fairly dynamic.

Karan Bhanushali: Can you also talk about your inorganic growth plan?

Rajiv Kaul: So, our inorganic growth proof point in the last 7 years - 8 years is that where we tried to do smaller acquisitions mostly to acquire new capability or enter into new segments. If there is something strategic in our core businesses we are open to acquisitions, however, we have done a one or two of them, but however they are usually a big gap in the value of what we think we would like to pay and what a seller may want especially from a company like us because when they start talking to us, they started looking at our numbers, our margins and starting extrapolating that. So, it is not been an easy dynamic for us we also do thing that we need to go and grab companies and buy them because I think we are able to grow our business organically and we rather invest our capital behind businesses which we have order or contract where we have far more clarity control and recurring nature. I think that is the business opportunity we are seeing and that is the order book we have built that is where we are deploying our capital. Having said that something strategic comes up at the right price and we can maintain our capital allocation we are obviously looking at it. Our current energies are going into non cash management, non managed services, into more asset light technology-oriented business where we can use either minority or majority investment to launch or try out new businesses.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Rajiv Kaul: I think I had already closed the commentary initially, but just to summarize thank you so much for your time and patience. Thank you for your journey with us as investors. We feel environment is exciting at the same time there are challenges as we explained. Our focus is head down, focus on strong execution, continue to improve quality of service for our clients so that we become we have a very good mood on our business and use FY23 to start piloting new business ideas which can become a bedrock for growth from the FY25 onwards. Thank you and have a good evening.

Moderator: Thank you. On behalf of PhillipCapital that concludes this conference. Thank you for joining us and you may now disconnect your lines.