November 10, 2023

To, **BSE Limited,** Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai – 400001 **BSE Scrip Code: 543451**	To, **National Stock Exchange of India Limited,** Exchange Plaza, Bandra Kurla Complex, Bandra (East), Mumbai - 400051 **NSE Scrip Symbol: AGSTRA**

Ref: Intimation under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Sub: Transcript of Earnings Conference Call held on November 6, 2023

Dear Sir,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed, transcript of the earnings conference call held on Monday, November 6, 2023, post declaration of the unaudited financial results (standalone and consolidated) for the quarter and half year ended September 30, 2023.

The above information will also be made available on the website of the Company at www.agsindia.com

This is for your information and record.

Thanking You,
For AGS Transact Technologies Limited

SNEHA PRABHAKAR KADAM
Digitally signed by SNEHA PRABHAKAR KADAM
Date: 2023.11.10 21:42:19 +05'30'

Sneha Kadam
Company Secretary and Compliance Officer
(Mem No: ACS31215)

Enclosure: As above

"AGS Transact Technologies Limited
Q2 and H1 FY24 Earnings Conference Call"
November 06, 2023

Disclaimer: E&OE. This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on November 6th, 2023, will prevail

MANAGEMENT:	**MR. RAVI B. GOYAL – CHAIRMAN AND MANAGING DIRECTOR – AGS TRANSACT TECHNOLOGIES LIMITED** **MR. STANLEY JOHNSON – EXECUTIVE DIRECTOR – AGS TRANSACT TECHNOLOGIES LIMITED** **MR. VINAYAK GOYAL – EXECUTIVE DIRECTOR – AGS TRANSACT TECHNOLOGIES LIMITED** **MR. SAURABH LAL – CHIEF FINANCIAL OFFICER – AGS TRANSACT TECHNOLOGIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the AGS Transact Technologies Limited Q2 and H1 FY '24 Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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

I now hand the conference over to Mr. Ravi Goyal, Chairman and Managing Director, AGS Transact Technologies Limited. Thank you and over to you, sir.

Ravi Goyal: Good afternoon, everyone. A very warm welcome to each one of you and thank you for joining our Q2 and H1 FY24 Earnings Call. On this call, I am joined by our CFO, Mr. Saurabh Lal, Executive Director, Mr. Vinayak Goyal, and Executive Director, Mr. Stanley Johnson. The Indian economy is growing rapidly and with it, the demand for financial services. It is crucial that technological advancements evolve in a responsible manner and are truly beneficial to the people at large. These developments come about as a combined effect of digital public infrastructure, institutional arrangements, and policy initiatives.

They help foster a conducive environment for nurturing creative ideas and promoting transformative technologies, which lead to beneficial and impactful changes in the financial industry. We at AGS Transact are at the heart of these changes in the ecosystem, with forays into traditional cash management as well as digital payments via our PPI license and ongoing framework. The currency in circulation stands at INR33 trillion as of 30th September 2023. It is projected to reach INR35.5 trillion by the end of 2024.

On the digital payment front, UPI continues to make waves globally. Over 11 billion transactions worth INR17.16 lakh crores took place via UPI in India in October 2023. The reason for this sustainable growth and the driver going forward is the growth in person-to-merchant transactions. The growth of open-loop prepaid cards, which provide an increased level of convenience for customers as a whole, is one of the most emerging trends that we have seen. An industry study indicated that the Indian prepaid card market was likely to witness a compounded annual growth rate of 40.5% between the years 2021 and 2026, and the trend is already visible in the country.

This is primarily due to the increase in internet and smartphone usage, as well as the robust growth in the e-commerce sector. Offline payments for multimodal travel are now made possible through the use of the National Common Mobility Card or NCMC, which is backed by the RuPay platforms. Commuters can now use these for making payments across metro stations in the country, and soon for other modes such as bus, suburban railroads, smart city, retail, toll and parking.

As of today, more than 23,000 NCMC cards powered by AGS Transact have been issued for Bangalore Metro Rail Corporation.

Coming to the ATM business specifically, several leading private and public sector banks are expanding their bank branches. This is a very healthy sign for the industry, as every branch requires at least one on-site ATM and about two off-site ATMs and with our pan-India presence, it augurs well for us to capture this growth momentum.

Further, during H1 FY '24, we have seen total RFPss of 41,400+ ATMs and CRMs, and we are confident that demand will continue in coming quarters. Cash Recycling Machines, or CRMs, are w2 strong favour with all the leading banks and are being adopted widely. This can be seen even in our operational metrics, wherein CRMs under our management have grown from over 4,000, two quarters back to 8,247. We are confident that the rapid adoption and transition to CRMs will continue.

The cash management market, which includes ATM cash management, retail cash management and dedicated cash-in-transit vans, amounted to INR 3,920 crores in 2023. Encouragingly, research indicates that this market is set to expand significantly, reaching INR 7,900 crores by 2027, presenting potential growth opportunities.

From a company standpoint, we are focused on further streamlining our overall business operations and services. We had a flat performance last year, going through multiple challenges in the macro environment, slower uptake of some initiatives, spillover of our order book and some loss allowances. Strategically, we are focused on improving our business line efficiencies and effectiveness.

Last quarter, we announced that we have received authorization from the RBI to issue co-branded prepaid cards in collaboration with our partners. We remain focused on enhancing customer experience across our payment points through our offerings such as Ongo POS and open-loop prepaid cards, etc..

Overall, in Q2 FY '24, we serviced approximately 4,86,453 customer touchpoints across 2,200 cities and towns in India during this quarter. We provided cash management services to more than 40,152 ATMs and CRMs through our wholly owned subsidiary, Secure value India. As on 30, September 2023, AGS Transact Technologies has installed, maintained and managed a network of approximately 77,685 ATMs and CRMs. Our CRM network has expanded to 8,247. Our ATM outsourcing and managed service business complements cash management business, which is housed in our stand-alone entity.

I am pleased to share that we have completed the integration of all the 8,000 ATMs and CRMs won recently and they are expected to add to our revenues and provide us scale benefits in the coming quarters. This is testament to our timely and efficient execution capabilities, which will augur meaningful benefits to the company going forward.

We are optimistic about securing additional contracts to expand our portfolio, which will in turn also provide synergy benefits for our cash management business. Cash management industry, which is driven by ATM roll-outs, is expected to grow at 4% CAGR, especially as leading banks are stepping up their roll-outs.

Another factor is the growing demand for outsourcing as banks look to focus on their other core and profitable operations. The proportion of ATMs/CRMs being outsourced for cash management is expected to increase to 70% to 75% in the medium term. Since cash logistics is a high operating leverage business which favours scaled players, it is very positive for a player of our size and scale.

Talking about our sales mix for the quarter, the ATM outsourcing business, which is on a transaction or fixed fee basis, contributed approximately 52% of our quarterly top line. Another 12% of the top line came from AMC services and updates. Our cash management subsidiary Securevalue India, which serves a mix of captive and non-captive ATMs, contributed 14% of the top line from the non-captive ATMs.

In line with what I have mentioned above, we have scaled down our low margin product business. As a consequence of that, our service revenue has inched up by 3% year-on-year, a depiction of our gradually changing revenue mix and in line with our strategy. For Q2 FY ‘24, service revenue accounted for approximately 98%.

From a way forward perspective, we see ourselves continuously expanding our ATM and CRM network on the back of the RFPs being floated in the industry, the cash management business and building upon the NCMCs powered by AGS Transact, in line with our objective to pivot from payments as a service to payments as a convenience.

Now I would request my colleague Saurabh Lal, CFO of AGS Transact Technologies, to share the financial highlights of the quarter and half year gone by. Saurabh, over to you.

Saurabh Lal: Thank you Ravi. Good afternoon everyone. Continuing from the operational highlights and major developments that happened over the quarter and half year gone by, I would like to take you through the financial performance of the company.

In Q2 FY '24, the total income of the group stood at Rs. 3,886 million versus Rs. 4,206 million in Q2 FY '23. The reduction in top line is the consequence of scaling down of our product business, which was functional in the corresponding period last year. However, in connection with this, we have also observed a simultaneous reduction in various associated costs also, which has helped us to become more efficient in our operations.

Sequentially, the top line grew by 2% from Rs. 3,794 million in Q1 FY '24, despite phasing out certain business lines that we have discussed. Talking about our EBITDA number, the adjusted EBITDA for the group in Q2 FY '24 stood at Rs. 938 million as against Rs. 1,235 million in Q2 FY '23. The corresponding figures for Q1 FY '24 stood at Rs. 1,030 million.

The adjusted EBITDA margin for Q2 FY '24 stood at around 24.1% as against 29.4% in Q2 FY '23 and 27.1% in Q1 FY '24. Similarly, the numbers for H1 FY '24 are stacked as follows. The revenue for this semi-annual period stands at Rs. 7,477 million versus Rs. 8,311 million in H1 FY '23.

The EBITDA stands at Rs. 1,110 million in H1 FY '24 against the corresponding H1 FY '23 figure of Rs. 2,383 million. Coming to the adjusted EBITDA, the figure for H1 FY '24 is Rs. 1,968 million versus Rs. 2,505 million in H1 FY '23. During this semi-annual period, we have taken some provisions towards the Rs. 450 million worth of receivables that had been accumulated over a period of time.

We have also made a provision of about Rs. 395 million towards commitment fee which we are hopeful of reversing in next few quarters, subject to successful negotiations which are underway. If this charge gets reversed in subsequent quarters, we will have a quarterly charge of around Rs. 60 million per quarter for the next two years. As we have been highlighting over the past two quarters, we have been scaling down some of our business lines as a result of which certain direct costs have reduced and certain indirect costs are expected to get pruned in the subsequent quarters as well.

Our finance costs have stayed flat sequentially and stand at Rs. 367 million as against Rs. 367 million in Q1 FY '24. Our net debt stood at Rs. 6,479 million at the end of H1 FY '24 as against Rs. 6,769 million as at the beginning of this financial year. From profit after tax perspective, we recorded a loss of Rs. 609 million in Q2 FY '24 as against profit of Rs. 207 million in Q2 FY '23.

Talking about our segmental performance for the quarter, our payment solution business contributed 87% of our revenue in H1 FY '24. This segment includes cash solution segment accounting for 68% of total revenue. This covers ATM and CRM outsourcing and managed services and cash management business also.

The growth is largely driven by expansion in all these business networks. The cash management solution segment will grow in line of with ATM outsourcing which is already captured in ATM outsourcing growth. Currently, we are the second largest player in the market. We leverage this as the market is looking for strong compliant players. The digital solution contributed 19% to our total revenue. This includes revenue from POS machines, switching transactions and transit solutions also.

We are aiming to leverage our PPI license and ongo digital strategies as we go forward. Our banking automation solution comprises of sales of ATM/CRM and other currency technology products, self-service terminals and their upgrades and AMCs. This segment contributes 11% of our total revenue.

Lastly, the other automation solution business segment which encompasses sales of machines and other related services to customers in retail, petroleum and color segment contributed 2% of our total revenue.

With this, we conclude our presentation and open the floor for further discussion. Thank you.

Moderator: Thank you sir. We will now begin the question-and-answer session. The first question is from the line of Mr. Darshit from Robo Capital. Please go ahead, sir.

Darshit: Good afternoon. Thanks for taking my question. So, first of all, I needed POS and SVIL revenues for Q2?

Saurabh Lal: Okay. Darshit, you can go ahead with the other question.

Darshit: Okay, got it. So, my second question is, on a reported basis, our EBITDA in the range of 24%-25%, how it has been for some time Do we see that happening from Q3 or are there any provisions yet to be taken apart from what you have already specified?

Saurabh Lal: Sure. So, Darshit, I will go one by one. So, from the POS revenue basis and on the digital revenue which you see is constituting around 19% of total revenue. Out of this, 19% represents in the value terms is around Rs. 761 million. In this Rs. 761 million, the POS revenue is Rs. 468 million and the balance of the revenue comes from other digital solutions which is transit solutions and mostly from the transit solutions and other switching businesses which stands as Rs. 293 million.

So, total revenue for POS is Rs. 761 million for this quarter. On the secure value side, the cash management business, the revenue for this quarter is Rs. 511 million. This is the net revenue after removing AGS as a related party transaction. The gross revenue for securevalue is at Rs. 1,116 million.

Now, coming to the second part Darshit with respect to the EBITDA margin. If you see, the overall from the company's standpoint of view, the adjusted EBITDA margin of the company is varying between the range 25%, 26%, 27% we have seen the highest of 29.9% also in the previous quarters as well. But considering those sectors and the various business that we have scaling down a period of time which we have started doing in last one year specifically where we are scaling now certain other automation businesses.

Now, the revenue has definitely scaled down immediately but there are certain costs which we have already started reducing and started pruning. But there are certain costs I would say for which the benefit is yet to come to us. So, I think within the next one quarter or two quarters, we will see more benefit coming from the costs which are directly associated with the businesses which we have already scaled down or have already moved to the next, closer stage.

So, some benefits are yet to come. So, as soon as we see those benefits, there will be definitely increase in the certain percentage of basis to the company's performance. Otherwise, from a business perspective, the EBITDA percentage we expect and continue to see that this should stay in this zone only.

Darshit: Okay. So, in the 24%-25% range, it can stay, going forward?

Saurabh Lal: Yes, that's true. Okay.

Darshit: And secondly, what would be your gross debt levels for the next two years if you can give some color on that?

Saurabh Lal: So, Darshit on our debt side, we have been keeping a very, very close eye and tap on those debts also. We have definitely, there is no specific metric but as an organization, as a company, we maintain certain internal metrics so that we can keep on monitoring our debt either as a percentage of revenue, as a percentage of net worth, as a percentage of EBITDA. Definitely, those factors are taken into account.

But if you see our debt, we have a majority of our debt is into term loan debt and certain portion of the debt into working capital debt. And we have a case of term debt. Definitely, there is a scheduled repayment plan which will go for next one year and two years down the line.

So, if the companies continue to generate a similar kind of cash flows that we have been generating from the past or with the expected percentage of EBITDA that we are going to generate in the next quarter or maybe a couple of years, we believe we will be able to keep on paying those debt from internal accruals. Having said that, if we see an opportunity coming up in the future to deploy more ATMs, to deploy more growth, to deploy more other businesses, so definitely, company would look for all the options to raise this capital, maybe in the form of debt or some other financial options available to the company.

Darshit: Okay, so then we might have some more idea going forward in the next two, three quarters, not as of now?

Saurabh Lal: Correct.

Darshit: Okay, and my final question, any revenue and EBITDA/PAT guidance for the next two, three years? I mean, any key drivers do we have and what are we expecting?

Saurabh Lal: So, as we speak Darshit, most of our revenue is into a service-based revenue. So, that gives most of us as a company to predict our revenues in the form of that how much service revenue constitute our business because most of the revenues that we get in this business are mostly linked to the contract which are long-term in nature. So, from that perspective, we have always been confident that this is the amount, percentage of revenue, this is the amount of revenue which we can definitely forecast for next year or so.

Having said that, definitely, there are always an opportunity to grow the businesses, to add more line of businesses. As Ravi has also mentioned, the strategy is very clear to grow ATMs, CRM business, cash business, to build more businesses on this line of NCMC card and the Ongo issuance card and everything. But going with a very specific guidance, it will be very tough for us, but I think the company is working closely and monitoring all their business lines and ensuring that we should be able to deliver to the best and considering our position in the market, whether it's an ATM business, cash business, we continue to be a leader.

We would like to grab the opportunity which is available in the market so that we are also growing as banks are growing and other institutions are growing.

Darshit: Okay, but any ballpark figure also, I don't need your specific guidance, just some kind of metric that you said, let's say 15%-20% growth that you are aiming for, something like that?

Saurabh Lal: So, Darshit, if you see our financial performance for last two years, three years, which Ravi also mentioned, it continues, it stays flattish and in last one year, we have taken certain calls, where we have scaled up certain operations also. So, even though on a business perspective, the company continues to have very strong contracts with them for one business line, but we continue to take calls on certain businesses which is not generating profit as the businesses are growing. The business has become very, very, I would say, commodity in nature and everything.

So, from a growth perspective, I think the more important factor, which I'll explain, I think we're trying to maintain a sustainable EBITDA margin so that the company is able to generate sufficient cash flows for whether it's a repayment of debt, whether it's a growth capital, whether it's an investment in capital and whatever capital is available, whatever profit is available, they can be distributed and shared with all the stakeholders.

Darshit: Okay, thank you and all the best.

Saurabh Lal: Thank you, thank you, Darshit.

Moderator: The next question is from the line of Ms. Ruchi Gupta from Valpreet Con. Please go ahead.

Ruchi Gupta: Sir, could you please provide some clarity on our card service business from the total addressable market point of view and therein, also scope of growth and potential to capture the same?

Saurabh Lal: Sure, Ruchi. So, Ruchi, in case of card service business, definitely, as you said, our strategy is to go on the Ongo business, which is basically the issuance of the card businesses, where what we're saying is that we are providing a new platform, which is called NCMC-based platform, which is called National Common Mobility Card Business. So, that addressable market, as of now, there are multi-folds, as we mentioned.

So, there are two business lines that can happen. One is definitely, as we already have a PPI license from RBI, where we are issuing this card, which can be used by you, me, or anybody else as a person. But our special focus is to build a business model, where we can definitely create a very, very specific use case or niche use case, which we have done as a first of the kind, you can say, where we have launched this card in partnership with Bangalore Metro and the RBL Bank also, where we are issuing this card. And this card will have a very specific use case to be used for a metro travel in Bangalore Metro. So, that is where the focus is. So, with this network, as this business is growing, we'll definitely, as we mentioned, right now, we have only said, we have only 23,000 cards. But just to give you a number perspective, Bangalore Metro is a very old metro, has a very, very large customer base of people who travel and frequently travel. The numbers are in millions. So, definitely, this network of card and getting it from the core to open up a new option for us. And as we grow in the market, and as we believe that over a period of time, most of the metros in the country will definitely, should always explore the option of getting into NCMC-based platform, which will become a very convenient from the consumer perspective by taking a one card, and that card can be used all over the country.

So, I see that the opportunity is to be very manifold. So, the current number, if I give you any current number, that number may not be valid, maybe after three months, six months, nine months, because most of the metros, I think, are exploring or would be exploring as and when they're going to change or upgrade their infrastructure, especially from the payment perspective.

Ruchi Gupta: Sir, another question is, our CRM count is going up steadily. So, just wanted to understand, are these new CRM machines or we are replacing existing ATMs and placing the CRM machine in their place? Currently, we have 8000 plus CRMs right now? So, how many do we see getting added to our portfolio in next three to five years?

Saurabh Lal: Ruchi, specifically yes. So, you are absolutely correct. Most of the banks, whenever they are going for either new ATMs or new branch networks or new expansion of the offsite ATMs or even for the replacement or renewal of their contracts, so most of the banks are exploring the option of putting up the CRMs at the branch network.

We service two types of customers. One is the definitely new ATM that we are deploying from branch operations. And second, wherever we are taking over the ATMs, CRMs from the banks. So, as we speak, I think most of the banks over a period of time, maybe next one or two years, as you rightly said, will definitely explore the options for both deploying of the CRM at the branch level and replacing the existing ATM network with the CRM network.

And that is what is witnessed by us also and I think witnessed by the market also, both the levels, that the future will definitely be CRM because CRM once gets enabled at the branch level on the full functionality level, performs both the activities. It performs the withdrawal facility also and it gives the option of depositing and immediate instant credit to the customer.

So, we believe over a period of time, I think banks will always or will consider the options of putting up a CRM at the branch level which gives them the 24/7 availability of the ATMs as earlier it was and additional facility of depositing everything in a seamless, I would say automated manner for the banks also.

So, I think we see a good future and that is where we are also focusing up to put more and more CRMs and the process and NPCI is also fully geared up where they offer the complete seamless end-to-end reconciliation of all the deposit transactions. Ruchi, are you there?

Ruchi: Yes, thank you. That's helpful. All the best for coming quarters.

Saurabh Lal: Thank you, Ruchi.

Moderator: Thank you. The next question is from the line of Mr. Parth Vasani from KK Advisors LLP. Please go ahead.

Parth Vasani: So, my question was on the order book side. Could you please help us with the total order book detail? I mean, while we understand that the order wins have arised in the quarter, it would be helpful to understand the magnitude of the business won and the business on hand at a given point in time. Also, how much has been already executed so far?

Saurabh Lal: Sure. Parth, from the order book perspective, as we mentioned, our business is largely service-based business where we have consistent long-term contracts running with the banks. So, as we close the quarter or close the half-year or maybe the annual accounts, we always know the visibility what is going to approximate revenue for us in the subsequent quarters and subsequent future periods and everything. So, our deployment strategy is to keep on to deploy all these machines for the banks.

From the order book perspective, I think that the number will be very different from what you see on the growth side because, as we said, we are deploying the ATMs, we are deploying the CRMs, we are adding those CRMs on the bank network. If you see our current speech also, we have just completed over 8,000 deployments of ATMs/CRMs for UBI and PNB banks. So, this contract was awarded to us in the last to last quarter and it took some time for us quarterly.

So, as such, from the RFP perspective, PSU perspective, it is very difficult to predict what is going to be the exact order book. From the private sector bank wise, we keep on getting running orders from them in the form of new ATMs, deployment of ATMs, replacement of ATMs. So, as we are already a very, very dominant player in the market, we continue to get those shares from the existing banks also and whenever any other new PSU's banks or any other PSU's banks goes for a new order book in the market or new replacement or new deployment, they usually follow the concept of RFP based process where we definitely participate.

So, from a service revenue base, we have -- as we close the quarter, we know what is going to be in the next quarter venue. We know the ATM base, we know the CRM base. Incremental number will keep on adding. So, it will be very difficult for me to give you any specific order book that we have in hand unless provided we have the -- like in last quarter, we could have said that UBI, PNB was deployed 50% and 50% was deployed in this quarter. So, this is the way you can track the order book status of the company.

Parth Vasani: Sure, sir. Got it. That was helpful. Sir, my next question was on the cash logistic business. Would it be possible for you to give a breakup like how much is ATM, how much is non-ATM and also historical proportion and trend would also be helpful?

Saurabh Lal: So, Parth. As of now, it will be difficult to distribute but yes, largely if you see our revenue is coming from the ATM business and there are certain percentage of revenue that comes from the non-ATM business. Approximately number I will able to share, Parth, we can take your details and everything and will ask Shikha or any other team member to share with you exact details that what is the split, but largely, our focus, since it was a subsidiary company of AGS, and created to give the captives support first. So, we focused on setting up the network which can support the ATM network of AGS as a primary source of revenue.

Over a period of time, now we expanded and almost 50%-plus revenue comes from the non-AGS customer also. But at the same time, we are expanding our business reach into various non-ATM based revenues also where we get the form of revenue in the form of dedicated cash vans, where we get revenue in the form of doorstep banking and certain other transportation of other valuables and other things. But yes, to be very specific, Parth, we will definitely come back to you and give you the detailed breakup that how much is the ATM and how much is the non-ATM.

Parth Vasani: Okay, sir. Okay. So, yes, that is it from my side. Thank you very much and Happy Diwali.

Saurabh Lal: Thanks. Thanks, Parth.

Moderator: Thank you. The next question is from the line of Ms. Jiya Shah from Wealth Securities Incorporated. Please go ahead.

Jiya Shah: So, in our presentation, we have mentioned that we have taken a provision of about Rs. 395 million for one-time commitment and we expect that to be reversed. Would you throw some light on this development, please?

Saurabh Lal: Sure, Jiya. As you rightly said, we have taken certain one-time commitment charge on the P&L. I just take you the background that there are couple of businesses that AGS do. Definitely, ATM outsourcing is one of the main core business of theirs. But we also do lot of other payment solution services. Out of these payment solutions, some business comes from the PoS, some business comes from transit and some of the business comes from various other payment solutions that we do.

So, for that payment solutions, we have a partnership, I would say approach or an agreement with one of the very large global player with whom we have entered into agreement 7 to 8 years back. And that agreement has certain minimum commitments from the parties, from both the sides, where both the parties will try to sell this product in the market and make some and end of the day, offer this solution to the market. Now, that contract is at the end of the expiry. This contract is still has not finalized, been renewed and everything.

So, since the negotiations between both the parties were still going on and there is certain minimum commitment that has to be closed over a period of time and since we have already reached into the expiry of this contract. So, we discussed this with internally with the board also and the auditor also and we thought, let's take this provision for the time-being.

As the negotiations are in the way forward, as it gets closed and gets finalized and cleared, we may have option of that, we can take this reversal of the provision that we have taken. But yes, as of today, since there was a commitment as per the agreement terms, we thought that it will be prudent or conservative on our part, let's take this provision. And as we see, this contract is getting finalized, streamlined and closed, renewed or whatever way we go forward, we may see a reversal of this cost and then there will be some cost will come as a new revised agreement terms.

Jiya Shah: Okay, so just a follow up on that, so how sure are we about this contract going through and how will our full numbers look like if this provision is rolled back?

Saurabh Lal: So, since as we said, this is one of the business strategies that we have, we are definitely working on to come out with a solution which is win-win for both the parties that we do. Both the parties have invested good amount of time, a period of 7-8 years, we have built the relationship with the customers. So, we are confident that it should sail through, but yes, since it has not been finalized, the ball remains, I would say the opportunity remains or option remains open for both the parties.

But yes, once it gets closed and finalized, we may see a good amount getting reversed and then some would go as charged over a period of time. So, as of now, what we see that there will be a reversal possibility of the amount that we mentioned and there is a charge that is expected to get to the P&L over a period of next 2 years.

Jiya Shah: Okay, just a last question. Our net debt stands at about Rs. 650 crores. What is our debt repayment strategy going forward and what is the steady state level of debt we look to maintain say 2-3 years down the road?

Saurabh Lal: So, Jiya if you see, rightly said that net debt strategy of the company is to maintain the debt within the certain internal covenants, may be net worth to the debt, may be EBITDA to the debt level. And specifically, we see that most of the debt that we have raised in the books over a period of time is largely linked to the capex (long trem) which the company has taken. May be to fund the capex of the contract or may be to fund the future receivables of the contract, there is a mix of debt and some portion of the debt lies in the working capital.

So, as we go forward, since there is a term debt that we have taken which has a scheduled repayment plan, we continue to believe that keep on paying those repayments when they fall due. And this payment will definitely help us to de-leverage ourselves as every quarter on quarter, every month on month basis. And we believe that this debt level that we are, will be a percentage of, I would say EBITDA and percentage of net worth rather than putting absolute number to it.

I think that is what we target to internally maintain. And in next 2 to 3 years, if the company continues to generate this much value of EBITDA and continues to, as I said in the previous question also, that there will be a scheduled repayment which we keep on reducing unless and until we see an opportunity coming up in the future which ask or give us the option to explore some of the options which can be funded through any of the financial institution loan or debt or anything.

But yes, the moment we say we have an opportunity in the market, I am sure those opportunity will give us the new revenues, new EBITDA, new margins and a sufficient cash flow to take care of the additional debt that we want to take in case there are any opportunity that comes.

Moderator: The next question is from the line of Mr. Rahil Shah from Crown Capital Partners, Inc. Please go ahead, sir.

Rahil Shah: Hello sir. Good afternoon. So, you mentioned that you have a certain visibility when it comes to the contracts you have from the banks, right?

Saurabh Lal: Correct.

Rahil Shah: Keeping that in mind, so the last two quarters, quarter-on-quarter basis have been flattish, June quarter to September quarter. But now for the remaining part of the year, what kind of visibility do you have? Do you see a year-on-year growth for the quarters ahead or are they still likely to be flattish? So, just a general sense, how the business will be for the rest of the year?

Saurabh Lal: Sure. So, Rahil, as you said, we also covered the quarter-on-quarter and our half-year, half-yearly we saw certain flattish growth. It is primarily if you see there are three focus areas for which the organization is right now working and ensuring that all that energy goes into that business.

One is the ATM outsourcing/ CRM outsourcing business. Second is the cash management business. And third one is the digital payment opportunity where we are exploring and putting up our best foot forward in the form of issuance of cards to Bangalore Metro and we got, Ravi also mentioned that, we got approval from RBI for co-branding card and everything. As we move forward, we will see some good news in the market going forward basis. So, these three businesses is where we are going to put focus on that.

Over a period of time, if you see the revenue has actually gone down to some percentage over a period of time. But it is again as a strategy of the company, we are already moving slowly on this phasing out certain businesses that we had in the past, be it the other automation businesses or may be other product businesses where we are moving on. So, you may or may not able to see the actual growth in the revenue as we keep on continuing to descale on those side of businesses, but as we said, the focus is on these three business line of businesses where we are constantly focusing to grow those businesses. So, on overall basis, there is a possibility that or there may be you not able to see the major growth. But the revenue mix as you see which used to be 70% of the service revenue over four years back is now reached to 98% level, which we said.

So, this is the mix which we are working on. The more important factor for all of us internally, me, Ravi, Stanley, Vinayak, Shailesh, everyone in the management who is working on is to build up the good profitable business model which can generate a sustainable long term EBITDA. So, that is where right now the focus is.

Yes, the growth has to also keep in mind. But growth what we are targeting is to coming from the either to get more scale of businesses from the existing business or to go for a contract where we see a good profitability that can act as a compliment to the existing business line of the company. So, that is what the strategy is.

But yes, you may have to wait for another couple of quarters to see that where the business are going in and then it will be more confident and comfortable from our side to share with you any specific growth number on the revenue side.

Rahil Shah: Yes, sir, that's what I wanted to ask. So, let's say near term we don't see any kind of growth. But now, since you are focusing on these three verticals, do you have a certain timeline in mind by when these will reach an optimum level and then will start contributing heavily and help the business grow. So, that's what I want to understand. So, right now you are working on these strategies but by when will they reach a certain level that you will be confident that, okay, now growth will be seen?

Saurabh Lal: So, as a company, as I said, we have a distinct running contracts with the customers where we keep on, which we know that these businesses will continue to give this much value of expected revenue to us. So, that strategy continues to grow. The additional revenues and everything, again that the growth can, I would say the company's performance can be measured through two parameters.

One, definitely revenue growth of everything. Second is how is the profitability of the company is improving. So, if the revenue growth takes some time because of the right contract or right mix of the revenue, the company is working very heavily to ensure that we have a right cost mix also along with that, so that the margin should not get suffered except for these few exception items which we have seen in the last couple of quarters.

Otherwise, the business continues to generate a sufficient amount of cash and we've seen various heads of which you have got opportunity to study our balance sheet in the last two years, three years. There are specific heads like manpower cost, sub-contracting cost, other expenses, certain specific heads. We have actually worked on very heavily to ensure that, we have a right optimized size of all those costs corresponding to our revenue.

So, that is what the strategy is, but to give you a very specific answer, the management knows this business very well. We've been running this two-three business, specifically ATM, CRM, cash management for, I would say, more than a decade now. I think the focus is to grow that business, especially like cash management businesses, where there are very few players in the market who can handle this size of scale.

So, as one of the questions also came in between that most of our revenue comes only from cash management business in the ATM, what about the other segment which is also expanding in the market? So, we are putting very much focus on to expand other – I would not say territory, but yes, it's a complementary business to us to add to ATM network because the ATM network or cash management network works on a very specific route profitability model which needs economies of scale to make it a very, very profitable or a good consistent profitable business.

So, I think this is where the strategies are going on. The business continues to be very strong, but on a growth perspective, I think maybe next quarter or maybe by year end we'll be able to give you more detail, Rahil.

Rahil Shah: Okay, so it's safe to say that you are focusing right now on profitability and maintaining the margin levels. Growth will come when a certain scale is achieved for the strategies. I think that's safe to assume?

Saurabh Lal: Yes.

Rahil Shah: Okay, so thank you for explaining and all the best.

Saurabh Lal: Thank you, Rahil. Thank you.

Moderator: Thank you. The next question is from the line of Mr. Vinod Chandra Agarwal, an individual investor. Please go ahead, sir.

Vinod Agarwal: Thank you for the opportunity, sir. Sir, I have two questions. One is about interest cost. So, if I heard correctly, we have a gross debt of around Rs. 750 crores. On that on an annualised basis, we are paying around Rs. 150 crores as an interest cost, which comes to be around 20% per annum as an interest cost. When I was looking at the annual report, our long-term debt is at 11%. So, can you just help me to reconcile this interest cost?

And the second question I have is about lease liability. I just want to understand how exactly this lease works and how it becomes a liability as a lease? Because as an individual, what I understand is when we take a lease from a property, we give them an advance for the whole, let's say, five-year lease. And then, for five years, we don't pay a rent, and after five years, we get that deposit back. But how it works in our business case, if you can help me to understand that, it will be helpful? Thank you, sir.

Saurabh Lal: Sure. Sure, Mr. Vinod. Thank you, Mr. Vinod. Mr. Vinod, I'll start with the lease liability question first, and then automatically it will lead to the interest also. So, if you see, we have a very, very large business called ATM outsourcing business. In this ATM outsourcing business, we take various premises on lease. So, those premises on lease, basically the places where we put the ATM, where we put our CRMs on rent and everything, basically on the rent which is taken.

So, as per the Ind AS 116, Ind AS 116 says that in case you have taken any such premise on lease or any other asset on lease also, if those assets are used primarily by you only, nobody else can use, and that constitutes for long tenure of the period, running into five years, seven years, eight years, nine years, 10 years also. So, what the Ind AS 116 says that you have to take a provision in the form of that, what is the future expected rent payment that you're going to do.

You discount that as per the cost of borrowing today. For example, let's suppose 10%, 11%, that's okay. For example, if I've taken one site on lease which has a rent of Rs. 10,000 per month, and if I've taken that site for 10-year rent, it means I have to pay Rs. 12 lakh in next 10 years. Now, Ind AS says, since this Rs. 12 lakh is a confirmed liability for you, you're not going to change your premise in normal scenario, because it's a business loss for you if you close your site and everything.

So, you take this Rs. 12 lakh as your lease liability, then that net present value of that asset of payment, that okay, at 11% cost, this is going to cost me around NPV, around Rs. 5 lakh. You will capitalize those values in the books, and at the same point of time, you will create one other asset called right to use asset, because now I'm going to use the right to use.

So, whatever asset I create on Day 1, right to use will go as a depreciation in my books. Whatever interest -- whatever lease liability that I have to create, I have to charge interest on that liability, because that's payment I have to pay. So, my rent expense will get distributed into two parts. One is the interest payment, and other part is called depreciation. So, that is how this accounting of lease goes into books, and when I distribute this into accounts, it says you reverse your rent from the P&L, and charge this into two accounts. One is depreciation, and one is the interest in the account.

So, if you see my interest, interest cost may be not in the half-yearly number, but on the annual account, you'll see there are three, four line items that come. There is one item called lease liabilities interest. So, that interest that is coming as a lease liability interest in the P&L is coming because of the lease interest which we have accumulated on the rent, that expense that we are paying in the form of lease liability.

So, that is also a major delta to your first question, sir, though my borrowing is Rs. 750 crores on a gross basis, my interest cost is coming Rs. 150 crores, so borrowing, why the interest cost is coming at 20%? So, delta is basically interest cost that we've taken on the lease liability. So, if you add lease liability, which is around Rs. 300-plus crores in the books, because I have more than 7,000 sites in my books on which I pay rental on a monthly basis.

So, if I do a present value of all those future rentals, the lease liability stands at somewhere around Rs. 300 crores in my balance sheet. So, that Rs. 300 crores, if I take annual interest rate of 11%, means Rs. 33 crores or Rs. 35 crores has to be apportioned to that interest. So, if you remove that interest from lease liability, you will be able to get those figures automatically, sir.

So, that is why we started with lease liability. Now, this is accounting standard, sir, followed by industry. Everywhere where there are leases in the books, whether it's the ATM industry, whether it's the -- I would say, aviation industry, whether it's the tower industry, wherever you see a future lease, which are a kind of non-cancellable leases taken for a long-term purpose, for the business purpose, IndAS says, you have to capitalize those leases in the books of accounts. And instead of charging rent as expense, you have to distribute that rent into two parts. One is called depreciation and one is called interest expense. And that is why the interest cost also goes high on that basis, sir.

Vinod Agarwal: Okay. So, that actual liability that what we have created as a lease liability, that is not the actual liability taken. Actually, it is assumed that we are going to pay that one, right? I mean, there is no liability unless we -- it's a gradual liability, right? It's not...

Saurabh Lal: It's a liability to be paid in next -- like I gave an example of this 10-year one. This is the expected liability or expected payout that is going to happen from the company's bank account in the next 10 years. But since the accounting standard says, you record this liability on day 1, on the net present value, so what we have done is that we did the net present value for Rs. 10 lakh or Rs. 12 lakh like rent, which I said is one example.

Since that present value has to be recorded as a liability in books and as I keep on adding the interest cost to it, it will automatically take me to the Rs. 12 lakh of liability over 10 years. So, I would not say it's a notional liability, but it's the actual payment that we're going to do in next 10 years to be accounted in the form of lease liabilities to be paid in future on the current date.

So, all future liabilities in the form of rental payment has to be discounted at the current rate and has to be accounted in the books and has to bring to the balance sheet level. You cannot keep it off balance sheet.

Vinod Agarwal: Okay. Thank you, sir. Understood. Thank you for the detailed explanation. Thank you.

Saurabh Lal: Thank you, Mr. Vinod.

Moderator: Thank you. The next question is from the line of Mr. Darshit Vora from Robo Capital. Please go ahead, sir.

Darshit Vora: Yes, hi. Thanks for the follow-up. I just missed out on the SVIL revenue figures?

Saurabh Lal: Okay. Sorry. Darshit, the SVIL revenue figure, if you take on the gross basis for this quarter, the total revenue for SVIL is Rs. 1,116 million. While consolidating, if I eliminate AGS revenue, the net revenue of Securevalue for a non-AGS customer stands at Rs. 511 million.

Darshit Vora: Okay. Thank you. That's all.

Moderator: Thank you, sir. In the interest of time, I would now like to hand over the conference to the management for the closing comments.

Ravi Goyal: Thank you everyone for joining us today on our Q2 and H1 FY '24 earnings call. We appreciate your interest in AGS Transact Technologies Limited and we aim to act upon and leverage the opportunities on offer by capitalizing on the work done so far and the strategic direction we have taken for the future. Should you have any further queries, please contact SGA, our Investor Relations Advisor. Thank you.

Saurabh Lal: Thank you everyone.

Moderator: Thank you, sir. On behalf of AGS Transact Technologies Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.