CMS Connecting Commerce

CMSINFO/2310/010

October 31, 2023

To,

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

Scrip Code: 543441

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

Symbol: CMSINFO

Dear Sir/Madam,

Sub: Earnings Transcript

Pursuant to Regulation 46(2)(oa) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed transcript of recording of post Investors/Analyst meeting held on Thursday, October 26, 2023 at 12.00 Noon (IST) on Unaudited Financial Results (Standalone and Consolidated) of the Company for the quarter and half year ended September 30, 2023.

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

You are requested to kindly take the same on record.

Thanking You,

For **CMS Info Systems Limited**

Debashis Dey
Digitally signed by Debashis Dey
Date: 2023.10.31 17:24:24 +05'30'

Debashis Dey
Company Secretary & Compliance Officer

Encl: a/a

"CMS Info Systems Limited
Q2 FY '24 Earnings Conference Call"
October 26, 2023

MANAGEMENT: **MR. RAJIV KAUL – EXECUTIVE VICE CHAIRMAN, WHOLE TIME DIRECTOR AND CHIEF EXECUTIVE OFFICER – CMS INFO SYSTEMS LIMITED**
MR. PANKAJ KHANDELWAL – PRESIDENT AND CHIEF FINANCIAL OFFICER – CMS INFO SYSTEMS LIMITED
MR. MANJUNATH RAO – PRESIDENT, MANAGED SERVICES - CMS INFO SYSTEMS LIMITED

MODERATOR: **MR. SARVESH MUTHA – ANTIQUE STOCK BROKING LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to CMS Info Systems Q2 FY '24 Conference Call hosted by Antique Stock Broking. 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 any assistance during the conference call, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sarvesh Mutha. Thank you and over to you, sir.

Sarvesh Mutha: Thank you, Sagar. Ladies and gentlemen, good afternoon and thank you for joining us on the post-results conference call of CMS Info Systems Limited. It's my pleasure to introduce the senior management team of CMS who are here with us today to discuss the results.

We have with us Mr. Rajiv Kaul, Executive Vice Chairman ,CEO & Whole-Time director, Mr. Pankaj Khandelwal, President, and CFO, and Mr. Manjunath Rao, President, Managed Services. We'll begin the call with opening remarks by the management team and after that we'll open the call for a Q&A session. I would now like to hand over the call to Mr. Rajiv Kaul to take proceedings forward. Thank you and over to you, sir.

Rajiv Kaul: Thank you, Sarvesh. Good afternoon, everyone. Thank you for taking the time to attend our Q2 FY '24 Earnings Call. With a revenue growth of 15% and an adjusted PAT growth of 25%, it's been a very good quarter. This makes it the sixth consecutive quarter for us with 20% Y-o-Y PAT growth. The strong, consistent performance highlights the growth as well as the formalization opportunity in both the banking and retail sectors.

We are increasingly seeing more banks which are focusing on expanding and refreshing their physical infrastructure. We are also witnessing strong growth in organized retail and e-commerce and we expect the sector to lead the overall growth for our cash business. Our Managed Services and Tech Solutions business has achieved critical mass and we have strong wins.

Our expansion in this category now has the potential to cross 40% revenue contribution by FY '25. In terms of our execution focus, our quality of service is very robust thanks to our strong tech platform and this has helped us maintain a very robust margin profile. Our Q2 margins have in fact expanded despite this being a fairly high inflation environment.

Based on our current momentum at half of this year, we feel confident of achieving our FY '25 revenue target of doubling our revenue on a FY '21 basis from INR1,300 crores to a range of INR2,500 crores to INR2,700 crores. Our CFO Pankaj is now going to take you through the Q2 financial highlights.

Pankaj Khandelwal: Thank you Rajiv. Our consolidated revenue has grown by 15% to INR554 crores with managed services and technology solutions now contributing around 38% of the total revenue. For this quarter, we have recognized ESOP expenses to the tune of INR10 crores for the ESOP granted in 2023 as per the approved policy.

Our margin data is adjusted to reflect for the same Our adjusted EBITDA has also grown 15% to INR157 crores and our adjusted EBITDA margin profile is 28.9%. Adjusted PAT has grown by 25% to INR92 crores making it the 10th out of the last 11 quarters with greater than 20% PAT growth.

Adjusted PAT margin 17% compared to 15.7% in Q2 of FY '23. These strong financial metrics are the testimony to our market leadership and execution of our order book. Both our business segments have delivered strong results. My colleague Manjunath Rao will take you through the respective business highlights.

Manjunath Rao: Thank you Pankaj. Our revenue in cash logistics business has grown by 11% year-on-year to INR361 crores in Q2 with an EBIT growth of 18% to INR95 crores. The EBIT margin has expanded by 160 bps year-on-year to 26.4% in Q2. Our business network has further expanded in the quarter and we currently service 1,29,000 business points which is 12% year-on-year growth. This was the first quarter where we crossed 5 million activities on our cash logistics network in a single quarter. Our overall cash handle growth has been 6% year-on-year and in our ATM channel, currency dispensation has grown faster in metros with a 10% growth on year-on-year basis.

On the compliance front, our network in 150 cities has been upgraded in line with norms covering 70% of our business points. On the ATM cassette swap process, as per RBI, IBA and CCA consensus, Phase 1 rollout has been completed and Phase 2 is underway. We expect 25% to 30% of our ATM network to be cassette swap compliant by end of FY '24.

I will now share with you an update on our managed services and tech solution business. Our managed services and tech solutions business revenue grew 26% year-on-year to INR206 crores in Q2 with an EBIT growth of 23% to INR39 crores. Our EBIT margin stood at 18.8% in the quarter, marginally down from 19.2% in Q2 FY '23 due to change in business mix.

In the last earnings call, we had indicated that we expect to see key PSU RFPs get concluded this year. I am happy to report that we have won INR500 crores of new orders in Q2, taking the new wins in H1 of FY '24 to INR650 crores. These wins are across our banking automation and ATM as a service business lines and all of these wins are asset light in nature and should help us maintain a strong growth momentum.

Thank you for your support and attending this call. We can now move to the Q&A.

Moderator: Thank you so much. We will now begin the question-and-answer session. The first question is from the line of Balaji from IIFL. Please go ahead.

Balaji: Hi, good afternoon. I have a couple of questions. So the first one is on the cash management segment revenue. While your touchpoints have gone up by about 12%, we are seeing that in the last couple of quarters the revenue has been around 11%-12% in growth terms and that is besides some tailwinds from compliance also coming through. So where should one expect this to settle down? Are we down to these levels or do you see an acceleration going forward?

And my second question is on the remote monitoring business. So where are we in terms of the number of ATMs and the order book and how is the competitive intensity there? Because earlier you had mentioned that the competitive intensity can potentially catch up at some point in time? So those would be my two questions.

Rajiv Kaul: Thanks Balaji. So let me take the last point first. I think we have been now over several quarters talking about competitive intensity, and I think we have to understand India is a fairly good growth market. In our different businesses, there are different types of competition. We are a player with high margin profile and fairly choosy on the quality of business we will pick up.

I think we will foresee strong competition across all our business lines including RMS, banking automation, cash logistics and what not. And therefore, our current revenue and margin profile I think is also a testimony to the quality of the platform and our focus on our execution.

In terms of cash logistics business, we have seen growth in the last several years .as you know we have three different types of business in cash logistics. We have the ATM cash logistics, we have retail cash management and then we have the currency and transit businesses.

Our growth has been led by the ATM cash management for the last two to three years. We have indicated that retail business will pick up and will actually lead the growth in the cash logistics sector for the coming couple of years.

So, when we talk about the growth trend you have seen right now of 11% to 12%, it's impossible to tell you what the future, what the growth level will be. I think from our side we have highlighted that we have a diversified business. Our growth aspiration are in the range of 15% to 17% sort of revenue growth trajectory till FY ’25 and we are on course to do it.

In some quarters some businesses will lead, in other quarters other businesses will lead. I hope that helps you with both the answers. And finally on your RMS business, we did indicate that we already hit the INR100 crores annual run rate. We are about 22,000 sites, we are the largest in the banking sector. We will give you an update on this business in our next, not next, in our annual investor summit. I think that's the right time for us to talk to you about key developments in all of our new businesses.

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

Achal Lohade: Yes, good afternoon team. Thank you for the opportunity. So, my first question is pertaining to the ATMs. Now we've been hearing about the incremental new orders with respect to ATMs, whether replacement or new ATM, 100,000 ATMs, right? Can you update us as to where we are in the cycle? Are you seeing the delay in terms of getting through these tenders, industry-wide, or what are those challenges? And I mean, till now, whatever is given out, what has been our market share? If you could help us understand that.

Manjunath Rao: Yes, thank you. The ATM RFP that we've been, there is still about 51,000 ATM RFPs are likely to be awarded in FY '24. That's what we had said about 20% new and 80% replacement.

Of this, there is about two-thirds of this are under the Brown Label ATM model, I think we have been insisting on all our calls that we will be selective and opportunistic in this particular segment. We have been very selective.

But as we mentioned in our call that we have won in our first half about INR650 crores worth of orders, it's got both asset-light managed services as well as our banking automation business in it. There are still some tenders left to go for the rest of the year, and those are all in the pipeline.

Rajiv Kaul: So, I think, Achal, overall, I know this was something we mentioned in the last fiscal year. Some key contracts got pushed out of this year. We are finally seeing momentum in these moving to the finish line.

Of course, RFPs have to close, orders have to be given, they have to be implemented, they take some time. But we feel fairly strong about the growth opportunity in this, helping us lead our, leading to higher growth in our MS and Tech business.

Achal Lohade: Sure. Just to get a bit deeper into this, 51,000 is the number or 100,000? So can you clarify?

Rajiv Kaul: I think the 51,000 is for this year. The 100,000 is something which you are referring to, which is over a three or four-year period. 51,000, we are saying specifically, we know that contracts which will get into awarding in the, likely to get awarded in half, second half of this year.

Achal Lohade: Right. And just to clarify, of this 51,000, 20% are new ATMs, 80% are replacement. And of this 51,000, two-third is BLA and one-third will be bank-owned and bank-operated. Have I understood it right?

Rajiv Kaul: Yes.

Achal Lohade: And within this 51,000, how much has already been given out in last...

Rajiv Kaul: This is all going to happen in H2 of this year. So these are already, September, October onwards, RFPs are in various stages of getting closed out or issued out. This is our estimate, right? Obviously, we can't talk on behalf of all the banks, but this is our estimate of RFPs which will conclude successfully in the second half of the year.

Achal Lohade: Got it. And this INR500 crores new order wins, that's to be executed same 7-8 year period, right?

Rajiv Kaul: No, I think given the nature of these wins, I would say that majority of our H1 order book is asset-light. Asset-light businesses, I think you would see an average accrual in a 3-5 year period, not 7 to 8. 7 to 8 is usually for asset-heavy businesses. These ones will accrue over a shorter period, which is not short, I mean, it's 3-5 years.

Achal Lohade: And with respect to this INR500 crores would represent what, 40% market share, 30% of whatever orders?

Rajiv Kaul: So, impossible. For one, I don't know the number. We will wait for the end of the year to see what sort of market share it is. But again, you should -- it's not a number we track so much because, as we said, there's a lot of business opportunity in the BLA business. We are not by nature very focused on that sector.

We will be very selective with a few key banks or deals, and the rest, we will not be participating. And therefore, market share in this is not something which we really go ourselves on. Market share is something which we are very, very, very focused on our cash logistics, RMS, businesses.

Moderator: The next question is from the line of Prithvish Uppal from AMSEC. Please go ahead.

Prithvish Uppal: Yes. Hi. Good afternoon and congratulations to the management on a good set of numbers. So, my first question is regarding the working capital. So, we've seen an increase specifically coming through as receivable and receivable days have increased. So, I think this was roughly around 90 days has now gone up by about 15 days, 20-odd days for the first half. So, I need just color on that from the receivable side.

Second is that on our capex side, we have done about a INR40 crores to INR41 crores kind of capex in the first half with the guidance of roughly around INR 150 crores for this year. So, just wanted to understand, how you are seeing this develop over the second half and if we think that INR 150 crores is something that we will actually end up doing or how do you see that?

And if you could also just give some color on the cash management business in terms of the touch point where the growth has come from 72,000 ATMs, how has that moved between retail and ATM and what the realization increase would have been because of Cassette Swap. So, I mean, this is the first set of questions and if time permits, I'll add some more.

Pankaj Khandelwal: Thank you, Prithvish. So, as regards the working capital or the AR increase, see, our business has grown 15% in H1, which has resulted in the higher working capital with the AR increase. H1 is usually weaker in terms of collection. Historically, it's weaker compared to the H2. That's the reason that the AR has increased, basically.

The third important thing is that in this last 12 months, we got a lot of large PSU bank projects, which was executed, and it takes time to streamline the collection cycle. And the fourth important thing is about the higher interest rate environment leads to the delay in the payment from the customer. That has resulted in slightly higher AR and the working capital is increased to some level.

About the capex, we have done around INR40 crores to INR41 crores of capex in H1. We have guided that FY '24, we will do around INR150 crores to INR175 crores of capex. And we estimate that it will be in line to whatever the target we have given in the initial period of the year.

Prithvish Uppal: And on the cash logistics, business, touchpoint wise, how the growth has been between retail and ATM and specifically any realization gain that we have seen specifically relating to...

Rajiv Kaul: Prithvish, in our earlier calls, we have said that we will share more detailed metrics on each business only once in a year. But we do give touchpoint guidance overall. I think breakdowns we will do only at the end of the fiscal year.

Prithvish Uppal: Sure. And just lastly, in our bad debts, written-off also has increased about INR25 crores. And since 15% of ATMs are now on the cassette swapping, so shouldn't this number ideally decrease? And what has been the reason for the higher bad debt write-off in the first half, because it was around INR50 lakhs last year?

Pankaj Khandelwal: No. So you have to read the provision and bad debts together. Depending upon the reconciliation, finalization with the customer, on the basis of receipt of any claims, provisions have been provided. So for right calculation, you have to add both the things. We have guided that our risk cost because of the nature of our business, the bad debts or the provision for bad debts or risk cost will be in range of 4% to 6%. This time, it is in line with that and in past it is in line to 4% to 6% only.

Prithvish Uppal: Understood. Okay. Thank you. I'll join back in the queue.

Moderator: The next question is from the line of Sheel Shah from Sameeksha Capital. Please go ahead.

Sheel Shah: Just one question. Sir, any update on our cash collection pilot that we were doing with five to six NBFCs?

Rajiv Kaul: Our collections business, I think we said we will use FY '24 as year of incubation . It is ramping up. We have hired a fairly strong team from the industry. We have projects where we are working with eight to 10 large NBFCs already on the ground. However, this will be too early for us to have any determination of how this business will ramp-up and is this going to be in line with the way we think the potential is.

At the end of FY '24 is, when we will give you a full status on what our learning has been and also guide you on how we think about this business going forward. Right now, this is an investment year and incubation year.

Sheel Shah: Okay. Understood, sir. Any other business area that we are doing pilots or anything like that you would like to share?

Rajiv Kaul: I think whatever we shared at our investor summit, we have the CashX business we talked about. We talked about the bullion business. We are trying to ramp that up. RMS, we have already ramped up. So we have mentioned that. There is nothing new. I think we have enough going on and we are currently focused on these businesses to see where they head.

Sheel Shah: Okay. Thank you so much.

Moderator: The next question is from the line of Asim from DAM Capital. Please go ahead.

Asim: Hey, hi team. So first question was on the RCM business. So on your comment that the next leg of growth will come from retail cash for the cash segment and I presume you mean post FY '25. I just want to know, if the anticipated growth is more touchpoint-led or is there any pricing growth also in place courtesy compliance?

Rajiv Kaul: I think Asim, let me re-clarify, so that there's no confusion. I don't think the growth is going to be from only retail. I think we see potential growth in all of our key businesses. We feel the higher growth is likely to come from retail just given the momentum we are seeing post-COVID and what we see in the market from a formalization perspective.

As of now, what we have witnessed in the last six months to nine months, hopefully the trend will continue. In the midterm, I mean actually in the long term, I think the bigger opportunity here is really going to be from more touchpoints, right? Because that's a formalization opportunity out here. And also our CashX initiative, we see a lot more opportunity coming in from there.

From a pricing perspective, I think we sort of told you about our longer-term pricing trends in this industry. I would say, volume expansion of business points and then pricing would be the way I would think about this in that order.

Asim: Sorry, just to clarify, I mean the pricing, so from what I understand, compliance driven pricing was more an ATM subject, right? It has not really populated on the RCM front. So maybe on the near term, there should be some catch-up on the retail side as well?

Rajiv Kaul: I think the compliance-led pricing is a benefit we have seen in our ATM business. We will see some of it in retail, but I think retail touchpoints volume is really going to be a large driver. The large driver in retail is going to be from formalization and more organized retail touchpoints being added.

Asim: Got it. And the second question, just as a clarification, so of the 51,000 ATM RFPs you mentioned that would be awarded over H2, I mean is there any that was already done in H1 that maybe did not come CMS's way because of whatever reason?

Rajiv Kaul: No, this is what, so we have already told you about the wins in H1, right? The wins in H1 are obviously come through basis, somebody buying an ATM or a recycler, so we're not counting that. We're talking about what the pipeline is right now.

And again, I will again qualify, 51,000 ATMs, a lot of it is likely to be BLA. We are not highly focused in that sector. We are very selective, but from an automation perspective, we will compete as aggressively as we can.

Asim: Okay, because I think I presume that of the INR650 crores order wins you mentioned in H1, almost all of it was from the product automation and the ATM as a service bid, not BLA and remote monitoring, that's what my understanding was?

Rajiv Kaul: You're right. Yes, most of it is from the automation side.

Asim: Okay, thanks.

Moderator: The next question is from the line of Lokesh Manik from Valium Capital. Please go ahead.

Lokesh Manik: Yes, good afternoon, team. My question was on the pilferage in the system in the form of cash reconciliation and cash loss in transit. So what I understand is we are incurring somewhere around INR10 crores per INR1 lakh crores of cash handling versus our peers who are doing INR 3 crores to INR4 crores per INR1 lakh crores of cash handling.

So I just wanted to understand, where is this issue arising given that we've introduced software, Algo MVS, Algo OTC? In light of these, we should not be seeing an increasing trend happening at least on the reconciliation side.

And secondly, if you have observed any area of your operation, right, from picking up cash to overnight vaulting, which segment of the operation is this issue recurring? If you can just share some details, throw some light on this, it would be really great?

Rajiv Kaul: Sure. So just to educate you and all the other listeners on the call, the comparing the INR12 lakh crores to somebody in INR3 lakh crores, unfortunately, it's not like-to-like because of the mix of business. The INR3 lakh crores, I don't know who the company may be, but I suspect it could be just a company doing retail cash management only.

We have a business across all sectors. The reconciliation specific losses, right, they occur predominantly in ATM related activities. It could be in ground level ATM. It could be in ATM cash management. That's where the large trend line has been till now in the country. But our overall provisions, which you are maybe referring to and Pankaj can dive deeper if required, will cover multiple things, including reconciliation, any provisions for bad debts, and any SLA penalties, which we may be incurring in terms of execution. That's the usual mix.

We have set for the nature of our business and our business mix, 4% to 6% of the range we have seen. It was 5.1% at the end of FY '23. Right now, the end of FY '24 H1 is about 4.1%. But we would hope this would trend down as our business mix changes over time and also basis the reconciliation and governance and compliance law, which RBI is mandating across the ecosystem.

Lokesh Manik: Okay. So it is not on your operational legs, right, from picking up to overnight vaulting. It's not occurring there, you're trying to say?

Rajiv Kaul: No, not really. I think this comes more from our customer claims and reconciliation-led losses, which happen at the point of transaction. It's not linked to the cash losses, which may happen while you're transporting currency.

Lokesh Manik: Understood. My second question was a clarification. I read in the DRHP that the government does not permit more than 49% FDI in this segment. Our promoter is an FII. So in that sense, have you received some special approval from the RBI in that regards in terms of any risk on operations from that area?

Rajiv Kaul: I don't think this is applicable to us at all. I'm a little confused as to what exactly in the DRHP you're referring to. But there is no FDI approval required to be in the sector. I think that's already been sorted and cleared out.

Lokesh Manik: Okay, got it. Thank you. That's it for myself.

Moderator: Thank you. The next question is from the line of Pranav Mehta from ValueQuest. Please go ahead.

Pranav Mehta: Yes, thank you for giving me the opportunity. My question is about ESOP expenses. So you mentioned in the notes that we have granted some 8 million options during the first half. Just wanted more details from you. So first of all this, looks like a pretty sizable number. It's almost 5% of our current equity base. So if you can share with us who all are eligible to get these options and what are the conditions and the pricing attached to it?

And if I think maybe Pankaj can guide us as to what kind of expensing out will happen in the P&L over the next couple of years?

Pankaj Khandelwal: Thank you, Mr. Mehta. So the ESOP that we have granted is already disclosed whenever we have granted these ESOPs. There are two grants which have happened. One was in Q1 and the second one was in Q2. All the ESOPs generally we are granting is close to fair market price. 75% of the new ESOP we have granted were at average fair market price as defined in the ESOP scheme. And 25% of the ESOP issued was only on 10% discount of the market price.

We have not given any deep discount on the ESOP and we have not issued any RSU. Though the ESOP was issued on the fair market price and the option value as calculated using Black-Scholes methodology has to be expensed out in the P&L. And second thing is only 50% of the ESOP we have issued will get vested only in case of the performance criteria which is defined in the ESOP policy itself.

Next three quarters we see that the charges to P&L for the option value will be around INR 11 crores and then it will gradually reduce to INR 6 crores, INR 4 crores and INR 2 crores level, FY '25, FY '26, FY '27.

Pranav Mehta: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Ankit Kanodia from Smart Sync Services. Please go ahead.

Ankit Kanodia: Thank you for taking my question and congratulations on good set of numbers. So my first question is related to unbilled revenue. So if you can give me some more color into what are the unbilled revenue is because what I have noticed over the last three years is that our unbilled revenue is growing at a faster pace than our total revenue. So if you can just give us more color as to what are these revenues and how it is reconciled in the subsequent years that would be very helpful? That is the first question.

Pankaj Khandelwal: So unbilled revenue, the different businesses have a different type of unbilled revenue. If I will talk about the cash management business, unbilled is primarily related to the last month, or the month prior to that, it takes time to around 25 days to 30 days to get it reconciled from the customer. And based on that, we bill it. Most of our unbilled are closed 97%, 98% is closed in the next month itself and 3% is being closed in the next month.

In the managed services business, the unbilled is related to any of the part execution of the contract or the AMC, wherein the billing is quarterly in arrears or six months in arrears. I believe 98% to 99% of the unbilled of the last year is already billed for 1% is spending because of the AMCs or which is not yet allowed to be billed as per the contract notes.

Ankit Kanodia: And if you can give me more color into which part of the business has more of unbilled revenue and which has less?

Pankaj Khandelwal: Both businesses have unbilled revenue. Like if I will talk about like the month, we provide, take the example of the September, we provided the services in the month of September. So as on 30, September, there will be unbilled related to September month and some unbilled related to August and prior period as well. But 97% of unbilled in cash business is for that particular month.

In managed services business, depending upon the type of business, like BLA is generally for the last month, for AMCs other business, wherein the based on the agreement terms, it can be three months to six months of the unbilled revenue.

Ankit Kanodia: Thank you so much, sir. That was very helpful. My second question is related to the cash logistic business where we have three sub-section. One is the ATM cash, there is RCM and the third one is cash in transit. It would be great, if you can just share the competitive intensity in all these three sub-segments. Where do you see more competition? Where do you see our situation being far more stronger, where the second competitor is probably far more distant? And how do you see in the future? I think that would be very helpful.

Rajiv Kaul: I'll give you a quick philosophical answer. We are in India, everybody is chasing growth. There is competitive intensity in all of our businesses. We have highlighted that. I don't think, we can go away from dealing with the actual things in market. If I think of our ATM cash or retail or even cash in transit, each have their own different competitors who are operating at different margin profiles or different growth aspirations.

So our competitive intensity, I would say, is usually, let's take the smallest business in cash, our currency in transit, what we call DCV business. It is relatively the simplest business and therefore it has the highest intensity because the barrier to entry, I would say, is maybe lesser and the expectation from the customer side is also lesser. But as soon as we go into something like ATM or retail, which is linked into having a deep network in the country, having a very strong technology platform for reconciliation, that's where our advantage of CMS comes into help.

So ATM is generally the one where we have made the biggest inroads, followed by retail, and then by the currency in transit business. A lot of currency transit business is still done in-house with the banks and will get outsource slowly over a period of time.

Ankit Kanodia: Thank you so much.

Rajiv Kaul: I think its DCV Business that we see many more smaller competitors instead of organized players, which you see in the retail, cash, and ATM side.

Ankit Kanodia: Yes. Thank you so much. That was really helpful. Thank you.

Moderator: Thank you. The next question is from the line of Aasim from DAM Capital, please go ahead.

Aasim: Yes. Rajiv, just one clarification on the INR 650 crores order win. You mentioned most of it is bank automation. That's the product business, right?

Rajiv Kaul: We have a lot of banking automation and services business. Both of those are there. All of this relates to MS and tech solutions. My point of view was that, this is non-capex heavy. So we are not investing capital for these set of wins compared to the wins we had in the last couple of years.

We are trying to differentiate the two to give you a better idea of a sense of the margin profile. You'll get a sense of the capex intensity. You'll also get a sense of the accrual period. The accrual period will be there for a little bit lesser,. We will accrue this over a three-year to five-year period.

Aasim: Sure, sir. So just wanted a clarification because if most of it is a product, then it should have been seen in margins this quarter itself. And of course, that would not be a recurring thing? That's what I'm saying.

Rajiv Kaul: You'll just see it one time in revenue itself, right? Then the revenue would have a big bump up and then it will go down, right? Yes. Which you haven't seen right now. Yes.

Aasim: Okay. Got it. Thank you.

Moderator: Thank you. The next question is from the line of Divyansh Gupta from Latent Advisors. Please go ahead.

Divyansh Gupta: Yes. Hey, just wanted to understand the impact of Hitachi and Writer's acquisition. How much impact will it have on CMS? do we have any exposure to Hitachi ATMs? And is there any communication from Hitachi on any transition plans that they have?

Rajiv Kaul: So we can't comment on any speculation about a customer or a competitor. But what we have guided to is that, we will see more M&A activity in the sector given the compliance norms are making the sector more attractive for global companies. Given our market leadership, the infrastructure and branch network we have, we have avoided from doing any extensive acquisition because we are prepared to grow by getting market share organically in our core businesses.

India is a growing market. There is good growth for all businesses. We do expect to see more MNC interest given the regulatory clarity on compliance and also the growth potential.

Divyansh Gupta: And are we also in the market for any acquisitions or right now, just trying to build a business organically going forward?

Rajiv Kaul: No. So, we've said this in prior calls it is our job to be tracking M&A and looking at companies in our sector or expand in our adjacencies. However, we will not be the right people to be buying businesses at a high price because we already have built these businesses. For us to acquire something to just drive growth is not our strategy.

For us, the return on capital is far more, we want to be very, very careful about that. Then we don't want to buy share or buy market growth unless it is very accretive. So we think it will be difficult for us to go do transactions in the cash management space. We would rather take that capital and focus on expanding into new sectors. That's where we think, we'll get a bigger return on both our capital and also build a more diversified business over there.

Divyansh Gupta: Yes. That's fine. Got it. A couple of data point questions. What will be your order book for the managed services business and the number of AIoT that are in progress or in the order book?

Rajiv Kaul: Sir, order book for managed services close to now, our gross order book will be roughly about INR3,800 crores, Manju. INR3,800 crores. Yes. I didn't understand the second question. What is the second question?

Divyansh Gupta: The AIOT, the remote, that thing?

Rajiv Kaul: Okay. So we are currently, Manju, how many sites do we have totally?

Manjunath Rao: 22,000.

Rajiv Kaul: 22,000. So we have 22,000 sites live in the banking sector, both across branches and ATMs right now.

Divyansh Gupta: And any pipeline or the order book on which we are working or?

Rajiv Kaul: There's always a pipeline. There's always a pipeline we are working on. When this culminates, we will come and update you again, end of the year.

Divyansh Gupta: Got it. Last question. What is the total cash handled this what…

Rajiv Kaul: Cash handled? In our cash logistics business?

Divyansh Gupta: Yes. You used to give earlier?

Rajiv Kaul: Yes. It's INR 3.3 trillion. 6% growth year-on-year.

Divyansh Gupta: Yes. CMS is not going… **[inaudible]**. The players in the industry who are doing this cost, if this has to come -- and service them.

Moderator: Sorry to interrupt. Divyansh, we are not able to hear you properly. Your voice is breaking a lot. It's still breaking. May we request you to join back the queue once again? Thank you. The next question is from the line of Nitin Sharma from MCPro Research. Please go ahead.

Nitin Sharma: Yes. Hi. Thanks for taking my question. Firstly want to understand, out of that INR 3,800 crores order book, how much has been executed so far? And then I have a follow up.

Pankaj Khandelwal: So out of INR 3,800 crores order book, we have already executed INR 2,800 crores order books. To be clear that this order book is executed and the revenue of these will come over five-years to seven- years.

Nitin Sharma: Understood. And just some color on your equipment manufacturing business that you announced, few quarters back. Some understanding where it is currently and what is the near-term plan for that?

Manjunath Rao: Yes. As we have already told you that it was to align ourselves with the government's Make in India policy and the focus that we wanted to give it to our ATM banking automation business. And also, this was very important for us from the point of view, because it gives us more control on the supply chain of the critical banking infrastructure.

And so here, as we told you, we have about 2,000 machines capacity per month and which can be expanded as we go on.

Nitin Sharma: Understood. Thank you.

Moderator: Thank you. The next question is from the line of Saurabh from Multi-Act. Please go ahead.

Saurabh: Yes. Thanks for the opportunity. I just have one question, out of this INR650 crores of new order wins, how much is in the nature of let's say products business and software and other part of the business?

Rajiv Kaul: We don't break down order book wins. What we refer to in order book wins is in our Managed Services and Tech Solutions business. We don't give a breakdown by sub sectors or sub business units.

Saurabh: Okay, thanks.

Moderator: Thank you. The next question is from the line of Mayur Bopodara. Please go ahead.

Mayur Bapodara: Hello, congratulations on the good set of number. Actually, I wanted some clarity regarding our card services business. So, what this business line is about and how this potential is there in this card service business?

Pankaj Khandelwal: So if you see that the card business during this quarter has grown from INR 8.16 crores to INR 24 crores. And for the half year end, it's increased to INR 17 crores to INR 42 crores. We got a couple of large orders from PSU bank and which will help us to maintain the growth momentum during this year.

Mayur Bopodara: Okay, and what is the market size regarding the card services investment? Total addressable market size?

Rajiv Kaul: I think the growth in the market, if you think of it, there are 90 crores cards issued in the country. 90 crores cards have been issued, whether it's a mix of credit or debit. The growth potential is really linked to two elements. One is, if more bank accounts are opened or therefore more cards are issued, whether they are RuPay or what. And then there is also re-carding opportunity where every two or three years or one year or four years, cards will have to get reissued.

So that's where really, it's a fairly reasonable size market. There are four to five players operating in this market there. I don't have a per se of idea right now, which I can remember offhand the size of the market, but we will take that feedback and maybe in the next call, we'll give you a sense of the overall market sizes.

Mayur Bopodara: Okay, and the next question is regarding our ATM manufacturing. So we are generally design for service industry mostly. So why are you going ahead and manufacturing on our own? Any thought process regarding that will be helpful from your side?

Rajiv Kaul: Sure. So I think it's a very valid question. We were a services organization. I think we've become now a solutions organization because we have both software and high-end platforms. The reason to diversify or integrate into manufacturing is very critical from a competitive perspective. We are seeing a trend line of large contracts, especially from the PSU banks, which are integrated in nature. And when we talk integrated, they are looking at a single company for both supply, maintenance, managed services, software management, cash management, remote monitoring. And not having that capability would then become a competitive disadvantage.

So what we have done is, as you know, our partners on the automation side are largely Nautilus Hyosung from Korea. We have partnered with them with the technology to set up a manufacturing plant here in which we can manufacture both ATMs and currency recyclers, which is also timed well with the large RFP pipeline in these banks to both refresh and to also expand. So I think that's the investment we made last year. it is already part of the capex expense we have done in the prior year. And we are leveraging a lot of the technology know-how from our partners in Korea on this.

Mayur Bopodara: Okay, it's great to know about that.

Moderator: Thank you. The next question is from the line of Gaurav Nigam from Tunga Investments. Please go ahead.

Gaurav Nigam: Yes, thank you, sir for taking my question. First question was on the cash logistic business. As I understand, there are three parts here, right? And would it be possible for you to even historically give a breakup of the revenue? How much is ATM and how much is non-ATM? Even a historical sense of proportion will also be helpful.

Rajiv Kaul: So, I would say that over the last few years, the ATM side of the business is a larger one. And that will be close to 60% of the revenue. And retail and cash in transit business will be roughly 40% of the businesses. That's the trend over the last three, four years.

Gaurav Nigam: Got it, sir. Got it, sir. And sir, continuing on earlier participants' question on these bad debts, which you were indicating. So can you just clarify what do you mean by reconciliation? And as you said, it is not in the transport. It happens somewhere in the reconciliation and there is a penalty. And what can you specify what exactly is the issue? And is this an industry-wide issue? Or is this specific to us? Is there a 4% to 6%, which you mentioned? Is this a norm that all the people are priced based on 4% to 6% of cost of bad debt?

Rajiv Kaul: So let me, maybe this is one of the first calls you're doing, but let me explain this to you. We'll reinforce the fact that this is a combination of two, three factors. The first of it is simply just any, if there is any bad debt. Second is provision for any penalties, which you may incur while delivering service. And if the service standards are not met, then you will have some penalties, which you have to incur.

The third comes through reconciliation link losses. The reconciliation link losses are mostly, linked to the ATM channel. ATM channel, if a customer does a transaction and they don't get the full money, or there is some discrepancy in the amount of the money in the ATM versus the actual, then there are some reconciliation link losses, which get passed to a bank. Bank may choose to pass it on to a service provider like us. You will reconcile to figure out where this possibly could go missing. Was it a fault of the consumer? Was it a fault of the cash logistics company? Or was it fault of the maintenance company?

So these usually take some time to go figure out. We have actually built in a very strong machine learning based software to be able to sort these reconciliation losses in a quick time. But it is part of the nature of business in a ATM cash management business globally. In India also, and therefore, if somebody has a larger part of business in ATM linked businesses, this becomes a larger number. For us, we have said, given our broader business mix is 4% to 6% of our overall revenue. As our mix changes, this percentage will come down. As the RBI compliance on cassette swap gets implemented, we expect this number to start coming down more.

Gaurav Nigam: Got it, sir. Thank you for your detailed answer, sir. And just one question.

Moderator: Thank you. The next question is from the line of Divyansh Gupta from Latent Advisors. Please go ahead.

Divyansh Gupta: So, more specific question. So, MS is investing heavily on the ASI side, right? Because it doesn't want to be a business. What is BLA? If you can throw some light on it?

Rajiv Kaul: Divyansh, I unfortunately couldn't understand the question fully because again of the line quality, but I only heard BLA in the end. So, if somebody else heard the question.

Divyansh Gupta: I'll send a mail if that's okay.

Rajiv Kaul: Yes, please.

Divyansh Gupta: Yes, that's all from my side.

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

Sarvesh Mutha: Yes, I would like to thank the management team of CMS Info System for giving Antique Stock Broking the opportunity to organize this call. I will now hand it over to Rajiv for his closing comments. Over to you, Rajiv.

Rajiv Kaul: So, just to reinforce, we have seen a reasonably good half, first half of the year, despite some sort of slowdown we have noticed in the last quarter in the rural side. Metro consumption demand trends on currency seems fairly robust. We are seeing good growth thanks to the diversification of businesses so that if any business is slackening off in the last couple of quarters, other businesses have picked up the growth.

Our pipeline auto wins look good. We are very happy at the fact that we are still very focused on building high quality businesses and are able to maintain our margin profile and feel fairly confident about achieving our FY'25 revenue goal. Thank you for your support. Thank you for your questions. We will look forward to talking to you at the end of next quarter.

Moderator: Thank you. On behalf of Antique Stock Broking, that concludes this conference. Thank you for joining us. You may now disconnect your lines.