July 15, 2021

CMS Info Systems Limited: Ratings reaffirmed, limits enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund based, Term loans	00.00	75.00	[ICRA]AA (Stable) Reaffirmed
Long-term / Short-term, Fund Based	84.00	84.00	[ICRA]AA (Stable) / [ICRA]A1+; Reaffirmed
Long-term / Short-term, Non-Fund Based	266.00	396.00	[ICRA]AA (Stable) / [ICRA]A1+; Reaffirmed
Total	**350.00**	**555.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating continues to take into account the demonstrated track record and established position of CMS Info Systems Limited (CMS) in the ATM and cash management (ACM) business in which it continues to be a market leader. The rating also factors in the healthy financial performance of CMS, driven by improved profitability to 22.8% during FY2021 from 18.4% in FY2020, and continued debt-free position, which results in strong coverage indicators during FY2021. Further, the few high-value contracts worth ~Rs. 2075.0 crore under the managed services segment, won by CMS during FY2021 and Q1 FY2022 along with the other existing contracts and the likely increase in rate realisations by up to ~30% for a large number of contracts in cash management services due to expected implementation of stringent operating requirement for almost 70% of CMS' managed ATMs in the near term, provides revenue visibility over the near to medium term. The rating continues to take comfort from CMS' comprehensive geographic reach with pan-India presence and long-term established relationships with its clientele comprising reputed players.

The rating, however, remains constrained by the regulated nature of business as well as increase in usage and acceptance of the alternative payment methods like net banking, mobile wallets, debit card/credit cards etc, though the currency in circulation in India has continued to grow, post the demonetisation. The rating also takes into account the inherent vulnerability of the business to risk of cash loss in transit due to theft, fraud, armed robbery etc.; however, strong internal processes as well as comprehensive insurance cover provide comfort. ICRA notes the acquisitions by CMS over the last few years. None of the transactions have been sizeable, relative to the scale of operations of CMS. Moreover, the extent of capital expenditure undertaken along with the size of CMS' acquisitions and financing means of the same would remain monitorable.

The Stable outlook on the long-term rating reflects ICRA's opinion that CMS will continue to benefit from its position as the market leader in the ACM business coupled with its pan-India presence.

Key rating drivers and their description

Credit strengths

Well established position in ATM and cash management business – Incorporated in 2008, CMS is the leading player in the ATM and cash management businesses. Along with its subsidiary (Securitrans India Private Limited), the company is managing almost 63,000 ATMs (as of March 2021) which form ~43% of the total outsourced ATMs in India, and ~26% of the total ATMs in India.

Strong financial profile – Over the past few years, CMS has maintained strong credit metrics aided by healthy cash flow generation. Dependency on external debt continued to remain nil as on March 31, 2021. The OPM of the company improved and stood strong at 22.8% during FY2021 against 18.4% during FY2020, primarily due to increase in productivity resulting in cost optimisation, as well as better margins led by increase in rate realisation for few contracts under the cash management service based on the implementation of regulatory requirement during FY2021. Further, owing to strong profitability, the increased coverage ratio of the company improved to ~36.3x times during FY2021 from ~34.8x during FY2020.

Long-term relationship with key clients – The company's clientele, comprises reputed and well-established players with whom it has a long-term relationship. Its clientele includes SBI, HDFC Bank, Axis Bank, ICICI Bank, Citi Bank, Hitachi Payment Services Private Limited, Financial Software and Systems Private Limited etc.

Sizeable orders provide revenue visibility in the near to medium term – During FY2021 and Q1 FY2022, the company won a few a sizeable orders worth ~Rs. 2075.0 crore under the managed services segment. Also, the recent increase in ATM interchange fee by the RBI, is likely to make it more economically viable for banks to install and operate ATMs. Thus, the penetration of ATMs is likely to rise, going ahead, which will in turn increase the business opportunities for companies like CMS. Moreover, the strong order book position, along with the likely increase in the rate realisation by up to ~30% for a large number of contracts under cash management services, due to expected implementation of stringent operating requirements (as per the new RBI and MHA guidelines) for almost 70% of the CMS-managed ATMs in the near term, provides revenue visibility over the near to medium term.

Credit challenges

Vulnerability to regulatory risk – The cash management services have been regulated by the RBI with regular intervention with increase in compliance requirements, leading to increase in cost for the ATM service provider. Though the industry expects a considerable portion of the same to be passed on to the customers, the scale and profitability remain vulnerable to unforeseen adverse regulatory changes.

Challenges from alternative payment methods – Post demonetisation, the usability and acceptability of alternative digital payment methods like debit card/credit card/ mobile wallets etc. is on the rise, especially in metro and urban areas. Availability of affordable data services and large-scale penetration of smartphones are among the key growth drivers for digital transactions, further supported by various schemes and incentives by the Government. Though the currency in circulation has increased post demonetisation, the increase in alternative payment methods continues to remain a threat and the cash management business may face challenges if there is a significant shift in the use of digital payment methods instead of cash.

Business vulnerable to cash loss risk – Given the large volumes of cash it handles, CMS' business is exposed to various operational risks including armed robbery, end-customer or third-party fraud, theft or embezzlement by personnel provided by third-party service providers etc. However, enhanced security requirement as per the RBI guidelines, strong internal controls and processes coupled with comprehensive insurance cover provide comfort.

Liquidity position: Strong

CMS has a **Strong** liquidity profile with sizeable free cash and liquid investment of ~Rs. 297.8 crore as March 31, 2021. The company has been generating healthy cash flows with net cash accruals of ~Rs.197.9 crore in FY2021. CMS has no long-term debt repayment obligations. Further, CMA has an adequate cushion available in the form of unutilised fund-based working capital limits (~Rs. 84.00 crore of CMS and ~Rs. 20.00 crore of SIPL remained unutilised as on March 31, 2021). CMS' capex plans include regular capex for purchase of ATMs for its managed Services division/new vehicles/cash vans. The company is also expected to acquire companies in the cash management and the managed-services business as it has been over the last few years. The capex and acquisitions are expected to be largely funded through internal accruals and available free cash and liquid investments. Besides, the company also has an unutilised sanctioned term loan facility of Rs. 75.00 crore, which remains an additional buffer and its utilisation will be on a need basis. Sizeable cash and liquid investments, healthy cash accruals and sizeable buffers from fund-based sanctioned limits indicates a strong liquidity position.

Rating sensitivities

Positive factors – The ratings could be revised upwards if CMS achieves an increase in its scale of operations through the organic and the inorganic route along with the further improvement in profitability levels on a sustainable basis.

Negative factors – Downward pressure on the ratings could arise in case of a considerable decline in scale, or profitability, or any materially large debt-funded capex leading to deterioration of debt coverage metrics or weakening of the liquidity position of the company.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology]()
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of CMS Info Systems Limited. As of March 31, 2021, CMS had five wholly-owned subsidiaries. The subsidiaries of CMS Info Systems Limited that have been considered are enlisted in Annexure 2.

About the company

CMS Info Systems Limited (CMS), headquartered in Mumbai, is India's leading cash management services provider. The company was incorporated in March 2008, by hiving off selected business segments of CMS Computers Limited. CMS was historically engaged in two broad lines of businesses, namely, IT Services and Print Solutions (which includes services like Financial Card Management, Print & Digital Solutions and IT Infrastructure support, Trading of IT equipment(s) & IT Training Services) and Cash & ATM management. During FY2015, the IT business, along with the print division of CMS was carved out and demerged into a new company, namely, CMS IT Services Private Limited. Post the demerger, CMS is involved in ATM and cash management, ATM installation and maintenance services and card personalisation services. Sion Investment Holdings Pte. Limited, an affiliate of Baring Private Equity Asia, holds 100% stake in the company which it acquired from the Blackstone Group (56.2%), erstwhile promoters (32%), CMS Computers (6.7%) and employees (5.1%) in August 2015.

Key financial indicators (audited)

	FY2020	FY2021
Operating Income (Rs. crore)	1383.3	1311.4
PAT (Rs. crore)	134.7	168.5
OPBDIT/OI (%)	18.4%	22.8%
PAT/OI (%)	9.7%	12.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.6
Total Debt/OPBDIT (times)	0.3	0.4
Interest Coverage (times)	34.8	36.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					July 15, 2021	-	February 18, 2020	January 08, 2019	December 31, 2018
1	Fund based, Term loans	Long term	75.00	0.00	**[ICRA]AA (Stable)**	-	-	-	-
2	Fund Based, CC/WCDL	Long-term / Short – term	84.00	-	**[ICRA]AA (Stable) / [ICRA]A1+**	-	**[ICRA]AA (Stable) / [ICRA]A1+**	**[ICRA]AA (Stable) / [ICRA]A1+**	**[ICRA]AA (Stable) / [ICRA]A1+**
3	Non-fund based, BG/LC	Long-term / Short – term	396.00	-	**[ICRA]AA (Stable) / [ICRA]A1+**	-	**[ICRA]AA (Stable) / [ICRA]A1+**	**[ICRA]AA (Stable) / [ICRA]A1+**	**[ICRA]AA (Stable) / [ICRA]A1+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term, Fund based, Term loans	Simple
Long-term / Short-term, Fund Based	Simple
Long-term / Short-term, Non-Fund Based	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based, Term loans	Not Issued	-	-	75.00	[ICRA]AA (Stable)
NA	Fund Based, CC/WCDL	-	-	-	84.00	[ICRA]AA (Stable)/ [ICRA]A1+
NA	Non-fund based, BG/LC	-	-	-	396.00	[ICRA]AA (Stable)/ [ICRA]A1+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidated Approach
Securitrans India Private Limited	100.00%	Full Consolidation
CMS Securitas Limited	100.00%	Full Consolidation
CMS Marshall Limited	100.00%	Full Consolidation
Quality Logistics Services Private Limited	100.00%	Full Consolidation
CMS Securitas Employees Welfare Trust	100.00%	Full Consolidation

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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