January 25, 2024

Securitrans India Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short-term – Fund-based	40.00	0.00	-
Long-term/ Short-term – Non-fund Based Limits	40.00	0.00	-
Long-term/ Short-term – Fund-based / Non-fund Based	0.00	60.00	[ICRA]AA+(Stable)/ [ICRA]A1+, reaffirmed
Unallocated Limits	0.00	20.00	[ICRA]AA+(Stable)/ [ICRA]A1+, reaffirmed
Total	**80.00**	**80.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating is based on a consolidated view of the rated entity Securitrans India Private Limited (SIPL) with its parent, CMS Info Systems Limited (CMS). The basis for taking a consolidated view is the close operational, management and financial linkages between the entities. Both operate in the cash management business, sharing a common management and close financial ties.

The reaffirmation of ratings factors in CMS's strong leadership position in the cash management business and its diversified service offerings under its managed service segment, thus providing it with a competitive edge. The company's performance remained strong with a top line growth of 20.5% to Rs. 1,916.7 crore and improved margins of 28.2% in FY2023 on a consolidated basis, supported by increasing profitability of the managed services business with scaling up of segmental revenues. The growth momentum continued in FY2024 as well, with the company posting top line growth of 14.1% to Rs. 1,055 crore. Also, the company has a strong order book position supported by deal wins of Rs. 650 crore in H1 FY2024, which provides revenue visibility for the medium term.

Coupled with expected increase in penetration of ATMs in semi-urban and rural areas, increased outsourcing of ATMs by banks, expansion in business touchpoints, formalisation of economy, strong growth in organized retail and expected scale up in its managed services business is likely to support growth in the coming years. The company's well-established long-term relationships with its reputed clientele along with a wide geographic reach with a pan India presence further support its credit profile. The ratings also factor in the company's strong financial profile supported by healthy accrual generation, net debt-free status and strong liquidity position which is expected to sustain going forward as well.

ICRA notes the regulated nature of business as well as increase in usage and acceptance of alternative payment methods like net banking, mobile wallets, unified payment interface (UPI), credit cards, etc, though the total currency in circulation and ATM withdrawals have remained stable in last few years. The ratings also consider the inherent vulnerability of the business to the risk of cash loss in transit due to theft, fraud, armed robbery, etc. However, strong internal processes and comprehensive insurance cover provide comfort. ICRA also notes the company's plans to grow inorganically through acquisitions in the short to medium term, funded by its sizeable cash and liquid investments. The extent of capital expenditure (capex) 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 despite the rise in alternative payment methods, CMS will continue to maintain a strong credit profile and liquidity position, supported by healthy internal accrual generation and continued debt free status.

Key rating drivers and their description

Credit strengths

Leading player in cash management business— Incorporated in 2008, CMS is the leading player across all verticals of its cash management business. Along with its subsidiary (SIPL), the company manages ~133,000 business points (as of December 2023) and has ~40% market share.

Long-term relationships with key clients – The company's clientele comprises reputed and well-established players like SBI, HDFC Bank, Axis-Bank, ICICI Bank, Citi Bank, Hitachi Payment Services Private Limited, Financial-Software and Systems Private Limited, etc. Over the years, the company has developed strong relationships with its clients, which aid in incremental business supporting revenue growth.

Strong financial profile and liquidity position— In FY2023, the company posted a strong performance with a top-line growth of 20.5% to Rs. 1,916.7 crore and improvement in operating margin to 28.2%, supported by increasing profitability of the managed services business with scaling up of segmental revenues. The growth momentum continued in H1 FY2024 as well, with the company posting top-line growth of 14.1% to Rs.1,055 crore and the same is expected to continue for the rest of the year as well. This has led to increased accrual generation, which in turn supports its strong liquidity profile. Thus, the company's financial profile remains strong, aided by the steady revenue growth, healthy profitability, a comfortable capital structure and sizeable net worth, which is expected to sustain, going forward.

Sizeable order book provides revenue visibility in the near to medium term— The company has a healthy order book of Rs. 3,800 crore in its manged services segment (as on September 30, 2023), with new order wins of ~Rs. 650 crore in H1 FY2024. Since, these are relatively longer-term contracts, they are expected to generate recurring revenue for 4-7 years, thus providing revenue visibility for the near to medium term. ICRA expects CMS to secure new orders supported by the expected increase in penetration of ATMs in semi-urban and rural areas, increased outsourcing of ATMs by banks, expansion in business touchpoints, growth in organized retail and formalisation of the economy. Also, its software and technology business (under managed services) is likely to scale up, supported by healthy orders for remote monitoring and software.

Credit challenges

Vulnerability to regulatory risks— The cash management services have been regulated by the Reserve Bank of India (RBI) with regular interventions and increase in compliance requirements, leading to increase in costs for the ATM service provider. Though the industry expects the same to be passed on to customers, the scale and profitability remain vulnerable to any unforeseen adverse regulatory changes.

Challenges from alternative payment methods— Following demonetisation, the usability and acceptability of alternative digital payment methods like debit cards, credit cards and mobile wallets, etc, are on the rise, especially in metros and urban areas. The 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 and ATM withdrawal has remained stable over the past few years, the increase in alternative payment methods continues to remain a threat and the cash management business may face challenges if there is any 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 requirements as per the RBI guidelines, strong internal controls and processes, coupled with comprehensive insurance cover, provide comfort.

Liquidity position: Strong

The company's liquidity position is **strong**, supported by healthy internal accrual generation, cash and investments of Rs. 443 crore, as of September 30, 2023 (including encumbered balance), and sufficient cushion in the form of unutilised fund-based working capital limits of Rs. 76.0 crore, as on December 31, 2023, on a consolidated basis. Moreover, the company continues to remain debt free (excluding lease liabilities), which supports its financial flexibility and liquidity profile.

Environment and Social Risk

Environmental considerations – CMS is a service provider for various financial institutions, hence it faces limited environmental risks. However, it deploys a large fleet of diesel vehicles through its cash management business, which makes managing its carbon footprint an important consideration. The company continuously takes steps to reduce its carbon footprint by decarbonisation of its vehicles and increasing the usage of CNG vehicles.

Social considerations – Potential reputational risks could arise from the mismanagement or improper use of its vehicles and secured facilities by employees or others. CMS has been an occasional target of pilferage by miscreants seeking to steal its cash or other valuables. However, its track record and reputation for prudent management and security controls provide support that any future episodes are likely to be handled safely and without incurring any reputational damage.

Rating sensitivities

Positive factors – A rating upgrade for CMS is less likely in the medium term given the scale of operations and concentration of its cash management business. However, the ratings could be upgraded if the company demonstrates significant increase in its market share and revenue along with diversity in its business profile, while maintaining its operating margins, debt protection metrics and strong liquidity position.

Negative factors – Negative pressure on CMS's rating could arise if there is any material decline in its revenue and profitability. Any sizeable debt-funded capex or dividend payout that may adversely impact the credit profile and liquidity position could also lead to a rating downgrade. Specific credit metrics that could lead to a downgrade of CMS's rating include Total Debt/OPBITDA (debt including lease liability) exceeding 1.0 time on a sustained basis.

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. As of March 31, 2023, CMS had five wholly-owned subsidiaries, including SIPL, whose details have been enlisted in Annexure II.

About the company

Incorporated in 1998, SIPL provides a range of services such as ATM management, cash in transit, and dedicated cash vans. The company became CMS's subsidiary in June 2011 when CMS acquired a 95% stake in SIPL. Subsequently in 2014, SIPL became a wholly-owned subsidiary of CMS.

CMS, headquartered in Mumbai, is one of India's leading business services platforms focusing on BFSI and retail segments. The company was incorporated in March 2008, by hiving off selected business segments of CMS Computers Limited. CMS was historically engaged in two broad businesses, namely, IT services and print solutions (includes services like financial card management, print and digital solutions, IT infrastructure support, trading of IT equipment, and IT training services), and cash and ATM management. During FY2015, the IT business, along with the print division of CMS were carved out and demerged into a new company, CMS IT Services Private Limited.

After the demerger, CMS has been involved in cash management and managed services. The cash management segment includes ATM cash management, retail cash management and cash in transit. The managed services include banking automation, brown label ATM, managed services, software solutions and remote monitoring technology solutions.

Key financial indicators (audited)

CMS (Consolidated)	FY2022	FY2023	H1FY2024*
Operating income	1,590.5	1,916.7	1,055.3
PAT	224.0	297.2	168.6
OPBDIT/OI	25.2%	28.2%	27.8%
PAT/OI	14.1%	15.5%	16.0%
Total outside liabilities/Tangible net worth (times)	0.5	0.3	0.3
Total debt/OPBDIT (times)	0.5	0.4	0.3
Interest coverage (times)	27.8	27.5	35.4

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; * unaudited abridged financials*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec. 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
					Jan 25, 2024	Mar 22, 2023	Sep 26, 2022	Jul 15, 2021	-
1	**Long term/ short term- Fund-Based/ Non-Fund based**	Long term and short term	60.00		**[ICRA]AA+ (Stable)/ [ICRA]A1+**	-	-	-	-
2	**Unallocated Limits**	Long term and short term	20.00		**[ICRA]AA+ (Stable)/ [ICRA]A1+**	-	-	-	-
3	**Fund-based – Working Capital facility**	Long term and short term	-	-	-	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA (Positive)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	-
4	**Non-Fund based – BG/LC**	Long term and short term	-	--	-	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA (Positive)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term/ short term- Fund-Based/ Non-Fund based	Simple

Unallocated Limits	NA

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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long term/ short term- Fund-Based/ Non-Fund based**	NA	NA	NA	60.00	[ICRA]AA+(Stable)/ [ICRA]A1+
NA	**Unallocated Limits**	NA	NA	NA	20.00	[ICRA]AA+(Stable)/ [ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Securitrans India Private Limited	100%	Full Consolidation
CMS Securitas Limited	100%	Full Consolidation
CMS Marshall Limited (Subsidiary of CMS Securitas Limited)	100%	Full Consolidation
Quality Logistics Service Private Limited	100%	Full Consolidation
Hemabh Technology Private Limited	100%	Full Consolidation
CMS Securitas Employee Welfare Trust (‘CMS Trust’)	100%	Full Consolidation

Source: CMS Annual report FY2023

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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.

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