

September 26, 2022

Securitrans India Private Limited: Ratings reaffirmed; outlook revised to Positive

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	40.00	[ICRA]AA/[ICRA]A1+ reaffirmed; outlook revised to Positive from Stable
Long-term/ Short -term – Non-Fund based	40.00	40.00	[ICRA]AA/[ICRA]A1+ reaffirmed; outlook revised to Positive from Stable
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 CMS and SIPL. Both CMS and SIPL operate in the cash management business, sharing a common management and close financial ties.

The revision in outlook on CMS Info Systems Limited's (CMS) rating reflects ICRA's expectation that the company is likely to register a healthy revenue growth and higher accruals generation over the near to medium term. This is expected to be aided by CMS's leadership position in the cash management business, likely increase in rate realisations by ~40% over the near term due to higher implementation of the RBI's stringent operating requirements for cash management business in India, healthy order book under the managed services segment and increased revenue contribution from higher value-added services. This, coupled with a comfortable capital structure, is expected to continue to result in a healthy financial profile, marked by robust debt protection metrics and strong liquidity position. In addition to the revenue visibility provided by the healthy order book position, the expected increase in total ATMs in India and increase in outsourcing of ATMs by banks will enhance the growth opportunities for the company. The ratings continue to derive comfort from CMS' geographic reach with pan-India presence across 16,000 pin codes and long-term established relationships with its clientele comprising reputed players from the banking domain and managed service providers.

The ratings, however, remain constrained by the regulated nature of business as well as increase in usage and acceptance of alternate payment methods like net banking, mobile wallets, unified payment interface (UPI), credit cards, etc., though the total currency in circulation and ATM withdrawals have continued to increase in the 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 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.

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 cash management business. Along with its subsidiary (Securitrans India Private Limited), the company manages almost 70,000 ATMs (as of March 2022), which form ~46% of the total outsourced ATMs in India, and ~28% of the total ATMs in India.

Long-term relationships with key clients – The company’s clientele comprises reputed and well-established players with whom it has long-term relationships. Its clientele includes SBI, HDFC Bank, Axis Bank, ICICI Bank, Citi Bank, Hitachi Payment Services Private Limited, Financial Software and Systems Private Limited, etc. Incremental business from key clients has supported CMS’s revenue growth over the years.

Strong financial profile – CMS’s financial profile remains strong, aided by the steady revenue growth, improved profitability, a comfortable capital structure and sizeable net worth. In FY2022, CMS’s revenue grew by 22% YoY, supported by the growth in both the cash management and managed service segments. Its operating margin improved to 25.2% in FY2022 from 22.8% in FY2021, supported by higher operating leverage and network density, use of technology to automate logistics operations, higher share of value-added solutions. The company’s financial profile is also supported by its sizeable net worth of Rs. 1,256.1 crore as on March 31, 2022, and net debt-free status. The debt indicators are expected to remain comfortable, going forward, in the absence of any large debt-funded capital expenditure (capex).

Sizeable order book provides revenue visibility in the near to medium term – Under the managed service segment, the company had a healthy order book of Rs 2,500 crore as on June 30, 2022, with new order wins of ~Rs. 300 crore in Q1 FY2023 itself. These are relatively longer-term contracts which are expected to generate recurring revenue for four to seven 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, and increased outsourcing of ATMs by banks. ICRA also expects increased presence of CMS in software and technology business (under managed services) supported by healthy orders for remote monitoring and software business.

Credit challenges

Vulnerability to regulatory risks – The cash management services have been regulated by the 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 the customers, the scale and profitability remain vulnerable to any unforeseen adverse regulatory changes.

Challenges from alternate payment methods – post-demonetisation, the usability and acceptability of alternate digital payment methods like debit card/credit card/ mobile wallets, etc., are on the rise, especially in the metro 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 has increased post demonetisation, the increase in alternate 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**, aided by healthy internal accrual generation, unencumbered cash and cash equivalents of Rs. 260.1 crore as of March 31, 2022 (on a consolidated basis), and cushion available in the form of unutilised fund-based working capital limits of Rs. 96.0 crore as on March 31, 2022. Moreover, the company’s external debt-free structure continues to support its financial flexibility and liquidity profile. CMS is expected to incur capex towards compliance of RBI guidelines for the cash management business and toward execution of orders for managed services. ICRA expects the same to be funded through available liquidity cushion and strong internal accrual generation.

Rating sensitivities

Positive factors – ICRA could upgrade CMS’s ratings, if the company demonstrates improvement in its revenue, while maintaining its profitability, strong debt protection metrics and healthy liquidity.

Negative factors – The outlook on the long-term rating may be revised to Stable or the ratings may be revised downwards, if there is any material decline in the company’s revenue and profitability. Any sizeable debt-funded capex or dividend payout that may adversely impact the company’s credit profile and liquidity position, could also lead to a rating downgrade

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, 2022, 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

Incorporated in 1998, Securitrans India Private Limited (SIPL) provides a range of services such as ATM management, cash-intransit, and dedicated cash vans etc. The company became a subsidiary of CMS Info Systems Limited (CMS) 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 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 (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 were carved out and demerged into a new company, namely, CMS IT Services Private Limited.

Post the demerger, CMS is 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

Key financial indicators

CMS (Consolidated)	FY2021	FY2022
Operating income	187.7	199.7
PAT	15.2	17.7
OPBDIT/OI	15.6%	12.8%
PAT/OI	8.1%	8.9%
Total outside liabilities/Tangible net worth (times)	0.3	0.3
Total debt/OPBDIT (times)	0.1	0.1
Interest coverage (times)	22.1	40.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes, and amortisation; Amount in Rs crore; Note: Debt includes lease liability

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of March 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
				Sep 26, 2022	Jul 15, 2021	-	Feb 18, 2020	
1	Fund-based – Working capital facility	Long term/short term	40.00	--	[ICRA]AA (Positive)/[ICRA]A1+	[ICRA]AA (Stable)/[ICRA]A1+	-	[ICRA]AA (Stable)/[ICRA]A1+
2	Non-Fund based – BG/LC	Long term/short term	40.00	--	[ICRA]AA (Positive)/[ICRA]A1+	[ICRA]AA (Stable)/[ICRA]A1+	-	[ICRA]AA (Stable)/[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
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 are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based - CC/WCDL	-	-	-	40.00	[ICRA]AA (Positive)/ [ICRA]A1+
NA	Non-Fund based – BG/LC	-	-	-	40.00	[ICRA]AA (Positive)/ [ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
CMS Securitas Limited	100.00%	Full Consolidation
Securitrans India Private Limited	100.00%	Full Consolidation
CMS Marshall Limited	100.00%	Full Consolidation
Hemabh Technology Private Limited	100.00%	Full Consolidation
Quality Logistics Services Private Limited	100.00%	Full Consolidation

Source: Annual Report FY2022

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About ICRA Limited:

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