

CMS Info Systems Limited

January 08, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Working Capital Facilities	141.50	119.00	[ICRA]AA (Stable)/ [ICRA]A1+; Outstanding
Non-fund Based - Working Capital Facilities	138.50	231.00	[ICRA]AA (Stable)/ [ICRA]A1+; Assigned/ Outstanding
Total	280.00	350.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings continue 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 it continues to be a market leader. The ratings also factor in few high-value contracts won by CMS during H1 FY2019 that provide revenue visibility over the next two-three years. The ratings take comfort from CMS's comprehensive geographic reach with pan-India presence and long-term established relationships with its clientele comprising of reputed players. The ratings also favourably consider the strong financial profile of the company characterised by its healthy return indicators and debt-free position which results in strong debt coverage indicators. The liquidity profile of the company continues to remain robust with healthy cash flows generated from operations and sizeable cash and liquid investments (Rs. 74 crore as of September 30, 2018).

The ratings, however, remain constrained by the slowdown in ATM deployment post demonetisation, albeit moderate pickup has been witnessed in the current fiscal, and increased usage and acceptability of alternative payment methods like debit cards/credit cards/ mobile wallets etc. The ratings take 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 provide comfort. ICRA expects the industry to enter into a phase of consolidation following the guidelines issued by the Reserve Bank of India directing banks to subcontract cash management services to cash management companies with a minimum net worth of Rs. 100 crore (by end of FY2019). The scale of acquisitions undertaken by CMS, going forward, and financing means of the same would be a key rating sensitivity.

Outlook: Stable

ICRA believes CMS will continue to benefit from its position as the market leader in the ACM business coupled with its pan-India presence. The outlook may be revised to 'Positive' if the company is able to increase its scale of operations further, through organic and inorganic route, and sustain its high profitability levels. The outlook may be revised to 'Negative' if revenue growth is impacted due to slowdown in ATM deployment and increased use of alternative payment methods, or if the company undertakes any large-size debt-funded acquisition.

Key rating drivers

Credit strengths

Well established position in ATM and cash management business – Incorporated in 2008, CMS is the leading player in ATM and cash management business. Along with its subsidiary (Securitrans India Private Limited), the company was managing ~53,000 ATMs (as of September 2018) which forms ~35% of the total outsourced ATMs in India.

Strong financial profile – Over the past few years, CMS has maintained strong credit metrics aided by healthy cash flow generation. The company was debt-free as of September 30, 2018. The liquidity of the company also remains strong with adequate cash and liquid investments and sizeable undrawn bank limits.

Long-term relationship with key clients – The company has an established clientele comprising of reputed and well-established players with whom it has a long-term relationship. Its clientele includes SBI, Axis Bank, ICICI Bank, Hitachi Payment Services, Diebold System etc.

High-value contracts awarded in H1 FY2019 – The company has won five-six sizeable orders totalling ~Rs. 950 crore of which the key orders include 1) an order from the State Bank of India (SBI) for installation of 5,000 ATMs and deployment of Multi-Vendor Software at all existing and upcoming SBI ATMs; 2) an order from the Government of Rajasthan for installation of ~1,000 white label ATMs in the rural areas within the state; and 3) an order for end-to-end ATM deployment and management of brown label ATMs from ICICI Bank and HDFC Bank.

Credit challenges

Slowdown in ATM deployment – With shift in focus, post demonetisation, to adopting and promoting digital transactions, banks have slowed down fresh ATM deployments. However, the pace of ATM installation has picked up in the current fiscal with an addition of over 1,000 ATMs during H1 FY2019 as against a decline of ~250 ATMs during H1 FY2018.

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, strong internal controls and processes coupled with comprehensive insurance policy provide comfort to an extent.

Challenges from alternative digital 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. It has further gained momentum with various schemes and incentives by the Government to promote digital transactions. As a result, the ACM business may face challenges if there is a significant shift in usage of digital payment methods instead of cash.

Liquidity Position:

CMS has a healthy liquidity profile with sizeable cash balances of Rs. 74 crore as September 30, 2018. The company has been generating healthy cash flows with free cash flows in excess of Rs. 100 crore for FY2018. CMS has no long-term debt repayment obligations. Further, CMS has adequate cushion available in the form of unutilised fund-based working capital limits.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	The ratings are based on the consolidated financial statements of the issuer which take into account the company's wholly-owned subsidiaries, Securitrans India Private Limited, CMS Securitas Limited, CMS Marshall Limited, CMS Quality Logistics Services Private Limited, and CMS Securitas Employees Welfare Trust. CMS Info Systems Limited has provided an unconditional and irrevocable guarantee for Rs. 80 crore bank facilities of Securitrans India Private Limited.

About the company:

CMS Info Systems Limited (CMS), headquartered in Mumbai, provides cash management services. 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 print division of CMS was carved out and demerged into a new company, namely, CMS IT Services Private Limited. Post the demerger, CMS is engaged in ATM and cash management, ATM installation and maintenance services and card personalization 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)

	FY2017	FY2018
Operating Income (Rs. crore)	1,007.4	977.7
PAT (Rs. crore)	78.7	80.2
OPBDIT/OI (%)	15.5%	15.1%
RoCE (%)	21.9%	19.6%
Total Debt/TNW (times)	0.0	0.0
Total Debt/OPBDIT (times)	0.1	0.0
Interest coverage (times)	19.7	105.2

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating		Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
				Jan 2019	Dec 2018			
1 Fund based – CC/WCDL	Long Term/Short Term	119.00	-	[ICRA]AA (Stable)/[ICRA]A1+	[ICRA]AA (Stable)/[ICRA]A1+	[ICRA]AA (Stable)/[ICRA]A1+	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2 Non-fund based – BG/LC	Long Term/Short Term	231.00	-	[ICRA]AA (Stable)/[ICRA]A1+	[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 instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the 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	Cash Credit/ WCDL	NA	NA	NA	119.00	[ICRA]AA (Stable)/ [ICRA]A1+
NA	Letter of Credit & Bank Guarantee	NA	NA	NA	231.00	[ICRA]AA (Stable)/ [ICRA]A1+

Source: CMS Info Systems Ltd.

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation 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

ANALYST CONTACTS

K. Ravichandran

+91 44 4596 4301

ravichandran@icraindia.com

Abhishek Dafria

+91 22 6169 3344

abhishek.dafria@icraindia.com

Anubha Rustagi

+91 22 6169 3341

anubha.rustagi@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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