

March 22, 2023

CMS Info Systems Limited: Long-term rating upgraded; short term rating reaffirmed; outlook revised to Stable from Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loans	75.00	75.00	[ICRA] AA+ upgraded from [ICRA]AA; Outlook revised to Stable from Positive
Long-term/Short-term, Fund-based – CC/ WCDL	81.00	81.00	[ICRA]AA+ upgraded from [ICRA]AA; [ICRA]A1+ reaffirmed; Outlook revised to Stable from Positive
Long-term/Short-term, Non-fund based limits	344.65	399.00	[ICRA]AA+ upgraded from [ICRA]AA; [ICRA]A1+ reaffirmed; Outlook revised to Stable from Positive
Long-term/Short-term, Unallocated	54.35	0.00	-
Total	555.00	555.00	

*Instrument details are provided in Annexure-I

Rationale

The rating upgrade factors in the strengthening of CMS Info Systems Limited's (CMS') credit profile, as marked by steady revenue growth, improvement in profit margins, comfortable capital structure and strong liquidity position (unencumbered cash/ deposits/ liquid investments of ~Rs. 311 crore as on December 31, 2022). In 9M FY2023, CMS' revenue grew by 23% YoY, supported by the growth in both the cash management and managed services segments. Investments made by CMS in recent years on developing software solutions and remote monitoring technology solutions have resulted in an increase in the revenue contribution from the managed services business (pure managed services, technology solutions, remote monitoring, etc.) to 32.4% in 9M FY2023 from 17.2% in FY2019. This coupled with increasing operating leverage and network density along with use of technology to automate logistics operations, has driven the improvement in operating margins to 27.8% in 9M FY2023 from 25.2% in FY2022. Moreover, CMS' net- debt free status, coupled with healthy internal accrual generation has continued to result in strong debt protection metrics. ICRA expects CMS to sustain its revenue growth and margins over the near to medium term, supported by a healthy order book under its managed services segment, increased revenue contribution from higher value-added services and the likely increase in rate realisations by ~40% for ATM & retail cash management due to implementation of RBI's stringent operating requirements for the cash management business in India. Moreover, the expected increase in total ATMs in India, private banks plans for branch expansions and increase in outsourcing of ATMs by banks are also likely to enhance the growth opportunities for the company. The ratings also continue to favourably factor in CMS' leadership position in the cash management business and diversified service offerings under its managed service segment, providing it with a competitive edge. CMS' wide geographic reach with pan India presence and long-term established relationships with its clientele, comprising reputed players from the banking domain and managed service providers, further support its credit profile.

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 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, which have not

been sizeable relative to its scale of operations. Moreover, 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 CMS will maintain its 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 (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 clients include 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' revenue growth over the years.

Strong financial profile and liquidity position – CMS' financial profile remains strong, aided by the steady revenue growth, improved profitability, a comfortable capital structure and sizeable net worth. In 9M FY2023, CMS' revenue grew by 23% YoY, supported by the growth in both the cash management and managed services segments. The company's operating margins remain healthy at ~27.8% in 9M FY2023 supported by higher share of revenue from the managed services segment (pure managed services, technology solutions, remote monitoring, etc). The revenue from managed services segment has increased to ~32% in 9M FY2023 over 17.2% in FY2019 providing diversification benefit and reduced concentration on cash management segment. The company's financial profile is also supported by its sizeable net worth of Rs. 1,397.5 crore as on September 30, 2022, and debt-free status. The debt indicators are expected to remain comfortable, going forward, given the strong accrual generation and absence of any large debt-funded capex. The company's liquidity remains strong with unencumbered cash and investment of Rs. 311 crore as on December 31, 2022.

Sizeable order book provides revenue visibility in the near to medium term – The company had a healthy order book of Rs. 3,000 crore in its managed services segment as on December 31, 2022, with new order wins of ~Rs. 800 crore in 9M FY2023. 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 the 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 alternative payment methods – Post-demonetisation, the usability and acceptability of alternative digital payment methods like debit card/ credit card/ 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 has increased 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, aided by healthy internal accrual generation, unencumbered cash and cash equivalents of Rs. 311 crore as of December 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 its managed services. ICRA expects the same to be funded through available liquidity cushion and strong internal accrual generation.

Environment and Social Risk

Environmental concern: CMS is a service provider for various financial institutions, so there is limited environment risk. However, CMS deployed a large fleet of diesel vehicles through its cash management business, so managing its carbon footprint is an important consideration. The company continuously take steps to reduce its carbon footprint by decarbonization of its vehicles and increase the usage of CNG vehicle

Social concern: Potential reputational risks could arise from the mismanagement or improper use of the company's vehicles and secured facilities by its employees or others. CMS has been an occasional target of thefts by miscreants seeking to steal cash or other valuables in its possession. However, its track record and reputation for prudent management and controls provides support that any future episodes will be handled safely and without incurring reputational damage.

Rating sensitivities

Positive factors – A ratings upgrade for CMS is less likely in the medium term given the scale of operations and concentration on 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' ratings could arise, 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 credit profile and liquidity position could also lead to a rating downgrade. Specific credit metrics that could lead to a downgrade of CMS' ratings 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
Consolidated/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of CMS. As of March 31, 2022, CMS had five wholly-owned subsidiaries, who are enlisted in Annexure 2.

About the company

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 lines of businesses, namely, IT services and print solutions (includes services like financial card management, print and digital solutions and 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.

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 technology solutions.

Key financial indicators (audited)

CMS (Consolidated)	FY2021	FY2022	9MFY2023*
Operating income	1311.4	1590.5	1413.3
PAT	168.5	224.0	217.3
OPBDIT/OI	22.8%	25.2%	27.8%
PAT/OI	12.9%	14.1%	15.4%
Total outside liabilities/Tangible net worth (times)	0.6	0.5	NA
Total debt/OPBDIT (times)	0.4	0.5	NA
Interest coverage (times)	36.3	27.8	28.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore *unaudited

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 Dec 31, 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Mar 22, 2023	Sep 26, 2022			
1 Fund based - Term loans	Long term	75.0	-	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	[ICRA]AA (Stable)	-	-
2 Fund-based - CC/WCDL	Long term and short term	81.0	--	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA (Positive)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	-	[ICRA]AA (Stable)/ [ICRA]A1+
3 Non-Fund based - BG/LC	Long term and short term	399.0	--	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA (Positive)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	-	[ICRA]AA (Stable)/ [ICRA]A1+

4 Unallocated	Long term	-	--	-	[ICRA]AA	-	-	-
	and short term				(Positive)/ [ICRA]A1+			

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	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 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	Fund based - Term loans	Not Issued	NA	NA	75.0	[ICRA]AA+ (Stable)
NA	Fund-based - CC/WCDL	NA	NA	NA	81.0	[ICRA]AA+ (Stable)/ [ICRA]A1+
NA	Non-Fund based – BG/LC	NA	NA	NA	399.0	[ICRA]AA+ (Stable)/ [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 of FY2022

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About ICRA Limited:

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Branches



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