



“CMS Info Systems Limited
Q1 FY ‘26 Earnings Conference Call”

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MODERATOR: **MR. AVINASH SINGH – EMKAY GLOBAL FINANCE
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Moderator: Ladies and Gentlemen, Good day and welcome to the CMS Info Systems Limited Q1 FY '26 Earnings Conference Call hosted by Emkay Global Finance Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star then zero on their touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Avinash Singh from Emkay Global Finance Limited. Thank you and over to you, sir.

Avinash Singh: Thank you Shruti, Good evening, everyone. On behalf of Emkay Global, I welcome the management and thank them for this opportunity. We have with us today Rajiv Kaul, Executive Vice Chairman, CEO, and Whole-Time Director, Pankaj Khandelwal, President and Chief Financial Officer. Anush Raghavan, President and Chief Business Officer, and Puneet Bhirani, President Operations, I shall now hand over the call to the management for their opening remarks over to you.

Rajiv Kaul: Good afternoon, everyone, Thank you for joining our Q1 FY26 analyst call. In a seasonally weak quarter marked by geopolitical issues and muted consumption. We delivered a consolidated revenue of INR627 crores, up 5% year-on-year, and a PAT of INR93.6 crores, which is a 3% growth. The above mentioned issues resulted in a 10% dip in India ATM transactions at an aggregate level and also impacted the variable billing in our retail cash management business.

Our best estimate is that the revenue impact of these would have been to the tune of INR8 crores to INR10 crores in Q1. Additionally, wage increases and long-term union agreements increase our Q1 costs, and as you can see from earlier year trends, this gets evened out over the year through productivity gains and through pricing. In the last five months, our field operating teams have had to work exceptionally hard to help large banks with handling their ATM channel availability issues at an industry level, which we mentioned too in the last call.

While we have seen some other services firms delayed their wage hikes, we haven't done so. To be fair to our team members for their effort and hard work. Keeping our teams motivated and engaged in a business which relies on trust each day is very important. On a positive note, we expanded our cash logistics footprint to 153,000 business touch points, which is a 9% year-on-year increase.

We also secured new order wins worth INR500 crores in the quarter, which also includes a landmark multi-year multi-vendor software contract with the leading bank. We are pleased to announce a binding agreement to acquire Securens Systems Private Limited, a pioneer in the AIOT remote monitoring space with a strong reputation built over years of investment in tech capabilities.

We have known the company for several years and have high regard for what the team has built. We won this deal against other strategic bidders and an enterprise value of approximately INR80 crores, and this type of deal is a win-win and align perfectly with our M&A philosophy valued at approximately 10X FY 2025 adjusted EBITDA and estimated 4X on a post synergy basis, this will help us scale our vision AI business, expand our client base, and enhance our tech stack for intelligence surveillance and productive analytics across BFSI and retail.

I hope some of you have had the chance to look at our revamped brand positioning launched earlier this week. Basis extensive research, we decided to retain the CMS name but change our brand positioning from connecting commerce to a brand promise of unified platform limitless possibilities.

We feel this is bold, forward-looking, and reinforces our platform approach to building a unified business. This shift also underscores a vital role we play for our customers today, as well as a significant platform. Potential of our platform going forward. Examples of which are enumerated very well on our new website www.cms.com.

I really urge you to go and have a look at our new website before I hand over to Pankaj for the financial details, our metrics, while our metrics may not reflect all the underlying effort going into running and strengthening our robust platform. However, I'm very proud of the incredible hard work which our teams are bringing to bear to work every day. Pankaj.

Pankaj Khandelwal:

Thank you, Rajiv. Let me walk you through the financial details for Q1. Our consultant revenue grew to INR627 crores, a 5% increase year-on-year, while our PAT reached to INR93.6 crores, up 3% on year-on-year basis. In addition to wage hikes which typically results in softer Q1, this quarter was further impacted by specific sectors, which Rajiv talked about earlier.

Both cash logistics and managed services reported 8% year-on-year growth, scaling to INR417 crores and INR258 crores, respectively. The total EBITDA grew by 3% year-on-year to INR159 crores while EBIT remained flat at INR113 crores, because of timing difference between the investment and corresponding revenue accruals.

Our balance sheet remains robust and we will continue to disciplined approach of capital allocation to support both our organic growth and strategic acquisitions like Securens. Our current capex guidance for the year stands as INR250 crores to INR300 crores versus the initial guidance of INR300 crores to INR325 crores.

Let me now hand over to Anush to share key business highlights.

Anush Raghavan:

Thanks, Pankaj. Good afternoon, everyone. Let me share with you a more detailed view of the underlying market trends to the best of our knowledge. As expected, the ATM install base has been quite impacted due to AGS-related ATM shutdowns across banks. We did mention it to you last quarter that it would take a while for the dust to settle, and the situation right now still remains quite fluid.

These contracts are complex, with multiple asset ownership issues, unpaid vendor dues, which are all unresolved. Most of the banks are taking time to clean up this old legacy network, preferring to shut down the ATMs and later roll out new RFPs for replacement or expansion.

Out of the almost 20,000 brown label ATMs of AGS, almost 50% of them have been shut down as we speak. The AGS issue has affected liquidity and credit availability in the sector. This has caused an adverse impact on certain small and mid-sized MSPs who are taking time to raise capital for fresh ATM deployments, even for those orders that they had won last year.

Further, the slowdown in consumption is weighing on ATM transactions. BLA deployers are preferring to wait for economic growth to pick up. Case in point, across key public sector banks, out of 24,000 ATMs awarded over the last year, only 6,000 have been deployed so far. This causes a downstream and consequential delay and impact on our ATM cash revenues.

The Chairman and Managing Director of SBI has been quoted in the media recently affirming that the dip in the SBI ATM base is transitory in nature and expected to recover by H2. In a large public sector bank cash outsourcing RFP for 10,000 ATMs in March, CMS ended up being the only qualified bidder, and we were hopeful for this to go live in Q1 itself. The bank has unfortunately decided, however, to cancel the RFP, refloat it to get more bidders. We hope for this to close in Q2 and go live in H2.

While these industry trends are challenging in the immediate term, we do believe that it will lead to an accelerating consolidation MSP segment which over the medium term should prove positive for pricing and fixed priced BLA opportunities. Our ATM cash market share has increased to 58% to 60%, reflecting our stability amidst the volatility and churn that we witnessed.

As you are aware, our approach changed last year itself in pivoting away from transaction price BLA contracts, and since then I've focused on mostly fixed price contracts. In good news, our INR500 crores of order win spans fixed price BLA, Algo software, and card payments and has no transaction linked BLA revenues.

We have significantly scaled up our relationship with ICICI Bank over the last 12 months, and they are now our second largest customer. In Algo MVS software, we have secured a landmark deal, meaning that now two of the top four Indian banks will be using our software across 85,000 plus ATMs. This is a strong endorsement of our platform capabilities.

With that, let me now hand over to Rajiv for the closing remarks.

Rajiv Kaul:

To summarize Anush's commentary, I think I want to reiterate that we will focus as a team on doing the right things from a long-term perspective. We aren't chasing growth at any cost. We are very careful and we are walking away from low margin RFPs. We retain our pricing discipline and we prioritize contracts which will give us predictability and scale.

At the same time, we continue to compete vigorously against lower margin players to gain market share across most of our businesses. This quarter itself was about disciplined execution

amid a software environment. We delivered stable financials, signed a strategic acquisition, and continued to make the long-term investments in our brand, people, and automation.

In our last call, we had highlighted our strong FCF and our balance sheet strength of over INR1,000 crores. This is a phenomenal strength. Over the past few years, many of you have regularly asked about our M&A plans and have been patiently waiting to hear more on this front. Our growth and M&A strategy has been consistently focused on building and scaling cash flow generative businesses.

We have a culture of investing in technology to drive operating leverage at a higher scale and thereby creating a virtuous flywheel. Over the last decade, for those of you who are new to CMS, I want to remind you that CMS has a track record of having done 8 programmatic M&A deals at all types of sizes and all of them successful.

The last acquisition we did was in 2021 before our IPO. In the last couple of years, it has been challenging to transact given a fairly frothy IPO market. In the last year itself, we have come close to signing some mid-size deals but had to walk away either due to cultural misalignment or to deal valuation issues.

A case in point, we almost entered the bullion logistics sector through an M&A opportunity but chose to walk away as the promoters wanted a JV for perpetuity while we would be running the business. This did not make sense for us. There are other companies we are looking at closely, and we will update you as and when there is anything to report.

The sectors of interest are mentioned in our investor deck. I do want to reiterate that a tough macro presents a very good opportunity for deal making. And while we have been patiently waiting for these times, even though IPO markets can continue to surprise us.

In closing, we are making solid all-round progress in executing what we can control, gaining market share, driving alignment and accountability across our various operating teams. We have done an extensive reorg, which we mentioned last time. Our leadership team is fairly simplified.

We have Anush Raghavan, who has helped build our cash logistics business to its market share-dominant position today, who is now the Chief Business Officer for the entire business across all our businesses. Puneet Bhirani, who joined CMS 16 months ago from Byju's, OLA and earlier Mphasis has taken on the entire operational gamut of responsibilities as Chief Operations Officer. This will help us phenomenally in customer centricity, alignment, and accountability, along with agility to compete in a fairly aggressive marketplace.

With that, I'd like to end our commentary and move forward to Q&A. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Hitesh Arora from Abakus Asset Manager.

Hitesh Arora: I just had a query on the margins for both the businesses, the cash and the managed services businesses -- the EBIT margins. So, the margins have fallen quite sharply from -- I'm just reading

the numbers for the cash business from 25.5% to 23.9%. So that's roughly 160 bps down. And even in the managed services, it's down from 17% last quarter to 14.1%. So, it's almost -- it's 290 bps down, a significant reduction. And despite the share of the trading revenue actually would have fallen over the last 1 year. So just a bit surprised with the steep reduction in the margin. Could you kindly comment?

Rajiv Kaul:

Sure. So, Hitesh, I mean, I'll have Pankaj give you a little more detail. But I think we, in the last call, said we would like you to start thinking about the company on an overall composite level because CMS managed services business has become now the second largest customer for CMS ATM cash management.

So, a lot of the revenue and cost attributing it clearly, I mean, to each business unit gets very difficult. We continue to report the numbers, but I think look at it overall. Q1 has been softer in the cash business, specifically if you think of the wage hike impact in Q1 will have a dip in margins.

We also continue even today to support a large public sector bank in delivering ATM cash services at a marginal cost because they needed help in transition from our earlier vendor while they will decide on an RFP and who will win this contract later. In terms of the managed service business at a high level, there is straightaway an operating margin impact from the dip in transactions.

I think at the aggregate level in India, the ATM transactions for ATM in this Q1 have dipped from 12 to 14 transactions. That goes straight unfortunately do not -- all the revenue goes straight away from the bottom line. So I think your question is all fair and valid. I think we'll have to wait for the year to progress to start seeing changes and improvement in the margin profile as the contracts will move up.

In fact, in MS from my memory, we also had a large contract where the investments have gone in right and the revenue accrual will start in the later part of the capex investments have been made. Therefore that impacts a bit, but the revenue accrual will start later in the year.

Pankaj Khandelwal:

You see that EBITDA for MS INR60 crores which has gone to INR64 crores in this quarter whereas the EBITDA has dipped from INR36 crores to INR33 crores. So there is a delta of around 17% and that is largely because of the project execution. The ramp up will take time. However the depreciation and other cost is already hitting us.

Moderator:

Thank you. The next question is from the line of Balaji from IIFL. Please go ahead, sir.

Balaji:

Thanks for taking my question. My first question is on the status of the 7,000 odd ATMs owned by banks for which AGS was doing pure managed services. So have the banks actually bid those out and if so, have you seen any wins from entire portion of the price? That is my first question.

The second question is on, this acquisition that you have done of Securens. So in your opening remarks, you did mention that this deal happened at 10 times EV EBITDA FY '25 and on a post-

synergy basis, it will be about 4x. So, can you just elaborate a bit on the synergies, from where the synergies will come and a bit more color on how you come to these numbers?

Anush Raghavan:

Balaji. Hi, Anush here. I will just take the first part of the question. As far as the non-BLA ATMs were concerned, I think as we had updated in our earlier calls as well, we've been extending help along with the broader industry in helping banks with the transition. So, we've been able to get our market share, if not slightly more than that in terms of success in some of these contracts.

In fact, when we speak about ICICI Bank and a few other private sector banks where we were not present, this has allowed us an opportunity and entry strategy into those, balancing against what was earlier a slightly more PSU bank-based portfolio.

Rajiv Kaul:

So Balaji, I think I'll give you a high-level answer at this stage, I think it will not be right for me to share intricate details of how the synergy will come out. But at a high level, the productivity and scale. When you take the two entities together, we will have a business operating at roughly about 45,000 sites live on whenever the transaction concludes.

As that productivity will change and improve, we will save significantly on any common overhead infrastructure cost. And even in terms of just kind of management, IT infrastructure, there are many costs which we can. So we have a standalone company running roughly an INR80 crores business, which will merge into INR2,500 crores company running a larger business overall.

I think there are lots of costs which can -- which are not essential when we move forward. So, I think that's the high level when we think about it. And also, what I wanted to mention is this was a fairly competitive bid process. For us, it was about creating a deal which sort of respects the brand, helps the team move forward and creates a win-win for customers also. And importantly, I think from a book value perspective, I think this will be a transaction which will be close to book value.

Balaji:

Got It. Thanks a lot and all the best.

Moderator:

Thank you, sir. The next question is from the line of Krushi Parekh from BugleRock PMS. Please go ahead.

Krushu Parekh:

Yes, so the first question is on the margins front that, so understand that salary is something that we have jacked up now, but moving forward in over a period of time, what are the levers that we have to ensure that the margins regaining what it was?

Anush Raghavan:

Krushu. Hi, Anush, here. So I think if you look at our historical performance over the years, you will notice that there is a certain cyclical to our quarterly earnings. There is always Q1 is always a little bit of a step change on account of creating provisions and also paying out what is a fairly large base of people whom we work with, some of them unionized, many of them not.

Those agreements are done through the year, but the provisions get created at the beginning of the year. And then we have the rest of the year to as growth comes in, it helps to drive operating

leverage and productivity. It also sort of creating these provisions at the beginning of the year also gives us a healthy way of trying to figure out what are the right ways to approach pricing with our customers.

So generally we will tend to see that Q1 starts off a little weak and through the year we sort of normalize closer to our margin overall margin profiles.

Krushish Parekh: Okay and my second question is, so we are witnessing this dip in the ATM transaction, so in your view and how you read the industry, is it purely because of slowdown in the overall consumption and the economy or there are some other factors also at play?

Anush Raghavan: No, I think the way we see it and we've been studying this macro for a long time, publishing our reports about it. I think this is, again, a little bit transitory in nature. Generally, what we are seeing right now is not unusual in the context of longer-term annual cycles. For various reasons, Q4 is usually a period of high spends in the economy, followed by Q1 which is usually a dip.

As for certain economies we've spoken to offline in the past, many of them allude this to also semi-urban rural India going through its own particular agri seasons of harvest and everything. I think right now, I would just allude this to a combination of two things, which is the cyclical nature of the Indian economy, a little bit more so now, especially with broader consumption being more muted and tepid.

Krushish Parekh: Okay. Thank you. I will join back in the queue.

Moderator: Thank you. The next question is from the line of Prithvish Uppal from Elara Capital. Please go ahead.

Prithvish Uppal: Thanks for taking my question. So I'm sorry if I, if this is repetitive and you may have covered in your opening remarks, so just wanted to understand the order life cycle. So right from when you win the order to when that flows through to the revenue. So if you could just possibly help us understand the timeline for that and how much is the execution ramp up that has happened here.

My second question is that, you highlighted that Q1 is usually a seasonally weak quarter, but if I look back last couple of years Though, at least, the revenue growth has been about 12% to 13% plus, so how do we read that in context to the Q1 of this year and this lastly is on the acquisition.

So, what is that -- what is the strategy going forward in terms of how we plan to work over here, is it more from a client diversification, perspective or just to understand the rationale behind, why you went with these guys in particular, thanks?

Anush Raghavan: Let me take the first two questions, Prithvish. So, I think as soon as the order book and its translation revenue is concerned, we may have spoken about this in the past as well, but just to rephrase it to everybody who's new to us and on this call today. Our order book by definition we only limited to the non-cash business portions of the revenue, simply because these are contracts which are either multi-year, recurring or annuity in nature.

This could be brown label ATM contracts, remote monitoring, for instance, or fixed price BLA as well. Generally when it comes to executing a BLA type contract, the timelines would be anywhere from 6 to 12 months. The one of the key dependencies is really being able to get the hardware and the overall solution tested and approved by various agencies. These could be NPCI, Visa, Master, mostly from a payment systems angle. And subsequently there is the whole aspect of getting the site readiness and rollout happening. So roughly about 6 to 12 months on brown Label ATM.

Remote monitoring is extremely dependent on the nature of the solution and the scale of the implementation. Last year we won this, what we told you a fairly complex deal with a large public sector bank to set up an on-prem command center and roll out branch monitoring for thousands of their branches.

So things like that end up having a much longer gestation period simply because developing the use case of these AI models and getting those approved to a certain satisfaction level of the customer has a certain, just incubation time. But broadly I think for the purpose of averaging it out, I think 6 to 12 months is what we would think of internally.

Rajiv Kaul:

But think of the software contract we have with ICICI, this could take 6 to 12 months, but some of these are not under control because when you're building software solutions, integration with bank systems approval process could have sometimes delay which are very difficult to fathom when you start the project and therefore forecasting accurately is not very easy. Given the nature of our contracts it become far more complex and into an integrating multiple things in the contract, not just one piece. So there are the first 2. You on the second one?

Anush Raghavan:

I think with respect to your question on the first quarter, looking at the previous trend lines, I think look at you look at it both Y-o-Y as well as sequential from a sequential perspective, when I look at FY '24 FY '25, and FY '26. They're all sort of fairly in a narrow range of '24 was 2%. FY '25 was in fact a slight decline of 4%, and '26 was 1%.

What you're alluding to as a Y-o-Y metric for last year, I think would have been more because FY '25 would have had a larger product component share, but I think this gives you a broader sense of how to think of it from a service revenue perspective. And I think last question...

Rajiv Kaul:

So I think for any acquisition, right, you're trying to do this for a few things from our angle and maybe you're newer to our calls. I think our approach is always to think about looking at majority control or full control of company in a sector which we already understand very well with.

Securens particularly was relevant to us simply because it's one of the key players, it's among the top five players in the space. It's one of the first ones to have set up operations. They've built a very good technical capabilities while we have our own, but it sort of helps having a client entry.

It also is from, bluntly from a block and tackle perspective. If the sector which we want to dominate as we go forward, right? We were roughly at 25,000 to 30,000 sites we have a midterm

goal to 100,000 sites. We don't want a good quality player to be bought by somebody else who starts competing with you and you know destroying the market and whatnot.

So as and when you get an opportunity to consolidate add the value which makes sense, and the payback period is in our norms, the ROCE on the deal makes sense, we will go ahead and execute.

Moderator: Thank you. The next question is from the line of Divyansh Gupta from Latent PMS.

Divyansh Gupta: So first question was on the camera. So in the last quarter or sometime that whole Chinese camera not being allowed or government expressing concern, does it affect us any which way, us plus Securens?

Rajiv Kaul: I'll let Puneet, who runs the entire operation, handle that.

Puneet Bhirani: So of course, this change has caused some stress in the system, but all of us are working with our customers. There are certain cameras that have been STQC approved. So, we are working with all the customers to either get the realignment done and continue the deployment or get some interim relief to manage the situation and then change the cameras as the STQC approval comes.

Divyansh Gupta: So, does it also affect any fresh new orders even, which might get delayed because of all of this or how should we read going forward?

Puneet Bhirani: The industry understands this. Customers are aware of the challenge. And now more and more cameras are getting certified, and it's a transitory phase, which will get over very soon.

Divyansh Gupta: Got it. Understood. And the second question, a 2-part question on the Securens transaction. First was from a customer sector perspective, right? My understanding is our Hawkeye was mostly BFSI with, let's say, that Q order that we won with some other segments. But Securens, is there a sectoral overlap or it's a very complementary sector to us? And the second part of the question is that any reason why they were selling at book value or let's say, what was their incentive to exit from the business?

Rajiv Kaul: So I think we should maybe ignore my comments on book value for right now, just look at the logic for CMS. If you're a CMS investor, we should focus on CMS and not Securens so much. I think there is an overlap, of course, on BFSI. The BFSI is a large space where there are 4 to 5 players competing fairly aggressively and working there.

They also, given their history in the industry and a long track record, have been able to penetrate a broader set of clients, including retail, which are of interest to us. They have solution sets, they have teams. And we are hoping with the CMS wherewithal, we should be able to invest and grow that faster.

On the CMS side, we already did mention to you or other investors in the last call that we were able to expand with our capabilities into newer sectors that includes quick commerce and EV infrastructure charging sectors.

So, I think overall, we are looking at -- there is a reasonable amount of complementarity. Yes, there is also some overlap. I think that's where some of the synergies come in. But each client deal is very specific, right? Each client is looking for always whenever there is software, there is always a little bit more tailoring and tailored solution to a particular client.

And doing pilots, proof of concepts and winning clients and replacing earlier installed base of a competitor can be quite an onerous task over time. In terms of, I think a deal -- I just think that overall, one has to take a call on what's the best way for a company to continue growing and competing.

And I think for some of the medium-sized players, we think they will, over time, have to merge or sell into some of the larger ones. Our job is to make sure that we can keep growing much faster than the rest of them.

Divyansh Gupta: Got it. I have a couple of more questions, should I continue or join back the queue?

Rajiv Kaul: Divyansh, we will finish it now.

Divyansh Gupta: Sure. So, the SBI tender, while it's great to know that we were the only guys which were qualified and for maybe public sector reasons, they rejected and they are redoing the process. The question that is there is that AGS went away, but there are other players, other bigger players that are also there, right?

So how will the process now work? I'm assuming they will relax some conditions, more qualification comes in. Is that the -- how we should think and therefore, commercials might also get affected because they are reducing the, let's say, specifications?

Rajiv Kaul: I don't think we of all people can comment on a process run by a large bank in the country. I think we'll wait for the process to pan out and see how it goes.

Divyansh Gupta: Got it. And the last question is that in our previous calls, we always said that our first priority is growth, margins come second. But at least in the last year, at least, we have been struggling because of things which might be under our control or might not be under our control. Are there any green shoots that you are seeing that which gives you confidence that, let's say, a quarter or 2 down the line, things should happen or anything that you can share from your closer view on the business?

Rajiv Kaul: So, the comments I remember, which I have made historically, and I hope that's what you've heard is that between growth, margin profile and market share, we would, as a management team, love to get 2 out of 3 right every quarter. We would prioritize -- if there is growth, we will focus on first on growth while we maintain market share, and then margins, we don't mind if they go up or down a little bit.

I think the last quarter, we did a fairly good job on both market share and margin profile. I would say this quarter, I think only market share is where we would tick the box and not on growth on margin profile. But I mean, I know we are all in the QS/QT zone in life, but I think from an annual perspective, we hope to be able to bridge and balance this out by the end of the year.

Green shoots, I have now just become wary of, thinking hopefully about green shoots. Last year we thought about festive season. I think what is in our control is the order. And trying to execute them sooner as soon as we can. I think that's what we are just focusing on. The rest, of course, we'll compete.

We block and tackle opportunities. We look at M&A, but we have a fairly significant order book and if you ask us, are we feeling positive and optimistic, yes, in the next couple of quarters, yes, we are simply because we have the orders, we just have to get them up and running.

And while there will be new orders or new bids come up for winning or losing whatever we'll see. But I think we have a healthy pipeline to go focus on executing to regenerate the growth aspiration which is set in our services business of 13% to 14% for the next couple of years. That's what we are we are focusing on targeting right now.

Divyansh Gupta: Got it. I'll join back the queue. Thank you.

Moderator: Thank you. The next question is from the line of Praveen Kumar from Acuitas Capital Advisor. Please go ahead.

Praveen Kumar: Yes. Hi, thank you for the opportunity. I had a couple of questions. The first one was on, the consumption slowdown which I've been referring to quite a few quarters now. So just wanted to understand how do you see in terms of your medium term growth target of, let's say 14% or thereabouts that you want to grow. At what point do you think this consumption slow down persisting starts affecting your aim to grow at net growth rate?

And what kind of, tactical or strategic action do you see yourself taking to overcome that, right? That's the first question. Second question was on the card services part of the business, which is the smaller part, but I noticed that Q1 on a Y-o-Y basis it declined by 23%, the top line. So I just wanted to understand any specific reasons for that. Yes, thanks.

Rajiv Kaul: I mean, great questions. Let me take the first one. I will refer to again consistently we talked about that as a company our future and growth is linked to three broader terms in India, consumption growth, formalization for GST and whatnot, especially in the retail sector and outsourcing trends in banks.

Now I think we've had a macro situation FY '22, '23, '24 where almost all three played out very well, maybe it was post-COVID, post whatever, but it played out very well, including a positive regulatory environment which I think help us drive very solid growth of almost 20% revenue each year and 30% PAT each year.

The slowdown impact also linked to some outsourcing changes in the last year, I think has clearly affected our growth in FY '25 itself and right now in FY '26 Q1 as you see. So I think we are right now at the receiving end of these factors not playing out. In fact, even in formalization, now this is maybe too early, but when we look at our retail sector, we have gained a good share. We are a market leader there. We continue to gain a lot of new stores for our retail cash business, but we are at the same time seeing a massive churn in store shutdowns.

Now I suspect, and I'm not a retail sector expert, I suspect this would be that post-COVID there was a lot of growth amongst organized retail and physical store locations across, organized retail and NBFCs and whatnot. And then there is churn. When there is some slowdown, people start churning the bottom 5%, bottom 10% of stores. So while we continue to have new store editions, we also continue to see a fairly aggressive churn in the number of stores which are maybe sort of shutting down.

Now each time this happens, there is a ramp up ramp down cost, right, when you have to change your routes, you have to involve new routes, you have to move resources. So I think we are, I would say the last 5 quarters there have been maybe 3 or 4 months where we think positive macro environment, maybe around festive season, a little bit in February and March, April, May, June has been quite tepid. I would point you to our India consumption report which we print annually. I think the last one was done in May. It'll give you some sectoral trends.

So I don't want to take 3 months and be able to tell you. I can't tell you what the next 3 months will be like and when this will pick up. We hear, like you would on different commentary that rural is starting to pick up and urban is about to pick up, so we'll keep our fingers crossed and wait for it. And I'm sorry on your second question, I missed the question, but if somebody else heard my team, they will answer.

Pankaj Khandelwal: For the card business, there is a slight dip in this quarter. There were the 2 banks who had delayed the re-carding by one quarter and that is resulted slight dip in the revenue.

Praveen Kumar: So this is a delay, not a loss of?

Pankaj Khandelwal: No, no. There's no loss of contract. The contract remains same. There is a deferment by the two banks for the re-carding

Rajiv Kaul: Yes. The projects have got postponed or whatever, but I think in the INR500 crores of order wins, we've got a good card order win as part of that itself.

Praveen Kumar: Understood. Rajiv, just to follow up on your response to the earlier question. So from an outside perspective, how should we look at, I mean, how should we correlate consumption growth as seen by, let's say results of other, consumer focusing companies, etcetera. How should we index that to the growth rate you can grow it? I mean, can you give us some color on that?

Rajiv Kaul: I'm unfortunately not a public market investor, so I don't know how others are doing. But, what I would say is, the -- so let's drill down, right? Let's take our retail sector. Our retail sector is a sort of a misnomer. It doesn't only do retail. It does organized retail, it does e-commerce, it does

NBFCs, it does hospitals, and the schools. So I think some of those are it also a public sector, right? It could do railways, cash pickups and whatnot and processing. So some of it is steady, but some of it is variable, right, especially discretionary income or discretionary spend is variable.

So I think we see we an impact there because 80% to 85% of the revenue is on a fixed basis, like we need to turn up and whether we collect INR50,000 or INR5 lakh we still get paid an X amount. But there is an amount linked to variable -- sorry, there's an amount of variable linked to the amount of currency being picked up and processed. So that does get affected and therefore has both an operating leverage or a de leverage in moments when there is variability.

So I think we've seen very steady businesses and we've seen market share growth. I feel that our market share and competitiveness, we are at the forefront. We would think that with formalization and GDP growth, we would like to target growing at double digits in these businesses. I think we've alluded to 10% to 12%. And then whether sometimes you get market share gain or you get operating leverage leading to an EPS growth, which is better, that's where we come up to, trying to grow the 12% to 14% or 13% to 14% range.

Now that's only retail. I picked that one example. If you take RMS, that's growing obviously faster. It's a smaller business. We are having good traction in the last 2 or 3 years with our capabilities and our scale and also our competitive positioning out there. So we aim to grow that business at a much larger pace. But is dependent on outsourcing again, right? There are 100,000 ATMs and let's say branches which are not yet outsourced for AI-based surveillance. We are dependent on the bank coming up with a tender, and bidding and winning and executing those.

Meanwhile, we try to push the growth by looking at other sectors. Now hypothetically we could also look at growth outside the country, but I just think that would be too much of a distraction for us, and we currently focus only in India. The largest business which is ATM cash, I think Anush has alluded to fairly in detail about some of the impact.

Now I know a lot of people sort of, in last call itself and post last call felt that given one industry player going out of action, it should automatically result in a big bump up, and we have always said this will take time to play out. We have never seen this situation at that scale before. We've seen smaller players go out and we said we'll be careful in waiting to see how this pans out.

Having said that, a couple of large banks, one large bank has already moved locks of barrel that intend to move to CMS. One midsize public sector bank has already done the same. Another public sector has floated an RFP, which we have one. A large PSU bank contract we already talked to you about has gone in for a refresh or a rebate or whatever it is. So these things will take some time to pan out.

We can only share with you as these situations get more clearer, but I just think that if you look at the ATM cash business or market share, which used to be 50% historically moved to 53% 54%. Currently, I'm scared to even admit the number, but temporarily it looks to be the 58% to

60% number. Now will that be 58% or become 55%? I don't know. But it just tells you about the strength of the platform in the current market situation.

Praveen Kumar: Understood, Thank you for the very detailed response.

Moderator: Thank you. The next follow up question is from the line of Krushi Parekh from BugleRock PMS. Please go ahead.

Krushii Parekh: So it currently appears that at least on the, BFSI side, we may have some kind of a slowdown at least for the next six to nine months or maybe even a year. But how is the traction for us on the retail side, that we have, especially now, I mean for some time we've had an independent sales team as well to tap into those markets?

Anush Raghavan: Krushi. Hi, Anush here. I just on the first part of what you mentioned, I don't think I wouldn't take the interpretation as six to nine months. I think we're seeing this, but having said that as Rajiv said consumption is one part of it, but more importantly so is the bank outsourcing and the order book execution and I think what we see in terms of the pipeline and our ability to both in terms of what the pipelines are upcoming are plus what we already want which needs to be executed.

I think we feel we don't think it should be as long drawn out as that. On the retail side, I know we didn't cover it in as much detail the same as we do. Maybe we'll take the H1 to give you a lot more color, we continue to keep expanding on new customer wins and brands. Currently we are more than 100 plus brands with whom we are working directly.

I think it's a very solid value proposition and platform that we have going. When we today actually look at a lot of opportunities from the inorganic space on the payment side. It's very heartening to me at least to see what we've developed as a direct to retail offering. Actually very closely parallels what that sort of business looks like.

You work directly with brands, you help them in creating an integrated auto, tech-based approach. You create a lot of automation to help resolve issues around treasury reconciliation. The kind of stickiness and the kind of long term contracts and revenues you get there are phenomenal.

I think our ability to what we've been doing in terms of widening the set of customers that we work with, which used to be just organized retail earlier. Today we work with schools, broader educational institutions. We work with large hospital chains, a lot of NBFCs and microfinance. So I think the quality and the complexity of what we have is going as an industry specific solution that is quite amazing.

We will talk more about it. We are witnessing an increased churn at the moment. So gross growth rates continue to hold fairly steady to what we were doing earlier. I think once the churn settles down, you will see that slow down to our performance.

Rajiv Kaul: Also, I want to sort of -- we have seven business lines. Roughly it's not INR100 crores, the smallest is close to INR100 crores revenue and the largest is close to maybe INR1,000 crores revenue or INR900-950 crores. So we have a diversification which means that even though some of those are interlinked, but it also gives us when one of the businesses is suffering either a macro or industry level issue.

We are able to have delivered on pivoting very quickly to other businesses to focus on and I think that gives us a little bit more resilience. We're not 00 it's not a one trick pony if that gets affected, then you're affected. But when there are problems in a particular subsector, we have to understand it's a combination of things could be a client specific issue, could be industry specific issue.

I do think that the MSP industry, which is widely fragmented is already consolidating and will consolidate more given what happened three or four months ago. Now, will that cause more pain? Possibly. Is that good for the sector and therefore for a large player like us? Absolutely.

Krushik Parekh: All right. Appreciate that. So one thing on this secures system what I see, at least, from the information that is available in the public domain about the company, the company had made losses in the last two years. I mean '23, '24. I don't know, we don't have the information of '25, but what is your -- if you can give some sense, is it more related to the cost or it's more related to the pricing of the services that they were offering and how do we intend to correct the same over whatever one to two years period?

Rajiv Kaul: Well, I think we obviously studied the company very well over the years. We also have done fairly detailed diligence. I think they have deployed a fair amount of capex to capital for both the technical capabilities, which gets apportioned over time and for specific client projects at a EBITDA level they have a positive P&L.

We think that with our business and merging whenever we are able to conclude this successfully, I think merging this will result in overall metrics which are substantially better for the combined unit and even, let's say, if we were continuing to run them on a standalone basis.

So I don't know. I mean, I understand there will be depreciation, there will be capital earlier and there'll be a cost of capital which will impact at a PAT level, but EBITDA level they've always been positive.

Krushik Parekh: All right. Thank you.

Rajiv Kaul: Also, I just want to mention that standalone companies in any sector would generally, I'm not referring to secure, so don't take these comments out of context. Many small companies, sub INR100 crores companies, suffered a lot during COVID because revenue just dried up because sites shut down, could be a retail company, could be RMS company, it could be anything.

And therefore many of those companies have therefore taken a year or two after that to just get back onto a level playing field in life. And, therefore, once you go through those, you do lose capital, you do lose some customers you lose. It does impact the quality of the platform to many

levels and therefore may be variability and what losses you may see in a particular year which could be accruing for some of the investments made earlier and the revenue not flowing through.

Krushik Parekh:

All right. Thank you so much.

Moderator:

Thank you. The next question is from the line of Saurabh Dhole from True Beacon Investment Advisor. Please go ahead.

Saurabh Dhole:

Yes, hi thanks for taking my question. So my questions are with respect to the changing industry structure basically. Firstly, do you think there is an opportunity to get certain specific assets from this beleaguered company?

It could be in terms of client contracts, client wins, this could be hard assets like collection ramps. And the second is how quickly do you see this particular event impacting your pricing power and how quickly will it start impacting your margins, the EBIT margin specifics to?

Anush Raghavan:

So I think on the first part, of course, with respect to what assets are available, several people other people in the industry have evaluated it. The challenge being as you could guess for companies which have had capital issues and liquidity issues and drawn down all sorts of available debt.

So removing the tangled web of who which debtor has what rights over what assets, what's a truly freehold versus what is leased out has been incredibly complex. So for that reason, I think banks decided that the easiest way for them to deal with the issues right now is not to bring in another partner to continue running things because they themselves ensure just to give you an example, there is somebody who owns the ATM in that particular site which could be leased out to someone.

There would be somebody else who owns the ACs and the VSATs and so on. So for banks it was much easier to just work with companies like us, help in sort of getting the risk management sorted out in terms of cash in those ATMs and then shut down those sites while they figure out all of these issues and separately come out with new RFPs for replacing these ATMs and consequential expansion.

Rajiv Kaul:

To be fair we did analyze this a lot in the February, March and even preceding time periods. This is way too complex. It's not about going and settling with 2000 employees. This is about settling with 10,000, 12,000, 15,000 landlords. That's not really up our alley. That's not something we want to distract ourselves with.

Also, with many MSPs there is predominantly a transaction linked BLA business model. We have gone bearish on that segment for the last 15 months. Unless we see green shoots in that either through competitive pricing moving up or way banks are willing to share the interchange with you or overall ATM transaction levels.

We do not think it's worthwhile for us to invest capital and take the risk. And therefore, a large part of the business was in those segments. We are generally bearish on those. Some customers

will move to CMS and have moved to CMS on a fixed price model, which is fine by us because then I think the risk return makes totally sense for us.

Saurabh Dhole: Got it. And your response on the second one which is on the pricing power?

Rajiv Kaul: I think for us any such situation, you want to again I'll go back to one of our maxim deals. We'll focus on share and revenue growth and maintain our margin profiles. Our margin profiles, if you compare it to anyone listed, unlisted are substantially higher and better. I think maintaining those margin is very important and these situations help us in continuing to maintain a healthy margin profile.

I don't think these are situations where you should be looking at even pricing change for sure, maybe it will, but it will change from what the other company is charging, right? I think we are only willing to do work in which the risk-return makes sense for us. And therefore, we would like to continue operating in our margin profile where we are right now. I think that's a very healthy and a balanced margin profile.

Saurabh Dhole: So if I got you correctly, this particular event doesn't change the margin profile of this vertical drastically, right?

Rajiv Kaul: We will see. I really, will this -- will we get operating leverage with more business coming? And let the business come. I think let's not jump the gun and try to see it. I mean, obviously, if we are able to drive extra margin through automation or other things, we'll be very happy. But right now, let's focus on getting the business and improving our market share and businesses we like to work in.

Saurabh Dhole: Sure. Sure, Rajiv.

Moderator: The next question is from the line of Raj Gopal Ramanathan from -- an individual investor.

Raj Gopal Ramanathan: Thank you for the opportunity. Actually, I think you partly answered my question which related to fixed price contract -- contracts versus transaction based pricing, because I believe during my days as a banker, one of the reasons why the banks wanted to outsource was that they were not very sure with respect to the amount of transactions that would happen on the ATM.

And that's the reason they were quite happy entering into those contracts. So what has made them go back against it? Is it because they've been sort of negatively surprised in terms of the amount of usage of ATMs that they wanted to sort of fall back on fixed price contracts? That's the first question.

The second question is, it's not necessarily philosophical, but given that you have already built up the competence, and again, you partly articulated this, why not look at other countries as well? Maybe not the cash management business, but the other businesses definitely can make a lot of sense in other countries as well. So why not look at that, maybe seed that particular business, build it out over the next five years, 10 years or so? So why refrain from doing that?

And the last question that I have is, actually, it's related to the AGS shutdown, what has been your learning out of the AGS shutdown? Because partly, if I were to look at that particular example, I believe they got into trouble because the banks were not necessarily paying on time.

And that essentially meant that the working capital squeeze was becoming very difficult for them to manage because they had already sort of taken a significant amount of financial leverage. You obviously don't have that. But are you seeing a situation where getting your money from the banking system, etcetera, is becoming a little more challenging than what it may have been?

Anush Raghavan:

Okay. So, as you're a former banker yourself, I think, the views on what, we always really had a simple view, which is right in a room, I think the smartest people are always the bankers, right? So when you're sort of working with them, a counterparty, you can never second guess on trying to outsmart on pricing and thinking that there is any sort of contractual arbitrage available. We've always tried to keep things simple, right?

Focus, put our head down, execute, do the right thing and not try to sort of create an upside or an arbitrage led pricing model. On the transaction side, I think the main thing has changed in the industry is, the entry of Brown Label ATM was sort of driven on the fact that, listen, there is an opportunity between what the interchanges versus what the cost of doing the services.

And hence, if they were private parties willing to come in and deploy capital. So -- and it did that in a sensible place with the right location and cost structures, you could sort of profiteer out of that delta. Over a period of time as with anything else, the interchange increase has been far slower than the cost increases associated with long-term businesses such as this, as a result of which most people who sort of punted purely on that model have gotten squeezed on both sides.

In the last two years to three years, as sort of the capital to the industry has sort of dried up, you can't have private people coming in with capital, which is more competitive than what the banks themselves can do. Banks have realized that ATM is still an extremely important channel of customer service, both for their cardholders, as well as for outreach branding.

And hence, I've realized that it's always better to then invest in a fixed price outcome, which helps them hold the parties accountable for a certain quality of service and hygiene, and ensure that their customers don't get shortchanged.

And hence the sort of switch over to fixed price model and acceptance of that. AGS, I think, wasn't just an issue of customers not paying. I think it was a classic issue of liquidity impacting, creating a sort of a downward spiral. It's a public call. I would want to try and remain diplomatic in alluding to some of the more serious issues there.

But fundamentally when you have a very leveraged business at a fairly high cost of capital and depending on a variable transaction link model and liquidity issues are impacting your ability to pay salaries, vendors, partners which affect the downtime and the quality of service that you're able to give to the banks and that quality of service then further impacts the transaction.

It's sort of extremely difficult to come out of that spiral. I don't think it is necessarily related to purely banking behavior alone.

Rajiv Kaul:

And also very respectful. I think it's a good company that tried to do many things. I got into unfortunate situation. I would go to your question. I mean, great question. Let me think about the geo one. We have articulated the geographic expansion before. If I look at the history of large MS players in India who are pioneers in the field much before our time, I think some of them have tried to expand into Southeast Asia and different markets and failed.

I think from our side we think of it differently. We are not a cash management company. We are not a managed services company. We are a business services company. We don't want to get into geopolitical risk. We don't want to get into understanding regulators in each market. We don't want to be -- we don't have the client relationships. We'd rather focus on what we know well, which is how to work in India.

We have the scale. We have the reach. We have a brand recognition recall with large banks where we are doing multiple types of services and able to win in scale. We will do the harder job of trying to figure out which are the next set of services for us to do well with the Indian banking system or retail rather than take the risk of going out.

I mean, we have analyzed it. We have done some work, but I just think that going and doing JVs and dealing with some of the risk return isn't the right approach for the knowledge this management team has. Can we go hire people to do it? Sure, but it's not in the order of priority. I just don't think us being able to execute very well on this, and I don't want to do something which will distract us.

We have, in fact, on the opposite side, have had a lot of interest in people wanting us to do cash management and even the U.S. and Australia and again for us we are like, this is such a people intensive business while we have a lot of technology automation software which we can take from here to those markets, but I just think we want to be humble and saying let's just get this one market right and focus here rather than right now do this.

At some point I'm sure there'll be opportunities. Our M&A team keeps getting in bounds and if there is something interesting we'll look at it. But till now whenever we analyze it, we have shied away from the rest did not make any sense. I think we have a large market in front of us. We have a large opportunity in front of us. We hope to be able to stay focused on that and grow in a steady manner in doing what we know how to do well.

Raj Gopal Ramanathan: Thanks. All the best.

Moderator: Thank you. Our next question is from the line of Divyansh Gupta from Latent PMS. Please go ahead.

Divyansh Gupta: Hi, Rajiv and team. Just a couple of more questions. So what is the order book in hand right now and how much is expected to go live this year, assuming things go as planned?

Rajiv Kaul: Okay, do you have some other questions while we calculate and come back with that?

Divyansh Gupta: Sure, The other one was that in respect to the BLA business, earlier calls we used to mention that we are very selective in choosing our BLA that we would operate where it gives us decent IRR and preference I think was always to get fixed contracts. In our presentation we have mentioned only the transaction link BLA revenue contribution.

What would be the revenue contribution of fixed BLA and is there a transition happening right now of current transaction link BLA is moving to fixed price BLA?

Rajiv Kaul: So, in fact, thank you for these questions. I think the earlier question also which Ram had asked, I just want to -- there was a question on why are banks looking at going to fixed price contracts, and I think Anush alluded to it also, but frankly, I mean, bluntly the answer is that there are certain banks who understand that the transaction volume at their ATM channels, given the profile of customers is more upwardly mobile and therefore using a lot more digital UPI and other means.

They will not be able to find good quality partners who would either set up or run or maintain the ATM channel. The economics will just not make sense on a transaction model and for them the access to a branch, the access to an ATM in lieu of a branch to a customer for their own customer satisfaction is very important and the quality of the service and the quality of the site is very critical.

And therefore they will move to -- they moved to a fixed price model with the higher quality players which could be somebody else to make sure they are able to deliver a very important vital service to the consumers. I mean, fundamentally, I think many times people and banks forget the fact that access to cash is a fundamental right of an Indian consumer of a bank.

But then when banks start thinking of an ATM channel, a profit making enterprise, I think something goes wrong in my head. I don't know why that mentality has come in the country in the last 8 years, 9 years in certain banks, but some banks are very clear saying the quality. And the brand of the of the bank is very important.

And therefore they are and they know the only way to work with a high quality player or players would be to go on a fixed price model. So I think just that it's not a big trend, but it's a trend in some good banks and hopefully this will perpetuate over time. Coming to your question, in terms of order book, I think there's roughly about INR1,400 crores of order book which is pending to be executed.

In the last five quarters order book, we have roughly gone live with two-third of the business. And your last question was on total BLA. So I think the fixed price BLA is covered in a managed solutions part because that's where it comes. I don't know the specifics of it right now, but the transaction link BLA is now less than 10%.

It must be 8% to 9% or 8% roughly, yes. And now again, I will, if we see transactions improving, if we see a contract coming at a price which makes sense, where we think we can take the risk

return, we'll be happy to go deploy at that time. But right now this lever of growth, we will have slowed down. Many three years ago when we were going public,

We talked about position sizing this business at 15%. We have then revised it downwards to 10%. So as things change we will pivot and we will be more conservative where we think is better to hold on to the cash rather than deploy it.

Divyansh Gupta: Got it. And how much of the book that is on hand expected to go live within this year?

Rajiv Kaul: Well, let's just come and tell you as we go live right now I think I really can't tell you right now.

Divyansh Gupta: No worries. And just if you can give an update on the bullion logistics, any client wins big clients wins?

Rajiv Kaul: Wait for H1 we will come and give you a little, I think we're taking feedback. We haven't really covered retail and bullion today. I don't want my team to be caught off guard. We'll come and tell you at the end of H1.

Divyansh Gupta: Sure. Thank you and all the best.

Moderator: Thank you, ladies and gentlemen. This was the last question for today and I now hand the conference over to the management for closing comments. Over to you, sir.

Rajiv Kaul: Well, thank you so much for the detailed questions. Thank you for your patience. Thank you for being invested in CMS. I do want to call out my team for having worked insanely hard over the last 5 to 6 months in helping the broader industry navigate the issues they've faced. I think we have had a very a solid Q1 in terms of the effort which is going into the business. I think on most key metrics we are doing well.

I know the financial numbers may not fully reflected, but I do hope in Q2, Q3 we start seeing improvement which will reflect the quality of effort and quality of the institution in which you're all shareholders. Thank you and talk to you in October.

Moderator: On behalf of Emkay Global Financial Services Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.