



“CMS Info Systems Limited
Q3 FY ‘26 Earnings Conference Call”
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MODERATOR: **MR. AVINASH SINGH – EMKAY GLOBAL FINANCIAL
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Moderator: Ladies and Gentlemen, Good Day, and welcome to CMS Info Systems Limited Conference Call hosted by Emkay Global Financial Services Limited. As a reminder, all participant lines will be in the lesson only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand over the conference to Mr. Avinash Singh from Emkay Global Financial Services Limited. Thank you, and over to you, Sir.

Avinash Singh: Good afternoon, Everyone. I would like to welcome the Management and thank them for this opportunity. We have with us today Mr. Rajiv Kaul, Executive Vice Chairman and CEO; Mr. Pankaj Khandelwal, CFO; and Mr. Anush Raghavan, CBO. I shall now hand over the call to the management for their opening remarks. Over to you, Gentlemen.

Rajiv Kaul: Good afternoon, and welcome. This is Rajiv. Let me start with an opening. This has been a very hectic quarter. Before we dive in, I want to rewind back and to set some quick context for those of you who may be recent participants on our calls.

In FY 2022 to 2024, we have successfully achieved our 3 key operating goals and metrics on revenue growth, margin expansion and market share gains. FY '24 and '25 saw an increase in competitive intensity, and we sat out on most transaction BLA RFPs where the pricing was pretty low. We, in line reduced our capex spend from an average of INR200 crores a year to INR100 crores levels to preserve capital and to avoid low-quality growth. At the beginning of this year and FY 2026, we were quite optimistic and positive. ATM interchange increase had been approved and announced.

Our key competitor was winding down operations, and we were almost certain to be awarded a large cash RFP, which was fairly unique from the country's largest bank for almost 10,000 ATMs as the sole eligible bidder. This itself would have been INR100 crores to INR125 crores of incremental revenue for FY '26, which would have been a 4% growth from one contract. And for this, we invested in network expansion ahead of the contract. The tides really turned in May with severe impact from both external and internal factors. We updated you on these in detail in our September 30 Analyst Meeting.

In hindsight, we invested ahead of this contract and our anticipation on things becoming normal was very aggressive given the subsequent delays to that RFP. This has been a big learning for us. And since then, we have tightened our deployment norms to align strictly with contracted milestone with key customers. But in this volatility, we have retained our long-term focus and doing the things which we think are right and investing in them. We restructured the company into 3 platforms: ATM management solutions, retail and currency logistics and tech and payment solutions.

All of these are now at good scale, have market leadership and a strong margin profile with the ability to generate free cash flows to drive their growth. We also invested in broadening and diversifying our customer base. We invested for growth in retail and tech segments. In the ATM business, our focus has been on higher value and yield and more fixed price contracts. FY 2026 year-to-date, we have very strong INR1,600 crores plus of high-quality order wins.

As we enter calendar year 2026, things are beginning to turn. GST 2 has had a strong positive impact on consumption in the retail segment, and we see the segment starting to grow again. Order wins and execution of the order book is strong and cost optimization efforts are also bearing results. I would now like Anush, our CBO, to share more details on the business and these initiatives.

Anush Raghavan:

Thank you, Rajiv. Good Afternoon, Everyone. I'll spend a few minutes on the business and operational performance for the quarter. The macroenvironment has been mixed, but we are seeing signs of stabilization. On the retail side, cash usage is holding steady, which is a strong positive.

In fact, if you look at our investor deck, we have shared some information on how on a same-store basis post GST 2.0, we have seen volumes rebound meaningfully. In our ATM segment, transaction volumes have stabilized, and this provides a floor for deployment planning. In terms of our key business updates, our SBI cash RFP after intense negotiation was finally awarded and contracted in December. It is now getting rolled out in Q4. Our total revenue from this is INR1,000 crores over 10 years, of which INR 500 crores would be incremental revenue to CMS.

In terms of other order book, our execution is on track. We have over INR 750 crores of order book just with 2 customers, ICICI Bank and India Post Payment Bank. Both of these are about 75% live. Our tech and payments business is growing from INR 235 crores revenue to INR330 crores revenue in 1 year and is on track to hit INR 400 crores in FY 2027. This is a 30% CAGR.

I would also like to provide you an update on the higher DSOs from a few mid-sized MSPs due to credit tightening by vendors post the AGS issue. We had alluded to this in our previous call. Since then, we have mitigated these risks to a large extent. We had made provisions in Q2. And in Q3, we took strong tactical actions, which included limiting services to ensure payment discipline.

This has had a negative revenue impact, but was necessary to drive cash flow improvements. DSOs are getting streamlined and should be back to normal levels by end of March. On improving margins, we have taken the following actions. We are optimizing our network and have exited a long tail of unprofitable retail points. This again has had a small impact on revenue, but it ensures a healthier revenue base and good profitability going forward.

The gig operating model for the direct-to-retail business, which was being piloted for most of last year, has now scaled to a team of 2,000 plus partners who are covering 20% of our retail points and have achieved a certain critical mass. We will also get a more agile and flexible network through this model to handle peak periods and convert part of our fixed cost base to a

variable structure. We have strong business momentum building up again. Large customer RFPs are being decided as we speak, and this should help deliver a good Q4 and FY 20 27. With that, I would like to invite our CFO, Pankaj, for a financial update.

Pankaj Khandelwal:

Thanks, Anush, and Good Afternoon, Everyone. Let me take you through the Q3 financials. I will focus on the underlying operating performance as our reported numbers this quarter includes regulatory and one-off items. Our consolidated revenue stood at INR 618 crores, a sequential growth of 1.6%. While headline growth appears modest, the quality of revenue has improved sharply.

Service revenue is up 4% on a quarter-on-quarter basis. Managed Services & Technology is up 18% quarter-on-quarter from INR 216 crores to INR 254 crores. EBITDA and margin operational efficiency is on track. Business EBITDA grew 9% quarter-on-quarter to INR 158 crores. EBITDA margins expanded by 160 basis points, moving from 23.9% in Q2 to 25.5% in Q3.

This margin expansion was driven by the 2 segments, Cash Logistics, EBITDA up by 6% and margins expanded by 170 basis points; Managed Services & Tech EBITDA up by 12% to INR78.5 crores. I want to clarify the momentum in PBT and PAT to ensure the underlying trend is understood. Reported PBT dropped from INR 95.6 crores to INR 88.1 crores in Q3. This is due to specific one-off item. In Q2, there is a base effect of onetime gain of around INR 12 crores from the provision reversal of ESOP and performance incentives.

If you normalize these exceptional items, our core operating PBT has actually grown sequentially, reflecting the business and margin improvements. In Q3, we have also made onetime provision for new labour code of INR 11.1 crores, resulting in PAT after exceptional items for INR 54.4 crores. I'll talk about the capex and liquidity. YTD capex is around INR 275 crores. While we have been conservative in capex for 2024 and 2025, this current spend is linked to the execution of around INR 1,600 crores order book that Rajiv mentioned.

This is growth capex, not maintenance capex, and it is primary driver for the revenue visibility in FY 2027. In terms of outlook, business momentum has picked up a pace. In FY 2025, our EBITDA margin was 26.1% which has dropped to 22.8% in this quarter. However, in Q3, we should see that the overall EBITDA margin expanded by 100 basis points to 24.5%. This should further improve to 25% to 26% range for the FY 2027. With that, I hand it back to Rajiv.

Rajiv Kaul:

Thanks, Pankaj. In our closing, I just want to cover 3 topics. First, the revenue mix; secondly, M&A and capital allocation; and thirdly, the FY 2027 outlook. I do want to point out, and you can refer this to the slides we have on the investor deck, our mix of revenue is substantially changing. It's getting much better and broader.

Over 2 years from FY 2024 to year-to-date FY 2026, the contribution from our largest customer has reduced from 22% of revenue to 18%. The whole category of private sector banks and the direct-to-retail revenue, that contribution is increasing from 24% to 30%. The PSU bank revenue contribution is up from 19% to 22% and the revenue we earn from our MSP partners is down

from 35% to 29% of revenue. This mix change is going to have a positive impact on margins as we broaden and diversify the nature of our business and the nature of our customers.

Second, on M&A and capital allocation, I will reiterate what we have said always, our capital allocation priority is, first, fund organic growth and order book execution; second, pursue accretive M&A where we see either consolidation opportunities or a synergistic expansion opportunity; third, return surplus capital to shareholders through dividends.

We see as of now a very good or, I would say, a better M&A environment than we have seen in the past. Earlier this year, on the back of having scaled our Vision AI platform into a market leader, we are able to make an accretive acquisition of a leading player, Securens. This was our first deal in the last 4 years. The investment here finally is INR 70 crores. On February 11, a couple of days ago, we signed a term sheet for a business transfer agreement with a leading MSP to acquire their ATM management solutions business.

The deal value here, we estimate to be in the range of INR 100 crores to INR 125 crores, and we aim to close this deal by March end. This is going to drive consolidation in the market and will also be value accretive to CMS. More details on this once the transaction closes. At the same time, we are closely evaluating deeply other opportunities in both the retail and the payment tech infrastructure sectors.

On buybacks, given the feedback we had both at the analyst call and after from shareholders, given the recent change in taxation, which makes it more equitable to all shareholders and also keeping in mind the growth opportunity ahead of us, this has been discussed at the Board.

We will be evaluating this in line with better clarity on our balance sheet and the needs of capital by the end of the year, and we'll update you accordingly. Let me move to the third item, which is relevant and most important right now is the FY 2027 outlook. As we have already alluded to, calendar year 2026 is off to a pretty good start, and we hope to retain and build on that momentum going forward. FY 2025 and 2026 saw us defend our revenue position well, even though we didn't grow much, but we defend our revenue well. And we also maintained our market share amidst a lot of volatility in the overall ecosystem.

Our Hawkai business specifically is growing rapidly. We have taken this business from 0 to INR 100 crores revenue run rate ARR in FY 2021 to 2024 in 3 years. And from FY 2024 to 2026, we are seeing this double from INR 100 crores to INR 200 crores level range. More importantly, we have now built a strong enterprise-grade product, which will be very useful as we bid for some large RFPs coming up in the coming year in new sectors for Hawkai. While Q2 and Q3 were adversely impacted, and this has affected margins for the year, we have detailed these out in our past calls and the analyst meeting.

With Q3, we have bottomed out. With momentum strong from execution of order wins we have, we do forecast a strong positive trend going forward. Overall revenue for FY 2027 should be in the INR 2,800 crores to INR 2,900 crores range. The services revenue component of this should be in the range of INR 2,700 crores to INR 2,800 crores, which was the target we set out when

we met you in September 30. The bridge from where we are right now to getting to this is that we are hoping to end Q4 strong.

There are some key deals under discussion and negotiation, which we hope to finish strongly by March, which will allow us to end Q4 strong, enter FY 2027 with a services run rate revenue closer to INR 650 crores. If you gross it up by 4x, that will give you roughly a INR 2,600 crores services revenue for FY 2027.

And then growth in the year should get us closer to the INR 2,700 crores to INR 2,800 crores services revenue growth. At product revenue of roughly about INR 100 crores, we should be in the ballpark of that INR 2,800 crores to INR 2,900 crores overall revenue. EBITDA margins, Pankaj has detailed out the reasons of us going down and our bridge from there.

I mean, if you want to summarize, our overall dip in EBITDA margins, I would just put them into 3 factors, about roughly about 1.5% impact in both wage inflation and the investments we made in building infrastructure for a contract, which took time to pan out. And then about 1%-1.5% dip in margins, which is linked to both increase in fleet cost as well as higher overall ECL provisions and risk provisions.

These are improving. I think we'll see improvement of that in Q4. And with the bridge from there to next year, we should be able to see EBITDA margins in the 25% to 26% range for FY 2027. Thank you. And now we can move on to Q&A.

Moderator:

The first question is from the line of Praveen Kumar from Acuitas Capital Advisors.

Praveen Kumar:

I had a couple of questions. The first one was to get more clarity on the revenue bridge to FY 2027, which you spoke about. So if I look at it from a different perspective of how much of this bridge to FY 2027 revenue are things which you have already contracted and have in hand versus where you are counting on, let's say, consumption improving or some other improvements in the broader macro. So if you could break it up into those 2 kind of components?

Anush Raghavan:

Anush here. Yes. Q3, if you look at it, was about INR577 crores. As we all shared, I think there's a lot of work that has happened on the order execution through this year. We also have the large SBI order, which is going live in Q4.

So that plus a few other deals that we are in discussion with, the goal for us is right now to just be relentlessly focused on execution and to enter Q1 with a services base of that INR 577 crores growing to about INR 650 crores. So INR 650 crores x4 gets you to INR 2,600 crores. INR 2,600 crores, you add about INR 100 crores of incremental growth through FY 2027 and INR 100 crores to INR 125 crores of product, that gets you to that range of about INR 2,800 crores to INR 2,900 crores that we alluded to.

Praveen Kumar:

So would you say that this INR 650 crores which you're talking about is largely what you have in hand and you have to just execute on that? Or is there any assumption built into that saying that consumption needs to go through what, you know ?

Rajiv Kaul: So let me try and give this answer in a different manner because I have to be cognizant of the fact that there's a team which forecasted very well for 3 years. And then I think in the last 1 - 1.5 years, the forecasts have not really played out. So we will be a little careful right now, Praveen, and therefore, bear with us as we build confidence and forecast in reality. The INR 650 crores sort of a number, I think we have almost 95% certainty on this number. But we would want to wait to see where we end with March.

And so I think the INR 650 crores, the INR 2,600 crores is fairly certain. The bridge from INR 2600 crores to INR 2,700 crores, INR 2,800 crores, that's something we go to earn and work for in the remainder of the year.

Praveen Kumar: Understood. Understood. A couple of other questions. One was on the retail cash management part. I think you have in your presentation you have referred to rationalizing low-yield customers.

So I just wanted to understand that earlier you were somewhat -- I mean, is this kind of an indication that this is kind of a course correction from your earlier kind of aggression in this part of the market? Or I mean, just wanted to get some color on that.

Rajiv Kaul: So it's a great question. I think the way I would phrase is, in the last 2 to 3 years, we've been fairly aggressive in this market from a market share perspective, right? As other businesses are scaling very well, we are happy to invest with aggressive pricing, network expansion. And also, we have built up a sales engine in the last 2, 3 years to attack and address the need to our customers. In a year which was reasonably tough, I think it was very important for us to look back and optimize our network and look at what makes sense.

We did go and engage. And when you're growing the network, there will always be x percentage of network, which is not going to be profitable, right? As you're entering newer markets, smaller locations. When -- I think in Q2, Q3, given the overall trend of the business, we wanted to step back and look at how many of the customers will be profitable longer period. And we took an attempt to see where we can increase prices and where we think the prices just don't make any sense.

So I think what Anush and his team have done, what Puneet have done is sort of, I would say, just do a sort of -- I don't know what the right word is, but just prune this up in line with making sure that we are building our business and margins in the right line. Now I think this will be a journey we'll go through up and down, right? When you are in more aggressive and high-growth periods, you will invest. Some of the investments will -- make bear fruit, some will not. And then you have to course.

Praveen Kumar: Understood. Understood. And one other question on the provision that you had taken on -- in terms of the receivables in Q2. I think Anush had referred that you expect that to stabilize by the year-end. So a couple of -- I mean, just wanted some clarity on that.

One is that what kind of a revenue hit have you taken in terms of having to tighten your receivable norms with this kind of customers? And secondly, given -- I mean, if you are

continuing to see stress in the ecosystem, how much more revenue hit you can expect from this kind of stress persisting in the system?

Anush Raghavan:

We'll answer that question in 2 parts, Praveen. One is -- I'll take the revenue part and I'll hand over to Pankaj for the ECL -- for the provisioning part. The Q2 was a specific provision that we had to take on account of seeing the significant change in the external market conditions and what some of our customers, especially the mid-sized MSPs, were going through post the shock in the ecosystem, the tightening of the liquidity and the credit taps to them. Q3, we took a slightly different approach, as I shared, which is we were really focused on improving our overall DSO situation.

That meant that we had to take certain calls in terms of our revenue exposure, but more importantly how we invested quality and cost in running networks or sometimes shutting them down, not easy calls to take. But the effect of that is visible in the Q3 revenues. With respect to the provisions, Pankaj will just answer that.

Pankaj Khandelwal:

Yes. For risk and ECL provisioning, we look into the -- on an annual basis, not on a quarterly basis. The risk provision for FY 2023 was around 5% of the revenue, which we have reduced to 4% in FY 2024 and 3.7% in FY 2025. However, this year, we are expecting the same to be range of around 4.25% to 4.5% of the revenue because the ECL specifically have a lag effect. So as the DSO increases, ECL increases. But as Anush has explained to you, the DSO reduces over a period will impact the reduction in the ECL provisioning going forward.

Moderator:

Next question is from the line of Abhishek Chauhan from Eklavya Capital.

Abhishek Chauhan:

I have 2 quick questions. So the first one is, last quarter, the management had forecasted 9% growth in the services revenue in H2 compared to H1. So what is the services revenue growth for Q3 as compared to Q2? That is the first question I wanted to ask right.

Rajiv Kaul:

4%.

Abhishek Chauhan:

4%. All right. And the second is there is a dramatic increase in the employee benefit expense this quarter of about INR 18 crores. And that looks pretty big for a quarter where appraisals are generally not due. So what was the specific reason of this increase?

Pankaj Khandelwal:

So as I explained to you, there was a last quarter - in last quarter, there is a one-off item of around INR 12 crores, wherein we have reversed the provisioning for the ESOP as well as the performance-linked incentive provisioning. So that is an impact of around INR 12 crores reduction in the last quarter.

Otherwise, the total cost - employee cost and service and security cost, there is a reduction in the overall service and security cost and employee cost. And whenever you look at both the items, service and security cost and employee cost, add both the things and calculate the number. There is a reduction in - considering adjusting of INR 12 crores and adding both, there is a reduction in the cost of the thing.

- Abhishek Chauhan:** Right. But service and security is different from employee benefit. I wanted to ask specifically about INR 12 crores is different?
- Pankaj Khandelwal:** INR 12 crores is purely in the employee cost. And when we add about the total employee and workforce cost. Workforce is either our own employee or the third-party employees, you have to add both.
- Rajiv Kaul:** So service security includes the outsourced staff, which will be working with us. So therefore, that's overall part of our wage cost.
- Moderator:** Next question is from the line of Krushi Parekh from BugleRock PMS.
- Krushii Parekh:** So I think my question is in continuation to the earlier question on the aggression that we had shown in the retail side, but now we are pruning a little. So that -- I think that part is clear. Can you just help me understand also additionally is that how we are looking to take this up going forward? And any particular areas that we are targeting, first of all? Surrounding this, how is the gig strategy deployment working out for us the challenges that we have overcome?
- And within the growth part, any new areas for Hawkai or RMS that we are looking to deploy, especially when you mentioned that some new sectors we are looking to build the solutions for? So that is my first question.
- Anush Raghavan:** Let me answer both your questions. As far as the retail is concerned, I think our - in terms of our sales focus, our aggression continues to be what it was simply because we think this is an important part of our future growth. Retail is a very large opportunity, and we think of it more in terms of decadal opportunity because the formalized and outsourced as part of what is broader retail in India is still so small.
- I think the way to think of it is it is our responsibility to do what we can to create this addressable market. Now as part of that, it will always take a little bit of time for us to figure out the parts of the business which have been onboarded, you need to give them some time, 6 months, 1 year, 1.5 years for them to sort of achieve full revenue status in terms of translation into what is the estimated realizations and throughput.
- In Q3, post GST 2.0 and as we have shared, for us to start looking at the sector by sector, along with the consumption report that we have, it gave us a lot more clarity on the parts of the sector, which are seeing more vibrancy versus some deals that we had, which probably didn't. Given that we were getting into the whole network optimization stage, it made a lot of sense to sort of start taking some calls, right, which is every business, every operations will have some churn that we would like to impose.
- It may be 2% of the long tail, it may be 5% of the long tail. That is what we have alluded to. Coming into Hawkai, I think we've spoken about how within Hawkai itself, we -- the goal for us is in the longer term to think about productizing this.

The experience that we've had and the amount of investments that we made in the technology and the R&D in building a lot of advanced AI use cases will serve very well when we think about translating this into the broader retail. So in a way, when I think about retail, I think the combination of both what we have as a Hawkai product and the retail cash, along with a lot more of technological integration working into helping stores with reconciliation and selling automation solutions will be very powerful.

Rajiv Kaul: I think for us, I would also like to add to what Anush said. You have to keep in mind the industry and how overall retail sector in India suffered in H1 of last year. We saw consumption, all of you will be invested in other companies, consumption really get impacted until September end. So there was a churn in the sector itself. It is a relatively lower margin sector.

There were clear sector trend shift from -- I mean, from physical retail to online retail to quick commerce, which is impacting those customers. From our side, I think today, we have almost Anush, what 150-plus direct-to-retail logos.

Anush Raghavan: 165.

Rajiv Kaul: 165 customers, right? This number was maybe 0, 2.5 years ago. With these customers, we are cross-selling, right? We are not only in the business of retail cash management. We are upselling them in retail cash vaults.

We are upselling them with Hawkai-based solutions. And where we end up seeing the return makes sense from both revenue and margin perspective, we will continue to deepen our presence there. There will be some customers as you work with them 6 months, you realize the amount of volume of cash and the revenue you can earn is not going to be material. At that point, you need to have a sort of a clinical viewpoint and examine and sort of let go of that and use that network capacity for better quality customers. That's what we I think have done.

I don't think we should read too much into this in terms of change in strategy. I think it's sort of an aggressive launch and growth. We've assessed things in the last 3 to 6 months to sort of take stock and say what makes sense, what doesn't make sense. But overall, I think we are seeing a lot more opportunity of cross-selling into our retail customers than just pure cash management.

Krushik Parekh: Sure. No, no. My query was also in relation to one of the competitors talking about increased competition in this area on the retail side and I mean, we being the aggressive in this area. So that is what I was kind of trying alluding to.

Rajiv Kaul: You're right. And we have ourselves in prior calls said that we are going to be very aggressive in this area because, again, we feel that will if you want to grow a market, you will have to make investments, whether it's low cost, low price, deeper market expansion. I think we have done that. We have sort of consolidated back right now in this year. And we'll again launch further expansion as we see opportunities in the coming year.

Krushik Parekh: Appreciate. My second question is that for the SBI order, there were talks of 10,000 ATMs that were in freight for the outsourcing. But the announcement that we made is it pertaining to 5,000

ATMs. So rest of the ATMs, will it be coming in over next year? Or it's that particular piece is still away right now?

Anush Raghavan: No, I think the total order is 10,000 in terms of what SBI wants to award. If you go back, I think, to some of our earlier commentary, in the first version of the outsourcing process, we were the only eligible participant. And that would have meant we get the entire 10,000. But unfortunately, with that getting scrapped and then coming out with a new RFP, of that, we were the L1 participant. So we got about 5,000 of those volumes with rest going to other industry participants.

Krushik Parekh: Okay. So the rest of it has gone to someone else?

Anush Raghavan: Yes.

Moderator: Next question is from the line of Nihar Mehta from Bay Capital.

Nihar Mehta: I just had a couple of questions. One, if Anush can comment on the overall RFP rollout, how is the outlook looking like in terms of new rollout from banks and cash logistics?

Anush Raghavan: So I think for most of FY 2026, the RFP pipeline has been fairly subdued just on account of the -- both industry being volatile, banks struggling with dealing with the fallout of AGS, shutting down the ATMs, industry consolidating and understanding where things are. All of that has led to banks sort of making a shift in their outsourcing strategy.

And the 2 key shifts here are, they are moving away from -- or depending less on ATMs and pivoting more towards recyclers. They see recyclers as being a very strong complement to helping branch transaction. And the second pivot is moving away from transaction-based pricing to fixed-based pricing.

That is something that at CMS, we've been advocating for a long time. We've stayed out of the transaction market for almost last 12 to 18 months now. When I think about the RFP pipeline in FY '27, we see meaningful activity coming back into the market. As we speak, we are aware of almost about 6,000 to 8,000 ATM units, which are in various stages of the pipeline. This means that there's a total contracted value opportunity of about INR2,000 crores. I think the timing of when these come out and what we win and how we position ourselves, that's going to be key.

Nihar Mehta: Okay. Understood. And just one more question, What's the cash ?

Moderator: Sorry to interrupt, Mr. Mehta, you are not audible. Your voice is breaking.

Nihar Mehta: Yes. Just one more question. What's the amount of cash on the books as on December end?

Anush Raghavan: I'm just asking for this. It's about INR600 crores.

Moderator: Mr. Mehta, does that answer your question?

- Nihar Mehta:** I could not get the last part. INR 600 crores?
- Anush Raghavan:** Yes, INR 600 crores.
- Moderator:** Next question is from the line of Prakhar Agrawal from Dexter Capital Advisors.
- Prakhar Agrawal:** So my question was around the lines of our outstanding order book. I see like we have won INR 1,600 crores worth of order books in FY 2026. So I wanted to understand like which side of our Managed Services business is this order book tilted to? I mean, is this related to mostly software or our banking automation business? If you could provide some color on that?
- Anush Raghavan:** Prakhar, it's mostly a mix of both its integrated contracts on the Managed Service side and Hawkai, especially when you look at the large complex branch RFP rollout.
- Prakhar Agrawal:** Okay. So this also includes like Hawkai contracts with our customers?
- Anush Raghavan:** Yes.
- Moderator:** Next question is from the line of Akshat Hariya from Multi-Act PMS.
- Akshat Hariya:** So my question was more related to the cash management services. So sequentially, if you look at the numbers, we've still had a degrowth in the cash management part. And if you look at it, the revenue for that segment has peaked out at around INR 417 crores, and now we are down to around INR 384 crores. So with the services guidance that you've given for next quarter and for the next year, what is the outlook on this specific segment? And how much will the SBI order help for the recovery in this segment?
- Anush Raghavan:** I think specific to SBI, as you have called out, it's about INR 500 crores of incremental opportunity over 9-10 year period. So you should think of that as about being about INR 50 crores per year. The delta between INR 415 crores, INR 417 crores to INR 385 crores, I think we've sort of explained in different ways. But fundamentally, it's a link of 2, 3 things. It is a dip in our overall business points or ATMs that we used to handle.
- The 4,000 odd dip that we had going in from Q1 to Q2 and Q3, that has had an impact. The cleaning up of retail that we have done has had an impact. And also the calls that we had to take to fix our DSO situation has had an impact. With most of these either being fixed or normalizing right now, we anticipate this to get improved in the coming quarters.
- Rajiv Kaul:** So just I do want to - we have mentioned this before, I would like our analysts and investors both to start looking at our business in total because the managed services business and it itself being a customer of cash management is now ramping up, and we have a lot of integrated contracts. So the revenue is actually - and that's why you see an interview sort of a knockoff.
- As we merge our P&Ls into the 3 business lines we talked about, ATM solutions will be one complete business line where you'll see ATM cash, managed services, ground level ATMs, fixed price machines, all of that will be in one revenue bucket. We think that business overall should

grow 15% to 18% next year. The retail and currency logistics business should grow about 12-ish percent.

And our technology and payments business, which includes Hawkai and cards would, I think, grow about 20% for the next year. So that will give the blend of revenue growth, which we are thinking about. We are working to build up P&Ls on these business lines and so that you will be able to see the growth in each category by themselves instead of cash and MS and tech.

Akshat Hariya:

Okay. Fair. Understood. So this question was specifically from your margin guidance also. So for next year, we are guiding the margins to go back to our FY 2025 EBITDA of around 25% - 26%.

And if you look at your old segment, fair, we've moved to new segmental reporting. But since we continue to report old segments also, the margins have broadly been impacted due to the operating deleverage that we've seen in the cash management service. So the recovery for cash management services is also important for your margins. And based on the next year margin guidance, it is fair assessment that the cash management also has bottomed out within services and it should grow from these levels?

Rajiv Kaul:

No, no, absolutely. You're absolutely right. I mean I think from a cash management perspective, both from a macro perspective and even from our own -- what decisions we had to take in Q2, Q3, the revenue has bottomed out. I think currently, the trend line is to grow -- is already growing higher. And Anush mentioned to it on our investor deck, if you look at specifically the retail cash volumes, they are very robust even in December and Jan for segments.

Our ATM cash management contracts we have from, let's say, SBI. And then we think of the ICICI order, which is the managed services and cash management order win, I think that will all lead to both the cash management revenue growing as well as the margin profile increasing. To set you a quick context, we were roughly about 70,000 ATMs under cash management about a few quarters ago, which dipped to 68,000. We are back to 70,000 now. We are targeting an aggressive ramp-up to 74,000, 75,000 ATMs by the end of March or April. As that ATMs under cash management come in, you will also see the margin profile improving back on the overall business.

Akshat Hariya:

Understood. Understood. Very helpful. Sir, last question is on the cost side. So sequentially, I understand that last quarter had some reversals on account of ESOP and bonus forgo. But even if I ignore the last quarter and if I look at your Y-o-Y employee cost, so that run rate has gone from around INR 81 crores to around INR 100 crores. So we've grown that by around 20-plus percent?

And your vehicle - sorry, your service charges have remained flat. So we are seeing an insourcing trend. So just wanted to understand the background behind this and whether the insourcing trend has - it's complete? And what should be your employee cost and services run rate that we should understand going forward?

Rajiv Kaul: So let me give you the philosophy on how -- what has happened. And then specifically, Pankaj can maybe answer. I'm not privy to the INR 80-INR 100 crores number right now which you're referring to. The overall employee cost, you should think in conjunction of both employee costs and service security. It's not -- in-source, outsource depending on where in the regions are you working and also what nature of business, right?

Some of the higher value, more risk business will always be in-sourced. We have had an increase in overall employee cost, if you combine the P&Ls, both, 2 reasons. One was wage inflation linked to us signing long-term wage settlements. Earlier in the year, we talked about this in Q1. We have a 3- to 4-year cycle of signing wage settlements.

We normally recoup it back through productivity. But this year, given volume growth was low, recouping it back within the year was difficult, but I think we'll start seeing that in Q4, Q1 going forward. The second was linked to the fact that we invested and made the wrong decision of investing for capacity, assuming we were getting the whole SBI contract in April and May. That was with hindsight a terrible call to make, and we are paying for that, and we're trying to fix that right now. Now -- so if you think of the overall number, Pankaj, do you want to talk about the overall number which she is referring to?

Pankaj Khandelwal: Yes. So if you see that if you add both the service and security and employee cost, it has increased around 6% to 7% over Q3 of FY 2025 to Q3 of FY 2026. And this is because of the - as we explained to you, there is an LTS impact and the new business, whatever we got is impact related to that.

Rajiv Kaul: And so there's no change in-sourcing, outsourcing. I think for that, we are fairly agile in what we need to do for the business.

Moderator: Next question is from the line of Suraj Singhania from Ratnatraya Capital.

Suraj Singhania: Most of my questions have been answered. One question was around your capex estimates for FY 2026, you have earlier guided for INR 300 crores of capex. Now we have done INR 275 crores this year. So what is the capex that we estimate for this year and next year? That's one. And one is the data keeping question, which is since Securens business has now been consolidated in our P&L, what is the revenues and EBITDA from the Securens business in Q3 FY 2026.

Pankaj Khandelwal: So as we have given the guidance that our capex will be around INR 300 crores to INR 325 crores, and we have already spent INR 275 crores. We expect that we will in the range of INR 300 crores to INR 325 crores only. Securens around INR 18 crores, Total revenue of INR 18 crores, so incremental revenue of around INR 12 crores in Q3.

Rajiv Kaul: And Securens will have actually this year a negative PBT because we will be front-loading the depreciation on the assets.

Suraj Singhania: Got it. So INR 6 crores was accounted in the last quarter, if I understand.

- Rajiv Kaul:** Yes.
- Moderator:** Next question is from the line of Divyansh Gupta from Latent PMS.
- Divyansh Gupta:** One question, you had mentioned that the contracts are now moving from, let's say, cash machines to recyclers. So the question is that as recyclers, do the number of trips that we have to do reduce and therefore, lead to a revenue pressure for us going forward? Or we price it in and increase the realization?
- Anush Raghavan:** No, Divyansh. I mean, if I look at our current base also, recyclers are a lot more -- have a lot more complexity than ATM, especially in terms of how they need to be managed and, more importantly, serviced. The expectations from customers is also that the quality of service and uptime on these machines have to be of a much higher order.
- Generally, recyclers are deployed at on-frame branch sites, which means that they generally have a higher footfall. And so banks are very keen to sort of -- for example, if at ATM, they need a 95% uptime and recyclers is almost 97%, 98%. So to us, we actually see recyclers as being sort of an upsell and a higher value solution than ATMs.
- Divyansh Gupta:** But when you say uptime, it means more cash availability or I'm assuming it means more cash availability, but given...
- Anush Raghavan:** End user availability, right, which could be cash availability, which could be -- how do you fix the faults. It could be things to do with the software, things to do with the hardware, but end user availability.
- Divyansh Gupta:** But sorry, just to double-click on it. See, assuming that machine of an ATM and a cash recycler, both are of sufficiently good quality, then, let's say, noncash metric will largely be same. And given that the customer can deposit cash, the cash out situations will reduce. So therefore, does it reduce the number of trips? That was my?
- Anush Raghavan:** I think you should look at what a recycler means to different stakeholders. So a bank, it definitely brings about a greater degree of efficiency in terms of how the currency is utilized. It is effectively less cash at float. To us, we also like a recycler model simply because both unit economics wise and in terms of the complexity, it is a higher value, which means that in terms of the monthly fixed fee, it is usually pegged above an ATM.
- Now the number of visits might be lesser in certain cases, but that doesn't really change the nature of the revenues simply because the amount of work that still needs to be done, especially in an ATM, you only need to withdraw cash and load it. In a recycler, you might have to load it, you might have to evacuate it. There's a lot of reconciliation work that also needs to be done. So it's not as plain speaking as that.
- But net-net, it ensures to us a higher realization than what a normal ATM would do. To a bank, it's not necessarily higher cost because they need to look at it in terms of what a cost of a branch

transaction is vis-a-vis what that of a recycler would be. So it is generally a more efficient way of managing things.

Divyansh Gupta:

Got it. Understood. And the second question was in the Analyst Day deck, right? We have mentioned that we have 38% market share in the retail cash management. But at least that -- my understanding was that currently, we do not have pricing power or we were looking to increase pricing after some time. So is there a target market share which will allow us? Or how should we understand that when should pricing - ability to price it higher for retail cash management can be expected?

Anush Raghavan:

Let me take an analogy on the ATM business, right? Or rather when I look at what we gain in terms of our ability to both influence the market as well as influence our own outcomes. I think with each step change in our overall market share, it creates a very different kind of an outcome. And we have seen this. We have seen what CMS was 15 years back, then and now, especially in terms of the way we've been able to unlock incremental EBITDA margins as we've scaled up.

In the ATM business, as we went from a 35% to 40% to 45%, 50% and closer to 57%, 58% market share, all of that step change has had a differential outcome in terms of pricing, route optimization, right? Now, in the retail, I think we're in a zone where we are focusing more on yield management and yield improvement, which means that we are sort of evaluating things on a contract-by-contract basis. Our focus there is really to continue to increase market share, to continue to expand the addressable market opportunity and to invest in both building the sales capability as well as using that to cross-sell into technology solutions.

Rajiv Kaul:

I think I would - the way I would ask you to think about is, and this is a question we ask ourselves, right? First of all, you want to defend your revenue and market position in the market, right? That's the most important thing right now. You don't want to suffer on revenue and market position. Margins can go up and down.

We are fortunate in many ways to have a margin profile, which is substantially better than anybody else we know of in internationally or locally. So maintain that margin profile and growing revenue rapidly, both of those are not easily possible, right? So something has to give at some point of time. I would argue now with hindsight, like the last year has seen the opposite happen where we defended market and revenue and therefore, has had some impact on margins possibly. We will hope to undo that in the coming 2, 3 quarters.

Specifically to retail level, I think Anush said, we will look at our network and look at our capacity to see how we can keep growing revenue at a sensible margin profile. And is there a particular market share number where it makes sense? I don't know, right? I mean I think if you have one competitor who is willing to -- anyone, right now, there are 4 competitors in the sector. If you have only 2, the second one can keep aggressively being aggressive on pricing maybe, right?

So really, you can't determine when and how much pricing power you can get. I think if you can keep focusing on quality, cross-selling to the customer and other lines of businesses, I think you're fine.

Moderator: Next question is from the line of Shivam Parekh from ValueWise Wealth Management.

Shivam Parekh: So we are having a good cash position of around INR600 crores in our books and having a great balance sheet as well. So also with us being market leaders in the business that we do and further consolidating our market share further in tough times last financial year and this financial year, so are we thinking of enhancing shareholder value through buybacks to gain advantage of the low valuations currently?

Anush Raghavan: I think perhaps you have joined late in the initial part of our opening remarks. As Rajiv mentioned, given the changes to the buyback regulation that have been announced, we feel that right now it is a lot more equitable for all stakeholders as opposed to the earlier regime. This is something that has been discussed at the Board level. We will evaluate this closer to the end of this year as we look at our overall capital needs in terms of growth capital, M&A.

Rajiv Kaul: Yes. I think we do have a very active M&A pipeline. We've been working on it for a long time. We are looking at investing for growth. As I said, our priority is simple, organic, then inorganic and then returning capital to shareholders, whether that's through dividends or buybacks, I think we will take the -- we will have the Board discuss that at the appropriate time.

Right now, we are seeing active opportunities in the M&A pipeline. We don't know -- that doesn't mean deals will happen. We will continue working on them and what makes accretive sense for us to build and scale our business in -- with good returns, I think that's the first priority for us as a team to us and to our shareholders.

Shivam Parekh: Okay. So sir, with you seeing buybacks favorably for us, so you are seeing --

Rajiv Kaul: Let me clarify. It's not about seeing buybacks favorably or unfavorably. I think buybacks because there has been a constant ask and question on buybacks, we want to address it proactively in line with our capital allocation philosophy, which we have entailed out. We're not saying a buyback is going to happen or not. If we do see excess capital and we don't have a need for it, we then will evaluate returning it via dividend or buybacks as the Board deems fit.

Shivam Parekh: Okay. So sir, if any buyback was to be possible, so can we expect in financial year '27 or this financial year?

Rajiv Kaul: I don't think I could forecast this at all. This is not a decision which the management team makes. I think we've been fairly clear on the way we think about it. We will let you know end of the year if there's any change to the thinking.

Shivam Parekh: Sir, also, with buybacks being taxed unfavorably, so does that have a bearing on our decision? That was my last question.

Rajiv Kaul: Certainly, yes, absolutely. You're right because we have to think of capital allocation in light of all of that. That's why we have proactively talked about it. Not to say that there's something happening, just to share with you how we think and we are clear to our shareholders equally to give you an answer on our thinking. We do see capital needs for the growth of the business, both organically and inorganically. If after that, we see a sufficient cushion for us to return capital, we will definitely look at it.

Moderator: Ladies and gentlemen, we will take this as the last question for the day. I now hand the conference over to the management for the closing comments.

Rajiv Kaul: Thank you so much. Thank you for your Q&A and for all the questions you asked us. I think I'll summarize by saying that, yes, we've had 2 quarters of disappointing numbers. We are hoping to turn the tide with Q4 and going into FY 2027 strong.

I know there's a revenue forecast, which may seem a little aggressive given the Q3 specific numbers and the last 2, 3 quarters of sort of underperformance, but we are hoping to turn it and deliver stronger numbers for you and for us to meet our own internal target, which we had set for FY 2027 of INR 2,700 crores to INR 2,800 crores of services revenue and overall revenue of INR 2,800 crores to INR 2,900 crores and with an EBITDA margin of 25% to 26% for the year. Thank you.

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