



“CMS Info Systems Limited
Q2 FY ‘26 Earnings Conference Call”
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MODERATOR: **MS. SONAL GANDHI – ASIAN MARKET SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the CMS Info Systems Limited Q2 FY '26 Earnings Conference Call hosted by Asian Market Securities. 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 your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Sonal Gandhi. Thank you, and over to you, ma'am.

Sonali Gandhi: Thank you Trisha. Good afternoon, everyone. On behalf of Asian Market Securities, I 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; Mr. Anush Raghavan, Chief Business Officer; and Mr. Puneet Bhirani, Chief Operating Officer. I shall now hand over the call to the management for their opening remarks. Over to you, sir.

Rajiv Kaul: Thank you, Sonali. This is Rajiv. Good afternoon, everyone, and thank you for joining our Q2 FY '26 analyst call. Many of you would have attended our second Analyst Day in Mumbai on September 30, wherein we shared that in detail the industry landscape, H1 trends, some surprises and challenges and also the opportunities for FY '27 with potential for FY '30. Our youngest and fastest-growing tech solutions business is growing rapidly, generating significant momentum. The Securens acquisition has been closed and the teams are now working together on both the go-to-market and the synergy implications.

Our Retail Solutions & Currency Logistics business has had an impact in H1 from subdued consumption levels and extended rains, which affected rural income significantly. Our ATM Management Solutions business is going through a period of transition and churn, which has a bearing on growth and profitability in H1, but our competitive position, strong business fundamentals with consolidation will deliver growth in H2 in FY '27.

Order wins for the quarter are at INR500 crores, most of which are fixed price contracts in nature and from leading private sector banks. October is off to a good start with positive news. And with this, I would like to now hand over this to Anush, our Chief Business Officer, to give you a more detailed business update.

Anush Raghavan: Thank you, Rajiv. Good afternoon, everyone. Second quarter was a transitional quarter for us. The industry is still recalibrating after last year's consolidation, and that has temporarily affected deployment cycles and network utilization. Several large private sector banks have rationalized their offsite ATMs due to lower transaction levels, while the rollout of new BLA ATMs under PSU contracts slowed as some MSPs have faced funding constraints.

Taken together, about 4,000 ATMs were temporarily inactive within our portfolio, which, along with weaker ATM transaction volumes due to extended rates have led to a revenue impact of about INR15 crores. Post the AGS issue, banks have reduced credit limits and exposure to certain MSPs. This has impacted the working capital cycles and increased our DSOs. We have taken a prudent provision of INR10 crores in this quarter, a proactive step to

maintain balance sheet hygiene, while continuing to ensure we significantly improved collections and cash flows in H2.

On the cost side, 2 factors come into play. First, people costs increased due to long-term rate settlements in key regions. We have to be extra watchful that these negotiations do not cause any adverse ops impact. These multiyear agreements are now complete and will be offset through productivity norms over time.

Second, operating costs were higher as we had maintained our full network during the quarter, since the large PSU bank cash outsourcing contract closure was still pending. The RFP since then concluded. As a result of both of these, our EBIT was impacted by lower network capacity utilization and the temporary cost overhang. Productivity drives and pipeline growth should bring our margins back to prior levels over the next 2 quarters.

Coming to H2, there are positive developments. The large PSU bank as outsourcing RFP has closed after extensive negotiations and represents a INR500 crores incremental revenue over 10 years for CMS. Further banks have reallocated volumes across MSPs to ensure better traction on RFP rollout.

This gives us visibility of getting to 74,000 to 75,000 ATMs in our cash business by March of this fiscal year. Another major BLA tender for 4,500 ATMs, which are mostly an expansion and not replacement was bid at prices which are very close to interchange levels. This is a clear sign of improving pricing discipline in the ecosystem. At CMS, we are also targeting a 6% improvement in pricing and realizations in our ATM cash business by March.

In our retail business, volumes were softer during Q2, but recovered strongly in October with a 20% increase on a month-on-month basis. This is the highest since the pandemic. Our investments in gig operating model continues to scale very well and should expand to cover 20% of all retail points by March, strengthening both cost agility as well as rural reach. With clarity on deployments, new PSU contracts and ongoing cost initiatives, we expect sequential improvement in both revenue and margins through Q3 and Q4.

With that, I'll hand over to Puneet, our Chief Operating Officer, for an update on our HAWKAI business and operations.

Puneet Bhirani:

Thanks, Anush. So in our tech and payments business, we already demonstrated our tech progress and solutions at the Analyst Day. We welcome all of you to come and visit our tech center at Mahape, Navi Mumbai. On our HAWKAI remote monitoring platform, it continues to grow rapidly and is on track to reach 50,000 plus sites by the end of the year. This started at around 30,000 sites at the beginning of FY '26.

On the enterprise side, our non-BFSI portfolio continued to expand. We have successfully implemented 1,300-plus dark stores for a leading quick cost player and received an additional order for 500 sites. The pipeline for this business is growing strongly across NBFCs, insurance gold loan, logistics, diagnostic change and others.

In October, we achieved a significant milestone for a critical unified build and operate project at the PSU bank covering approximately 2,000 branches with extensive AI use cases. This represents one of the first large-scale integrated surveillance transformation in India and position CMS strongly for large PSU branch monitoring RFPs in FY '27.

As we speak, multiple banks are expected to roll out these solutions at the branches in the next 2 years. The RFPs for over 35,000 branches are being formulated by the bank. This itself represents a huge INR 3000 crores plus revenue opportunity for the industry. This makes us confident of achieving our HAWKAI target of 80,000 sites by FY '30.

Shifting gears to the operation side. We are doubling down on 4 key areas to drive transformation and bring about significant automation and cost synergies. First, rewiring our core operating systems to leverage machine learning to design routes and tips across the network. Second, coming out of delivery model for customers who value premium services. Third, given the large opportunity in retail, we are scaling up our gig operations with automation and control to provide cost flexibility and growth.

And last but not the least, extensively leveraging AI agents and bots to automate workflows and customer service to deliver significant cost savings. I'm excited about the impact these initiatives will have in supporting our growth and margin aspirations. With this, I would like to call upon Pankaj, our CFO, to talk about financial performance of Q2.

Pankaj Khandelwal:

Thanks, Punit, and good afternoon, everyone. Our consolidated revenue this quarter declined by approximately 3% from INR627 crores to INR609 crores on a sequential basis, primarily due to temporary dip in our ATM cash logistics volume. From segmental revenue basis, Managed Services & Tech revenue increased by 5% sequentially from INR258 crores to INR271 crores.

And cash logistics volume dropped by 5% from INR417 crores to INR395 crores, linked to drop in ATM count and retail cash volume per point. Our PAT for the quarter was INR73 crores, reflecting a 20% decline compared to INR94 crores in the previous quarter, with PAT margin at 12.1%, a contraction of 280 basis from the last quarter.

This was driven by the flow-through impact of the revenue dip, temporarily lower realization from the largest PSU bank customer and higher provisioning due to increased AR on account of reduced credit availability to MSP ecosystem post AGS. We are actively engaging with these customers to streamline the reman cycle within H2.

In addition, there is an impact of higher wages due to signing of long-term base settlements, which are renewed average 3 to 4 years. While we could have focused on reducing our network cost in H1 linked to delay of the contract and the business volume, we have to be careful that employee engagement remain positive and harmonious.

In terms of our performance, overall revenue saw a growth of 1%, while service revenue grew by 5% year-on-year basis. Driven by performance of the service component of our Managed

Services & Tech business, which had an annual growth of 18%. The PAT for first half of the year stood at INR167 crores compared to INR182 crores in the same period last year.

As part of our broader cost rationalization efforts and considering H1 performance, the performance-linked ESOP will not vest and incentive payment will not accrue to the leadership team in this financial year, as these are directly tied to that performance.

This vision is consistent with our culture of accountability and ensure the leadership rewards are aligned with the business outcomes and shareholders' interest. As projects go live this year for our tech investment, capex spend in H1 is INR175 crores. Full year estimate of around INR300 crores. You will remember, we had deferred and curtailed capex in last year FY '25.

On cash flow, H1 is seasonally weak in the terms of collection and DSO, resulting in the lower OCF in the first half of the year. The AR net of provision was INR959 crores as on 30th September '25, which is lower than September '24 of INR990 crores. However, temporary decrease in account payables by INR70 crores resulted in a negative OCF.

Our historical -- our historical 5-year OCF EBITDA has been average 70% with majority of it accruing in the second half of the year. Our cash balance remained strong at INR687 crores in line with last H1 despite higher capex, increased dividend payout and payout for the secured acquisition. We expect to return closer to our FY '25 price margin level by end of this fiscal year, supported by incremental revenue from new contracts and network cost optimization initiatives. With that, I would like to invite Rajiv for his closing remarks.

Rajiv Kaul:

Thank you, Pankaj. Let me summarize the key points for all of you. The SBI cash RFP has concluded and contracting and final approvals are under progress. As this project goes to live status, revenue from this outsourcing contract is an incremental INR500 crores opportunity for us over the next 10 years.

More importantly, this also creates a very good reference point for other PSU banks to outsource more bank-owned ATMs directly for cash management with strong companies. ICICI Bank is on track to become our second largest customer. Post AGS, the bank shut down almost 3,000 off-site ATMs in H1, but they are working with us to rapidly deploy currency recyclers to bring back the network to earlier levels.

With just these 2 contracts going live in H1, the ATM management solutions business should get back to growth in H2 and deliver double-digit growth in FY '27. Three other large bank RFPs across both private sector and public sector are expected to conclude in the next 6 to 9 months, which gives us further opportunity for growth for FY '27 to FY '30. The short-term pain in the last year, the collapse of an industry player, the credit taps being tightened for some MSPs are eventually going to help the ATM industry consolidate faster. This is also creating a better pricing environment for our upcoming RFPs.

In the retail business, October has seen a strong jump in cash volumes, and we hope these positive collection trends will sustain and continue in H2 with GST-driven reforms and demand. Our HAWKAI platform scale up is massive. I want you to reflect on this business,

such as created post IPO in 2022, and this business has gone from a size of INR0 crores to INR100 crores in its first 3 years and is now likely to go to INR250 crores revenue in the next 2 years. We do see smaller players unable to compete leading to consolidation.

We will, on our part, continue very aggressive investments in the HAWKAI tech platform to drive this high 50% growth CAGR opportunity and for this to become a large part of our revenues. Tech investments are also higher and needed to transform our core operations to reduce physical operating costs and to create a strong tech moat to help in sustaining margin profile and give us more agility.

Looking back at the beginning of the year, while we knew FY '26 will be a softer year between FY '26 and FY '27, but H1 threw up surprises at the macro and industry level. which we have explained in enough detail. While these are unpredictable, our team has solid experience in handling worst situations. FY '16/'17, we dealt with demonetization.

And FY '21, '22, we dealt with COVID. Each time, we have prevailed, come out stronger, leaner with higher market share to deliver strong growth. As a team, we are aligned with our stakeholders and shareholders. Pankaj has already detailed the nonvesting of performance ESOPs for FY '26 as well as nonaccrual of performance-linked compensation for the year.

From a key near-term metric, the H1 services revenue of INR1,125 crores should grow by 9% to INR1,225 crores in H2. This will mean an overall FY '26 services revenue growth of 8%. That run rate in H2 of annuity revenue will provide us with a very good base to hit our FY '27 services revenue target of INR2,700 crores to INR2,800 crores, which is a 15% to 19% growth.

With that, thank you so much, and we'll move to Q&A.

Moderator: Thank you very much. The first question is from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: Thanks for the detailed background and context setting a couple of questions. Just so that I got your previous -- your last comment, right? Did you call out that the combination of cash management services and managed services revenue will be about INR1,225 crores in H2? This is excluding the hardware component. I'm sorry if that's a repetition.

Rajiv Kaul: Yes. So I think, Baidik, if you reflect back on both the Analyst Day and the way we've said businesses are merging in each other, we sort of are focusing on the annuity and services revenue. Services revenue will cut across all our business lines and will not include the product revenue.

Baidik Sarkar: Right, right. No, that's interesting. So the SBI RSP that we've closed this quarter, right? So as the base case that tantamount to about a INR70 crores to INR150 crores revenue potential per annum. But I also understand that there's already billing a part of that for services that we're doing by measure of goodwill before the RFP was finalized. So my question, Rajiv here is that

what's the incremental revenue at stake here? Or is the entire INR50 crores to INR70 crores likely to be incremental?

Anush Raghavan: Baidik, Anush here. So I think if you look at the commentary that we have shared in the presentation as well as on the call now, the INR500 crores that we're talking about is only purely reflective of the incremental revenue opportunity.

Baidik Sarkar: Okay, incremental. Got it. That's interesting. And some very interesting comments on the GIG model, Rajiv, could you please flesh that out more and what that does from a fixed cost savings perspective, point number one? And secondly, on the employee cost reduction that we've seen in Q2, how should we read this going forward?

If you can just call out the cash, noncash component, is this a onetime reduction? I understand the part of the ESOP notvest and probably you've added back some part of the incentives that would have accrued. How are you thinking about this line item going forward?

Anush Raghavan: So Baidik, Anush here. I'll take the first part of the question on the GIG and revert to Pankaj for the comments on the second part. The GIG is really -- if you go back and think about what we are trying to do on the retail opportunity is to really sort of try and expand the market. which is to go beyond just the urban, semi-urban and expanded from the current 200,000 outsourced market closer to 500,000 market.

All of this, of course, needs investments on the business side and being able to create new use cases using technology and solutions to integrated retailers. From the operations and service delivery, it also needs us to create a certain agility in creating service delivery models in places where our network perhaps doesn't exist or the density of business points do not justify a large fixed cost network operations.

The GIG serves as a very useful way to drive growth into some of these underpenetrated markets. What Punit spoke about in terms of using a lot of machine learning algorithms is to also constantly keep evaluating our network operations, looking at the density and deciding on a very frequent basis, almost on a weekly, fortnightly basis, what are the best sort of resources to deploy for the different types of business points. So GIG becomes a very useful almost edge case scenario for opening up these markets as they mature over a period, we evaluate what is the right way to do it in 4-wheeler routes and what type of routes, for example.

Rajiv Kaul: I just want to add to what...

Baidik Sarkar: GIG will probably be applicable just for the new business cases and not existing centers of cash, cash pickup. Is that right?

Rajiv Kaul: So I think overall, what we will have to examine is basis the risk profile and what amount of money we have to handle and the network density and reach we will start having more of our operations, remote areas on a GIG-based model, where we don't need to deploy the entire crew and all. But I think we'll just step back a little bit again.

I just want to add to what Anush said. If I go back 2 to 3 years, many times when you talk to a large, we are working with banks only, right? When you walk to -- directly to a retailer or an NBFC or a gold loan company, you can't go and pitch a solution and say, "You know what, only -- I can only do 600 branches where I have presence the remaining you go figure it out."

So I think for us, the idea is to say, except whatever is the entire network and then file out how will we deliver it for that way of investment, creating GIG capacity that this capacity will not always be profitable or will not function fully in the first 3, 6, 9 months, but at least gives comfort to our direct-to-retail clients that we will support them end-to-end.

And over time, we need to get faster in how we see, how to make this network operationally profitable. And that's why the investments in ML and are going in to be able to tailored our ramp-up ramp down, in line with how we take business points.

Baidik Sarkar: Okay. And on the employee cost reduction, but is this a one-off I mean how are you thinking about this going forward? I understand your comments on the ESOP and the incentive pitch, but how should we model this perhaps the next year and onwards?

Rajiv Kaul: I think the employee cost reduction which you're seeing in Q2, especially linked to the 2 things we talked about are one-off. And therefore, they won't obviously be -- you won't see that in Q3 or Q4. However, as Puneet and Anush both talked about, I think we are driving very significant productivity.

Also, sorry, there will also employee cost increases, which are in terms of more longer term through our LTS agreements. But I think we have already started off a fairly intensive productivity and cost optimization efforts, which in H2 won't happen only in Q3 should help us make up for this.

Baidik Sarkar: So quantitatively, what does that mean? I mean do we revert to a run rate of INR90 crores a quarter? Or will it be between INR80 crores and INR90 crores for the quarter qualitatively?

Rajiv Kaul: Baidik, I don't know the answer to that question right now. I think we don't have -- we also will not be able to forecast Q3, Q4 line-by-line costs right now. We'll tell you end of Q3, but I think our goal is to make sure that our EBIT and PAT margins are trending back to normal by the end of the year.

Baidik Sarkar: Okay. And just last 2 questions, Rajiv, thanks for bearing with me. The provisions that we've taken, is there incremental stress in H2 as well? Are we scaling down that business? How should we read that?

Rajiv Kaul: On provisions bucket.

Pankaj Khandelwal: So in addition to the usual risk provisioning, we had taken incremental ECL provisioning due to elongated payments from certain MSPs. We are working closely with them to streamline the payment. And we expect that a normal risk provisioning plus ECL provisioning to be in the range of 4% revenue in line with our historical trend.

Rajiv Kaul: I think overall from some of these MSPs are revenue stream is about 8% to 10% overall revenue, I don't think we are looking to right now tailor it, but we will control exposures. H1 generally, I think there's just always seasonally very weak for payment cycles from banks to vendors to MSPs to us directly. H2 things always pick up. This year has been a little bit more tighter, I think, as I said, some of the credit uptakes have been lower. But we are working closely to get this under control.

Baidik Sarkar: Yes. And just for that, I know how bad this is. I mean, what's the aging here? Have we crossed 6 months on this INR10 crores worth? What's the rough aging count there?

Pankaj Khandelwal: No, we provide on the basis of accepted credit loss and risk provisioning what we do for our cash business. And this is based on the -- it is not only the MSP. Overall -- overall because...

Baidik Sarkar: I appreciate that policy, but just so that was a bit more quantitative. I just would like to understand how bad is this? I mean this is beyond 4 months, is it beyond 6 months. Just a rough cut will do. I don't need the exact day count.

Pankaj Khandelwal: No, no. I'm saying the DSO level, Baidik, in H1 this year is the same as it was last year at this point. In September last year...

Baidik Sarkar: I meant gentlemen, for the specific pool of INR10 crores, like I mean, obviously, this is stressful. Is this beyond 6 months? Is this beyond the quarter? So what's the quantitative breakup of that?

Pankaj Khandelwal: This INR10 crores is basically between Q2 and Q3. Q1 and Q2, what is the incremental provision we have made for cash business that this INR10 crores represents that. And largely, it -- largely is because of the MSP, the additional...

Rajiv Kaul: Baidik, 6 to 9 months would be the pool of time if you're talking about...

Baidik Sarkar: And just lastly, if I just got one of your comments right, INR3,000 crores of RFPs in pipeline, did I get that right? And how should we imagine this going down to CMS?

Rajiv Kaul: No, no. Let me -- I think Anush, Punit explained this. So the -- if you specifically look at HAWKAI, HAWKAI has a sub-vertical opportunity where bank branches are going to move to this level of technology for surveillance and security, whatever they need to do. We had a very intensive project, which is going live right now.

We know there are many banks which are coming up and working on their RFPs. These are technologically fairly high end. All of them have consulting firms, helping them come up with RFPs. The pipeline of these RFPs will be roughly 30,000 to odd or 35,000 branches.

That will present an opportunity of INR3,000 crores revenue size for those banks, just for those 30,000, 35,000 branches to whichever companies are able to win in that. So I think it is specific to branch level, remote monitoring solutions, where HAWKAI is a leading contender.

Baidik Sarkar: And just a last question before I get back in the queue. What's the scale of payments business today? And what's the playbook here specific payment business?

Rajiv Kaul: Well, I think from the payments business, right now, our payments business is limited to specifically what we do in our card management card personalization solutions, which -- and however, if you go back to what we talked about in the Analyst Day, I think we are making very aggressive and active efforts in -- through M&A to look at B2B, fintech and payment type firms to see how do we expand our range of services to both banks and NBFCs.

So right now, it is limited to what we do through card personalization services, which is roughly -- the revenues are reported separately anyway in P&L, you can have a look. But in future, we hope this will grow through more technology and payment companies, which will be part of our overall network.

Baidik Sarkar: Is it possible to quantify what the hardware part of our business plan in H2? I mean because you've already called out the services part?

Rajiv Kaul: I think hardware business is roughly, I think, as a trend line are in the 10% report each year. The timing of this is not usually under control, but 10% of revenue roughly. But maybe we are overall, Baidik, we are looking to have this as a lower percentage of maybe 7%, 8% of overall revenue in this year.

Moderator: The next question is from the line of Vikrant Bandekar from Ashok Core Investments Family Office.

Vikrant Bandekar: So my question was regarding the 3 segments that you have, right, for ATM cash management solution, retail cash, retail solutions and technology solutions, how are the profile margins profitability profile margins are defined in this each sector, right, because the businesses are completely different, like the cash logistics business, you have like operational efficiency needs to be on top and cost leadership is important to grow that business?

However, if you look at the technology side of business, the innovation part, the product differentiation comes into place. So how is the profile margin defined between these segments if anyone can take on that?

Rajiv Kaul: So I think, first of all, the 3 segments we talked about, we will start reporting revenues by these segments by end of the year. We've just finished our large ERP refresh. And we ended the year, we'll give you revenue by the 3 businesses we explain to you at the analysts summit. Coming to profitability, I think it's not just profitability also return metrics, ROCE.

I think for us, every business, if you look at our overall 25% ROCE, I think there will be some business a little higher, some a little lower. But our overall aim is to create these 3 platforms, which can self-fund the growth and therefore, need to have and sustain good good margin profile and good return metrics.

As a principle, we don't normally invest in any project or business unless we are able to see a minimum IRR of 18% or 20% of the business. and ROE in the 18%, 20% range or ROCE in the 20% plus range. We today cannot give you detailed profitability metrics by business simply because the entire network runs together. But by then, hopefully, we should have almost 80% of the network running independently linked to that business. There will still be 20% which we shared. But at that point, we'll have a better sense of each business's operating metrics at that level.

Vikrant Bandekar:

Yes. Just on that, just expanding this question. Like how the capex has defined across these 3 segments like the management focusing more capex on the technology side of business going forward as it is a growing business and needs to scale up accordingly to the management estimate around 80k sites. So is the capex going towards more of it? And are the return profile matching back for the technology business, particularly?

Rajiv Kaul:

Yes. I think the return profile on our technology business are very good. They're already very good and strong from what we can gauge from the numbers we look at. And that's what drives the investment case for us to approve it and for the Board to approve it for us to keep investing in that. I mean you look at the growth, right? I said INR0 crores to INR100 crores, INR100 crores to INR250 crores is the target.

That will need investments. However, I think those investments are starting to pay off for itself. On the second point, I think for us when you think about any capital allocation, whether it is in capex or any other area, I think we are looking at it. I don't think there is a priority on a particular area. There is not a -- one business gets a little better approach. I think simply, we compete. We look at what our capital allocation policy is.

We also look at the project should fend for itself. And if you think of it in the last 1 year, we had opportunities for, let's say, having higher growth because in some of the ATMS, which companies won, they could not deploy certain banks came to companies like us to come and take up the project to deployment, and we evaluated it. We had the opportunity to get that business and growth, but we didn't think it will be sustainable in a 3- to 5-year period.

And therefore, we didn't take that up. So we sacrifice and we let go of growth, but we weren't confident of the return on the project, let's say, specifically for the BLA segment. So I think, for us, each project has to meet a threshold has to have a margin of safety. And I think all of our business lines are delivering good return metrics. So we're not concerned of discount.

Vikrant Bandekar:

Just to know that, are you considering like going forward, like 5 to over the next few years period? Do you see the technology business covering most of the significant portion of your revenue mix?

Rajiv Kaul:

No, no, no, it cannot. No. I mean if you look at our overall numbers, we've talked about in the analyst deck. I think the overall technology sector, we're saying should contribute by this year to roughly 10% of revenue. So can't this -- I mean you are keen that we do 70,000, 35,000

ATMs in cash management, right? That's a huge revenue stream out there. There's almost INR1,000 crores. So technology can't become INR1,000 crores overnight, right? So...

Vikrant Bandekar: Just it is 7%. So can it go to 15%, 20% over the next period. I just wanted to know that how -- like it is just -- it is a recent business around 2022 and it has scaled up to around 7% in around 3 years. So how are you looking over like it close to 15%, 20%?

Rajiv Kaul: We are looking at to cross 10% by FY '26, '27. If we get that going, I think the opportunity for it to hit 15% in the next 3 years is quite high. But you have to keep in mind -- and I've said this from the last 3 years, our core businesses around ATM and cash also have been growing at a very good CAGR. So the contribution of these high-growth businesses just starting from 0 cannot be -- they can't become 30% because our other core business also are growing well. And...

Vikrant Bandekar: Yes, because they are double digit growth in that also?

Rajiv Kaul: Right. We do forecast them to also grow reasonably well.

Vikrant Bandekar: Right. And just on the part of this Vision AI business that because it has a large TAM around like around INR8,000 crores, as mentioned by you, like the BFSI segment, you guys have the experience over like between 15-20 years in the BFSI segment. So the customer acquisition becomes easy in that.

So the management is now targeting non-BFSI sectors and already in wins contract in quick commerce and EV industries. So how are the customer acquisition costs are different? And what are the major problems that management is facing in acquiring those non-BFSI targets? And is the cost and benefit cost benefit is aligned with that? I just wanted to understand that.

Rajiv Kaul: First of all, I think for us, in a technology-led business, there is platform building cost, which is commoditized over all customers, not specific to any sector. Then there is solutioning cost, which is client-specific, right? You customize solutions for a particular client. We will only customize under investment in that.

Some investors work out, some don't work out. But I think from an overall tech business, these are investments you keep making because you're building the tool kit, you're building AI use cases, they'll come in handy in other industries also. So I think for us, we are only right now able to tackle or cater to clients where there is a large footprint.

Smaller clients, we can't even go after. So unless somebody has got 500-1,000 locations, 2,000 locations, we don't even have the technical people available to build a solution case for them. And neither do we want to focus on it, right?

We want to focus on large clients. I think a large client needs CMS. Smaller clients don't need CMS. I think they will have other companies they can work with many more effectively. So I think the cost for us, because it's a horizontal approach are -- we think of it, there may be some use cases different, but a lot of the platform cost is fungible across sectors.

Vikrant Bandekar: Right. And is a differentiation that makes this business like go across like meters switching was high for the customer? Or what is the case for that in the new CS you're talking about for the region?

Rajiv Kaul: I think the -- it's a good question because our technology-led business, you can get disrupted significantly surprising people. I think the way we do this is because there is capital involved. We lock -- we only work with clients where there is significant lock-in periods, right? We're at least a 5 to 7 years.

Now having said that, I think have come ourselves and disrupted people here, right? Because we are the last year of the sector in 2021. So I can't say that there won't be somebody else who can't do this. Tech businesses across any platform have that risk and you are to live with that risk. What you can do is keep investing and innovating so that your solution sets are leading are strong and are delivering value to the clients.

I think what is a note for us here isn't only just a tech is that -- I think of supposing you and I want to set up this business tomorrow, right? We have -- we see to give those INR150 crores, we go and start building this platform, we compete. What we both won't have is a company present in 250 locations, is 1,000 engineers in the field to fix things when things go wrong, which happens all the time.

Many people deploy stuff, but nobody knows where that will happen to their deployment. And how do they go fix it when the last mile issues come up. I think our moat remains our network reach, client management and also, frankly, the brand for large NBFCs and large banks who trust.

Vikrant Bandekar: Right. And just regarding that, the H1 consolidated balance sheet, we can see that there is a significant increase in intangible assets and in cash flow, so we see increasing purchase of PPE and intangible assets, so is it regarding majorly towards technology business? Or is it spread across the 3 segments that you guys do?

Pankaj Khandelwal: We have acquired 1 company Securens in this period is related to that.

Moderator: The next question is from the line of Krushi Parekh from Bugle Rock PMS.

Krusha Parekh: Yes. So I just want to first understand that this decline in the business touch point, is it purely related to the ATMs because of -- so what is the reason for the shutdown of these ATMs, first of all?

Anush Raghavan: Krushi, I think we detailed somewhat in our Investor Day, but just to briefly summarize. Post the AGS situation, many private sector banks, both used it as an opportunity, also looking at overall ATMs, which weren't contributing meaningfully in terms of transactions, they prune those estates down.

So some of the large private sector banks at the industry level shut down large parts of their offsite ATM network, instead wanting to refocus on setting up new recyclers, either on --

mostly on-site locations. The second reason for that churn that we witnessed has been public sector banks, which had awarded RFPs under mostly the brown label ATM contracts in last year to MSPs those MSPs because of, again, the AGS situation, banks which had curtailed their limits and borrowing exposure to some of the mid-sized ones, found it difficult to have the capital adequacy to roll out these contracts.

So through most of H1, we've sort of dealt with these headwinds. As we come into Q3, 2 things have happened, which is rollout of those private sector contracts have started gaining momentum. As Rajiv said, with ICICI Bank, who is soon emerging as our second largest customer for CMS, we are well on track to deploying these solutions for them.

So other set of banks who have given our orders to some of these MSPs have reallocated that from some of the weaker ones to the other more willing ones and those are the balance sheet strength to roll out these orders. So that's sort of led to that temporary decline of 4,000 ATMs in the last 3 months. But as we have come into October, we started seeing a pickup in momentum on ATMs coming back into activations. And by end of this year, around March, we think we should be able to make good delta and create some growth for ourselves.

Krushik Parekh: Okay. So Anush, just to understand, so a good portion of this pruning is behind us now, and we are now looking at a normalized rate of growth in the ATMs by then?

Anush Raghavan: Yes. Yes. So H2 versus H1 being a 9% growth. All of this is a contributing factor in that.

Krushik Parekh: Okay. Okay. So just to continue on this particular point. Now the thing is that again just some certain great winds and some other conversations in the industry, a good portion of these ATM sites are permanently out of the system is what the sense that I'm getting -- we are getting out here.

Okay. Now if say, for next 1 year, 2 year, I mean you do have some orders in hand, but if say, for next 1 year, 2 year or odd with the banks are not willing to increase their ATM side. Is it there something that we have some kind of a plan we to ensure that we may own some kind of drag in there?

Anush Raghavan: Yes. I think good point, right? So you got to sort of look at -- there is one strategy or tactic being adopted by banks. I think it really depends on private versus public sector approach. For the private sector banks, the -- what most of them are seeming to do is to shut down or reduce their exposure to off-site networks. Off-site ATMs, so what private banks used to capture transactions on an acquiring basis.

That is from debit cards, which did not belong to their banks, but from other banks. Over a period of time, with the growth of both our public sector bank networks and white-label networks and the general decline in transactions, they have found this to be not a very attractive proposition. Instead of saying we use the capital and the bandwidth to refocus and invest into creating much higher quality networks in their on-site networks, which is the branch.

So if you look at what -- just to give you an example, again, ICICI, what they're trying to do is to remove all of the older ATMs that were there in their branch network and set them up with new recyclers. Our engagement with them on setting up on our software solution of algo multi-vendor solutions is also to try and use this branch as some of our technology demonstrator for multiple activities that can be done beyond cash transactions alone is the coming period.

And that's the theme that I think we will start seeing happening across other private sector banks. Public sector banks are still balancing between on-site and off-site. There is no goal there to either reduce ATMs or shut down anything.

And when we look at the last year, 1.5 years, out of the top 5 or 6 banks in India, both private and public, most of the RFPs or these replacements has only happened on 2 of these largest banks. The next 3 or 4 all are going to come out with RFPs either for replacement or growth of their networks in the next 12 to 18 months. So I think to us to create enough of a tailwind and opportunity.

Also bear in mind that I think we've undressed this earlier as well that the CMS portfolio over a period of last few years has had a strong bias towards public sector banks because we were very late entrant to this market and consequently grew that business on the back of RFPs. Today, with private sector banks wanting to redo and refresh their network, that becomes a very interesting opportunity for us to start engaging with customers who we haven't done so far.

Krushik Parekh:

Okay. Okay. So broadly, from what I understand, we are still largely dependent upon the trends that you have seen, it's a temporary miss, but hopefully H2, or maybe next year onwards, the lethargy in the system corrects and we start seeing the growth again?

Anush Raghavan:

Yes. I'll just go back to what we said. I think there is a very strong growth opportunity within our core businesses. And I think Rajiv addressed this, and we also spoke about this in the Investor Day, which is when we just look at the ATM market, the fact that most of the public sector bank ATMs are still not outsourced.

The refresh pipeline of these ATMs presents itself as a very interesting opportunity. So yes, we had this blip off 2. We see those ATMs coming back into circulation by Q4 and also delivering some growth to us. that Q4 performance will give us a very solid base for FY '27.

Krushik Parekh:

Okay. Okay. And one more question, so this...

Anush Raghavan:

It's also a very consolidating market, right? And that sort of presence itself has a very interesting structural tailwind to us.

Krushik Parekh:

Just one thing also on the numbers, this capital WIP of INR141 crores. So what would be the breakup of this?

Anush Raghavan:

I think, we have -- Pankaj, go through that and come back to you if we can sort of take another question in the meanwhile?

- Krushik Parekh:** Sure, sure. So as of now, I'm done, but I'll be on the call for that particular thing.
- Pankaj Khandelwal:** These are the projects under execution, like we have around INR1,400 crores of the project under execution. So these are the WIPs CWIP related to those projects which are under development.
- Krushik Parekh:** So any particular projects that you are referring to on this?
- Pankaj Khandelwal:** Yes. Couple of projects we have already given like UPI, etcetera, like branch UPI or some of the other fixed price BLA, etcetera. These projects are part of that.
- Anush Raghavan:** Yes. I think if you remember last quarter, we had about INR1,500 crores of orders, which were pending execution. This quarter, we won INR500 crores of new orders and the pending order book for us to execute is about INR1,400 crores. So with such large order books, which are both being executed and won, they're always an element of work which has been done and pending approvals will translate into revenues.
- Krushik Parekh:** Okay. And any particular word on the -- any acquisition size or on the emission side?
- Pankaj Khandelwal:** Work being done. We will obviously update only when we have something, but right now, nothing.
- Moderator:** The next question is from the line of S.K. Devnath, who is an individual investor.
- S.K. Devnath:** Really by the effort for maintaining the result business as it has been seen for last 12 quarters. I have some personal query, which is related to the ATMs only, as I find that with the increase of the digital transactions. How the ATMs expansion by the banks will take place, say, 5 years from now, and it will impact our currency logistics business and ATM management business? How you plan to address the same?
- Rajiv Kaul:** So I think for the currency ATM business, first of all, if you look at both driven by public sector banks needing to access their reach of customers, their availability. Banks need to have x number of ATMs available to consumers at all times. We think there will be some steady growth in the installed base.
- Interchange has increased by RBI in May, and the white label becomes an interesting opportunity where deployers are looking to increase ATM network in semi-urban room. We are seeing higher usage of ATMs in semi-urban room, and that's where we think the PSU banks and WNA operators can service this more. The private banks as cost of technology remains lower and as people costs go higher, we see private sector banks deploying more machines within their branches as they refresh those branches.
- Now from an industry today, I think the overall industry at a managed services level will have 6 or 7 players. We do see this reducing to maybe 3 or 4 companies over the next 3 or 4 years. Therefore, the revenue side and the pool size for companies will go up as smaller or medium

players exit. As you have fewer players, the need for the service will remain the transactions that the ATM may reduce.

So if you used to go to an ATM twice a month today, you may go once a month or something. But you have to maintain and run this network like you need to maintain and run a branch. I don't think that is going to change in the next 5 to 10 years. And therefore, pricing, which you are doing when there are lesser competitors competing, I think, will go up.

So I think the volume growth may reduce in 5 years' time, but outsourcing from PSU banks and pricing should make up for it to keep continuing this at an 8% to 10% growth opportunity. Having said that, this is a business which was, let's say, 60% of our revenue some years ago is now at about 50% of our revenue. And over time, as the retail business and that technology business grow faster, the share of this business will steadily maybe reduce, which is also the goal, which is to have more business lines which are able to help us drive growth.

So I think for us, we look at the fact that we have multiple lines of businesses. We look to expand into other services, which we can cater to for our banking, NBFC and retail clients. And as we drive free cash flow, out of our current businesses to invest for growth into new sectors, we should be able to maintain a reasonable growth profile.

S.K. Devnath:

I just would like to ask a layman's question, that is that how we are utilizing AI in the days to come?

Rajiv Kaul:

Sure. So I think it's a great question. I think for us, AI, we started with extensive machine learning and AI use for our HAWKAI platform, which is our remote modeling solution. So we've been doing that for the last 3, 4 years and investing more and more because a lot of the security surveillance and all we are doing through a HAWKAI solution is by agents and by AI and not with physical eyeball monitoring.

I think that learning is now powering into our core operations. Punit explained that in a note saying a lot of our route network, where we go, what we pick up, how much we pick up, what's going on, how do we keep changing our routes dynamically basis either seasonality or demand is all being -- we are investing in machine learning with algorithms to help us drive the next level of operational framework.

I think for our company of our size, this is a big investment, but for a company of sites, given the amount of we touch 130,000, 140,000 touch points, I think it helps us apportion the cost more easily to drive better, say, better margins over time. So machine learning and AI is being used extensively in our core operational business. It's also in our BU, our business line on HAWKAI.

Moderator:

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

Praveen Kumar:

A couple of questions. The first 1 was on the EBIT margin on the cash logistics business. You've attributed the drop to lower -- I mean, lower network utilization and the provisioning. So -- but particularly looking at the network utilization part of it, how much of it do you

attribute to the consumption slowdown versus these temporary factors, which you attributed to in terms of southern network being down currently.

So could you throw some light on that in terms of where do you see this heading in the next -- in H2 and also during FY '27? This was the first question. The second question was on what you referred to earlier about private sector banks and others, but clearly looking more at on-site ATMs in the offsite ones. So how do you see that impacting your revenues in your various segments. This movement from off-site to on site, both in terms of revenues and some broad margin kind of profile.

Anush Raghavan:

To your second question first, is the easier one. I think broadly, the switch from upside to on-site we generally view it favorably for the simple reason that it's not so much about where the ATM is but what is the nature of the outsourcing model. When banks are outsourced and offsite, they generally had a preference to move to sort of move to a transaction model simply because the selection of the site was being done by the MSP and not the bank. Whereas when it switches to an onsite, this is more a bank seeking a higher quality of engagement with respect to how a branch ATM should be serviced. They want partners who are able to bring in that resilience and robustness and that quality of service of a very different order than what necessarily was being done at onsite ATM. And that can only happen if there is predictability and certainty of revenues through a fixed price model, so we generally sort of tend to have a bias for one -- the fixed price.

Coming to your earlier question on what has caused that dip in the revenue, as you rightly attributed from an EBIT perspective, it's a combination of 3 things. The first week, the impact on our network utilization. Generally, as we've spoken in the past, managing our network capacity utilization through just running a very high quality of productivity management is something that we've been doing for many years now.

Q2 cited to unusual situations. The delays in the closure of this large PSU bank RFP, which meant that until the time it didn't get closed out, we had to carry that capacity and consequently the cost. And the second being the temporary different ATMs, which has basically meant that ATMs, which were installed, taken out and either were being replaced at the same site or being relocated to a different location from one offsite to on-site.

We knew it was going to happen. Now the uncertainty is really in a matter of time. It could be a quarter, it could be 2 quarters. So for that short-term period, just trying to reach in the network and ramp up and run down work in capacity and incurring restructuring cost is not really worth it. So at the end of Q3 and Q2 and Q3, when we speak about this now, we believe we have a far better visibility to be able to make the necessary changes to our network capacity.

Both through cost reduction, business which comes back into our network, leading to overall margin improvements and getting it back on to track the way it was last expired. You're right. This is on the physical side of business points impacting our network. The dip in the cash

collections on the, which are more consumption-oriented in Q2 in retail, have also impacted revenue.

So if you look at our total revenue impact of about INR18 crores, INR20 crores, about INR5 crores a month, INR15 crores is what is attributed to the ATM side and the rest would be on the retail. And as I shared with you earlier, in October, with spending coming back on the retail side strongly in a 20% lease month-on-month, we think that should lead to a recovery of this business as well.

Praveen Kumar: So where do you see the cash logistics, the margin on that heading in the H2 and next year? I mean we have some rough sense?

Anush Raghavan: So as we said, no, by end of the year, we hope to recover that back to where it used to be before this.

Praveen Kumar: And your earlier response on the offsite to on-site transition. So one question I had -- I mean on a follow-up question on that was that -- for offsite ATM, is it possible that a bank might require fewer services and might want to do some of the stuff themselves. And does that lower the pool of revenue that you can attack versus an off-site?

Anush Raghavan: Not really. In fact, if anything, it was the other way around, conventional experiences data has shown that on-site ATMs tend to attract more number of footfalls simply because these are branches more people go to trade there for various reasons. Banks are very keen to switch transaction from branch to branch associated on site locations.

It's extremely expensive for a bank to have people walk in to a cash teller and do any sort of a transactional banking activity. It could be cash related, it could be account related. A lot of that is what they want to transition to their own site, ATMs and recyclers. The only delta between on-site and offside is really around rental electricity, where in an on-site because it's part of our branch, those are borne by the bank.

Praveen Kumar: And when you referred that private sector banks are moving more to recycle versus aeration. How does -- how are you positioned in that in terms of the hardware? I mean do you have -- because you traditionally had more experience on the traditional ATM side versus the recycler. So how do you see that impact?

Anush Raghavan: Not really. I think within the industry, the lens CDs, cash dispensers for what is traditionally ATMs and recycles. But outside in the gene continue ATMs as a catch-all phrase to talk about both. We were one of the first initiatives and pioneers of bringing the cyclers also into the country.

I think it was way back in 2015 or '14 when we won what was then the largest order for currency recyclers to be deployed across State Bank of India network. So we have a fairly deep and entering it going back. And we really are a full stack solution in this space, right, from having the right product from our partners, young to an engineering team which understands this extremely well and servicing and solutioning.

And more importantly, when we combine that with the software platform the algo, the benefit of that in was in which bank is able to use a recycler and provide a whole host of additional services to their customers, including things like account opening, KYC and various other noncash related transactions. That can be a very powerful combination.

Rajiv Kaul:

In fact, I want to add one quick point. If you think of specifically price to the banks, when they think about upgrading their branch networks and adding more recyclers, they are very hardware agnostic really. They are very service-focused, like service and quality.

And in fact, we have 1 or 2 clients who would like us to not only work with our current hardware partner, but with more to become hardware agnostic but they would like to prefer CMS to do the work irrespective which hardware working on. Now I'm not saying that's a trend for the whole sector and the industry, but at least 1 or 2 clients have been focused on that with us.

Moderator:

Ladies and gentlemen, in the interest of time, this was the last question. I would now like to hand over the conference over to the management for the closing comments.

Rajiv Kaul:

Well, thank you so much for so many detailed questions. We thought we would have a more descriptive monologues from our side and hopefully reduce the question, but I'm happy to hear them out and give you better clarity. As we had October is off to a good start. We hope that trend goes out well for us the rest of the year, and we hope to have a much better H2 to bring us back online for our FY '27 goals. Thank you for your time, interest and patience.

Moderator:

On behalf of Asian Market Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.