"CMS Info Systems Limited Q3 FY24 Earnings Conference Call"

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MODERATORS: **MR. PRITHVISH UPPAL – ASIAN MARKETS SECURITIES LIMITED**

Moderator: Ladies and Gentlemen, Good day and welcome to CMS Info Systems Limited Q3 FY24 Earnings Conference Call hosted by Asian Market Securities Limited.

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I now hand the conference over to Mr. Prithvish Uppal from Asian Markets Securities Limited. Thank you and over to you, sir.

Prithvish Uppal: Thank you Michelle. Good afternoon, everyone and we are very pleased to host you and the management team of CMS Info Systems for the Q3 and 9 Months ended FY24 Earnings Conference Call.

We have with us today from the management team of CMS Info Systems: Mr. Rajiv Kaul – CEO and Executive Vice Chairman, Mr. Pankaj Khandelwal – Chief Financial Officer, Mr. Manjunath Rao – President (Managed Services) and Mr. Anush Raghavan – President (Cash Management Services).

I now hand over the call to Mr. Rajiv Sir for his "Opening Remarks." Over to you, Sir.

Rajiv Kaul: Thank you Prithvish. Good afternoon, everyone. Thank you for taking the time to attend our Q3 FY24 Earnings Call.

With revenue growth of 19% and an adjusted PAT growth of 22%, it has been a strong quarter. This actually makes it our seventh consecutive quarter with more than 20% year-on-year PAT growth. The strong and consistent performance highlights the robustness of our annuity linked business model.

We are seeing a very strong momentum in both our business lines led by growth in the banking sector and higher outsourcing and the growth in the retail sector led by formalization.

Our track record on bidding and winning large complex banking outsourcing deals continues. We're happy to share that we have INR 600 crores worth of wins in this quarter, which takes the cumulative wins in this financial year to INR 1,250 crores in our Managed Services and Tech Solutions business.

Our CFO – Pankaj, will now take you through the "Q3 Financial Highlights".

Pankaj Khandelwal: Thank you Rajiv.

Our consolidated revenue has grown by 19% to INR 582 crores with Managed Services and Technology Solution now contributing 40% of our total revenue.

Our adjusted EBITDA has grown 16% to INR 163 crores, and our adjusted EBITDA margin profile is 28.1%. Adjusted PAT has grown by 22% to INR 96 crores making it 11th out of last 12 quarters with greater than 20% PAT growth.

Our adjusted PAT margin has expanded by 40 basis points on year on basis to 16.5% in Q3 of FY24.

I'm also happy to inform you that our Board of Directors has declared an interim dividend of INR 2.50 per share.

Both our business segments have delivered strong results. My colleague will take you through the respective business highlights starting with Anush for the "Cash Management" business.

Anush Raghavan: Thank you Pankaj.

Our revenue in the Cash Logistics business has grown by 11% year-on-year and 4% quarter-on-quarter to INR 375 crores in Q3 with an EBIT growth of 14% to INR 98 crores. The EBIT margin has expanded by 80 basis points year-on-year to 26.0% in Q3. Our Cash X offering which we have talked about on our Investor Day in May 2023 is scaling well. So far this year we have onboarded and are servicing 40 plus new retail logos.

Our platform offers retailers seamless technology integration which enables process automation, risk mitigation, reconciliation and faster settlement cycles. With this, we have accelerated our business point growth to 4,000 for this quarter, which is close to what we added in all of H1 this year. We continue to invest in our infrastructure with the addition of 500 vans year to date and have upgraded our vaults at 40 locations to state-of-the-art technology and QR-based track and trace mechanism for cassette swap.

With this infra capacity we have been at the forefront of cassette swap implementation and are best placed in the industry to roll out cassette swap. We have already added ATM cassette swap process in 12,000 plus ATMs and we expect 25% of our ATM network to be cassette swap compliant by the end of FY24.

With this, I hand it over to my colleague Manjunath to share an update on our Managed Services and Tech Solutions business.

Manjunath Rao: Thank you Anush.

Our Managed Services and Tech Solutions business revenue grew at 38% year-on-year to INR 233 crores in Q3. EBIT grew 27% year-on-year to INR 41 crores and the EBIT margins stood at 17.7% in the quarter. In the last Earnings Call, we had indicated that we expect to see key PSU RFPs get concluded this year.

I'm happy to report that we have won INR 600 crores of new orders in Q3, taking the new wins in the first three quarters of FY24 to INR 1,250 crores. In comparison, our total wins in FY23 were INR 950 crores. In our AIoT remote monitoring business, we have won orders for 2,000 new sites and are conducting pilots in non-BFSI sectors. With this, I would like to invite Rajiv for his closing remarks.

Rajiv Kaul: Thanks Manju.

To summarize:

Both of our businesses are showing great momentum. Our enterprise sales execution across banks and our solutions for retail such as Cash X are delivering very good results. A significant part of our last two to three years' growth was linked to the MS order book, the ATM growth and compliance. Going forward, we continue to see high growth from our Managed Services business, our retail and AIoT businesses.

Based on current visibility and new wins, we are on track to deliver revenue in this fiscal year of INR 2,250 to 2,300 crores which would be a 17% to 19% growth rate and we feel confident on our mid-term outlook of FY25 which we had presented as a aspiration of INR 2,500 crores to 2,700 crores to be in the upper half of the range.

Thank you for your support and attending this call, we can now move to Q&A.

Moderator: Thank you very much, sir. We will now begin the question-and-answer session. The first question is from the line of Aasim from DAM Capital. Please go ahead.

Aasim: I think Rajiv has partly answered my question so. So, I think revenue aspiration for FY25 you said that you would be most likely in the upper end of the range. Could you also just give some more color that would it be still more Managed Services driven that rather with Managed Services growth still be faster than Cash Management in FY25 and basically with Managed Services growing faster than cash, what does that do to our consolidated EBIT margins over that year?

Rajiv Kaul: Our Managed Services business is obviously coming off a smaller base. It has grown very well. We had in our annual investor day indicated that by FY25 we expect the split of businesses to be in a 60-40 ratio. Q3 of FY24 we have already have that ratio, forecasting it by quarter will be difficult, but I think we see a similar contribution from each business at the end of FY25 at a 60-40 level which is what we had indicated in May earlier this year.

From a margin perspective the MS business EBIT margins are on the lower side. It's a business where we are aggressively growing and investing for market share. Also, it has a product automation mix to it which can impact margins on a quarterly basis. So, I don't see any change in the margin profiles of the businesses from medium term perspective. We will give you more clarity I think at the end of the fiscal year when we have our Analyst Day.

Aasim: I think for now I think from a base case scenario one should circle in maybe a slight decline purely based on the mix changing in favor of Managed Services.

Rajiv Kaul: Yes.

Aasim: And second question is basically on the compliance norm pricing catch up. So, you have mentioned 85% of your ATMs on route basis are compliant and cassette swap at 15%. Can you share similar figures for our RCM and CIT and if you can also talk about where the industry is currently in these three markets?

Anush Raghavan: I know we had guided earlier the rollout of ATM compliance was happening on the route wise basis and 85% of our ATMs are fully compliant especially with addition of 500 plus vans onto our own network this year.

On the RCM side, it is following a process of city wise throughout and as we speak we would be compliant in a little bit more than 40% of our RCM network. The CIT business the quality of network that we're operating we have chosen to sort of have exclusively compliant contracts on the CIT network.

So, there are obviously some contracts which continue to come and go from certain public sector banks which do not fully mandate compliance. We're taking a very strategic call to not load our network with any of that business in order to just chase revenue. So, 85% of ATMs are compliant, almost all of CIT is compliant and 40% of our RCM business is compliant.

Rajiv Kaul: When Anush refers this, he is talking to you on the CMS network. We obviously can't comment on the broader industry and what our competitors are doing, but if this is on the CMS network. As a management, we have taken a call to consolidate our focus on working with banks and partners which are focused on compliance and any other business which is lower yield we will slowly stop working on that and focus on a high yield business.

Aasim: But safe to assume that broadly vis-a-vis industry you would be higher or maybe in the ATM's case similar to industry levels, or would industry be much behind?

Rajiv Kaul: We should be higher simply because the investments required for compliances were significant. We had front loaded this investment in FY21 itself. So, again we will refrain from commenting on other market participants, but our focus on compliance has been to lead with these investments. I think most of the investments for compliance have peaked and I think we're seeing the benefit of that in just the quality of the business and also the margin profile of the business.

Aasim: And just last question it's basically on your M&A focus points, you've mentioned business services, fintech and financial inclusion. Can you just elaborate more specifically on these three where your synergies lie with your existing strengths, and would all these be non-cash movement related or would there still be an angle of cash over here?

Rajiv Kaul: From the Investor Day and what we talked about I don't think there's any significant change in the way we think about acquisitions or M&A, and we did talk to you about the areas of our focus where we'll try to look for expansion. I don't think any of them have a cash element to it at all. I think this would be either broader towards infrastructure, financial inclusion or logistics or technology.

Moderator: Thank you. We'll take the next question from the line of Balaji from IIFL Securities. Please go ahead.

Balaji: My first question is on the FY24 revenue guidance that you have mentioned which is INR 2,250 crores to INR 2,300 crores. If I take the midpoint it implies about 27% YoY growth for 4Q which is a fair bit higher than what you have been doing.

So, basically what gives the visibility on such strong numbers in 4Q. The second question is on the ATM compliance which you mentioned of 85%. So, we can see that despite that your Cash Management revenue has grown only by about 11%. I do understand that there was some pricing impact on a CIT contract, but still one would have expected a slightly higher number since there should have been some realization boost from this compliance, so what explains this phenomenon on the compliance percentage and the relatively lower revenue trajectory growth that we are seeing so those are my two questions?

Rajiv Kaul: From our commentary before, I think there is the fact that our order book wins have been strong that execution will lead to some of that work getting built in Q4. Secondly, Q4 does tend to become a seasonally higher quarter as we've witnessed even last year. I think that's what leads to the confidence of the commentary for revenue forecasts for FY24.

On your second question on the cash logistics business, I think if you go back to we have always guided to the growth potential of the business in the medium term to a 10% to 13% range. I think at 11% is still very good growth. There was that CIT contract loss which we had talked about earlier, but I think more importantly what we are seeing is what I did say to Aasim in his question is that as a team we are standardizing our operations and delivery to focus on the compliance work.

So, any customer or customer segment where compliance is not a priority for them or they're not able to do it based on their own business model is the business which we will try and move away from. So, case in point would be let's say the white label business, the white label business as the operators is not in a position to maybe drive full compliance for whatever reasons. I think we will let go of those businesses because we don't want to have our revamped infrastructure delivering services which are both compliant and non-compliant. I think that's the right thing to do.

Moderator: Thank you sir. We will move on to the next question which is from the line of Mr Achal from JM Financial. Please go ahead.

Achal: The question I had in mind is with respect to if you look at, I mean this is more top-down question we kind of face this. If you look at the currency handled by the ATMs or per transaction value, number of transactions we are seeing the marginal dip year after year or rather for the last few quarters.

So, the question I wanted to ask you is a) how does it impact the Cash Management company and industry and for us how do we tackle this, how does it impact us, and the second question is there any monetary impact or financial impact already seen in our 2Q or 3Q numbers?

Anush Raghavan: I think broadly if you look at it the fact that the interchange has continued to remain flat for the last few years despite the broader industry asking for an increase. I think that is leading to more tepid 4% growth in the ATM volume.

We firmly believe that deeper penetration of ATM is required especially in semi urban and rural and that increase in ATM rollout either accompanied by an interchange increase or with what the public sector banks are doing in terms of growing the ATM channels and expanding that will lead to a more secular increase in overall ATM usage.

However, with the current concentration of ATMs, the overall dispense to the channel is remaining relatively stable and steady at between INR 2.7 to 2.8 trillion per month. In terms of from a CIT perspective I think we've sort of reiterated this in the past as well. We are more focused in terms of looking at the total cash handled through the CMS channel, which actually continues to grow quarter-on-quarter.

So, even in Q3 we had the highest ever currency handled at about INR 3.4 trillion and the more immediate impact on our revenue stream is in terms of the total activities that we do which have actually increased by about 10% year-on-year.

Achal: Secondly with respect to the comment Rajiv made with respect to compliance, investments are already by and large already done. So, with respect to the CAPEX how do we look at CAPEX going forward and another question I had in mind is with respect to the ATM addition where we stand because in the last call you had mentioned about a fairly significant capacity the ATM additions should happen in the second half. So, how is that progressing or are we seeing that getting pushed in to FY25?

Rajiv Kaul: Achal I will talk about the second question and Pankaj can reply on the CAPEX side. So, a lot of the RFPs which have got deferred or delayed rather have started closing out. We have seen contracts RFPs for almost 30,000 ATMs which have closed in the year-to-date period and there are another 20,000 odd ATM RFPs which are expected to close in I hope Q4 2024 or Q1 of next year.

So, we are seeing good progress on this, this had got deferred or delayed a little bit, but I think this is moving along very well and that's also part of the reason for our forecast, our bullishness and also the orderbook which we have. In terms of CAPEX your question let Pankaj give you a view.

Pankaj Khandelwal: So, CAPEX spent will be lower than our earlier guidance of INR 150 crores in FY24 with some of it getting spilled to next financial year on account of large order books which we have won in Q3 FY24.

Achal: Would you be able to give us the number Pankaj by any chance FY24 what CAPEX we would look at and how much is already spent?

Pankaj Khandelwal: So, we have given a guidance earlier of INR 150 to 175 crores in the last call. We expect that this will be over INR 100 crores this year.

Rajiv Kaul: So, INR 125 crores is the forecast we have for what you think will end up in CAPEX spent this year.

Achal: And how much is already spent Pankaj in 9 months?

Rajiv Kaul: I think H1 we had reported the number. I don't exactly remember the number it will be an H1 results. So, you'll get a sense from there.

Moderator: Thank you. The next question is from the line of Nitin Sharma from M.C. Pro Research. Please go ahead.

Nitin Sharma: So, two questions. First of all, on the cost end both purchase of traded goods went up sharply similarly service and security charges also went up. How should we see it going ahead and then I'll follow up?

Anush Raghavan: Nitin could you just clarify the question again you said two cost you missed the first?

Nitin Sharma: The purchase of traded goods and services and security charges both of them went up sharply in this quarter. So, how should one see it going ahead?

Pankaj Khandelwal: See the cost of goods sold have increased because of the revenue mix change. So, in Managed Services, our Managed Services business is now contributing this quarter around 40% and that too in that the Banking Automation business is there which has resulted in the percentage of the cost increase from 5.5% in Q3 FY23 to 9% in Q3 FY24.

As regards your question on the service and security expenses has gone up because of the change in the revenue mix. Second is the vehicle cost we have added 500 vehicles, which has resulted in the reduction in the fuel cost, fuel and the vehicle hiring cost and increase in the Service Security cost.

Rajiv Kaul: So, you should take those two together the vehicle costs of service security and then see the trend line on quarters on that.

Nitin Sharma: Secondly on this INR 600 crores order win what all is included there. It cannot be entirely Remote Monitoring and also how much of the order book is yet to be executed?

Rajiv Kaul: How much of orderbook sorry…

Nitin Sharma: Yet to be executed percentage that has been executed so far?

Rajiv Kaul: Our orderbook we actually only refer to our Managed Services and Technology business. We are not talking about orderbook in our Cash Management business and the order book comprises Banking automation, ATM as a Service, AIoT remote monitoring. The INR 600 crores the order wins are only in Q3 for the full year the order book is about INR 1,250 crores.

The revenue from these INR 1,250 crores will accrue to us in the next 3 years to 5 years. So, some of this will start getting executed towards the end of the fiscal year, but the majority of this will accrue to us in FY25-FY 26.

Moderator: We will take the next question from the line of Adityapal from Motilal Oswal Financial Services. Please go ahead.

Adityapal: Just wanted to understand in Cash Management services what would be the split of business across RCM ATM and CIT and if you're saying 11% growth what will be the growth attribution?

Rajiv Kaul: We don’t split our contribution of businesses within cash manager. I think we always talk about overall business points and overall business growth. We don't detail our growth by sub segment.

Adityapal: But if you can just give a commentary on if you want to attribute to where the 11% growth is coming from which one of the three is driving the growth?

Rajiv Kaul: This was part of my opening and closing remarks where we said that significant part of our last two-to-three-year growth came from the ATM market and compliance driven growth and our ATM as a service business lines. The current trend and momentum indicates that our business in retail is growing very healthily. Anush also talked about the Cash X offering which is doing well. Also, our AIoT Remote Monitoring business is doing well, and our broader Managed Services business is growing very, very strongly.

Adityapal: So, just talking about Cash Management services so when I look at over the last 6 to 7 quarters on a year-on-year growth has actually slowed down from high 20% to low double digits. Anything that we have to read into it?

Rajiv Kaul: I think you should go back to what most people thought before IPO that cash business cannot grow in the first place and then we surprise people are growing 20% at that time. You have to think of the larger business and Cash Management are linked to formalization and growth of the economy.

So, we will be linked to the growth of the economy at 10% to 12% growth in a large business is I think very good and very healthy. It will look optically lower than what we had in two years prior, but from a long-term perspective I think our goal remains to see this business growing by 10% to 13% range, which I think should be the market expectation also.

Moderator: Thank you. The next question is from the line of Pranay Jain from Deal Wealth Capital. Please go ahead.

Pranay Jain: Could you throw some color on the outsourcing cycle in ATMs and how our talks with the banking partners and the PSU private side is giving us an idea of what could come to us next year as part of the expansion and refresh cycle and the outsourcing trend?

Rajiv Kaul: So, I will refer to the answer we just made. So, the outsourcing trends are obviously different across different business lines, but the large ones which we were looking to work on where the whole ATM reflect cycle, 30,000. ATMs have already been in the process of getting awarded this year, 20,000 odd ATMs should happen in the early part of next fiscal year.

In addition to this, I think there is when you think of AIoT business, RMS business and our software business we are in talks with many banks in terms of their expansion and at least for them it's just about adopting new technology. This is technology which has not been used before at many banks, whether it’s in branches or in their ATMs.

And I don't think I can tell you what will likely happen next year in terms of order wins. Order wins will only conclude basis is linked to competitive intensity of course in each business of ours, but our gross order wins over the last three years are being at the range of about INR 4,400 - 4,500 crores. INR 1,250 crores of order wins in the 9 months of this year and we aim to keep doing well in this as and when contracts come up for bidding.

Pranay Jain: And our most of the wins with regards to expansion in the banking and the refresh that you're seeing coming from non-metro pin codes, is that the understanding going forward?

Rajiv Kaul: So, expansion for sure you're right. Expansion would be in the semi metro and rural side. The refresh would be across the country because infrastructure, which was set up 7, 8, 10 years ago was across would be large in the urban centers and that would need to get replaced and upgraded by newer technology. Also sorry is that what your question was completely I couldn't hear you come fully.

Pranay Jain: Yes, that was part of the question, and the second part was how is the competitive intensity looking because our peers whether it is Hitachi or Radiant or other smaller ones they're quite aggressive in pricing and wins so how are we tackling competition presently?

Rajiv Kaul: We have been talking about competitive intensity will be higher for the last five quarters. I think I've said this in every call. India is an exciting market for domestic and multinational companies. We expect competitive intensity to be in intense - that's the job of competition. So, whether that is obviously competitive intensity leads to pricing impact.

We've been doing a pretty good job of focusing on market share and growth as you can see from our results over the last 7 to 8 quarters. Our job is to balance growth with market share and then margin profile and in our core strategic businesses we are very clear on focusing on market share and therefore again if you look back at some of my commentary some of the lower yield businesses which are not likely to get into compliance over the coming year or two we are not interested in those businesses and we rather step away from that and focus energy on businesses which is stickier and better margin profile in the long term.

Moderator: Thank you. We'll take the next question from the line of Ankit Kanodia from Smartsync Services. Please go ahead.

Ankit Kanodia: My question is related to a news article which appeared maybe yesterday or the day before yesterday where it has been mentioned that 40,000 ATMs are to be replaced in the next 12 to 18 months and 10,000 new ones to be added.

So, just wanted your thoughts on that in terms of how much of that can come to us and how much of that will lead to only Cash Management business and is there any scope for many services business also with these new ATMs, if you can throw some more color on this that would be grateful?

Rajiv Kaul: I talk about the 3,000 ATM's which have already been closed out 20,000 more. This is sort of part of the same trend or the article you may be referring to. The numbers may be a little bit here and there, but the number I'm telling you right now is what you should refer to.

There is a upfront opportunity of winning the automation business and then there is a longer-term opportunity by services, Managed Services. Some of this may come as ATM as a service business, but from a upfront product automation perspective our historical market share has been in the 15%, 16% range for the business which got contracted out the 30,000 odd ATMs and recyclers our market there and the wins would be more about 25%. What will happen in the future we can't tell you, but this is what the trend is right now.

Ankit Kanodia: Just one more question related to that article only, someone from our team Mr. Manjunath Rao. He mentions there that bank right now is looking at ATM as a selling point rather than a service point. So, if you can just elaborate a little more on that as to how does that open up new opportunities for us?

Manjunath Rao: This was in regard to the branch expansion plans of the banks you must have read that in the articles of the banks. Typically, on the ATM front we have 1-2 deployments. One for every branch there are two ATMs deployed and in that model the banks are now thinking of a smaller format of their branch and making it more automated and using that space as their cross-selling points.

So, rather than a traditional brick and mortar, they would be using more automation in their branches that's what we get to hear from many of the banks that we discuss with.

Ankit Kanodia: And how does that help us?

Manjunath Rao: Absolutely because one the banking automation business itself and as well as if the model moves on to ATM as a Service model then that it would help our Managed Services business and almost all our businesses get a play in that including Remote Monitoring services.

Moderator: Thank you. The next question is from the line of Abhishek Sinha from Bodh Capital. Please go ahead.

Abhishek Sinha: I just have one question. I wanted to understand what is the run rate of AIoT for the remote monitoring business?

Rajiv Kaul: So, AIoT business is running at a ARR of INR 100 crores plus.

Abhishek Sinha: So, a couple of quarters back I think last quarter also it was at around INR 100 crores, so have we seen any uptick in that?

Rajiv Kaul: I think it's a number we report every year and we already mentioned that we've done 22,000 sites. We have won orders for 2,000 more. I think by the end of the fiscal year we should be closing around 25,000 sites.

Moderator: Thank you. The next question is from the line of Bhargav Sangi from AMSEC. Please go ahead.

Bhargav Sangi: I have two questions and my first question is regarding the provision like what's the recent trend in the provisioning and what's your outlook, if you can provide any outlook that could be helpful?

And my second question is related to the pilot project in collection business that you mentioned in the last quarter like is there any update in the projects, so these two are my questions?

Rajiv Kaul: So, Pankaj could help answer the first one on provisions if I got your question correctly and the collections business, of course, we should not confuse our provisioning and collections businesses and the second question Anush can answer.

Pankaj Khandelwal: So, on the provisioning part with the rollout of the compliance and increased coverage of the cassette swap. We have seen a reduction in our risk cost. This has allowed us to drive a corresponding reduction in our provision from 5.1% in FY23 to 4.1% in H1 of the FY24. Further, we expect that closed FY25 we will expect to close sub 4% level.

Bhargav Sangi: Can you mention for the Q3?

Pankaj Khandelwal: So, H1 we have done 4.1% and we are expecting that for the full FY24 we will close less than 4%. So, the Q3 was also lesser than the H1 number. So, there is a gradual decrease in the provision because of the rollout of the compliance and the increased coverage of the cassette swap.

Anush Raghavan: I think as we have said, you know FY24 is a year where we will incubate a few new businesses and run advanced pilots. Collection is obviously one that we were looking at very keenly. I think the pilot was progressing quite well. We would love to come back to you and update you in more detail on that closer towards doing the next Investor Day. We have signed more than 15 contracts with various banks and NBFCs and I think there's a lot of learning which our team has been getting out of that.

Moderator: Thank you. The next question is from the line of Darshan Shah from Multi-Act Equity Consultancy Private Limited. Please go ahead.

Darshan Shah: I have two questions. One is on the order wins during the quarter. Can you just split it between CAPEX intensive versus non-CAPEX intensive out of those INR 600 crores of order wins?

Rajiv Kaul: So, instead of just Q3 we will tell you for the whole year to date. The year-to-date order wins are INR 1,250 crores. I think less than one-third of that will need capital investment and the remaining will not.

Darshan Shah: And my second question is on dividend payout. So, this is the first time we have given interim dividend. So, is there any change in the thought process of dividend payout policy because if we look at Q3 dividend payout it comes to around 45-46%?

Rajiv Kaul: So, it's not 45-46% for the quarter. Let me clarify we have done interim dividend before in FY22 we have done interim dividend and there is no change in dividend policy or thinking as such I think from our perspective as a company we would like to not wait till the end of the year and do dividends.

We have a fairly robust balance sheet, and we should be able to give capital back to shareholders at frequent intervals. So, I don't think should link to Q3. I think there's a year to date we've done interim dividend.

Moderator: Thank you. The next question is from the line of Nilesh Jethani from BOI Mutual Fund. Please go ahead.

Nilesh Jethani: My first question was on the margin front. So, from going forward wanted to understand in both businesses that is Managed Services as well as cash logistics. What are the levers for margin expansion I understand Remote Monitoring is one of the pieces, but apart from that what are the levers for margin expansion from here on?

Rajiv Kaul: First of all, I do want to underline the fact that our margin profile is best in class globally. I would struggle to know of companies which have the margin profile which we've been delivering consistently.

Second point I want to underline is that our margins have expanded substantially over the last three years and in both of our businesses Managed Services as well as Cash Management.

Number three I will go back to repeat myself again and say that we expect intense competitive intensity. In this intensity our job is to make sure we defend and grow market share and growth.

Of course, our efforts will be to maintain margin profile as much as we can, but that's not. I don't think margin profiles can be linear in nature. Lastly, it's like your fundamental question on levers of margin expansion. I think the mix of business is one. The second is really about productivity if you are able to do more activities on the network and the third is just pricing.

So, the levers will not change dramatically for any company including us. For us the one thing which we have been good at and we hope we can continue doing that in the future is driving a very strong investment and technology in the core of operations for the last several years, which has helped us systematically drive productivity you're seeing that also help in reducing our let's say risk cost this year and just to keep working on improving these things, but we don't control inflation. We don't control how competition will be and from the longer-term perspective we have to be very careful and not just be overly focused on margins, but we focus on revenue growth and market share.

Nilesh Jethani: So, on this revenue growth and market share fees just wanted to understand if more and more Brown Label ATMs come out in the market and say we don't participate aggressively in that, but we participate for the other ancillary services and even Managed Services for those ATMs. So, wanted to understand today whatever brands or whatever infrastructure we are in place and say additional say 70,000, 80,000 of PSU banking ATMs are there for refresh.

Wanted to understand what CAPEX we would require for capturing that market and whether that CAPEX required today would be adequate for capturing the higher margins from here on? So, wanted to understand at today's infrastructure what kind of additional ATM's etcetera we can service?

Rajiv Kaul: In a way what you are saying is on a current investment on vans and capacity how much more capacity could we really do. I think it's a function of this is always changing in time because we're expanding the network. When you move into a new location your productivity will be low.

But I think that's again our productivity numbers are systematically gone up whether you take it on per route or you look at just revenue per employee and cost per employee. I think we've been systematically working to improve those two things. From a perspective of your question on BLA you're right we are reasonably careful on that segment because it's capital intensity.

We don't mind the capital intensity. It's just that making a bet on how transactions will be for the next 7 years. We don't think we have that good quality. Therefore, we will always be more conservative. We have rightly or wrongly taken a call that we will try and catch the contribution of this business to under 15% of our revenue.

We think that's the way to do position sizing, like when you do capital allocation and in that it gives us the flexibility to work with clients where we think we can get the adequate return of capital and therefore we're not getting over. I mean our revenue growth can be pretty much higher if we want to play a bigger role in BLA, but that's not a goal.

And then the last point is really about when you think of the work we do in our network we are trying to make sure that we change that to higher yield and higher quality, and we wean-off lower yield and lower margin business over the network.

Three years ago, it was very different because the network quality was different. Today, our network infrastructure is of a much higher quality, and we don't want to use that to deliver services which are not in line with the way we want to grow.

From a need for capital, we have done roughly an INR 200 crores CAPEX I think Pankaj for the last two fiscal years, this year we were estimating INR 150 to 175. It will be lower, but some of that will just slip into the early part of next year. It's too early to know what the capital needs of the business are going from a three-year cycle, but if next year we would hope to be at an INR 200-crores capital plus some of the slip over from this year. So, maybe it's an INR250-300 crores number for next year right now.

But keep in mind that the EBITDA of the business has grown significantly over these 3 years, 4 years and therefore the CAPEX as percentage of EBITDA is going down substantially.

Nilesh Jethani: So, last question from my side so on this upcoming 80,000 ATMs available for refresh from the PSU side. Just wanted to understand any ballpark understanding you would be having based on your calculation currently what routes etcetera we are servicing at least what kind of market share we can gain in this incremental number?

Rajiv Kaul: Well, impossible to know, but I just want to clarify. There is no way we have talked about 80,000 ATM's right now. We have talked about 50,000 ATMs in recycler 30,000 already closed out and 20,000 up. Now there may be more from other banks, but I don't want to confuse anybody with 80,000 number which at least we haven't talked about, but impossible to know which routes and networks this will go into because these are spread across the refresh will be already part of it.

The expansion could some of it will come on the same route, some may need new routes, but this is not something which we can sort of forecast.

Moderator: Thank you sir. We'll take the next question from the line of Mohit Madhiwalla from Envision Capital. Please go ahead.

Mohit Madhiwalla: So, number one with these points that have been added this quarter, have they basically been in locations where you already have presence and are getting more density within those pin codes or is it more that kind of exploring other pin codes we don't know how much is the standalone that my first question.

And the second question is if you could also provide an update on what kind of annual expense that is expected on ESOP costs, let's say FY24 that is this fiscal up until let's say the next two to three years?

Anush Raghavan: I'll answer the first part of the question and hand over to Pankaj for the second. So, as far as the new business is coming in I think we have spoken about some of those earlier, but one of the core strengths of the logistics platform that we have in CMS is the fact that we already present in a significant number of pin codes covering a large percentage of Indian districts.

So, our ability to service any new business point that comes in I think is far ahead of anybody else. What practically happens is that as and when new businesses come in, it goes to an internal process where we use some of our technology to figure out what is the best way to service that.

And in very rare cases we may need network expansion into a new area, but in most places, it may be an expansion in terms of an upgrade of the infrastructure of the routes in case we need to cater to that incremental demand. More than 62% of our network is present in semi urban and rural covering greater than 16,000 pin codes. So, that's really the strength that we offer to our customers.

Pankaj Khandelwal: So, whatever ESOP we have issued at a very close to the fair market price. 75% of the ESOP are issued at the weighted average fair market price and 25% at a 10% discount. We have not given any deep discount, or we have not issued any RSU. Those are ESOP issued at a fair market price, but the option value to be calculated at a Black Scholes method and expensed out in the P&L.

So, based on that for the next two quarters we expected INR 10 crores to INR 11 crores of the ESOP expense and then next four quarters around INR 6 to 7 Crs and then it will reduce to INR 3 crores to INR 4 crores. One more point I want to highlight is that 50% of these ESOPs are vested only in case of the performance as defined in the ESOP policies.

Mohit Madhiwalla: So, just to clarify that ESOP for this is per quarter this is a per quarter run rate that you have mentioned?

Pankaj Khandewal: Yes, ESOP cost per quarter.

Moderator: Thank you. The next question is from the line of Chinmay Nema from Prescient Capital. Please go ahead.

Chinmay Nema: My question pertains to the Retail Cash Management business. The other players in this segment have talked about pricing revisions price cut, so just wanted to understand what kind of pricing power do we have in this business, have we taken any price cuts? What kind of price hikes have we taken in the past? Do we have fixed contracts, variable contracts, any objective or subjective commentary on this would be helpful?

Anush Raghavan: Let me answer it in a different way. I think fundamentally when you look at the performance of the cash business when you take the 9 months of the year I think they're showing almost a 16% growth in our EBIT margins. I think that's sort of speaks testimony to our pricing power and the way in which we are able to deliver with high operational efficiency.

Having said that, I think the nature of the way in which we're looking at retail businesses is changing. This is no longer just a per pickup price or a per pickup model. It's transitioning from being a logistics service to a more solutions-oriented play. We are bringing on board a lot of investments that we've done with respect to technology.

Cash X is really a very strong ecosystem of collaboration between payment banks, Fintech, CMS and some traditional banks to try and look at the retail outsourcing in a very different way, how do we bring in greater process efficiency to the front office. How do we bring in greater risk management and resilience to the back-office processing. I mean it's really about trying to help retail execute a lot more efficiently, making sure that their working capital cycle reduces, making sure that the risk exposure of the people who are working in retail is vastly different, offering accelerated settlements.

So, I think we feel quite positive about the offering that we have and the conversations that we have with retailers. As I said earlier, we brought on board more than 40 different logos just in this year. So, I think that's the way we're looking at it.

Chinmay Nema: Would it be possible for you to quantify what kind of price hike you've been able to take in the last 3 years, 4 years, 5 years?

Rajiv Kaul: No, we can’t.

Moderator: Thank you. We'll take the next question from the line of Pranay Jain from Deal Wealth Capital. Please go ahead.

Pranay Jain: Yes, on the AIoTs just wanted to understand what is the opportunity we see over the next couple of years as we are expanding into NBFC insurance and retail so that is the first one?

Rajiv Kaul: On the AIoT business right.

Pranay Jain: Yes, the opportunity size versus where we are.

Manjunath Rao: So, the BFSI sector TAM is roughly about INR 1,700 crores and the non BFSI sector we estimate around INR 6,000 crores and that's the opportunity. When I say non BFSI we are talking about big retail, logistics, warehousing and government, railways, metros, highways and ITMS (Intelligent Traffic Monitoring Systems) sectors.

So, these are the large ones. Currently we are very strong in the BFSI sector and like Rajiv said earlier 22,000 and this year we might end up with around 25,000 ATM sites. So, likewise the bigger businesses are outside the BFSI sector.

Rajiv Kaul: So, in our BFSI side ATMs we hope to be about 10% market share by the end of the fiscal year. This is a business we incubated only about 2.5 years ago. Our current focus and win rate is obviously high in the areas we know well. Over time, we are building the software stack and the platform and then putting a sales team together to venture into the other area.

But just from a overall 2.5 lakh ATMs in the country we think about and there are about 1.5 lakh branches. So, if you take that total that's about. 4 Lakh sites potentially as a tap for this business. We are right now targeting to get to 25,000 in this fiscal year.

Tell you more about the thinking and really at the Analyst Day, I think that will be the right time to sort of talk longer term with the business.

Pranay Jain: I was just looking to get what size I could scale up in the next couple of years, any percentage, any goals or aspirations here so?

Rajiv Kaul: I understand. That's something we will update you at Analyst Day. Again, keep in mind that it's a business which we are new still. We have done very well, but we don't want to get carried away and just focus on doing the right thing from the midterm of the business.

Pranay Jain: And the second question is on the inorganic part basis the cash that we have on books, what are the strategies that we are looking to deploy over here in the opportunities we see as part of industry consolidation or in the adjacent areas of our operation?

Rajiv Kaul: We've talked about this in detail in our earlier calls and as well as our Investor Day, but I'll just summarize, # 1. We are a fairly conservative company. We have done many small tuck-in M&A deals and to look for expansion, but we do see the opportunity to scale into newer segments with meaningful M&A in the coming years.

We have reasonable cash in the books which we want to have flexibility as and when an opportunity comes up. Having said that, buoyant stock markets don't necessarily help for M&A especially for a company like us which is looking to do things at the right value.

Our focus will not be so much on consolidation. I think the consolidation opportunity as a market leader most of our segments we would prefer to grow organically rather than do aggressive M&A. We think that's the best to use our capital to invest the capital ourselves rather than use it to buy something in our current line of businesses. The areas where we would like to deploy capital for expansion remain on broader financial inclusion and infrastructure space for banks, bullion logistics and collections.

Pranay Jain: And we have adjacencies over here the areas that you mentioned financial inclusion and the other pieces that you mentioned or are they fresher areas for us?

Rajiv Kaul: When you think of bullion logistics it's a fresh area for us, but it's a logistics business. We do cash logistics. We know risk management, but we may not know the client. So, therefore the whole thing is about getting new clients there. When you think of collections we haven't done collections, but then again it's a business which should render itself very well to the infrastructure we have set up of both governance, risk management and the branches we have in the cash logistics business.

The clients here would be potentially would be banks and NBFCs with whom we already do some work. So, adjacencies depend on how you define the work and the final financial inclusion I think that would be something new. Our approach usually for M&A from the past has been to incubate and pilot new businesses internally, learn about them or do a small acquisition to learn and then only scale it up. We normally don't do something big in a new sector first upfront.

Moderator: Thank you. We'll take the next question from the line of Shakti Dinesh an Individual Investor. Please go ahead.

Shakti Dinesh: So, if I look at our business there is Cash Management and there is Managed Services. So, just wanted to understand in Managed Services we have this software solutions Algo and AI based monitoring. I understand our competitive position in terms of Cash Management and how this offering is strengthening our business proposition like and NBFC is there. We are transporting the cash and we're also providing the monitoring solutions, but just wanted to understand the competitive dynamics like from CMS side like what kind of competition are we seeing in particularly in the software domain like why can't an IT company do it, so if I can get a picture on that?

Rajiv Kaul: When you think about software I'll specifically talk about Algo because on software because your question is very vast, but if I just pick software when we work in software our ALGO software there are two elements here. One is the whole Multi-vendor software we work on with the large banks on the ATM channel.

Now this is specific to the ATM channel it is of relevance to strategic companies like us. There are other competitors like global companies which could do this. I don't think Indian IT companies would have the necessary skill set to focus on this. The second is on a AIoT remote monitoring. I think AIoT remote monitoring is a sector which has seen many companies over the last decade come in and set up solutions.

But software and technology have changed dramatically. We saw an opportunity; we are a late entrant into the sector. We only entered the sector in 2021. We saw disruption ability at that time basis the model of technology changing from whatever it was earlier to mostly using machine learning in AI and therefore we are able to invest into that aggressively when there is a disruption in technology.

And where the incumbents were maybe slower at that time or couldn't invest for whatever reasons. So, I think that helped propel us into a market leadership position. So, we are in the BFSI space the number one player even though we are one of the last people to enter that sector, but that's what both the good and bad on technology-based businesses where if we can be disrupted by anybody from where, but it also gives us people like us a chance to enter new sectors and drive strong growth.

Shakti Dinesh: So, just to clarify when we are investing in this machine learning models and such. So, can I take it back since we have been in this business segment for long like we have done solutions for ATM and now we are offering an allied service, can I take it as a way that we have the required data that gives us an edge over some of these IT companies?

Rajiv Kaul: I think it's a technical expertise first. It's a technical expertise is the understanding of what a customer is wanting to do and ability to work with them and finally it comes down to having a company which is present across the nook and corner of the country to be able to scale. Today you could find, lets argue, some companies which could help you do this in Bombay or Delhi, but you will not find it will not be so easy to find companies which could help you scale this across the country when you want to think of a branch network or an ATM network across the country. So, it is technical knowledge, it is the quality of technology. It is your service levels and finally ability to work with large complex customers like banks and able to do this.

Shakti Dinesh: It's more like a bundled strong business proposition plus leveraging our already strong vintage with our clients.

Rajiv Kaul: I would also recommend that maybe at the end of the call if you haven't already, have a look at our Investor Deck which we updated and uploaded yesterday. It will talk about our integrated platform capability and where we are able to bring together one integrated approach to solving a banking customers' needs and the platform will work across logistics and technology to offer a very high-quality service which gets very difficult for others to replicate.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to the management for their closing comments. Over to you, Sir.

Rajiv Kaul: I think I've already done the closing comments. No new comments. Thank you so much for your time, patience and interest and support. We look forward to talking to you at the end of the fiscal year, with our annual results. Thank you. Have a good day.

Moderator: Thank you, members of the management. Ladies and gentlemen, on behalf of Asian Market Securities Limited, that concludes this conference. We thank you for joining us and you may now disconnect your lines. Thank you.