

AGS Transact Technologies

Conflux of cash and digital ecosystem

AGS Transact Technologies Ltd (AGS) is the second largest ATM outsourcing and cash management player in India, with a 15/30% market share. The company has been able to sustain the impact of COVID-19 (ATM transactions declined by ~30%), supported by its strong and sticky relationship with top Indian banks and upward revision in interchange fees by ~14% by the regulator. AGS has focused on scaling the cash management (~20% CAGR) and the Digital payment business (~15% CAGR) to offset the impact on ATM management segment. We expect a recovery in the payment solution business, led by (1) revival in ATM transactions; (2) increasing cash circulation despite exponential rise in UPI; (3) higher demand for CRM machines; (4) preference for RBI & MHA compliant vendors for cash management; and (5) growth in digital payment business, led by tie-ups with OMCs. AGS is pivoting itself to a profitable growth terrain in FY23E, supported by (1) margin expansion in the ATM/cash management/Digital segment and (2) reduction in debt, leading to interest savings. We expect AGS to deliver +10/15% revenue/PAT CAGR over FY22-25E and RoE of ~17%. We initiate coverage on AGS Transact with a BUY rating and a target price of INR 123, valuing the stock at 12x Sep-24 EPS (~15% discount to CMS).

- ATM business set to recover:** The ATM management revenue (transaction + fixed price) was down by ~6/10% in FY21/22 due to a decline in fixed-price ATMs (PSU banks) and a drop in ATM transactions during COVID (dropped to ~70/day, vs the pre-COVID level of ~105/day). Based on ATM unit economics, an increase in one transaction/day/ATM improves ATM revenue by ~100 bps and margin by ~65bps (on a consolidated basis ~25bps margin improvement). We have assumed transactions to improve to ~90-95/day vs the current level of 85-90/day. We expect the ATM management business to deliver ~8% CAGR and ~170bps margin expansion over FY22-25E. The cash management business will deliver ~13% CAGR over FY22-25E and EBITDA margin will expand to 15-18% with scale.
- Digital payments driving growth:** AGS has a total of 0.24mn POS machines (~4% market share) and has registered a strong CAGR of ~28% over FY19-22. The growth was driven by tie-up with major OMCs for POS installation at petrol pumps across India. Out of the total order book of ~80K POS machines, ~50K are installed and the rest will be done over the next two years. The current GTV is at INR 0.4mn/POS/month; the target is to reach INR 0.6mn in the next few years. The revenue from digital payments is expected to increase at a CAGR of 16% over FY22-25E, led by OMC POS (~25% CAGR).
- Improving profitability:** AGS reduced its debt to INR 7bn in FY22 through pre-payment of INR 5.5bn NCDs issued in FY21. The interest payout will reduce to INR 1.43bn in FY23E vs INR 2.5bn in FY22, providing a boost to profitability in FY23E. We don't expect any further increase in debt level, cash generation is healthy (OCF/EBITDA is at ~95%), and capex per year will be at INR 1.2-1.3bn.

Financial summary (Consolidated)

YE March (INR mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	18,057	18,004	17,589	17,719	19,727	21,680	23,335
EBITDA	4,250	4,624	4,386	4,109	5,080	5,636	6,133
APAT	662	830	548	-825	991	1,157	1,320
Diluted EPS (INR)	5.5	6.9	4.5	-6.8	8.2	9.6	11.0
P/E (x)	15.1	12.1	18.3	-12.2	10.1	8.7	7.6
EV / EBITDA (x)	3.3	3.2	3.5	4.0	3.1	2.6	2.1
RoE (%)	15.6	16.6	9.8	-17.1	17.1	16.6	15.9

Source: Company, HSIE Research

BUY

CMP (as on 22 Sep 2022)	INR 83
Target Price	INR 123
NIFTY	17,630

KEY STOCK DATA

Bloomberg code	AGSTRA IN
No. of Shares (mn)	120
MCap (INR bn) / (\$ mn)	10/135
6m avg traded value (INR mn)	42
52 Week high / low	INR 182/66

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	21.4	(17.9)	-
Relative (%)	7.3	(19.9)	-

SHAREHOLDING PATTERN (%)

	Mar-22	Jun-22
Promoter	65.52	65.52
FIs & Local MFs	8.01	7.46
FPIs	6.26	5.60
Public & Others	20.21	21.41
Pledged Shares	0.00	0.00

Source : BSE

Amit Chandra

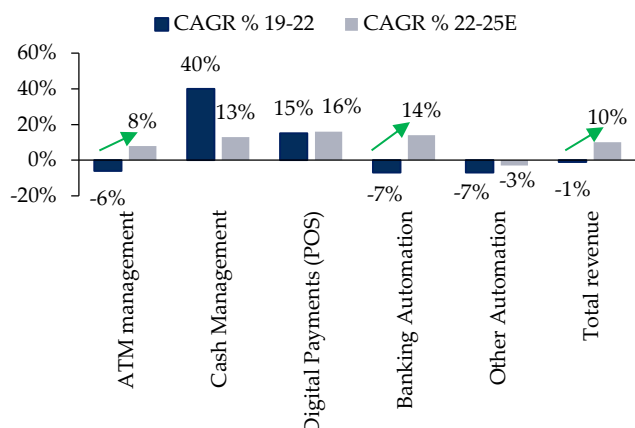
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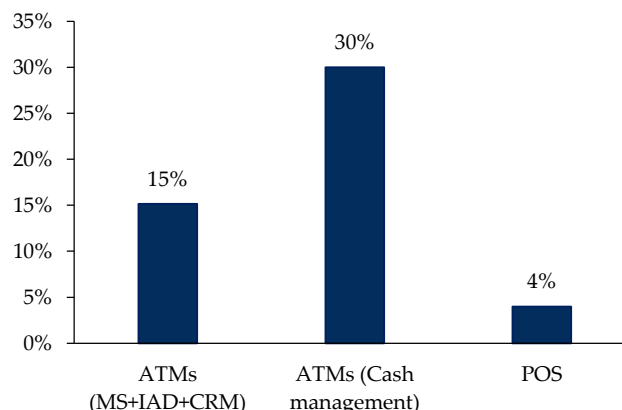
Focus Charts

Revenue growth acceleration across segments



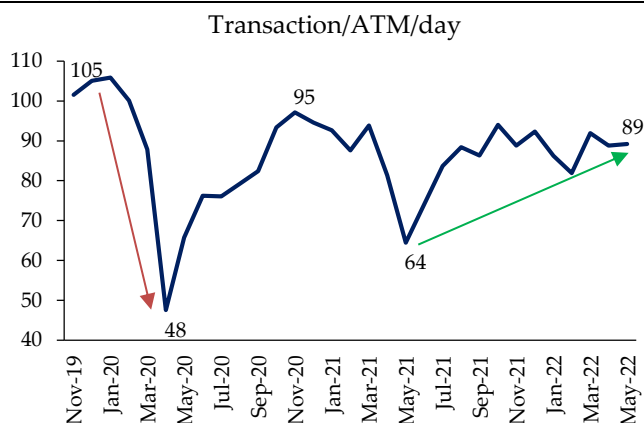
Source: Company, HSIE research

AGS is the second largest ATM and cash management player



Source: Company, HSIE research

Recovery in ATM transactions to drive revenue growth and margins



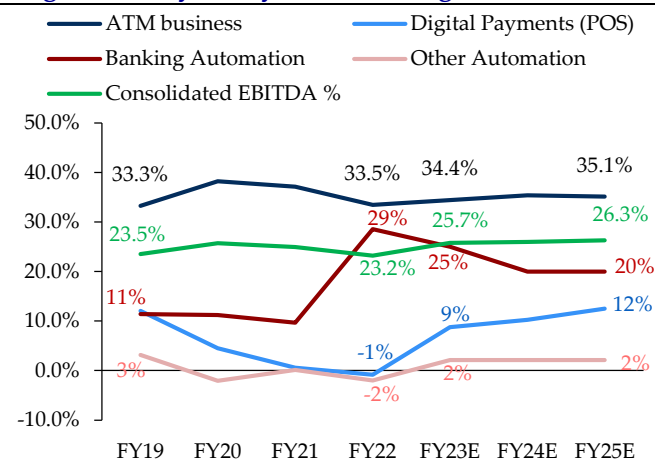
Source: RBI, HSIE research

An increase in one transaction increases consolidated EBITDA margin by ~25bps (~65bps at ATM level)

EBITDA Margin %		Transactions/ATM/Day (Nos)				
		85	90	95	100	105
Realisation per Transaction (INR)	12.0	19.2%	23.7%	27.7%	31.3%	34.6%
	12.5	22.4%	26.7%	30.6%	34.1%	37.2%
	13.0	25.4%	29.6%	33.3%	36.6%	39.6%
	13.5	28.2%	32.2%	35.7%	39.0%	41.9%
	14.0	30.7%	34.6%	38.0%	41.1%	43.9%

Source: HSIE research

Margin recovery led by ATM and Digital Business



Source: Company, HSIE research

Valuation scenarios: base case offers a 45% upside

Parameters	Bear case	Base case	Bull case
Revenue CAGR % (FY22-25E)	7%	10%	12%
EBITDA Margin % (FY24E)	25%	26%	27%
Margin expansion bps (FY22-25E)	194	309	428
Debt (FY23E) INR bn	6.85	7.00	7.15
Interest (FY23E) INR bn	1.46	1.43	1.39
PAT FY24E (INR bn)	0.91	1.16	1.42
PAT CAGR (FY23-25E) %	12%	15%	19%
EPS Sep-24 (INR)	8.0	10.3	12.8
Target P/E (x)	10.0	12.0	14.0
Target Price (INR)	80	123	180
CMP	83	83	83
Upside %	-4%	48%	116%

Source: HSIE research

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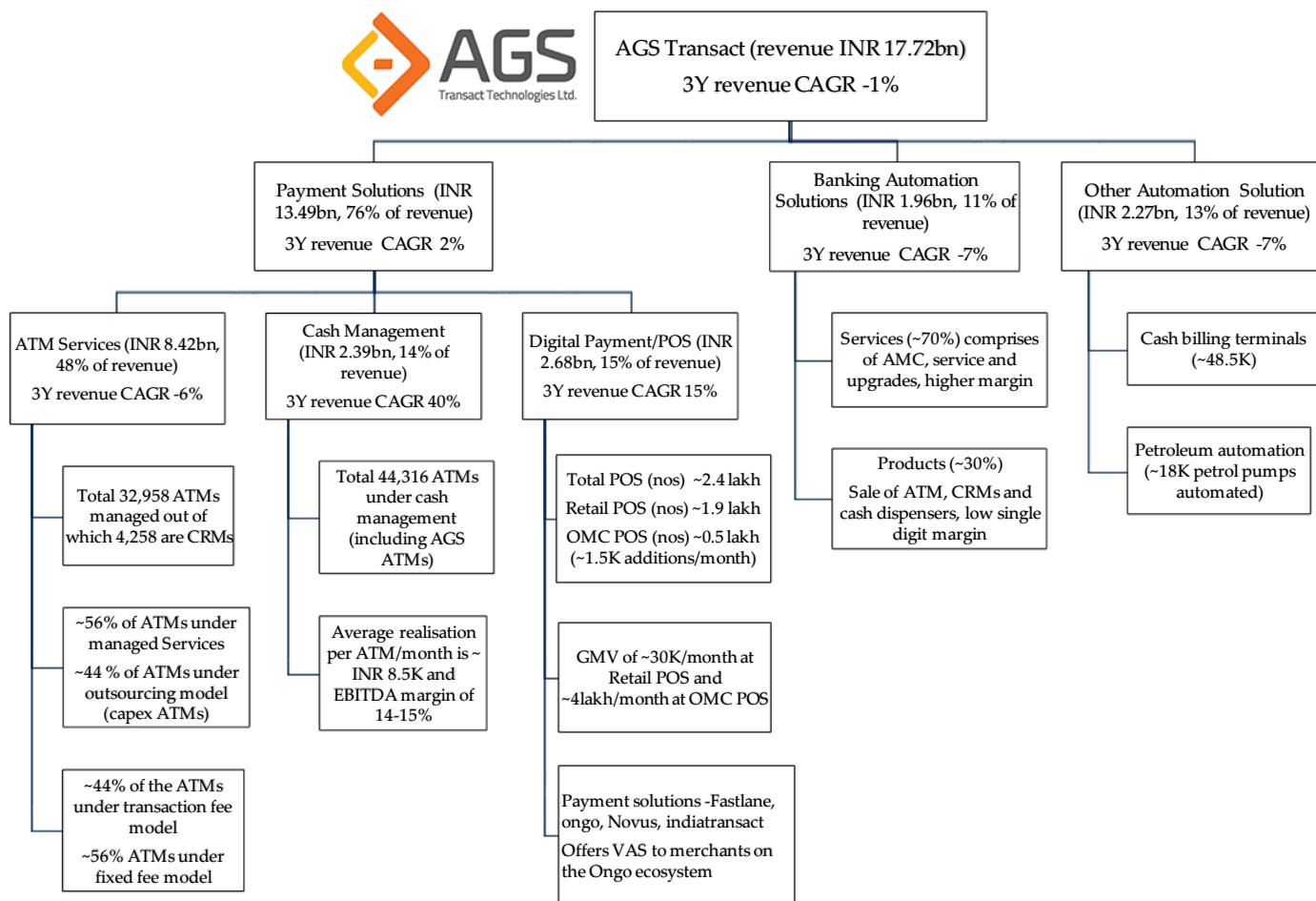
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AGS Transact Technologies: Business snapshot



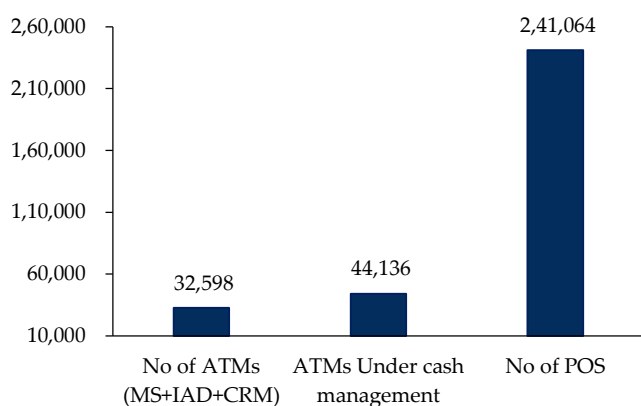
Source: Company, HSIE research, revenue as of FY22 and operating metrics as of Q1FY23, 3Y CAGR denotes FY19-22

AGS Transact: presence across the payment ecosystem

AGS Transact Technologies (AGS) is the second-largest ATM managed services and cash management company with ~15/30% market share respectively. AGS provides ATM and CRM managed services (brown label and managed services), cash management services, and digital payment solutions. AGS Transact derives 76% of its revenue from payment solutions and 11/13% of revenue from banking automation solutions and other automation solution segments. Under Payment Solutions, AGS has a portfolio of 32,367 ATMs (~15% market share), out of which, 44/56% are under the outsourcing/managed services model. In terms of the pricing model, 56% of the ATMs is under fixed fee, while 44% of ATMs operate under the transaction-based model.

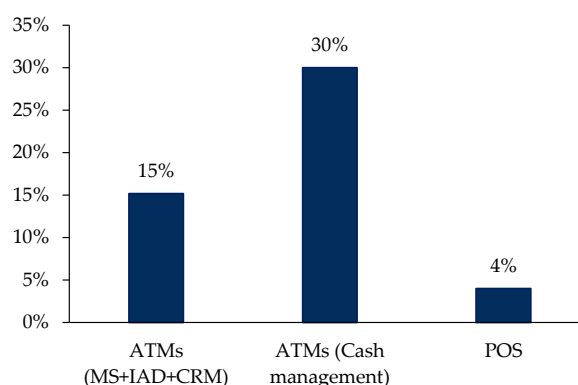
AGS, through its subsidiary SVIL, provides cash management services to ~45K ATMs through a fleet of 2,498 cash vans. In the merchant solutions payment business, AGS has a ~4% market share with ~0.24mn POS machines, out of which ~80/20% are retail/OMC POS respectively. The POS machines, at the industry level, are growing at 30% YoY and AGS's strategy is to scale the OMC POS business (tie-ups with major OMCs), which has ~6x higher GTV compared to retail/corporate POS. In the other automation segment, the company has installed ~48.5K cash billing terminals, automated ~18K petroleum outlets and ~85K colour dispensing machines.

ATMs and POS machines managed by AGS in FY22



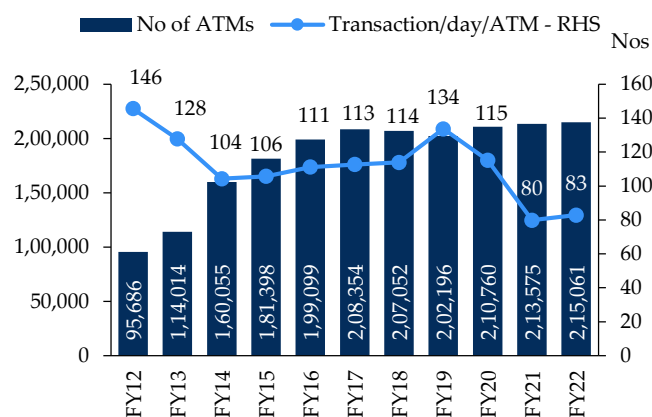
Source: Company, HSIE research

AGS second largest in ATM and cash management



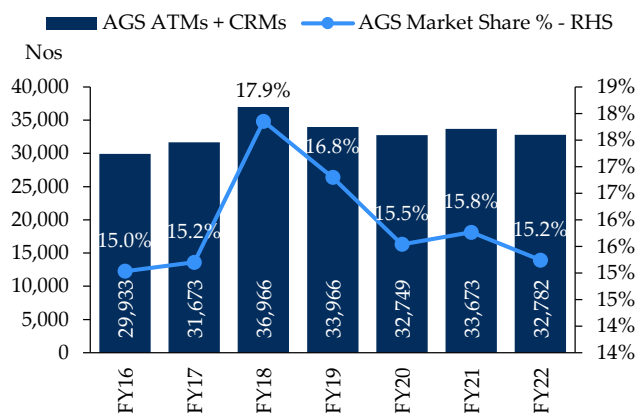
Source: Company, HSIE research

Total ATM number in India has remained flat over the last five years



Source: RBI, HSIE research

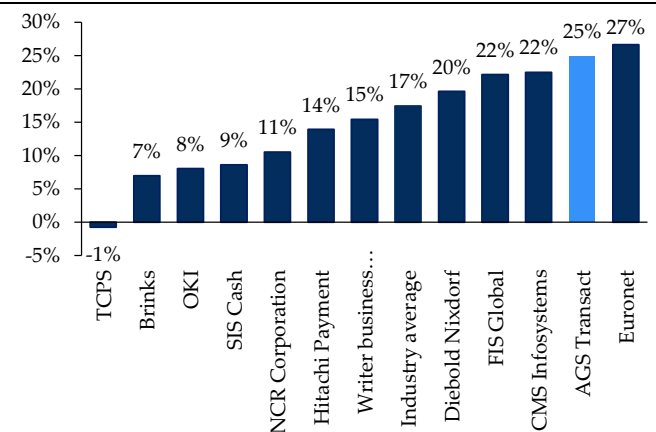
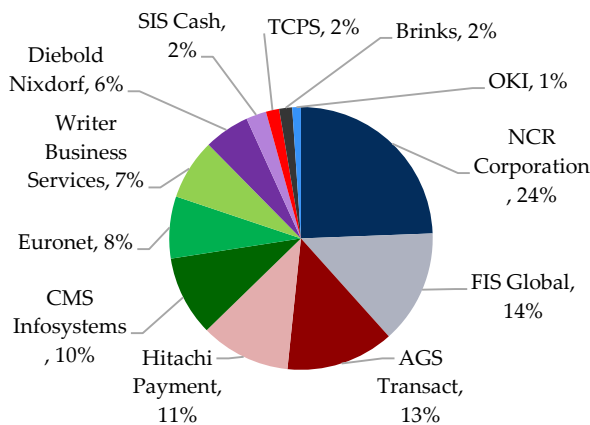
AGS maintains a ~15% market share



Source: Company, HSIE research

AGS is the third-largest player in terms of revenue market share (FY21), second largest in managed services and cash management

AGS operates at an industry-leading EBITDA margin



Source: VCC Edge, HSIE research, revenue share based on India revenue for global peers

Source: VCC Edge, HSIE research, India business margins for global players

India's ATM outsourcing market: AGS has a presence across the ATM ecosystem

Heat Map	ATMs Equipment Supply	ATM Maintenance (First and Second Line Maintenance)	ATM Managed Services	ATM Cash Management and CIT	RCM /CPD
AGS Transact	✓	✓	✓	✓	✓
Brinks	✗	✗	✗	✓	✓
CMS Info System	✗	✓	✓	✓	✓
Diebold Nixdorf	✓	✓	✓	✗	✗
Euronet	✗	✓	✓	✗	✗
FIS	✗	✓	✓	✗	✗
FSS	✗	✓	✓	✗	✗
Hitachi Payments	✓	✓	✓	✗	✗
NCR Corporation	✓	✓	✓	✗	✗
OKI	✓	✗	✗	✗	✗
SIS Prosegur	✗	✗	✗	✓	✓
TCPS	✓	✓	✓	✗	✗
Writer Corporation	✗	✓	✓	✓	✓
Hyosung	✓	✓	✓	✗	✗

Source: India ATM Market Outlook to 2026, Ken Research, HSIE Research, RCM – Retail Cash Management, CIT - Cash in Transit

AGS ATM business: poised for recovery

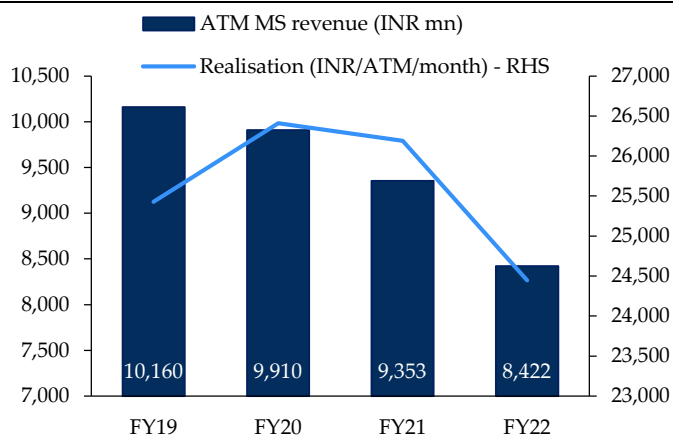
AGS Transact has a strong relationship with top private and public sector banks in India (top-3 banks account for ~40% of revenue). In terms of the number of ATMs, the top-3 private banks and top-2 PSU banks account for ~85% of the ATMs managed by AGS. The ATM outsourcing and managed services contracts typically range from three to ten years in duration and provide revenue visibility.

There are two models of engagement (outsourcing-IAD and managed services-MS) and pricing (transaction-based and fixed price) in the ATM and CRM outsourcing and managed services business. AGS is responsible for end-to-end management of ATMs and CRMs, starting from site identification and development, followed by machine deployment, maintenance, and management. AGS has the ATM ownership in the outsourcing model (Capex incurred by AGS) while in the MS model, the ownership remains with the banks.

The growth in the ATMs business is being driven by the installation of CRMs and a majority of the CRMs are implemented in the fixed price model. The CRMs have increased from 670 in FY19 to 4,072 in FY22 and we expect this to increase to ~5-6k in the next two years. The CRMs at an industry level are expected to reach 0.1mn by FY26E, implying a CAGR of 24%. The cost of implementation and maintenance of CRMs is higher than ATMs but fetches higher revenue per CRM.

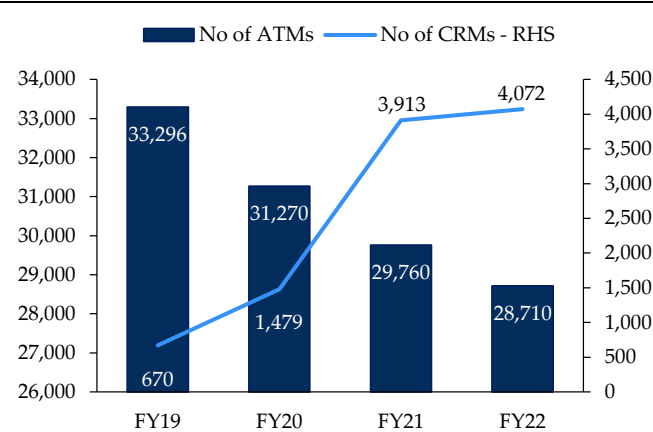
The traditional ATM business has declined at a CAGR of 6.2% over the last three years due to a drop in transactions/ATM. In May-22, the number of transactions per ATM/day reached 89, which is only 6% lower than the pre-COVID level of 95. We are expecting it to reach the pre-COVID level and stabilise at that point. The RBI has also increased the interchange fees by ~14% to make the transaction-based model viable for ATM vendors. We expect the ATM management business to grow at 8% CAGR over FY22-25E, driven by (1) recovery in ATM transactions, (2) an increase in realisation, (3) growth in CRMs, and (4) an increase in managed services ATMs.

AGS ATM (MS+IAD) revenue has declined at a CAGR of 6.2%



Source: Company, HSIE research

AGS ATMs have declined but CRMs have scaled up significantly



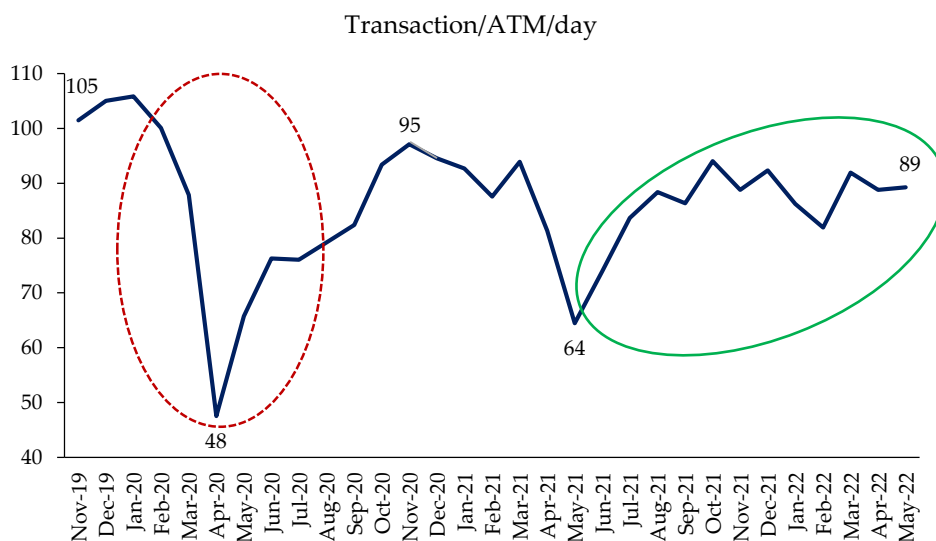
Source: Company, HSIE research

Interchange fee (INR) increase is effective from 1st August 2021: ~14% increase in blended realisation

Interchange fee (INR)	Aug-14	Aug-21	% Increase
Financial Transaction	15	17	13%
Non-Financial Transaction	5	6	20%
Blended Transaction charges	12.0	13.7	14%

Source: RBI, HSIE Research, blended realisation is calculated considering 70% financial and 30% non-financial transactions on ATMs

Transactions on ATM inching back to pre-COVID level



Source: RBI, HSIE research

ATM unit economics – transaction has a high correlation with margins

AGS has ~44% of its ATMs under the transaction-based pricing model (~14.3K ATMs). The transaction-based pricing model is mostly under the outsourcing category and AGS has to incur the Capex for the ATM machine and the site. The contract duration is ~8-10 years with a high renewal rate. We have explained the unit economics for an ATM and analysed the impact on margins with change in transactions.

An ATM earns revenue of ~37K/month, considering 95 transactions per day, with 70% financial and 30% non-financial transactions. The Capex for one ATM is ~0.45mn and the opex is ~25K/month (considering 45% onsite and 55% offsite ATMs). This results in an EBITDA margin of 33%, the EBITDA breakeven is achieved at 63 transactions/day and EBIT breakeven happens at 75 transactions/day. For every increase in one transaction/ATM, the ATM margin improves by ~65-70bps and, at AGS consolidated level, the margin improvement is ~25bps.

The ATM machines depreciate over 8-9 years and the EBIT margin comes to 21.4%. The post-tax RoCE in the ATM business is ~16%.

ATM unit economics

Estimated ATM site expenses per month	Cost (INR)
Cost of managing offsite ATM	33,500
Cost of managing onsite ATM	14,000
Weighted average cost/month/ATM based on ~45% onsite and ~55% offsite ATMs	24,725
Weighted average cost per ATM/year	296,700

ATM unit economics

Number of transactions per day (Assumption)	95	
Number of transactions monthly @95/day	2,850	
Realisation per transaction (INR)	13.0	
ATM revenue and margins	Annual (INR)	Per Month (INR)
Revenues	444,600	37,050
EBITDA	147,900	12,325
EBITDA Margin %	33.3%	
Dep @8.5 Years	52,941	4,412
EBIT	94,959	7,913
EBIT Margin %	21.4%	
RoCE %	15.8%	

Source: HSIE research, monthly cost consists of rent, electricity, cash management, housekeeping, AMC, network and switching cost and insurance

Capex/ATM

Fixed Cost/ATM (Capex)	Cost (INR)
ATM (Automated Teller Machine)	250,000
Other costs (connectivity, AC, UPS etc)	200,000
Total	450,000

Source: HSIE research

Transaction sensitivity on margins: increase in one transaction increases AGS EBITDA margin by ~25bps (~65bps at ATM level)

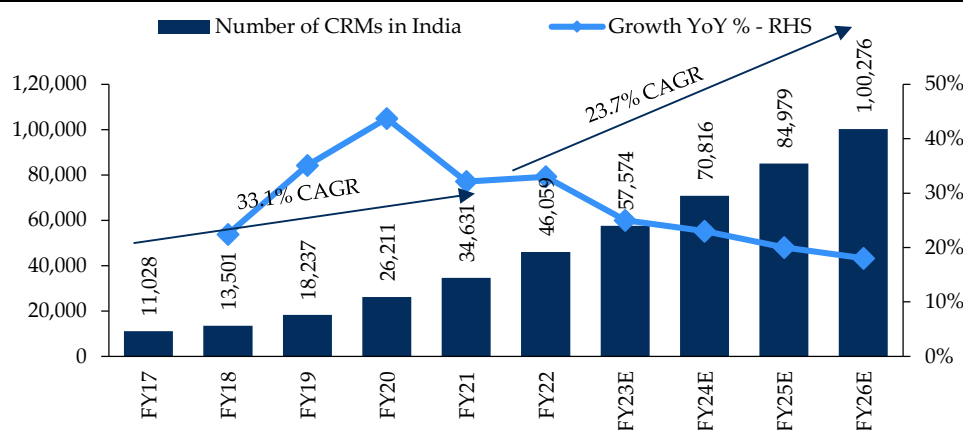
EBITDA Margin %		Transactions/ATM/Day (Nos)				
		85	90	95	100	105
Realisation/Transaction (INR)	12.0	19.2%	23.7%	27.7%	31.3%	34.6%
	12.5	22.4%	26.7%	30.6%	34.1%	37.2%
	13.0	25.4%	29.6%	33.3%	36.6%	39.6%
	13.5	28.2%	32.2%	35.7%	39.0%	41.9%
	14.0	30.7%	34.6%	38.0%	41.1%	43.9%

Source: HSIE research

Growing popularity of cash recycling machines – growth driver for AGS

- The CRM is a self-service terminal that lets the customer make cash deposits and withdrawals. All successful transactions are immediately credited or debited in real-time and customers are issued an acknowledgement slip confirming the transaction. CRMs in India have RBI-supported note identification protocols and mechanisms. The recycled notes are then stored in separate cassettes in the machines automatically for dispensing to the customers.
- Cash recycling ATMs are becoming more popular in India as they can detect fake notes and validate, sort and store cash quickly, reducing banks’ operational costs and contributing to the fight against counterfeiting.
- AGS has ~4.3K CRMs, which is ~10% market share. Most of the CRMs are currently on-site and owned by AGS. The outsourcing in CRMs is happening at a rapid pace and this is an important growth driver for AGS. We expect additions of ~1K CRMs every year, based on the order book visibility.

CRM machines have registered strong growth



Source: India ATM Market Outlook to 2026, Ken Research, August 2021, HSIE Research

Interoperability of CRMs

With cash deposit interoperability, a customer of one bank can deposit money in another bank CRM or WLA CRM using a debit card or just by entering his account details. In semi-urban and rural locations, cash deposit interoperability has received good responses due to lower branch penetration. AGS Transact is growing its penetration in tier 2 and tier 3 locations. The adoption rate for CRMs will likely be high as these CRMs could replace a physical teller in a bank and reduce the margin of clerical errors. At an interoperable level, public sector banks acquire 45% of the overall transactions, and their issuer transaction volume is at 69%. Similarly, private banks acquire 41% of overall transactions and their issuer transaction share is very low at 27%.

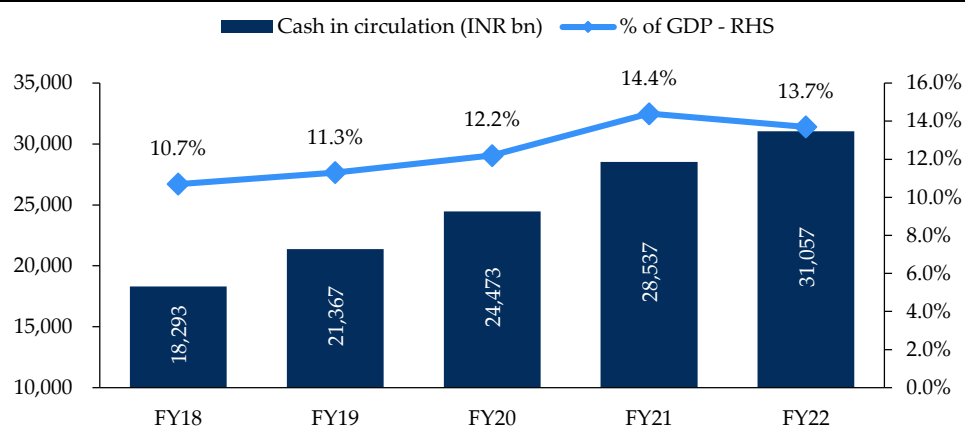
Cash usage remains resilient amidst rising digital payments

The payment landscape in India has shifted the needle towards digital mediums, especially with the advent of UPI payments making the overall payment process (payments via smartphones) quite simple and convenient.

However, cash remains resilient, evident in the fact that the currency in circulation as a percentage of GDP increased from 10.7% in FY18 to 13.7% in FY22. Currency in circulation has maintained its upward trajectory and clocked a high of INR 31.1tn (as of FY22), a growth of 8.8% YoY. Currency circulation as a percentage of GDP has been inching upwards even for some of the advanced economies like Japan, Hong Kong, and Singapore.

Currency in circulation has remained robust despite events like demonetisation, which were expected to significantly move cash out of the system. The COVID-19 pandemic led to a nationwide standstill and people preferred holding cash in hand for spending on essentials. **We believe that the cash and digital economy will coexist, and the relevance of an ATM is here to stay.**

Cash circulation in India – a steady increase



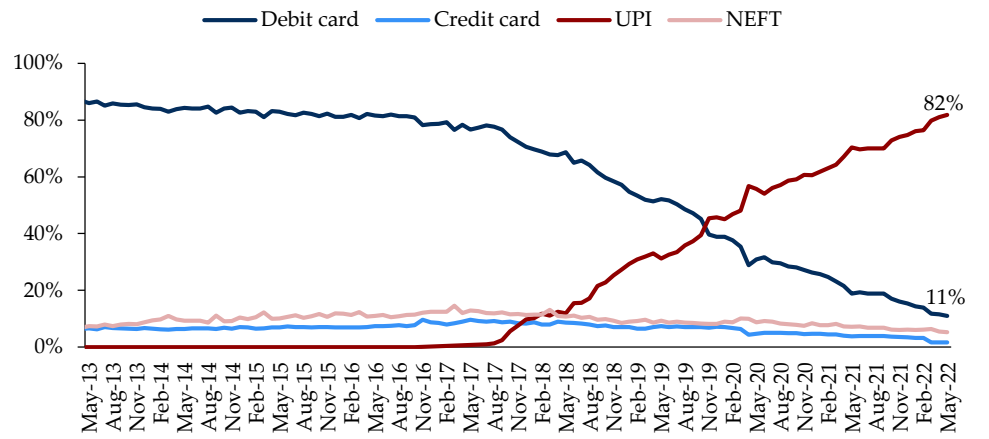
Source: RBI, HSIE Research

Currency in circulation in various countries as a percentage of GDP

Countries	CY16	CY17	CY18	CY19	CY20
Japan	20.0%	20.4%	21.0%	21.2%	21.9%
Hong Kong SAR	16.6%	17.3%	17.5%	18.4%	21.1%
Singapore	9.6%	9.7%	9.7%	10.2%	12.2%
United States	7.9%	8.1%	8.2%	8.3%	9.7%
United Kingdom	3.4%	3.5%	3.4%	3.3%	3.5%

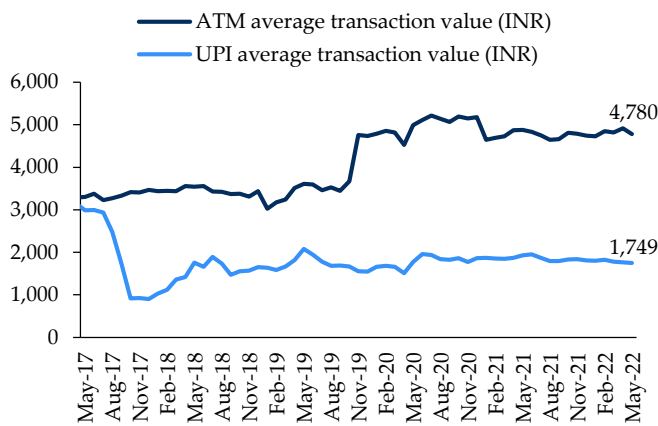
Source: India ATM Market Outlook to 2026, Ken Research, HSIE Research

UPI has >80% market share in payment transaction volume



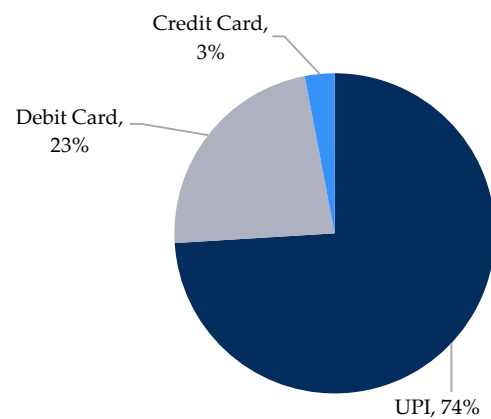
Source: RBI, HSIE Research

Value per transaction for debit cards is ~2.7x of UPI, used for low ticket transaction



Source: RBI, HSIE Research

Transaction value market share% (ex NEFT): Debit and credit card is ~25% of the market

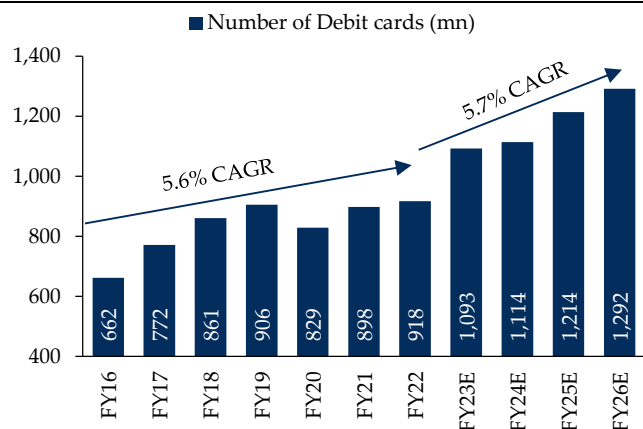


Source: RBI, HSIE Research

Increase in debit cards to boost ATM usage

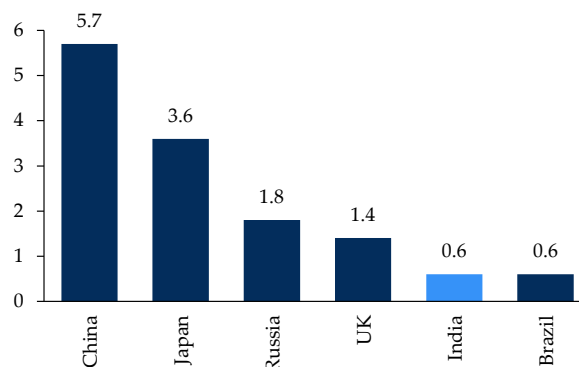
The total number of outstanding debit and credit cards in India has increased between FY16-FY22, indicating that cards are still seen as one of the popular financial products for the issuing banks and are used actively for making purchases and withdrawing cash. The number of debit cards grew from 661mn in FY16 to 918mn in FY22, clocking a CAGR of 5.6%; it is further expected to grow at 5.7% CAGR over FY23-26E to reach ~1.3bn debit cards. The number of credit cards also grew from 24.5mn in FY16 to 73.6mn in FY22, clocking a CAGR of 20%. India's debit card penetration remains low among some of the major economies; however, despite the digital payments boom, the usage of debit/credit cards remains prevalent. The number of debit card transactions per ATM per day dropped during the periods of the first and second COVID waves and is currently below the pre-COVID level; however, it continues to increase and is almost back at the pre-COVID level.

Number of debit cards expected to maintain growth



Source: HSIE Research, RHP, India ATM Market Outlook to 2026, Ken Research

Debit card per capita is low in India; under-penetration gives room for growth



Source: HSIE Research, RHP, India ATM Market Outlook to 2026, Ken Research

India’s ATM market: underpenetrated

The number of ATMs in India (excluding white-label ATMs) increased at a CAGR of 0.6% over FY17-22 to 215K. Out of the total ATMs, ~113K (~47%) are under managed services, ~80K (33%) are outsourced (BLA) and ~22K are completely managed by banks. ATMs are popular in developing countries because people prefer paying through cash when making low-value payments. Also, significant portions of the population who mostly operate outside of cities and are unbanked prefer cash payments. Therefore, the sizeable unbanked population in developing countries is representative of the strong potential for new ATM users in the future. The ATM industry is, therefore, positioned to grow, due to an increasing proportion of the population availing of financial services and a subsequent rise in the number of ATMs being set up with branch expansion.

The number of ATM transactions has almost returned to pre-COVID-19 levels and the average amount per withdrawal transaction was reported at a high of INR 4,917 in Apr-22, which indicates that cash is still the preferred mode of transaction, which cannot be fully substituted by online payments.

Geographical comparison of ATM penetration and density

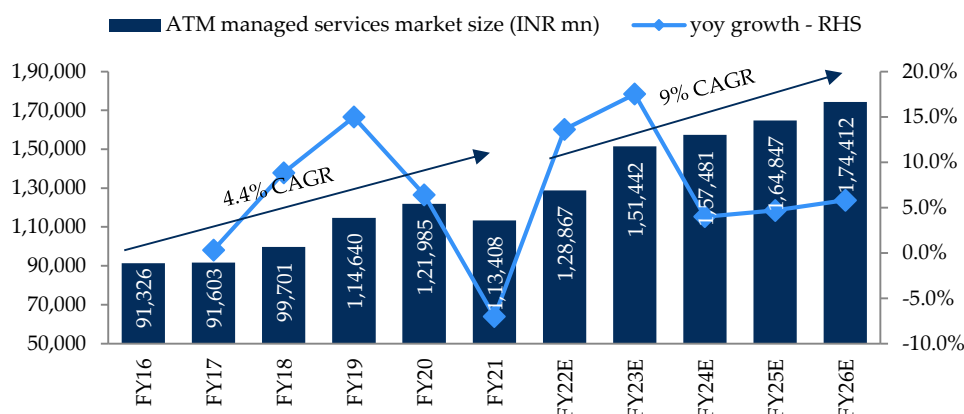
Regions	Total Number of ATMs	ATM Penetration	ATM Density
Japan	129,680	102.5	343.0
UK	53,813	79.2	221.9
China	1,013,900	70.4	105.6
India*	213,575	15.4	64.9
US	470,135	141.8	47.8
Brazil	169,496	79.7	19.9
Russia	131,908	90.3	7.7

Source: India ATM Market Outlook to 2026, Ken Research, August 2021, HSIE Research
ATM penetration is number of ATMs per 100,000 people. ATM density is number of ATMs per 1,000 km. sq. Number of ATMs in India is as of March 31, 2021. The number of ATMs in India excluding White Label ATMs. *: ATM Penetration and ATM Density as of March 31, 2020.

India's ATM managed services market size by revenues

The revenue of India's ATM Managed Services market declined by ~7% from INR 122bn in FY20 to INR 113bn in FY21 due to restrictions and lockdowns in India on account of the COVID-19 pandemic. People in India shifted to digital payment methods, which led to a decline in cash withdrawals and the usage of ATMs in the country. However, most of the large banks have announced branch expansion plans and RFPs are being floated along with a lot of replacement and upgradation activity in the existing ATMs. This will lead to growth in the ATM managed services market and ~70% of the managed services market is ATM management and cash management. As per the KEN industry report, the ATM managed services market is expected to clock a 9% CAGR over the next five years and reach INR 174bn by FY26E.

India's ATM managed services market size based on revenue



Source: India ATM Market Outlook to 2026, Ken Research, HSIE Research

India's ATM managed services market size by segmentation and service offerings

Medium	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
ATM Site Management	40.9%	37.6%	35.8%	36.3%	36.7%	37.1%
Cash Management Service	28.8%	32.7%	37.3%	36.6%	35.8%	34.6%
ATM Supply	9.8%	11.0%	10.4%	11.3%	12.0%	13.1%
Transaction Processing	6.0%	5.5%	5.0%	4.8%	4.7%	4.6%
ATM Repair and Maintenance	5.9%	5.3%	4.9%	4.6%	4.4%	4.2%
Cash Reconciliation	5.2%	4.7%	4.3%	4.2%	4.2%	4.2%
Content and Electronic General Management	3.4%	3.1%	2.3%	2.2%	2.2%	2.2%

Source: India ATM Market Outlook to 2026, Ken Research, August 2021, HSIE Research

ATMs under various models

Type of ATMs	No of ATMs	%
Managed Services (MSPs)	112,720	47%
Brown-label ATM/ Completely Outsourcing (IADs)	78,973	33%
Completely Managed by Banks	21,883	9%
White-label ATM	25,013	10%
Total	238,588	100%

Source: India ATM Market Outlook to 2026, Ken Research, August 2021, HSIE Research

ATM cash management – poised for growth

Secure Value India Ltd (SVIL), a 100% subsidiary of AGS Transact, provided cash replenishment, cash pick-up, cash-in-transit (CIT), cash vaulting and cash processing services for ATMs managed by AGS and other MS operators. SVIL manages ~45,000 ATMs through a fleet of 2,498 cash vans and 427 vaults and spoke locations, covering ~1,800 cities and towns in India. It is the second largest cash management company with a 30% market share and CMS has ~50% market share. AGS and CMS are players that are MHA compliant on a pan India basis and control ~80% share of the total 150K outsourced cash management ATMs. The MHA guideline and implementation of cassette swaps will boost the revenue earned per ATM by ~INR 3.5-4K/month. The current realisation is ~INR 8.5K, which can increase to INR 12.5K, providing a boost to revenue. Out of the 45K ATMs under cash management, ~25K are self-ATMs and ~20K (~45%) are non-AGS ATMs. We expect the cash management revenue to clock 13% revenue CAGR over FY22-25E.

The RBI released MHA guidelines in 2018 (MHA Guidelines) to strengthen security in the cash management industry. The implementation of cassette swap timelines has been extended to March-23 and currently, only 10-15% of the ATMs are cassette swap enabled.

Secure Value (cash management) business has registered a CAGR of 20%

SVIL (Standalone) INR mn	FY19	FY20	FY21	FY22	CAGR % FY19-22
Revenue	2,668	3,212	4,025	4,612	20%
Growth YoY %		20%	25%	15%	
EBITDA	337	407	467	631	23%
EBITDA %	12.6%	12.7%	11.6%	13.7%	
No of ATMs	29,190	34,086	42,924	45,000	16%
Realisation/ATM/month (INR)	7,617	7,852	7,814	8,540	4%

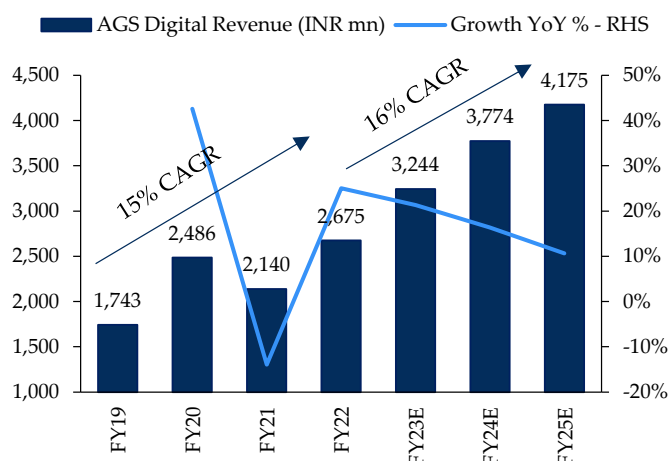
Source: Company, HSIE Research

Digital payment business – powering growth

The digital business digital payment business comprises merchant solutions (POS installations and VAS for retail/corporate and OMCs), toll and transit solutions (fast-lane), transaction switching, and international business through Novus (merchant solution and switching). The POS business is carried through the subsidiary ITSL (India Transact Services Ltd) and the installed POS base has a market share of ~4%. Growth in the payment business is being driven by the installation of OMC POS machines (~60% YoY in FY22). AGS has an order book of ~80K machines from the OMCs; the current installed base is ~50K and ~30K POS will be installed in the next 2-3 years. We have assumed a 21% CAGR over FY22-25E and expect the OMC POS to reach ~82K in FY25E. The revenue from digital services is expected to increase at a CAGR of 17% over FY22-25E, led by a 25% CAGR in OMC POS.

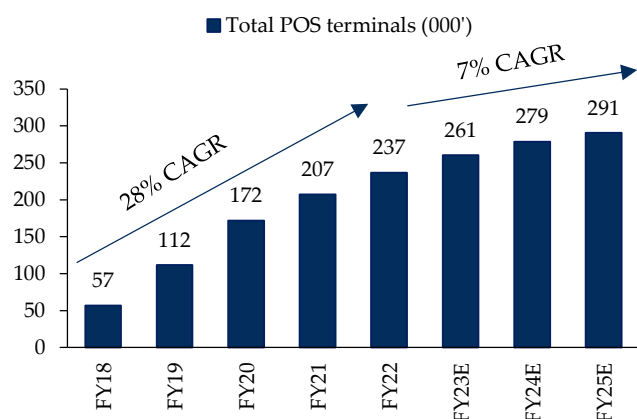
The revenue from POS is dependent on the transaction value (gross MDR is ~50bps and net MDR is ~10bps) and rentals (fixed cost). The current GTV at OMC POS is INR 0.4mn/POS/month, which results in revenue of INR 2.3K/POS/month, EBITDA margin of ~12%, and breakeven at EBIT level. The target is to take the GTV to INR 0.6mn/POS/month, which will lead to revenue of INR 3K/POS/month and EBITDA/EBIT margins of 15/7% respectively. We have assumed a 10% increase in GTV to INR 0.54mn/POS/month, as the increase in GTV will be a function of smooth installations across petrol pumps and push from OMCs to use AGS POS machines. The current value market share of AGS POS machine at a petrol pump is ~6%.

AGS Digital payment business registers a 15% CAGR over FY19-22, driven by OMC POS, Fastlane and Ongo



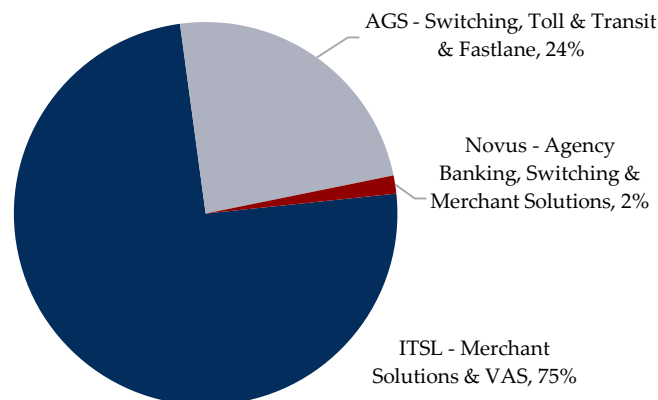
Source: Company, HSIE Research

AGS POS installations registered 28% CAGR, led by tie-ups with OMCs



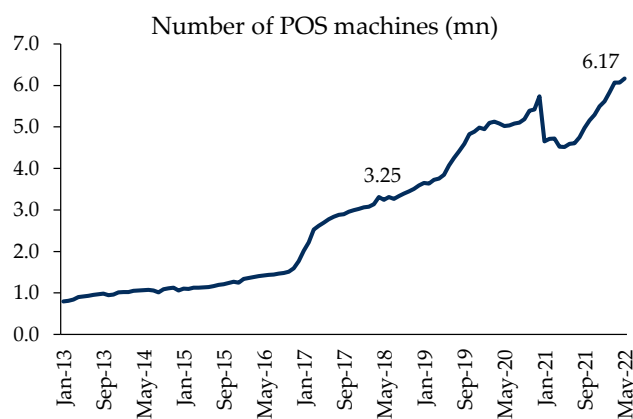
Source: Company, HSIE Research

Digital revenue mix: ITSL and AGS switching and fast lane registers CAGR of +17/32% over FY19-22



Source: Company, HSIE Research

Total POS machines grow at 30% CAGR, almost doubling in four years



Source: RBI, HSIE Research

Digital business drivers (OMC POS)

POS addition and revenue assumptions	FY21	FY22	FY23E	FY24E	FY25E	FY22 Growth YoY %	CAGR FY22-25E
Retail + Corporate POS (Nos)	178,349	190,103	196,103	202,103	208,103	7%	3%
OMC POS (Nos)	28,986	46,485	64,485	76,485	82,485	60%	21%
Total POS Machines (Nos)	207,335	236,588	260,588	278,588	290,588	14%	7%
POS Additions (Nos) – Annual							
Retail		11,754	6,000	6,000	6,000		
OMC		17,499	18,000	12,000	6,000		
Total POS Additions		29,253	24,000	18,000	12,000		
POS Additions (Nos) - Monthly							
Retail		980	500	500	500		
OMC		1,458	1,500	1,000	500		
GTV/POS/Month (INR)							
Retail	33,671	29,331	27,864	26,471	25,148	-13%	-5%
OMC	384,254	402,997	407,027	468,081	538,294	5%	10%
Revenue from POS (INR mn)							
Retail	703	820	825	830	835	17%	1%
OMC	777	1,173	1,640	2,052	2,319	51%	25%
Total	1,480	1,994	2,465	2,882	3,154	35%	17%
<i>Growth %</i>		35%	24%	17%	9%		

Source: Company, HSIE Research

POS unit economics

POS Unit Economics	Scenario-1	Scenario-2	Increase %
GTV per POS per month (INR)	400,000	600,000	50%
Revenue per POS/month	2,280	3,340	46%
Expenses per POS/month	2,002	2,853	43%
EBITDA per POS per month	278	487	75%
EBITDA Margin %	12.2%	14.6%	
Lease Rentals per POS per month	244	244	
EBIT/POS/month	34	243	
EBIT Margin %	1.5%	7.3%	
Cost per POS INR (@110 USD)	8,800	8,800	
Lease rental per month (assuming POS life of 36 months)	244	244	

Source: HSIE Research

Financial summary and drivers

AGS revenue growth has been muted over the last three years (CAGR of -1%), led by underperformance in the ATM business, offset by growth in cash management and digital business. ATM management/cash management/Digital/BAS/OAS revenue registered growth of -6%/40%/15%/-7%/-7% over FY19-22. We expect the ATM management business to recover, driven by a recovery in ATM transactions and addition of CRM machines. The cash management business is witnessing higher growth due to regulatory tailwinds (MHA-based regulations) and outsourcing of cash management by large MS players to SVIL and CMS. The Digital business growth will be led by additions of OMC POS and an increase in GTV/POS. The banking automation segment (BAS) growth will be driven by higher services revenue (~70%) and ATM upgrades. We expect revenue CAGR of 8/13/16/14/-3% in ATM management/cash management/Digital/BAS/OAS segment over FY22-25E.

ATM and cash management

AGS derives ~48% of its revenue from ATM management business. It has a total of 32,958 ATMs under management, out of which ~28.7K are ATMs (MS + BLA) and ~4.3K are CRMs. The total number of ATMs under management has declined at a CAGR of 5%, offset by growth of CRM machines (~4.3K CRM machines vs ~0.7K in FY19). Total ATM+CRM has declined at a 3Y CAGR of 1%, from 34K in FY19 to 32.8K in FY22). The transaction per ATM/month has come down from the pre-COVID peak of 105 in Jan-20 to 64 in May-21. There has been a recovery in ATM transactions in the last few months, currently at 89 transactions/ATM/month in May-22. We expect the ATM segment revenue to grow +12.1/+9.1% in FY23/24E, driven by recovery in higher ATM transactions (90/95 in FY23/24E), additions of ~1,000 CRM machines and new MS contracts.

The ATM segment revenue (transaction + fixed price) was down ~10% in FY22. The total revenue decline in ATM segment was ~ INR 900mn, contributed by (1) ~INR 400mn due to lower transactions (roughly a drop in one transaction per ATM per month impacts ATM revenue by 40-50mn); (2) INR 300mn due to change in contract in one of the top-3 clients; (3) INR 150mn additional provisions; and (4) INR 50mn due to the Sri Lanka impact.

The increase in payment solution revenue (ATM+SVIL+POS) in Q1FY23 was led by a revival in ATM transactions, MHA-related billings, installations of CRM machines and an increase in cash management revenue. The ATM transaction is ranging at 85/month/ATM and the realisation is INR 13-13.5/transaction.

In FY23E, we expect the ATM business (ATM+SVIL) to deliver ~12.1% YoY growth, led by (1) jump in transactions per ATM; (2) addition of ~1,000 CRMs; and (3) MHA-related billing (~INR 3-4K jump in ATM realisation). **The incremental revenue of INR 1,300mn is split as follows: (1) INR 600mn from CRMs, (2) INR 500mn from MHA/cassette swap/new MS contracts, and (3) INR 250mn from a higher transaction. The cash management business will grow ~16% CAGR and EBITDA margins will expand to 15-18%.**

The margin improvement for the ATM business is driven by higher fixed price contracts (CRMs) and improving transaction frequency per ATM. ATM business margin will be in the 33-35% range. Based on our sensitivity, an increase in one transaction per ATM improves the ATM business margin by 60-65bps and ~25bps at the consolidated level.

Digital POS

The digital POS business has registered strong growth in the last three years, driven by additions of POS machines at OMCs. The revenue registered a CAGR of 15% over FY19-22 and we expect this segment to deliver growth of 16% over FY22-25E. The total POS is expected to grow at a CAGR of 7% over FY22-25E, driven by a 21% CAGR in OMC POS machines. The current GTV/month at OMC is running at INR 0.4mn/month/POS, and the target is to reach 0.6mn in the next few years (we have assumed 0.41/0.47/0.54mn GTV/POS/month in FY23/24/25E).

The OMC POS roll-out run-rate was ~1.5K machines/month in FY22; the target is to install ~2K machines per month. The total order book is at 80K machines, and the company has already installed ~50K machines. The current settlement calendar is T+1, and the company is targeting to shift towards T-0, which can increase GTV/POS. AGS is also installing QR codes at petrol pumps and there will be no loss of MDR when AGS QR code is used for payments.

Revenue segments and assumptions (INR mn)

Revenue Segments	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	CAGR 19-22	CAGR 22-25E
1. Payment Solution (A+B+C)	12,778	13,784	13,506	13,491	15,374	17,013	18,382	2%	11%
ATM Business (A + B)	11,035	11,298	11,366	10,816	12,129	13,238	14,206	-1%	10%
A. ATM Management	10,160	9,910	9,353	8,422	9,356	10,028	10,714	-6%	8%
B. Cash Management (SVIL)	875	1,388	2,013	2,394	2,774	3,210	3,492	40%	13%
C. Digital Payment Business	1,743	2,486	2,140	2,675	3,244	3,774	4,175	15%	16%
POS Business (Retail + OMC)	1,270	1,511	1,543	1,994	2,465	2,882	3,154	16%	17%
Toll & Transit (Fast lane+Ongo+Novus)	473	975	597	681	780	892	1,021	13%	14%
2. Banking Automation	2,461	2,109	1,598	1,959	2,312	2,612	2,873	-7%	14%
3. Other Automation	2,818	2,111	2,485	2,269	2,042	2,056	2,080	-7%	-3%
Total Revenue (1+2+3+4)	18,057	18,004	17,589	17,719	19,727	21,680	23,335	-1%	10%

Source: Company, HSIE Research

Revenue segments summary (INR mn)

Revenue Segments	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	CAGR 19-22	CAGR 22-25E
ATM Managed services	10,160	9,910	9,353	8,422	9,356	10,028	10,714	-6%	8%
ATM Cash Management	875	1,388	2,013	2,394	2,774	3,210	3,492	40%	13%
Digital Payments	1,743	2,486	2,140	2,675	3,244	3,774	4,175	15%	16%
Banking Automation	2,461	2,109	1,598	1,959	2,312	2,612	2,873	-7%	14%
Other Automation	2,818	2,111	2,485	2,269	2,042	2,056	2,080	-7%	-3%
Total revenue	18,057	18,004	17,589	17,719	19,727	21,680	23,335	-1%	10%

Source: Company, HSIE Research

Revenue segments YoY growth %

Revenue Segments (YoY %)	FY20	FY21	FY22	FY23E	FY24E	FY25E
ATM Transaction Revenue	-2%	-6%	-10%	11%	7%	7%
ATM Cash Management	59%	45%	19%	16%	16%	9%
Digital Payments	43%	-14%	25%	21%	16%	11%
Banking Automation	-14%	-24%	23%	18%	13%	10%
Other Automation	-25%	18%	-9%	-10%	1%	1%
Total revenue	0%	-2%	1%	11%	10%	8%

Source: Company, HSIE Research

Revenue segments revenue contribution

Revenue Segments (%)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
ATM Managed services	56%	55%	53%	48%	47%	46%	46%
ATM Cash Management	5%	8%	11%	14%	14%	15%	15%
Digital Payments	10%	14%	12%	15%	16%	17%	18%
Banking Automation	14%	12%	9%	11%	12%	12%	12%
Other Automation	16%	12%	14%	13%	10%	9%	9%
Total revenue	100%	100%	100%	100%	100%	100%	100%

Source: Company, HSIE Research

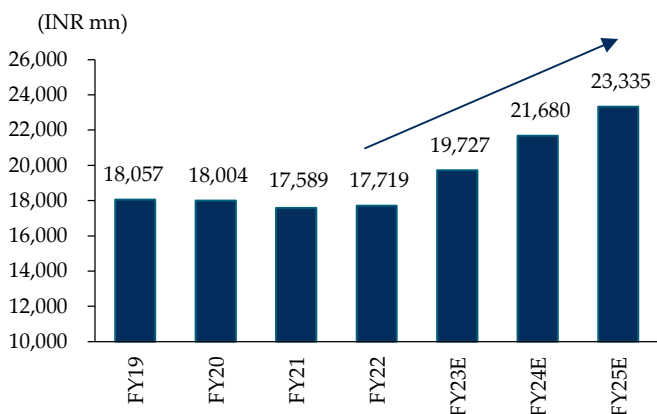
Segmental EBITDA (INR mn)

Segment EBITDA	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
ATM business	3,670	4,318	4,216	3,619	4,175	4,683	4,993
Digital Payments	210	113	12	-23	284	386	522
Banking Automation	281	237	154	559	578	522	575
Other Automation	89	-44	3	-45	43	44	44
Total EBITDA	4,250	4,624	4,386	4,109	5,080	5,636	6,133

Segment EBITDA %	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
ATM business	33.3%	38.2%	37.1%	33.5%	34.4%	35.4%	35.1%
Digital Payments	12%	5%	1%	-1%	9%	10%	12%
Banking Automation	11%	11%	10%	29%	25%	20%	20%
Other Automation	3%	-2%	0%	-2%	2%	2%	2%
Total EBITDA	23.5%	25.7%	24.9%	23.2%	25.7%	26.0%	26.3%

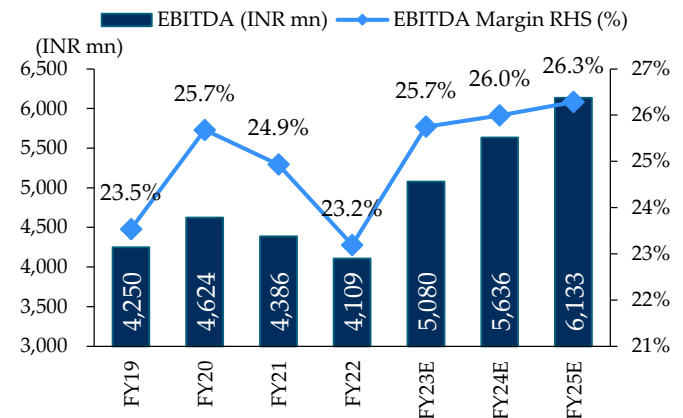
Source: Company, HSIE Research

Revenue to register % CAGR over FY22-25E



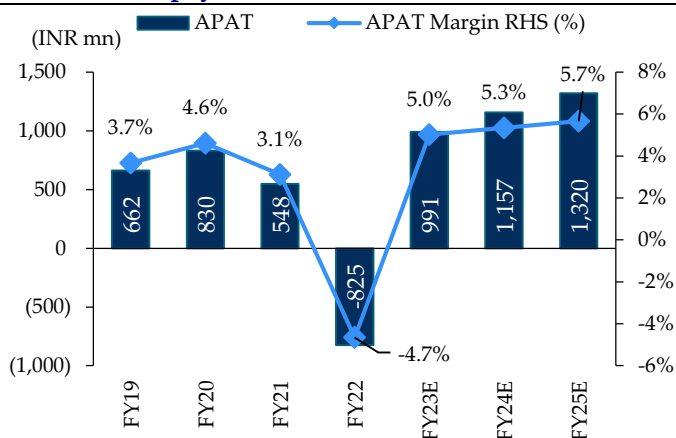
Source: Company, HSIE Research

EBITDA margin to improve led by ATM and Digital



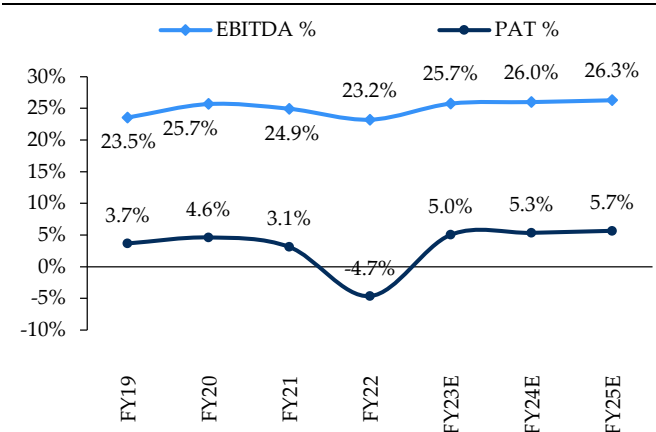
Source: Company, HSIE Research

PAT to recover in FY23E, led by higher EBITDA and lower interest payout



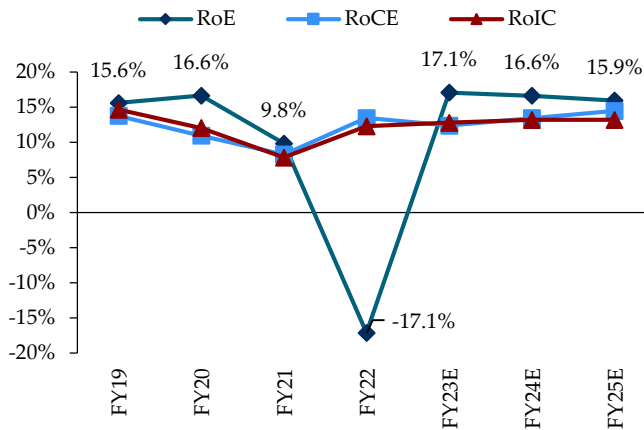
Source: Company, HSIE Research

EBITDA and PAT margin trend



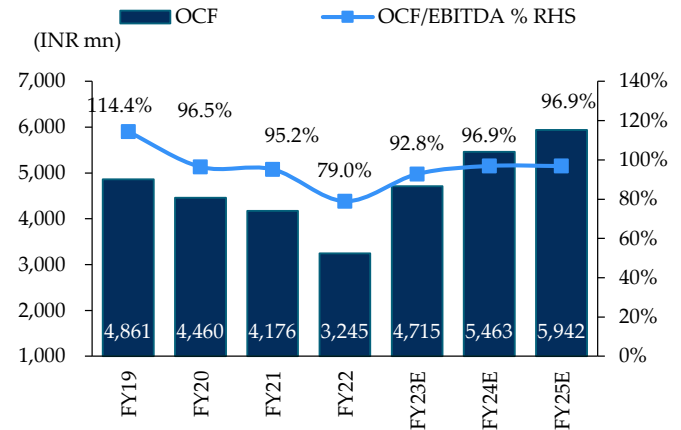
Source: Company, HSIE Research

Return ratios set to revert to pre-pandemic levels



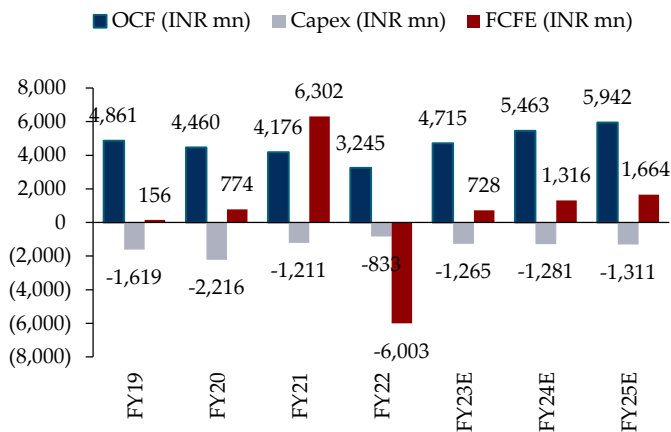
Source: Company, HSIE Research

OCF/EBITDA to register steady improvement



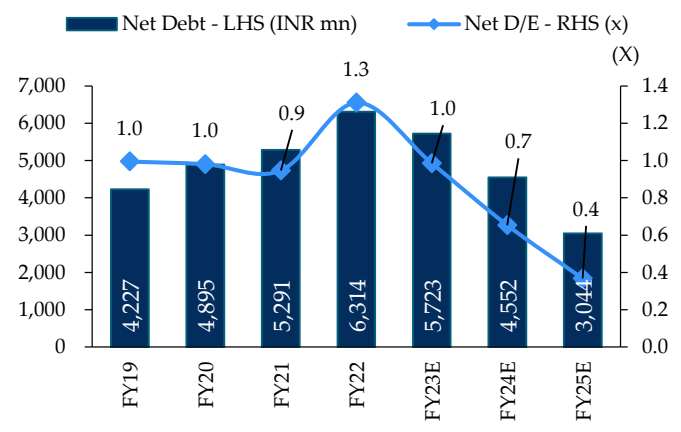
Source: Company, HSIE Research

Capex to remain at INR 1.2-1.3bn, FCFE generation will improve



Source: Company, HSIE Research

Net debt to equity has peaked, set to moderate



Source: Company, HSIE Research

Interest payment to reduce and debt to stabilise at INR 7bn

AGS debt reduced in FY22 due to pre-payment of NCDs issued in FY21. The NCDs were issued to subscribe VEPS CCPS amounting to INR 6.5bn. The promoters then infused the money raised through IPO to extinguish the CCPS structure. The company used the money to pay off the NCD and reduced debt to INR 7.1 in FY22. We expect debt to remain around INR 7bn and interest payment to normalise in FY23E.

Interest payout to reduce significantly in FY23E

Debt (INR mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Long term	3,217	3,489	3,162	4,597	4,976	5,361	5,754
Short Term	1,392	2,165	3,668	2,523	2,023	1,523	1,023
NCD			550				
Total Debt (excluding lease liability)	4,608	5,653	12,330	7,120	6,999	6,884	6,777
Increase/(decrease in debt)		1,045	6,677	(5,210)	(121)	(116)	(107)

Interest breakup (INR mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Interest on borrowings	727	678	707	756	805	833	854
Interest on lease liability	639	626	623	639	621	683	711
Interest on NCD				1034			
Onetime payment				74			
Total Interest payment	1367	1,304	1,331	2,502	1,426	1,516	1,564
Interest Rate* (ex NCD) %	15.8%	12.0%	10.4%	10.6%	11.5%*	12.1%	12.6%

Source: Company, HSIE Research, * increase in benchmark rate (MCLR)

Debt breakup

LT and ST loan schedule (FY22)	INR mn	Duration (Years)	Interest Rate %
Term loan from banks	18	3	11.0%
Term loan from banks	2,740	7	10.5%
Vehicle loan from banks	267	4	9.8%
Vehicle loan from others	192	5	9.2%
Term loan from others	63	4	10.1%
ECB	1,318	3	6.7%
Short-term loans			
Working capital loans	600		10.1%
Cash credit and other facilities	71		9.5%
Working capital loans	627		11.0%
Current maturities of long-term borrowings	1,134		8.4%
Loan from the director of a subsidiary company	91		
Total Loan	7,120		

Source: Company, HSIE Research

AGS (MS+CM+POS+BAS) comparison with CMS (Cash Management) and India one Payments (White Label ATM)

Parameters FY22 (INR mn)	AGS	CMS	India One Payments
Revenue	17,719	15,897	4,357
Revenue CAGR 3Y %	-0.6%	11.4%	23.6%
Total ATM/CRM/Retail pickup managed (Nos)	32,782	113,485	10,988
Brown Label (Nos)	14,424	5,000	0
Managed Services (Nos)	18,358	7,000	0
Cash Management ATMs (Nos)	45,000	69,211	0
White Label ATMs (Nos)	0	0	10,988
Retail pickup points (Nos)	0	44,274	0
Revenue breakup			
ATM managed services	8,491	4,896*	4,337
Cash Management (Standalone)#	4,612	10,588	
Digital Payments (POS+fastlane+Ongo+Novus)	2,675		
Banking automation	1,959		
Other Automation	2,269		
Others/Elimination	(2,218)	413	21
Total Revenue	17,719	15,897	4,357
Realisation			
Revenue/ATM/month (managed services) (INR)	31,155	34,002	32,889
Revenue/ATM/month (cash management) (INR)	8,540	7,775	NM
Realisation per transaction on ATM (INR)	13.0	NA	14.2
EBITDA	4,109	3,998	1,359
EBITDA %	23.2%	25.1%	31.2%
EBITDA CAGR 3Y %	-1.1%	26.1%	18.0%
Depreciation	2,519	918	1,105
% of Rev	14.2%	5.8%	25.4%
EBIT	1,590	3,079	255
EBIT %	9.0%	19.4%	5.8%
PAT	(825)	2,240	(144)
PAT %	-4.7%	14.1%	-3.3%
OCF/EBITDA % (Average)	96.3%	89.2%	143.1%
Equity	4,818	12,561	2,066
Debt	8,254	0	12,419
Cash	806	3,260	13,023
Net Debt	7,448	(3,260)	(604)
Net Debt/Equity (x)	1.5	-0.3	-0.3
RoE %	17%	18%	
EV/EBITDA FY23E (x)	3.1	7.5	
P/E (x) FY23E	10.1	15.1	
PAT CAGR FY23-25E	15.4%	18.6%	
PEG (x)	0.7	0.8	

Source: Company, HSIE Research, * CMS managed services revenue include banking automation services revenue, #AGS cash management revenue is on a standalone basis to provide a like-to-like comparison

CMS is primarily a cash management player with ~50% market share in cash management. CMS's focus on cash management business has resulted in a strong balance sheet (zero debt and better return ratios) as compared to AGS. CMS has a small presence in the Capex-intensive brown label ATM business, which is a conscious decision. In terms of EBITDA margin, CMS has a better margin profile and EBITDA growth has been robust over the last three years, led by margin expansion in the core business. CMS trades at a premium of 30% to AGS due to better metrics and a strong balance sheet (return ratios). AGS is catching up on growth with margin expansion in the core ATM business; the PAT CAGR of AGS over FY23-25E is 15.4% vs 18.6% for CMS.

Expenses (INR mn)	AGS	CMS	India One Payments
Cost of raw material/Traded	2,280	1,538	12
Employee benefit expenses	2,660	2,315	779
ATM Management expenses	7,256	6,540	1,879
Insurance	207	174	86
Legal & Professions fees	401	238	33
Audit cost	13	10	2
Others	793	1,084	208
Total Expenses	13,610	11,899	2,998
EBITDA	4,109	3,998	1,359
Expenses % of Sales			
Cost of raw material/Traded	12.9%	9.7%	0.3%
Employee benefit expenses	15.0%	14.6%	17.9%
ATM Management expenses	40.9%	41.1%	43.1%
Insurance cost	1.2%	1.1%	2.0%
Legal & Professions fees	2.3%	1.5%	0.7%
Audit cost	0.1%	0.1%	0.0%
Others	4.5%	6.8%	4.8%
EBITDA %	23.2%	25.1%	31.2%

Source: Company, HSIE Research

Valuation and outlook

We initiate coverage on AGS Transact with a BUY rating and a target price of INR 123, valuing the stock at 12x Sep-24 EPS (~15% discount to CMS). AGS is currently trading at a P/E of 10.1/8.7x FY23/24E, which is at a discount of ~30% to CMS. The listed peer CMS Info Systems is trading at an EV/EBITDA and P/E of 7.5/6.3x and 15.1/12.6x FY23/24E respectively. We expect AGS to deliver a 10% revenue CAGR over FY22-25E and ~15% PAT CAGR over FY23-25E. The growth for AGS will be aided by (1) recovery in ATM business, led by higher ATM transactions and demand for CRM machines; (2) long-term and sticky relationship with the top private and public sector banks in India; (3) continued traction in the cash management business, led by regulatory compliance and higher outsourcing by large managed services players; (4) tie-up with OMCs for installation of POS machines and increase in GTV/POS; and (5) growth in the banking automation business, led by increasing services component. The consolidated margins will expand by ~300bps over FY22-25E, supported by (1) ATM business, which has a high correlation with margins (increase in one transaction/ATM improves consolidated margin by ~25bps); (2) margin improvement in the Digital business with increase in GTV/POS; and (3) increase in services component, which will drive BAS margins.

We have listed the different growth scenarios for AGS, where the bear case factors in 7/12% revenue/PAT CAGR and target multiple is at a ~30% discount to CMS. The downside from CMP in the bear case is only 4% and the base case offers a 48% upside. The bull case assumes 12/19% revenue/PAT CAGR and the target multiple is in-line with the peer, offering an upside of 116% from CMP.

Growth and valuation scenarios for AGS Transact

Parameters	Bear case	Base case	Bull case
Revenue CAGR % (FY22-25E)	7%	10%	12%
EBITDA Margin % (FY24E)	25%	26%	27%
Margin expansion bps (FY22-25E)	194	309	428
Debt (FY23E) INR bn	6.85	7.00	7.15
Interest (FY23E) INR bn	1.46	1.43	1.39
PAT FY24E (INR bn)	0.91	1.16	1.42
PAT CAGR (FY23-25E) %	12%	15%	19%
EPS Sep-24 (INR)	8.0	10.3	12.8
Target P/E (x)	10.0	12.0	14.0
Target Price (INR)	80	123	180
CMP	83	83	83
Upside %	-4%	48%	116%

Source: HSIE Research

Peer Valuation

Company	MCap (INR bn)	CMP (INR)	TP (INR)	RECO	EPS (INR)				P/E (x)				RoE (%)				Rev CAGR% FY22-25E	PAT CAGR% FY23-25E
					FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E		
AGS	10	83	123	BUY	(6.8)	8.2	9.6	11.0	(12.2)	10.1	8.7	7.6	(17.1)	17.1	16.6	15.9	9.6	15.4
CMS#	42	273	NA	NA	15.1	18.1	21.6	25.8	18.1	15.1	12.6	10.6	20.0	20.9	21.4	20.9	18.7	18.6
Average									3.0	12.6	10.6	9.1	1.4	19.0	19.0	18.4	14.2	17.0

Source: Bloomberg, Company, HSIE Research, #bloomberg estimate

Management team

Name	Designation	Experience (years)	Brief Profile
Board Members			
Ravi B Goyal	Chairman & Managing Director	26	The promoter of AGS and has three decades of experience in the financial services and technology field. Before AGS, he founded Advanced Graphic Systems, a proprietary concern, to market computer-aided textile designing software
Stanley Johnson	Executive Director	26	Over 26 years of experience in the payments industry and expanded banking outsourcing operations. He is also a director on the board of the AGS overseas step-down subsidiary, Novus Technologies.
Vinayak R Goyal	Executive Director	NA	A computer engineer from Purdue University, USA. He works closely with the management to drive strategic and business initiatives. He is also a non-executive director on the board of ITSL.
Independent Directors			
Jhuma Guha	Non-Executive Independent Director	30	A qualified chartered accountant and company secretary with nearly three decades of experience in the field of financial services. She has worked with companies like ITC, reliance securities, and destimoney securities. She is an independent director on the Board of SVIL.
Sudip Bandyopadhyay	Non-Executive Independent Director	32	A qualified Chartered Accountant and Cost Accountant with over 32 years of experience in finance and financial services. Associated with AGS since 2015, earlier he was MD of Destimoney securities till 2015 and also worked in reliance securities. He is the director on the boards of ITSL and SVIL. Currently, he is the group chairman of Inditrade group of companies.
Subrata Kumar Mitra	Non-Executive Independent Director	NA	Holds a Master of Science and Master in Management Science degree and has worked with organisations such as AMEX, Standard Chartered, GIC Mutual Fund and Aditya Birla Group. He is currently also a director on the boards of Centrum Capital Limited, Asirvad Micro Finance Limited, IL&FS Engineering and Construction Company Limited, Roadstar Investment Managers Limited and Onward Technologies Limited
Rahul Narain Bhagat	Non-Executive Independent Director	32	Holds a Master of Arts degree and is also an independent director on the board of the subsidiaries, SVIL and ITSL. He has almost 32 years of experience in consumer banking and has worked at HDFC Bank Limited as Country Head – Retail Liabilities, Marketing and Direct Banking Channels.
Vijay Chugh	Non-Executive Independent Director	32	Holds a Master of Arts degree and has over 32 years of experience at the Reserve Bank of India in the fields of supervision and regulation of commercial banks, rural credit and development, payment and settlement systems and core banking solutions. He was appointed as a Director on March 12, 2015, and is also a director on the boards of the subsidiaries, ITSL and SVIL.
Executive management team			
Saurabh Lal	CFO	15	Chartered Accountant by qualification and is associated with the company since 2012. Currently the CFO of AGS and its wholly-owned subsidiary, SVIL. He has over 15 years of experience in the financial services industry.
Shailesh S Shetty	MD SVIL	25	On the board of SVIL from 2019 and overall 25 years of experience in the fields of supply chain and after-sales service
Satish Zope	Head- Petroleum business	25	Associated with AGS since 2010 and has over 25 years of experience in sales & business development
Ashish Mehta	Head – IT and Infrastructure	21	In AGS since 2016 and has over 21 years of management & technical experience in the banking and payment Industry.
Sudheer Parappurath	Head – Risk & Operations of ITSL	26	Over 26 years of experience in the payment industry, joined AGS in 2016 and has worked with Axis bank, Reliance Jio, BOB cards etc.
P K Rajnarayan	Head – Retail Business	27	~20 years with AGS and ~27 years of experience in sales.

Source: Company, HSIE Research

Key risks

- Rising digital transactions (UPI) could hurt ATM transactions and POS business GTV.
- High client concentration is a risk; the company derives ~60% of revenue from top-10 customers and ~30% from top-3 customers
- Regulated business model and reduction in interchange fees are risks.
- Security and cyber-attack are risks.

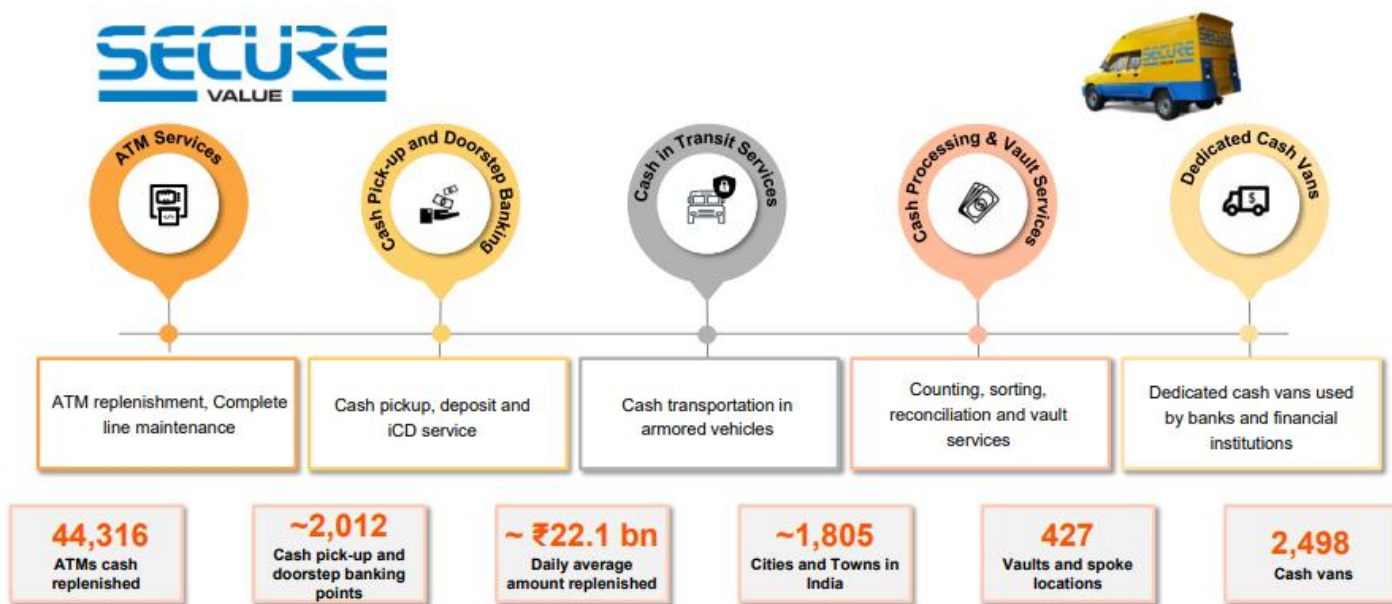
Company Description

AGS provides a full range of ATM services



Source: Company presentation

Cash management services provided through SVIL (Securevalue India Limited)



Source: Company presentation, data as of Q1FY23E

Merchant Payment solutions under ITSL (India Transact Services Limited)



Source: Company presentation

Value-added services to merchants on the POS network through ONGO ecosystem



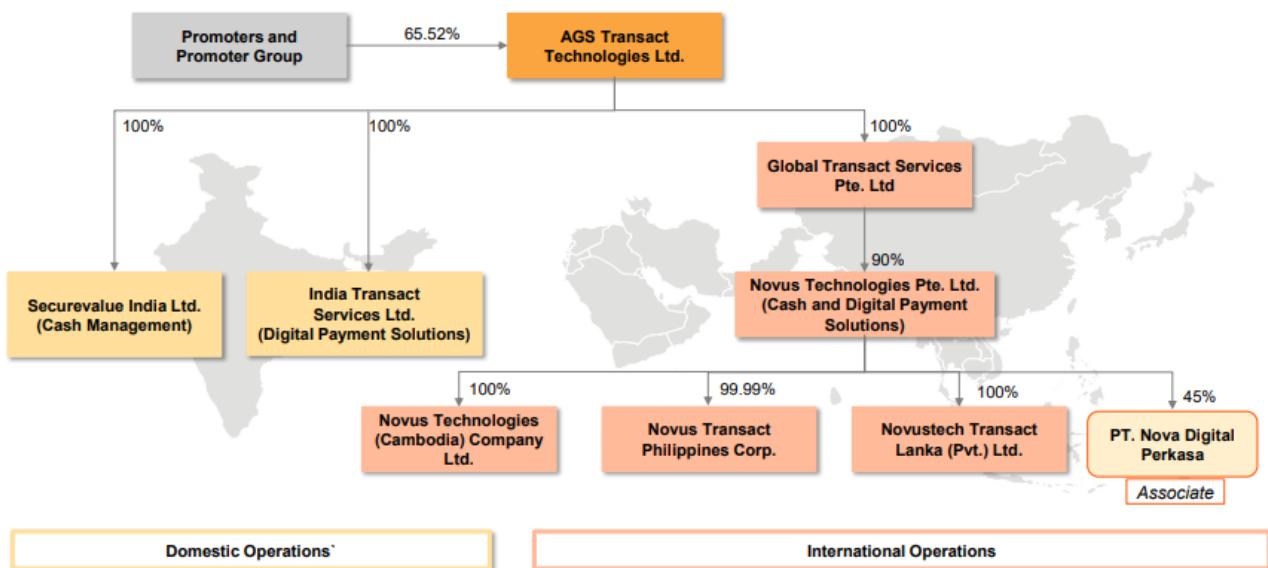
Source: Company presentation

Services under Banking Automation and Other Automation solutions

Banking Automation Solutions		Other Automation Solutions	
Products	Cash Dispensers: Enable customers to access their bank accounts to make cash withdrawals (or credit card cash advances), fund transfers, check balances etc.	Retail Sector Operations	Cash Billing Terminals: Offers cash billing terminals and solutions to retail establishments, such as supermarkets, multiplexes, etc.
	CRMs: Cash Recycling Machine or CRM allows a bank's customer to make deposits which are sorted into various denominations and are used for cash dispensing		Digital Signage Software: To manage customized marketing and information messages, scheduling, logs & alerts etc.
	Banking Transaction Terminals: Includes a variety of self serving banking platforms like automated cheque deposit terminals and multifunction self-service kiosks		Services: Provides maintenance services, software customization, hardware upgrades and spare parts for repairs of POS terminals and other automation equipment
	Note Sorters: Authenticate and classify banknotes, and can perform functions such as note counting, value counting and sorting notes by denomination etc.		
Services	Annual Maintenance: Second line maintenance for ATMs and CRMs	Petroleum Sector Operations	Products: Offers "forecourt controller", a device which interfaces with various dispensers and tanks in the outlet
	Upgrades and Software: Hardware and software upgrades services for ATMs and CRMs		Services: (1) Operational implementation & support services; (2) maintenance support; (3) helpdesk & remote support; (4) software upgrade & customization
	Spare Parts: Stocks spare parts of ATMs and other automated products		
		Colour Sector Operations	Services: Offers automatic paint dispensers to deliver the right shade of colour Manages the entire lifecycle of the machines including deployment, implementation and maintenance

Source: Company presentation

AGS Transact corporate structure



Source: Company presentation

Financials

Income statement (Consolidated)

YE March (INR mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Total Revenues (INR mn)	18,057	18,004	17,589	17,719	19,727	21,680	23,335
<i>Growth (%)</i>	<i>21.9</i>	<i>(0.3)</i>	<i>(2.3)</i>	<i>0.7</i>	<i>11.3</i>	<i>9.9</i>	<i>7.6</i>
Cost of raw materials	2,855	2,337	2,134	2,014	2,242	2,464	2,652
Purchase of traded goods	524	303	536	196	218	239	258
Decrease in inventories of finished goods and traded goods	147	102	(40)	70	395	434	467
Employee benefit expenses	2,749	2,801	2,772	2,660	2,962	3,363	3,737
Other expenses	7,533	7,838	7,802	8,670	8,831	9,544	10,088
EBITDA	4,250	4,624	4,386	4,109	5,080	5,636	6,133
<i>EBITDA Margin (%)</i>	<i>23.5</i>	<i>25.7</i>	<i>24.9</i>	<i>23.2</i>	<i>25.7</i>	<i>26.0</i>	<i>26.3</i>
<i>EBITDA Growth (%)</i>	<i>106.9</i>	<i>8.8</i>	<i>(5.2)</i>	<i>(6.3)</i>	<i>23.6</i>	<i>10.9</i>	<i>8.8</i>
Depreciation	2,273	2,447	2,596	2,519	2,590	2,838	3,072
EBIT	1,977	2,177	1,789	1,590	2,489	2,798	3,061
<i>EBIT Margin %</i>	<i>10.9%</i>	<i>12.1%</i>	<i>10.2%</i>	<i>9.0%</i>	<i>12.6%</i>	<i>12.9%</i>	<i>13.1%</i>
Other Income (Including EO Items)	179	331	382	254	258	260	263
Interest	1,367	1,304	1,331	2,502	1,426	1,516	1,564
PBT	789	1,204	841	(658)	1,321	1,542	1,760
Tax (Incl Deferred)	127	365	276	159	330	386	440
Share of profit / (Loss) of associate	0	(9)	(16)	(8)	0	0	0
RPAT	662	830	548	(825)	991	1,157	1,320
EO (Loss) / Profit (Net Of Tax)	0	0	0	0	0	0	0
APAT	662	830	548	(825)	991	1,157	1,320
<i>APAT Growth (%)</i>	<i>NM</i>	<i>25.4</i>	<i>(34.0)</i>	<i>NM</i>	<i>NM</i>	<i>16.8</i>	<i>14.1</i>
Adjusted EPS (INR)	5.5	6.9	4.5	(6.8)	8.2	9.6	11.0
<i>EPS Growth (%)</i>	<i>NM</i>	<i>24.8</i>	<i>(34.1)</i>	<i>NM</i>	<i>NM</i>	<i>16.8</i>	<i>14.1</i>

Source: Company, HSIE Research

Balance sheet (Consolidated)

YE March (INR mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
SOURCES OF FUNDS							
Share Capital - Equity	1,186	1,186	1,186	1,202	1,202	1,202	1,202
Reserves	3,064	3,804	4,401	3,616	4,607	5,763	7,083
Total Shareholders' Funds	4,249	4,990	5,587	4,818	5,808	6,965	8,285
Long Term Debt	3,217	3,489	8,662	4,597	4,976	5,361	5,754
Short Term Debt	1,392	2,165	3,668	2,523	2,023	1,523	1,023
Total Debt	4,608	5,653	12,330	7,120	6,999	6,884	6,777
Net Deferred Taxes (Net)	(567)	(539)	(559)	(551)	(551)	(551)	(551)
Long Term Provisions & Others	369	404	355	296	296	296	296
Lease Liabilities	4,977	4,801	3,893	3,921	4,143	4,553	4,900
TOTAL SOURCES OF FUNDS	13,637	15,309	21,606	15,604	16,696	18,147	19,708
APPLICATION OF FUNDS							
Net Block	10,052	10,492	9,622	9,074	8,924	8,601	8,135
CWIP	501	890	582	438	438	438	438
Goodwill	24	24	25	27	27	27	27
Investments	0	24	8	0	0	0	0
LT Loans & Advances & Others	1,629	1,875	1,559	1,598	1,677	1,843	1,983
Total Non-current Assets	12,205	13,306	11,796	11,137	11,065	10,909	10,583
Inventories	919	639	720	649	782	859	925
Debtors	4,430	4,565	8,088	9,147	10,161	11,180	12,026
Other Current Assets	2,043	2,606	936	1,237	1,578	1,843	2,100
Cash & Equivalents	381	759	7,039	806	1,276	2,332	3,733
Total Current Assets	7,772	8,569	16,784	11,840	13,797	16,214	18,784
Creditors	2,424	2,584	4,268	5,102	5,405	5,940	6,393
Other Current Liabilities & Provisions	3,916	3,982	2,705	2,270	2,762	3,035	3,267
Total Current Liabilities	6,340	6,565	6,973	7,373	8,167	8,975	9,660
Net Current Assets	1,432	2,004	9,810	4,467	5,631	7,239	9,124
TOTAL APPLICATION OF FUNDS	13,637	15,309	21,606	15,604	16,696	18,147	19,708

Source: Company, HSIE Research

Cash flow (Consolidated)

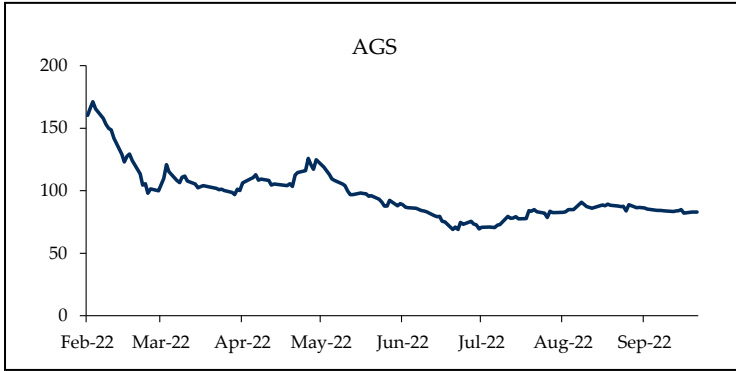
YE March (INR mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Reported PBT	789	1195	824	(666)	1321	1542	1760
Non-operating & EO items	57	(94)	(240)	139	258	260	263
Interest expenses	1367	1304	1331	2502	1426	1516	1564
Depreciation	2273	2447	2596	2519	2590	2838	3072
Working Capital Change	624	(150)	(261)	(886)	(551)	(308)	(277)
Tax Paid	(248)	(242)	(75)	(362)	(330)	(386)	(440)
OPERATING CASH FLOW (a)	4861	4460	4176	3245	4715	5463	5942
Capex	(1619)	(2216)	(1211)	(833)	(1265)	(1281)	(1311)
<i>Free cash flow (FCF)</i>	<i>3243</i>	<i>2244</i>	<i>2964</i>	<i>2413</i>	<i>3450</i>	<i>4182</i>	<i>4631</i>
Investments	0	(24)	0	0	0	0	0
Non-operating Income	13	48	95	27	(258)	(260)	(263)
INVESTING CASH FLOW (b)	(1605)	(2192)	(1116)	(806)	(1523)	(1542)	(1574)
Debt Issuance/(Repaid)	(975)	704	5545	(5050)	(121)	(116)	(107)
Payment of lease liability	(1385)	(1497)	(1499)	(1503)	(1175)	(1234)	(1296)
Interest Expenses	(727)	(678)	(707)	(1864)	(1426)	(1516)	(1564)
<i>FCFE</i>	<i>156</i>	<i>774</i>	<i>6302</i>	<i>(6003)</i>	<i>728</i>	<i>1316</i>	<i>1664</i>
Share Capital Issuance	3	0	0	62	0	0	0
Dividend	0	(143)	0	(120)	0	0	0
FINANCING CASH FLOW (c)	(3084)	(1614)	3338	(8474)	(2722)	(2866)	(2967)
NET CASH FLOW (a+b+c)	172	654	6398	(6034)	470	1056	1401
Others	(5)	(277)	(117)	(198)			
Closing Cash & Equivalents	381	759	7039	806	1276	2332	3733

Cash flow (Consolidated)

KEY RATIOS	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
PROFITABILITY (%)							
GPM	65.3	69.2	69.3	72.1	70.5	70.0	69.5
EBITDA Margin	23.5	25.7	24.9	23.2	25.7	26.0	26.3
EBIT Margin	10.9	12.1	10.2	9.0	12.6	12.9	13.1
APAT Margin	3.7	4.6	3.1	(4.7)	5.0	5.3	5.7
RoE	15.6	16.6	9.8	(17.1)	17.1	16.6	15.9
RoIC (or Core RoCE)	13.7	10.9	8.3	13.5	12.4	13.4	14.4
RoCE	14.6	12.0	7.8	12.3	12.8	13.2	13.2
EFFICIENCY							
Tax Rate (%)	16.1%	30.3%	32.9%	-24.2%	25.0%	25.0%	25.0%
Fixed Asset Turnover (x)	1.5	1.4	1.4	1.5	1.7	1.9	2.1
<i>Inventory (days)</i>	<i>19</i>	<i>13</i>	<i>15</i>	<i>13</i>	<i>14</i>	<i>14</i>	<i>14</i>
<i>Debtors (days)</i>	<i>90</i>	<i>93</i>	<i>168</i>	<i>188</i>	<i>188</i>	<i>188</i>	<i>188</i>
<i>Other Current Assets (days)</i>	<i>41</i>	<i>53</i>	<i>19</i>	<i>25</i>	<i>29</i>	<i>31</i>	<i>33</i>
<i>Payables (days)</i>	<i>49</i>	<i>52</i>	<i>89</i>	<i>105</i>	<i>100</i>	<i>100</i>	<i>100</i>
<i>Other Current Liab & Provisions (days)</i>	<i>79</i>	<i>81</i>	<i>56</i>	<i>47</i>	<i>51</i>	<i>51</i>	<i>51</i>
Cash Conversion Cycle (days)	21	25	58	75	81	83	84
Debt/EBITDA (x)	1.1	1.2	2.8	1.7	1.4	1.2	1.1
Net D/E (x)	1.0	1.0	0.9	1.3	1.0	0.7	0.4
Interest Coverage (x)	1.4	1.7	1.3	0.6	1.7	1.8	2.0
PER SHARE DATA (INR)							
EPS	5.5	6.9	4.5	(6.8)	8.2	9.6	11.0
CEPS	24.5	27.2	26.1	14.1	29.7	33.2	36.5
Dividend	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Book Value	35.5	41.5	46.4	40.0	48.2	57.8	68.8
VALUATION							
P/E (x)	15.1	12.1	18.3	(12.2)	10.1	8.7	7.6
P/BV (x)	2.3	2.0	1.8	2.1	1.7	1.4	1.2
EV/EBITDA (x)	3.3	3.2	3.5	4.0	3.1	2.6	2.1
OCF/EV (%)	34.2	29.9	27.3	19.9	29.9	37.5	45.5
FCF/EV (%)	22.8	15.1	19.4	14.8	21.9	28.7	35.4
FCFE/Mkt Cap (%)	1.6	7.7	62.8	(59.9)	7.3	13.1	16.6
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company, HSIE Research

1 Yr Price History



Rating Criteria

- BUY: \geq 15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: $>$ 10% Downside return potential

Disclosure:

We, **Amit Chandra, MBA & Vivek Sethia, CA** authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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