Management Discussion

Shobhit Sharma - Analyst, Elara Securities
Thank you, Huda. Good day, ladies and gentlemen, and thank you for joining us on the Q2 FY 2027 results conference call for CMS Info Systems Limited. It's our pleasure to host the senior management team of CMS who are here with us today to discuss the results. We have Mr. Rajiv Kaul, Executive Vice Chairman and CEO, Mr. Pankaj Khandelwal, CFO, Mr. Anush Raghavan, Chief Business Officer, and Mr. Puneet Bhirani, Chief Operating Officer. We will begin the call with opening remarks by the management team, and thereafter we'll open the call for a Q&A session.

I'd like to hand over the call now to Mr. Rajiv Kaul to take the proceedings forward. Thank you, and over to you, sir.

Rajiv Kaul - Executive Vice Chairman and Chief Executive Officer, CMS Info Systems Limited
Thank you, Shobhit. Good afternoon, everyone, and thank you for joining our Q2 call on a Saturday. Let me take a few minutes to talk about the quarter and then hand it over to my colleagues Anush Raghavan and Pankaj Khandelwal for more details. Let me start with the headline. Our services revenue for the quarter was INR644 crores, which is our highest ever and the fourth consecutive quarter of record services revenue. This is a growth of 16.2% over Q2 of last year and 3% QonQ. EBITDA grew 24.8% to INR173 crores at a margin profile of 26.7%.

For H1 of this year, margin was overall at 27%, 290 basis points higher than the first half of last year. Operating cash flows for this half were at INR177 crores against an outflow of INR117 crores in H1 of last year. And importantly, our Tech and Payments segment is now contributing 20% of our services revenue, two quarters ahead of our forecast. These numbers were delivered in an environment where statutory minimum wages went up steeply in some large states and fuel costs went up 8%, leading to a fairly high inflation environment.

Currency supply was disrupted from February till August and ATM transactions had a cascading downward impact in that period. Anush is going to now take you through the operating environment, the business wins, and Pankaj is then going to take you through the financials and the outlook. With that, I hand it over to Anush.

Anush Raghavan - Chief Business Officer, CMS Info Systems Limited
Thank you, Rajeev. Good afternoon, everyone. Let me take you through the operating environment and the business highlights for the quarter. I'll first begin with demand because demand was the one thing which has not been an issue this year. Our currency in circulation is at a record high of about INR43.5 lakh crore, which is 13.5% on a year-on-year basis. It's the fastest growth in five years and it's about three times the level of FY15. In our retail business, same-store cash throughput across our key customers grew by 3.7% YoY in the second quarter, and that is before the festive season because this year Navratri is falling in October as against September last year.

The disruption, however, has been on the supply side, which you alluded to in our previous calls, but that situation is now changing. In August, we told you that fulfillment of our currency indents had recovered from about 70% at the lowest in Q1 to 80%. That recovery has continued through this quarter. On the ATMs which we manage, average dispense per ATM per day is up by 8% from the low of May. It is still about 10% below last year's levels, so we're not calling it fully normal yet, but the trend has moved in one direction since May, and further recovery helps our transaction-linked revenue directly.

On costs, as we said last quarter, statutory minimum wages have risen by 6% to as much as 60% across key states, and fuel cost is up by 8%. These are statutory and external cost increases on contracts which in many cases were priced several years back. No one in the industry can absorb them without a revision in pricing, and our customers recognize that. With private sector banks and retail customers, our revised pricing is now in place across most of these contracts. PSU bank pricing is pending and we expect to conclude soon in a process which is led by the IBA Working Committee, which was constituted in August this year.

A word on transaction-linked ATMs. These ATMs were an important part of our growth between FY23 and FY25. They help us offer banks a complete end-to-end solution. They are now about 12% of our revenue. Revenue per ATM has come down over the last 18 months as transactions fell, and this has weighed on the EBIT of our Managed Services segment. The rest of our business has had- has more than absorbed it. Group EBITDA is up 25% year-on-year even after this year's cost increases. We saw the stress early and acted on it.

From FY25, we stayed out of most transaction-priced tenders and cut our investment. In FY25-'26, we declined a INR700 crore contract that was priced on transactions. In the first half of this year, our capex in these ATMs were INR10.6 crores, down 63% from last year and limited to deployments which we were already committed to. All of our new business is on fixed-fee contracts. The industry data bears this out as well. Offsite ATMs in India have come down from about 88,000 to 73,000 over the last two years as banks have rationalized their networks post the exit of a large operator.

Over the same period, the overall ATM base has held steady at 2.1 lakh, with onsite ATMs growing about 4% a year as banks add ATMs and recyclers inside their branches. The industry as a whole is now moving to fixed-price contracts, a model which we moved to early. Coming to the business highlights, tech in payments reached 20% of our service revenues in Q2. In August, in our last call, we had shared that we expect to cross 20% by Q4, and we have gotten there two quarters early. That already puts us within the FY30 aspiration of.

20% to 22% that we set out at our 2025 Analyst Day. On a Q2 annualized basis, this business is now above INR500 crores of revenue, which is more than four times its FY22 level. In the first half, we won our second large PSU bank branch RMS mandate, a central command center implementation across 650 branches and monitoring of the bank's entire network of 8,000-plus branches. On ALGO MVS, which is a software platform, we've added our third marquee bank with a rollout across 12,000 machines, and our implementation at ICICI Bank will go live in H2.

The two recycler orders which we won from public sector banks in Q1 will deliver in the second half of the year, which is why you will see that the product revenue which is low in H1 will step up in H2. Order wins in the first half of the year were INR700 crores. We held our market share at 60% in ATM cash management and 38% in retail cash solutions. The pipeline was fairly active. Banks continue to come to market with RFPs for branch surveillance, ATM software, and recyclers. Our near-term focus is on executing this order book.

With that, let me hand over to Pankaj for the financials.

Pankaj Khandelwal - President and Chief Financial Officer, CMS Info Systems Limited
Thank you, Anush, and good afternoon everyone. Total revenue for the quarter was INR650 crores, which was up 6.7% year-on-year basis and 2.4% quarter-on-quarter basis. Service revenue was at, an all-time high at INR644 crores. Which was up 16.2% on year-on-year basis and 3% on quarter-on-quarter basis. EBITDA came at INR173 crore, up 24.8% on year-on-year basis, in line

with the Q1, with margin at 27.26.7%, with a 390 basis points higher than Q2 of last year. Three structural drivers sit behind this margin: price revision, productivity from the route optimization, and automation in our internal operations.

And business mix with the higher share of the tech and payments and of the fixed-price contracts in our revenues. At segment level, cash logistics revenue was INR404 crore, up 2% year-on-year, with EBIT of INR77 crore at a margin of 19.1%. Managed services revenue including cards was INR321 crore, up 19% on year-on-year, with EBIT of INR34 crore at a margin of 10.6%. Managed services EBIT continued to reflect the lower transaction-linked ATM revenue and the higher depreciation from last year capex and the FSS acquisition.

Both of these are transitional, and I will come back to depreciation in a moment. PAT for the quarter was INR81 crore, up 10.3% year-on-year, and earning per share grew faster, 14.9%, to INR5.05, helped by lower share count after the buyback. For the first half, services revenue was INR1,269 crore, up 12.7% year-on-year. EBITDA was INR346 crore, up 16.4%, with margin at 27%, an improvement of 290 basis points. H1 PAT was INR165 crore compared to INR167 crore in the first half of the last year, and the difference comes from higher depreciation from last year investment cycle.

On depreciation, net capex in H1 was INR50 crore And we estimate FY27 capex at INR100 crores to INR125 crore against INR351 crore last year. That is about half of our long-term average and well below our depreciation charge. So from FY28, depreciation as a share of revenue should start to come down as last year's investment reached full cycle scale, and more of our EBITDA growth should flow from the flow to earnings. On cash flow, operating cash flow for H1 was INR177 crore or 51% of EBITDA, compared to our- an outflow of INR117 crore in the first half of the last year.

Our collections were weighted toward the second half. Over the last five years, we have converted an average of around 70% of our EBITDA into operating cash flow. Our net cash as on 30th September was INR373 crore after the INR168 crore we returned through the buyback in the month of June. Since listing, we have returned INR606 crore to the shareholders. On the outlook, we are reaffirming our FY27 guidance. Services revenue of INR2,650 crore to INR2,750 crore, total revenue of INR2,750 crore to INR2,850 crore, and EBITDA margin of 27%, and capex of INR100 crore to INR225 crore.

With this, I would like to hand over to Rajiv for his closing remarks.

Rajiv Kaul - Executive Vice Chairman and Chief Executive Officer, CMS Info Systems Limited
Thank you, Pankaj. If I step back and look at the last 18 months, they have severely tested a part of our industry. The AGS-linked closure of offsite ATMs, the currency supply disruption in the last five months, and the overall pressure on the whole transaction-linked ATM model with an unusually sharp rise in costs. Through this, we have stayed very disciplined. We walked away from a large INR700 crore contract which was priced at levels we did not accept. We have evaluated over 15 acquisitions in depth and completed two at valuations we are comfortable with.

We have gone back and repriced contracts where costs had moved significantly, and we cut capex sharply in the part of the business which was under stress but kept investing in our technology and the HAWKAI platform. These were not easy decisions but were the right ones, and you can see the impact on our business mix, quality, margins, and cash flows. The shape of the company is changing in this period. Technology and Payments segment, which is 7% of our revenue in FY22, is now 20% of our revenue in Q2.

All of our new business wins are on a fixed fee contract basis. Tech is doing a lot more of the work inside the company. Our AI agents built by our own teams process 99% of our cash indents on a daily basis with high accuracy, and they close over 60% of our monitoring alerts on our HAWKAI software platform. The result is a very robust operating platform with strong operating leverage. It's a platform which can take on more volume very efficiently, and that makes us a natural integrator of any synergistic acquisitions if the right opportunities come along.

Our moats today extend from our network, distribution, integrated business model, and our technology stack. We have run this company for disciplined growth, market leadership, strong margins, and high returns on capital. Growth capital goes to integrated fixed fee contracts and towards second payment stack. Acquisitions happen only at the right value, as they did with Securens and FSS CashTech. And we keep enough cash for the next 12-18 months of expected needs, with the rest coming back to shareholders through dividends and where it makes sense through buybacks.

To summarize what my team has told you earlier in the call, We are seeing good growth in our services revenue. Margins are strong at 25% plus. Cash generation is solid. We remain focused on driving good QonQ growth in Q3 and Q4 to build a good exit run rate for FY28. We are confident about where CMS goes from here. Thank you, and we now look forward to your questions.

Questions & Answers

Operator
Thank you very much. We will now begin the question and answer session. [Operator Instructions] The first question is from the line of Sooraj Nair from Acuitas Capital. Please proceed.

Sooraj Nair - Analyst, Acuitas Capital
Uh, hello. Hi team. Uh, so I have a question on, uh, questions basically, right? So first, between March '25 and, uh, since March '25, right, which is where the peak of the disruption on the cash channels seem to have happened, uh, currency in circulation has grown an absolute, uh, 17%. Whereas your cash management revenues were flat in this period. Now if I- just for the disruption in the ATM channel, if I remove the ATM logistics kind of revenues which I guess are about 55% of this segment's revenues, then I want to understand how much did the retail plus currency transit business grow in this period since March '25 to September '26.

I'm looking at it on a TTM basis, right, just to be clear. Also, on a going-forward basis, uh, it seems like cash throughput and CIC might be not very good indicators of your growth and TAM because of your largely fixed kind of, uh, fixed-price contracts, right? So, uh, uh, what has been the growth in the, uh, retail and currency in-transit touchpoints, the absolute volume growth since March '25 to September '26? That's question one. And question two is, in HAWKAI, while the competitive advantage in banking is clear, what really is the moat in non-banking channels versus competitors like, let's say, Aditya Infotech?

There are a bunch, right? Magellanic Cloud, all of which- all of whom seem to have a classic hardware plus AI-based software surveillance system. So what is the right to win for CMS in non-banking channels versus competitors? Those are my two questions.

Anush Raghavan - Chief Business Officer, CMS Info Systems Limited
Hi, Anush here. let me take the first one first, which is, trying to- I think, I think you're on the right

nuance, which is that the currency in circulation does not immediately have an impact on the business, but I think it's a very important indicator of how at the level of regulatory planning and in terms of estimation of currency demand and consumption are different inputs coming together which lead to a forecast of increasing cash currency printing. And I think at some level that sort of shows the macro need for currency, and to a large extent that sort of tries to give you an indication of what is the demand side need.

Uh, if I try and attempt your answer, when you look at the newer business cards that we had shared with you, last year, which is ATM, retail, and tech and payments. The reason that we also moved into that cut is because we realized that with a lot of our incremental growth coming through integrated contracts, just looking at ATM touchpoints may not be the most relevant indicator of our growth. That would show you that- and I, know you asked for TTM, will take some time to pull the data out- but if you look at it on a Q2 to Q2 basis, YOY, ATMs solutions and retained solutions as a whole grew by about 10% between last Q2 to this Q2.

So, if you're saying that currency grew by 13%, I think that's the closest approximation we can give you to how our businesses have performed in that period. But you're also well aware that there are multiple other overhangs on the business side, especially around availability of currency. And most of this first half has been punctuated by industry as a whole. When I say industry, it has our industry, it is the customers, retailers being involved in a lot of hectic discussions and negotiations on the pricing aspect.

And when something like this happens, obviously there is a volume takes a bit of a backstep because contracting for incremental volumes can only happen once there is clarity on pricing. At the end of Q2, when we had closed on most of the contracts on the retail and private side, we think, we'll, work in Q3 and Q4 to get the volume lever back again. That's the first question. Uh, to your second point, and I think you've spoken about this especially in RMS and HAWKAI, our right to win is really the fact that as a market leader working primarily with BFSI as a focus, banks want a counterparty with whom they have a high degree of trust and relationship and have a regard for being able to execute large complex solution-based orders with a high degree of quality execution across the country and uptime which is unparalleled.

That really is what got us to the market leadership position from starting this business four years back to now. As we are moving beyond BFSI into other services, the scale that we have across the country the AI use cases that we've been able to build up and our ability to work across a range of non-BFSI. I know, you know, we've, for example, given you some illustrations in the past of working with QuickCommerce, and since then, you know, we've expanded beyond that into gold loans, NBFCs, manufacturing, for example.

I think in all of this, we take a very segment-wise approach of perfecting the use case and then going very deep to penetrate the segment as such.

Rajiv Kaul - Executive Vice Chairman and Chief Executive Officer, CMS Info Systems Limited
So if I can also add on the questions you asked, I don't want to refer to a particular specific competitor or an industry player, but, we've sort of built an end-to-end stack between both the hardware and software. Our HAWKAI software platform is very robust. We- it's robust because it is now running on a large estate at CMS, the number of sites we cover. And while your point on right to win at BFSI is very valid, and that's where we started from, we think we have a platform which can move horizontally across industries as we build our software stacks.

Now, the industries which make sense to us are the ones where there is a lot of distribution coverage, because going and selling this, let's, for example, you know, in a smart metro city may not make sense to us. It will make sense to us if you've got thousands of retail stores or NBFC branches or bank branches. That's where you need the composite level of hardware, software, and distribution because things break down and you need a company with a national network to be able to run and manage it.

And we use a lot of our current infrastructure from a managed services business to be able to handle it. So we have moved into the EV space, and I think we have a couple of other large industries which we are looking to enter from HAWKAI. I think it's a very large overall TAM, and it will be- you will see fragmentation and different companies with different wins and different approaches. So I think for us, we are looking at where are we seeing the most traction and where are we delivering the highest value, and then we try and scale that up to make sure we have a very good market share in that particular sub-vertical.

Sooraj Nair - Analyst, Acuitas Capital
I understand. Thanks, Anush and Rajiv, for the answers. A quick follow-up. See, on this, I understand, uh, that your competitive advantage on banking and all- I'm trying to get a more concrete sense. Like, when you are sitting across the table competing with others, right, again, no names, but let's say within your target segment, which is essentially large format retailers and all those kinds of things, uh, you might get a sense of where you are winning business, why you are winning business, and where you are losing business and why, right?

I'm trying to get a more concrete sense because honestly from our point of view, right, I mean, okay, I should just talk for myself. All of this seems somewhat gobbledygook, right, because everything is AI, everybody seems to talk about AI. So what really in banking, it becomes very clear because we have been working with banks for long and then yeah, that advantage is clear. But in non-banking, it is still a bit murky as to where you're, you know, in your business negotiation, in negotiations with customers, where are you seeing that you have an edge and where are the areas where you think are areas of improvement?

That's one. And second, going back to currency logistics question that I had, Anush, correct me if I'm wrong, but are you saying that the disruption in the ATM channel had a spillover effect in non-ATM channels like retail and all and they also kind of caught lost volumes and so it's not clear to me what really happened. I was focused only on the non-ATM part of the cash logistics business because I just wanted to adjust for the disruption that happened in the ATM channel.

Rajiv Kaul - Executive Vice Chairman and Chief Executive Officer, CMS Info Systems Limited
So I want to finish the talk on HAWKAI and then Anush can talk to you about the other parts. So I think if you go back to where do we win, where do we lose, I think fundamentally for any project execution and getting it up and running and running and delivering the alerts and controlling the risk is most important, right? So I think I will- I won't have stats on how others are doing operationally on that, but I think that's something which we are measured against by. And I think banking, just because of the severity and the nature of risk you're trying to manage at a branch or an ATM, is extremely rugged with extremely low tolerance of failure.

It's not about going and, you know, managing a factory where you are doing perimeter security, right? It's very different than that. So the alerts, the timeliness of the alerts, the resolution time is like in minutes. You don't have an hour or two hours to work on it. So that gives you- that gives your

models, that gives your machine learning models, your HAWKAI platform, a lot of robustness. It fails sometimes and you keep learning from it. When you compare it to some of the companies, and again I will not refer to each company, I think where we stand out today, right, again, you have to understand the technology, people can easily catch up.

But where we stand out today is that we are very OEM agnostic. We are not linked to a particular camera or an NVR device. We sort of plug and play. So for a lot of people who have made the investments earlier on into hardware in their locations, we build a platform where we can plug and play into, from a software into those devices, and we're able to give them far better quality monitoring statistics and tools and dashboards which they couldn't get earlier. They had mostly, let's assume, in some cases just dumb cameras where everything was getting recorded somewhere but no intelligence behind it and no proactiveness around preventing things from it.

So we offer that. Um, if you go back into, uh, so sorry, I've talked about the HAWKAI platform. So I think that's the way we build it. We are seeing a lot interest in people wanting just our software platform. For the hardware, they may be doing on their own and they don't need our hardware. But when we, when we lose, we lose for two reasons. I think one is the standard reason on price, right? I think our price dealt on what we like to work on is very different than what I see many other competitors end up pricing at.

Maybe they've got a different cost structure, I don't know. This is a very high segment of growth, and therefore competitive intensity is very robust, right, as it should be also. And the other thing would be that if, you know, if in a segment your stack hasn't initially delivered the right results, hasn't delivered the robustness, you have to sort of go back and rework on the software and sort of go back and fix it. So typically for any technical project and technology-related project, these are the issues.

You win and lose basis the stack and the technical marks you get, but you'll always be competing with others. Uh, some of them will have everything end-to-end, some of them will be a system integrator who's putting a stack together of Indian or global components.

Sooraj Nair - Analyst, Acuitas Capital
Okay,

Rajiv Kaul - Executive Vice Chairman and Chief Executive Officer, CMS Info Systems Limited
Sorry.

Anush Raghavan - Chief Business Officer, CMS Info Systems Limited
Yeah, uh, coming back to your point, um, I think, um, as I said on the- you know, as I shared in my presentation also, specific to retail and the non-ATM parts of the business, you go back to our call at the end of Q4 or in Q1 of this year, we said On the retail business, we grew very strongly and aggressively from FY21 through FY25. FY26, towards the end of the year, we said we will be pruning down some of the points and weeding out some of the long tail, the focus being how do you drive up productivity realization and yield improvements through that.

Most of this year has been a continued focus on getting the price negotiations closed out, as a result of which, from a volume perspective our numbers are quite steady. However, from currency throughput in the retail channel on the same-store basis, we are up by almost 3.7% to 4% YOY on a, on a similar set of, on the same-store basis.

Sooraj Nair - Analyst, Acuitas Capital
Okay. All right. Thank you. Thank you, team, for answering the questions.

Operator
Thank you.

Operator
The next question is from the line of Gaurav. From Capital Farming Consultants, please proceed.

Gaurav - Analyst, Capital Farming Consultants
Yeah, hi, uh, thanks for the opportunity. I hope I am audible.

Operator
Yes, yes,

Gaurav - Analyst, Capital Farming Consultants
Yeah, thank you. Uh, so, uh, Rajiv and team, uh, first of all, congratulations on a steady set of numbers in this challenging environment, right? So, uh, clearly from your commentary on this call as well as from the presentation, a focus has been on the cash generation, right, and the return ratios that we are talking about. Uh, so, two, uh, questions from my side, uh, right, specifically on, um, focusing on this dataset only. I see, though you are claiming that the free cash flow from operations is INR177 cr, right, but, when, but when we look at the, uh, H1 PAT, which is INR165 cr, and depreciation charge that we have accounted almost INR145 cr, right, uh, uh, the free cash flow must be, uh, on a higher side, but, when, uh, but when we look at the cash flow statement Right, uh, almost, uh, uh, I would say receivables have again consumed almost INR100 crore of numbers over there, right?

And, uh, on, the, uh, fixed assets, again we have, uh, invested somewhere around INR150 cr as for the cash flow statement, right? So, some confusing statements are coming on. One, we are giving guidance on the capex side that during the FY27 we will be making capex of INR100 crores, INR125 crore, whereas within H1 we have almost made a capex of INR150 crore. Second, we are saying that our focus is on cash generation, whereas whatever PAT we are generating, a major chunk of that is again getting consumed within the receivable, right?

So, so, uh, would like to get your views that what exactly, uh, as investors, as an analyst, we can expect, that, uh, why these contradictory statements, or what would be the trajectory? Are we really focusing on uh, uh, uh, containing the trade receivables within the range so that whatever PAT we are generating, that is not getting stuck in the receivables and that is actually, uh, coming as a free cash flow to the firm? That is the first question, right? Uh, second question is that considering, uh, we have already, uh, spent almost INR150 crore in capex and our guidance was INR100 crore and INR125 crore, so what shall be the new guidance or the updated guidance?

Or, if this or these numbers are incorrect in some way, either my reading or either the presentation. Maybe you can correct on that. Then I have two dataset questions, uh, like if any provision we have done during H1 or any write-off we have done in the receivables, uh, if yes, then what is the amount? Uh, second dataset number is if you can, uh, or the team can help me, uh, uh, getting the numbers that what is our receivables between six months to, uh, one year, one year to two years, and more than two years?

Uh, yeah, these are my questions. Thanks.

Pankaj Khandelwal - President and Chief Financial Officer, CMS Info Systems Limited
Yeah, thank you. Uh, see, I will first take the capex part. So, uh, in the cash flow you can able to see the INR149 crore of the cash flow in the cash outlay, out of which there is a three-part to that. One is that during the last year we have purchased one company called Securens, wherein we paid part amount last year and part amount this year. Around INR50 crore was paid in this year, which is part of this INR149 crore. Apart from that, around INR50 crore or INR54 crore was moved from CWIP last year to capex this year.

That is the reason this INR149 crore is including these two numbers. If I exclude this, the number is coming to around INR50 crore, which is H1, and we are giving a guidance of INR100 crore to INR125 crore, which is largely within that. As regards the provisions are concerned, as we have always- we have guided that our risk cost is close to 3.5% to 4.5%, which was earlier 6%, and we are within that limit only this year. This, H1 also, we are around 4% of that, and which was provided. If you will see that cash flow, there is a separate line item which is the provision is there, which is around INR40 crore approximately.

Third line, the third item was about your AR. Say H1 is always be lower, uh, in collections. But this year we are focused much on the collection, and that's the reason if you will see our cash flow, there is much more, uh, collection in the, uh, from the AR. And that's the reason the working capital requirement was much lower compared to last year. And last year there was, uh, the net OCF was minus INR117 crore, which was substantially higher in this year. So that has resulted that the, collection was much better and the AR is reducing approximately last year versus this year.

Last year H1 versus this year, there is a DSO improvement of around 18 days which is there.

Gaurav - Analyst, Capital Farming Consultants
Okay, okay. Hello.

Rajiv Kaul - Executive Vice Chairman and Chief Executive Officer, CMS Info Systems Limited
Sorry, does that help you understand this, or is there any pending question?

Gaurav - Analyst, Capital Farming Consultants
No, no, I think there are 2-3 gaps into this. Like, uh, like I asked that the, uh, on the capex, 150 has been spent, and, uh, I think Mr. Khandelwal, uh, said that the consideration for acquisition of business, but, uh, in the cash flow statement, against the purchase consideration paid for acquisition of business, that is blank over there. So, so that is not matching up. Second thing, when they're saying that the DSO has been improving, right, but vis-à-vis if you look at the number, that the absolute number that has been increasing, though, yeah, H1, like you are claiming that it is not so good in terms of collection.

So can we expect that during H2 you will be able to collect the receivables in a much more faster way and then we can see the absolute number of free cash flow to the firm improving. And I, think, uh, the numbers on the six months to one year, one year to two years, and more than two years, that is yet to be shared.

Pankaj Khandelwal - President and Chief Financial Officer, CMS Info Systems Limited
Yeah, so coming to the, uh, capex thing, as I explained to you, that, uh, the Securens have purchased- we have not purchased the company, we have purchased the assets, and that's the reason it is not coming in the acquisition. It is coming in the purchase of the property, plant, and equipment, not in the acquisition. So we purchased the contract, we purchased the asset, etc. Apart

from that, like if you will see the next line item, which was the purchase consideration paid for the acquisition of the business, which is in the last year, so same cash flow, that was the Securens.

We have purchased the company called Securens where we have purchased the share, from them. And that's the reason that is coming in the acquisition, and this is coming in the purchase of the property, plant and machinery, and intangible assets. So that is, that is the number one item. Uh, the, as regards your, uh, AR is concerned, yes, as I explained to you that our collection historically, our collection in the H2 is always better than H1. This year we focused much on the collection, that's the reason our AR is comparatively lower.

Say if you see the last year versus this year, there is a substantial improvement in the H1 AR itself. And that's the reason last year AR DSO versus this year AR DSO, there is an improvement of around 18 to 20 days. And we are hopeful that the- by end of the- historically we have collected more in the H2 history, and this year also we will collect more in the H2.

Gaurav - Analyst, Capital Farming Consultants
Okay,

Pankaj Khandelwal - President and Chief Financial Officer, CMS Info Systems Limited
As regards right now, I don't have the numbers for the, uh, aging right now, but if you will see my- the aging has not changed much. If you see my balance sheet which was already available in the public domain, you can able to see in the notes to accounts the entire aging statement. In that statement, that entire aging is there from zero to 365 days and above, and everything is there. Generally, we have an ECL method wherein anything which is more than a particular time bracket is being provided, and it is monitored regularly and evaluated by the auditors every quarter, and based on the provision is made.

And that's the reason you can able to see in the provision of around INR40 crore was made, uh, which is already in the cash flow and balance sheet. You can able to see that.

Gaurav - Analyst, Capital Farming Consultants
Yeah, so, so if you allow I need to follow up within this, uh, because since you mentioned the annual report reference, uh, this question came from that angle only. Within the- within that latest annual report that was published, one to two year segment or aging bucket, almost INR151 cr was supposed to be collected. So, so if, that aging is not readily available as of now, as on 30th of September 2026, would you be able to tell if that out of this INR151 cr which was due for more than one year, one to two year bucket, if that has been collected or that, uh, or some portion or what portion or not yet collected.

If any clarity on that at least.

Pankaj Khandelwal - President and Chief Financial Officer, CMS Info Systems Limited
Then it is, it is, it's not with, uh, seen on the standalone basis. What is happening, what is the AR which we have billed for, that is coming in one for whatever the bracket is there, 150, 365 days or whatever is there. But sometimes the amount whatever is collected is not apportioned to that. Like suppose if I have a bill for one customer for, say, uh, five bills of, say, INR5 crore or INR25 crore, the customer has paid me INR20 crore. The- still my bills will continue to show 5 into INR25 crore in that packet, and the whatever the collection we have received will show in the collection unadjusted receipt.

That is one part. Secondly, whatever provision we are making, that is also sitting in one group only.

So that is also to be apportioned to that. So anything- most of the item which is more than, say, 330 days, uh, we have generally been 100% provided for, or we have a 100% confirmation from the customer that has been- will be So anything which is more than 330 days is already been provided for, already collected for, or customer has already confirmed that for this reason they will pay me the later at later date.

This is a subset of the ECL I am explaining to you. There is a multiple way out to calculate the ECL. For every bucket we calculate the ECL based on last 10 years data, and based on that, we provide for that. And that is the reason you see that every year we are providing approximately 4% or 4% of the provision and all this thing.

Gaurav - Analyst, Capital Farming Consultants
Uh, no, I understood your provisioning, but I think my question was clear-cut, and I'm sorry to say, but the answer is not to the point. That if out of that 150, like, you explained, and I also understand the accounting, and, uh, when someone is making a payment, how the adjustment is done. But if out of that 150, how much has been received or yet to be received, but that clarity is not there. But nevertheless, if you allow me a clarity within this, that since you operate in multiple segments like tech and digital, cash in transit, right, ATM operations, so can you give me a clarity that out of all of these businesses, in which business you get payments more frequently and which are the businesses or which are the kind of clients which take so much of time?

Like our DSO is almost four and a half months, right? So, so then there must be some segments in which you are getting payments within a month, or some would be where you are getting or not even getting payment within six months also, right? So, so can you give some that qualitative guidance on this, that what kind of segments where you get earlier and where you get stuck. That's all from my side. Thank you.

Pankaj Khandelwal - President and Chief Financial Officer, CMS Info Systems Limited
So there is a two-part to that. One is that the customer- customer is very important irrespective of the segment. The customer is very important. Generally, public sector- public sector banks or public sector undertakings are taking much more time than the private sector. Approximately 30 to 60 days difference between the public sector- public sector undertaking or public sector banks versus the private sector. Them irrespective of the segment. Second part is the segment where we perform. Like segment is that, like suppose if I am giving a complex solution to any of my customer which takes the longer time from my delivery to execution and final acceptance from them, there is a cycle is much longer.

And as we go, there is a, like if I will take example of one of one of the customer where we have to do develop lot of AI AI related modules for them, which takes longer time. The AR will be much longer for that, and we will recognize the revenue based on the accounting standard basis that how much we work we have done, and based on that we have recognized that.

Rajiv Kaul - Executive Vice Chairman and Chief Executive Officer, CMS Info Systems Limited
So I think you know if you think about some of our larger integrated contracts which have a project element, payments take longer because the full approval and execution takes longer. Some banks may pay you after you finish 95% of the project, some may start paying you at 60% to 70%. But generally at the public sector banks, because a lot of approvals and payments are actually linked to the circuits, they're not at a central level, we tend to spend more time in collections it would be on the private side.

So that's where we usually see a gap of like 30-45 days average between the three different businesses- ATM, retail, and HAWKAI. I actually don't know the respective DSOs there. I don't think it is linked to the business segment. It's more linked to the nature of customer.

Gaurav - Analyst, Capital Farming Consultants
Yeah, thanks. Thank you very much.

Operator
Thank you. The next question is from the line of Keshav Garg from Counter Cyclical PMS. Please proceed.

Keshav Garg - Analyst, Counter Cyclical PMS
Yeah, so Rajiv, if I look at your cash flow statement console, so there are some items which are repeating themselves- impairment allowance for bad and doubtful receivable and bad debts written off. Which is INR22 crore in H1. Last full year it was INR24 crore, year before it was INR37 crore. And similarly, ATM cash shortage and claims provision, it is INR22 crore in H1. Last year it was INR62 crore, year before it was INR52 crore. And the same numbers are more or less- we can see them on the other expenses also in the annual report.

So basically, when these items, when these are recurring in nature and they are not one-off, then the question is why are we adding these items to arrive at the operating cash flow? Sorry, I, meant EBITDA, operating profit.

Pankaj Khandelwal - President and Chief Financial Officer, CMS Info Systems Limited
See, it is definitely this, expenditure is considered as an expenditure for calculating the EBITDA. So I don't know how you are considering that is not part of the EBITDA. So EBITDA is always considering after considering all this as an expenditure. As these are the non-cash items, I have to add the- add in the provision itself in the cash flow. So EBITDA part, yes, EBITDA is always after that, this expenditure. These are the consider always be expenditure, whether it is provision or it is actual, loss.

It is considered- the EBITDA is considered after that. So EBITDA is net of these, numbers. Uh, as regards these are the- as, regards these items are non-cash and this is already part of my movement in the receivable, so net it off with- consider that cash flow properly. So you have to, you have to, you have to, you have to work the increase decrease in the receivable and this, item, and then add the adjust this, and then calculate the net impact on my cash flow. It is only showing it, otherwise it is net impact only.

The other option, other

Option is, other option is that I am showing, say, INR100 crore has gone in the trade receivable, out of which INR45 crore is I am providing. So net is only INR55 crore rupees. you can consider that way.

Keshav Garg - Analyst, Counter Cyclical PMS
So basically if we see last year after 26 other expenses in annual report, trade receivables return of is around INR26 crore, okay? and this is by and large and INR24 crore we are provisioning for bad debts in the cashflow statement

Pankaj Khandelwal - President and Chief Financial Officer, CMS Info Systems Limited
Sorry, say again.

Keshav Garg - Analyst, Counter Cyclical PMS
See, what I'm trying to say that if you look at your cash flow statement of FY26, then you can see that there is a provision for impairment for doubtful, uh, receivables and bad debts written off of INR24 crore, right? This is for FY26. Now in FY26, other expenses under the same heading, you can get the same- by and large the same number. Trade receivable written off is INR26 crores, right, in other expenses. So my point is that when you are saying it is a non-cash expense and that is why you are adding it back in the cash flow statement to arriving at operating, uh, profit before working capital changes, My point is, when there is an actual outflow, then I mean it is no longer just a book entry; it's actual outflow.

Pankaj Khandelwal - President and Chief Financial Officer, CMS Info Systems Limited
But it is recorded that no, that the whatever the bad debts is happening, whatever the bad debts is happening, or I'm making I'm making that is out of. as against my provision, so that is accounting accounted on that basis.

Keshav Garg - Analyst, Counter Cyclical PMS
See, my point is that if every year twenty six.

Pankaj Khandelwal - President and Chief Financial Officer, CMS Info Systems Limited
[Foreign Speech] when you consider that there's two type items, whatever the provision I am making and whatever the bad debts I am doing, you have to net it off both.

Keshav Garg - Analyst, Counter Cyclical PMS
No see, that's my point that if every year there is an actual outflow of twenty six crore due to bad debts written off. So it's not that we are just provisioning for it and it is not materializing. There is the actual outgo, you see. Then it stops, uh, stops becoming a one-time item, you see. If it's a one-time, uh, INR26 crore, uh, bad debt, then it makes sense to add it back to arrive at the operating profit. But if it is a recurring number it's a regular expense item, then probably it is not prudent to keep on writing it back on the- in the cash flow statement to arrive at the operating profit before working capital changes.

I hope I'm making sense to you.

Pankaj Khandelwal - President and Chief Financial Officer, CMS Info Systems Limited
Whatever we are showing is net of- net of the- whatever we are adding in the cash flow is net of only the provision part.

Keshav Garg - Analyst, Counter Cyclical PMS
Okay, so let

Pankaj Khandelwal - President and Chief Financial Officer, CMS Info Systems Limited
Me see my other expenditure. Other expenditure have two line items and net amount is being shown. Other the other expenditure have two line items, different two line items. So let

Keshav Garg - Analyst, Counter Cyclical PMS
Me rephrase this. Why are we basically provisioning such a high amount? INR24 crore in FY26 and.

INR37 crore in FY25 for bad debt and, uh, provision written off.

Pankaj Khandelwal - President and Chief Financial Officer, CMS Info Systems Limited
So that is, that is the basically the business what we are doing. That is that we are right now, we are doing the business of the risk management and we have to provide based on the ECL provisioning. As I explained in my earlier, uh, person that we are, we are, we are making the provision for that like based on the ECL like What is the likelihood to be amount which, we may not able to receive, and based on that we provide for that. And after that, the reconciliation with the customer takes longer time as we handle around INR14 lakh crore.

The reconciliation takes longer time, and when it close, then we accept the deduction, and which will, which will, which will provide as a bad debts. However, we provide for the cash shortages claim provision.

So

Against that we adjusted and net amount is been shored. I

Rajiv Kaul - Executive Vice Chairman and Chief Executive Officer, CMS Info Systems Limited
Think, I will, let me try and give you a little higher level view of this. We have, I think, explain this in a arrears years. This are, you know, there is a risk cost of doing this business So actually, I'm sorry, we are not able to really understand your question better, and I'm happy to have our team sit with you and explain this to you or understand your point of view separately. I would recommend we move to the next call and maybe come back to you later again at the end of the call to see if we can understand that differently.

Keshav Garg - Analyst, Counter Cyclical PMS
Yeah, our

Pankaj Khandelwal - President and Chief Financial Officer, CMS Info Systems Limited
IR team, we will get back to you.

Keshav Garg - Analyst, Counter Cyclical PMS
Okay, I'll do that. Thank you. And my second question is that

Operator
Sorry to interrupt you, Mr.

Garg, but please rejoin the queue for follow-up. The next question is from the line of Akhilesh from Northstar. Please proceed.

Akhilesh - Analyst, Northstar
Hi, thank you for the opportunity. I hope I'm audible.

Operator
Yes.

Akhilesh - Analyst, Northstar
Yeah, uh, sir, can you guide us on what will be the absolute number on depreciation in FY28 and FY29? Without us doing any new acquisitions?

Rajiv Kaul - Executive Vice Chairman and Chief Executive Officer, CMS Info Systems Limited
We can try and calculate it. I mean, uh, I think we- give us a minute. You have any other question?

Akhilesh - Analyst, Northstar
Uh, yeah, also we changed the useful life of our machines, I think, from seven years to 10 years as a policy in the annual report. Can you also quantify the impact that has had in terms of depreciation in Q2, or on a full year basis, how much are we saving on depreciation due to this policy?

Rajiv Kaul - Executive Vice Chairman and Chief Executive Officer, CMS Info Systems Limited
I think the deficit change was last year, not this Q2. That was done last year. From what I have, Pankaj can confirm, but that was done last year itself. That

Pankaj Khandelwal - President and Chief Financial Officer, CMS Info Systems Limited
Was in FY26, in Q2 or Q3?

Rajiv Kaul - Executive Vice Chairman and Chief Executive Officer, CMS Info Systems Limited
Q2, Q3 last year.

Pankaj Khandelwal - President and Chief Financial Officer, CMS Info Systems Limited
Q2, Q3 of the last year.

Rajiv Kaul - Executive Vice Chairman and Chief Executive Officer, CMS Info Systems Limited
So there's no new incremental change because of that in this quarter?

Akhilesh - Analyst, Northstar
Yeah, it's not in this quarter, but, uh, on a quarterly basis, how much has that affected us? That's what I'm trying to understand. We'll calculate and

Come back to you. And I think from a FY28 depreciation, I mean, uh, I don't know if you have-

Pankaj Khandelwal - President and Chief Financial Officer, CMS Info Systems Limited
We have a- as we discussed in this call also, that there is a peak depreciation which we see because we have acquired this company, uh, FSS Uh, due on the 1st April itself. And our capex is reducing. Last year we have done a capex of close to INR350 crore approximately, and this year capex we are guiding for around INR100 crore to INR125 crore. So this is a- this we believe should be the peak, uh, depreciation, uh, during this period.

Rajiv Kaul - Executive Vice Chairman and Chief Executive Officer, CMS Info Systems Limited
Roughly, you want to talk about- do you take the INR125 crore depreciation- or sorry, capex of this year, you percent over a period of-

Pankaj Khandelwal - President and Chief Financial Officer, CMS Info Systems Limited
Some part will already be depreciated for the which we have done past. So it is, so it is a peak depreciation, should be closer to the peak depreciation. So, uh, 5% plus minus depreciation, what you will-

Rajiv Kaul - Executive Vice Chairman and Chief Executive Officer, CMS Info Systems Limited
So I think our team thinks it's going to be closer to a INR300 crore depreciation next year. But again, I'm sorry, this is a question which we can come back and answer to you next time.

Pankaj Khandelwal - President and Chief Financial Officer, CMS Info Systems Limited
INR146 crore, right, this quarter. So this quarter, this, H1 was INR146 crore. So similarly, that I am saying that 5% plus minus you can assume for next year as well.

Rajiv Kaul - Executive Vice Chairman and Chief Executive Officer, CMS Info Systems Limited
Yeah, so 145 into two, INR290 crore, so about INR300 crore roughly is what you can think about.

Akhilesh - Analyst, Northstar
Yeah. And, uh, so a couple of other questions. One was, now HAWKAI has hit, or the tech vertical has hit ARR of INR500 crores. So what's next for this vertical according to you in FY28-'29? And second one was on capital allocation. So we have mentioned that we'll return cash beyond the needs of 12 to 18 months. So is there any acquisition which is looking very imminent to you in the next 12 to 18 months, uh, or what would be the plan with the cash we have accumulated?

Rajiv Kaul - Executive Vice Chairman and Chief Executive Officer, CMS Info Systems Limited
So I think this is something which we review and discuss, but this is a better question for end of fiscal years, uh, not like every quarter. There is- we have been paying fairly regular dividends. I think that will continue. We did a buyback earlier in the year. Are there acquisition company targets we keep evaluating? Absolutely. Is there something which we can talk to you about today? No. Coming to technology and the HAWKAI segment, we are evaluating- first, I mean, there's the business. That business has grown on at a fairly rapid pace that consumes a lot of effort and energy and investment.

We always are looking at newer sectors to start building our stack and try. I think as a team we generally would like to wait to have those wins and then talk about and not sort of forewarn you or forewarn others about the sectors which we're trying to build our stack in. We've had interest broadly on the technology and payments infrastructure space, we've talked about it. We have looked at companies in that space before. If and when we can find something at a price point and valuation which sort of meets our risk-return guidelines, we would then look at, look at transacting on that for expanded growth of that sector.

So HAWKAI again could have acquisition opportunities for newer sectors to expand into new sectors. And broader in the technology solutions side, Uh, we continue to look for companies in India which are doing work around the payments infrastructure side.

Pankaj Khandelwal - President and Chief Financial Officer, CMS Info Systems Limited
Okay, more clarification that you have asked for, uh, the impact of the change in the life of the assets last year. So if you go through our balance sheet at page number 168, which shows that the impact of Change in the life is INR4.7 crore.

Akhilesh - Analyst, Northstar
That depreciation impact, or is it for the whole year? Total,

Pankaj Khandelwal - President and Chief Financial Officer, CMS Info Systems Limited
Total, impact INR4.7 crore. Page 168 of the annual account, annual report last year.

Akhilesh - Analyst, Northstar
Okay, thank you for the opportunity.

Operator
Thank you. Thank you. The next question is from the line of Mananthu Shivam Prasad, an individual investor. Please proceed. As there is no response, I'm taking the next question from the line of Akshat Shetty, an individual investor. Please proceed.

Akshat Shetty - Individual Investor
Hi sir, good afternoon. Uh, my first concern is on EBITDA margin. I see the margin has improved from around 24% in first part- first half of '26% to 27% in first half of '27. But I also noticed that the lease payment have also increased from INR32 crores in first half of '26 to approximately INR54 crores in first half of '27. Also, there is an ESOP-related expenses of around INR9 crores in first half of '27 compared to only just INR1 crore in the first half of '26. So on my rough math calculation, sir, after adjusting for these two, the margin is about 22% in the first half of '27 Against the 21.5% in first half of '26.

So sir, uh, I just wanted to understand how much of this margin improvement is coming from actual operating efficiency and how much is due to accounting or lease-related movements.

Pankaj Khandelwal - President and Chief Financial Officer, CMS Info Systems Limited
So the business what we are in is integrated contract what we take, including the BLA contracts or the contracts wherein the lease accounting, etc., to be made. We are doing the lease accounting basis the accounting standard this year. As we explained that in H1, there is a substantial disruption because of the currency supply which has resulted in decline in our revenue as well as the profitability. That has resulted in somewhat reduction in our profit or EBITDA. However, you can calculate the accounting this basis because this year we have acquired the company called FSS where there is a lot of businesses related to that where the integration is taking place.

Once that is stabilized, it will further improve. So what we calculate is EBITDA Which is after considering all this aspect, and after that we have an EBIT as well as we have the- we are also declaring the PAT for that.

Akshat Shetty - Individual Investor
Okay, but any idea how much is coming from actual operational efficiency? Say total from total EBITDA amount, uh, what, percent is coming from Operational efficiency, if you give some rough idea.

Pankaj Khandelwal - President and Chief Financial Officer, CMS Info Systems Limited
These are operational. Say, all these leases are not- these leases are part and parcel of the business. So it is not that these are not operational. These are the operational things. So even if you want to calculate after the lease, you can calculate that number also. Even that number is also improved significantly. Even after there is a significant impact in our particular that type of business. But that, number, as you also explained, there is a substantial improvement in the EBITDA in H1 of last year, this H1 of this year as well, on that basis as well.

Akshat Shetty - Individual Investor
Okay, got it, got it. Okay, so my second question is related to expenses, acquisition and customer loan only. So, uh, I wanted to understand its loan given to a customer. The outstanding loan was around INR58 crores in March 2026 and has increased to approximately INR64 crores in September 2026. And during the first half of '27, I can see that around INR18 crores was disbursed and approximately INR12 crore was repaid. So in the same- is this the same customer who also has

outstanding trade receivable CMS, and are the regular payments and the loan repayments- sorry to interrupt you,

Operator
Mr. Akshat, but due to time constraints, that was the last question for today.

Sooraj Nair - Analyst, Acuitas Capital
I know.

Okay,

Pankaj Khandelwal - President and Chief Financial Officer, CMS Info Systems Limited
Please let us complete the question. Say this is the same customer as we, uh, explained in, uh, 2-3 calls back, that the customer, whatever the outstanding or due amount as on 31st March was, uh, was considered as a customer loan given to customer. Apart from that, after that 18 crore was, uh, which was already due, which was already outstanding on 31st March, which become due in the first quarter of FY27 was 18 crore rupees. So 58 was the last year number, 18 crore rupees is the this year, which was already there in the 31st March, I added that.

So 58 plus 18, or 57 plus 18, which becomes 20- 75, out of which they already paid me 12 crore rupees. So net outstanding is INR63 crore or INR64 crore rupees. Same, customer.

Akshat Shetty - Individual Investor
Okay, got it. Okay, got it, got it.

Operator
Thank you. Ladies and gentlemen, due to time constraints, that was the last question for today. I now hand the conference over to the management for closing comments.

Anush Raghavan - Chief Business Officer, CMS Info Systems Limited
Thank you everybody for your participation on the call and the questions that were asked, especially considering it's a Saturday afternoon. I know some of you may have further questions. You are welcome to reach out to our IR team for a follow-up and we'll try our best to answer to those questions. Thank you once again.

Operator
[Operator Closing Remarks]