ANALYSIS - RADIANT CASH MANAGEMENT

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RISKS/DOWNSIDE & SCOPE OF INVESTMENT ANALYSIS:

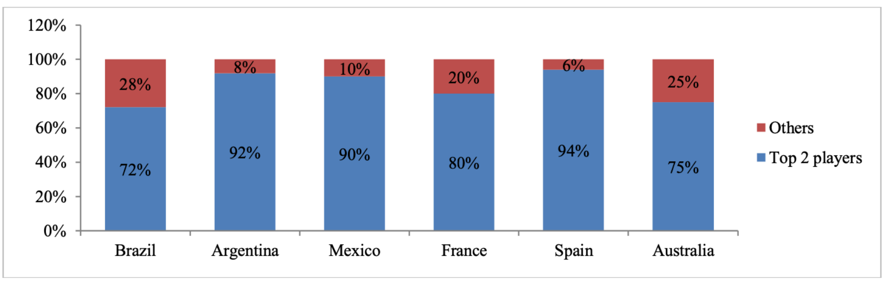
- **Not cheap or market inefficiency** - Market Cap: Revenue: 392Cr (P/S=2) Net Profits: 45Cr (P/E=18) Total Assets: 315Cr Total Net-worth: 253Cr (P/B=3.2).
- **Not a short term workout** - no value unlocking in terms of announced special situations or share swaps or hidden assets going into liquidation that can result in a good spread or payout on the current price/ share.
- **No short term catalyst** in form of a potential spike in price of services offered given long term contracts with customers upto 3 years[1].
- **Limited to no scope of margin expansion** given relatively stable industry with fixed operating costs per delivery vehicle from providing cash logistics services.
- **No sudden chance of gain in market share** due to troubled competitors.
- **But, it has a naturally oligapolistic market**(given restrictions with RBI and the larger players always getting larger volume from the concentrated customer industry than smaller players, and can be a better industry to be in given the service based nature of the business.
- **Hence, the scope of analysis is** : To see if the business has a predictable and favourable 4+ years of quality economics to justify the price per share being paid for the business today.

INDUSTRY ECONOMICS:

The industry at core is a cash logistics industry, which instead of transporting goods or packages deals in the transportation of cash. In terms of its core economics, there is a customer concentration - the clients are a limited number of large and intelligent banks as well as large and cheap retailers who understand the need to decentralise and outsource their cash management operations. Given the customers are large and concentrated and have high volume transportation needs, they prefer to deal with scaled players with good track record good track record of service and regulatory compliances over smaller players. Hence the large players in the industry also enjoy a supplier concentration and are protected from the threat of small entrants. Further, the regulatory requirements like need to have 100Cr net worth, at least 300 specially fabricated and RBI compliant cash vans and 2 armed guards per van can deter newer entrants. So, it is a leaders take all market evident from the figures below:

Consolidation resulting in the Reduction of the number of Market Participants

Exhibit 56: Consolidation in Global Cash Management Market (%), FY 2020



Source: Industry Reports, Frost & Sullivan, Secondary Sources

Cash management business is relatively new in Indian. Globally, the market leaders are - Brinks(since 1859), Loomis(1918) & Prosegur Cash(1976) have been the some of the global market leaders[2]. But all that historic development and consolidation in those businesses has resulted in substandard returns on capital employed and a mediocre 7-10% net margin in most cases suggesting the competitive intensity in the industry globally as seen below:

[1] DRHP Pg 185

[2] DRHP Pg 116

Exhibit 42: Cash Management Competitive Landscape, CY 2020

Company Name	Employees	ATMs Served	Cash Vans	Revenues	EBITDA	PAT	ROCE
Loomis	23,000	80,000		SEK 18813 MN/ USD 2188 MN	SEK 3645MN/ USD 423.9 MN	SEK 716 MN/ USD 83.3 MN	7.6%
Prosegur Cash	45,000	100,000	10,000	EUR 1508 MN/ USD 1795 MN	EUR 272 MN/ USD 323.8 MN	EUR 16 MN/ USD 19.0 MN	13.3%
Brinks	76,500	130,000	16,300	USD 3691 MN	USD 566 MN	USD 17.0 MN	7.4%
Garda	122,000		3,100	Canadian Dollars 990 MN/ USD 795 MN	NA	NA	NA
Alsok		73,000		460.118 Billion Yen/ USD 4.18 Billion	53.5 Billion YEN/ USD 485.6 MN	24.2 Billion YEN/ USD 219.3 MN	11.7%
G4S Plc	533,000			6960 Pound MN/ USD 9605 MN	532 Pound MN/ USD 734 MN	161 Pound MN/ USD 222 MN	12.5%

Note: 1) The following exchange rates were used to convert currencies to USD
1 SEK = 0.116 USD, 1 EUR = 1.19 USD, 1 YEN = 0.009 USD, 1 Pound = 1.38 USD, 1 INR = 0.0135 USD
2) All financial values are indicative of the respective company's overall financial performance and includes all business /segmental units.

Source: Annual Reports of respective companies

In India, as per FY21 estimates is Rs 2780Cr having grown from 1000Cr in FY10. The the industry has three key segments -

1 - ATM cash management(52% of market in FY21) - It involves the collection, administration, and replenishment of cash in ATMs which is outsourced by the banks. This makes banks the biggest customers of the industry.

2 - Retail Cash Management (24% of market in FY21) - Big retailers like D-mart, restaurant chains, malls and pharmacies or other larger consolidated retail players make the key customers in this segment where the cash management companies act as intermediaries between the retailers and their banks. Only 10% is organised retail in India and about 15% of those players use the cash management services representing. CMS, Radiant, and Writer Safeguard (WSG) dominate the Retail Cash Management market, accounting for more than 75% of the total market share.[3]

3 - Dedicated Cash-in-Transit Vans (24% of market in FY21)— This segment deals with movement of cash, coins and other valuable items between bank branches, currency chests of banks & RBI including intercity and inter-branch operations. With respect to DCVs, compliant vans have a higher realisation rate per van per month which seems logical as they would move between fewer checkpoints and carry larger volumes per van.

At least in the listed space, CMS is the largest whose FY21 revenue was 1306Cr giving it about 50% of the cash management business market share if above estimates are right.

Exhibit 54: Competitive Landscape – Comparison of Top Players (as of July 31, 2021)

Company	Total Workforce	ATM Cash Management (# of ATMs)	Retail Touch Points (RCM)	RCV (# of vaults s)	DCV (# of vans)
CMS Info Systems Ltd.	20,000	63,000	40,000	400	900
Securevalue India Limited	8,716	47,569	Data Not Available	45 locations	232
Writer Safeguard Private Limited	8,000+	18,000	12,000	60+	Not Applicable
SIS Prosegur Holdings Private Limited	Data Not Available	14,000	5,000	59	1,000
Brinks India Private Limited	7,000	<5000	Data Not Available	Data Not Available	Not Applicable
Radiant Cash Management Services Limited	9,300+	Not Applicable	42,420	55	694

Source: Frost & Sullivan, Company Websites, Industry and Secondary Sources

Exhibit 55: Competitive Landscape

	CMS Info Systems Ltd	Radiant Cash Management Services Limited	Securevalue India Limited	Writer Safeguard Private Limited	SIS Prosegur Holdings Private Limited	Brinks India Private Limited
Headquarters	Mumbai	Chennai	Mumbai	Mumbai	Delhi	Mumbai
Key Area of Focus within Cash Management	Presence across ATM cash management, RCM, DCV and Managed Services	Key focus on RCM and DCV	Key focus on ATM cash management with limited presence in RCM and DCV	Mostly focused on ATM cash management and RCM.	Key focus on ATM cash management and DCV. Limited presence in RCM	Presence across all segments with increasing focus on RCM

Source: Frost & Sullivan, Company Reports, Secondary Sources

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[3] DRHP - 119

COMPANY ANALYSIS:
Business Model & Financials:
The key clients of the company are major banks like Axis, Citibank, HDFC, ICICI, Kotak, Yes Bank while the exact concentration is not known. The business model as explained by the promoter Col. David Devasahayam in an interview[4] is to transportation of cash between retailers and banks as per the client bank agreements. The service may additionally include cash processing and overnight vaulting. Cash and valuables are delivered on behalf of retailers or private businesses, either to be deposited in a bank or to be distributed among the retailer's or bank's various branches. They doesn't focus on money coming from RBI to bank chests to ATM machines and to customers. Rather focus is on cash coming from retail outlets(e-commerce, retail chains, restaurants, petrol stations, pharmacies) that is put it in sealed bags delivered directly to the banks or first verified and counted before delivering to the bank.

Common Size:	FY19	FY20	FY21	FY22	FY23	FY24	Median
Revenue	221	248	222	286	355	392	100%
Employee cost	20.4%	18.1%	17.6%	17.5%	16.9%	18.9%	17.9%
Service Charge - cash execec on contract	27.1%	28.2%	23.9%	26.2%	25.6%	25.5%	25.9%
Contract Charges - Guards & Drivers	7.2%	7.3%	8.1%	7.7%	8.5%	10.2%	7.9%
Contract Charges - Contract Vans	3.2%	4.4%	5.9%	5.9%	5.6%	7.7%	5.7%
Other rent - vehicle, building, computers	8.6%	5.6%	8.1%	7.3%	6.2%	5.6%	6.8%
Bank Charges	6.3%	5.6%	6.3%	6.6%	5.1%	4.8%	6.0%
Other expenses	9.0%	8.5%	7.7%	8.0%	7.0%	9.7%	8.3%
EBITDA	**18.1%**	**22.2%**	**22.5%**	**20.6%**	**25.1%**	**17.6%**	**21.4%**
Depreciation	1.4%	0.8%	1.4%	1.0%	1.1%	1.7%	1.2%
EBIT	**16.7%**	**21.4%**	**21.2%**	**19.6%**	**23.9%**	**15.9%**	**20.4%**
Interest	0.9%	1.2%	0.9%	1.4%	0.3%	0.3%	0.9%
PBT	**15.8%**	**20.2%**	**20.3%**	**18.2%**	**23.7%**	**15.6%**	**19.2%**
Tax rate	31.4%	28.0%	28.9%	26.9%	26.2%	26.2%	27.5%
PAT	**10.9%**	**14.5%**	**14.4%**	**13.3%**	**17.5%**	**11.5%**	**13.9%**

Thinking through the unit economics, from the common size statements, on a median basis, their fixed costs such as cash executives on contract; contract charges for guards, drivers and rental vans; other employee costs; and other logistics-related expenses, form a significant portion of their costs which are largely fixed per van throughout the year as evident from their steady EBIT margins over the years except FY24 given pricing pressures.

If volumes were lower in a year and they did not have a fixed fee model they would be in trouble. Hence, since major of their business comes from Cash & Carry or retail market, they have a fixed costs model for that segment. While for network cash management where the volumes are relatively stable they have a volume based pricing model which is not that big part of their business as seen below:

Revenue Segments:	FY19	FY20	FY21	FY22	FY23	FY24
Cash & Carry	62%	67%	67%	67%	69%	66%
Network Cash Management	23%	23%	22%	22%	18%	19%
Others	15%	10%	11%	11%	13%	15%

They also lease their vans and real estate tying very less capital to the business. As we can see the reserves added to the business have largely financed the cash on the books for the company over the years:

Balance Sheet	FY19	FY20	FY21	FY22	FY23	FY24
Share Capital	1.1	1.1	1.1	10.1	10.7	10.7
Reserves	105	118	126	130	220	242
Equity	**106**	**119**	**127**	**140**	**231**	**253**
LTB	0	2	1	1	1	0
Lease Liabilities	0	0	2	1	0	6
STB	18	19	10	26	27	26
Payables	0	1	3	1	1	2
Other current	17	16	19	20	19	29
Total Equities & Liabilities	**141**	**157**	**162**	**190**	**279**	**315**
PPE	5	7	10	13	13	34
CWIP	0	0	0	0	2	2
Investments	33	28	0	4	8	7
Other non current	9	6	9	4	3	16
Receivables	53	54	70	79	70	77
CCE	30	50	67	79	171	168
Other current Assets	11	12	7	11	12	11
Total Assets	**140**	**157**	**162**	**190**	**279**	**315**

[4] https://www.youtube.com/watch?v=wL64vOmz-7M

On a unit economics level, from the data that is available, the business has steady needs per van and on average needs 3 employees with a salary of 2-3 lakhs each/annum, 8 cash executives making 1L each/annum, a driver and two guards per van which has a rental cost of about 3L/year. Also the total number of cash vans have grown at a CAGR of 7% annually with revenue per van increasing at 5% annually resulting in an annual increase in sales by 12% from FY19-24.

Unit Economics	FY19	FY20	FY21	FY22	FY23	FY24	
Sales	221	248	222	286	355	392	12%
# - Cash executives	5758	6391	6053		7125	7383	
# - Employees	1642	1787	1660		2174	2504	
# - Cash vans	615	629	694	739	840	870	7%
Revenue per van(Lakhs) per year	36	39	32	39	42	45	5%
Average employees per van	3	3	2		3	3	
Average cash executives per van	9	10	9		8	8	
Cash Exec salary(Lakhs)	1.0	1.1	0.9		1.3	1.4	5%
Average employee salary(Lakhs)	2.7	2.5	2.3		2.8	3.0	2%
Contract rent per van(Lakhs)	1	2	2	2	2	3	25%
Per Van Model(Figures in Lakhs)							**Median**
Revenue	36	39	32		42	45	5%
Employee cost(3/van)	7	7	6		7	9	3%
Cash executives service charges(8/van)	10	11	8		11	11	3%
Contract Charges Guards & Drivers(3/van)	3	3	3		4	5	12%
Vehicle Rent	1	2	2		2	3	25%
Other Charges	9	9	8		8	10	1%
PBT	6	8	6		10	7	

In terms of the key ratios, the company has been efficient in their cash conversion implying good quality of earnings and are able to generate free cash given its business model. They also have been debt free over the years as evident from the figures below:

Solvency Ratios:	FY19	FY20	FY21	FY22	FY23	FY24	Median
Gross Debt to Equity (x)	0.2	0.2	0.1	0.2	0.1	0.1	0.1
Net Debt to Equity (x)	-0.1	-0.2	-0.4	-0.4	-0.6	-0.6	-0.4
Interest coverage ratio	11.2	12.3	11.8	15.1	23.0	13.6	12.9
Cash Flow Ratios:	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**Median**
FCF to PAT	88%	147%	99%	108%	144%	83%	1.0
FCF to Sales	10%	21%	14%	14%	25%	10%	0.1
CFO to PAT	1.12	0.86	0.84	0.82	1.19	0.88	0.9

Management Judgements:
Related party transactions are about 20% of sales on a median basis. Assuming a 10% margin, there might be an unfair redundancy to the minority shareholders of around 2% of sales through their related party entities.
Also, reading through the annual report, DRHP, I felt that investors are being reported rosier narratives and KPIs. For example, I think there were a few key variables that were somewhat misleading than what really makes sense. Basically, the business is about moving cash, it is a volumes game and not a value game. All that matters is that the pieces of paper I am transporting is increasing not the denomination of each note. I might circulate just 50 rupee notes per van but still make good money if volume is large enough on a fixed fee model. So, reporting the cash in circulation or cash delivered per van in rupees is somewhat of a misleading metrics for a logistics company. A better metric I think would be realisation per van-mile or just realisation per mile which essentially would mean minimisation of total distance covered collectively by the fleet and making choices to avoid routes where the volumes or touchpoint per route don't maximise the realisation for the business relative to competitors while aiming to keep the cost per van-mile at minimum.

Competitors:
The key competitor in the listed space is CMS Info System Ltd. On the peer comparison table as seen below, since 2019 CMS sales growth has doubled i.e 13% CAGR somewhat similar to Radiant 12% CAGR over the same period. The ROEs are not comparable as the margins, asset turns and equity multiplier will have to be adjusted on the basis of the cash vans that are not there on the books of Radiant but instead on the books of their related party entity. Also, Radiant is about 1/6th the size of CMS. As industry consolidates larger volumes to the larger players, an every increasing volume will be given to CMS given their position. This

already seems to be the case as they have cornered the bigger part of market which is the ATM segment while having their dominance in retail segment as well.

Competitor	FY22	FY23	FY24
CMS InfoSystem			
Revenue Growth		20%	18%
Revenue	1590	1915	2265
PAT Margins	14%	15%	17%
Asset turnover	0.8	0.9	1.0
Equity Multiplier	1.5	1.4	1.2
ROE	17%	18%	19%
Radiant Cash			
Revenue Growth		24%	10%
Revenue	286	355	392
PAT Margins	13%	17%	12%
Asset turnover	1.5	1.3	1.2
Equity Multiplier	1.4	1.2	1.2
ROE	27%	27%	18%

RISKS:

Price Wars: Given the threat of cornering of market by CMS further, players like Radiant are already facing price pressures[5] as evident from their numbers and recent conference calls that can affect the economics of the business in next 5 years. Also they have mentioned a shift from fixed fee model to a volume based pricing model indicative of the competitive intensity between the players which is also evident from the increases in operating expenses to an all time high in FY24 relative to their five year median as seen below:

Expense Ratio	FY19	FY20	FY21	FY22	FY23	FY24	5 yr Median
Operating Costs	81.9%	77.8%	77.5%	79.4%	74.9%	82.4%	77.8%

The predictability of behaviour of the players is not as clear as a Google Apple deal resulting in win-win scenarios. Focus on costs and price competition can blind the industry from the oligopolistic nature that it enjoys relative to other industry resulting in win-loose scenarios. Therefore, odds of margin stability or oligopolistic co-operation among players in next 4-5 years seem low given their focus on price wars which is evident from the trend of declining margins and changes in the pricing model in recent years. This is following the pattern of the price wars that has happened in other places like Australia[6]. And the odds of margin increases due to reducing costs seem low given ever increasing pressure from employees to increase their salaries annually while having 3 year contracts with customers.

Cash Volume:
As per RBI data, notes in circulation/volume of cash in economy has grown at a rate of 6% over past 12 years while the GDP grew at a similar rate.

RBI - Notes in Circulation	FY12	FY16	FY20	FY24	12yr CAGR
Volume - notes in circulation(Trillions)	0.70	0.90	1.16	1.47	6%
GDP - India(in USD)	1.83	2.30	2.67	3.60	6%

Assuming a 6% growth rate in economy going forward and a 4% inflation rate in terms of price increases for the service by the cash management players to cover inflationary costs, the largest players should technically grow at an conservative estimate of 10% annually or 14% in a best case scenario given the industry is consolidating in the hands of the larger players. That is not the growth rate that can be assumed for smaller players like radiant cash. Along with threats of digital payments and what has happened in China in terms of usage of cash, for smaller players a 10% estimate might still be a stretch over next 5-10 years.

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5 Con calls FY24

6 Price war news article - Prosegur & Armaguard

Opaque Players: The players like Writers Safeguard, Secure Valve and Prosegur might already be eyeing for the second or third spot. Being private and opaque, the size of such players becomes a very important consideration to the survivability of Radiant cash 5 or 10 years out, maybe data from MCA sources might give a good estimate to their sizes if available.

CONCLUSION & VALUATION:

Coming back to the scope of the analysis, over next five years, the economics of the business therefore seems to be in a tough spot rather than a bright one. The scenario would have been much different if instead of aggressively competing with each other, the industry entered in win-win behaviour against their concentrated customer base which would be evident in steady margins across all the players. Given the above risks, given the 10% conservative growth assumption over next 5 or so years I think it is safe to say that on the current price the business seems to be a pass rather than an investment worthy candidate. There doesn't seem to be any margin of safety on the price considering the scope of our analysis.