

Pratik Prajapati
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Issue Details

Issue Details	
Issue Size (Value in Rs. million, Upper Band)	6,800
Fresh Issue (No. of Shares in Lakhs)	Nil
Offer for Sale (No. of Shares in Lakhs)	388.57
Bid/Issue opens on	19-Jan-22
Bid/Issue closes on	21-Jan-22
Face Value	Rs. 10
Price Band	166-175
Minimum Lot	85

Objects of the Issue

Offer for Sale: ₹ 6,800 Million

- The company will not receive any proceeds from the Offer for Sale.

The Fresh Issue: Nil

Book Running Lead Managers	
ICICI Securities Limited	
HDFC Bank Limited	
JM Financial Limited	
Registrar to the Offer	
Link Intime India Private Limited	

Capital Structure ((₹ Million)	Aggregate Value
Authorized share capital	1600.00
Subscribed paid up capital (Pre-Offer)	1203.93
Paid up capital (Post - Offer)	1203.93

Share Holding Pattern %	Pre-Issue	Post Issue
Promoters & Promoter group	98.2	66.1
Public	1.8	33.9
Total	100.0	100.0

Financials

Particulars (Rs. In Million)	5M-FY22	FY21	FY20	FY19
Revenue from operations	7,534.0	17,589.4	18,004.4	18,057.4
Operating expenses	5,682.4	13,203.9	13,380.7	13,807.6
EBITDA	1,851.6	4,385.5	4,623.8	4,249.9
Other Income	89.0	382.1	330.8	178.9
EBIDT	1,940.6	4,767.6	4,954.6	4,428.8
Interest	971.3	1,330.6	1,304.0	1,366.6
Depreciation	1,016.4	2,596.5	2,446.7	2,273.3
PBT	(47.1)	840.5	1,204.0	788.9
Tax	126.1	276.4	365.1	127.0
PAT	(173.1)	564.1	838.9	661.9
Minority/other adj.	(8.0)	(16.2)	(8.7)	-
Consolidated PAT	(181.1)	547.9	830.1	661.9
EPS	(1.5)	4.6	6.9	5.5
Ratio	5M-FY22	FY21	FY20	FY19
EBITDAM	23.9%	22.5%	18.4%	17.3%
PATM	13.5%	12.9%	9.7%	8.4%
Sales growth		-5.6%	20.7%	

Company Description

AGS Transact Technologies was one of the largest integrated omni-channel payment solutions providers in India in terms of providing digital and cash-based solutions to banks and corporate clients, as of March 31, 2021. They provide customised products and services comprising ATM and CRM outsourcing, cash management and digital payment solutions including merchant solutions, transaction processing services and mobile wallets. As of March 31, 2021, they were the second largest company in India in terms of (i) revenue from ATM managed services under the outsourcing model, and (ii) revenue from cash management and number of ATMs replenished. As of August 31, 2021, the company deployed 221,066 payment terminals and was one of the largest deployers of POS terminals at petroleum outlets in India, having rolled out IPS at more than 16,000 petroleum outlets with 28,986 terminals in India, as of March 31, 2021.

The company also pioneered IPS with OMC. For the five months ended August 31, 2021 and the financial years 2021, 2020 and 2019, they derived 95.9%, 95.6%, 95.5% and 96.1%, respectively, of its revenues from operations in India where its business started, although they have expanded internationally to offer automation and payment solutions to banks and financial institutions in other Asian countries comprising Sri Lanka, Singapore, Cambodia, Philippines and Indonesia. The total revenue from operations was ₹ 7,534.00 million, ₹17,589.44 million, ₹18,004.43 million and ₹18,057.42 million for the five months ended August 31, 2021 and the financial years 2021, 2020 and 2019, respectively.

AGS Transact started providing banking automation solutions in India in 2004. The company deployed products from international solution providers such as Diebold Nixdorf and established its own country-wide service infrastructure and automation solutions expertise to provide related services. Beginning in 2009, they leveraged its banking automation solutions expertise and service reach to offer ATM outsourcing and managed services by, among other things, entering into two cooperation agreements with Diebold Nixdorf for banking and retail products.

Valuation

AGS Transact has a diversified product portfolio and the majority of the revenues are contributed by banking automation solutions, which includes supply and installation of ATMs and other automated banking products. The Company is available at the upper end of the IPO price band, at 38.5x its FY21 earnings. The issue is priced at a P/BV of 3.7 based on its NAV of Rs 47.1, with a market cap of Rs.21,069 million, which we believe is quite reasonable.

The diversified product portfolio, Customer Base and Revenue Streams Leading to Cross-Selling Opportunities for the company. However, the company's business is dependent on their Banking partners. The company also has threats from new fintech companies undertaken by newage digital Payment system viz micro-ATM, Aadhaar Enabled Payment System (AePS), UPI etc. While evaluating on the financial front at the upper end of the IPO price band the valuation seems to be reasonable, factoring all the above Scenarios, we assign **"Subscribe-Long Term"** rating to this IPO.

As part of their strategy to strengthen its presence in the cash value chain, offer an integrated payments platform and improve their operational efficiencies, the company commenced offering transaction switching services in 2011 and cash management services in 2012. In 2014, they expanded its offerings into digital payment solutions, enhancing its integrated digital platform and Software-as-a-Service ("SaaS") capabilities. In 2016, they also entered into an alliance with ACI Worldwide ("ACI"), a leading international payments solution provider, which has further strengthened their value proposition to customers.

AGS Transact operate its business in the following segments:

- ❖ Payment Solutions;
- ❖ Banking Automation Solutions; and
- ❖ Other Automation Solutions (for customers in the retail, petroleum and colour sectors).

The Payment Solutions segment comprises ATM and CRM outsourcing and managed services, cash management services, iCDs, digital payment services which include toll and transit solutions, Fastlane, transaction switching services, services through POS machines and agency banking. The company customers in the Payment Solutions segment include ICICI Bank Limited, Axis Bank Limited, HDFC Bank Limited and Federal Bank Limited.

In ATM and CRM outsourcing and managed services businesses, they are responsible for the end-to-end management of ATMs and CRMs, starting from site identification and development, followed by machine deployment, maintenance and management on behalf of its customers. While they own the ATMs and CRMs in its outsourcing services business, ownership of ATMs and CRMs remains with the customers themselves under their managed services business. As of August 31, 2021, the portfolio consisted of 14,099 ATMs and CRMs under its outsourcing business and 19,161 ATMs and CRMs under its managed services business in India. They also provide outsourcing solutions for 1,273 ATM and kiosks in Sri Lanka, as of August 31, 2021.

The cash management services of its subsidiary, SVIL, build on its ATM outsourcing and managed services businesses, and include cash replenishment, cash pick-up, cash-in-transit ("CIT"), cash vaulting and cash processing services for ATMs managed by them and by other operators. As of August 31, 2021, AGS provided cash management services to 46,214 ATMs through a fleet of 2,513 cash vans including 267 dedicated cash vans to banks, and 475 vaults and spoke locations, covering approximately 1,860 cities and towns in India. Their subsidiary, SVIL, was the second largest cash management company in India, in terms of revenue from cash management and number of ATMs replenished, as of March 31, 2021. The company has also implemented cassette swaps for its outsourcing services business. One of its major customers in cash management services is BTI India Payments Private Limited and Hitachi Payment Services Private Limited.

The following table sets out the revenue for the various business segments in which they operate for the periods indicated:

Segment	Financial Years			
	5M ended Aug 31, 2021	2021	2020	2019
Payment Solutions	5613.1	13505.8	13784.3	12778.2
Banking Automation Solutions	1040.9	1598.4	2108.7	2461.0
Other Automation Solutions	880.0	2485.3	2111.4	2818.3

To enhance its digital portfolio and address new market segments, AGS commenced its operations in merchant solutions. The merchant services include device-based and device-less payment solutions, 155 prepaid and loyalty programs, Cash@POS, payment gateway and remote payment solutions, loans against card receivables and other VAS. As of August 31, 2021, they had 180,993 merchants as clients. In a span of two years, they became one of the largest deployers of POS terminals at petroleum outlets in India. In particular, AGS focuses on serving the oil marketing industry, private and public sector banks and corporate merchants. Of its 221,066 POS terminals deployed with clients as of August 31, 2021, 183,985 terminals were located at retail and corporate outlets and 37,081 terminals were located at OMCs. For the five months ended August 31, 2021 and the financial years 2021, 2020 and 2019, the GTV transacted through their POS terminals at OMC retail outlets was ₹ 95,178 million, ₹133,656.32 million, ₹74,990.48 million and ₹25,376.78 million, respectively. The company has orders in hand from major OMCs including Hindustan Petroleum Corporation Limited ("HPCL") and Indian Oil Corporation Limited ("IOCL"). Other corporate customers for its digital portfolio include Dr. Lal Pathlabs Limited, Patanjali Ayurved Limited, Sunshine Teahouse Private Limited (Chaayos), RJ Corp Limited, VRIPL Retail Private Limited, Om Sweets, Lata Mangeshkar Medical Foundation and Organic India Private Limited.

In April 2021, to further enhance its digital capability and to leverage on the PPI authorisation issued to their subsidiary, ITSL, they started open loop Ongo prepaid card, which can be used by consumers to pay for transactions. AGS also provides transaction switching services, where they integrate a variety of payment channels, including internet payment gateways and several mobile payment systems, to route, switch and process electronic transactions even across non-banking segments. This gives them the ability to cater to the needs of banks, retailers, petrol stations and other financial institutions across the payment transactions value chain and to assist its customers in the issuance of new cards, migration of their existing card base and the authorization of cards. AGS in-house switch development software team also develops customized switching solutions for its customers.

Strengths:➤ **Omni-Channel Integrated Payment and Cash Solutions Provider**

AGS was one of the largest integrated omni-channel payment solutions providers in India in terms of providing digital and cash-based solutions to banks and corporate clients, as of March 31, 2021. They serve diverse industries such as banking, retail, petroleum, toll and transit, cash management and fintech in India and other select countries in Asia. The management believes that its services help increase the speed and accuracy of cash as well as digital payment transactions. In addition, the size and wide reach of its operational network enables them to realize economies of scale. As part of its digital payments solutions, AGS offers a payments platform, customized solutions and related managed services to cater for end-users, merchants, banks, bank agents as well as other ecosystem partners. The payment platform accepts payments through a broad spectrum of options including magnetic stripe, chip and pin, contactless, Bharat QR, Unified Payment Interface (“UPI”) and Aadhaar Pay, which they believe makes them a partner of choice for merchants. As part of their cash payments solutions business, AGS offers a portfolio of banking services and automated banking products, such as ATM and CRM outsourcing and managed services, manufacturing and deployment of ATMs and CRMs and self-service terminals. They also have the ability to customize, integrate, maintain and manage such products for its customers. AGS believes that their ability to provide services across the cash and digital value chain from transaction touch points, channel handlers, core processing, settlement and clearing, authorization systems and back office has allowed them to become the preferred partner for cash and digital payment solution needs of its customers.

➤ **Customer Driven Portfolio with Strong Capabilities to Develop Customized Solutions In-house**

AGS believes their experience and expertise, coupled with its knowledge of the industries in which their customers operate, enable them to provide them with customized solutions. They regularly interact with customers to understand their requirements and work closely to develop future roadmaps. The management believes that the success of this approach is evident in the comprehensive suite of merchant solutions which they have launched over the years such as mobile wallets, financial inclusion applications and agency banking software.

AGS has developed the following customized solutions in-house:

- ❖ Voice-guided ATM and CRM software and biometric-based solutions for its banking clients;
- ❖ Check deposit terminal application;
- ❖ Cash clearance and loading for CRMs;
- ❖ Novus TRANSACT Switch and Novo YOUPAY;
- ❖ A cloud-based software that drives its POS terminals and allows them to keep their merchants updated with the latest services and offerings;
- ❖ Ongo Prepaid and Ongo Rewards, which are loyalty programs offered to merchants for enhanced customer retention, additional revenue generation and new customer acquisition, and which can be tailored by them to meet their specific requirements;
- ❖ loyalty prepaid platforms for an oil company to support its fleet operators;
- ❖ iCDs to facilitate automated retail cash pick-ups in its cash management business;
- ❖ Solutions such as ‘Remote++’ to enable payment through a web link generated by a merchant;
- ❖ Pay track, a merchant analytics and engagement application that helps merchants to analyse business parameters relevant to their business; and
- ❖ VAS portfolio consisting of Cash@POS facility, Ongo Billing++ and loans against card receivables to cater to diverse merchant needs.

➤ **Diversified Product Portfolio, Customer Base and Revenue Streams Leading to Cross-Selling Opportunities**

The company derives revenues from a variety of products and services catering to customers across diverse industries such as banking, retail, petroleum and colour. In each of these industries, they offer a combination of automation solutions along with payment and maintenance services. The customers included approximately 50 banks and 180,993 merchants. AGS has also diversified into VAS, which include customer-facing services such as loyalty programmes, invoicing solutions and merchant credit. Further, they provide its Digiview surveillance solutions to various customers. They have also entered into a strategic agreement with RBL Bank Limited in relation to a proposal to provide an integrated prepaid card solution based on the National Common Mobility Card (“NCMC”) at Bangalore Metro Rail Corporation Limited stations, comprising the provision, acquisition and issuance of NCMC cards. By having a diversified product portfolio and customer base, AGS is able to capitalize on cross-selling opportunities, as its experience and knowledge allows them to develop integrated payment solutions and technology. In the petroleum sector, they are able to integrate their POS terminals into its fuel automation solutions, giving merchants access to their sales volumes and payment transaction data. Further, they leverage their cash management capabilities to offer cash pick-up services for its retail customers. AGS has expanded its business to Asia, namely, Sri Lanka, Singapore, Cambodia, Philippines and to Indonesia through a joint venture with PT Sumber Cipta Multiniaga and PT. Muria Kencana Indah. The management believes that their diversified product and services portfolio, customer base and revenue streams in multiple jurisdictions enable them to mitigate the concentration risks that are associated with operations in a specific segment, industry or geographic region, and present them with many cross-selling opportunities.

➤ **Long-Standing Relationships with Technology Providers and Customers**

AGS has long-standing relationships with leading global technology providers, such as Diebold Nixdorf and ACI. They have entered into a cooperation agreement with Diebold Nixdorf, under which they assemble ATMs in India. The management believes that its long-standing relationship with Diebold Nixdorf has led to effective knowledge sharing and the adoption of global best practices, thereby enabling them to improve and develop its in-house service capabilities. Together with ACI, they have launched a suite of solutions covering processing, and fraud monitoring and reconciliation. The strong relationship with technology providers has enhanced its market position and enabled them to be the leaders in the payment solutions industry. Further, AGS has established relationships with leading Indian financial institutions, such as ICICI Bank Limited, Axis Bank Limited, HDFC Bank Limited, Federal Bank Limited, Dhanlaxmi Bank Limited and RBL Bank Limited,

having procured repeat orders from them. In international operations, the contracts with its customers typically range for a period of three to five years. In addition, they work with leading retail chains such as More Retail Private Limited, colour companies such as Asian Paints Limited, Kansai Nerolac Paints Limited and Berger Paints India Limited, and petroleum companies, including IOCL and HPCL. They believe that the strength of its relationships with customers and the trust that they have built up from long-standing ties with them put them in an advantageous position for new business and cross-selling opportunities and enhances its market reputation.

➤ **Dedicated In-house Infrastructure and Technological Capabilities**

AGS dedicated in-house infrastructure, skills and capabilities have been critical to the growth of their business. The nationwide service infrastructure allows them to effectively and efficiently service its customers. As of August 31, 2021, they were servicing approximately 446,000 customer touch points covering approximately 2,200 cities and towns through its 34 branch offices, 475 vaults and spoke locations, and their work force of 12,935 personnel. The service infrastructure is a major business enabler for them across several cash and digital initiatives and allows them to leverage economies of scale by having one service team support multiple business units. The back-end switching platform allows them to offer a comprehensive ATM outsourcing solution, process transactions on behalf of banks and institutions, drive its POS network, issue prepaid instruments, and offer payment gateway service. The Company technology development team comprised 213 employees, and has developed and customized ATM client software and digital applications deployed by their clients, such as Axis Bank Limited's check deposit terminal application, Novus TRANSACT Switch and Novo YOUPAY, solutions such as QR Cash that enables withdrawal of cash from ATMs by scanning a QR code on the machine's screen, applications such as Cure to connect its helpdesk and engineers, and Monitum to monitor ATMs and various digital merchant solutions such as Fastlane and Paytrack.

Key Strategies:

➤ **Focus on Growing their Digital Payment Solutions Business**

The launch of new and innovative payment products, increased demand for cashless transactions due to the COVID-19 pandemic, increasing smartphone adoption, a growing need for faster payment modes and a strong push from the GoI and regulators towards adoption of digital channels have driven the increase in digital payments. To capitalize on this growth, AGS intends to leverage its existing presence in the consumer-oriented sectors to service the growing demand for products and services. All-in-one POS solution allows merchants to accept various modes of payment including card-based (debit and credit cards), RFID, Bharat QR and UPI online acceptance and biometric-based (Aadhar Pay). The deviceless portfolio comprises payment gateway and remote payment solutions, and AGS also offer customized mobile wallet solutions that can be integrated with existing payment solutions. The management believes that the combination of value added services that help merchants grow their business such as prepaid or loyalty programs and Cash@POS, and services that help simplify their operations such as the billing software and merchant analytics application.

➤ **Pivot from Payments-as-a-Service to Payments-as-a-Convenience through its Ongo Card and Ecosystem**

The company intends to grow its digital payments business by attracting more merchants and consumers to join its Ongo ecosystem. They aim to do this by pivoting from 'payment-as-a-service' to 'payment-as-a-convenience'. The Ongo ecosystem allows consumers to use one single payment system, Ongo, to make payments at POS terminals through various modes of payment including card-based (debit and credit cards), RFID, Bharat QR and UPI online acceptance. Merchants and consumers who initially use any of their Ongo applications benefit from the convenience of continuing to use Ongo for other services, without having to switch to other platforms or providers. Through its Ongo Prepaid platform, consumers only need to top up one central Ongo account to be able to use it for the various services covered by their Ongo ecosystem. AGS were among the first companies in India to launch QR-code based payments for various card schemes. They believe that by developing mobility-based payment solutions, which enables additional modes of making payments beside cash or card, they are able to develop customized payment solutions, including mobile wallet offerings for its customers. By offering 'payment-as-a-convenience' to consumers, the management believes that they will be able to tap into a variety of services and platforms and expand their revenue streams.

➤ **Focus on Enhancing their Integrated Technology Payments Platform**

AGS intends to leverage its product and services portfolio to provide additional customized payment solutions as well as develop integrated payments platforms for its customers. They have deployed automation solutions across various industries over the years and using their in-house expertise, they have the technical capability to offer its customers with integrated payments solutions linked to the existing solutions they have provided such as billing terminals. For instance, by leveraging their experience of automating fuel stations in India, AGS launched Fastlane as the first integrated RFID payment solution for fuel in India. They intend to offer additional customers with integrated payments solutions and believe that integrating various technology solutions provides them an edge over its competition as well as allows them to retain customers for multiple years. As they offer its existing POS solutions to new industries, they are able to rely on or extend its existing support infrastructure, while providing new or customized solutions. The company believes that by developing mobility-based payment solutions, which enables additional modes of making payments besides cash or card, they are able to develop customized payment solutions for its customers. Through its omni-channel payment processing platform, customers are able to accept payments in multiple ways. They believe this will enable them to grow its customer touch points, other service offerings and total revenue.

➤ **Focus on Cash Management Services**

AGS launched its cash management business through its subsidiary SVIL in 2012 with the objective of gaining better control over an important component of their ATM outsourcing and managed services business. Having gained scale and operational efficiencies in this business, they intend to grow this business further by leveraging its experience and other factors such as: the increasing trend of banks outsourcing their ATM operations and retailers outsourcing cash pick-ups to third parties. The expected increase in the number of ATMs in India due to various financial inclusion initiatives of the Indian Government, such as the PMJDY. The number of ATMs in India under

managed services is projected to increase from 217,000 as of March 31, 2022 to 232,000 ATMs by the financial year 2026. SVIL, being the only cash management company that has followed MHA guidelines dated August 8, 2018 and RBI guidelines dated April 6, 2018 on a pan-India basis. The management believe will enable them to offer its customers robust infrastructure and services in compliance with such MHA guidelines, and thereby allowing them to secure favorable fees from its customers and improving their margins; and 162 SVIL being one of the few providers to implement the cassette swapping system across multiple ATM locations in Mumbai, Maharashtra, Pune, Maharashtra, and Bangalore, Karnataka, allowing them to derive an additional revenue stream under its cash replenishment business and further improving its margins. AGS also intends to expand the geographical scope of its cash management business and explore opportunities in new cash user segments.

➤ Expand Internationally

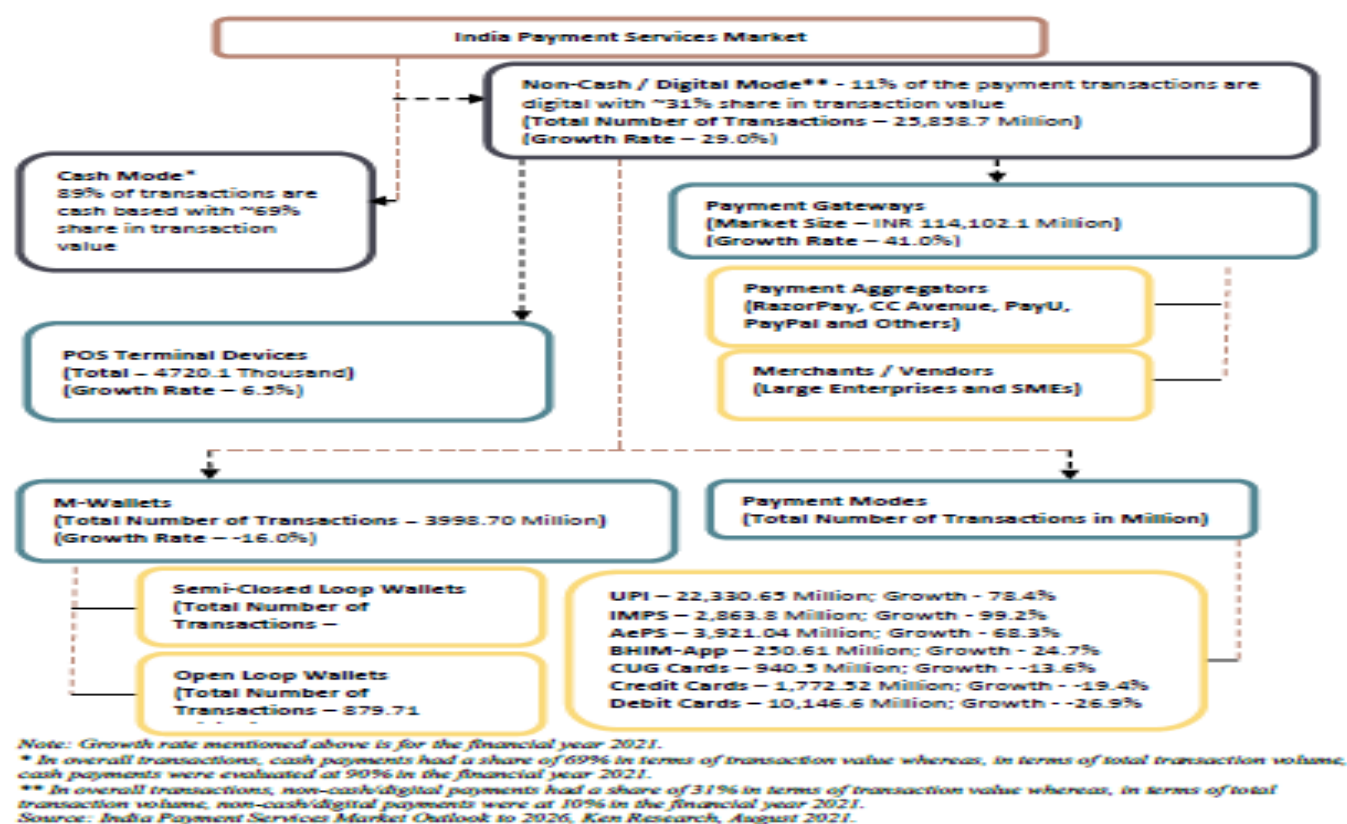
While the company expects India to remain the focus of its future business initiatives and various managed services and outsourcing bundles, they also evaluate opportunities in developing markets in Asia where they have had recent successes in deploying its digital platform and securing multi-year managed services and outsourcing deals. They plan to continue to leverage on the technology and products developed in India and provide these solutions to other countries to facilitate financial inclusion, demonstrating the same cross-sector expertise they have in India, and to further diversify its business. At the same time, the international operations provide AGS experience and give them insights that they may be able to harness for their Indian operations. AGS currently have local teams in Sri Lanka, Singapore, Cambodia, Philippines and Indonesia. The management plans to further penetrate these markets by scaling up its existing businesses or offering new products or services where they identify gaps in the market or opportunities for potential growth or consolidation.

Industry Snapshot:

India's Payment Services Market Size

The flagship Digital India Program was launched in India in 2015, with the vision of transforming India into a digitally empowered society and knowledge economy. Digital innovations are expected to play a pivotal role in improving financial inclusion and providing ease of service across retail banking, payments, wealth management and insurance.

The following chart sets forth India's payment services market, as of March 31, 2021:



India's Payment Services Market Size

The Indian digital payment space has seen extraordinary growth in the last few years, with the volume of transactions increasing at a CAGR of 36%. New and innovative payment products such as UPI, NETC, FASTag and BBPS have contributed to the growth of the digital payment industry. With the emergence of new payment technologies and use cases across sectors, this growth momentum is expected to continue. Transactions saw a minor drop in the early months of the financial year 2021 and have now begun to go back to pre COVID-19 levels. Businesses are now looking to integrate both online and offline channels to provide an omni-channel experience to their customers. UPI transaction volumes have already gone back to pre-lockdown levels. Similar trends can be observed in NETC transactions.

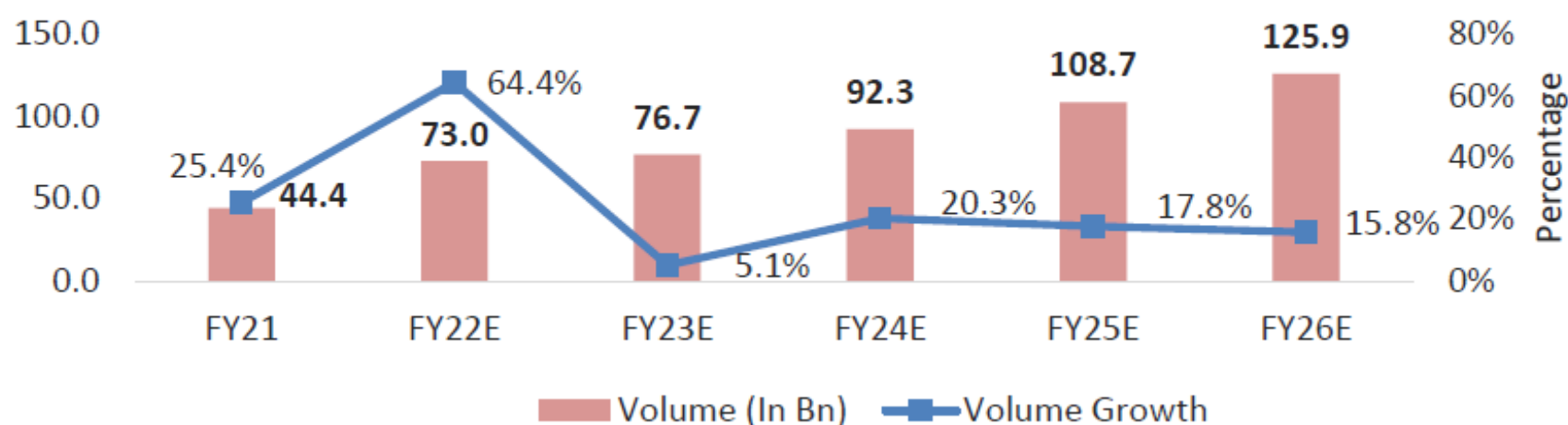
Digital transactions have recovered from their lows in the months of the lockdown and gained traction over the rest of the year with a growing preference for contactless transactions and tailored financial offerings by fintech players to adapt to the needs of end-users.

India's Payment Services Market Future Outlook and Projections

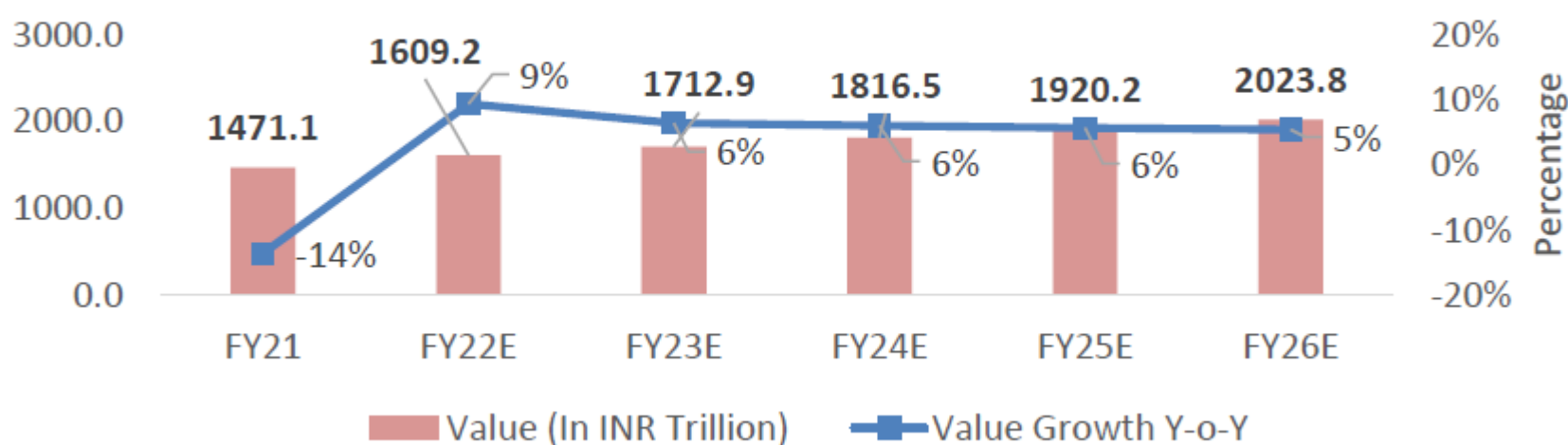
Growth in digital payments in India has been driven by multiple factors such as the launch of new and innovative payment products, increased demand for cashless transaction due to COVID-19, increasing 7.0 10.9 15.8 24.6 35.4 44.4 55% 45% 56% 44% 25% 0% 10% 20% 30% 40% 50% 60% 0.0 10.0 20.0 30.0 40.0 50.0 FY16 FY17 FY18 FY19 FY20 FY21 Percentage Growth Volume Volume (In Bn) Volume Growth Y-O-Y 1002.24 1201.96 1451.80 1720.98 1701.31 1471.12 20% 21% 19% -1% -14% -20% -10% 0% 10% 20% 30% 0.00 500.00 1000.00 1500.00 2000.00 FY16 FY17 FY18 FY19 FY20 FY21 Percentage Growth Value (In INR Trillion) Value Growth Y-o-Y 137 smartphone adoption, a growing need for faster payment modes, and a strong push from the GoI and regulators towards adoption of digital channels. Prior to 2010, digital transactions saw single-digit growth.

COVID-19 has further accelerated the shift to digital payment modes. One of the key requirements for longterm growth and a faster adoption of fintech solutions at last-mile touch points is the customer's trust in digital payment modes.

India's payment services market future projections based on transaction volume and growth rate, during the financial year 2021 and estimated for the financial years 2022 to 2026 (in billions)



India's payment services market future projections based on transaction value and growth rate, during the financial year 2021 and estimated for the financial years 2022 to 2026 (in ₹trillions)



Overview of India's ATM Market

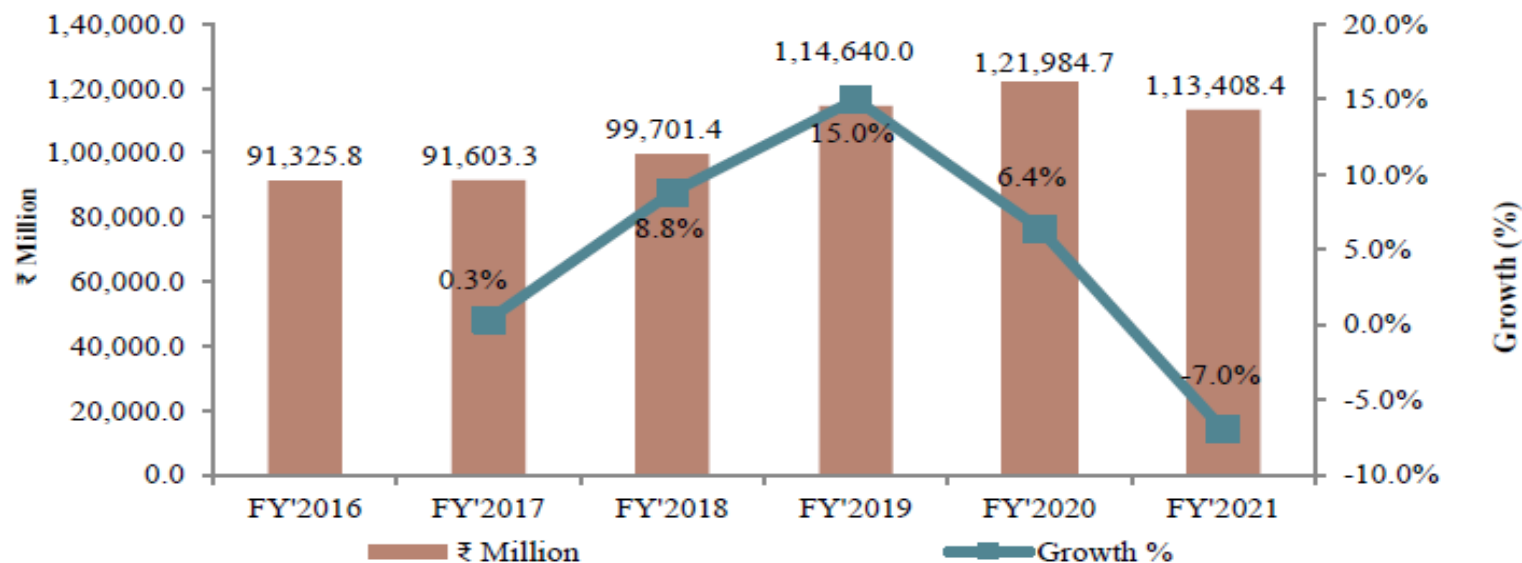
In India, the number of ATMs (excluding white label ATMs) installed increased from 199,099 as of March 31, 2016, to 213,575 as of March 31, 2021. The number of ATMs (including white label ATMs) operating in India's ATMs market increased from 212,061 as of March 31, 2016, to 238,588 as of March 31, 2021, at a CAGR of 2.39%.

ATMs are popular in developing countries because people prefer paying through cash when making low-value payments, for personal budgeting reasons and to maintain anonymity in transactions. Also, significant portions of the population who mostly operate outside of cities and who are unbanked or under-banked 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 global ATM industry is therefore positioned to grow, due to an increasing proportion of the population availing financial services and a subsequent rise in number of ATMs being set up in these developing nations.

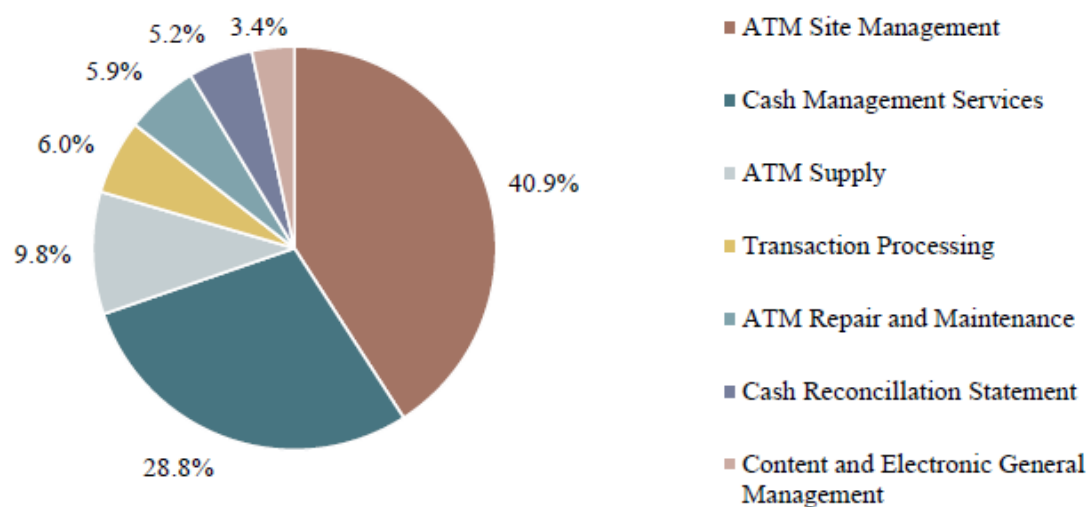
India's ATM Managed Services Market Size by Revenues

The revenue of India's ATM managed services market declined by approximately 7% from ₹121,984.7 during financial year 2020 to ₹113,408.4 million during financial year 2021 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 the decline of cash withdrawals and usage of ATMs in the country, which in turn led banks to halt plans for setting up ATMs.

The following chart sets forth the size of India's ATM managed services market based on revenue and growth rate during financial years 2016 to 2021:



The following chart sets forth India's ATM managed services market segments by service offerings, in terms of percentage of revenue share for financial year 2021:



Source: India ATM Market Outlook to 2026, Ken Research, August 2021.
ATM Site Management

ATM site management contributed 40.9% of total revenue of ATM managed service providers. Site management services include surveillance, electricity payment, consumables, payment of rent, network services and services such as deployment, management and operationalization of ATMs.

Cash Management Services

Cash management services contributed the second highest share to the ATM managed services market in India. Revenue from cash management increased from ₹25,507.8 million in the financial year 2016 to ₹32,688.8 million in the financial year 2021 at a CAGR of 5.0%. The number of ATMs outsourced to cash management companies increased from 151,650 as of March 31, 2017, to 163,069 as of March 31, 2021.

India Payment POS Terminal Market

A payment POS terminal is a computerized replacement for a cash register, where customers can make a digital transaction with the help of their debit and credit cards. A customer needs to enter a security PIN in order to execute a transaction using a payment POS terminal. All accounts are settled when the merchant does the batch settlement at the end of the day and the respective amount after deducting bank charges is credited to the merchant's account.

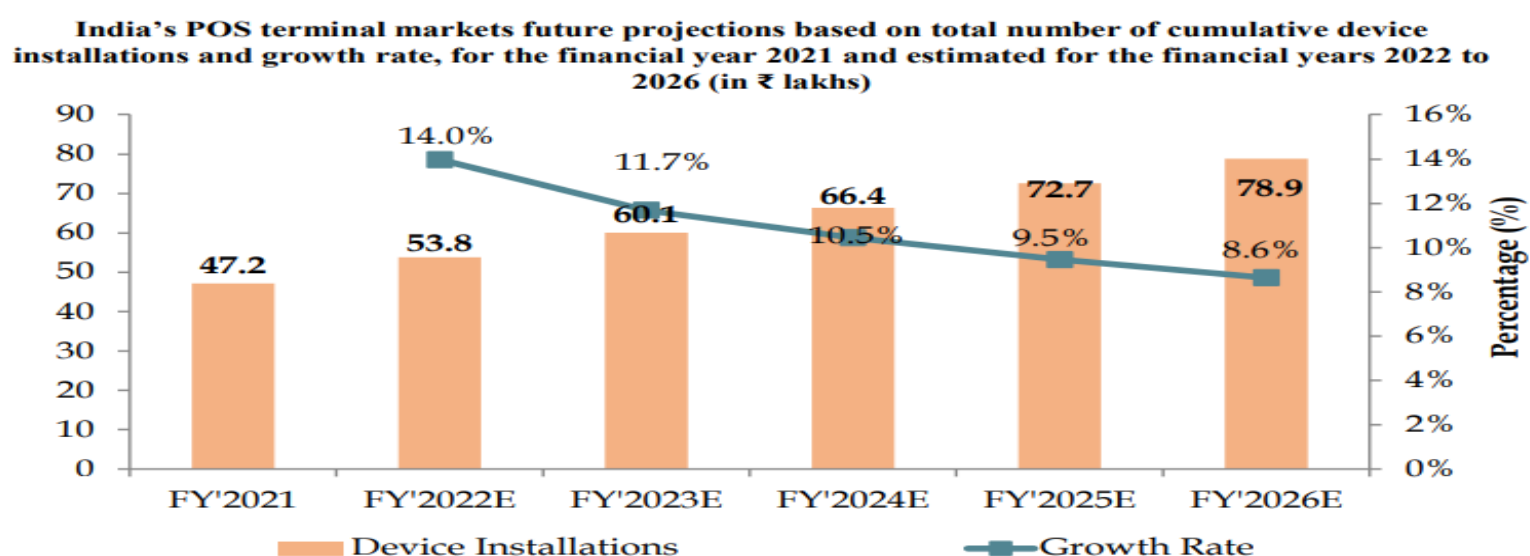
Payment POS terminal companies earn their revenue through three channels, namely: initial device set up fees, MDR and monthly rental income, which is estimated at ₹1,000 million to ₹350 million for mPOS devices and ₹400 million to ₹750 million for traditional POS devices. The MDR paid by the merchant is divided among three entities: the issuer bank, which issues the debit card and gets the highest share of the MDR, the acquirer, which installs the payment POS and the switch network.

Customers today make payments digitally at in-store merchant locations primarily through either POS terminals or using a QR code. POS terminals have a steadily growing market in merchant categories such as restaurants, grocery stores, apparel stores, jewelry stores and fuel stations. These verticals record the highest volume and value of POS transactions across the country. With the rapidly increasing penetration of e-commerce in the country, mPOS implementation has enabled doorstep delivery of products. Financial transactions at the doorstep have been made possible digitally, in a more versatile manner, using mPOS terminals.

India's POS Terminal Market Size

During the onset of the COVID-19 pandemic, a demand-supply gap was witnessed in India's POS terminal market, which created a shortage of POS terminal devices, in a largely import-based market. Therefore, POS device companies have accelerated their pace of hardware production to meet the rising demand for these machines.

A change in customer buying patterns post demonetization is evident as the number of POS terminals grew by approximately 82% in from financial year 2016 to financial year 2017. In the aftermath of demonetization, the Ministry of Finance announced incentives to promote the digital and cashless economy, which included discounts on fuel payments made through digital means, removal of service tax on MDR for low-ticket transactions, and financial support from the National Bank for Agriculture and Rural Development for rural deployment. These incentives, combined with the effect of demonetization, led to significant expansion of the POS and card industries. With an overall growth of approximately 27.7% CAGR in the last five years, there has been significant acceptance and adoption of POS terminals in the country. It is estimated that the POS terminal infrastructure has more than doubled in the past five years.



Key Risk:

- The Company derive a significant portion of their revenues from their customers in the banking sector in India. Consequently, any adverse development in the growth of the number of Automated Teller Machines (ATMs) or the usage of Automated Teller Machines (ATMs) in India could have an adverse effect on their business, results of operations, cash flows and financial condition.
- The Company derive a substantial portion of their revenues from a limited number of customers. If one or more of their top customers were to suffer a deterioration of their business, cease doing business with them or substantially reduce its dealings with them, their revenues could decline, which may have an adverse effect on the business, results of operations, cash flows and financial condition.
- A decrease in the use of cash as a mode of payment could have an adverse effect on the business, results of operations, cash flows and financial condition.
- The Company undertake fee-based activities and their financial performance may be adversely affected by an inability to generate income from such activities.
- The industries in which they operate are highly regulated by the Reserve Bank of India and other government agencies. Implementation of new regulations or changes to existing laws and regulations regarding its services could have an adverse effect on their business, results of operations, cash flows and financial condition.
- Potential new currency designs may require modifications to certain automated banking products in their portfolio that could have an adverse effect on their business, results of operations, cash flows and financial condition.
- Any failure to obtain, renew and maintain requisite statutory and regulatory permits, licenses and approvals for their operations from time to time may adversely affect the business.
- The Company face foreign exchange risks that could adversely affect their results of operations.

Valuation:

AGS Transact has a diversified product portfolio and the majority of the revenues are contributed by banking automation solutions, which includes supply and installation of ATMs and other automated banking products. The Company is available at the upper end of the IPO price band, at 38.5x its FY21 earnings. The issue is priced at a P/BV of 3.7 based on its NAV of Rs 47.1, with a market cap of Rs.21,069 million, which we believe is quite reasonable.

The diversified product portfolio, Customer Base and Revenue Streams Leading to Cross-Selling Opportunities for the company. However, the company's business is dependent on their Banking partners. The company also has threats from new fintech companies undertaken by newage digital Payment system viz micro-ATM, Aadhaar Enabled Payment System (AePS), UPI etc. While evaluating on the financial front at the upper end of the IPO price band the valuation seems to be reasonable, factoring all the above Scenarios, we assign **"Subscribe- Long Term"** rating to this IPO.

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Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>₹300Bn.)	15%	5%-10%	Below 5%
Mid/Small Caps (<₹300 Bn.)	20%	10%-15%	Below 10%

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