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IPO Report

22nd Dec' 22

Snapshot

Radiant Cash Management Services is an integrated cash logistics player with leading presence in retail cash management (“RCM”) segment of the cash management services industry in India and is one of the largest players in the RCM segment in terms of network locations or touch points served as of March 31, 2022. Company provide services across 13,044 pin codes in India covering all districts (other than Lakshadweep) with about 55,513 touch points serving more than 5,388 locations as of July 31, 2022.

VALUATION

Company is bringing the issue at price band of Rs 94-99 per share at p/e multiple of 17x on FY22 basis. Company is leading integrated cash logistics player in a consolidating industry present across the value chain of retail cash management with pan India presence with strong network in Tier 2 and Tier 3+ locations and fast growing end user segments. Company’s diversified client base with long standing relationship and ability to cross-sell value added services has robust operational risk management with significantly built up technology to optimise operational profitability has steady financial growth & experienced management team and backed by a reputed institutional investor. Hence, looking after all above, we recommend “Subscribe” on issue for long term.

Price Band (Rs./Share)	94-99
Opening date of the issue	23rd Dec 2022
Closing Date of the issue	27th Dec 2022
No of shares pre issue	101,253,360 Eq Shares
Issue Size	Rs 371-388 Cr
Fresh Issue	Rs 60 Cr
Offer For Sale	33,125,000 Equity Shares
Face Value (Rs/ share)	Rs 1/share
Bid Lot	150

BIDDING DETAILS

QIBs (Including Anchor)	50% of the offer (Approx 19,592,802 Eq Shares)
Non-Institutional	15% of the offer (Approx 5877841 Eq Shares)
Retail	35 % of the offer (Approx 13,714,963 Eq Shares)
Lead managers	IIFL Securities, Motilal Oswal, Yes Securities
Registrar to the issue	Link Intime India Pvt Ltd.

WHAT WE LIKE

Leading integrated cash logistics player in a consolidating industry present across the value chain of retail cash management

Company is an integrated cash logistics player with leading presence in RCM segment and are one of the largest players in the RCM segment in terms of network locations or touch points served as of March 31, 2022. The Indian cash management services market revenue grew at a CAGR of more than 10% during the period between Fiscal 2010 and Fiscal 2021, growing from approximately ₹ 10.0 billion to ₹ 27.7 billion during this period. The RCM market is estimated at ₹ 6.8 billion in Fiscal 2021 and is projected to reach a market size of ₹ 20.4 Billion by Fiscal 2027, growing at a CAGR of 20.3%. The growth in the organized retail sector as well as the corresponding outsourcing potential is expected to be prime factors for the development of the RCM market in India.

Pan India presence with strong network in Tier 2 and Tier 3+ locations and fast growing end user segments

Of company’s touchpoints as of July 31, 2022, 55,513 or 86.06% are located in tier 2 and tier 3+ towns and cities. Company’s revenue from operation from these markets in the three months ended June 30, 2022 and in Fiscal 2022, Fiscal 2021 and Fiscal 2020, was ₹ 719.54 million, ₹ 2,493.65 million, ₹ 1,913.92 million and ₹ 2,186.09 million, respectively. Company’s touch points in tier 2 and tier 3+ locations has increased proportionately from 40,588 on March 31, 2020 to 47,773 as on July 31, 2022. In the three month period ended June 30, 2022 and each of Fiscal 2022, Fiscal 2021 and Fiscal 2020, company earned 85.61%, 87.19%, 86.34% and 88.05% of its revenues from tier 2 and tier 3+ towns and cities.

Diversified client base with long standing relationship and ability to cross-sell value added services

Company have a marquee client base covering some of India’s largest foreign, private sector and public sector banks (including India’s largest public sector bank). Amongst its key clients are Axis Bank Limited, Citibank, Deutsche Bank Limited, HDFC Bank Limited, ICICI Bank Limited, Kotak Mahindra Bank, Standard Chartered Bank, State Bank of India, The Hongkong and Shanghai Banking Corporation Limited and Yes Bank Limited



COMPANY BACKGROUND

Company cater to broad set of outsourcing requirements pertaining to cash management services for banks, financial institutions, organized retail and e-commerce companies in India. Company operate its business across five verticals, namely 1) cash pick-up and delivery; 2) network currency management (also known as cash burial in industry parlance); 3) cash processing; 4) cash vans /cash in transit and 5) other value added services. Contribution of revenue of each its five verticals for the three months ended June 30, 2022, Fiscal 2022, Fiscal 2021 and Fiscal 2020 was as below: Company's revenues from its various verticals, for the three months ended June 30, 2022, Fiscal 2022, Fiscal 2021 and Fiscal 2020 was as below:

Company's revenues from its various verticals, for the three months ended June 30, 2022, Fiscal 2022, Fiscal 2021 and Fiscal 2020, was as follows:

Vertical	For the three months ended June 30, 2022	For the three months ended March 31, 2022	For the three months ended March 31, 2021	For the three months ended March 31, 2020
Cash pick-up and delivery	588.18	1915.15	1310.37	1649.06
Network currency management	148.68	644.02	495.96	575.02
Cash processing	41.37	133.80	79.17	83.98
Cash Vans/Cash in transit	46.53	124.43	109.81	136.49
ATM	-	--	---	--
Other value added services	15.73	42.95	41.53	38.23
Others (COVID 19 lockdown negotiated billing)	--	--	179.88	---
Total	840.49	2860.35	2216.72	2482.78

Cash pick-up and delivery: Company's range of services under this segment consist of collection and delivery of cash on behalf of its clients from the end user. Based on volumes, multiple modes of transport are used for movement of cash and valuables, including two wheelers, hired vehicles and specially fabricated armoured vans. Company's average daily volume of cash moved from all customers in the four months ended July 31, 2022, Fiscal 2022, Fiscal 2021 and Fiscal 2020 was ₹ 4,672 million, ₹ 4,179 million, ₹ 3,649 million and ₹ 4,303 million.

Network currency management: Company's services under this segment consist of cash collection from end user and deposit into its current accounts and subsequent transfer to the client's accounts either on the same day or on the next working day. Company's network of 55,513 touch points and a wide network of bank accounts with various banks across the country, allows to offer a unique value proposition to its clients, especially private sector and foreign banks, with limited branch networks.

Cash processing: As an integrated RCM service provider, company also offer value added cash processing services to its clients. These primarily are in the nature of company's trained executives sorting the notes into categories such as soiled, mutilated, fit, issuable, counterfeit, ATM-ready bundles, etc. Cash Vans / Cash in transit: Company also offer specially fabricated armoured vans, on long term or ad-hoc hire for movement of cash or bullion within its client's network.

Other value added services: Company also offer man-behind counter and currency chest operations to large retail stores and banks. As on July 31, 2022, company had 11 vaults, 16 strong rooms, and 28 safes.



INVESTMENT RATIONALE

<p><i>Robust Operational Risk Management</i></p>	<p>As of July 31, 2022, company’s country wide network is comprised of a well laid network of 74 risk managers and 60 supervisors most of whom are retired junior commissioned officers from the armed forces. Company’s risk management team is headed by the Director (Operations) who is assisted by a team of 134 employees, which include 70 ex-armed forces personnel and 64 other professionals. Its network is designed in a manner that risk managers will reach any point of adverse incident within three hours. .</p>
<p><i>Significantly built up technology to optimise operational profitability</i></p>	<p>Company’s technology solutions help its clients to increase their focus on their core competence without a need to make significant investments in operational infrastructure. Over the years, company have enhanced partner engagement and experience through digitisation of processes and augmentation of technology platforms. Towards this end, company have developed an integrated network architecture, including an in-house developed ERP. With a view towards providing a seamless experience to its client, company have created API integration with few of its clients’ ERP software. This integration of ERP allows the clients and the end-users to track real time data for cash management which are outsourced to company and this provides company an added benefit of being able to continue to service the client and may act as a barrier to the client to switch service providers in the future, helping in customer stickiness.</p>
<p><i>Experienced management team and backed by a reputed institutional investor</i></p>	<p>Company’s management team has extensive experience in the cash management services sector. Its Chairman and Managing Director and Promoter, Col. David Devasahayam has over 15 years of experience in the cash management services industry. Its Director Operations, Col. Benz K Jacob, its Director (Banking), Mr. SJS Swamidoss, its Chief Financial Officer, Mr. Thinniyam Vaidyanathan Venkataramanan, company’s Chief Technology Officer, Mr. Karthik Sankaran and its Head Business Development, Mr. Cyrus Shroff, each have more than two decades of relevant experience in various sectors, including security services, risk management, logistics and financial services. Company’s management is supported by a qualified and motivated pool of about 2,012 employees (as of July 31, 2022). Further, given the nature of its operations, company rely significantly on ex-armed forces for its operations with up to 21% of its staff strength being derived from the armed forces (as of July 31, 2022).</p>



OBJECTS OF OFFER

The Offer comprises of a Fresh Issue of Equity Shares, aggregating up to ₹ 600.00 million by company and an Offer for Sale of up to 33,125,000 Equity Shares.

Fresh Issue c

The net proceeds of the Fresh Issue, i.e. gross proceeds of the Fresh Issue less the offer expenses apportioned to company in relation to Fresh Issue (“Net Proceeds”) are proposed to be utilised towards funding of the following objects:

1. Funding working capital requirements;
2. Funding of capital expenditure requirements for purchase of specially fabricated armoured vans; and
3. General corporate purposes

RISKS

Company is highly dependent on certain key customers for a substantial portion of its revenues. Loss of relationship with any of these customers may have a material adverse effect on company’s profitability and results of operations.

Source:RHP

INDUSTRY OVERVIEW

Cash Management Market in India Market Overview

Cash-based transactions dominate the Indian payments industry today in areas such as Retail (both organized and unorganized), COD in e-commerce, petroleum outlets, insurance premium payments, railways, NBFCs, microfinance, restaurants, etc. As a result, one of the primary service deliverables for the banking business in India is cash management. The RBI, State & Private Banks, Foreign Banks, ATM Equipment Manufacturers, Retail Cash Management (RCM) Service Providers, Cash Van Operators, and a few companies that offer other cash logistics services make up India's Cash Management Ecosystem. Each of these parties serves as a point of contact for the economy's smooth financial flow. The banks are the main orchestrators for cash management in the country, with the RBI as the controlling authority. Cash-in-transit services provide generic cash logistics solutions such as cash transportation and cash storage during transit. An increase in cash circulation and growth in outsourcing cash-related activities by financial and business institutions will have a positive impact on this market. The increasing number of ATMs and ATM transactions, the growth in debit card transactions, growth in e-commerce, the growing number of organized retail shops, NBFCs, restaurants, pharmacy chains, jewellers, gold loan companies, and hospital chains, and the positive economic outlook and continued use of cash in the country are all key demand drivers for the cash logistics business.

ATM cash management, Retail Cash Management (RCM), and Dedicated Cash-in-Transit Vans (DCV) — vehicles utilized for cash transportation and replenishment activities – are the three primary components of cash management services in India. Other services provided by cash management service providers include transportation of jewels, art works, valuables, and bullion, as well as cash processing and vaulting. The Indian cash management services market revenue grew at a CAGR of ~10% during the period FY 2010 - FY2021, from ~INR 10 billion to INR 27.7 billion, majorly due to the outsourcing of these activities by the Banking sector to specialized service providers, as stringent requirements such as armed guards with fire-arm license, specialized vehicles, GPS monitoring, etc. to ensure safety of the cash transported, has necessitated such outsourcing.

Due to the impact of demonetization on the financial sector, the cash management market experienced a fall in growth rate from FY 2016 to FY 2017. This had a negative impact on the profitability of cash management organizations. However, following demonetization, cash management gained traction and has continued to develop at a healthy growth rate. COVID-19 had an influence on the cash management business, although its impact was much short-lived as compared to the demonetization period. Because of the increase in economic activity and the vaccination effort, the situation has eventually reversed, resulting in the return of major industries that were heavily depended on cash (e.g. travel & hospitality, retail shops, restaurants etc.). Also, while most retail shops were closed during multiple lockdowns, the e-commerce sector saw an increased traction owing to the same. As a consequence, the COD component within e-commerce saw a proportionate increase – one that has aided the growth of cash management companies during the COVID-19 period. BFSI, NBFCs, malls, fashion stores, food and beverage stores, pharmacy chains, and hospitals are all boosting the cash management market in India, especially the RCM business. These industries deal with enormous amounts of cash and need the help of private cash management companies. The organized retail market in India is growing at a rate of 20% per year (FY 2020-25) and is predicted to account for 30 percent of the market by FY 2025. The RCM segment of the cash management sector is projected to grow as organized retail expands.



Consolidated Financials

(Rs in Mn)

	FY20	FY21	FY22	Q1FY23
Total Revenue (A)	2482.78	2216.72	2860.35	840.49
Total Expenditure (B)	1960.1	1743.96	2274.86	625.61
EBIDTA	522.68	472.76	585.49	214.88
EBIDTA Margin	21.05	21.33	20.47	25.57
Other Income	35.02	24.86	9.39	3.28
Depreciation	24.09	27.39	37.59	10.18
EBIT	533.61	470.23	557.29	207.98
Interest	31.05	19.79	36.71	2.43
PBT	502.56	450.44	520.58	205.55
Extraordinary item	0.00	0.00	0.00	
PBT	502.56	450.44	520.58	205.55
Tax	137.53	126.11	138.49	52.39
PAT	365.03	324.33	382.09	153.16
NPM%	14.70	14.63	13.36	18.22
ROE %	30.53	25.52	27.34	9.87
EPS	32.89	31.64	3.77	1.51
Eq Cap	11.10	10.25	101.25	101.25
Net Worth	1,195.71	1,270.97	1,397.62	1,551.90

(Source: RHP)

Peer Comparison

Company Name	Total Income (Rs in million)	P/E	EPS	RONW %	NAV as at March'2022
Radiant cash	2869.74	--	3.77	2734	13.80
Peer Group					
SIS Ltd	101117.55	17.62	22.09	15.71	140.87
CMS Info	15975.81	21.79	15.07	17.84	82.02

(Source: RHP)



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