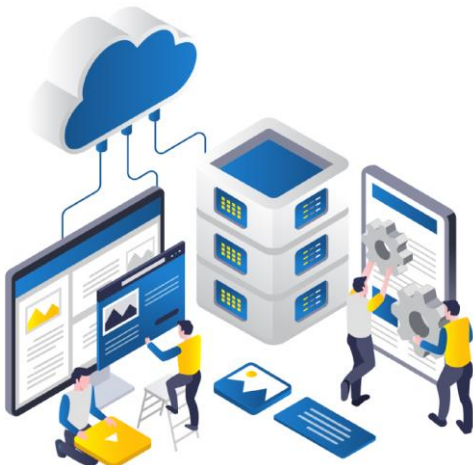
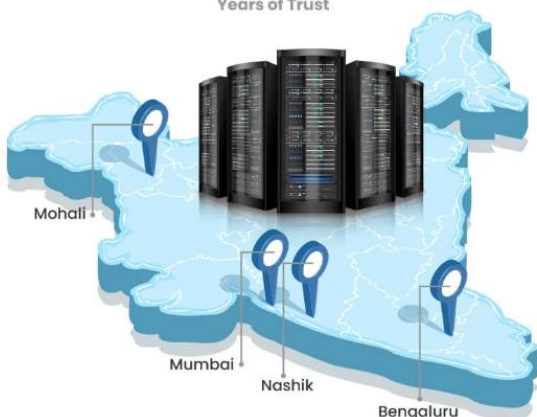


# ESDS

Date: 29<sup>th</sup> August 2024



**18+**  
Years of Trust



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Particulars	Figures
<b>Market Cap</b>	Rs. 1450Cr
<b>Shareholding Pattern (31<sup>st</sup> March 2024)</b>	
<b>Promoters</b>	55.1%
<b>GEF Capital Partners</b>	40.8%
<b>ESOP</b>	4.2%

**Research Analyst:**

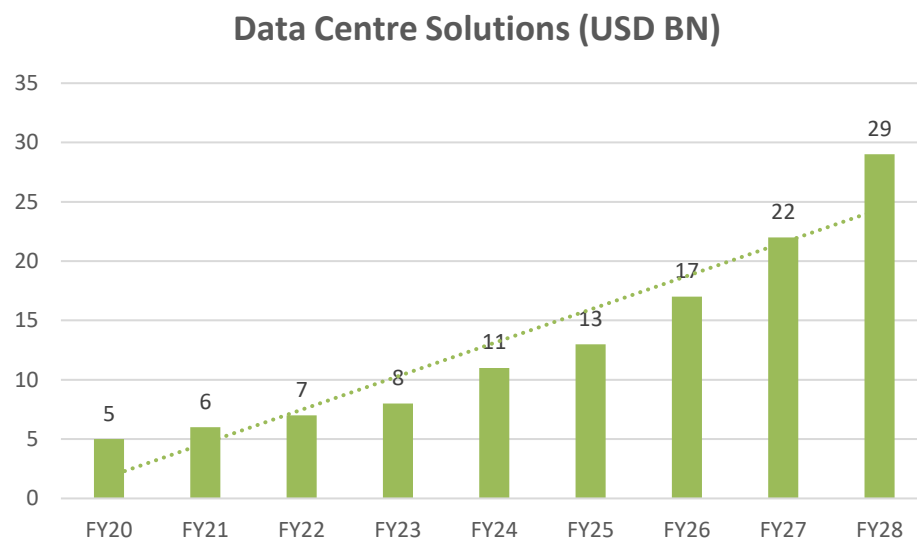
[research@niveshaay.com](mailto:research@niveshaay.com)

## Industry Overview

- **Total Market Size:** The Cloud Infrastructure and Services industry in India is valued at USD 40 billion.
- **Growth Estimate:** The industry is estimated to grow at a compound annual growth rate (CAGR) of over 20%.
- **Timeframe:** This growth is projected over the period from FY25 to FY29.

## Data Centre Solutions

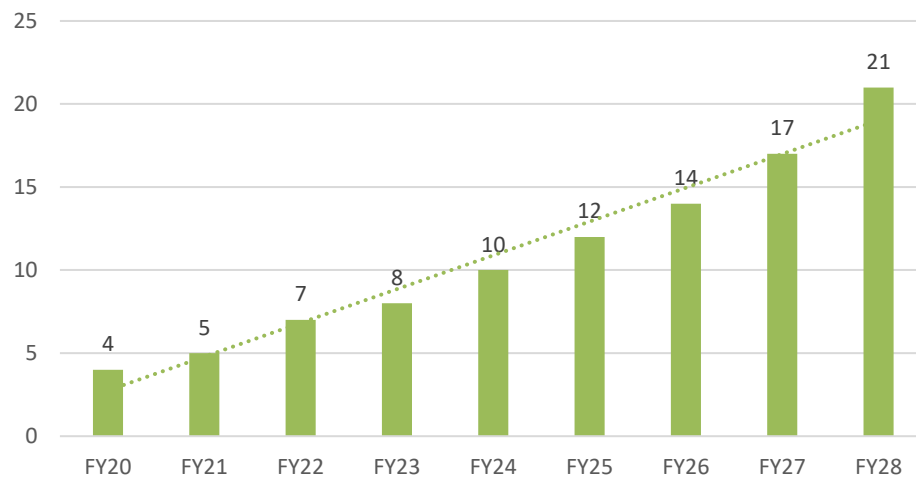
- **Digital Personal Data Protection Act, 2022:** Aims to protect the data of citizens.
- **RBI Mandate:** Requires all BFSI (Banking, Financial Services, and Insurance) organizations to locally store data.
- **Virtual Working Environment:** The shift to virtual work environments in the SMB (Small and Medium Business) segment was driven by COVID-19.
- **Government Initiative:** The government's push to transition from paper-based to digital-based processes and record-keeping is further driving demand for cloud infrastructure.



## Cloud Management Services

- **Lean Internal Employee Structure:** There's a shift towards maintaining a lean internal employee structure.
- **Hiring Experts:** Preference is given to hiring experts who can provide customized and 24x7 service support.
- **Stronger Security Requirements:** Corporates, including the SMB segment, are increasingly focusing on having stronger security requirements.
- **Improved Governance Controls:** There is an emphasis on implementing better governance controls.

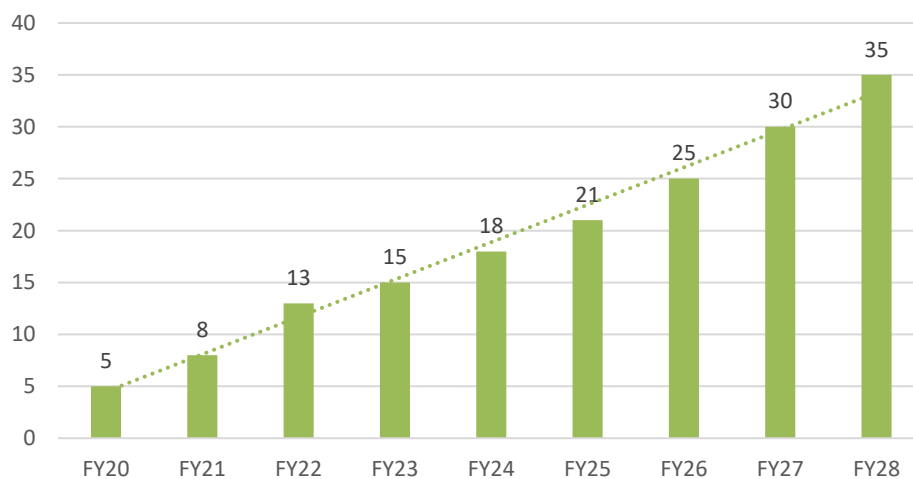
### Cloud Management Services (USD BN)



### Software Products / SaaS

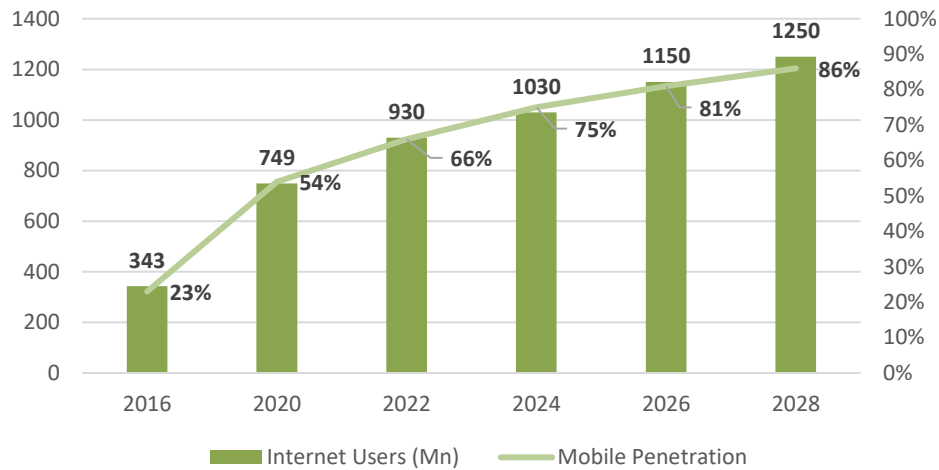
- **Low Upfront Costs:** Businesses benefit from low upfront costs, along with access to frequent software and technology updates and customer support.
- **Stronger Security Awareness:** There is enhanced awareness for stronger security requirements.
- **Marketplace Access for Smaller Firms:** Smaller firms are creating products and gaining access to marketplaces to monetize them.
- **High Acceptance of Indian Software in US/EU:** Indian software products have high acceptance in the US and EU, contributing to 70% of the industry's revenue from these geographies.

### Software Products / SaaS

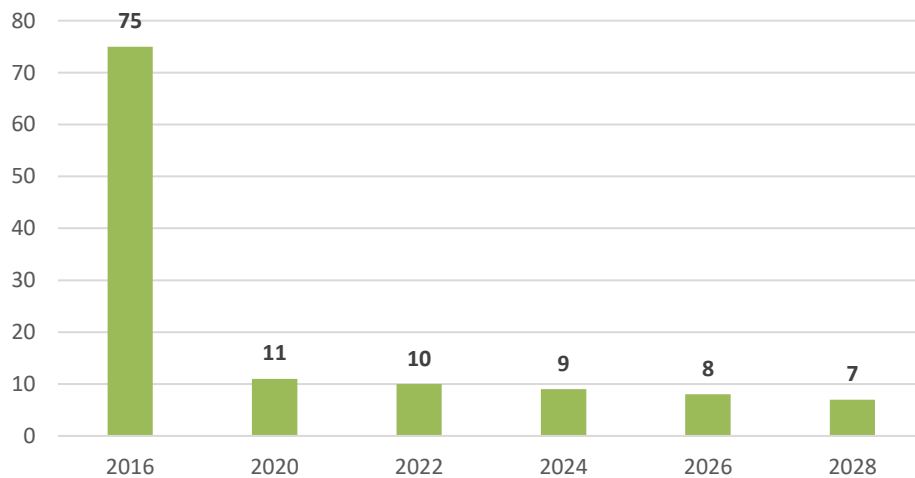


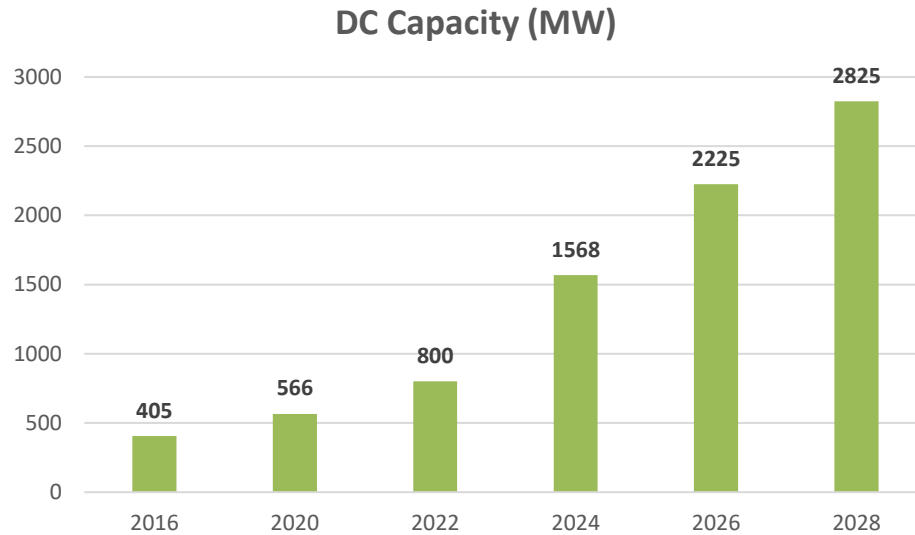
## Driving Digital Transformation: Rising Internet Penetration, Falling Data Costs, and Expanding Data Center Capacity

### Increasing Internet Penetration



### Decreasing Cost of Data (INR)





## About the Company

ESDS is a leading "Made in India" provider of Data Center and Digitization solutions, known for its strong end-to-end offerings. The company has established itself as a key player in the industry, providing comprehensive solutions that cater to a broad range of customer needs.

**Incorporation:** Founded in 2005 by Mr. Piyush Somani, a first-generation entrepreneur, ESDS began as a web hosting services provider. Over the years, it has evolved into one of India's only integrated cloud infrastructure and services providers, with a strong focus on MSME clients.

- **Marquee Client Relationships:** ESDS has developed long-term relationships with prominent clients across various industries, including L&T, EDF, Tech Mahindra, STPI, CERT-IN, and PFC.
- **High Growth Trajectory:** The company is estimated to grow at a 50%+ CAGR, driven by a high client retention ratio (over 90%), effective cross-selling strategies, and a large suite of offerings.
- **Comprehensive Solutions:** ESDS provides a wide range of data center solutions and cloud-managed services, with the ability to customize offerings, giving it a distinct competitive advantage in capturing business from both private enterprises and the public sector.
- **Innovative Product Suite:** The company's cloud orchestration, security, and digitization products present significant growth potential, with an existing suite comprising 28 products and dozens of services.
- **Data Centers:** ESDS operates four data centers located in Nashik, Mumbai, Bengaluru, and Mohali, with partnerships for two of these centers with STPI, and potential for nationwide expansion.

## Data Center Solutions

ESDS offers a robust suite of data center services with the following core competencies:

- **Asset-Lite Model:** ESDS operates with an asset-light approach, optimizing resource utilization while maintaining high efficiency.
- **Patented Cloud Technology:** The company has developed proprietary cloud technologies, giving it a competitive edge in the market.
- **Strategic Partnership with STPI:** ESDS has a significant strategic partnership with the Software Technology Parks of India (STPI), enhancing its market reach and operational capabilities.
- **Edge Data Centers:** The company is expanding its presence through edge data centers, which improve data processing speeds and reduce latency for end users.
- **High Growth Potential:** The data center industry is experiencing rapid growth, with a CAGR exceeding 40%, positioning ESDS to capitalize on these opportunities.

## Digitization Solutions:

In the realm of digitization, ESDS offers Cloud Managed Services and Software Products/SaaS solutions, each backed by distinct competencies:

- **Cloud Managed Services:**
  - **Security Services (SOC/NOC):** ESDS provides robust security services through its Security Operations Center (SOC) and Network Operations Center (NOC).
  - **Database Management Services:** The company offers comprehensive database management services, ensuring optimal performance and data integrity.
  - **Sector-Specific Cloud System Design/Management Services:** Tailored cloud solutions designed for specific industry needs, ensuring precise and effective implementation.
  - **End-to-End Cloud Managed Services:** ESDS holds a unique position in the market with its all-encompassing cloud managed services.
  - **Cloud Migration Services:** The company facilitates seamless migration to cloud environments, minimizing disruptions and ensuring a smooth transition.
- **SaaS Solutions:**
  - **Patented Cloud Orchestration Products:** ESDS offers innovative cloud orchestration products, protected by patents, that streamline cloud management.
  - **Low Code/No Code Offerings:** The company provides user-friendly development platforms that require minimal coding, accelerating digital transformation.
  - **Public Sector Database Management Products:** ESDS delivers specialized database management solutions for the public sector, ensuring compliance and efficiency.
  - **Third-Party Products for Cloud/Digitization:** ESDS also offers a range of third-party products to complement its cloud and digitization solutions.

## The Patent:

ESDS has distinguished itself as the first Indian cloud company to secure a patent for vertical auto-scaling technology. Building on this innovation, ESDS also obtained a patent for diagonal scaling—a unique combination of horizontal and vertical auto-scaling capabilities.

### Patent Details:

- **Title:** Method and System for Real-Time Detection of Resource Requirement and Automatic Adjustments
- **Effective Date:** August 2011
- **Patent Term:** 20 years

According to ESDS, they are the only company providing this kind of automatic scaling solution directly to end customers, whereas other players in the market still rely on manual load balancers.

**Application of the Patent:** In a typical cloud environment, workloads or software are assigned a set number of resources, such as CPUs. If the software suddenly requires additional resources, traditional systems would struggle, often resulting in crashes or performance issues. ESDS's patented solution leverages AI to automatically allocate the necessary resources in real-time, ensuring that the software continues to run smoothly without manual intervention. This automatic adjustment is a key differentiator for ESDS, providing a significant advantage over competitors who rely on manual load balancing.

## STPI Partnership: A Strategic Advantage

ESDS's partnership with the Software Technology Parks of India (STPI) offers a distinct advantage, particularly in enabling an asset-light growth model. This collaboration is instrumental in driving a post-tax Return on Capital Employed (ROCE) of over 20%.

### Key Benefits:

1. **Asset-Light Growth Model:** STPI invests in the land and building for the data centers, allowing ESDS to maintain an asset-light approach. This model significantly reduces the capital burden on ESDS, enabling more efficient use of resources.
2. **Revenue and Capex Sharing:** Under the agreement, ESDS shares 18% of its revenue with STPI, while STPI covers 20% of the non-IT capital expenditure. This arrangement supports ESDS in maintaining a healthy margin while benefiting from the infrastructure support provided by STPI.
3. **Market Penetration:** The partnership grants ESDS access to STPI's existing customer base and strengthens its ability to penetrate government security projects, defense, and Public Sector Undertakings (PSUs). By leveraging STPI's established relationships, ESDS can more effectively secure contracts and expand its market presence in these sectors.

## Go-To-Market Strategy of ESDS: Addressing Industry-Level Gaps Overlooked by Hyperscalers

### 1. Resistance to Shifting Toward Third-Party Cloud Providers

- **Challenge:** Many government bodies and SMBs are hesitant to adopt third-party cloud solutions due to concerns about data security and the perceived risk of data compromise. Additionally, there is a lack of understanding of the cost-efficiency that an opex model can offer compared to a capex model.
- **ESDS Approach:** ESDS adopts an outward-facing, proactive strategy by reaching out directly to government authorities and private SMBs. The company focuses on educating these potential clients about the benefits of third-party cloud services, including innovative pricing models that result in significant cost savings.

### 2. Misunderstanding of Requirements

- **Challenge:** Many organizations struggle to clearly define their tech requirements and often rely on advisors who recommend off-the-shelf, standardized products from global players. These solutions may not fully address the unique needs of the clients.
- **ESDS Approach:** ESDS works closely with clients to thoroughly understand their specific requirements. Instead of pushing standard solutions, ESDS suggests customized, cost- and resource-efficient solutions that best meet the clients' needs, even when they are working with channel partners.

### 3. Lack of One-Stop/Customized Solutions

- **Challenge:** Global service providers often offer standardized solutions that may not fully address a client's diverse needs, forcing them to approach multiple providers for a comprehensive solution.
- **ESDS Approach:** ESDS provides a comprehensive range of services, including cloud, managed services, and software solutions. This integrated approach allows ESDS to become a single point of contact for most of the client's requirements, offering a seamless, one-stop solution.

### 4. Poor Service Quality

- **Challenge:** Global players typically rely on channel partners (CPs) in major commercial cities to handle service-related issues. However, these partners often deliver inferior service quality, leading to customer dissatisfaction.
- **ESDS Approach:** ESDS maintains high standards of customer service by not outsourcing service-level issues. Clients interact directly with ESDS executives for any concerns, ensuring the highest quality of service and quicker resolution times.

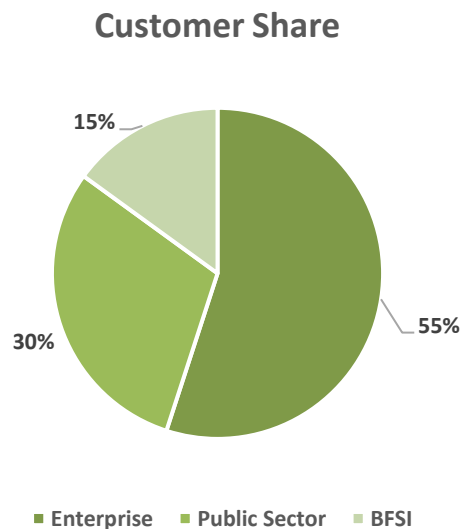
By addressing these industry-level gaps that hyperscalers often overlook, ESDS is positioning itself as a trusted partner for government bodies, SMBs, and other organizations that require customized, high-quality cloud and digitization solutions.



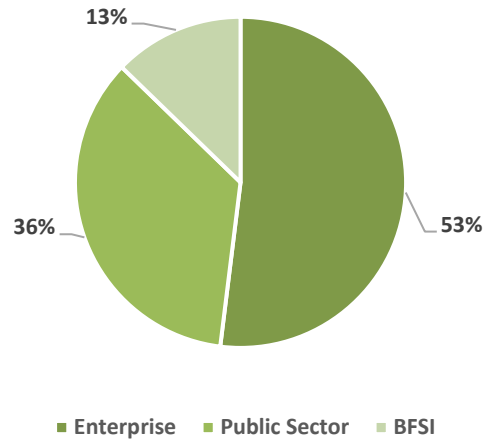
## Key Insights:

- **Customer Base:** ESDS serves over 200 enterprise clients and more than 470 banks, showcasing its extensive reach in the financial and enterprise sectors.
- **GPU Expansion:** Currently operating with approximately 15-20 GPUs, ESDS plans to add 145-150 more GPUs through partnerships with other companies, significantly expanding its computational capacity.
- **Revenue Forecast:** The majority of ESDS's revenue is expected to come from government and BFSI (Banking, Financial Services, and Insurance) sectors. The enterprise segment is projected to experience slower growth in the future.
- **Client Engagement:** Despite L&T's own data centers, ESDS is engaged in hosting software for L&T's smart city project on their cloud, highlighting their role in supporting significant infrastructure projects.
- **SaaS Revenue Composition:** Of the total SaaS revenue, 60% is derived from ESDS's proprietary software and solutions, while 40% comes from reselling software licenses, such as Windows and other third-party products.

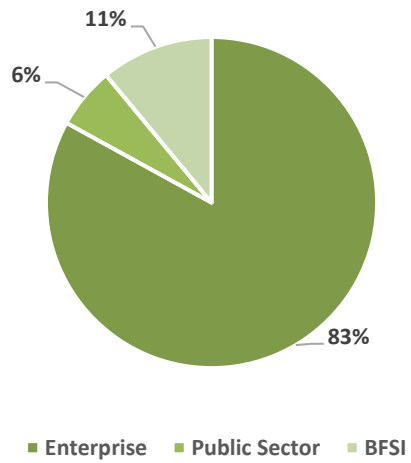
## Financials:



## Customer-Wise Revenue Share



## % Comprehensive Sales



## Income Statement

Rs. in Crs.	2020	2021	2022	2023	2024	2025E	2026E
Revenue	159	172	195	208	285	404	649
	17%	8%	14%	6%	37%	42%	61%
COGS	40	34	46	60	80	112	169
% of sale (COGS)	25%	20%	24%	29%	28%	28%	26%
Gross Profit	118	138	149	147	204	292	480
Gross Profit Margin	74.51%	80.15%	76.26%	70.97%	71.77%	72.21%	73.97%
Employee	48	59	71	77	85	107	162
% of revenue	30%	34%	36%	37%	30%	27%	25%
Other Expenses	20	17	16	23	19	36	62
% of revenue	13%	10%	8%	11%	7%	9%	10%
Total Expenses	109	110	134	160	184	255	392
EBITDA	50	62	62	47	100	149	257
EBITDA Margins	31.38%	35.85%	31.62%	22.87%	35.21%	36.88%	39.57%
Other Income	2	2	3	5	6	4	6
Depreciation	37	37	43	49	58	52	72
% of revenue	23%	22%	22%	24%	20%	13.0%	11.2%
% of asset	13%	12%	14%	17%	18%	15%	13%
EBIT	15	26	22	3	48	100	190
EBIT Margins	9.33%	15.36%	11.35%	1.45%	16.81%	24.82%	29.30%
Finance Cost	11	18	18	26	32	26	25
% of revenue	7%	10%	9%	12%	11%	6%	4%
% of Borrowing	6%	8%	8%	11%	12%	10%	10%
Exceptional Gain/(Loss)	-	-	-7	-5	-1	-	-
Profit/(Loss) Before Tax	3	9	-2	-28	15	74	165
Share of profit to Minority holder							
Tax expenses	3	3	1	-5	8	21	46
Tax %	73%	37%	-24%	19%	55%	28%	28%
PAT	1	5	-3	-22	7	53	119
	#REF!	487%	-149%	743%	-130%	688%	122%
PAT Margin	1%	3%	-1%	-11%	2%	13%	18%

## Balance Sheet:

B/S (Rs. In cr)	2020	2021	2022	2023	2024	2025E	2026E
<b>Non-current asset</b>							
Fixed Asset	288	316	306	291	317	359	556
Non Current Investment							
DTA							
Long term L&A	24.73	28.85	41.26	62.05	73.24	77.29	104.10
<b>Total Non-current Assets</b>	<b>313.11</b>	<b>344.65</b>	<b>347.20</b>	<b>352.85</b>	<b>390.12</b>	<b>436.27</b>	<b>659.75</b>
<b>Current Asset</b>							
<b>Inventories</b>							
- RM							
- WIP							
- Stock in Trade							
- FG							
Cash and Bank	0.66	15.20	35.06	16.89	2.25	296.38	153.47
Trade receivables	46.09	46.62	63.85	57.13	69.07	99.59	151.04
Current Investments	1.86	2.38	3.38	2.34	4.14	6.06	9.73
Short-Term L&A	1.14	0.00	0.02	0.02	0.00	0.00	0.00
<b>Other current asset</b>	<b>52.64</b>	<b>57.39</b>	<b>78.82</b>	<b>76.23</b>	<b>81.51</b>	<b>82.50</b>	<b>109.66</b>
- Bal with Govt Authori + Adv. Tax +TDS Rec.	13.47	6.38	16.37	23.49	11.02	6.35	0.00
Others	39.17	51.01	62.45	52.74	70.49	76.15	109.66
<b>Total Current Asset</b>	<b>102.39</b>	<b>121.59</b>	<b>181.13</b>	<b>152.61</b>	<b>156.97</b>	<b>484.53</b>	<b>423.90</b>
<b>Total Assets</b>	<b>415.51</b>	<b>466.24</b>	<b>528.34</b>	<b>505.47</b>	<b>547.09</b>	<b>920.80</b>	<b>1083.65</b>
<b>Equity</b>							
Equity Share Capital	99.28	129.21	9.16	9.29	9.29	309.29	309.29
Retained Earnings	52.21	57.87	196.55	201.30	209.80	263.29	382.15
Minority Shareholding	-0.59	-0.47	-0.43	-0.44	0.60	0.60	0.60
<b>Total shareholders equity</b>	<b>150.90</b>	<b>186.60</b>	<b>205.27</b>	<b>210.15</b>	<b>219.69</b>	<b>573.18</b>	<b>692.04</b>
<b>Liabilities</b>							
<b>Non-current Liabilities</b>							
<b>Long Term Borrowings - Secured</b>	<b>121.77</b>	<b>118.28</b>	<b>153.55</b>	<b>171.40</b>	<b>196.56</b>	<b>175.06</b>	<b>174.44</b>
Long Term Borrowings - TL	35.66	60.38	92.72	115.53	103.24	99.95	72.31
Long Term Borrowings - Others	86.11	57.89	60.83	55.87	93.31	75.11	102.13
<b>Long Term Borrowings - Unsecured</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Long Term Provisions</b>	<b>4.73</b>	<b>7.26</b>	<b>8.40</b>	<b>9.11</b>	<b>12.18</b>	<b>15.00</b>	<b>22.61</b>
<b>Total non-current liabilities</b>	<b>126.50</b>	<b>125.53</b>	<b>161.95</b>	<b>180.51</b>	<b>208.74</b>	<b>190.06</b>	<b>197.05</b>
<b>Current liabilities</b>							
<b>Short term Borrowings - Secured</b>	<b>78.35</b>	<b>98.54</b>	<b>76.49</b>	<b>66.66</b>	<b>63.71</b>	<b>75.72</b>	<b>77.03</b>
Short term Borrowings - TL,CC	15.07	10.19	40.74	49.30	45.80	41.99	31.16
Short term Borrowings - Others	63.28	88.35	35.76	17.37	17.91	33.73	45.87
<b>Short term Borrowings - Unsecured</b>							
<b>Trade payables</b>	<b>32.28</b>	<b>24.75</b>	<b>24.27</b>	<b>25.02</b>	<b>23.29</b>	<b>32.84</b>	<b>51.69</b>
- Less than 1 Yr							
- 1 to 2 Yr							
<b>Short term provision</b>	<b>0.30</b>	<b>0.40</b>					
<b>Other current liabilities</b>	<b>27.18</b>	<b>30.40</b>	<b>60.35</b>	<b>23.12</b>	<b>31.67</b>	<b>49.00</b>	<b>65.83</b>
- Advance from customers	11.92	9.14	8.25	9.69	4.22	11.07	17.77
- Statutory dues	5.84	9.07	9.42	4.56	11.85	20.02	25.50
- Others	9.42	12.19	42.69	8.88	15.60	17.91	22.57
<b>Total Current liabilities</b>	<b>138.11</b>	<b>154.09</b>	<b>161.12</b>	<b>114.81</b>	<b>118.66</b>	<b>157.56</b>	<b>194.56</b>
<b>Total Liabilities</b>	<b>264.61</b>	<b>279.62</b>	<b>323.06</b>	<b>295.32</b>	<b>327.40</b>	<b>347.62</b>	<b>391.61</b>
<b>Total Equity and Liabilities</b>	<b>415.50</b>	<b>466.23</b>	<b>528.34</b>	<b>505.47</b>	<b>547.09</b>	<b>920.80</b>	<b>1083.65</b>