RESEARCH REPORT
E2E NETWORKS LIMITED

28th Oct 2022

NSE : E2E   **Sector: CLOUD INFRASTRURE/SERVICES**

View - BUY

CMP   : Rs. 178
Target Price: Rs 276 (In next 12 to 18 mths)

BUSINESS BACKGROUND

E2E Networks Ltd is engaged in the business of providing Cloud computing services. E2E has a fully owned Computer Infrastructure and Core Technology Stack. E2E Networks Ltd is one of the leading Indian Pureplay Cloud Computing companies and one of the early adopters of accelerated computing & provides cost-effective high-performance cloud platforms primarily to Indian startups and SME's for Linux/Windows/GPU Cloud Machines

INVESTMENT HIGHLIGHTS

Strong Financial Performance for FY22 & Q1FY23 –

E2E Networks reported a strong set of FY22 numbers in a difficult year with net sales at Rs 51.87 crs as compared to a revenue of Rs 35.30 crs last year, with EBIDTA placed at Rs 22.94 crs from Rs 10.34 crs last year with the PAT placed at Rs 6.45 crs from a net loss earlier of Rs 1.24 crs.

For E2E Networks Q1FY23 Revenue was Rs.15.19 crs from Rs 11.39 crs in Q1 last year, while EBITDA stood at Rs 7.31 crs vs Rs 4.57 crs in Q1 last year with the PAT at Rs 2.55 crs vs Rs 1.52 crs in Q1FY22 and Rs 2.04 crs in Q4FY22

E2E provides a host of cloud computing infrastructure services to marquee customers –

E2E Networks provides a host of products to its clients like Linux Cloud, Windows Cloud, Cloud GPUs, Storage Cloud & Cloud Solutions including LB, Firewall, DBaaS. It also provides services like Virtual Compute Nodes, Dedicated compute Nodes, virtual load balancers, dedicated load balancers, back up plans and varnish cache accelerator etc

KEY DATA

FACE VALUE Rs	10.00
DIVD YIELD %	NA
52 WK HI/LOW	225/48
NSE CODE	E2E
BSE CODE	NA
MARKET CAP RS	257 CRS

SHAREHOLDING PATTERN

PROMOTERS	-	60%
BANKS, MFs & DIIs	-	%
Instutions	-	%
PUBLIC	-	40 %

KEY FUNDAMENTALS

YE	FY23	FY24	FY25
Rev Gr%	30	30	30
EBIDTA Gr%	38	50	33
PAT Gr%	78	65	49
EPS Gr%	78	65	49
EPS (Rs)	7.94	13.09	19.54
ROE %	26	32	34
ROCE %	24	22	21
P/E(x)		14	9
P/C (x)		8	6

E2E enjoys a diversified Product Range across various product categories –
E2E provides its clients both public and private Cloud Infrastructure services.

Cloud Infrastructure –

In the Cloud Infrastructure business E2E Networks provides Infrastructure to handle workloads related to compute and storage needs of its clients. This infrastructure includes hardware and software components like servers, storage, networking, virtualization and other open source software.

E2E Networks offers both Private and Public Cloud offering as per the needs of the customers. In case of Private Cloud, the servers are identified and deployed for usage specifically by a particular customer.

E2E Networks offers Cloud Infrastructure with different system Configuration, Operating System and Services based on the different needs and objectives of the clients like high-Performance computing, memory Intensive Computing CPU Intensive Computing, windows centric computing amongst other Cloud Infrastructure services and provides subscription plans to customers on a pay per use basis

Some Key E2E Networks products offered to clients –

Linux Cloud –

This includes

CPU Intensive Cloud

Run CPU intensive workloads with confidence across various industry verticals and experience high performance computing in the cloud

CPU Intensive Cloud C3 Series –

Third Generation C3 series brings new features like Quick Service Recovery (QSR), Snapshots and Images, faster IOPS and faster launch times. Plans from 4 vCPUs to 48 vCPUs per instance.

Memory Intensive Cloud

Third Generation M3 series brings new features like Quick Service Recovery (QSR), Snapshots and Images, faster IOPS and faster launch times.

High Memory Series M3 Series

Offering double the amount of vCPUs and triple the amount of RAM at the same price compared to the first generation

Windows Cloud –

E2E offers the best cloud for Windows, and it is the right cloud platform for running Windows-based applications today and in the future.

Windows computing nodes are very dominant among developers and enterprise customers. Windows on E2E Cloud enables clients to increase or decrease capacity within minutes & are able to commission as many servers as clients require & is affordable, scalable, reliable and secure cloud for windows

MS SQL on Windows –

E2E offers the best cloud for Windows MS SQL, and it is the right cloud platform for running database workloads at present and in the future.

Windows MS SQL computing nodes are very popular compute nodes among developers and enterprise customers. Windows MS SQL on E2E Cloud enables clients to increase capacity within minutes & also enable them to commission as many servers as they require

Smart Dedicated Compute –

Smart-dedicated Compute is the latest breed of servers that are ideal for intensive workloads, where one can experience the power of dedicated servers and the benefits of public cloud which makes it much easier to manage a clients infrastructure

Smart Dedicated Compute is the next step in the evolution of cloud computing. Hosting business workloads on Smart Dedicated Compute gives clients the security and privacy of an internal network with all the advantages of cloud computing.

It offers the business a way to experience the reliability, flexibility, high performance, and scalability of the cloud along with an extra layer of security and privacy. It is the combination of a dedicated CPU's pinned for a customer with today's leading cloud virtualization technology

Smart Dedicated Compute allows the flexibility of customizing the server to the clients' unique needs for CPU, RAM, disk space and software. With Smart Dedicated Compute, clients can easily avail predictable performance with numerous Public Cloud benefits, which includes better performance, security, self-service, scalability, and resilience

Cloud GPUs –

GPU Dedicated Compute with A100 (40GB/80 GB) –

A100 - The Universal System for All AI Infrastructure that enables Enterprises to consolidate training, inference, and analytics using World's most advanced accelerator. Currently the most powerful GPU from NVIDIA

GPU Dedicated Compute with A30 –

NVIDIA A30 Tensor Core GPU is the most versatile mainstream compute GPU for AI inference and mainstream enterprise workloads

GPU Dedicated Compute with RTX8000/A40 –

This GPU is for modern workloads in the cloud, for AI, data sciences, HPC and remote working cloud workstations engineering design and creative/VFX users. NVIDIA A40 GPU is an evolutionary leap in performance and multi-workload capabilities from the data center, combining best-in-class professional graphics with powerful compute and AI acceleration to meet today's design, creative, and scientific challenges

GPU Dedicated Compute with Tesla v100 –

NVIDIA® Tesla® V100 Tensor Core is the most advanced data center GPU ever built to accelerate AI, high performance computing (HPC), data science and graphics. It's powered by NVIDIA Volta architecture, comes in 16 and 32GB configurations, and offers the performance of up to 100 CPUs in a single GPU.

This service is greatly beneficial for data scientists, researchers, and engineers who can now spend less time optimizing memory usage and more time designing the next AI breakthrough

GPU Dedicated Compute with T4 –

The NVIDIA T4 GPU accelerates diverse cloud workloads, including high-performance computing, deep learning training and inference, machine learning, data analytics, and graphics

GPU Cloud is used in industry segments like Machine Learning, Computer Vision, Deep learning for NLP, Object Recognition & Visual computing

Storage Cloud –

Object Storage – Also known as EOS, E2E object storage is an SSD-based S3-compatible object storage service designed for demanding workloads like machine learning and deep learning

E2E Block Storage – E2E Block Storage Provides block-level storage volumes to use with the compute nodes. These volumes can be attached to the computing nodes which makes its data and file system available for the clients nodes. If the clients node is running on linux, then one can mount this volume file system just like mounting any other file system

E2E CDP Backup – CDP backup service backups the VM or cloud instance data continually, incrementally, automatically on E2E Cloud — letting the client fallback to backup recovery points as your situation demands

Saved Image – Clients can use saved images for creating new nodes of different plans and configurations. Saved image are also a prerequisite for creating scale groups for configurations of auto-scaling of your applications.

Storage space used by saved images are charged @ ₹4.00 per GB per Month.

Cloud Solutions –

Load Balancer – The load balancer distributes incoming traffic for application to multiple backend application nodes, which increases the availability of the application by ensuring that the health of a single server doesn't have any impact on overall health of the application

Content Delivery Network – A content delivery network (CDN) refers to a geographically distributed group of servers which work together to provide fast delivery of Internet content.

A CDN allows for the quick transfer of assets needed for loading Internet content including HTML pages, javascript files, stylesheets, images, and videos

One Click Deployment – One-click deployment that can be used to deploy services while launching a server itself, offering a host of pre-installed services. The services vary from Application services to Database services and from CI/CD pipeline to Monitoring tools/services

Reserved IP – A static Public IP address is allocated specifically to the clients server and will be available for the client unless the client releases the server. It helps manage the clients IP addresses with the MyAccount portal of E2E Cloud by paying a nominal fixed monthly fee

E2E API – E2E API lets the client programmatically manage nodes and resources (which you traditionally manage viathe MyAccount portal) on E2ECloud using conventional HTTP requests. E2E API end points are highly responsive seamlessly performing actions and fetching information

E2E Auto Scaling – The E2E Auto Scaling feature allows the client to dynamically scale up or scale back there applications depending upon the situation. It's easy Setup, seamless accessibility and cost-effective features handle the workload effectively

DBaaS – E2E DBaaS is easy to set up and operate in the cloud, provided with Cost-efficient service and automating time-consuming administrator tasks such as Provisioning, Patching, and Setups

VPC – Virtual private cloud enables the client to launch resources into a virtual network that the client has defined and ensures secure traffic between any resources like nodes, Kubernetes clusters and load balancers

E2E Cloud Firewall – Helps clients to easily secure there infrastructure with consistent security policies and single control panel

Recent Launches from E2E Networks include DBaaS, Mumbai Zone, Third Generation Compute/Memory intensive, Block Storage, Reserved IP, BitNinja Integration, Single Click Deployments, E2E NativeKubernetes platform, Object Store and CDN

Some Marquee Clientele served by E2E networks over the years –

E2E Networks also partnerships with the following vendors helping it scale its operations such as

Cloud Computing Industry to grow significantly ahead –

Global end-user spending on public cloud services is forecast to grow 20.4% in 2022 to total $494.7 billion, up from $410.9 billion in 2021. In 2023, end-user spending is expected to reach nearly $600 billion

Global IaaS is forecast to experience the highest end-user spending growth in 2022 at 30.6%

The end-user spending on public cloud in India is likely to reach $7.5 billion in 2022; growing 29.3% from 2021

Cloud system infrastructure services (IaaS) is forecast to record the highest growth this year (39.4%). IaaS will also be the highest spending vertical for end-users in India in 2022

By 2025, 51% of IT spending in the four categories namely application software, infrastructure software, business process services and system infrastructure markets. Almost two-thirds (65.9%) of spending on application software will be directed toward cloud technologies in 2025, up from 57.7% in 2022

By the end of 2021, based on lessons learned in the pandemic, most enterprises will put a mechanism in place to accelerate their shift to cloud-centric digital infrastructure and application services twice as fast as before the pandemic

The ecosystem of tech companies helping customers migrate to cloud environments, create new innovations in the cloud, and manage their expanding cloud environments will enable enterprises to meet their accelerated schedules for moving to cloud

Global Public Cloud End user spending forcast

Particulars USD Mn	2021	Grth %	2022E	Grth %	2023E
Infrastructure as a Service (IaaS)	91,642	30.60%	1,19,717	30.50%	1,56,276
Platform as a Service (PaaS)	86,943	26.00%	1,09,623	24.40%	1,36,404
Software as a Service (SaaS)	1,52,184	16.00%	1,76,622	17.80%	2,08,080
Business Process as a Service (BPaaS)	51,410	8.10%	55,598	9.00%	60,619
Desktop as a Service (DaaS)	2,072	26.50%	2,623	23.60%	3,244
Cloud Management & Security	26,665	14.20%	30,471	15.50%	35,218
Total Market	4,10,915	20.40%	4,94,654	21.20%	5,99,840

Source Co

India Public Cloud End user spending forcast

Particulars USD Mn	2021	Grth %	2022E	Grth %	2023E
Infrastructure as a Service (IaaS)	1,699	39.40%	2,368	21.40%	3,241
Platform as a Service (PaaS)	1,516	45.40%	2,204	21.10%	2,670
Software as a Service (SaaS)	1,882	21.60%	2,290	22.70%	2,812
Business Process as a Service (BPaaS)	274	7.70%	295	8.80%	321
Desktop as a Service (DaaS)	71	16.80%	83	14.50%	95
Cloud Management & Security	413	23.40%	510	22.60%	626
Total Market	5,855	29.20%	7,570	28.90%	9,765

Source co

According to the company management the Cloud Computing market here in india is valued around Rs 16000 crs out of which Rs 8000 crs is catered to by AWS. However for the company it is looking at the price sensitive Rs 4000 crs market which is itself a large market for E2E Networks going ahead

Key Drivers for the Cloud Market to grow ahead in India –

India is one of the world's largest internet markets, with 550 mn smartphone users as of FY21 second only to China. However, monetization remains low, with less than 10% of India's population (of 1.3 bn) transacting online and internet accounting for just 4% of all consumption spend in India

India's internet economy is booming aided by a surge in smartphone penetration and declining internet costs. India's internet penetration reached 56% in Jan'21 and the country's internet economy is expected to grow from US$ 250bn in 2020 to US$ 335bn in 2025, per TRAI and IBEF respectively

The number of internet users in India is expected to reach 975 million by 2025, supported by fast adoption of digital technology, according to a report by National Association of Software and Services Companies (NASSCOM).

E2E Networks has virtually no local competition and faces competition from players like Digital Ocean (DOCN), Vultr Linode (Now owned by Akamai) in india while the larger global players in the cloud computing space include AWS, Azure and Google Cloud

According to the E2E Networks management Tier 1 ISPs in India bandwidth to the hyperscalers while Data centers their services to the hyper scalers but not really compete in the public cloud infrastructure space.

E2E Networks enjoys a strong balance sheet with huge scalability potential going ahead –

E2E Networks runs a strong business model covering multiple product segments across multi locations with a efficient working capital management while it continues to invest on a sustained basis largely from its internal accruals.

We expect that going ahead overall bottomline growth in the next 3 years starting FY22 onwards should easily increase at a CAGR of 45-55% and with capex funded largely from internal cash flows with a combination of lease finance.

What is important is that CFO have remained positive since 2017 till date while the company is virtually debt free as on March 2022 totalling at Rs 2 crs as compared to which the company has liquid cash/investments to the tune of Rs 6.80 crs as on March 2022

On the WC side also E2E Networks has done a commendable job in FY22 with its CCC being just 1 day from 4 days last year with average debtors also reducing to 1 day in FY22 from 4 days last year. Company has stated that around 40% revenue comes from prepaid while the rest post paid takes around a month for collection from the clients

Key Competitive Moats enjoyed by E2E Networks –

E2E Networks has cleverly scaled up its operations in the last 4 years & has become a strong agile player in the Public Cloud infrastructure segment

Currently has around 2200 active clients out of its 15000 customer base it has serviced till date

Secondly E2E Networks has used its technical expertise to offer public cloud infrastructure products at very competitive prices plus giving reliability & complete security of client data as compared to other competitors thus ensuring value for money for domestic customers

The market size for the domestic Public Cloud Infrastructure is large enough to grow for the next 2-3 years as the Indian economy has now recovered strongly post covid and is expected to grow by 7 to 8% over the next 2-3 years. More importantly E2E Networks enjoys a strong domestic market hold here & it is unlikely that its competitive position will come under threat by global competition.

Experienced Management, Skilled Employee Base and the Promoters of E2E Networks have approximately an average 20 years plus experience in the IT/Cloud Infrastructure business

The majority of the company's Key Management Personnel have been employed with the company for over 5-10 years and have contributed towards the growth of the company through their commitment and experience

More importantly the domestic market, is a huge growth opportunity as data is the new opportunity for growth ahead with internet applications increasing significantly across digital, fintech, payments etc, hence going ahead growth is expected to be strong for the next 3-5 years, which essentially puts E2E Networks in a sweet spot, in this industry segment

Also E2E Networks enjoys attractive EBIDTA margins ranging between 40-44% and its operating cash flow conversion in last 2 years (FY21 & FY22) has been over 100% which indicates that it has managed its WC requirements very well

Key Weakness –

Any Negative Govt Policy or slowdown in the startup ecosystem –

Any negative development in the IT/Start up ecosystem in India could also impact E2E networks financials negatively

However both these possibilities appear to have a remote possibility as the govt of india wants to encourage Atmanirbhar Bharat wherein it wants local players to play a key and a bigger role

Also as on date there are 79000 startups in india with several enjoying unicorn status. We believe that the startup wave is unlikely to wane soon and this continued growth and significant PE investments made here in startups are a clear reflection of the interest of foreign investors in this segment

Alternatively E2E Networks has strategically decided to focus on SMEs where demand is consistent and where in it has effectively reduced its client concentration effectively. Also the runway for growth here is pretty large offering a huge growth track for E2E Networks over the next few years ahead

Business Outlook & Stock Valuation –

On a rough cut basis, in FY23E, Topline is expected to touch Rs 67 crs, followed by Rs 88 crs in FY24E and Rs 114 crs in FY25E.

On the bottomline level we expect the company to record a PAT of Rs 11.50 crs in FY23E and a cash profit of Rs 26.86 crs which is expected to bounce back to Rs 18.96 crs in FY24 with a cash profit of Rs 34.96 crs and Rs 28.30 crs in FY25 along with a cash profit of Rs 45.30 crs.

Thus on a conservative basis, E2E Networks should record a EPS & CEPS of Rs 7.94 & Rs 18.55 for FY23E. For FY24E and FY25E our expectation is that earnings traction for E2E Networks would continue to be strong wherein we expect a EPS & CEPS of Rs 13 & Rs 24 and Rs 19.54 & Rs 31 respectively.

Also another attractive point for E2E Networks is that EPS growth over the next three years between FY23 to FY25 is expected to average 55% plus YoY but valuation multiples look quite low at 14x & 8x on FY23E on net earnings & cash earnings respectively

The best part of E2E Networks business model is that there is a huge runway of growth available looking at the huge growth opportunity from Startups, and a significant upside expected in digital & fintech applications ahead. E2E Networks management has stated that it clearly sees large traction in computer vision and natural language processing – which comes under the domain of AI

Examples of Computer Vision includes driverless cars Airports, Smart cities and where email unsupported calls social media unstructured data – which is done manually – now done by MI by computers better with a structured process. More importantly more the data would mean that business for E2E Networks would grow faster ahead

Also going ahead the E2E Networks has strategically decided to fund its capex by lease finance arrangements with Tata Capital & Orix wherein the company plans to enter a 3 year lease contract which will help it conserve its own cash flow for branding & acquiring more customers. This looks quite good as payback time is now just around 12 months from an earlier period of 18 to 24 months

The company management is confident of improving EBIDTA margins going ahead via operational efficiency, higher sales force and better and large inventory options offered to customers.

Looking at E2E Network's steady financial track record, strong product domain and dominant market positioning and strong promoters we expect the stock to get re rated in future.

Hence we believe that the E2E Networks stock should be purchased at the current price for a price target of around Rs 276 over the next 12-18 months

FINANCIALS

For the Year Ended March RsCrs	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	25.10	35.30	51.87	67.43	87.66	113.96
EBIDTA	-1.20	10.34	22.94	31.69	41.20	54.70
EBIDTA %	NA	29.29	44.23	47.00	47.00	48.00
Interest	0.18	0.18	0.19	0.22	0.23	0.25
Depreciation	10.14	12.36	17.83	15.36	16.00	17.00
Non Operational Other Income	2.21	0.96	0.36	0.35	0.35	0.35
Profit Before Tax	-9.31	-1.24	5.28	16.46	25.32	37.80
Profit After Tax	-9.35	-1.24	6.45	11.50	18.96	28.30
Diluted EPS (Rs)	NA	11.70	4.45	7.94	13.09	19.54
Cash Profits	0.79	11.12	24.28	26.86	34.96	45.30
CPS Rs	0.55	7.71	16.77	18.55	24.14	31.28
Equity Capital	14,29	14.43	14.48	14.48	14.48	14.48
Reserves	10.04	12.98	23.98	35.48	54.44	82.74
Borrowings/Lease	0.00	3.80	2.10	12.00	25.00	40.00
Gross Block	56.00	39.00	67.00	92.00	127.00	167.00
Investments	0.00	0.00	0.00	0.00	0.00	0.00

Source Historical data source - Company. Projections are as per our estimates

KEY CONCERNS

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Also any negative development in the IT/Start up ecosystem in India could also impact E2E networks financials negatively

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