

**Objectives**

- Content Development up to 70 subjects
- Establishment of HEAL Laboratories
- Establishment of Regional HEADS offices
- Development and Implementation centralized LAMPS Portal Engine.
- Promotional, Trademark, copyright IP rights Expenses
- Issue related expenses.

Background

Edserv was originally promoted as Lambent Systems Pvt Ltd on March 13, 2001 and through subsequently name changes, today operates as Edserv Softsystems Ltd.

Edserv started operations primarily in the software development, training and staffing solutions space. However, the company's operations have undergone significant changes since inception. In FY06, the company sold its entire software project development business and fixed asset (except the Intellectual Property rights of product developed) to Onsec Technology Solutions Ltd and had no operation during entire 2006-2007 period as well as the early part of 2007-2008.

In October 2007, the company acquired ELMAQ from OTPL. (ELMAQ is a instructor led training division)

IPO INFORMATION

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|---------------------------|---|
| Issue Open | Feb 05, 2009 |
| Issue Close | Feb 09, 2009 |
| Issue Type | Book Build Issue |
| Issue Size | 39,73,908 Equity Shares. |
| Face Value | Rs.10 /- |
| Issue Price | Rs.55/- to Rs.60/- |
| Market Lot | 100 Shares |
| Min order quantity | 100 Shares |
| Listing | BSE , NSE |
| IPO Grading | 1 |
| Lead Manager | Keynote Corporate Services Ltd, Ashika Capital Ltd |
| Registrar | Karvy Computershare Pvt Ltd |

Company Information**Capitalization**

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|--|------------------|
| Authorized Capital | Rs.14cr |
| Paid-Up Capital | Rs.8.03cr |
| Present Issue to the public | Rs.3.97cr |
| Paid-Up Capital after the Issue | Rs.12cr |

Share Holding Pattern

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| No of Shares Outstanding | 80320920 |
| Indian (Promoter & Group) | 45.35% |
| Non Promoter (Non-Institutions) | 54.65% |

Financial Data As on March 2008

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|--------------------------------|------------------|
| Turnover of the company | Rs.3.95cr |
| PBT | Rs.3.03cr |
| PAT | Rs.2.53cr |
| Balance Sheet Size | Rs.8.06cr |
| Networth | 7.16cr |
| Working Capital | Rs.5.92cr |
| EPS | 9/- |
| NAV | 25.48 |



| | | | | | | | |
|--|----------------------------------|--|--|--|--|---------|--|
| | Summary of Financial data | | | | | (Rs.cr) | |
|--|----------------------------------|--|--|--|--|---------|--|

| Year /Period Ended | 30.9.2008 | 31.3.2008 | 31.3.2007 | 31.3.2006 | 31.3.2005 | 31.3.2004 |
|--------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Sales | 4.34 | 3.94 | 0.18 | 0.38 | 0.71 | 0.92 |
| Other Income | 0.15 | 0.01 | 0 | 0.02 | 0 | 0.03 |
| PBIDT | 2.34 | 3.23 | 0.07 | 0.2 | 0.32 | 0.23 |
| PBDT | 2.34 | 3.16 | 0.01 | 0.14 | 0.26 | 0.17 |
| PAT | 1.82 | 2.53 | 0.01 | 0.23 | 0.04 | 0.00 |
| Networth | 10.44 | 7.16 | 0.78 | 0.77 | 0.54 | 0.43 |
| Capital Employed | 11.55 | 8.06 | 1.25 | 1 | 0.91 | 0.93 |
| EPS | 4.79 | 9.00 | 0.14 | 10.00 | 1.74 | 0.00 |
| Book Value | 12.47 | 25.48 | 10.68 | 33.48 | 23.48 | 26.88 |

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| | Results View | |
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Edserv's total Income has been steadily coming down from FY04 to till the sale of entire business during FY06. Total Income declined from Rs.0.92cr in FY04 to Rs.0.38cr in FY06. The company did not have any operations in FY07.

However, in FY08, the company reported a PAT of Rs.2.53cr on an income of Rs.3.95cr. The income stream consisted of the one time non-refundable sing up income form franchisees for its new HEADS business model, project income on account of the installation and other customization activities carried out for the franchises of the HEADS model and the revenues from the ELMAQ training division acquired during the year.

OUTLOOK: Going forward, HEADS business model will form substantial part of Edserv's revenues. Competition for the new business model can come from the numerous training and placement companies. Under these circumstances, the ability of **Edserv** with its limited resources, to ensure market acceptance for its model of training and placement by itself would be a key challenge. Moreover, the other operations of Edserv are relatively insignificant and Edserv will largely bank on a yet to be successfully demonstrated HEADS model for its future growth.

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| | Industry Outlook | |
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The Indian IT industry is going through times of uncertainly. The global slowdown has lead to concerns on the IT budgets of companies. The volatility in the movement of US dollar has lead to cross currency headwinds. The depreciation of the rupee against the US dollar could be benefiting the Indian IT sector but Forex Losses through hedging instruments may be a real threat.

Projecting growth for Indian IT industry would be very difficult during the current unpredictable business scenario. As per NASSCOM, the Indian IT services Industry could face uncertain business environment over the next 18 moths as new deals are slow in forthcoming as there is a sizable cut in IT spending due to the US recession and the slowdown in Europe.



| COMPARISON WITH INDUSTRY PEERS (data as on March 2008) | | | | | | | | | |
|--|--------|------------|-------------|------------------|----------------|---------|---------|----------------------------|--|
| Company Name | Equity | Face Value | Sales Rs.cr | Net Profit Rs.cr | Book Value Rs. | EPS Rs. | P/E (x) | Market Price Rs.(28/1/09) | |
| Edserv | 2.81 | 10 | 3.95 | 2.53 | 25.48 | 9.02 | (6.37) | 55-60 | |
| Software Tech | 12.50 | 10 | 18.30 | 1.80 | 19.60 | 1.40 | 4.28 | 6 | |
| NIIT | 32.99 | 2 | 467.40 | 32.90 | 22.00 | 2.00 | 11.00 | 22 | |
| Everonn Systems | 13.85 | 10 | 91.20 | 13.30 | 68.34 | 8.80 | 21.47 | 189 | |
| Educomp Solution | 17.28 | 10 | 262.10 | 70.10 | 161.20 | 40.10 | 44.31 | 1777 | |

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| Risk Factors |
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HIGHLY EXPENSIVE PROJECTS: The project which the company has undertaken is highly expensive. The approximate requirement of fund is Rs.27.48cr, higher than its size of balance sheet. Moreover, its turnover also not in a double digits.

Cost Break-up:

| Particulars | Req of funds |
|---------------------------------|--------------|
| Content Development | 11.20cr |
| Establishment of HEAL lab | 10.38cr |
| Establishment of HEADS offices | 2.75cr |
| Centralized Lamps Portal Engine | 1.10cr |
| Promotion expenses | 2.05cr |

HIGHLY COMPETITIVE PRESSURE:

The market for IT services and solutions are rapidly evolving and highly competitive. Company may faces competition from major national and international companies in India.

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| Return Factors |
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START UP PHASE:

During the FY08, Business Life Cycle began, after sale of entire business during FY06. The start-up phase probably have a cash flow crisis and unexpected expenses. But here, the company made sufficient operating cash flow worth Rs.0.56cr in FY08 and Rs.1.78cr as on 30/9/2008. Moreover, the company has sufficient working capital worth Rs.5.92cr as on Q2FY08.

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| Conclusion |
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The company's track record is far from inspiring. Also, neither the Business model is exciting nor is the project conceived currently. Hence, the issue is not worth investing, especially at current depressed times. AVOID.

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