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## Take Five

Scrip	Reco Date	Reco Price	CMP	Target
♦ 3i Infotech	06-Oct-05	132	189	244
♦ BEL	26-Sep-06	1,108	1,101	1,525
♦ India Cements	28-Sep-06	220	217	315
♦ Lupin	06-Jan-06	403	501	565
♦ UTI Bank	24-Feb-05	229	474	490

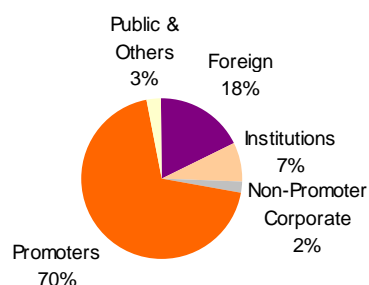
# HCL Technologies

**Ugly Duckling**
**Stock Update**
**A pact with Celestica**
**Buy; CMP: Rs628**

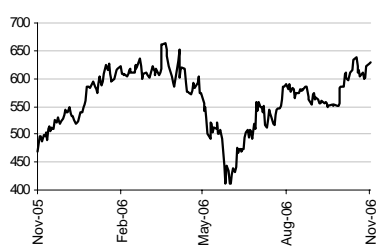
## Company details

Price target:	Rs720
Market cap:	Rs20,327 cr
52 week high/low:	Rs707/362
NSE volume: (No of shares)	4.4 lakh
BSE code:	532281
NSE code:	HCLTECH
Sharekhan code:	HCLTECH
Free float: (No of shares)	9.9 cr

## Shareholding pattern



## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	7.6	7.4	9.6	35.2
Relative to Sensex	2.2	-10.5	-0.7	-15.8

HCL Technologies (HCLT) has entered into an agreement with Celestica Inc. to form a joint venture that would offer complete concept-to-manufacture solutions to original equipment manufacturers (OEMs) globally. Celestica is one of the leading electronic manufacturing service (EMS) companies globally and also has expertise in supply chain management. The idea behind the joint venture is to leverage Celestica's strengths (in manufacturing and supply chain management) jointly with HCLT's capabilities in the engineering service space (that includes product design services) to provide an innovative offering (end-to-end solution) to the OEMs globally.

### Tapping the huge potential in the engineering service space

The outsourcing opportunity in the engineering service segment is touted to be the next big frontier for the Indian information technology service companies. According to a study conducted by Nasscom, the size of the opportunity for the Indian companies is estimated to grow to \$40 billion by 2020. The joint venture is likely to provide the required competitive edge for HCLT to effectively tap the huge opportunity in the outsourcing of engineering services.

For HCLT, the joint venture provides the following advantages:

- ♦ innovative offerings in terms of a complete solution to the OEMs, provides the required differentiation to its engineering service practice.
- ♦ access to Celestica's existing client base of large and leading OEMs globally.

The management expects to scale up the operations to generate annual revenues of around \$100 million in the next five years. To begin with, HCLT would set up a design centre and employ 200 professionals. We don't expect the joint venture to make any significant contribution in the current fiscal.

### Valuation

At the current market price the stock trades at 19.6x FY2007 and 15.6x FY2008 estimated earnings. We maintain our Buy call on the stock with a price target of Rs720 (18x FY2008 estimated earning).

### Key financials

Particulars	FY2005	FY2006	FY2007E	FY2008E
Net sales (Rs cr)	3,362.7	4,388.3	6,051.7	7,843.0
Net profit (Rs cr)	609.1	773.9	1,039.3	1,311.5
Nos of equity shares (cr)	32.1	32.2	32.5	32.7
EPS (Rs)	19.0	24.1	32.0	40.2
% y-o-y chg	15.2	26.9	32.9	25.6
PER	33.0	26.0	19.6	15.6
OPM (%)	22.7	22.2	21.8	21.5
Dividend (Rs)	16	16	16	16
Dividend yield (%)	2.6	2.6	2.6	2.6

The author doesn't hold any investment in any of the companies mentioned in the article.

## Evergreen

HDFC Bank  
 Infosys Technologies  
 Reliance Industries  
 Tata Consultancy Services

## Apple Green

Aditya Birla Nuvo  
 ACC  
 Bajaj Auto  
 Balrampur Chini Mills  
 Bank of Baroda  
 Bank of India  
 Bharat Bijlee  
 Bharat Electronics  
 Bharat Heavy Electricals  
 Canara Bank  
 Corporation Bank  
 Crompton Greaves  
 Elder Pharmaceuticals  
 Grasim Industries  
 Hindustan Lever  
 Hyderabad Industries  
 ICICI Bank  
 Indian Hotels Company  
 ITC  
 Mahindra & Mahindra  
 Marico Industries  
 Maruti Udyog  
 Lupin  
 Nicholas Piramal India  
 Omax Autos  
 Ranbaxy Laboratories  
 Satyam Computer Services  
 SKF India  
 State Bank of India  
 Sundaram Clayton  
 Tata Motors  
 Tata Tea  
 Unichem Laboratories  
 Wipro

## Cannonball

Allahabad Bank  
 Andhra Bank  
 Cipla  
 Gateway Distriparks  
 International Combustion (India)  
 JK Cement  
 Madras Cement  
 Shree Cement  
 Transport Corporation of India

## Emerging Star

3i Infotech  
 Aban Offshore  
 Cadila Healthcare  
 KSB Pumps  
 Marksans Pharma  
 Navneet Publications (India)  
 New Delhi Television  
 Orchid Chemicals & Pharmaceuticals  
 ORG Informatics  
 Solelectron Centum Electronics  
 Television Eighteen India  
 Thermax  
 TVS Motor Company  
 UTI Bank  
 Welspun Gujarat Stahl Rohren

## Ugly Duckling

Ahmednagar Forgings  
 Ashok Leyland  
 BASF India  
 Deepak Fertilisers & Petrochemicals Corporation  
 Genus Overseas Electronics  
 HCL Technologies  
 ICI India  
 India Cements  
 Jaiprakash Associates  
 JM Financial  
 KEI Industries  
 NIIT Technologies  
 Punjab National Bank  
 Ratnamani Metals and Tubes  
 Sanghvi Movers  
 Saregama India  
 Selan Exploration Technology  
 South East Asia Marine Engineering & Construction  
 Subros  
 Sun Pharmaceutical Industries  
 Surya Pharmaceuticals  
 UltraTech Cement  
 Union Bank of India  
 Universal Cables  
 Wockhardt

## Vulture's Pick

Esab India  
 Orient Paper and Industries  
 WS Industries India

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