

Software Sector - Introspection Time

December 09, 2003

Trading Buy :(BSE IT Index -1865)

BSE Sensex - 5229

Software stocks are appearing ominous on the charts. Some have already declared their intention of where they want to go in the medium term, while others are making up their minds before they set off. The fundamental side to the software story remains mired in circumspection of what might transpire in 2004. Issues such as U.S. GDP growth and resultant quantum of IT Budget expansions and outsourcing, wage cost inflation, price of the greenback and some more, adds vicious spin to the software tale. The strengthening rupee imparts 'reverse swing' to an already wobbly delivery. Analysts, money managers and speculators are understandably skeptical about valuations.

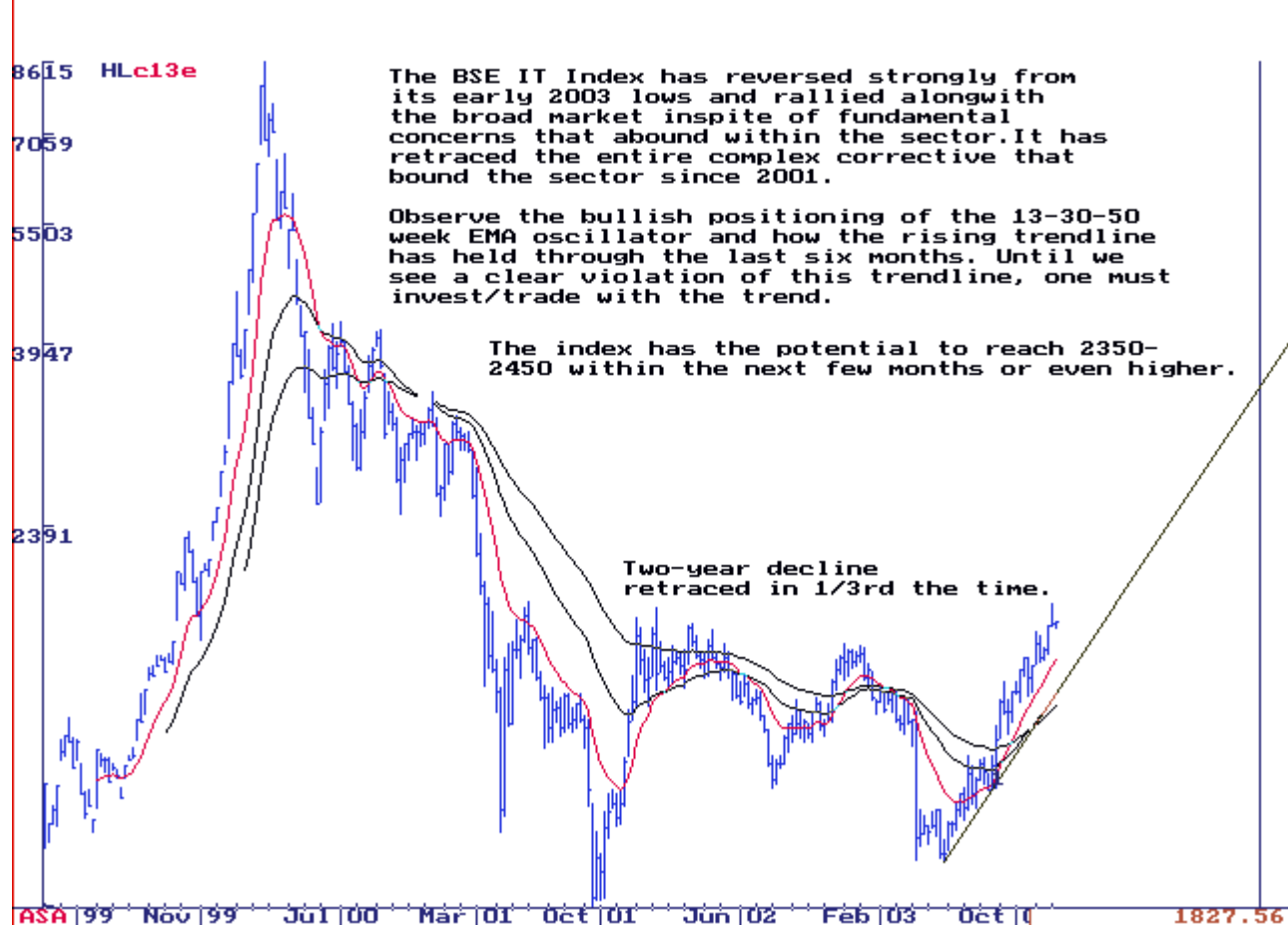
And yet, observe that the sector as a whole has rallied inexorably through the entire stretch of the bull rally in India, brushing aside each of these bearish canards along the way with utter disdain.

	% gain	
Index	28/04/2003 #	YTD
Sensex	74.7%	51.4%
BSE IT	83.5%	7.2%

being significant low for present rally

Clearly, each of these concerns are 'in the price' and have lost their ability to hurt stock prices any more. What probably isn't is the potential upsides from a better than anticipated external environment, a bet the 'smart money' has apparently already made. This market knows or expects something that the crowd hasn't yet latched onto yet. And it's there for us to see in the manner in which software stocks are being traded and priced. From a pure technical standpoint, which is what the brief of this note is, software stocks are set to rally further in the weeks/months ahead. In this note we have taken particular note of some noteworthy stocks that have, which appear particularly interesting. The rest have similar patterns and characteristics.

F2:move F3:screen F4:tool F5:swtch F6:oscill F7:studies F8:tune F9:hot keys
 BSE I.T. SECTOR INDX(INDX)(05-02-99 TO 08-12-03)Weekly



Wipro (Rs.1548)

Wipro's price action mimics the BSE IT Index closely. While the BSE IT Index has retraced the 3-year corrective completely, Wipro is still short of achieving that. This gives us an imminent short-term target of 1850-1950. Beyond that one could see significantly higher price targets of even 3000 in 2004. Incredulous? Well even 1500 was a bridge too far when we were at 900 for Wipro, remember?



Infosys Technologies (Rs.4976)

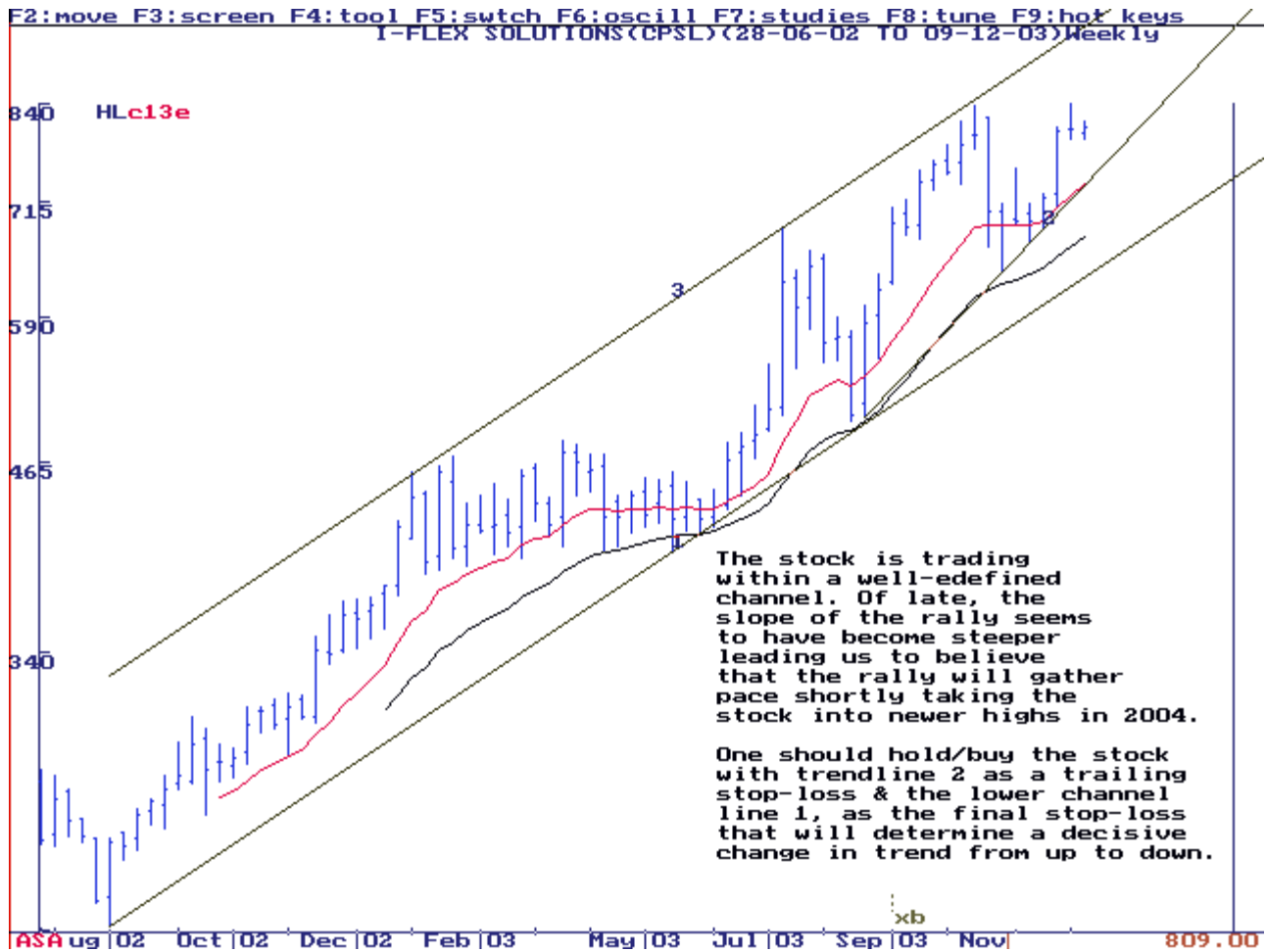
Infosys's chart resembles the BSE It and Wipro charts too. However Infosys has completely retraced the 3-year corrective referred earlier. The stock is strongly trended up and supported by the rising 13-week EMA. The stock has strong relative strength as well and oscillators indicate further higher prices in 2004.



I-Flex Solutions (Rs.809)

I-Flex Solutions has been one of the strongest stocks in the sector. The stock's move has been channeled and makes for easy trading in that sense. Buy along the lower end of the channel and sell along the top end. However of late its rally has become steeper indicating a further stronger shift in upward momentum. This could take prices even further higher and possibly create another steeper trading channel, with trendline #2 being the lower channel line.

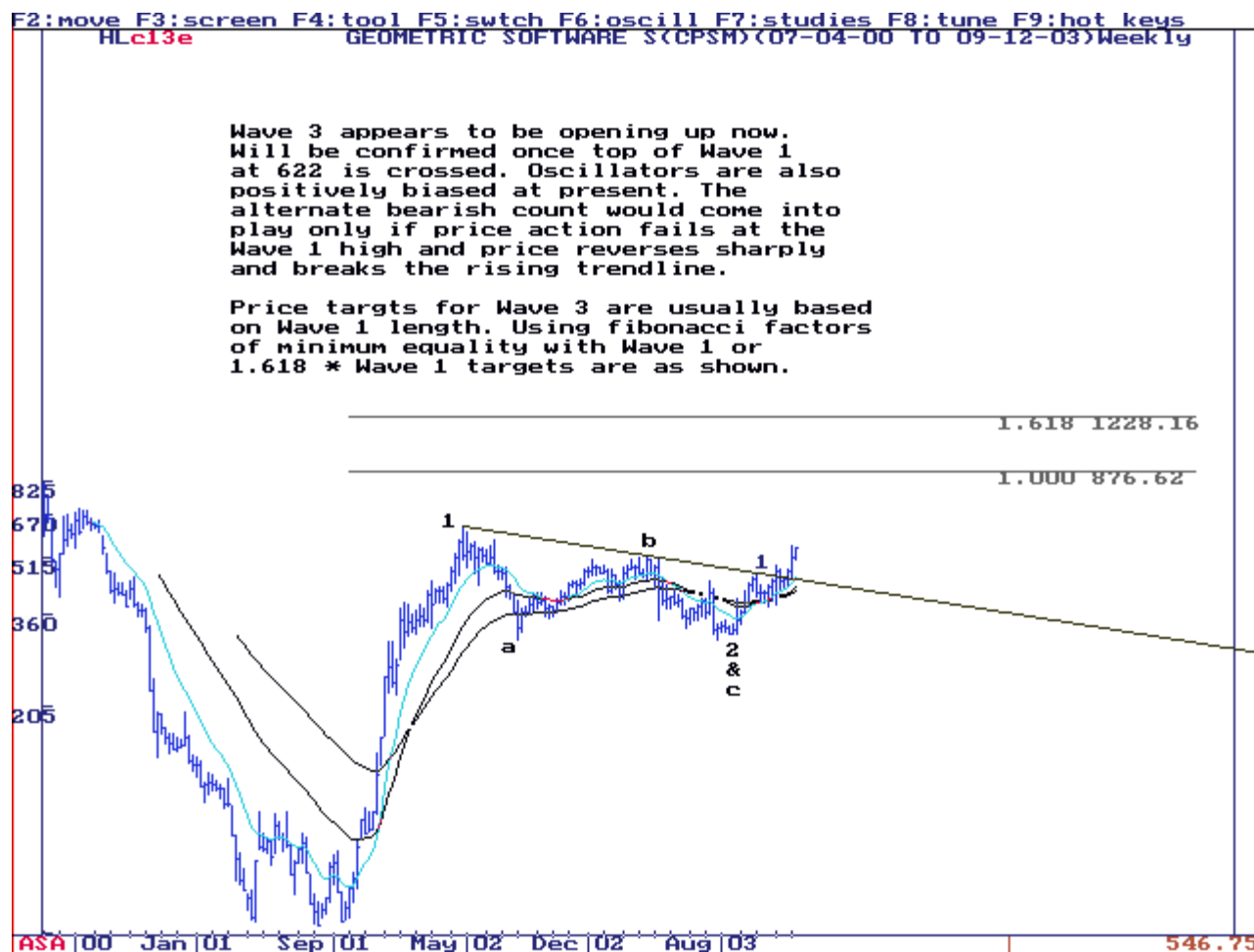
A break of either of the lower channel lines would spell a serious enough change in the underlying trend. For now, **BUY**.



Geometric Software (Rs.547)

Geometric Software looks among the most promising of mid-cap software stocks. It has a relative shorter history of trading but it's enough to suggest that the stock may have already begun its long journey upwards that may well see the stock double from current levels.

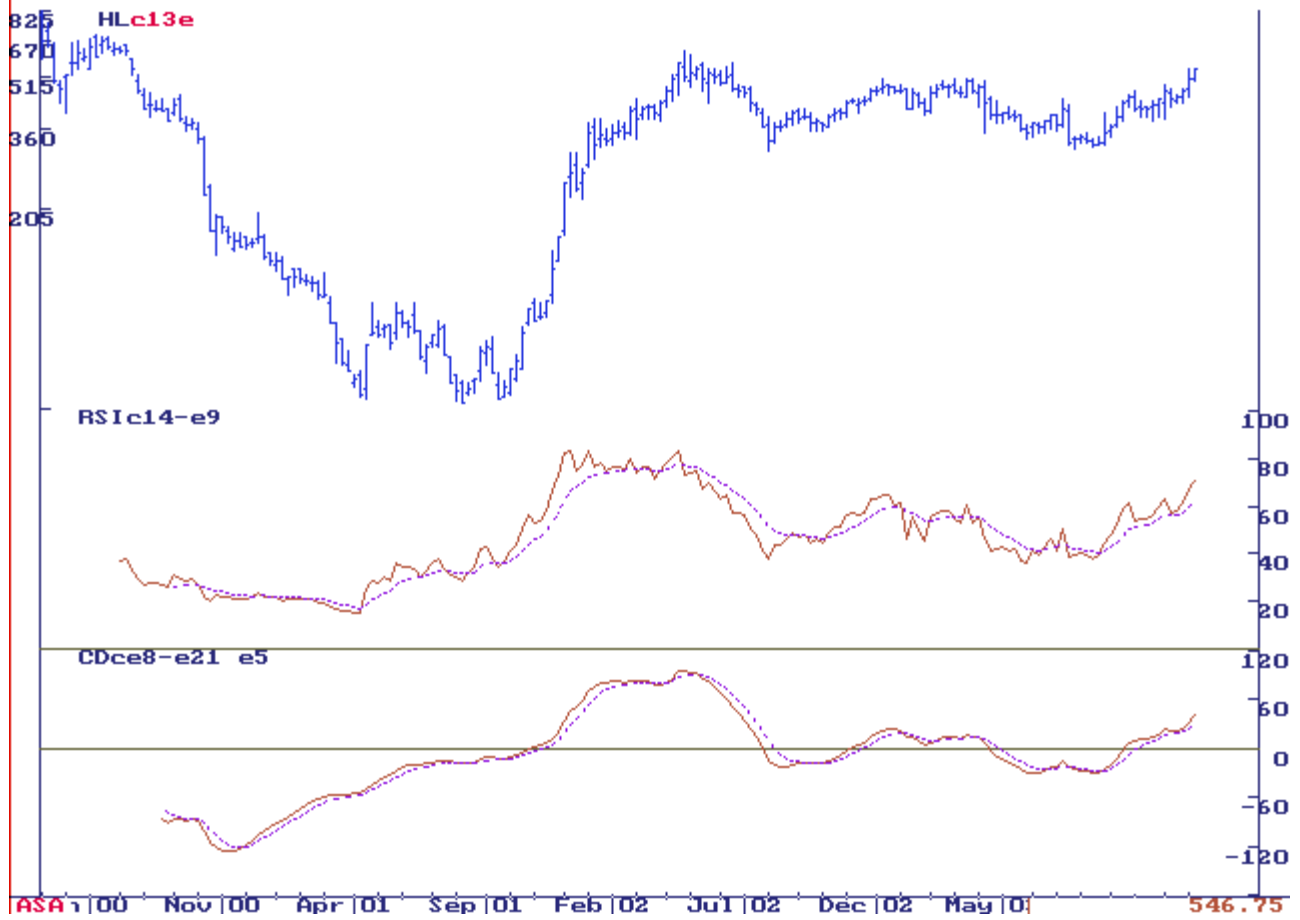
Observe that the stock's rally from September 2001 lows in 2001-02 marked either wave 1 or A leg upwards. This move ended at 622 in April 2002 from where the stock has corrected itself by 50% for the last eighteen months. This when a majority of stocks were making subsequent new lows. Now that sector leaders are making new highs, this stock too looks destined to follow suit.



The stock's next leg of a potential rally, labeled wave 3 may be underway and will be confirmed once it gets past 622. Already the declining trendline holding the 18-month correction in place has been breached upwards.

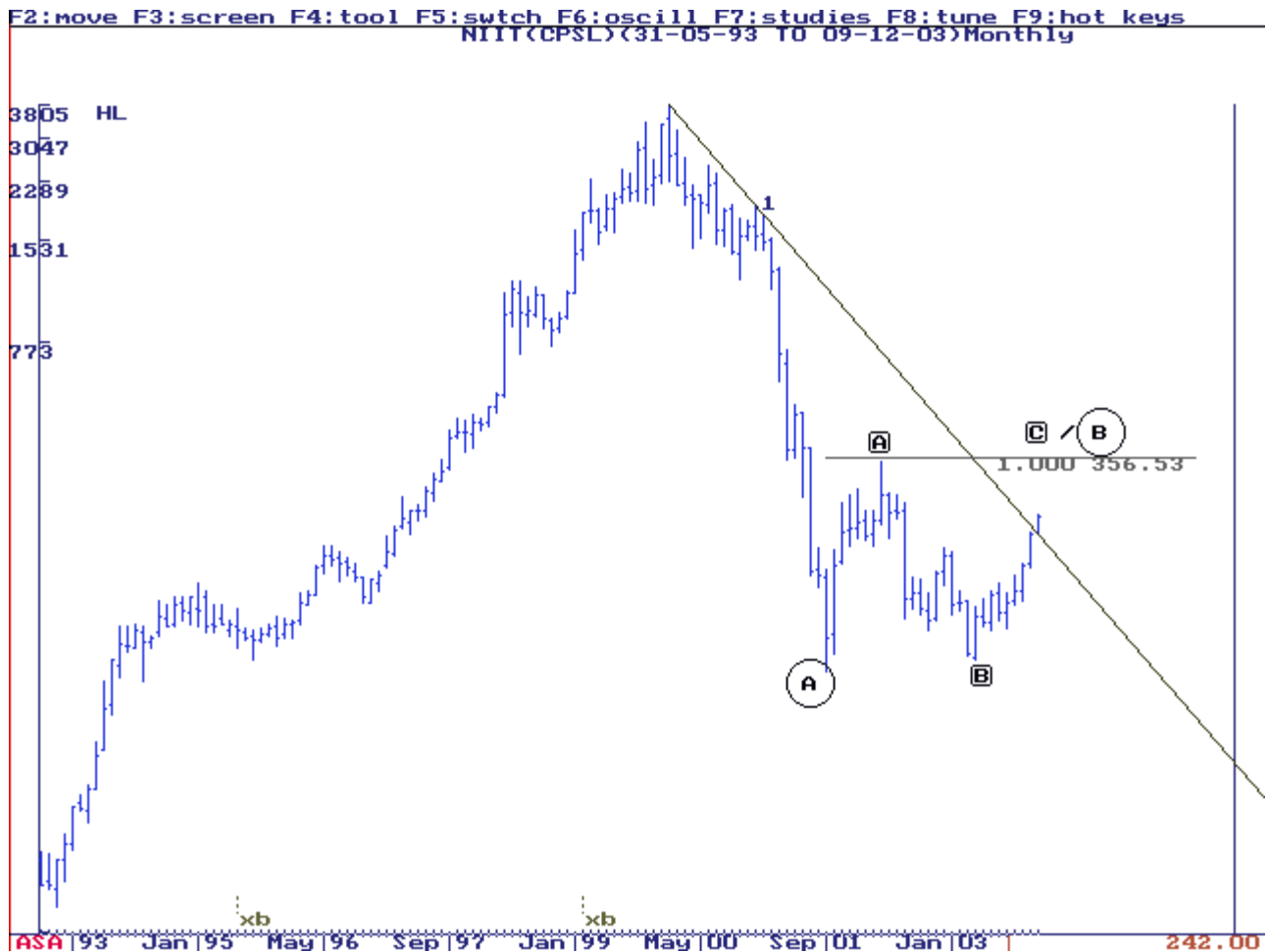
This move can come unstuck if - price action fails at or around 622 and price fall sharply to break the short-term trendline. In this case, we may have to revisit our wave count. However we get strong backup evidence from mechanical oscillators, especially the 13-30-50 week EMA oscillator, which has turned up in a classical convergent manner.

If what we say indeed transpires, then the unfolding wave 3 should be atleast equal to wave 1, giving it a price target of around 875-880. A common co-relation of 1.618X wave 1 places the target at 1220-1230. Geometric should be bought immediately. Since the upmove has been a bit steep the stop loss levels tend to be a bit distant at 468.50, the last swing high in October 2003, which if overlapped could mean that this rally was corrective in nature and one may have to wait for another opportunity for the primary rally to begin. For now, Geometric is a **BUY**.



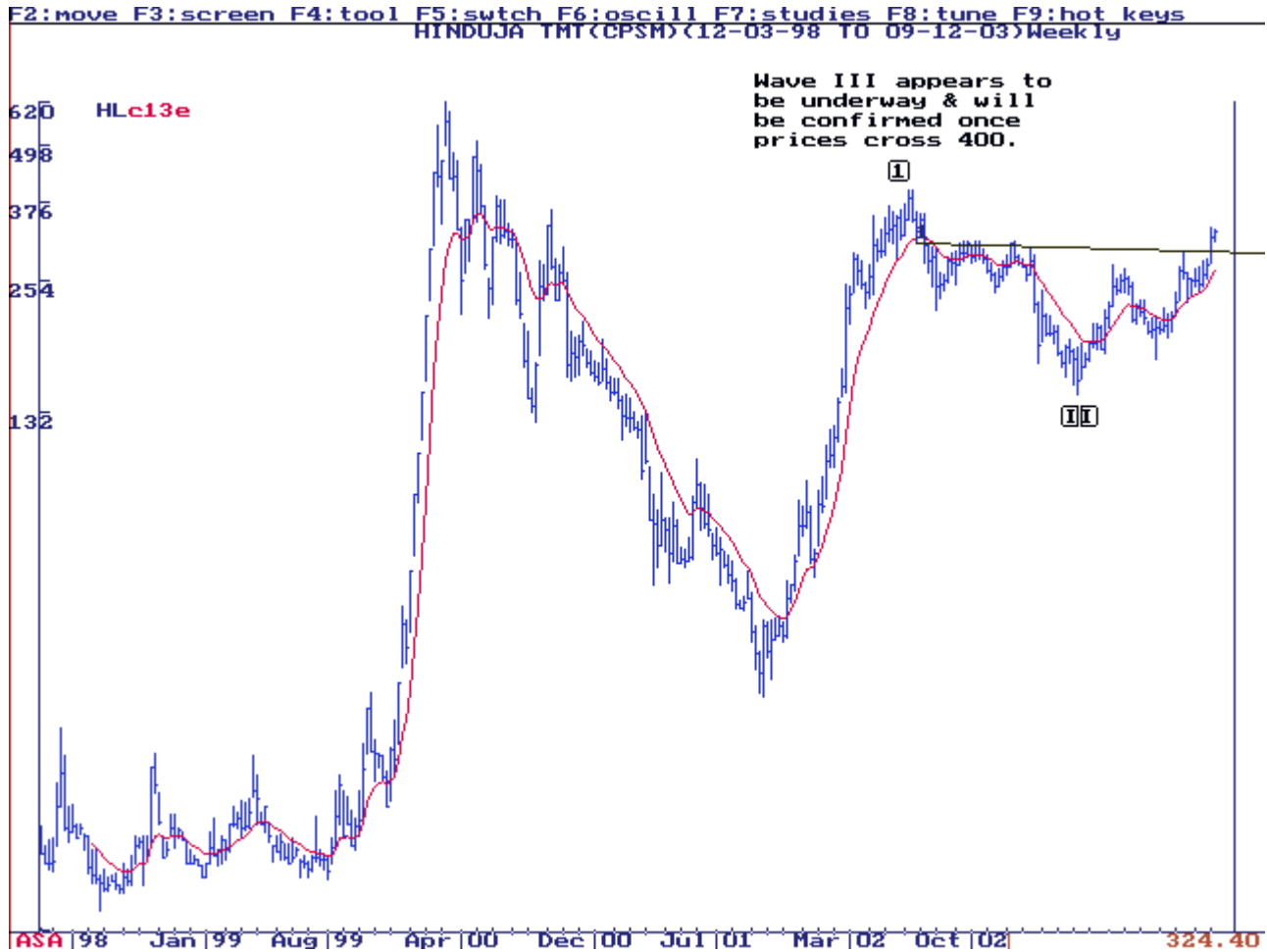
NIIT (Rs.242)

NIIT looks very promising inspite of its superb showing in recent weeks. To get the big picture on NIIT, take a look at the long-term monthly price chart. Note the near double bottom kind of reversal from where the stock is now staging a strong rebound. Our preferred wave counts (not elaborated for reasons of brevity) puts the stock's minimum upside at the April 2002 high of 350 or thereabouts. The 'more' bullish alternative would place the stock well beyond should it get past 350. We shall review it then. For now, we would buy the next sharp decline towards 200, since its current rally has been very steep and rendered it a tad overbought currently.



Hinduja TMT (Rs.324)

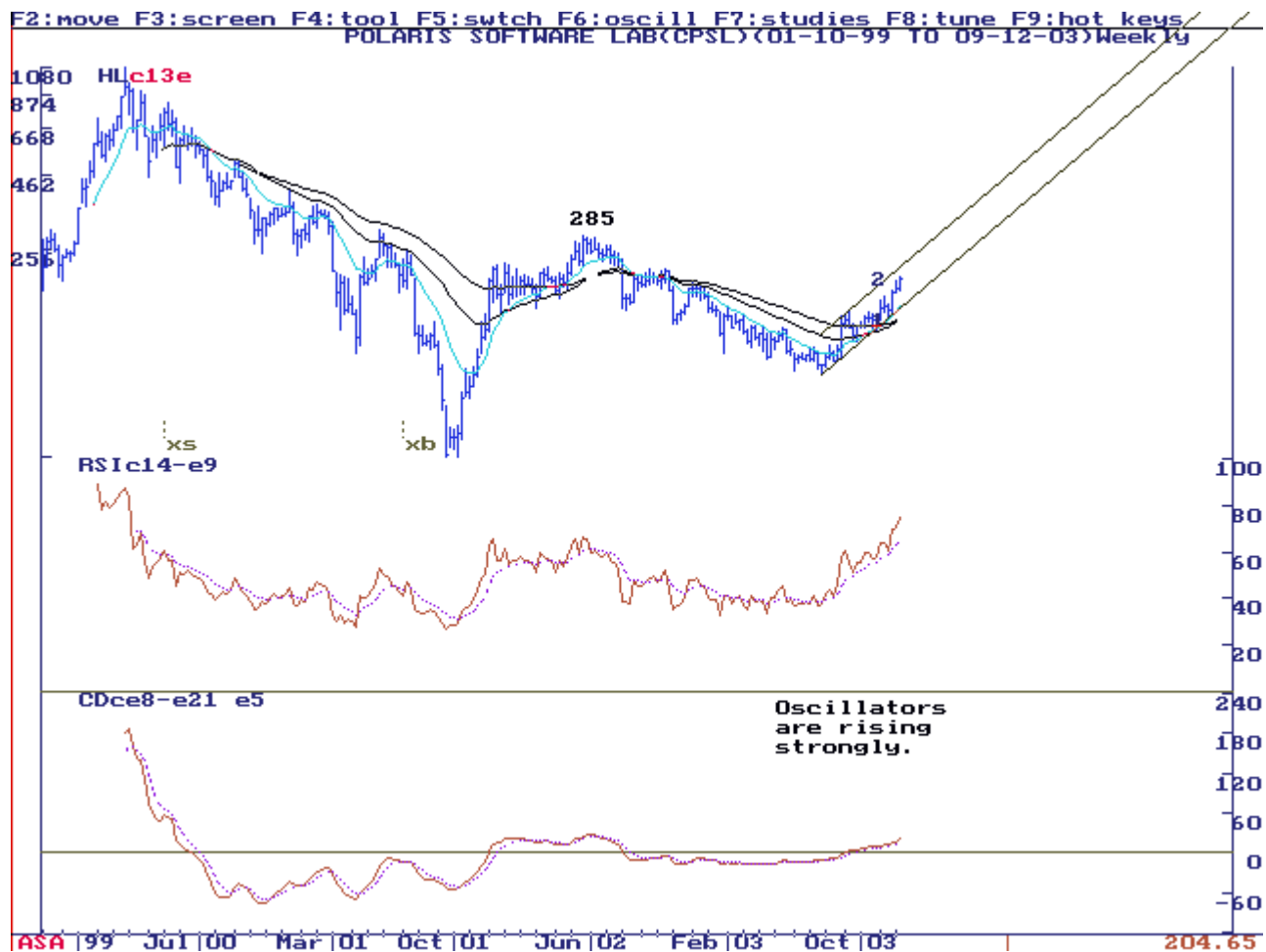
Here's another stock with a chart pattern similar to Geometric. A wave 3 seems underway which would propel the stock to a new high. Already the weekly chart shows a strong uptrend developing with an inverted head and shoulder pattern being confirmed almost. Now all it needs to do is get past wave 1 high of 400. The wave 3 targets based on the same premise as we did in the case of Geometric, gives us a minimum price target of 520-525 and a more ambitious one of 750.



Polaris Software (Rs.205)

Polaris' price action is ominously bullish. The stock appears to have prematurely terminated its long-term correction at 95 by failing to go all the way down to complete the bottom testing, as it should have. Such occurrences normally lead to a powerful counter-move in the opposite direction, in this case, up!

The uptrend from the 95 low of July 2003 looks quite well developed and set for making new highs in the weeks ahead. The extent of this thrust should take it to atleast 280-285, its last important high in May 2002. Once it gets past 285, then substantially higher prices are possible. The oscillators are solidly bullish and betray no signs of exhaustion. Polaris should be traded with the upwards-sloping trendline as the trailing stop loss.



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