Indian Stocks Climb to Record on Modi Optimism as Rupee Rallies

By Santanu Chakraborty - May 19, 2014

Lenders and metal makers led Indian shares to a record high, offsetting losses in software and health-care companies, as Narendra Modi’s election victory spurred stocks that benefit most from a stronger economy.

State Bank of India jumped 4.4 percent, sending a gauge of lenders to a record. Sesa Sterlite Ltd. (SSLT) headed for its highest level in more than two years. Software exporter Tata Consultancy Services (TCS) Ltd. and drugmaker Dr. Reddy’s (DRRD) Laboratories Ltd. paced a decline in defensive stocks. The rupee strengthened 0.5 percent to an 11-month high.

The S&P BSE Sensex (SENSEX) rose 0.6 percent to 24,266.55 at 11:58 a.m. in Mumbai. Narendra Modi’s opposition bloc swept to power on May 16 as voters tired of sluggish economic growth and graft handed a historic defeat to the ruling Congress Party. The win puts Modi in a position to pass measures to bolster Asia’s third-biggest economy, spurring optimism it will lead a recovery among the largest emerging markets.

“Investors are buying cyclicals on optimism the economy will turn around within the next two years,” R.K. Gupta, managing director of Taurus Asset Management Co., which oversees about $585 million, said by phone from New Delhi. “Software and drug exporters are under pressure as a strong rupee will erode their margins.”

Nine of the 10 top gainers in the MSCI Emerging Markets Index, which rose 0.2 percent today, are Indian stocks. REC Ltd. and Power Finance Ltd. jumped at least 10 percent each. Software exporters Tata Consultancy Services and Infosys Ltd., and Sun Pharmaceuticals Ltd., led declines on the gauge.

The CNX Nifty Index on the National Stock Exchange of India Ltd. gained 0.6 percent to 7,243.70, an all-time high. The S&P BSE Small Cap Index jumped 3.8 percent, the most since February 2011, as 339 of the 448 stocks on the gauge advanced.

Potential Growth

The Sensex has climbed 14.5 percent this year and trades at 15 times projected 12-month earnings, the most expensive level since May 2011. The MSCI Emerging Markets Index is valued at 10.7 times, data compiled by Bloomberg show.

Modi’s Bharatiya Janata Party and its allies won about 61 percent of seats in parliament as voters punished the Congress alliance for slowing growth, graft and Asia’s second-fastest inflation. If Modi...
pursues the anti-corruption policies he’s promised, India has the potential to grow about 10 percent annually for the next 20 years, according to Jim O’Neill, former chairman of Goldman Sachs Asset Management.

State Bank advanced to its highest level since January 2013. Mortgage lender Housing Development Finance (HDFC) Corp. climbed 3.7 percent. The BSE Bankex rose 2.2 percent to a record high.

Sesa Sterlite Ltd., India’s biggest copper and aluminum producer, climbed 4.7 percent. The BSE Metal Index climbed 5 percent, the top gainer among all the BSE sectoral indexes. Coal India (COAL) jumped 8.8 percent.

**Software, Drugmakers**

Tata Consultancy plunged 5.7 percent to the lowest level since Dec. 16. Infosys Ltd. and Wipro Ltd. dropped more than 4.5 percent each. The BSE IT Index fell 5 percent.

Dr. Reddy’s dropped 3.6 percent after falling to a five-year low earlier. Sun Pharmaceutical Industries Ltd. (SUNP) lost 5.5 percent, most since March 2012. The BSE Healthcare Index declined 3.5 percent, poised for the sharpest decline since December 2010.

Modi, the son of a tea seller, is favored by business leaders because of his record in Gujarat. The state he’s led since 2001 has attracted investments by companies such as Reliance Industries (RIL) Ltd. and Ford Motor Co., while its per capita income nearly quadrupled during his tenure to 61,220 rupees ($1,040), faster than the national average.

Aberdeen Asset Management Plc (ADN), Mirae Asset Management Co. and Nomura Holdings Inc. predict the rupee will extend a world-beating rally as India’s clearest election verdict in three decades boosts confidence.

Overseas investors bought a net $196.5 million of domestic shares on May 15, taking this year’s inflows to $6.8 billion. Global funds bought a net $615 million of Indian stocks on May 16, the highest single-day inflow since March 21, according to provisional data from the exchanges.

To contact the reporter on this story: Santanu Chakraborty in Mumbai at schakrabor11@bloomberg.net

To contact the editors responsible for this story: Michael Patterson at mpatterson10@bloomberg.net

Phani Varahabhotla, Ravil Shirodkar