

## Modi's \$72 Billion Wage Bonanza Spells Stimulus for India Stocks

Rajendra Diwakar, a bureaucrat in India's commerce ministry, has been wanting to buy his wife a car, but with an annual salary of about \$10,000 his wish has remained just that. Prime Minister Narendra Modi may soon offer him a helping hand.

Modi's weighing proposals by a panel to double wages in a move that may prompt the country's 29 states to make their own adjustments. If accepted, the size of the stimulus could swell to as much as 4.8 trillion rupees (\$72 billion), or 2.8 percent of gross domestic product by March 2017, Credit Suisse Group AG estimates.

The first civil service pay rise in a decade can be a windfall for India's \$1.4 trillion stock market that's headed for its first annual loss in four years. The higher payouts may boost the fortunes of companies from Maruti Suzuki India Ltd. to broadcaster Zee Entertainment Enterprises Ltd. at a time when El Nino-linked dry weather curbs rural incomes, according to Macquarie Capital Securities India Pvt. and Credit Suisse.

The panel's proposals "will put a lot of money in the hands of consumers in one shot," Vikas Gupta, an executive vice president at Mumbai-based Arthveda Fund Management, said by phone. "2016 will be a year of consumption. There's no question about it." He favors two-wheeler makers and auto-parts companies.

Shares of Maruti, the largest carmaker, HDFC Bank Ltd., the most valuable lender, Eicher Motors Ltd., which produces Royal Enfield motorcycles, and Asian Paints Ltd., can return a combined 21 percent on average over the

next 12 months, according to Rakesh Arora, the head of research at Macquarie.

## Auto, Appliances Makers' Shares May Extend Rally



Incremental spending by as many as 34 million workers and pensioners is likely to be the highest on housing, processed foods and entertainment, Credit Suisse said in a Nov. 30 report. Ultratech Cement Ltd., Hindustan Unilever Ltd. and appliances maker Havells India Ltd. are among companies that will benefit, the brokerage said.

The optimism is not without basis, if history is any guide.

India last increased salaries in October 2008 for a raise of as much as 40 percent, a month after Lehman Brothers Holdings Inc. collapsed. The payout fueled a 306 percent surge in an index of automakers in the two years through December 2010, while a gauge of consumer appliances tripled. The Sensex doubled.

Local money managers are betting on a repeat. Auto and auto-parts companies made up 10.3 percent of the \$62 billion they held in equities as of Oct. 30, up from 8.4 percent in April 2014, data from the regulator show. Their stakes in consumer durables climbed to 1.4 percent from 1 percent in

this period. Maruti Suzuki is the best-performing stock on the Sensex this year, while Asian Paints has climbed 14 percent. The 30-stock gauge fell 0.2 percent at 9:55 a.m. in Mumbai, heading toward a second weekly decline.

## Global Deflation

Increased consumption alone won't rescue Indian equities from waning global demand that's pushed commodities from oil to copper to multi-year lows, according to Equinomics Research Pvt. The Sensex has slumped about 15 percent from its Jan. 29 record as global funds bought the least amount of shares since 2011 amid cooling demand for emerging-market assets.

"What's happening globally is more worrying than India's improving economic fundamentals," Chokkalingam G., managing director at the Mumbai-based Equinomics, said by phone. "We're facing problems due to the global slowdown and falling exports."

Bulls say the stimulus could not have come at a better time: credit growth is hovering near a 20-year low and exports have fallen for 11 straight months. Private consumption growth may expand 80 basis points to 8.6 percent in the year starting April 1, according to Nomura Holdings Inc.

"Urban consumption's growth trajectory will get a further stimulus," said Sanjay Kumar, chief investment officer at Mumbai-based PNB MetLife India Insurance Co., which has \$2 billion in assets. "Urban demand is being driven by the upturn in the economy and higher purchasing power due to falling inflation." He favors carmakers, mortgage providers and entertainment companies.

While Diwakar's job comes with a car and free housing, he says the prestige of being a civil servant isn't enough when the economy is in the midst of a consumption boom. Central bank data shows personal loans rose 17 percent

in October from a year earlier, while vehicle loans rose 14 percent, the data show.

“More than perks, I need expendable income to meet demands of this new lifestyle,” he said. “Hopefully, that will change soon.”