

# Indian Stocks Climb to 11-Month High as Mid-Cap Companies Shine

Indian stocks reclaimed the 11-month high and an index of medium-sized companies rallied to a record as persistent inflows from overseas investors outweighed investor concern that the rally may have outpaced the outlook for earnings growth.

Maruti Suzuki India Ltd., the largest automaker, climbed to a six-month high. State Bank of India and ICICI Bank Ltd. were among the biggest gainers on the S&P BSE Sensex. Sun Pharmaceutical Industries Ltd. and Lupin Ltd., the top drugmakers, rose to their highest levels in at least three months. Canara Bank Ltd. was the best performer on the Nifty Midcap Index, which reached an all-time high.

The Sensex added 1.1 percent at close, after changing direction 10 times in the first hour of trade. Foreign funds have bought \$1.1 billion of stocks this month, eclipsing the \$771 million inflow in June, as above-normal rain improves the outlook for economic growth and food prices after back-to-back droughts. The bullishness is spreading to the broader market as investors bet smaller companies will benefit the most from expansion in the world's fastest-growing major economy.

“In an environment of strong global liquidity India will do better than other emerging markets on a relative basis as it is an oasis of growth,” Vikas Gupta, an executive vice president at Arthveda Fund Management Pvt. in Mumbai, said by phone. “The earnings outlook for small-cap companies is improving and the stocks look cheap on normalized earnings. Smaller equity funds are seeing more value in these stocks.”

Indian equities are tracking gains in emerging-market stocks, which are on course for their best month since March on speculation central banks in

Europe and Japan will add stimulus to support their economies in the wake of the U.K. vote last month to leave the European Union. Investors pumped more than \$2 billion into exchange-traded funds that buy emerging market stocks and bonds last week, adding to record gains in the previous period and bringing the current winning streak to more than \$10 billion.

Still, the rally has pushed the Sensex's valuation to near a 16-month high, leaving shares with little upside if company earnings lag behind forecasts. June-quarter results from five of eight companies in the gauge that have reported so far have disappointed investors, stoking concern that the 21 percent jump in the index from a low in February is overdone.

“We don't see a meaningful growth recovery anytime soon and the earnings estimates are ahead of reality,” Gautam Chhaochharia, head of research at UBS Securities India Pvt. in Mumbai, said in an interview with Bloomberg TV India on Monday. “The risk reward is unattractive” at current market levels, he said.