India's proxy AI trade shines in a bleak year for stocks

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Summary Companies

Foreign investors raise stake in top 10 AI-linked gainers

Sterlite Technologies jumps 804% in 2026, topping Nifty 500

India's data centre capacity could nearly quadruple by 2029: JLL

Benchmark stock index heads for worst year since 2011

Oct 14 (Reuters) - A handful of Indian stocks seen as proxies for the global artificial intelligence boom have surged this year even as the broader market, which has few listed AI beneficiaries, has struggled.

India's benchmark Nifty 50 (.NSEI), index has fallen 13% in 2026, putting it on track for its worst year since 2011. MSCI's emerging markets index (.dMIEF00000PUS), by contrast, has gained more than 18% so far this year.

Half of the top 10 gainers on India's broader Nifty 500 index (.NIFTY500),this year are linked indirectly to AI, highlighting investor appetite for companies supplying the infrastructure needed to support the technology.

"AI requires a huge amount of physical infrastructure, including electricity, transmission equipment, fibre connectivity, cooling, and data centres," said Rita Tahilramani, investment director of Asian equities at Aberdeen Investments.

"Indian companies are increasingly participating in these 'picks and shovels' opportunities," she said.

Shares of optical fibre cable maker Sterlite Technologies (STTE.NS),for example, have surged 804% this year, making it the Nifty 500's (.NIFTY500), top performer.

"Robust data center addition and constrained supply is driving (an) optical fibre cable demand supercycle," analysts at Nomura said in a note last week.

Other standout gainers include telecom equipment and optical fibre maker HFCL (HFCL.NS), MTAR Technologies (MTAR.NS), which makes fuel-cell units used to power data centres, electronics manufacturer Syrma SGS (SYRM.NS),and generator maker TD Power Systems (TDPS.NS), which have all added between 123% and 287% in 2026.

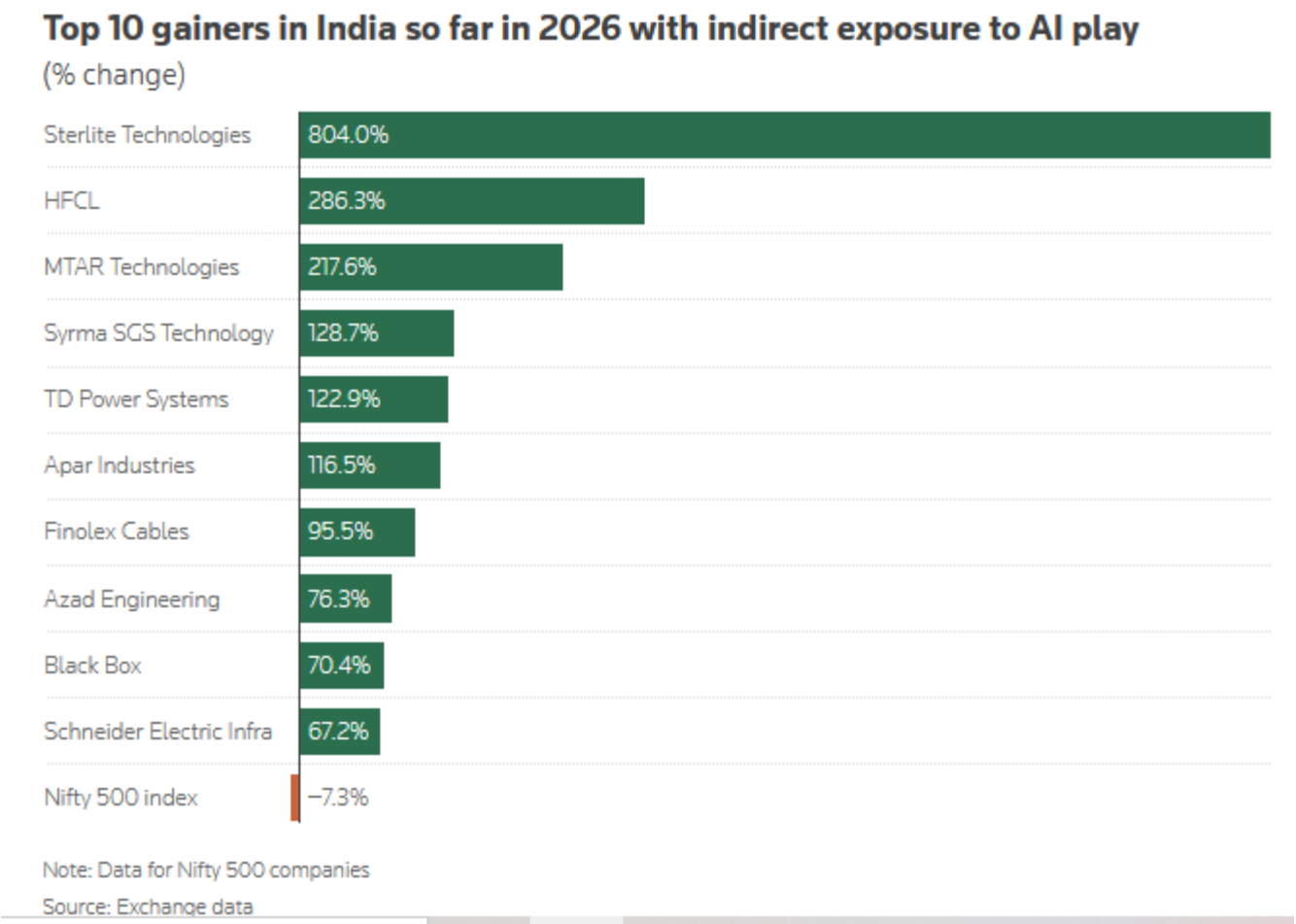
"The magnitude of the share-price moves partly reflects the scarcity value of these exposures in an Indian market with relatively few direct AI beneficiaries," said Naomi Waistell, fund manager at Carmignac.

India lacks listed companies such as TSMC or Samsung that make advanced chips critical to the development of frontier AI models that have supercharged stock market gains in South Korea and Taiwan.

This gap, along with concerns over valuations, has seen foreign investors sell a record $32.52 billion of Indian equities this year.

But companies tied to data centres, fibre networks and power infrastructure have bucked the trend. These include cable and conductor maker APAR Industries, Finolex Cables and Azad Engineering, which makes turbine blades for power generation.

Foreign investors have increased their stake in the Nifty 500's top 10 AI-linked gainers of 2026 to 13.6% at the end of June quarter, compared to 10.3% last year, exchange data showed. Mutual funds also raised their stake to 11.8% from 11.5% during the period, according to primeinfobase.com.



POWER PLAY

Power-related firms have also benefited as investors account for the impact of the energy-hungry

technology. CG Power (CGPO.NS),and Adani Power (ADAN.NS), opens new tab are among the biggest gainers on the Nifty Infrastructure index (.NIFTYINFRA), opens new tab this year.

"One can build in higher power generation and consumption estimates and play the power producers and transmission companies," said Swagatam Biswas, head, public equities at Avendus Wealth Management.

India's data centre capacity could nearly quadruple from 1.6 GW in mid-2026 to 6 GW by 2029, according to real estate services firm JLL. Global hyperscalers are committing more than $50 billion to build 1.4 GW of capacity in the country by then.

Indian suppliers are increasingly winning large orders from these customers as well as for exports of optical fibres, fuel cells, and related equipment.

HFCL secured a five-year contract worth up to $1.1 billion from a global hyperscaler in March, while Sterlite signed supply agreements potentially worth more than $2 billion combined this year. Black Box also won a $131 million data-centre order from a US-based hyperscaler.

After the sharp rally, however, investors warn that stretched valuations mean any slowdown in AI spending could bite.

"High valuations are the major risk, especially in cases where near-term growth is extrapolated to long-term projections," said Gaurav Narain, principal adviser to India Capital Growth Fund.

(This story has been refiled to add the dropped year '2029' in the third bullet point.)

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