The Indian economy has come a long back from mid-2013 when the economy had turned fragile, says ***Ajay Bodke***, CEO & chief portfolio manager – PMS, Prabhudas Lilladher. Despite near term headwinds, India is a compelling case for investment, sayd Bodke in an interview to *Samie Modak*. Edited excerpts:

**What are the key near-term triggers and risks for the Indian market?**

Indian markets have lately been exhibiting weak trends based on a combination of global and domestic headwinds. Global concerns primarily are linked to sharp slowdown in China's economy promoting it to resort to devaluation of its currency and sharp plunge in its stock markets post-June 2015 as well as the overhang of increase in Federal funds rate in the US leading to heightened risk aversion. Among domestic factors what is causing unease among investors is lack of strong corporate earnings' growth, thus making valuations appear expensive.

**What are the positives that you are seeing with regards to our domestic economy?**
Indian economy is on a strong footing. The Indian economy has come a long way from mid-2013 when it was clubbed with other vulnerable economies like Brazil, South Africa, Turkey & Indonesia as "Fragile Five". Unsustainably large twin deficits (fiscal & current account), flagging growth & elevated inflation were the common underlying characteristics for this classification. However, astute macro-economic management by both the RBI & government over the last two years and the break-up of the decades old 'super-commodity cycle' leading to sharp plunge in global commodity prices from their peaks a few years ago has completely transformed Indian macro-economic scenario.

With nearly $50 billion of annual savings in oil imports, the terms of trade has swung decisively from commodity exporters like Brazil, South Africa, Australia, Argentina, Indonesia etc to commodity importers like India, China, Japan, South Korea etc. India has been able to contain its current account deficit to 1.5% of GDP (from an unsustainably high 4.7% of GDP in FY14), arrest its fiscal deficit to 4% of GDP in FY15 (with a firm commitment to medium term fiscal consolidation plan of reducing it further to 3.9% in FY16, 3.5% in FY17 & 3% in FY18), lower consumer inflation from double digits to under 5% currently (with wholesale price inflation being negative at -4.9% last month) & accelerate economic growth to 7.5% thus emerging as the fastest growing large economy in the world in FY16 overtaking China. This makes a compelling case for investment in Indian economy & markets.

**What are the key reform measures required to boost the economy?**
Some of the key pending legislations like GST & Bankruptcy law need to be expeditiously cleared by the Parliament. Banking sector needs to be cleansed of its massive NPAs by a combination of capitalization, lowering of government's stake if possible below 52% and grant of autonomy in day-to-day running of business. Allowing commercial coal mining and encouraging competitive federalism among various States to expedite labour & land reforms would aid in faster job creation & attraction of private sector investments.

**Which are the sectors and stock one should look at?**

By frontloading a larger-than-expected rate cut of 0.5%, RBI in its latest monetary policy has explicitly acknowledged that real interest rates in India were on the higher side and were impeding growth impulses. In an environment of anemic global growth & weak demand impacted further by a deficient monsoon, the Indian economy desperately needed a booster-shot to perk-up it's as-yet weak domestic consumption as well as to revive its tepid investment cycle. This long overdue rate cut finally provides that much-needed relief. In a global environment of heightened risk, Indian equities can act as a relative safe haven. Interest rate sensitive sectors like banks & financial Services, auto & auto-ancillaries, capital goods & construction are likely.