



View on likely impact of Dr. Rajan's exit on Indian markets

- Sudden exit of Dr Rajan would lead to an initial wobble in the currency, bond and equity markets however India's strong macro-economic fundamentals- highest GDP growth among large economies in the world amidst weakening global growth, near-halving of consumer inflation from its peak a few years back, moderate fiscal deficit and sharp curtailment in current account deficit would ensure that India remains one of the most favored investment destinations for foreign investors
- We are underplaying the seminal role played by the Central Government in creating conditions that have enabled RBI to lower interest rates. Government's adherence to path of fiscal rectitude and sticking to medium-term fiscal consolidation plan in the most challenging circumstances when private capex cycle was moribund and government needed to infuse massive funds in reviving investment cycle through sectors such as roads & railways has been under-appreciated
- Monetary policy framework of flexible inflation targeting was based on the report prepared by Dr Urjit Patel who continues to remain an integral part of RBI
- India has surpassed China & US in attracting largest FDI inflows in 2015 primarily due to the solid groundwork done by the government in increasing caps for foreign investment in various sectors like defence, railways, media etc. as well as measures in ease of doing business
- As long as the government chooses someone who has credibility in the eyes of domestic & foreign institutional investors to conduct an independent monetary policy; frayed nerves among a section of investors & commentators will be calmed.
- It is neither Rexit nor Brexit but RainExit that should be worrying investors more as nearly 60% of Indians still depend on agriculture & allied activities and with two successive monsoon failures the need for a normal monsoon to kick-start rural demand cannot be under estimated. We have already seen a 25% deficiency in rains till 15th June 2016 although IMD as well as private weather forecasters are unanimous that July-Aug-September will see copious rains and overall we would have an above-normal monsoon.

Ajay Bodke

CEO & Chief Portfolio Manager - PMS
Prabhudas Lilladher Private Limited.

June 20, 2016