

**What can go right for India?**

Downgrade of US sovereign ratings by S&P has resulted in an upheaval in global markets. Prices have fluctuated wildly and volatility has been extreme. There has been lot of writings on what can go wrong for India and world economic growth. Amongst all this noise it is easy to get carried away and lose the bigger picture.

We feel India will emerge as a large, vibrant, fast growing economy over the next few years. Here is a small attempt to highlight what all things can go right for India in next decade.

Interest rates: Near Peak

Our monetary policy has been quite tight and interest rates have been persistently to bring the inflation expectations down. There are differences in market opinion about one more possible hike, but we can look forward to pause after that.

US fed have assured that they are in no hurry to hike interest rates and will keep it low for at least one year from now. This is hugely positive for countries like India. We can expect above normal capital flows to our country.

If inflation pressures wane and GDP growth stumble, our central bank has enough room to cut interest rates and bring back economy to higher growth trajectory.

Falling commodity prices

India is heavily dependent on foreign oil. Oil import is a major part of our trade and surging crude oil prices create lot of problems for the country. Crude oil has been trading below its recent peak of \$ 120 for the last few months and concerns over the global growth have resulted in sharp fall. This is a huge positive for India.

Lower crude import bill will result in lower deficit and lower inflationary pressures.

Valuation

If we study the history, it has been trading at 16 times forward earnings for the past decade. When you buy at low prices, the chances of returns are that much brighter. Now after the current fall, India is trading at 13 times forward, and this makes for a good entry point. We should start investing and accumulate on every fall, with keeping a long-term perspective.

Conclusion.

Indian economy is likely to grow robustly for the next decade. Economic reforms and policy making although stumble from time to time, are creating an environment, which will result in much faster growth in years to come. Major Policy reforms like Higher FDI limits, Goods and Services taxes, new Direct tax code, Capital account convertibility will see light of the day in next decade. Overall direction of the economy and hence market capitalization is bound to increase over the long run.

***Sharp falls are the good starting points; prepare your Systematic Investment Plan.
Exchange traded Funds are a good place to begin.***