Brexit's Impact on India

Though the exit of Great Britain from the EU will have a short-term impact on India's economy, there is no reason to believe that the storm will not be weathered over the long run, writes DK Vyas.

"When nothing is sure, everything is possible" – Margaret Drabble.

'Brexit' as an event will impact the future of the UK and EU. This victory for exit, however narrow, came as a surprise as pre-voting polls predicted the results to be otherwise. The next step is to ratify the Article 50 of the Lisbon Treaty. But before the treaty there are a lot of issues which need to be worked out. There are differences in opinion in the UK over when to trigger the Article. There are a lot of differences on the timeline of implementation. Britain' new Prime Minister, Theresa May, has said that Article 50 won't be triggered before they establish an approach benefactor of UK as a whole (after hints of a second independence referendum being 'on the table' by the Scottish government). The British PM acknowledges that there are a lot of processes and parties that need to be taken care of and they are not going to hasten the triggering of Article 50.

This should give ample time for the rest of the parties involved to plan for any changes they need to make for the upcoming decisions, as and when they unfold. In a nutshell, Brexit is more of a process of change rather than a one-off event. During the course of the negotiations, it's expected to throw certain uncertainties which may bring in unexpected shocks. Talking about the economic impacts on UK and the EU, a Goldman Sachs report expects that UK's GDP growth rate may dip from 1.5 per cent this year to 1 per cent, a 0.5 percentage point dip. For the EU it expects a 0.5 per cent percentage point dip, taking the GDP down to 1.25 per cent over the next two years. Albeit with varying degrees, similar sentiments were echoed by other experts.

India, however, shouldn't be too much fettered with this. In the short term there will be some effects as there are ripple effects of a global phenomenon. According to the RBI, we have enough foreign reserves to tackle any kind of negative long term impact on our currency. For the time being, UK will still be a part of the EU, and that should give enough time to our companies to rethink their strategies and act accordingly.

For India there are both positives and negatives to look out for. India is currently one of the top three investors in the UK. With UK's membership of the EU, Indian companies had easy access to the EU market. Brexit will make investing only in UK a bit unattractive as the companies will have to create new set-ups in the EU countries. According to a NASSCOMM report, India has currently around 800 firms in the UK, employing around 1,10,000 people. Of the Indian companies set up in the UK, in the short term, the IT sector should be feeling distressed due to the devalued pound affecting their earnings. Plus, due to UK's membership of the EU, these companies had easier access to the European markets, and could avail the trade benefits that came with the membership. Now these companies will have to set up new operations and target new markets in the EU. This may result in a lot of movement of labour and resources.

Overall, there shouldn't be much impact on India as for India's total external trade, UK accounts for only 2 per cent. In the short- to mid-term, however, there could be a negative impact on certain consumer oriented sectors like auto and auto-ancillary, IT, textiles, gems and jewellery, amongst others.

In the short term, due to the declining pound, the Indian exports to the UK may take a hit. As per an ICRA report, the EU accounts for 36 per cent of Indian auto component exports; UK accounts for only 5 per cent. Europe accounts for around 29 per cent of the IT sector's exports, with UK alone around 17 per cent. However, the exposure in pound and euro income is much less for these IT companies, which should give them some relief. In pharma, the exposure to the European market is much less compared to IT, at only around 12 per cent. Therefore the sector as a whole shouldn't be affected much. What needs to be observed carefully is how the demand for these sectors shapes up over the course of time.

We are witnessing growth in Indian infrastructure sector, mainly due to structural changes in the policies and the on-ground reforms. Most of the Indian infrastructure funding, funding for construction of roads, railways — Metro and others, power projects and Smart Cities, has been done internally, and external funding is being sourced from various countries like China, Japan, Canada and the Middle East along with the traditional investors from the US and Europe. So we shouldn't see much impact on infrastructure funding.

There are many European equipment manufacturers which have considerable presence in India. As most of these companies have an established manufacturing presence in India, and/or have tie-ups/joint ventures with Indian companies, any sluggishness they experience in the home country shouldn't affect the growing demand in the Indian market.

As for SREI Equipment Finance, going forward, we remain confident in the growth in the equipment sector. We expect the Indian construction equipment sector to grow at 15-20 per cent for the coming years. We don't see many changes in our strategies due to Brexit. We are the market leaders and enjoy a market share of around 30 per cent, and going forward, we are confident of growing in pace with the equipment market. EI

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