

Changing Perception of India

Last week as a part of the of the annual World Bank Fall Meetings 2022, I had an opportunity to meet with some of the global policy makers, think-tanks, and some very significant investors.

Having observed and attended these events over three decades, this time the meetings were refreshingly different. Earlier, when one walked into a meeting with a senior investor, two things were a norm – first was to convince them about the India story and second was to listen to their China story. This time most meetings started on the note, “Oh, there is one bright spot on the map!”. It was indeed reassuring to be recognised as a country that matters. Reflecting on how we got here, I thought that we as a country have worked to truly differentiate ourselves in the following ways:

1. First, our focus has decidedly shifted to enhancing our economy’s productivity. Traditionally, we were known as low productivity economy. In the recent years, we have leveraged digitisation to increase productivity significantly. Some of the critical areas for example are:
 - Almost 10% of the total retail commerce has moved to ecommerce in less than a decade
 - Use of AI is expected to improve agriculture yield by at least 15%
 - In the logistics sector, which contributes app 5% of our GDP, we are working to reduce logistics costs by nearly half by using various technology interventions.
 - Telemedicine and consultation have improved the efficiency of the healthcare system
 - Digitisation in manufacturing has led to reduction in machine downtime by 30% and improvement in labour productivity by 15%.

Most investors whom I met recognised our digital story and, in fact, most of the conversations started with this topic.

2. Second is our government’s resolve towards fiscal discipline. We all know that inflation management is extremely important for us. It is the current leadership that introduced inflation targeting policy to manage the inflation. From the time inflation targeting was introduced, average inflation is just 4.8%. And this covers the difficult period of covid where we saw severe supply chain disruptions.
3. Third is our policy on manufacturing. With global corporates wanting to shift 20 to 30% of their manufacturing out of China, like many other countries, we were focussed on positioning ourselves as China +1. However, we are no longer only looking to capture China +1 opportunity but are now also ready for ‘minus China’ in certain sectors. We do know that some players want to completely move out of China, and we are prepared to be that alternate destination.

Our Views

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4. Fourth is the government's commitment to overcome scarcity. Again, traditionally we have been known as a capital starved country. Because of the lack of capital, we were not able to modernise or improve our productivity. But today, capital is no longer scarce for us. Just as a data point, all 19 private companies in the 30-companies Sensex, have free cash flow of totalling approx. \$25bn with the net debt levels of less than 2-times. In addition, plenty of public and private capital is available. This will induce investment cycle and enhance productivity.
5. Fifth and final point, the start-up ecosystem has started making its contribution to the economy. Our 76k start-ups have created almost 1mm direct jobs and manifold indirect jobs. They have brought efficiency in several sectors, made ease of doing business possible and finally created shareholders value and attracted global capital.

In conclusion, I would say that we often hear a phrase that "When US sneezes, India gets a cold". It may have been the case a few years ago. Things have changed now. The difference is evident in the impact of Quantitative Tightening (QT) in 2013 and in 2022. During QT 2013, rupee depreciated by 24% against the US dollar even while other major currencies had appreciated against the dollar. Fast forward to 2022 – the situation appears to be quite in control on inflation, currency, and fiscal front. This time the depreciation of rupee has been comparatively moderate, more reasonable, and gradual despite the appreciation of dollar against most other currencies. The tapering is happening in the US, but the tantrums are certainly not visible in India. It is because we were well prepared and fully vaccinated against the cold. The government has proactively handled the economy through accumulation and utilisation of FX reserves, inflation control and policy interventions. India is not only healthy, but we are enjoying bright sunshine. The perception about India is visibly changing!

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