ANTIFRAGILE INDIA IN A FRAGILE WORLD

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Back in 2013 when the US Federal Reserve announced tapering of its stimulus programme, Morgan Stanley identified five major emerging markets with the most vulnerable currencies. They included Brazil, India, Indonesia, Turkey, and South Africa.India found itself relegated to the pack of '**fragile five**' emerging markets. Indian rupee was one of the worst hit in the summer of 2013 taper tantrum, when foreign investors pulled out funds from emerging markets in anticipation of rising yields in developed markets. Foreign institutional investors sold heavily, impacting the currency and stock markets. Further, policy paralysis in that period had impacted business confidence and economic growth.

> **SOME THINGS BENEFIT FROM SHOCKS; THEY THRIVE AND GROW WHEN EXPOSED TO VOLATILITY, RANDOMNESS, DISORDER, AND STRESSORS AND LOVE ADVENTURE, RISK, AND UNCERTAINTY. YET, IN SPITE OF THE UBIQUITY OF THE PHENOMENON, THERE IS NO WORD FOR THE EXACT OPPOSITE OF FRAGILE. LET US CALL IT ANTIFRAGILE. ANTIFRAGILITY IS BEYOND RESILIENCE OR ROBUSTNESS. THE RESILIENT RESISTS SHOCKS AND STAYS THE SAME; THE ANTIFRAGILE GETS BETTER.**

Post Covid shutdown related shock, Indian equity markets, along with most other asset classes saw an unparalleled rise. This wason the back of cheap valuations, fundamental shifts in the balance sheets, surging liquidity and of course an increasing optimism about the future.

However, with the same speed this optimism is fast turning into a very pessimistic outlook due to rising commodity prices, surging inflation, and supply chain disruptions. Pessimism about the impact ofrising inflation and tightening of liquidity, has made FII's make a beeline for the doors.

So, the trillion-dollar question is how vulnerable India & India Inc. is? Another question, and maybe more pertinent - What must India do to ensure that it protects itself against such events and not implode like some of our neighbours? Further, how does India continue to remain an attractive destination and potentially remain the fastest growing economy in the world for a prolonged period? **In short, how does India become Antifragile?**

What is Antifragile?

Antifragility is a concept popularised by Naseem Taleb in his book almost a decade ago, he offers a definitive solution: how to gain from disorder and chaos while being protected from fragilities and adverse events. Antifragile is a blueprint for living in a Black Swan world.

To quote him "Some things benefit from shocks; they thrive and grow when exposed to volatility, randomness, disorder, and stressors and love adventure, risk, and uncertainty. Yet, in spite of the ubiquity of the phenomenon, there is no word for the exact opposite of fragile. Let us call it antifragile. Antifragility is beyond resilience or robustness. The resilient resists shocks and stays the same; the antifragile gets better."

Post 2013 fragile phase, yet again there have been many disruptive events that have tested our fragility like GST Implementation, Demonetization, NBFC Crisis, Covid-19 lockdowns, Russia-Ukraine War, Supply chain disruptions. However, after each crisis, barring the last two which are still ongoing, India has not only survived, but thrived.

Even in the recent crisis, from being one of the worst impacted India has become one of the fastest to recover from a Covid affected economy. India is one of the few nations in the world to have its own indigenous vaccine. We have not only vaccinated the entire billion populace we have done well with vaccine diplomacy.India has done well to withstand the extra ordinary pressure for stimulus measures that most countries did. Indiahas shown tremendous characteristics of antifragility. But let's not be biased in our opinion, let's see if the data bears out the same.

Has India demonstrated antifragility?

Rupee Stability

Unlike in 2013, Rupee has been very stable. While the INR has marginally depreciated against the US Dollar, it has in fact appreciated against other currencies and outperformed other emerging currencies. INR has also been one of the least volatile currency in the last few years.Further the prudence shown by the Reserve Bank of India to manage currency stability may be one of the best amongst major economies.

Shoring up reserves

From mortgaging our gold to having surplus forex reserves, we have come a long way in the past 30 years. The foreign exchange reserves to GDP ratio is around 15 per cent. Even after the recent drawdown, India's forex reserves are amongst the top in the world. Reserves will provide a level of confidence to markets that a country can meet its external obligations, demonstrate the backing of domestic currency by external assets, assist the government in meeting its foreign exchange needs.

Strong and growing FDI flows

India has recorded highest ever annual FDI inflow of USD 83.57 billion in the Financial Year 2021-22. It is amongst the top 10 FDI recipients globally. And this source of external capital aids far more in antifragility than FPI flows.

Strong and growing GST collections

The passage of GST has been one such game changer as the numbers are proving. GST completely alters the way government finances are managed in India. Hitherto, tax collection in India was decentralized, while expenditure was centralized through the Planning Commission, which set expenditure priorities for the states. GST centralizes India's taxation in the hands of the Central Government, while the abolition of the Planning Commission in 2014 had already set the stage for decentralization of expenditure to the state governments. This shift, in our view, will provide a major boost to Indian government finances.

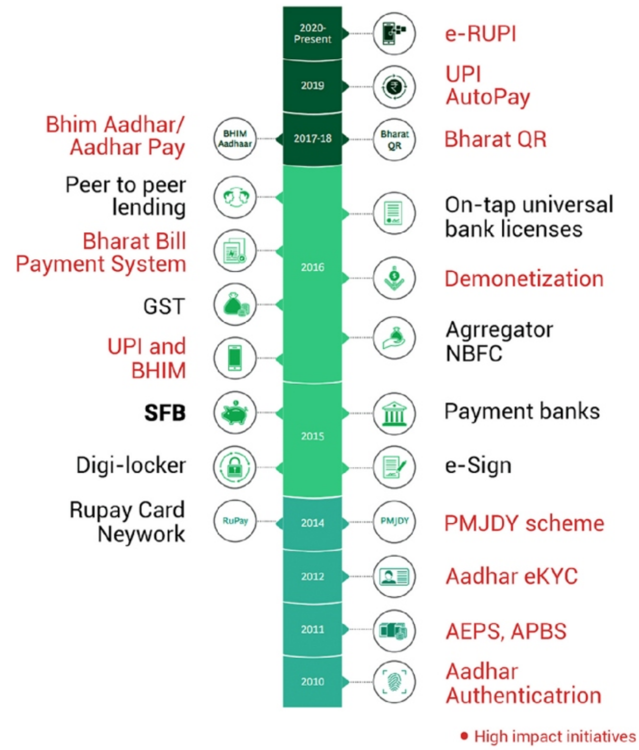
Growth revival with minimal fiscal stimulus

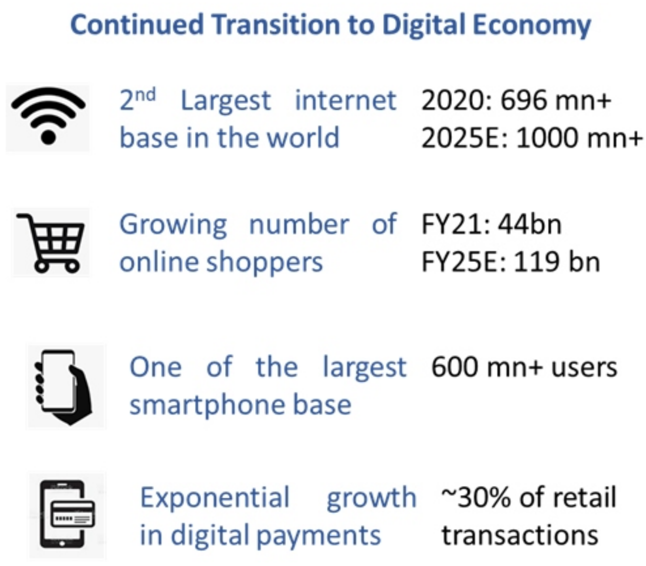
India has charted its own course in fiscal policy. When major developed economies, are now taking away the stimulus in the light of inflationary pressures, India is being counter cyclical by providing stimulus through reducing duty on fuel. There was a similar measure taken during the Covid times, when the govt did not go down the easy path of giving direct stimuli, but instead chose to hold back it's firepower till the end while supporting the lowest strata of the economy. In a relative sense, and because of the constraints, India was far more judicious in its use of fiscal stimulus.

Digital India - Technology Leapfrog

Being late to the technology party has some advantages, from having to wait for years to get a telephone connection to having the lowest cost of internet data, India has come a long way.

Classic example has been the push of internet & mobile phone, across the divide of the country, which is amongst the lowest costs in the world and thus enabling most of the country to be connected digitally and being the beneficiaries of faster support / schemes by the government. The confluence of JAM - or Jan Dhan, Aadhar and Mobile has created a new India. UPI is now easily one of the best payment interface and gateways and has put a billion Indians on mobile banking & the latest Arogya Setu has been a revelation in how swiftly and efficiently the country used technology to vaccinate a billion Indians.

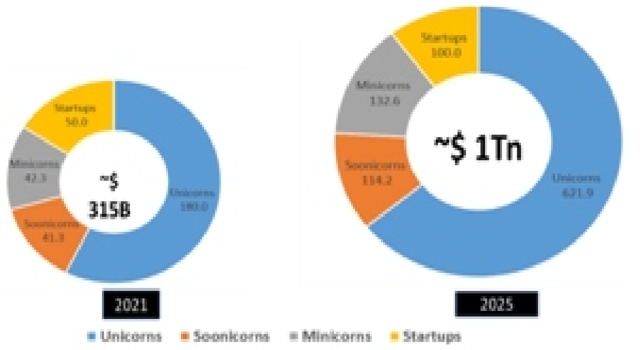




India a Unicorn in the start-up world

Start-ups are the wild card in India's pack of cards. After having over 23 unicorns in the 5 years from 2015 - 2020, the number has crossed 100 in the beginning of 2022. Start-up economy has the potential to create outsized returns in terms of employment, businesses and generationally transform lives and the country.

Value being created by Indian Starups !!



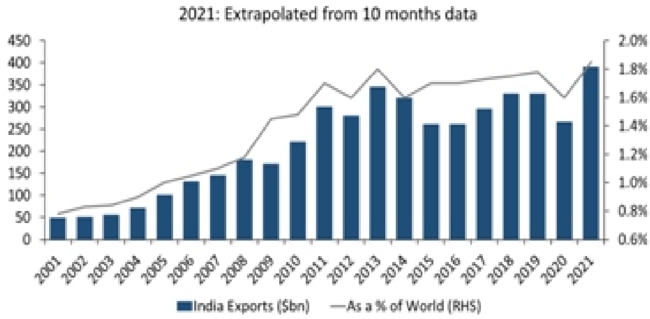
"The Startup Ecosystem will help create a USD 10 Trillion economy in India"

Unique geo-political positioning

Amid the Russia-Ukraine conflict and ongoing Covid-19 pandemic, India has made sustained progress in pivoting itself as a strategic player in international politics and counterweight to China. In the past couple of months, the nation has pressed upon its strong bilateral relationships with Russia, Australia, Japan, and U.S. to pursue opportunities. India is becoming integral part of the Quad. Russia has favoured India for playing the role of a mediator and offered it access to cheaper oil. In 2022, India has inked free-trade deals with UAE, U.K. and Australia to promote exports and obtain greater market access, and more FTA's are on the horizon. India has learnt the art of keep it's interest above all else.

Transformation to Manufacturing Hub

The China + 1 theme, which began as temporary shift due to pollution induced supply chain disruption has gradually become a flywheel. When China began to cut down on manufacturing, originally for pollution and eventually when world buyers began to look for alternate suppliers particularly after Covid, India emerged as a leading destination to supply goods. China is more than willing to cede space in many commodities at the lower end, While India is advocating "Make in India". The PLI schemes have been well timed, helping Indian manufacturers seize the opportunity and become reliable suppliers.



India is gaining share in world exports. Manufacturing exports have crossed $400 billion, with "China Plus One" potentially a $1 trillion opportunity, suggesting a path to structural growth.

Stock markets supply absorption

FII selling has been relentless since April of 2021, this has further accelerated since the Jackson Hole tapering news flowed in. This has been fantastically mitigated by DII's and even resulting in the FM to famously complimenting the role of the retail participation. This is not to pass a judgment on who is right or wrong in buying or selling. This is just testament to the fact that Indian market can absorb large outflows. This will encourage FIIs to allocate more to India as we have demonstrated an ability to give orderly exit in tough times.

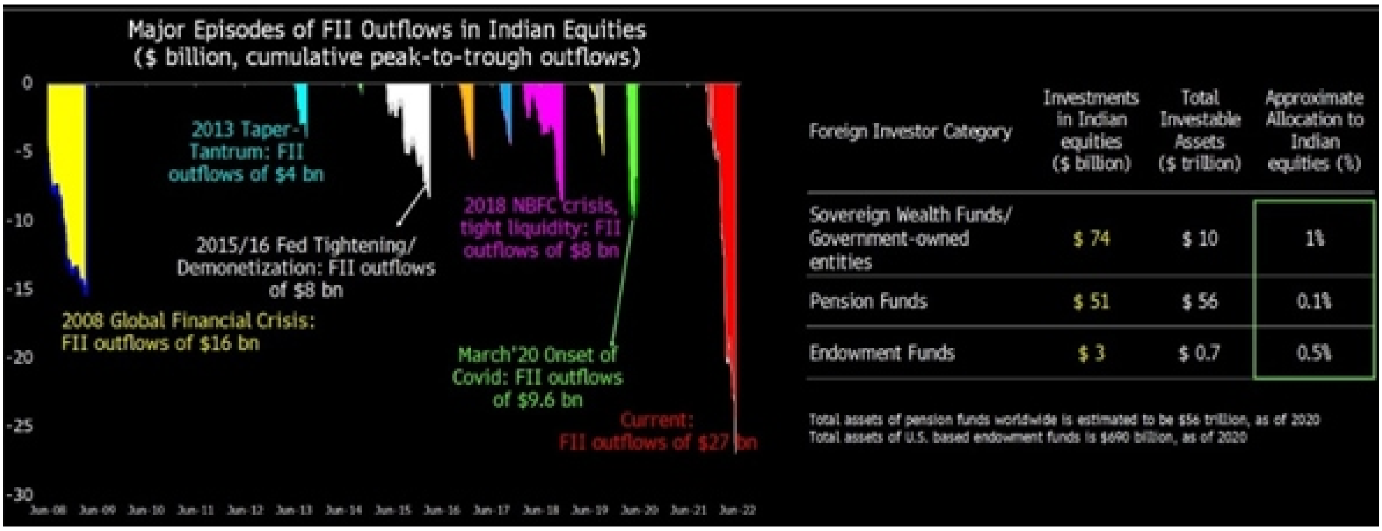
Current selling is the highest absolute selling ($28bn, almost 2x of GFC selling of $15bn). It is the one of the longest stretches of selling (almost 13 months v/s GFC which was 15 months). It is very close to being the highest in terms of percentage of India's market cap. It will soon reach highest in terms of % of FII holdings. For this kind of selling, impact on equities has been the quite minimal (Refer table).

						FII Outflows		NIFTY Index	NSEMCAP Index
Start Date	End date	Event Tag	FII Outflows ($ bn)	India Market cap at start of outflows ($ trillion)	FII Holdings at start of Outflows ($ bn)	As % of India Market cap	as % of FII Holdings	NIFTY Returns	Midcap 100 returns
Jan-08	Mar-09	Global Financial Crisis	-15	1.8	296	0.9%	5.2%	-57%	-67%
Jun-13	Sep-13	Taper-Tantrum	-4	1.1	204	0.4%	2.0%	-9%	-15%
Sep-14	Oct-14	Election correction	-1	1.6	302	0.1%	0.4%	-5%	-5%
Apr-15	Feb-16	Banks' Asset cleanup	-8	1.6	320	0.5%	2.5%	-17%	-10%
Oct-16	Jan-17	Fed Hikes/ Demonetization	-5	1.7	335	0.3%	1.6%	-3%	-5%
Aug-17	Oct-17	Cyclical Slowdown	-4	2.1	414	0.2%	1.1%	2%	3%
Feb-18	Nov-18	NBFC Crisis	-9	2.4	455	0.4%	1.9%	-2%	-11%
Jun-19	Sep-19	Slowdown	-5	2.2	427	0.2%	1.2%	-8%	-13%
Feb-20	May-20	Onset of Covid-19	-9	2.1	430	0.4%	2.0%	-23%	-28%
Oct-21	Jun-22	Current	-28	3.5	665	0.8%	4.2%	-7%	-9%

Source: Bloomberg Intelligence

India's household investments in equities remains very low, at 7% of financial assets vs. an average 30% for other major emerging markets, leaving considerable runway for more allocations. While it is common lore about how retail investors have saved the equity market and how the equity culture is rising in India, what is relatively lesser known is how under owned India is even internationally. If you were to see the allocations of the long-term patient capital to India of Pension funds, Sovereign Wealth Funds and Endowment Funds, allocations are very small. As India's growth view is sustained and improves, there should be opportunities for increased portfolio weighting.

INDIA'S UNIQUE GEO-STRATEGIC ALIGNMENT, MARKET STRUCTURE, VIBRANT DEMOCRACY, POLITICAL STABILITY, AND LARGE CONSUMER MARKET DO NOT JUSTIFY A CLASSIFICATION ALONG WITH OTHER EM MARKETS.



Source: Bloomberg Intelligence

All these above "antifragile" measures do not guarantee that India will escape mildly from the next correction or drawdown. However, it does suggest that our shock absorbing capacity has increased, and we are likely to bounce back stronger from any crisis the world throws at us. India's unique geo-strategic alignment, market structure, vibrant democracy, political stability, and large consumer market do not justify a classification along with other EM markets. **India is well and truly on its way to carving its own niche and becoming Antifragile.**

Ravi has an MBA in Finance from McCallum Business School, which is part of the Bentley University in USA. He returned from the US after a brief internship stint at Salomon Smith Barney. He has been associated with the Indian stock markets for over 23 years. After graduating, he worked his way up through the stock market business, spending four years at RARE Enterprises, where he was involved with research, private equity deals and value creation activities before moving to ValueQuest and taking charge of research. RARE Enterprises is the private family office of one of the most premier Investors of India, Mr. Rakesh Jhunjhunwala

He is Founder, MD & CIO of ValueQuest Investment Advisors. ValueQuest manages AUM of 4000crs+ and have generated an XIRR of over 23% over the past 10 years. According to study done by PMS AIF World, it has been ranked recently as one of the top PMS firms in 10+ year performance category. He is managing VQ Platinum scheme, which has recently been awarded 5-star PMS rating by PMS Bazaar powered by CRISIL, which is the highest possible rating. VQ caters to HNI, Super HNI's, Family offices and Foreign Institutions.