CIO Academy

Unlocking New Trends and Emerging Opportunities in Indian Consumption

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- **India is currently the world's 5th largest economy** and given its average rate of growth of over ~6%, the country is on track to becoming the world's 3rd largest economy by 2030. At this juncture, India's per capita income is set to more than double from the current $2,300 to ~$5,000, comfortably placing India in the upper middle-income category. In tandem with India's GDP growth and rising incomes, the wealth of affluent Indians (earning more than $10,000/annum) is growing[1]. Between 2019 to 2023, affluent Indians have grown at a compounded annual growth rate of about 12-13%[1]. It is also estimated that by 2027, the cohort of High Net Worth Individuals (HNWIs) in India should increase from ~800,000 in 2022 to over 1.66 million people[2]. At this point, the number of households earning more than $35,000/year is also expected to rise five-fold[3].
- **This rise in Indian incomes and wealth is creating a social metamorphosis of sorts** - boosting the lifestyles and aspirations of new age Indian consumers – who now demand premium quality and personalisation in consumption. This upgradation of affluent Indians' lifestyle has given birth to the '**Premiumisation of Indian Consumption**' – a trend non-existent until a few years ago but expanding at a fast pace now. In addition, factors like fast growth of the Indian middle-class, improved access to credit, urbanisation, digitalisation and the rise of new age entrepreneurship are new structural drivers that are bolstering Indian affluence and driving a shift towards 'premiumisation in consumption'.
- **However, Indian consumption has been bifurcated, until now**. We have observed a **K-shaped consumption pattern**, where the top-of-the-pyramid demand has been far more robust than the bottom of the pyramid because of lagging rural incomes. Lack of enough jobs and rising wealth disparity have so far plagued Indian consumption at the lower end. But now, the rise of new catalysts like Modi 3.0 government's policy focus on prioritising job creation, employment-linked incentives for employers, upskilling, rural and agricultural reforms should benefit those at the bottom of the pyramid. This should reignite India's domestic consumption cycle over the medium term, boosting India's GDP growth further.
- **With over 60% of Indian GDP coming from domestic consumption**, we think it is important for investors to understand these often under-appreciated but fast emerging trends. **We maintain an overweight view on India** and see attractive investment opportunities in sectors like consumer discretionary; consumer durables; and FMCG. Financials too should benefit from rising credit demand and home loans' demand, driven by India's real estate boom. Foreign Investors with limited implementation choices can benefit from gaining broad Indian equities' exposure, as both financials and consumer discretionary are the two biggest sectors in leading Indian equity benchmarks.

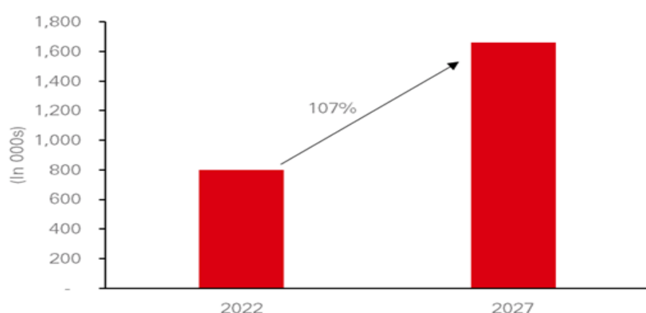
India's economic rise augurs well for its domestic consumption story

The impressive rise of India's economy on the world stage needs no introduction. Just 10 years ago, India wasn't even in the league of top 10 nations. However, thanks to all the reforms and progress made over the last decade, the nation hasn't just leapfrogged, it has rather pole-vaulted to overtake countries such as the U.K. to become the 5th largest world economy. At its current average growth rate of 6.5% -7%, India is on track to becoming the world's 3rd largest economy, with ~ $7trn size by 2030[6].

But while India's growth story is well-understood, what often remains underappreciated is how India's economic prosperity is rapidly changing its socio-economic landscape, and how this alters its domestic consumption story.

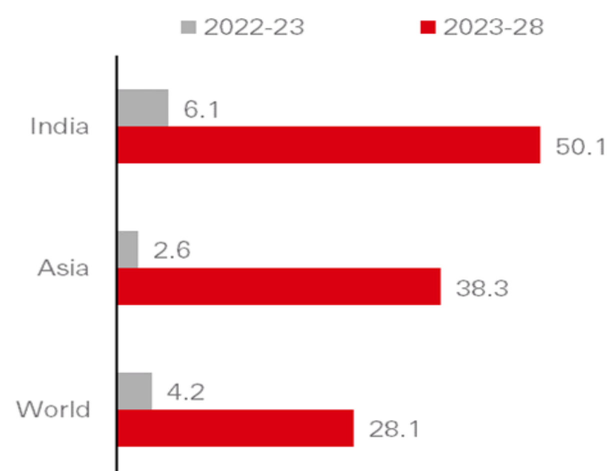
India's consumer market is set to become the world's third largest by 2027 as the number of middle to high-income households rise. The country currently ranks fifth, but it is predicted to see a 29% increase in real household spending, that will push India up two spots. In fact, the growth in India's household spending per capita will outpace that of other developing Asian economies like Indonesia, the Philippines and Thailand at 7.8% year-on-year. India's household spending is expected to exceed $3 trillion as disposable income rises by a compounded 14.6% annually until 2027. By then, a projected 25.8% of Indian households will reach $10,000 in annual disposable income (Source: BMI, Fitch Solutions, 2023). In tandem with India's economic growth, the wealth of its new age consumers is growing too, triggering a social metamorphosis of sorts. It is changing how affluent Indians are making their purchasing decisions. They are demanding more than just the basics. They are now demanding quality and exclusivity. This upgradation of lifestyles is spurring demand for premium quality goods and services and demand for personalisation - giving birth to what's often termed as the '**Premiumisation of Indian Consumption'** – a trend non-existent until a few years ago but expanding at a fast pace now. From luxury wines to premium SUVs, the premiumisation wave is reshaping the landscape of Indian industries and driving across sectors.

HNWIs should grow from ~800K in 2022 to 1.66mn in 2027, a growth of 107% in 5 years



Source: Frank Knight Wealth Report, 2024, HSBC Global Private Banking and Wealth, July 2024.

Projected rise in the number of India's ultra-rich (%)



Source: Frank Knight Wealth Report, 2024, HSBC Global Private Banking and Wealth, July 2024.

But India's consumption growth hasn't been all equitable, especially as the consumption demand from the non-affluent rural section of society has been lagging. We have observed **a K-shaped consumption pattern**, which has been further fueled by youth unemployment and wealth disparity plaguing Indian consumption over the last few years. However, with the new Modi 3.0 coalition government now focusing on rural and agricultural reforms, and human capital improvement in the form of upskilling, internships, employment-linked incentives for employers and job creation opportunities - one of India's biggest challenges thus far – lack of enough jobs for India's youth – could get remediated. Such policy initiatives should benefit those at the bottom of the pyramid.

In this report, we unpack all these evolving trends and catalysts, with a view to unlocking new and under-explored investment opportunities in Indian Consumption. Let us begin with deciphering the socio-economic undercurrents driving the 'Premiumisation of Indian consumption'.

So, what's driving the Premiumisation of Indian consumption?

1.) **India's young demographics, rising per capita income, discretionary spending power and wealth creation:** As India grows economically to rise from its current 5th position to becoming the 3rd largest global economy by 2030, its per capita income should rise from the current ~$2,300 to ~ $5,000. This rise in per capita income would place India in the upper middle-income category and has enormous implications for its consumption basket, both in terms of the quantum and the type of consumption — especially for those goods

and services that fall in the aspirational and discretionary categories.

Unsurprisingly, rising per capita income also means higher disposable incomes, spurring demand for better lifestyles, and higher-quality premium products by affluent Indians in several consumer categories. For example, passenger vehicles' sales are 54% above the pre-pandemic levels, outnumbering two-wheeler sales, which are pale in comparison at 16% above the pre-pandemic levels, as affluent Indian move up the consumption ladder.

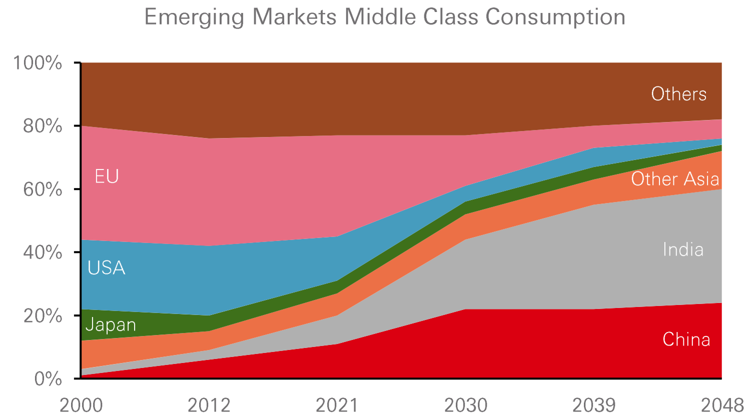
Higher Indian incomes also mean greater wealth creation. According to Knight Frank's Wealth Report 2024, between 2023 and 2028, India will witness the highest growth for any country in the number of ultra-high net worth individuals (UHNWIs), with a net worth of $30 million or more. This means the number of ultra-rich Indians will rise by 50.1% to 19,908 in 2028 from 13,263 in 2023. It also predicts the number of affluent Indians to grow from ~800k in 2022 to 1.66mn in 2027.

2.) **Changing from 'Pyramid' to 'Diamond' – the rise of Indian middle class:** With a young, digitally savvy and economically productive workforce, socially, one section of Indian consumers that is rising fast is the Indian middle class - enjoying an annual growth rate of 6.3% from 1995-2021[3]. Consequently, middle-class households now represent ~31% of the Indian population and are set to rise to 60% of population in 2047[3]. According to surveys conducted by PRICE (People Research on India's Consumer Economy), by the end of this decade, the structure of India's demographics will start to change from Pyramid shape, signifying a small rich class and a very large low income class, to an elementary diamond shape, comprising of a smallish layer of lower income groups, a huge bulge of middle class in the centre and a smaller by increasing layers of rich and super-rich on top[5].

This isn't just Improving the social equity and upward mobility in the country, the rapid growth of Indian middle-class has given birth to **collective and individual aspiration.**

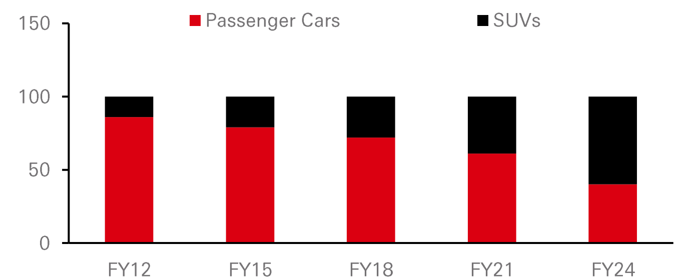
With higher incomes, access to smart phones and an exposure to global trends, most of them aspire to lead a better quality of life and have therefore shifted their preferences to premium products[3]. As seen in similar growth phases of other major economies, the urban consumer in India is leading the way in terms of greater penetration of consumer categories – modes of transportation, home upgradation, premium/branded products, and a preference for convenience led services – together fuelling premium consumption.

India's middle-class consumption is all set to be #1



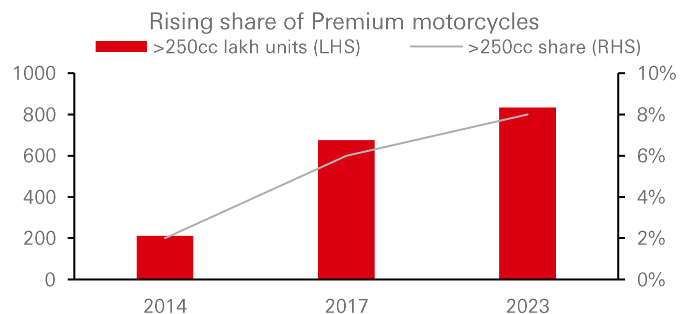
Source: OECD, HSBC Global Private Banking and Wealth, July 2024.

60% of cars sold in India are now SUVs



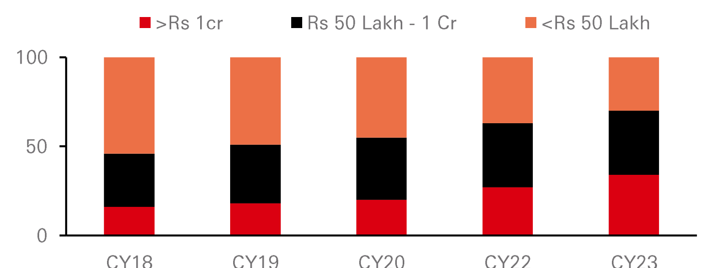
Source: ET, CLSA Research, HSBC Global Private Banking and Wealth, July 2024.

Premium motorcycles sales are rising fast



Source: Economic Times, Pheonix Mills, CLSA Research, HSBC Global Private Banking and Wealth, July 2024.

One-third of housing sales are INR 1CR+



Source: Economic Times, CLSA Research, HSBC Global Private Banking and Wealth, July 2024.

But aspirational buying isn't just limited to India's urban centres. As per a recently released household consumption survey (conducted nearly after a decade by the Indian National Sample Survey Office, 2024) latest consumption data indicate the development of more aspirational behaviours from both urban and rural households, which is reflective of India's youth heavy demography. While the food expenditure has moved away from the conventional cereals and pulses, towards higher consumption of processed foods, meats and beverages, it's the non-food expenditure which is dominated by transport and consumer durables, with consumer services and entertainment rivalling spends on toiletries and household goods. It's notable that this shift in rural preferences has emerged despite the lull in rural consumption spending over the last few years, thanks to India's young demographics.

Simply put, India's consumption basket is changing fast. Indians are spending on more of what they want i.e., discretionary items, rather than more of what they need[7].

Changes in India's consumption basket indicate a drift away from staples to discretionary, thanks to young demographics:

India's Urban consumption changes		
Key changes in monthly expenditure (%)	2011-12	2022-23
Food	42.6%	39.7%
Cereal	6.6%	4.5%
Beverages, processed food, meals	9.0%	10.5%
Milk, milk products	7.0%	7.2%
Vegetables, fruit, eggs, meat…	11.7%	11.1%
Non-Food	57.4%	60.3%
Conveyance	6.5%	8.5%
Durable goods	5.6%	7.1%
Consumer services, entertainment	7.2%	7.4%
Toiteries, household consumables	3.9%	4.9%

India's Rural consumption changes		
Key changes in monthly expenditure (%)	2011-12	2022-23
Food	52.9%	47.5%
Cereal	10.7%	6.9%
Beverages, processed food, meals	7.9%	9.4%
Milk, milk products	8.0%	8.1%
Vegetables, fruit, eggs, meat…	14.2%	13.7%
Non-Food	47.1%	52.5%
Conveyance/Transport	4.2%	7.6%
Durable goods	4.9%	6.9%
Consumer services, entertainment	5.0%	6.2%
Toiteries, household consumables	4.0%	5.1%

Source: Indian National Sample Survey Office, HSBC Global Private Banking and Wealth, 2024.

3.) **The expansion of digital and physical infrastructure:** Over the last decade, India's infrastructure build-up has facilitated financial inclusion, with 95% of the population enrolled in the digital identity system (Aadhar card) and 800 million new bank accounts opened in seven years. The Unified Payment System (UPI) has seen explosive growth, processing 14 billion transactions per month, representing ~50% of the world's instant payments[4].

This noticeable build-up of Indian infrastructure has stoked new age entrepreneurship and wealth creation, which, in and of itself, is a big aspect fuelling aspirational demand for a better lifestyle. Significant growth of Indian startups over the last few years has contributed to strong wealth creation for employees. As of 2021, leading startups in India had an ESOP pool size of $6.3bn. That's unprecedented wealth creation for young start-up employees who form a key subsection of affluent India[5].

India's Digital Public Infrastructure (DPI) and the smart phone penetration have become a marriage made in heaven. DPI has improved the ease of doing business, while access to smart phones has democratised information to global trends, influencers and icons, and the ability of Indian consumers to seamlessly place orders online.

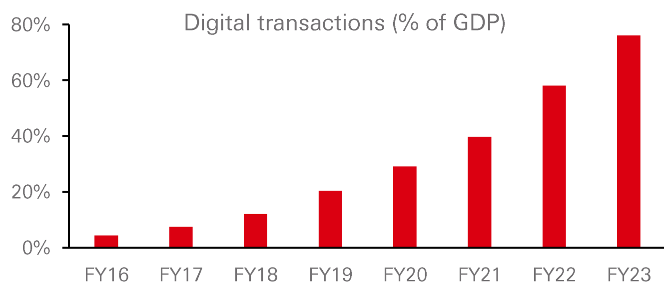
At the same time, **the expansion of India's physical infrastructure** by way of roads, railways, airports and investments in ports **has massively improved the last mile connectivity** for the new age consumer. Consequently, India's quick commerce, defined by deliveries under 20 minutes is up by 70 times since 2019 (Source: Redseer Strategy Consulting, 2024).

Thanks to all the infrastructure build-out, **the Indian Direct to Consumer (D2C) brand market is likely to grow more than three times in four years** from $17bn in 2023 to $61.3 billion by FY27, buoyed by increased targeting by brands, hyper-personalisation, increased competition and rise in per capita earnings. This implies a compound annual growth rate of ~38% (Source: Economic Times Market Intelligence, June 2024).

This growth in the D2C market is also expected to create ~10 million direct and indirect jobs in the retail space by FY27 – indicative of the virtuous feedback loop of job creation and consumption, facilitated by the growth of Indian infrastructure.

Consequently, we expect India to have the second largest group of online shoppers by 2030 of around 500 million. As a result, the size of India's e-commerce market is estimated to grow to $350 billion by 2030[6].

In 6 years, India has become the world's highest digital payments volume generator…



Source: RBI, HSBC Global Private Banking and Wealth, July 2024.

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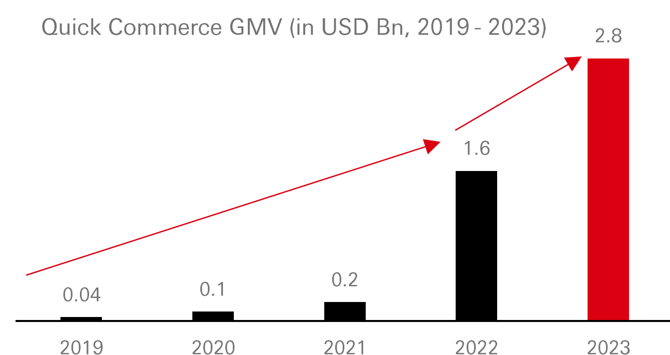


Source: Redseer consulting, HSBC Global Private Banking and Wealth, July 2024.

4.) **Democratisation of credit financing:** Better access to credit is another major catalyst boosting premiumisation of Indian consumption. So far, restricted access to credit had been a major barrier to the middle class not being able to spend on discretionary items durables like ACs, SUVs etc. Now, with a banking sector nearly free from NPLs (Non-Performing Loans) and benefitting from replenished balance sheets – the banks and NBFCs (Non-Banking Financial Corporations) are ready to lend. Furthermore, improved access to banking via smart phones has increased credit availability even to those Indians who were unbanked until a few years ago. Consequently, much of the household debt growth in the past decade has been driven by '**credit widening**' - an increase in the number of borrowers – rather than '**credit deepening**' or higher loans per borrower[5]. This democratisation of credit financing is fuelling the aspirations of Indian consumers.

5.) **A change in the Indian mindset – from a 'high propensity to save' to a 'higher propensity to consume'**: Historically, India has been a nation of savers. But COVID-19 pandemic has caused people to shift behaviourally, from merely concentrating on increasing wealth and preserving it, to also enjoying it. Recent data from RBI show that net household savings have shrunk from 7.3% in 2022 to 5.3% of GDP in FY 2023, while annual household borrowings stood at 5.8% of GDP – the second highest level after 1970s. **This rise in non-mortgage loans points to some amount of consumer confidence** and has essentially been used for purchase of consumer durables - the fastest growing segment of the Indian consumption basket[5]. According to India's finance ministry, more Indians are borrowing in the post-pandemic era to buy cars, finance higher education and to buy assets like homes, which "*is not a sign of distress but confidence in the future employment and income prospects*"[8].

However, India's consumption growth hasn't been all equitable in recent years

India's two speed economy has resulted in a K-shaped consumption pattern in recent years, whereby the top-of-the-pyramid demand has been far more robust than the bottom of the pyramid.

While rural India accounts for more than two-thirds of the country's population, it is responsible for less than one-third of Indian consumption. This is reflected by the strong real consumer goods imports (30% above pre-pandemic levels), co-existing with a weak non-durable goods production (only 4% above the pre-pandemic levels)[6].

So, what have been the reasons for this lagging rural demand?

Much of the non-affluent Indian population is broadly rural. It depends on agriculture or informal sectors/jobs for their primary source of income. Their drivers of consumption are therefore different. They have fewer savings and essentially spend most of their earnings on basic necessities.

Agricultural incomes in India haven't grown much in the last five years, mainly to do with the fact that agricultural output prices haven't grown much over this period. This has been compounded by one off events like **demonetisation**, **the introduction of the GST reform** and **finally the pandemic** – which together adversely impacted the rural consumption demand. As a result, private consumption – the largest GDP segment in India – grew at only 4% over the past fiscal year. This lacklustre growth in private consumption resulting mainly from faltering rural demand has had an impact on sales and earnings of FMCGs in India – selling most of their output to the non-affluent masses.

But now, there are two key catalysts on the horizon that should support rural consumption:

1.) **Modi 3.0 government's broader policy vision to boost the economic prospects and rural reforms over the next five years:** During the Modi 1.0 and 2.0 tenures, welfare spending and rural reform initiatives were put on the back burner to prioritise other key policy

initiatives like investments in infrastructure, tax reforms etc. Whilst these policy focal points were absolute imperatives and have pole-vaulted India to becoming a global growth engine, an undesired side-effect was lagging rural incomes and consumption. Understandably, this created a sense of being 'left out' of India's economic growth in rural India and in key states like Uttar Pradesh, dominated by rural communities. This rural discontent eventually got reflected in the way rural population voted in the general election. As such, this was a rude shock for PM Modi's Bhartiya Janta Party, which lost its parliamentary majority in the June 2024 election results, even if it was later able to form the current coalition government with allies. **We believe this message of rural discontent has been well-noted by PM Modi and he is now taking remedial actions**.

With Indian elections behind us, the Indian polity has now entered a new phase of coalition politics, where nudges from government's political allies i.e., the TDP (Telegu Desam arty) and JDU (Janta Dal United) have heightened government spending. In this new political landscape, aiming to win back rural voters and maintain political support of its allies, the Indian government has unveiled revenue expenditure of billions of dollars in its July 2024 budget. It has earmarked $56 billion for job creation and supporting the rural economy - which bodes well for rural consumption. Fiscally, India's tax intake has gone up significantly in the last decade, thanks to the GST reform, which has broadened the direct and indirect tax base. As such, net direct tax collections for FY24-25 have grown at about 20% through July 11. (Source: Bloomberg, July 2024).

Higher tax revenues combined with higher dividend income from the RBI which together account for roughly 0.6% of GDP, which have given the new government the fiscal space to increase the rural welfare spending, whilst improving its fiscal discipline (fiscal deficit target has been revised from 5.1% to 4.9% of GDP for FY25 and is 4.5% for 2026) and continued investment in infrastructure. As such, the new government had already announced measures to support farmers' incomes by increasing the Minimum Support Prices (MSP) on all major crops to 1.5x of farmer costs in June 2024. In addition, new agricultural welfare measures have now been announced, like improving agricultural productivity by focusing on agri-tech, setting up of cooperatives in rural areas and making rural credit more readily available.

All in all, we think it was a budget focused on inclusive human resource development – creating employment, internships, upskilling, rural welfare and support for small businesses. Such policy measures should not only support incomes, but also increase rural productivity and ultimately increase rural demand – which has been the missing component in the Indian consumption story over the last few years.

2.) **Notwithstanding new policy measures by the government, for the first time in 15 months, we are seeing some early signs of surge in consumer activity in rural India**, as rural demand outpaced urban demand in the quarter ending March 2024 (Source: NeilsenIQ, May 2024). This recovery in rural demand is good news for FMCG companies, who had witnessed lacklustre demand for their packaged products in rural India over the last few years. We expect FMCG companies to capitalise on this inflection point in the consumption landscape with some strategic moves to increase their sales. As such, several FMCG giants have already lined up big investments in India to enhance capacity and produce more premium products.

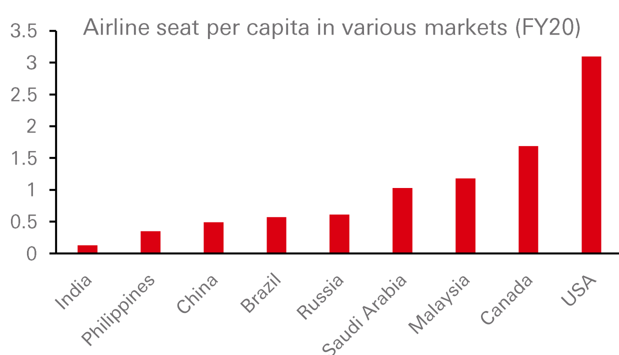
So, with new catalysts on the horizon, what are the investment opportunities in the new Indian consumption landscape?

1.) **Opportunities in Consumer Discretionary and Consumer Durables**: Given the premiumisation of Indian consumption, we like companies that can ride the tide of discerning tastes**.** We think companies that can adapt and innovate to meet the evolving Indian taste shall be reaping rewards of this transformation in Indian consumption. From personal care, branded footwear, wine and spirits, Quick Service Restaurants (QSRs), smart phones, electricals, autos, travelling, hotels to premium housing – various consumption areas are seeing demand for premium products and services.

Within consumer discretionary and durables, there are opportunities in companies benefitting from greater market penetration. Multiple consumption categories in India offer a long runway for growth, as current market penetration remains in its nascent stage. Approximately 33% of the country's population is estimated to be between 20 and 33 years old, and this group is expected to spend big on electronics (Source: BMI, 2023). As the charts on the next page show, most lifestyle enhancing consumer durables and consumer discretionary categories remain under penetrated in India. The combination of under penetration of discretionary consumption categories and rising income levels is likely to translate into exponential growth of discretionary consumption over the coming decade.

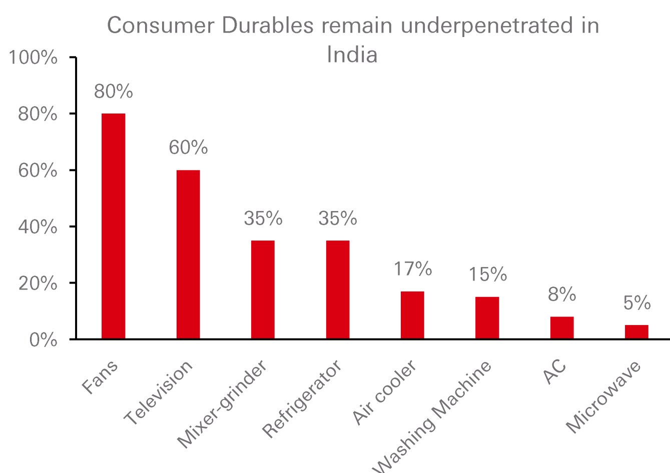
For instance, India has an overwhelming and largely unmet demand for cooling. With rising heatwaves, India's demand for ACs is both essential and unstoppable. As per Indian government's estimates, between 8-10% of the country's 300m households have an AC, but that number is expected to hit close to 50% by 2037. The International Energy Agency (IEA) predicts that by 2050, India will have more than 1bn Acs in operation. Similarly, passenger air travel remains an under penetrated market. With growing affluence and aspirations, the number of domestic air passengers is expected to surge from 153mn in 2023 to 300mn by 2030. **If both domestic and international travel are combined, then India is the fifth largest civil aviation market in the world** (Source: GoI, Times of India, Jan 2024).

India's discretionary consumption market remains under penetrated.



Sources: IEA, Times of India, GoI, HSBC Global Private Banking and Wealth, July 2024.

Consumer Durables too have immense growth potential



Sources: IEA, Times of India, GoI, HSBC Global Private Banking and Wealth, July 2024

2.) **Opportunities in consumption and income redistribution beneficiaries like FMCGs:** A recovery in rural demand is good news for FMCG companies, who had witnessed lacklustre demand for their packaged products in rural India over the last few years. We expect FMCG companies to capitalise on this inflection point in the Indian consumption landscape with some strategic moves to increase their sales, like enhancing production capacity and producing more premium products.

3.) **Opportunities in organised retail and quick commerce**: India still has a huge informal retail market. In groceries, it is dominated by the local corner shop, locally known as the 'kirana' stores that have been the mainstay of regular supply of essential items in India's rural, semi-rural and urban communities. However, over the last few years, a clear structural trend that has emerged in India is the move from unorganised retail sector to organised retail and we think there are interesting opportunities in this space, driven by Quick-commerce. The launch of India's Open Network for Digital Commerce (ONDC) in 2023 is another key step in organising India's retail sector. ONDC is an e-commerce platform that connects online buyers with local businesses. By early 2024, over half a million sellers had been onboarded, of which, more than 70% are small and medium sized sellers and over 7 million (70 lakh) transactions have been done on ONDC by April 2024 (Source: Department for Promotion of Industry and Internal Trade (DPIIT).

With greater smart phone penetration, we think there exist huge untapped opportunities in India's quick commerce – essentially the next iteration of last mile delivery – driven by hyper-local fulfilment and delivery. From food and grocery to apparel, footwear, to consumer electronics and personal wellbeing, right up to real estate developers – the share of organised sector has grown severalfold in the last decade, clearly highlighting the shifting consumer preferences. According to consulting firm RedSeer, India's consumer retail sector is expected to grow at a 10.5% CAGR between 2021-2026, to reach $1,4trn by 2026, and organised sector is likely to take a bigger growth share, in our view. Therefore, companies benefitting from the shift from unorganised to the organised, look attractive.

4.) **Opportunities in Financials, especially those benefitting from the Indian Real Estate boom and demand for consumer credit**: With the number on Indian Ultra High Net Worth Individuals set to grow circa 50%, from 2023-28, we see attractive opportunities in the Indian real estate sector. As much as 32% of the UHNWI wealth is invested in real estate. Almost a fifth of UHNWIs plan to invest in commercial real estate this

year, while more than a fifth are planning to buy residential property[2]. Indian real estate is therefore benefitting from country's structural upcycle, with favourable demand-supply dynamics. It's notable that the share of private investment has risen in India's GDP, led by 'dwellings and structures'.

Furthermore, India's Tier-2 cities are closing gap with India's top 8 cities and are emerging as new growth powerhouses. Economic diversification, rising consumer demand and reverse migration are driving growth in Tier-2 cities such as Kochi, Goa and Jaipur, according to Housing.com's 'The Bharat in India' report, June 2024. In Tier-2 cities, burgeoning interest from national and international brands has catalysed the development of high street areas; escalating e-commerce has prompted companies to set up fulfilment centres; and the development of industrial corridors and airports' cargo handling facilities has propelled growth in the warehousing sector. Consequently, key micro-markets in Tier-2 cities have witnessed significant double digit capital value appreciation of 10-15% YoY, narrowing the price gap with top metros. Given the rise in economic prosperity, we expect **this real estate boom and acceleration in building activity to have significant spillovers to other parts of the economy.**

Plus, **the positive wealth effect** from higher property prices should also aid Indian consumption, in our view.

The standout beneficiaries in our view are banks and NBFCs, who offer home loans and retail credit. As alluded to earlier in this report, In India, opportunities in retail credit, driven by Gen Z and millennials present substantial growth potential. With rising economic prospects and aspirational demand, the demand for retail lending and diverse credit products is likely to expand, presenting great revenue growth opportunities to Indian banks, who's balance sheets are in a great shape and hence they're ready to lend.

5.) **Foreign investors can gain from a broad exposure to Indian equities**: Finally, we think that foreign Investors, who have limited implementation choices to get exposure to sectors benefiting from rising Indian consumption would benefit from gaining a broadbased Indian equities exposure, as financials and consumer discretionary sectors are two of the biggest sectors in indices like the MSCI India - a key industry benchmark.

Our High Conviction Investment Theme "**Rise of India and ASEAN**" should also provide foreign investors some avenues to get exposure to the Indian markets.

Summary

While India's economic accent needs no introduction, what often goes unnoticed is how rising personal incomes and wealth are transforming India's domestic consumption landscape – an area that contributes over 60% to India's GDP. As the nation ushers into a transformative era of higher personal incomes and wealth, **India's consumption story is becoming much more nuanced – transitioning from necessities to comforts, and from comforts to luxuries**.

With rising per capita income; a ballooning middle-class; increasing urbanisation; improved access to credit; and a broad behavioural shift towards creating and enjoying wealth – the **structural drivers are in place to boost discretionary spending**. These discerning affluent consumers are now demanding high quality, branded and personalised goods and services – hence giving birth to the concept of 'premiumisation of Indian Consumption'.

But while 'premiumisation of Indian consumption' is a clear trend at the top of the consumption pyramid, i.e., India's affluent population, the consumption demand from the bottom of the pyramid i.e., from India's rural areas has been lackluster in recent years - mainly due to lagging rural incomes. Youth unemployment and wealth disparity have plagued consumption at the lower end of consumer spectrum. Essentially, these had been the underlying reasons for the brewing rural discontent, which cost PM Modi's party, the BJP, its parliamentary majority in the 2024 general election, and it had to form a coalition government with the help of allies. But with the new Modi 3.0 government firmly in place now, **a renewed focus on inclusive human resource development through various government programs** - greater emphasis on job creation and upskilling India's youth; **agricultural reforms; and overall higher welfare spending** should underpin India's rural economy and support demand.

As such, we think the domestic consumption cycle in India is about to reignite. India's growth is driving its consumption, and this higher consumption should in turn boost its GDP growth – creating a virtuous economic loop.

Astute investors will take advantage of opportunities emerging in India's consumer discretionary and durables sectors, especially as several key categories like consumer electronics remain under penetrated. The emergence of these new catalysts should also present opportunities in India's FMCG sector (which has been a laggard), along with financials, which are getting a boost from a booming real estate market and demand for retail credit.

If you're a foreign investor interested in investing in India's domestic consumption story, but have limited routes to market, we think the easiest way is to get an overweight exposure to a broad Indian index, as both financials and consumer discretionary are the two biggest sectors in all leading Indian equity benchmarks. Please reach out to your IC/RM for further help.

1.) **Goldman Sachs, 2024**
2.) **Frank Knight Wealth Report, 2024**
3.) **CRISIL, 2024**
4.) **ETF Central, June 2024**
5.) **CLSA, March 2024**
6.) **HSBC Global Research, March 2024**
7.) **Bloomberg Business, India Edition, March 2024**
8.) **BBC, RBI data, April 2024**
9.) **HSBC Global Research, March 2024**

Risk Disclosures

Risks of investment in fixed income

There are several key issues that one should consider before making an investment into fixed income. The risk specific to this type of investment may include, but are not limited to:

Credit risk

Investor is subject to the credit risk of the issuer. Investor is also subject to the credit risk of the government and/or the appointed trustee for debts that are guaranteed by the government.

Risks associated with high yield fixed income instruments

High yield fixed income instruments are typically rated below investment grade or are unrated and as such are often subject to a higher risk of issuer default. The net asset value of a high-yield bond fund may decline or be negatively affected if there is a default of any of the high yield bonds that it invests in or if interest rates change. The special features and risks of high-yield bond funds may also include the following:

- Capital growth risk - some high-yield bond funds may have fees and/ or dividends paid out of capital. As a result, the capital that the fund has available for investment in the future and capital growth may be reduced; and
- Dividend distributions - some high-yield bond funds may not distribute dividends, but instead reinvest the dividends into the fund or alternatively, the investment manager may have discretion on whether or not to make any distribution out of income and/ or capital of the fund. Also, a high distribution yield does not imply a positive or high return on the total investment.
- Vulnerability to economic cycles - during economic downturns such instruments may typically fall more in value than investment grade bonds as (i) investors become more risk averse and (ii) default risk rises.

Risks associated with subordinated debentures, perpetual debentures, and contingent convertible or bail-in debentures

- Subordinated debentures - subordinated debentures will bear higher risks than holders of senior debentures of the issuer due to a lower priority of claim in the event of the issuer's liquidation.
- Perpetual debentures - perpetual debentures often are callable, do not have maturity dates and are subordinated. Investors may incur reinvestment and subordination risks. Investors may lose all their invested principal in certain circumstances. Interest payments may be variable, deferred or cancelled. Investors may face uncertainties over when and how much they can receive such payments.
- Contingent convertible or bail-in debentures - Contingent convertible and bail-in debentures are hybrid debt-equity instruments that may be written off or converted to common stock on the occurrence of a trigger event. Contingent convertible debentures refer to debentures that contain a clause requiring them to be written off or converted to common stock on the occurrence of a trigger event. These debentures generally absorb losses while the issuer remains a going concern (i.e. in advance of the point of non-viability). "Bail-in" generally refers to (a) contractual mechanisms (i.e. cotractual bail-in) under which debentures contain a clause requiring them to be written off or converted to common stock on the occurrence of a trigger event, or (b) statutory mechanisms (i.e. statutory bail-in) whereby a national resolution authority writes down or converts debentures under specified conditions to common stock. Bail-in debentures generally absorb losses at the point of non viability. These features can introduce notable risks to investors who may lose all their invested principal.

Contingent convertible securities (CoCos) or bail-in debentures are highly complex, high risk hybrid capital instruments with unusual loss-absorbency features written into their contractual terms.
Investors should note that their capital is at risk and they may lose some or all of their capital.

Changes in legislation and/or regulation

Changes in legislation and/or regulation could affect the performance, prices and mark-to-market valuation on the investment.

Nationalisation risk

The uncertainty as to the coupons and principal will be paid on schedule and/or that the risk on the ranking of the bond seniority would be compromised following nationalisation.

Reinvestment risk

A decline in interest rate would affect investors as coupons received and any return of principal may be reinvested at a lower rate. Changes in interest rate, volatility, credit spread, rating agencies actions, liquidity and market conditions may have a negative effect on the prices, mark-to-market valuations and your overall investment.

Risk disclosure on Dim Sum Bonds

Although sovereign bonds may be guaranteed by the China Central Government, investors should note that unless otherwise specified, other renminbi bonds will not be guaranteed by the China Central Government. Renminbi bonds are settled in renminbi, changes in exchange rates may have an adverse effect on the value of that investment. You may not get back the same amount of Hong Kong Dollars upon maturity of the bond. There may not be active secondary market available even if a renminbi bond is listed. Therefore, you need to face a certain degree of liquidity risk. Renminbi is subject to foreign exchange control. Renminbi is not freely convertible in Hong Kong. Should the China Central Government tighten the control, the liquidity of renminbi or even renminbi bonds in Hong Kong will be affected and you may be exposed to higher liquidity risks. Investors should be prepared that you may need to hold a renminbi bond until maturity.

Alternative Investments

Hedge Fund - Please note Hedge Funds often engage in leveraging and other speculative investment practices that may increase the risk of investment loss. They can also be highly illiquid, are not required to provide periodic pricing or valuation information to investors, and may involve complex tax structures and delays in distributing important information. Alternative investments are often not subject to the same regulatory requirements as, say, mutual funds, and often charge high fees that may potentially offset trading profits when they occur.
Private Equity - Please note Private Equity is generally illiquid, involving long term investments that do not display the liquid or transparency characteristics often found in other investments (e.g. Listed securities). It can take time for money to be invested (cash drag) and for investments to produce returns after initial losses.

Risk disclosure on Emerging Markets

Investment in emerging markets may involve certain, additional risks which may not be typically associated with investing in more established economies and/or securities markets. Such risks include (a) the risk of

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Risk disclosure on FX Margin

The price fluctuation of FX could be substantial under certain market conditions and/or occurrence of certain events, news or developments and this could pose significant risk to the Customer.

Leveraged FX trading carry a high degree of risk and the Customer may suffer losses exceeding their initial margin funds. Market conditions may make it impossible to square/close-out FX contracts/options. Customers could face substantial margin calls and therefore liquidity problems if the relevant price of the currency goes against them.

The leverage of a product can work against you and losses can exceed those of a direct investment. If the market value of a portfolio falls by a certain amount, this could result in a situation where the value of collateral no longer covers all outstanding loan amounts. This means that investors might have to respond promptly to margin calls. If a portfolio's return is lower than its financing cost then leverage would reduce a portfolio's overall performance and even generate a negative return.

Currency risk – where product relates to other currencies

When an investment is denominated in a currency other than your local or reporting currency, changes in exchange rates may have a negative effect on your investment.

Chinese Yuan ("CNY") risks

There is a liquidity risk associated with CNY products, especially if such investments do not have an active secondary market and their prices have large bid/offer spreads.

CNY is currently not freely convertible and conversion of CNY through banks in Hong Kong and Singapore is subject to certain restrictions. CNY products are denominated and settled in CNY deliverable in Hong Kong and Singapore, which represents a market which is different from that of CNY deliverable in Mainland China.

There is a possibility of not receiving the full amount in CNY upon settlement, if the Bank is not able to obtain sufficient amount of CNY in a timely manner due to the exchange controls and restrictions applicable to the currency.

Illiquid markets/products

In the case of investments for which there is no recognised market,
it may be difficult for investors to sell their investments or to obtain reliable information about their value or the extent of the risk to which they are exposed.

Environmental, Social and Governance ("ESG") Customer Disclosure

In broad terms "ESG and sustainable investing" products include investment approaches or instruments which consider environmental, social, governance and/or other sustainability factors to varying degrees. Certain instruments we classify as ESG or sustainable investing products may be in the process of changing to deliver sustainability outcomes. There is no guarantee that ESG and Sustainable investing products will produce returns similar to those which don't have any ESG or sustainable characteristics. ESG and Sustainable investing products may diverge from traditional market benchmarks. In addition, there is no standard definition of, or measurement criteria for, ESG and Sustainable investing or the effect of ESG and Sustainable investing products. ESG and Sustainable investing and related measurement criteria are (a) highly subjective and (b) may vary significantly across and within sectors.

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An investment which is considered to fulfil sustainable criteria today may not meet those criteria at some point in the future. When we allocate an HSBC ESG and Sustainable Investing (SI) classification: HSBC ESG Enhanced, HSBC Thematic or HSBC Impact (this is known as HSBC Purpose in the UK) to an investment product, this does not mean that all individual underlying holdings in the investment product or portfolio individually qualify for the classification. Similarly, when we classify an equity or fixed income under an HSBC ESG Enhanced, HSBC Thematic or HSBC Impact (this is known as HSBC Purpose in the UK) category, this does not mean that the underlying issuer's activities are fully aligned with the relevant ESG or sustainable characteristics attributable to the classification. Not all investments, portfolios or services are eligible to be classified under our ESG and SI classifications. This may be because there is insufficient information available or because a particular investment product does not meet HSBC's SI classifications criteria.

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