



India's demographic dividend to make it a leading consumption market globally

- The next decade will be consumption driven and India's demographics will be at its forefront.
- India's young working population could lead to a new multi-decadal consumption boom.
- India's retail market is set to grow at 8.9% CAGR over the next 10 years to \$1.83 trillion by FY32.

The more the merrier is one phrase that is likely to come true with the unleashing of India's economic potential due to its large and favourably aged population – popularly referred to as demographic dividend.

In 2023, the country has gone past China to become the most populous in the planet with a teeming 140 crore human strength. But more than being a challenge, India's young working population could lead a new consumption boom that is likely to last multiple decades, more so in the next 10 years. The country's Gen Z and millennials account for 50% of the total population and are focused on lifestyle spending.

What is India's demographic dividend opportunity and what are the key consumption trends that are likely to play out? What is the near to medium-term outlook for the consumption theme?

Here's a deep dive into what would drive the future growth of this sector and the reasons for our conviction as a fund house on consumption as a credible investment theme for a long time to come.



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Aspirational population set to become upwardly mobile

A young country

Current
Median Age
29 years



Median Age
in 2047
37 years

Large workforce

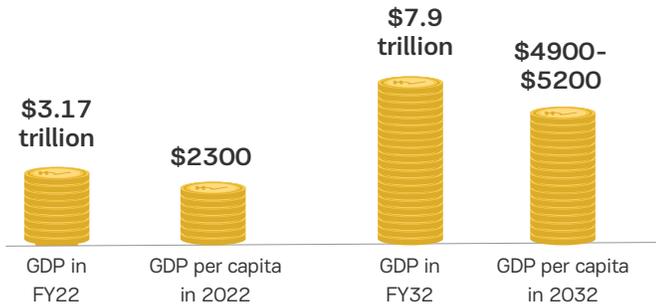
Share of
working age
population

Share of working age
population in 2040

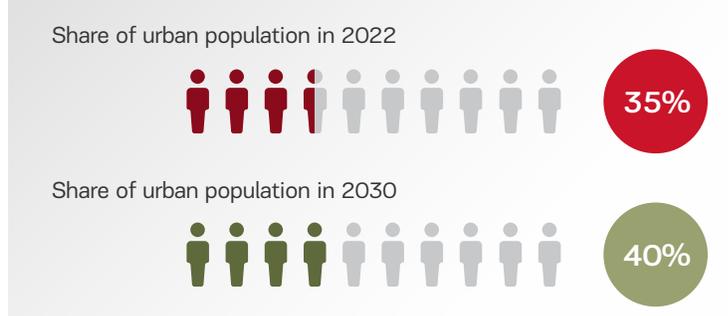


Current Generation Z
& millennial proportion

Rising GDP and per capita



Increasing urban population

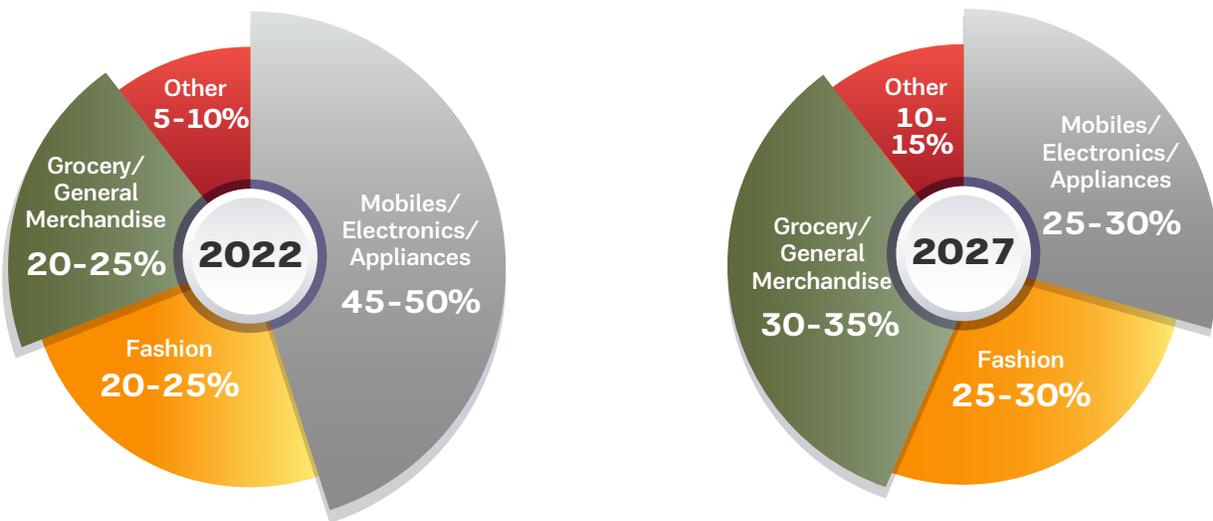


Source: IBEF, World Bank, UN, Macquarie Research, Spark Capital, Morgan Stanley

A young working population, higher per capita GDP (and disposable income) that increases the propensity to spend, rapid urbanization, nuclearization of families, and rising awareness as well as aspiration levels fuelled by social media are set to take consumption to the next level in India. Salary hikes have gone back to double digits in many industries from 2021 onwards after 5-6 years of dull growth. Additionally, rapid urbanization in the next 7-10 years creates the need for newer houses, consumer appliances, home decors, and the like.

Rising tide to lift many boats

India's retail market is set to grow at 8.9% CAGR (compound annual growth rate) over the next 10 years to \$1.83 trillion by FY32. Within the segment, non-grocery retail is set to grow at 12.2% CAGR over the next decade to \$895 billion. The share of non-grocery purchase is set to increase from 15% to 20% of the overall market, with e-commerce propelling the trend. The trend for the next five years of how e-commerce shopping is set to take shape is illustrated below. Fashion, grocery and general merchandise is set to capture 65% of Indian e-commerce by 2027, up from 50% in 2022.



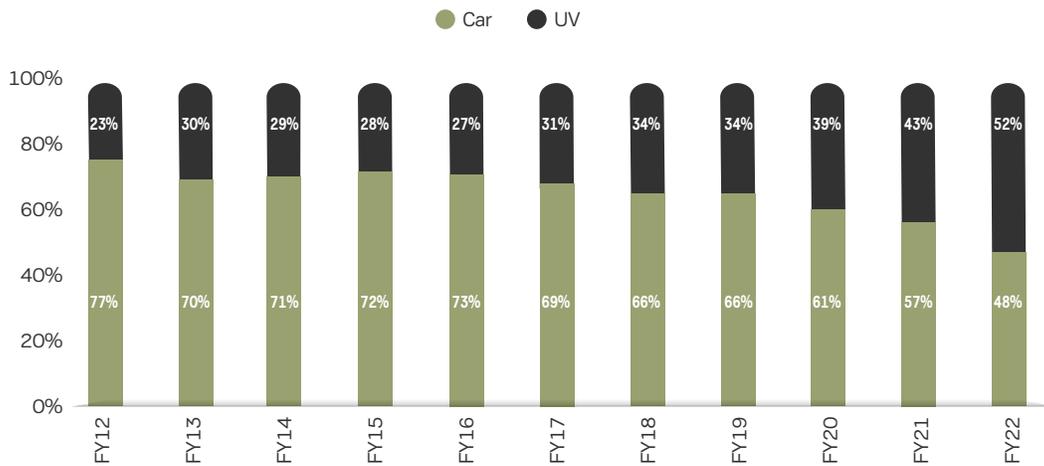
Source: Economic Survey 2023, Bain and Company

As incomes rise, passenger vehicles (cars) continue to be sold at a healthy pace. India is now the third largest automobile market in the world.

UVs (utility vehicles) command an increasing share of cars purchased as Indians move up the luxury hierarchy by shunning entry level vehicles. The share of UVs in total passenger sales is 52% as of FY22, up from just 23% a decade ago.

Between 2022 and 2030, the domestic electric vehicle market will grow at 49% CAGR and touch 1 crore annual sales. Non-retail consumption – automotive, leisure, hotels, education, health etc. – are likely to grow from \$1.1 trillion in FY22 to \$2.7 trillion by FY32. E-commerce penetration in India is expected to nearly double from 6.5% to 12.3% by 2031. This is will largely be aided by the increase in Internet users in India in the next 10 years to 960mn propelling growth of online shoppers from 250mn to 700mn. The penetration level of key consumer products is still quite low in India compared to global average, giving considerable scope for growth over the next decade. The next decade will clearly be consumption driven and India’s demographics will be at the forefront of achieving this growth.

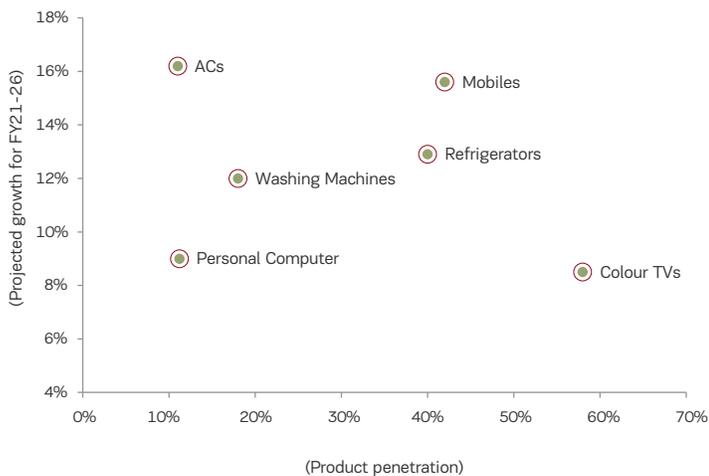
UV as a % of overall sales



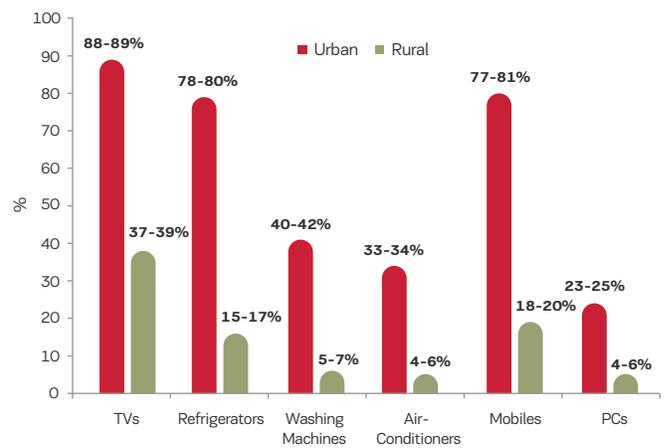
Source: Investec Securities

Penetration level of key consumer products in India

Consumer Durable 5 year growth prospect and current penetration level



Product-wise household penetration in rural and urban areas



Source: Industry, Crisil Research, Centrum Broking

What happens in the near term?

Given that there was considerable revenue spending in 2022 after two years of pandemic-induced challenges, the high base would show as slower demand for the immediate future.

In the next one year, given the spike in inflation and high interest rates, as well as a tepid job market, some moderation in consumption is likely, especially in urban areas. Rural demand is also yet to revive, as witnessed from the commentary of most FMCG companies.

However, from the second half of FY24, with 4-5 large states going to elections, followed by the mega general elections in April-May 2024, government spending on rural programmes is likely to increase, thus spurring demand. From mid-2024, consumption is likely to resume its normal growth rates across products and services.

Also, some broader trends will continue to be positive. In CY22, 10 lakh EVs (all types of vehicles) were sold and is likely to be a key growth area. Online purchases will increase and will move up the value and luxury chain.

Indians are also moving to financialization of savings rapidly. Despite all economic headwinds, more than Rs 13,000 crores is invested via the SIP route every month. There are over 10 crore demat accounts. Real estate demand is also back.

Overall, as a fund house, we are very bullish on the long-term consumption story, highlighted in the key data points and the trajectory of growth.

Data sources: UN, World Bank, Macquarie, Morgan Stanley, Economic Survey 2023, Investec Securities, ICE 360, Invest India, Spark Capital, OECD, IBEF, Bain and Company

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