TRU INSIGHTS

April 2025

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HDFC TrU HONESTY I EXPERTISE

Contents

From the MD & CEO's desk

"Global tariff war to dominate narrative with the U.S. imposing reciprocal tariffs on major trade partners, with key monitorable being potential retaliatory tariffs by other countries as well as any negotiated mutual reductions in tariffs. Lower relative tariffs for India along with improving domestic macros, supportive RBI measures, and reasonable valuations to cushion near term volatility while long term growth thesis remains intact."

Dear Investors,

The U.S. President announced a 10% baseline tariff on all imports to the U.S effective from April 5 and "discounted" reciprocal tariffs on large trade partners including the E.U. (effective tariffs of 20%), China (54%), Japan (24%), Vietnam (46%), South Korea (25%), and India (27%) effective from April 9, significantly escalating the tariff war.

While global growth outlook is getting murkier due to the tariff war, India will attract tariffs which are lower that of other key competing nations like Bangladesh, China and Vietnam who have been hit by higher tariffs ranging from 32%-54%. Moreover, exemption of the Pharma sector from any tariffs for now is a near term positive for India. Certain key products like Energy, Pharmaceuticals, Semiconductors and sectors like Automobiles on which tariffs were imposed earlier were exempt from any additional tariffs as of now.

Tariffs will likely dominate the narrative in the global markets. Reductions, if any, or carve outs for specific industries may still emerge. Retaliatory tariffs by other countries like China, EU need to be monitored closely as well as any negotiated mutual reductions in tariffs. The above factors will lead to increased market volatility in the near term until comprehensive trade agreements are reached.

While the global tariff war has taken center stage, geopolitical tensions in the Middle East have also intensified significantly, with the US launching attacks on Houthi rebels in Yemen and the resumption of armed conflict between Israel and Hamas. President Trump also warned that Iran will be held responsible for attacks by Houthi rebels.

I believe that equities will do well in the long run given India's strong economic growth trajectory and a relatively lower share of exports in our GDP, especially to the U.S. India is also better positioned to manage global volatility now than it was in October 2024 because of an anticipated recovery in the domestic economy. Urban consumption is expected to gradually improve from Q4 onwards, supported by increased government spending, tax benefits announced in the Union Budget, and the partial implementation of the 8th Pay Commission (effective Q4FY26). Rate cuts, additional liquidity-enhancing measures, and forex market interventions undertaken by the RBI should aid in stabilizing the rupee, ease liquidity stress in the system, and facilitate effective transmission of rate cuts. This will help lower the interest burden for both corporates and consumers.

Indian equities closed March in the green for the first time in six months, with the Nifty reversing all the losses of the previous month. While FPI flows were negative in the first half of the month, they reversed sharply in the second half, resulting in net FII inflows of approximately ₹2,000 crore for the month. Also, moderation in valuations relative to Oct-24 peaks provide comfort. Hence, any near-term market corrections, in my view, will provide an attractive entry point to investors from a long term perspective. From an allocation standpoint, we continue to maintain our preference for large caps vis-à-vis mid/small caps.

In this edition of Tru Insights, we offer a comprehensive recap of key global and domestic macroeconomic trends, outlook on equity and fixed income markets, and a deep dive into "India's moment in now." You will also find a curated collection of thought-provoking essays in our Reading Room.
I trust that you will find immense value in our Tru Insights as a tool for enhancing your investment endeavors.

Warm Regards

Dhiraj Relli
MD and CEO – HDFC Securities

Macro Economic Highlights

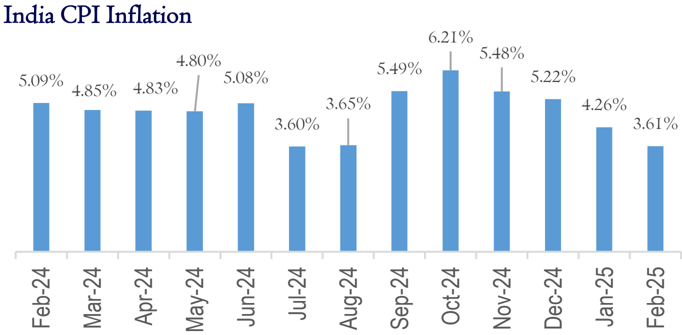
Trade, Inflation and Policy Shifts Shaping 2025

Global markets experienced volatility due to trade tensions and monetary policy shifts, with US tariffs and central bank actions influencing economic sentiment. In India, inflation eased to a seven-month low, industrial growth remained strong, and fiscal trends stayed stable despite underlying price pressures.

Domestic Macro Highlights

Inflation: India's Consumer Price Index (CPI) inflation fell to 3.6% in February 2025, its lowest level in seven months, down from a revised 4.26% in January. The decline was primarily driven by a sharp drop in vegetable prices. However, core inflation—excluding food and fuel—rose to 4.08% in February'25, marking a 14-month high from 3.7% in January, signaling underlying price pressures. The Index of Industrial Production (IIP) expanded by 5.0% in January 2025, improving from 3.2% in December 2024. Growth was largely fueled by the manufacturing and mining sectors, reflecting stronger economic activity despite global uncertainties.

India CPI Inflation



Source: Tradingeconomics, Federal Reaserve

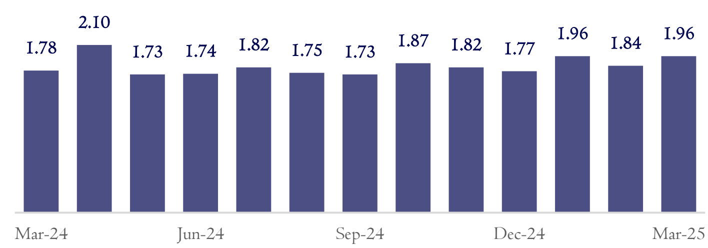
Fiscal Gap: India's fiscal deficit stood at ₹13.5 lakh crore by February, reaching 85.8% of the ₹15.7 lakh crore full-year target—slightly lower than the 86.5% utilization recorded last year. Capital expenditure totaled ₹8.1 lakh crore, requiring an additional ₹2.1 lakh crore in March to meet the ₹10.2 lakh crore target. However, the 80% utilization rate was lower than last year's 85%. February's fiscal deficit fell sharply to ₹1.77 lakh crore from ₹3.99 lakh crore in February 2024. Total expenditure for the month declined to ₹3.23 lakh crore (from ₹3.93 lakh crore in Feb, 2024), while total receipts from April'24 -Feb'25 surged to ₹25.46 lakh crore, significantly improving from receipts of ₹22.45 lakh crore from April'23 -Feb'24.

March's PMI: Services & Manufacturing Dip: India's manufacturing sector continued its robust expansion, with the HSBC India Manufacturing Purchasing Managers' Index (PMI) rising to 58.1 in March 2025 from 56.3 in February 2025. Output growth reached a nine-month high, accompanied by increased staffing and stock purchases. Conversely, the Services PMI dipped to 57.7 in March 2025 from 59.0 in February 2025, marking its 44th consecutive month of expansion but at a slower pace. While employment levels improved, the rate of outstanding business growth moderated, signaling cautious optimism in the services sector.

GST Collections: India's Goods and Services Tax (GST) collections reached ₹1.96 lakh crore in March, a 10% increase from February's ₹1.84 lakh crore. This marks the 13th consecutive month that GST revenue has exceeded ₹1.7 lakh crore, highlighting sustained economic activity and improved tax compliance.

India's GST Collections rose from Rs. 1.84 lakh crore in Feb-25 to Rs. 1.96 lakh crore in Mar-25

India's GST Collection in Rs. Lakh Crore



Source: IMF

India's LNG Strategy: Tax Cuts and U.S. Deals: In a bid to strengthen energy ties and reduce its trade surplus with the U.S., India is considering eliminating import duties on American liquefied natural gas (LNG). The U.S. is currently India's second-largest LNG supplier, with trade reaching $45.4 billion last year. India aims to increase LNG imports by $10-25 billion, potentially benefiting from China's 15% import tax on U.S. LNG. India currently imposes a 2.5% basic customs duty and a 0.25% social welfare tax on LNG imports. In the first 11 months of the fiscal year, India imported 25.9 million tonnes of LNG worth $14.2 billion, with U.S. supplies accounting for 20-25%. GAIL (India) Ltd. has long-term agreements to purchase 5.8 million tonnes of U.S. LNG annually. Additionally, Indian firms are exploring expanded imports of ethane, propane, and butane to meet rising energy demand, projected to grow by 60% between 2023 and 2030, according to the IEA.

Progress in India-U.S. Trade Talks: High-level trade discussions between Indian and U.S. officials took place in New Delhi from March 26-29, focusing on tariff reductions and easing non-tariff barriers. Led by U.S. negotiator Brendan Lynch, the talks aimed to advance a potential bilateral trade agreement. A key area of contention remains the disparity in tariff structures. The outcome of these negotiations is expected to shape future trade relations between the two nations and determine whether India gets any reprieve from the proposed reciprocal tariffs imposed by the U.S.

Global Macro Highlights

Trade & Tariff Implications

Trump's Tariff war: US Auto Tariff Shocks Global Markets: The United States' decision to impose a 25% tariff on auto imports has sent shockwaves through the global automotive industry. Announced on March 26, the tariffs, set to take effect on April 3, are expected to drive up vehicle prices and trigger job losses in major car-producing nations. Industry leaders anticipate supply chain disruptions, while market participants brace for broader economic uncertainty. Additional levies on auto parts are slated to begin in May or later.

Monetary Strategies & Inflationary Pressures

UK Interest Rates Unchanged: The Bank of England kept its benchmark interest rate steady at 4.5% on March 20, reflecting concerns over global trade disruptions and domestic economic stagnation. The Monetary Policy Committee voted 8-1 in favor of maintaining rates, with one member advocating a 25-basis-point cut. Policymakers cited heightened uncertainty following the U.S. tariff escalation as a key factor in their decision.

Fed Slows Balance Sheet Reduction: In response to rising economic uncertainty, the Federal Reserve announced a slowdown in balance sheet reduction starting in April. Treasury roll-offs will decrease from $25 billion to $5 billion per month, while caps on agency debt and mortgage-backed securities remain at $35 billion. The move signals a cautious approach to inflation management, with policymakers balancing debt ceiling concerns and the potential for lower long-term Treasury yields.

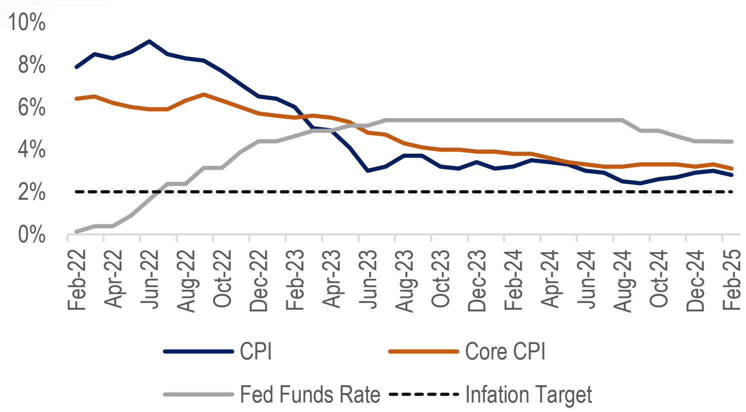
Eurozone Inflation Undershoots Forecasts, Rate Cut Bets Strengthen: Inflation in the Euro Area eased to 2.2% year-over-year (YoY) in March 2025, down from 2.3% in February 2025. France's inflation held steady at 0.9% YoY in March 2025, while Spain saw a decline from 2.9% YoY in Feb 2025 to 2.2% YoY in March 2025. With inflationary pressures moderating and the European Central Bank's (ECB) 2% target within reach, markets now anticipate an 80-85% probability of a rate cut in the coming weeks. Despite potential trade tensions, ECB officials remain confident in the disinflationary trajectory.

US Inflation and Interest Rates

US core inflation measure hits 2.8% in February : The U.S. core personal consumption expenditures (PCE) price index—a key Fed inflation gauge—rose 0.4% month-over-month (MoM) in February, the highest increase since early 2024. This pushed the 12-month inflation rate to 2.8% YoY in February 2025, up from 2.6% in January 2025. Consumer spending also gained momentum, rising 0.4% MoM in February, alongside a 0.8% MoM increase in personal income. These figures complicate the Fed's policy outlook, with inflationary pressures persisting despite earlier projections of easing price growth.

US inflation & Interest Rates

Benchmark interest rates and YoY change in the CPI Inflation



Source: Tradingeconomics, Federal Researve

Geopolitical Landscape

Canada's Snap Election: Canadian Prime Minister Mark Carney has called for an early election on April 28, citing growing economic and sovereignty concerns stemming from President Trump's trade policies. With Liberal Party support climbing to 42% in recent polls—compared to 37% for the Conservatives—Carney aims to leverage voter sentiment amid escalating tariff tensions. His campaign proposals, including income tax cuts, are positioned as a countermeasure to U.S. economic pressures.

Global Growth Projections

Japan's Slowed Growth, Rate Hike Debate: Japan's fourth-quarter GDP growth was revised down to 2.2% from an initial estimate of 2.8%, raising questions about the Bank of Japan's near-term rate path. While core inflation remained elevated at 2.5% in January 2025, headline inflation surged to 4% in January 2025—marking 34 consecutive months above the BOJ's 2% target. With domestic demand subdued and inflation proving "sticky," speculation is mounting over further rate hikes beyond the recent 25-basis-point increase to 0.5% in January 2025. Some analysts predict rates could exceed 1% in the coming months as policymakers navigate an increasingly complex economic landscape.

Equity Market

India's Resilience Amid Global Trade Turbulence

India's economy remains resilient amid global trade tensions, supported by strong rural demand, improving urban consumption, and easing inflation. With rate cuts likely and equity valuations stable, large-cap stocks and domestic-focused sectors stand well-positioned for growth.

Equity Outlook

"Amid escalating global trade tensions and market volatility, Indian equities showed resilience, supported by strong domestic demand and easing inflation. While FII outflows persist, government stimulus and the RBI's accommodative stance are expected to drive consumption recovery, with large caps offering greater stability.."

Indian equities closed the month in the green for the first time in six months, with the Nifty reversing all the losses of the previous month. The Nifty was up by 6.3% MoM in Mar-25 while the Mid & Small cap indices were up by 7.8% and 9.5%, respectively. This was in contrast to global markets, which came under pressure, with the S&P 500 and Nasdaq closing the month with losses of 5.8% and 8.2%, respectively due to continued escalation in global tariff war.

The global tariff war which started with the swearing in of Donald Trump as the 47th U.S. president on Jan 2 intensified in March, with the U.S. imposing tariffs on major trading partners including Canada, Mexico and China. In retaliation, Canada and China announced new tariffs on U.S. imports. Additionally, the US announced 25% tariffs on countries importing Venezuelan oil, as well as on automobiles and automobile parts imported into the US, set to take effect from April 2.

<u>Global tariff war escalates to the next level with U.S. imposing reciprocal tariffs on trade partners</u>

On April 2, U.S. President Donald Trump announced a series of "reciprocal tariffs" aimed at addressing what he termed unfair trade practices by America's trading partners. The tariff structure includes a universal 10% tariff on all imports, effective April 5, with additional country-specific tariffs commencing on April 9. No new tariffs have been imposed on Canada and Mexico given the 25% tariffs levied earlier on both the countries. Also, certain key products like Energy, Pharmaceuticals, Semiconductors and sectors like Automobiles on which tariffs were imposed earlier were exempt from any tariffs as of now.

India would attract a tariff rate of 26% tariff, which is comparatively lower than some other Asian nations; for instance, Vietnam faces a 46% tariff. President Trump justified the "reciprocal tariff" measures by highlighting significant trade imbalances and alleging that other nations impose higher tariffs on U.S. goods. He asserted that India charges a 52% tariff on U.S. products, leading to the decision of a 26% reciprocal tariff.

Country	Tariffs Charged to the USA (Incl. FX manipulation & Trade Barriers)	USA "Discounted" Reciprocal Tariffs
China	67%	34%
EU	39%	20%
Vietnam	90%	46%
Taiwan	64%	32%
Japan	46%	24%
India	**52%**	**26%**
South Korea	50%	25%
Thailand	72%	36%
Switzerland	61%	31%
Indonesia	64%	32%

Source: White House.

Trump's announcement of "reciprocal" tariffs could result in significant global repercussions, raising concerns about a potential trade war and its impact on the world economy. The EU, China, Japan, and other major US trading partners have expressed strong opposition, with some nations preparing countermeasures in response to US actions. We anticipate that these tariffs could lead to increased consumer prices, disrupted supply chains, and a slowdown in global economic growth. As countries contemplate retaliatory measures, the risk of escalating trade disputes looms, potentially destabilizing the global economic landscape.

Equity Outlook

Impact of reciprocal tariffs on India lower than other large exporting countries

A flat 26% tariff was imposed on all goods being exported by India to the US, amidst reciprocal tariffs in the range of 10%-49% unveiled by Trump for other countries. The imposition of a 26% tariff on Indian imports is poised to have several implications but on a relative scale, we believe India is better off due to the relatively lower tariffs imposed as compared to some of the other countries, including 34% on China on top of a 20% tax announced earlier, and 46% on Vietnam.

Sectors	India exports to US ($ bn)	Weighted average tariff of US (%)	US exports to India ($ bn)	Weighted average tariff of India (%)
Agriculture, meat and processed food	6.0	5.3	1.9	37.7
Automobiles	2.8	1.1	0.4	24.1
Diamonds, gold and products	11.9	2.1	1.9	15.5
Chemicals, pharmaceuticals	18.4	1.1	3.5	9.7
Electrical, telecom, electronic products	14.4	0.4	1.3	7.6
Medical, leather, paper, glass, ship, aircraft	8.2	2.8	3.4	9.7
Plastics	1.4	4.4	1.4	10.0
Machinery, computers	7.1	1.3	2.9	6.6
Iron, steel, metal products	5.4	2.1	2.4	4.5
Textile, clothing	10.8	9.0	0.4	10.4
Ores, mineral and petroleum	3.3	2.3	11.1	2.3
Other categories	-	-	3.6	1.4

Source: Reuters. Note: Data for 2024.

Electronics products (~$14bn) and Jewellery (~$10bn) will be among the top sectors expected to be impacted by the U.S. tariffs. While sectors such as pharmaceutical (~$9bn) and energy products will see no major impact, given their exemption status under the latest round of tariffs. Furthermore, sectors like auto parts and aluminium products have not been included in the 26% tariff list but will continue to attract 25% tariff announced by Donald Trump earlier. Prices for Indian manufactured goods will go up in the U.S., though on a relative basis Indian goods will become more competitive as compared to major competing countries like Bangladesh, China, Vietnam Taiwan and China.

Improving domestic macros and reasonable Nifty valuations

The ongoing tariff war has heightened global uncertainty, but India's macroeconomic fundamentals remain strong. Rural demand is robust, supported by favorable monsoons, healthy Rabi sowing, and moderated inflation, while urban consumption is set to improve from Q4 FY25, driven by increased government spending, tax benefits, and the partial rollout of the 8th Pay Commission.

Inflation has eased to 3.6% in February 2025 from 6.2% in October 2024, creating room for the RBI to cut rates by 25 bps in April, with another possible reduction in June or August, subject to economic data. The RBI's liquidity measures and forex interventions should help stabilize the rupee and improve financial conditions.

At 19.8x FY26E and 17x FY27E, Nifty valuations remain close to historical averages, suggesting modest upside. While FII selling is nearing its end, strong domestic flows should support markets. The Q4 FY25 earnings season will be a key factor in short-term market direction.

However, with Nifty Midcap and Small Cap indices trading at 67% and 37% premiums, respectively, we maintain a preference for large caps over mid- and small caps. Our favored sectors remain large banks, consumer discretionary, real estate, and insurance, which stand to benefit from improving domestic conditions.

Debt Market

Yield Movements, Liquidity Trends and Policy Expectations

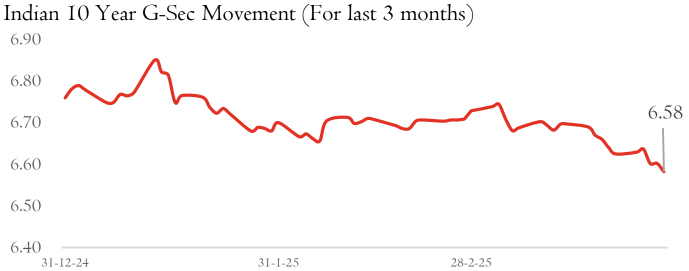
India's fixed income market saw a decline in G-sec yields, supported by RBI's liquidity measures and expectations of rate cuts. The banking system moved from a liquidity deficit to a surplus, while corporate bond spreads widened amid tight conditions. Global factors, including the U.S. Fed's policy stance and economic uncertainties, continue to shape market dynamics.

Fixed Income Outlook

India's 10-year G-sec yield declined by 15 bps to 6.58% in March 2025 from 6.73% in February 2025. The decline was supported by RBI's liquidity measures, including OMO purchases, and expectations of a repo rate cut in April's monetary policy meeting. The government plans to borrow ₹8.0 lakh crore in H1 FY26 through G-secs, accounting for 54% of the total ₹14.8 lakh crore budgeted for FY26. The borrowing will be conducted through 26 weekly auctions, with securities maturing between 3 and 50 years.

India's 10-Year G-Sec Yield Fell by 15 bps to 6.58% in March 2025

Indian 10 Year G-Sec Movement (For last 3 months)

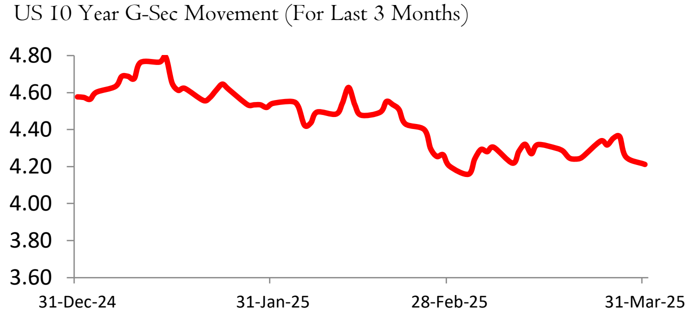


Source: CCIL

The U.S. 10-year Treasury yield remained largely stable, closing at 4.21% in March, after briefly touching 4.36% earlier in the month. The U.S. Federal Reserve kept its policy rate unchanged at 4.25–4.5% for the second consecutive meeting, in line with market expectations. Fed members project two rate cuts totaling 50 bps in 2025, consistent with December 2024 projections. The Fed acknowledged economic uncertainties, including the impact of government policies, tariffs, and fiscal measures, and maintained a wait-and-watch approach.

US Yields remained flat at 4.21% in March 2025

US 10 Year G-Sec Movement (For Last 3 Months)

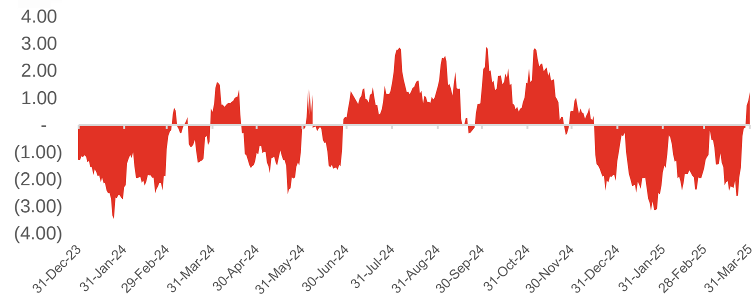


Source: Investing.com

India's banking system liquidity remained in deficit, averaging ₹1.24 lakh crore in March, though improving from February's ₹1.67 lakh crore deficit. Liquidity pressures stemmed from RBI's forex interventions, FII outflows, and higher currency in circulation. RBI infused ~₹2.4 lakh crore via OMO purchases and USD/INR Buy/Sell Swap auctions, leading to an improvement in liquidity conditions. By the end of March, the banking system liquidity turned surplus at ₹1.2 lakh crore. RBI announced ₹80,000 crore worth of OMOs for April, with expectations of continued liquidity support in the near term.

RBI's Measures Fail to Ease Liquidity Crunch

India's banking system liquidity (Rs Lakh cr)



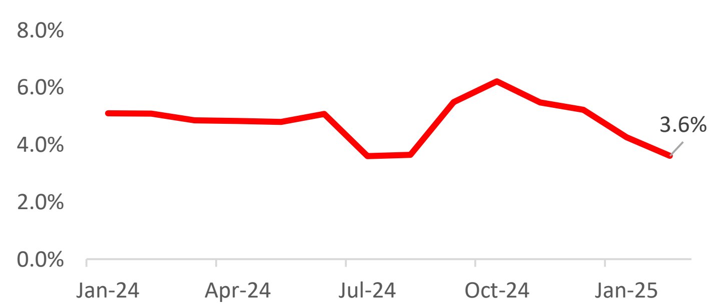
Source: RBI

India's CPI inflation moderated to 3.6% YoY in February 2025, down from 4.3% in January, driven by lower food inflation. An early summer and heatwave predictions for certain regions pose an upside risk to food inflation.

The RBI initiated its rate cut cycle in February, and the lower-than-expected inflation print provides room for another 25-bps rate cut in April. A further 25-bps cut is possible in June or August, depending on economic data. Total expected rate cuts for FY26 is 50 bps.

India's Inflation Rate Eases in Feb 2025 Due to Drop in Food Prices

CPI Inflation YoY%



Source: Investing.com

Fixed Income Outlook

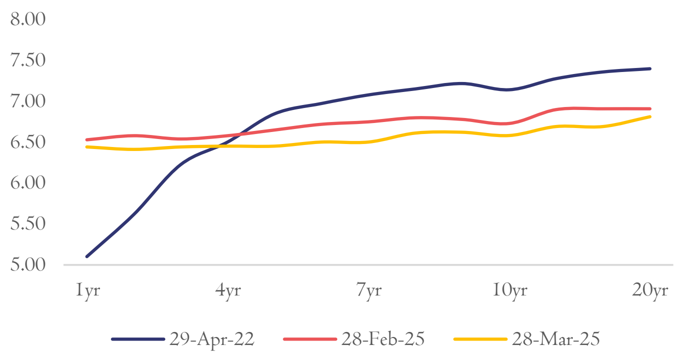
Spreads on 3–5 year AAA-rated PSU corporate bonds over corresponding G-secs widened to ~90 bps by March-end, providing an attractive carry. The corporate yield curve remained inverted, driven by an increase in corporate bond supply and tight liquidity conditions. With improving liquidity and expected rate cuts, the corporate yield curve is likely to steepen in the coming months.

Long-duration G-secs are well-positioned to benefit from an anticipated decline in yields, supported by rate cuts, OMO purchases, and favorable demand-supply dynamics.

Key factors influencing the fixed income market outlook include global monetary policy decisions, geopolitical events, commodity prices, currency movements, bond demand-supply trends, and domestic macroeconomic conditions.

G-Sec Yield Curve continues to remain flat

G-Sec Yield Curve



Source: Bloomberg

In Conversation with Siddharth Safaya: Head of HDFC TRU West

Q: Can you tell us a bit about the wealth management industry in India and how it has evolved in recent years?

A: Over the past decade, India's wealth management industry has undergone a remarkable transformation. Initially catering primarily to the ultra-wealthy, the sector now embraces a much broader and more diverse investor base. This evolution has been fueled by rising financial literacy, a booming stock market, and the emergence of alternative investment products. With an expanding affluent middle class and a tech-savvy generation entering the market, wealth management services have become increasingly accessible. This shift has not only democratized financial planning but has also positioned India as one of the fastest-growing wealth markets in the world.

Q: Could you elaborate on the key trends you're observing in wealth management in India right now?

A: Several key trends are reshaping wealth management in India. The rapid adoption of digital technology has revolutionized the way investors interact with financial services, with robo-advisors and digital platforms playing a central role. There is now a growing emphasis on holistic financial planning, which extends beyond traditional investment management to include tax, estate, and retirement planning. Additionally, investors are showing an increased interest in alternative investments such as private equity, real estate, and structured products—a trend that was once limited to high-net-worth individuals. Environmental, Social, and Governance (ESG) considerations have also taken center stage, particularly among younger investors who are eager to align their portfolios with their values.

Q: You mentioned the growing role of technology in wealth management. How do you think digital platforms are shaping the industry in India?

A: Digital platforms have fundamentally transformed the wealth management landscape in India. By offering real-time portfolio tracking, low-cost investment options, and user-friendly interfaces, these platforms have significantly lowered the barriers to entry for many investors. As a result, traditional reliance on wealth managers is diminishing, giving way to a more transparent and accessible system. This technological shift not only reduces costs—for example, through zero-commission mutual funds and inexpensive index funds—but also empowers a younger, digitally proficient generation to take control of their financial future. In essence, digital innovation is democratizing wealth management, making it more inclusive and tailored to individual needs.

Q: With a growing middle class and an increase in disposable income, how has the demand for wealth management services evolved in India?

A: As the Indian economy continues to expand, the rising middle class and increased disposable incomes have spurred a significant demand for wealth management services. More individuals are seeking professional financial advice to secure long-term prosperity and manage their growing assets effectively. This shift is reflected in the trend toward comprehensive, personalized financial planning that addresses not only investment growth but also tax efficiency, retirement security, and estate planning. Industry forecasts suggest robust growth in the sector, driven by an evolving demographic that is increasingly focused on achieving financial independence and security.

Additionally, India's GDP is expected to grow at 6-7% annually over the next decade, contributing to an increase in the affluent and high-net-worth segments, further boosting demand for wealth management services.

Q: In your experience, what are the biggest challenges that investors face in India when it comes to wealth management?

A: One of the most pressing challenges for Indian investors is the pervasive lack of financial literacy, which can lead to suboptimal investment decisions and over-reliance on market trends. Additionally, the regulatory environment, although improving, remains complex and fragmented, often overwhelming those who are new to the market. Cultural factors also play a role, as traditional taboos around discussing money and wealth continue to hinder open financial dialogue. These challenges underscore the importance of trusted wealth managers who can guide investors through the intricacies of market dynamics and regulatory requirements while fostering greater financial awareness.

Q: How do you see the future of wealth management in India? What should investors expect in the coming years?

A: The wealth management industry in India is poised for significant growth, driven by increasing investor participation, especially from the younger generation. Technological advancements, such as AI-driven tools and personalized advice, are expected to become mainstream. The wealth management market is projected to grow at a 15–20% CAGR over the next 5–7 years, with India expected to have over 10 million millionaires by 2025. There will be a greater focus on niche financial products, such as sustainable and impact investing, as well as global diversification. Investors can anticipate more customized, holistic solutions aligned with their individual goals, risk profiles, and long-term objectives.

Deep Dive

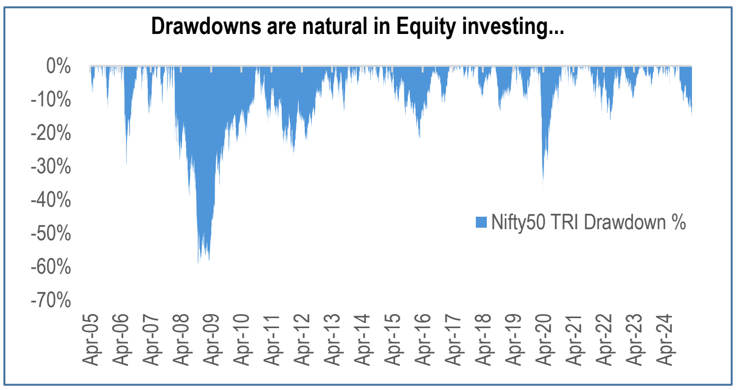
India's Moment is Now!

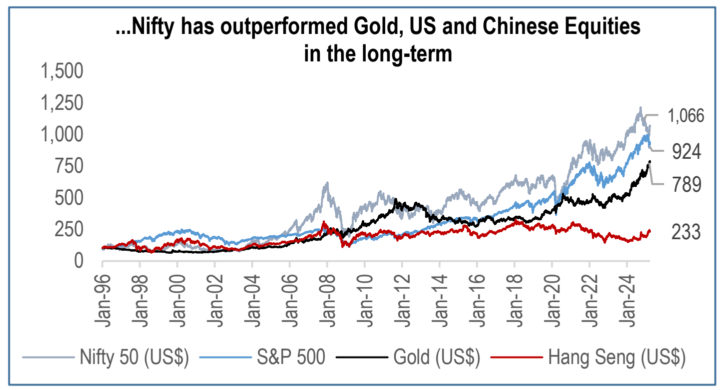
India is on the brink of a breakout decade—set to become a $10 trillion powerhouse by 2033. Driven by booming consumption, bold infrastructure investments, and a rapidly evolving financial ecosystem, India's growth story is unlike any other. While China's rise was exportled, India's democratic, consumption-driven model is built for resilience and inclusivity. For investors, this is not just an opportunity—it's a once-in-a-generation moment to ride the next global growth wave

India's Moment is Now!

Executive Summary:

As global economic dynamics shift, India stands on the cusp of a transformative journey. In a world where geopolitical shifts, evolving consumption patterns, and structural economic changes are redefining market opportunities, India's growth story emerges as one of the most compelling narratives for long-term investors. While comparisons with China's rise are inevitable, India's growth trajectory is unique—driven by consumption-led expansion, democratic governance, and a youthful population. This paper serves as a reminder that India's growth story is far from over. The journey to a US$10 trillion economy is well underway, and those who remain committed to it will be the biggest beneficiaries.

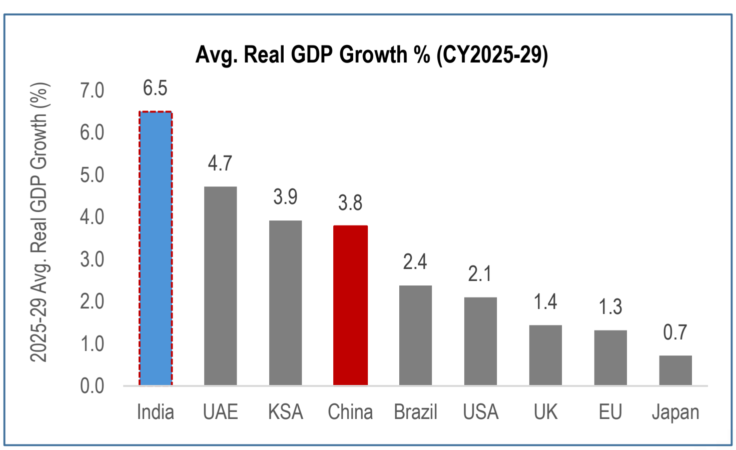


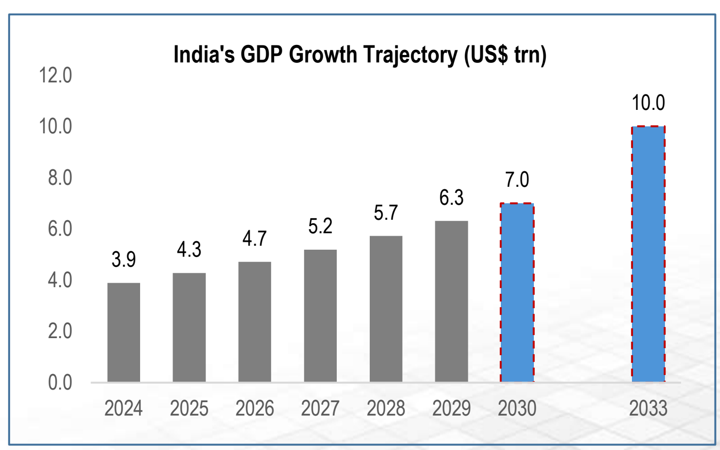


Source: NSE Indices Data, Investing.com, Bloomberg, ACE MF.

India - Entering the Trillion-Dollar Acceleration Phase:

- India is positioned to be the fastest-growing major economy globally over the next five years.
- According to the IMF, India is expected to grow at an average rate of ~6.5% CAGR from 2025 to 2029, driven by domestic consumption, investment-led growth, as well as a rapidly expanding financial ecosystem. India is expected to become a $7trn economy by 2027 and a $10trn economy by 2033.
- The path to a US$10 trillion economy by 2033 means that India will add $1 trillion every 18 months, a pace that mirrors the exponential growth seen in China during its own rise two decades ago.



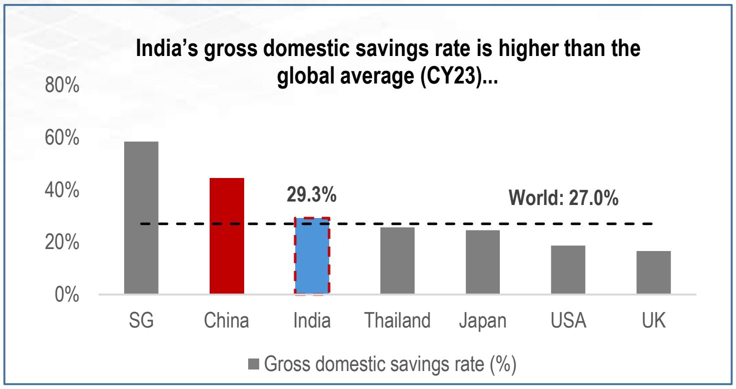


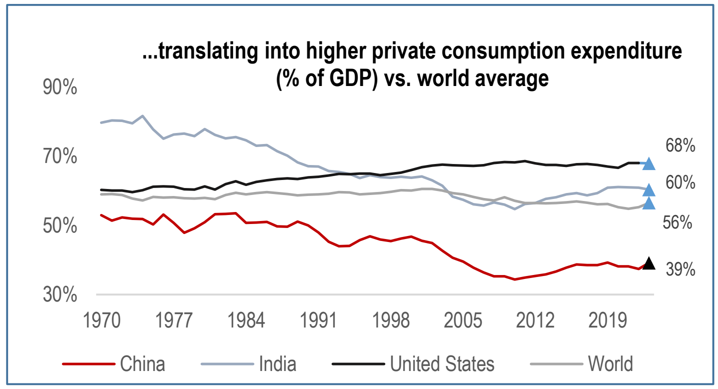
Source: IMF Data, NSE Statistics

3 Key Foundation Pillars Powering India's Ascent:

1. Domestic Consumption: The Engine of India's Growth (~60% of GDP)

- India is, at its core, a consumption-driven economy. Private consumption, accounting for nearly 60% of GDP, will continue to drive economic expansion. This is in stark contrast to China, where household consumption comprises less than 40% of GDP, reflecting the relative underdevelopment of the consumption sector.





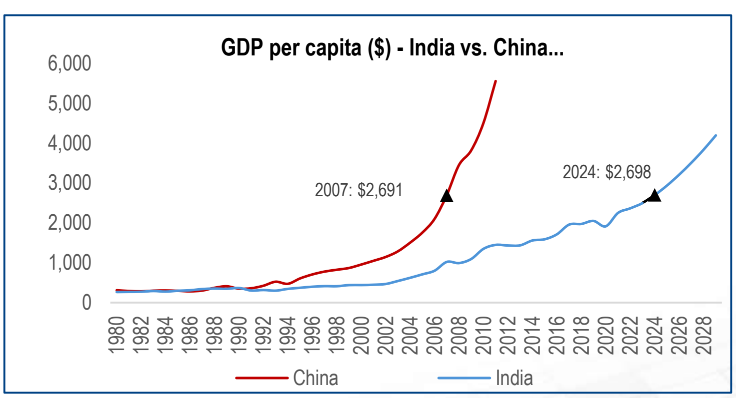
Source: AMFI, World Bank.

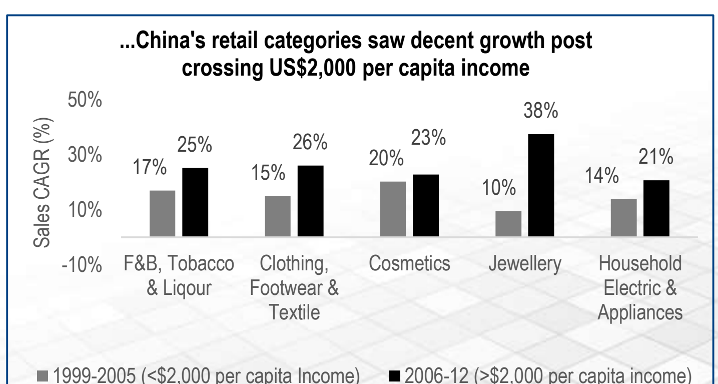
- India to witness the highest growth in consumption over the next decade. India's consumption growth trajectory has been secular and is expected to significantly outpace other major economies, with CAGR growth of 9% (between 2024-34E), followed by China at 7.2% and the US at 4.4%.

Country	Current Consumption (US$ Tn)			Consumption CAGR (%)	
	2014	2024	2034E	2014 vs. 2024	2024 vs. 2034E
India	**1.2**	**2.3**	**5.5**	**7.1%**	**9.0%**
China	3.8	7.2	11.4	6.6%	7.2%
USA	11.6	19.1	29.5	5.2%	4.4%
Germany	2.0	2.2	3.3	1.2%	4.0%

Source: Oxford Economics, BCG Analysis. ***Note:*** *Private consumption expenditure at current market prices in US$.*

- **India's GDP per capita at an inflection point:**
  - India's per capita income as of CY24 stood at US$ 2,698, this is where China was back in 2007. China's per capita income over the next 10 years (CY07-17) grew at >12% p.a.
  - 'J' shaped growth has been observed in consumer categories across most geographies in the world when the economy has crossed the threshold level of USD 2,000 GDP per capita.





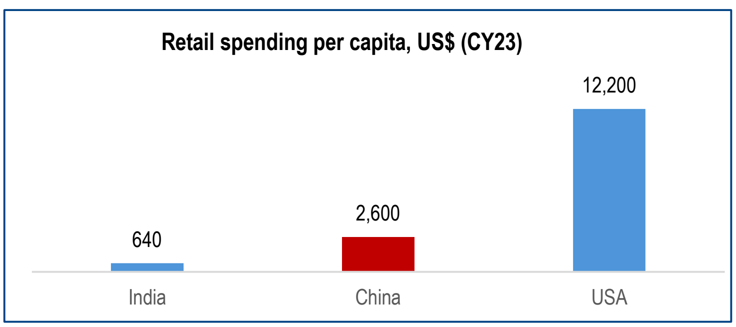
Source: IMF, HDFC MF, National Bureau of Statistics of the PRC.

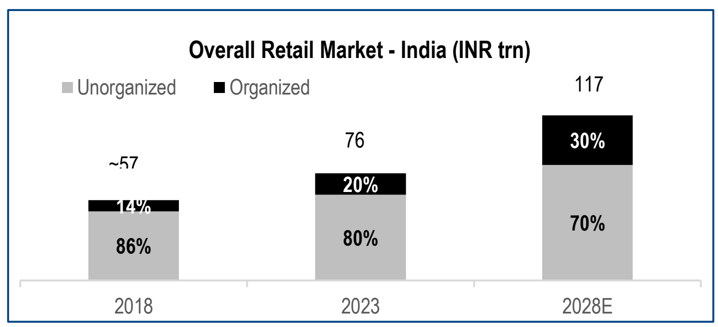
- **How does India spend its money vs. global peers such as China & the USA?** India's consumption expenditure is heavily skewed towards F&B, comprising ~30% of the overall expenditure. In contrast, the US spends more on non-grocery items (e.g., Housing, healthcare etc.). Our analysis suggests that as the per capita income increases, the mix of non-food discretionary retail spending goes up significantly.

Components of Household Spending	Per Capita Consumption Expenditure (%) – 2023		
	China	USA	India
Food, tobacco and liquor	29.8%	14.2%	**30.0%**
Housing	22.7%	32.9%	**13.0%**
Transportation and telecom	13.6%	17.0%	**21.1%**
Education, culture and recreation	10.8%	7.0%	**5.2%**
Healthcare and medical services	9.2%	8.0%	**4.7%**
Household facilities, articles and services	5.7%	-	**3.6%**
Clothing	5.5%	2.6%	**4.8%**
Miscellaneous goods and services	2.6%	18.2%	**17.6%**

Source: NBS, MOSPI and US BEA.

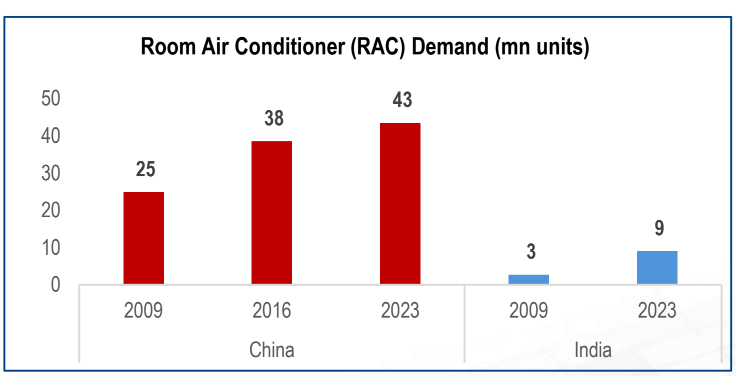
- **The Indian retail market is estimated to reach Rs. 117trn by 2028E (2023-28 CAGR ~9% p.a.).** India's current per-capita retail spending is still very modest compared to other markets; thus, the low base offers significant room for further growth.

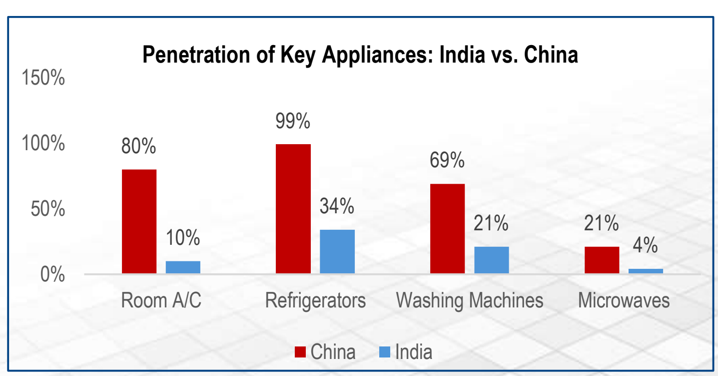




Source: Redseer Research and Analysis, Vishal Mega Mart DRHP.

- **The critical threshold of US$ 2,000 to US$ 3,000 GDP per capita mark is historically associated with accelerated private consumption growth, especially for Fast-Moving Electrical Goods (FMEG).** Analysis of economies that previously crossed this benchmark such as the US, China, Japan, Russia, and Brazil, reveals that once per capita GDP surpasses the threshold, consumer demand for appliances / electronics typically surges.





Source: LG Electronics DRHP, JRAIA, Fidelity.

- **Per capita income has a direct correlation with the overall luxury market.** When China's GNI per capita increased from US$ 4,340 in 2010 to US$ 7,940 in 2015, the luxury market size increased from US$ 9.2bn to US$ 20.5bn. **As India's per capita income of India increases, the luxury market is expected to follow the same trajectory as the Chinese luxury market, making India a key contributor in Global luxury market.**

Country	2010		2015		2020	
	Luxury Market Size (US$ bn)	GNI per Capita (US$)	Luxury Market Size (US$ bn)	GNI per Capita (US$)	Luxury Market Size (US$ bn)	GNI per Capita (US$)
China	9.2	4,340	20.5	7,940	49.9	10,610
India	**2.7**	**1,220**	**4.4**	**1,600**	**6.3**	**1,900**

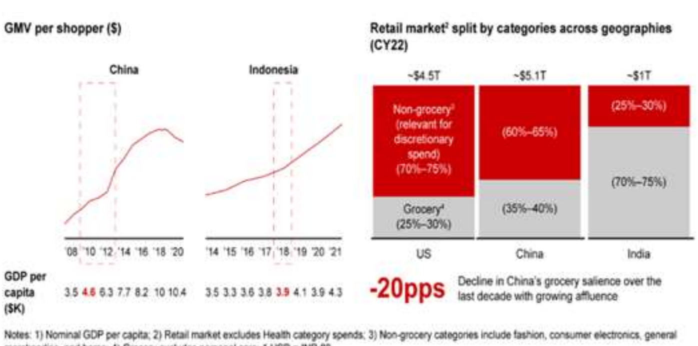
Source: *World Bank, Ethos Limited RHP.*

- **India is taking big steps towards premiumization.** India's luxury market is currently valued at ~$8bn and is expected to grow to $14bn by 2032, according to BCG analysis. This aligns with a pattern seen in other markets where rising affluence triggers a surge in demand for high-end products and services.

<u>Key snippets from the CEOs of Global luxury brands on why India is one of their primary markets for expansion:</u>

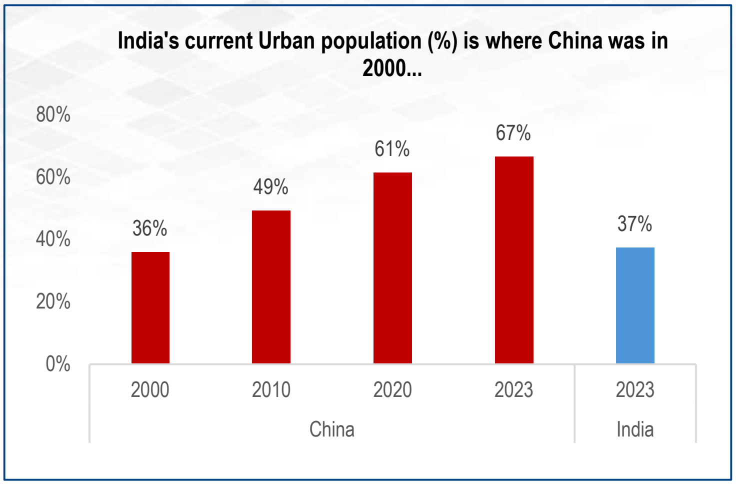
Source: *Media Reports.*

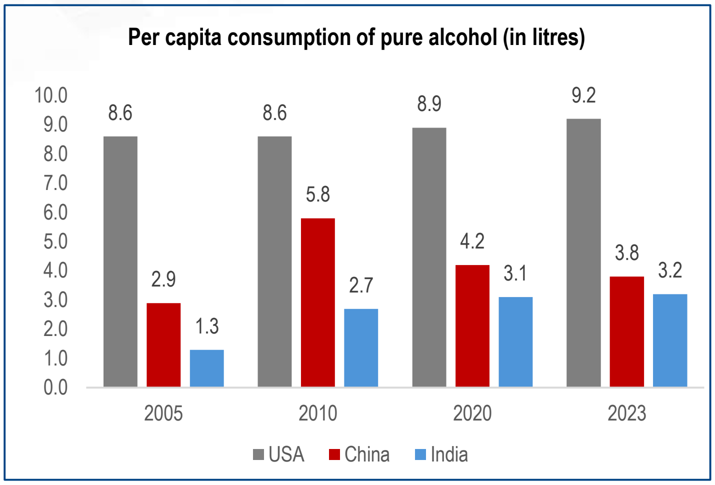
- **Affluence will spark e-retail growth and shift consumption.** GDP per capita (especially >$4,000) drives growth in e-retail spending per shopper. Over the last decade, China has seen a significant increase in non-grocery category consumption primarily driven by growing affluence. India is expected to cross $4,000 by 2029, which should then massively drive discretionary spending.



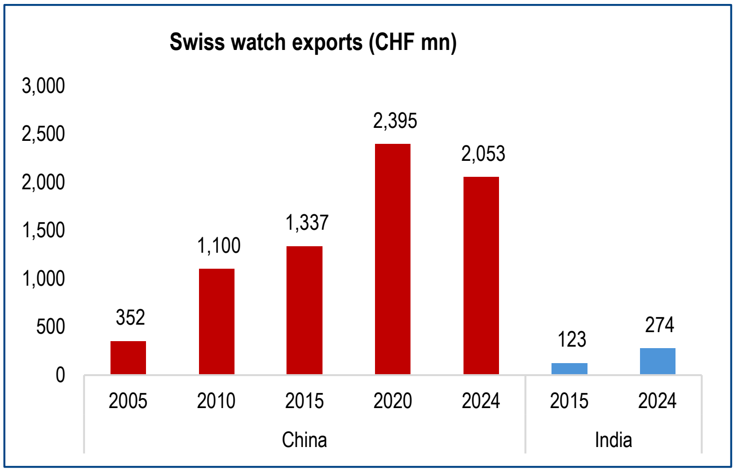
Source: *Bain & Company (here).*

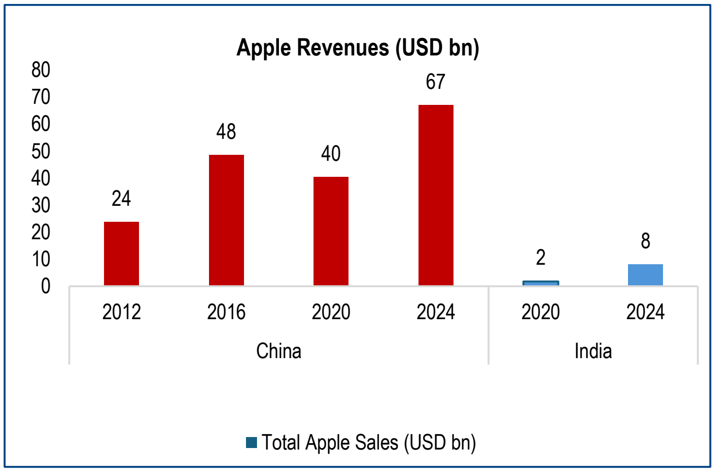
- Key Charts: India's discretionary spending is seeing rapid growth; but India is still ~15-20 yrs behind China and the US…



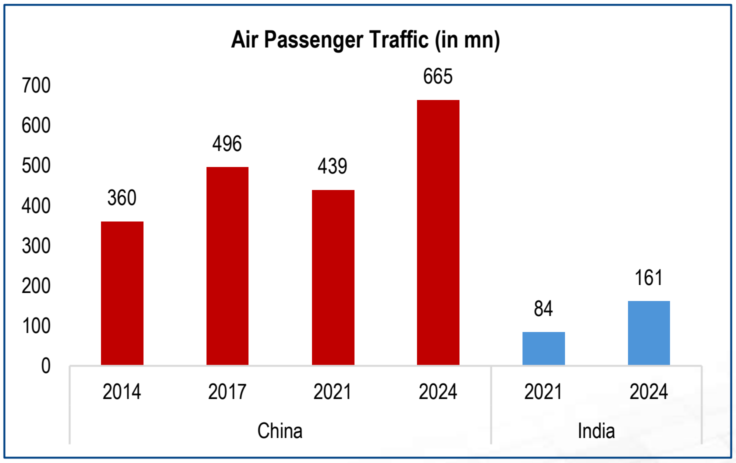


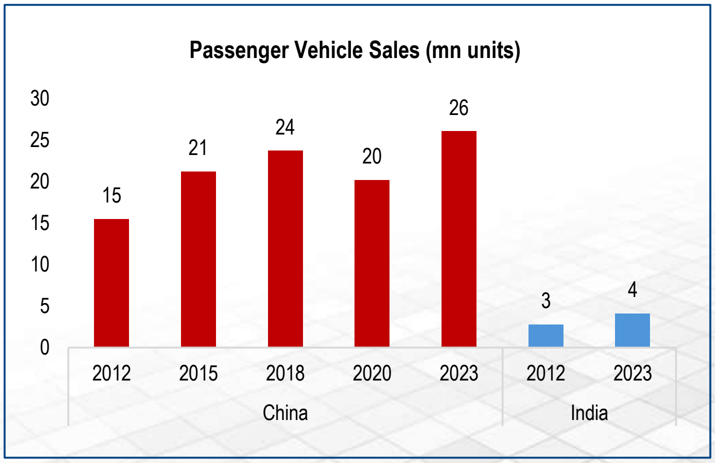
Source: *Bajaj Housing Finance RHP, Allied Blenders RHP.*





Source: *Federation of the Swiss Watch Industry, Bloomberg and Media Reports.*

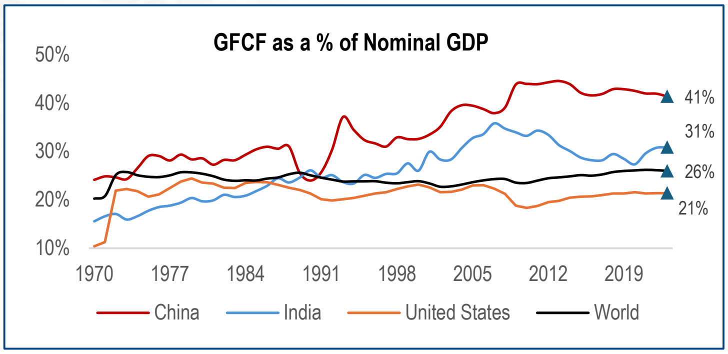




Source: *DGCA, CEIC.*

2. Investment-Led Growth: Capital Expenditures and Infrastructure Development (~30% of GDP)

- **Investments as a % of GDP have been on the rise and touched 30% in FY24.** Investments constitute less than 30% of GDP for India. Government Capex is expected to be the key driver of strong investment growth supported by robust fiscal position such as improvement in tax collections and lower Government debt to GDP vs. global peers. Private corporate sector capex continues to improve, with pick-up in corporate profitability expected to drive better outlook for capex by private corporations. However, India significantly lags behind China, which is overly reliant on property and investment comprising >40% of GDP (~20% above global average), reflecting significant headroom for growth for India.



Source: World Bank.

- **India's Manufacturing share in GVA as % GDP stood at ~13% in CY2023.** Manufacturing is considered as the primary driving force behind the success of emerging economies and most of the Asian peers currently enjoy a higher share of manufacturing in GDP as compared to India. India's manufacturing share in GVA (% GDP) used to trend between 15-16% pre-pandemic and has not seen a pick-up, with the current share at ~13%. The below table is a good indication of India's manufacturing growth potential during its growth phase (2023-33), where the economy is expected to expand at an average real GDP growth of 6-7% p.a. and become a $10trn economy by 2033.

		Avg. Real GDP growth (%)	Manufacturing, Value Added (% of GDP)	
Country	High growth Phase	High Growth Phase	Start of high growth phase	End of high growth phase
Thailand	1985-1991	9.3%	22%	28%
China	1990-2005	9.8%	9%	32%
Indonesia	1983-1996	7.3%	13%	26%

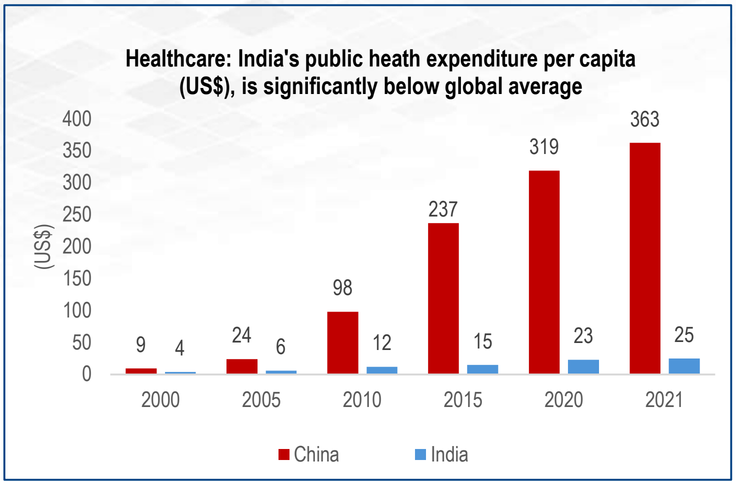
Source: IMF, World Bank, HDFC MF.

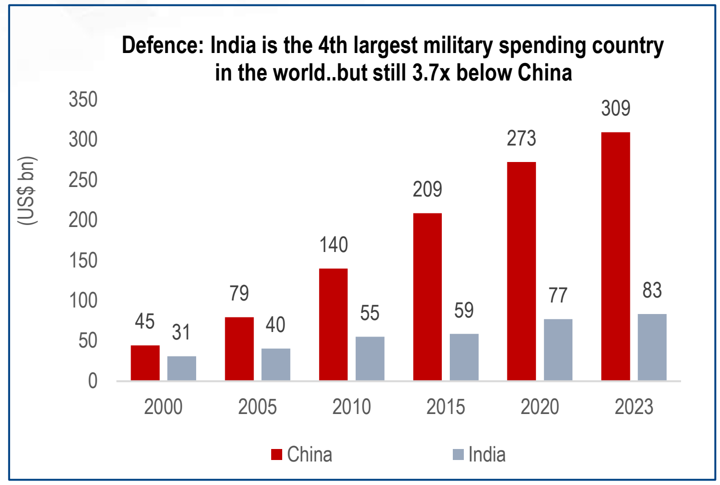
- **India's Infrastructure can potentially grow ~3x in the next 10 years.** India has come a long way on building Infrastructure but is still nowhere close to China. Comparison with peer countries shows that the scope to create infrastructure remains very large and a US$10trn economy will require a significantly larger infrastructure base. The below table summarizes India's infrastructure positioning at US$3.6trn vs. when China was at US$10 trn in 2014, implying that India can also see a 3x jump in its infrastructure capabilities over the next 10 years.

Infrastructure parameter	India (US$3.6trn, 2023)	China (US$10trn GDP, 2014)	Growth expected when India becomes $10trn
Railway network ('000 km)	69	85	1.2
Railways, goods transported (billion ton-km)	720	2,753	3.8
Container port traffic (TEU million)	20	187	9.4
Airports (number)	148	202	1.4
Total generation capacity (GW)	442	1,250	2.8
Cement consumption (million MT)	379	2,450	6.5
Median			**3.3x**

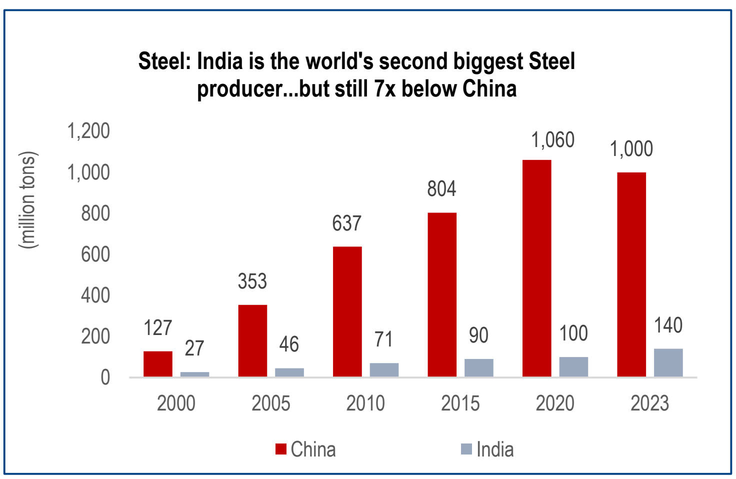
Source: World Bank, HDFC MF.

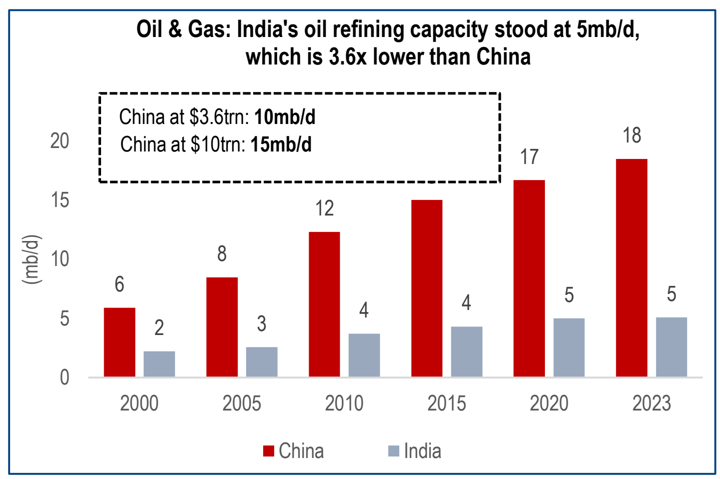
- Key Charts: India is significantly under-invested in most of the Capex-driven sectors, reflecting huge headroom for growth…



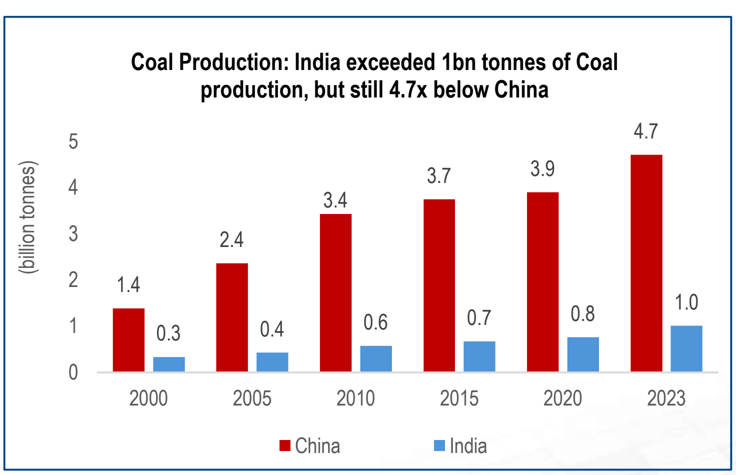


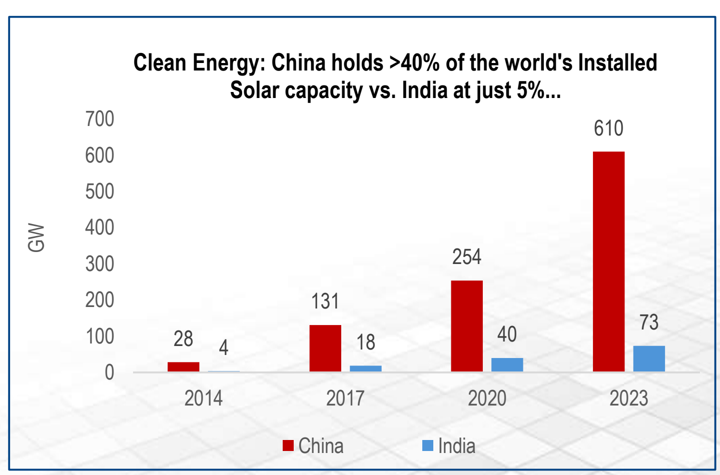
Source: *World Bank, SIPRI.*





Source: *Statistical Review of World Energy 2024, Our World in Data.*

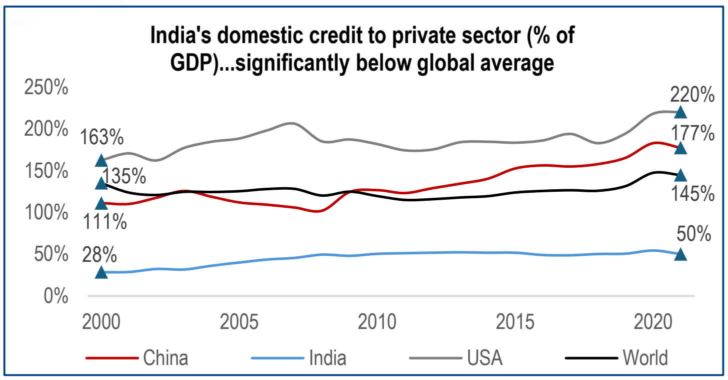


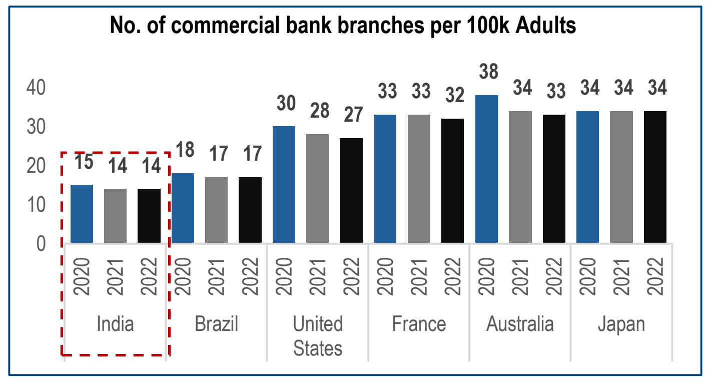


Source: *Statistical Review of World Energy 2024.*

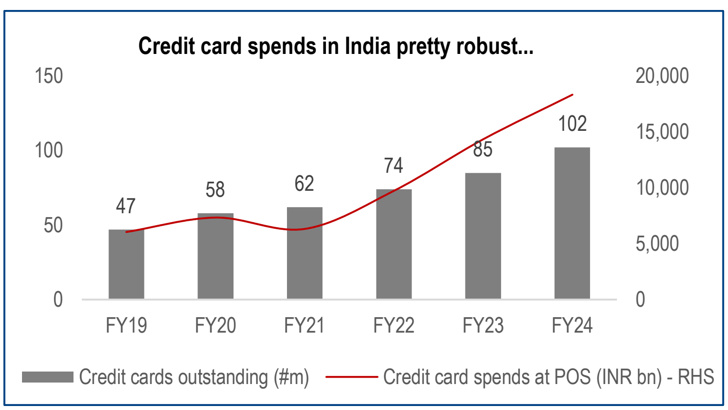
3. Financial Deepening and Market Access: A Growing Financial Ecosystem

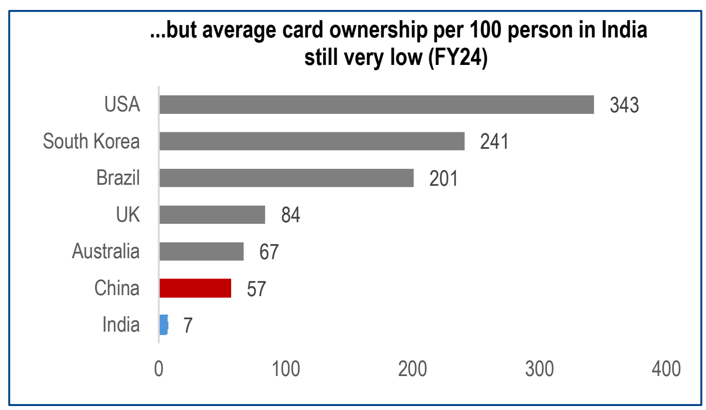
- **Financial inclusion is on a fast path in India and under-penetration of the Indian banking sector provides opportunities for growth.**
  - India's financial inclusion has improved significantly over CYs 2014 to 2021 as adult population with bank accounts increased from 53% to 78% (Source: Global Findex Database).
  - The Indian banking sector is significantly under-penetrated as observed in the domestic credit-to-private sector GDP ratio of ~50% for India vs. 145% for the World.
  - India's credit card penetration, while growing, remains relatively low. However, the number of credit cards issued has seen significant growth, with over 100 million cards issued as of FY24.





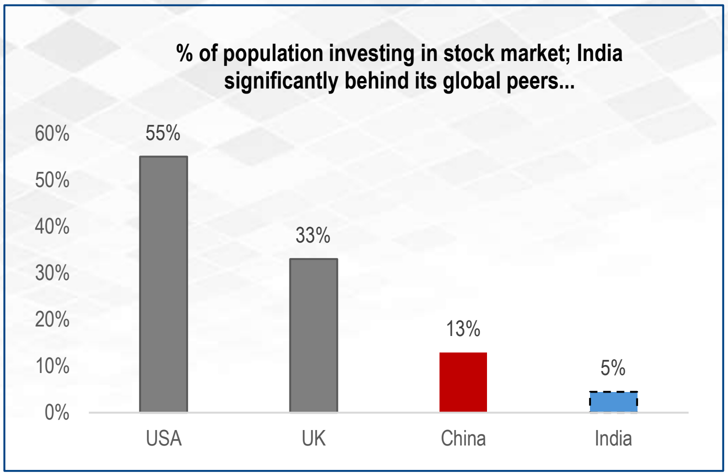
Source: *World Bank, CRISIL*

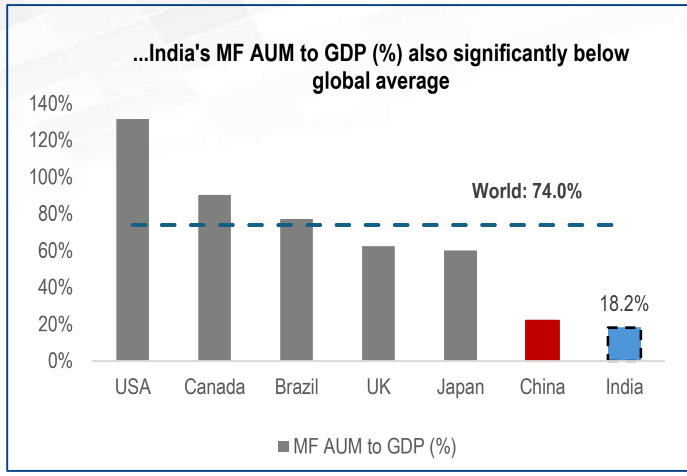




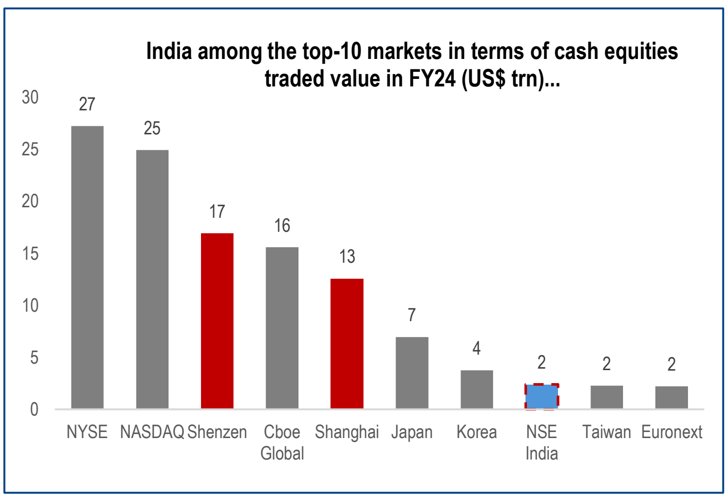
Source: *SBI Cards Annual Report and Axis MF.*

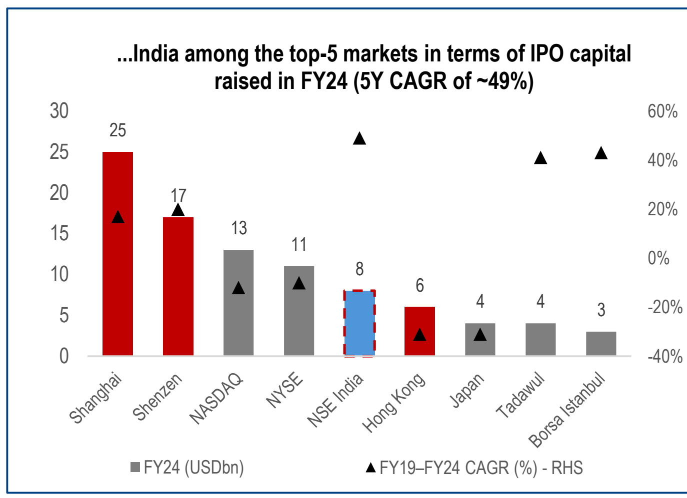
- **Deepening capital markets.** As India moves towards becoming a US$ 10trn economy in 2033, a higher share of financial assets is expected to move to the capital markets. Today, direct equity and mutual funds account for 16% of the household financial assets, this number could increase to 24% by FY33; taking share away from cash and deposits currently at 52% and expected to go down to 41% by FY33.
  - As of February 2025, the country recorded 190m demat accounts, a sharp 20% per annum growth since FY13; with a substantial jump during and after the COVID-19 pandemic. Despite the strong growth, demat penetration is still in low double-digits for India (~12.9% as of Dec'24).
  - India has witnessed impressive growth in its mutual funds industry over the years with AUM-to-GDP ratio reaching an all-time high of 18.2% in FY24. However, India's mutual fund penetration was still significantly lower than that of many developed economies, reflecting that the Indian mutual funds industry is still in its infancy and there is a lot of scope for growth.
  - India's IPO market is taking center stage even at the global level. In 2024, the country was ranked 5th in capital raised globally, but still significantly below US / China in absolute terms.





Source: AMFI, Anand Rathi DRHP.
Note: For India, MF AUM–GDP ratio is as of Mar-24; For all other countries, MF AUM as of Sep-2024 and GDP as of Dec-2024 has been considered.





Source: NSE

Our Take: India's Moment is Now!

While both India and China have emerged as global economic powerhouses, their growth models diverge significantly. China's rapid ascent was largely driven by export-led growth and state-led infrastructure development, while India's growth story is increasingly driven by domestic consumption and democratic governance.

India is positioned to follow a more inclusive, consumption-driven growth model, leveraging its youthful population, evolving digital economy, and improving business environment to create long-term wealth. As the global economy transitions to a more multi-polar world, India's role as a key economic player is becoming increasingly undeniable.

India is at the forefront of a structural growth story that promises to shape the global economic order over the next few decades. With its consumption-led growth, strategic infrastructure investments, and an evolving financial ecosystem, India presents a unique opportunity for long-term capital appreciation. This is a moment in history that discerning investors cannot afford to overlook.

Reading Room

The coming tsunami of Chinese exports: India may have to follow suit

China's dominance in global manufacturing, spanning electric vehicle batteries, solar panels, and textiles, continues to reshape trade dynamics. With a soaring $1 trillion trade surplus, China produces far more than it consumes, flooding international markets with excess goods. As the U.S. and EU impose tariffs, surplus Chinese products are likely to be redirected to emerging economies like India, intensifying competitive pressures on domestic MSMEs. To safeguard its industries, India must enhance manufacturing capabilities, attract foreign investment, and implement strategic trade policies. With rising global protectionism, India may have little choice but to adopt similar measures to level the playing field.

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Protracted Trade wars could cut global investment by a tenth, economists say

Extended trade conflicts are creating significant barriers in global supply chains, increasing inefficiencies, and slowing economic growth. Uncertainty surrounding tariffs and geopolitical tensions has dampened business confidence, discouraging long-term investments in key industries. Consumers, too, are delaying major purchases, further straining economic momentum. Economists warn that if trade tensions persist, global investment could decline by up to 10-20% over the next few years, particularly in major economies. As policy uncertainties mount, businesses and investors are increasingly adopting a cautious approach, potentially stifling innovation and economic expansion.

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Automakers aren't rushing to move production to US factories to avoid tariffs

With a 25% tariff on imported vehicles and parts set to take effect in April, U.S. consumers face price hikes of $5,000 to $10,000 on foreign-made cars. While the policy aims to bolster domestic manufacturing, automakers are reluctant to shift production due to high costs and complex supply chain adjustments. Establishing new facilities and sourcing domestic components require significant time and investment, making an immediate transition unfeasible. The industry could see production losses of up to 20,000 units per day, potentially leading to reduced vehicle availability and further economic disruptions.

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