India growth story: A multi-decadal wealth creation opportunity

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The post-COVID period has seen interest in the Indian equity markets soar, especially among retail investors. Indeed, the tripling of the benchmark Nifty 50 from the April 2020 lows has been led by exponential increases in demat accounts and mutual fund folio openings with SIP investments setting new records each month.

A confluence of favourable factors is at play to make India a favourable investment destination with great scope for wealth creation over the coming decade or so from its primary and secondary markets. Fast-paced economic growth, macro stability, rising consumption and premiumization, rapid digitisation, improving manufacturing focus and accommodative government policies as well as infrastructure push are set to create a virtuous growth cycle for the next 10-15 years.

As we examine each factor in greater detail, what emerges is a spectrum of potential investment opportunities for those willing to stick around for the long term.

A resilient economy

India is one of the fastest growing large economies in the world and is the fifth largest globally in terms of gross domestic product (GDP). The country's GDP grew 8.2% in FY24 and is set to expand at over 7% in the coming years and become the third-largest economy by 2028, behind only the US and China. In fact, the Finance Ministry expects India to become a $5 trillion economy by 2027 and $7 trillion by 2030.

Per capita income for the country was around $2449 as of FY23 and is set to double by the end of this decade to nearly $4900-5000.

In general, when the per capita income of a nation goes past $2500, the country experiences tremendous consumption push because of higher disposable incomes, as seen in China's case from the late 1990s, for example.

Therefore, India is in a sweet spot as far as per capita and disposable incomes are concerned and looks set for a large consumption-driven growth cycle. This growth is also backed by strong performance on key macroeconomic metrics. India's fiscal deficit has been coming down steadily after the COVID pandemic led to huge government spending. From 9.2% in FY21, fiscal deficit is down to 5.6% in FY24. It is expected to go down to 4.9% in FY25 and 4.5% in FY26.

Current account deficit is also expected to come down steadily to 0.8% in FY24. Core and headline inflation have been trending down from the peak in 2022 and were at 4.9% and 3.2%, respectively as of March 2024. Though food inflation has increased in recent months, mostly due to seasonal factors, it is still largely under control.

Yields on 10-year g-secs have also trended down below 7%, on strengthening macros and controlled inflation figures. Foreign exchange reserves are healthy at over $650 billion.

Interplay of factors

Alongside the tag of being one of the fastest growing economies and with stable macros, there are other key factors working in unison to propel the India story.

Consumption and premiumization: India has one of the youngest populations in the world with the median age being 29 years. The figure for the US is 39 years for the US and 40 years for China. The country will add 100 million working age persons to the workforce over the next decade. India's urban population would account for 40% of the total pie, up from 35% at the end of 2020. The number of persons earning more than $12,046 annually would be 100 million by 2027, up from 60 million in 2023. Further, around 30 million persons would earn more than Rs 3 million a year by 2030.

With higher disposable incomes, more wealthier families, consumption and premiumization in purchase of goods and services are set to take off significantly.

Here are a few examples.

- The proportion of SUVs (Sports Utility Vehicles) in the passenger car segment has risen sharply to 50.4% in FY24 from 15% in FY15.
- In the personal care segment, premium products in cleansing, haircare, green tea, deodorant and footwear spaces saw a 10-year growth (CAGR) growth of 14.7% to 26.3%.
- Around 1.1 lakh premium houses valued at more than Rs 1 crore (average ticket size) were sold in CY23, compared to just 39,000 in CY18.

Thus, sales of consumer durables, personal care products, houses, cars, and a whole host of gadgets are set to spike in the coming years as the aspirational new generation splurges more on premium items.

Manufacturing and infrastructure push: In the post-COVID world and as a result of considerable supply chain bottlenecks, many advanced economies are looking to reduce dependence on China for their manufacturing needs. India is fast emerging as an alternative to China.

Manufacturing is expected to account for 20% of India's GDP by FY25, up from 15.5% in FY22. Initiatives such as production linked incentives (PLI) introduced by the government have led to significant traction in the system.

From Rs 3.8 trillion worth of new manufacturing projects announced in FY20, we have about Rs 13.2 trillion of initiatives announced in FY23.

Electronics manufacturing in India may grow at 21% annually till 2032, to $604 billion. India's defence exports are set to quadruple from $11 billion in FY20 to $43 billion by FY30.

The country's push for stronger infrastructure growth has seen traction in multiple areas. The Centre's capex is expected to rise more than 4x from Rs 4.5 trillion to Rs 20 trillion over 2021-2030.

Private sector capex is set to grow about 3x over the same period to Rs 116 trillion from Rs 41 trillion.

India has the second largest road network and fourth largest rail network in the world.

***Rapid digitisation*:** The combination of Aadhaar and mobile connectivity has revolutionised the digital thrust in India. The country has as many as 1.09 billion wireline and wireless subscribers and 935 million broadband connections as of May 2024. Rapid innovations in the payments and ecommerce spaces are revolutionising these spaces.

The value of transactions via the UPI in FY24 was nearly Rs 200 trillion, up from Rs 139 trillion in FY23.

India's online shopper base is set to be the second largest globally with a count of 500-600 million by 2030.

Over the period CY20 to CY30, tier 2 cities will contribute 88% of new online shoppers and $150 Bn in cumulative incremental online retail GMV (gross merchandise value).

The country's digital economy is expected to rise 5x to $ 1 trillion by 2030.

***Favourable government policies*:** Over the past several years, the government has enacted and implemented several measures to ensure an enabling environment for business growth.

On infrastructure, we had increased thrust on highways, railways, ports and a solid logistics infrastructure via PM Gati Shakthi. As much as Rs 11.11 trillion is earmarked as capex for FY25.

In manufacturing, the government has promoted import substitution and domestic production. Under the PLI scheme, production/ sales were at Rs 8.61 trillion as of November 2023 and generated direct and indirect employment for 6.78 lakh people.

Legislations such as the RERA (Real Estate Regulatory Authority) act have helped the realty segment.

UPI, Jan Dhan, Aadhaar and Mobile focus has helped financial inclusion in the country, apartment promoting seamless cashless payments and KYC onboarding for various entities.

The implementation of the Goods and Services Tax (GST) regime has vastly simplified and improved indirect tax collection. GST has also driven the shift in many unorganised segments and set-ups towards becoming organised and formal.

In the power sector, tariff hikes, smart meter instalment, and higher capex for power-related infrastructure are positives.

Retail participation propels markets

In the post-COVID period, the participation of retail investors in the Indian markets has soared across segments in the equity markets.

The number of demat accounts in operation, which was 41 million in March 2020 has zoomed nearly 4x to 150 million by March 2024.

The story gets even more stronger in the mutual funds space. The industry has Rs 61.16 trillion in assets under management (AUM) as of June 2024, with 46.9 million unique investor accounts. Mutual fund AUM has risen at 20% CAGR over the past 5 and 10-year periods.

Systematic investment plan AUM is a staggering Rs 12.44 trillion as of June 2024, which has grown at a rate of 35% in the past five years.

Healthy returns across market capitalizations

	1 Year	3 Years	5 Years	10 Years
NIFTY 50 - TRI	27.03%	17.56%	18.44%	13.64%
NIFTY 100 - TRI	32.79%	18.39%	19.08%	14.22%
NIFTY 500 - TRI	38.45%	20.64%	21.68%	15.35%
Nifty Midcap 150 - TRI	55.31%	28.14%	30.66%	20.76%
Nifty Smallcap 250 - TRI	58.76%	25.91%	31.31%	17.69%

CAGR data as of July 26

Source: ACE MF • Created with Datawrapper

Monthly inflows via the SIP route have touched an all-time high of Rs 212.62 billion as of June 2024, nearly double the monthly inflows three years ago.

Not surprisingly, equity markets have been rallying for the better part of the past decade. Large, mid and small cap indices have delivered strongly, especially over the past 4-5 years.

In the debt market, JP Morgan's Bond index started including Indian bonds from June. Over June 2024 to March 2025, about $23 billion worth of inflows are expected. Bloomberg is likely to consider addition of Indian government securities in its emerging markets local currency index.

Overall, the Indian market is ripe for considerable wealth creation over the next decade and beyond, for those willing to stay put for the long-term.

Data sources: Bandhan Presentation, Invest India, Finance Ministry, Morgan Stanley, UN, IBEF, Spark Capital, Goldman Sachs, Macquire, Bain, CDSL, NSDL and IMF quoted in various presentations and news articles.