

Consumption Funds - An overarching theme for years ahead



India's Gross Domestic Product (GDP) expanded by 7.2% in the fiscal year ending in March 2023. The rising GDP could mean

- ◆ Adequate resources available in the country
- ◆ Higher income levels
- ◆ Improving lifestyles

All of these factors put together, directly indicate that a growing and healthy economy could mean a prospering consumption sector. Consumption as a theme is expected to be a secular growth story for India since per capita income is slated to increase by 50% by the end of decade to \$3,000.

Currently there are around 95 mn households with income of Rs. 5 lakh or more. This number of households is expected to double in next 10 years. This will lead to substantial increase in disposable Income. On top of this, by 2030, 3/4th of India's population will comprise of Millennials & Gen Z, which have a higher spending pattern compared to the older generations.

Also, young India is very aspirational and doesn't shy away from spending on the things they want. This along with technological evolution has led to the emergence of a lot of new categories which were not there 10-15 years back. the smart phone is a prime example.

We expect that there will be higher growth in Household income in next 10 years. This along with easy access to credit and changing aspirations of young Indians will lead to accelerated growth in consumption, particularly discretionary consumption.

Gen Y/Pre Millennial



Though Branded offerings in apparel existed in plenty, size and prevalence of penetration was not significant



Conventional analogue watches and early smartphone variants



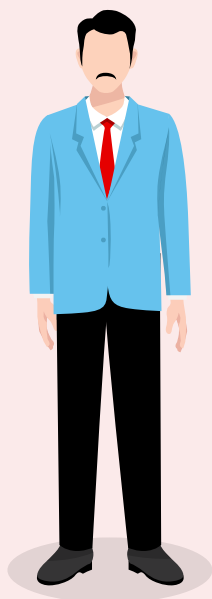
Home-made food on weekdays with outside food on weekends



Personal care products like bar soaps, coconut hair oil, deos, etc.



Limited options of branded Shoes



Gen Z/Millennial



Multiple subcategories have emerged - headphones, Buds, true wireless, pods, etc. leading to multiple pieces for same use



Moved to new-age FMCG categories and even within traditional categories, consumers have moved towards more premium, niche & efficacy driven products



Cell phones have emerged as a lifestyle, practically commanding market share and wallet share



Breakout of home delivery replacing home food too



Ride sharing Apps democratizing usage of personal transport



Many more branded options with evolution of casual / athleisure footwear



As median incomes rise, the expenditure pie for families is likely to increasingly pivot to discretionary spending, which includes media and entertainment, travel, consumer appliances, telecom, etc.

This has already resulted in significant growth in many businesses across various sectors. An indicator of this performance is the Nifty Consumption Index which comprises a diversified grouping of the largest consumption-oriented companies across sectors FMCG, consumer durables, healthcare, retail, auto, telecom, media and entertainment, financials, tourism, paints and consumer electrical, among others, indicating the scope for returns on consumption-based investing. The variety of sectors depicting the consumption trend also helps investors diversify optimally, making it a win-win solution.

Consumption theme is a sizeable part of portfolio universe

NSE 500	Number of Companies	Market Cap (Rs crores)
Automobile and Auto Components	30	17,74,416
Capital Goods	10	2,89,780
Consumer Durables	28	10,74,001
Consumer Services	26	8,20,497
Fast Moving Consumer Goods	30	24,03,403
Financial Services	47	55,55,381
Healthcare	44	13,84,891
Media, Entertainment & Publication	6	65,751
Oil, Gas & Consumable Fuels	5	19,44,403
Realty	13	3,60,349
Telecommunication	6	6,51,443
Textiles	10	1,33,705
Others	2	2,32,394
Total	257	1,66,90,415

Large Cap	61	1,30,23,940
Mid Cap	78	25,19,395
Small Cap	118	11,47,080
Total	257	1,66,90,415

Source: Bloomberg, Data as on 31 May 2023

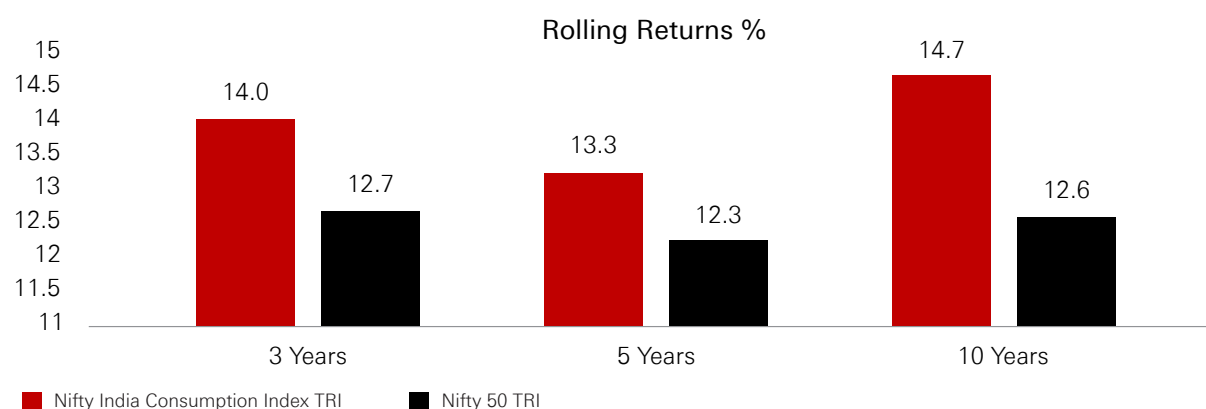
Consumption oriented mutual funds – Key features and benefits

Consumption funds are a type of thematic mutual fund that invests in companies that are driven by consumption behavior in India. This theme is driven by macroeconomic trends, structural shifts in consumer lifestyles and preferences.

Historical data shows that consumption has offered some stellar returns in the past couple of years and is a very attractive theme over the long term.

In the last 10 years, Nifty India Consumption TRI has given over 14.5% CAGR returns.

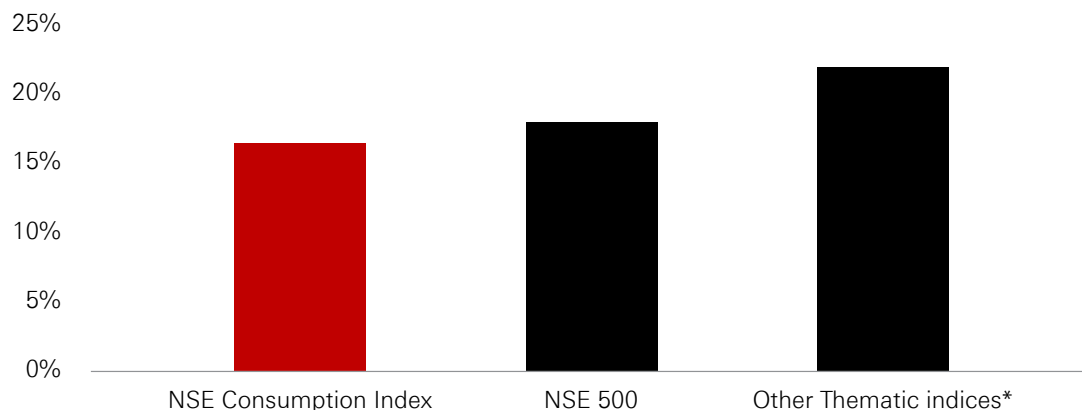
Bringing performance consistency with Consumption funds



Source: MFI ICRA, NSE, Daily rolling returns for respective periods using index values since Jun '13 till Jun '23, Data as on 30 June 2023, Compounded Annual Growth Rates (CAGR), Past performance may or may not be sustained in the future.

Data also shows that Consumption Index's volatility is lowest among other thematic indices as well as lower than Nifty 500. Consumption funds have the potential to deliver better risk adjusted performance. This is led by the fact that consumption sectors manage to perform well even during periods wherein people choose to not spend money on other aspects.

Volatility of indices



Source: Bloomberg, Volatility = Standard Deviation, Data since 1 Jan '09 till 30 June '23,*Average of other thematic indices, Other Thematic Indices list - Nifty Transportation & Logistics TR index, NSE Nifty India Consumption Index TR, NSE Nifty Infrastructure Index TR, NSE Nifty Pharma Index TR, NSE Nifty Financial Services Index TR, Nifty IT TR Index, Nifty Housing TR Index, NSE Nifty Media Index TR, NSE Nifty Commodities Index TR, NSE Nifty Services Sector Index TR, Nifty Transportation & Logistics TR Index, NSE Nifty Private Bank Total Return Index, NSE Nifty CPSE Total Return Index).

Past performance may or may not be sustained in the future.

Consumption Funds can generate long-term capital growth from an actively managed portfolio of companies engaged in or expected to benefit from consumption. Some of the sectors from the Consumption sectors have potential to offer consistent growth even during an economic downturn.

To sum up, we believe that it is a very exciting time ahead for consumption as a theme. Consumption is 60% of India's GDP and a large part of listed space.

In this scenario, the best way to benefit from the everlasting theme of consumption is to invest in a mutual fund which offers you access to the opportunities inherent under the theme.

Source: Bloomberg, BofA, HSBC Mutual Fund, Data as at June 2023 unless otherwise given

An Investor Education & Awareness Initiative

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