

A Consumption Engine called India



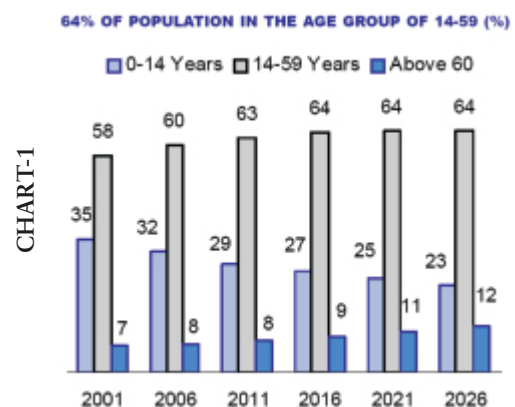
During my growing up years way back in the 1980s and 1990s, we were always told that the huge population of India was a biggest curse and that the advanced nations of whom we only dreamt were well off because of their sparse population. The example of Australia was often cited in this regard as a country where every person owned several acres of land. Population was clearly seen as a bane and there was no escape route from poverty because of this large mass of humanity would clog all the routes that could lead us to riches.

For some reason, unknown to me even to this day, nobody ever spoke of this population as the great growth engine “purring” before taking off. But now times have changed. This same enormous population, the bane for mankind all of a sudden is being projected as a boon. So did bane turn to boon? And how is it that nobody saw this coming in the past?

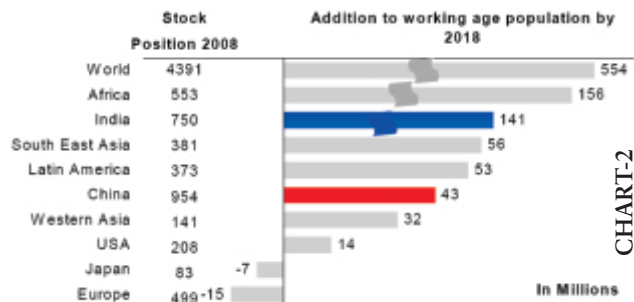
The success of the Media and Entertainment industry, IT

industry, Pharmaceutical industry and last but not the least the Mobile Phone industry has at last convinced 'pundits' and all the naysayers that India rocks on the back of its huge population.

The favorable demographic that India enjoys as we move into the future is the best insurance for our next generation.

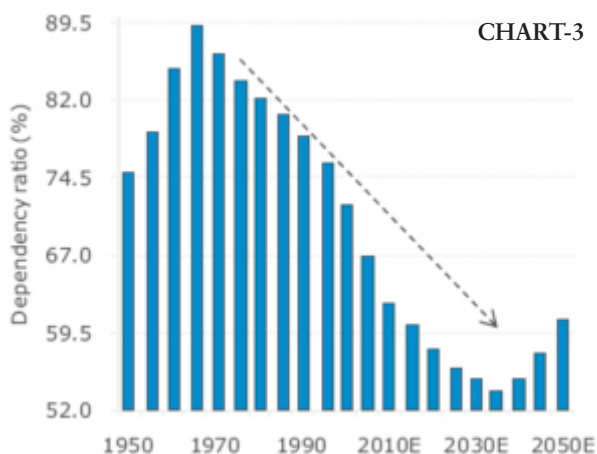


A large population helps to scale up businesses and bring down the cost of goods and services. This, in turn, helps to enhance the lives of millions of people and lift them above the poverty line. As can be seen in Chart 1, India is fortunate that for the next several years we will have a favorable composition of population consisting of people in the 14-59 years age bracket. The availability of people in the “working” age bracket would augur very well for India as she marches on into the future.



Source: Morgan Stanley

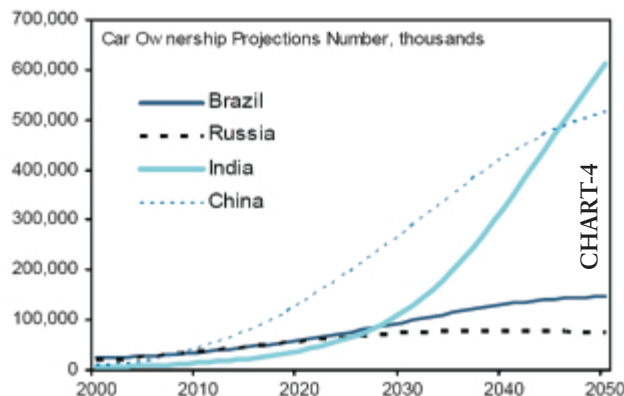
This age group would not only help in creating value for the country but also give tremendous impetus to consumption. In this context one should appreciate that consumption is the first step in the economic cycle which leads to demand for goods and services which consequently opens up avenues for growth of manufacturing and service industries. As can be seen in Chart 2, with the expectation of adding 141 million people into the work force by 2018, India is well positioned to dive into the growth pool.



Source: Edelweiss Research

India also finds itself well poised with respect to its population's dependency ratio disposition. The dependency ratio which is the percentage of people of a population that is dependant (typically comprising of young children and retired persons) is and will continue to be low for several years to come. Hence the major

proportion of the Indian population would be involved in “value creation” bringing prosperity to the country. As can be seen in Chart 3, while the dependency ratio of India could hover between 50 to 60% for long, those of China, Japan, Korea and other advanced nations could shoot up to levels of 70 to 80% going forward.



Source: Goldman Sachs BRICs Model Projections

In this context, as can be seen in Chart 4, it is interesting to note that in terms of demographic composition the US and China had a lead over India for which they witnessed stupendous growth in their economies till 2000. India is approaching this magic composition and is expected to see tremendous traction come its way in the next few years. The arrival of this tipping point is popularly known as the J Curve effect.

CHART-5

(mn)	1998	2005	2007
TV	70	90	115
Cable TV Sub	25	60	70
Cellular Subscriber	1	55	162
2 Wheelers	28	59	74
Cars	3	7	9
Home Mortgage Outstanding (Rs.bn)	145	1,700	2,210

Source: ENAM

The evolution of the middle class population in India has been represented in a very interesting manner in chart 5. Looking at three distinct periods of 1997-98, 2005-06 and 2009-10 what stands out starkly is the increasing level of affluence and the decreasing number of destitutes over this period. This situation is only set to improve as we chart our way into the future.

As the country liberalized and took on competition head on in 1991, several cynics proclaimed that India would falter in the face of international competition. But all such predictions have fallen flat on their face. The Indian industry has not only combated international competition valiantly but has also emerged a winner in several areas.

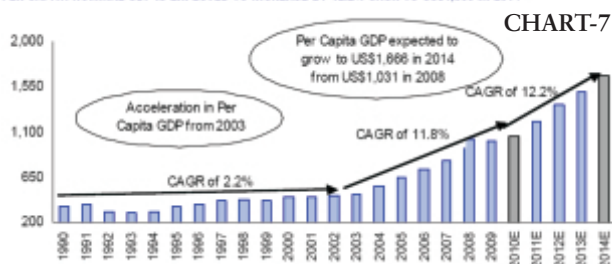
This has changed perceptions of Indian from being a land of snake charmers and fakirs to that of an “intelligent” and growing economy. This interest has driven capital into the Indian economy which has fuelled unprecedented growth over the past decade. Easy access to capital has made it possible for banks to lend money at attractive rates which has in turn has induced demand. The prohibitive rate of interest of the past is competitive and banks are forthcoming in encouraging people to build homes and live better. People from various sections of the society have started experiencing affluence in different forms.

CHART-6	1994	2007	2009	Rise in affordability (x)
Housing (Ratio of Hsng Price/Annual Inc.) (x)	22	5.1	4.5	0.9
Housing EMI (Rs.) (10-year repayment / Rs.100,000 / month)	1,740	1,350	1,250	0.9
Cost of (in Rs.)				
21" Color TV	18,000	8,000	5,000	0.6
Washing Machine	18,000	8,000	6,500	0.8
Refrigerator (195 Ltr)	12,000	7,000	8,500	1.2
Cordless Telephone	4,000	2,000	2,000	1.0
Cellular Phone	25,000	1,000	1,000	1.0

Source: ENAM Research

Competition has given rise to better jobs. Salaries have shot up and it has become easier to lead a better quality of life for more and more people. As can be seen in Chart 6, if one were to draw a comparison, in 1994 the cost of a house was about 22% of one's annual income. This number has reduced to 4.5% in 2009. Similarly the cost of washing machines, cell phones, computers, refrigerators have been steadily declining while salaries on the other hand are moving up. A television which was a luxury during my growing up years has entered the slums of Mumbai in color and with a satellite antenna. Retail lending and consumption are at the heart of the growth that the Indian economy is witnessing year on year for the past several years.

PER CAPITA NOMINAL GDP IS EXPECTED TO INCREASE BY 12.2% CAGR TO US\$1,666 IN 2014

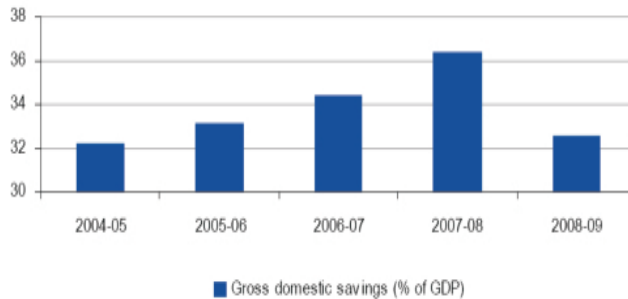


Source: MOSL

The per capita GDP which was growing year on year till 2002 at a rate of approx 2.2 % grew at nearly 12% between 2002 and 2009 and is expected to clip at near

about this rate for the next few years as can be seen in Chart 7.

CHART-8



Source: CSO

Indians have displayed discipline in savings because of which India has a savings rate of above 30% as can be seen in Chart 8. With the proportion of working population in the country set to rise in the years to come this savings rate is likely to grow in the future. The savings find their way into the economy by way of investments & form the “bedrock” for economic growth.

CHART-9



Source: CSO, BofA Merrill Lynch Global Research. Financial Year

Chart 9 shows us that private consumption, which has been steadily rising year on year, has played a crucial to rev up the economy as well as it provides the traction for sustained demand of goods and services. Consumption sets the production gears in motion to bring about a virtuous cycle of sustained growth.

Even consumption patterns have undergone a sea change over a period of time. Traditionally food and clothing comprised a very large proportion of private consumption but as the economy grew and people prospered the share of essential items has seen a remarkable drop making way for discretionary items such as entertainment, tourism, education, transportation, health care etc whose share in the consumption pie has been steadily increasing.

All this augurs well for sectors such as durables (refrigerators, washing machines automobiles), semi durables (clothing) non durables(FMCG, Food products) and services(health care, education and telecom).



The road ahead for India is long, seemingly endless and notwithstanding the frenetic growth that we are witnessing, there is a lot of catching up that still needs to be done.

As industries have flourished and scaled up their offering, they have passed on the benefits to customers who in turn have increased their demand for goods and services. Products such as LCDs, laptops, mobile phones and services etc have seen a huge growth momentum on the back of such passed on cost savings.

CHART-10 (All values in US\$ Bn)

Category	Size 2009	Size 2014
Food & Grocery	270	339
Healthcare	36	58
Apparel & Home Textiles	34	45
Housing	33	47
Education	30	47
Telecom	26	42
Jewelry & Watches	26	36
Personal Transport	25	39
Travel and Leisure	13	21
CDIT	12	18
Home – Furniture, Furnishing	11	15
Personal Care	10	15
Eating out	5	8
Footwear	4	6
Health & Beauty Services	1	2

Source: Technopak

As can be seen in Chart 10, industries that seem to be shaping up well to gain from future are health care, home textiles, housing, education, jewelry and other personal accessories, personal transportation, travel and leisure besides the expected sectors such as telecom and food.

The road ahead for India is long, seemingly endless and notwithstanding the frenetic growth that we are witnessing, there is a lot of catching up that still needs to be done. Even in sectors such as mobile phones and PCs which have led the economic growth, the penetration levels as compared to advanced economies are abysmally low.

This is nothing short of music to the ears of policy makers and industry leaders who are gearing themselves to ride this growth and stay abreast with the huge force of consumption that's being unleashed. Astute thinking and smart economic planning would pave the way for the economy to embark upon a new growth trajectory which will take it past the developed economies and show the way to the world.

■ Dharmendra Satapathy