

India Newsletter

July 2025

In this edition...

- **India market update**
- **India's consumption story:** Macro scale, micro edge
- **From low base to high growth:** Untapped categories in consumer market

MARKET OVERVIEW: India market update

In June, the MSCI India Index rose by 3.2%, underperforming the MSCI Emerging Markets Index which gained +5.7%. Among sectors, communication services, materials and energy led the market, while consumer staples, utilities and financials lagged. In terms of market capitalization, small caps outperformed, with the MSCI India Small Cap rising 4.2%, compared to the MSCI India Mid Cap (+3.4%) and MSCI India Large Cap (+3.1%).

India's economic activity remained resilient in June 2025. GST¹ collections stood at INR 1.84 trillion, slightly lower than INR 2.01 trillion in May but up 6.2% year-on-year, reflecting sustained momentum. Exports (merchandise and services) were estimated at USD 67.98 billion, marking a 6.5% increase from June 2024, while imports grew marginally by 0.5% year-on-year to USD 71.50 billion. Urban consumption showed signs of softness, as reflected in the slight decline in passenger vehicle sales, while rural demand remained robust. Two-wheeler sales grew year-on-year, though they moderated sequentially following an unusually strong May.

Looking ahead, we expect India's real growth to remain around 6.5% in FY26². While healthy agricultural prospects, the government's focus on capital expenditure, and easing monetary conditions should support growth, sluggish household income, and softer private sector capital expenditure could weigh on momentum.

Headline retail inflation (CPI³) eased sharply to 2.10% in June, the lowest reading since January 2019, down from 2.82% in May. The decline was primarily driven by a drop in food prices, with food inflation slipping into -1.06%, led by a steep 19% year-on-year fall in vegetable prices. Overall, macroeconomic data indicate steady activity with easing price pressures and a divergence between rural and urban consumption trends.

Corporate earnings revisions continued to improve in June, with consensus projecting a 9% EPS CAGR⁴ for the Nifty index over FY2024–27.

Our SBIFM's proprietary equity market sentiment indicator remains below zero, continuing to act as a contrarian signal. The correction in optimism over the past few months has made Indian equity valuations more reasonable. Our preferred measure, the earnings yield to bond yield spread, now indicates modest valuations compared to last year's highs. India's market valuation should also be viewed in the context of its macroeconomic momentum. With robust GDP growth, favourable demographics, and improving capital efficiency, the economy provides a structural buffer to valuations, supporting attractive returns in the long term even when entry points appear relatively expensive.

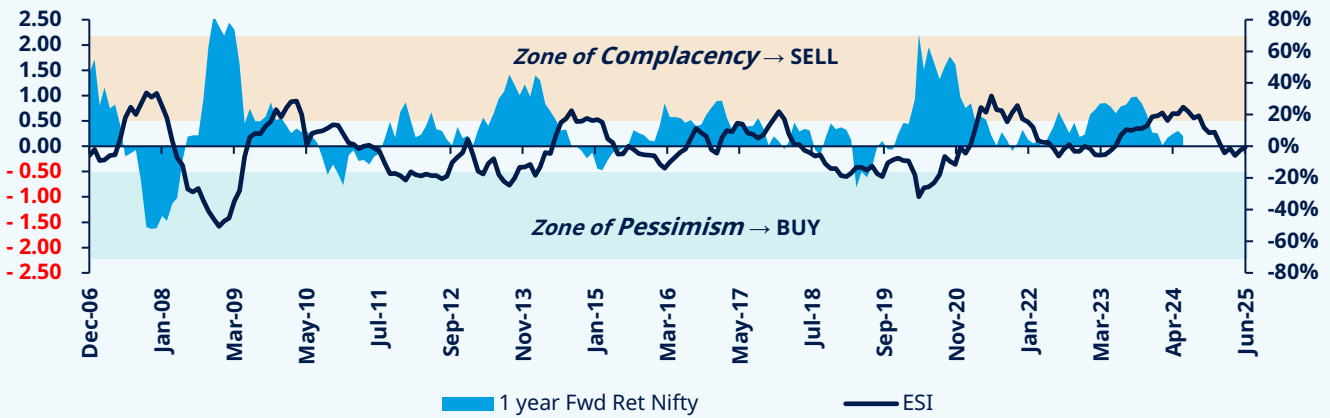
¹GST: Goods and Services Tax – A comprehensive indirect tax on the supply of goods and services in India, replacing multiple indirect taxes like VAT, service tax, and excise duty.

²FY26: Fiscal Year 2026 – Refers to the Indian fiscal year starting from April 1, 2025, and ending on March 31, 2026.

³CPI: Consumer Price Index – A measure of inflation that tracks changes in the prices of a basket of consumer goods and services over time.

⁴EPS CAGR: Earnings Per Share Compound Annual Growth Rate – The annualized growth rate of a company's earnings per share over a specified period, reflecting its profitability growth.

Equity sentiment remains below zero



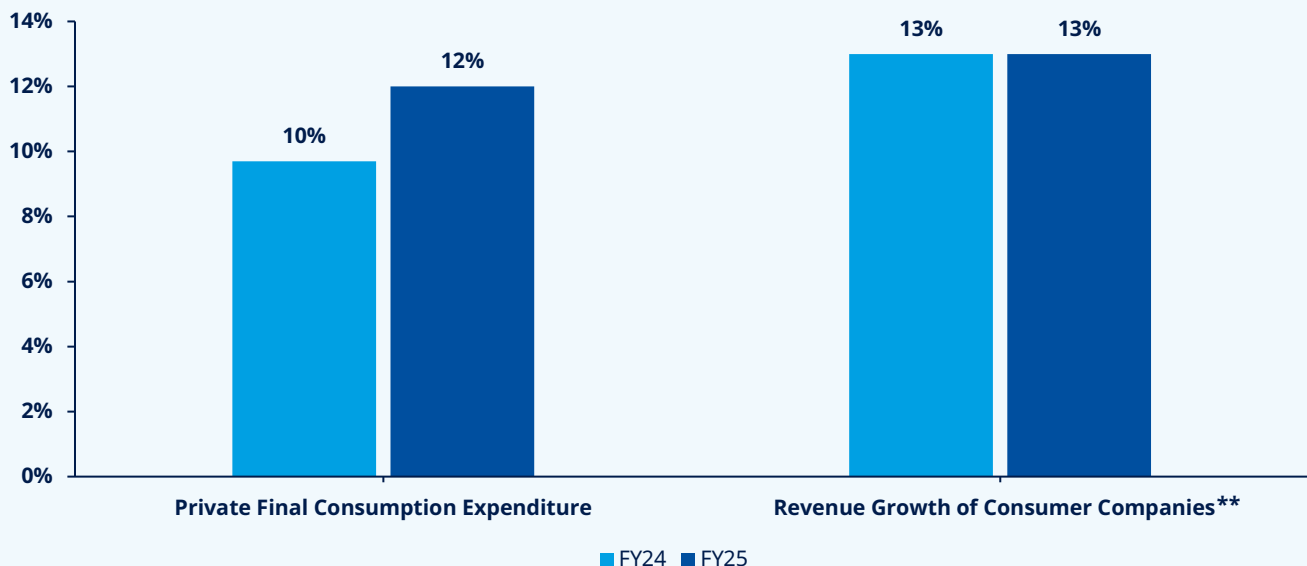
Source: Bloomberg, FactSet, SBIFM Research; ESI = Equity sentiment Index, data as of June 30, 2025.

India's consumption story: Macro scale, micro edge

India's consumption engine offers a unique combination of scale and complexity, creating fertile ground for bottom-up stock pickers. Private consumption accounts for nearly 58% of India's GDP, positioning it as the primary driver of economic activity. This makes the consumption sector a critical component of the country's growth narrative and a key area for investment focus.

In FY2024 (April to March), despite global macro headwinds and soft sentiment, India's consumption growth exceeded the previous year's, with revenue growth among consumer-oriented companies defying consensus expectations of a broad-based slowdown.

Revenue growth* indicators (YoY): Consumer company revenues have consistently outperformed expectations over the past two years



Note: Data is for the financial year (FY) that starts in April and ends in March. Private Final Consumption Expenditure is at current prices.

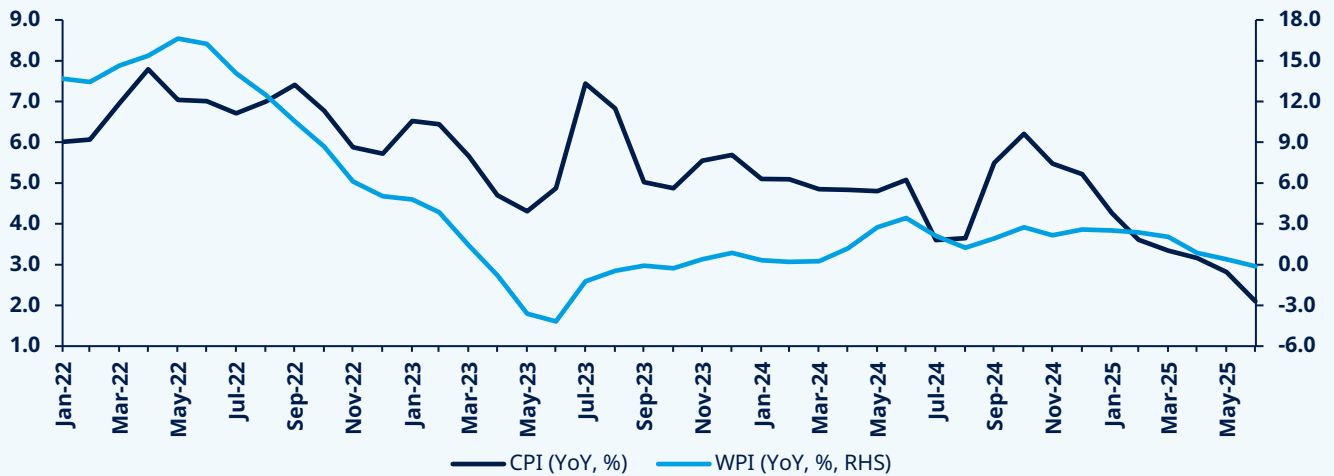
Source: Ministry of Statistics and Programme Implementation (MoSPI), India; Company Report & Disclosure; SBI Funds Management Limited, July 2025. For illustrative purposes only.

*Based on cumulative revenue growth of 47 sample consumer companies.

**The revenue Growth of sample companies under coverage (47 companies, across sub-sectors in consumption).

Several macroeconomic factors have underpinned this momentum. Headline CPI eased to 2.1% YoY, a 78-month low, creating scope for further monetary accommodation.

Inflation – CPI & WPI trends: Easing of inflation is providing monetary headroom and improving consumer sentiment



Note: CPI is Consumer Price Index, while WPI is Wholesale Price Index.

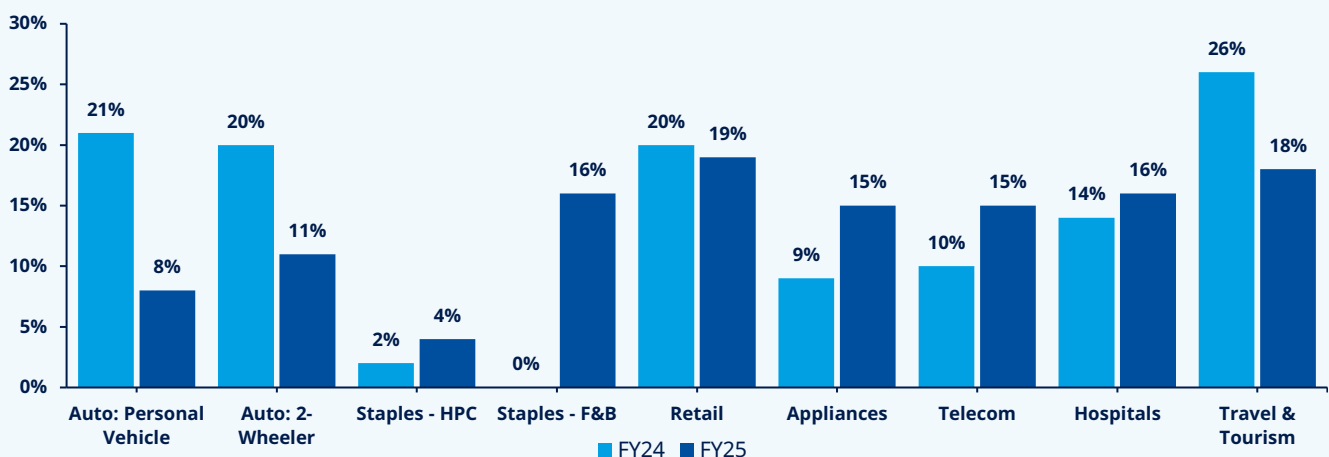
Source: Ministry of Statistics and Programme Implementation (MoSPI), India; Bloomberg; SBI Funds Management Limited, July 2025. For illustrative purposes only.

Further, fiscal measures, including higher minimum support prices, rural cash transfers, and adjustments to income tax slabs, have supported household disposable income. A favourable monsoon and moderating food inflation have contributed to a recovery in rural demand.

While the macro backdrop remains supportive, the more compelling opportunity lies in the dispersion within the consumption complex. Revenue growth across segments has been uneven—driven not by structural weakness, but by differentiated demand trends across categories and geographies,

Services and low-ticket essentials have gained ground, partially offsetting weakness in discretionary and durable goods.

Consumption growth trend across consumption categories

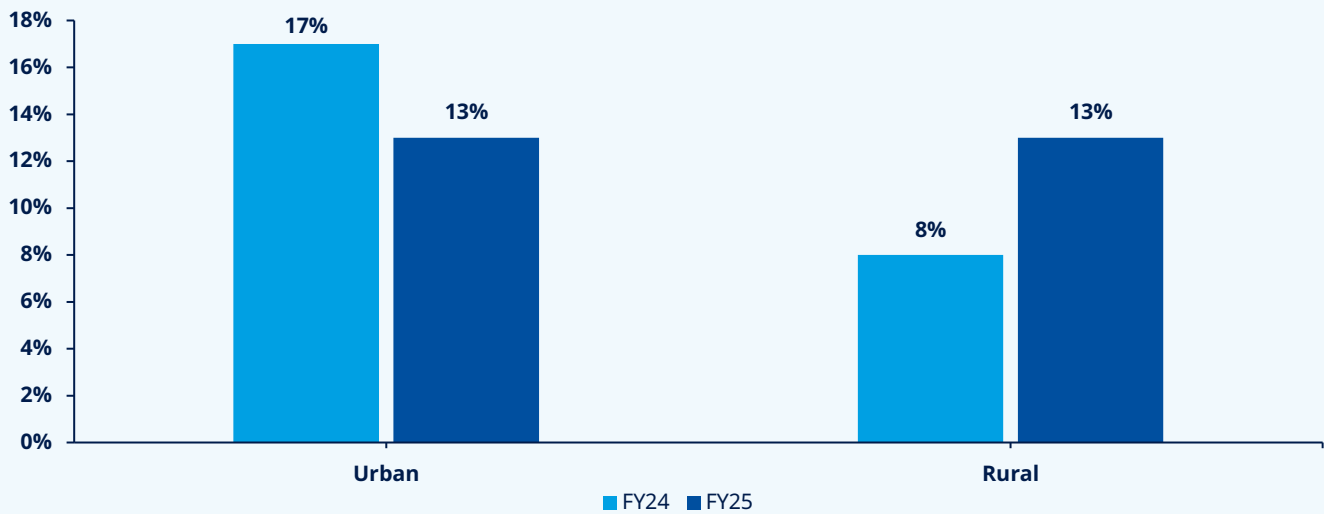


Note: Data is for the financial year (FY) that starts in April and ends in March. HPC stands for Health & Personal Care, while F&B represents Food & Beverages.

Source: Company Report & Disclosure; SBI Funds Management Limited, July 2025. For illustrative purposes only.

Urban–rural divergence persists: rural demand is showing signs of recovery, while moderation in urban demand disproportionately affects sentiment, given urban areas' ~40% higher revenue share.

Urban vs. rural contribution: Rural demand helped stabilise aggregate growth, but urban softness still dominates overall perception



Note: Data is for the financial year (FY) that starts in April and ends in March.

Source: Company Report & Disclosure; SBI Funds Management Limited, July 2025. For illustrative purposes only.

In addition, digital acceleration continues to create new winners—particularly among companies adapting to consumer platformisation⁵ and premiumisation⁶.

This internal complexity reinforces the importance of bottom-up stock selection. In our view, investors relying solely on top-down allocations may overlook key growth pockets or misallocate to structurally weaker sub-segments.

From low base to high growth: Untapped categories in consumer market

India's strong domestic demand, supportive macroeconomic fundamentals, and low per capita consumption levels present a compelling long-term opportunity for investors. Despite short-term external headwinds, the structural case for Indian consumption remains intact—driven by rising incomes, urbanisation, formalisation, and favourable demographics.

A particularly attractive segment lies in home appliances and consumer electronics, where penetration remains significantly below global averages, even compared to other emerging economies.

For instance, per capita cement consumption in India stands at approximately 290 kg, far below the global average of ~540 kg. As urbanisation accelerates and housing demand rises, this gap is expected to narrow. In key appliance categories—such as refrigerators, washing machines, air conditioners, and microwaves—India's household usage levels remain significantly below the G20 average, highlighting a large untapped addressable market.

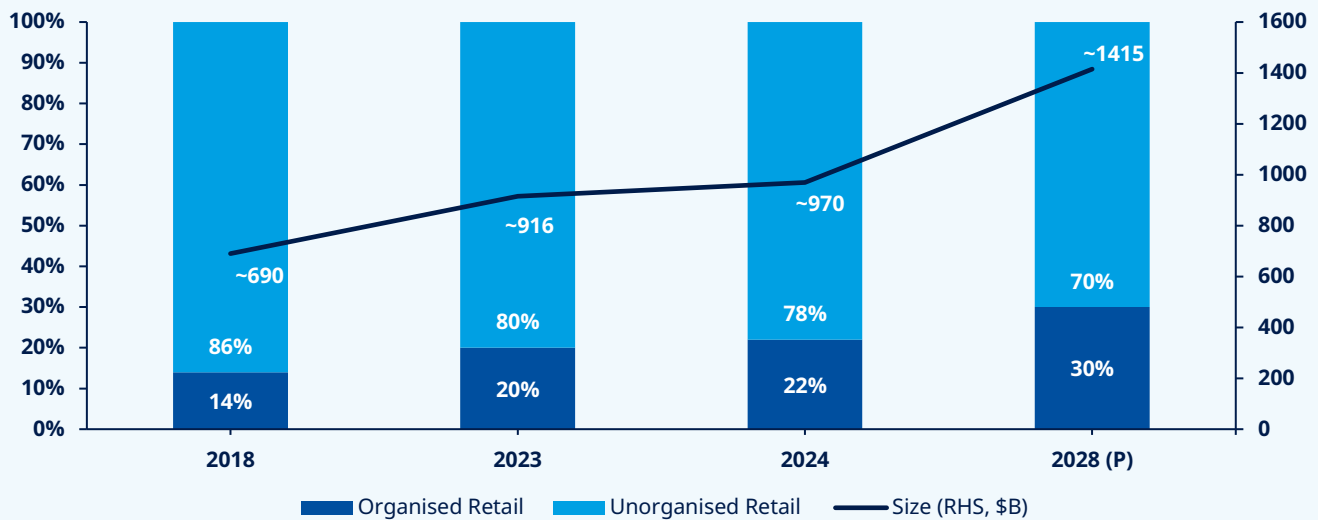
India's retail sector is projected to grow at a CAGR of ~9%, reaching USD 1.4 trillion by CY2028P⁷. Within this, organised retail is gaining share, driven by digitisation, rising incomes, and improving supply chains.

⁵Consumer Platformisation: The shift towards digital platforms where consumers engage, shop, and interact, driven by the integration of technology in everyday life.

⁶Premiumisation: The trend of consumers opting for higher-quality or more expensive products and services, reflecting a preference for better value and experiences.

⁷CY2028P: Calendar Year 2028 (Projected) – Refers to the calendar year from January 1, 2028, to December 31, 2028.

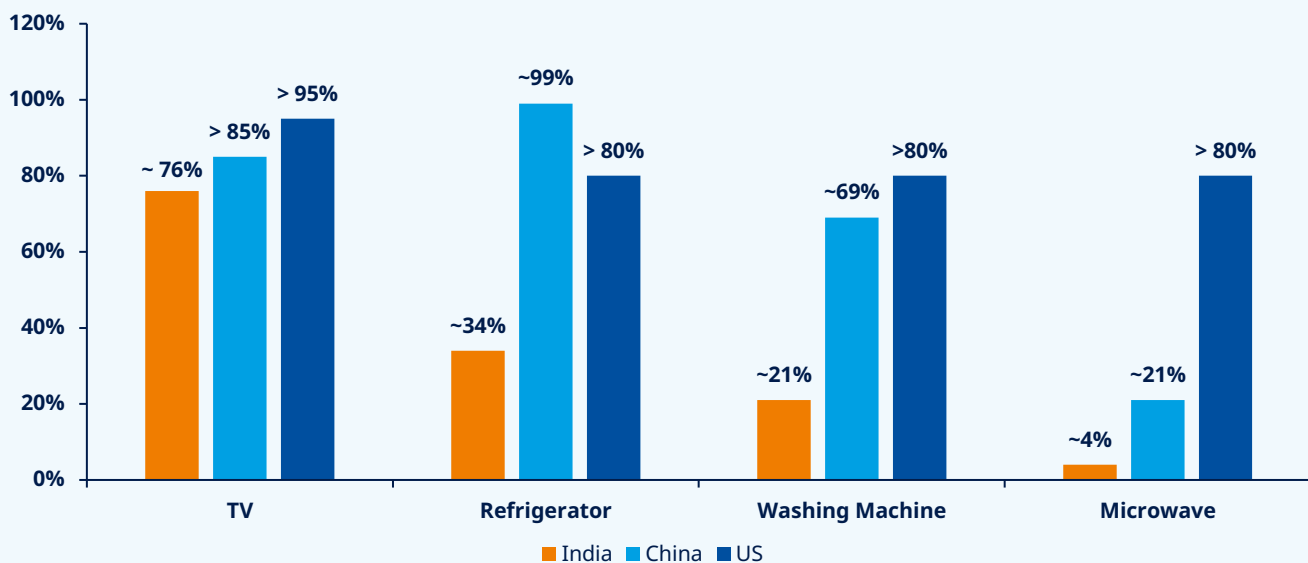
Retail market in India:



Source: LG Electronics India Limited; Redseer Research and Analysis; SBI Funds Management Limited, July 2025. For illustrative purposes only.

India continues to trail global benchmarks across multiple appliance categories, offering a long runway for growth fuelled by increased market reach.

Adoption of key home appliances – India vs global benchmarks

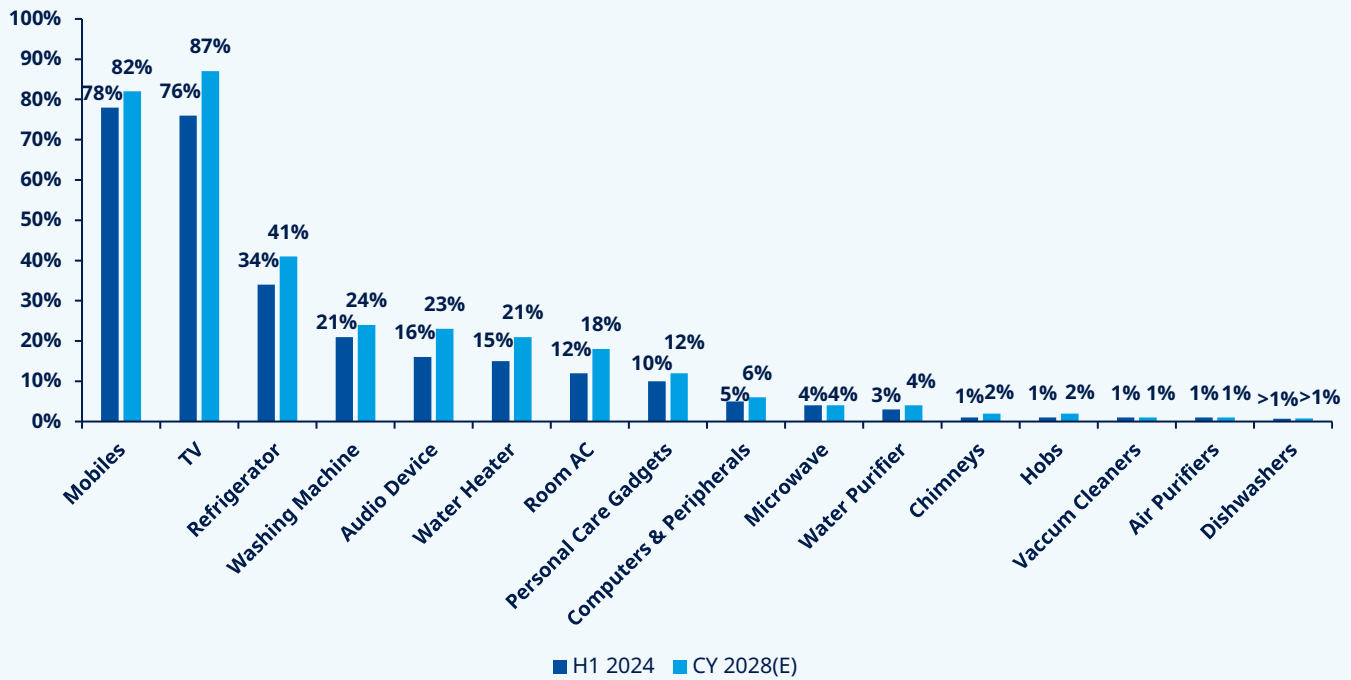


Note: Data as of June 30, 2024.

Source: LG Electronics India Limited; Redseer Research and Analysis; SBI Funds Management Limited, July 2025. For illustrative purposes only.

As product access improves and household affordability increases, the total addressable market is poised to expand meaningfully.

Emerging appliance & electronics market (B2C) – by category



Note: The above chart shows the Adoption of key home appliances in India by category.

Source: LG Electronics India Limited; Redseer Research and Analysis; SBI Funds Management Limited, July 2025. For illustrative purposes only.

The limited market presence of durable goods and appliances presents a bottom-up opportunity to invest in businesses positioned to capture first-cycle adoption and volume-led growth. These include appliance and electronics manufacturers, consumer financing and retail lending platforms, building materials companies exposed to urban and semi-urban housing and organised retail and distribution networks

Supported by disinflation, credit availability, and policy tailwinds, these segments offer structural earnings growth potential as India moves from low base to high growth.

Important information – Marketing Communication

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