



Catering for India's new consumer

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In the third article of our series – 'A New India', fund manager Ewan Thompson, examines how companies such as online food platform Zomato are working hard to differentiate itself from the competition and handle the emerging demands of India's growing middle class.

The sheer scale of India's economy and domestic market is becoming more widely understood. With over 1.4 billion people within its borders and enviable demographic profile, India's consumer market is of a truly staggering scale. With two-thirds of the population – nearly a billion people – under the age of 40 this is also a young population, making the spending habits of younger generations crucial to determining the profile of India's developing consumer market. Clearly a consumer market of this size has numerous facets, ranging from basic necessities such as shampoo and toothpaste in sachets for rural villagers, to high-end products such as smartphones, apartments and SUVs for India's rapidly growing upper middle class. Indeed, the progression of consumers up the consumption curve over time is one of the key features of the Indian consumer market.

Like many other countries, India has experienced a so-called K-shaped consumer recovery – when different parts of the economy recover at different rates or times – in the aftermath of the Covid shutdowns of 2020 and 2021. The lower end of the market has seen a relatively anaemic recovery, with higher inflation eating into disposable incomes and muted rural wage growth. Key parts of the consumer market reliant on rural consumption, for example 2-wheeler vehicles, have therefore been relative underperformers over the past three years. At the other end of the market, high-end goods have seen a much stronger trends as middle-class, urban consumers have benefited from a strong recovery in corporate earnings, leading to significant wage growth.

Moreover, this demographic was much less affected by the pandemic given an ability to work from home, building up income and, furthermore, household savings. There are also longer-term shifts in play, with broader changes in spending culture becoming apparent, along with the increasing mix of discretionary and aspirational spending in the consumer market. As income levels have risen over the years, more and more consumers have shifted up into the upper-middle class bracket. The number of Indians reporting income between Rp1-10 million (£10,000-100,000) has doubled from four million to nearly eight million between 2016 and 2021 and access to credit has further enhanced consumers' purchasing power – purchases of mobile and consumer durables using monthly instalments have increased from 9% before the pandemic to 18% in 2021. Research company Bernstein estimates that the medium-term upper middle-class population in 25 years at between 300-310 million, compared with only 100 million today.

As consumers become more affluent, their priorities naturally shift away from necessities and towards luxuries, putting greater emphasis on aesthetic and design qualities over value for money.

Premiumisation is the watchword in the Indian consumer market today – bringing new categories to the fore and changing the focus within existing markets. Companies are working hard across the sector to differentiate themselves from the competition and cater to the emerging demands of India's growing middle class. Key examples include the property market, where an extremely robust premium residential market has seen developers shift their sales mix aggressively towards higher value properties. In 2018, approximately 9% of houses in India's top cities were priced above Rp15 million (£150,000), as of this year that number is now 16%. In the auto market, the direction of travel has been clearly away from affordable hatchbacks towards SUVs. Once upon a time, the entry-level hatchback was the staple of the Indian 4-wheeler market, making up nearly two-thirds of sales by volume. In 2010, only 5% of cars sold in India were hatchbacks, today that number is 45%. Smartphones have also benefited from the work-from-home shift during Covid, with ultra-premium phones market share jumping significantly while cheaper phones have seen declining shipments.

Digitalisation of the economy is a further driver accelerating these consumption trends – access to electronic devices alongside government investment in digital infrastructure has led to an increasingly online consumer culture. One company seeking to capture these trends of aspirational consumption as well as increasing digitisation and modernisation of consumer culture is **Zomato**, the online food platform.

Zomato offers consumers restaurant discovery and food delivery services, supported by a fleet of independent delivery partners. In 2023, 17 million customers carried out transactions monthly, buying from over 200,000 restaurant options, a third of which were Just Kitchens, whose entire business is supplying Zomato customers. Zomato's Intercity Legends offers customers particularly fond of India's famously specific regional cuisines the ability to order iconic dishes from famous restaurants in other cities and have it delivered to their doorstep the next day. In a market where home-cooked meals are still a staple of family life, Zomato's Everyday brand aims to tap into this cultural reality, marrying modern food delivery with traditional home-cooked meals that remain so important to Indian households.

The growth runway for Zomato is significant given the nascent industry it operates in. In a country with 200 million ecommerce users, the key challenge is to increase penetration of food-delivery services within this online community. Zomato has also acquired quick-commerce marketplace Blinkit in the last year, delivering everyday products such as groceries and household goods. As Zomato gains share, profitability moves ever closer – earnings before interest, taxes, depreciation, and amortisation (EBITDA) margins have moved from -17% pre-pandemic to breakeven in the current financial year. Moreover, advertising revenue is providing an increasingly important revenue stream – now 3% of Gross Merchandise Value (GMV) compared with 2% for comparable Chinese player Meituan or 1% for Dash, Grab and Uber. As Zomato grows scale efficiencies and electrification of rider vehicles, we will see delivery costs falling, pushing margins beyond breakeven to 5-6% in the coming years.

The vast Indian consumer marketplace is transforming at an increasingly rapid pace, with premiumisation one of the key drivers as an increasingly affluent middle class look to prioritise higher-end products with design and brand appeal over previous value-for-money considerations. As India moves steadily towards upper-middle income status over the coming years, the expansion of this group of consumers offers immense opportunities for those companies able to capture consumers'

lifestyle aspirations, and deliver them across multiple platforms, engaging with them digitally. As the consumer landscape changes, existing consumer segments and companies are adapting to these trends such as in the premiumisation seen in property, auto and financial services markets, while new segments such as delivery services emerge for the first time.

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