

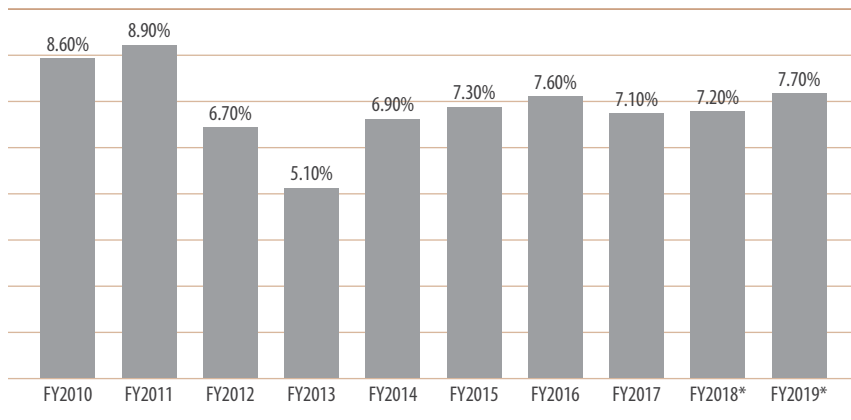
# MANAGEMENT'S DISCUSSION & ANALYSIS

India's US\$ 2.2 trillion economy makes it the 7<sup>th</sup> largest in the world in terms of nominal GDP. As per a report by PriceWaterhouseCoopers, India is expected to edge past the United States to become the world's 2<sup>nd</sup> largest economy in purchasing power parity (PPP) by 2040.

## ECONOMIC OVERVIEW

The Indian economy is growing strongly and remains a bright spot in the global landscape. The International Monetary Fund (IMF) projected GDP growth at 6.6% in 2016-17. On the external front, the current account deficit (CAD) has been narrowing down progressively from 1.7% of GDP in FY2016 to 1.1% in FY2017, primarily on account of lower trade deficit brought about by a larger decline in merchandise imports relative to exports.

### India's Rising Economic Growth



\*IMF projections for GDP Growth in India

The Reserve Bank of India has estimated India's Gross Value Added (GVA) growth to increase to 7.4% in FY2017-18, due to increasing capital expenditure, boosting of the rural economy, easing of crude oil prices, a normal monsoon and roll-out of Goods and Services Tax (GST) in 2017. Continued fiscal consolidation by reducing government deficits and debt accumulation, and an anti-inflationary monetary policy stance will cement macro-economic stability.





### Introduction of GST

The Government made significant progress on important economic reforms, which will support strong and sustainable growth going forward. The implementation of Goods & Services Tax (GST) will help raise India's medium-term growth to above 8%, as it will enhance the efficiency of production and movement of goods and services across Indian states. GST will subsume a series of central taxes and state-level levies, and could benefit the nation in the long term, by way of a wider tax base and greater participation in the formal economy.

### World's 7<sup>th</sup> Largest Economy

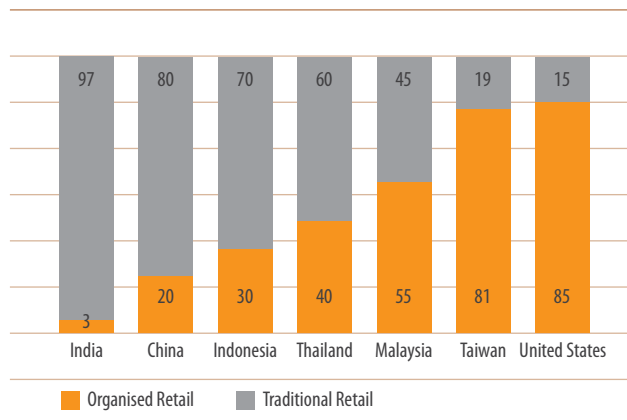
India's US\$ 2.2 trillion economy makes it the 7<sup>th</sup> largest in the world in terms of nominal GDP. The global economic order is expected to shift from advanced to emerging economies over the next few decades. As per a report by PriceWaterhouseCoopers, India is expected to edge past the US to become the world's 2<sup>nd</sup> largest economy in purchasing power parity (PPP) by 2040. The Report estimates E7 economies, comprising of Brazil, China, India, Indonesia, Mexico, Russia and Turkey, to grow at an annual average rate of almost 3.5% over the next 34 years, compared to just 1.6% for the advanced G7 nations of Canada, France, Germany, Italy, Japan, the UK and the US. E7 could comprise almost 50% of world GDP by 2050, while the G7's share is expected to decline to just over 20%, according to John Hawksworth, PWC's chief economist and co-author.

### Growing Urbanisation and Rising Consumer Spend

By 2020, nearly 35% of Indians will be living in urban areas and there will be a rapid rise in the number of nuclear families, according to a study titled 'Retail transformation: Changing Your Performance Trajectory' conducted by Confederation of Indian Industry (CII) and the consulting firm The Boston Consulting Group. As per the Report, urbanisation will increase to 40% in 2020, an increase from 31% in 2015, and more than 200 million households will be nuclear, representing a 25-50% higher consumption per capita expenditure. It expects the average household income to increase three times to US\$18,448 by 2020, up from US\$6,393 in 2010.

Backed by robust economic growth and rising household incomes, consumer spending in India is expected to touch US\$ 3.6 trillion (about ₹ 240 trillion) by 2020, increasing India's share in global consumption to 5.8%—more than twice its current levels, according to a joint report released by FICCI and management consultancy PWC. Projections in the Report indicate that India's average household income will triple to US\$ 18,500 in 2020, up from US\$ 6,400 in 2010—acting as a major driver in retail growth and leading to the evolution of new consumer segments. Increasing disposable income levels and a rising number of sophisticated consumers gave rise to consumers seeking 'premium' products.

Share of Organised and Traditional Retail in India (%)



Source: IBEF; Ernst & Young Retail Report

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### **Population to shape Growth Trajectory**

India's millennial population of 400 million is the largest in the world, and is armed with approx. US\$ 180 billion in spending power. With high smartphone adoption and widespread availability of mobile broadband infrastructure, it will become a disruptive force faster than most expect. Population dynamics will be a key force in shaping India's overall growth trajectory and also in shaping how product markets will develop as preferences of the population evolve, according to a Report by Morgan Stanley. With the growth of the Indian economy, discretionary spends will rise faster and premium products will gain share, akin to the emerging markets of Russia and China. Indian consumers will become more discerning and demanding, and will be ready to pay more for their choices. The Morgan Stanley Report projects India's economy to reach US\$ 5 trillion by FY2025 and its per capita income to rise 125% to US\$ 3,650 by FY2025.

With India's large 'young' population and high domestic consumption, the macro trends for the sector look favourable. Estimates suggest that by 2030, around 91 million households will be 'middle class', up from 21 million today. Also by 2030, 570 million people are expected to live in cities, nearly twice the population of the United States today. Consumer markets in emerging economies like India are growing rapidly owing to robust economic growth. India's modern consumption level is set to double within five years to US\$ 1.5 trillion from the present level of US\$ 750 billion. Thus, with tremendous potential and a huge population, India is set for high growth in consumer expenditure.

### **Consumption Boom to boost India Economy**

India will be a domestic consumption driven growth story. Rapid macroeconomic, demographic and lifestyle shifts in the country, bolstered by policy and regulatory changes, have a strong potential of taking India towards its goal of becoming the largest consumer market over the next decade, the Report by Morgan Stanley said. Declining interest rates, a near-normal monsoon leading to higher rural incomes and pay hikes for central government employees are key triggers for a consumption boom in India. Backed by higher rural income, growing purchasing power and rising aspirations will drive the consumption boom in India.