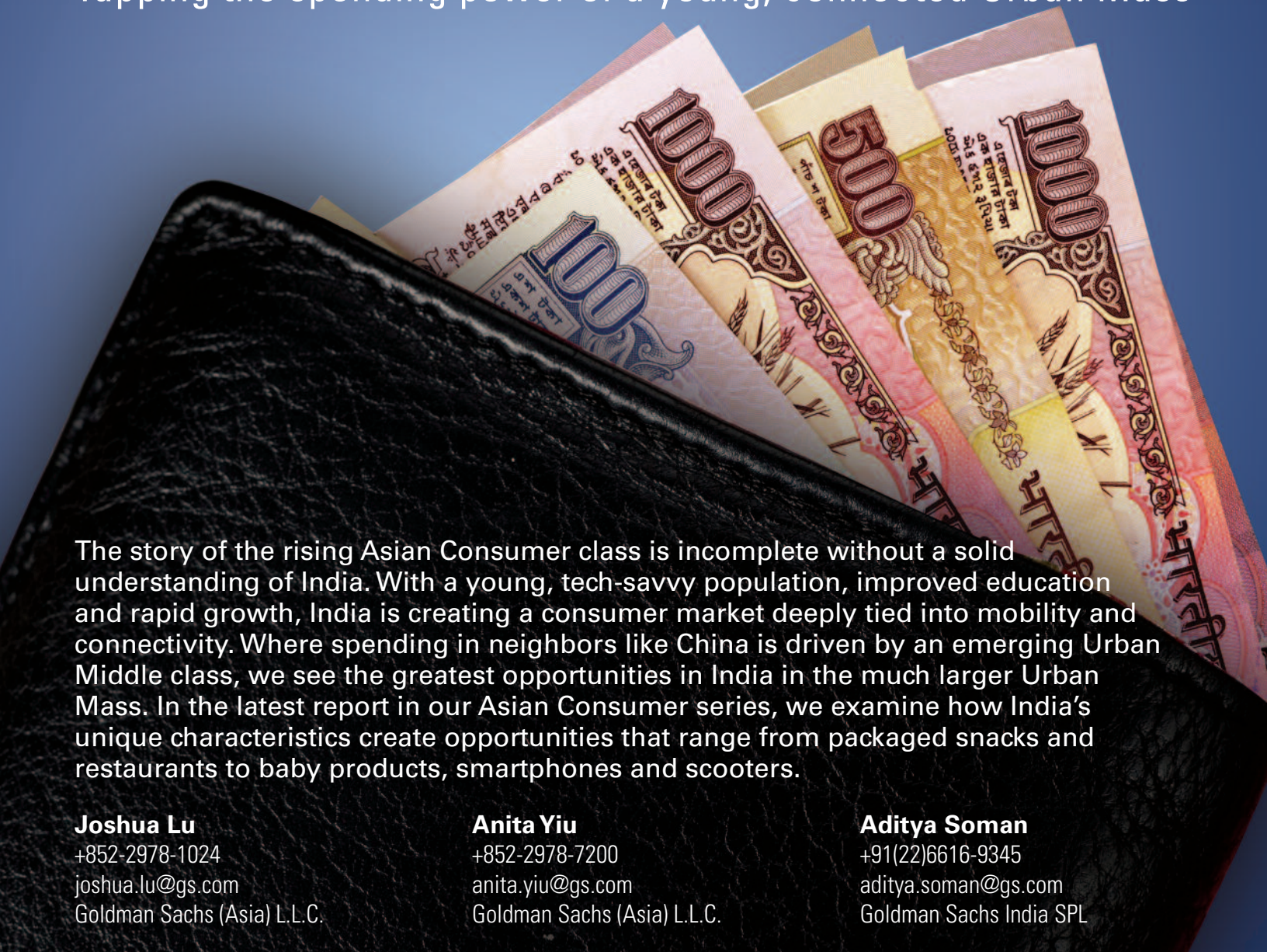


The Asian Consumer

INDIA CONSUMER CLOSE-UP

Tapping the spending power of a young, connected Urban Mass



The story of the rising Asian Consumer class is incomplete without a solid understanding of India. With a young, tech-savvy population, improved education and rapid growth, India is creating a consumer market deeply tied into mobility and connectivity. Where spending in neighbors like China is driven by an emerging Urban Middle class, we see the greatest opportunities in India in the much larger Urban Mass. In the latest report in our Asian Consumer series, we examine how India's unique characteristics create opportunities that range from packaged snacks and restaurants to baby products, smartphones and scooters.

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The following is an excerpt from “India Consumer Close-up: Tapping the spending power of a young, connected Urban Mass”, published June 1, 2016, 87 pgs. All company references in this excerpt are for illustrative purposes only and should not be interpreted as investment recommendations.

We would like to thank the many colleagues from across the Goldman Sachs Global Investment Research team who contributed to this report, especially Sef Chin and Aditya Gupta for their valuable contributions.

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PM Summary

In this report, we turn the focus of our Asian Consumer series to the world's second biggest population, India. With 440mn millennials and 390mn Gen Z teens and children, the sheer size of India's youth paves the way for India's consumer story to be one of the world's most compelling in the next 20 years. We examine how India's consumer spending will shift as its consumer class grows, drawing on lessons from our work in China with an eye towards the characteristics that make India unique.

As with our China Consumer Close Up report last year, our starting point differs from the prevailing research by forming a holistic view of the consumer before examining a particular consumer-related industry. We begin by dividing the working population into cohorts, an approach that has allowed us to form a more complete and accurate picture of the Chinese consumer. For India, a country with huge diversity, we believe moving past a simple national average is essential to identify the real opportunities and challenges within the consumer population.

We believe India will develop differently from China, where the first wave of the consumer story was powered by the 156mn Urban Middle workforce and 1.5mn wealthy "Movers & Shakers." For India, we see the consumer growth story instead underpinned by the Urban Mass. **India's Urban Middle is much smaller at just 27mn working people, or 2% of the population.** We believe most of the new generation of India's youth will first fall into Urban Mass, a cohort that is 129mn people today, earning over US\$3,200 on average. The expansion of Urban Mass, both in size and income level, will be the key driver of India's consumption story in the coming 5-10 years.

Just as China has the phrase "衣 (clothing) 食 (food) 住 (shelter) 行 (mobility)" to describe life's essential needs, India has its equivalent in the form of "roti kapda aur makaan" – meaning "food, clothing, and shelter". We focus on 7 key areas of consumption desire that capture c.96% of total consumption expenditure: 1) **Eating better**; 2) **Looking better**; 3) **Better home**; 4) **Mobility and Connectivity**; 5) **Having more fun**; 6) **Well-being**; 7) **Luxury**.

We overlay on these desires a simple "hours worked" affordability test and an understanding of what is "Uniquely Indian" that influences behavior. These unique characteristics are everywhere, with profound effects on consumer behavior: almost half the population is vegetarian, whisky sales dwarf beer, and families save for years to spend on their child's wedding.

Combining these factors helps create a framework to identify categories well positioned to benefit from the rise of India's consumer class. Particular opportunities range from packaged snacks and dairy products to restaurants, premium personal care products, baby products, smartphones, scooters and branded jewelry. We believe mobile connectivity and ecommerce stand to leapfrog traditional retail as channels for reaching young and tech-savvy consumers.

The result is a picture that is both uniquely Indian and emblematic of a growing pool of consumers across Asia that will shape spending in the decades to come.

India consumer – Top takeaways

- 1) India's consumer story will be shaped by its **440mn Millennials and 390mn Gen Z (born after 2000)**. The sheer size of India's youth combined with improved education pave the way for sustained growth in purchasing power and makes India's consumer story one of the world's most compelling for the next 20 years. The nation's challenge is to create enough jobs to unleash the productivity of India's talented youth.
- 2) India's GDP per capita – at US\$1,650 in 2015 – is comparable to China in 2005. In the coming decade, India's consumer story will be led by its **129mn Urban Mass consumers**. This marks a different path from China, which was predominantly an Urban Middle formation story during 2002-2012.
- 3) India's **Urban Middle** cohort is relatively small. We estimate that the workforce that falls into the Urban Middle (over US\$11,000 annual income) stands at 27mn, or **2%** of population.
- 4) **Brand investing** will be a big theme in everything. But we note: India's Urban Mass will trade up into brands that offer the most incremental value and quality, but may not readily jump to aspirational brands. In purchasing a car for example, for an Indian consumer, an important input is the brand's reputation for fuel efficiency.
- 5) **Best categories positioned for profit pool expansion:** packaged snacks, baby products, premium personal care, scooters, SUVs and jewelry. But one profit pool may grow faster than them all: **restaurants**.
- 6) Where India will leapfrog the most: **Mobile connectivity and Ecommerce**. Payment system and supply chain challenges remain but are not insurmountable. Improved mobile connectivity will also challenge the domination of TV as a primary source of household entertainment over time, creating a bigger profit pool for content providers and mobile gaming.
- 7) Growth of **luxury and high end** in general will be limited. Culturally, India's affluent consumers tend to shy away from ostentatious display of wealth. One area where Indians do splurge: **weddings**. The number of weddings and household formations will increase over the next 5 years, given India's demographics (peak birth numbers reached 22-23 yrs ago).

INDIA'S CONSUMERS in numbers

(1 Country, 780 Languages)

BIG POPULATION, FAST ECONOMY

1.3bn / 7.5%

India's **population** and **real GDP growth** in 2015.

WORKING MASS and MIDDLE

10% / 2%

The portion of the total population made up of the workforce in **"Urban Mass" / "Urban Middle."**

YOUNG POPULATION

65% The percentage of the **population born after 1980**. Of the 65%, 443 million are Millennials and 393 million are Generation Z.

BIG FUTURES

7mn The number of **college graduates** per year.

6 The number of *Fortune Magazine's* "Most Admired" American companies with **Indian CEOs**: Adobe, Berkshire Hathaway Reinsurance, Google, MasterCard, Microsoft and Pepsi.

WELL-CONNECTED



200mn

The number of **connected smartphones** we expect by end of 2016. Telecom ARPU is only US\$3/month, among the lowest in the world.

ON THE MENU

40% The percentage of the total population that is **vegetarian**.

60mn The size of India's **milk market** in tons – the largest in the world.

\$31bn The size of the **spirits market** in USD, making it the largest packaged food and beverage category in India and the second largest spirits market in the world.

BOLLYWOOD DREAMS

1,602 The number of Bollywood **films produced** in India, selling 1.9 billion cinema tickets. TV penetration is also high (67%) relative to other home appliances.

PUTTING A RING ON IT

US\$7,500 – \$75,000+

The cost of a **wedding in India**, vs. an average cost of US\$30,000 in the US and urban China. The average 2015 income of the Urban Mass was US\$3,216.

US\$27bn

Annual gold demand. India is the second largest gold consumer globally.

SCOOTING ALONG

16mn



The number of **two-wheelers** sold in India in 2015 (vs. a total car fleet of 25 million). Ground transportation is the second biggest category of personal consumption, in part due to a lack of public transit options.

India: The Macro, The People, The Consumer

Exhibit 1: India vs. US and China – the Bird’s Eye View

	2015 (unless otherwise stated)		
The Macro	India	China	US
Nominal GDP (tn US\$)	2.1	10.9	17.9
Nominal GDP per Capita (US\$)	1,651	7,936	55,837
Real GDP Growth	7.5%	6.9%	2.4%
Inflation Rate (Consumer Price)	4.9%	1.4%	0.7%
Private Consumption Expenditure (tn US\$)	1.3	4.2	12.3
Private Consumption Expenditure (% of GDP)	64%	38%	68%
Private Consumption Expenditure per Capita (US\$)	1,038	2,979	38,180
Exports (tn US\$)	0.3	2.3	2.1
Exports (% of GDP)	13%	21%	12%
Household Deposits (tn US\$)	\$1.0	\$8.9 (2014)	\$10.4
Number of Listed Companies on Country Exchanges	7,233	4,707**	13,701
Total Market Cap of Top 3,000 Listed Companies (tn US\$)	1.5	9.3**	27.5
The People			
Population (bn)	1.27	1.39	0.32
Urban Population Proportion	33%	54%	83%
Household Numbers (mn)	269	453	124
Millennials (born in 80s and 90s, mn)	443	415	88
Millennials (% of population)	35%	30%	27%
Generation Z (born after 00s, mn)	393	257	65
Generation Z (born after 00s, % of population)	31%	18%	20%
Current Total Pool of College Graduates (mn)	96	79	211 (2013)
Current Total Pool of College Graduates (% of Work Force)	11%	10%	38% (2013)
Number of Tertiary Students Studying Overseas (th, 2013)	182	712	60
Number of People with Passports (mn)	63	65	126
Number of People Paying Income Tax (mn)	32	28	152
The Consumer			
Grain Consumption (mn metric tonnes)	214 (2011)	457 (2011)	347
Gold Consumer Demand (tonnes)	849	985	193
Electricity Consumption (k GWh)	1,090	5,550	46,370
Cement Consumption (last 10 years cumulative, mn tonnes)	2,195	18,910	795
Telephone Landlines (mn)	25	238	125
Installed Home Broadband (2014, mn)	16	200	100
Air-Conditioners Possession (% of Households)	13%	74%	88%
Mobile Phones (mn)	274	474	207*
Smartphones (mn)	120	447	184*
Smartphones Subscribers (mn)	234	1,042	329*
Passenger Car Fleet (mn)	25	122	250
Number of Cities with Subways	7	23	15
Total Outbound Visits (mn)	18	120	73
Movies Made	1,602	745	476
Number of McDonald Restaurants	213	2,200	14,000
Online Retail Market Size (GMV, bn US\$)	11	606	349 (2015E)
Number of Hospital Beds (mn)	1.1	5.3	0.9
Current Mortgage Rate	9.5%	4.5%	3.6%

Note *: North America, **: Includes Hong Kong, ***: Greater China

Source: Euromonitor, IRS, NBS, CEIC, Bloomberg, India Ministry of Commerce and Industry, India Ministry of External Affairs, US Passports & International Travel, Company data, China Ministry of Finance, International Telecommunications Union, US Department of Education, World Gold Council, India Economic Times, USDA, Times of India, Health Nutrition and Population Statistics, Gartner, Global Mobile, UNESCO, World Bank, Goldman Sachs Global Investment Research.

Indian Consumer – Identify the key cohorts

A relatively small Urban Middle Class – 2% of Population

India has a small ‘Urban Middle’ class, relative to its population, comprising largely of 10mn government employees (including state-run enterprises), 0.85mn small/medium enterprise (SME) owners and 16mn working professionals (with post-graduate or technical degrees). The Urban Middle is just 5% of the total working population of 519mn people and 17% of the urban workforce (Exhibit 2).

We estimate that the workers in the Urban Middle have an average annual income which exceeds US\$11,000 as of 2015. The growth in Urban Middle incomes have been primarily driven by 2 factors – government salaries determined by the pay commission reports and by salary increases in the information technology sector, which has been the largest private sector employer of the ‘Urban Middle’ class.

The government’s influence as an employer is present but less compared to China. We estimate government employees represent 38% of the Urban Middle, compared to 45% in China.

Urban Mass is the most important cohort for Consumption

The ‘Urban Mass’ in India represents a fourth of the total workforce with 129mn people. The ‘Urban Mass’ can be further divided into the ‘Educated Urban Mass’ of 32mn people, who have an undergraduate degree and are employed in non-labor intensive jobs. The rest of the Urban Mass are blue collar workers or migrant laborers. Workers in the Educated Urban Mass have average annual wages of over US\$5,300, while Urban Blue Collar wages average about US\$2,500 per year.

Because Urban Blue Collars in India earn lower salaries than their equivalents in China, there is a bigger wage gap within the Urban Mass, hence the need to single out Educated Urban Mass. Of the state Government employees, we estimate 50% are Urban Middle and the rest are Educated Urban Mass.

Exhibit 2: Identifying the key cohorts of the Indian consumer

Working population	Average annual income, 2015 (\$)		% of working population	Aggregate income, 2015 (\$bn)
0.43mn	250,000	Movers & Shakers	0.08%	108
10mn	11,439	Govt/SOE employees	2%	114
17mn	11,250	Urban white collar/SME owners	3%	191
32mn	5,385	Educated urban mass	6%	172
97mn	2,500	Urban blue collar/migrant workers	19%	243
120mn	2,159	Rural landowners	23%	259
138mn	810	Rural labourers	27%	112
105mn	432	Rural casual labourers	20%	45
Total: 519mn				Total: \$1.2tn

Source: VII Pay Commission report, Capitaline, Goldman Sachs Global Investment Research.

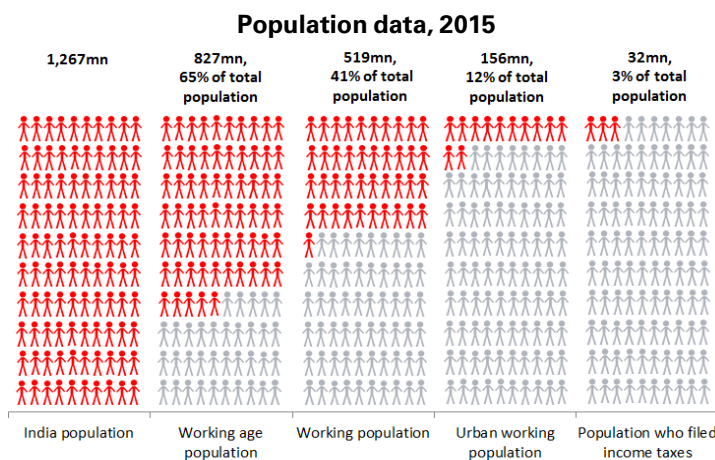
The 8 Cohorts of the Indian Consumer

	Population	Income per capita per annum
MOVERS AND SHAKERS	0.43mn <ul style="list-style-type: none"> The number includes the top 3% private employed and roughly .05mn of self employed 	US\$250,000 <ul style="list-style-type: none"> Our starting point is US\$250,000, the salary for the top corporate employees in India. This compares with US\$500,000, that the top cohort earns in China
GOVERNMENT/SOE EMPLOYEES	10mn <ul style="list-style-type: none"> Central and state government employees, including the armed forces but excludes lower grade employees who are paid significantly less The number is significantly lower than China's SOE employees due to a much smaller government sector in India 	US\$11,439 <ul style="list-style-type: none"> The SOE employees are paid lower than private sector employees but receive non-cash benefits which increase their disposable income The salary growth is partly driven by the Pay Commission and is adjusted substantially every five years
URBAN WHITE COLLAR/SMALL BUSINESS OWNERS	17mn <ul style="list-style-type: none"> Our starting point is SME owners and the population with a post-graduate or technical degree Indian IT firms are the biggest source of employment for this cohort 	US\$11,250 <ul style="list-style-type: none"> Our starting point is the average white collar salary in the largest companies, which is comparable to salary levels for mid to high level government jobs
EDUCATED URBAN MASS	32mn <ul style="list-style-type: none"> The population represents graduate level students who are offered basic level jobs This cohort includes lower level government jobs, SME jobs and lower level corporate jobs 	US\$5,385 <ul style="list-style-type: none"> Our starting point is the initial salary offered by Indian IT firms and SMEs The salary levels are significantly lower than of students with higher education
URBAN BLUE COLLAR/MIGRANT WORKERS	97mn <ul style="list-style-type: none"> The number includes urban labor jobs and migrant workers Outlook for employment improving with demand from the services sector. 	US\$2,500 <ul style="list-style-type: none"> The salary levels are driven by minimum wage laws of the government
RURAL LAND OWNERS	120mn <ul style="list-style-type: none"> Our starting point is the census data which indicates land owners in rural India 	US\$2,159 <ul style="list-style-type: none"> Rural land owner's income has historically been driven by annual agricultural price increases Income levels are very volatile due to high dependency on monsoons
RURAL LABOURERS	138mn <ul style="list-style-type: none"> The population is occupied as labor in agricultural farms, construction sites, etc. The rural labourers are more likely to become migrant workers in urban areas if the opportunity exists 	US\$810 <ul style="list-style-type: none"> Our starting point is data available from Labor Bureau The wage growth has typically been in low double digits but has come down due to lack of rural development They earn significantly less than the urban blue collar due to inconsistent flow of work
RURAL CASUAL LABOURERS	105mn <ul style="list-style-type: none"> Our starting point is rural employment data and people supported under government schemes 	US\$432 <ul style="list-style-type: none"> This population depends on the government allocation to populist schemes for daily expenses The income level varies depending on budgetary allocations to government schemes

Small tax base, like China, highlights the narrow Middle Class

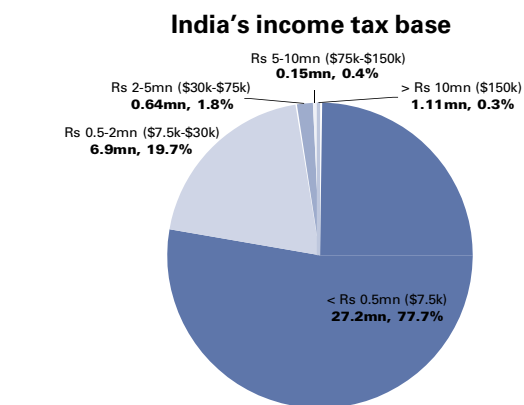
Income tax e-filing statistics in India show that 32.2mn individuals filed their income tax returns online in the fiscal year ended March 2015. All assessed people with income over Rs500,000 (\$7,500) or those claiming a refund are required to file their returns online. Income data for the returns suggest that over three-fourths reported an income of less than Rs500,000 (\$7,500), about a fifth reported incomes of between Rs500,000-Rs2,000,000 (\$7,500 - \$30,000) and less than 3% reporting an income of over Rs2,000,000 (\$30,000). Splicing up the data also reveals that 1.3mn tax assesses were from workers on a salary. However, this data does not capture people dependent on agriculture for income (agricultural income is exempt from income tax). While the low number of income tax assesses indicates gaps in India’s tax collection system, it also highlights the small number of organized sector jobs, where the income tax net is more robust.

Exhibit 3: Indian urban working population is relatively small



Source: Census, Labour Bureau, SEC, Government of India,

Exhibit 4: Tax base highlights narrow Middle Class



Source: Government of India

Exhibit 5: India’s Urban Middle is considerably smaller than China’s Urban Middle population

INDIA (2015)	Annual Income (US\$)	Population	Population	Annual Income (US\$)	CHINA (2014)
MOVERS & SHAKERS	\$250,000	0.43mn	1.5mn	\$500,000	MOVERS & SHAKERS
URBAN MIDDLE	\$11,320	27mn	156mn	\$12,217	URBAN MIDDLE
URBAN MASS	\$3,216	129mn	235mn	\$6,287	URBAN MASS
RURAL MASS	\$2,159	120mn	379mn	\$2,254	RURAL MASS
RURAL EMERGING	\$647	243mn	-	-	-
Total working population	-	519mn	773mn	-	-
Total working age population	-	850mn	1,005mn	-	-
Total population	-	1,267mn	1,394mn	-	-

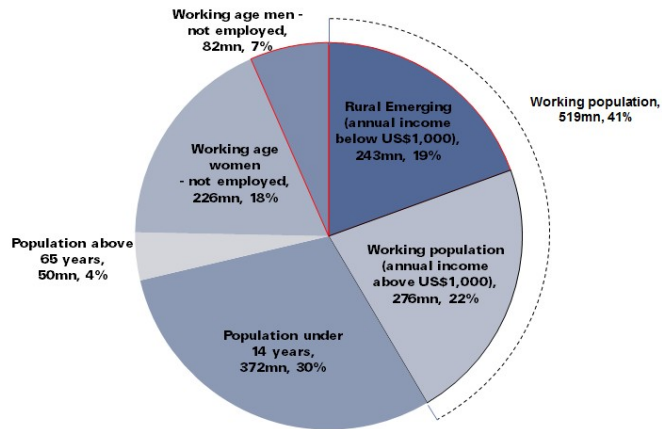
Source: Census, Labour Bureau, SEC, Government of India, China NBS, Goldman Sachs Global Investment Research

The Rural Consumers are important in the India Consumer story

Overall, labor participation (working population as % of total population) is 41% in India, below 56% in China and 45% in US. A young population and high percentage of working-age women not working (226mn) are two important factors. Of the 360mn rural wage earners, the important consumers are the Rural Landowners which represent one third of the total. The other two thirds currently are earning less than \$1 to \$2.50 a day. We estimate overall rural household income amounts to \$400bn, or 1/3 of national total. Rural

workers contribute more to the Indian economy than to China, where rural income is just 17% of national total.

Exhibit 6: Indian working population overview: 41% working; 22% earn > \$1,000 p.a.



Source: Census, World Bank.

IT = 15% of India's private sector Urban Middle

India is well-known as the world's IT outsourcing hub. The IT industry employs 3.7mn Indians and adds c.200K net jobs per year. However, that is not enough to absorb the country's annual output of 1.4mn engineering graduates, which is c.6-7x annual hiring.

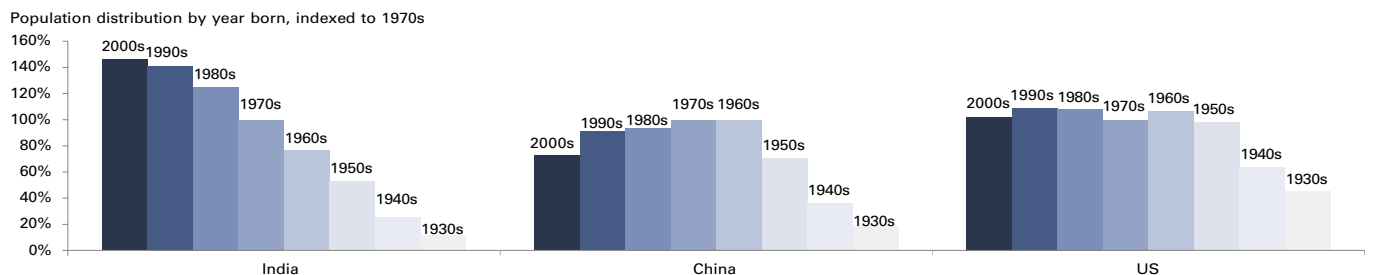
Landing an IT job is like a ticket into the Urban Middle, which is a key reason why 20-25% of the total college graduate pool is pursuing engineering. Average starting pay is US\$4,600 pa; after 3 years, pay rises to US\$9,200; median industry pay is US\$18,000. IT professionals comprise 25% of India's Urban Middle employed in the private sector.

As industry productivity improves, as the incremental opportunity for further outsourcing slows, and as other countries e.g., Philippines gain share, growth in India's IT outsourcing will slow, we believe. But for those in the industry, pay may continue to rise as their skills become more specialized, boosting discretionary spending, including on services and in turn other jobs e.g., drivers, maids.

Millennials and Beyond – Impact on Consumption & Labor Markets

India has a strikingly young population, especially compared to China. It has 440mn Millennials, larger than China (415mn) while its Gen Z population is 390mn in size. If the 1970s generation is reaching peak consumption age, we believe India will continue to benefit from the tailwind of an expanding population in the coming three decades – something that cannot be said to be true for China (Exhibit 7). However, creating enough jobs for the rising number of young people is one of India's biggest challenges and opportunities. It is the most fundamental underpinning of India's consumption story. We explore this in more detail in the next section.

Exhibit 7: India has a much younger population compared to China and US



Source: Euromonitor

Growth likely in Educated Urban Mass, not Urban Middle

In India, growth in the Urban Middle is unlikely to be very rapid as the number of government jobs keeps shrinking (there are 1.7mn fewer government jobs since 2000) and our IT services industry analysts sees a slowdown in high paying IT sector jobs (which formed about 25% of the 'urban white collar jobs'). However, with a slew of service sector jobs emerging in sectors such as retail services including food services and logistics, we expect the 'Educated Urban Mass' and 'Urban Blue Collar' to grow fastest over the next 5 years. A key factor which could lead to a significant increase in jobs is growth in the manufacturing sector, which is significantly smaller in India as compared with China. The central government has outlined a target of 100mn manufacturing jobs by 2022 by driving its 'Make in India' campaign. We expect fastest job addition in the Educated Urban Mass (10mn new jobs by 2020) and the Urban Blue Collar segments (27mn new jobs), with fastest income growth also likely in the same categories due to a shortage of trained labor. The 15mn new additions to the Urban White Collar + Educated Urban Mass will represent the most significant driver for discretionary spending growth, in our view. At the same time, the additions to the Urban Blue Collar will continue to translate into volume growth opportunities for packaged staples.

Exhibit 8: Government targets creating 100mn jobs through the Make in India campaign leading to a doubling of population earning at or above \$2,500 per annum

Cohorts	2015		Growth				2020	
	Population	Income	Population	GDP	GDP multiplier	Income	Population	Income
Movers and Shakers	0.43	250,000	6.0%	7.5%	0.8	6.0%	0.6	334,556
Government/SOE employees	10	11,439	0.0%	7.5%	0.8	6.0%	10	15,308
Urban white collar	17	11,250	5.0%	7.5%	1	7.5%	22	16,151
Educated urban mass	32	5,385	6.0%	7.5%	1.1	8.3%	42	8,004
Urban blue collar/migrant workers	97	2,500	5.0%	7.5%	1.1	8.3%	124	3,716
Rural-landowners	120	2,159	1.0%	7.5%	0.9	6.8%	126	2,993
Rural-labourers	138	810	1.0%	7.5%	0.7	5.3%	145	1,046
Rural-casual labourers	105	432	0.5%	7.5%	0.6	4.5%	108	538

Government is targeting to generate 100mn manufacturing jobs by 2022

Our ECS team forecasts GDP per capita growth of 7.5% CAGR between 2015 and 2019

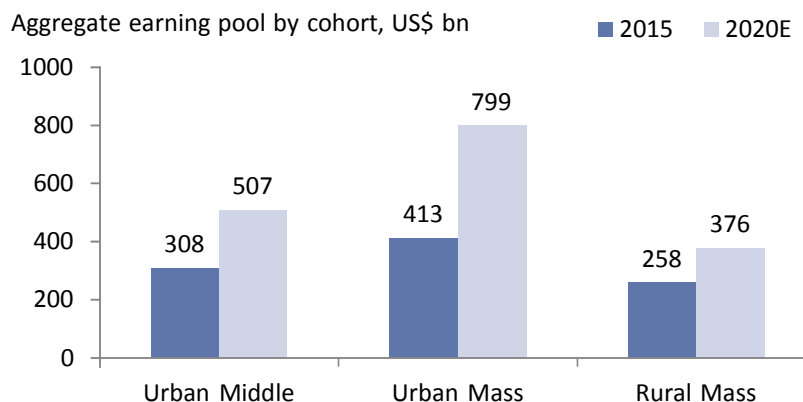
Population earning more than \$2,500 pa will more than double in 5 years with significant push from urban mass

Higher wage growth for urban blue collar worker will lead to urbanization

Source: Census, Labour Bureau, SEC, Government of India, Goldman Sachs Global Investment Research.

Exhibit 9: Urban Mass aggregate earning pool to double over next 5 years

Cohort aggregate earning pool

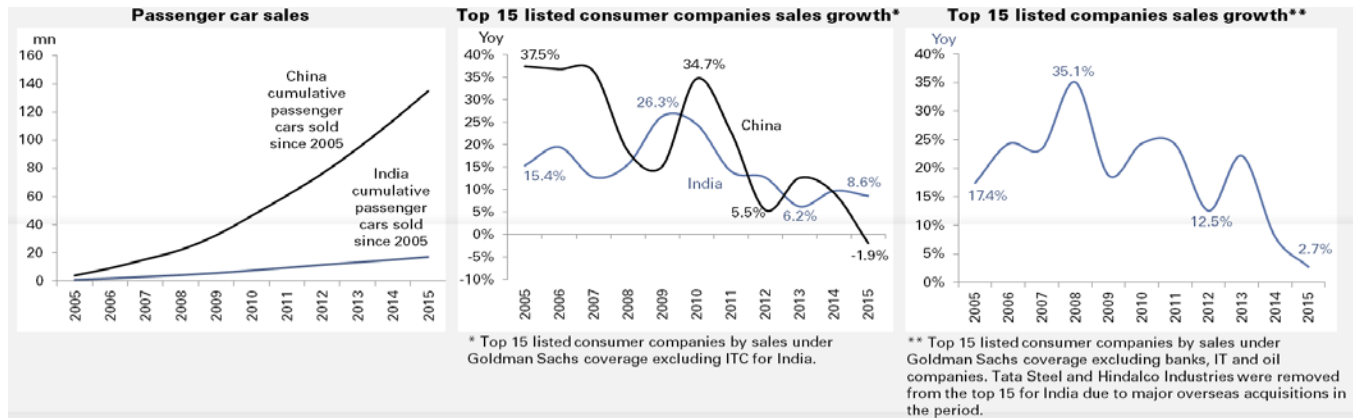


Source: Census, Labour Bureau, SEC, Government of India, Goldman Sachs Global Investment Research.

Why India will have a different path of growth compared to China

Nothing symbolizes middle class status better than owning a car, in our view – and in this regard, India’s middle class formation has followed a different path compared to China. The largest listed companies have delivered impressive double-digit sales growth, but the progress has not been steady, with big fluctuations over the past decade (Exhibit 10). In this section, we discuss some of the key factors that will continue to shape India’s consumer class evolution.

Exhibit 10: Passenger cars sales, a proxy for middle class formation, has been low in India; sales growth amongst India’s largest listed companies has been strong but volatile

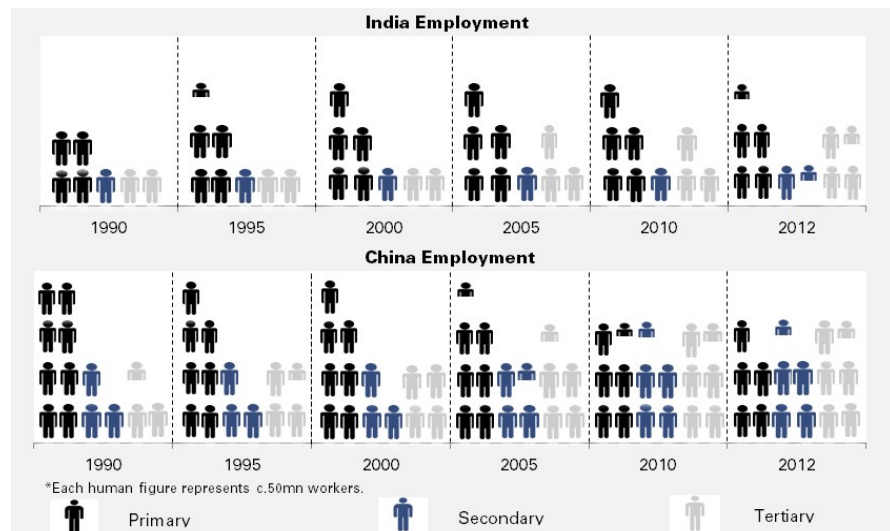


Source: SIAM, China Association of Automobile Manufacturers, Company data, Goldman Sachs Global Investment Research.

1. Scale of industrialization and capital investment

Education and capital goods investment are two of the most important factors for driving productivity, earnings growth and ultimately consumption, in our view. In India, education has been relatively strong: India’s stock of college graduates has matched and even surpassed China’s over the past decades (Exhibit 12). Instead, it is the relatively lower level capital investment that has impacted growth. Capital stock per college graduate in India (c.US\$8,000) is one-eighth the size of that in China (c.US\$65,000, Exhibit 12).

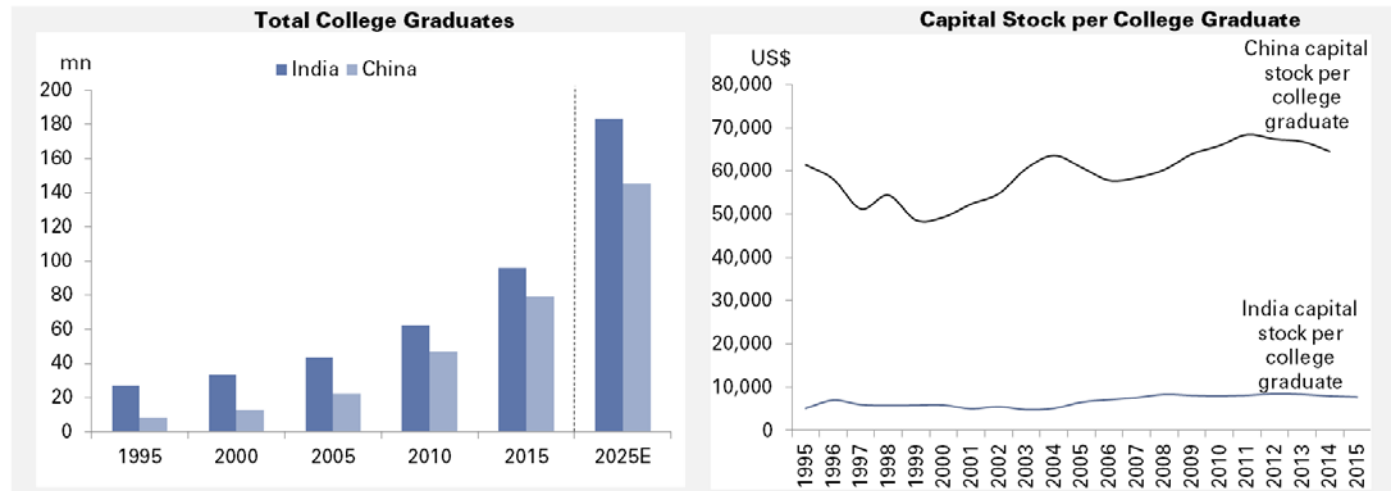
Exhibit 11: India’s Current State of Employment: Some similarity to China in early 1990s



Source: NSSO, NBS, World Bank, Goldman Sachs Global Investment Research.

Today, India’s overall employment composition is more similar to China in the early 1990s (Exhibit 11). India had 65mn workers in the “secondary industries” (mainly manufacturing and construction), compared to 232mn for China in 2012. With the government’s initiative to help create 100mn manufacturing jobs, there is much scope for India to have a significantly larger work force in manufacturing over the coming decade, in our view.

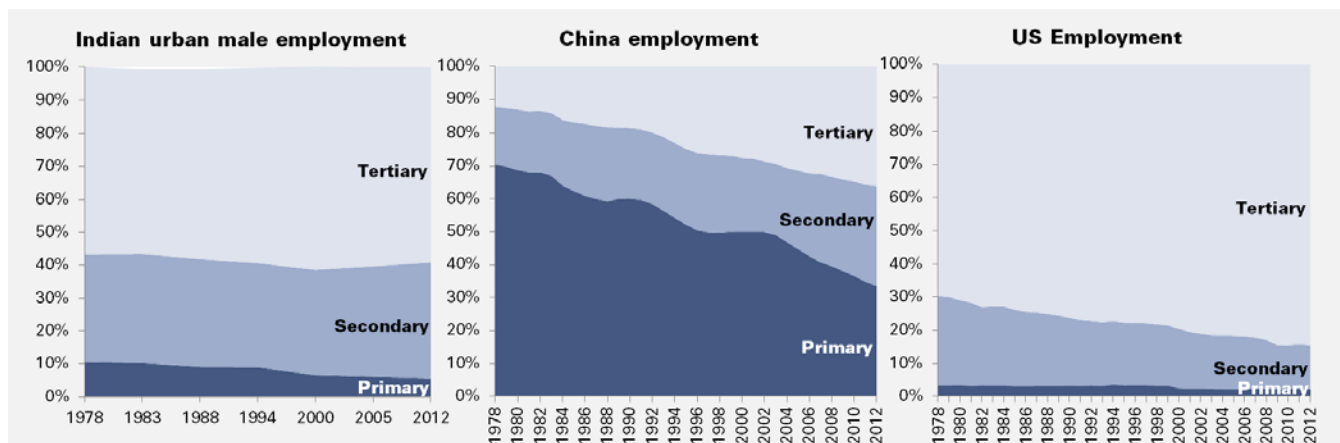
Exhibit 12: Capital investment, rather than college education, has been the key bottleneck to unleashing productivity



Source: India Central Statistics Office, India Ministry of Human Resource Development, China Ministry of Education, CEIC, Euromonitor, Goldman Sachs Global Investment Research

There is a wealth of published literature on India’s reliance on services sector and relative under-development of industrial sector. To discuss whether India can thrive by continuing to rely on the services sector -- thus leapfrogging US/Japan/China development path – is beyond the scope of this report. Our observation is that as India continues to industrialize, China’s experience suggests the initial stage of industrialization will create mostly Urban Mass jobs. The continued sophistication of industrialization will eventually usher in more meaningful expansion of the Urban Middle cohort – this happened in China after manufacturing employment reached close to 200mn people by mid-2000s. India currently has a 65mn workforce in manufacturing, suggesting that an industrialization-led rise of Urban Middle is possible, but is unlikely to happen in the next five years.

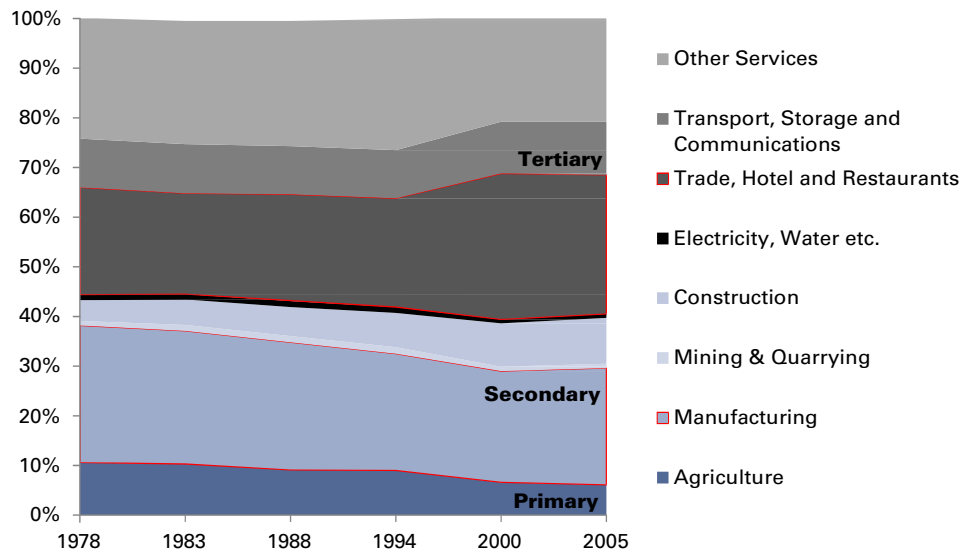
Exhibit 13: If India lifts income by job creation in tertiary industries, it will leapfrog US + China’s development path



Note: Primary industry consists largely of agriculture; Secondary industry consists largely of manufacturing and construction; Tertiary industry consists of services-related sectors

Source: NSSO, NBS, CEIC, US Bureau of Labour Statistics, Current Population Survey, Goldman Sachs Global Investment Research

Exhibit 14: Services job growth in India: Concentrated in the trade and hospitality sector
Indian urban male employment



Source: NSSO

2. Smaller enterprises are main employers

India's organized sector employment is currently relatively small. There are 26mn people employed in India's organized sectors as of 2012; "organized sectors" are defined as government entities (state-level and above) or incorporated private enterprises engaged in the sale and production of goods and services with 25 or more workers. As a comparison, the organized workforce is 183mn in China and 98mn in US (Exhibit 15). We know large enterprises, equipped with economies of scale, IT investments and reach to customers, allow employees to reach a higher level of productivity and therefore earn higher income. Continued development of enterprises will help drive the middle class creation, in our view.

Exhibit 15: India's organized employment (26mn) can grow as compared with China (183mn) and US (98mn)...
Organized employment

Country	Size (mn)	Percentage of Working Population	Definition
India	26	5%	State-level and above government entities or incorporated private enterprises engaged in the sale and production of goods and services with 25 or more workers.
China	183	24%	Urban "work units", which is a general term for the place of employment, excluding private and self-employment
US	98	69%	Private enterprises that employ 20 or more workers

Source: India Central Statistics Office, NBS, 2013 US County Business Patterns

Exhibit 16: ...most of the consumer spending (96%) in India is not captured due to its unorganized nature
Earnings pool of goods companies

Equity screen			
	Number of Companies	Total Market Cap (USD bn)	Revenue (USD bn)
India	22	144.3	35.4
China	253	789.4	538.8
US	191	3,741.0	2,850.2

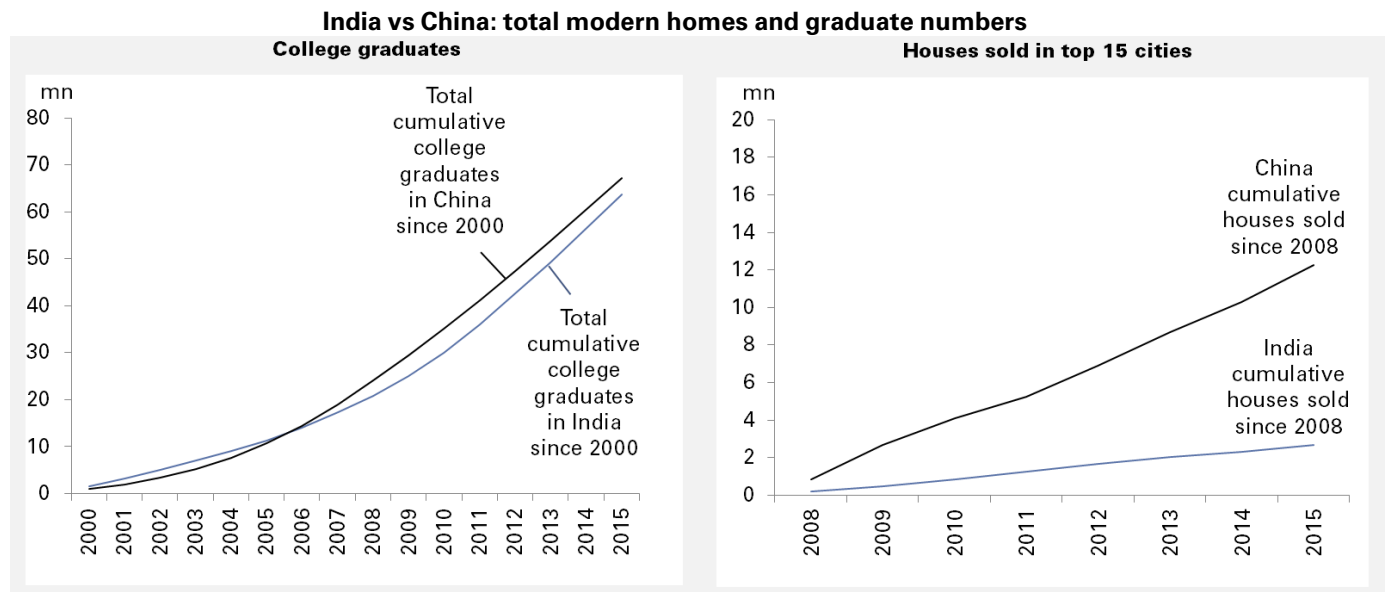
Equity Screening (Based on Estimated Consumer Expenditure On Goods)				
	Number of Companies	2015 PCE (USD bn)	Revenue (USD bn)	Revenue / PCE
India	22	982.0	35.4	4%
China	253	2,755.0	538.8	20%
US	191	4,951.8	2,850.2	58%

Source: Bloomberg, MSCI, Euromonitor

3. Urban housing

The pace of housing construction so far has impacted the speed of urbanization and the rise in consumer spending and middle class formation. In 2015, we estimate that there will be a total of 96mn Indian college graduates, while there is a housing stock of 80mn concrete houses for the nation. While China has probably overbuilt in some cities, the rapid rate of property development means that China today has a pool of 79mn college graduates and 220mn urban housing units – half of them were built since 1998.

Exhibit 17: Trajectory of graduate additions has been steeper than housing supply



Source: India Ministry of Human Resource Development, India Ministry of Home Affairs, NBS, China Ministry of Education, CEIC, Goldman Sachs Global Investment Research.

Exhibit 18: Modern housing is still emerging in India; Electricity consumption still has significant headroom to grow
Electricity consumption of Indian states vs China provinces

Rank	India		China	
	State	Population (mn, 2011)	Province	Population (mn, 2014)
1	Maharashtra	112	Guangdong	107
2	Uttar Pradesh	200	Jiangsu	80
3	Gujarat	60	Shandong	98
4	Tamil Nadu	72	Zhejiang	55
5	Rajasthan	69	Hebei	74
6	Karnataka	61	Henan	94
7	Madhya Pradesh	73	Inner Mongolia	25
8	Andhra Pradesh	85	Sichuan	81
9	Punjab	28	Liaoning	44
10	Haryana	25	Xinjiang	23
11	West Bengal	91	Fujian	38
12	Delhi	17	Hubei	58
13	Orissa	42	Shanxi	36
14	Chattisgarh	26	Anhui	61
15	Bihar	104	Yunnan	47
16	Kerala	33	Hunan	67
17	Jammu and Kashmir	13	Shanghai	24
18	Himachal Pradesh	7	Guangxi	48
19	Assam	31	Shaanxi	38
20	Jharkhand	33	Guizhou	35

Source: Census of India, Central Electricity Authority, NBS, China Electricity Council, CEIC

What consumers are buying: 7 consumption desires

How do different cohorts of consumers spend their money? As their incomes grow, what will they prioritize? To better understand this, we build on the popularized phrase “roti kapda aur makaan,” which means “food, clothing and shelter.” We expand it to our framework of 7 consumption desires, which we used to analyze China in our report China Consumer Close-up.

Over the following pages, we examine each of these 7 desires to provide a high-level analysis of market opportunities. Given that India’s per capita personal consumption expenditure is just US\$1,012, 1/3 of China’s, we can expect to find long-term growth potential across all categories with a continued focus on basics e.g., food.

It is our aim to drill deeper and highlight opportunities that will outpace the broader market by: 1) drawing out the narrative that is Uniquely India; 2) referencing development patterns in other Asian countries, particularly China, where relevant; and 3) applying the lens of cohorts and affordability, in which we convert prices to hours of pay.

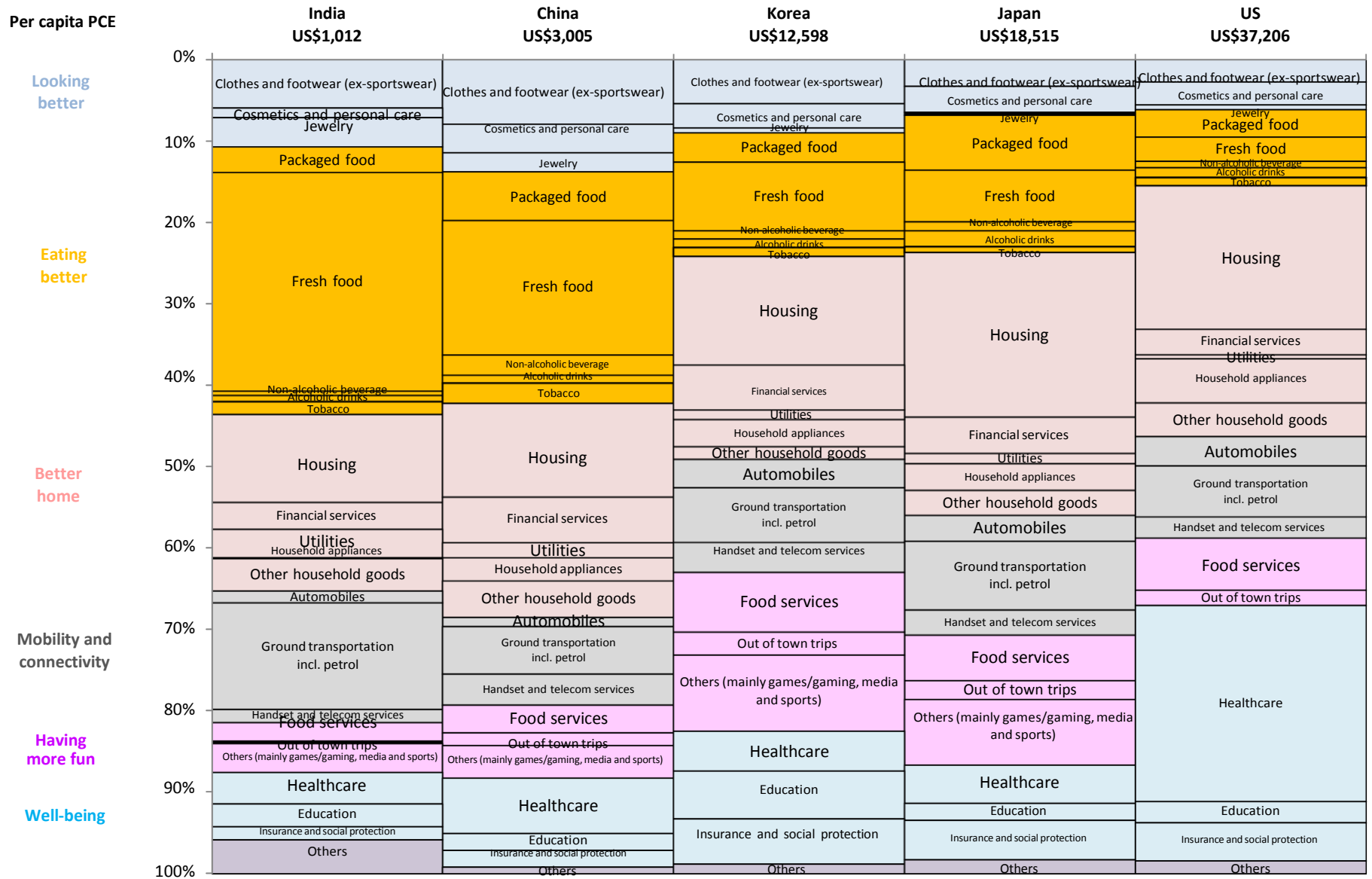
Exhibit 19: We will examine consumption patterns across 7 key desires



Source: Global Sachs Global Investment Research

The largest category of spend is fresh food, which represents 27% of Personal Consumption Expenditure (PCE); but in absolute, fresh food spend is still small, c.US\$0.75 per day or 55% of spending levels in China (Exhibit 20). As incomes rise, spending on food, especially packaged food is likely to increase (see Eating Better section for further discussion). The 2nd largest category of spend is ground transportation, which appears disproportionately big (13% of PCE), due to both limited public transportation options and the low level of total PCE. Comparing with the US also highlights India’s large spending on jewelry, a category that is grounded in cultural traditions, which we discuss in the Looking Better section.

Exhibit 20: India's personal consumption expenditure per capita is just US\$1,012, 1/3 of China's. Spending is focused on basics; 27% of PCE is fresh food.
 Personal consumption expenditure (PCE) along 7 consumer desires, 2015



Note: Luxury is included within the 6 desires above.

Source: Euromonitor, CEIC, Goldman Sachs Global Investment Research.

Exhibit 21: India's per capita spending and GDP are comparable to China in the mid-2000s. While many categories will continue to grow, we will highlight and discuss relative bright spots in this report

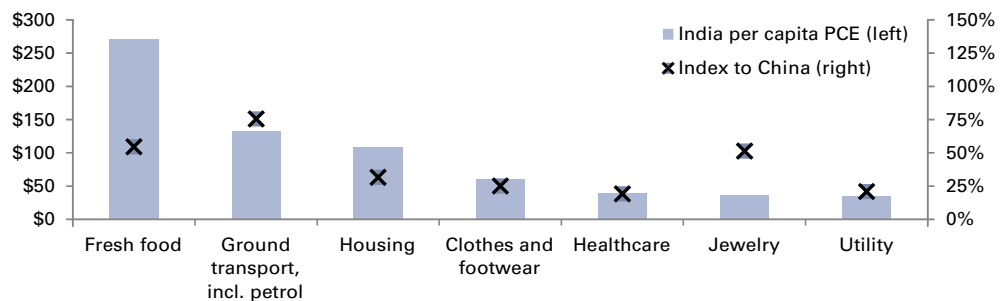
PCE per capita by category, US\$, 2015	India	Equivalent Year For China	China	Korea	Japan	US
"Looking more beautiful"	108	2005	415	1,135	1,265	2,067
Clothes and footwear (ex-sportswear)	60	2004	239	682	608	924
Color cosmetics and skincare	2	Before 2000	22	149	156	93
Jewelry	36	2010	71	79	67	197
Others (mainly personal care)	10	2001	83	226	435	854
"Eating better"	332	2006	854	1,913	3,120	3,132
Food	303	2007	676	1,516	2,424	2,122
Packaged food	32	Before 2000	179	452	1,246	1,129
Fresh food	271	2008	496	1,064	1,178	993
Non-alcoholic beverage	6	1994	74	126	202	267
Alcoholic drinks	8	1997	29	131	357	401
Tobacco	16	1997	76	140	137	342
"Better home"	219	2003	790	3,139	5,971	10,324
Housing	109	2006	346	1,679	3,738	5,904
Utility	35	2000	169	695	828	1,056
Household appliances	1	Before 1990	56	149	230	165
Financial services	33	2008	85	421	606	1,814
Other household goods and services	40	2007	135	196	568	1,386
"Mobility/connectivity"	166	2009	325	1,750	2,740	4,211
Automobiles	14	2009	34	440	589	1,214
Ground transportation/services, incl. petrol	132	2012	175	844	1,564	2,090
Telecom equipment	6	2003	25	68	13	49
Telecom services	11	1998	89	395	554	825
Postal services	3	-	1	3	21	33
"Having more fun"	62	-	270	2,458	2,952	6,430
Food services	23	2002	102	926	1,038	2,150
Out-of-town trips	3	1996	47	356	426	629
Hotel	2	2004	11	121	130	364
Package holidays	0	1990	13	6	241	38
Air transportation	1	2000	17	222	55	165
Cruise (2014)	0	Before 2000	6	7	0	63
Media	13	-	55	181	629	988
Sports	2	-	20	213	133	221
Other recreational goods and services	20	-	46	782	726	2,442
Gaming and online games	0.3	-	36	128	97	287
"Well-being"	84	2002	329	2,058	2,153	10,514
Healthcare	39	2000	204	616	869	8,074
Education	28	2002	62	741	388	869
Insurance and social protection	16	2006	63	700	896	1,571
Others	42	-	24	146	315	527
Total	1,012	2006	3,005	12,598	18,515	37,206
Normal GDP Per Capita (PPP)	1,606	2005	7,932	27,315	32,556	55,837

As % of aggregate PCE per capita, 2015	India	China	Korea	Japan	US
"Looking more beautiful"	10.7%	13.8%	9.0%	6.8%	5.6%
Clothes and footwear (ex-sportswear)	5.9%	7.9%	5.4%	3.3%	2.5%
Color cosmetics and skincare	0.2%	0.7%	1.2%	0.8%	0.3%
Jewelry	3.6%	2.4%	0.6%	0.4%	0.5%
Others (mainly personal care)	1.0%	2.8%	1.8%	2.3%	2.3%
"Eating better"	32.8%	28.4%	15.2%	16.8%	8.4%
Food	29.9%	22.5%	12.0%	13.1%	5.7%
Packaged food	3.1%	6.0%	3.6%	6.7%	3.0%
Fresh food	26.8%	16.5%	8.4%	6.4%	2.7%
Non-alcoholic beverage	0.6%	2.5%	1.0%	1.1%	0.7%
Alcoholic drinks	0.7%	1.0%	1.0%	1.9%	1.1%
Tobacco	1.6%	2.5%	1.1%	0.7%	0.9%
"Better home"	21.6%	26.3%	24.9%	32.2%	27.7%
Housing	10.8%	11.5%	13.3%	20.2%	15.9%
Utilities	3.5%	5.6%	5.5%	4.5%	2.8%
Household appliances	0.1%	1.9%	1.2%	1.2%	0.4%
Financial services	3.3%	2.8%	3.3%	3.3%	4.9%
Other household goods and services	4.0%	4.5%	1.6%	3.1%	3.7%
"Mobility/connectivity"	16.4%	10.8%	13.9%	14.8%	11.3%
Automobiles	1.4%	1.1%	3.5%	3.2%	3.3%
Ground transportation/services, incl. petrol	13.1%	5.8%	6.7%	8.4%	5.6%
Telecom equipment incl. handsets	0.5%	0.8%	0.5%	0.1%	0.1%
Telecom services	1.1%	3.0%	3.1%	3.0%	2.2%
Postal services	0.3%	0.0%	0.0%	0.1%	0.1%
"Having more fun"	6.1%	9.0%	19.5%	15.9%	17.3%
Food services	2.3%	3.4%	7.3%	5.6%	5.8%
Out-of-town trips	0.3%	1.6%	2.8%	2.3%	1.7%
Hotel	0.2%	0.4%	1.0%	0.7%	1.0%
Package holidays	0.0%	0.4%	0.0%	1.3%	0.1%
Air transportation	0.1%	0.6%	1.8%	0.3%	0.4%
Cruise (2014)	0.0%	0.2%	0.1%	0.0%	0.2%
Media	1.3%	1.8%	1.4%	3.4%	2.7%
Sports	0.2%	0.7%	1.7%	0.7%	0.6%
Other recreational goods and services	2.0%	1.5%	6.2%	3.9%	6.6%
Gaming and online games	0.0%	1.2%	1.0%	0.5%	0.8%
"Well-being"	8.3%	10.9%	16.3%	11.6%	28.3%
Healthcare	3.9%	6.8%	4.9%	4.7%	21.7%
Education	2.8%	2.1%	5.9%	2.1%	2.3%
Insurance and social protection	1.6%	2.1%	5.6%	4.8%	4.2%
Others	4.1%	0.8%	1.2%	1.7%	1.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Euromonitor, CEIC, Goldman Sachs Global Investment Research.

Affordability is a key challenge, considering that the average hourly pay for India's Urban Mass is just US\$1.40. In some categories, including Quick Service Restaurants and Mobile Phones, companies have succeeded in improving affordability through innovation. But in most other categories, purchases are still out of reach e.g., in India, a pair of bestselling jeans on Flipkart costs the equivalent of 7 hours of pay for the Urban Mass vs in China, the bestselling pair of jeans on Taobao costs 2 hours of pay (Exhibit 23). The affordability lens helps us identify which categories are ripe for wider adoption; our outlook is summarized in the next section.

Exhibit 22: Fresh food and Ground Transportation are the biggest categories of spend, though still low compared with China



Source: Euromonitor, Goldman Sachs Global Investment Research.

Putting in all together

As incomes grow and infrastructure improves, we expect India will experience waves of growth in different categories over time. Staples, including packaged F&B and personal care will continue to experience healthy growth with continuing shift to packaged products and category expansion. We also expect healthy growth in branded apparel and jewelry, and services related to fun and leisure, including Quick Service Restaurants and Media. On the other end of the spectrum, soaps and detergents are perhaps the only true mature market in India today, but given the leapfrogging in technology and internet, fixed line phone and broadband may experience low growth as consumers go straight to smartphones. In the rest of this report, we further discuss the dynamics and key opportunities within each desire.

Exhibit 23: Putting it all together, we identify key categories that are poised to enjoy healthy growth

Healthy High teens growth	Stable Low teens growth	Mature Single digit growth
<ul style="list-style-type: none"> • Packaged snacks • Packaged dairy • Packaged oil • Beer and spirits • Hair care • Skincare • Branded apparel • Branded jewelry • Paints, home improvement • Scooters • Smartphones • Restaurant spend • TV advertising • Air travel 	<ul style="list-style-type: none"> • Oral care • Tea • Chocolates • Tobacco • TV • Passenger cars 	<ul style="list-style-type: none"> • Motorcycles, mass market • Soaps and detergents • Fixed line phone and internet

Source: Goldman Sachs Global Investment Research

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Disclosure Appendix

Reg AC

We, Joshua Lu, Anita Yiu, Aditya Soman, Aditya Gupta and Sef Chin, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Hong Kong/China Consumer: Anta Sports Products, Belle International Holdings, Chow Sang Sang Holdings, Chow Tai Fook Jewellery Group, Global Brands Group Holding, Golden Eagle Retail Group, Hengdeli Holdings, Intime Retail (Group), Li & Fung, Li Ning Co., Lifestyle International Holdings, Luk Fook Holdings International, Sa Sa International Holdings, Samsonite International SA.

India Consumer: Asian Paints (India), Britannia Industries Ltd., Colgate Palmolive (India), Dabur India, Emami Ltd., Godrej Consumer Products Ltd., Hindustan Unilever, ITC, Jubilant Foodworks, Marico, Nestle India, Titan Industries, United Spirits.

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