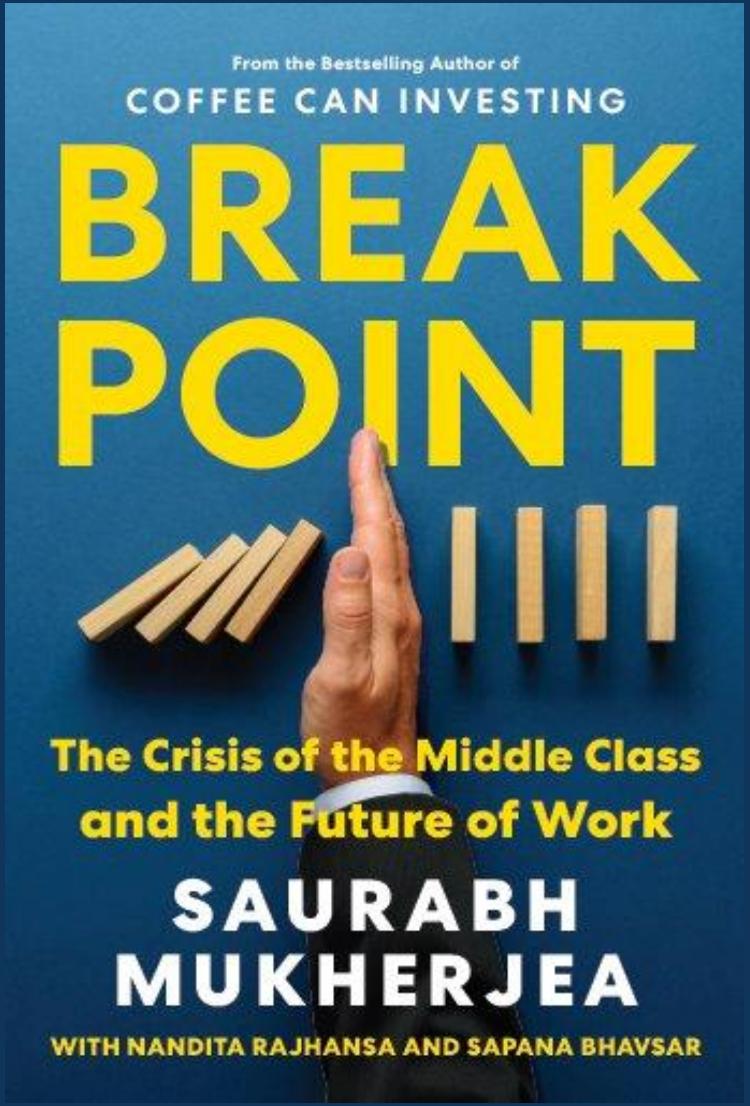
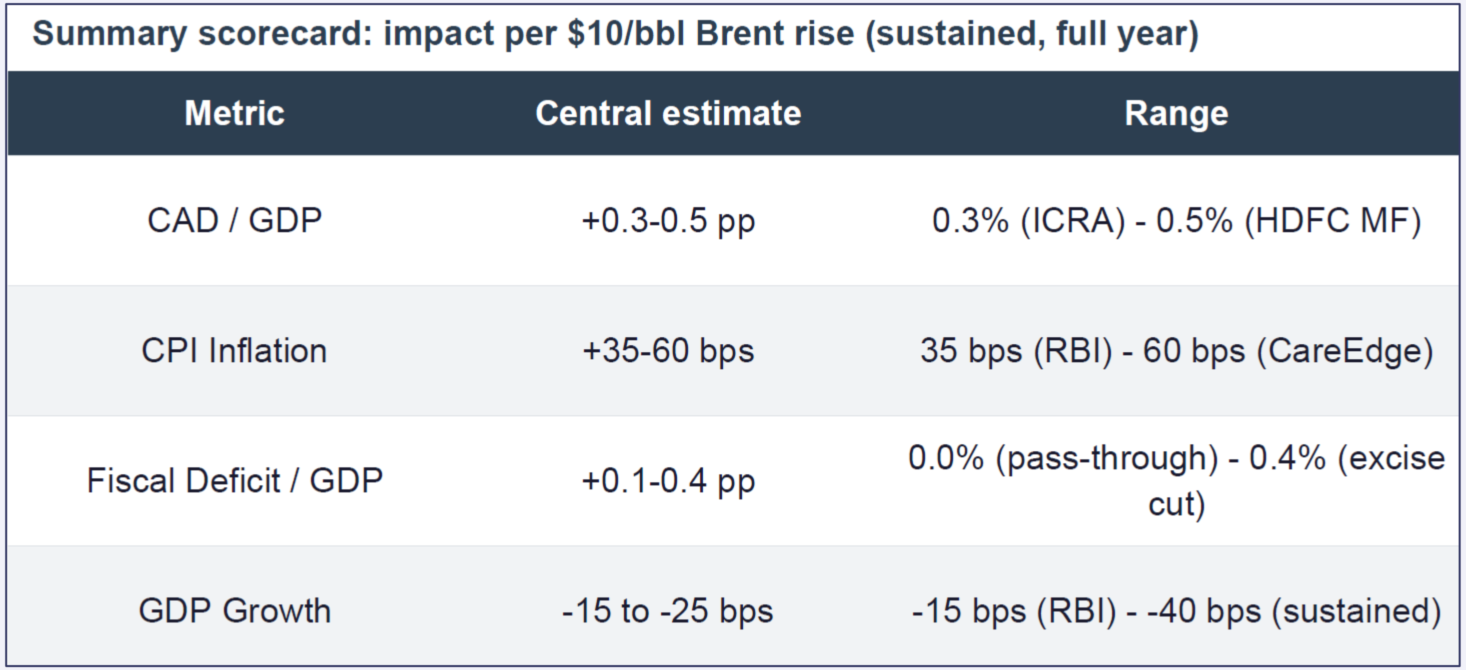
India is All Set for ‘Sagar Manthan’

Saurabh Mukherjea & Nandita Rajhansa,
Marcellus Investment Managers



First, let’s address the front of mind issue before we tackle structural matters.



Summary scorecard: impact per $10/bbl Brent rise (sustained, full year)

Metric	Central estimate	Range
CAD / GDP	+0.3-0.5 pp	0.3% (ICRA) - 0.5% (HDFC MF)
CPI Inflation	+35-60 bps	35 bps (RBI) - 60 bps (CareEdge)
Fiscal Deficit / GDP	+0.1-0.4 pp	0.0% (pass-through) - 0.4% (excise cut)
GDP Growth	-15 to -25 bps	-15 bps (RBI) - -40 bps (sustained)

- A sustained $30/bbl jump in the cost of crude oil, could knock **1% point** off India’s real GDP growth…
- ….and push the CPI inflation rate up by **1.5% points**.
- Just as importantly, it could widen India’s Current Account Deficit by **1.5% points** which would almost certainly force the RBI to **hike interest rates** significantly (say, by 1.5% points) to defend the INR.

The Fall of the Middle Class, the Rise of a New Elite and of Manufacturing Exports

1 **Middle Class crisis** due to lack of jobs, falling real wages, soaring indebtedness & rising interest rates

2 **Burgeoning class of crorepatis** (mainly business owners) who use tech & political connections to grow revenues at 15%+ with very little headcount addition and very little debt

3 **Largest ever global capex boom** since WW2 is leading to 4 themes gaining prominence and whose benefit accrues to those who invest globally

A Million (Middle-Class) Mutinies Now

40M

Middle Class Indians earning between Rs. 5 lakhs to 1 crore

Pay 70% of all income tax

29%

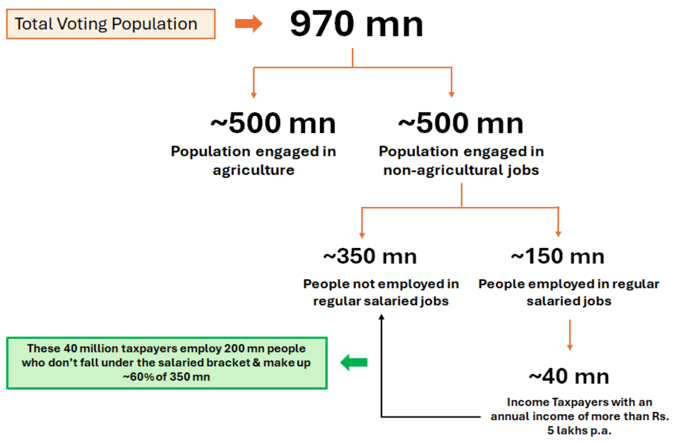
Graduate unemployment rate

9x that of unemployment rate for illiterates

$33 Bn

Money lost in F&O over the last 3 years

with 89% of retail traders losing money



Total Voting Population → **970 mn**

~500 mn
Population engaged in agriculture

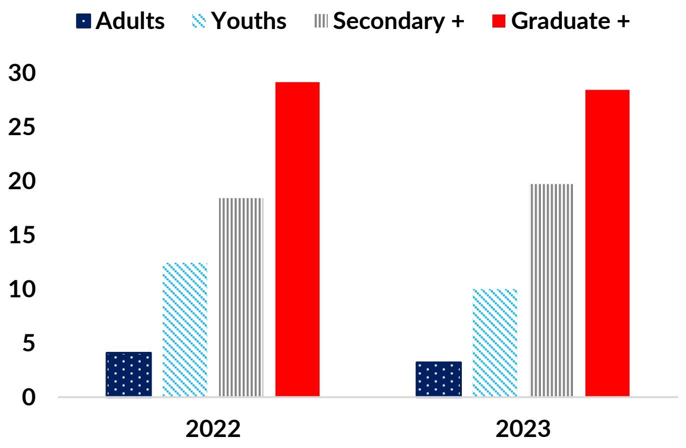
~500 mn
Population engaged in non-agricultural jobs

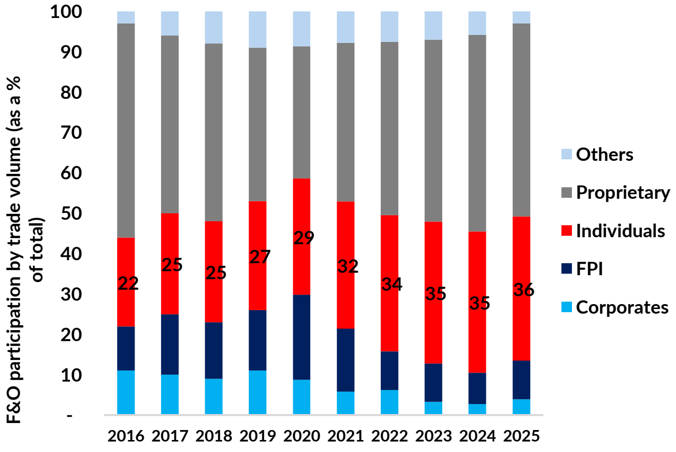
~350 mn
People not employed in regular salaried jobs

~150 mn
People employed in regular salaried jobs

~40 mn
Income Taxpayers with an annual income of more than Rs. 5 lakhs p.a.

These 40 million taxpayers employ 200 mn people who don't fall under the salaried bracket & make up ~60% of 350 mn





Jobs are Scarce

-12%

IT job listings
CAGR FY23–25

-28%

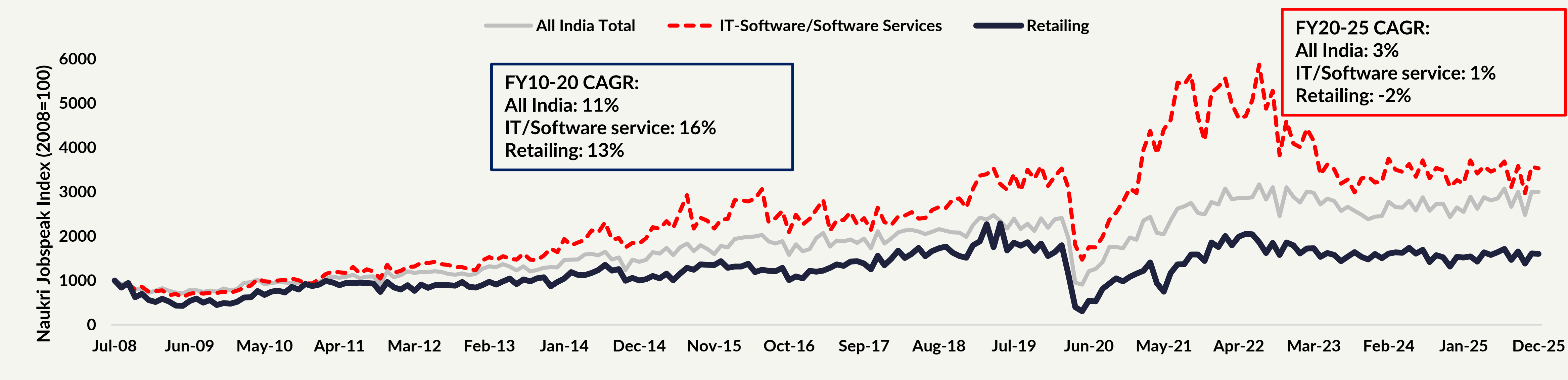
BPO job listings
CAGR FY23–25

-20%

White-collar listings
since GenAI

8M

New graduates/yr



FY10-20 CAGR:
All India: 11%
IT/Software service: 16%
Retailing: 13%

FY20-25 CAGR:
All India: 3%
IT/Software service: 1%
Retailing: -2%

Technology is Pounding the Middle Class

WEST · Since mid 1990s

30 Years Ago

Middle class jobs started getting automated in the Developed Countries

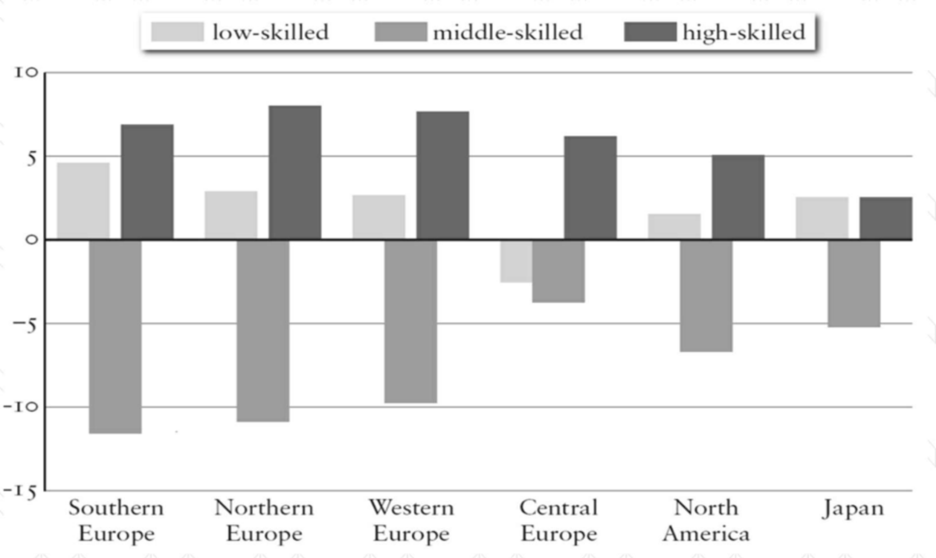


Chart taken from: Daniel Susskind, A World Without Work: Technology, Automation, and How We Should Respond, Metropolitan Books, 2020.

INDIA · Since 2000s

20 Years Ago

And the same dynamic kicked-in in India over the past 20 years (long before AI emerged)

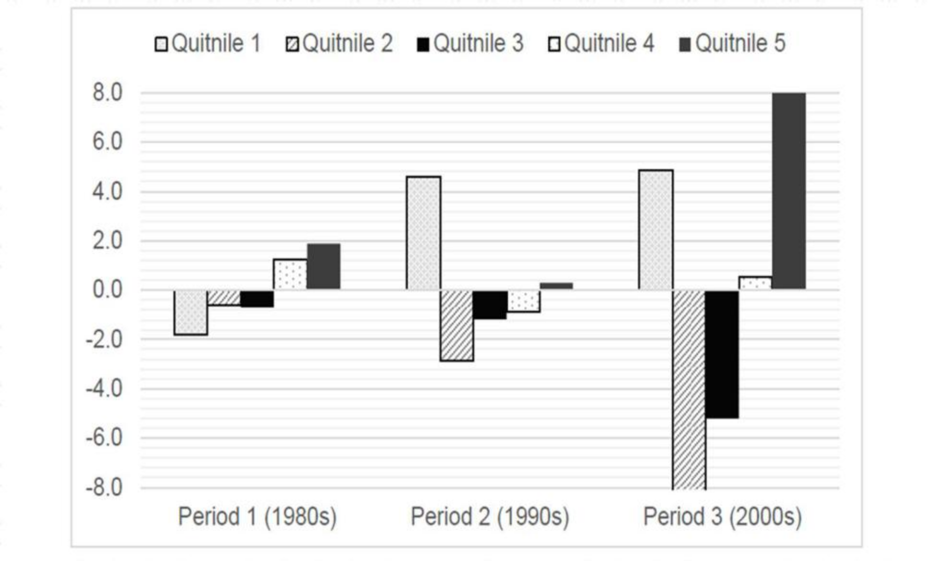


Chart taken from: Sudipa Sarkar, 'Employment Change in Occupations in Urban India: Implications for Wage Inequality', University of Warwick, January 2017.

Cost of Living is Surging at 9% per Year

True cost of middle-class life **DOUBLES every 8 years**

Healthcare

14%/yr

Medical inflation 12–15%/yr

Education

12%/yr

Education loans crossing ₹60K Cr

Food Thali

11%/yr

Thali cost up 71% in 5 yrs vs wages +37%

Two-Wheeler

↑50%

FY2019 to FY2024

Four-Wheeler

↑50%

Sub-₹10L car segment may vanish

Smartphones

Loan-led

37% of consumer loans in 2024

Real Wages Are Shrinking

Nifty 50 wages have shrunk in real terms

Metric	FY2016	FY2025	CAGR
Avg Salary (₹)	₹10.1L	₹10.9L	1%
CPI Inflation	–	–	5%
Real Salary Growth	–	–	–4%

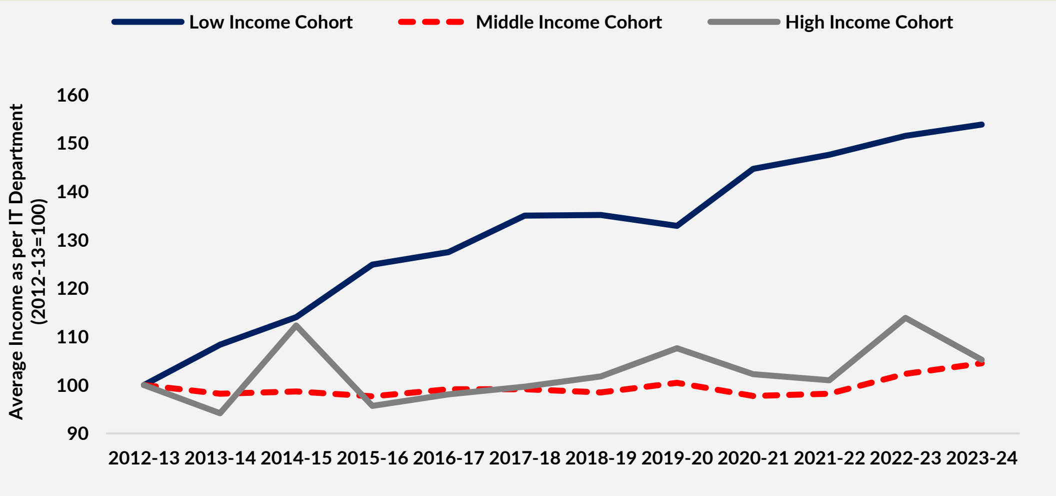
Pre-2016: real wages +4%/yr

Post-2016: real wages –4%/yr ← a historic reversal

Middle-class avg income according to Income Tax data

₹10.2L → **₹10.7L**

10 years ago → Today (0.4% CAGR over a decade)



Household Debt is Exploding

#1

India's non-housing household debt (% of income) exceeds US & China

40%

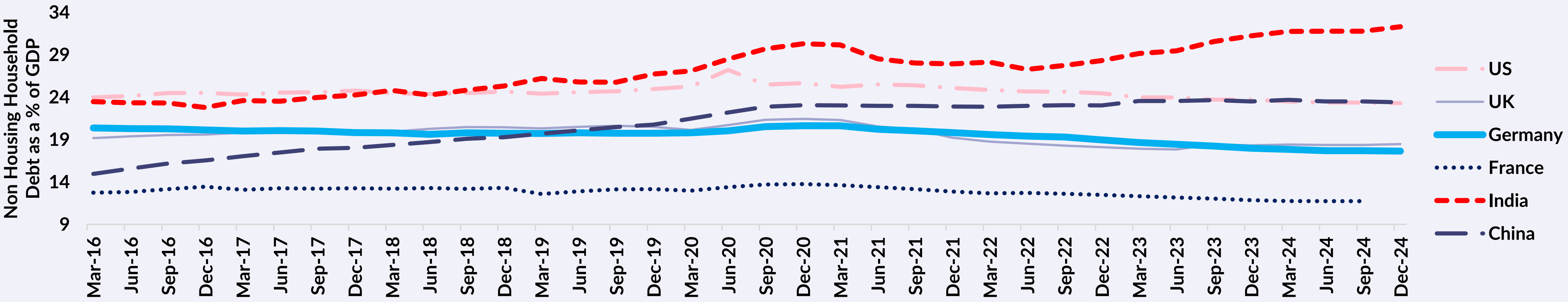
Of annual income goes to debt repayment

67%

Of personal loan borrowers took first loan before age 30

5–10%

Of retail borrowers caught in a debt trap

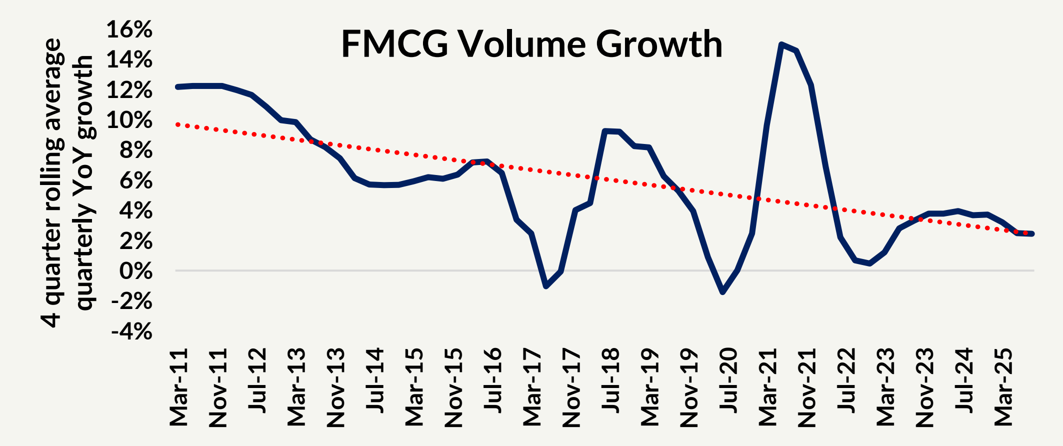


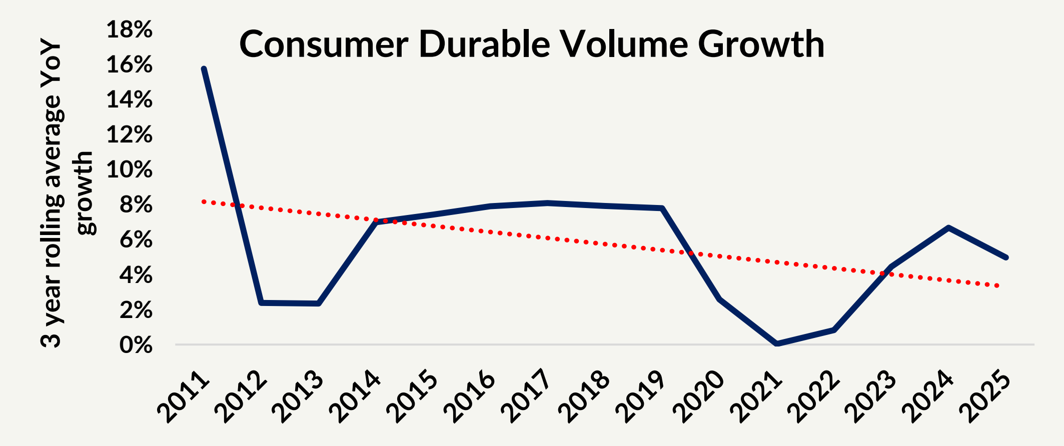
Consumption Growth Has Slumped

FMCG Volume Growth	11% (FY11)	→	3% (FY25)	*'Middle class seems to be shrinking' — Nestlé India MD*
Consumer Durables Volume Growth	Double Digits (FY11)	→	Mid-Single Digits (FY25)	*Even with easy availability, categories like smartphones struggling to grow*

Why It Matters

Consumption = 60% of India's GDP · Middle-class spending is the engine of growth · The engine has stalled

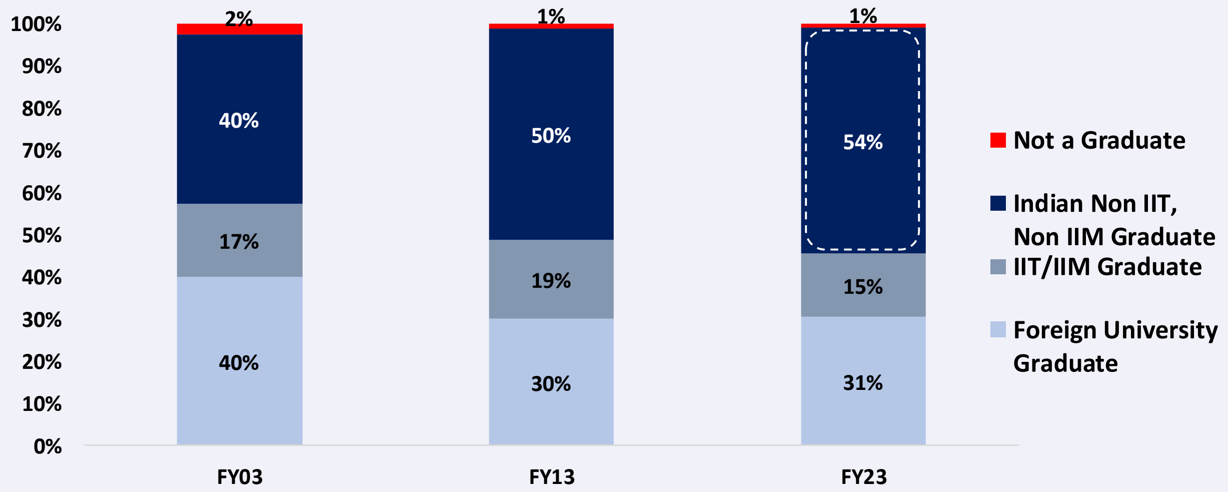


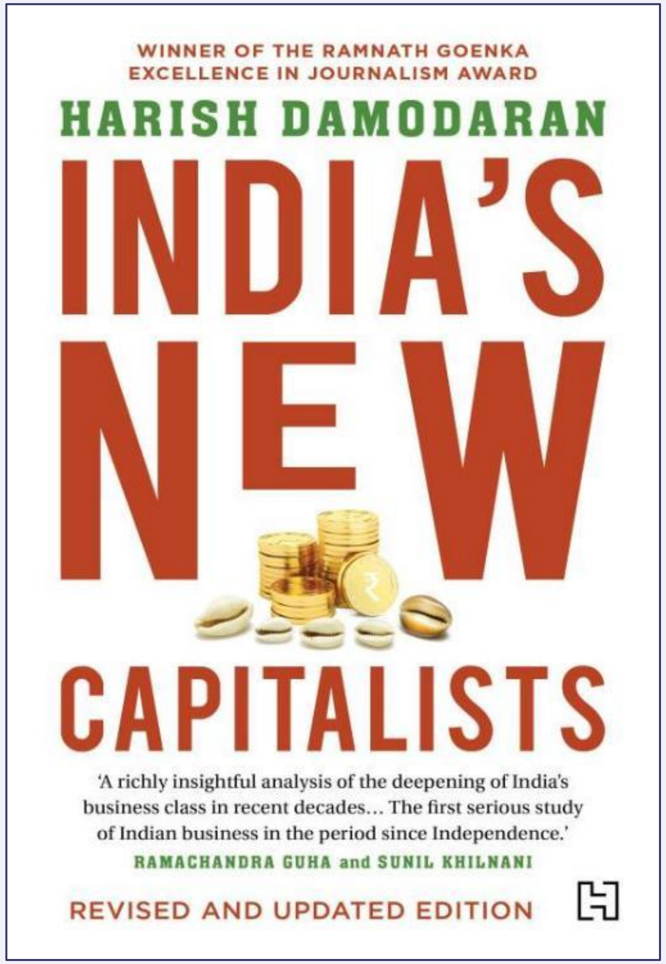


Number of Indians filing IT returns > Rs1cr up 7x in 12 years

- For the first time, majority of the Directors of Nifty50 companies have ‘normal’ Indian degrees (non-IIT, non-IIM and not educated abroad).
- The old conglomerates run by elite families are steadily fading away; a new type of business leader (often in smaller cities) is rising with a middle class non-elite upbringing.
- Entrepreneurial drive, technological aptitude, and harnessing diverse talent pools are now crucial for success in modern India.

For the First Time, a Majority of the Promoters and Executive Directors of Nifty50 Companies are 'Normal' Graduates





WINNER OF THE RAMNATH GOENKA EXCELLENCE IN JOURNALISM AWARD

HARISH DAMODARAN

INDIA’S NEW CAPITALISTS

‘A richly insightful analysis of the deepening of India’s business class in recent decades… The first serious study of Indian business in the period since Independence.’

RAMACHANDRA GUHA and SUNIL KHILNANI

REVISED AND UPDATED EDITION

Source: Marcellus Investment Managers, company annual reports, Bloomberg; non-overlapping promoters and executive directors for FY03 identified using company annual reports; for FY13 and FY23 Bloomberg was used; Nifty 50 companies as of the respective financial years were used to build the list of promoters and executive directors; instances where the educational qualification data was not available were excluded from the analysis; totals may not seem to be 100% due to rounding; see our blog on the subject here; Apple is part of multiple Marcellus portfolios; their mention here is illustrative and not recommendatory; India’s New Capitalists - Copyrights of above book is exclusively reserved with Author/Publisher of the above book; The Logos of the companies used in the presentation are the property of respective companies and we do not claim any rights of the above used logos..

The world is seeing the biggest capex boom since World War II

Defense and Aerospace

This sector is seeing annual capex in excess of **$1 tn**. Aircraft manufacturers (like **Airbus**) and their suppliers (like **GE Aerospace**) have order books full for the next 10 years.

Power Generation

Ever since ChatGPT arrived, global power demand is growing at 4% p.a. (vs 2% prior to that). Hence the world needs 400 GW of new generation each year implying annual capex of $600 bn.

Ancillary Capex around AI

Capex around chip foundries and data centers is running at $600 bn p.a. Companies like **Amphenol** and **TSMC** are among major beneficiaries.

Luxury Consumption

Like **LVMH** and **Hermes**, iconic brands with immense pricing power catering to the world's growing billionaire class (billionaire count growing at 7% p.a.)

Source: IATA; The Futurum Group; **Note: Airbus, GE Aerospace, Amphenol, TSMC, LVMH,** and **Hermes** form part of the Marcellus Global Compounders Portfolio. This communication is for informational purposes only. Please consult your personal financial advisor before investing.

India – EU Trade Deal lays the ground for an extended boom in manufacturing exports

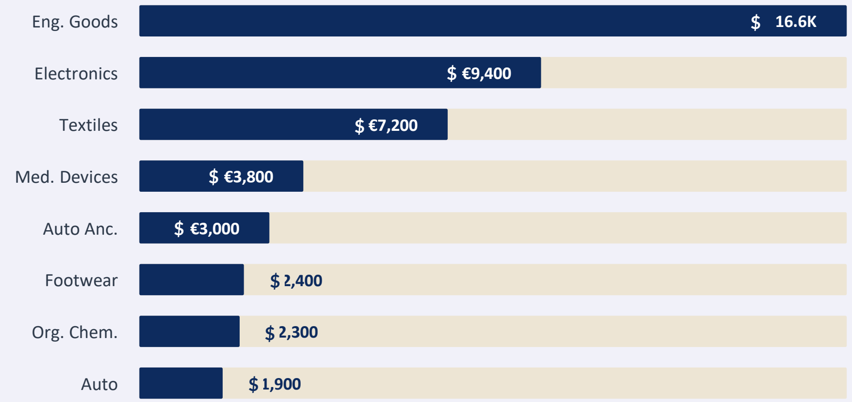
US$ 5 trillion
Total Market Size

~0–5%
Post-Deal Tariff

US$ 50 bn
FY25 Exports to EU from India

01	**Engineering Goods** *China & Germany*	$2.0T	0%	tariff
02	**Auto (Vehicles)** *Germany & Japan*	$900 B	5%	tariff
03	**Electronics** *China & S. Korea*	$750 B	0%	tariff
04	**Textiles** *China & Bangladesh*	$432 B	0%	tariff
05	**Organic Chemicals** *China & USA*	$400 B	0%	tariff
06	**Auto Ancillaries** *Germany & China*	$180 B	0%	tariff
07	**Medical Devices** *Germany & USA*	$140 B	0%	tariff
08	**Footwear** *China & Vietnam*	$100 B	0%	tariff

FY25 EXPORTS TO EU (€ mn)

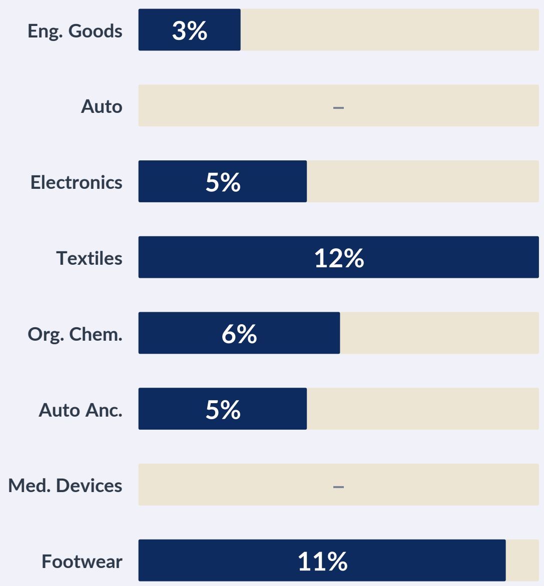


FY25 EXPORTS TO EU (€ mn)

Sector	MFN Rate		Post-Deal	Tariff Saving
Engineering Goods	3.3%	→	0%	+3.3 pp
Auto (Vehicles)	10%	→	5%	+5.0 pp
Electronics	4.5%	→	0%	+4.5 pp
Textiles	11.5%	→	0%	+11.5 pp
Organic Chemicals	5.5%	→	0%	+5.5 pp
Auto Ancillaries	4.5%	→	0%	+4.5 pp
Medical Devices	4.2%	→	0%	+4.2 pp
Footwear	10.5%	→	0%	+10.5 pp

INDIA'S RELATIVE BENEFIT vs CHINA

(% advantage — higher is better for India)



SUMMARY

7 / 8
sectors at 0% post-deal tariff

~7%
avg India benefit vs China

$48.6B
FY25 total exports to EU

We’re moving from office jobs to gig work

	✕ Employee Mindset	✓ Entrepreneur Mindset
Belief	'What can my country do for me?'	'What can I build for my country?'
Scorecard	External: title & credentials	Internal: knowledge & impact
Failure	Career-limiting — avoid & hide	Essential building block — iterate & learn

Source: Marcellus Investment Managers, inspired by a table given in Mukesh Sud and Priyank Narayan’s book – Leapfrog: Six Practices to Thrive, Penguin Random House India, 2022

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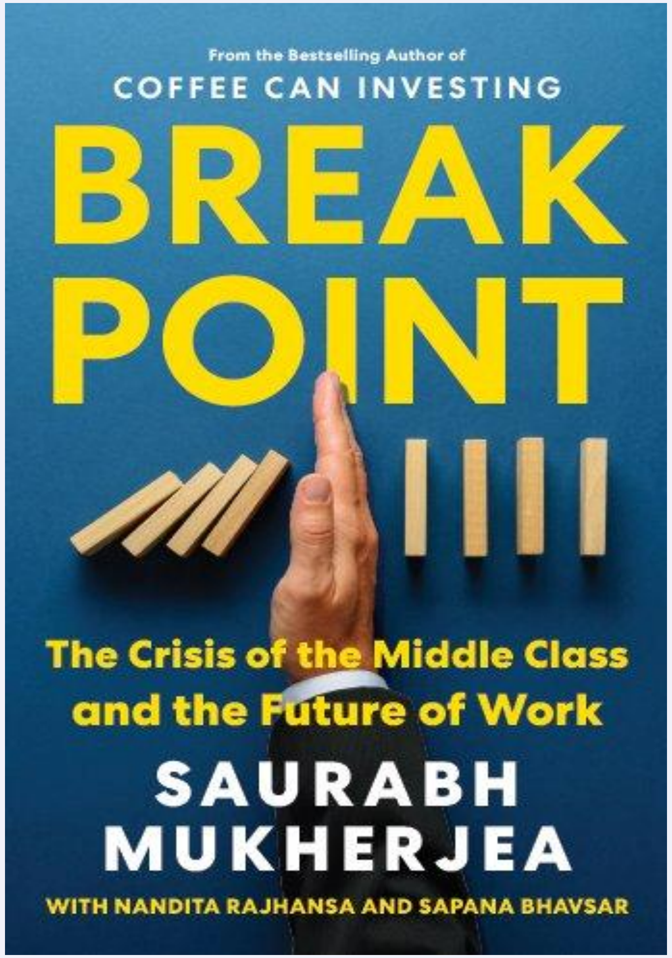

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BREAK
POINT

The Crisis of the Middle Class
and the Future of Work

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WITH NANDITA RAJHANSA AND SAPANA BHAVSAR

India stands at a breakpoint.

The mutiny has begun — the question is whether it ends in rage or renaissance.

Thank You