

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 prices in the body of this report are based on May 31, 2016.

We would like to thank the Goldman Sachs Global Investment Research Team, especially Sef Chin and Aditya Gupta for their valuable contributions to this report.

More in The Asian Consumer series

This report is the latest in a series tracking the rise of the Asian Consumer. Access a selection of other reports from the series below, and visit our [web portal](#) to browse the entire collection and watch a video summary of this report.

[China Consumer Close-Up, January 13, 2015](#)

[Chinese Millennials, September 8, 2015](#)

[The Chinese Tourist Boom, November 20, 2015](#)



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PM Summary

In our companion report “Urban Mass to drive consumption; CL-Buy BRIT” we initiate on 13 India Consumer stocks.

Opportunities in the Indian consumer space range from packaged snacks to branded jewelry

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 and companies 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. It will expand, but investors need to be careful in calibrating the potential addressable market for companies targeting this cohort.
- 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.
(p. 6)

WORKING MASS and MIDDLE

10% / 2%

The portion of the total population made up of the workforce in "**Urban Mass**" / "**Urban Middle**." (p. 7)

YOUNG POPULATION

65%

The percentage of the **population born after 1980**. Of the 65%, 443 million are Millennials and 393 million are Generation Z. (p.10)

BIG FUTURES

7mn

The number of **college graduates** per year. (p. 12)

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. (p. 60)

ON THE MENU

40%

The percentage of the total population that is **vegetarian**. (p. 25)

60mn

The size of India's **milk market** in tons – the largest in the world. (p. 29)

\$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. (p. 32)

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. (p. 72)

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. (p. 83)

US\$27bn

Annual gold demand. India is the second largest gold consumer globally. (p. 44)

SCOOTING ALONG

16mn



The number of **two-wheelers** sold in India in 2015 (vs. a total car fleet of 25 million). (p. 58, 59) Ground transportation is the second biggest category of personal consumption, in part due to a lack of public transit options. (p. 16)

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.

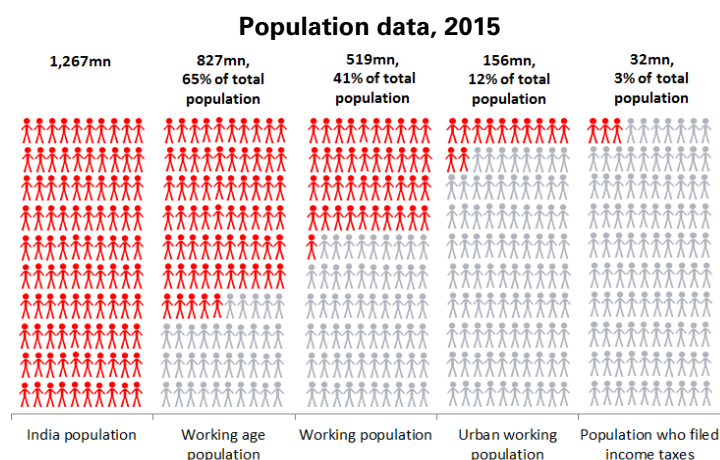
The 8 Cohorts of the Indian Consumer

| | 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

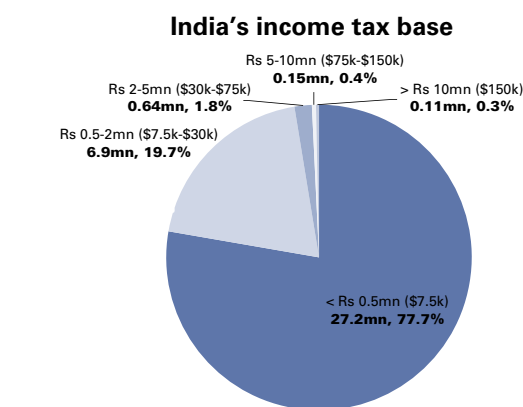
Income tax e-filing statistics in India show that 32.2mn individuals filed their income tax returns online in the fiscal year ended March 2015. All assessed people with income over Rs500,000 (\$7,500) or those claiming a refund are required to file their returns online. Income data for the returns suggest 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 | | |

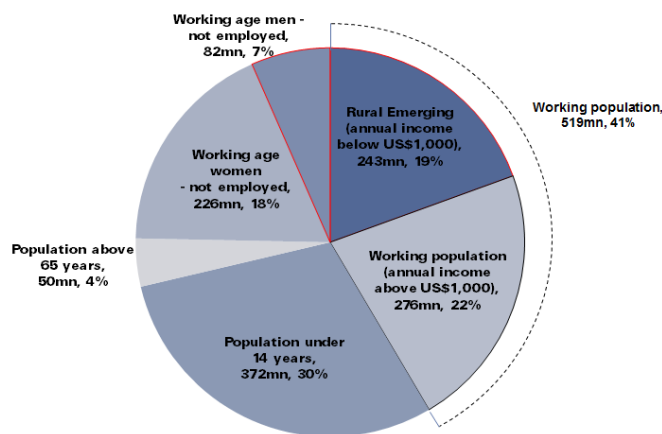
Source: Census, Labour Bureau, SEC, Government of India, China NBS, Goldman Sachs Global Investment Research

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. For a leading company such as Hindustan Lever, rural consumers account for half of sales, according to the company, a ratio that is much higher than for similar FMCG leaders in China.

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.

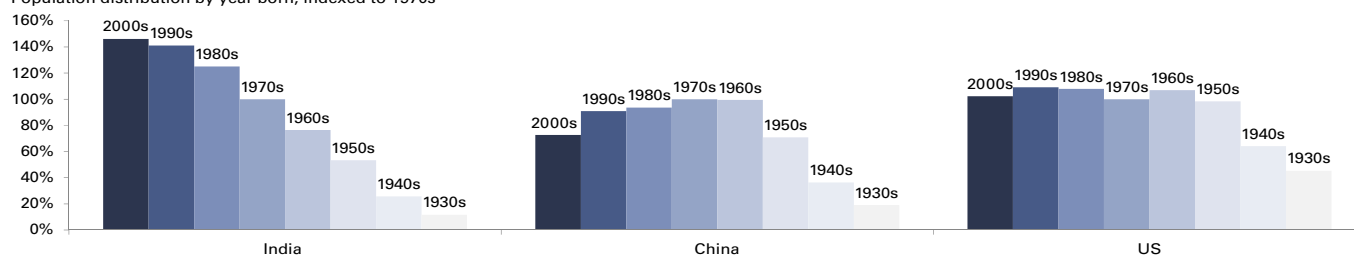
As industry productivity improves, as the incremental opportunity for further outsourcing slows, and as other countries e.g., Philippines gain share, growth in India's IT outsourcing will slow, we believe. But for those in the industry, pay may continue to rise as their skills become more specialized,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

Population distribution by year born, indexed to 1970s



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

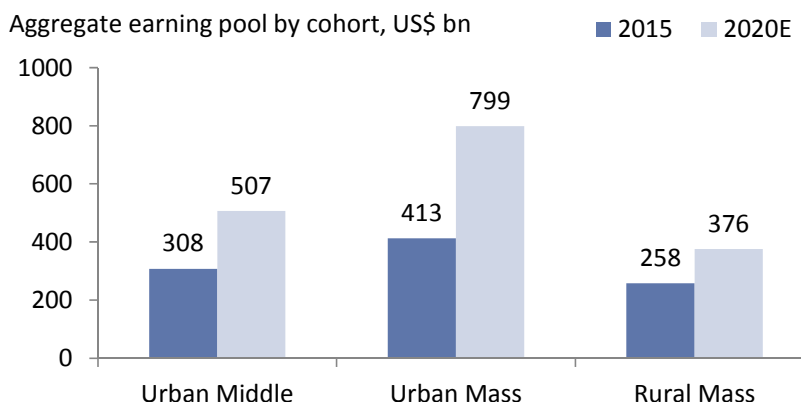
| Cohorts | 2015 | | Growth | | | | 2020 | |
|-----------------------------------|------------|---------|------------|------|----------------|--------|------------|---------|
| | Population | Income | Population | GDP | GDP multiplier | Income | Population | Income |
| Movers and Shakers | 0.43 | 250,000 | 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 |

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

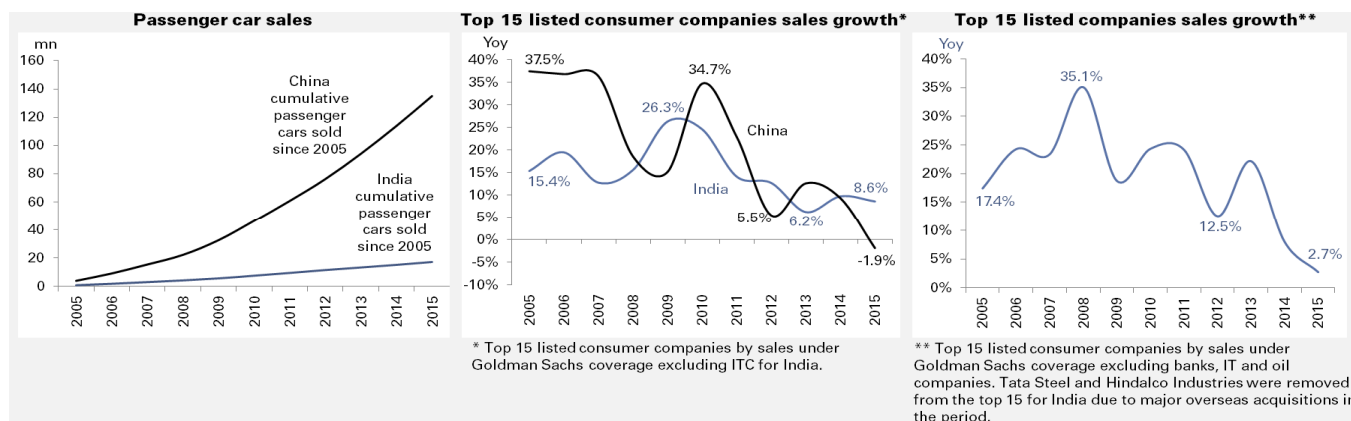


Source: Census, Labour Bureau, SEC, Government of India, Goldman Sachs Global Investment Research.

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

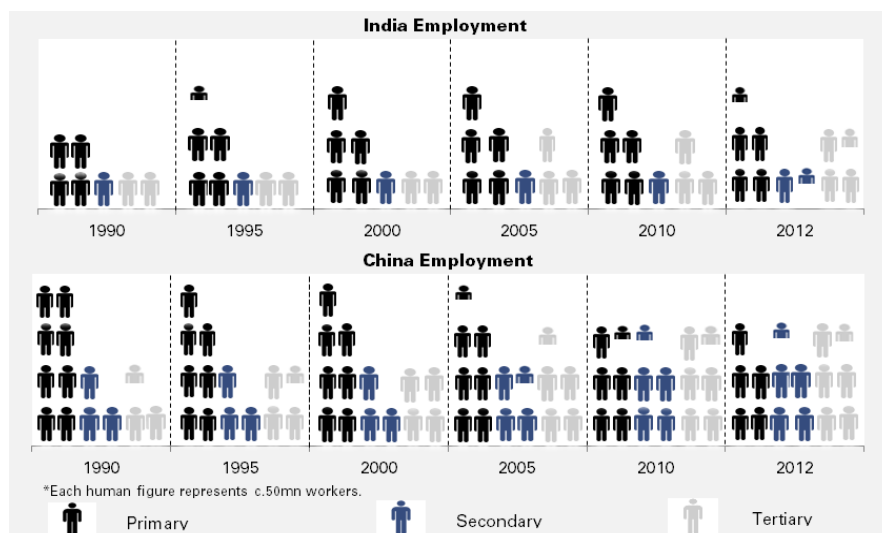


Source: SIAM, China Association of Automobile Manufacturers, Company data, Goldman Sachs Global Investment Research.

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).

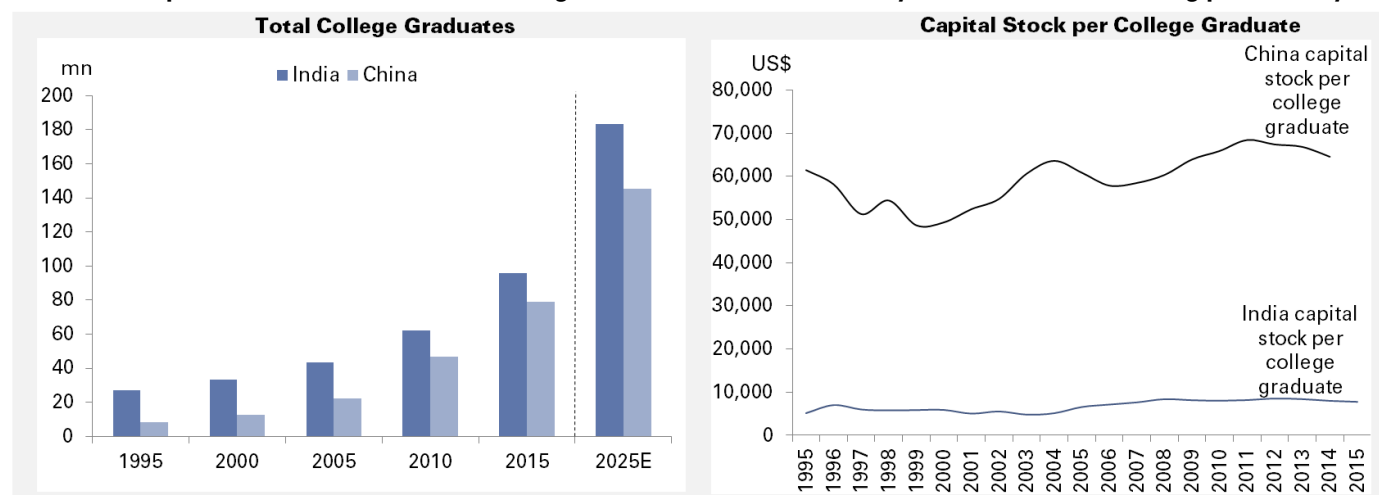
Exhibit 11: India's Current State of Employment: Some similarity to China in early 1990s



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.

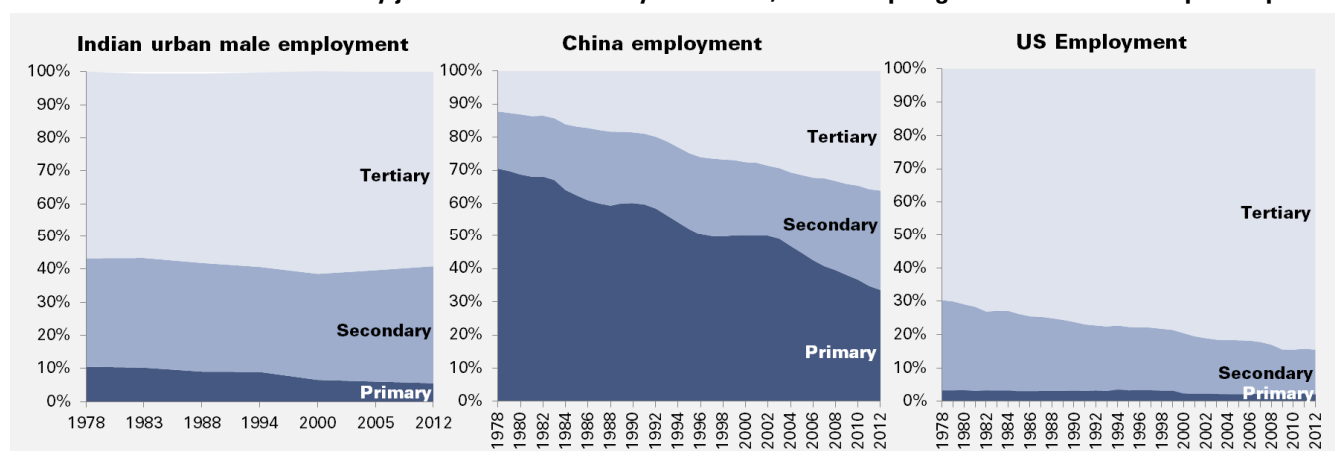
Exhibit 12: Capital investment, rather than college education, has been the key bottleneck to unleashing productivity



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.

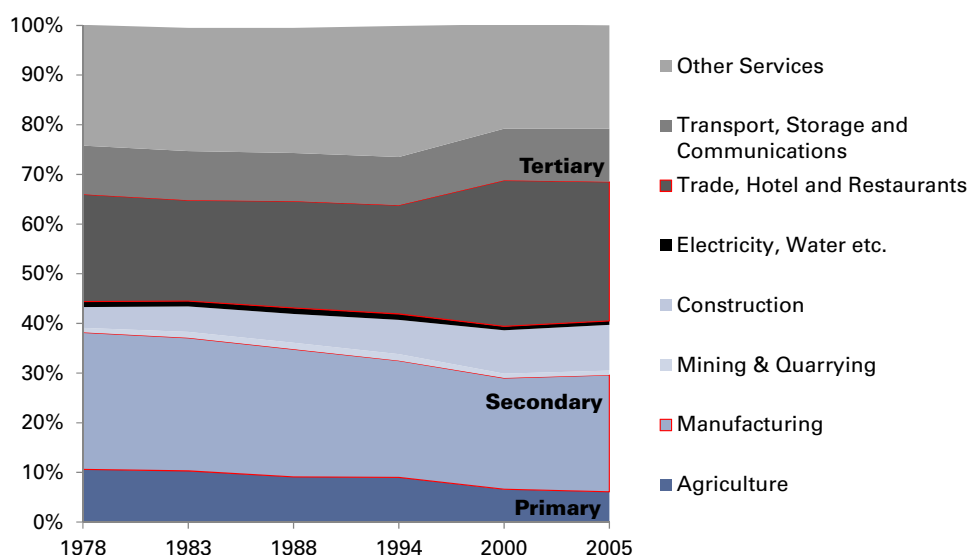
Exhibit 13: If India lifts income by job creation in tertiary industries, it will leapfrog US + China's development path



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

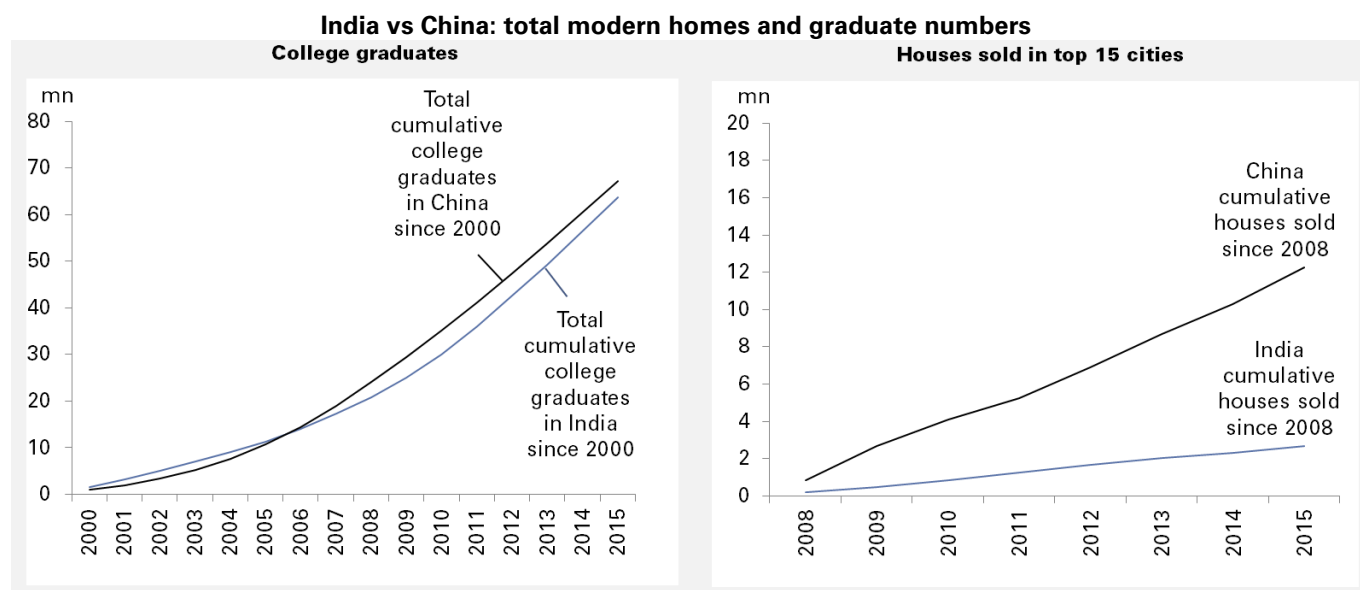
| Equity screen | | | | |
|---------------|---------------------|---------------------------|------------------|--|
| | Number of Companies | Total Market Cap (USD bn) | Revenue (USD bn) | |
| India | 22 | 144.3 | 35.4 | |
| China | 253 | 789.4 | 538.8 | |
| US | 191 | 3,741.0 | 2,850.2 | |

| 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) Electricity Consumption (GWh, 2015) | Province | Population (mn, 2014) Electricity Consumption (GWh, 2014) |
| 1 | Maharashtra | 112 137,073 | Guangdong | 107 523,523 |
| 2 | Uttar Pradesh | 200 104,579 | Jiangsu | 80 501,254 |
| 3 | Gujarat | 60 101,173 | Shandong | 98 422,349 |
| 4 | Tamil Nadu | 72 95,606 | Zhejiang | 55 350,639 |
| 5 | Rajasthan | 69 65,651 | Hebei | 74 331,411 |
| 6 | Karnataka | 61 63,413 | Henan | 94 316,095 |
| 7 | Madhya Pradesh | 73 57,390 | Inner Mongolia | 25 241,674 |
| 8 | Andhra Pradesh | 85 49,939 | Sichuan | 81 205,516 |
| 9 | Punjab | 28 49,094 | Liaoning | 44 203,873 |
| 10 | Haryana | 25 46,798 | Xinjiang | 23 191,573 |
| 11 | West Bengal | 91 46,510 | Fujian | 38 185,921 |
| 12 | Delhi | 17 29,667 | Hubei | 58 185,367 |
| 13 | Orissa | 42 26,327 | Shanxi | 36 182,686 |
| 14 | Chhattisgarh | 26 24,917 | Anhui | 61 158,518 |
| 15 | Bihar | 104 22,973 | Yunnan | 47 152,948 |
| 16 | Kerala | 33 22,870 | Hunan | 67 151,365 |
| 17 | Jammu and Kashmir | 13 16,344 | Shanghai | 24 136,902 |
| 18 | Himachal Pradesh | 7 8,748 | Guangxi | 48 130,751 |
| 19 | Assam | 31 8,677 | Shaanxi | 38 122,601 |
| 20 | Jharkhand | 33 7,566 | Guizhou | 35 117,373 |

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

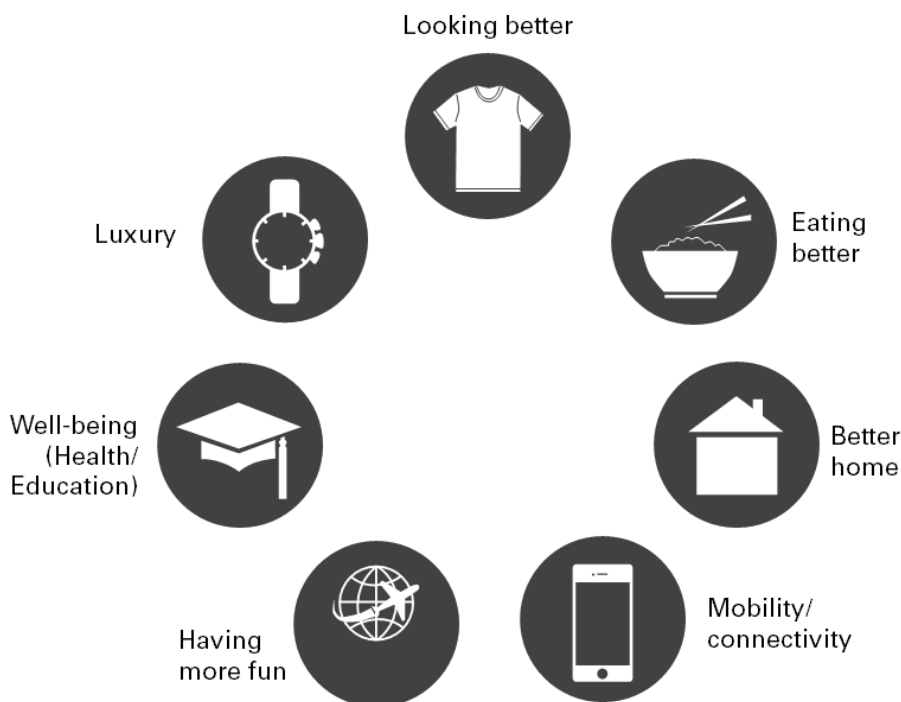
What consumers are buying: 7 consumption desires

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.

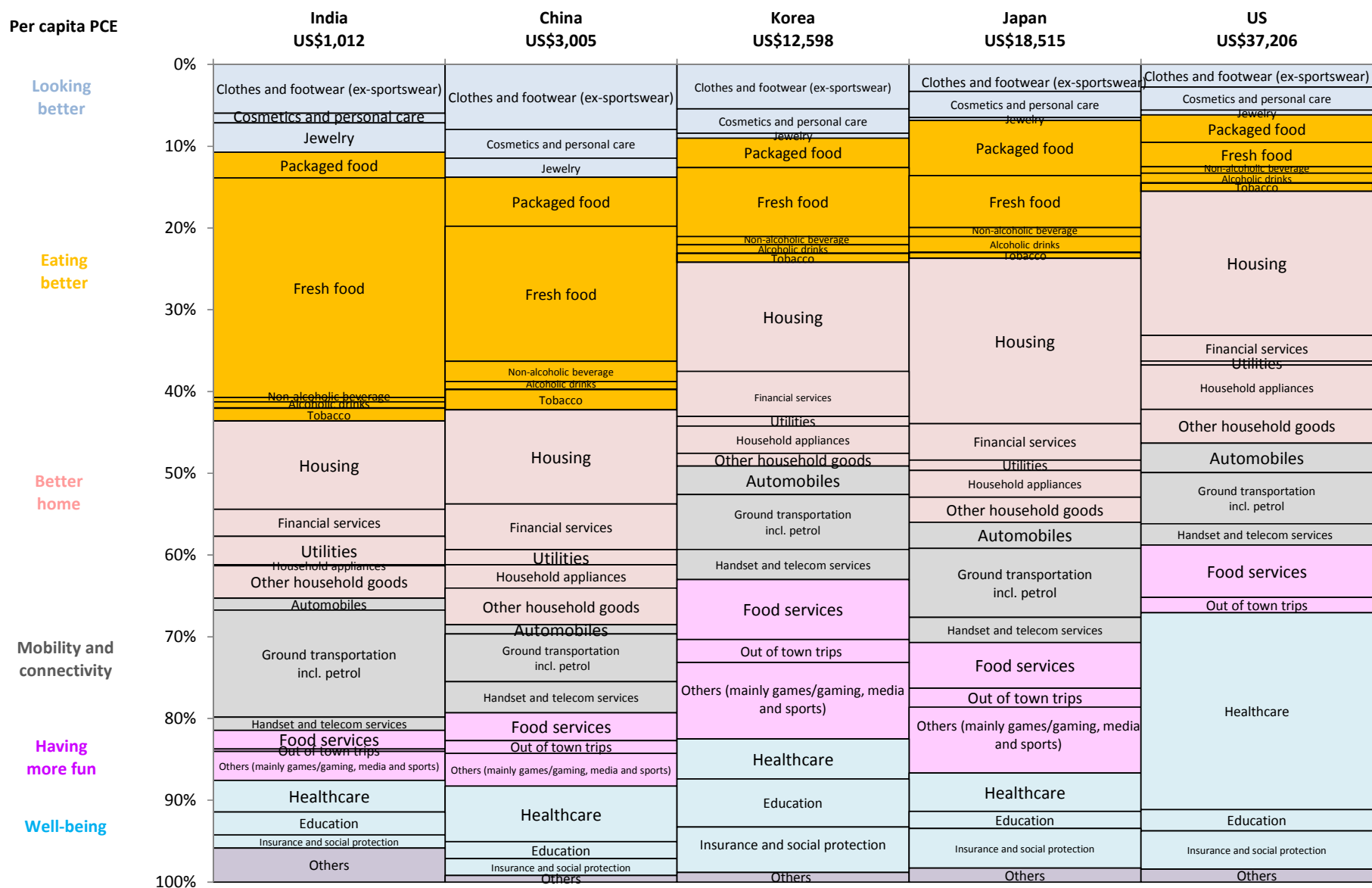
Exhibit 19: We will examine consumption patterns across 7 key desires



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.

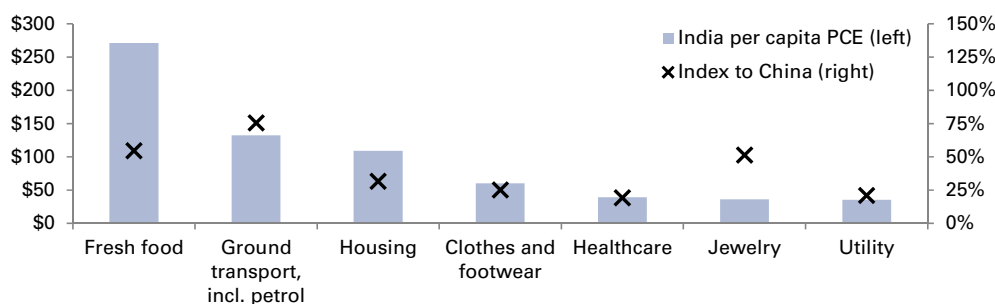
Exhibit 21: India's per capita spending and GDP are comparable to China in the mid-2000s. While many categories will continue to grow, we will highlight and discuss relative bright spots in this report

| PCE per capita by category, US\$, 2015 | India | Equivalent Year For China | China | Korea | Japan | US | As % of aggregate PCE per capita, 2015 | India | China | Korea | Japan | US |
|--|--------------|---------------------------|--------------|---------------|---------------|---------------|--|---------------|---------------|---------------|---------------|---------------|
| "Looking more beautiful" | 108 | 2005 | 415 | 1,135 | 1,265 | 2,067 | "Looking more beautiful" | 10.7% | 13.8% | 9.0% | 6.8% | 5.6% |
| Clothes and footwear (ex-sportswear) | 60 | 2004 | 239 | 682 | 608 | 924 | Clothes and footwear (ex-sportswear) | 5.9% | 7.9% | 5.4% | 3.3% | 2.5% |
| Color cosmetics and skincare | 2 | Before 2000 | 22 | 149 | 156 | 93 | Color cosmetics and skincare | 0.2% | 0.7% | 1.2% | 0.8% | 0.3% |
| Jewelry | 36 | 2010 | 71 | 79 | 67 | 197 | Jewelry | 3.6% | 2.4% | 0.6% | 0.4% | 0.5% |
| Others (mainly personal care) | 10 | 2001 | 83 | 226 | 435 | 854 | Others (mainly personal care) | 1.0% | 2.8% | 1.8% | 2.3% | 2.3% |
| "Eating better" | 332 | 2006 | 854 | 1,913 | 3,120 | 3,132 | "Eating better" | 32.8% | 28.4% | 15.2% | 16.8% | 8.4% |
| Food | 303 | 2007 | 676 | 1,516 | 2,424 | 2,122 | Food | 29.9% | 22.5% | 12.0% | 13.1% | 5.7% |
| Packaged food | 32 | Before 2000 | 179 | 452 | 1,246 | 1,129 | Packaged food | 3.1% | 6.0% | 3.6% | 6.7% | 3.0% |
| Fresh food | 271 | 2008 | 496 | 1,064 | 1,178 | 993 | Fresh food | 26.8% | 16.5% | 8.4% | 6.4% | 2.7% |
| Non-alcoholic beverage | 6 | 1994 | 74 | 126 | 202 | 267 | Non-alcoholic beverage | 0.6% | 2.5% | 1.0% | 1.1% | 0.7% |
| Alcoholic drinks | 8 | 1997 | 29 | 131 | 357 | 401 | Alcoholic drinks | 0.7% | 1.0% | 1.0% | 1.9% | 1.1% |
| Tobacco | 16 | 1997 | 76 | 140 | 137 | 342 | Tobacco | 1.6% | 2.5% | 1.1% | 0.7% | 0.9% |
| "Better home" | 219 | 2003 | 790 | 3,139 | 5,971 | 10,324 | "Better home" | 21.6% | 26.3% | 24.9% | 32.2% | 27.7% |
| Housing | 109 | 2006 | 346 | 1,679 | 3,738 | 5,904 | Housing | 10.8% | 11.5% | 13.3% | 20.2% | 15.9% |
| Utility | 35 | 2000 | 169 | 695 | 828 | 1,056 | Utilities | 3.5% | 5.6% | 5.5% | 4.5% | 2.8% |
| Household appliances | 1 | Before 1990 | 56 | 149 | 230 | 165 | Household appliances | 0.1% | 1.9% | 1.2% | 1.2% | 0.4% |
| Financial services | 33 | 2008 | 85 | 421 | 606 | 1,814 | Financial services | 3.3% | 2.8% | 3.3% | 3.3% | 4.9% |
| Other household goods and services | 40 | 2007 | 135 | 196 | 568 | 1,386 | Other household goods and services | 4.0% | 4.5% | 1.6% | 3.1% | 3.7% |
| "Mobility/connectivity" | 166 | 2009 | 325 | 1,750 | 2,740 | 4,211 | "Mobility/connectivity" | 16.4% | 10.8% | 13.9% | 14.8% | 11.3% |
| Automobiles | 14 | 2009 | 34 | 440 | 589 | 1,214 | Automobiles | 1.4% | 1.1% | 3.5% | 3.2% | 3.3% |
| Ground transportation/services, incl. petrol | 132 | 2012 | 175 | 844 | 1,564 | 2,090 | Ground transportation/services, incl. petrol | 13.1% | 5.8% | 6.7% | 8.4% | 5.6% |
| Telecom equipment | 6 | 2003 | 25 | 68 | 13 | 49 | Telecom equipment incl. handsets | 0.5% | 0.8% | 0.5% | 0.1% | 0.1% |
| Telecom services | 11 | 1998 | 89 | 395 | 554 | 825 | Telecom services | 1.1% | 3.0% | 3.1% | 3.0% | 2.2% |
| Postal services | 3 | - | 1 | 3 | 21 | 33 | Postal services | 0.3% | 0.0% | 0.0% | 0.1% | 0.1% |
| "Having more fun" | 62 | - | 270 | 2,458 | 2,952 | 6,430 | "Having more fun" | 6.1% | 9.0% | 19.5% | 15.9% | 17.3% |
| Food services | 23 | 2002 | 102 | 926 | 1,038 | 2,150 | Food services | 2.3% | 3.4% | 7.3% | 5.6% | 5.8% |
| Out-of-town trips | 3 | 1996 | 47 | 356 | 426 | 629 | Out-of-town trips | 0.3% | 1.6% | 2.8% | 2.3% | 1.7% |
| Hotel | 2 | 2004 | 11 | 121 | 130 | 364 | Hotel | 0.2% | 0.4% | 1.0% | 0.7% | 1.0% |
| Package holidays | 0 | 1990 | 13 | 6 | 241 | 38 | Package holidays | 0.0% | 0.4% | 0.0% | 1.3% | 0.1% |
| Air transportation | 1 | 2000 | 17 | 222 | 55 | 165 | Air transportation | 0.1% | 0.6% | 1.8% | 0.3% | 0.4% |
| Cruise (2014) | 0 | Before 2000 | 6 | 7 | 0 | 63 | Cruise (2014) | 0.0% | 0.2% | 0.1% | 0.0% | 0.2% |
| Media | 13 | - | 55 | 181 | 629 | 988 | Media | 1.3% | 1.8% | 1.4% | 3.4% | 2.7% |
| Sports | 2 | - | 20 | 213 | 133 | 221 | Sports | 0.2% | 0.7% | 1.7% | 0.7% | 0.6% |
| Other recreational goods and services | 20 | - | 46 | 782 | 726 | 2,442 | Other recreational goods and services | 2.0% | 1.5% | 6.2% | 3.9% | 6.6% |
| Gaming and online games | 0.3 | - | 36 | 128 | 97 | 287 | Gaming and online games | 0.0% | 1.2% | 1.0% | 0.5% | 0.8% |
| "Well-being" | 84 | 2002 | 329 | 2,058 | 2,153 | 10,514 | "Well-being" | 8.3% | 10.9% | 16.3% | 11.6% | 28.3% |
| Healthcare | 39 | 2000 | 204 | 616 | 869 | 8,074 | Healthcare | 3.9% | 6.8% | 4.9% | 4.7% | 21.7% |
| Education | 28 | 2002 | 62 | 741 | 388 | 869 | Education | 2.8% | 2.1% | 5.9% | 2.1% | 2.3% |
| Insurance and social protection | 16 | 2006 | 63 | 700 | 896 | 1,571 | Insurance and social protection | 1.6% | 2.1% | 5.6% | 4.8% | 4.2% |
| Others | 42 | - | 24 | 146 | 315 | 527 | Others | 4.1% | 0.8% | 1.2% | 1.7% | 1.4% |
| Total | 1,012 | 2006 | 3,005 | 12,598 | 18,515 | 37,206 | Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Normal GDP Per Capita (PPP) | 1,606 | 2005 | 7,932 | 27,315 | 32,556 | 55,837 | | | | | | |

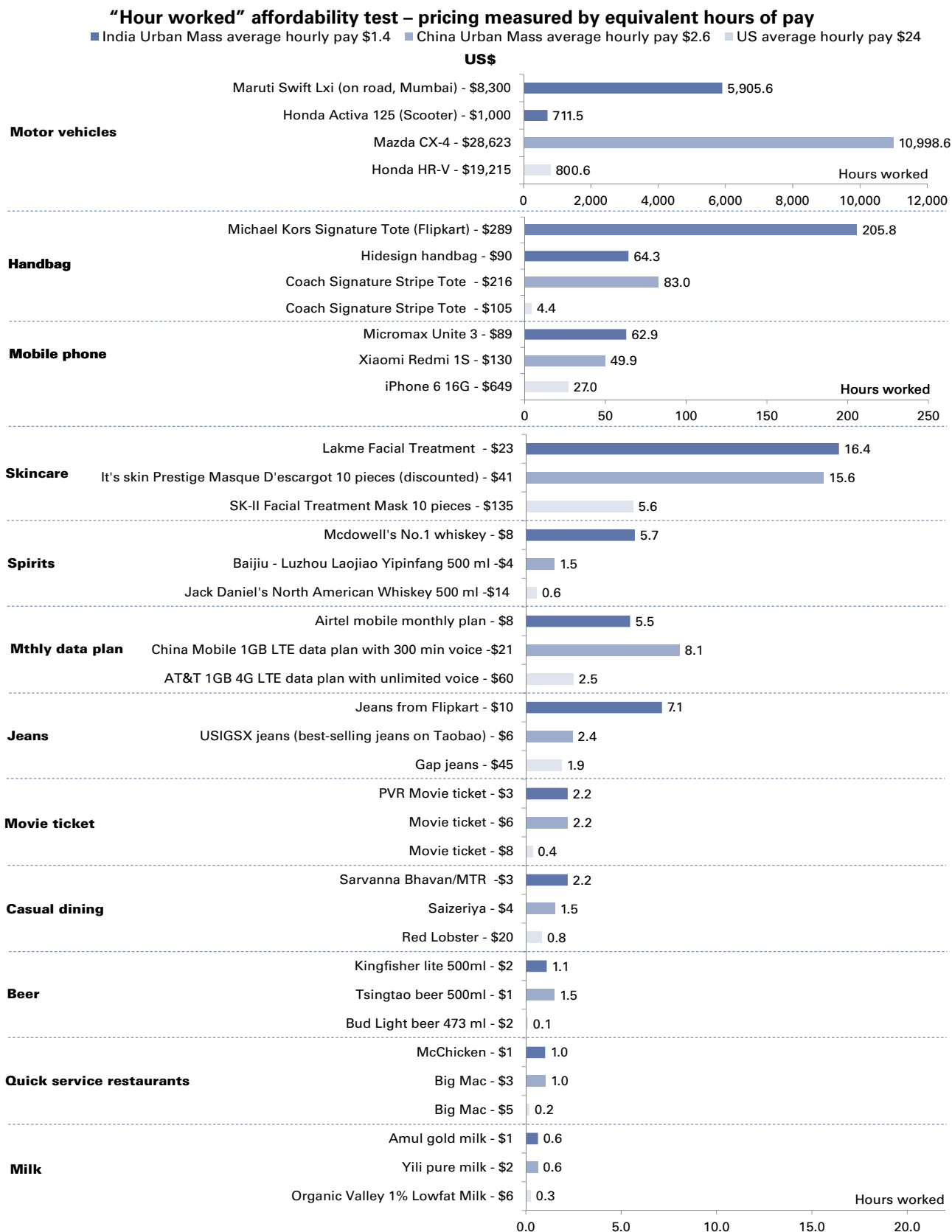
Source: Euromonitor, CEIC, Goldman Sachs Global Investment Research.

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 such as McDonald's and Micromax 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.

Exhibit 23: Affordability is still a key challenge, given Urban Mass earns just US\$1.40 per hour

Source: Taobao, Tmall, Autohome, JD.com, Euromonitor, Amazon, The Car Connection, EIA, IEA, company websites, Havers, Bigbasket.com, 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 24: 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

Exhibit 25: Latest trends support our outlook on consumption shifts

| | Period | YoY growth | Rank | Description | Vol/Val |
|---|-------------------------------|---------------|------|--|---------|
|  | "Eating better" | | | | |
| | Milk | FY16 | 10% | 16 Milk production | Volume |
| | Spirits | Jan-Mar 16 | 13% | 9 UNSP sales | Value |
|  | Packaged food | Jan-Mar 16 | 7% | 18 HUL & ITC Food sales | Value |
| | "Looking better" | | | | |
| | Soaps & detergents | Jan-Mar 16 | 2% | 24 HUL Soaps and Detergents sales | Value |
| | Apparel | Jan-Mar 16 | 42% | 2 Arvind Brands & Retail | Value |
| | Skincare | Jan-Mar 16 | 41% | 3 Emami BoroPlus sales | Value |
|  | Hair Oil | Jan-Mar 16 | 6% | 19 Marico Parachute sales | Volume |
| | Jewelry | Jan-Mar 16 | 13% | 10 Titan Jewelry sales (ex-GHS) | Value |
| | "Better home" | | | | |
|  | Cement production | Jan-Mar 16 | 11% | 13 Cement production | Volume |
| | Air conditioners | Jan-Mar 16 | 10% | 14 Voltas sales | Value |
| | Decorative Paints | Jan-Mar 16 | 12% | 12 Asian Paints standalone sales | Value |
| | Real estate | Jan-Feb 16 | -14% | 27 Propequity residential data | Value |
|  | "Mobility/connectivity" | | | | |
| | Railway traffic | Apr 15-Feb 16 | -1% | 26 Railway traffic-non suburban | Volume |
| | 2W sales | Jan-Apr 16 | 12% | 11 2W sales | Volume |
| | 4W sales | Jan-Apr 16 | 6% | 21 4W sales | Volume |
| | Mobile | Jan-Mar 16 | 10% | 15 Talktime | Volume |
|  | 3G/4G accounts | Jan-Mar 16 | 70% | 1 3G/4G accounts additions | Volume |
| | "Having more fun" | | | | |
| | Restaurant sales | Jan-Mar 16 | 14% | 8 JUBI sales | Value |
| | Movie Box Office | Jan-Mar 16 | 26% | 6 PVR admits | Volume |
|  | Air traffic | Jan-Mar 16 | 20% | 7 Air traffic | Volume |
| | Media- TV advertising revenue | Jan-Mar 16 | 29% | 5 Zee Ad revenues | Value |
| | "Well-being" | | | | |
|  | Primary school enrollment | FY14 | 2% | 23 Growth in primary school enrollment | Volume |
| | College enrollment | 2015 | 6% | 22 Growth in college enrollment | Volume |
| | Health food business growth | Jan-Mar 16 | 6% | 19 Dabur health supplement business | Value |
| | Private health expenditure | 2014 | 8% | 17 | Value |
|  | "Luxury" | | | | |
| | Luxury car unit sales | 2015 | 32% | 4 Mercedes-Benz India unit sales | Value |
| | Swiss watch import | 2015 | 0% | 25 Swiss watch import | Value |

Source: CEIC, Federation of the Swiss Watch Industry, Company Data, PropEquity, Indiastat, DGCA, Government of India, Goldman Sachs Global Investment Research.

Exhibit 26: India's investable universe within each desire

| 7 desires | | | | |
|---|---|----------|---------------------|----------------------------------|
| | Company | Ticker | Market cap, bn US\$ | Key business areas |
|  | Eating Better | | | |
| | ITC Ltd | ITC.BO | 43 | Tobacco, packaged food |
| | Hindustan Unilever | HLL.BO | 27 | Personal care, food products |
| | Nestle India | NEST.BO | 9 | Food and beverages |
| | United Spirits | UNSP.BO | 5 | Spirits |
| | Britannia | BRIT.BO | 5 | Biscuits, bread, cake |
| | GlaxoSmithKline | GLAXO.BO | 4 | Malted milk products, cereals |
| | United Breweries | UBBW.BO | 3 | Beer |
| | Jubilant Foodworks | JUBI.BO | 1 | Dunkin' Donuts, Domino's Pizza |
| | Coffee Day Enterprises | CODE.NS | 1 | Coffee café chain |
| | Westlife Development | WEST.BO | 1 | Fast food |
|  | Looking better | | | |
| | Hindustan Unilever | HLL.BO | 27 | Soap, detergent |
| | Dabur India | DABU.BO | 8 | Soap, detergent |
| | Godrej Consumer | GOCF.BO | 8 | Edible oils, specialty chemicals |
| | Titan | TITN.BO | 5 | Jewelry, watches |
| | Colgate Palmolive | COLG.BO | 3 | Oral care, body care |
| | Marico | MRCO.BO | 5 | Hair oil, edible oil |
| | Emami | EMAM.BO | 3 | Skincare, Ayurvedic products |
| | Procter & Gamble Hygiene and Healthcare | PROC.BO | 3 | Personal and beauty care |
| | Rajesh Exports | REXP.BO | 2 | Gold jewelry |
| | Gillette India | GILE.BO | 2 | Personal grooming |
|  | Better Home | | | |
| | Asian Paints | ASPN.BO | 14 | Home improvements, paints |
| | Ultratech Cement | ULTC.BO | 13 | Cement |
| | Power Grid Corp | PGRD.BO | 12 | Utility |
| | Shree cement | SHCM.BO | 7 | Cement |
| | Grasim Industries | GRAS.BO | 6 | Cement, chemicals, textile |
| | Ambuja Cements | ABUJ.BO | 5 | Cement |
| | Acc Ltd | ACC.BO | 4 | Cement |
| | NHPC Ltd | NHPC.BO | 4 | Hydro-power |
| | Tata Power | TTPW.BO | 3 | Utility (electricity supplier) |
| | Berger Paints | BRGR.BO | 3 | Paints, varnishes, resins |
|  | More Mobility/Connectivity | | | |
| | Bharti Airtel | BRTI.BO | 21 | Telecommunications services |
| | Maruti Suzuki | MRTI.BO | 19 | Automobile |
| | Tata Motors | TAMO.BO | 22 | Automobile |
| | Mahindra & Mahindra | MAHM.BO | 12 | Automobile |
| | Bajaj Auto | BAJA.BO | 11 | Two and three-wheelers |
| | Bharti Infratel | BHRI.BO | 11 | Telecomm infrastructure |
| | Bosch Ltd | BOSH.BO | 10 | Auto parts |
| | Hero Motocorp | HROM.BO | 9 | Motorcycles |
| | Idea Cellular | IDEA.BO | 6 | Cellular services |
| | Reliance Communications | RLCM.BO | 2 | Data and voice transmission |
|  | Having More Fun | | | |
| | Zee Entertainment | ZEE.BO | 6 | Films, TV programs |
| | Sun TV Network | SUTV.BO | 2 | TV networks |
| | Dish TV India | DSTV.BO | 1 | Subscription TV |
| | TV18 Broadcast Ltd | TVEB.BO | 1 | TV broadcasting |
| | D.B. Corp | DBCL.BO | 1 | Print and publishing |
| | Network 18 Media & Investments | NEFI.BO | 1 | TV, news, internet |
| | Jagran Prakashan | JAGP.BO | 1 | Newspaper |
| | Hathway Cable and Datacom | HAWY.BO | 0 | Cable TV service provider |
| | Entertainment Network India | ENIL.BO | 1 | Radio stations |
| | Siti Cable Network | SITI.BO | 0 | TV, internet and VOIP |
|  | Well-being (Health/Education) | | | |
| | Sun Pharma Industries | SUN.BO | 27 | Drug manufacturer |
| | Lupin Ltd | LUPN.BO | 10 | Drug manufacturer |
| | Dr Reddy's Labs | REDY.BO | 8 | Drug manufacturer |
| | Cipla Ltd | CIPL.BO | 6 | Pharmaceutical, personal care |
| | Aurobindo Pharma | ARBN.BO | 7 | Drug manufacturer |
| | Cadila Healthcare | CADI.BO | 5 | Healthcare solutions |
| | Divi Labs | DIVI.BO | 4 | Drug manufacturer |
| | Glenmark Pharmaceuticals | GLEN.BO | 4 | Drug developer |
| | GlaxoSmithKline | GLAXO.BO | 4 | Drug manufacturer |
| | Torrent Pharmaceuticals | TORP.BO | 3 | Drug manufacturer |
|  | Luxury | | | |
| | Titan | TITN.BO | 5 | Jewelry, watches |
| | Rajesh Exports | REXP.BO | 2 | Gold jewelry |
| | Page Industries | PAGE.BO | 2 | Branded undergarment |
| | PC Jeweller | PCJE.BO | 1 | Jewelry |
| | Asian Star | ASAN.BO | 0 | Diamonds |
| | Vaibhav Global | VAIB.BO | 0 | Jewelry |

Source: Bloomberg, Goldman Sachs Global Investment Research.

Exhibit 27: Who does what in consumer**Consumer Staples**

| Company | Ticker | Market cap, US\$ mn | India Sales, US\$mn | % of sales from F&B | % of sales from HPC | Food, Beverage & Tobacco (F&B) | | | | | | | Home & Personal Care (HPC) | | | | | |
|-------------------------------|----------|---------------------|---------------------|---------------------|---------------------|--------------------------------|---------|-------|------|-------------------|----------------------|-----------|----------------------------|-----------|----------|-----------|---------------------|-----------------|
| | | | | | | Beer & spirits | Tobacco | Dairy | Oils | Snacks & biscuits | Other packaged foods | Beverages | Soaps & detergents | Oral care | Skincare | Hair care | Other personal care | Other home care |
| Britannia Industries Ltd. | BRIT.BO | 4,886 | 1,174 | 100% | 0% | | | ✓ | | ✓ | | | | | | | | |
| Colgate Palmolive (India) | COLG.BO | 3,482 | 617 | 0% | 100% | | | | | | | | | ✓ | | | ✓ | |
| Dabur India | DABU.BO | 7,634 | 857 | 19% | 81% | | | | | | | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ |
| Emami Ltd. | EMAM.BO | 3,474 | 336 | <10% | >90% | | | | | | ✓ | | | | ✓ | ✓ | | |
| Godrej Consumer Products Ltd. | GOCPI.BO | 7,533 | 707 | 0% | 100% | | | | | | | | ✓ | | | ✓ | | |
| Hindustan Unilever | HLL.BO | 27,372 | 4,690 | 19% | 81% | | | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| ITC | ITC.BO | 42,720 | 5,444 | 67% | 2% | | ✓ | | | ✓ | ✓ | ✓ | ✓ | | | | | |
| Marico | MRCO.BO | 4,769 | 710 | 23% | 77% | | | | ✓ | | | | | | ✓ | ✓ | | |
| Nestle India | NEST.BO | 9,037 | 1,118 | 100% | 0% | | | ✓ | | ✓ | ✓ | ✓ | | | | | | |
| United Spirits | UNSP.BO | 5,410 | 1,392 | 100% | 0% | ✓ | | | | | | | | | | | | |

Consumer Discretionary / Retail

| Company | Ticker | Market cap, US\$ mn | India Sales, US\$mn | Key business | Number of stores |
|-----------------------------|---------|---------------------|---------------------|---|--|
| Asian Paints (India) | ASPN.BO | 14,052 | 2,183 | Decorative paints | N/A |
| Titan Industries | TITN.BO | 4,713 | 1,683 | Jewelry , watches & accessories | Jewelry: 227 Watches: 493 Accessories: 563 |
| Jubilant Foodworks | JUBI.BO | 1,009 | 365 | Pizza & donut chain | Dominos: 1026 Dunkin: 71 |
| PC Jeweller Ltd | PCJE.BO | 961 | 948 | Jewelry , watches & accessories | 58 |
| Westlife Development Ltd | WEST.BO | 516 | 128 | Owns McDonalds franchises in western and southern India | 236 |
| Coffee Day Enterprises Ltd* | CODE.BO | 792 | 187 | Cafes | 1607 |

Source: Company data, Goldman Sachs Global Investment Research.

1. Eating better

- Packaged food & beverage (including alcohol and tobacco) is a **US\$100bn market in India**, 1/8 of the size in China
- **Dairy** and **edible oil** set to grow: they are diet staples undergoing a shift **from loose to packaged goods**, similar to the instant noodles story in other Asian markets
- **Snacks** and baby food penetration to **rise with income**
- **Cigarette** consumption faces **affordability hurdles**, underscored by tax hikes

| | Company | Ticker | Category |
|-----------------------|----------------|---------|----------------------|
| Positioned for growth | United Spirits | UNSP.BO | Spirits |
| | Marico | MRCO.BO | Edible oils, snacks |
| | ITC | ITC.BO | Edible oils, snacks |
| | Britannia | BRIT.BO | Snacks |
| | Nestle India | NEST.BO | Chocolate, baby food |
| Challenged | ITC | ITC.BO | Tobacco |

Source: Goldman Sachs Global Investment Research.

Consumption by cohort

| | | Urban Middle | Educated Urban Mass | Urban Mass | Rural Mass |
|------------------------------|--|--------------|---------------------|------------|------------|
| Legend | | | | | |
| ✓ Frequent consumption | | | | | |
| ✓ Infrequent consumption | | | | | |
| Potential consumption growth | | | | | |
| Premium | Dairy (Packaged) | ✓ | ✓ | | |
| | Oils | ✓ | ✓ | | |
| | Coffee and tea | ✓ | | | |
| | Luxury alcohol (single malt, imported wine etc.) | ✓ | | | |
| | International alcohol brands (Corona etc.) | ✓ | ✓ | | |
| | Ice-cream | | | | |
| | Branded infant nutrition (Nan etc.) | ✓ | ✓ | | |
| | Western snacks (Lay's chips etc.) | ✓ | | | |
| | Health juices | | | | |
| | Organic milk | | | | |
| | Higher-priced cigarette (ITC Classic etc.) | ✓ | | | |
| | Breakfast cereal and oats | ✓ | | | |
| | Organic produce | ✓ | | | |
| | Soft drinks and juices (Pepsi, Dabur etc.) | ✓ | ✓ | ✓ | |
| | Fresh produce | | ✓ | ✓ | ✓ |
| | Packaged oils | | ✓ | ✓ | ✓ |
| | Packaged milk | | ✓ | ✓ | |
| | Basic Western snacks (Nestle etc.) | | ✓ | ✓ | |
| | Local snacks (Halidram's, Britannia, ITC etc.) | | ✓ | ✓ | |
| | Local alcohol (Kingfisher beer, McDowell's Whiskey etc.) | | ✓ | | |
| | Cigarette (Gold Flake etc.) | | ✓ | ✓ | |
| | Lower-end local alcohol (Toddy, country liquor etc.) | | | ✓ | ✓ |
| | Chewing tobacco & Bidis | | | ✓ | ✓ |
| | Biscuits (Britannia, ITC etc.) | | | ✓ | ✓ |
| | Loose milk | | | | ✓ |
| | Loose oils | | | | ✓ |
| | Local soft drinks and juices | | | | ✓ |

Source: Goldman Sachs Global Investment Research

1. Eating better

"Because of the growth in the middle class and the size of the whisky market in India we are confident we can keep posting double-digit growth...It's a fair assumption, based on the growth pattern, that India will soon overtake China from a sales standpoint."

- Gilles Bogaert, Finance Chief, Pernod Ricard, Reuters, 25 Nov 15

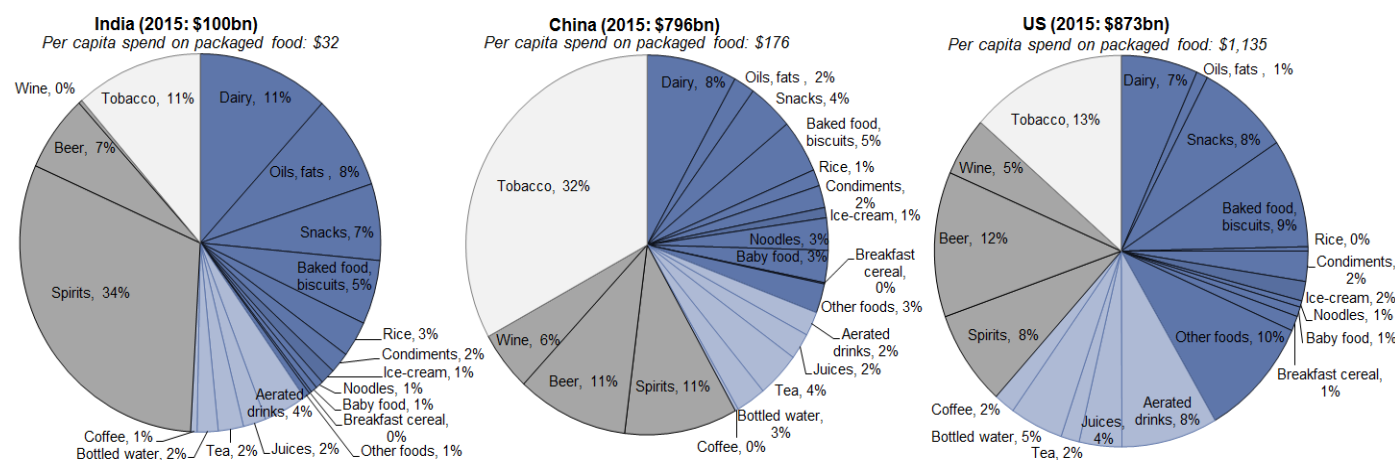
"When I compare the Indian biscuit market with the other developing countries, I see a lack of super-premium products,"

- Varun Berry, Managing Director, Britannia Industries, Live Mint, 20 Nov 15

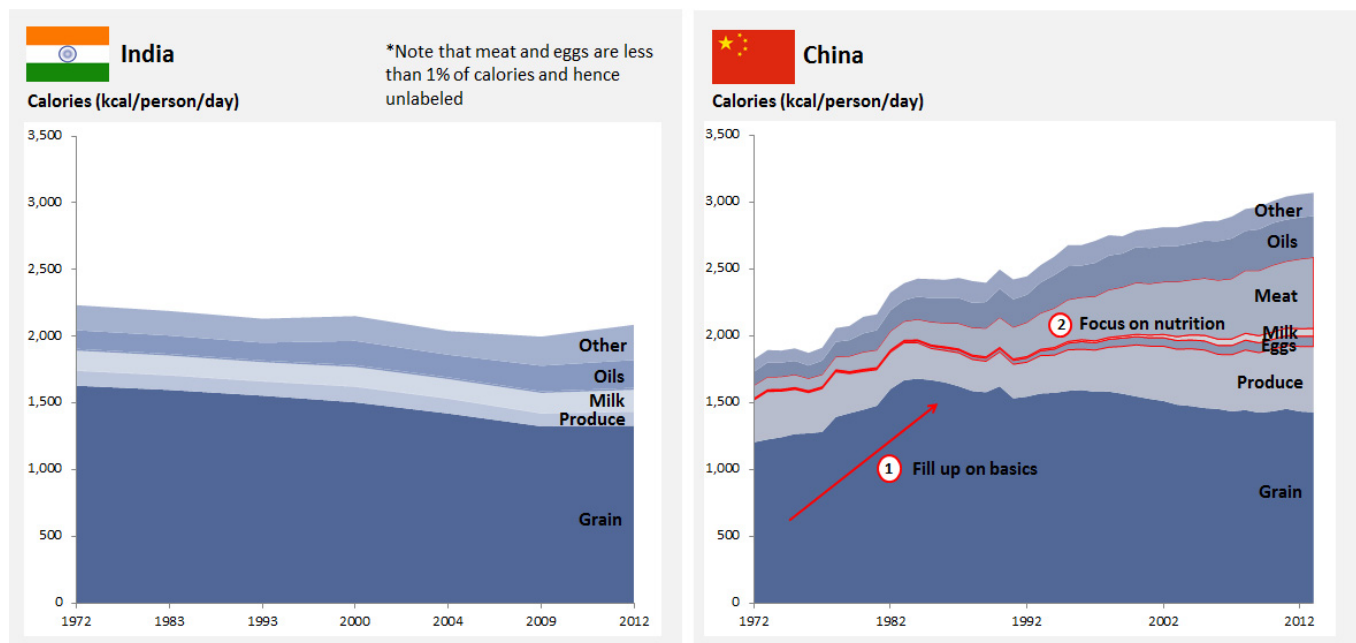
We believe India has a tremendous opportunity to grow its packaged food and beverage (F&B) market in both absolute size and penetration. Including alcohol and tobacco, India's F&B market size in 2015 was just US\$100bn vs China's US\$796bn; per capita spending on packaged food was just US\$32, less than one fifth of that in China (US\$176), and just 3% of that in the US (US\$1,135), Exhibit 28.

Overall daily calorie intake has been flat at c.2,000 for both urban and rural populations since the 1970s (Exhibit 29), despite GDP growth over the decades; by comparison, China's calorie intake grew from 1,800 a day to 3,100 over the same period. Dietary patterns, in terms of caloric intake by food group, have also stayed steady. Unlike China, India did not significantly increase its animal protein intake as income levels grew. The fact that c.40% of the population is vegetarian, according to the 2006 Hindu-CNN-IBN State of the Nation Survey, is a key contributing factor.

Exhibit 28: Packaged F&B industry in India: Dominated by alcohol and tobacco; annual per capita spending of US\$32
Market size for packaged F&B and tobacco

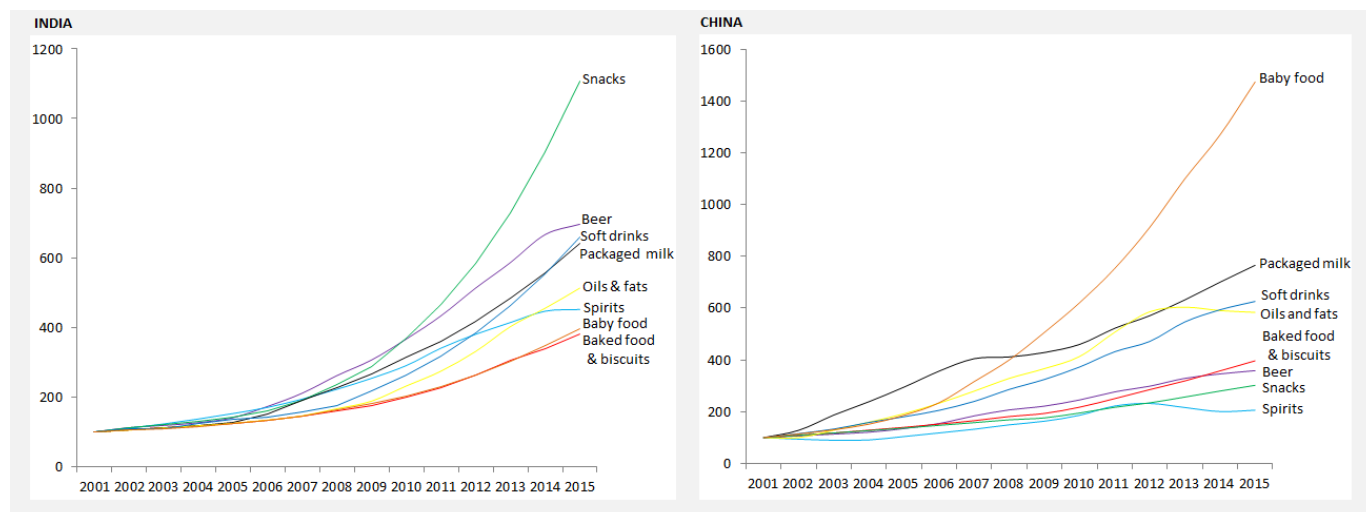


Source: Euromonitor, Goldman Sachs Global Investment Research.

Exhibit 29: India's per capita daily caloric intake has been flat due to limited increase in protein consumption


Source: UN FAO, India NSSO, Goldman Sachs Global Investment Research.

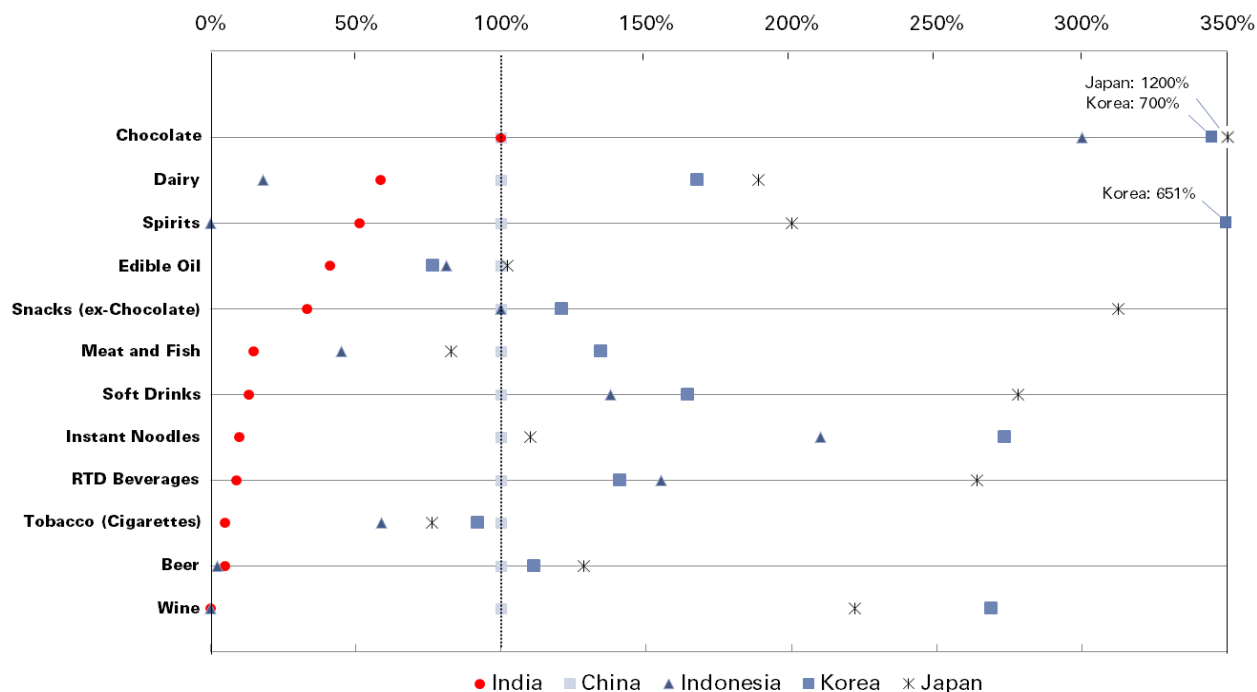
There are two drivers of growth for F&B companies. First is the **income growth-led volume penetration story**. While India's per capita volume consumption is low across the board, penetration levels across different categories vary significantly. In particular, dairy and spirits penetration levels are relatively high, whereas snacks, soft drinks and beer are low (Exhibit 31).

Exhibit 30: The most underpenetrated categories in 2001 (snacks, beer and soft drinks) have grown the most
 F&B market size (US\$) indexed to 2001 = 100


Source: Euromonitor, Goldman Sachs Global Investment Research.

Exhibit 31: Penetration low across all F&B; snacks, soft drinks and beer stand out as relatively underpenetrated

Volume Per Capita, indexed to China as 100%

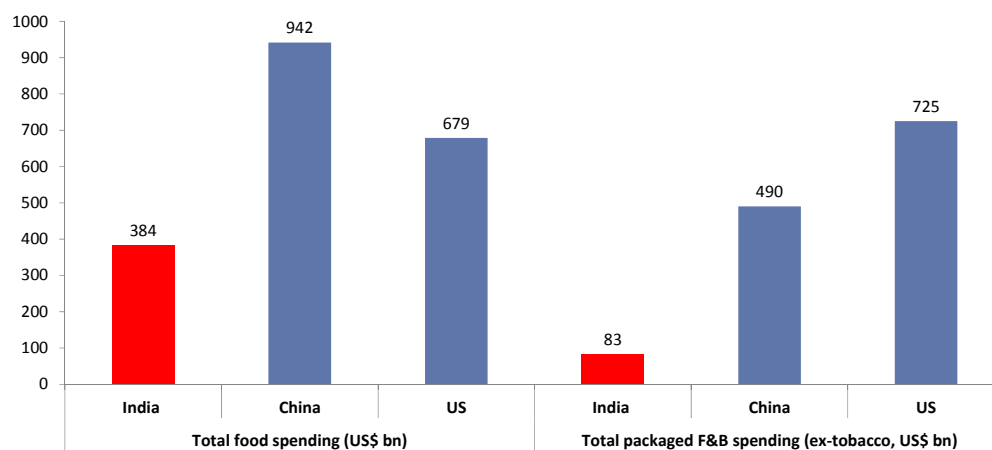


Source: Euromonitor, Tobacco Atlas, Goldman Sachs Global Investment Research.

The second driver of growth is the **shift from loose to packaged form for categories where consumption is already quite high**. For example, dairy consumption is relatively high as categories like milk are mainly sold in loose forms. This translates to huge potential for packaged growth, we believe, as consumers look for product variety and convenience.

Exhibit 32: Packaged F&B is small relative to total food spending in India

Total food and packaged F&B spending



Source: Euromonitor, Goldman Sachs Global Investment Research.

Exhibit 33: Who does what in India's Packaged F&B Industry

| Company name | Mkt cap (US\$ mn) | 2015 F&B sales (% of total sales) | Packaged Brands | | | | | | | |
|--------------------------|-------------------|-----------------------------------|---------------------------------|--------------------|-------------------------|----------------|------------------------------------|--------------------------------|---------------------------------|---|
| | | | Spirits US\$31.0bn | Tobacco US\$11.5bn | Dairy US\$11.8bn | Oils US\$8.2bn | Beer US\$6.6bn | Snacks US\$6.6bn | Biscuits US\$3.6bn | Other |
| ITC | 42,736 | 67% | | Gold Flake, Wills | | | | Candyman, Sunfeast, Aashirvaad | Sunfeast | Packaged fruit juice: B Natural |
| Hindustan Unilever | 27,368 | 19% | | | Kissan | | | | | Tea and ice-cream: Lipton Tea, Magnum, Kwality Wall's |
| Nestle India | 9,036 | 100% | | | Nestle A+, Nan, Cerelac | | | Kit Kat | | Noodles, coffee: Maggi, Nescafe |
| Dabur | 7,634 | 19% | | | | | | | | Juice: Real, Activ, Burrst |
| United Spirits | 5,407 | 100% | McDowell's, Bagpiper, Black Dog | | | | | | | |
| Britannia | 4,885 | 100% | | | Britannia Cheese/Milk | | | | Britannia, Marie Gold, Good Day | |
| Marico | 4,769 | 23% | | | | Saffola | | | | Breakfast cereal: Saffola Oats |
| Emami | 3,473 | <10% | | | | | | | | Health supplement: Zandu |
| United Breweries | 2,834 | 100% | | | | | Kingfisher, London Pilsner, Bullet | | | |
| Tata Global Beverage | 1,114 | 100% | | | | | | | | Tea and coffee: Tata tea, Tetley, Eight O' Clock Coffee |
| Hatsun Agro Products | 702 | 100% | | | Arokya, Hatsun | | | | | Ice-cream: Arun, Ibaco |
| Zedus Wellness | 447 | 100% | | | Nutralite | | | | | Health foods: Actlife, Sugar Free |
| Kwality Ltd | 372 | 100% | | | Dairy Best | | | | | |
| CCL Products | 452 | 100% | | | | | | | | Instant coffee: Continental |
| Manpasand Beverages | 402 | 100% | | | | | | | | Juice: Mango Sip, Fruits Up, Pure Sip |
| McLeod Russel | 292 | 100% | | | | | | | | Tea producer |
| Tata Coffee | 243 | 100% | | | | | | | | Coffee and tea producer |
| DFM Foods | 271 | 100% | | | | | | Crax, Natkhat | | |
| Heritage Foods | 175 | 96% | | | Heritage | | | | | |
| Agro Tech Foods | 175 | 100% | | | | Sundrop | | Act II Popcorn, Nachos | | |
| Balaji Group | Private | - | | | | | | Balaji | | |
| Bikanervala Foods | Private | - | | | | | | Bikano | Bikanervala | |
| Halidram's | Private | - | | | | | | | Halidram's | |
| Parle Products | Private | - | | | | | | | Parle, Melody, London Derry | |
| Nimman Foods | Private | - | | | | | | | | Baked food: Modern |
| Monginis Foods | Private | - | | | | | | | | Baked food: Monginis |
| Surya Food & Agro | Private | - | | | | | | | Priyagold | |
| Perfetti Van Melle Group | Private | - | | | | | | Mentos, Center | Alpenliebe | |

Source: Company data, Bloomberg

1. Dairy and Edible oil – highly consumed, moving to packaged

The largest food company in most key Asian markets tends to be an instant noodle company – Nissin in Japan, Tingyi in China, Uni-President in Taiwan, Nong Shim in Korea and Indofood in Indonesia. Why? Because it is a staple diet item, and as the importance of convenience rises, it becomes the first packaged category that consumers buy. In other words, consumption of noodles does not necessarily increase with income; rather, it increases as consumers pivot from making them from scratch to purchasing ready-made products.

In India though, **instant noodles are more like a snack than a diet staple**. While it is a growing industry, we believe it will remain relatively small. Instead, we think the two diet staples to benefit from loose to packaged shift will be **dairy and edible oil**.

Dairy - Dairy is an established staple in the Indian diet. The US\$12bn market is the single largest F&B category, excluding alcohol and tobacco. Its importance is partly due to India's high level of vegetarianism, and already contributes 7-9% of average caloric intake vs. 2% in China (Exhibit 34). Hence, we see it as **less likely to undergo a dramatic penetration boom** like what China experienced in the 2000s, when higher incomes chased better nutrition.

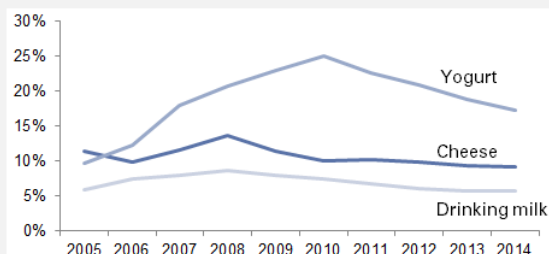
Instead, **the shift from loose to packaged and processed products will likely create some dairy companies with significant size over the next decade in our view**. Currently, 80% of the dairy market is fresh milk (vs. 6% for China); this market is dominated by regional cooperatives (Exhibit 34). On the other hand, the market for packaged dairy products such as curd (similar to yogurt) and paneer cheese, which are staple ingredients in most Indian cuisine, is small and undeveloped. Almost all households currently make them from scratch using fresh milk. But we expect this to change with the emergence of branded products, which will likely continue to drive up prices. Volume growth for milk has hovered at 5% yoy over the past decade while pricing has sustained a 10% yoy climb (Exhibit 34). There are currently few opportunities for public investors, but we highlight this category for its potential.

Exhibit 34: Growth in the dairy market is steady, so we see packaged and processed products as an opportunity

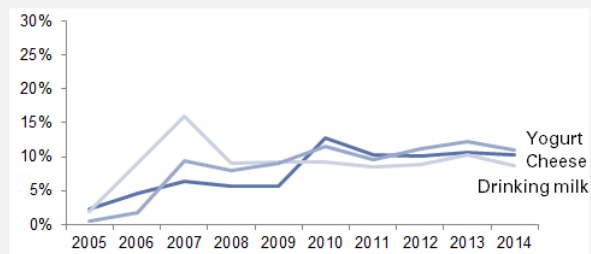
Dairy in India

Milk volume growth has been flat, while prices have been rising c.10% per year

Volume growth yoy

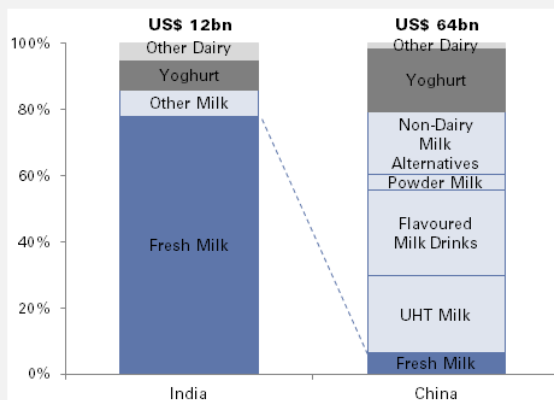


Price growth yoy

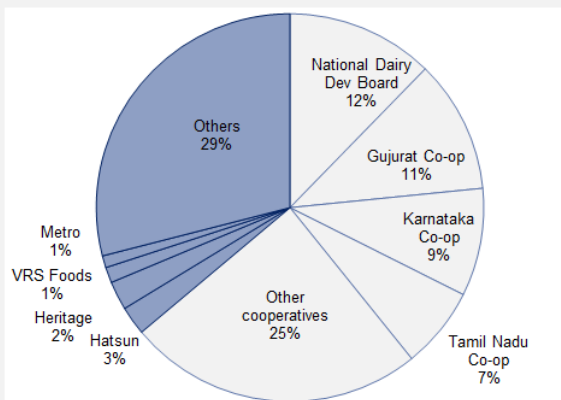


80% of dairy market is fresh milk; opportunity for upgrade to processed dairy products. The drinking milk market is dominated by regional cooperatives

Dairy market by product type



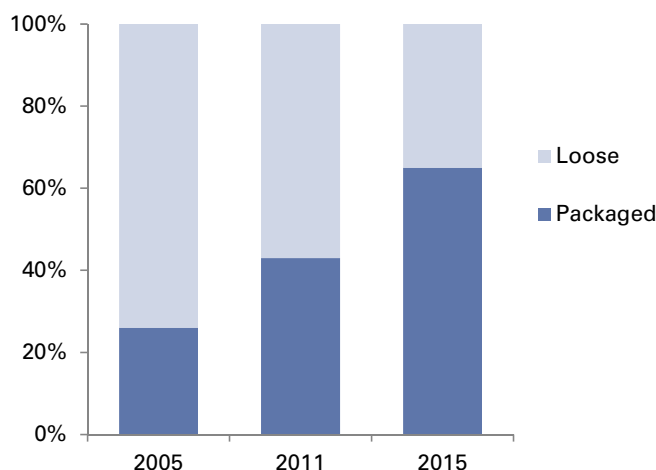
Drinking milk market share



Source: Euromonitor, Goldman Sachs Global Investment Research.

Edible Oil - A similar story of “loose to packaged” applies to India’s US\$7bn edible oil market. Over the last decade, packaged oil has increased from 26% to 65% of the market and premiumization is already beginning in both packaging (bottles vs. self-brought containers) and product (e.g., healthier blends). The top 3 players - Marico, Adani and Ruchi - together have 28% market share.

Exhibit 35: Consistent shift towards packaged edible oil
% of edible oil market, loose vs packaged



Source: Business Standard, Ruchi Soya Industries.

Exhibit 36: Leaders innovating on product and packaging
Leading packaged oils

| Company | Brand | Oil type | Package | \$/Liter |
|-------------|-----------------------|-----------------------|-----------|----------|
| Marico | Saffola Gold | Rice, safflower blend | 1L pouch | 2.3 |
| | Saffola Active | Rice, safflower blend | 1L pouch | 2.0 |
| | Saffola Tasty | Rice bran, corn blend | 1L pouch | 1.6 |
| | Saffola Total | Rice, safflower blend | 5L bottle | 2.8 |
| Adani | Fortune Rice Bran | Rice Bran | 1L pouch | 1.8 |
| | Fortune Sunflower oil | Sunflower oil | 1L pouch | 1.6 |
| | Fortune Soya Bean | Soya Bean | 1L pouch | 1.5 |
| | Fortune Sunflower oil | Sunflower oil | 5L bottle | 1.5 |
| Ruchi | Ruchi Gold Palmolein | Palm oil | 1L pouch | 1.3 |
| Kaleesuwari | Gold Winner Sunflower | Sunflower oil | 1L pouch | 1.6 |
| | Gold Winner Sunflower | Sunflower oil | 1L bottle | 1.6 |
| Unbranded | - | Palm oil | Loose | 0.7 |
| | - | Sunflower oil | Loose | 1 |

Source: Bigbasket.com, Goldman Sachs Global Investment Research.

2. Snacks and baby food to benefit from volume growth

Snacks and baby food will be two of the fastest volume growth stories in the coming decade, in our view. Unlike China, where Western snacks such as chocolate bars were initially slow in getting traction with consumers, we think India will adopt some snacks much quicker due to palette preferences. For example, chocolate consumption is already very high in India vs. China.

Biscuits are one snack that we believe is primed for growth. Penetration is currently c.70% according to Euromonitor, and we believe there is significant room for growth, particularly as affordability is becoming less of an issue; companies are now offering smaller packaging to encourage purchases (Exhibit 37). The top three players (Britannia, Parle, ITC) grossed US\$2.5bn each year in biscuits sales (retail level), similar to the entire market of soap (US\$2.8bn), one of the most important FMCG products in the marketplace right now (discussed in next section).

As in China, we believe **infant formula** in India is also poised for significant take-off as parents focus on providing their children with the best possible nutrition. India’s high birth numbers and falling birth rates are another boon. Every year, c.27mn live babies are delivered (vs c.17mn in China), yet parents are increasingly able and willing to spend on their children, as birth rates halved from the 1980s to 20.9 births per 1,000 persons in 2015 (which is still significantly higher than China’s 12.6 births per 1,000 persons), according to Euromonitor. With growing income, education and smaller family sizes, parents are increasingly investing in their children (education is another beneficiary; see section on Wellbeing.)

To invest in a market that still has many privately-held players, Britannia (*Snacks for a billion; initiate leader at Buy; add to Conviction List*, June 1) offers a pure play. In addition, historically non-food companies such as ITC (tobacco) and Marico (hair oil) have also built considerable market share in F&B, offering exposure for public investors.

Exhibit 37: Snacks and biscuits have become more affordable, potential for penetration increase

Price comparison for top packaged food and beverage products in India, China and the US

| Category | Segment | India | | | | | China | | | | | US | | | | | Urban Mass "hours worked"/vol | | Average Income |
|---------------|--------------|---------|-----------------------|-------|-------|----------------|-----------------------|----------------------|-------|-------|----------------|-----------|--------------|-------|-------|----------------|-------------------------------|----------------|----------------|
| | | Company | Brand | Vol | Price | Price / volume | Company | Brand | Vol | Price | Price / volume | Company | Brand | Vol | Price | Price / volume | India \$1.4/hr | China \$2.6/hr | US \$24/hr |
| Packaged food | Biscuits | GSK | Horlicks | 90g | 0.15 | \$0.17/100g | Lotte | Chocolate Biscuit | 100g | 0.91 | \$0.91/100g | MDLZ | belVita | 250g | 2.98 | \$1.19/100g | 0.12 | 0.35 | 0.05 |
| | Chips | PEP | Lay's | 25g | 0.15 | \$0.60/100g | PEP | Lay's | 240g | 2.96 | \$1.23/100g | PEP | Lay's | 227g | 2.48 | \$1.09/100g | 0.43 | 0.47 | 0.05 |
| | Indian Snack | - | Halidram | 40g | 0.15 | \$0.60/100g | - | - | - | - | - | - | - | - | - | - | 0.43 | - | - |
| | Cake | BRIT | Britannia | 65g | 0.23 | \$0.35/100g | Tingyi | Tingyi | 375g | 2.17 | \$0.58/100g | - | Twinkies | 450g | 6.00 | \$1.33/100g | 0.25 | 0.22 | 0.06 |
| | Oats | GSK | Horlicks Oats | 500g | 1.44 | \$2.88/kg | PEP | Quaker Oats | 1kg | 3.35 | \$3.35/kg | PEP | Quaker Oats | 510g | 2.68 | \$5.25/kg | 2.06 | 1.29 | 0.22 |
| | Spreads | HUL | Kissan Jam | 500g | 1.76 | \$0.35/100g | - | Hong Ren Jam | 510g | 2.66 | \$0.52/100g | Smucker's | Fruit Spread | 450g | 2.28 | \$0.51/100g | 0.25 | 0.20 | 0.02 |
| | Noodles | NESN | Yippee Classic Masala | 75g | 0.15 | \$0.20/100g | Tat Hui Foods Pte Ltd | Koka Instant Noodles | 425g | 2.03 | \$0.48/100g | Lucky Me! | Lucky Me! | 65g | 0.40 | \$0.62/100g | 0.14 | 0.18 | 0.03 |
| | Baby Food | NESN | Cerelac | 300g | 3.00 | \$1.00/100g | NESN | Cerelac | 225g | 4.88 | \$2.17/100g | NESN | Cerelac | 400g | 10.18 | \$2.55/100g | 0.71 | 0.83 | 0.11 |
| | Ketchup | NESN | Maggi Ketchup | 1kg | 2.09 | \$2.09/kg | - | Ketchup Sauce | 1kg | 2.99 | \$2.99/kg | KRFT | Heinz | 900g | 2.64 | \$2.93/kg | 1.49 | 1.15 | 0.12 |
| Beverages | Tea | Tata | Tea Gold | 500g | 3.36 | \$0.67/100g | Lipton | Tea | 200g | 5.59 | \$2.80/100g | Lipton | Tea | 226g | 4.27 | \$1.88/100g | 0.48 | 1.08 | 0.08 |
| | Coffee | NESN | Nascafe | 50g | 1.76 | \$3.52/100g | NESN | Nascafe | 390g | 5.02 | \$1.29/100g | Fireside | Fireside | 23g | 0.75 | \$3.26/100g | 2.51 | 0.50 | 0.14 |
| | Coca-Cola | KO | Coca-cola | 300ml | 0.54 | \$1.80/L | KO | Coca-cola | 330ml | 0.31 | \$0.94/L | KO | Coca-cola | 350ml | 0.80 | \$2.29/L | 1.29 | 0.36 | 0.10 |
| | Fruit Drinks | PEP | Tropicana | 1L | 1.83 | \$1.83/L | Fontana | Orange Juice | 1L | 1.72 | \$1.72/L | PEP | Tropicana | 1.7L | 3.00 | \$1.76/L | 1.31 | 0.66 | 0.07 |

Source: Yihaodian.com, Dangdang.com, JD.com, Amazon.com, Bigbasket.com

Exhibit 38: Non-F&B players e.g., ITC offer exposure to a market with many privately-held players

Top 5 brands within packaged food categories

☐ Local ☐ Global ☒ Publicly traded

| 2015 | | Total Market Size (USD mn) | Top 5 Market Share by Market Value | Brand | Company | Market Share by Market Value | Sales (USD mn) |
|-------------------------|--------------------------|----------------------------|------------------------------------|-----------------|---------------------------------------|------------------------------|----------------|
| Snacks | Confectionery | 3,577 | 46% | Cadbury | Mondelez International Inc | 30% | 1,088 |
| | | | | Candyman | ITC | 4% | 154 |
| | | | | Alpenliebe | Perfetti Van Melle Group | 4% | 147 |
| | | | | Center Fresh | Perfetti Van Melle Group | 4% | 129 |
| | | | | Center | Perfetti Van Melle Group | 4% | 125 |
| | Sweet and Savoury Snacks | 3,010 | 62% | Haldiram's | Haldiram Foods International Ltd | 18% | 542 |
| | | | | Lay's | PepsiCo Inc | 15% | 457 |
| | | | | Kurkure | PepsiCo Inc | 14% | 430 |
| | | | | Balaji | Balaji Wafers Pvt Ltd | 8% | 226 |
| Baked Food and Biscuits | Biscuit and Snack Bars | 3,636 | 83% | Bingo! | ITC | 7% | 199 |
| | | | | Britannia | Britannia Industries Ltd | 34% | 1,229 |
| | | | | Parle | Parle Products Pvt Ltd | 26% | 956 |
| | | | | Sunfeast | ITC | 16% | 582 |
| | | | | Priyagold | Surya Food & Agro Pvt Ltd | 4% | 153 |
| | Baked Goods | 1,877 | 20% | Anmol | Anmol Biscuits (P) Ltd | 2% | 80 |
| | | | | Britannia | Britannia Industries Ltd | 9% | 176 |
| | | | | Modern | Nimman Foods | 4% | 77 |
| | | | | Monginis | Monginis Foods Ltd | 3% | 64 |
| | | | | Lotte Choco Pie | Lotte Group | 1% | 24 |
| | | | | Weikfield | Weikfield Products Co (India) Pvt Ltd | 1% | 24 |

Source: Euromonitor, Company data, Goldman Sachs Global Investment Research.

3. Beverages – Spirits, Beer, Soft Drinks

Alcoholic beverages represent 25% of the F&B market in China and the US (Exhibit 28); in India, spirits alone is 34%, making it the largest category and a **US\$31bn market. Spirits is equivalent to ¾ the size for all packaged food** (Exhibit 28). However, given that duties account for 60%+ of retail price, corporate-level revenue is much smaller.

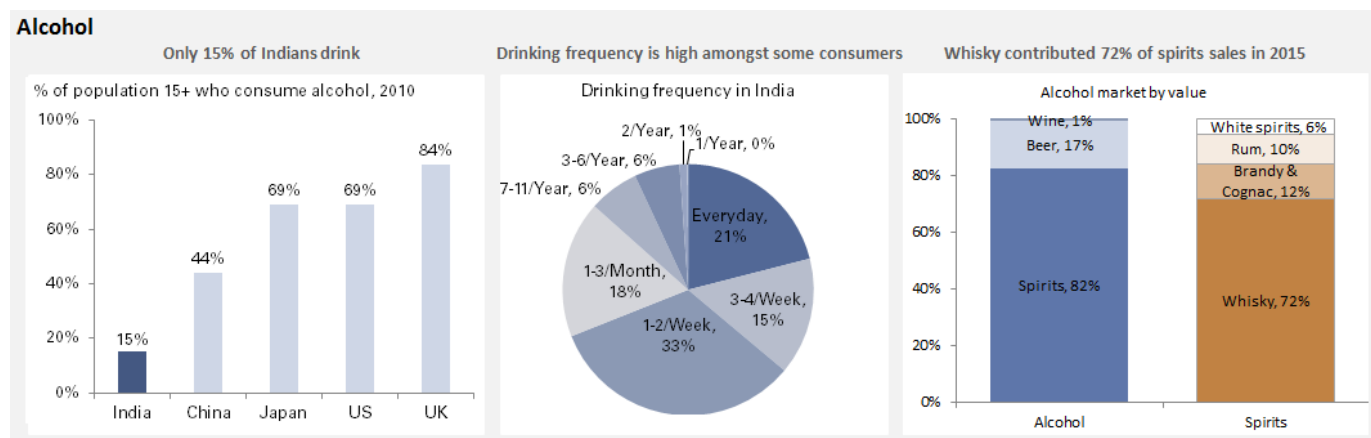
Still, we believe there remains ample potential for growth as only 15% of Indians drink (vs 44% in China, Exhibit 39). Taboos around alcohol also appear to be lifting, driven by Millennials: age of first drinking was around 17 in recent years, down from 28 in the 1980s, according to WHO. The Indians who drink appear to be high-frequency consumers: 36% of drinkers drink more than 3-4 times per week (Exhibit 39). We expect incremental industry volume growth to be driven mainly by new consumers.

Brown spirits Whisky contributes 72% of spirits sales (Exhibit 39). The industry is largely dominated by domestic brands which occupy the top 20 brands from Euromonitor. However, most of these brands are now owned by global beverage brands, with 7 of the top 10 owned by Diageo and Pernod. While price points are currently low, ranging from \$2-\$7 per quart, there is increasing focus by the multinationals to drive premiumization, especially as pricing power is limited.

Beer Relative to spirits, India's **US\$7bn beer market is nascent**. Volume penetration is currently only 1.9L per capita p.a. While spirits have been the traditional drink of choice, beer is increasingly popular amongst **Millennials**. A 500ml can of beer costs roughly \$1.50-\$2 which is equivalent to half an hour's wage for the Urban Middle and over an hour of wage for the Urban Mass.

Soft drinks Soft drinks penetration is also very low, just 13% of that in China. The category has sustained persistent double digit volume growth for over a decade, much higher than that in China. Bottled water and carbonated beverages form the bulk of the market, with global multinationals like Coca Cola and Pepsi having 56% of the total volumes, according to Euromonitor. However, with increasing awareness on the health impact of sugary drinks, we believe that fruit juices and fruit drinks are also well positioned for growth. Coca-Cola leads the market in carbonates with brands like Thums Up and Sprite, but we believe Pepsi, Parle Bisleri and Dabur are well placed on bottled water and juices.

Exhibit 39: Alcohol penetration is still low; whisky contributes 72% of spirits market



Source: WHO, "Alcohol use and implications for public health: Patterns of use in four communities", Girish et al., 2010; Seoul Metropolitan Government, World Health Organisation, Substance Abuse and Mental Health Services Administration, Office of National Statistics, Euromonitor

4. Tobacco: Cigarette volumes to decline over the long term due to large taxation gap vs other tobacco forms

The number of daily tobacco smokers in India is forecast to reduce to 72.7mn in 2025 from 87.8mn in 2015, while the smoking prevalence will decline to 6.8% from 9.6% over the same period, according to WHO, due to an extremely high taxation which is driving consumers to other forms of tobacco like chewing tobacco. This compares to 20.8% (2025) from 22.8% (2015) for China and 40.7% (2025) from 34.3% (2015) for Indonesia.

In both China and the US, tobacco dominates all other ingestible categories and is c.3x bigger than spirits. In India however, tobacco is only 1/3 the size of the spirits market at retail level, as 88% of consumption is still non-cigarettes (e.g., bidis and chewing tobacco). Increasing education, income levels and urbanization could drive a shift from bidis to cigarettes but the up-trading thesis could get derailed due to high taxes on the latter. This trend has been visible over the last 10 years as excise and VAT increases in cigarettes have been sharper than other forms of tobacco. At present, cigarettes are priced over 7X the price of bidis (most commonly smoked form of tobacco in India consisting of rolled up tendu leaf with flaked tobacco). The tax paid on an average cigarette is over 30X that of a bidi. This, in addition to increasing laws to curb smoking in public places has led to fewer consumers shifting to cigarettes from bidis.

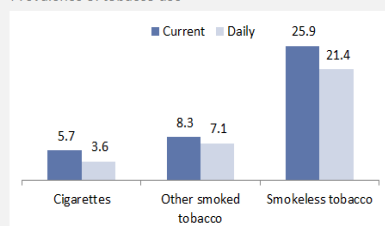
We believe that the high price of cigarettes (relative to PPP vs China) and continued gap in taxation between cigarettes and bidis, mean that top-line growth prospects look more challenged than other consumer categories. However, if the taxation gap compared with bidis is drastically reduced and if more stringent restrictions are imposed on chewing tobacco (assuming efficient enforcement), then we could see an acceleration in growth for cigarettes. For FY17, the blended excise duty of c.10% is much lower than the c.20% hikes the government imposed over the last few years. In the near term, we expect cigarette volumes to remain flattish compared to the double digit declines over last two years.

Exhibit 40: Tobacco: stricter regulations, decreasing popularity of smoking and affordability are major hurdles to growth

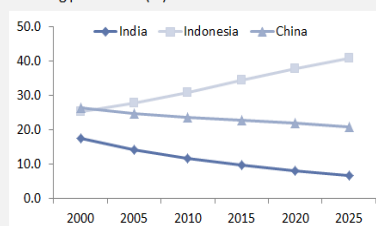
Tobacco in India

Cigarette volumes have been decreasing and majority of tobacco use are non-cigarette related

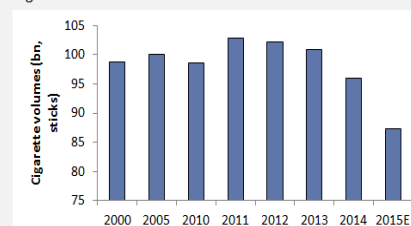
Prevalence of tobacco use



Smoking prevalence (%)

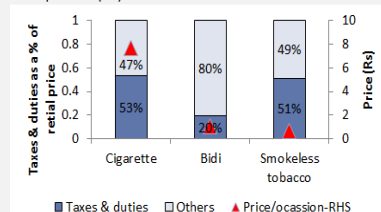


Cigarette volumes

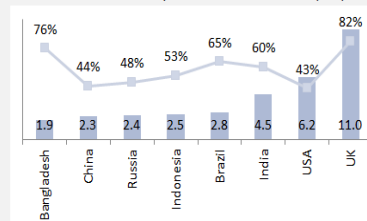


Moreover affordability is still a hurdle for cigarettes: prices are 7.4x and 11.7x that of bidis and chewing tobacco

Price per use (Rs)



Price of most commonly used brand and taxes per pack of 20 (PPP US\$)



"Hours worked" affordability test for tobacco

| | | "hours worked" affordability test | | | | | |
|--|------|-----------------------------------|----------------------|------------------------|----------------------|----------------------------|--------------------------|
| | | "Urban middle" (India) | "Urban mass" (India) | "Urban middle" (China) | "Urban mass" (China) | "Urban middle" (Indonesia) | "Urban mass" (Indonesia) |
| Average hourly earning (US\$) | | 4.9 | 1.4 | 5.2 | 2.6 | 2.2 | 1.3 |
| | | Price (US\$) | | | | | |
| Tobacco | | | | | | | |
| Cigarette (India) - 20 stick Gold Flake pack | 1.80 | | | n.a. | n.a. | n.a. | n.a. |
| Chewing tobacco (India) - gram | 0.01 | 0.002 | 0.001 | n.a. | n.a. | n.a. | n.a. |
| Cigarette (China) - 20 stick Marlboro pack | 2.36 | n.a. | n.a. | 0.5 | 0.9 | n.a. | n.a. |
| Smokeless tobacco (China) - gram | 0.07 | n.a. | n.a. | 0.01 | 0.03 | n.a. | n.a. |
| Cigarette (Indonesia) - 20 stick Marlboro pack | 1.49 | n.a. | n.a. | n.a. | n.a. | 0.7 | 1.1 |
| Cigarette (US) - 20 stick Marlboro pack | 9.00 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Smokeless tobacco (US) - gram | 0.13 | n.a. | n.a. | n.a. | n.a. | n.a. | 0.01 |

Source: WHO, Euromonitor, Tobacco Atlas, Taobao, Goldman Sachs Global Investment Research

2. Looking better

- US\$14bn personal care market represents **37% of India's large-cap consumer universe** (US\$1bn+ market cap, excluding autos)
- **Hair oil** (US\$1bn) and **skincare** (US\$2bn) to grow as consumers **extend beyond basic hygiene**, which comprises 64% of the personal care market
- **Apparel** and **jewelry** will witness the **rise of brands**, particularly those that offer **value and quality, we believe**; unlike in China, consumers may be less eager to pay strong premiums for foreign, aspirational and status brands

| | Company | Ticker | Category |
|-----------------------|---------------------------|---------|------------|
| Positioned for growth | Marico | MRCO.BO | Hair oil |
| | Godrej Consumer Products | GOCP.BO | Hair color |
| | Titan Industries | TITN.BO | Jewelry |
| | Emami | EMAM.BO | Skincare |
| Challenged | Hindustan Unilever | HLL.BO | Bar soaps |
| | Colgate Palmolive (India) | COLG.BO | Toothpaste |

Source: Goldman Sachs Global Investment Research.

Consumption by cohort

| | | Urban Middle | Educated Urban Mass | Urban Mass | Rural Mass |
|------------------------------|---|--------------|---------------------|------------|------------|
| Legend | | | | | |
| ✓ Frequent consumption | | | | | |
| ✓ Infrequent consumption | | | | | |
| Potential consumption growth | | | | | |
| Premium | Cleansers (Dove) | ✓ | | | |
| | Hair oil | ✓ | | | |
| | Apparel (Levi's, Biba etc.) | ✓ | ✓ | | |
| | Jewelry (diamonds etc.) | ✓ | | | |
| | Higher-priced toothpaste (Colgate Total etc.) | ✓ | | | |
| | Make-up | ✓ | | | |
| | Non-oil conditioner | ✓ | | | |
| | Conditioner | | | | |
| | Color cosmetics (Garnier etc.) | ✓ | | | |
| | Machine detergent (Surf Excel etc.) | ✓ | ✓ | | |
| | Liquid hand wash | ✓ | ✓ | | |
| | Deodorants | ✓ | ✓ | ✓ | |
| | Facial moisturizers | ✓ | ✓ | | |
| | Unbranded accessories | ✓ | ✓ | ✓ | ✓ |
| | Shampoo | ✓ | ✓ | ✓ | ✓ |
| | Higher-priced soaps (Lux etc.) | | ✓ | | |
| | Branded jewelry | | ✓ | | |
| | Branded apparel (Stop, Van Huesen etc.) | | ✓ | ✓ | ✓ |
| | Toothpaste (Dabur Red etc.) | | ✓ | ✓ | ✓ |
| | Branded hair oil | | ✓ | | |
| | Unbranded apparel | | ✓ | ✓ | ✓ |
| | Unbranded jewelry | | | ✓ | ✓ |
| | Basic detergent (Ghadi etc.) | | | ✓ | |
| | Loose hair oil | | | ✓ | ✓ |
| | Soaps (Hamam etc.) | | | ✓ | ✓ |
| | Toothpowder | | | ✓ | ✓ |

Source: Goldman Sachs Global Investment Research

2. Looking better

"We have known for many years, India is a significant market. But then we have to get approvals to go into a country. It is a process."

- Karl Johan-Persson, H&M CEO, Business of Fashion, 14 Oct 15

"Men have upgraded from soaps to face wash. A growing awareness among men has helped the products become popular."

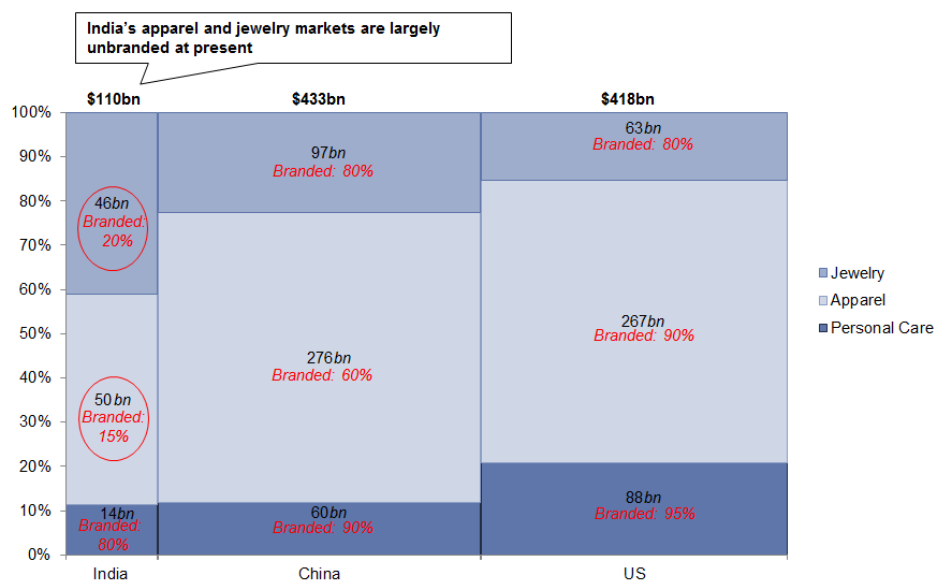
- Satyaki Ghosh, Director (Consumer Product Division), L'Oreal India, Live Mint, 20 Jul 15

Personal care, apparel and jewelry are the three pillars of "Looking Better". In India, these three markets total US\$110bn, similar to the size of Packaged F&B sector (US\$100bn) discussed in the previous chapter. **Jewelry** (mostly gold jewelry) stands out as disproportionately large – almost as large as total spending on apparel (Exhibit 41). By comparison, the US apparel market is over 4x the size of its jewelry market and in China this is 3x. India is the 2nd largest consumer of gold jewelry in the world, and buying gold to protect purchasing power remains a deep part of the Indian consumer psyche. Over 80% of gold jewelry is unbranded, by our estimates.

Similarly in **apparel**, unbranded products dominate – we estimate around 85% of total apparel sold is essentially of an unbranded nature. With annual per capita spending of just US\$39 on apparel, much of the market focuses on affordable basics, abundantly available thanks to India's textile manufacturing prowess.

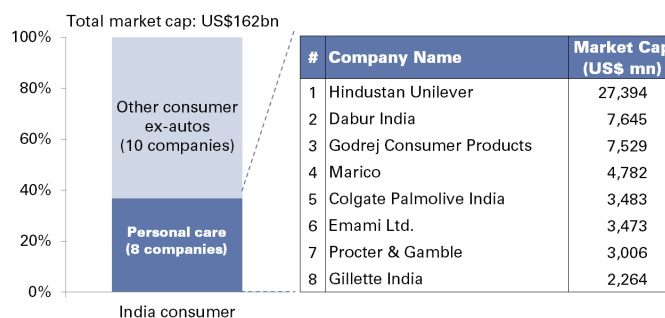
In contrast, **personal care** products are mostly branded. Like in other emerging markets, hygiene has led the first wave of growth in the category. India's annual US\$2.8bn sales for bar soaps now rival the market for TV advertising, a market usually much bigger (e.g. in US, TV advertising market is over 62x the size of bar soaps). In soap, India's per capita **volume** consumption is over that of China. Indians on average consumes 5.3 bars of soap per annum, vs 2.7 in China and 8.0 in the US according to Euromonitor.

Exhibit 41: Significant opportunity for brands to emerge in both jewelry and apparel
Market size of jewelry, apparel and personal care in India, China and the US



Source: Euromonitor, Goldman Sachs Global Investment Research.

Exhibit 42: Personal care is 37% of large-cap (US\$1bn+) consumer ex-autos universe
 Universe of India consumer ex-autos companies with US\$1bn+ market cap



Source: Bloomberg, Goldman Global Investment Research.

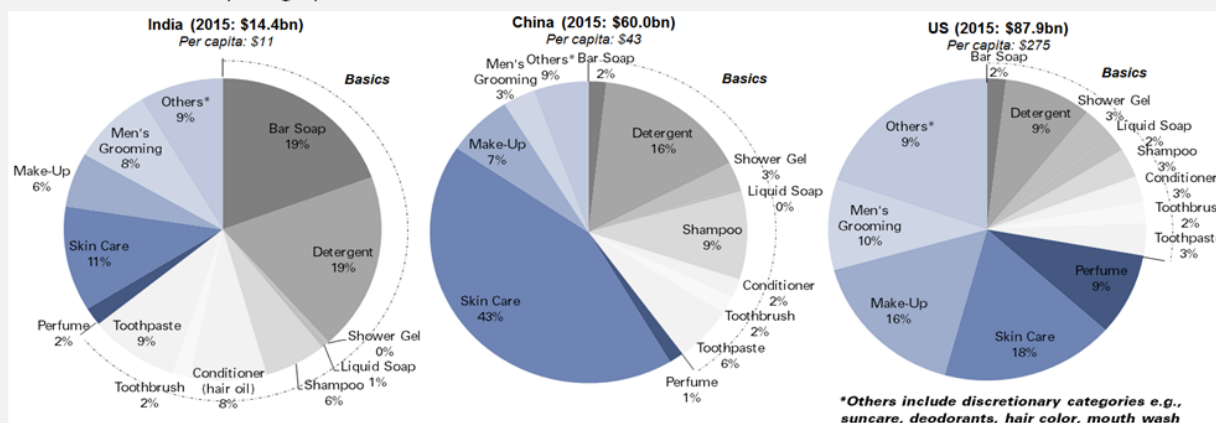
1. Personal Care - Growing beyond basic hygiene - Hair oil, Skincare

37% of the total market cap for India's large-cap (US\$1bn+) consumer ex-autos universe is personal care. Basic hygiene products such as bar soap, detergent and toothpaste comprise 64% of the personal care market. **We expect the growth to be anchored by more discretionary products such as hair care and skincare going forward.** However, we see sustained growth in some categories such as shower gels being dependent on availability of bathing facilities and adequate drainage. We identify 2 bright spots: **hair oil and skincare**.

Exhibit 43: We believe personal care growth will be driven more by discretionary products such as skincare and hair oil

Personal care: Beyond the basics

Basic hygiene is a high 64% of personal care market. We see opportunity for discretionary items to grow
 Personal care market by category



Overpenetration: Bar soap market is as big as TV advertising and penetration is already 2x that of China.

Market size, US\$ bn, 2015

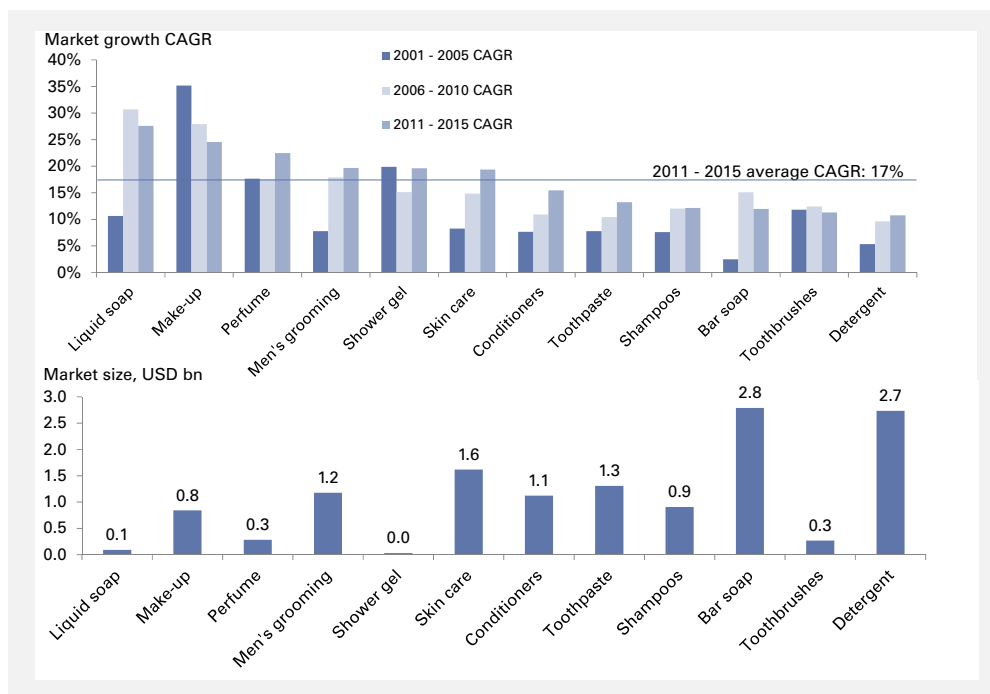
| | India | China | US |
|-----------------------|-------|-------|------|
| Bar soap | 2.8 | 1.7 | 1.1 |
| Detergent | 2.7 | 7.8 | 9.4 |
| TV advertising (2014) | 2.3 | 25.2 | 68.5 |

Per capita volume penetration in 2015

| | India | China | US |
|------------------------|-------|-------|-----|
| Bars of soap | 5.3 | 2.7 | 8.0 |
| Bottles of shower gel | 0.0 | 0.6 | 2.1 |
| Bottles of liquid soap | 0.0 | 0.1 | 1.2 |
| Detergent (kg) | 2.4 | 3.4 | 9.4 |

Source: Company data, Euromonitor, Zee Entertainment, Guardian, Rentrak, UK Cinema Association, Goldman Sachs Global Investment Research.

Exhibit 44: Among personal care products, strong growth in discretionary items
Growth and market size of personal care categories, 2001-2015



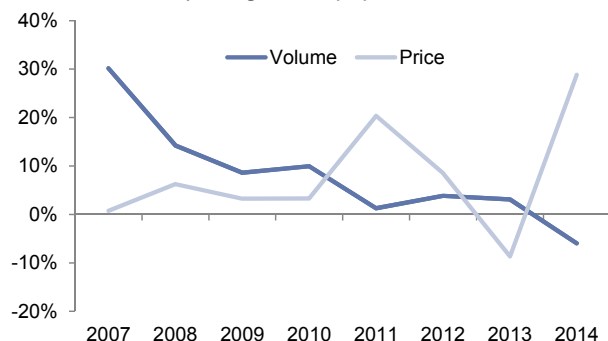
Source: Euromonitor, Goldman Sachs Global Investment Research.

The shift from loose to packaged and value-added products will fuel growth for India's US\$1bn hair oil market, in our view. The category is rooted in well-established habits; anecdotally, many Indians perceive hair oil, with its nourishing and styling benefits, to be a necessity more akin to soap rather than discretionary spending like make up. The industry has already begun premiumizing as consumers shift to packaged products, sustaining a 10% CAGR pricing growth over the last 5 years. Industry leaders like Marico and Dabur, which have 57% and 21% market share respectively, have also launched premium variants e.g., almond oil. We think pricing and margins can continue to improve given that many consumers are still using loose form and that only 39% of the packaged market is value-added.

The US\$1.6bn skincare market, already the third largest within personal care, will grow further as penetration expands. Per capita spending on skincare is just US\$1 per year vs US\$19 in China and US\$49 in the U.S (Exhibit 46). Currently, most skincare products in India are skin-lightening creams. In the next years, other types of skincare, especially those offering solutions to targeted problems e.g., anti-ageing, will become the next drivers of growth, in our view. However, the category is still in a need-creation (convincing consumers they need the product) phase, and we believe companies will need to continue investing substantially in education and marketing.

Exhibit 45: Hair oil's shift from loose to packaged, and value-added products, to drive price and margin uplift

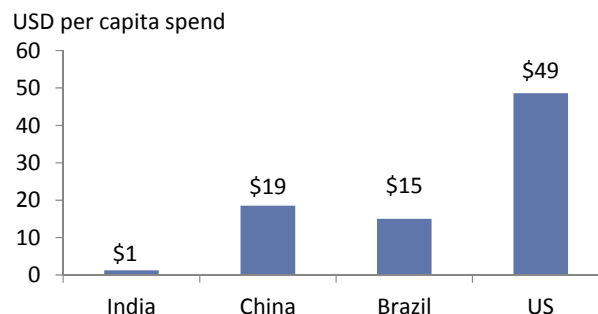
Hair oil volume vs price growth, yoy



Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 46: India spends US\$1 per person p.a. on skincare; almost all of which goes to whitening creams

Per capita spend on skincare in 2015



Source: Euromonitor, Goldman Sachs Global Investment Research.

Affordability is still lagging, but unique and more affordable one-time use sachet packaging is luring low-income consumers to become brand buyers. Prices for personal care items in India are on average c.30% and c.50% cheaper than in China and the US respectively (Exhibit 47). But adjusted for pay, products are still not yet affordable. There are some exceptions – such as whitening creams and hair oils where the prices are very low.

Sachet packaging is one innovation that has allowed brands to penetrate lower income cohorts. Sachets require little cash outlay, reduce consumers' risk of experimenting with a new product or of spoilage, and are more convenient to buy, transport and store. However, **gross profit for sachets is much lower than that of bottles, by our estimates, and the low cost of switching has eroded brand loyalty.** Some categories that developed later, e.g., hair oil was able to leap frog the sachet phase into bottles; for others, shifting more consumers to bottles continues to be an opportunity for pricing and margin expansion. Shampoo is a prime example: sachets contribute 60% of sales and while rural consumers were the initial target, urban consumers contribute 80% of sachet sales.

Exhibit 47: Prices of personal care products are cheap but when adjusted for pay, affordability is still lagging

Pricing of popular personal care items in India, China and the US

| Category | India | | | | | | China | | | | | | US | | | | | | Urban Mass "hours worked" / vol | | Avg Income |
|------------|---------|----------------------|----------|------------|----------------------|--|----------------------|----------------------|----------|------------|----------------------|--|-----------|------------------|--------|------------|----------------------|--|---------------------------------|----------|------------|
| | Company | Brand | Volume | Price, USD | Price / volume (USD) | | Company | Brand | Volume | Price, USD | Price / volume (USD) | | Company | Brand | Volume | Price, USD | Price / volume (USD) | | India | China | |
| | | | | | | | | | | | | | | | | | | | \$1.4/hr | \$2.6/hr | \$24/hr |
| Soaps | HUL | Dove | 75g | 0.70 | \$0.93/100g | | ULVR | Dove | 100g | 1.09 | \$1.09/100g | | ULVR | Dove | 113g | 4.13 | \$3.65/100g | | 0.66 | 0.42 | 0.15 |
| | HUL | Lux | 75g | 0.43 | \$0.57/100g | | ULVR | Lux | 115g | 0.77 | \$0.67/100g | | PG | Lux | 125g | 3.44 | \$2.75/100g | | 0.41 | 0.26 | 0.11 |
| | GOCPI | Godrej | 4 x 100g | 1.04 | \$0.26/100g | | - | Keon | 4 x 100g | 1.40 | \$0.35/100g | | - | Monoi Tahiti | 130g | 2.99 | \$2.30/100g | | 0.18 | 0.13 | 0.10 |
| | HUL | Lifebuoy | 75g | 0.15 | \$0.20/100g | | Wheathfields Lohmann | Walch | 500g | 1.56 | \$0.31/100g | | - | Medimix | 125g | 0.49 | \$0.39/100g | | 0.14 | 0.12 | 0.02 |
| Detergents | HUL | Wheel Active | 1kg | 0.7 | \$0.70/kg | | - | Blue Moon Detergent | 3kg | 7.84 | \$2.61/kg | | PG | Gain | 1.4kg | 11.45 | \$8.17/kg | | 0.50 | 1.00 | 0.34 |
| Skin care | HUL | Fair & Lovely | 25g | 0.72 | \$2.88/100g | | Nivea | Silk White Whitening | 50g | 6.14 | \$12.28/100g | | ULVR | Pond's | 25g | 8.50 | \$34.00/100g | | 2.05 | 4.69 | 1.42 |
| | HUL | Fair & Handsome | 30g | 0.99 | \$3.30/100g | | Olay | Natural White Cream | 50g | 4.72 | \$9.44/100g | | - | Crusader | 50g | 6.00 | \$12.00/100g | | 2.35 | 3.63 | 0.50 |
| Shampoo | HUL | Clinic Plus | 175ml | 1.76 | \$1.01/100ml | | PG | Pantene | 750ml | 6.28 | \$0.84/100ml | | PG | Pantene | 750ml | 6.64 | \$0.88/100ml | | 0.72 | 0.32 | 0.04 |
| | HUL | Dove | 180ml | 2.44 | \$1.36/100ml | | ULVR | Dove | 200ml | 3.28 | \$1.64/100ml | | ULVR | Dove | 355ml | 4.40 | \$1.23/100ml | | 0.97 | 0.63 | 0.05 |
| | PG | Head & Shoulders | 170ml | 2.06 | \$1.21/100ml | | PG | Head & Shoulders | 750ml | 7.86 | \$1.05/100ml | | PG | Head & Shoulders | 1L | 8.26 | \$0.82/100ml | | 0.86 | 0.40 | 0.03 |
| | HUL | Clinic Plus (sachet) | 6.5ml | 0.03 | \$0.46/100ml | | PG | Pantene | 750ml | 6.28 | \$0.84/100ml | | PG | Pantene | 750ml | 6.64 | \$0.88/100ml | | 0.33 | 0.32 | 0.04 |
| | HUL | Dove (sachet) | 7.5ml | 0.05 | \$0.67/100ml | | ULVR | Dove | 200ml | 3.28 | \$1.64/100ml | | ULVR | Dove | 355ml | 4.40 | \$1.23/100ml | | 0.48 | 0.63 | 0.05 |
| Hair Oil | MRCO | Parachute | 250ml | 1.33 | \$0.53/100ml | | - | Hocfaun Oil | 100ml | 5.51 | \$5.51/100ml | | Viva Labs | Viva Oil | 470ml | 10.66 | \$2.26/100ml | | 0.38 | 2.12 | 0.09 |
| Oral Care | CL | Colgate Dental Cream | 100 | 0.7 | \$0.70/100g | | CL | Colgate Total | 250g | 2.66 | \$1.06/100g | | CL | Colgate Total | 1330g | 21.37 | \$1.60/100g | | 0.50 | 0.41 | 0.07 |

Note: Shampoo sachets are unavailable in China and US, hence sachet comparisons for India are made against bottled shampoo in China and US.

Source: Yihao.com, Dangdang.com, JD.com, Amazon.com, Bigbasket.com, Company data, Goldman Sachs Global Investment Research.

2. Emergence of branded apparel and jewelry

In contrast to personal care, few large brands exist in apparel or jewelry and we think their emergence with a strong value proposition could present significant growth opportunities for investors. In apparel, the top 15 brands form just 7% of India's US\$50bn apparel market. The largest brands are well under US\$1bn in annual sales (Exhibit 48). In comparison, over 20 brands in China do over \$1bn in annual sales. In jewelry, the largest brand – Tanishq, owned by Titan - is just US\$1.6bn vs. Chow Tai Fook at US\$7.1bn in China/Hong Kong. This is despite India being the 2nd largest consumer of gold jewelry in the world.

The brands story in India – different from the one in China

The rise of brands in China has centered on consumers' obsession with 3 things: i) all things Western, ii) aspirational purchases, iii) status symbols. This story is unlikely to play out in India, where consumers are predominantly **focused on value and quality**.

i) Global vs local – Many Chinese brands, particularly in apparel, attracted consumers with foreign sounding names e.g., La Chapelle, Semir. In India, being foreign does not necessarily add prestige; instead, foreign products such as oats and burgers have had to localize to attract buyers e.g., masala oats, paneer burgers.

ii) Value for money vs aspirational – Indian shoppers are less likely than Chinese shoppers to pay big premiums for brand equity. This does not mean that they simply seek the lowest price; instead, they have a keen eye for value for money.

iii) Status symbols – Culturally, flaunting wealth through branded material goods is generally frowned upon, which is in contrast with Chinese consumers who seek identity through the brands they carry to a greater extent.

In apparel, rising incomes and ecommerce are enabling brands to better penetrate the market. As an example of the Urban Middle's growing desire for brands; let us compare Levi's with Zara. While Levi's was one of the earliest and most successful foreign brands in India, it took 20 years to turn a positive net profit in FY14. Zara, which only entered India in 2010, turned profitable within 2 years and surpassed Levi's in revenue within 3 years.

In apparel, we believe the price point and the targeted cohorts are critical. **Apparel is one industry where brands targeting the Urban Middle may do better than brands targeting the Urban Mass.** The development of the rest of Asia suggests that investing in mass apparel has generally been a poor way to gain exposure to rising living standards. We do not think India will be different given an abundance of cheap products thanks to the proximity of factories and the low level of brand equity. Ecommerce has further exacerbated the pressure in recent years.

Brands selling to the Urban Middle benefit from the relative smaller number of strong brands in the space. (We consider brands such as Zara and H&M as Urban Middle brands in India, given the income levels discussed in the beginning of this report.) Levi's sells c.3mn pairs of jeans per year to a core of 1mn active customers in India and is already one of the largest brands. Unlike in China, where many brands are extremely well distributed, brands in India have significant potential for store expansion, in our view.

Exhibit 48: Top 15 brands form just 7% of India's US\$50bn apparel market

Top 15 apparel brands by market share

☐ Local brand

| Top 15 Apparel Brands by Market Share (2015) | | | | | | | | |
|--|--|------------------|--------------------------------------|--|------------------|--------------------------------------|-------------------------------|------------------|
| India | | | China | | | US | | |
| Brand | Company | Market Share (%) | Brand | Company | Market Share (%) | Brand | Company | Market Share (%) |
| Van Heusen | PVH Corp | 0.70 | Heilan Home | Heilan Home Co Ltd | 1.20 | Nike | Nike Inc | 2.60 |
| Louis Philippe | Aditya Birla Group | 0.70 | Uniqlo | Fast Retailing Co Ltd | 1.00 | Old Navy | Gap Inc, The | 2.20 |
| Allen Solly | Aditya Birla Group | 0.60 | Jack & Jones | Bestseller A/S | 0.70 | Victoria's Secret | L Brands Inc | 2.20 |
| Arrow | PVH Corp | 0.50 | La Chapelle | Shanghai La Chapelle Fashion Co Ltd | 0.60 | Target | Target Corp | 1.80 |
| Rupa | Rupa & Co | 0.50 | Nike | Nike Inc | 0.60 | Ralph Lauren | Ralph Lauren Corp | 1.60 |
| Jockey | Jockey International Inc | 0.50 | adidas | adidas Group | 0.60 | Hanes | Hanesbrands Inc | 1.30 |
| Zara | Inditex, Industria de Diseño Textil SA | 0.50 | H&M | H&M Hennes & Mauritz AB | 0.50 | Forever 21 | Forever 21 Inc | 1.30 |
| Peter England | Aditya Birla Group | 0.40 | Vero Moda | Bestseller A/S | 0.50 | Levi's | Levi Strauss & Co | 1.20 |
| Indian Terrain | Celebrity Fashions Pvt Ltd | 0.40 | Semir | Semir Group Co Ltd | 0.50 | Under Armour | Under Armour Inc | 1.20 |
| Excalibur | Arvind Ltd | 0.40 | Anta | Anta (China) Co Ltd | 0.50 | Gap | Gap Inc, The | 1.20 |
| United Colors of Benetton | Benetton Group SpA | 0.40 | Zara | Inditex, Industria de Diseño Textil SA | 0.50 | Carter's | Carter's Inc | 1.10 |
| Levi's | Levi Strauss & Co | 0.30 | Only | Bestseller A/S | 0.50 | American Eagle Outfitters | American Eagle Outfitters Inc | 1.00 |
| Park Avenue | Raymond Ltd | 0.30 | Peacebird | Ningbo Peacebird Group Co Ltd | 0.50 | H&M | H&M Hennes & Mauritz AB | 1.00 |
| Lux | Lux Hosiery Industries Ltd | 0.30 | Cosmo Lady | Cosmo Lady China Holdings Co Ltd | 0.40 | Heritage | PVH Corp | 0.90 |
| Indigo Nation | Future Group | 0.30 | Metersbonwe | Shanghai Metersbonwe Fashion & Accessories | 0.40 | Fruit of the Loom | Fruit of the Loom Inc | 0.90 |
| Total market size | | \$50bn | Total market size | | \$276bn | Total market size | | \$267bn |
| Top 15 total market share | | 7% | Top 15 total market share | | 9% | Top 15 total market share | | 22% |
| No. of local brands in Top 15 | | 8 | No. of local brands in Top 15 | | 6 | No. of local brands in Top 15 | | 15 |

Source: Euromonitor, Goldman Sachs Global Investment Research.

Ecommerce is further helping brands to grow, propelling them into difficult-to-reach rural areas, but product offerings are still mostly geared towards higher income consumers. In China, online shopping website Taobao unleashed a flood of cheap unbranded goods early on. But in India, top selling apparel items on Flipkart are mostly branded. While ecommerce is still small, just 3% of the apparel market, top online players have already surpassed top offline retailers in revenue.

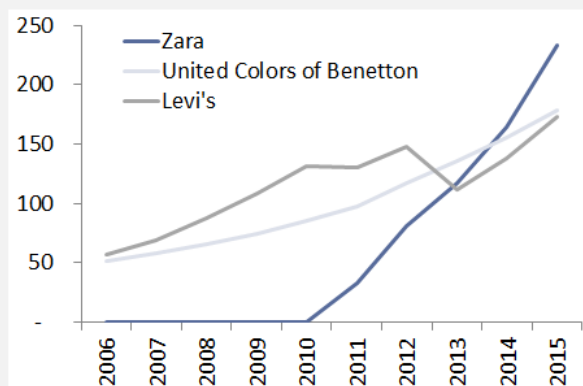
Unlike many other developed markets where womenswear represents the lion share of apparel industry profit pool, India's womenswear industry is shaped by the fact that roughly only 25% of womenswear in a typical urban Indian wardrobe is Western (according to Technopak). Traditional wear designs differ by region and consequently, few nationwide brands exist. The skew to traditional wear may change as female labor participation rates increase, but it will take time. Menswear and kidswear will be more important in India, in our view.

Exhibit 49: There is scope for growth in brands aided by ecommerce players. Unlike other countries, kids and menswear is driving apparel growth

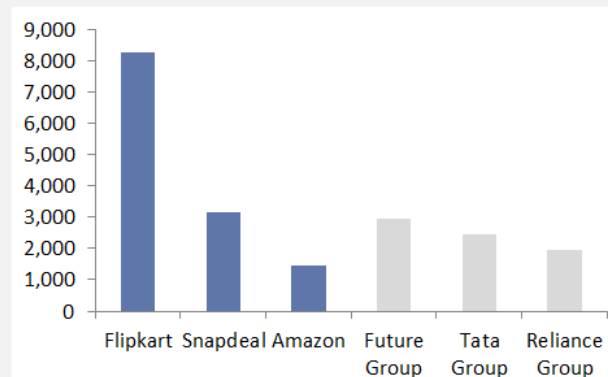
Apparel market in India - A closer look

Consumer demand for brands is growing: Zara surpassed Levi's in revenue only 3 years after launch. Ecommerce leaders already larger than offline retailers, helping brands overcome infrastructure barriers

Revenue in India, US\$ mn

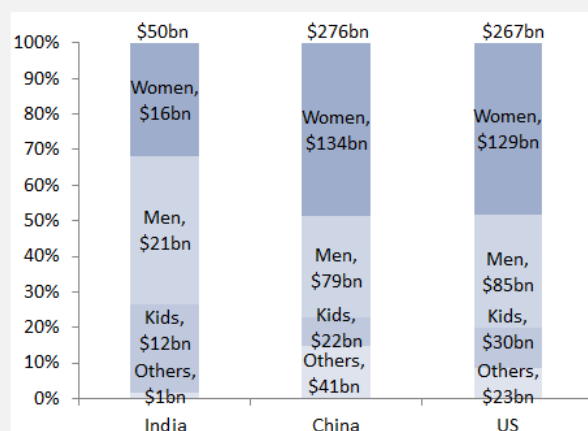


Revenue in India, US\$ mn

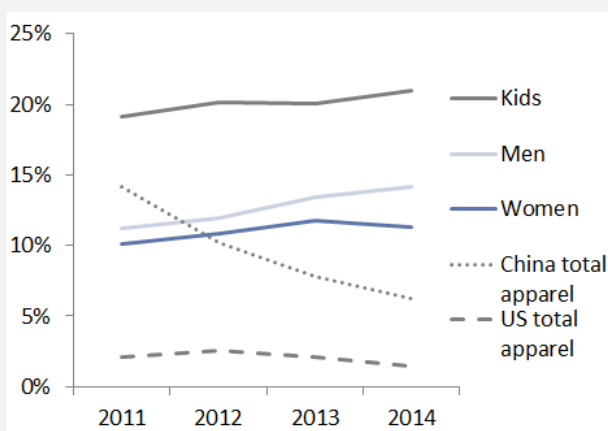


Unique to India: womenswear smaller than menswear. Kids and menswear will continue to drive apparel growth

Apparel market size, US\$



Apparel growth, yoy



Note for bottom left exhibit: Others include hosiery and apparel accessories

Source: Euromonitor, Company data, Goldman Sachs Global Investment Research.

Exhibit 50: Ecommerce in India may help the rise of brands; most online top sellers are branded

Top selling t-shirts and jeans on ecommerce platforms, India vs China

| Top-selling T-Shirts | | | | Top-selling Jeans | | | |
|---------------------------|-------------|-----------------|-------------|-------------------|-------------|-----------|-------------|
| India | | China | | India | | China | |
| Product | Price (USD) | Product | Price (USD) | Product | Price (USD) | Product | Price (USD) |
| Celio | 6.06 | Bld Barraisle | 7.72 | Lee | 32.55 | Hammerlet | 9.43 |
| United Colors of Benetton | 8.27 | Ibras | 4.57 | Wrangler | 18.14 | Usigsx | 6.28 |
| United Colors of Benetton | 8.13 | Ji Jie You Xuan | 4.57 | Wrangler | 21.92 | Bosyddi | 6.28 |
| Highlander | 4.89 | Jeanswest | 7.09 | Lee | 23.46 | Gurbaks | 13.86 |
| Break bounce | 11.60 | Jeanswest | 5.04 | Route 66 | 18.80 | MR | 6.28 |
| Average | 7.79 | Average | 5.80 | Average | 22.97 | Average | 8.43 |

Source: Tmall, Snapdeal

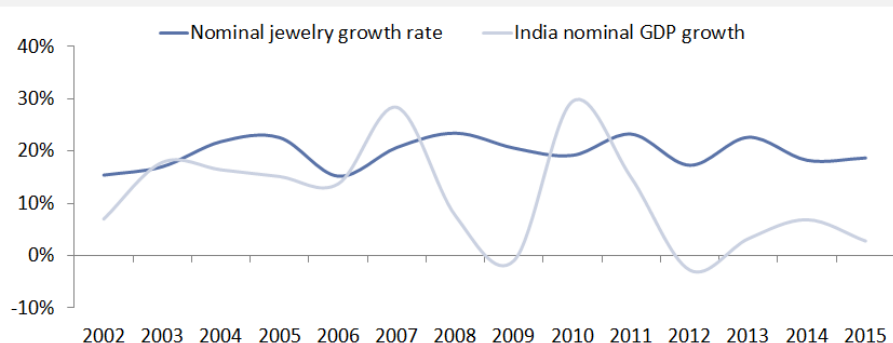
In jewelry, trusted brands are starting to emerge. The reason that the jewelry industry is disproportionately big is due to two factors. First, its crucial role in weddings; families save throughout a child's life in preparation for the wedding expenses and weddings contribute c.50% of India's gold market, according to the World Gold Council. Second, the use of gold as a form of savings continues, with consumers perceiving gold to be the best store of value – particularly against high inflation and the depreciating rupee.

Despite its size, few nationwide brands exist, but this is changing. Historically, consumers preferred their local family jewelers whom they trusted for quality, service and returns (returns constitute 15% of the market). But, brands with an organized retail presence are growing: Titan, the market leader, has grown to 4% share of the market. Their core US\$700-800 daily wear offerings mostly target the relatively small cohort of Urban Middle. Nevertheless, the depth of the jewelry market offers room for such brands to flourish, in our view. In the medium term, we believe Titan still has significant potential for store count penetration. In the longer term, there may also be room for margin expansion as gross margins for retailers currently hover at c.30-35%; c.15-20% for gold and c.45-50% for diamonds (vs 15% and 50% in China respectively).

Exhibit 51: Gold forms a large part of the jewelry market with room for further store and margin expansion

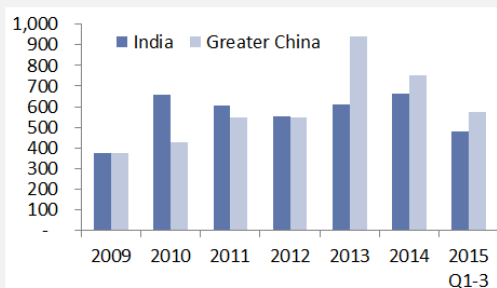
Jewelry market in India - A closer look

Jewelry has been outpacing GDP growth since 2002, a stalwart as a consumption category
Jewelry vs GDP yoy growth

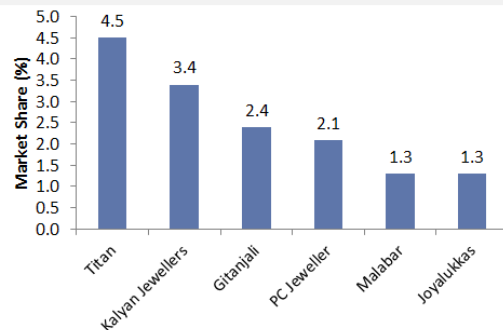


India has the 2nd highest gold consumption in the world (after China) but brands still nascent: Tanishq Titan is leader with 4% market share

Gold consumption, tonnes



Jewelry market share (C2014)

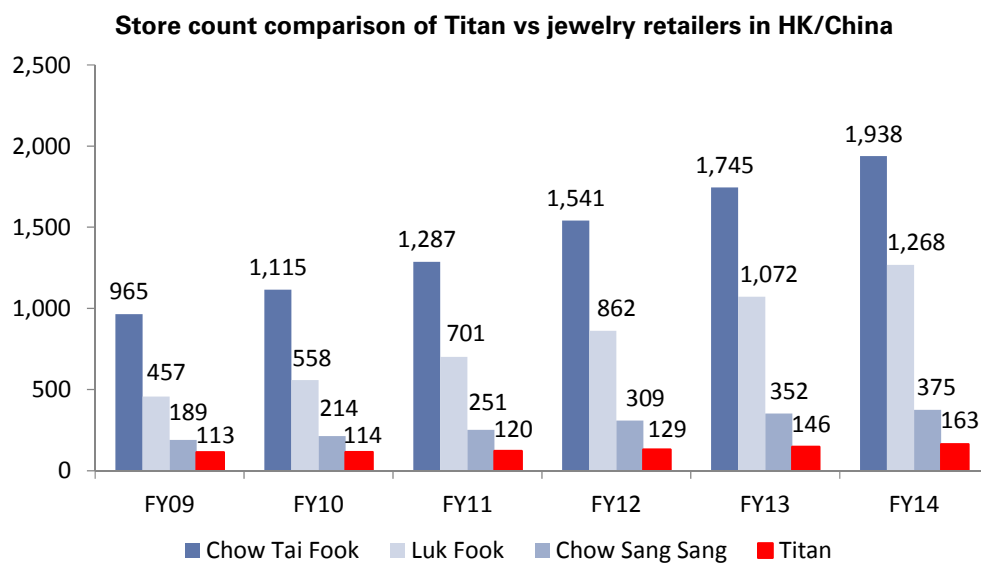


Source: World Gold Council, Euromonitor, Goldman Sachs Global Investment Research.

Migration is one of the core drivers for a shift to organized jewelers too as consumers can no longer depend on their family jewelers if they have moved to a new town. Brands also

offer more modern designs, especially in diamond studded jewelry and daily wear jewelry. To encourage more trust, branded jewelers offer buy-back guarantees, loyalty schemes and savings schemes.

Exhibit 52: Significant potential for store count penetration, particularly in top tier cities



Source: Company data

3. Better home

- **Housing demand far outstrips supply:** only 3mn residential units were sold in the top 15 cities from 2008-2015 vs 46mn college graduates over the same period
- **Affordability is a challenge:** single-income Urban Mass households will struggle to get a mortgage
- Home improvement e.g., **paints** and **appliances** growing quickly as consumers strive to improve their dwellings

| | Company | Ticker | Category |
|-----------------------|--------------|---------|-----------------|
| Positioned for growth | Asian Paints | ASPN.BO | Paints |
| | Voltas | VOLT.BO | Air-conditioner |

Source: Goldman Sachs Global Investment Research.

Consumption by cohort

| Legend | | | | |
|--|------------------------------|---------------------|------------|------------|
| ✓ | Frequent consumption | | | |
| | Potential consumption growth | | | |
| | Urban Middle | Educated Urban Mass | Urban Mass | Rural Mass |
| Branded furniture | ✓ | | | |
| Personal computer | ✓ | | | |
| Home ownership | ✓ | | | |
| Air-conditioners | ✓ | ✓ | | |
| Concrete housing | | ✓ | | |
| Metal-roof housing | | | ✓ | |
| Washing machine | ✓ | ✓ | | |
| Basic appliances (TV, refrigerator etc.) | ✓ | ✓ | ✓ | |
| Basic furniture | | | | |
| Shared housing | | | ✓ | |
| Basic houses (grass, tiles etc.) | | | | ✓ |

Source: Goldman Sachs Global Investment Research

3. Better Home

"We are expecting the urban housing shortage to increase to more than 3 crore (30mn) units by 2022."

- Brotin Banerjee, CEO, Tata Housing Development Company, "ETRealty.com", 21 Jul 15

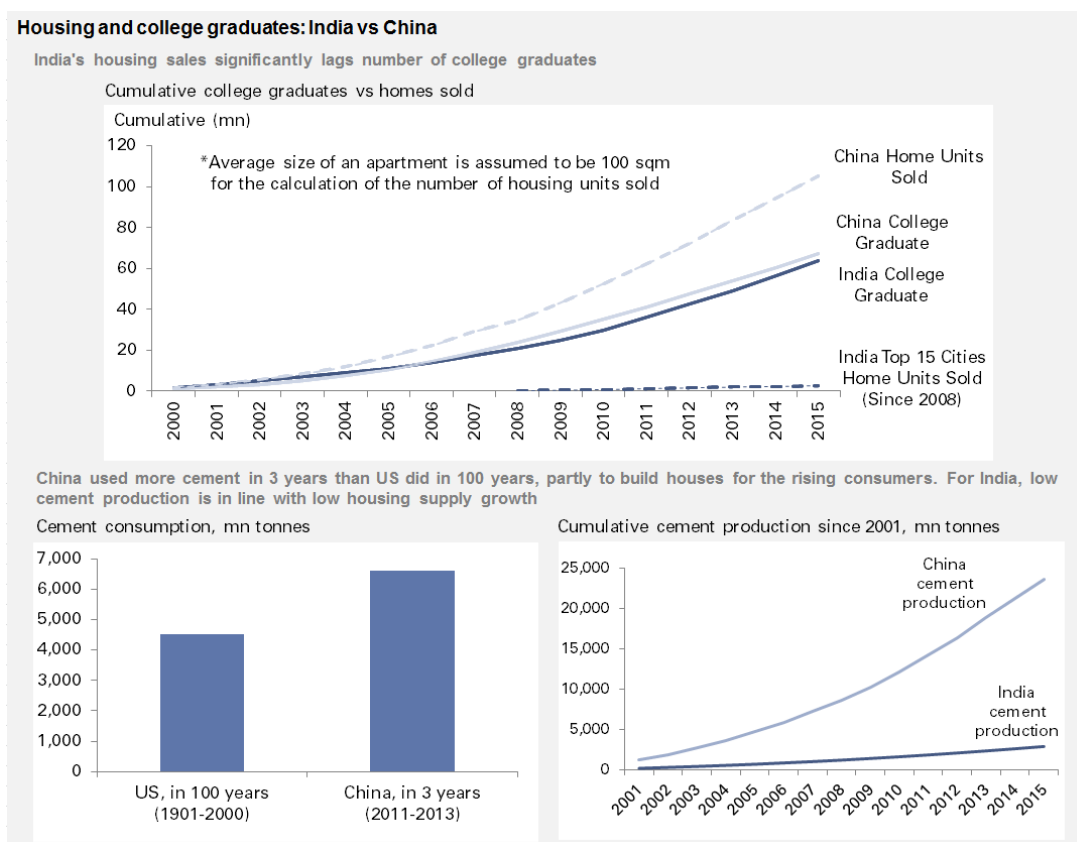
"Factors like rising disposable income, urbanization of consumers and easy finance options lead the industry recording a growth of 25% during festive season...with positive impact on demands for flat TVs, refrigerators, washing machines and ACs."

- Manish Sharma, Managing Director Panasonic India & South Asia, Consumer Electronics and Appliances Manufacturers Association (CEAMA), Dec 15

Housing is the area where demand in India is outstripping supply by the greatest magnitude. If we use college graduates as a key proxy for the rise of the consumer class, we find that India's c.64mn (2000 to 2015) college graduate pool far outstrips the 3mn (2008 to 2015) residential units sold in the top 15 cities. This is different to China, which has c.67mn college graduates and sold approximately 105mn residential units from 2000 to 2015.

We caution that there is limited data on overall new housing supply and sales. But we see a similar trend using cement as a proxy; the cumulative amount of cement used in India's overall construction was roughly 1/10 of that in China over the last 15 years (Exhibit 53).

Exhibit 53: Insufficient housing being built for the rising number of college graduates, our proxy for the rising consumer



Source: India Ministry of Human Resource Development, PropEquity, China Ministry of Education, NBS, CEIC, Gatesnotes, USGS, Cement Statistics 1900-2012; USGS, Mineral Industry of China 1990-2013, Goldman Sachs Global Investment Research.

Lack of housing affordability remains a key challenge

India's housing market has been handicapped by the complex approval processes and high capital costs. A typical 0.5mn sqft project can take 4-5 years to complete (Exhibit 54).

Today, affordability is a big issue for the Urban Mass. The average price of a flat sold in the top-15 cities in India was Rs5.1mn (US\$77k) in the past year (Exhibit 55). This compares with an average annual income of Rs0.22mn (US\$3.2k) for the Urban Mass. Assuming a loan to house price ratio of 70% implies that the average loan to income ratio was 17X, well above the 8X required by most lenders. In other words, Urban Mass households find it very difficult to get a mortgage unless both spouses work. Affordability has been further stretched by loan rates and inflation in basic commodities, where were particularly high between FY11-14.

For the Urban Middle earning around US\$14,000 per year, the typical age of buying a home is 35-40 years. The average buying price is around US\$120,000 thus requiring around 8.5 years of annual salary. With 20% of households having two working members, the affordability is more within reach to the Urban Middle (Exhibit 55). (But as discussed earlier, we expect the cohort will grow much slower than the Urban Mass.) A typical Urban Middle household tends to save for 6 years to save a 30% down payment required to buy the house. **Most of the primary homes were bought by Urban Middle households in recent years.** Over 2008 to 2015, top-15 cities primary residential sales amounted to 3mn units (around 40-45% of total India demand). We envisage demand of 5mn houses from Urban Middle cohorts over the next five years.

Exhibit 54: Regulatory and capital costs are key bottlenecks for real estate developers
4-5 years typical time frame for completion of 0.5mn sqft+ projects

| | |
|--|---|
| Complex and long regulatory process | <ul style="list-style-type: none"> Clearance required from multiple regulatory bodies Regulations differ by region, adding complexity Processes interlinked, adding risk to on-time completion |
| High interest rates | <ul style="list-style-type: none"> Current mortgages rates in India are 9.75%, which is above mid end of 7.25-11% range over the longer term |

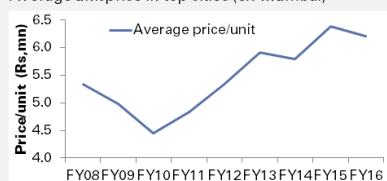
Source: Goldman Sachs Global Investment Research

Exhibit 55: India lacks dwellings: Limited supply, small units, and affordability a headache for modern home purchasers

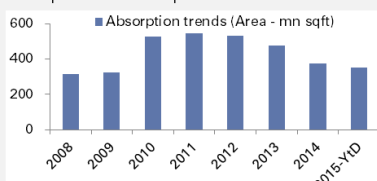
Housing affordability is a key challenge

Rising prices, falling absorption trends and smaller units suggest difficulties in modern housing purchases

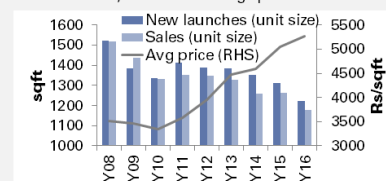
Average unit price in top cities (ex-Mumbai)



Absorption trends in top 15 Indian cities

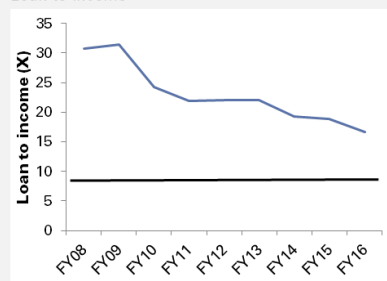


New launches, sales and average price

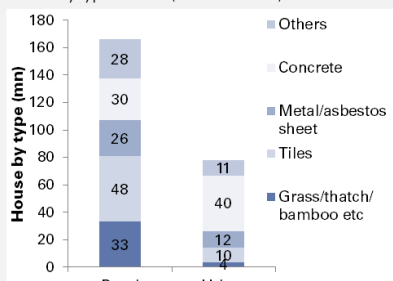


For the Urban Mass, loan to income is 17x with a significant part of rural Indians living in non-concrete houses

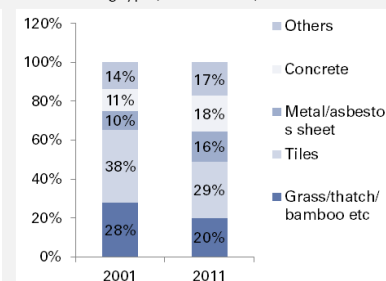
Loan-to-income



House by type in 2011 (rural vs urban)



Rural housing type (2001 vs 2011)



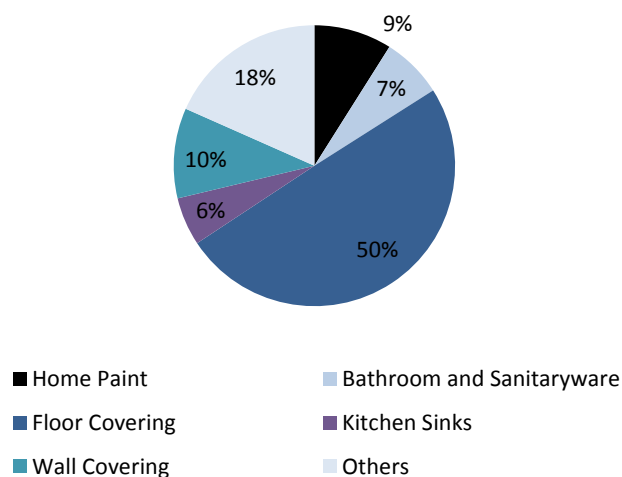
Source: PropEquity, Census.

“If you cannot upgrade, improve what you have”

Home improvement industry is growing quickly in India. Expenditure in this market includes **decorative paint, fittings and household products**. Paint is the biggest component in India – it accounts for 55% of the total home improvement market, compared to just 9% in China (Exhibit 56 and 57). Asian Paints (ASPN), the market leader in paint, is now also present in kitchen fittings, wall paper and bathroom accessories as it pursues its strategy to become a home decor company.

Exhibit 56: Paint has a much smaller share in home improvement market in China (2014)...

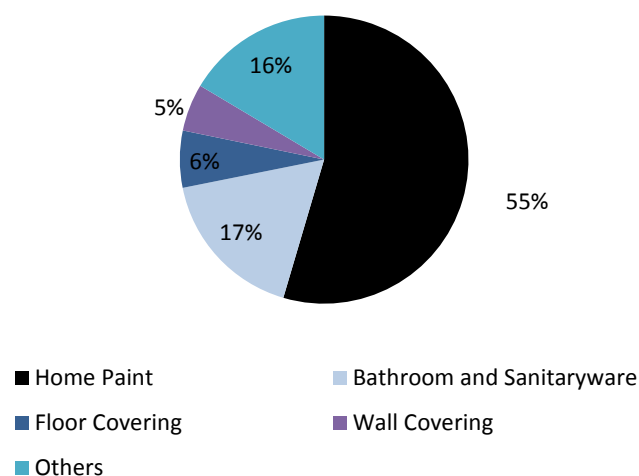
China's home improvement market by sales



Source: Euromonitor

Exhibit 57: ...compared to India

India's home improvement market (2014)



Source: Euromonitor

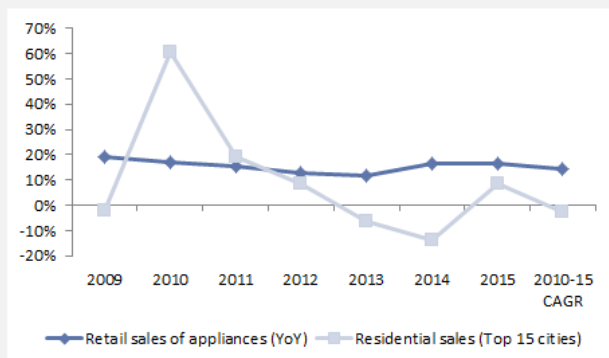
Appliances

Penetration of household appliances is far from saturation in India, we believe. Just 25% of households have refrigerators and 9% have washing machines – in China, penetration for both appliances is c.90% (Exhibit 58). Due to a lack of manufacturing, India is currently importing a vast majority of its electronic goods from China. While Voltas (India's leading domestic air conditioner brand) assembles products in India, the core compressors are all imported from China. Korean players- LG and Samsung command roughly 51%/40%/47% market share in automatic washing machines, refrigerators and TVs based on Euromonitor data. Even in air conditioners, Voltas (21.6% share) is followed by LG and Samsung which combined own roughly 27% of the market.

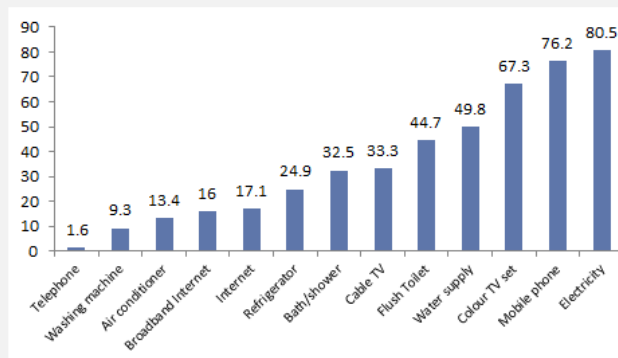
Exhibit 58: Appliances remain under-penetrated, delivering higher and more stable growth than housing sales
Appliance penetration and spend

Appliance sales are stable compared to housing. However apart from colour TV, appliances penetration is still low.

Appliance and residential sales yoy

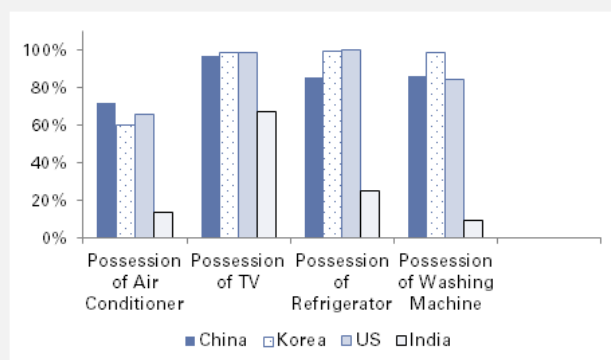


Household ownership (%)

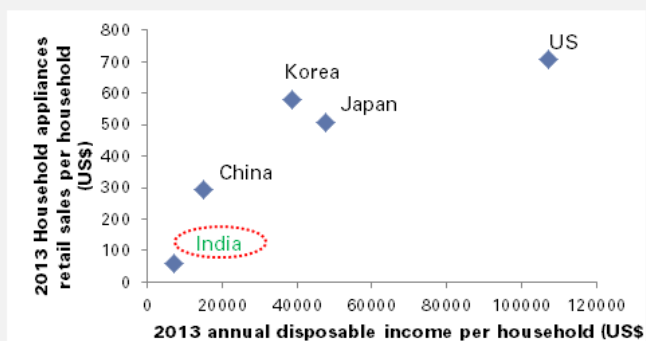


On a relative basis with other countries, appliances are still under-consumed in India

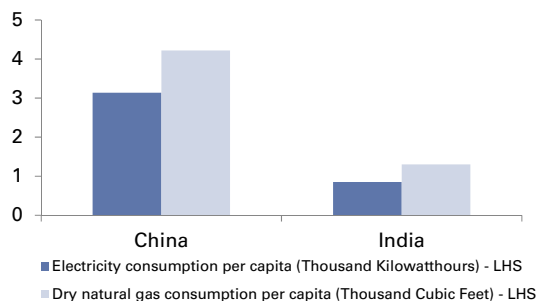
Ownership compared to China and US



2013 appliances retail sales vs annual disposable income per household



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

Exhibit 59: India's per capita electricity and gas consumption significantly below China


Source: Siam News, CEIC, World Bank, EIA, Goldman Sachs Global Investment Research

Exhibit 60: Gas is affordable due to regulated pricing

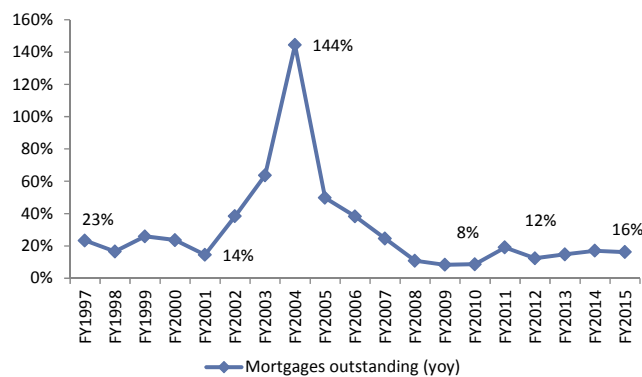
| Our "hours worked" affordability test | | | | | |
|---------------------------------------|--|------------------------|--|------------------------|--|
| | | "Urban middle" (China) | | "Urban middle" (India) | |
| Average hourly earning (US\$) | | 5.2 | | 3.9 | |
| Product | | Price (US\$) | | | |
| "Better home" Utility (residential) | | | | | |
| Electricity (China / MWh) | | 82 | | 15.8 | |
| Electricity (India / MWh) | | 77 | | n/a | |
| Natural gas (China / mmBtu) | | 18 | | 3.4 | |
| Natural gas (India / mmBtu) | | 4 | | n/a | |

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

Personal finance

Given a lack of modern housing, mortgages as a proportion of overall credit has remained at around 16%, up from FY09's lows of 8%, and growing faster than India's overall loan growth market. Our India Banking team expects this trend to continue and our India infrastructure team expects private sector's capex to remain constrained given already high leverage.

Exhibit 61: Mortgage growth has picked up



Source: Reserve Bank of India

Exhibit 62: Bank lending to real estate has room to grow
Real Estate loans and Mortgages – as % of bank lending



Source: Reserve Bank of India

4. Mobility and connectivity

- **25mn passenger cars and 25mn fixed line phone connections**, mostly owned by the **27mn Urban Middle workers**
- **Scooters** offer better affordability, accessibility and convenience, and will **grow with the Urban Mass** (two-wheeler penetration just 0.3x that in Indonesia), in our view
- **1bn mobile subscribers, 119mn on 3G/4G**; infrastructure and affordability **hurdles beginning to ease**, unleashing potential

| | Company | Ticker | Category |
|-----------------------|---------------|---------|-----------------------|
| Positioned for growth | Maruti Suzuki | MRTI.BO | Cars, rural footprint |
| | TVS Motor | TVSM.BO | Scooters |
| | Eicher Motors | EICH.BO | Premium motorcycles |
| | Bharti Airtel | BHRI.BO | Telecommunications |
| Challenged | Bajaj Auto | BAJA.BO | Lack of scooters |

Source: Goldman Sachs Global Investment Research

Consumption by cohort

Legend

- ✓ Frequent consumption
- ✓ Infrequent consumption
- Potential consumption growth

| | Urban Middle | Educated Urban Mass | Urban Mass | Rural Mass |
|-------------------|--------------|---------------------|------------|------------|
| Luxury cars/bikes | ✓ | | | |
| Air travel | ✓ | | | |
| Four-wheeler | ✓ | ✓ | | |
| Car-sharing | ✓ | | | |
| Smartphone | ✓ | ✓ | | |
| Railway | ✓ | ✓ | | |
| Broadband/Wifi | | ✓ | | |
| Mobile data | ✓ | ✓ | ✓ | ✓ |
| Two-wheeler | ✓ | ✓ | ✓ | ✓ |
| Public transport | | ✓ | ✓ | |
| Feature phone | | | ✓ | ✓ |
| Voice calls | | | ✓ | ✓ |

Source: Goldman Sachs Global Investment Research

4. Mobility and Connectivity

"Customers buy a scooter for its functionality and ease of use. And this is a behavioral pattern across geographical divides of urban and rural."

- Hero MotoCorp spokesperson, "Business Standard", 20 Apr 16

"We know that for India to make progress, more than 1 billion people need to be connected to the internet."

- Mark Zuckerberg, Facebook Founder and CEO, "The Times of India", 28 Dec 15

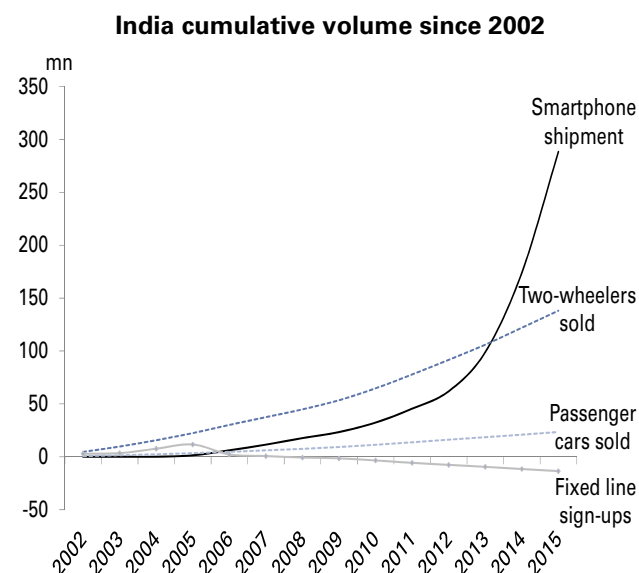
Staying connected with others has historically equated with transportation; but with the advent of the internet, people can now stay connected, transact (e.g., shop) and experience (e.g., watch movies) without physically moving. In this section, we discuss the opportunities in both auto and telecommunication.

There are approximately 25mn passenger cars on the road in India today, owned mostly by the 27mn Urban Middle workers, which implies that many already own a car. There are another 130mn two wheelers on the road, mainly owned by Urban Mass. Taking the train is also popular (e.g., 31% of Mumbai workers commute by train), but only 7 Indian cities have metro systems.

The relatively slower growth of the Urban Middle compared to the Urban Mass is well illustrated by the performance of passenger cars vs. two-wheelers in the past few years. Sales of passenger cars recorded a CAGR of 3% in last 5 years, and is still below the prior peaks in 2012-2013. Sales of two-wheelers grew at 7% CAGR in last 5 years (Exhibit 63).

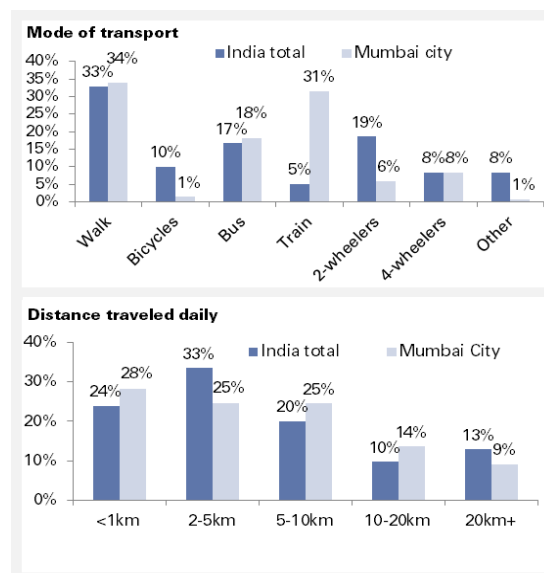
The number of installed fixed telephone lines has stalled at around 25mn - we believe most of them belong to the same Urban Middle households that own a car. But India is becoming rapidly mobile: the number of connected smartphones reached 119mn in 2015 and we expect the number to reach 200mn by end of 2016. This would make India the world's second largest smartphone market (after China), allowing entire generations to leapfrog the lack of mobility and connectivity in the decades ahead.

Exhibit 63: Cars and two-wheelers to maintain steady momentum while smartphones growing rapidly



Source: SIAM, Gartner, Euromonitor, Global Mobile, World Bank, Goldman Sachs Global Investment Research.

Exhibit 64: Over half of commuters travel less than 5km per day to work



Source: India census, The Hindu, Indian Express, Goldman Sachs Global Investment Research.

1. Passenger cars

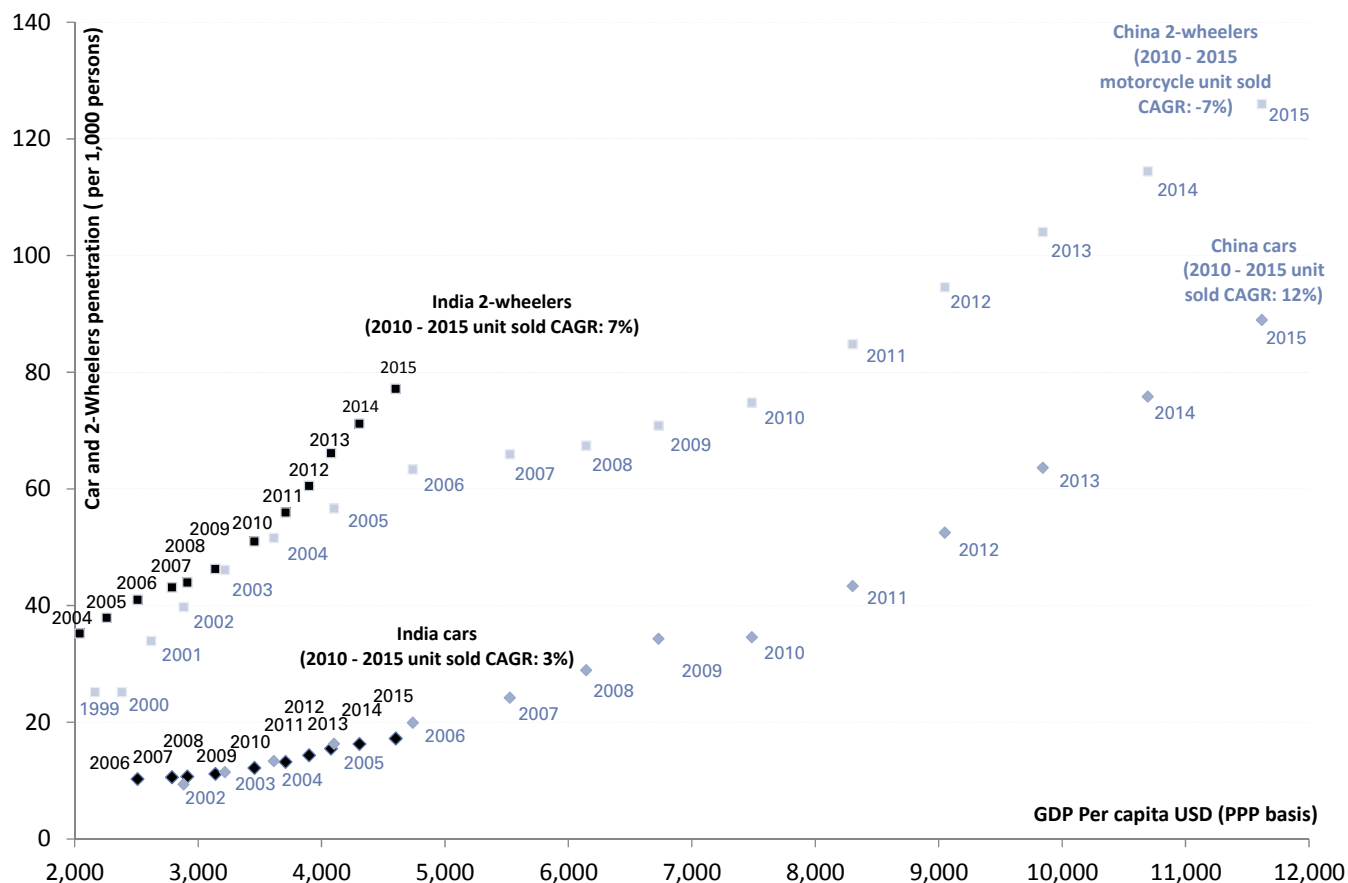
Indian consumers aspire to own a car. According to a Deloitte survey, 84% of Indians aged 20-37 are interested in buying a car. It is higher than the US (80%) and Japan (70%). In another survey by AWG Research polling smartphone-owning Millennials, 30% of respondents aspired to buy a car in the next 1-2 years.

Entry level car prices are low at around US\$5,000, although the typical finance cost is high at around 12% a year. Much of the Educated Urban Mass can afford a car after a few years of work, especially if both members of the household work. However, a significant majority work in cities where they have access to very inexpensive public transport or corporate transportation. Infrastructure, traffic and the relative high cost of fuel and maintenance are other factors. In all, this means that the Urban Middle's upgrade and the Urban Mass's first car purchase represent much of the incremental demand opportunity. But with an addressable market of 60mn (Urban Middle + Educated Urban Mass) vs. 25mn passenger car fleet size, we believe the urban growth potential is healthy.

Growth is also coming from semi-urban and rural areas, where 2/3 of the population lives and where penetration is just 40% that of urban areas according to the 2011 Census of India. Maruti Suzuki is one company that has effectively captured this opportunity: the company now has a footprint of c.1,500 service centers in rural areas and small towns and over the past 8 years, rural has grown from 5% to 32% of sales for the company.

Exhibit 65: India car penetration now similar to China in the 2000s

Car and 2W penetration to GDP per capita (USD PPP basis)



Source: Ministry of Road Transport and Highways, IMF, IHS, CPCA, CAAM, Goldman Sachs Global Investment Research

Exhibit 66: Urban Middle can afford entry level cars but Educated Urban Mass can't yet
Scooter and Car loan affordability calculations for popular entry-level vehicles

| | Scooter | Car |
|-----------------------------------|---------------------|-----------------------|
| Purchase cost | 67,000Rs or \$1,000 | 335,000 Rs or \$5,000 |
| Interest rate | 12% | |
| Loan term | 36 months | |
| Equivalent annual installment | 26,700 Rs or \$400 | 133,524 Rs or \$2000 |
| % of annual income | | |
| Urban Middle | 4% | 18% |
| Educated Urban Mass | 7% | 37% |
| Urban Blue Collar/Migrant Workers | 16% | 80% |

Source: Honda, ICICI Bank, Goldman Sachs Global Investment Research.

2. Two-wheelers

Over 130mn two-wheelers were sold since 2002, allowing the country to more than double two-wheeler ownership to close to 10% of the population. As of 2015, motorcycles represent 67% of the market and scooters 28%. For the Urban Mass, scooters at the popular entry-price point of \$1,000 are increasingly affordable. Besides affordability and added convenience, scooters also appeal to women and older riders with their compact size and ease of use. The practicality of scooters is underscored by the fact that many car-owning families also own scooters. We expect scooters to continue growing at its 4-year run-rate of 24% CAGR through FY18E. We expect it to grow from 28% of the two-wheeler market in FY15 to 37% of FY18E. For motorcycles, the growth will be much slower at 8% over the same period.

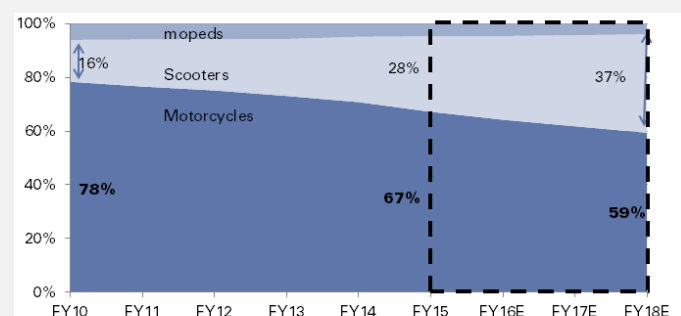
Foreign brands (including JVs) are leaders. Market leader Honda has a 58% share of the scooter market and successfully doubled its 2W market share from FY10 to 26% 1H FY15.

Exhibit 67: Two-wheeler to grow 10% CAGR from FY15-18E with scooters outperforming at 24% CAGR

Brightspot: Scooters

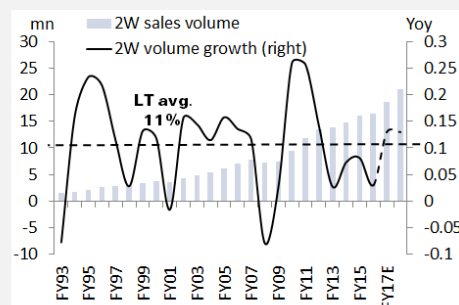
Scooters will further take share from motorcycles, due to better pricing and functionality

Two-wheeler market share breakdown by volume

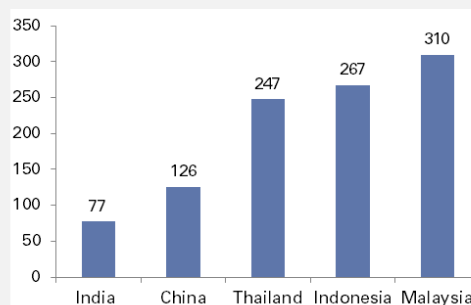


We expect scooters (24% CAGR from FY15-18E) to grow along with and faster than the two-wheeler market (10% CAGR)

India two-wheeler volume and growth



Two-wheeler per 1,000 persons



Source: SIAM, Havers, CMIE, Ministry of Road Transport and Highways, SIAM, CMIE, Havers, Indonesia National Bureau of Statistics, Yamaha Company survey, Malaysian Automotive association, ERWIN, ASEAN Automotive Federation, China Automotive Industry Yearbook, Goldman Sachs Global Investment Research.

Exhibit 68: \$801 - \$1,000 is the best price range for 2W; \$700 - \$800 scooters are still relatively under-penetrated and is a practical first vehicle for the growing Urban Mass (annual income \$3,216) and Rural Mass (\$2,159)

Product price- brand matrix for Indian 2W makers (1H FY16)

| | | | | | | | | |
|--------------------------------------|---|--------------------------------------|-----------------------------------|--|--|---------------------------------|---|--------------------|
| >2500 | Kawasaki Ninja KTM Duke Pulsar 400 | | BMW partnership * | VFR CBR1000RR CBR1000R | VMAX YZF R1 FZ1 | Hayabusa Intruder Inazuma | 0% | Motorcycles |
| 1501-2500 | Pulsar 220 Avenger | Karizma Xtreme Hunk Impulse | Bigger Apache Apache | CBR 150R/250R CB Trigger CB Unicorn 160 | YZF R15 Fazer | Gixxer GS150R | 3% | |
| 1000-1500 | Pulsar 135/150/180/200 Discover 150S/F | Achiever Ignitor Glamour | Phoenix | CB Stunner CB Shine CB Twister | FZ16 SZS SZ RR/ SS125 YBR 125 | Slingshot | 16% | |
| 801-1000 | Discover 125M Discover 100/100M | Passion Splendor | Victor | Livo Dream Yuga Dream Neo | YBR 110 | Hayate | 27% | |
| 500-800 | Platina 100 CT | HF Dawn HF Deluxe | Star City Star Sport Mopeds | CD Dream | Crux | | 19% | |
| Market share in M'cycles (1HFY16) | 18% | 52% | 6% | 14% | 3% | 1% | % of overall domestic 2W sales (1H FY2016) | |
| | Bajaj Auto | Hero Moto | TVS | Honda | Yamaha | Suzuki | | |
| Market share in Scooters (1HFY16) | 0% | 13% | 15% | 58% | 6% | 5% | | |
| 700-800 | | Pleasure Duet | Scooty Zest | Activa I Dio | Ray | Lets | 5% | Scooters |
| 801-1000 | | Maestro Edge Maestro | Jupiter Wego | Activa Aviator Activa 125 | Fascino Ray Z Alpha | Access Swish | 26% | |

Note:

1) Models highlighted in bold blue font are yet to be launched over next 12-18 months

2) Models highlighted in bold green font are new launches over last 12 months

* Partnership announced - product development may take another 1-2 years.

Source: SIAM, Company Data, Goldman Sachs Global Investment Research

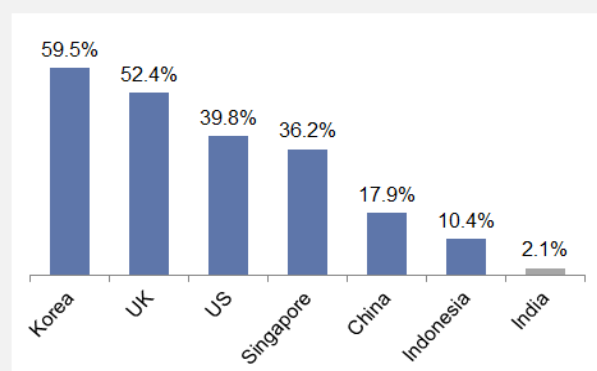
3. Smartphone hurdles starting to ease, unleashing potential

India has over 1bn mobile subscribers. It is second only to China, with telephone density of 80% vs less than 1% two decades back, according to the Telecom Regulatory Authority of India. However, the India telecom market is characterized by a few unique traits. (1): Low ARPU: Revenue per user in India is among the lowest in the world at US\$ 3/month. This compares with US\$10 in China and US\$50 in developed markets like the US. The low ARPUs are primarily a function of low calling rates (0.5 US cents/min) despite minutes of use being at the higher end at ~400 min/sub/month. In India, only about 12% of subscribers use paid data as compared with 62% in China. (2) Limited fixed line network: Fixed line connectivity in India has lagged mobile with population penetration of only 2% . This has led to significantly higher costs for network development and backhaul for mobile operators as compared with developed markets and EM peers such as China. (3) Low data penetration: Despite a rapid growth in mobile penetration from virtually 0% in the year 2000 to 80% in 2015, internet penetration remains low. Only 11.8% of mobile subscribers in India (as of Dec 2015) access broadband data due to limited spectrum availability and slower roll-outs by the operators.

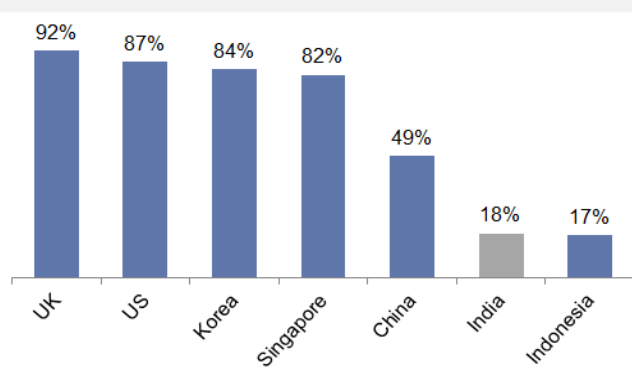
Exhibit 69: India has leapfrogged from fixed line connection to the internet but these are mostly lower speed data plans**Leapfrogging from fixed line to internet**

Fixed line connectivity in India is still low, but internet penetration is rising

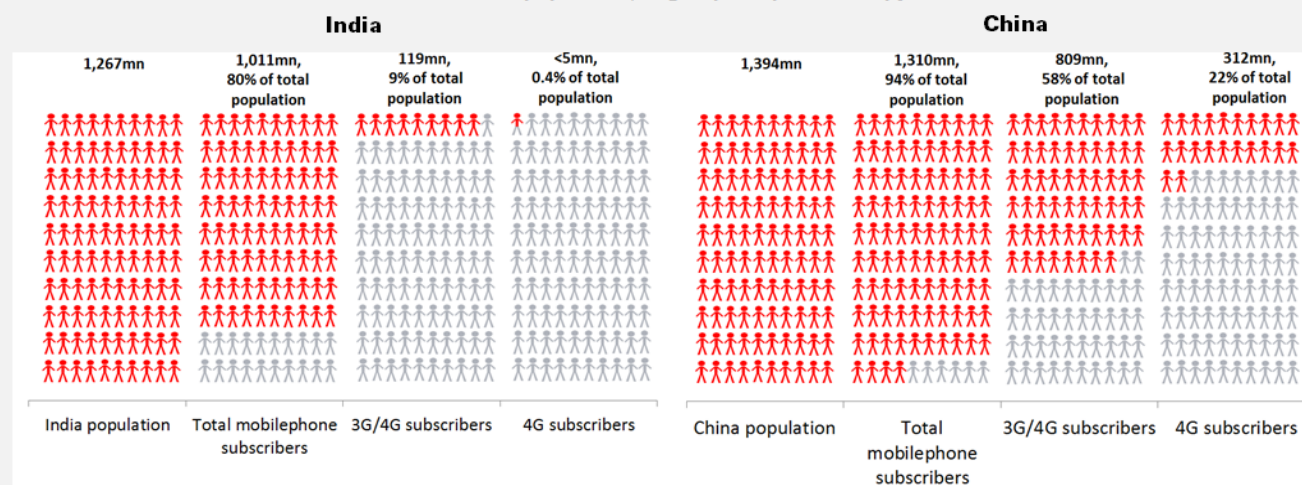
Fixed line penetration (on population), 2014



Percentage of individuals using internet, 2014



While mobile subscriber numbers are 80% of its population, high speed plans occupy less than 10%



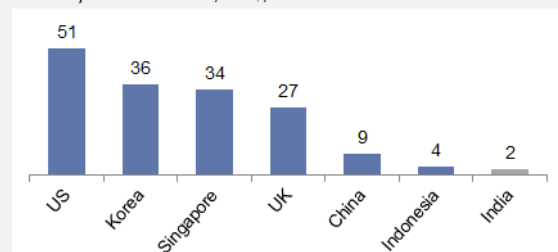
Source: International Telecommunications Union, ITU, TRAI, Company data.

According to the Ericsson Consumer Lab report, published in October 2014, the biggest reasons for low adoption of mobile broadband in India are high prices and poor network. With increasing operator investments in 3G/4G and imminent entry of a new telecom operator, we expect data prices to come down substantially over the next few years. We expect this to propel usage and penetration, and expect more than 60% of the population to be data users over the next 10 years. Typical mobile plans in India are affordable for the Urban Mass, with basic voice + data plans starting from about US\$8/month. This implies about 6 hours of work required to pay for it for the Urban Mass, as compared with about 8 hours worked for a typical China mobile plan. The main reason data usage lags that in other countries is a slower network roll-out by the operators. In India, due to low ARPU's, phones are not typically sold with a bundled contract package. However, smartphones are also increasingly affordable, even to the Urban Mass, with the least expensive smartphones needing about 60 hours worked as compared with 50 in China. However, most iPhones remain a luxury, even for the Urban Middle, requiring 187 hours worked as compared with 167 in China and 27 hours in the US. Consequently, Apple has a very small share in smartphones in India as compared with the US or China.

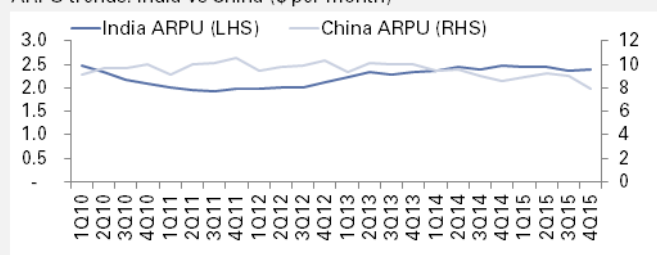
Exhibit 70: With imminent entry of a new telecom operator, we expect data prices to come down substantially, which in turn can drive ARPU growth
India mobile ARPU - A closer look


ARPU in India is among the lowest globally and has remained stable as data replaces voice. Data plans are also relatively affordable

Monthly mobile ARPU, US\$, 2014



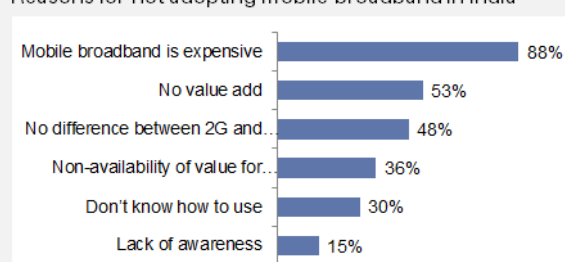
ARPU trends: India vs China (\$ per month)


"Hours worked" affordability table

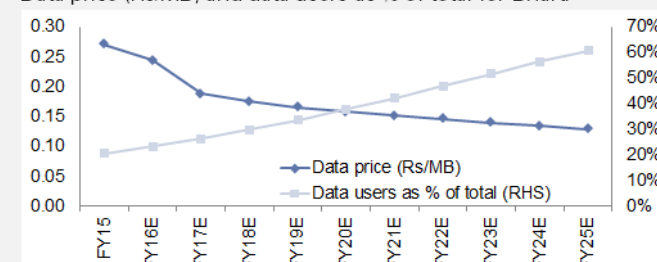
| Our "hours worked" affordability test | | | | | | |
|---|---|-----------------------------|------------------------|----------------------|------------------------|----------------------|
| |  | US | "Urban middle" (China) | "Urban mass" (China) | "Urban middle" (India) | "Urban mass" (India) |
| Average hourly earning (US\$) | | 24.0 | 5.2 | 2.6 | 4.9 | 1.4 |
| Product | Price (US\$) | No. of working hours needed | | | | |
| "Mobility / Connectivity" | | | | | | |
| Handset | | | | | | |
| iPhone 6 16G (US) | 649 | 27.0 | 125.0 | 249.3 | 131.2 | 461.8 |
| iPhone 6 16G (China) | 867 | 38.1 | 166.9 | 333.0 | 175.2 | 616.8 |
| Samsung Galaxy S3 3G (best-selling Samsung phone on JD.com) | 213 | n/a | 41.0 | 81.8 | 43.0 | 151.5 |
| Xiaomi Redmi 1S (China) | 130 | n/a | 25.0 | 49.9 | 26.3 | 92.5 |
| Huawei Honor 3 (top-selling handset on JD.com) | 131 | n/a | 25.2 | 50.3 | 26.5 | 93.2 |
| Lenovo A8 (top-selling handset on JD.com) | 131 | n/a | 25.2 | 50.3 | 26.4 | 93.1 |
| iPhone 6S (India) | 923 | n/a | n/a | n/a | 186.6 | 656.8 |
| Google Nexus 5 | 492 | n/a | n/a | n/a | 99.5 | 350.3 |
| Moto G | 154 | n/a | n/a | n/a | 31.1 | 109.5 |
| Micromax Unite3 | 88 | n/a | n/a | n/a | 17.9 | 62.9 |
| Monthly data plan | | | | | | |
| AT&T 1GB 4G LTE data plan with unlimited voice | 60 | 2.5 | 11.6 | 23.0 | 12.1 | 42.7 |
| China mobile 1GB LTE data plan with 300 min voice | 21 | 0.9 | 4.0 | 8.1 | 4.2 | 14.9 |
| Airtel mobile monthly plan | 8 | n/a | n/a | n/a | 1.6 | 5.5 |

High prices are the biggest reason for slower adoption of 3G/4G, but we expect data penetration to increase as data prices come down

Reasons for not adopting mobile broadband in India



Data price (Rs/MB) and data users as % of total for Bharti

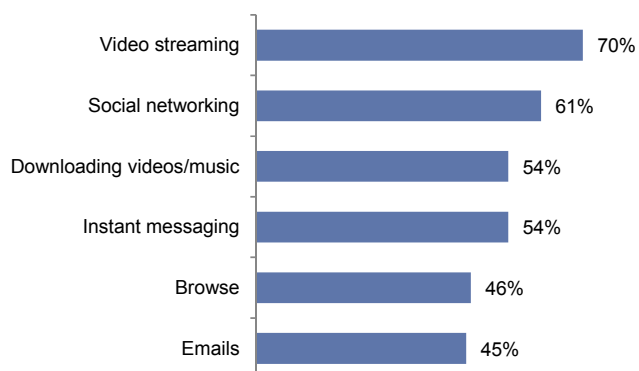


Source: International Telecommunications Union, TRAI, Company data, Flipkart, Ericsson Consumer Lab, April 2015, Goldman Sachs Global Investment Research

Most smartphone users in India use the internet for watching videos and social networking, like the rest of the world but uniquely, but not much for gaming. With increasing internet penetration, we expect media consumption to gradually shift from television to handheld devices. The smartphone installed base in the country now stands at more than 200mn, much higher than total television households at ~175mn. In addition to improved connectivity, recent launches of over-the-top video apps like Netflix, Hooq, Hotstar, Ozee, etc. are further likely to boost media consumption on smartphones. Improved connectivity is also likely to lead to better information discovery and shift purchases from offline to online.

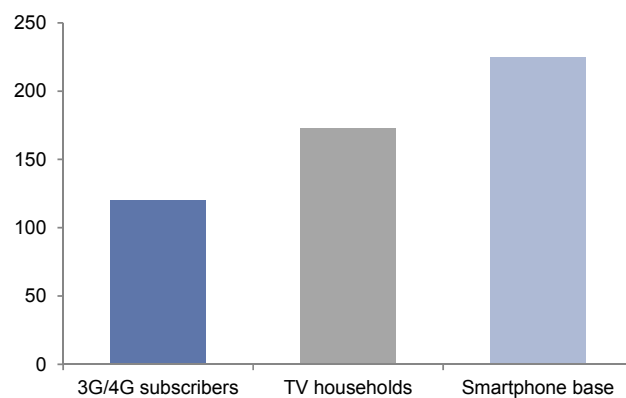
In our view, the biggest beneficiaries from better connectivity are mobile app developers, online retailers, and the OTT media apps mentioned above. Amongst the telecom operators, our India telecoms analyst favors Bharti Airtel to benefit most from the rising data usage and increased consolidation.

Exhibit 71: Video is the most popular use of smartphones
Weekly mobile data use by smartphone users in urban India



Source: Ericsson Consumer Lab, April 2015

Exhibit 72: Smartphone base already exceeds televisions
Estimated subscriber base in India as of Dec 2015



Source: Company data, Gartner, Goldman Sachs Global Investment Research, TRAI

5. Having more fun

- India spends just **6% of personal consumption expenditure on Having more fun; affordability** – rather than culture – is the main bottleneck
- **Eating Out** (US\$19bn Quick Service Restaurants market) to offer **one of the best growth stories**, driven by young demographics and continuing urbanization
- **Media**, including **TV** (US\$2bn advertising market) and **Movies** can begin to monetize better via digitization and screen expansion respectively

| | Company | Ticker | Category |
|-----------------------|--------------------|---------|-----------|
| Positioned for growth | Jubilant Foodworks | JUBI.BO | Fast food |
| | Zee Entertainment | Zee.BO | TV |

Source: Goldman Sachs Global Investment Research

Consumption by cohort

Legend

- ✓ Frequent consumption
- ✓ Infrequent consumption
- Potential consumption growth

| | Urban Middle | Educated Urban Mass | Urban Mass | Rural Mass |
|-----------------------------------|--------------|---------------------|------------|------------|
| International vacation | ✓ | | | |
| Music/sporting events | ✓ | | | |
| Fine dining | | | | |
| Eating out (global chains) | ✓ | ✓ | | |
| DTH/Cable TV | ✓ | ✓ | | |
| Smartphones | ✓ | ✓ | | |
| Gaming | ✓ | | | |
| Multiplex movies | ✓ | ✓ | ✓ | |
| Domestic vacations | ✓ | ✓ | ✓ | |
| Mobile data consumption | ✓ | ✓ | | |
| Movies at single screen theatres | | ✓ | ✓ | |
| Mall visits | | ✓ | ✓ | |
| Shopping at unbranded shops | | | ✓ | |
| TV and radio FM | | | ✓ | |
| Simple eating out | | | ✓ | |
| Domestic vacations (nearby areas) | | | | |
| Movies in villages | | | | ✓ |
| Local entertainment and games | | | | ✓ |

Source: Goldman Sachs Global Investment Research

5. Having more fun

"We initially had to tell people what a pizza is. People did not see it as a meal but as a snack. But over the years there has been change. People see it as a lunch and dinner thing and they party at Domino's."

- Jubilant Foodworks CEO, Ajay Kaul, "afaqs!", 28 Aug 13

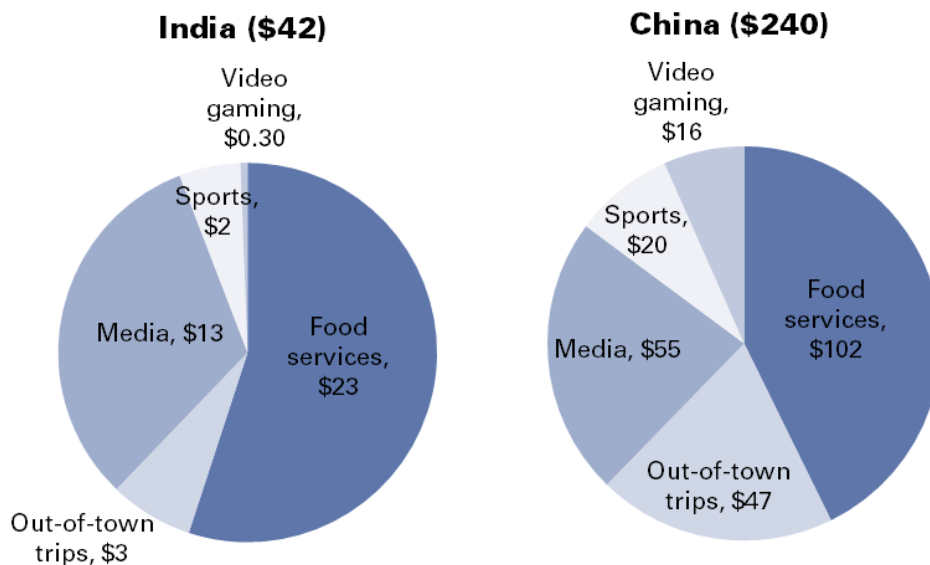
India's low level of spending on fun (6% of personal consumption expenditure vs 17% in the US) is more a reflection of affordability than cultural values, we believe. Unlike China, where "eating bitter" (i.e. grit) was upheld as a virtue amongst generations before the Millennials, India has an ingrained appreciation for celebration. The country has more than double the number of public holidays than the US, is well-known for its vibrant festivals and elaborate wedding festivities and is home to the most prolific film industry in the world. In our China Consumer Close-up report, we identified 5 key profit pools in Having Fun:

1. **Eating out**
2. **Travel**
3. **Media**
4. **Sports**
5. **Online consumer gaming**

For India, we see **Eating Out** and **Media** as the two most important profit pools; the two comprise 87% of spending on fun and are poised for significant growth. Air travel and online gaming also have significant growth potential over the coming decade.

Exhibit 73: Eating out and Media comprise 87% of India's spending on fun and are poised for significant growth

Personal consumption expenditure on main categories of "Fun"



Source: Euromonitor, iResearch, FICCI-KPMG Report, 2011 IHRSA, Goldman Sachs Global Investment Research.

Eating Out: Quick Service Restaurants offer fast growth opportunity

We believe quick service restaurants (QSRs) will be one of the fastest growth stories within the India consumer space over the next decade. Over the past 10 years, the QSR sector grew 16% CAGR per year and we expect it to continue to grow at over 20% p.a. over the next years, making it one of the fastest growing sectors in the consumer sector. For pizza restaurants (which includes the largest publicly listed company Jubilant Foodworks), growth is expected to be 28% from 2015 to 2019.

Exhibit 74: Pizza quick service restaurants are expected to be the fastest growing category over the next four years

| Category | 2011-15 CAGR | Companies exposed |
|-------------------------------------|--------------|--|
| Pizza Consumer Foodservice | 25.6% | JUBI |
| Hair Colorants | 23.0% | GOCP |
| Watches | 18.4% | TITN |
| Packaged food | 17.6% | BRIT, DABU, EMAM, HLL, ITC, MRCO, NEST |
| Skin care | 19.4% | DABU, EMAM, HLL |
| Oral Care | 13.6% | COLG, DABU, HLL |
| Hair oil, shampoos and conditioners | 13.9% | DABU, HLL, MRCO |
| Jewelry | 19.2% | TITN |
| Home insecticides | 11.3% | GOCP |
| Laundry | 10.8% | HLL |
| Cigarettes | 9.9% | ITC |
| Personal wash | 11.9% | GOCP, HLL, ITC |
| Spirits | 8.7% | UNSP |

Source: Euromonitor, Goldman Sachs Global Investment Research.

Powerful demographic trends

The chained QSR sector in India has been very small in comparison to that in China or more developed economies, largely as a result of deeply ingrained cultural habits, relatively low affordability and underdeveloped supply chain systems. These bottlenecks also hampered QSR growth in China through the 1990s, but since the 2000s, QSRs in China have experienced rapid expansion.

In India today, traditional dining habits are a hurdle for QSRs, but this is beginning to change. Generally, home-cooking remains important; Indians spend 13 hours per week cooking, double the global average, according to a GfK study. Only 15% of urban women are in the workforce, according to the Economic Survey of India, leading to a lower demand for out-of-home food. In addition, cuisines vary widely across regions and Western menus featuring burgers and pizzas must be adjusted for India's consumers, 40% of whom are vegetarians, according to the 2006 Hindu-CNN-IBN State of the Nation Survey.

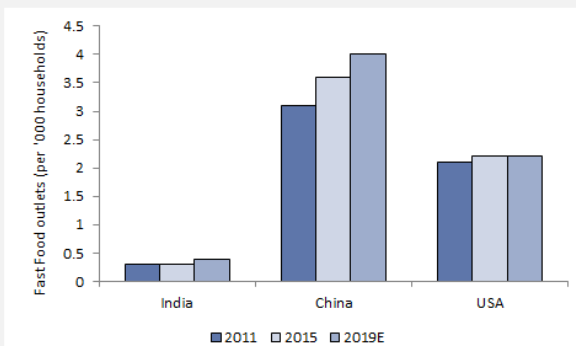
Nevertheless, consumers are visiting restaurants more often: from 2 transactions per household per month in 2005 to over 4 in 2015 (vs 18 in China and 28 in the US in 2015, Exhibit 75). In particular, 29% of 14-17 year olds eat out at least 2-3 times per week vs 17% of 40-45 year olds (Exhibit 75).

Driving that shift is India's burgeoning group of young consumers. The core QSR consumers are 15-30 years old and is expected to increase by 15mn over the next decade, according to Euromonitor. Urbanization, higher income levels and growing levels of female labor participation are also powerful tailwinds.

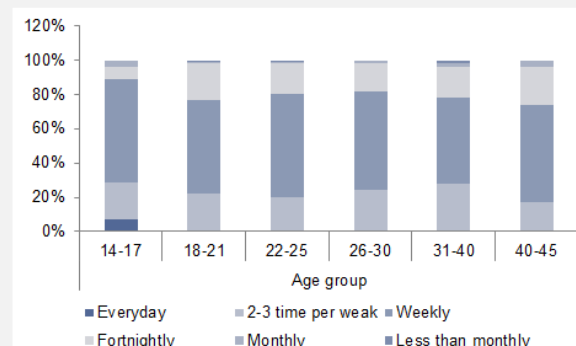
Exhibit 75: QSR tailwinds: 16% CAGR in last ten years, rising fast food restaurant transactions and young demographic**Eating Out in India**

Bright spot: Fast food penetration is less than 1/7 of China's and the young are eating out more

Fast food restaurants per 1,000 households

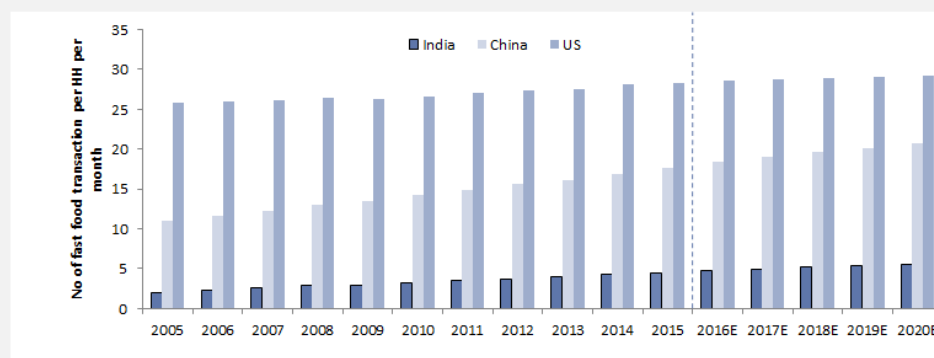


Frequency of eating out by age



While fast food restaurant transactions have risen to 4 per household per month now, they are still low

Monthly fast food restaurant transactions per household



Source: Euromonitor, National Restaurant Association of India, Goldman Sachs Global Investment Research.

Yet, QSR players have been battling weak low single-digit SSSG. One reason, we believe, is persistent store expansion that's led to supply outstripping demand growth. Despite slowing SSSG since 2012, leading franchises Domino's and McDonald's each grew their store count by 22% and 14% CAGR respectively; including Café Coffee Day, 954 stores were opened from 2012-2016 (Exhibit 76).

Exhibit 76: Food chains continue store expansion despite weaker macro impacting SSS

List QSR chains – store additions and SSS


| Company (Brand) | Parameter | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|-------------|------|------|------|------|-------|-------|------|
| Jubilant Foodworks (Domino's India) | SSSG Growth | 22% | 37% | 30% | 16% | 2% | 0% | 0% |
| | Store count | 306 | 378 | 465 | 576 | 726 | 876 | 1026 |
| Westlife Development (McDonald's India) | SSSG Growth | 12% | 17% | 22% | 6% | -6.4% | -5.6% | 1.8% |
| | Store count | 87 | 107 | 130 | 161 | 184 | 209 | 223 |
| Coffee Day Enterprises (Café Coffee Day) | SSSG Growth | | | 1% | 8% | 10% | 3% | 5% |
| | Store count | 1020 | 1100 | 1286 | 1454 | 1568 | 1472 | 1586 |

Source: Company data.

Affordability continues to be a challenge, despite improvements over recent years such as Domino's launch of lower-priced family menus. Comparing with China suggests that India's Urban Mass can generally afford meals priced at US\$0.90, or the equivalent of more

than half an hour's pay; this makes most QSR meals still a budget stretch (Exhibit 77).
Income growth and continued innovations on menus will help support a wider take-off.

Exhibit 77: Improving affordability can lead to greater demand, particularly from the Urban Mass, in our view

| Our "hours worked" affordability test | | | | | | |
|---------------------------------------|---|-----------------------------|------------------------|----------------------|------------------------|----------------------|
| |  | US | "Urban middle" (China) | "Urban mass" (China) | "Urban middle" (India) | "Urban mass" (India) |
| Average hourly earning (US\$) | | 24.0 | 5.2 | 2.6 | 4.9 | 1.4 |
| Product | Price (U S \$) | No. of working hours needed | | | | |
| "Having more fun" | | | | | | |
| Food services | | | | | | |
| Fast food | | | | | | |
| Big Mac (US) | 5 | 0.2 | 0.9 | 1.8 | 0.9 | 3.3 |
| Dominos (US) | 14 | 0.6 | 2.7 | 5.4 | 2.8 | 10.0 |
| Big Mac (China) | 3 | n/a | 0.5 | 1.0 | 0.5 | 1.9 |
| Dominos (China) | 9 | n/a | 1.6 | 3.3 | 1.7 | 6.1 |
| McChicken (India) | 1.4 | n/a | n/a | n/a | 0.3 | 1.0 |
| Mc Veggie (India) | 1.2 | n/a | n/a | n/a | 0.2 | 0.9 |
| Dominos (India) | 3.3 | n/a | n/a | n/a | 0.7 | 2.4 |
| Sit-down casual dining | | | | | | |
| Red Lobster (US) | 20 | 0.8 | 3.9 | 7.8 | 4.1 | 14.5 |
| Saizeriya (China) | 4 | n/a | 0.8 | 1.5 | 0.8 | 2.8 |
| Tsui Wah (China) | 13 | n/a | 2.5 | 5.0 | 2.7 | 9.3 |
| Mainland China (India) | 11 | n/a | n/a | n/a | 2.2 | 7.7 |
| Sarvanna Bhavan/MTR | 3 | n/a | n/a | n/a | 0.6 | 2.2 |

Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 78: Jubilant leads in scale, offers convenience and has demonstrated operations/execution strength

| | | Domino's (Jubilant) | McDonald's | Pizza Hut + Pizza Hut Delivery |
|-------------------|--|------------------------------|--|-----------------------------------|
| Scale | Outlets (2015) | 950 | 350 | 431 |
| | Number of cities where they have presence (2015) | 216 | 60 | 54 |
| | Employees | 29,000+ | 10,000+ | N/A |
| Value proposition | Price of family meal | US\$8 | US\$2.5 | US\$9 |
| | Menu localization | Localized pizza toppings | Burger concept foreign, but localized patties e.g., potato | Localized pizza toppings |
| | Key proposition to consumers | Convenience (30min delivery) | Dine-in experience | Dine-in experience, casual dining |
| Operations | Franchisees | 1 | 2 | 4+ |
| | Distribution centres | 5 | 4 | 16 |
| | Logistics outsourced | Partially | Yes - Radhakrishna Foodland | Yes - Snowman Frozen Foods |
| | Warehousing | Inhouse | Outsourced | Outsourced |
| | Transportation | Outsourced | Outsourced | Outsourced |
| | Vendors | 500+ | 35-100 | 100+ |
| | Online ordering facility | Inhouse & 3rd party | Limited; each franchisee has a site | Inhouse & 3rd party |
| Sales | Turnover (\$s mn, 2014) | 318 | 239 | 84 |
| | Transactions ('000s) | 45,260 | 102,638 | 13,525 |

Source: Company Data, Euromonitor, Goldman Sachs Global Investment Research.

Media: TV and Bollywood

Television is the biggest media form in India, contributing 47% of the media & entertainment market, higher than in China and the US. Viewers spend a little over 2 hours per day watching TV, tuning in mainly to Hindi and regional general entertainment – the most popular are multi-episode TV dramas. The share of television in overall media consumption has risen by 250 bp over the past 5 years despite fast growth in digital advertising and gaming, which contribute to only 5% and 2% of the overall media industry, respectively (Exhibit 79).

Of the total television industry revenues, advertising accounts for 33%, with the rest being subscription. We believe that TV still has significant room for growth: with **household penetration (62%) and ARPU (US\$3) are amongst the lowest in the world**. With an increasing focus on digitization, we forecast subscription revenues to grow about 14% between CY15-20. Even smaller, at c.50% of the subscription revenue, is the US\$3bn TV advertising market; to put this in perspective, **TV advertising is only slightly bigger than bar soaps**. But this is changing. We expect advertising will grow as industries beyond FMCG, which currently contributes 55% of TV ad spend, grow their marketing budgets.

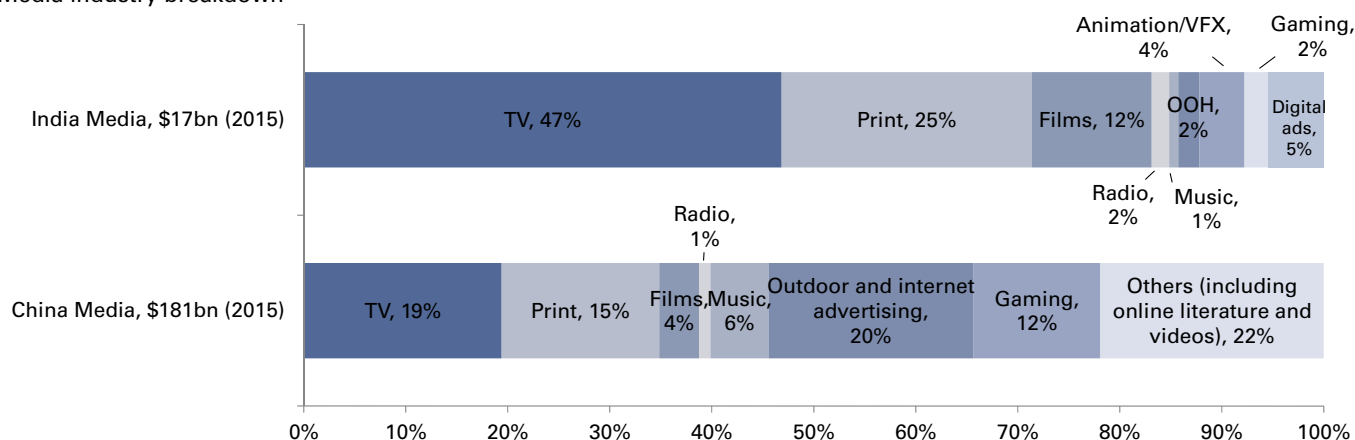
ARPU will rise with the government's push on compulsory digitization and advertising will grow as industries beyond FMCG, which currently contributes 55% of TV ad spend, grow their marketing budgets.

Broadcasters and content providers will be the best way to monetize this trend, in our view. After digitization, broadcasters will be able to better capture subscription revenue. We estimate that broadcasters only realize c.25% of subscription revenue currently due partly to leakage i.e., distributors' underreporting of subscriber numbers, which will be corrected with digitization's transparency. Both broadcasters and content providers will be more immune than distributors to the growing structural viewership shift to online (mostly smartphone) platforms. In fact, they may benefit as they gain more direct access to end consumers via online platforms, cutting out intermediaries and improving customer insights.

Much more consolidated, the broadcaster market offers better plays: the top 4-5 broadcasters have 80%+ of the market. Zee has 30% of market share, as measured by the top 10 channels across each genre. In contrast, there is a long tail of 6000 small content providers. The fragmented nature of the content industry is similar to China's market, where media content companies only began listing in the last 5 years. In addition, the need to cater to 22 different languages in India results in 826 TV channels, making consolidation a longer term possibility.

Exhibit 79: 47% of India's US\$17bn media market is TV

Media industry breakdown



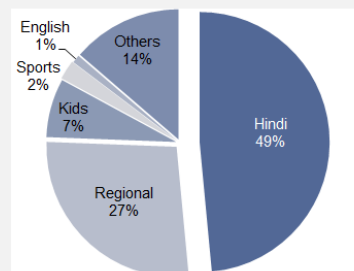
Source: FICCI-KPMG report, Goldman Sachs Global Investment Research.

Exhibit 80: Scope for growth in TV comes from low ARPU (\$3 vs \$93 in US) and penetration (62% vs c.100% in developed countries); TV advertising size to expand along with growth beyond the FMCG sector (55% of TV ad spend)

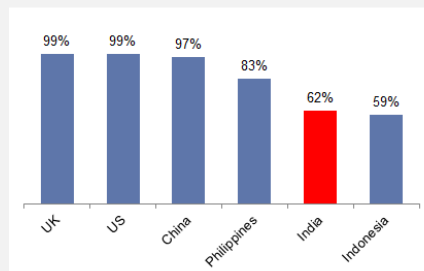
TV: biggest media sector with more growth ahead

TV penetration is still low with very low ARPUs; >70% of TV viewership also consist of Hindi and regional content

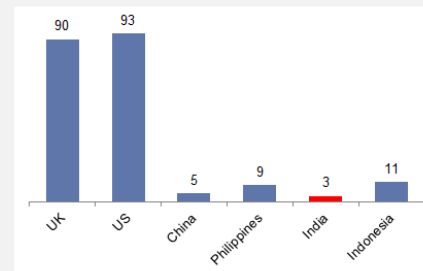
TV viewership by genre (2012)



Household television penetration (CY2013)



Pay-TV ARPU (US\$) as of CY2013

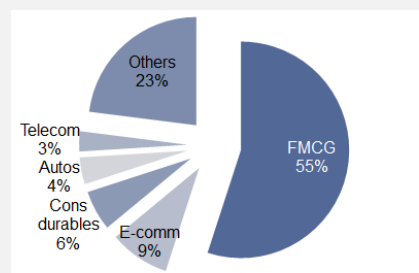


The TV advertising market (\$2bn) is only approximately the size of bar soaps (\$3bn); Top TV ad spender by industry was FMCG

Market size, USD bn, 2015

| | India | China | US |
|-----------------------|-------|-------|----|
| TV advertising (2014) | 2 | 25 | 68 |
| Bar soap | 3 | 2 | 1 |
| Spirits | 31 | 80 | 69 |
| Dairy | 12 | 64 | 58 |

Contribution to TV ad revenues by sector (2014)



Source: Shemaroo prospectus, Videocon D2H prospectus, Zee Entertainment.

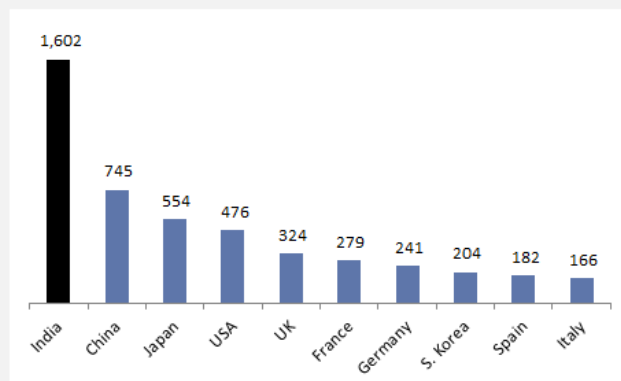
Movies: Multiplexes to expand, capturing value of Bollywood-fan eyeballs, in our view. Bollywood is prolific: producing 1,602 films in 2015, over 3x the number of films in Hollywood. But the industry pulled in less than 15% of Hollywood's revenue, which belies the eyeballs it attracts (annual theatre footfalls are 1.9bn, the 2nd highest in the world) and its cultural significance: Bollywood has been seen to shape not only fashion, but also social values and on-screen deaths of popular characters have spurred fan protest marches.

The opportunity to capture value lies in **screen expansion for multiplexes and ticket pricing, in our view.** The latter will come with the expansion of multiplex cinemas that typically charge over 2X normal prices, but which are still affordable even for the Urban Mass. Currently, India has only 1/10 the number of multiplex screens per capita compared with the USA and over 30% fewer than China. Already, some theatre operators such as PVR and Inox have a sizable number of multiplex screens. Multiplex tickets are a little more affordable for the urban middle in India as compared with China (1 hour worked in India vs 1.2 in China), however, they are less affordable for the Urban Mass (at 3 hours of work vs 2.2 in China).

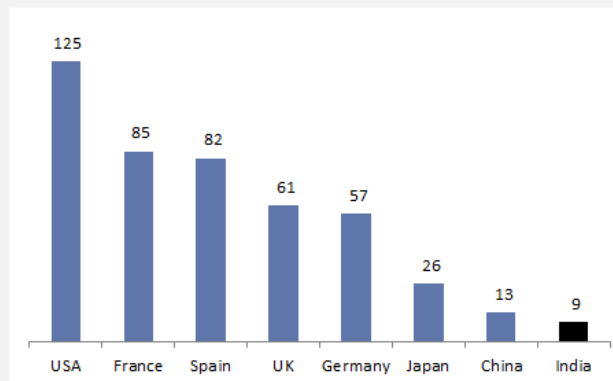
Exhibit 81: Bollywood: Prolific, but value capture to come with capacity expansion**Plenty of value yet to be captured for Bollywood**

India produces over 3x the number of movies in the US but has less than one-tenth its screen density

Number of film releases

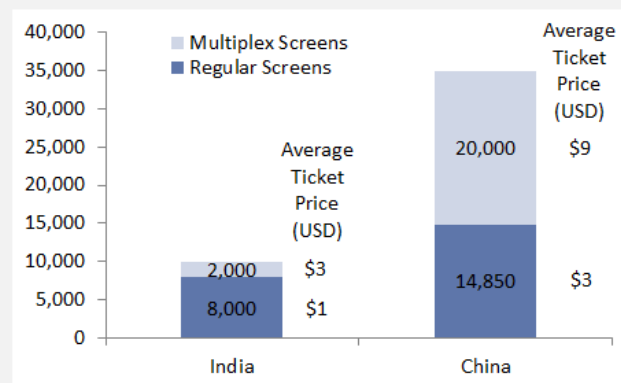


Screen per million people (2015)

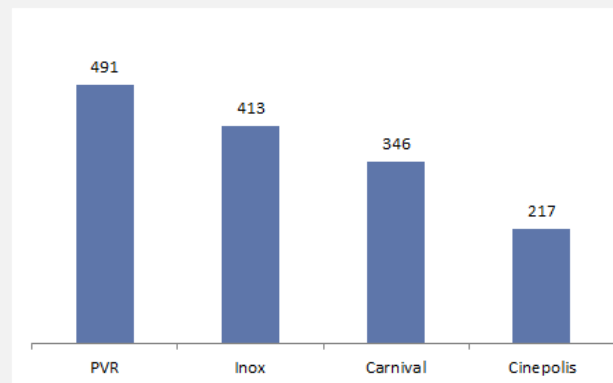


Multiplexes have ample room to expand with PVR leading the way

Breakdown of screens



Number of screens



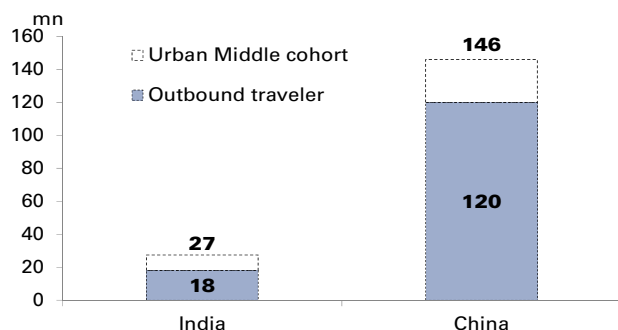
Source: Inox presentation, Company data, State General Administration of Press, Publication, Radio, Film and Television, Statista, Business Standard.

Emerging opportunities: Travel, online gaming, sports

Travel: Travel, while still small, is primed for growth in our view, as consumers increasingly value experiences, as the country urbanizes and as affordability improves. Indians made 1.1bn domestic trips for leisure in 2013, according to the Ministry of Tourism. While Indian rail continues to be travelers' dominant mode of transport, with 7bn trips made per year, its growth has been mostly stagnant. In contrast, air travel is enjoying healthy growth: both domestic air travel (160mn) and outbound tourism (18mn) grew 20% yoy in 2015 (Exhibit 83). As India urbanizes, another need for travel may be driven by migrants; in China, 300mn domestic trips were made during the 2016 Chinese New Year holiday alone as migrants reunited with relatives, according to China Tourism Academy. Budget airline IndiGo is one beneficiary of this trend; the company has already captured 35% of the domestic air travel market.

Exhibit 82: Travel penetration could increase, but tourism limited by size of Urban Middle cohort

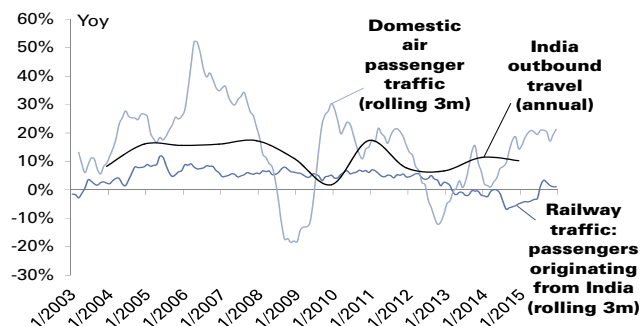
Number of outbound travelers vs Urban Middle cohort



Source: India Ministry of Tourism, China National Tourism Administration, Goldman Sachs Global Investment Research.

Exhibit 83: Air travel growing from low base; budget airline IndiGo is one beneficiary

Passenger traffic and outbound travel in India

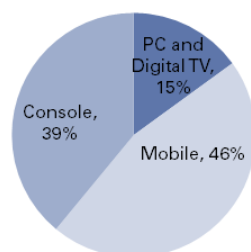
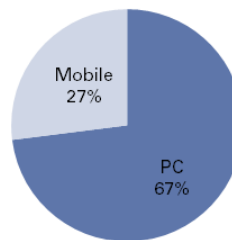


Source: Airports Authority of India, Ministry of Railways, Ministry of Tourism.

Online gaming. Gaming in India is a US\$350mn market with c.40-50mn online gamers (Exhibit 84). With growing adoption of mobile phones and data usage, online gaming should continue to grow, in our view. The challenge however lies with monetization. One of the reasons why gaming became very popular in China is that it is a free or very cheap form of entertainment; getting gamers to pay may be challenging. More importantly, the payment system needs to develop

Exhibit 84: Online gaming emerging as opportunity, but monetization yet to develop


Gaming (India vs China)

India Gaming (\$350mn)

China Online Gaming (\$5.3bn)


Source: iResearch, FICCI-KPMG Report.

Sports: India's love of cricket means a big game can bring 1/3 of the population to the TV, according to The Economist. But while 62% of people surveyed by KPMG were interested in sports, only 1% participates. Our hours worked affordability shows consumers typically spend 4-6 hours of earnings to buy a pair of sports shoes. With Indian Urban Middle earning US\$15,888 and Urban Mass earning US\$4,801 by 2020, we believe that growth will mainly be anchored in affordable unbranded shoes that retail under US\$20.

Exhibit 85: Indian consumers spend 3-9 hours of wages to buy running shoes

| Our "hours worked" affordability test | | | | | | |
|---|--------------|-----------------------------|------------------------|----------------------|------------------------|----------------------|
|  | | US | "Urban middle" (China) | "Urban mass" (China) | "Urban middle" (India) | "Urban mass" (India) |
| Average hourly earning (US\$) | | 24.0 | 52 | 2.6 | 4.9 | 1.4 |
| Product | Price (US\$) | No. of working hours needed | | | | |
| Sports shoes | | | | | | |
| Nike running shoes (US) | 60 | 2.5 | 11.6 | 23.0 | 12.1 | 42.7 |
| Li Ning Arc 4.0 running shoes (Tmall) | 45 | n/a | 8.7 | 17.3 | 9.1 | 32.1 |
| Taobao unbranded running/casual shoes (most popular item) | 14 | n/a | 2.7 | 5.5 | 2.9 | 10.1 |
| Nike Men's Revolution 2 (Amazon) | 46 | n/a | n/a | n/a | 9.3 | 32.9 |
| Unbranded running shoes (Flipkart) | 8 | n/a | n/a | n/a | 1.6 | 5.5 |

Source: Amazon, Alibaba, Goldman Sachs Global Investment Research

6. Wellbeing

- Public investment in health and education has improved, but the gap in supply and quality of services opens **opportunity for private players**
- Only **17% of consumers have insurance** (no universal coverage); nevertheless, **Private Hospitals** are in high demand as consumers seek access and quality
- **Private schools** are not limited to the Urban Middle; enrolment in rural areas has steadily grown to 29%, as parents **prioritize investing in their children**

Consumption by cohort

| Legend | | | | |
|--|------------------------------|---------------------|------------|------------|
| ✓ | Frequent consumption | | | |
| | Potential consumption growth | | | |
| | Urban Middle | Educated Urban Mass | Urban Mass | Rural Mass |
| Elective health procedures (dental etc.) | ✓ | | | |
| Health clubs/gyms | ✓ | | | |
| Limited health insurance | ✓ | ✓ | | |
| Private healthcare | ✓ | ✓ | | |
| Government healthcare | ✓ | ✓ | ✓ | |

Source: Goldman Sachs Global Investment Research

6. Wellbeing

“Educating and skilling our youth to enable them to get employment is the altar before which we must all bow.”

- Arun Jaitley, Minister of Finance, “Budget 2015 -2016 Speech”, 28 Feb 16

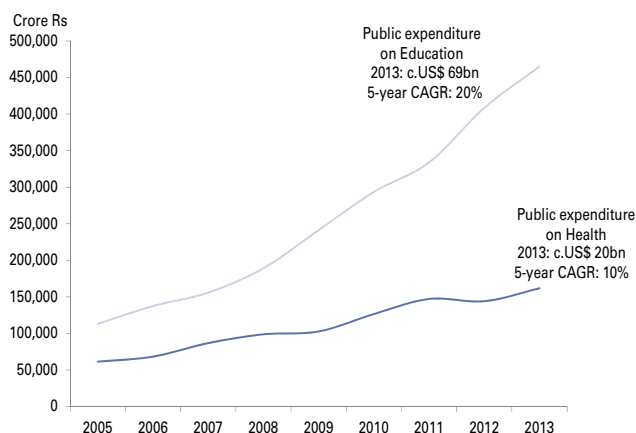
“The biggest challenge in health care delivery is to increase quality supply while at the same time ensuring that it is affordable to a large number of patients who are currently not served, underserved or poorly served.”

- Dr Prathap C. Reddy, Founder and Chairman of Apollo Hospitals Group, “Knowledge@Wharton”, 1 May 14

Government spending on healthcare and education grew 10-20% CAGR over the past 5 years to 2013. Accordingly, health outcomes and literacy rates have improved, but benchmarked against China and the OECD, India still has significant opportunities to lift life expectancy (66 years vs 75 in China and 80 for OECD), reduce infant mortality (48 under-5 per 1,000 persons vs 11 in China and 7 for OECD) and improve literacy rates (72% vs 96% in China and 98% for OECD) (Exhibit 87). With public infrastructure still lacking, consumers are digging into their own pockets to buy access and reach for better quality – particularly when it comes to investing in their next generation. We identify two opportunities:

1. **Healthcare – Private hospitals addressing unmet demand**
2. **Education – Private schools steadily rising**

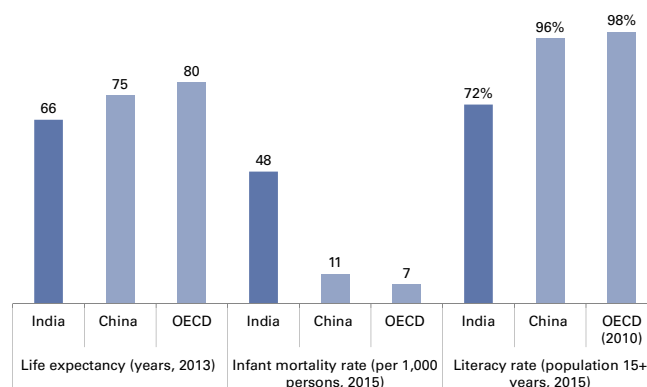
Exhibit 86: Public spending on healthcare and education has been growing



Note: Public expenditure for Education in 2012 are revised estimates and 2013 are budgeted estimates.

Source: World Bank, Ministry of Human Resource Development, Goldman Sachs Global Investment Research

Exhibit 87: Health and education outcomes still have significant room for improvement



Source: Health Nutrition and Population Statistics, UNESCO Institute of Statistics.

1. Healthcare – Private hospitals addressing unmet demand

India has no universal coverage. Only 17% of the population has health insurance; 70% of people with health insurance are covered by the government's program for families below the poverty line, leaving just 27mn people with individual cover and 34mn with group cover (mainly through their employers). Consequently, India has one of the highest out-of-pocket healthcare spend (as % of total healthcare spend) in the world: 61% is out-of-pocket,

higher than Indonesia, almost 2x that of China and more than 5x that of the US. The supply of healthcare services is also under strain: India has one of the lowest penetration rates for both hospital beds and doctors. Public hospitals, with 80%-90% occupancy rates, are typically overcrowded.

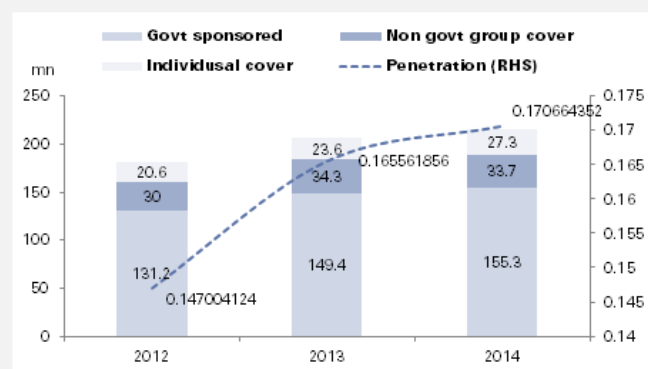
Despite high out-of-pocket cost, consumers – including those within the Middle and Mass cohorts – are paying for private healthcare, where a typical doctors' visit can cost US\$20 vs. US\$4-5 at a public hospital. Private providers not only offer high quality, but also better access and the provision of niche services e.g., cancer treatments. Thanks to the welcoming regulatory environment for FDI, private expenditure on healthcare has grown to become 2/3 of total healthcare spend. Several different models have emerged: ranging from high-end multi-specialty centers like Apollo to more affordable single-specialty providers such as Narayana Health, which focuses on cardiology. In addition to domestic demand, private and niche providers may also benefit from the small but growing medical tourism industry.

Exhibit 88: Lack of universal coverage has translated to one of the highest out of pocket healthcare spend in the world and the low supply of healthcare services is driving private healthcare providers' growth

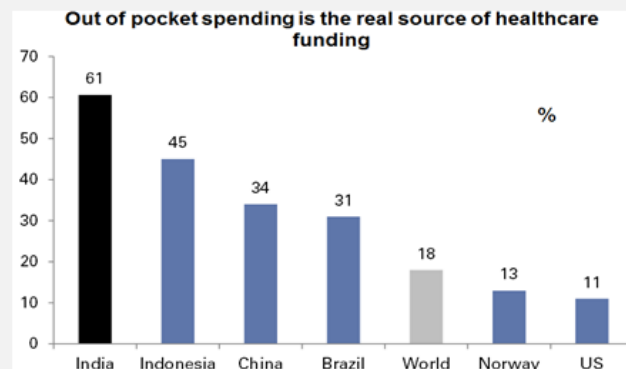
Healthcare in India

No universal coverage with only 17% of the population covered by health insurance. Out of pocket spend is also one of the highest in the world

Health insurance coverage

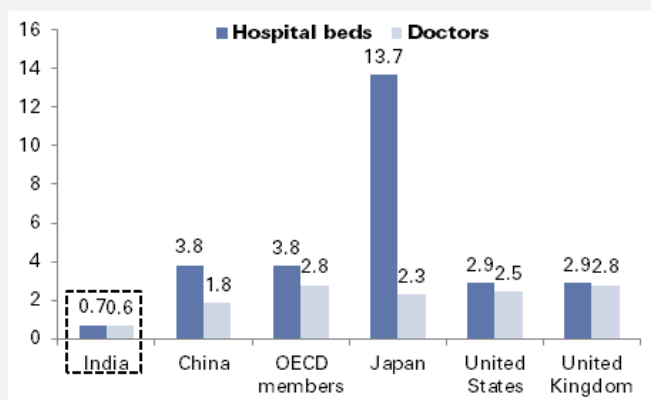


Out of pocket healthcare spend (% of total healthcare expenditure)



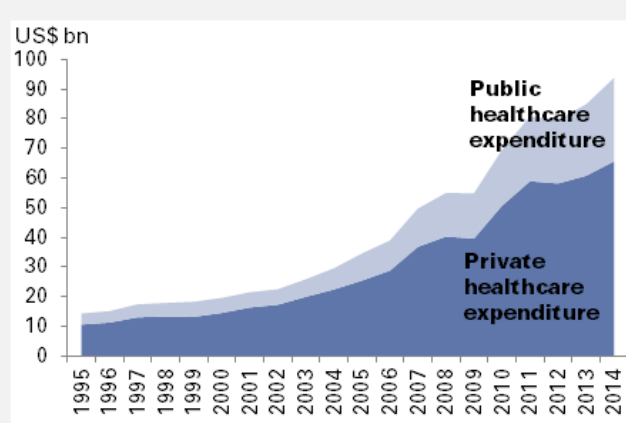
There is undersupply of healthcare services but private investment in healthcare has spurred growth in niche providers eg. Apollo, Narayana Health

Hospital beds and doctors per 1,000 persons



Note: Hospital data all for 2011, except Japan which is 2009
Doctor data all for 2011, except for India and Japan which are 2010

Healthcare expenditure breakdown



Source: Euromonitor, WHO, IRDA, Health Nutrition and Population Statistics, World Bank, Goldman Sachs Global Investment Research

2. Education – Private schools steadily rising

Given the government's continued investments, enrolment levels, particularly for primary school, have been improving. Literacy rates have also been rising, now at 72%. But a closer review of student performance highlights the need for better quality of rural education, with significant potential for improvement in the quality of basic rural education as per a poll by the ASER centre, particularly in arithmetic.

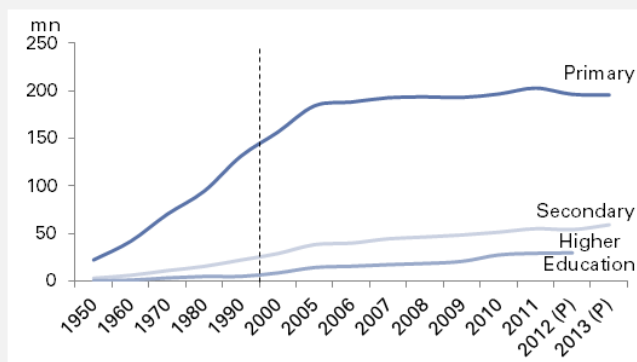
Parents' desire to invest in their children and in particular their education has driven a steady rise in private education. In rural areas, private enrolment is now c.29%, up from 19% in 2007. Fees can range widely, from US\$450 to US\$1,500 per year and have been rising at 15.6% CAGR from 2007 to 2014, consistently higher than inflation. At top tier universities such as IIT, fees doubled in 2008 and almost doubled again in 2013 to US\$1,350. While large public companies have yet to emerge in this space, we believe the growing cost of education expenditure is important for understanding consumers' discretionary spending.

Exhibit 89: Education enrolment and expenditure has been rising, a boon for private education providers

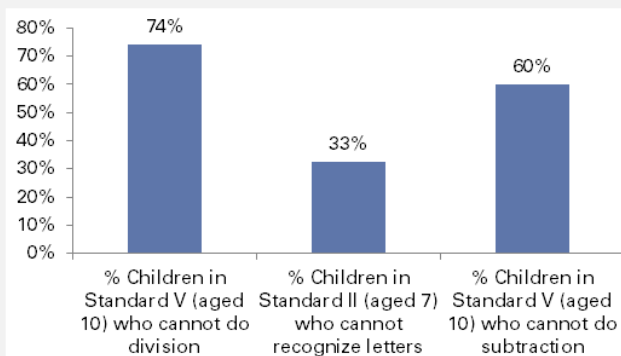
Education in India

Enrolment levels have been improving but quality is lacking in some areas

Level-wise enrolment

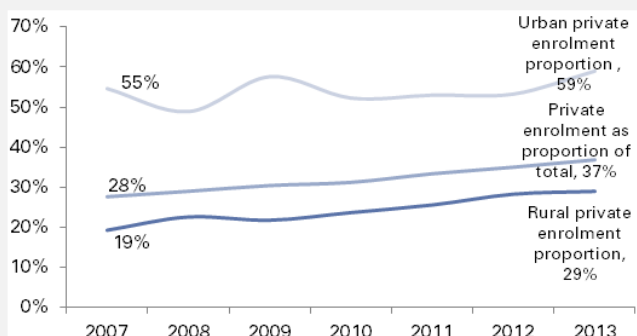


Rural quality of education metrics, 2014

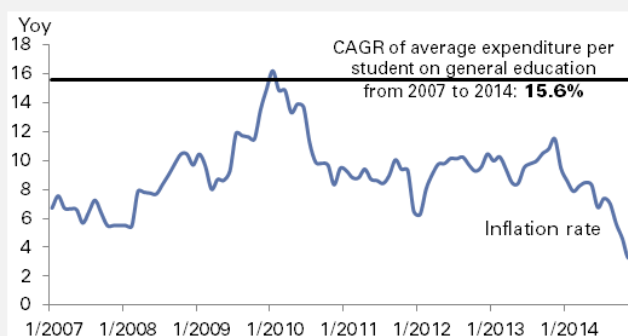


Private enrolment has been steadily rising, along with education cost which was higher than inflation from 2007 to 2014

Primary school enrolment (Standard I to IX, aged 6 to 14)



Average education expenditure and inflation rate



Source: Ministry of Human Resource Development, ASER, Ministry of Human Resource Department, DISE, NSSO, CEIC, Goldman Sachs Global Investment Research

7. Luxury

- India has 111 billionaires, c.200,000 millionaires and 27mn Urban Middle, but **reaching this addressable market is difficult** given that 44% of ultra high net worth individuals live in non-metro areas
- Traditional culture, which generally **frowns upon conspicuous consumption** is starting to change, but China's obsession with luxury is unlikely to repeat itself in India
- For players entering India, **regulatory barriers** that have choked off market entry in the past are beginning to ease

| | Company | Ticker | Category |
|------------------------------|------------------|---------|----------|
| Positioned for growth | Titan Industries | TITN.BO | Jewelry |

Source: Goldman Sachs Global Investment Research

Consumption by cohort

| Legend | | | | |
|--|------------------------------|---------------------|------------|------------|
| ✓ | Consumption | | | |
| | Potential consumption growth | | | |
| | Urban Middle | Educated Urban Mass | Urban Mass | Rural Mass |
| Luxury cars (BMW, Audi etc.) | | | | |
| Designer apparel (Calvin Klein, Diesel etc.) | | | | |
| Branded jewelry (Tanishq etc.) | ✓ | | | |
| High-end smartphone | ✓ | | | |
| Branded apparel and accessories (Zara etc.) | ✓ | | | |
| Smartphone | | ✓ | | |
| Jewelry | | ✓ | | |

Source: Goldman Sachs Global Investment Research

7. Luxury

"A lot of our clients from smaller towns visit our stores in the metros regularly. These people also travel overseas and shop there. At times we also organise home shopping for some key clients upon request."

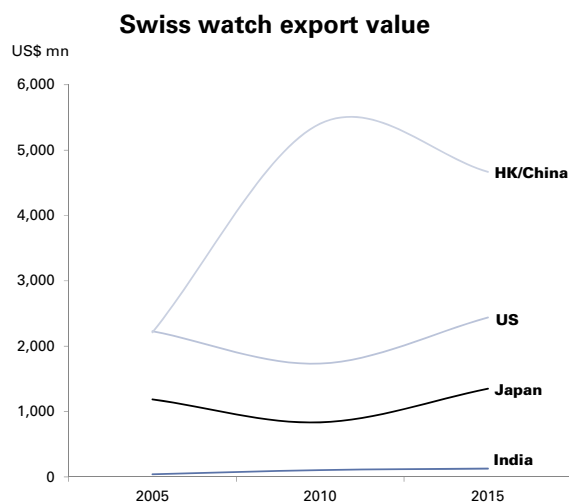
*- Sanjay Kapoor, Founder and Managing Director of Genesis Luxury,
"Economic Times", Nov 15*

Chasing the very few who can afford it

India's number of billionaires and millionaires ranks #4 and #8 in the world respectively. But beyond these movers and shakers, the addressable market for high-end luxury goods drops precipitously; it is limited to the upper echelons of the Urban Middle, a group of 27mn workers who earn less than US\$1,000 per month, often as the sole earner for the household.

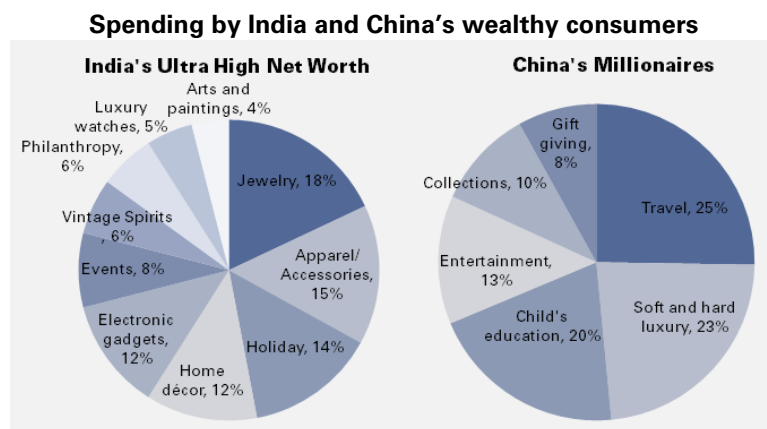
The other reason why India's US\$1.1bn luxury goods market will find it tough to compare with China's US\$20.5bn market is cultural. Whereas Chinese consumers have aspired to show their wealth through conspicuous consumption, Indian consumers have traditionally avoided ostentatious displays, preferring a keen eye for value. The one exception is weddings, which can cost US\$7,500-US\$75,000+ compared with the average c.US\$30,000 wedding in urban China and in the US. This conservative culture is beginning to change with the younger generation, who are more willing to splurge and increasingly value experiences like holidays.

Exhibit 90: Addressable market for high-end luxury goods limited to 27mn consumers; Swiss watch exports to India just 9% of HK/China



Source: Federation of the Swiss Watch Industry FH

Exhibit 91: A wealthy Indian spends mostly on jewelry, apparel and holidays, similar to their Chinese counterpart



Note: Ultra-high-net-worth (UHNW) Indian household is defined as one with net worth of over 250mn Rs (\$3.7mn) by Kotak Wealth Management

A millionaire in China is defined as one with assets of more than 10mn RMB (\$1.6mn) by Hurun Report

Source: Kotak Wealth Management, Hurun Report Chinese Luxury Consumer Survey 2013

Regulatory barriers easing, but reaching buyers with competitive pricing remains a challenge

Until 2012, foreign ownership of single-brand retailers was limited to 51% and joint ventures resulted in execution problems. For instance Maserati, the sports car company, had to fly its own Italian technicians into India when its local partner did not offer after-sales service, according to the Managing Director of Maserati Middle East, India and Africa in an interview with The Economic Times. Such barriers are beginning to ease as policy becomes less restrictive.

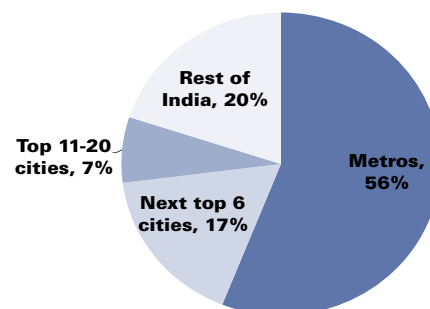
Pricing and distribution, however, remain key challenges. India's pricing of luxury goods are generally over 20% more expensive than other major markets, after including duties and taxes. In addition, 44% of ultra-high net worth individuals reside in non-metro centers (Exhibit 93). Over time, ecommerce may help brands and consumers better reach each other, but for now, most consumers in non-metro areas still need to travel to access luxury products.

Exhibit 92: Regulatory barriers are easing Single-brand retailer regulation key changes

| | |
|---------------------|---|
| Jan 2012 | FDI ownership of single brand retailer extended to 100% from previous cap of 51% |
| Key details: | For FDI extending beyond 51% ownership, mandatory sourcing of at least 30% of the value of products sold would have to be done from Indian 'small industries/ village and cottage industries, artisans and craftsmen'. |
| | Retail trading, in any form, by means of e-commerce, would not be permissible, for companies with FDI, engaged in the activity of single-brand retail trading. |
| Mar 2016 | Single brand entities with brick and mortar stores allowed to undertake e-commerce |
| Key details: | FDI is not permitted for inventory based e-commerce, where the e-commerce entity owns the inventory and is sold to consumers directly. Marketplace model e-commerce, acting as facilitator between buyers and sellers are allowed 100% FDI. |
| | Products manufactured in India are permitted to be sold through e-commerce retail |

Source: Department of Industrial Policy and Promotion

Exhibit 93: But distribution will remain a challenge UHNW distribution by cities



Source: Kotak Wealth Management

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.

Unless otherwise stated, the individuals listed on the cover page of this report are analysts in Goldman Sachs' Global Investment Research division.

Investment Profile

The Goldman Sachs Investment Profile provides investment context for a security by comparing key attributes of that security to its peer group and market. The four key attributes depicted are: growth, returns, multiple and volatility. Growth, returns and multiple are indexed based on composites of several methodologies to determine the stocks percentile ranking within the region's coverage universe.

The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

Growth is a composite of next year's estimate over current year's estimate, e.g. EPS, EBITDA, Revenue. **Return** is a year one prospective aggregate of various return on capital measures, e.g. CROCI, ROACE, and ROE. **Multiple** is a composite of one-year forward valuation ratios, e.g. P/E, dividend yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. **Volatility** is measured as trailing twelve-month volatility adjusted for dividends.

Quantum

Quantum is Goldman Sachs' proprietary database providing access to detailed financial statement histories, forecasts and ratios. It can be used for in-depth analysis of a single company, or to make comparisons between companies in different sectors and markets.

GS SUSTAIN

GS SUSTAIN is a global investment strategy aimed at long-term, long-only performance with a low turnover of ideas. The GS SUSTAIN focus list includes leaders our analysis shows to be well positioned to deliver long term outperformance through sustained competitive advantage and superior returns on capital relative to their global industry peers. Leaders are identified based on quantifiable analysis of three aspects of corporate performance: cash return on cash invested, industry positioning and management quality (the effectiveness of companies' management of the environmental, social and governance issues facing their industry).

Disclosures

Coverage group(s) of stocks by primary analyst(s)

Joshua Lu: Asia Pacific Consumer and Retail, Hong Kong/China Consumer. Aditya Soman: Asia Pacific Media, Asia Pacific Telecoms, India Consumer.

Asia Pacific Consumer and Retail: Ace Hardware Indonesia, Amorepacific, BGF Retail, China Resources Enterprise, CJ CheilJedang, CP ALL PCL, E-Mart, Eclat Textile Co, Far Eastern Department Stores, GS Retail Co., Hyundai Department Store, KT&G, LG Household & Healthcare, Lotte Shopping, Makalot Industrial Co, Matahari Department Store, Mitra Adiperkasa, MOMO.COM Inc., Orion, PChome Online Inc., Pou Sheng International Holdings, President Chain Store, PT Gudang Garam Tbk, PT Hanjaya Mandala Sampoerna Tbk, PT Indofood CBP Sukses Makmur, PT Indofood Sukses Makmur Tbk, PT Kalbe Farma Tbk, PT Unilever Indonesia Tbk, Shenzhou International Group Holdings Ltd, Shinsegae, Stella International Holdings, Sun Art Retail Group, Taiwan FamilyMart Co. Ltd., Tingyi (Cayman Islands) Holdings, Tsingtao Brewery (A), Tsingtao Brewery (H), Uni-President China Holdings, Uni-President Enterprises, WH Group Ltd., Yue Yuen Industrial.

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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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Goldman Sachs Investment Research global Equity coverage universe

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|--------|---------------------|------|------|----------------------------------|------|------|
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