

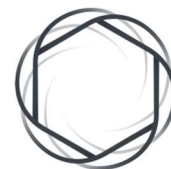


S.P. HINDUJA

BANQUE PRIVÉE

India House View

August 2026



Thoughts of the CEO

“Capitalising the Wealth Effect and Affluent Discretionary Expansion”

As we navigate a rapidly evolving domestic economic landscape in India, our priority is to provide you with deep analytical clarity at the intersection of shifting urban demographics and structural changes in corporate profitability. In evaluating the multi-decade trajectory of Indian equities, we recognize that the primary engine of high-margin wealth creation has fundamentally transitioned away from mass-market volume plays toward the structural premiumisation of Indian consumption. This phenomenon is anchored by India's per capita GDP breaking past the critical USD 2,600 inflection point on its march toward a projected USD 5,000 by 2030, a macroeconomic threshold that historically triggers a geometric acceleration in discretionary spending. For investors, this creates a starkly bifurcated, K-shaped corporate landscape where affluent urban household incomes are expanding at an 18 percent CAGR, while the broader mass market faces flat volume growth and a modest 6 percent income trajectory.

To capitalize on this structural divergence, our asset allocation strategy explicitly overweights sectors capturing the wealth effect generated by the financialisation of domestic savings. As middle-class capital migrates from physical assets like land and gold into equity markets via monthly systematic investment plans, the visible appreciation of digital portfolios creates a powerful psychological lift that fuels aspirational urban spending. This shift from deferred gratification to immediate identity curation is further accelerated by India Stack's frictionless digital lending rails, which alter consumer affordability calculations by reframing high-ticket upfront costs into predictable monthly cash-flow allocations.

Consequently, we advise building concentrated thematic positions in premium mobility and luxury

retail. Mid-to-high-end SUVs now dominate over fifty-two percent of total domestic passenger vehicle sales while entry-level hatchbacks have withered to a 26 percent market share, illustrating that incremental urban wealth is over-indexing on lifestyle assets with high income elasticity.

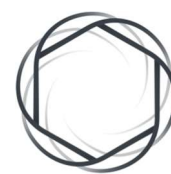
Simultaneously, we recognize that this high-growth theme faces critical under-the-radar distribution threats that require tactical vigilance. The explosive scaling of quick-commerce platforms has permanently altered urban delivery expectations, but it has also introduced a severe structural risk as these platforms leverage hyper-local zip-code data to launch copycat private labels that undercut independent brands and inflate customer acquisition costs. Under these conditions, we strictly favor premium consumer firms that maintain absolute control over their value chains, hold exclusive global distribution agreements, or actively expand physical exclusive brand outlets to insulate their independent pricing power. Furthermore, because intense institutional capital inflows have pushed valuations for true premium leaders to elevated multiples frequently exceeding 50 times earnings, our investment mandate rejects aggressive near-term capital deployment.

We advocate a highly disciplined, gradual accumulation strategy using structured, multi-quarter buying windows to establish an optimal margin of safety against periodic earnings volatility.

Yours sincerely,

Fabrice d'Erm





The Premiumisation of Indian Consumption

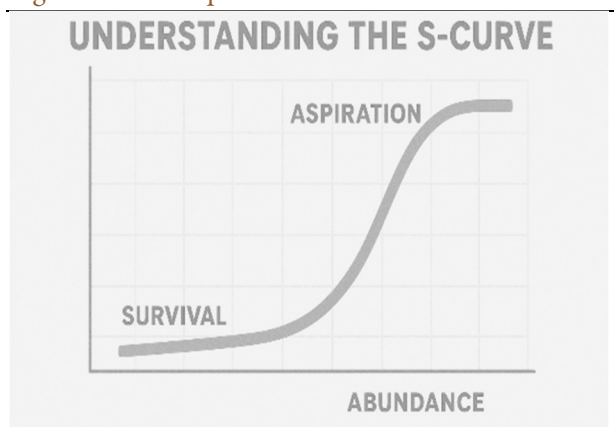
India's structural consumption landscape has shifted from a volume-driven, mass-market model to a value-driven premiumisation trend. Driven by an uneven, K-shaped economic recovery, affluent household incomes are growing at an 18% CAGR, compared to just 6% for the broader mass market. As India's per capita income breaks past USD 2,600 and moves toward a projected USD 5,000 by 2030, surplus wallet share is flowing into discretionary upgrades.

Structural & Behavioral Drivers

1. The Consumption S-Curve Inflection

Private final consumption expenditure (PFCE) in emerging economies does not scale linearly with GDP per capita. Instead, it follows a non-linear S-curve inflection trajectory.

Figure 1: The Shape of Growth



Source: EquityEdge Research

India's per capita GDP has broken past the critical USD 2,600 baseline and is moving toward a projected USD 5,000 by 2030. This macroeconomic shift marks the transition from Phase 1 (Subsistence & Linear Staples) to Phase 2 (Discretionary Inflection). As basic survival costs stabilize, disposable income above the baseline subsistence line expands geometrically, channeling surplus wallet share entirely into aspirational upgrades.

Mathematical Formulation of the K-Shaped Bifurcation

The headline GDP data obscures a widening divergence in purchasing power. To evaluate corporate earnings potential, investors must analyze the market using a two-sector structural growth model.

Let total private consumption expenditure (C) be represented as the sum of consumption from two distinct socioeconomic groups: the Affluent Urban Demographic C(A) and the Mass Market Demographic C(M). Then, $C = C(A) + C(M)$

Each group's consumption expenditure is driven by its respective income (Y), propensity to consume (c), and the structural growth rate of that income stream (g).

$$C(A) = c(A) \times Y(A) \times 1 + g(A)$$

$$C(M) = c(M) \times Y(M) \times 1 + g(M)$$

Empirical data over the current multi-year cycle shows a significant divergence in these growth rates:

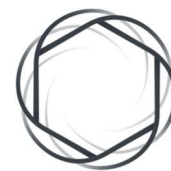
- **g(A) Affluent Income CAGR** : Stable at ~18%, driven by white-collar wage growth, tech services, global capability centers (GCCs), and capital gains.
- **g(M) Mass-Market Income CAGR** : Lower at ~6%, constrained by underemployment, rural inflation, and stagnant entry-level wages.

Because $g(A) > g(M)$, the long-term consumption mix shifts inexorably toward C(A). Consequently, companies catering to the affluent segment experience expanding addressable markets and strong pricing power, while mass-market enterprises face structural volume stagnation and margin compression.

2. Financialisation and Credit Proliferation

The Wealth Effect Meets Frictionless Credit: India's financialisation is reinforcing consumer spending through two mutually reinforcing channels. First, household savings are increasingly shifting away from illiquid assets such as real estate and gold into financial markets, primarily through monthly Systematic

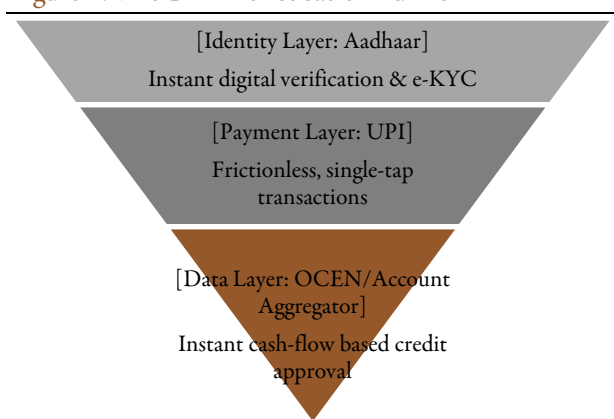




Investment Plans (SIPs). Sustained equity market appreciation has created a powerful wealth effect: even without liquidating their investments, households perceive themselves to be wealthier as portfolio values rise, strengthening confidence to undertake high-ticket discretionary purchases.

Second, the rapid expansion of India's digital financial infrastructure has dramatically reduced the frictions associated with consumer financing. The institutional scaling of India Stack (including Aadhaar e-KYC, UPI and the Account Aggregator framework) enables lenders to perform instant credit assessments and approve financing directly at the point of sale. Combined with the widespread availability of No-Cost EMI schemes (Equated Monthly Instalment), large luxury purchases are transformed from significant one-off expenditures into affordable monthly instalments. In effect, the wealth effect increases consumers' willingness to spend, while digital credit infrastructure substantially enhances their ability to do so, creating a powerful feedback loop for discretionary consumption.

Figure 2: The DPI Monetisation Funnel



Source: SPH Research

Core Sector Analysis & Proxies

1. Automobiles & Personal Mobility

The traditional entry-level hatchback has dropped to a 26% market share due to high safety/emission regulatory inflation and stagnant lower-middle-class incomes. Conversely, mid-to-high-end SUVs now dominate over 52% of total passenger vehicle sales.

To analyze this structural shift, institutional investors are invited to evaluate the Income Elasticity of Demand.

- **Entry-Level Passenger Vehicles** (<INR 600,000): (Inelastic). Higher income levels do not drive volume growth; consumers transition out of the segment entirely.
- **Premium Utilities & SUVs** (>INR 1.5 Million): (Highly Elastic). Gains in affluent wealth trigger disproportionately large capital allocations toward premium mobility upgrades.

Corporate Proxies: Mahindra & Mahindra (M&M) successfully pivoted its portfolio from basic utility vehicles to high-margin premium SUVs (XUV700, Scorpio-N, Thar), sustaining extended order backlogs. Eicher Motors (Royal Enfield) continues to dominate the mid-displacement motorcycle segment (>250cc), maintaining high pricing power and elevated return on capital employed (RoCE).

2. Premium Retail & Apparels

Mass-market apparel brands face intense margin pressures due to global cotton/yarn volatility and high price sensitivity. Conversely, premium lifestyle retail concepts are expanding footprints and driving higher Average Order Values (AOV).

Corporate Proxy (Trent Ltd): While Zudio brand name captures high volume within the value apparel segment, Westside focuses directly on the urban, aspirational upper-middle class. Westside operates an exclusive private label model, designing and sourcing nearly 100% of its merchandise in-house. This strategy eliminates third-party brand margins, and a fast 12-day design-to-shelf turnaround minimizes inventory drag.

3. Luxury Retail & The Experience Economy

Luxury consumption is expanding regionally, with over 50% of online luxury sales now originating from Tier-2 and Tier-3 hubs such as Surat, Lucknow, and Coimbatore. Concurrently, consumers are actively shifting spending from physical assets to personal





experiences, high-end hospitality, fine dining, and destination travel.

Retail Proxy (Ethos Ltd): India's largest organized luxury watch retailer. Ethos secures exclusive multi-year distribution agreements with leading global watch houses (Rolex, Omega), creating a structural monopoly that allows it to expand boutiques into emerging regional wealth hubs with minimal competition.

Hospitality Proxy (Indian Hotels Co. Ltd - IHCL): Driven by a surge in premium domestic tourism, luxury hotel chains maintain peak Revenue Per Available Room (RevPAR) alongside high occupancy rates. IHCL leverages a capital-light, asset-light management contract model to sustain high corporate return on equity (RoE).

Table 1: Winners vs. Losers

WINNERS (Affluent Segment)	LOSERS (Mass-Market Segment)
High structural pricing power	Trapped in low-margin price wars
Commands steady gross margin expansion	Vulnerable to sudden raw material inflation
Delivers an elevated Return on Equity (ROE)	Experiences low or volatile asset productivity
Protected by strong structural brand loyalty	Exposed to highly commoditized product lines
Resilient demand across urban cohorts	Volume stagnation across rural markets

Source: SPH Research

4. Consumer Goods and EElectronics

Mass-market rural volumes are sluggish, but premium product portfolios are growing rapidly. Consumers are upgrading from standard soaps to specialty skincare, and from basic grains to organic, functional, or gut-health food items. FMCG giant **HUL's** premium portfolio is growing at twice the rate of its baseline business.

Overall volume growth is completely flat, but the value mix is skyrocketing. Premium smartphones (above INR 30,000) have jumped from a 20% market share to 26%.

Apple India's projected revenue is now nearly double that of Hindustan Unilever (HUL), showcasing the victory of high-margin luxury tech over mass-market consumer goods.

5. Real Estate & Infrastructure

Premiumisation is physically reshaping Indian cities and retail environments:

Commercial Real Estate Transformation : Malls are moving away from simple retail transactions to focus heavily on high-end entertainment, fine dining, and wellness spaces. Over 70% of new mall development is designed specifically to support international luxury setups and experiential flagship stores.

The Luxury Residential Ecosystem : High-end real estate buyers are looking beyond square footage. Premium residential projects now compete on exclusive amenities like concierge services, private theaters, advanced air filtration systems, and managed community clubs.

Table 2: Mass to Premium Transition

Product Category	Traditional Utility Market (Volume Baseline)	Transition	Premiumized Value Market (Margin Engine)
Beverages	Commodity-priced tea / dust packets	→	Single-origin artisanal cold brews
Mobility	Entry-level commuter hatchbacks	→	Connected smart SUVs
Personal Care	Mass-market basic talcum powder	→	Active ingredient chemical serums
Home Infrastructure	Basic generic cotton mattresses	→	Orthopedic memory foam solutions

Source: SPH Research



Premium vs. Mass-Market Corporate Models

The underlying economic divergence between the premiumisation theme and mass-market consumption is clearly reflected in the corporate financial statements of Indian enterprises.

Table 3: Unit Economics

<i>Operational Line Item</i>	Premium Focus Model (e.g., Trent, Ethos, Titan)	Mass-Market Focus Model (e.g., HUL, Dabur, FMCG)
<i>Gross Profit Margin</i>	55% – 72%	35% – 48%
<i>Marketing & Ad Spend</i>	12% – 18% of Revenue	6% – 9% of Revenue
<i>Working Capital Cycle</i>	Negative to Low (10–30 Days)	High (45–75 Days)
<i>Growth Dependency</i>	Driven by Value Mix Optimization / AOV Expansion	Dependent on Rural Volume Growth & Monsoons
<i>DuPont Return Driver</i>	Driven by Net Profit Margin expansion; value-mix optimization handles higher CapEx.	Driven by Asset Turnover velocity; highly sensitive to rural volume growth.

Source: SPH Research

Roadblocks & Guardrails

1. The White-Collar Salary Slowdown Risk

The premiumisation trend in India is highly dependent on the purchasing power of the top 10% of income earners. This demographic is heavily concentrated in specific knowledge-work sectors, particularly Global Capability Centers (GCCs), information technology services, premium banking, and advanced corporate consulting.

GCCs have become a significant driver of high-wage job creation in major urban hubs like Bengaluru, Hyderabad, Pune, and Delhi-NCR. Any structural shifts in global corporate spending, major technological disruptions (such as automated workflow deployments), or localized hiring slowdowns within these technology sectors will directly impact high-earning urban professionals. Because these households drive a large share of discretionary luxury spending, a sudden flattening of white-collar wage growth represents a direct risk to premium corporate earnings.

2. Demographic Saturation

While the growth rates of premium brands are high, investors must evaluate the total addressable audience. India's core premium consumer base is highly concentrated, consisting of approximately 30 to 40 million households (roughly 150 million individuals) capable of consistently purchasing premium goods.

Once a premium consumer brand fully penetrates this demographic across Tier-1 and Tier-2 urban hubs, achieving marginal volume growth becomes difficult.

Moving down the income pyramid to target mass-market consumers often requires lower pricing and smaller product sizes, which can dilute brand exclusivity and pressure gross margins. Companies that fail to expand their product ecosystems or enter international markets risk seeing their growth trajectories flatten as they hit this demographic saturation wall.

3. The Fake Premiumisation Moat Trap

Many consumer-facing businesses are raising prices and rebranding basic products under premium labels. Investors must distinguish between true brand equity and artificial price inflation.

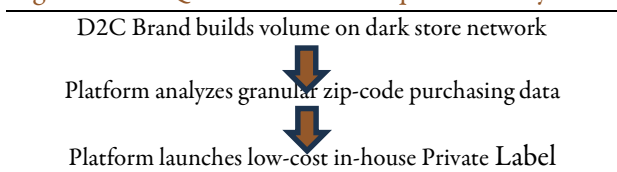
A true premium moat requires clear product differentiation, such as specialized design, proprietary intellectual property, or premium sourcing channels. Companies that rely solely on increased advertising budgets and stylized packaging without offering clear underlying utility often experience high customer attrition and margin pressure when broader economic conditions tighten or lower-cost alternatives emerge.



4. The Quick-Commerce Private Label Disruption

Quick-commerce platforms (Blinkit, Zepto, Swiggy Instamart) have built a USD 10 billion GMV (Gross Merchandise Value) network. They use hyper-local demand data down to specific residential zip codes to spot high-performing premium products, launch identical in-house private labels, and algorithmically place them at the top of organic search returns at a 20% to 30% discount.

Figure 3: The Quick Commerce Exploitation Cylinder



Source: SPH Research

This dynamic erodes independent brand unit economics by inflating customer acquisition costs (CAC) to INR 800–1,200 per customer in competitive segments, forcing brands to invest in physical retail networks to protect their independent brand equity.

Investment Implications

To capture long-term value from India's premiumisation trend, we recommend the following general guidelines:

1. **Avoid Commoditised Mass-Market Exposure :** Reduce capital allocation to consumer businesses heavily reliant on mass volume recovery within highly price-sensitive segments, as these models face persistent input cost pressures and slow revenue growth.
2. **Prioritize Value Chain Control :** Focus investment on companies that maintain direct retail control, hold exclusive distribution agreements, or run vertically integrated private-label networks (e.g., Ethos, Trent). These structures offer better insulation from quick-commerce private-label threats.
3. **Implement Gradual Accumulation :** Given the elevated valuation multiples (P/E ratios exceeding 50x) across parts of the premium discretionary sector, avoid deploying large capital amounts all at once. Use structured, multi-quarter buying windows to accumulate target positions, helping to protect the portfolio against short-term valuation corrections.

Mutual Fund Allocations

To capture this theme through managed funds, we look toward concentrated, consumption-focused portfolios:

Table 4: Consumption Thematic Funds

Fund Name	Premium Exposure	Risk Profile
Mirae Asset Great Consumer Fund	A balanced heavyweight that owns leaders like Titan, ITC, and Maruti but selectively overweights premium discretionary names.	Moderate
ICICI Prudential Bharat Consumption Fund	Known for taking concentrated bets on auto (Tata Motors, TVS) and retail (Trent). It has been a top performer recently.	High
SBI Consumption Opportunities Fund	Diversifies across consumer durables, hotels, and textiles. Good for capturing the "Experience Economy" (hotels/travel).	High
Quant Consumption Fund	Uses data-driven models to enter and exit stocks fast. As seen with their Ethos buy, they are not afraid to buy niche luxury caps.	Very High

Source: SPH Research

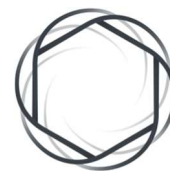


India Asset Allocation

							August 2026
Asset Class	Strategic Opinion	Tactical Opinion	Constituents	Most Preferred	Least Preferred	Commentary	
Cash	-	+				While macro risks persist, warranting a higher-than-usual cash buffer, we begin a phased deployment of this dry powder into income-generating assets.	
Fixed Income	=	+	Segments	Floating Rate Bonds		We focus on the 3-to-5 year duration for decent yields without extreme volatility. The RBI has raised the CPI inflation forecast to 5.1%, making long-dated credit riskier. USD-denominated Indian bonds offer protection against the weakened Rupee, which is trading around the 95-96 range against the USD. We also like selective short-tenor (12-month) high-yield bonds where credit spreads are substantial.	
			Duration	3-to-5 Year Segment	Long-dated credit		
Equities	++	-	Sectors	Financials (Banks, Insurance) Select Consumer Discretionary Exporters (USD revenue)	Staples Downstream Energy Materials	We maintain a Tactical Underweight (-) stance as the Nifty 50 PE ratio sits around 20.8. Although the West Asia conflict that flared up may soon see a ceasefire, we await clearer signals to turn more positive on risk assets. Furthermore, the IMD has forecast below-normal monsoon rainfall at less than 94% of the Long Period Average for August 2026, warranting caution. We favor high-quality banks and insurance companies, alongside exporters that benefit from steady USD revenue streams. Within consumer discretionary, we selectively target the premiumization theme. Conversely, we avoid downstream Energy, Materials (such as Chemicals), and Staples, which currently screen as expensive with low growth prospects.	
			Styles	Quality and Value Well Diversified large caps Thematic Plays	Small caps Momentum strategies		
Alternatives	+	+		Growth Capital & Late Stage Pre-IPO Precious Metals and REITs	Private Credit	Gold remains a structural anchor as institutional allocations increase despite short-term volatility. REITs offer steady 6-7% yield in a volatile environment.	

Opinion legend: (--) very unattractive; (-) unattractive; (=) neutral; (+) attractive; (++) very attractive.





India macro data and projections *

	FY2024	FY2025	FY2026	FY2027E	FY2028E
Real GDP (percent growth) Fiscal Year	8.2	6.4	6.4	6.5	6.5
CPI (percent growth) Fiscal Year	5.4	3.4	4.7	4.3	4.2
Industrial Production (percent growth)	5.2	4.0	6.2	5.0	5.0
Interest Rates (percent) Fiscal Year	6.50	6.50	5.25	5.25	5.25
Fiscal Deficit (percent of GDP)	-5.6	-4.8	-4.4	-4.3	-4.3
Trade Balance (percent of GDP)	-7.9	-6.8	-7.1	-7.0	-7.0
Current Account Balance (percent of GDP)	-0.7	-0.6	-1.1	-1.2	-1.3
Public Debt (percent of GDP)	82.7	82.7	81.8	81.2	80.5
FX reserves (USD bn)	646	659	681	645	640

Sources: IMF

* Data are for Apr-Mar fiscal years

MSCI India (USD) 1Y Performance



Source: Bloomberg

Nifty50 (INR) 1Y Performance



Source: Bloomberg

Sector Performances	Index Market Cap (USD Bn)	CY 2025	J July 2026	% YTD	Fwd PE (x)
Nifty Realty	23.6	-16.6%	8.7%	1.9%	28.8
Nifty Pharma	103.8	-2.9%	4.8%	16.6%	31.9
Nifty IT	124.9	-12.6%	16.8%	-17.4%	17.4
Nifty Financial Services	481.0	17.4%	0.1%	-3.5%	14.6
Nifty Auto	135.9	23.5%	8.6%	2.6%	23.7
Nifty Metal	87.2	29.1%	1.6%	16.2%	11.4
Nifty Energy	258.9	0.4%	-2.5%	9.7%	13.5
Nifty FMCG	107.5	-2.3%	0.7%	-11.4%	31.1
Nifty India Consumption	369.8	8.2%	4.9%	-1.3%	32.2
Nifty Media	4.4	-20.5%	9.5%	10.8%	18.9
INR/USD		-5.0%	-0.8%	-5.8%	

Source: Bloomberg



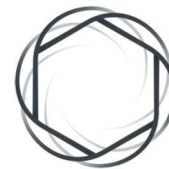


Figure of the Month

50%

The Democratisation of Aspiration.

Over half of all digital luxury and premium accessory transactions in India are now originating outside traditional Tier-1 metros. Driven by a surge in regional corporate and real estate wealth, Tier-2 and Tier-3 hubs (such as Surat, Lucknow, and Coimbatore) are emerging as the fastest-growing customer acquisition frontiers for organized luxury retail.

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Founded in Geneva in 1994 by Srichand Parmanand Hinduja with a vision to provide clients with a bridge between East and West, our institution remains the only Indian-owned Swiss bank in history. With an active presence in Switzerland, India, UAE and the UK, S.P. Hinduja Banque Privée offers its clients the reliability of Swiss regulatory oversight, while providing specialized access to high-growth markets.

We are a private bank with an entrepreneurial spirit, embracing collective action and building creative solutions that advance the world, economically and socially.

The future of banking is emerging at the intersection of profit and purpose.

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