

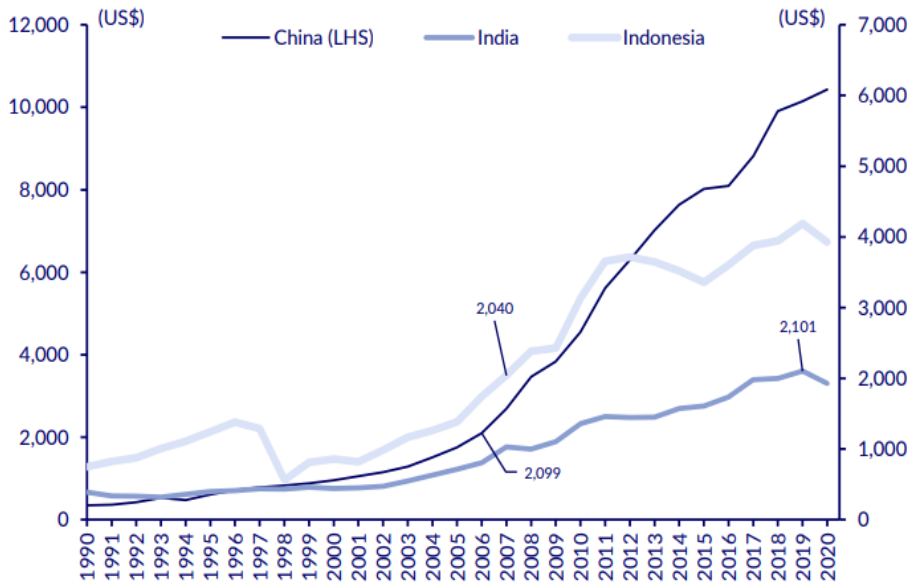
DRIEHAUS EMERGING MARKETS GROWTH

India Consumer

India is on track to become the 3rd largest consumer market by 2025. More than 60% of India’s GDP is driven by domestic consumption. Private consumption accounts for 57% of GDP, which compares to 37% in China and 55% in Indonesia. Income per capita has been gradually improving and reached USD\$2,000+, which is considered an important threshold towards establishing a strong middle-income cohort. With close to 70% of the population still living in rural areas, India has immense growth prospects in the coming years driven by increased urbanization and consumption upgrades. The share of the affluent population has also increased from 8% in 2007 to 15% in 2022. The expansion of e-commerce is playing an important role in consumer premiumization trends. E-commerce penetration reached ~7% in 2021 while e-commerce services are now available in more than 95% of the country. In summary, India presents tremendous growth opportunities over the next decade.

Exhibit 1. Per Capita GDP Trend for India, China and Indonesia Over Last Two Decades

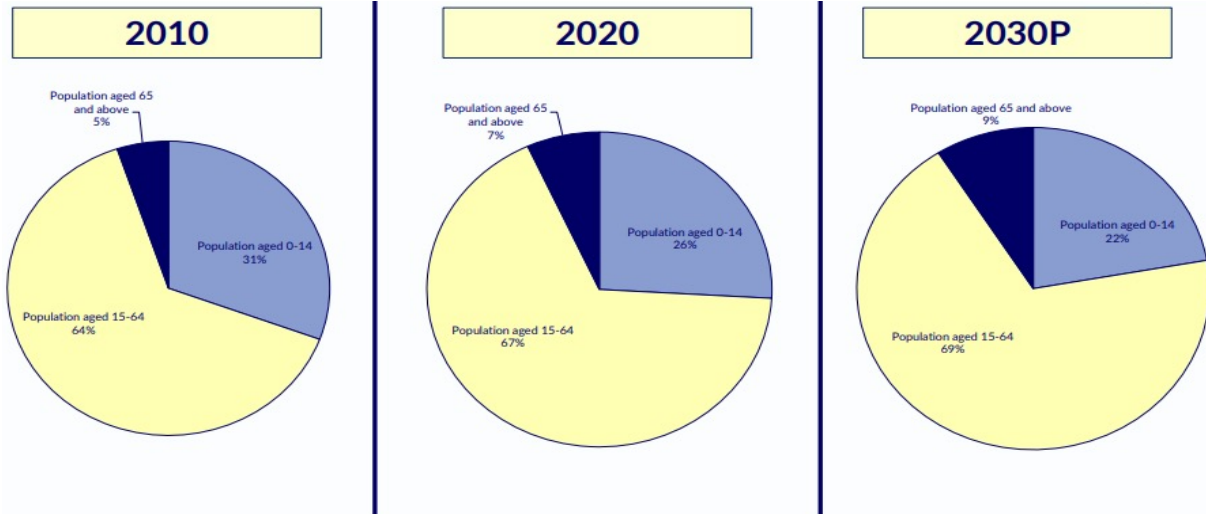
India has crossed the crucial GDP per capita level of \$2,000



Source: CLSA, Technopak Analysis (sourced from Restaurant Brands Asia DRHP)

The Indian consumer sector is undergoing transformational shifts driven by favorable demographics, increased urbanization, higher disposable incomes, and a more aspirational consumer in general. India has a significant demographic tailwind: over the next decade, the number of people entering the workforce will continue to increase.

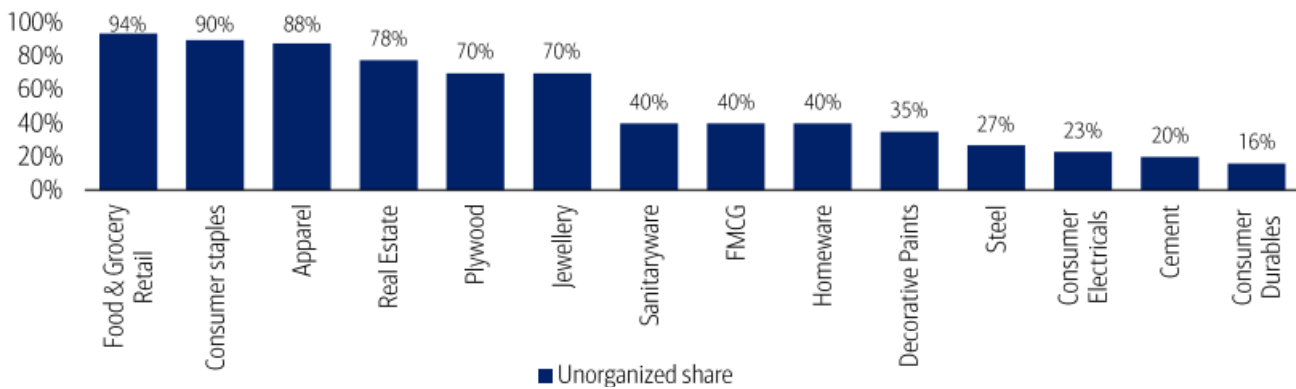
Exhibit 2. More People to Enter the Workforce



Source: Euromonitor

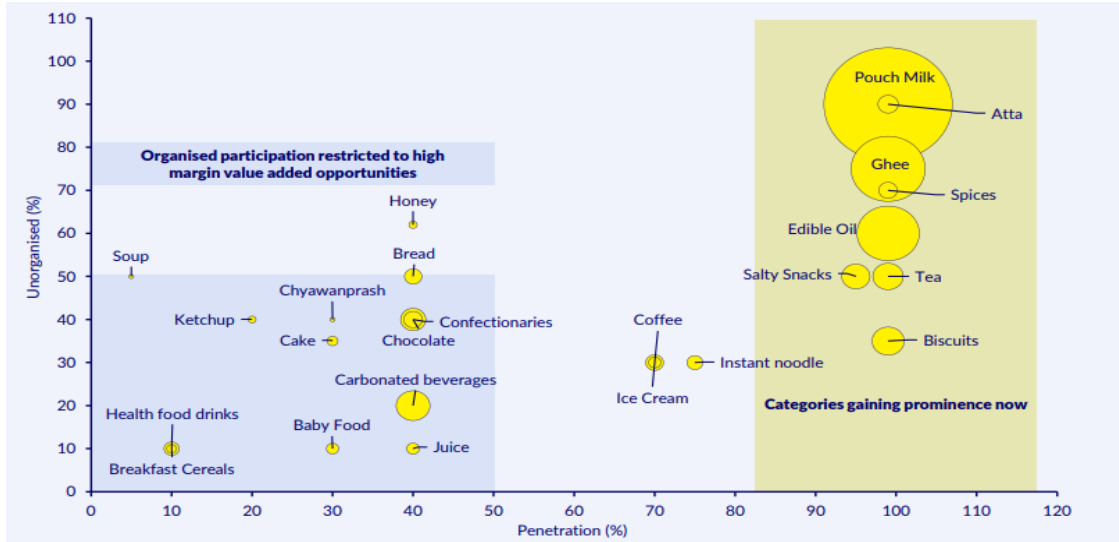
The underlying strong migration towards the organized sector (from the informal sector) is benefiting larger, well capitalized companies such as Hindustan Unilever, Nestle, ITC, and Titan. We expect continued growth both via network expansion, primarily into lower-tier cities, as well as category expansion. As an example, in the large \$520 billion fast-moving consumer goods (FMCG) market, the organized companies account for only one third of the market. Consumer companies in general are becoming more creative with marketing campaigns that appeal to a more sophisticated consumer.

Exhibit 3. Share of Unorganized Players High Across Sectors, Provides Scope for Formalization/Consolidation



Source: BoFA Global Research

Exhibit 4. Food & Beverage Landscape in Terms of Category Penetration and Unorganized Sector Share

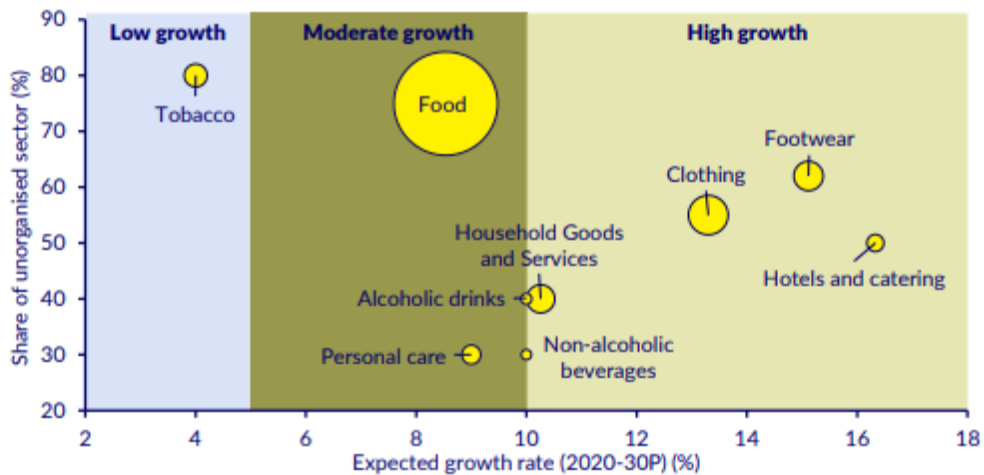


Note: The size of the bubbles represent the size of the category. Source: CLSA, Companies, Euromonitor

With increased affordability, both traditional staples products as well as newer, more innovative discretionary categories are poised to grow. Over the next decade most categories are expected to continue to grow at a strong double-digit pace, including: the sportswear category at ~18% CAGR, apparel at 17%, restaurants, hotels and catering at 16%, jewelry at 15%, clothing 13%, food and alcoholic drinks at 10%, and slightly slower growth for the beauty and personal care category at 9% and home care at 6%.

The strong market and category growth explain the premium valuations that most Indian companies enjoy vs. their global peers. Over the past ten years, consumer companies that have consistently shown earnings CAGR of 10%+ continue to enjoy multiple re-rating.

Exhibit 5. Growth Rates in Key Consumption Categories Discretionary Categories to Enjoy Higher Growth

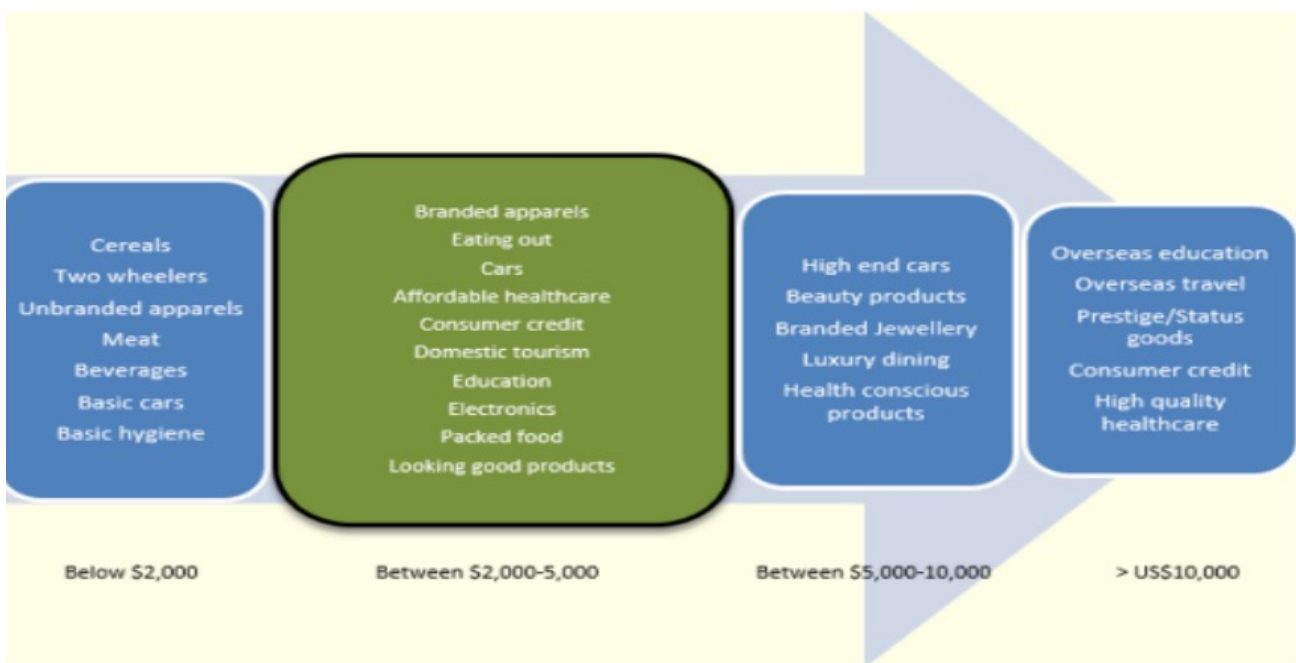


Note: The size of the bubbles represent the size of the category. Source: CLSA, Euromonitor

As more people join the middle class and become more aspirational in their purchases, discretionary spending is expected to gain wallet share from staples. Per CLSA analysis, total consumption expenditures are expected to double by 2030, with the share of discretionary spending increasing exponentially. At the low-income level, families earning less than \$750 allocate more than 50% of their budget towards staples and essentials. This percentage decreases to 30% for household incomes of \$2,000 and 20% for over \$10,000 in earnings.

Exhibit 6. Indian Consumer Category Adoption Inflexion Point

Consumer goods/services adoption across different per capita GDP levels



Source: Euromonitor

While the growth opportunities in India remain compelling over the long-term, we have recently witnessed a slowdown in consumer spending driven by high inflation and high interest rates. The slowdown in consumer spending led to more pronounced stock corrections in the discretionary names. The staples group continued to outperform on average due to its more defensive nature. Inflationary headwinds have started to subside, which should support margin expansion in the upcoming quarters. We expect companies with strong product offering, agile strategies, and strong execution to continue to outperform.

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ABOUT THE AUTHOR

Mihaela Zahariuc is an assistant portfolio manager and senior analyst on the Emerging Markets Team with a focus on the consumer sector. Her in-depth fundamental research, idea generation and buy/sell recommendation are leveraged across the three strategies managed by the Driehaus Emerging Markets Team. Additionally, she serves on the firm's ESG committee.

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