

## Riding the Reform Wave : India's Next Consumption Boom

### Investment Case for HDFC Non-Cyclical Consumer Fund and HDFC Transportation and Logistics Fund

#### Key Reforms To Catalyse Consumption

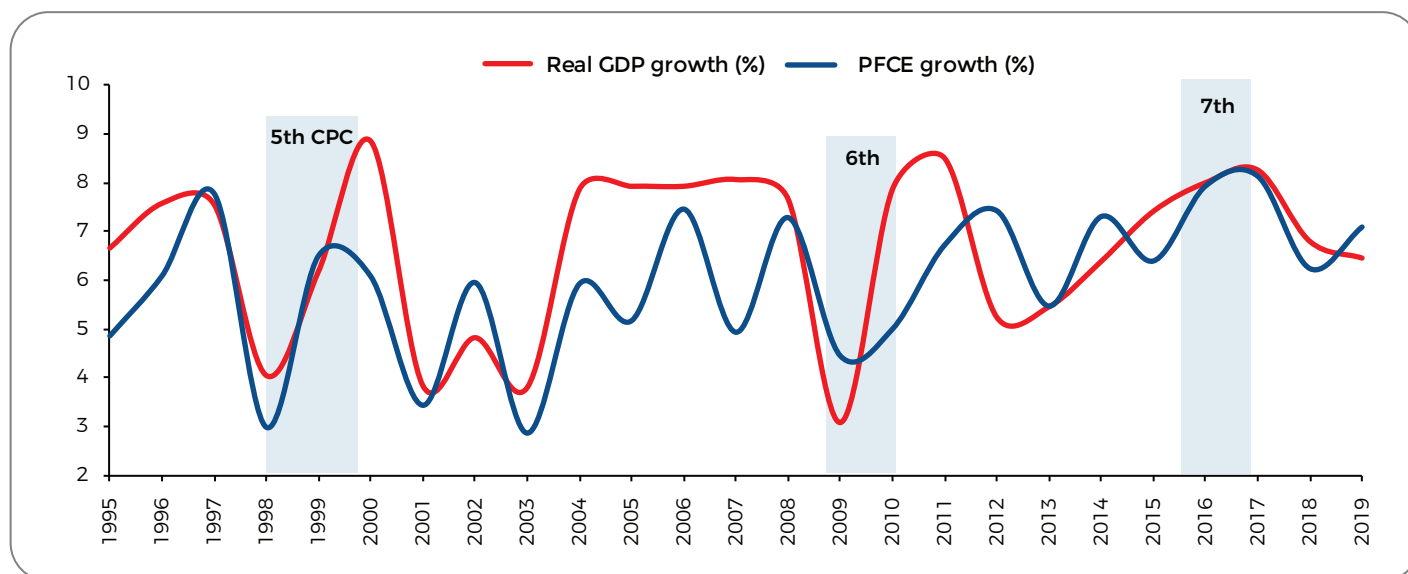
- 1. GST Rate Cuts:** Government may restructure the current GST regime of four slabs (5%, 12%, 18%, 28%) plus compensation cess (1-22%) into a simpler three-slab structure of 5%, 18% and 40%, with no cess
  - Items currently taxed at 12% could largely be revised lower to 5%
  - Items currently taxed at 28% could be revised to 18% (with few moving to higher rate category)
  - Luxury and sin goods (latter include cigarettes, other tobacco products, carbonated drinks, high-end Automobiles etc) could be taxed at a higher 'special slab rate' of 40%.

Reduced GST tax rates on select categories could impact affordability of consumer goods and services. For instance, it could be a significant tailwind for **Automobiles** (especially smaller cars and 2 Wheelers)

	Current GST Structure	Expected GST Structure
Electric Vehicles	5%	5%
3 Wheelers	28%	18%
2 Wheelers	28-31%	18%
Passenger Vehicles	Small Cars :28% Large/Luxury Cars: 45 to 50%	Small Cars: 18% Large/Luxury Cars: 40%
Commercial Vehicles	28%	18%

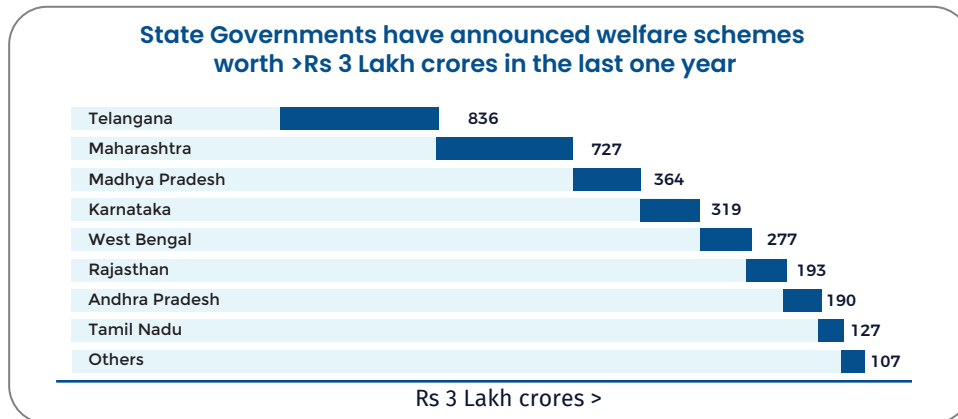
**Source:** SIAM, UBS, above GST rates under the current structure include Compensation Cess

- 2. 8th Pay Commission:** While the implementation is still some time away, significant increase in disposable income for millions of Government employees could trigger strong consumer spending. Historically, India has witnessed consumption-led growth in the year of pay commission implementation.



**Source:** Kotak Institutional Equities, PFCE – Private Final Consumption Expenditure, YoY Growth %

3. **State Government led increase in welfare spending:** Direct welfare transfers to women could boost spending power of a large segment of semi-urban and rural consumers

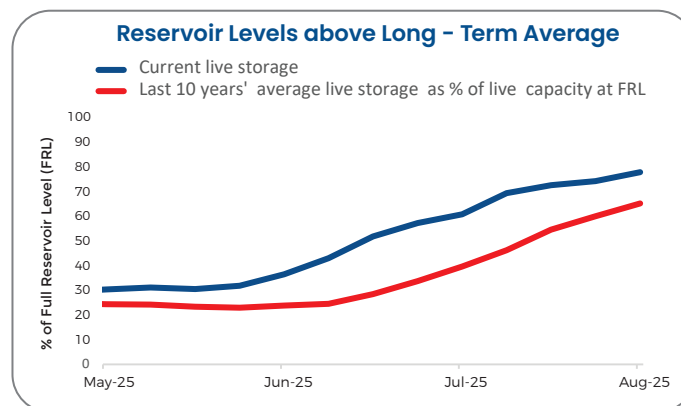


Source: Aventus Spark

4. **Income Tax Rationalization in Budget 2025:** Lower tax burden on the middle class creates sustained increase in take-home pay, boosting both urban discretionary and mass-market consumption. As per Budget, this move leads to Rs 1 Lakh crore of tax foregone.

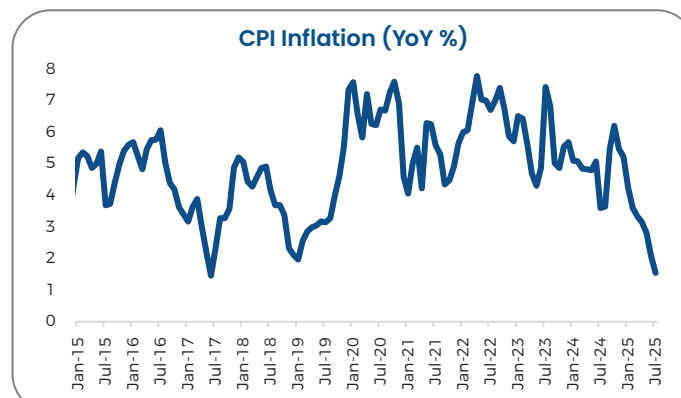
### Strong Monsoon, Low Inflation and Interest Rate Cuts could further unleash consumption

1. **Above average rainfall:** Cumulative rainfall till date has been above the long period average, with favourable spatial distribution. Favourable monsoon has led to healthy reservoir levels and better kharif sowing across crops; which bodes well for agricultural output, lower inflation and rising rural incomes.



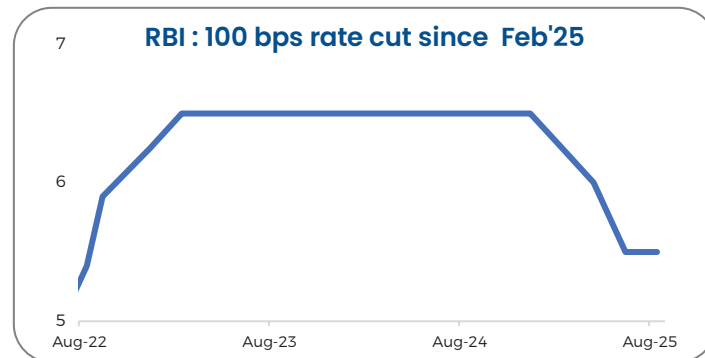
Source: CMIE

2. **Inflation under control:** CPI headline inflation declined to 2.1 per cent (y-o-y) in June 2025, driven by sharp decline in food inflation. Lower inflation augurs well for consumption



Source: Bloomberg

3. **Rate easing cycle:** After keeping rates unchanged for 2 years, benign Inflation has helped RBI deliver 100bps of policy rate cuts. Eventual transmission of these rate cuts to retail borrowers could aid credit growth and discretionary consumption



Source: Bloomberg

### Signs of revival in Consumption in Management Commentary (Q1FY26)

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**Leading tractor company:** “Looking ahead, with timely and widespread above-normal monsoon rain and improved reservoir levels, rural sentiment remains positive and farmer cash flows are strengthening

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**Two-wheeler major:** “Multi-year low inflation recorded in June, coupled with significant RBI rate cuts and favourable monsoon, should help in demand sentiment as the year progresses.”

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**Large FMCG company:** “Now with substantial amount of easing on inflation including food inflation, continued government support on schemes, good agriculture last year and a promising monsoon this year ... So, the signs that we are seeing is that overall there is recovery in the industry and we see that coming from rural as well.

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**FMCG Major, business update for Q1FY26:** “During the quarter, the sector exhibited consistent demand patterns, marked by improving trends in rural markets and steady urban sentiment. We expect gradual improvement in the quarters ahead, supported by easing inflation, a favourable monsoon season and policy stimulus. Amidst this backdrop, underlying volume growth in the India business continued to improve sequentially to reach a multi-quarter high, driven by positive trends in the core franchises and continuous scale up of new businesses”

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These near-term tailwinds, along with long-term structural growth drivers for consumption (Cyclical and Non-Cyclical), create an investment case for HDFC Non-Cyclical Consumer Fund and HDFC Transportation and Logistics Fund.

## HDFC Non-Cyclical Consumer Fund

### Investment Strategy

Investment team at HDFC MF has a significant experience and understanding of the consumption sector. We follow bottom-up stock selection approach for portfolio construction.

#### Core Portfolio

Core of the portfolio (at least 80%) will be invested in stocks that represent the non-cyclical consumer theme within the basic industries like Consumer Goods, Consumer Services, Telecom, Healthcare, Media, Entertainment and Publication.

#### Multicap Strategy

Consumption space offers depth and diversity - the scheme would invest across segments and market capitalization.

#### Focus on Leaders

Seek to invest in companies which are leaders and/or are gaining market shares due to superior execution, scale, better adoption of technology etc.

#### Secular growth/ Re-rating

Equally focussed on

- Companies which are likely to witness steady and secular growth
- Companies which are likely to see a turnaround in profitability and have potential of being re-rated

*HDFC Mutual Fund/AMC is not guaranteeing returns on investments made in this scheme. The current investment strategy is subject to change depending on the market conditions.*

## Why Invest in HDFC Non-Cyclical Consumer Fund

**Consumption theme is likely to unfold in India with key fundamental drivers in place:**

- **Inflection point in per capita income** : India is on the cusp of entering a phase of accelerated consumption with per capita income crossing US\$2,000 mark. Consumption in other countries like China accelerated post crossing US\$2,000 mark in per capita income
- **Demographic Dividend and Higher Urbanization** : India's median age is at 28 and is expected to add 97 million people to working age population in the next 10 years. Further, Urban population is expected to move up from current ~36% to ~40% in 2030
- **Premiumization across consumer categories** due to significant increase in upper middle-class income and Rich income group households
- **Higher formalization of economy** is leading to market share gains for organized players
- **Digitization** : Changing consumption landscape- improving access to products and services

**Stable earnings and Return on Equity profile of Non-Cyclical Consumer companies :**

- Sector represents companies with one of the highest ROEs/ROCEs, a relatively stable earnings growth profile and strong balance sheet

**Near term factors that could benefit include :**

- Improving macroeconomic factors for consumption such as inflation and pickup in consumption momentum
- Increase in welfare spends led by state governments
- Above normal monsoons in 2025, and
- Recovery in rural consumption

**Relatively lower risk and volatility in earnings growth compared to other sectors across business cycles on account of :**

- Relatively low government's intervention
- Higher brand loyalty and relatively lower risk of technology disruption
- Relatively sticky demand environment as lifestyle related products
- Lower risk from Global macroeconomic slowdown as majority of the companies are focused on domestic market

## HDFC Transportation and Logistics Fund

### Investment Strategy

#### Core Portfolio

Core of the portfolio (atleast 80%) will be invested in stocks that represent the Transportation and Logistics theme, with basic industries like Passenger Cars and Utility Vehicles, 2/3 Wheelers, Auto Components and Equipments, Castings and Forgings, Batteries, Tyres and Rubber products, Logistics Solutions Providers etc.

#### Flexi Cap market strategy

Identify opportunities across market cap segments

Benchmark (NIFTY Transportation and Logistics Index) agnostic approach

#### Stock Selection

##### Preference for companies

- Which are leaders/have potential to become market leaders in their respective segments
- Which have potential to benefit from evolving landscape in transportation and logistics theme

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### Why Invest in HDFC Transportation and Logistics Fund

- Manufacturing and discretionary consumption growth could be two fundamental drivers of Indian economy going forward
- Structural and cyclical upturn: Post cyclical downturn and pandemic supply chain disruption, transportation is poised for long term growth due to re-emergence of preference for personal mobility
- Exposure to both manufacturing (auto and transport equipment) and services sectors (logistics and aviation)
- Different segments like 2 Wheelers, Passenger Vehicles, Commercial Vehicles, Tractors etc. have divergent business cycles providing ample diversification potential within the theme
- Innovation is widening the investible universe through new listings in this space
- Reduction of GST rates could revive Auto demand ahead of festive season
- Reversal of interest rate cycle could bode well for demand
- Low overlap of NIFTY Transportation and Logistics Index with broader indices like NIFTY 50 and NIFTY 500

Name of Scheme	This product is suitable for investors who are seeking*:	Riskometer #
<b>HDFC Non-Cyclical Consumer Fund</b>	<ul style="list-style-type: none"> <li>To generate long term capital appreciation/income</li> <li>Investment in equity and equity related securities of companies with a focus on non-cyclical consumer theme.</li> </ul>	 <p><b>RISKOMETER</b></p> <p><i>The risk of the scheme is very high</i></p>
<b>HDFC Transportation and Logistics Fund</b>	<ul style="list-style-type: none"> <li>To generate long-term capital appreciation</li> <li>Investment predominantly in equity &amp; equity related instruments of companies under Transportation and Logistics theme</li> </ul>	

\*Investors should consult their financial advisers, if in doubt about whether the product is suitable for them.

Benchmark and Scheme riskometer as of July 31, 2025

# For latest Riskometer, investors may refer to the Monthly Portfolios disclosed on the website of the Fund viz. [www.hdfcfund.com](http://www.hdfcfund.com)

The Schemes being thematic in nature carries higher risks versus diversified equity mutual funds on account of concentration and theme specific risks.