

A minor speed bump in India's growth journey

Notes from the road



November 2025



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“Modi has propelled India onto the global stage through increased foreign direct investment, infrastructure spending, and favourable trade deals.”

My early memories of India are of childhood visits – dusty roads, underdeveloped infrastructure, and the warmth of family gatherings. Returning nearly two decades later, the transformation is striking. Modern highways in Delhi and Mumbai, new airports, and a thriving urban landscape now reflect a country that has rapidly evolved while retaining its unmistakable energy and spirit.

At the heart of this transformation is Narendra Modi, India's Prime Minister since 2014. Modi has propelled India onto the global stage through increased foreign direct investment, infrastructure spending, and favourable trade deals. His presence is ubiquitous; he is visible everywhere from billboards at the airport to posters on shops and bus stops, reflecting a broader effort to promote national initiatives and leadership visibility.

During our trip, the prevalent political messaging was surprising, and conversations with locals revealed Modi's deep integration into daily life. An example was how during Covid, Modi's image featured on the vaccine packaging. However, given the Bharatiya Janata Party's (BJP) failure to win an outright majority in the 2024 Lok Sabha elections, it is not surprising that the party is keen to advertise Modi's role in India's ongoing development.



A bus with an advert of Modi, seen on our drive from the airport in Delhi.



Our visit to one of the top hotels in Delhi. The reception was bustling with both tourists and locals, and decorated in anticipation of the upcoming festival season.

The most prominent economic advancement in India is the rising prosperity of its population, with an estimated 100 million people expected to earn over USD10,000 by 2027¹. The premiumisation trend, in our view, will be a long-term structural shift driven by the steady growth of the affluent population in the country. This growing affluence is reflected in the emergence of luxurious malls and apartments in wealthier areas, catering specifically to the premium segment of society.

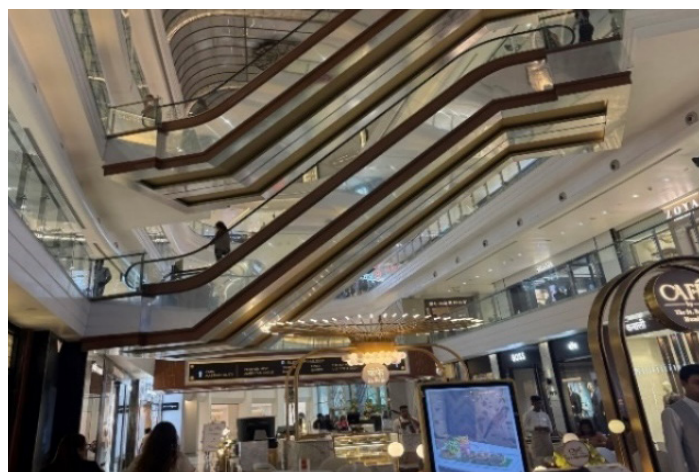
We visited a high-end shopping mall in the central area of Mumbai and were amazed by its interior design and the heavy traffic around the mall. It was decked out with marble flooring and glass chandeliers, hosting many of the top Western brands, creating an unforgettable shopping experience. These malls have evolved into entertainment hubs, offering arcades and even casinos, demonstrating how they have become popular leisure spots.

In our meetings with consumer companies, a recurring theme was the importance of targeting these premium consumers to capitalise on this rapidly growing market segment. While mass-market products remain significant, there is a notable shift towards investing in innovative, high-quality products to appeal to the trendy and demanding consumer with more purchasing power. Alongside this, given India's large youth population, companies are increasingly focusing on products that appeal to young consumers, aiming to capitalise on Gen Z trends and capture this influential demographic.

During our trip, an observation I made was the uniqueness of India's socioeconomic landscape, which is characterised by the juxtaposition of ultra-premium consumers and the poorer segments of the population. In Mumbai for instance, towering skyscrapers stand alongside sprawling slums in some of the cities wealthiest areas. This proximity of extreme wealth and poverty is a defining feature in India, setting it apart from other countries where such disparities are often more segregated.

This dynamic helps explain why certain business models such as quick commerce² thrive in India but might fail elsewhere. During a meeting with a major quick commerce player, we were impressed that delivery times can be as fast as six minutes from the moment a customer places an order. This efficiency is made possible by India's densely packed cities, and the co-existence of low-cost labour and high-earning consumers, creating a unique market environment that supports such rapid service models.

Over the years, India has made significant strides in advancing financial inclusion. Amidst a supportive government backdrop, banking penetration reached 89% of adults in 2024³ driven by government initiatives such as the Pradhan Mantri Jan-Dhan Yojan, which aims to provide affordable access to financial services to all Indian citizens. The underpenetrated rural markets are likely to become a key strategic focus for the banking and Non-Banking Financial Companies (NBFC) sectors. Various leading Indian banks we met during this trip highlighted their strategic focus on tapping into the rural market, recognising the significant opportunities within this segment.



A snapshot from one of the luxury malls we visited in Delhi.

¹ Goldman Sachs, 2024.

² Quick commerce, popularly known as 'q-commerce', is an e-commerce model that focuses on delivering goods in minutes, prioritising speed and convenience. The Indian q-commerce industry has been experiencing rapid growth and is projected to reach USD35 billion by 2030, marking a transformative shift in consumer retail.

³ World Bank- Global Findex database, 2025.

Their approaches include expanding branch networks and establishing multiple touchpoints in villages through strategic partnerships. Equally important is their emphasis on digitalisation to enhance the customer experience and to be at the forefront of technological progress. Each bank highlighted its digital strategy, particularly the integration of AI into systems to improve operational efficiency and productivity. With the growth of digital ecosystems, customer experience is becoming a key differentiator between the leading and lagging banks.

Equally significant is the progress made in the country's infrastructure development over the past few years. When we arrived at Indira Gandhi International Airport in Delhi, we were impressed by its modern design and seamless operations. The journey from the airport to our hotel took us along newly built highways, a tangible example of India's increasing investment in infrastructure. It brought to life the trends we often see illustrated in reports. In recent years, the Indian government has increased capital expenditure, and the CapEx growth story has emerged as a new driving force for India's economic development, often drawing comparisons to China's earlier trajectory.

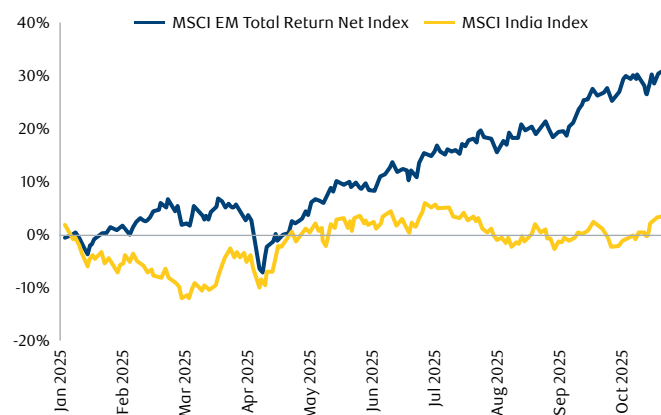
However, this momentum has recently slowed, with growth moderating to around 10% compared to 18-20% in the post-Covid period⁴, driven by reduced government spending and cautious private investment. In the near term, while government CapEx may remain subdued, the strength of private corporate balance sheets and cashflows indicates that, with greater clarity on a trade deal, a rebound in private CapEx is likely to follow.

Despite the country's long-term potential, the Indian equity market has underperformed this year. A driver of this has been expensive valuations, which we believe have been unjustified given a backdrop of weaker earnings growth and earnings expectations cuts. Despite persistent foreign investment outflows, domestic Indian investment has been particularly strong, with domestic inflows up 63% year-to-date⁵ compared to the same period last year, keeping premiums high. Furthermore, the overall macroeconomic environment has been subdued this year, due to a weaker consumption environment and an escalation of geopolitical tension with the U.S.. However, we are cautiously optimistic on a rebound in growth in the near-term, with the government implementing measures targeted at stimulating consumption, such as the GST rate reforms and income tax cuts.

As shown in Exhibits 1 and 2, India's muted performance is a stark difference to the returns from the broader emerging markets index this year. The valuation premium in India has come off slightly but remains expensive in the context of corporate's earnings expectations cuts.

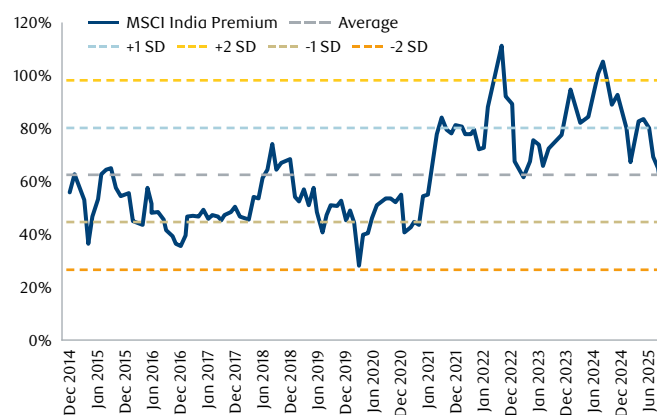
Our visit to India highlighted to us that despite this year's underperformance, the structural tailwinds for growth are in place and the foundations are still there for the country to become one of the largest economies in the world. Ultimately, we see India's recent performance as a temporary speed bump in its long-term journey of growth.

Exhibit 1: MSCI EM Index versus MSCI India Index returns year-to-date



Source: Bloomberg, MSCI, as at September 2025.

Exhibit 2: MSCI India Index P/B valuation relative to MSCI EM Index



Source: Bloomberg, MSCI, as at September 2025.

⁴ Bloomberg, as at October 2025.

⁵ JPMorgan, September 2025.

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Miya is an associate analyst on the RBC Emerging Markets Equity team at RBC GAM-UK. In this role, she supports various team members on a range of research and portfolio management assignments across the global EM equities universe. Miya initially joined RBC BlueBay as a summer intern in 2023, which is when she started her career in the investment industry, and later that year embarked on the RBC BlueBay Graduate Rotational Program. Miya holds a Bachelor of Science in Economics from the University of Warwick.



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