Watch out for demand. Supply takes a bow for now.

Something is changing in India. Demand stimulation is taking centre stage. The recent shift in policy priority exemplifies this. India may well have spent a good part of eight decades since independence worrying about supply. Now, there is a shift. Take consumer demand or demand for credit or for IT services. There is increasing realisation that demand for almost anything has a cyclical element to it and needs to be managed. This has profound implications for policy and for investing.

Let us start with consumer demand. Earlier on, all consumer companies, particularly the listed cohort and the wannabes, were assumed to have a moat pre-loaded in them. Demand was never considered an issue for them. When there was a bad quarter or half-year, equity analysts papered over the same and went on to proclaim that the secular growth story is still intact. The mantra was to keep the faith and do little else. Post-Covid, this started fraying at the edges and now the reality is creeping up to the centre. That said, the long shadow from the past is yet to clear out. Companies selling potato chips or similar junk are sprinkled with the holy water of lofty valuations particularly when they are decked up to list and when post-listing price discovery is juvenile. In our view, this whole space is a landmine, and the lemming-like approach of investors is astounding. Be that as it may. While this party is still raging into the depths of darkness, the consumer is asking for discounts. The government has obliged. The tax cuts and the rate cuts should spur growth. Will that be across the board? Will the growth sustain? In all the glitter around the festive season wherein the media is on overdrive to mix desi colours & couture with serious investment advice, there are a few things worth noting.

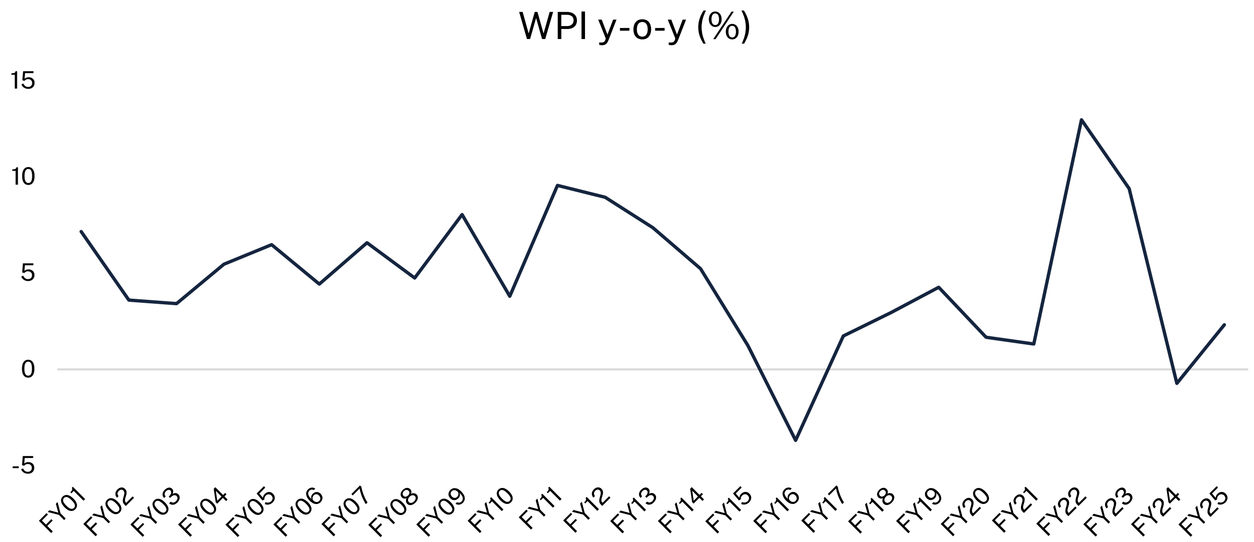
1. Consumer demand is now recognised as cyclical. While consumption growth in India was always taken for granted, the steep cut in GST to stimulate demand underscores the reality that the consumer needs to be tickled. EMIs and celebrity endorsements are not enough. Welcome to the consumer cycle.
2. Demand for services can also display cyclicality. The technology sector has always peddled this thesis that everything tech has a long way to go all the time and demand is infinitely elastic. For India, the torchbearer of that view was IT services. We were told that India has barely scratched the surface in offshoring of services even when almost all Fortune 500 companies had some Indian IT on their menu. With 3-5% growth or less on top of similar growth in the previous two years, the least we can say is that the sheen has come off. Tech sector or parts of it can also have prolonged anaemia.
3. Income growth does not necessarily translate into a spending spree. Not at least on traditional avenues which were taken as a given. Income growth is far from uniform. Large segments have lesser income growth than is being imagined. Households have so many competing priorities. When the money trickles down to the shop, it feels like a lot less. When it comes to consumer spends, the bar in India was set way higher long ago. You tend to fall short.
4. Demand is better off in segments where secular growth was never taken for granted. Be it credit demand or energy demand; there is lesser unease. This has something to do with the acceptance that some pockets are inherently more cyclical. Expectations are well-anchored.

The important takeaway is this. The pivot point in India may have shifted from supply to demand. While the supply challenge cannot be said to have been conquered for good, it is fair to state that the whole country is looking for customers and not suppliers these days.

Before we came here..................

India was a supply constrained economy all through the modern era. The Brits probably gave us that status by restricting access to economic choice. Post independence, those who grew up in the sixties and seventies will recall food shortages and the paucity of milk. There was restriction on carrying rice and wheat across state borders. One had to apply to the Babu for cement meant for the construction of one's home. Some corporate groups ran their continuous process plants at 140% name-plate capacity (technically, the math never squares up but the license existed for a lower capacity only. We Indians were always good with the presentation of financial metrics) as the government decided on how much material this country deserved. And the following takes the cake. Indian parents booked their Bajaj Scooter when their toddler was up and about so that the omnipotent status symbol will show up when the wedding bells ring. In the 1980s, we still stood in railway reservation queues exactly six months before the travel date from six am so that we can get back to our respective homes in one piece. In the 1990s, we needed indigenous workarounds or a great deal of foresight to enjoy connectivity through a personal landline. In the 2000s, Oberoi in MG Road in Bangalore sold at Rs 20k a room night when the city was getting discovered. Even after 2008, our airports ran out of water in restrooms now and then.

While we have not exorcised those ghosts in full, we have moved on from an eon of supply shortages to a place where there is some choice. While the data in not definitive, the behaviour of Wholesale Price Index is a good pointer. Other than price disruptions that happened due to Covid, WPI has been very low for the last ten years. The table below further demonstrates this point.



WPI – Segment wise (CAGR %)	10 years	20 years
Fuel & Power	3.4	4.7
Manufactured Products	2.5	3.5
Food	4.4	6.2

Source: Office of Economic Advisor, Spark Fund Research

WPI is a decent proxy of supply. The inflation in manufactured products is moribund. Oil prices have been falling despite missiles flying around overhead the supply fields. There seems to be enough capacity in the world for most things (other than Indian equity paper it would appear and this is being addressed as we pen this down). The fact that Indian nominal GDP is edging closer to real GDP points to the lack of pricing power.

Indicative Prices of goods & services Particulars	2005	2015	2025
Colgate Toothpaste(100g)	25-30	36-40	65-70
Surf Excel Detergent(kg)	80-90	185-190	220-230
Clinic plus Shampoo (per 100ml)	55-57	70-72	85-87
Cement in Mumbai (Rs. / Bag)	160-200	260-320	340-360
HR steel (Rs.'000/ton)	20-30	38-40	58-62
Maruti Suzuki Alto (Ex- showroom Price, Rs. Lakhs)	2.4-2.9	3.0-3.5	3.7-4.35
LG LED TV 45inch (Rs.)	-	65,000	20,000
Latest iPhone (Rs.)	-	62,000 (iPhone 6s)	83,000 (iPhone 17)
Petrol in Delhi (Rs. / Litre)	40-41	60-61	94-95
Prepaid Mobile bill (ARPU)	407	127	175-185
A five-star hotel room in Mumbai (Rs.'000)	6-7.5	10-14.5	18-25
An air-ticket from Mumbai to Delhi (Rs.)	3000	4018	4091
Onion (Rs. / kg)	14-20	50-70	18-25
Edible oil (Rs. / Litre)	50-60	90-110	160-220
1L Amul Milk (Rs.)	14-15	44-48	65-70
IIM - A 2 yr MBA course fees (Rs. Lakh)	2	16.6	26.5
NIM for SBI (%)	3.5	3.2	3.1

Source: Media Articles, Spark Fund Research

It is clear that the availability of mass manufactured items or services with a lower proportion of people cost have seen low to moderate inflation. In some cases, the prices have gone nowhere. At the same time, food prices and cost of certain services (education, healthcare) have gone up steeply. At a time when income growth is indifferent across vast segments of society (K-shaped), these trends have a pronounced impact on those who sell goods & services.

Here are some implications for the producer economy.

1. Cost warriors always ruled the roost in industrial commodities and infrastructure. Now, the imperative is being felt in services (IT services, insurance, banking – the high-end financial services are the next in line) and in consumer products.
2. In the consumer space, it is evident that without discounts, even the sick is reluctant to pop in their pills. Competition is intense and pricing power is passe.
3. The fall in consumption and the recovery are both uneven and erratic. In the whole rigmarole around stimulus, the reality is that the upward stroke of the K is where the action is mostly centred on. For the government, revenues come from the rising stroke in the K while political challenges pile up on the falling wedge. Forecasting demand has never been tougher.

We thought the slowdown in the last few quarters was a mid-cycle correction. It might still be one. We are getting an uptick now. It is likely to be a bumpy road ahead. The world is K-shaped, and the policies are fracturing that shape. Geopolitical hotspots are heating up further. While demand is an unknown, supply seems to be aplenty. Even the latest kid on the block, AI based solutions, may be heading for a supply glut.

When consumer is really at the centre stage..................

Supply can be measured for most part. It is tangible. More often than not, it can be mapped into future time periods with reasonable predictability. Demand is in the mind of the consumer and is inherently volatile. Affordability is not equal to demand. Disposable income delta is also not the same as demand. Demand growth comes about after the consumer makes an assessment of affordability and decides on where and whether to deploy the delta in disposable income. Often, it is a vote on the future. When a midlevel job in IT services evaporates, it is not just the concerned family that is impacted. The neighbour's family or a survivor in the same firm may decide to have a read-through. Decisions to spend are affected by reasons that we do not see and cannot fully fathom. Forecasters will find it difficult to deal with this. For India, this is a relatively new challenge. Some cracks are already visible in segments which have been all-time investor favourites.

1. 3% revenue growth in Indian IT services companies cannot be considered a beat when it comes on the back of similar growth over the last two years. Demand remains unpredictable even after this carnage.
2. A 11% sequential growth in an FMCG company should be viewed carefully as there is seasonality and the preceding quarter saw revenues fall. When you parse the data, you find that the year-on-year growth is still negative.
3. There is growth across most pockets in auto on the back of the steep GST cut. This remains a bright spot. However, there is a lot of noise about the numbers and selective use of percentages. Media headlines on number of cars sold over a weekend do not highlight that such huge sales are required to meet monthly numbers. We are not a small market anymore.
4. Credit growth and credit multiplier remain subdued. At the aggregate level, they are indicators of demand. There is some acceleration here and a lot of expectations going into the business end of FY26.

When the consumer is really the king, her behaviour is the diktat. When that is unpredictable, companies reliant on the same need to be viewed as more mortal. And cyclical. Valuations in these may tend to converge towards the more mundane world where ups and downs are considered an integral part of life.

Reading the tea leaves……………..

Beyond the now and here, global headwinds may intensify as we go into 2026. Volatile and uneven demand conditions are here to stay. If cyclicality increases in consumer or in certain services sectors, valuations need to temper down. The cavernous appetite for risk assets has moderated or delayed any reset. In an era where demand is uncertain and supply is abundant, cost leadership and a fall back in terms of asset base will matter a lot. Sectors which were always considered susceptible to cycles may appear better placed. If power demand growth at mid-single digit % is somewhat unexciting but consistent, that is superior to demand for junk food or household appliances which is equally modest and highly unpredictable. Add to this the disruption seen in some of the consumer areas. Now juxtapose the dynamics of some of the sectors which were considered unexciting in the past as they are asset intensive. Or were deemed to be short on the so-called moats. Reasonable returns with less excitement may well prove to be a welcome change over expensive thrill punctuated by cliff effects.

Warm regards,

P Krishnan (CIO) and Team Spark Fund

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