

India's Consumption Story: What Rising Middle Class Means for Investors

Category: Business

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India's consumption patterns have been evolving, shaped by factors such as income growth, urbanisation, and changing lifestyles. The expanding middle class is often viewed as an important part of this trend, influencing demand across a wide range of goods and services. For investors, recognising this development within the broader context of structural changes may provide perspective on potential long-term themes.



Digital Transformation: Megatrends reshaping India's consumption story

Source: Rising to a Billion: How India's Middle Class is Shaping Tomorrow by Rediffusion Consumer Lab

Understanding megatrend investing

Megatrends are large, structural shifts that reshape economies and societies over decades. These include demographic change, urbanisation, technological progress, sustainability, and rising consumption.

Megatrend investing involves identifying such shifts and considering how they may align their portfolios with the long-term opportunities that megatrends offer.

One such megatrend shaping India is the expansion of its middle class.

The rise of India's middle class

Changing lifestyles, increasing urbanisation, and broader access to credit are gradually diversifying household spending patterns. While essentials like food and clothing continue to form a significant part of budgets, discretionary categories such as branded products, entertainment, travel, and digital services are gaining more attention.

This shift is reflected in the expansion of industries catering to lifestyle and convenience, including automobiles, packaged food, retail, healthcare, and financial services. These sectors may benefit from evolving consumer behaviour, though outcomes remain influenced by income growth, economic conditions, and market cycles.

How rising consumption shapes investment themes

As consumer spending expands, companies operating in consumption-driven sectors may experience long-term demand. Thematic funds such as consumption funds invest in businesses that could potentially benefit from India's consumption story. These funds typically include stocks of companies from fast-moving consumer goods (FMCG), retail, entertainment, e-commerce, food and beverages, and other related sectors.

Since these funds focus on specific sectors, their performance may be more volatile compared to diversified funds. When

consumer demand slows, consumption-oriented stocks may be affected. Therefore, investors need to evaluate such options in the context of their risk appetite and overall portfolio balance.

Past performance may or may not be sustained in future.

Broader impact across sectors

India's consumption story is not only influencing consumer goods but also shaping demand across multiple sectors, such as housing, education, healthcare, and financial services. For example:

- **Housing and infrastructure:** Growing aspirations for home ownership may support the real estate sector.
- **Education:** Parents may allocate more towards quality education, coaching, and digital learning tools.
- **Healthcare:** Rising awareness is driving demand for preventive healthcare, insurance, and wellness services.
- **Financial services:** Households may allocate more towards insurance, savings products, and investments, including mutual funds.

These trends suggest that companies serving the middle-class segment may see long-term opportunities, though outcomes may vary with economic cycles.

How to invest in this megatrend

For investors looking at potentially tapping into India's consumption wave, thematic or sectoral mutual funds focusing on the consumption sector may be one of the suitable ways. However, such funds carry very higher risks, because they are concentrated on one or a handful of sectors. Thus, investors may also consider diversifying their portfolio with other mutual funds that may offer broader exposure, such as large

cap, mid cap, small cap, flexi cap funds etc.

The diversified funds may serve as the core of the portfolio, while the thematic fund may act as an additional allocation aligned with long-term megatrends.

Considering risk factors

Investing in [consumption funds](#) or any thematic category requires awareness of certain risks:

- **Concentration risk:** Since consumption funds focus on limited sectors, they may face higher volatility compared to diversified funds.
- **Cyclicity:** Consumer demand may be cyclical, rising during strong economic periods and slowing during downturns.
- **Fund management approach:** Performance may vary depending on how the fund manager selects and allocates among consumption-driven companies.
- **Investment horizon:** Thematic funds are often more suitable for investors with a longer horizon who may stay invested through short-term fluctuations.

Keeping these points in mind, investors may evaluate whether thematic options align with their portfolio strategy and goals.

Using tools for planning

Before committing to investments, planning tools may help. For example, an SIP calculator allows investors to estimate the potential accumulation of wealth over time based on inputs like contribution amount, tenure, and expected rate of return (assumed, not guaranteed).

Similarly, a compound interest calculator may help investors

understand how reinvested returns contribute to long-term growth. These illustrations may support informed decision-making and highlight how disciplined investing may align with financial goals. However, it is important to note that these calculators are an aid, not a prediction tool. They may provide only an indicative picture.

How megatrends shape investing

By closely following megatrends and the industries or companies that stand to benefit as they evolve, Bajaj Finserv AMC seeks to build future-focused portfolios for its investors and create investment opportunities that look away from short-time noise and towards trends that can offer potential opportunities for long-term growth.

Conclusion

India's consumption story reflects a broader megatrend that is reshaping industries and investment themes. For investors, consumption funds may provide a way to gain exposure to this trend, while SIP may serve as a disciplined method to participate over time.

The suitable strategy ultimately depends on each investor's risk appetite, financial goals, and time horizon. Using tools such as an [SIP calculator](#) or a compound interest calculator may help visualise potential outcomes and support informed decisions.

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

