

## Charting the Skies: Harnessing India’s Demographic Dividend

Supported by demographic tailwinds, rising wealth, and changing consumer patterns, travel in India is developing rapidly. In this article, we examine growth in air travel, and how one airline company, Interglobe Aviation, is benefitting.

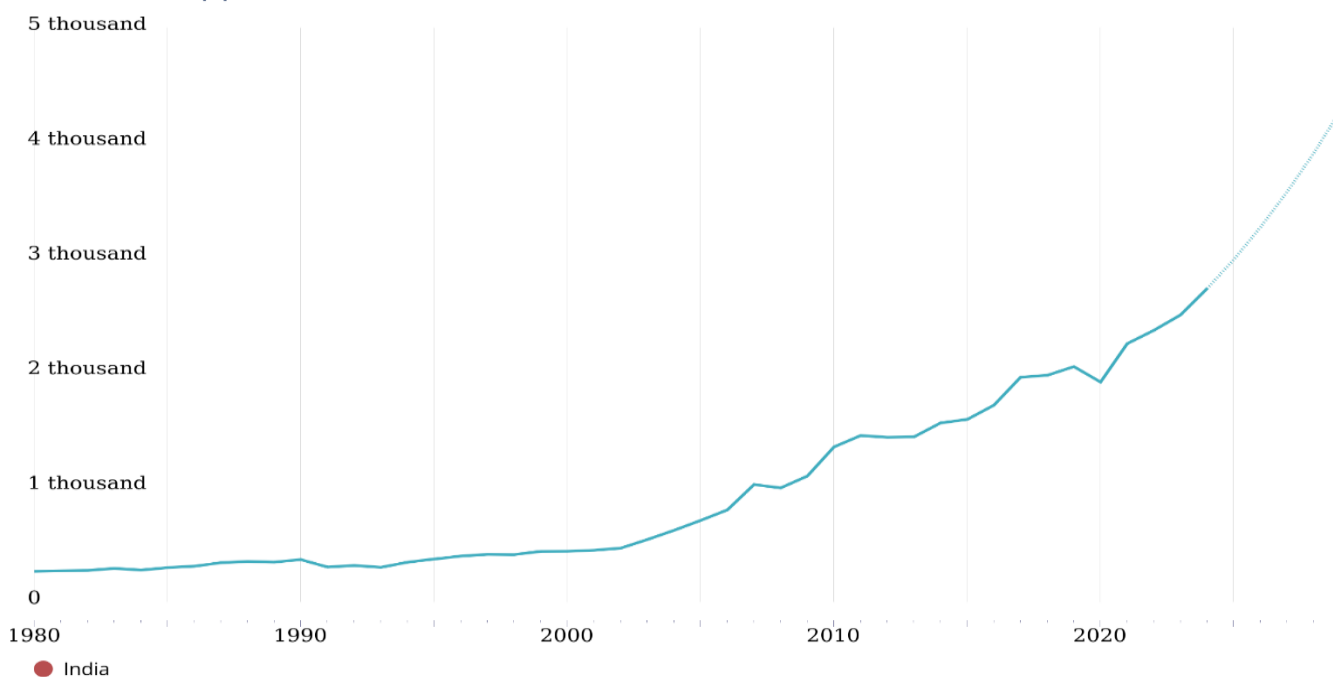
India’s exceptional demographics, highlighted by 1.4 billion plus people, with an average age of 29, is a key driver of the global investor narrative which supports investment in the region and which in turn, benefits the country’s growth and development. Through financialisation and digitisation, this growth is now more far reaching and has the potential to see GDP-per-capita rise at a faster rate and with greater significance, relative to what India has witnessed previously. As wealth accumulates across different cohorts, consumer preferences are undergoing a notable transition, paving a roadmap for some exceptional compounding growth opportunities within industries which are not dominant in market cap weighted indices, but likely to flourish with fast paced growth in their addressable market size.

### India’s Demographic Dynamics: A Catalyst for Growth

The Indian demographics boasts and active, vibrant, and youthful population, with a significant working age population (15-65). Over the course of the decade India will have close to 20% of the worlds working age population (source stats). As income levels accelerate, Indian consumer behaviour and spending patterns are ever evolving, with spending transitioning from Consumer Staples and necessity to Consumer Discretionary, fuelled from rising wealth, rising credit penetration and aspirations shifting.

#### IMF DataMapper

GDP per capita, current prices (U.S. dollars per capita)



©IMF, 2024, Source: World Economic Outlook (April 2024)

## Strategic Focus: Investing in Market Leaders, with Palatable Valuations

At India Avenue, our investment philosophy revolves around capitalising on market leaders within industries that are positioned for significant development and growth. By participating at an early age, more favourable valuations are in place for longer term wealth creation to occur. The core of our investment philosophy is robust growth, with palatable valuations. The fund prioritises well-managed businesses, with good capital allocation and compounding growth, while being conscious about reasonable to attractive valuations.

## Travel Trends in India: From Necessity to Discretionary

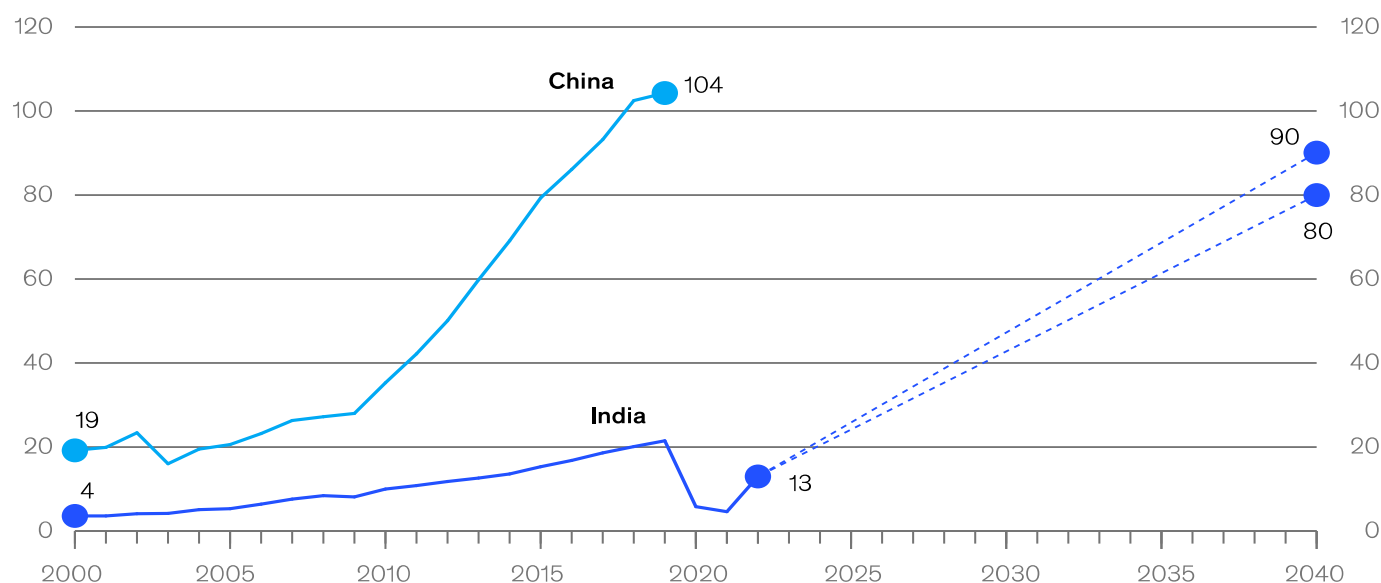
In recent years, India has seen an extraordinary shift in travel trends, indicating altering and modifying aspiration and lifestyle choices within the population. Commonly, travel in India was majorly utilitarian, guided by essential travel typically related to work, festivals, and religion. However, with rising disposable income, a significant transformation is occurring within travel trends, one that is more discretionary in nature.

One of the key catalysts that has sparked the shift in travel trends is increasing financial flexibility regarding travel and leisure. In addition, the availability of air travel at the right price point is transforming travel trends. The emergence of low-cost airlines has made air travel an affordable travel option to the broader population.

India's GDP-per-Capita is expected to grow at a steady pace, leading to an increasing propensity for both international as well as domestic travel. This will benefit the value-chain of in and outbound tourism. If India grows on the same travel trajectory as China, this could result in 80-90 million trips on an annual basis by 2040.

## India's outbound travel has potential to grow from 13 million trips in 2022 to over 80 million in 2040.

Annual international departures, millions



Source: Oxford Economics; World Bank; McKinsey analysis

McKinsey & Company

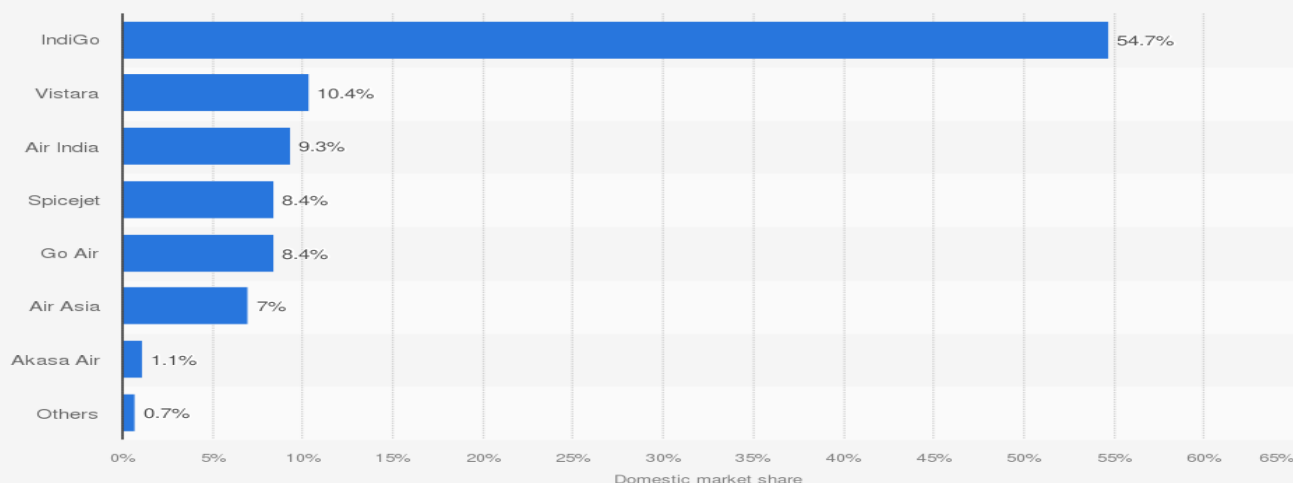
## Navigating the Turbulent Skies: IndiGo’s Ascendancy

The aviation industry in India had a turbulent history due to serious competition, governance and compliance issues which resulted in creating hurdles for companies. However, listed company, InterGlobe Aviation, with the brand name *IndiGo* has emerged with over 50% market share, despite this industry turmoil.

Initially established as a low-cost carrier offering domestic routes, IndiGo has evolved and successfully adapted over the course of time by expanding its travel route network, growing and modernising its fleet of aircraft, and experiencing growth in market share. In an industry where various ventures have failed (like Kingfisher and Jet Airways), and several others are inefficient or unprofitable, IndiGo has thrived. The company has shifted its focus on efficiency by committing to timeliness, rather than low-cost. The company fits well with our philosophy of investing in businesses which are market leaders, exhibit smart capital allocation in their decision making and are underpinned by a growing addressable market.

We have held Interglobal Aviation in our portfolios since 2020, post COVID, when the aviation industry was on its knees globally and fuel prices were higher. Our average entry price is Rs. 2,123 and the stock today trades at close to double the price (over a four-year period of ownership) as the company’s dominance and growth has gone from strength to strength. Whilst competition will increase given the purchase of Air India (from Government ownership) by the Tata Group (who also operate a JV (Vistara) with Singapore Airlines. IndiGo is the clear market leader and will benefit from rationalisation in the industry away from low price as a focus.

**Domestic market share of airlines across India in financial year 2023, by passengers carried**



Source  
DGCA (India)  
© Statista 2024

Additional Information:  
India; FY 2023

## A better corporate citizen

Given that the Aviation Industry leaves behind a significant carbon footprint, it is crucial that every carrier must play a role in minimisation. Interglobe Aviation participates by focusing on increasing its modern aircraft, better technology and performing regular maintenance and performance checks, thereby seeking to optimise fuel consumption. The company also pursues better operational practices (flight planning and weight reduction) and explores greater use of sustainable fuels from renewable sources. Finally, Interglobe Aviation participates in carbon offset programs which involve reforestation, renewable energy, and waste management.

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