



## Demographic Wheel – A close look at the wheels within

*There is a silent undercurrent running in the social dynamics in India. While it is admittedly a bit premature to make a big statement here, parts of India are beginning to age. Over the last three decades, we have been making the case for the massive beneficial impact of India's demographic dividend paying off. Yours truly have presented charts on this two decades back and later which have been impactful. The demographic dividend has indeed been getting paid out and that is a key driver behind the compounding story of Indian markets. It is still in force as the demographic wheel turns rather slowly. The average age of an Indian is still below 30 as against 40 for the Chinese and 38 for the Americans. We are still a young nation.*

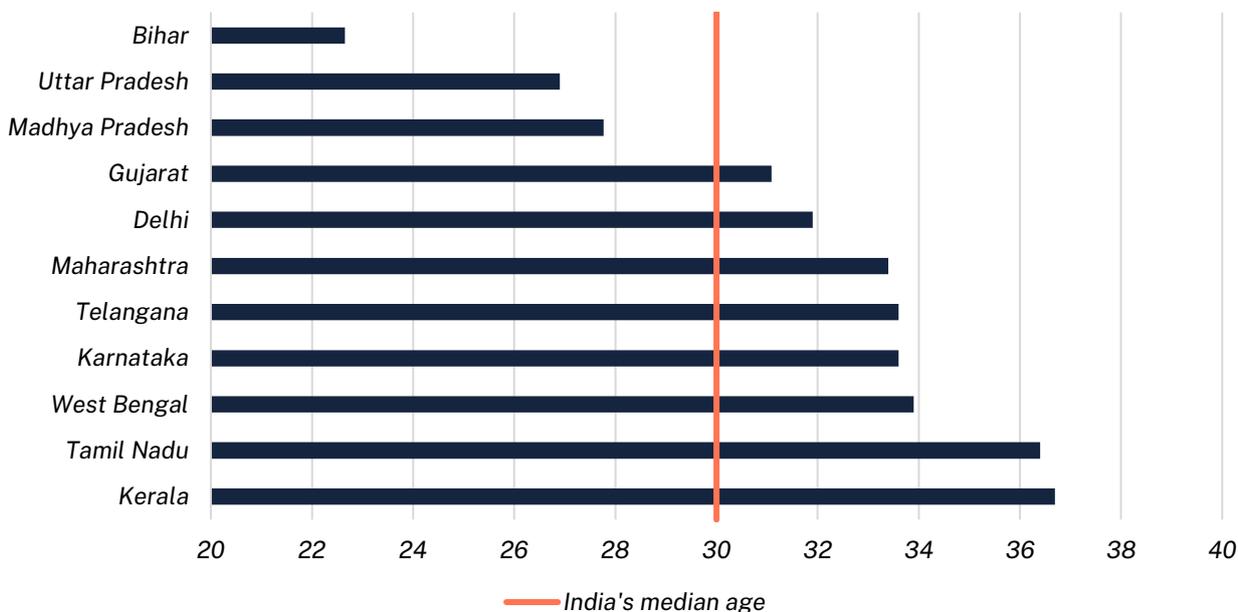
*However, time flies. Regional variations are showing up. Technology may play into this in ways that can be meaningful.*

*The central point in our thesis is this. The parts of India that are up on the income curve or driving the rising stroke of the K are ageing faster than we realize. What is keeping India young are the states where incomes are relatively lower. In the current context, technology is likely to throw a large spanner in the works. Low skill services jobs which are powering employment in urban India are also putting youngsters in blind alleys. The mild (for now mild) uproar over social safety net for GIG workers exemplifies this. As AI makes inroads into all the crevices in our socio-economic maze, the demographic burden may cast a strong afternoon shadow well before the sun begins to go down.*

*This poses major challenges. Investors like us who are primarily looking at how to benefit from anything including the K-shaped economy, tariff tantrums or the demographic divide love to spot some opportunity in every challenge. There are some interesting takeaways here that can lead to action points.*

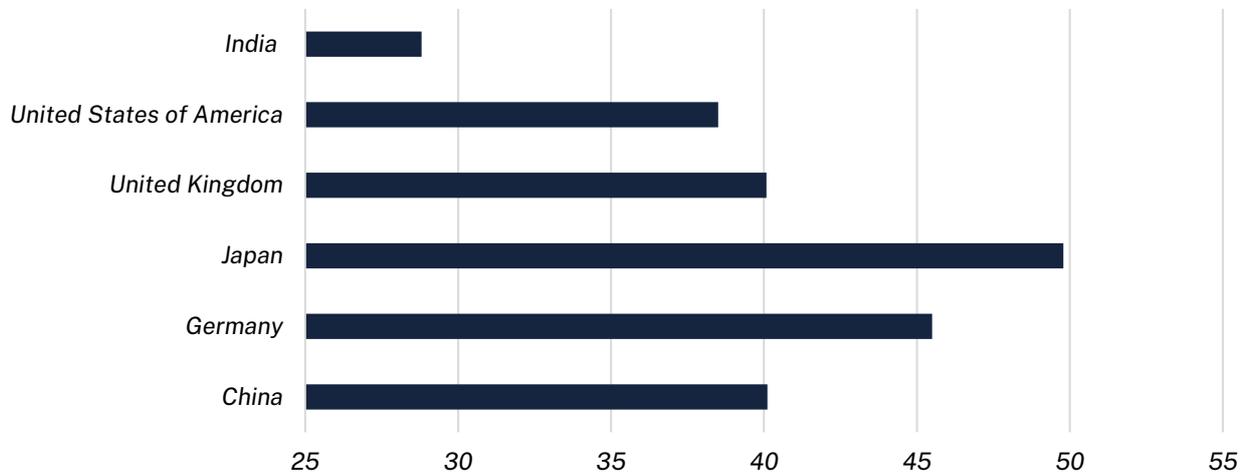
### Demographic Divide

Median Age of Select States -2026E





### Median Age - Select Countries 2025E



Source: Population Projection Report 2020 - United Nations, Spark Fund Research.

It is easy to see that states like Tamil Nadu & Kerala are closer to US, UK and China than to UP or MP. Karnataka is not behind by much. Maharashtra is going to get there sooner rather than later. Anecdotally, this squares up with what anyone can easily observe on the ground. Most of the service personnel you see in a restaurant or salon in Chennai are not locals. In all of South India, the domain of construction workers and other semi-skilled workers is dominated by people from the North and Northeast.

There is a clear demographic divide that is opening up in India apart from the wedge of the K shaped recovery. By the sheer nature of these phenomena, the two are inter-related. The states where the demographic dividend is dissipating are also higher income and that is also where the K-Shaped recovery is most visible.

#### State GDP of major Indian states and the per capita income

States	FY25 GSDP (Rs. Lakh crore)	FY26 GSDP (Rs. Lakh crore)	FY25GSDP per Capita
Telangana	16.4	18.1	3,87,623
Karnataka	28.8	32.3	3,80,906
Gujarat	27.9	30	3,37,071
Tamil Nadu	31.2	34.8	3,13,329
Maharashtra	45.3	49.9	3,09,339
Kerala	12.5	14	3,08,338
<b>India GDP</b>	<b>330.7</b>	<b>357.1</b>	<b>2,26,736</b>

Source: Directorate of Economics & Statistics of respective State Governments, Spark Fund Research.

These states account for 50% of national income. This has implications for the socio-Political environment and on investment considerations.

#### Political impact

1. Votes are bulking up in states which are younger
2. These states happen to be the poorer states
3. They demand and are being given more resources and assistance

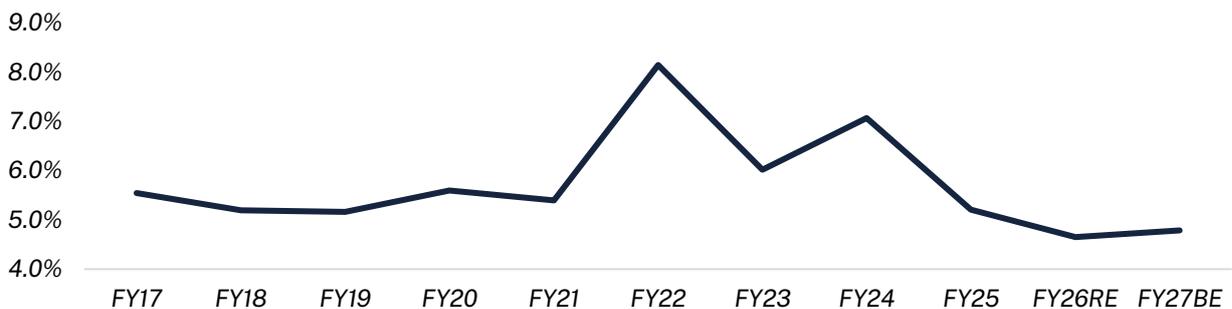


States with demographic challenges will be in political flux. Older voters are going to exert pressure on welfare. Competitive welfarism is going to be a challenge for the whole of India.

While we do not want to wade into the political quagmire, the following macro-implications look inevitable

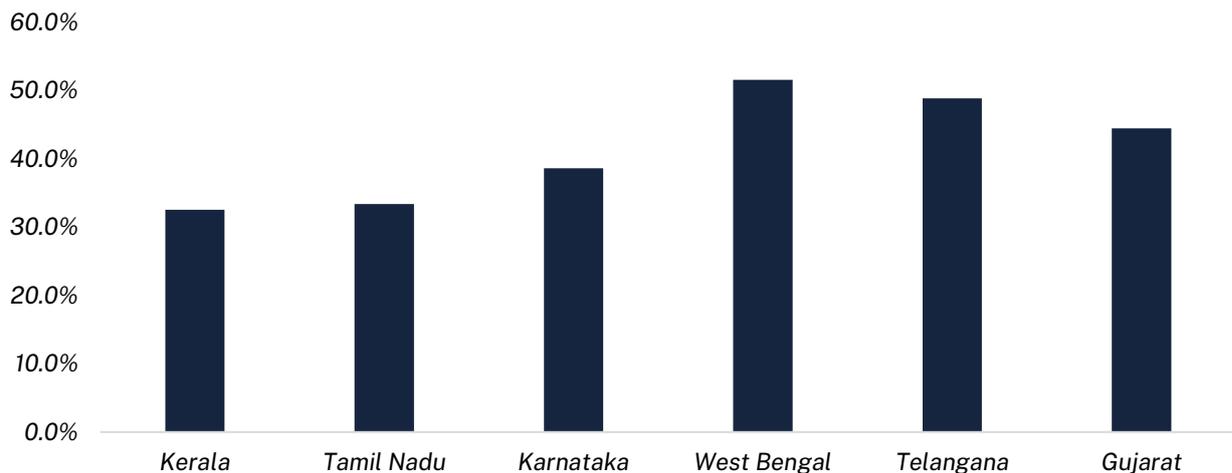
1. Indian cost of capital cannot fall much as the competitive welfarism will keep draining public finances. Cost of capital will get sticky on the way down. Europe has similar issues, but interest rates are seemingly low due to deflationary trends. They have been living off capital. India has not created the capital in the first place.
2. Headcount will increasingly be a Pan-India headache. With technologies like AI eliminating many roles and skill development elusive (India has not yet done skilling – so re-skilling is a non-starter other than for the optics stuff) across most activities in India, there will be challenges with people. Low skill, high touch jobs such as those of old age care, domestic help and so on will go on. The so-called white-collar jobs (like for instance the people standing in five-star hotel reception area not knowing what to do) will vanish. Roles like food delivery will speed up blind alleys and reach dead ends.
3. It may not be bad for people to go back to farms – but who wants to?

Central Govt - Social services as % of Revenue Expenditure



Note: RE- Revised Estimate, BE- Budget Estimate

States - Social Service as % of Revenue Expenditure



Source: Economic Survey, Union budget, State govt. financial statements, Spark Fund Research

India's demographic strength may become a challenge if not something worse. India's services sector conundrum (where share of services feels like we are a developed country but then, we are way off) will get even more of an enigma that does not add up.



### Investment implications

1. Automation is a clear winner- and not just automation based on gadgets or machines.
2. Productivity improvement will be rewarded. Doing more with lesser people will be glorious.
3. Technology will also extend lifespans. Old age-related opportunities will become more relevant even as the country keeps claiming that we are a young nation. The youngsters are not where demand is – they may end up where welfare is (may be happening already).

Headcount in Lakhs	Private Banks	Public Banks
FY20	3.5	4.8
FY21	3.6	6.0
FY22	4.1	6.0
FY23	4.8	6.2
FY24	5.5	6.1
FY25	5.3	6.1

Note: Private banks considered are HDFC Bank, ICICI Bank, Kotak Mahindra Bank, Axis Bank, Federal Bank; Public banks considered are State Bank of India, Bank of Baroda, Punjab National Bank, Union Bank of India, Canara Bank and Indian Bank

Indian Public Banks - Profit per Employee (Rs. Lakhs)						
Companies	FY20	FY21	FY22	FY23	FY24	FY25
State Bank of India	5.8	8.3	13.0	21.3	26.3	30.0
Indian Bank	4.0	7.2	9.9	13.0	20.0	27.2
Bank of Baroda	1.1	1.8	14.9	18.4	24.0	26.6
Union Bank of India	-7.8	3.7	7.0	11.2	18.0	24.3
Canara Bank	-3.8	2.9	6.5	12.5	17.6	21.0
Punjab National Bank	0.5	2.0	3.4	2.4	8.1	16.2

Indian Private Banks - Profit per Employee (Rs. Lakhs)						
Companies	FY20	FY21	FY22	FY23	FY24	FY25
ICICI Bank	8.1	16.6	22.7	24.7	29	36.1
HDFC Bank	22.4	25.9	26.1	25.5	28.5	31.4
Kotak Mahindra Bank	11.9	13.5	12.9	14.9	17.7	26.9
Axis Bank	2.2	8.4	15.2	10.4	23.8	25.2
Federal Bank	12.3	12.6	14.9	23	25.4	25.1

IT Services - Headcount in Lakhs						
Companies	FY20	FY21	FY22	FY23	FY24	FY25
Tata Consultancy Services	4.5	4.9	5.9	6.1	6	6.1
Infosys	2.4	2.6	3.1	3.4	3.2	3.2
HCL Technologies	1.5	1.7	2.1	2.3	2.3	2.2
Wipro	1.8	2	2.4	2.6	2.3	2.3
Tech Mahindra	1.3	1.2	1.5	1.5	1.5	1.5
<b>Total</b>	<b>11.5</b>	<b>12.4</b>	<b>15.1</b>	<b>15.9</b>	<b>15.2</b>	<b>15.4</b>

IT Services - Profit per Employee (Rs. Lakhs)						
Companies	FY20	FY21	FY22	FY23	FY24	FY25



Infosys	6.9	7.5	7.1	7	8.3	8.3
Tata Consultancy Services	7.2	6.7	6.5	6.9	7.7	8
HCL Technologies	7.4	6.6	6.5	6.6	6.9	7.8
Wipro	5.3	5.5	5	4.4	4.8	5.7
Tech Mahindra	3.1	3.6	3.7	3.2	1.6	2.9
<b>Average</b>	<b>6.4</b>	<b>6.3</b>	<b>6.1</b>	<b>6.1</b>	<b>6.7</b>	<b>7.2</b>

Source: Ace Equity, Spark Fund Research

While comparison between these two sectors has certain limitations (Banks have seen a clear upcycle and the current numbers in part reflect peak cycle profitability), the numbers in IT services sector tell their own story. It is almost as if the sector has been asking to be disrupted for some time now. The key takeaway for us – we should go where productivity goes. We should also align our preferences with the changing demographic hues.

#### Where the winners might be.....

1. Healthcare in all its forms is a clear winner. AI and tech could revolutionise delivery. Morbidity cannot be banished. It can be delayed, defanged and dealt with. Longevity will bring more demand for medicines and all the paraphernalia. The whole ecosystem or value chain looks interesting. Of course, we need to find good and investible ideas – and valuations that make sense. That is the main challenge.
2. Insurance is a winner. Apart from the need for social security at the family level (government will have its hands full catering to its voter base which will have unending need for welfare), this sector is scalable with technology. It can benefit from cost savings due to better under-writing of risk. Government policy will remain enabling as it cannot provide a safety net to many segments of the population – it will therefore encourage those who have the means to get insurance. Health insurance is an obvious winner – so also is the case with all other risk mitigation through insurance.
3. Tech enabled services and products of all kinds will stand to gain. In the context an ageing society in the upwardly mobile regions in India, demand for products and services that address this demographic shift will be a big opportunity. At a more general level, all services which can leverage technology as against using more people will benefit.

The challenges of an ageing population may seem out of place in our national discourse at this juncture. A dispassionate evaluation of the data shows that the parts of India which are somewhat more affluent than others are getting older. Faster than we think. Such a change is coming about when new technologies threaten to make people with certain types of low skills redundant. Emerging trends give us interesting investment leads. Doing more with lesser people may be counter-intuitive for India but is going to be hugely relevant. Talking about demographic burden in India may appear premature. But it is not. In pockets that matter and for the stuff that the market likes the most, questioning conventional wisdom may prove rewarding.

India's demographic cauldron is dishing out exciting food for thought.

Warm regards,  
P Krishnan (CIO) and Team Spark Fund



## Disclaimer for Portfolio Management Services

Spark Asia Impact Managers Private Limited ("SAIMPL") is registered with the Securities and Exchange Board of India (SEBI) as a Portfolio Manager (Registration No. INP000006235). SEBI registration and NISM certification do not constitute an endorsement of SAIMPL's performance, nor do they guarantee returns or the accuracy of any information provided.

This document and all information, data, analysis, opinions, estimates, and views contained herein ("Information") are provided solely for informational purposes. SAIMPL makes no representation or warranty, express or implied, as to the accuracy, adequacy, completeness, reliability, or fairness of the Information. The Information is based on publicly available sources or sources considered reliable; however, SAIMPL and its affiliates do not independently verify such information.

Nothing contained in this document shall be construed as:

- An offer, invitation, or solicitation to buy or sell any securities or financial instruments;
- Investment advice or a recommendation regarding any security, investment strategy, or portfolio;
- Legal, tax, or business advice.

Recipients should seek advice from their own independent legal, financial, tax, and other professional advisors before making any investment decision.

Investments in securities markets and Portfolio Management Services are subject to market risks. There is no assurance that the investment objectives of any strategy, Investment Approach, or portfolio will be achieved. Past performance of the Portfolio Manager or any strategy is not indicative of future results. The name of any portfolio or strategy does not imply its prospects or returns. Investors should carefully read all relevant documents, including the Portfolio Management Agreement (PMA), disclosures, and risk factors, before investing. All strategies / Investment Approaches may not be suitable for all investors.

To the fullest extent permitted by law, SAIMPL, its affiliates, and their respective directors, employees, agents, or representatives shall not be liable for:

- Any views, opinions, errors, omissions, or discrepancies in the information;
- Any decisions taken or actions undertaken based on this document;
- Any direct, indirect, incidental, special, consequential, or punitive damages (including loss of profits, revenue, or data) arising from the use of, reliance on, or inability to use this document or the Information.

SAIMPL and its affiliates may have potential conflicts of interest. They may have financial interests in securities referred to, trade in such securities, or provide/seek to provide broking, investment banking, or other services to the entities mentioned. Different businesses of SAIMPL or its affiliates may hold views that differ from or are contrary to those expressed herein. Views expressed in this document may not be applied uniformly across all clients or businesses of SAIMPL or its affiliates.

This document is confidential and intended solely for the authorized recipient. It may not be reproduced, distributed, copied, published, or transmitted, in whole or in part, without prior written consent of SAIMPL.

This document is not intended for distribution in any jurisdiction where such distribution would be contrary to applicable laws or regulations or would require registration or licensing of SAIMPL or its affiliates. Persons receiving this document must comply with all applicable legal and regulatory requirements.

Any valuations, valuation ranges, or financial opinions contained herein are indicative, based on publicly available information, and provided for discussion purposes only. They do not constitute a certified valuation, fairness opinion, or assurance of fair value, and should not be relied upon for regulatory, statutory, or compliance purposes.

References or links to third-party websites or content are provided for convenience only. SAIMPL does not control, endorse, or assume responsibility for the accuracy or completeness of such content, and access to such links is at the user's own risk.

Disputes arising from Portfolio Management Services shall be governed by the redressal mechanism set out in the Portfolio Management Agreement, in accordance with SEBI (Portfolio Managers) Regulations, 2020. Disputes relating solely to the contents or distribution of this document, as marketing or presentation material, may not be eligible for exchange-level investor grievance or arbitration mechanisms.

### Compliance & Grievance Officer

Ms. Diksha Jha  
Compliance & Grievance Officer  
Spark Asia Impact Managers Private Limited  
Tel: +91 22 62916700  
Email: [ir.pms@sparkfund.in](mailto:ir.pms@sparkfund.in)

### Registered Office:

No. 1, 3rd Floor, First Crescent Park Road, Gandhi Nagar, Adyar, Chennai – 600020

### Correspondence Address:

Solitaire Corporate Park, Unit 1252, Building No. 12,  
Andheri Kurla Road, Chakala, Andheri (East), Mumbai – 400093

CIN: U65929TN2018PTC123119

Website: <https://www.sparkfund.in/>

For further details, please refer to: <https://www.sparkfund.in/>