

The Great Indian Consumption Shift: Tier-2 and Tier-3 Cities on the Rise

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Chairman's Message



As we progress through the third quarter of FY2025, a significant transformation is reshaping the contours of India's domestic economic landscape – The Great Indian Consumption Shift. What was once a growth story centred largely around metropolitan markets is now being propelled by the rising economic vitality and aspirational spending power of Tier-2 and Tier-3 cities. This shift is not simply cyclical – it signals a structural broadening of demand, opportunity, and growth across the nation.

A confluence of factors is driving this momentum: rapid digital and financial inclusion, improved connectivity and physical infrastructure, increasing exposure to brands and lifestyle consumption, and a young demographic that is confident, ambitious, and upwardly mobile. Access to digital platforms and social media has democratized aspirations, enabling consumers beyond major metros to be equally discerning, brand-conscious, and value-seeking.

For businesses and industry leaders, this presents both a compelling opportunity and a strategic imperative. Winning in these emerging growth centers will require deeper cultural insight, agile product innovation, localized brand narratives, and strong last-mile distribution networks. The focus must shift from simply entering new markets to genuinely engaging with them – building trust, relevance, and long-term relationships.

This month's newsletter examines the key data, behavioural trends, and strategic implications of this evolving consumption story – and what it means for organisations aiming to build sustainable, inclusive, and broad-based growth in the years ahead.

I hope readers will find this month's newsletter insightful.

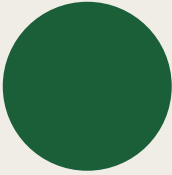
-CA Dr. Rajesh Khandol

1. The Paradigm Shift: From Metro Saturation to Bharat Acceleration

India's consumption landscape is undergoing a structural rebalancing. What was once predominantly driven by metropolitan markets is now being reshaped by the growing economic strength of Tier-2 and Tier-3 cities. This is not merely geographical expansion – it marks a deeper shift in aspiration, access, and awareness. Consumers in cities such as Coimbatore, Kanpur, Raipur and Indore now exhibit levels of brand familiarity and lifestyle preference comparable to metro consumers, though shaped through distinct digital and cultural pathways.

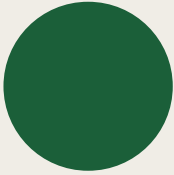
Four Structural Catalysts

Tier-2 and Tier-3 cities have emerged as India's primary consumption growth engines due to a convergence of four structural catalysts:



Digital Infrastructure Democratisation

UPI, 4G penetration, and smartphone ubiquity have collapsed the information and transaction asymmetry that historically favoured metros



Aspiration Without Migration

Rising local incomes, lower cost of living, and improved quality of life are enabling middle-class prosperity in situ rather than through metro migration



"Leapfrog Consumption"

Non-metro consumers are bypassing legacy retail formats and adoption curves, moving directly to D2C brands, quick commerce, and digital-first financial products



Corporate Strategic Pivot

Deliberate, capital-intensive expansion by retail, FMCG, and fintech players into distribution networks, vernacular content, and hyperlocal fulfilment

❏ This shift accounts for 60-70% of India's incremental consumption growth through 2030, with non-metro markets contributing an estimated \$1 trillion to the \$1.8 trillion consumption opportunity for the decade.

2. The Demand Landscape: Deconstructing the Non-Metro Consumer

Demographic & Psychographic Drivers

Beyond Income: The "Connective Prosperity" Framework

The Tier-2/3 consumer operates in a unique socioeconomic context:

Digital Natives in Traditional Settings 65%+ smartphone penetration (vs 85% in metros) but with higher engagement time on social commerce and entertainment platforms. The average Tier-2 user spends 4.8 hours/day on mobile internet vs 4.2 hours in Tier-1 cities.	Social Media as the New Mall Instagram, YouTube Shorts, and platforms like Meesho/DealShare function as discovery engines. 47% of non-metro consumers report discovering new brands via social media vs 32% through traditional advertising (2023-24 data).	Aspirational Spending with Pragmatic Anchors Household incomes range from ₹4-12 lakh annually (middle to upper-middle class), with discretionary spending growing at 12-14% CAGR vs 6-8% in metros. However, value consciousness remains paramount—seeking "metro quality at local prices."
Infrastructure Leapfrogging Absence of legacy retail/banking infrastructure enables direct adoption of app-based solutions. Example: UPI adoption in Tier-3 towns grew 180% YoY in FY23-24, outpacing Tier-1 growth (89%).	Demographic Dividend Median age of 27-28 years (vs 32-33 in metros), with 68% of the population under 40, creating a consumption cohort that will drive demand for 3-4 decades.	

Spending Patterns: The Categorical Divergence

Disproportionate Growth Categories (FY23-24 data):

Category	Tier-2/3 Growth	Tier-1 Growth	Key Drivers
Branded Personal Care	18-22%	8-10%	Premiumisation, grooming consciousness, influencer marketing
Health & Wellness	25-30%	12-15%	Post-COVID awareness, preventive care, and supplement adoption
Quick Commerce	140-160%	95-110%	Hyperlocal delivery, instant gratification, and 10-minute delivery expansion
OTT Subscriptions	45-50%	18-20%	Vernacular content, affordable data, family sharing plans
Domestic Travel & Experiential	35-40%	15-18%	Local tourism, weekend getaways, "bleisure" travel
Organised Jewellery & Apparel	20-24%	10-12%	Trust in brands, exchange schemes, and wedding season spending

The "Phygital" Purchasing Journey

A distinctive "phygital" purchasing journey defines these markets: products are often discovered online, validated via local retailers or peer recommendations, and ultimately purchased digitally.

83%	45%	64%
Digital Transactions	Cash-on-Delivery	Social Advocacy
Transactions below ₹5,000 in these cities are now conducted digitally	COD usage has declined from 68% in 2022 to 45% in 2024	Non-metro consumers likely to share reviews or unboxing experiences

3. Sectoral Deep Dive:

A. FMCG & Retail

FMCG demand patterns have shifted materially towards non-metro markets. Rural and semi-urban regions now contribute **38% of India's overall FMCG sales**, and in **Q1 2024**, rural volumes overtook urban growth for the first time in several quarters. The sector recorded **6.6% value growth**, underpinned by a **6.5% rise in volumes**.

Key Catalysts:

		
Distribution Infrastructure Evolution	Pack Size Innovation	Category Premiumisation
Last-mile connectivity through kiranas empowered with digital ordering systems (WhatsApp Business, B2B platforms like Jumbotail, Udaan)	Grammage optimisation (₹5, ₹10 price points), driving trial and repeat purchase	Non-food categories saw 11.1% consumption growth in Q1 2024, compared to 4.8% in food, attributed to increased rural uptake with a growth rate of 12.8%
Government Stimulus	Improved Monsoons	
MSP increases, PMAY-Grameen, MGNREGA wage hikes, boosting disposable income	Above-normal rainfall in 2023-24, enhancing agricultural income and sentiment	



B. Fintech & Financial Services

India's digital public infrastructure has played a transformative role in bringing financial services to non-metro markets. **UPI processed over 12 billion monthly transactions in 2024**, with adoption rising fastest outside major cities. The fintech sector, valued at **\$121 billion in 2024**, is projected to reach **\$550 billion by 2033**, driven by accessible smartphones and Aadhaar-enabled identity verification. Micro-loans, digital savings products, and daily-cost micro-insurance are gaining traction.

Key Catalysts:

- **Digital Public Infrastructure (DPI):** UPI, Aadhaar-enabled payments (AEPS), and Jan Dhan accounts, creating a zero-cost transaction infrastructure
- **Smartphone Penetration:** Budget smartphones (\$50-100) with 4G enabling financial app usage
- **Regulatory Push:** RBI's mandates for interoperability, KYC normalisation, and video-based verification, reducing onboarding friction
- **Business Correspondent (BC) Networks:** Physical touchpoints in 600,000+ villages bridging the trust gap
- **Credit Infrastructure:** Account Aggregator framework, UPI-linked credit lines, democratising lending



C. E-commerce & Mobility

India's e-commerce market is expected to rise from \$125 billion in 2024 to \$345 billion by 2030, with 60% of new customers now emerging from Tier-2 and Tier-3 cities. Quick commerce has grown from \$1.6 billion in 2022 to \$7 billion in 2024, supported by dark-store expansion and last-mile logistics networks. Meanwhile, 56% of online shoppers in FY24 were from non-metro areas, a figure expected to reach 64% by FY30. As the sector scales, efficient inventory placement, vernacular content, and community-oriented engagement will be key to overcoming challenges such as high return rates and variable delivery economics.

Key Catalysts:

01

Quick Commerce Infrastructure

Blinkit holds 40% of the quick commerce market and reported 122% year-over-year growth, adding 149 new dark stores in FY24, with fulfilling orders through dark stores cutting costs by 40% compared to traditional methods

03

Smartphone & Internet Penetration

751.5 million internet users with 52.4% penetration; affordable devices (\$80-150) enabling first-time online shoppers

05

Category Expansion

15-20% of quick commerce GMV now comes from categories like general merchandise, mobile phones, electronics, and apparel, beyond the initial grocery focus

02

Logistics Democratisation

Last-mile delivery reaching 15,000-20,000 pin codes; hub-and-spoke models from Tier-2 distribution centres

04

Payment Infrastructure

UPI enabling frictionless transactions; BNPL penetration addressing the credit gap



4. The Capital Connection: Listed Players Capturing the Wave

Titan: Premiumisation of Aspirational Consumption

Titan represents the premiumisation of aspirational consumption in Tier-2/3 markets through its multi-brand jewellery strategy. The company's expansion of Tanishq and Titan Eye+ retail networks across Tier-2 and Tier-3 cities has amplified investor interest, with the company receiving approval to establish over 30 new retail outlets under its Fastrack and CaratLane banners. The strategic pivot to mid-format stores (3,500-4,000 sq ft) optimises capital efficiency whilst maintaining brand experience.

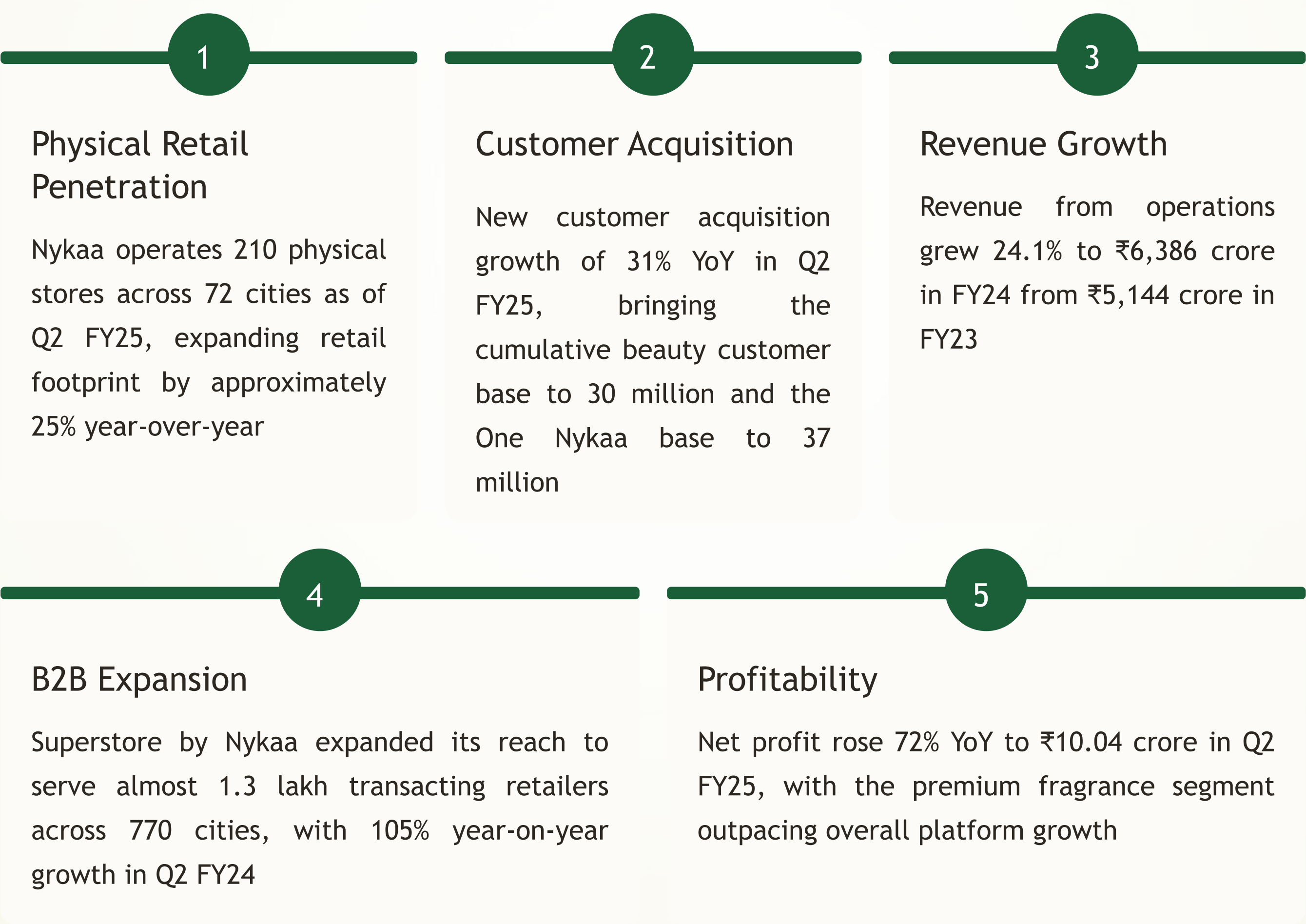
Evidence of Capture:

Revenue Scale Total Income for FY24 reached ₹47,501 crores, growing 23% over FY23, with jewellery business contributing significantly	Store Expansion Titan planned to open 40-45 showrooms of Tanishq and 40-45 showrooms of Taneira during 2024, with 90% of stores as franchises	Digital Integration CaratLane posted 39% growth, reaching ₹1,026 crore, demonstrating a successful omnichannel strategy
International Expansion International Jewellery business recorded 92% growth to ₹350 crore in Q1FY25, with 8 new Tanishq stores opened in various geographies in the preceding 12 months	Market Leadership Holds ~6% of India's organised wedding jewellery market (₹60,000 crore TAM)	

Nykaa: The "Bharat Strategy" for Beauty & Personal Care

Nykaa's "Bharat strategy" addresses authentic product availability and discovery gaps in beauty/personal care categories, seeing explosive growth in non-metros. Nykaa's strategy to spread its offline footprint beyond top cities is driven by increased sales from these markets, with cities like Bhubaneswar becoming one of Nykaa's biggest markets. The company addresses counterfeit product concerns whilst providing access to 170+ brands unavailable locally.

Evidence of Capture:



Zudio: Value-Fashion Disruption Redefining Accessible Retail

Zudio's value-fashion disruption has fundamentally altered accessible fashion retail in India. Zudio's rapid expansion into tier-2 and tier-3 cities has been a significant growth lever, with the brand's understanding of local fashion preferences delivering designs that appeal to a wide audience whilst maintaining affordability. The 15-day inventory refresh cycle (vs 45-60 days industry norm) enables trend responsiveness.

Evidence of Capture:

50% Revenue Contribution Zudio surpassed Westside to contribute around 50% of Trent's revenues in FY24, with the company reporting a 39% year-over-year increase in consolidated revenue to ₹4,157 crore in Q2 FY24	577 Store Network As of September 2024, Trent operated 226 Westside and 577 Zudio stores across 184 cities, with 34 Zudio stores opened during Q2, including one in Dubai	46.9% Profit Growth Net profit increased 46.9% to ₹335.06 crore in Q2 FY25, with EBITDA growing 41% to ₹642 crore and margin improving to 15.4%
765 Location Market Penetration Zudio operated 765 locations in 235 cities as of March 2025, crossing a billion dollars in sales, with lifestyle and non-apparel accounting for over 20% of revenues	10-11% LFL growth Same-Store Sales Robust LFL growth of 10-11% demonstrating brand momentum beyond new store additions	

5. Global Context & The Indian Nuance

Comparative Analysis: China's Lower-Tier Cities Boom

India's Tier-2/3 consumption surge bears a striking resemblance to China's 2010-2020 "下沉市场" (xiàchén shìchǎng - sinking market) phenomenon, yet critical differences define distinct opportunity sets:

Parallels:

- **Infrastructure Leapfrogging:** Both markets bypassed legacy retail, moving directly to mobile-first commerce. China's Pinduoduo (social commerce for Tier-3/4) grew to 700M users; India's Meesho follows a similar trajectory
- **Aspiration-Driven Premiumisation:** Chinese consumers in lower-tier cities exhibited "upgrade consumption"—from local brands to national/international. India mirrors this with Tanishq/Nykaa penetration
- **Platform Economics:** Alibaba's Taobao Villages, JD.com's "京东便利店" (JD convenience stores), parallel India's kirana digitalisation via Jiomart/Udaan
- **Short-Video Commerce:** Douyin (TikTok) drove \$500B+ GMV in China; Instagram Reels/YouTube Shorts emerging as discovery engines in Indian Tier-2/3

Indonesia & Brazil: Archipelago/Geographic Complexity

- **Indonesia (Tokopedia/Bukalapak):** Island geography necessitated hyperlocal fulfilment; India's linguistic/cultural diversity creates similar fragmentation, requiring localised strategies
- **Brazil (Mercado Libre/Magalu):** High credit card penetration enabled instalment-based consumption; India's lower credit penetration makes BNPL/UPI credit a critical differentiator

The Indian Differentiator:

What Makes This Shift Unique

01

Digital Public Infrastructure as Enabler (Not Just Private Innovation)

Unlike China (Alipay/WeChat Pay) or the US (Visa/Mastercard networks), India's UPI, as a zero-cost, interoperable, government-led infrastructure, fundamentally alters unit economics:

- **Zero Merchant Discount Rate (MDR):** Enables sub-₹100 transactions profitably; micro-merchants (vegetable vendors, auto drivers) can accept digital payments
- **Account Aggregator Framework:** Consent-based financial data sharing, democratising credit access; no equivalent in China/US
- **ONDC (Open Network for Digital Commerce):** Attempting to unbundle discovery-transaction-fulfilment; if successful, could prevent winner-takes-all consolidation seen in China

03

Regulatory Philosophy: Gradual Liberalisation vs State Control

- China's aggressive platform regulation (2021 crackdown on Alibaba/Tencent) vs India's iterative, consultation-based approach (e-commerce FDI rules, data localisation), creating a more predictable environment
- **FDI Restrictions:** Marketplace model (not inventory-led) requirements shaping different competitive dynamics vs China's open model or Brazil's protectionism

02

Linguistic & Cultural Fragmentation as Moat

- **22 Scheduled Languages, 19,500+ Dialects:** Unlike China's Mandarin dominance, India requires 8-10 language interfaces, regional content, local influencers—raising barriers to entry and creating hyperlocal advantages
- **Festival Calendar Diversity:** 30+ major festivals across religions/regions driving 40-50% of annual discretionary spending; requires granular marketing vs China's unified Spring Festival/Singles Day approach
- **Caste/Community-Specific Consumption:** Jewellery buying patterns, food preferences, and apparel styles vary dramatically; mass-market standardisation is less effective than in China

04

Demographic Dividend Longevity

- India's median age (28 years) with 68% population <40 creates a 3-4 decade consumption runway; China's ageing (median age 39, declining working population) compressed consumption boom window
- **Urbanisation Rate:** India at 35% urban (vs China 65%) means ongoing rural-to-urban migration sustaining Tier-2/3 growth through the 2050s

Conclusion: The Great Rebalancing

India's consumption story is undergoing a structural rebalancing from metro-centricity to pan-India participation. This is not a temporary phenomenon driven by pent-up demand or fiscal stimulus, but a multi-decade megatrend powered by:

Demographic Mathematics 900+ million people in Tier-2/3/4 with rising incomes	Digital Democratisation UPI, smartphones, 4G collapsing information and transaction asymmetries
Aspiration Without Migration Quality of life improvements enabling in-situ prosperity	Corporate Reorientation Strategic, capital-intensive pivot by incumbents and insurgents

Strategic Implications

For Investors

This represents the largest greenfield consumption opportunity globally—a **₹1 trillion+ incremental market through 2030**. Winners will be those who respect the nuances (linguistic diversity, cultural specificity, infrastructure constraints) whilst executing with metro-grade efficiency.

For Corporates

Tier-2/3 is no longer "the next frontier" but the primary battleground. Metro market share wars yield diminishing returns; the growth equation has shifted to non-metros.

For Policymakers

This is India's moment to leapfrog the middle-income trap. By investing in digital + physical infrastructure, simplifying compliance, and democratising credit, the government can amplify this organic shift into sustained, inclusive GDP growth.

The Great Indian Consumption Shift is not coming—it's here.

The question is not whether to participate, but how strategically and how swiftly one positions for this inevitable transformation.

Performances



(1) Equity Market

Indices	01-10-2025	31-10-2025	High	Low
BSE S&P SENSEX	80173.24	83938.71	85290.06	80159.9
NIFTY 50	24620.55	25722.1	26104.2	24605.95

(2) Mutual Fund

AUM Data of Mutual Fund

(INR. In Lakh Crore)

Particulars	AUM As On 30-09-2025	Fresh Fund Mobilize During Oct-25	Redemption During Oct-25	AUM As On 31-10-2025
Total AUM of all mutual funds scheme	77.46	12.85	10.69	79.62
AUM of equity oriented (growth) schemes	34.92	0.64	0.39	35.17

Source: Association of Mutual Fund of India (AMFI)

SIP Contribution

(INR. In Crore)

Month	SIP Contribution	SIP AUM
Oct-2025	29,529	16,25,305

(3) FII & DII Inflow/Outflow Position – Oct-2025

FII’s **selling** in the month is 0.02 Lakh.
DII’s **buying** in the month is 0.53 Lakh

(INR. In Crore)

FII /DII	Gross Purchase	Gross Sale	Net
FII	2.61 Lakh	2.63 Lakh	(0.02 Lakh)
DII	3.14 Lakh	2.61 Lakh	0.53 Lakh

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