

KKR

# Thoughts From the Road

INDIA | February 2026

I recently returned from time on the ground in India with Henry Kravis as well as Gaurav Trehan, Akshay Tanna, Hardik Shah, and many others from our local team. We covered multiple cities, meeting with regulators, CEOs, policy makers, and portfolio managers. Our key take-away from the trip is that, given our deep local expertise as well as favorable macro tailwinds, we see significant opportunities to both deploy and monetize capital across our Private Equity, Infrastructure, Climate, and Credit franchises.



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**The good news is that the acceleration in KKR's India franchise is occurring at a time when global investors are again looking to Asia for both growth and diversification.** Recent analysis done by several investment banks suggests that global investors are now among the most underweight Indian Public Equities that they have been in years. By comparison, many of the large global allocators with whom we speak remain meaningfully overweight U.S. assets, often by three to four percentage points.

**The offset, however, is that sentiment across Mumbai and Delhi is decidedly more muted than on prior visits, as investors and business leaders weigh near-term uncertainty against a longer-term backdrop that continues to improve under the Modi-era reform agenda in the world's largest federalist democracy.** There is, of course, the usual handwringing concerning more competition, policy uncertainty tied to the Trump Administration, and increasing geopolitical tensions, *but the dominant issue locals are focused on today is AI and what it could mean for India's once-booming IT outsourcing services sector, still one of the country's crown jewels.* The data are starting to reflect this concern: in the first nine months of FY25-26, India's top five IT firms scaled back hiring and added just 17 net employees, down sharply from 17,764 net additions in the same period last year. In our view, this pivot towards a leaner workforce likely signals a faster shift to automated, AI-enabled delivery models than many investors had anticipated, and a trend that could ultimately spread beyond IT into adjacent services sectors. Meanwhile, markets have taken note: Indian Equities delivered their weakest relative performance in 2025 since 1998, and inward FDI has also rolled over meaningfully after peaking around \$60 billion in 2020.

**Not surprisingly, AI and automation are beginning to reshape traditional headcount dynamics in India, suggesting that revenue growth is increasingly decoupling from hiring, particularly at the junior and mid-levels.** This is a meaningful change. In our view, it also implies that the large publicly traded outsourcing firms may become a less reliable proxy for the broader Indian economy over time. Indeed, multiple financial institutions actually told us they are automating internal systems more quickly than expected as well as bringing more cutting

edge IT services in-house, so that they can specialize more effectively by leveraging AI internally, rather than outsourcing at scale as they have in the past.

Against this backdrop, our key observations from our travels are as follows:

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1

## Consumption remains a growth engine, but the composition is shifting.

The consumption upgrade story remains alive and well, particularly in higher-value services such as healthcare, financial services, and education. 'Experiences', particularly related to sports and certain areas of entertainment, are growing faster than 'Things.' This thesis about wealthier consumers spending more has remained unchanged since our last visit. What *has* changed, however, is that recent government data suggest that lower-income consumers are doing better than in the past. By comparison, some segments of the middle-income population feel less secure relative to my prior visit. Parts of this segment have taken on debt at a time when job security is less certain and real wages are not growing commensurate with cost of living expenses on a nominal basis.

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2

## The Infrastructure opportunities for KKR in India remain outsized.

Key areas of focus for KKR remain roads, renewables, logistics, and related assets. The intersection of favorable urbanization trends (35-40% in India versus 60%+ in China), differentiated government support (and the need to sell assets to raise revenue and drive efficiencies), and the structural need for energy production/transmission, all suggest more tailwinds are ahead, especially for those who can bring an operational improvement angle.

Interestingly, this increase in the opportunity set is occurring at a time where our survey work shows that most global investors remain underweight Infrastructure, Asia in particular.

## 3

**Though local Indian Equities have lagged, we think that may change by the second half of 2026.**

The market has been weighed down by a combination of currency weakness, decelerating EPS, and rising AI concerns. That said, we left the trip with the view that conditions could improve meaningfully as 2026 progresses. Fiscal impulses, healthy credit creation, and rising capital markets participation by retirement savers all point to better earnings momentum in the coming year. As a result, we now think EPS for the country could grow in the mid-teens in 2026.

## 4

**Private Markets activity in India has come of age.**

We continue to see a more mature opportunity set across Private Equity, Infrastructure, and Credit. Control deal activity is more robust, local capital markets are deeper, the policy backdrop is more cooperative, and local business leaders are more engaged. Meanwhile, in Infrastructure, our time in Delhi reinforced that private sector capital will be required to meet President Modi's ambitious goals. Finally, in Private Credit the opportunity set feels much more disciplined than what we saw during the non-bank financial company heyday just prior to COVID.

## 5

**Currency risk now appears more manageable than it did in prior regimes. We now expect less INR depreciation than in the past.**

As we show in *Exhibit 14*, the pace of depreciation going forward should be slower than what we observed in 2025 and materially better than the period roughly a decade ago when India ran larger twin deficits amid high oil prices and an unfavorable subsidy/tax mix. Said differently, the external vulnerability feels lower today than it did in prior stress episodes.

## 6

**Local manufacturing is improving, but this story will take time.**

The more compelling opportunities we see are not in low-value, cheap component manufacturing but in areas such as chemicals, where local demand is strong and economics are more defensible. We also spent time with one innovative entrepreneur who is working with U.S. firms that want to satisfy growing internal demand in higher value-added industrial equipment products. We like this strategy of satisfying rising local demand in addition to building a China+1 strategy. Importantly, during one corporate executive roundtable in Mumbai, many of the business leaders we met also emphasized the importance of local governments as a key differentiator in ease of doing business. For example, Apple clearly chose well in Tamil Nadu, but some global multinationals have had more mixed experiences, highlighting that execution at the local level still matters a lot.

## 7

## AI is the biggest near-term swing factor for India's services model.

Just as China has been the manufacturer to the world, India has been the services exporter to the world. All told, services exports are roughly \$400 billion per year, and we estimate about half of that is linked directly to IT services, now more than twice the gross value of the country's oil imports. AI will definitely force an adjustment, and there will likely be a transition period where job growth undershoots expectations. That said, our on-the-ground conversations suggest the ecosystem is already adapting, particularly via Global Capability Centers (GCCs), which are increasingly hiring leaders who can combine domain expertise with AI tools to drive differentiated outcomes. In the world we are envisioning, AI becomes an upgrade to India's services model, not a structural negative. Just consider that there were already 600+ start-ups at India's recent AI Impact Expo in Delhi.

## 8

## Policy continues to support private sector growth.

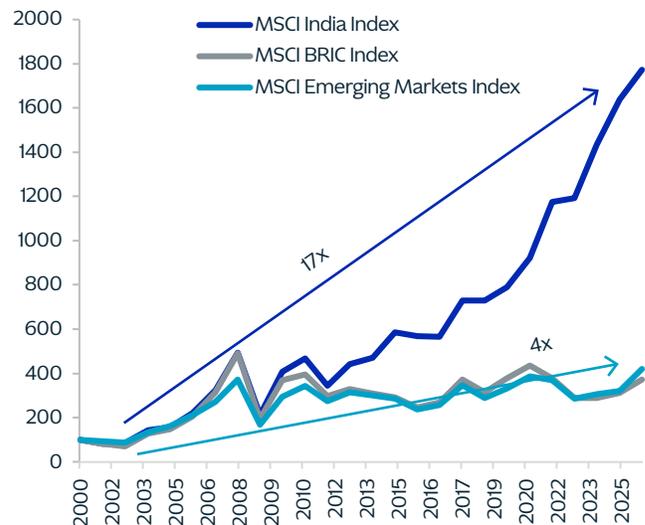
We think the government is doing a solid job promoting private-sector investment. Looking ahead, energy security and reliability (including the balance between renewables and nuclear), agricultural reform, and capital expenditure are critical areas of focus (we still see too many companies where net debt positions create outcomes for shareholders where ROA > ROE). We also think pragmatic market reform, including changes to the 'squeeze out' rule for take-privates and the development of a convertible market, could make a lot of sense to expand India's TAM for global allocators.

Looking at the bigger picture, we left India with two conclusions. They are as follows:

**Point #1:** India's strong nominal GDP backdrop of 10-11% should not be underestimated, particularly for investors who can lean in when a sector or company is cyclically out of favor. If earnings per share can grow faster than nominal GDP through operating leverage and the multiple can re-rate, the structural upside can be quite significant relative to other countries I visit around the world.

**Exhibit 1:** While 2025 Was Disappointing, India's Market Has Structurally Compounded Much Better Than Other Emerging Markets

### Equity Market Index (2000=100)

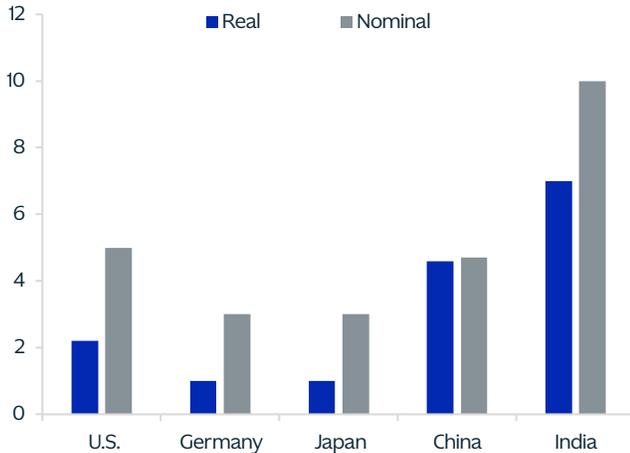


The MSCI BRIC Index is a weighted index that is designed to measure the equity market performance across the following 4 Emerging Markets country indexes: Brazil, Russia, India and China. Data as at December 31, 2025. Source: MSCI, Bloomberg, KKR Global Macro & Asset Allocation analysis.

In the world we are envisioning, AI becomes an upgrade to India's services model, not a structural negative.

**Exhibit 2:** Even Without Operating Leverage, Nominal GDP Should Allow Indian Equities to Post Double Digit EPS Growth Again in 2026

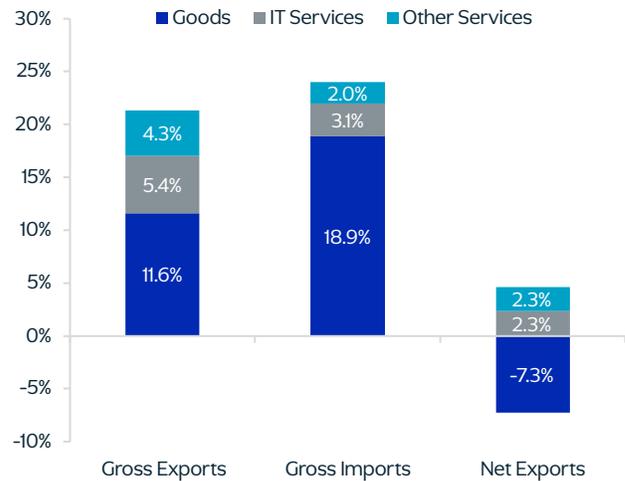
**2026 GDP Forecast**



Data as at February 8, 2026. Source: KKR Global Macro & Asset Allocation analysis.

**Exhibit 4:** ...The Slowdown Is Significant as IT Services Exports Represent an Important Positive Driver of India's Trade Balance

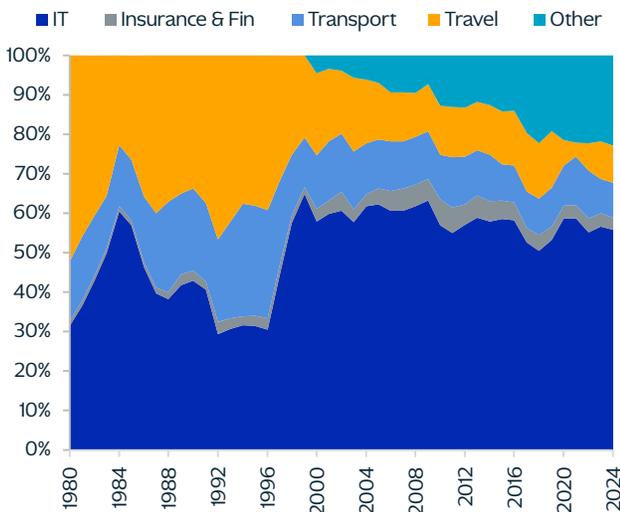
**India Goods and Services Trade as a % of GDP**



Data as at December 31, 2024. Source: World Bank, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

**Exhibit 3:** IT Accounts for 56% of India's Services Exports, But That Is Now Slowing...

**India Service Exports**



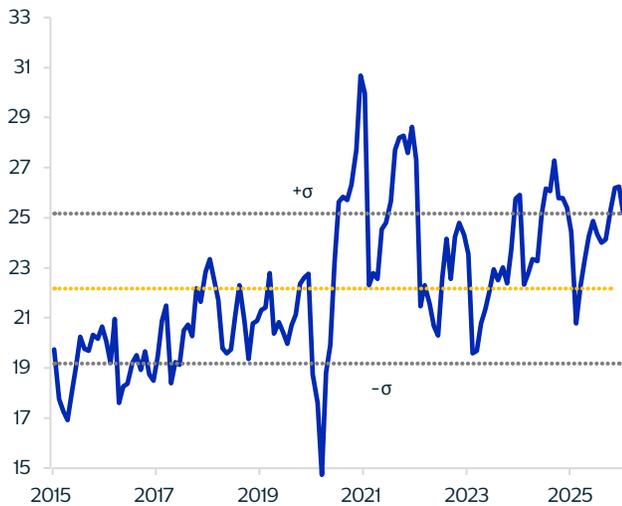
Data as at December 31, 2024. Source: World Bank, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

India's strong nominal GDP backdrop of 10-11% should not be underestimated, particularly for investors who can lean in when a sector or company is cyclically out of favor.

**Point #2:** We continue to believe that the global investment community is only now beginning to appreciate one of the core messages we laid out in our [2026 Outlook: High Grading](#) (see the introduction for a summary): the next leg of global growth and integration will be driven by services, not goods. In a world where supply chains are being rethought, tariffs are structurally higher, and the marginal cost of capital is more expensive, the 'goods super cycle' becomes harder to repeat. By contrast, the services economy, enabled by technology, rising middle-class consumption, and demand for higher-value outcomes, remains scalable, repeatable, and increasingly global. Importantly, India, similar to the United States, has a services engine to match its consumption upgrade story. In our view, that combination is rare, and it is why India remains one of the most compelling long-term destinations for global capital.

#### Exhibit 5: India's Valuation Remains Elevated...

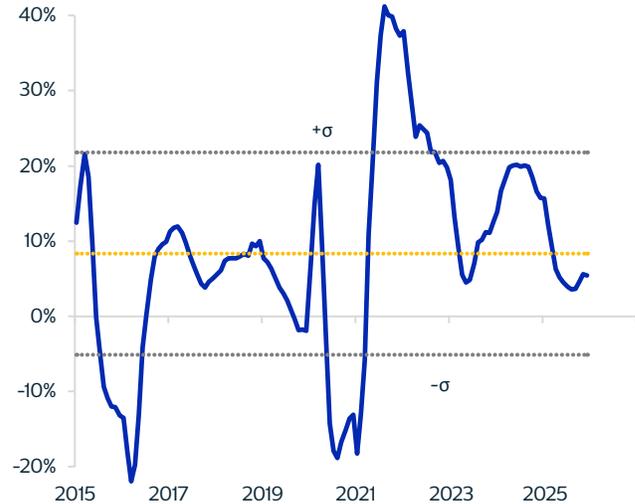
##### MSCI India Index: NTM P/E



Data as at December 31, 2025. Source: Bloomberg, MSCI, KKR Global Macro & Asset Allocation analysis.

#### Exhibit 6: ...But We See 2025 as the Bottom of the Earnings Growth Cycle

##### MSCI India Index: NTM EPS Growth



Data as at December 31, 2025. Source: Bloomberg, MSCI, KKR Global Macro & Asset Allocation analysis.

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## SECTION I

# On the Ground Takeaways

*What have I accomplished in my life,  
if I have not seen Jaipur?*

-A Rajasthani proverb

Unlike past trips to India, when I was constantly darting between Mumbai, Delhi, and Gurugram, this visit was different. This time, I carved out two additional days to travel to and from Jaipur, one of India's most historic cities, much of it by car. The detour away from the usual conference rooms and boardrooms reinforced my view that, while there have been improvements in infrastructure and urbanization, more can be done to scale agriculture, build deeper manufacturing expertise across more states and more sub-components of the industrial food chain (especially if there is growing domestic demand for the product), and expand exports in select sectors such as textiles, healthcare services, and electronic components.

**At its core, though, India remains a stellar consumption upgrade story.** Education, healthcare services, and 'experiences over things' still resonate as mega themes for our Private Equity platform. We also spent time with impressive entrepreneurs who are increasingly thinking globally, with ambitions to take their offerings to the United States, Europe, and other parts of Asia.

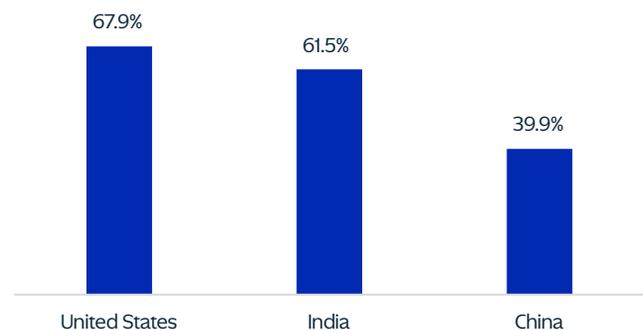
**Beyond Private Equity, what stood out most on this trip was how many compelling opportunities we are also investing behind in Infrastructure, including roads, transmission lines, renewables, and logistics that**

**underpin the next phase of India's domestic growth.**

Importantly, unlike many emerging markets, India already has a large and established domestic consumption base that continues to expand steadily, particularly across middle- and higher-income cohorts. This growth is not being driven by leverage or exports alone, but by rising incomes, favorable demographics, and improving productivity, an important distinction in a world where external demand can at times be uncertain.

**Exhibit 7:** India's Economy Is Far More Consumption-Led Than China's

**Household Consumption as a % of GDP, 2024**



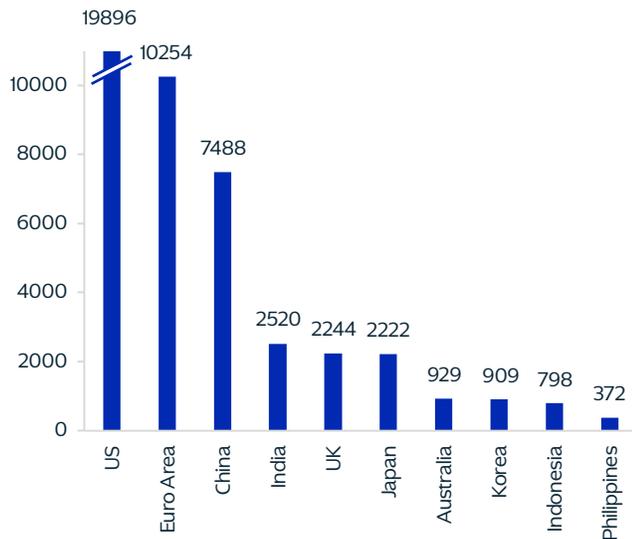
Data as at December 31, 2024. Source: World Bank.

At its core, though, India remains a stellar consumption upgrade story.

India's productivity story, in our view, is often underappreciated. One standout example is the country's Global Capability Center ecosystem, which provides outsourced services to multinational corporations and is increasingly moving up the value chain into more complex, higher-margin offerings. The sector now contributes roughly \$70 billion to exports and has been a major driver of upper-middle-class job creation. In many ways, GCCs represent India's quiet competitive advantage in global services—a structural asset that becomes even more important as global firms prioritize efficiency, resilience, and talent access.

**Exhibit 8:** India Has Become the Largest Consumption Market After the U.S., Euro Area, and China

**Private Consumption, Billions USD**



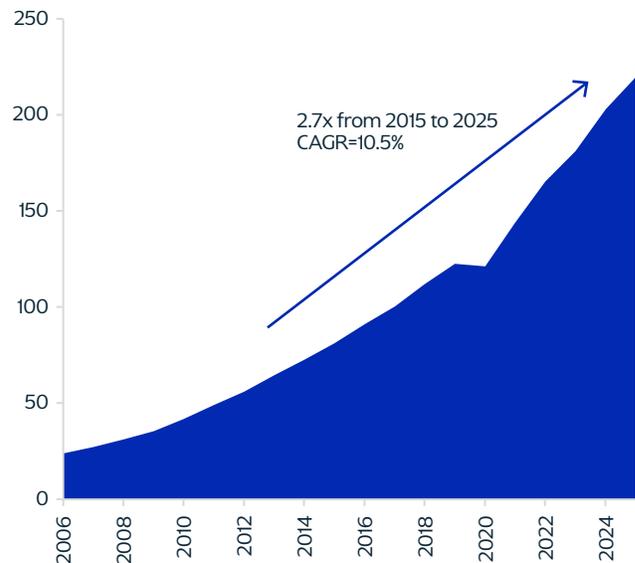
Data as at December 31, 2025, or the latest available. Source: National statistical bureaus of corresponding countries, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

On manufacturing, our conclusions are more nuanced. India is unlikely to replicate China's manufacturing model wholesale. China's approach, leading with large-scale infrastructure, rapidly scaling plants, and building dense supplier ecosystems around anchor facilities, has created formidable barriers to entry, even as labor costs there have risen. India does not need to 'beat' China to succeed. Instead, its opportunity lies in selective manufacturing expansion, beginning with products and inputs that are increasingly demanded by their own domestic economy.

This theme came through consistently in discussions with chemical manufacturers and industrial firms, where strong local demand provides scale, pricing support, and resilience. We also heard a similar thesis in certain parts of the tech stack where India is now making decent inroads.

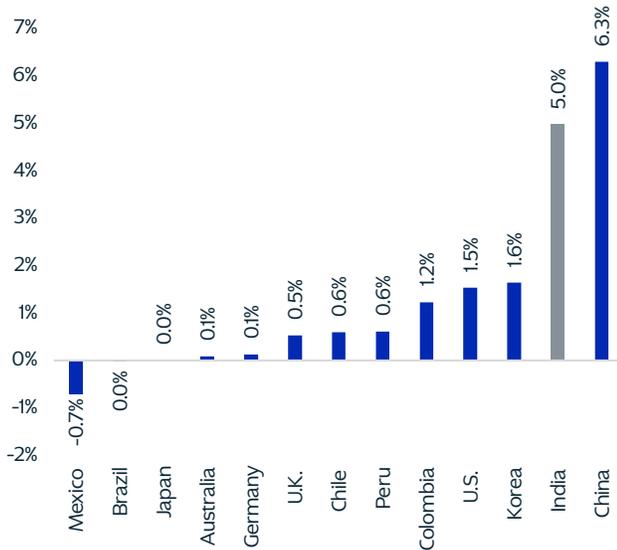
**Exhibit 9:** India's Consumption Market Has Nearly Tripled Over the Past Decade

**India Private Consumption, Trillions INR**

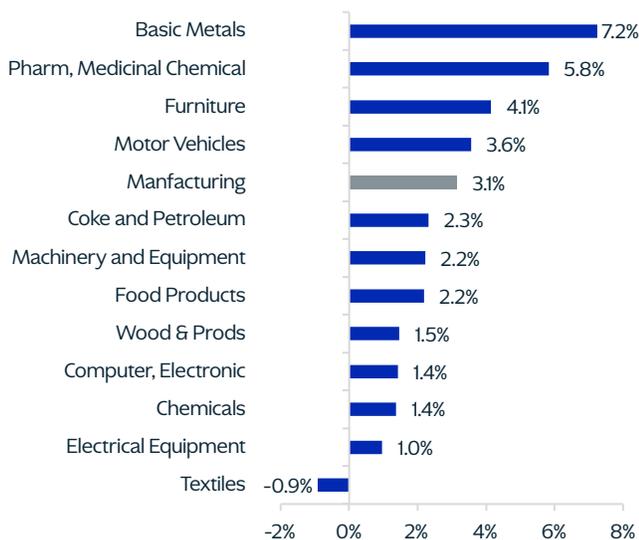


Data as at December 31, 2025. Source: India Central Statistics Office, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

That said, India's historical manufacturing performance highlights the challenge that lies ahead: Manufacturing output growth has lagged India's 5.9% real GDP growth over the past decade. One can see this in *Exhibit 11*, which shows both the aggregate growth as well as the growth by sub-component. Over the same period, manufacturing's share of GDP has declined from 17% to 14%, despite policy support such as the Production Linked Incentive (PLI) scheme. This suggests that, while the direction of policy is supportive, further progress will require faster, more predictable execution, particularly around approval processes, capacity expansion, and environmental clearances. If these frictions are reduced, India can build a durable manufacturing base in areas where it has natural advantages—without being forced into a single, China-like blueprint.

**Exhibit 10: India Is Benefiting From a Productivity Boom****Productivity Growth, Output Per Worker, 10-Year CAGR**

Data as at September 30, 2025. Source: KKR Global Macro & Asset Allocation analysis.

**Exhibit 11: There Is Industrial Outperformance in Metals, Pharma, and Autos; However, Computer & Electrical Equipment Are Still Lagging****Real Manufacturing Industrial Production CAGR, Last 10 Years**

Data as at December 31, 2025. Source: India Ministry of Statistics and Programme Implementation, KKR Global Macro & Asset Allocation analysis.

Despite the aforementioned structural tailwinds that the country enjoys, India's equity market has lagged of late. In our view, part of the underperformance is simply a valuation story: starting multiples were elevated, which was a concern we highlighted during our last visit in 2024 (see [Thoughts From the Road: India](#)). More recently, a combination of record-high tariffs (at one point exceeding those applied to China), tighter credit conditions, and a weaker currency has caused investors to retrench at the margin.

More importantly, however, India has increasingly been framed by some investors with whom we speak as the 'anti-AI' trade within Asia. Indeed, while markets such as Taiwan, Korea, and parts of China have benefitted from direct exposure to semiconductors and AI-related hardware and software, India's traditional technology export, IT services, has been viewed as more vulnerable to disruption from generative AI. This matters because the sector remains a meaningful contributor to the external balance: in 2024, India's IT services industry generated a \$90 billion surplus, equivalent to 2.3% of GDP, compared with 4.6% of GDP for net services exports overall. As such, India was simply not the right market for investors chasing 'AI beta' in 2025.

**That said, this trip left us with a very different takeaway than what market performance alone might suggest: it may be time to lean in, particularly in situations where there are good companies that can be made better by Private Equity.** After multiple days across multiple cities meeting with CEOs, policymakers, investors, and our KKR colleagues on the ground, our variant perception is that India is actually an increasingly attractive destination for long-term capital. Capital markets have deepened materially, the rise of the middle- and upper-income consumer is accelerating, and the long-missing industrial capex cycle is showing early, but meaningful, signs of life. In a global environment where durable growth is becoming harder to find, the convergence of these factors matters. In our view, India's growth model is becoming broader, more self-reinforcing, and ultimately more resilient than in prior cycles.

While KKR does not major in tactical trading like a hedge fund, we *do* see several near-term catalysts that could support both growth and asset prices.

**First, fiscal policy remains increasingly supportive.**

Following income tax cuts in the FY26 budget and sales tax reductions in late 2025, the newly announced FY27 budget maintains a healthy fiscal impulse. Government capex continues to be a key driver; we forecast it will grow roughly 11% year-over-year—slightly ahead of nominal GDP—and add approximately 0.5 percentage points to overall growth. Measures such as new transport corridors and the waiving of corporate taxes for foreign data center operators should be particularly supportive for infrastructure investment.

**Second, monetary policy is becoming more supportive.**

The Reserve Bank of India (RBI) cut rates four times in 2025, 125 basis points in total, and provided ample liquidity to the system. A meaningful portion of that easing has not yet fully transmitted through the economy, and we expect that lagged effect to provide additional support in 2026. While the RBI describes its policy as ‘neutral’, we would characterize conditions as modestly stimulative relative to historical real-rate levels.

**Third, trade policy is improving at the margin.** India recently signed what has been described as ‘the mother of all trade deals’ with the European Union, creating a free trade area spanning nearly two billion people. This was followed by a long-awaited agreement with the United States, which reduces tariffs on Indian exports from 25% to 18% and removes the 25% supplementary tariff linked to Russian crude imports. These agreements have already improved risk sentiment, with the rupee appreciating roughly two percent in short order. Even after this move, India’s currency remains near a ten-year low on a real effective exchange rate basis (*Exhibit 13*), which, in our view, is constructive for a manufacturing and export upcycle.

Our on-the-ground conversations also reflected that the threat of tariffs encouraged many exports to follow Delhi’s lead and find new markets for its products. As such, now that the trade deal with the U.S. is settled, there is actually the opportunity to increase overall sales by re-engaging with the U.S., while retaining recently gained market share in other key markets such as Europe, Mexico, Australia, and South East Asia.

**Finally, we see room for an earnings recovery.** As fiscal, monetary, and trade tailwinds flow through the real economy in 2026, we expect business and consumer spending to re-accelerate, driving stronger earnings momentum. Consensus forecasts appear conservative: MSCI India is currently expected to deliver about seven percent earnings per share growth in INR terms—roughly half the average pace of the last five years—suggesting the bar for upside is not particularly high as policy transmission improves.

**That said, there are potential storm clouds that should not be ignored. The most pressing, in our view, is how India’s government and private sector respond to the rapidly evolving AI landscape.**

One senior executive told us that as much as 30% of the IT services sector could face disruption from firms such as Anthropic and others, even as the remaining 70% may benefit from greater internalization of technology solutions. Indeed, some global investment banks are now hiring 50–100% more in-house technology staff rather than relying as heavily on external service providers. In our view, this shift from outsourcing to insourcing is the story on which India should focus as it thinks about telling its AI-narrative in 2026 and beyond.

**A second structural issue remains agriculture.** Nearly half of India’s population is employed in agriculture, yet the sector accounts for only about one-sixth of GDP. Small plot sizes, outdated farming practices, and sometimes unpredictable government pricing signals continue to constrain productivity. India’s use of agrochemicals, including pesticides, is only about 10% of levels seen in other major economies, contributing to volatile yields and income instability from year to year.

**Third, India still needs a more consistent and pragmatic energy policy.**

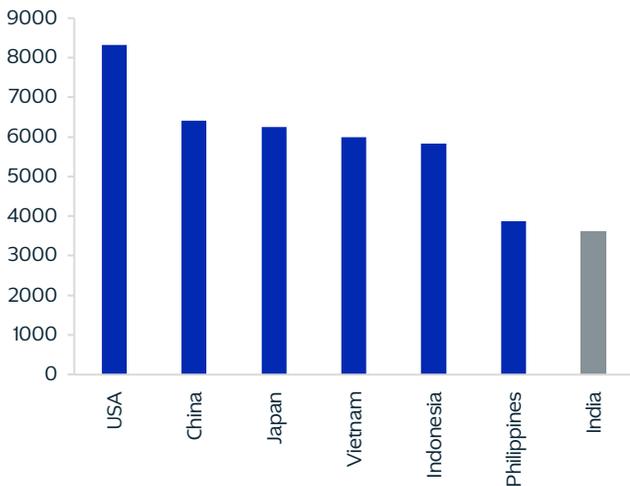
In our view, the country will require more nuclear power, continued use of coal as a baseload source, and a more disciplined approach to renewables deployment. While progress in scaling renewables has been impressive, the pace and sequencing at times appear ahead of what grid stability and storage solutions can reliably support. Ensuring low and predictable energy prices remains critical for manufacturing competitiveness, productivity gains, and social stability, even as India advances towards a lower-carbon future. Ultimately, a

balanced energy mix that can deliver 24x7 will be essential if India is to sustain high growth while meeting its climate objectives.

**Stepping back, however, our base view remains constructive. India’s challenges are certainly real, but so are its advantages.** The combination of deepening capital markets, a rising consumer base, improving policy coordination, and an emerging investment cycle suggests to us that India is entering a more durable phase of growth. For long-term investors willing to look through near-term noise, this inflection point may prove increasingly important.

**Exhibit 12:** India’s Cereal Yield Is Only Half That of the U.S. and China

**Cereal Crop Yield, Kilogram/Hectare**

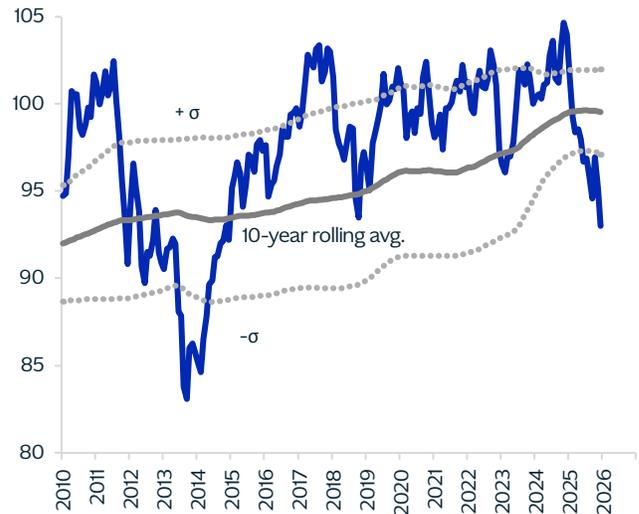


Data as at December 31, 2023. Source: FAO, KKR Global Macro & Asset Allocation analysis.

As we show in *Exhibits 13* and *14*, we also expect a slower pace of currency depreciation. This forecast is a big deal, as several global investors have told us that they have refrained from investing until the rupee was on track for steadier performance. We tend to agree, but with a U.S. trade deal now signed, faster credit growth, and lower oil prices, we think the rupee will behave better in 2026 than it did in 2025 (a year when the currency depreciated essentially in line with the yield on government bonds).

**Exhibit 13:** INR Real Effective Exchange Rate Has Fallen Over 3 Standard Deviations Below Its 10-Year Average

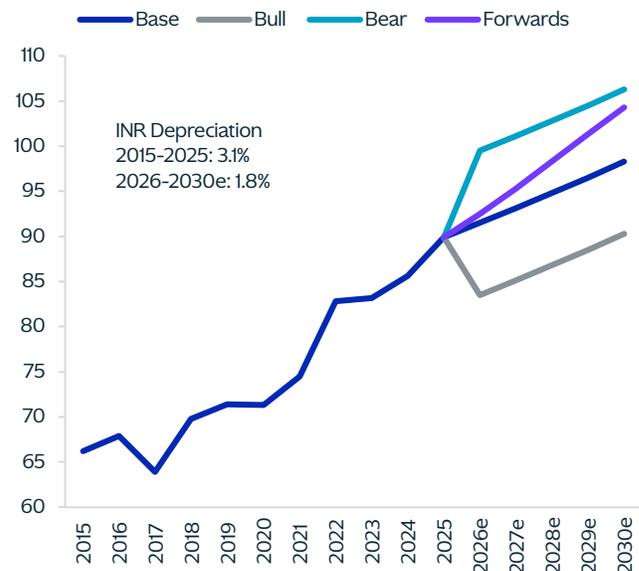
**INR REER**



Data as at December 31, 2025. Source: BIS, Bloomberg, KKR Global Macro & Asset Allocation analysis.

**Exhibit 14:** At KKR, We Now Expect the Pace of INR Depreciation to Slow

**USDINR**



Data as at February 4, 2026. Source: KKR Global Macro & Asset Allocation analysis.

## SECTION II

# Key Growth Drivers

During this visit we were able to spend time exploring several key topics, including India's maturation as an economy and capital markets destination. As part of this work stream, we relied on diligence done by my GMAA colleague Richard Bullock during his recent trip to India in late 2025.

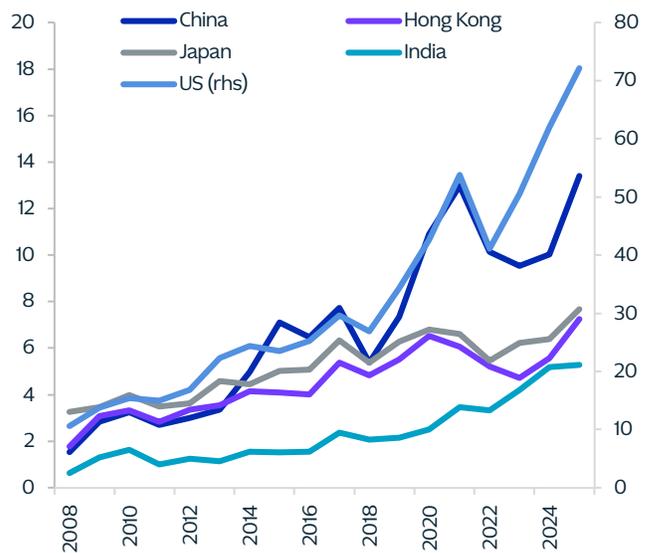
### India's Deepening Capital Markets

Potentially one of the more underappreciated developments in India's growth story is the progress its capital markets have made over the past decade. India is no longer a marginal equity market. Indeed, with total market capitalization now exceeding \$5 trillion, it ranks as the fifth-largest stock market globally (*Exhibit 15*). That scale has improved liquidity, price discovery, and the ability of markets to absorb larger pools of capital.

That said, headline size alone can overstate the degree of maturity. India's market capitalization-to-GDP ratio stands at roughly 124%, which is elevated relative to its income per capita and high by emerging-market standards (*Exhibit 16*). While this reflects deeper financial intermediation, it also means valuations are more sensitive to earnings disappointments, policy missteps, or shifts in global risk appetite. In our view, market deepening alters the volatility profile but does not make markets immune to it. It also underscores President Modi's effort to drive GDP-per-Capita higher by using public policy in key areas such as infrastructure investment, banking (UPI), and digitalization.

**Exhibit 15:** India Has the World's Fifth Largest Stock Market

#### Market Cap, US\$ Trillions

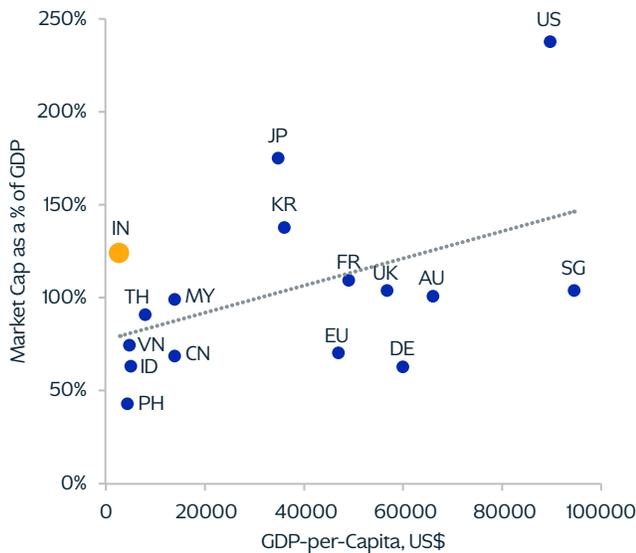


Data as at December 31, 2025. Source: Bloomberg, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

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### Exhibit 16: India Has a Mature Equity Market Relative to Its Stage of Economic Growth

#### Equity Market Cap as a % of GDP vs. GDP-per-Capita



Data as at December 31, 2025. Source: IMF, Bloomberg, KKR Global Macro & Asset Allocation analysis.

Several structural forces have supported this evolution. The steady shift from informal to formal economic activity has expanded the investable universe, while regulatory reforms and digital market infrastructure have improved transparency and participation. Household savings are increasingly flowing into financial assets through systematic investment plans and retirement vehicles. These are meaningful positives. However, domestic participation remains uneven, and foreign capital continues to play an outsized role at the margin, particularly during periods of global stress.

For inward FDI, the trade deal with the Trump Administration is a positive signal, but the bigger magnet to attract capital, we believe, remains the combination of a large domestic market, improving infrastructure, and a more investable private markets ecosystem, including protection rights for foreign investors. Also, execution consistency, particularly across states, is still an area where foreign investors sometimes see friction.

Recent flows underscore some of this sentiment. Consider that peak inward FDI was \$59.6 billion in 2020. No doubt, the 10-year growth rate has been strong, but the last few

years have been disappointing (the last three years have averaged around \$47 billion). Importantly, though, the tone from private investors interested in India appears to be inflecting upward, we believe.

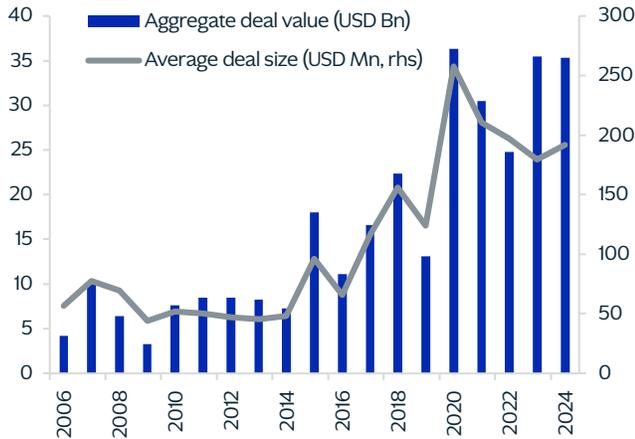
We also want to underscore that public equity market depth has improved exit optionality for private capital, with listings more feasible, secondary transactions more liquid, and valuation benchmarks more robust than in prior cycles. These developments have supported the growth of Private Equity, Private Credit, and other Alternatives strategies, where total assets under management are now estimated at roughly \$400 billion and buyout deal values and average deal sizes have increased materially over the past decade (*Exhibits 17 and 18*). In India, Private Credit is positioning itself not as a rival to traditional banks but as a vital complement. Bank financing still dominates across Asia, but Private Credit is highly additive in situations where borrowers need flexibility, speed, or bespoke structures that banks often don't provide.

That said, India's alternatives ecosystem remains earlier-stage relative to more mature markets. Buyout activity still represents a smaller share of GDP than in Japan or the United States, deal execution can be uneven, and timelines are often longer and more sensitive to state-level regulatory interpretation. In our view, this reflects a market that is clearly developing, but not yet fully institutionalized.

Bank financing still dominates across Asia, but Private Credit is highly additive in situations where borrowers need flexibility, speed, or bespoke structures that banks often don't provide.

### Exhibit 17: There is Now Strong Growth in Scaled Buyout Opportunities

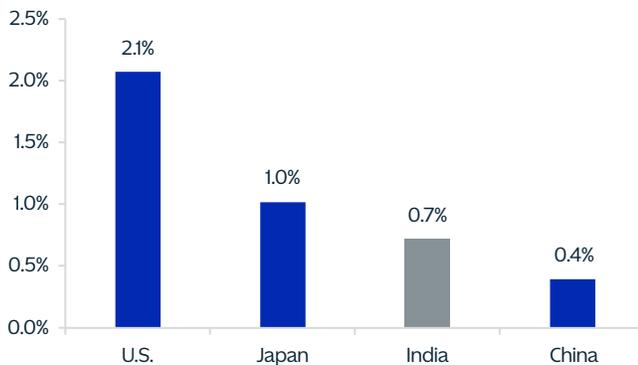
#### India Buyout Deal Investment, US\$



Data as at December 31, 2024. Source: Preqin, Bloomberg, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

### Exhibit 18: India's Alternative Investment Penetration Is Rising, With Significant Growth Potential Ahead

#### Aggregate Buyout Deal Value as a % of GDP, 2023-2025 Average



Data as at December 31, 2025. Source: Preqin, Bloomberg, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

For private investors, the practical implication is not that risk has disappeared, but that the toolkit has improved at a time when we see a strong government with sound policies. Moreover, against a more thoughtful government effort, greater market depth supports more flexible structuring, improved financing options, and increased confidence around exit paths over time.

That said, India's capital markets, while clearly stronger than they were a decade ago, are not immune to global cycles or domestic execution risk. Our advice is to buy companies at discounted valuations when they are out of favor. By comparison, when market conditions were favorable, both mutual fund managers and private equity professionals could just buy great companies and pay full price and still outperform. In a world of higher starting valuations and increased competition, we think some re-rating and/or operational improvement angle could now be required. Finally, we would like to see a further broadening of capital market instruments such as convertible bonds as well as further relaxation in the squeeze-out rule for take-private deals.

## The Rise of India's Middle-Class Consumption

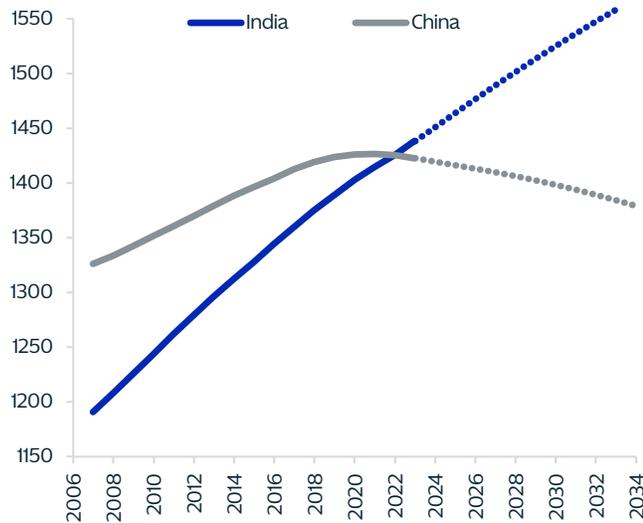
One of our highest-conviction views about India is that consumption remains the country's core growth engine. Unlike many emerging markets that rely disproportionately on exports or episodic investment booms, India's expansion is increasingly being driven from within. Said differently, the growth model is becoming more self-funded, more durable, and, in our view, more resilient to external shocks. In a world where global growth is fragmenting and supply chains are being rethought, that distinction matters.

That said, India's headline population number, roughly 1.4 billion, can be a misleading starting point. The more important question is not how many people live in India, but how many are actually consuming, and at what level. Roughly 450 million Indians now live in urban areas, and we estimate that approximately 200 million qualify as urban consumers with meaningful discretionary spending power. Narrow the lens further, and about 40 million earn incomes that are comparable to developed market levels, with roughly four million falling into the extremely affluent category. Importantly, this upper end of the income distribution is expanding faster than the population overall and, in our view, faster than headline GDP, creating an increasingly powerful tailwind for services, experiences, and higher value consumption.

Importantly, India's working-age population is on track to surpass one billion people, and overall population growth is expected to remain positive even beyond mid-century. In absolute terms, India's population is already comparable to China's today and is projected to be roughly 15% larger by 2035 (*Exhibit 19*). Unlike China, however, India's labor-force profile remains in much healthier shape: the dependency ratio is lower, and there is a longer runway before aging becomes a material headwind. Put simply, India is entering its peak consumption years just as many other large economies are exiting theirs. Indeed, India's working-age cohort continues to expand both relative to China and relative to other major economies (*Exhibit 20*), which should continue to underpin domestic demand for years to come.

**Exhibit 19:** India Is Now the Country With the Largest Population...

**Population in Millions**

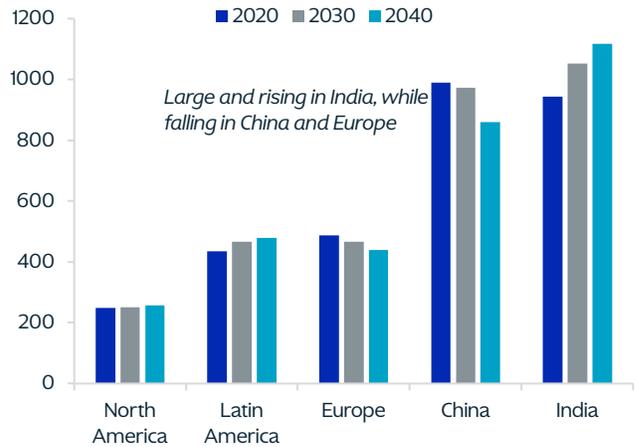


Data as at July 12, 2024. Source: United Nations, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

India has the largest millennial cohort of any Asian country.

**Exhibit 20:** ...And, More Importantly, the Largest Working Age Cohort

**Working Age Population in Millions**



Data as at July 12, 2024. Source: United Nations, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

The composition of the population further strengthens this outlook. India has the largest millennial cohort of any Asian country, with approximately 328 million people born between 1980 and 1994. These individuals are now firmly in their prime earning and spending years, forming households, upgrading housing, increasing spending on education and healthcare, and engaging with financial services at scale. This prime earning cohort is a critical driver of aspirational consumption.

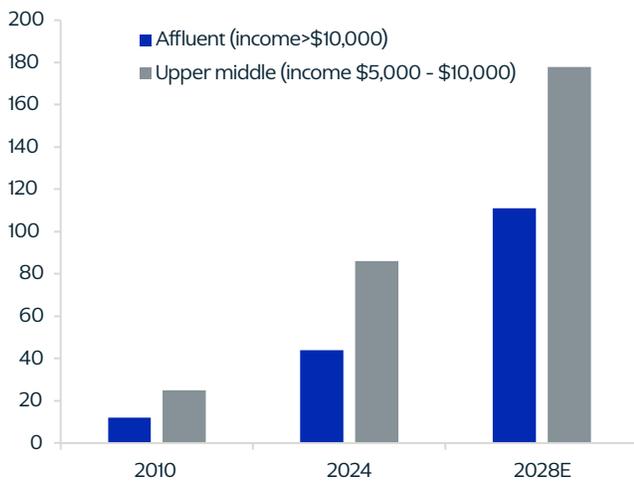
Digital payments infrastructure has been a key enabler of this shift. The government's launch of the Unified Payments Interface (UPI) in 2016 has proven transformative. In 2024 alone, UPI processed roughly 131 billion transactions, about 360 million per day (*Exhibit 23*). From our vantage point, this ubiquitous, low-cost payments infrastructure has materially reduced transaction friction, accelerated formalization across the economy, and enabled a new generation of consumer-facing business models to scale far more quickly than would have been possible in a cash-heavy system.

At the same time, inequality in India is widening. From a growth and investing standpoint, however, the practical implication is that premium and luxury segments are expanding the fastest. As we discussed in our 2026 Outlook, the incremental growth impulse is increasingly

being led by middle- and upper-income households rather than the lower income tiers of the population (some of whom are starting to feel the pinch of unsecured debt and a shakier job market). This proposed segmentation strategy by investors represents a meaningful shift from earlier cycles, when growth was more evenly distributed or more directly supported by transfers. Today, the ‘center of gravity’ is moving up the income stack, which, in our view, has important implications for where revenues, margins, and pricing power are likely to be most durable across the Indian opportunity set.

**Exhibit 21:** There Will Be a Five-Fold Rise in India’s Affluent Households this Decade

**Number of Affluent/Upper-Middle Households in India, Millions**

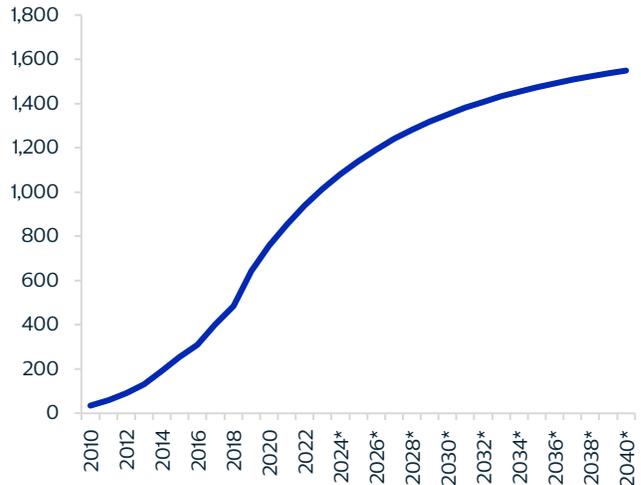


Data as at October 31, 2025. Source: Securities and Exchange Board of India, Euromonitor, Bloomberg, KKR Global Macro & Asset Allocation analysis.

Today, the ‘center of gravity’ is moving up the income stack, which has important implications for where revenues, margins, and pricing power are likely to be most durable.

**Exhibit 22:** India’s Smartphone Users Have Surpassed One Billion

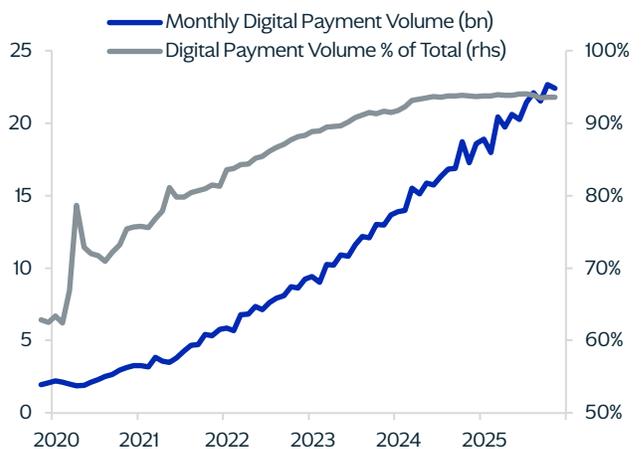
**India Smartphone Users in Millions**



Data as at June 30, 2023. Source: Statista.

**Exhibit 23:** UPI Has Been a Major Game Changer for India, Its People, and Its Economy, Including Fintech

**Digital Payment (ex-Card) Volume**



Data as at November 30, 2025. Source: RBI, Haver Analytics.

## India's Industrial and Capex Cycle: A Missing Piece of the Puzzle

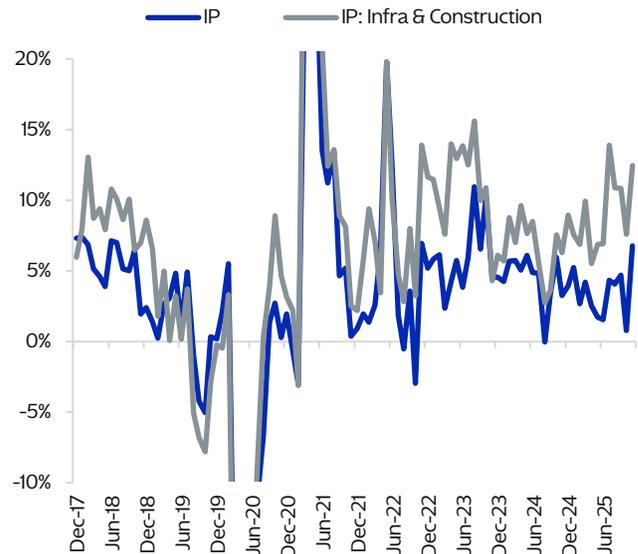
A sustained industrial capex cycle, particularly in the private sector, has arguably been the missing piece of India's growth puzzle. It is also likely a key reason why real GDP has struggled to break sustainably above seven percent. Without a durable investment cycle, productivity gains have been uneven, manufacturing has underdelivered relative to its potential, and growth has remained narrower than it otherwise could have been.

The good news is that this dynamic appears to be shifting. Indeed, after several years of balance sheet repair and cautious capital allocation, we are beginning to see early signs of improvement across India's industrial sector. Industrial production has started to improve on a year-over-year basis, albeit from a subdued base (*Exhibit 24*). At the same time, manufacturing's share of GDP remains well below where it likely needs to be to support a more balanced and resilient growth model (*Exhibit 25*). In our view, therein lies the opportunity for India on both the growth and employment front, as the country seeks to further diversify its economy.

Capacity utilization is rebounding alongside industrial production, moving closer to levels that have historically triggered incremental private sector capex.

**Exhibit 24:** Industrial Production Has Started to Improve On a Year-Over-Year Basis, Albeit From a Subdued Base

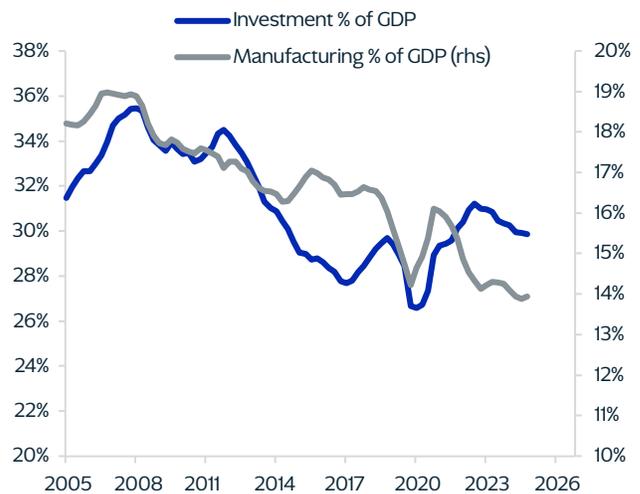
### Industrial Production, Y/y



Data as at January 6, 2026. Source: Central Statistical Office, Ministry of Power, Joint Plant Committee, Reserve Bank of India, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

**Exhibit 25:** Manufacturing-to-GDP Remains Well Below Levels Needed to Support a More Balanced Growth Model

### Investment and Manufacturing as a % of GDP

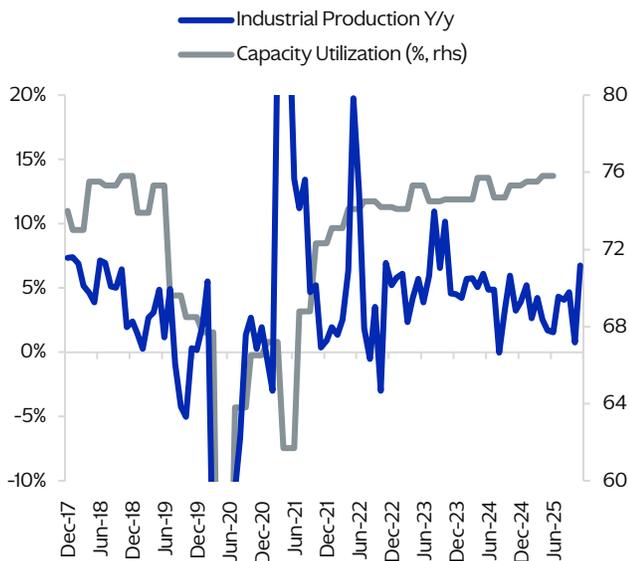


Data as at June 30, 2025. Source: RBI, Central Statistics Office, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

More importantly, utilization dynamics are starting to turn. Capacity utilization is rebounding alongside industrial production, moving closer to levels that have historically triggered incremental private-sector capex (*Exhibit 26*). Government policy is also providing an important foundation. Public sector capital expenditure now represents roughly 20% of the central government budget, approximately double the share seen at the start of the Modi administration (*Exhibit 27*). The emphasis on infrastructure, logistics, energy, defense, and manufacturing-linked investment is intentional. Importantly, in contrast to prior cycles, the objective appears less about substituting for private capital and more about crowding it in by lowering costs, easing bottlenecks, and improving project economics so that private investment becomes both more rational and more repeatable.

**Exhibit 26:** Importantly, Capacity Utilization Is Improving Alongside Industrial Production

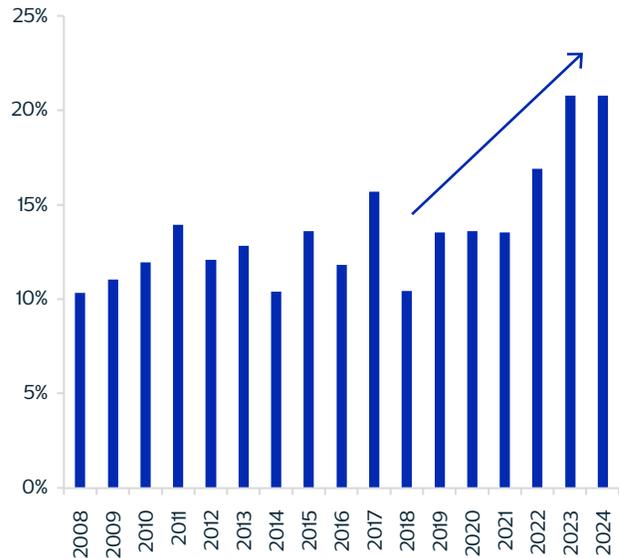
**Industrial Production and Capacity Utilization, Y/y**



Data as at January 6, 2026. Source: Central Statistics Office, S&P Global, Haver Analytics, KKR Global Macro & Asset Allocation.

**Exhibit 27:** Government Capex Share Has Doubled Under Modi

**Capex as a % of Central Government Fiscal Expense**



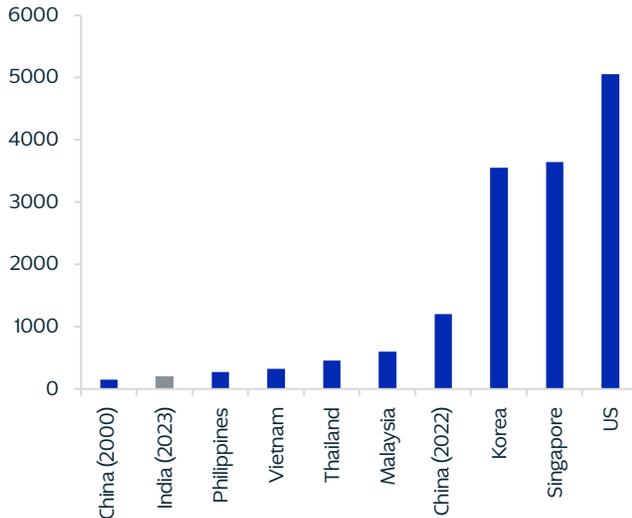
Data as at January 6, 2026. Source: Central Statistics Office, S&P Global, Haver Analytics, KKR Global Macro & Asset Allocation.

Labor dynamics further reinforce this opportunity, in our view. India's current wage levels are broadly comparable to China's roughly twenty years ago (*Exhibit 28*), while its human capital pipeline continues to deepen. The number of students in higher education is expected to double over the next decade, which should improve skill depth and support movement up the value chain (*Exhibit 29*).

These domestic fundamentals also intersect meaningfully with global supply-chain reconfiguration. As multinational firms pursue 'China+1' strategies to diversify production and reduce concentration risk, India is increasingly well positioned to capture incremental investment. We are already seeing traction in more value-added industries such as pharmaceuticals, electronics, and specialty manufacturing, where scale, talent, and domestic demand can matter as much as labor cost differentials.

**Exhibit 28:** India's Current Wages Are Comparable to China's 20 Years Ago

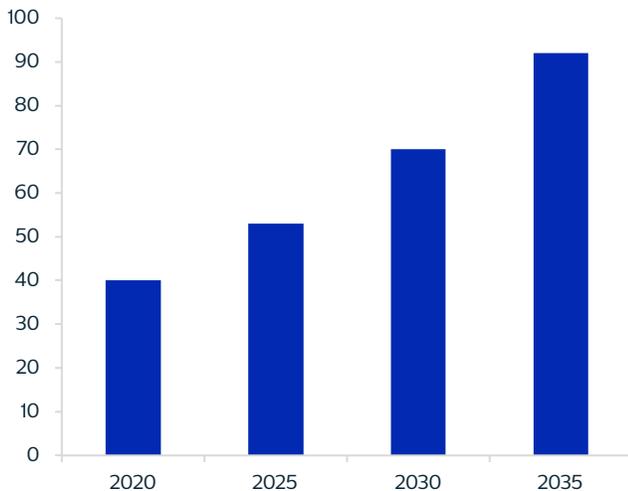
### Average Monthly Manufacturing Wages, US\$



Data as at August 31, 2024. Source: ILO, UBS.

**Exhibit 29:** The Number of Indian Students in Higher Education Will Double Over the Next Decade

### India Students Enrolled in Higher Education in Millions



Data as at March 31, 2024. Source: Statista, India Brand Equity Foundation.

To be sure, we do not think India is on the cusp of an overnight capex boom that will drive a manufacturing renaissance. However, what we do see is a gradual, uneven, but directionally constructive recovery taking shape. The key signposts we are watching are capacity utilization, the pace of private-sector capex announcements, and access to appropriately structured financing that can support longer-dated investment without creating fragility. If incremental investment translates into higher productivity, improved margins, and greater operating resilience, the cycle can begin to sustain itself. If not, it risks stalling before it reaches critical mass. From a public policy perspective, however, we think the government's continued investment in critical infrastructure should ultimately be rewarded by 'crowding in' private capital and broadening the base of economic growth over time.

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## SECTION III

# Conclusion

Despite what we acknowledge are legitimate near-term headline risks around AI substitution within its traditional IT services sector, my time on the ground this trip again reinforced a simple point: India's growth model remains somewhat unique in that it is increasingly consumption-led, while GDP-per-capita still appears to have meaningful room to accelerate.

We also see long-term upside in the economy's services industry, especially healthcare, finance, education, and leisure. These sectors represent important growth drivers that we believe can potentially more than offset any near-term drag from slower growth in IT services. Importantly, we have also been encouraged by what we heard coming out of the 2026 AI Summit in Delhi held just after our visit.

From a cyclical standpoint, the 'good' news in 2026 we think is that we are probably at an interesting entry point. Indeed, sentiment is notably cautious, likely reflecting recent equity underperformance and AI-related concerns, yet capital markets are deeper, the consumption upgrade continues to skew towards higher-value services, and the long-missing investment cycle appears to be progressing, albeit unevenly and more gradually than many would like. As a result, we believe the market may be underappreciating some of these longer-duration dynamics.

If our thinking is correct, the opportunity for patient, long-term investors could be significant. Indeed, for investors with sector expertise, local insight, and the ability to structure through complexity, the opportunity to buy businesses at below-market multiples and make them better in a structurally higher nominal GDP environment is one of the more compelling opportunities we see across the global capital markets.

In terms of signposts where we would like to see more clarity and improvement, we think the country needs to define and refine its message around its role in the AI revolution, accelerate initiatives in agriculture to build scale, broaden urbanization trends in Tier II cities, and improve ambiguity for business operators across different states. We also think that India's capital markets should introduce new products that allow companies to choose an alternative that may lie between common equity and traditional corporate debt.

Our bottom line: India may not be a perfect story, but our recent trip reminds us again that it is one of the best for long-term investors focused on compounding their capital.

We also see long-term upside in the economy's services industry, especially healthcare, finance, education, and leisure. These sectors represent important growth drivers that we believe can potentially more than offset any near-term drag from slower growth in IT services.

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