

IIP India

IIP begins the upmove but likely to remain sub-5% till April

Index of Industrial Production (IIP) for January at 3.7% vs. 2.5% in Dec (revised) is in line with our view that the headline number bottomed out in Dec'10. However, we also need to appreciate the huge base effect – a 'statistical mirage' - that has been pulling down the number, especially some of the components like Capital Goods. Capital goods in Jan'10 had grown by 85% YoY (!), and that explains the negative growth rate in Jan'11. The headline Y-o-Y number is likely to remain subdued until April'11. With inflationary expectations remaining high despite the likely moderation (February estimate at 7.7%), the RBI may choose to continue with the 'baby-steps' of 25bps tightening on 17 March policy review.

Third consecutive month of sub-4% growth: The index of industrial production grew at 3.7% YoY in Jan'11 as against 1.6% in Dec'10. The manufacturing sector, which constitutes ~80% of the IIP, rose by 3.3% against 2% in the previous month. The 3-month average of IIP declined further to 3.3% in January from 5.8% in the previous month.

Core infrastructure sector growth at 7.1%: The core infrastructure sector growth has recovered over the last few months to 7.1% in Jan'11 as against 6.1% in Dec'10. This uptick in growth was driven mainly by sharp impressive growth in crude oil and electricity sector. Coal sector remains a drag on growth with YTD growth of 0.8% YoY in FY11 as against 8% YoY in FY10.

Capital goods sector de-growth continues: The capital goods sector (weight 9.2%) fell by 18.6% YoY in Jan'11 on top of a 9.3% decline in the previous month. The sector has remained volatile over the fiscal, growing at an average of 17.8% YoY this fiscal. This de-growth can be partially explained by the higher base from last year. The sector had grown by 85% in Jan'10. Some of the important items responsible for the current month's negative growth in the capital goods include 'Ship building and repair' (-55.5%), 'Material handling equipment' (-44.7%), and 'Insulated cables/wires' (-41.6%).

Consumer non-durables at 15-month high: Even withstanding the persistently high inflation, consumer non-durables growth reached a 15-month high of 6.9% YoY in January as against a de-growth of 1.5% in December. This augers well for private consumption on the demand side of GDP and our hypothesis of consumption led growth. However, here again, we need to highlight that the sector had a strong favourable base. The sector had actually seen a contraction of 3.4% in Jan'10.

RBI to continue its 'baby-steps' policy: The RBI meets next week for monetary policy review. Our base case remains the continuation of 'baby-steps' of 25bps tightening – total of 100bps through 2011. The need for a more aggressive tightening seems to have diminished now, with inflation seen inching down due to the high base of FY11 as well as the lagged impact of previous seven rounds of monetary tightening (by total 175bps) since Oct'09, assuming of course that the current level of crude is unsustainable. Our estimate of headline inflation for February (data due on Monday) is at 7.7% YoY.

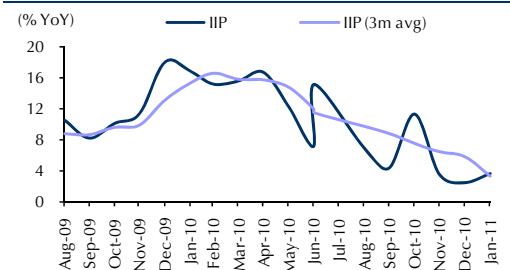
FY11 GDP growth at 8.5%: The impact of the good *rabi* crop will be partially visible in Q4 agriculture growth numbers. Harvest arrivals into markets are already improving supplies and sentiments, depressing food inflation. The fallout of unrest in MENA and the consequent implications for crude remains the key risk to growth, while many of the concerns over domestic factors are gradually receding.

Index of Industrial Production

Particulars (% YoY)	FY11		%MoM Jan
	Jan	Dec	
Sectoral classification			
Mining	1.6	5.7	(0.3)
Manufacturing	3.3	2.0	0.4
Electricity	10.5	6.0	6.6
General	3.7	2.5	0.8
Use-based classification			
Basic Goods	7.6	6.0	4.0
Capital Goods	(18.6)	(9.3)	(8.6)
Intermediate Goods	7.9	6.6	(0.2)
Consumer Goods	11.3	3.7	4.0
Consumer Durables	23.3	18.8	7.8
Consumer Non-durables	6.9	(1.5)	2.5

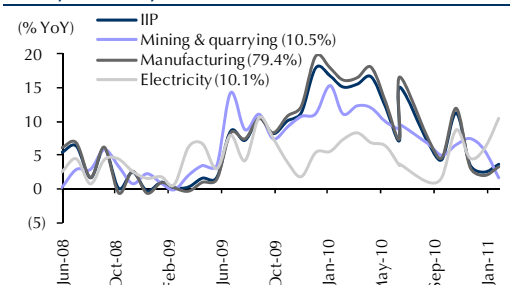
Source: MOSPI, Govt, RCML Research

Index of Industrial Production (% YoY)



Source: MOSPI, Govt, RCML Research

IIP by industry sector



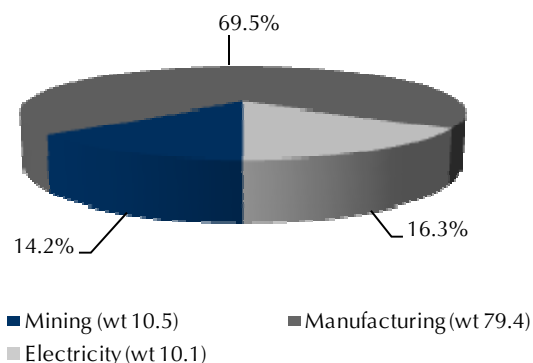
Source: MOSPI, Govt, RCML Research

In the interest of timeliness this report has not been edited.



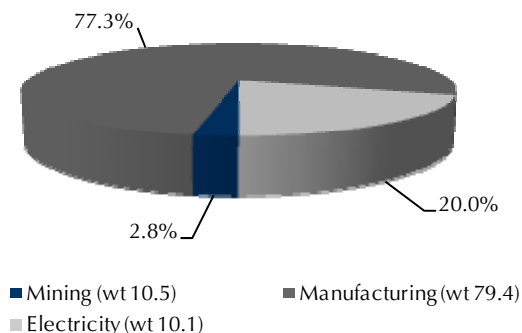
Component contribution analysis

Fig 1 - Sectoral contribution to IIP growth (December)



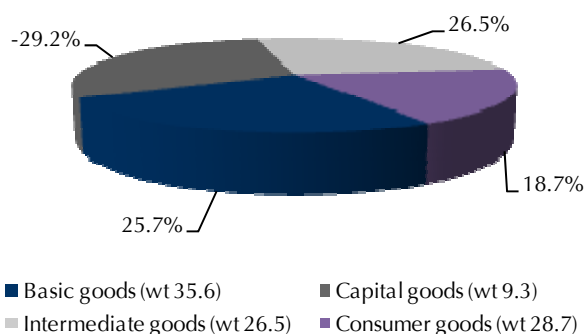
Source: MOSPI, GoI, RCML Research

Fig 2 - Sectoral contribution to IIP growth (January)



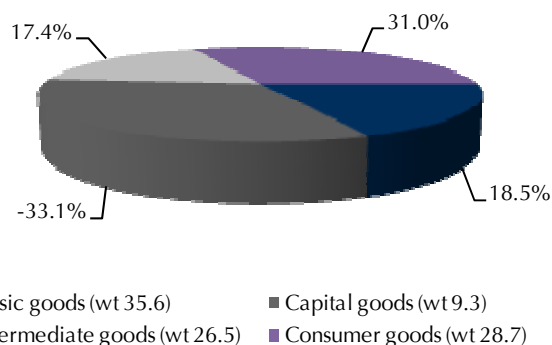
Source: MOSPI, GoI, RCML Research

Fig 3 - Use-based component contribution to IIP (December)



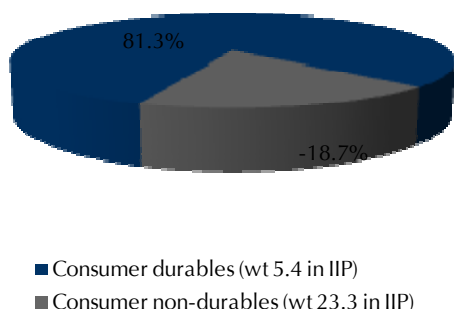
Source: MOSPI, GoI, RCML Research

Fig 4 - Use-based component contribution to IIP (January)



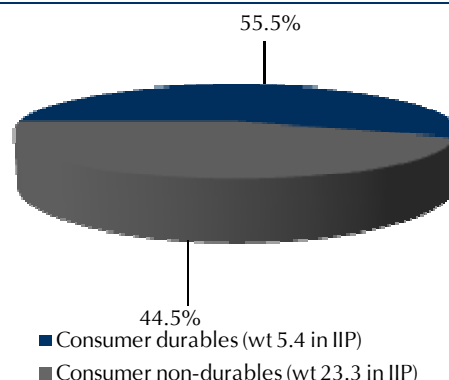
Source: MOSPI, GoI, RCML Research

Fig 5 - Contribution to consumer goods growth (December)



Source: MOSPI, GoI, RCML Research

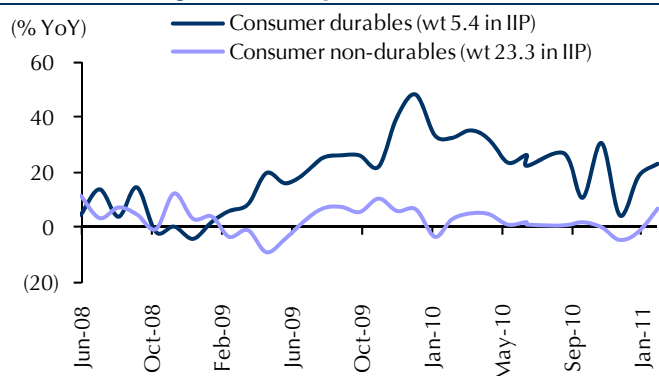
Fig 6 - Contribution to consumer goods growth (January)



Source: MOSPI, GoI, RCML Research

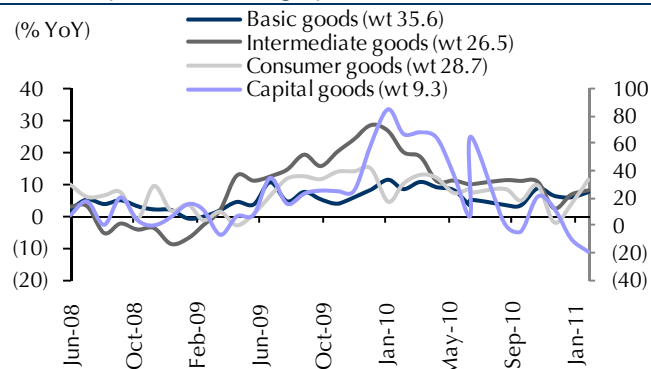


Fig 7 - Consumer goods break-up



Source: MOSPI, Gol, RCML Research

Fig 8 - IIP by use-based category



Source: MOSPI, Gol, RCML Research

Fig 9 - Manufacturing sector growth

(% YoY)	Weight (%)	Jan'11	Apr-Jan'11
Food Products	9.1	7.9	11.6
Beverages, Tobacco and Related Products	2.4	0.2	(2.7)
Cotton Textiles	5.5	10.9	10.8
Wool, Silk and man-made fibre textiles	2.3	5.1	0.1
Jute and other vegetable fibre Textiles	0.6	772.6	19.8
Textile Products	2.5	11.4	4.3
Wood and Wood Products	2.7	(22.2)	(14.6)
Paper & Paper Products	2.7	12.1	8.5
Leather and Leather Products	1.1	27.0	13.1
Basic Chemicals & Chemical Products	14.0	4.6	2.2
Rubber, Plastic, Petroleum and Coal Products	5.7	11.2	11.0
Non-Metallic Mineral Products	4.4	3.2	6.1
Basic Metal and Alloy Industries	7.5	12.5	9.4
Metal Products and Parts	2.8	(34.4)	13.1
Machinery and Equipment	9.6	(6.8)	10.8
Transport Equipment and Parts	4.0	1.9	21.7
Other Manufacturing Industries	2.6	39.0	23.7
IIP: Manufacturing	79.4	3.3	8.3

Source: MOSPI, Gol, RCML Research



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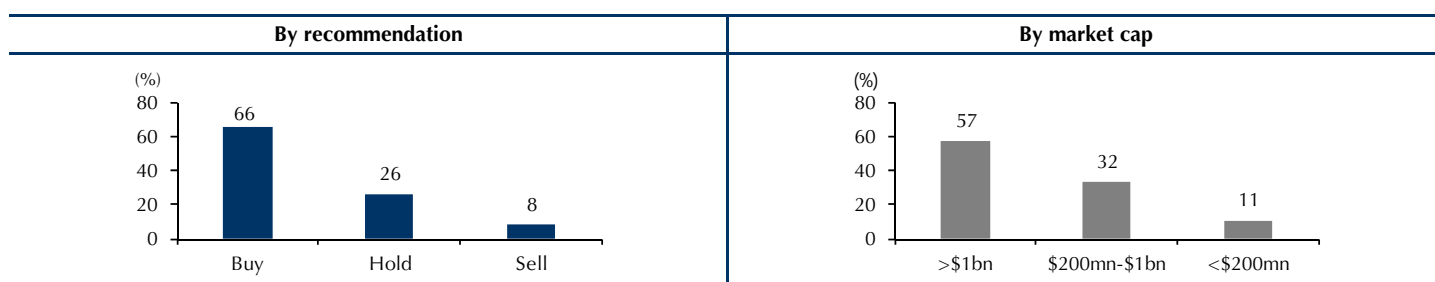
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Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
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Recommendation structure changed with effect from March 1, 2009

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