

IIP | MONTHLY



OUR REPORTS

Fundamental

Company Report
Sector Report
Theme Based Report

Daily & Weekly

Fundamental Market Update
Technical Market Update
Derivative Market Update
Currency Report
Debt Mutual Fund Report

Monthly

India Strategy Report
IIP Report
Auto Sector Update
Cement Sector Update
Metal Sector Update
Telecom Sector Update
Insurance and Mutual Fund Report
Inflation Report
Exports-Imports Report

Quarterly

India and Global Strategy Report
India Economy Report
Company Result Expectation
Company Result Analysis

Others

Event Based Report
RBI Monetary Review Report
Annual Budget Expectation Report
Annual Budget Review Report

September 12, 2011

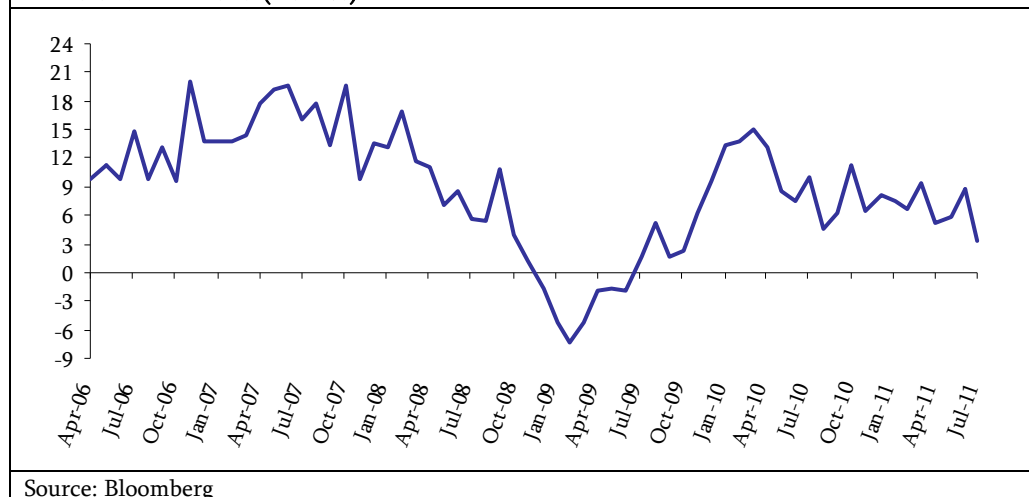
Sutapa Roy
E-mail: s-roy@microsec.in

The Index of Industrial Production grew by 3.3 percent in July 2011 from a year earlier, after increasing by 8.8 percent in June 2011.

India's Industrial Production grew at a slower than expected rate in July 2011, mainly due to the fall in Capital Goods Production and also because of the high base of last year. As per the new index, with 2004-05 as base, July 2011, Industrial Production increased by 3.3 percent from a year earlier - the slowest in 21-months, after growing by 8.8 percent last month. The Index of Industrial Production (IIP) decreased to 166.6 during July 2011 from a revised 170.4 in June 2011. On a sequential basis, IIP declined by 2.2 percent in July, following a 2.8 percent raise in the previous month. During the first four months (April-July) of this fiscal, IIP growth stood at 5.8 percent against 9.7 percent in the corresponding period of last year. However, Consumer Durables and Basic Goods sector provided some comfort as both the sectors registered an up tick in growth.

Policy Outlook: Today's moderation in IIP growth number was to a larger extent driven by the moderation in volatile Capital Goods as well as Manufacturing sectors as the effects of the ongoing monetary tightening, high level of inflation, tight capacity are being taken place. Despite that, sectors like Consumer Durables and Basic Goods registered strong numbers, which means final demand is still remain stable. So, while this much lower than expected IIP growth number is a matter of concern for the Reserve Bank of India (RBI) but inflation continues to be bigger worry. Thus, we cannot rule out a final quarter of a percentage point rate hike at the next monetary policy meeting scheduled for September 16, 2011.

Exhibit 1: IIP Trend (YoY %)



Manufacturing Sector grew by 2.3 percent in July 2011 from a year earlier, after growing by 10.3 percent in June 2011.

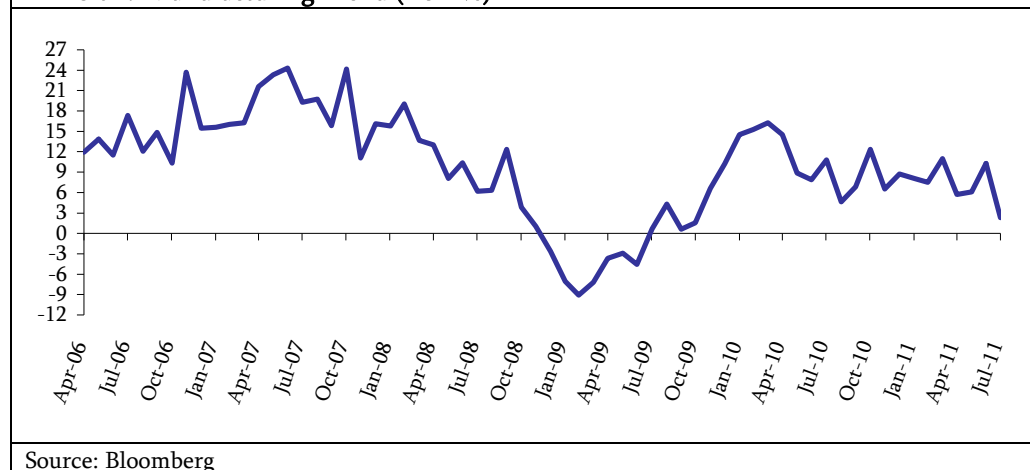
Manufacturing Sector

Production of the Manufacturing Sector, which accounts 75.5 percent in the new IIP index, grew at a rate of 2.3 percent in July 2011 from a year earlier, after increasing by 10.3 percent last month. This was on the back of negative growth in electrical machinery & apparatus (-46 percent YoY against +89.5 percent in June), medical precision and optical instruments (-12.5 percent YoY) sectors. The index of Manufacturing Sector decreased to 176.0 from 182.6 in the previous month. On monthly basis, Manufacturing production declined by 3.6 percent in July, after increasing by 4.8 percent in the previous month. The

overall growth of Manufacturing Sector for April – July FY2011-12 was 6.0 percent against 10.5 percent in the corresponding period of FY2010-11.

Pointing towards the weak Manufacturing activity, India's purchasing managers' index grew at the slowest pace in 29 months. PMI decreased from 53.6 in July 2011 to 52.6 in August 2011, its lowest since a sub-50 reading in March 2009. A reading above 50 means activity expanded during the month.

Exhibit 2: Manufacturing Trend (YoY %)



Mining Sector

Showing some sign of improvement, Mining Sector, which accounts 14.15 percent of new IIP series, grew by 2.8 percent in July 2011 from a year earlier against a decline of 1.1 percent registered in the previous month. The index for Mining Sector increased to 126.7 from 123.9 in June 2011. On MoM basis, production of Mining sector increased by 2.3 percent, after declining by 4.9 percent in the previous month. The overall growth of Mining Sector for April – July FY2011-12 was just 1.1 percent against 8.2 percent in the corresponding period of FY2010-11.

Consumer Goods Sector

In the month of July 2011, production of Consumer Goods Sector increased by 6.2 percent from a year earlier against a growth of 2.3 percent in the previous month - led by strong growth in Consumer Durables sector. The index for Consumer Goods Sector increased to 181.8 from 177.7 in the previous month, registering MoM increase of 2.3 percent. The overall growth of Consumer Goods Sector for April – July FY2011-12 was 4.6 percent against 10.0 percent in the corresponding period of FY2010-11.

Consumer Durables sector grew at a faster rate of 8.6 percent YoY in July this year vis-à-vis 1.5 percent in June 2011. The index for Consumer Durables Sector increased to 303.5 from 281.4 in the previous month, showing MoM growth of 7.9 percent.

On YoY Basis, Consumer Durables Sector grew by 8.6 percent in July 2011 against 1.5 percent growth registered in the previous month.

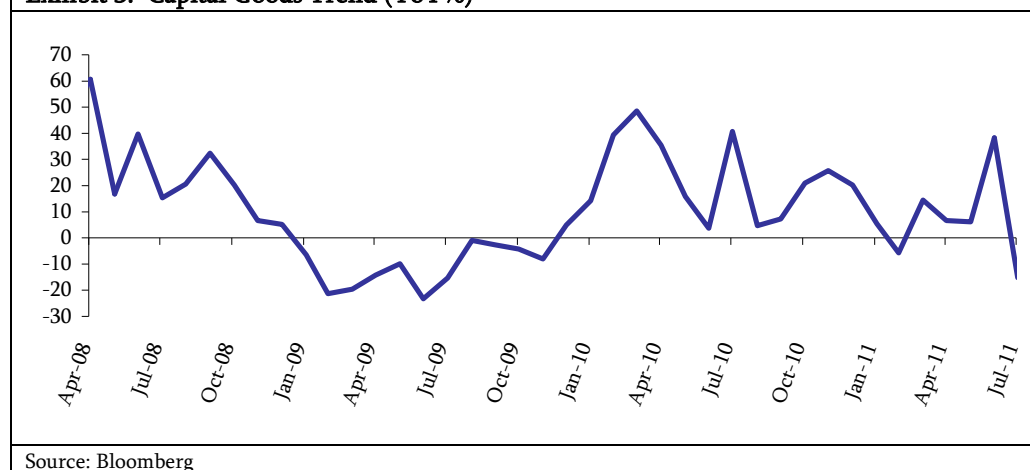
Production in Consumer Non-Durables Sector grew by 4.1 percent in July 2011 from a year earlier, after increasing by 3.0 percent in the month of June 2011. However, the index for Consumer Non-Durables Sector decreased to 133.5 from 136.6 in the previous month, registering MoM decline of 2.3 percent.

Capital Goods Sector

On YoY Basis, production of Capital Goods sector declined by 15.2 percent in July 2011, after registering a growth of 38.2 percent in June 2011.

Showing its trademark volatility, production of Capital Goods Sector which includes everything from heavy machinery to cabling, registered a decline of 15.2 percent in July 2011 from a year earlier, after increasing by 38.2 percent in the previous month. Some of this fall was also a result of high base in the previous year (+40.7 percent YoY). The index for Capital Goods Sector decreased to 244.2 from 323.9 in June 2011, showing a MoM decline of 24.6 percent. The contraction in Capital Goods sector was contributed by some key items showing negative growth - Cable, Rubber-Insulated (-64.9 percent YoY), Cement Machinery (-62.8 percent YoY) and UPS/Inverter/Converter (-55.9 percent YoY). However, some important elements of Capital Goods sector also showed significant positive growth - Computers (+47.1 percent YoY), Textile Machinery (+36.0 percent YoY), Ship Building & Repairs (+34.9 percent YoY), machine tools (+31.6 percent YoY), tractors (+24.6 percent YoY) and commercial vehicles (+21.8 percent YoY). The overall growth of Capital Goods Sector for April – July FY2011-12 was 7.6 percent against 23.1 percent in the corresponding period of FY2010-11.

Exhibit 3: Capital Goods Trend (YoY%)



Basic Goods Sector

Production growth of the Basic Goods Sector remained steady. The sector posted a growth of 10.1 percent YoY for the month of July 2011 against a growth of 7.5 percent in June 2011. The index for Basic Goods Sector increased to 149.2 from 145.5 in the previous month, posting MoM growth of 2.5 percent. The overall growth of Basic Goods Sector for April – July FY2011-12 was 7.9 percent against 5.2 percent in the corresponding period of FY2010-11.

Intermediate Goods Sector

Production in Intermediate Goods Sector fell by 1.1 percent in the month of July 2011 against 0.6 percent growth registered in June 2011. However, the index for Intermediate Goods Sector actually increased to 144.7 against 142.7 in the previous month, showing MoM growth of 1.4 percent. The overall growth of Intermediate Goods Sector for April – July FY2011-12 was 0.8 percent against 10.1 percent in the corresponding period of FY2010-11.

Exhibit4: IIP INDEX

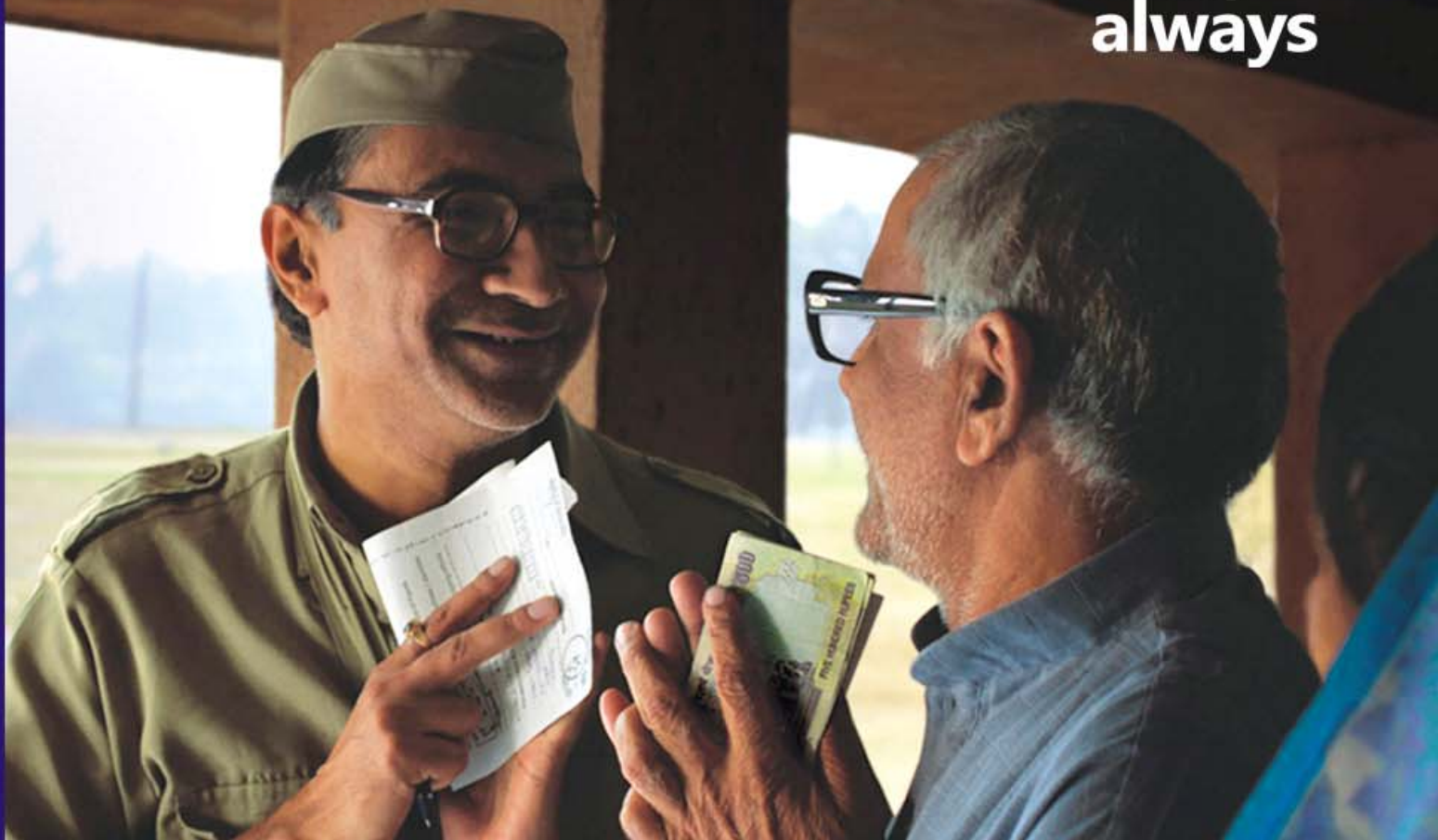
| Particulars | Jul-11 | | Jun-11 | | FYTD 2011-12 | FYTD 2010-11 |
|-----------------------|--------|--------|--------|--------|--------------|--------------|
| | Index | YoY(%) | Index | YoY(%) | YoY (%) | YoY (%) |
| Industrial Production | 166.6 | 3.3 | 170.4 | 8.8 | 5.8 | 9.7 |
| Manufacturing | 176.0 | 2.3 | 182.6 | 10.3 | 6.0 | 10.5 |
| Mining | 126.7 | 2.8 | 123.9 | -1.1 | 1.1 | 8.2 |
| Basic Goods | 149.2 | 10.1 | 145.5 | 7.5 | 7.9 | 5.2 |
| Intermediate Goods | 144.7 | -1.1 | 142.7 | 0.6 | 0.8 | 10.1 |
| Consumer Durables | 303.5 | 8.6 | 281.4 | 1.5 | 4.2 | 18.4 |
| Consumer Non Durables | 133.5 | 4.1 | 136.6 | 3.0 | 4.9 | 3.8 |
| Capital Goods | 244.2 | -15.2 | 323.9 | 38.2 | 7.6 | 23.1 |

Source: Bloomberg

- Investment Banking
- Equity, Commodity & Currency Broking
- Wealth Management
- Insurance Broking
- Club Kautilya
- prpsolutions.com



accountable... answerable, always



Kolkata

Investment Banking
Azimganj House, 2nd Floor,
7, Camac Street, Kolkata- 700 017, India
Tel.: 91 33 2282 9330, Fax: 91 33 2282 933

Brokerage and Wealth Management
Shivam Chambers, 1st Floor,
53, Syed Amir Ali Avenue, Kolkata- 700 019, India
Tel.: 91 33 3051 2100, Fax: 91 33 3051 20205

Mumbai

42A & 74A, Mittal Tower,
4th & 7th floor 210, Nariman Point,
Mumbai- 400 021, India
Tel.: 91 22 2285 5544, Fax: 91 22 2285 5548

New Delhi

417, World Trade Centre, 4th Floor, Babar Road,
Connaught Place, New Delhi- 110 001, India
Tel.: 91 11 4152 8152



E-mail: info@microsec.in Website: www.microsec.in

Disclaimer

The investments discussed or recommended in this report may not be suitable for all investors. Investors should use this research as one input into formulating an investment opinion. Additional inputs should include, but are not limited to, the review of other. This is not an offer (or solicitation of an offer) to buy/sell the securities/instruments mentioned or an official confirmation. Microsec Capital Limited is not responsible for any error or inaccuracy or for any losses suffered on account of information contained in this report. This report does not purport to be offer for purchase and sale of share/ units. We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation discussed herein or act as advisor or lender or borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Microsec Capital Limited' prior written consent.