

**INDIA**

**India Economics**

**Feb Industrial Production – Growth remains strong up 11%; it could result in one last policy hike**

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**Industrial Production Growth — Forecasts and Actual (Percent)**

Event	Actual	Citigroup Forecast	Consensus	Previous Data (Jan)	Previous Data (Dec)
Feb Industrial Production	11.0	11.3	11.2	11.4	12.5

Source: CSO, Bloomberg, and Citigroup\* Jan Data revised up from 10.9% to 11.4%yoy

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Note Released: 12-Apr-07

- **Feb Industrial production – in line with expectations:** Industrial production rose 11% in Feb with growth led by manufacturing, up 12%; mining up 6.3%; and electricity came in surprisingly lower at 3.3% as compared with an average of 7%+ in the past few months. Other highlights include strong growth in capital goods (18.2%), basic (10.4%) and intermediate goods (13.7%). Consumer non-durables remained buoyant at 9.7%, but growth in durables came in at 1.6% - partially attributed to the base effect. Overall industrial growth during Apr-Feb was 11% and bodes well for the government's 9.2% GDP estimate for FY07.
- **So will the RBI hike in or around its April 24 Policy?** Although we expect inflation to trend below 6% from the week ending Mar 30 (data due tomorrow), we think there is a 50:50 chance that the RBI will hike its policy rates once more given that inflation is likely to remain over its target range of 5%-5.5% till the week ending May 5. Further, the RBI remains concerned on trends in money supply (22%) and bank credit (29%). While we expect policy rates to peak shortly, we maintain that the RBI will continue to use the CRR to keep liquidity tight, but could lower SLR in 2H07 to ensure credit availability for the real sector.
- **Maintaining our macro forecasts:** The near-term outlook is a bit clouded given the RBI's recent tightening measures coupled with the government's semi-regressive measures to dampen inflationary expectations (price controls and export bans on commodities such as cement, steel, iron-ore, etc). However, given the continuation of the key economic growth drivers coupled with the uptrend in both savings and investment both touching new highs of 32.4% and 33.8% of GDP, respectively, we expect GDP growth to sustain around the 9% level for FY08. Key risks would be politics and much further tightening.

**KEY DATA REVISIONS**

Jan IIP revised upward from  
10.9% to 11.4%

Key revisions in Jan include:

Manf from 11.6% to 12.1%

Mining from 6% to 7.2%

Capital Goods from 8.6% to  
16.6%

Consumer Goods- from  
9.9% to 8.4%

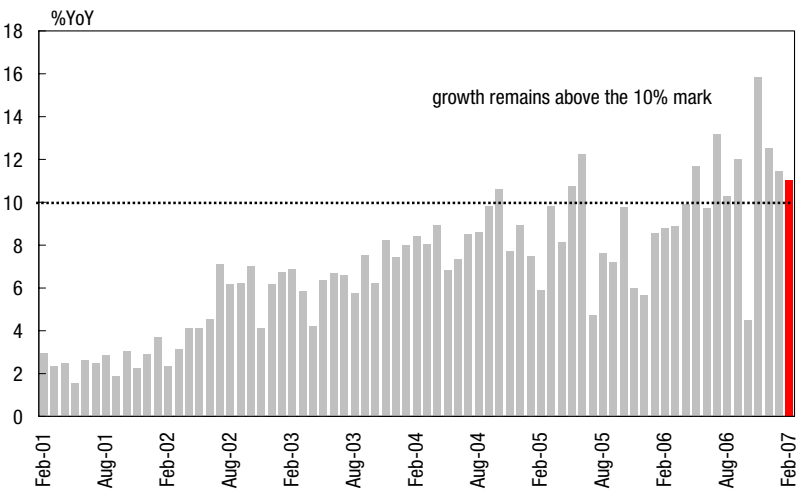
**Trends in Industrial Production (% YoY)**

	WTS							Feb-06	Apr-Feb FY07	Apr-Feb FY06
	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07				
<b>Sectoral Classification</b>										
Mining	10.5	4.3	5.9	8.8	5.9	7.2	6.3	3.8	4.9	0.9
Manufacturing	79.3	12.7	3.8	17.2	13.4	12.1	12.3	9.2	12.1	9.1
Electricity	10.2	11.3	9.7	8.7	9.3	8.3	3.3	9.1	7.2	5.3
<b>General</b>	<b>100</b>	<b>12.0</b>	<b>4.5</b>	<b>15.8</b>	<b>12.5</b>	<b>11.4</b>	<b>11.0</b>	<b>8.8</b>	<b>11.1</b>	<b>8.1</b>
<b>Use-based Classification</b>										
Basic goods	35.5	11.5	10.5	12.1	12.3	11.8	10.4	9.6	10.1	6.5
Capital goods	9.7	9.5	6.5	29.4	20.9	16.6	18.2	10.7	17.8	16.3
Intermediate gds	26.4	13.8	5.9	17.9	12.2	13.0	13.7	2.2	11.6	2.4
Consumer gds	28.4	12.1	-2.8	13.5	10.2	8.4	7.6	12.5	9.5	12.0
Durables	5.1	11.8	0.2	10.1	3.1	5.3	1.6	20.3	9.8	14.7
Non-durables	23.3	12.2	-4.1	14.8	12.4	9.5	9.7	10.1	9.4	11.1

Source: CSO

**Charting Trends in Industrial Production**
**Industrial Production – Double-Digit Growth Continues**

- Industrial Production in February was up 11%yoy, in line with expectations. On a cumulative basis, growth during Apr-Feb was up 11.1% as compared with 8.1% seen during the same period last year.
- Similar to previous trends, the Feb industrial production numbers would help the government achieve its 9.2% GDP target for FY07. We expect a 50:50 chance of one more policy rate hike this year.

**Trends in Industrial Production (%YoY)**

**Sectoral Trends – Cement, Autos Drive Growth**

- While growth in autos has been strong so far, our autos analyst expects trends across the sector to moderate on the back of rising interest rates, intense competition and a challenging cost environment.
- With regard to cement production, demand-supply dynamics remain favorable; however, our analyst believes that repeated government measures to control pricing could impact sector profitability.

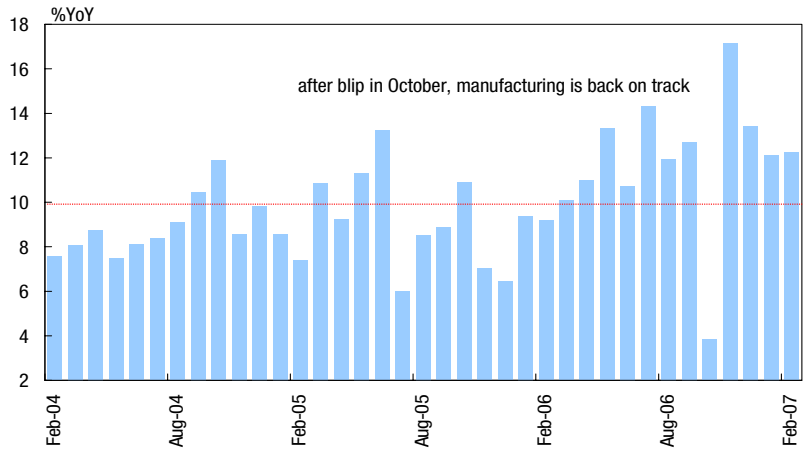
**Sectoral Trends (%YoY)**

	Sept-06	Oct-06	Nov-06	Dec-06	Jan07	Feb07	Apr-Feb FY06	Apr-Feb FY07
CV sales	33.1	22.6	44.3	42.9	33.6	22.3	11.4	37.8
Two-wheelers sales	19.1	10.3	14.5	6.9	10.9	4.7	15.0	13.3
Car Sales	19.8	15.9	25.8	25.7	24.2	37.2	5.5	23.1
Cement Dispatches	17.9	8.3	13.5	8.1	8.0	5.9	11.0	9.9
Diesel consumption	15.0	3.5	10.8	7.0	8.2	NA	2.2	7.0
Infrastructure index	9.7	9.8	9.5	8.5	8.2	7.2	6.1	8.3
<b>Overall IP</b>	<b>12.0</b>	<b>4.5</b>	<b>15.8</b>	<b>12.5</b>	<b>11.4</b>	<b>11.0</b>	<b>8.1</b>	<b>11.1</b>

**Intermediate Goods- Uptrend Continues**

- Manufacturing continues to post double-digit growth after the blip seen in October (which was due to the festival impact). Growth in Feb was up 12.3%; while on a cumulative basis, growth during Apr-Feb was up 12.1% vs. 9.1%yoy during the same period last year.
- On a sectoral basis, growth was led by basic metals and alloys (+27.4%), cotton textiles (+16.1%), and wool/silk textiles (15%); and rubber/plastic petroleum and coal products (+12.2%).

**Trends in Manufacturing (%YoY)**

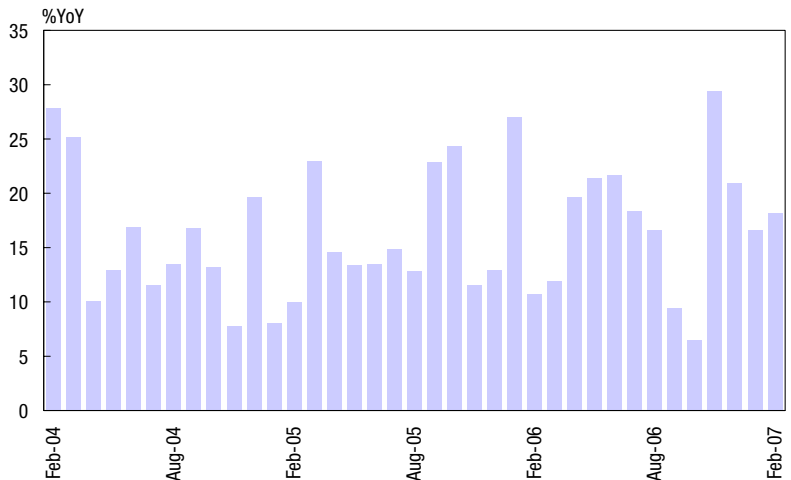


Source: NCAER, CSO, Citigroup, SIAM, Oil and Gas Monitor

**Capital Goods – Buoyancy continues**

- Capital goods continue to post strong numbers. With growth in Feb coming in at 18.2%, trends have remained well above the double-digit range since Oct06. On a cumulative basis, growth during Apr-Feb came in at 10.1% vs. 6.5% seen during the same period last year.
- Looking ahead, a capex surge and thrust on infrastructure development should lead to sustained growth in the index.

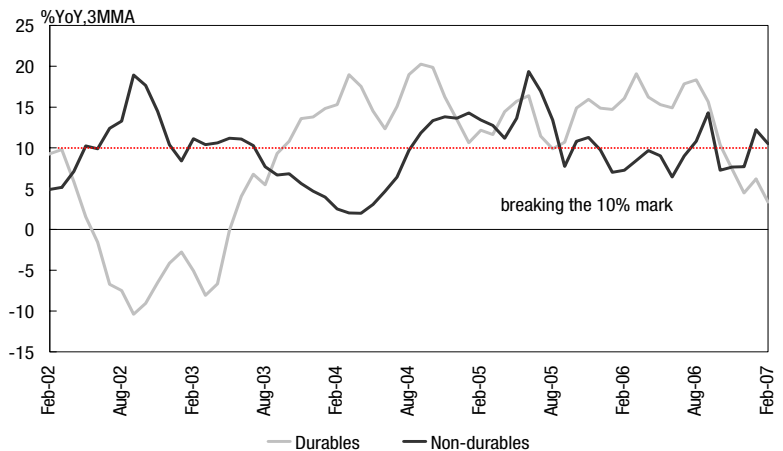
**Trends in Capital Goods Production (% YoY)**



**Consumer Goods – Durables see erratic trends**

- Overall growth in consumer goods came in at 7.6% with non-durables coming in at 9.7% while durables came in at 1.6%.
- Growth in durables which includes two-wheelers, bicycles, passenger cars, tyres, etc has been erratic in the current fiscal year. This month's dip to 1.6% can partially be explained by the high base last year (20.3% in Feb06).
- However, trends in consumer Non-Durables (such as tea, sugar, wheat, cigarettes) remained healthy, up 9.7%yoy in Feb07 vs. 10.1% in Feb06.

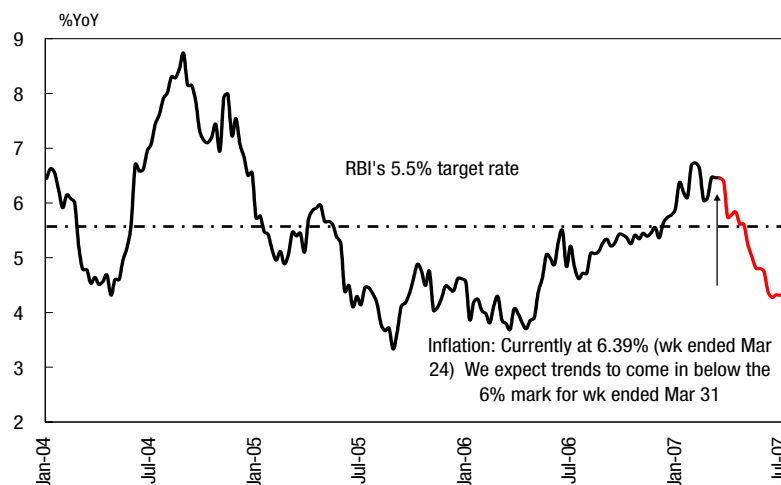
**Trends in Consumer Goods – Durables and Non-Durables (%YoY)**



### Inflation is likely to see a moderation

- Although we expect inflation to trend below 6% from the week ending Mar 30 (data due tomorrow), there is a 50:50 chance that the RBI will hike its policy rates once more given that inflation is likely to remain over its target range of 5%-5.5% till the week ending May 5.
- Further, the RBI remains concerned on trends in money supply (22%) and bank credit (29%). While we expect policy rates to peak shortly, we maintain that the RBI will continue to use the CRR to keep liquidity tight, but could lower SLR in 2H07 to ensure credit availability for the real sector.

### Likely trends in Inflation (WPI; %YoY)



Source: CSO ; Citigroup Estimates; Office of Economic Advisor

## Appendix: Manufacturing Classification – Detailed Breakdown

### Break-Up of Manufacturing (% YoY)

	Wts	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Feb06	Apr-Feb FY07	Apr-Feb FY06
<b>Manufacturing</b>	<b>79.4</b>	<b>3.8</b>	<b>17.2</b>	<b>13.4</b>	<b>12.1</b>	<b>12.3</b>	<b>9.2</b>	<b>12.1</b>	<b>9.1</b>
Food Products	9.1	-9.7	11.3	5.7	12.1	11.6	15.6	6.2	0.6
Beverages, Tobacco & Related	2.4	11.5	11.0	1.0	7.4	10.4	9.3	11.4	15.8
Cotton Textiles	5.5	10.8	18.3	18.3	22.4	16.1	11.0	14.7	9.5
Wool, Silk, Manmade fibres	2.3	0.0	18.2	9.0	11.6	15.0	13.2	8.7	0.4
Jute, Vegetable, and Fibre Textiles	0.6	-1.0	9.7	1.0	-89.2	-88.0	-6.9	-15.1	1.1
Manf of Textile Prod	2.5	9.3	16.0	3.1	4.9	8.6	10.5	10.6	18.3
Wood, Wood Products	2.7	10.6	9.3	29.3	81.5	128.9	-24.5	21.8	-5.6
Paper, Prod, Printing, Pub.	2.7	7.2	15.6	7.8	9.5	8.9	-3.6	8.7	0.8
Leather and Leather Products	1.1	-8.3	17.7	14.2	14.9	7.9	-18.0	0.9	-5.2
Basic Chemicals, Chemical Products	14.0	1.9	8.4	12.4	6.9	5.7	2.0	8.9	8.6
Rubber, Plastic, Petroleum, Coal Products	5.7	8.2	23.3	12.7	13.9	12.2	3.8	12.2	4.3
Non-Metallic Mineral Products	4.4	12.5	17.7	13.6	10.6	10.4	13.4	13.2	10.1
Basic Metal and Alloy Industries	7.5	20.8	25.4	28.9	28.7	27.4	15.1	22.8	14.9
Metal Products and Parts	2.8	25.6	-1.5	24.0	5.2	-2.2	5.4	7.7	-1.3
Machinery and Equipment	9.6	6.4	17.3	8.0	7.4	12.8	14.6	14.0	12.1
Transport Equipment and Parts	4.0	5.4	21.8	9.6	13.2	12.4	14.7	15.1	12.6
Other	2.6	-17.2	19.8	16.1	2.5	6.8	10.7	10.1	23.3
<b>Mining</b>	<b>10.5</b>	<b>5.9</b>	<b>8.8</b>	<b>5.9</b>	<b>7.2</b>	<b>6.3</b>	<b>3.8</b>	<b>4.9</b>	<b>0.9</b>
<b>Electricity</b>	<b>10.2</b>	<b>9.7</b>	<b>8.7</b>	<b>9.3</b>	<b>8.3</b>	<b>3.3</b>	<b>9.1</b>	<b>7.2</b>	<b>5.3</b>
<b>General</b>	<b>100</b>	<b>4.5</b>	<b>15.8</b>	<b>12.5</b>	<b>11.4</b>	<b>11.0</b>	<b>8.8</b>	<b>11.1</b>	<b>8.1</b>

Source: CSO

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