



## RESEARCH REPORT

# IIP | MONTHLY



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**November 13, 2013**

Sutapa Roy

E-mail: [s-roy@microsec.in](mailto:s-roy@microsec.in)

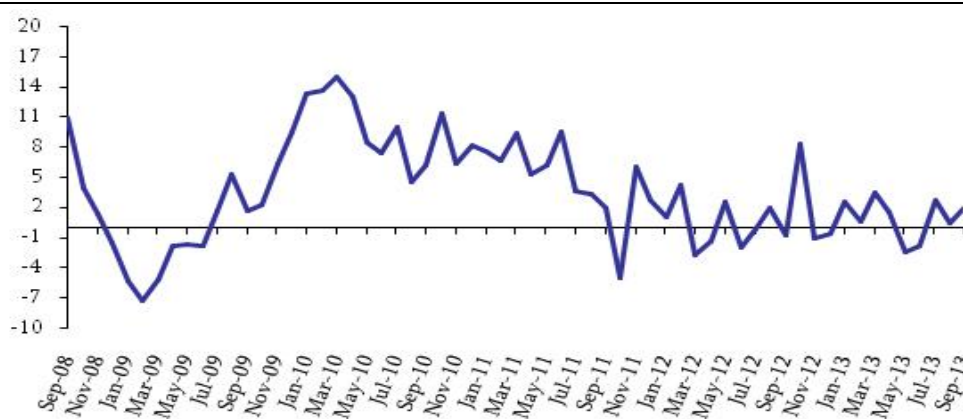
The Index of Industrial Production grew by 2.0 percent in September 2013 from a year earlier, after increasing by 0.4 percent YoY in August 2013.

Despite the festive season, encouraging Core Infrastructure growth number (contributes ~38 percent to IIP) and a lower base, India's Industrial Production growth for September 2013 came in at just 2.0 percent YoY - far weaker than consensus expectation of 3.5 percent. The main disappointment came from Capital Goods sector (-6.8 percent YoY) and Consumer Durables sector (-10.8 percent YoY). Consequently, Manufacturing posted a marginal 0.6 percent YoY growth during the month. Excluding Capital Goods sector, overall IIP growth has stood at 3.4 percent YoY during the month. However, on the flip side, some silver lining emerges with Mining, Electricity, Basic Goods and Consumer Non-durables production. After 11 months of contraction, Mining sector registered a growth of 3.3 percent YoY in September 2013. Electricity sector also registered a healthy growth of 12.9 percent YoY during the month on account of the sharp uptick in production of coal. The strength in the Core index was also visible in the Basic Goods production (5.4 percent YoY). Following robust growth in Exports, Consumer Non-durables sector (11.3 percent YoY) continued to provide support to the IIP.

In value terms, the Index of Industrial Production (IIP) increased to 166.3 in September 2013 from a revised 165.4 in August 2013, registering a sequential growth of 0.5 percent. As a result, Industrial growth stood at 0.4 percent YoY in the first 6 months (April-September) of the current financial year against 0.1 percent YoY in the corresponding period of FY2012-13.

**Outlook:** IIP growth is likely to remain lackluster in October 2013 on a high base of 8.4 percent YoY in October 2012. Also, the slowdown in growth of Electricity generation at 1.2 percent YoY in October 2013 will adversely affect overall IIP growth. On the policy front, weakness in growth and recent slowdown in Core Inflation (both WPI and CPI) make adequate grounds for Reserve Bank of India (RBI) to shift focus to support growth. Although, the uptick in overall WPI Inflation along with the stickiness of overall CPI Inflation around 10 percent level provide some discomfort but today's press briefing of RBI Governor Raghuram Rajan has reinforced our view of status quo in the next policy meeting.

**Exhibit 1: IIP Trend (YoY %)**



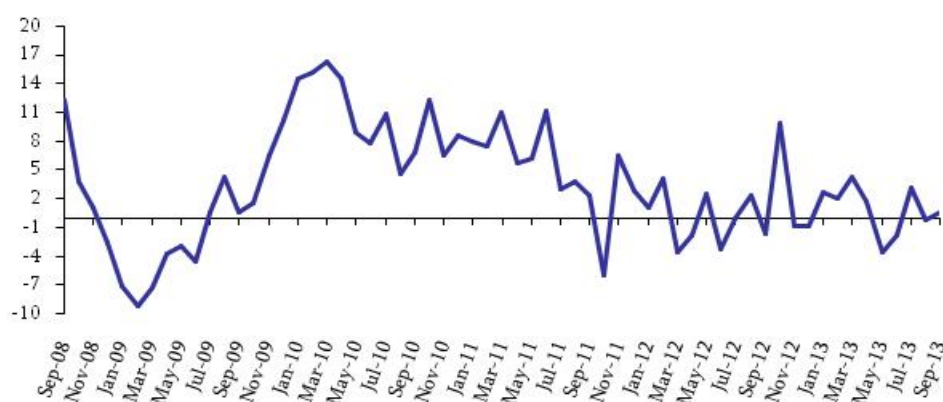
Source: Bloomberg

On YoY basis, production of Manufacturing sector increased by 0.6 percent in September 2013 against a fall of 0.2 percent registered in the previous month.

## Manufacturing Sector

Production of Manufacturing sector which accounts 75.5 percent in IIP index, grew by 0.6 percent YoY in September 2013 against a fall of 0.2 percent YoY registered in August. The Index of Manufacturing Sector increased marginally to 175.6 from 175.5 in the previous month, registering a sequential growth of 0.1 percent. In terms of industries, 13 out of the 22 industry groups in the Manufacturing sector have shown positive growth during the month of September 2013. The industry group 'Wearing apparel; dressing and dyeing of fur' has shown the highest positive growth of 29.2 percent YoY, followed by 14.9 percent YoY in 'Coke, refined petroleum products & nuclear fuel' and 11.3 percent YoY in 'Chemicals and chemical products'. On the other hand, the industry group 'Radio, TV and communication equipment & apparatus' has shown a negative growth of 25.6 percent YoY, followed by 13.0 percent YoY in 'Motor vehicles, trailers & semi-trailers' and 11.5 percent YoY in 'Office, accounting & computing machinery'.

**Exhibit 2: Manufacturing Trend (YoY%)**



Source: Bloomberg

## Mining Sector

Mining sector growth has turned positive for the first time since October 2012. During the month, production increased by 3.3 percent from a year earlier, after falling by 1.0 percent YoY in August 2013. The index increased to 114.9 in September 2013 against 113.4 in August 2013, registering MoM growth of 1.3 percent.

## Consumer Goods Sector

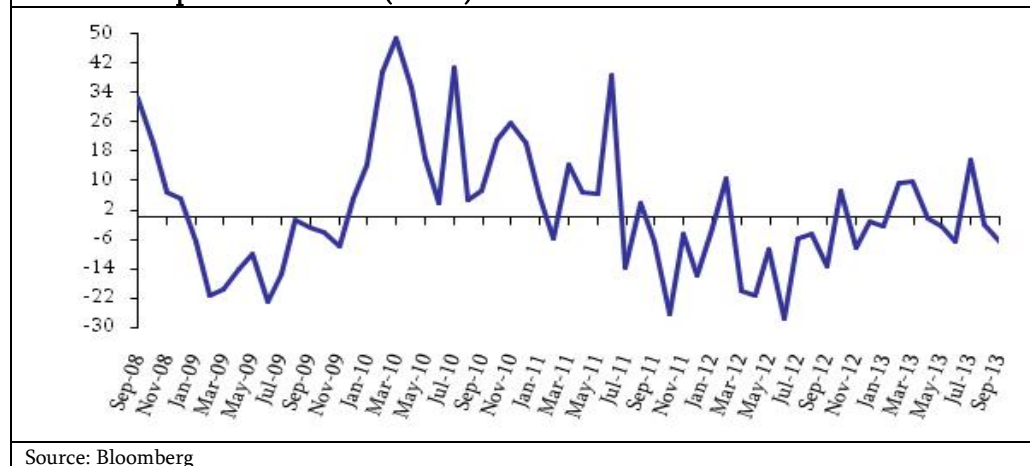
Consumer Goods sector registered a growth of 0.6 percent YoY in September 2013 compared with de-growth of 0.9 percent YoY registered in August 2013. The index for Consumer Goods Sector stood at 178.8 against 171.7 in the previous month, registering MoM growth of 4.1 percent. Following robust growth in Exports, production of Consumer Non-Durables sector increased by 11.3 percent YoY in September 2013 against 4.8 percent YoY in August. On the other hand, production of Consumer Durable sector declined for the 10<sup>th</sup> consecutive month by 10.8 percent YoY against a fall of 7.7 percent YoY registered last month.

## Capital Goods Sector

On YoY basis, production of Capital Goods sector declined by 6.8 percent in September 2013 against a fall of 2.0 percent registered in the previous month.

Capital Goods sector witnessed a de-growth of 6.8 percent YoY in September vis-à-vis -2.0 percent YoY in August 2013, on back of sharp decline in CV production and continued deceleration in Machinery & Equipment production. Machinery & Equipment production declined for the 14 consecutive months. Excluding Capital Goods sector, overall IIP growth has stood at 3.4 percent YoY during the month. During September, the Index of Capital Goods sector decreased to 231.7 from 244.9 in the previous month, registering a sequential fall of 5.4 percent.

**Exhibit 3: Capital Goods Trend (YoY%)**



**Exhibit4: IIP INDEX**

Particulars	Sep-13		Aug-13		FYTD 2013-14	FYTD 2012-13
	Index	YoY(%)	Index	YoY(%)	YoY (%)	YoY (%)
Industrial Production	166.3	2.0	165.4	0.4	0.4	0.1
Manufacturing	175.6	0.6	175.5	-0.2	0.1	-0.3
Mining	114.9	3.3	113.4	-1.0	-2.5	-1.1
Basic Goods	151.8	5.4	150.6	1.1	1.2	2.8
Intermediate Goods	147.9	4.1	151.8	3.7	2.6	1.2
Consumer Durables	271.0	-10.8	259.1	-7.7	-11.0	4.0
Consumer Non Durables	142.2	11.3	137.0	4.8	7.4	1.6
Capital Goods	231.7	-6.8	244.9	-2.0	-0.7	-14.2

Source: Bloomberg



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## 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](mailto:info@microsec.in) Website: [www.microsec.in](http://www.microsec.in)

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