



## RESEARCH REPORT

# 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

April 12, 2012

Sutapa Roy

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

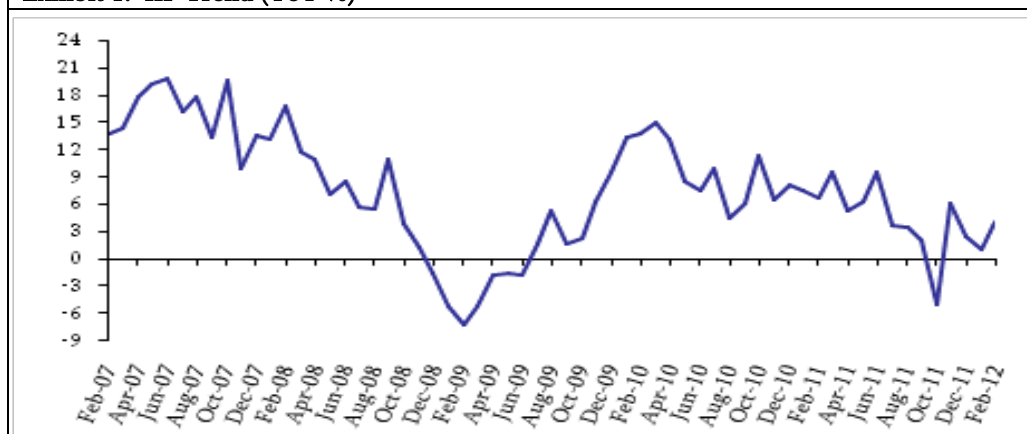
The Index of Industrial Production grew by 4.1 percent in February 2012 from a year earlier, after increasing by a revised 1.1 percent in the previous month.

Despite a lower base of last year, India's Industrial Output growth came in at 4.1 percent YoY in February, 2012, much lower than ours (6.4 percent) as well as consensus estimate (6.7 percent). However, the pace of expansion in Industrial Production was faster than a sharply revised 1.1 percent YoY growth in January 2012 against 6.8 percent YoY reported earlier. This major downward revision in January production growth was mainly on account of correction in the production data of sugar, which was wrongly taken at 13.41 million tonnes as compared to 5.81 million tonnes. As a result growth for Food Products and Beverages was revised sharply downward to 17 percent YoY against 92.6 percent YoY reported previously. Similarly, growth for Consumer Non-durables was revised downward to 11 percent YoY vis-à-vis 42.1 percent YoY reported earlier. This high degree of volatility in IIP number has reduced the credibility of IIP as a leading indicator. C Rangarajan, chairman, Prime Minister's Economic Advisory Council (PMEAC) said, "The Government is now setting up a committee to examine the index of Industrial Production. The data relating to the index of industrial production comes from several sources, is put together by the ministry and released. Therefore we really need to tighten the various sources from which the data is collected".

In value terms, for the month of February, 2012, the Index of Industrial Production (IIP) decreased to 174.9 from a revised 177.9 in January 2012, registering a sequential fall of 1.7 percent. Among the segments, Capital Goods and Consumer Durables were the only two segments that recorded sequential growth in February. On cumulative basis, during the first eleven months (April-February) of FY2011-12, IIP growth stood at 3.5 percent against 8.1 percent in the corresponding period of last year.

**Outlook:** Lower February IIP growth number as well as the huge revision in January data highlights a challenging growth environment. Going forward, IIP is expected to remain subdued as the interest rate cut from the RBI is likely to be limited in 2012, considering rising inflationary triggers. Other factors like, credit growth, investment sentiment and reform progress also remain sluggish. As far as the next Monetary Policy Meeting on April 17, 2012, is concerned, we expect the RBI will go for a 25 basis points Repo rate cut.

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



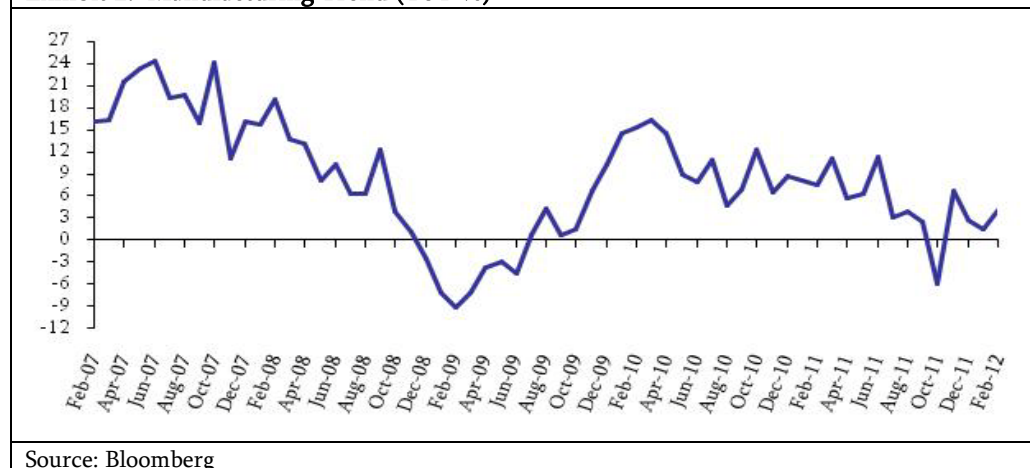
Source: Bloomberg

On YoY basis, production of Manufacturing sector increased by 4.0 percent in February, 2012 against 1.4 percent registered in the previous month.

## Manufacturing Sector

Manufacturing Sector which accounts 75.5 percent in the new IIP index, grew at a rate of 4.0 percent in February, 2012 from a year earlier, after increasing by 1.4 percent last month. The Index of Manufacturing Sector fell to 186.5 from 189.1 in the previous month, registering a sequential decline of 1.4 percent. Industry-Wise, 18 out of 22 industry groups in the Manufacturing sector reported positive growth. The industry group Publishing, Printing and Reproduction of Recorded Media has shown the highest growth of 60.1 percent YoY, followed by 52.1 percent YoY in Medical, precision & optical instruments, watches and clocks and 16.4 percent YoY in Motor vehicles, trailers & semi-trailers. On the other hand, the industry group Radio, TV and Communication Equipment and Apparatus has shown a negative growth of 15.9 percent YoY, followed by 13.5 percent YoY in Office Accounting and Computing Machinery and 9.4 percent YoY in Machinery & Equipment n.e.c. The overall growth of Manufacturing Sector for the period of April – February of FY2011-12, was 3.7 percent against 8.7 percent in the corresponding period of FY2010-11.

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



Source: Bloomberg

## Mining Sector

Mining output growth turned positive for the first time in seven months, mainly on account of lower base of last year. Mining Sector registered a growth of 2.1 percent in February, 2012 from a year earlier, against a fall of 2.4 percent registered in the previous month. The index actually decreased to 134.8 from 137.6 in January 2012, registering MoM fall of 2.0 percent. The overall growth of Mining Sector for the period of April – February of FY2011-12 was -2.1 percent against 5.8 percent in the corresponding period of FY2010-11.

## Consumer Goods Sector

Production of Consumer Goods sector declined 0.2 percent YoY in February, 2012, compared with a growth of 2.9 percent YoY in January 2012. The index for Consumer Goods Sector fell to 199.5 from 203.0 in the previous month, registering MoM fall of 1.7 percent. This fall in output was on account of continued fall in output of Consumer Durables sector, which fell 6.7 percent YoY against a decline of 7.1 percent YoY in January

On YoY basis, the production of Consumer Goods sector declined 0.2 percent YoY in February, 2012, compared with a growth of 2.9 percent YoY in January 2012.

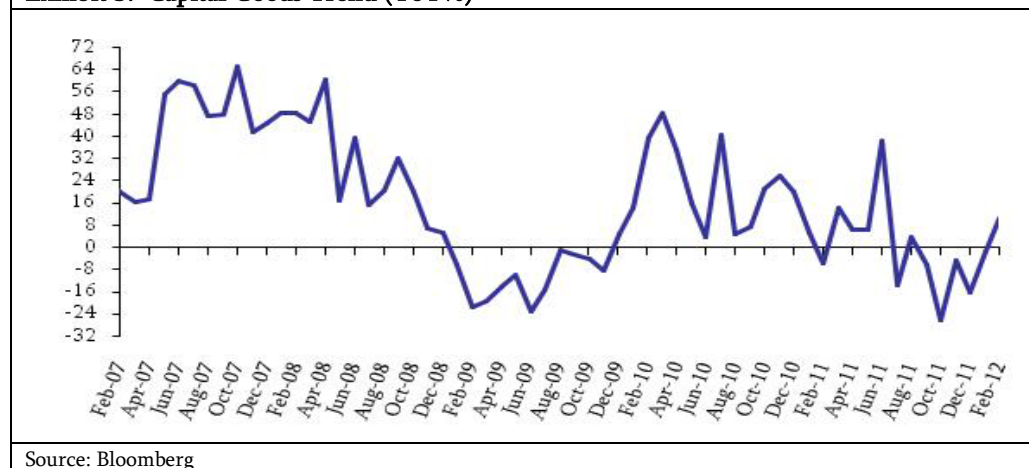
and a deceleration in growth of Consumer Non-durables output. Consumer Non-durables growth slipped to 5.1 percent YoY in February against 11 percent YoY in the previous month. Within the Consumer Goods segment, items that showed a significant fall in output were Vitamins (-47.9 percent YoY) and Cashew Kernels (-41.9 percent YoY). On the other hand, Newspapers showed high growth of 62.2 percent YoY.

### Capital Goods Sector

On YoY basis, the production of Capital Goods sector grew by 10.6 percent in February, 2012, after registering a decline of 1.7 percent in January 2012.

The Capital Goods sector, which has been suffering from a slowdown, has posted a strong growth of 10.6 percent in February, 2012 over the same month of the previous year. Role of lower base of last year also cannot be denied as February 2011 had seen a sharp drop (-5.7 percent YoY). The index for Capital Goods Sector also increased to 262.2 from 259.2 in the previous month, registering a growth of 1.2 percent on MoM basis. Some of the important items of Capital Goods have shown high positive growth during the month include Machine tools (114.2 percent YoY), Insulated cables/wires all kind (54.3 percent YoY), Heat Exchangers (50.4 percent YoY), Relays, Fuses & Switchgears (38.0 percent YoY) and Generator/Alternator (30.3 percent YoY). However, some important items of Capital Goods have also shown negative growth. These were: UPS/Inverter/Converter (-75.5 percent YoY), Ship Building and Repairs (-52.7 percent YoY) and Plastic Machinery incl. Moulding Machinery (-34.8 percent YoY). The overall growth of Capital Goods Sector for the period of April – February of FY2011-12 was -1.8 percent against 14.7 percent in the corresponding period of FY2010-11.

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



**Exhibit4: IIP INDEX**

Particulars	Feb-12		Jan-12		FYTD 2011-12	FYTD 2010-11
	Index	YoY(%)	Index	YoY(%)	YoY (%)	YoY (%)
Industrial Production	174.9	4.1	177.9	1.1	3.5	8.1
Manufacturing	186.5	4.0	189.1	1.4	3.7	8.7
Mining	134.8	2.1	137.6	-2.4	-2.1	5.8
Basic Goods	152.8	7.5	156.7	1.8	5.9	5.9
Intermediate Goods	143.2	-0.6	146.0	-2.8	-0.9	7.8
Consumer Durables	296.0	-6.7	288.7	-7.1	2.7	14.1
Consumer Non Durables	161.3	5.1	169.1	11.0	6.5	3.5
Capital Goods	262.2	10.6	259.2	-1.7	-1.8	14.7

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