

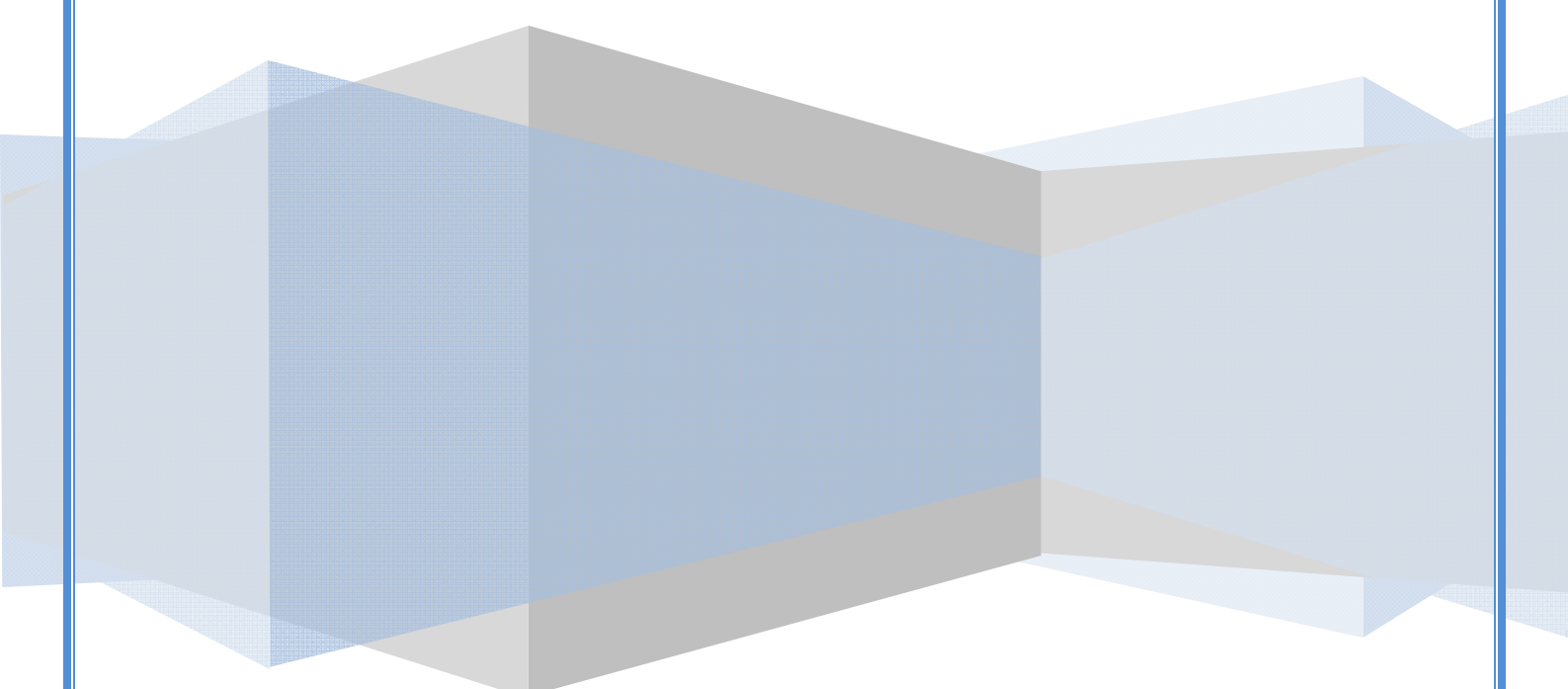
ICRA Online Limited



IIP UPDATE

November 2011

ICRON RESEARCH DESK



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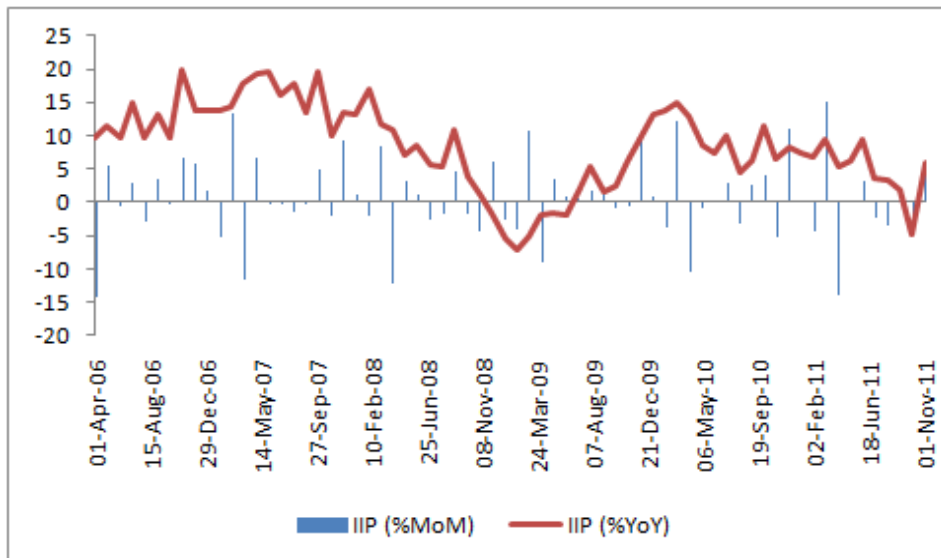
November 2011

India's November Industrial output beats estimates at 5.9 % Y-o-Y.

The quick estimate of Index of Industrial Production (IIP) with base 2004-05 for the month of November 2011 was released by the Central Statistics Office of the Ministry of Statistics and Programme Implementation on January 12, 2012. The salient points are-

- IIP growth rate for the month of November grew to 5.9% as against -5.1 % (revised to -4.7%) reported in the previous month.
- The higher IIP figure is better-than market expectation.
- Cumulative growth for the period of April to November 2011-12 stood at 3.8% as against 8.4% reported in same period last year.
- The October IIP figure has gone through first revision and stood at -4.74% versus the earlier reported figure of -5.1%.
- Mining and capital goods are the only sectors which have posted negative return for the month.
- In terms of industries, seventeen (17) out of the twenty two (22) industry groups (as per 2-digit NIC-2004) in the manufacturing sector have shown positive growth during the month of November 2011 as compared to the corresponding month of the previous year.
- Release of the index for December 2011 will be at 11.00 hours on the Thursday, 10 February 2012.

India's IIP growth over past couple of years is presented below-



Source: Reuters

Market Reaction to the IIP Data

- The 10-year benchmark bond yield rose earlier but later remained steady at 8.23-8.24%.
- The benchmark index Sensex pared early losses after the data was announced however on a volatile day, it closed at 0.86% down at 16,037.51.
- The INR was little changed at 51.79/80 to the dollar.

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Sectoral performance

Manufacturing sector

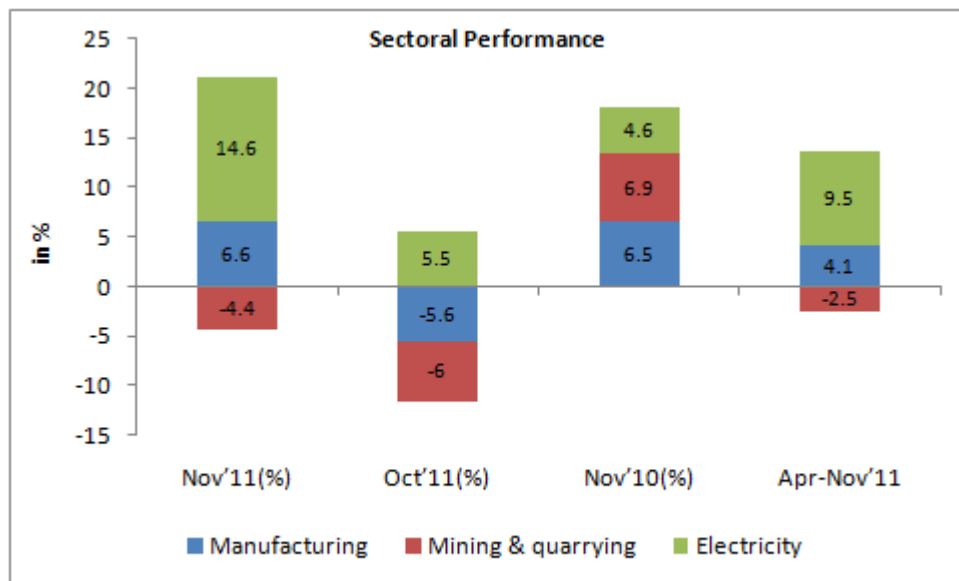
Manufacturing sector which contributes around 75.5% to industrial production posted strong annual growth (6.6%) for the month of November as against -5.6% reported in the previous month. Higher car sales data which surged to four months high supported the strong numbers also collection of excise duty rose nearly 10% in December, indicating a possible rebound in manufacturing activity in the domestic economy.

Mining sector

The mining sector continued to follow the negative trend observed in the previous few months. For the present month, it contracted to 4.4% as against contraction of 6.06% reported in the earlier month. In the same period last month the reported figure 6.9% and the cumulative figure for April to November period stood at -2.5% as against 7% in same period last year. Different policy measures and prevailing uncertainties in the economy impacted the sector.

Electricity

The sector has posted highest returns among its peers. Robust growth of the sector is followed by plenty of monsoon rain received by the country. However, during the same period last year the growth rate stood at 4.6% and for last month it stood at 5.5%. The good performance of the sector is because of favourable base effect and improvement in thermal based generation.



Source: CSO

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Used Based performance

On the use based classification, Consumer Goods led the gainers; the segment reported a growth of 13.1% YoY. Capital goods remained the underperformer for the fifth consecutive time and posted negative growth of 4.6%. Intermediate goods marginally moved up to 0.2% while basic goods performed well and posted higher growth.

Used Based	Weight	Nov'11(%)	Oct'11(%)	Nov'10(%)	Apr-Nov'11
Basic Goods	45.68	6.3	1.3	5.7	6.2
Capital Goods	8.83	(4.6)	(26.4)	25.7	(1.0)
Intermediate Goods	15.69	0.2	(7.8)	4.3	(0.3)
Consumer Goods	29.81	13.1	0.2	0.7	4.9

Outlook:

The current IIP data is better than market expectation and shows a significant improvement over last month's contraction of 4.7%. The IIP growth has been tepid so far and stands at 3.8% for the April-November period which is very low as compared to the FY11 figure of 8.3%. With RBI acknowledging increased downside risks to growth in last monetary policy review, the WPI inflation data would provide clear direction to where RBI would be heading in the next monetary policy review on 24th Jan, 2012. However, with global uncertainty looming large and commodity prices not showing any sign of reprieve, a cut of 25 bps in the benchmark rate looks likely.

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