

IIP growth eased vs. previous two months but still clocked strong 15%

IIP in Feb grew at 15.1% yoy, below consensus estimate of 16%. IIP increased 10.1% during Apr-Feb vs 3.0% previous year. This growth continued to be driven by Manufacturing, Consumer durables and base effect (0.2% in Feb'09).

Manufacturing strong on yoy basis:

- Manufacturing output, with higher weightage in IIP, rose by a strong 16% yoy. Within manufacturing, as many as 14 out of 17 industry groups showed positive growth. Metal products and parts (+57.0%), machinery and equipment (+40.4%), Transport equipment and parts (+36.4% yoy), showed major growth (see table in next page) *indicating that construction, infrastructure and auto sectors are driving growth currently*. On monthly basis, Manufacturing declined by 4% m/m.
- Mining grew at 12.2% yoy in Feb compared to 15.3% in Jan. Electricity increased at 6.7% yoy in Feb vs. 5.6% in Jan. On m/m, both Electricity and Mining declined by 5.7% and 5.2%.

Capital Goods continued robust growth and Consumer Goods improve:

- The consumer goods improved to 8.9% yoy in Feb from 3.8% in Jan as consumer durables remained strong at 30% and consumer nondurables turned positive to 2.3% in Feb from -3.6% in Jan. *Consumer durables growth was supported by booming car and white goods sales helped by low financing cost and improving outlook. Also expectation of increased cost after budget drove car sales in Jan-Feb.*
- Basic and intermediate goods production, associated with inventories, slowed to 8.4% and 15.6% respectively in Feb from 11.2% and 21.9% in Jan.
- Capital goods, indicating fixed capital investment, came down to 44% yoy in Feb from 55% in Jan. It is still the second highest number on record. On month over month basis, it actually went down by 6%. *But overall it seems that growth is now moving from consumer sectors to capital goods sector.*

Bottom Line:

- This is the second month in a row when IIP growth was lower than consensus estimate. But at 15%, it is still robust and there is nothing to worry about. The slowdown in IIP does not indicate a drop in demand with capacity utilization at almost record high and imports increasing significantly.
- Higher contribution of industry will improve GDP in 4QFY10 after a disappointing 3Q growth due to impact of drought and lower government expenditure.
- Continued strong growth in capital goods indicates a pick up in capex cycle that will translate into higher credit growth.
- RBI policy meet next week will take into consideration both the IIP for Feb and WPI for Mar (to be announced on 15th Apr) data. Underlying inflation pressure will prompt RBI to hike policy rates by 25-50 bps.

Economy Update

IIP growth in Feb'10

The year over year growth of IIP

India Industrial production (Sectoral Growth)

%ooya	Wgt	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	FYTD	
															FY09	FY10
Overall IP	100.0	0.2	0.3	1.2	2.1	8.3	7.2	10.6	9.3	10.2	12.0	17.6	16.7	15.1	3.0	10.1
Manufacturing	79.36	0.2	-0.3	0.4	1.8	8.0	7.4	10.6	9.7	10.9	13.1	19.3	17.9	16.0	3.1	10.5
Mining	10.47	-0.2	1.9	3.4	3.4	14.2	8.7	11.0	7.4	9.1	10.7	10.7	15.3	12.2	2.6	9.7
Electricity	10.17	0.7	6.3	7.1	3.3	8.0	4.2	10.6	7.5	4.0	1.8	5.4	5.6	6.7	2.4	5.8
India Industrial production (Used-based)																
Basic	35.5	-0.1	1.9	4.5	3.8	10.7	4.7	7.7	5.3	4.0	6.0	7.7	11.2	8.4	2.7	6.7
Intermediate	26.5	-3.0	1.9	7.9	6.6	7.9	9.8	14.4	11.0	15.5	19.6	22.7	21.9	15.6	-2.3	13.7
Capital	9.3	11.8	-6.3	-5.9	-3.6	13.4	1.7	9.2	13.5	10.2	11.1	39.1	55.4	44.4	9.2	18.2
Consumer	28.7	-1.3	1.3	-4.6	-1.1	4.4	9.7	10.9	9.7	12.1	12.2	13.2	3.8	8.9	5.1	7.1

The month over month growth of IIP

India Industrial production (Sectoral Growth)

% m/m	Wgt	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10
Manufacturing	79.36	-2.4	9.9	-12.5	4.3	5.0	-0.1	0.3	4.2	-5.6	4.8	12.2	-1.1	-4.0
Mining	10.47	-2.6	14.5	-15.7	3.7	-1.1	-3.3	1.5	-1.8	9.3	1.6	7.2	4.1	-5.2
Electricity	10.17	-6.7	13.4	-3.2	1.7	-1.3	0.4	4.1	-3.8	2.0	-8.3	6.7	2.3	-5.7
India Industrial production (Used-based)														
Basic	35.5	-3.2	11.0	-7.9	3.4	2.0	-2.1	1.8	-2.7	2.9	-1.8	5.6	2.8	-5.6
Intermediate	26.5	1.7	13.1	-2.6	3.5	0.6	3.5	-1.0	-3.1	0.4	2.1	3.4	-0.7	-3.6
Capital	9.3	1.2	27.6	-42.1	14.3	30.2	-13.1	6.7	31.3	-24.5	8.6	42.4	-1.8	-5.9
Consumer	28.7	-6.9	1.5	-8.3	2.0	-0.2	4.1	-1.3	2.4	-3.3	7.7	10.0	-2.4	-2.3

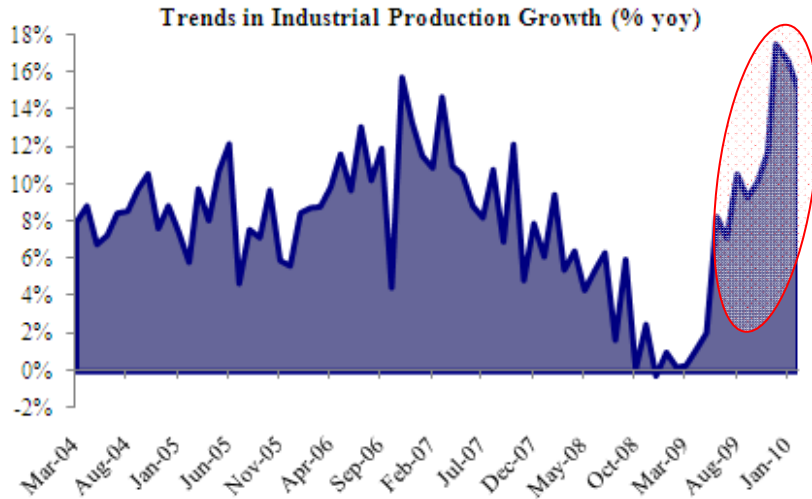
Sectoral growth rates (% , y-o-y) within Manufacturing

- 14 out of 17 industry groups showed positive growth.
- What lags?: 'Jute, Veg Fibre Textiles' declined the most by 28.7% yoy, followed by 'Wool, Silk, Manmade Fibres' and 'Other'.

	Wt.	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10
Manufacturing	79.4	1.8	8.0	7.4	10.6	9.7	10.9	13.1	19.3	17.9	16.0
Food Products	9.1	-14.7	-2.3	2.2	-9.6	-10.2	2.4	8.9	-6.9	-4.0	14.7
Beverages, Tobacco & Related	2.4	-10.3	-4.1	2.5	1.1	-3.8	0.5	-2.6	0.5	7.5	6.0
Cotton Textiles	5.5	-4.1	-1.1	-0.4	5.0	1.7	10.7	7.6	2.6	7.4	11.5
Wool, Silk, Manmade Fibres	2.3	-7.6	1.9	30.4	15.7	6.5	12.9	8.4	3.8	7.1	-6.0
Jute, Veg Fibre Textiles	0.6	-20.0	-31.1	-23.9	-10.2	-15.3	-15.5	-11.4	24.5	-91.0	-28.7
Manf of Textile Prod	2.5	9.8	11.7	3.8	16.4	0.8	16.3	4.3	10.2	11.6	1.1
Wood, Wood Products	2.7	15.3	26.3	1.6	-3.6	2.9	18.9	19.9	10.4	14.2	7.7
Paper, Paper Prod, Printing, Pub	2.7	-0.6	13.2	0.5	1.9	-2.2	0.7	7.2	4.0	10.0	12.2
Leather and Fur Products	1.1	-9.6	10.0	15.2	1.2	1.0	2.4	-4.5	-0.1	-2.2	20.4
Basic Chemical, Chemical Prods	14.0	4.6	4.7	5.2	14.7	20.1	18.7	17.0	29.0	5.9	5.3
Rubber, Plastic, Petro, Coal prod	5.7	16.4	6.4	12.7	21.5	10.1	14.5	19.1	21.5	25.4	13.4
Non-Metallic mineral Prod	4.4	6.1	7.1	8.3	7.4	2.9	1.1	7.4	8.2	16.6	10.3
Basic Metal and Alloy Ind	7.5	5.4	9.8	3.7	8.5	5.5	2.4	4.1	5.8	10.1	7.6
Metal products and Parts	2.8	-5.7	-8.5	10.1	3.4	-7.6	8.8	28.4	11.7	38.6	57.0
Machinery and Equipments	9.6	2.7	11.9	11.2	14.2	16.5	18.3	12.9	44.6	45.9	40.4
Transport Equipment Parts	4.0	2.3	10.3	10.9	13.8	8.9	18.9	38.3	82.2	57.6	36.4
Other	2.6	27.3	32.4	0.8	10.6	24.5	0.9	18.0	-9.4	9.2	-1.0

IIP – in Charts

Feb IIP was robust but lower than consensus

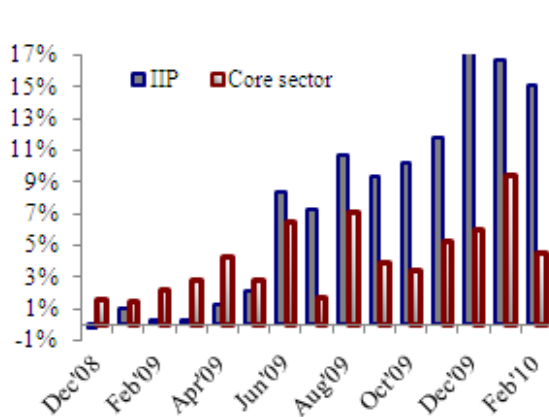


- Industrial production for Feb was at 15.1% weaker than consensus estimate of 16%.
- Feb IIP was partially helped by low base.
- On month over month basis IIP actually declined by 4.2%.

Core sector growth in Feb was lower at 4.5% vs 9.5% in Jan

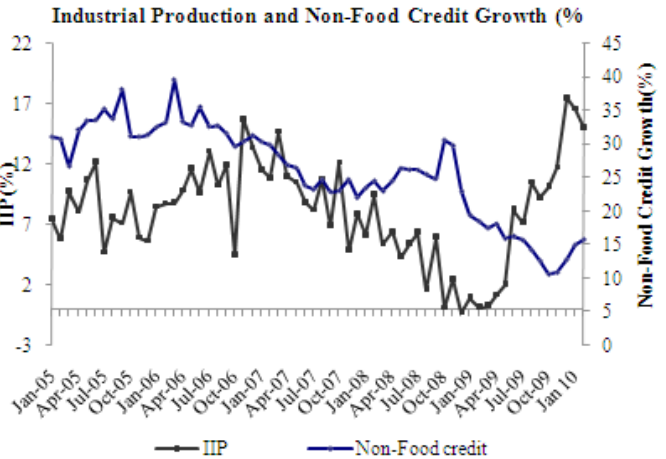
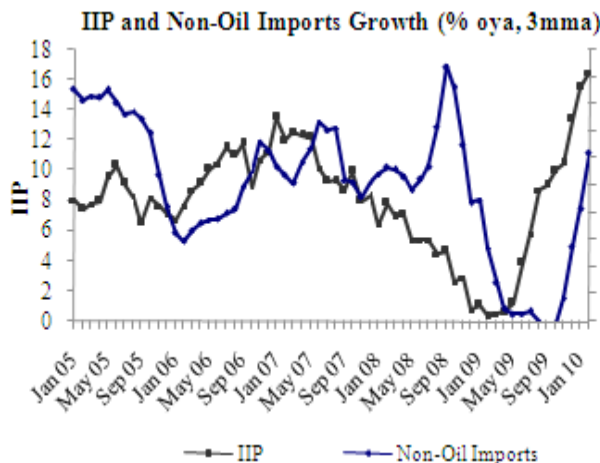
Core Sector Growth at 4.5% in Feb'10

- The Index of six core-infrastructure industries having a combined weight of 26.7% in IIP logged 4.5% growth in Feb. Cement and Steel growth disappointed. Electricity, Coal and Crude were strong.



%o/a	Overall	Electricity	Coal	Steel	Crude	Refined Crude	Cement
Dec'08	1.6	0.7	9.4	-3.2	-0.3	3.0	11.6
Jan'09	1.5	1.4	6.3	1.2	-8.1	-1.3	8.3
Feb'09	2.2	0.3	6.0	3.6	-6.2	0.5	8.3
Mar'09	2.9	5.9	5.2	-2.6	-2.3	3.3	10.1
Apr'09	4.3	6.0	13.2	1.6	-3.1	-4.3	11.7
May'09	2.8	3.3	10.2	1.4	-4.3	-4.3	11.6
Jun'09	6.5	7.0	14.7	5.3	4.0	-3.7	12.8
July'09	1.8	3.3	9.7	1.2	-0.4	-14.4	10.6
Aug'09	7.1	9.8	12.9	3.1	-2.6	3.0	17.6
Sept'09	4.0	7.5	6.5	-0.4	-0.5	3.4	6.5
Oct'09	3.5	4.7	5.0	1.1	-2.2	7.2	5.3
Nov'09	5.3	-1.8	3.3	11.7	-1.6	4.9	9.0
Dec'09	6.0	5.4	2.5	9.6	1.1	0.9	11.0
Jan'10	9.5	5.6	6.0	16.2	9.7	3.8	12.4
Feb'10	4.5	7.3	6.8	0.9	4.0	0.8	5.8

Non-oil imports and Credit growth both improved indicating more domestic activities

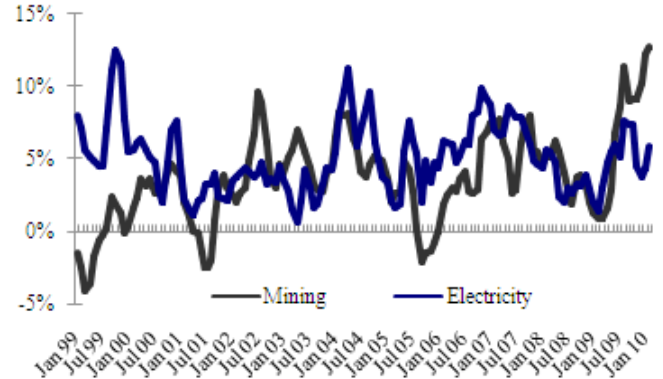


Manufacturing, the big boy of IIP, surged

IIP and Manufacturing (%yoy 3 mma)

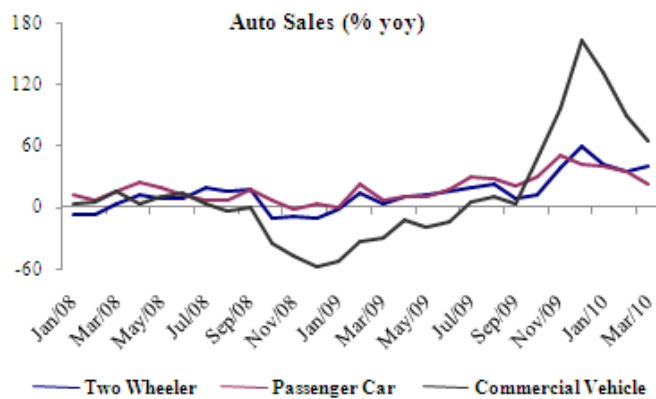


Mining and Electricity (%yoy 3 mma)

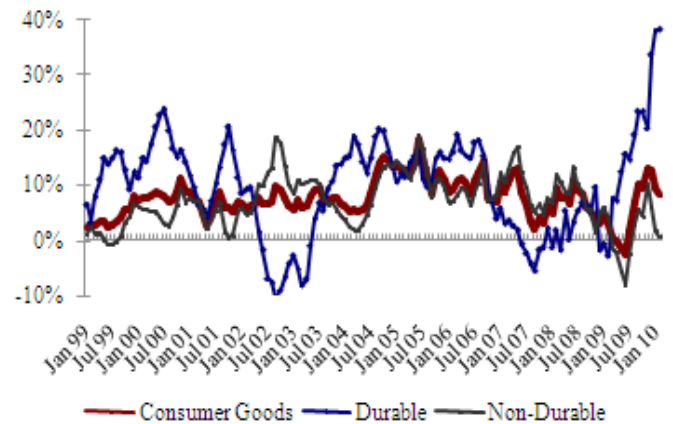


Consumer Durables at impressive 30% yoy in Feb, Non-Durables also improve

Auto sales continue with robust growth

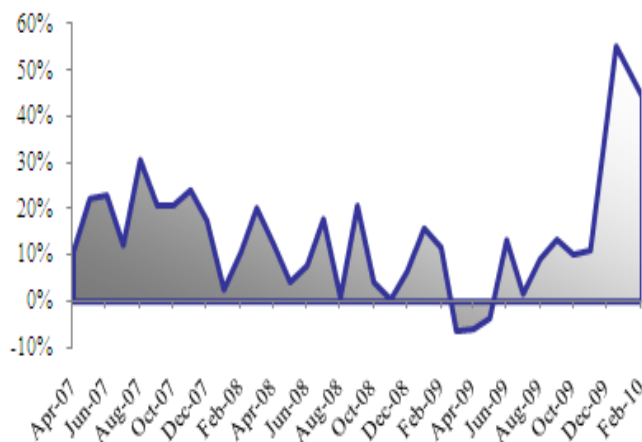


Consumer Goods (%yoy 3 mma)

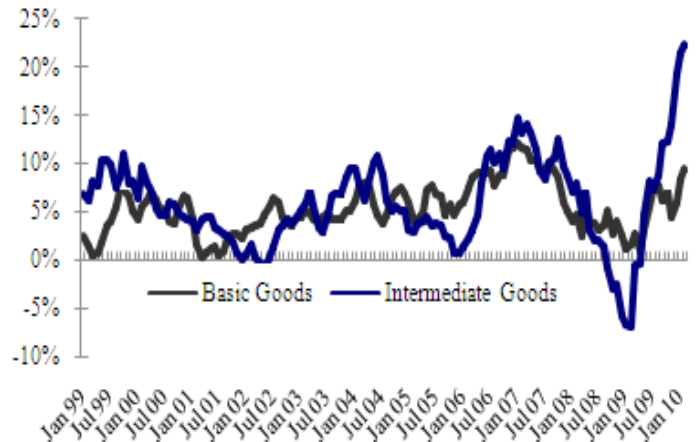


Capital goods at impressive 44% in Feb indicating broad-based growth; intermediate still strong

Capital Goods (%yoy)



Basic and Intermediate Goods (%yoy 3mma)



Appendix

Use-Based Classification: Top 15 Components by Weight

Component	Wt(%)	Component	Wt(%)
Basic Goods	35.6	Capital Goods	9.3
Mineral index	10.5	Diesel engines (IPP)	0.8
Electricity	10.2	Well/off shore platforms	0.7
Cement all kinds	2.0	Industrial machinery	0.5
Nitrogenous fertilizers	1.8	Complete tractors	0.5
Bars and rods	1.8	Laboratory and scientific instruments	0.4
Carbon steel	1.1	Protection system/switch board/switch gear etc.	0.4
Structurals (light, medium & heavy)	1.0	Computer system and its peripherals	0.4
High speed diesel	0.7	Process control instruments	0.3
Caustic soda	0.5	Ship building and repair	0.3
Soda ash	0.4	Agricultural implements	0.3
Aluminium ingots	0.4	Power & dist. transformers (IPP)	0.3
Pig iron	0.3	Broad gauge passenger carriage	0.3
Phosphatic fertilizers	0.3	Textile machinery	0.3
Sponge iron	0.2	Telecommunication cables	0.3
Plates	0.2	Insulated cables/wires all kinds	0.2
Intermediate Goods	26.5	Consumer Durables	5.4
Cotton yarn (including SSI)	4.5	Telephone instruments	0.6
Filament yarn	1.8	Scooter and mopeds	0.6
Plywood commercial	1.7	T.V. receivers	0.5
PVC pipes & tubes	1.5	Passenger cars	0.4
Particle board	1.0	Giant tyres	0.4
Glazed tiles/ceramic tiles	0.9	Wrist watches	0.4
Auto ancillary & parts	0.7	Motor cycles	0.4
Polyester fibre	0.7	Bicycles all kinds	0.4
Shoe uppers	0.6	Alarm time pieces	0.3
Paints, enamels & varnishes (IPP)	0.5	Electric fans all kinds (IPP)	0.2
Viscose staple fibre	0.5	Washing/ laundry machines etc.	0.2
Corrugated boxes/cartons (all kinds)	0.5	Metallic utensils excl. pressure cooker	0.2
Ball & roller bearings	0.5	Refrigerators (domestic)	0.1
Newsprint bleached	0.5	A.C. single phase house service meters	0.1
Bottles/bottle glass wares	0.4	Two wheeler tyres	0.1
Consumer Non-durables	23.3		
Cotton hosiery cloth	2.5		
Sugar	2.2		
Wheat flour/maida	2.1		
Paper & paper board (IPP)	1.4		
100% Non-cotton cloth	1.2		
Vitamin a	1.1		
Milk powder of all kinds	1.0		
Cotton cloth (excluding hosiery)	1.0		
Cigarettes	0.8		
Tea	0.8		
Vitamin c	0.6		
Ampicillin	0.6		
Mustard oil / rape seed oil	0.5		
Indian made foreign liquor	0.5		
Writing Instruments	0.4		
		TOTAL USE BASED INDEX	100