

IIP Watch

December 2016

TRUST
In Partnership. With Trust.

Industrial production growth lower than expected

Headline IIP

- IIP declined by 0.4% on a y-o-y basis in December compared to a growth of 5.6% recorded in November. The cumulative growth for the period April- December 2016-17 was 0.4% over the corresponding period the previous year.
- The growth in the IIP for December was lower than expected. The median estimate of the Reuters survey was for a growth of 1.1%.
- In December the electricity and mining sectors showed positive growth while the manufacturing showed a decline.
- In terms of use based classification, capital, intermediate and positive goods showed a y-o-y decline while basic goods index showed a positive growth .

Mining (Weight 14.2%)

- The IIP index for mining sector stood at 144.5 a growth of 5.2% y-o-y. Although it grew in December, the mining sector which had been adversely impacted by regulatory constraints continues to struggle to gain momentum
- The mining sector index also grew by 6.5%% on m-o-m basis.

Manufacturing (Weight 75.5%)

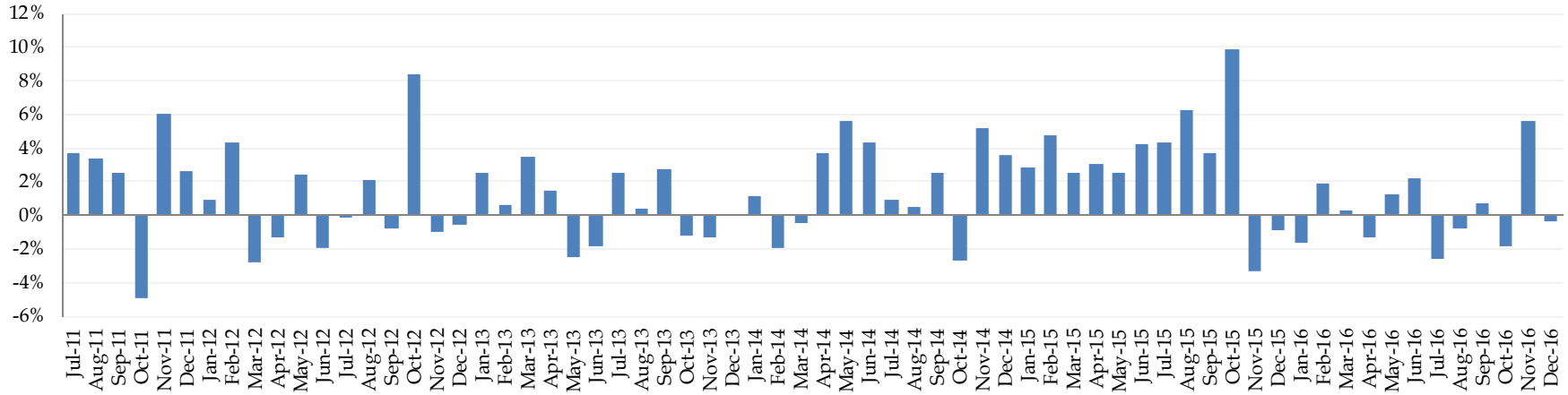
- The IIP index for manufacturing sector stood at 189.3 a decline of 2% y-o-y.
- Seventeen out of twenty two industry groups in the manufacturing sector showed negative growth as compared to December 2015.

Electricity (Weight 10.3%)

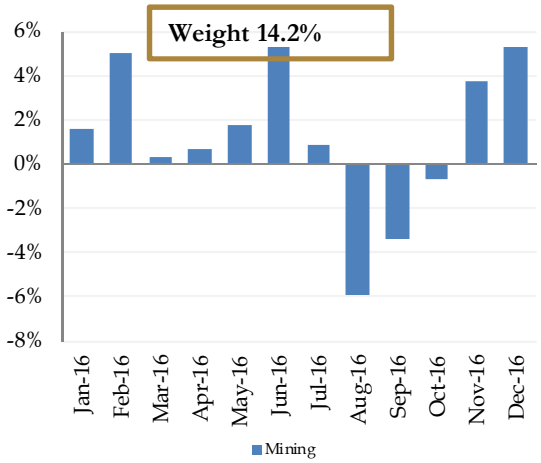
- The IIP index for electricity sector stood at 194.7 a growth of 6.3% y-o-y and a growth of 1.8% m-o-m.

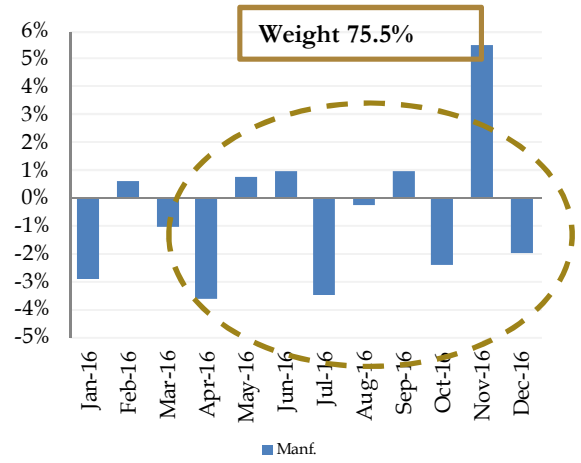
Sectoral IIP growth: Manufacturing back to negative territory

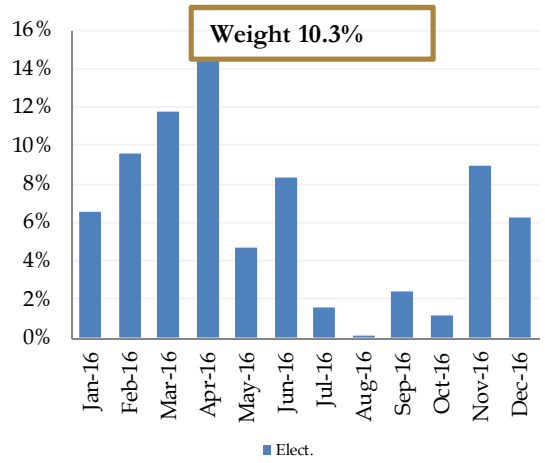
Index of Industrial Production



Sectoral IIP Growth

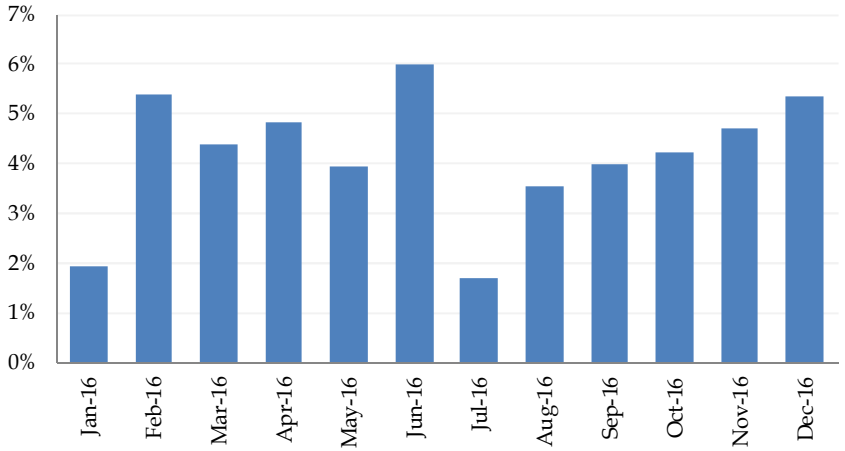




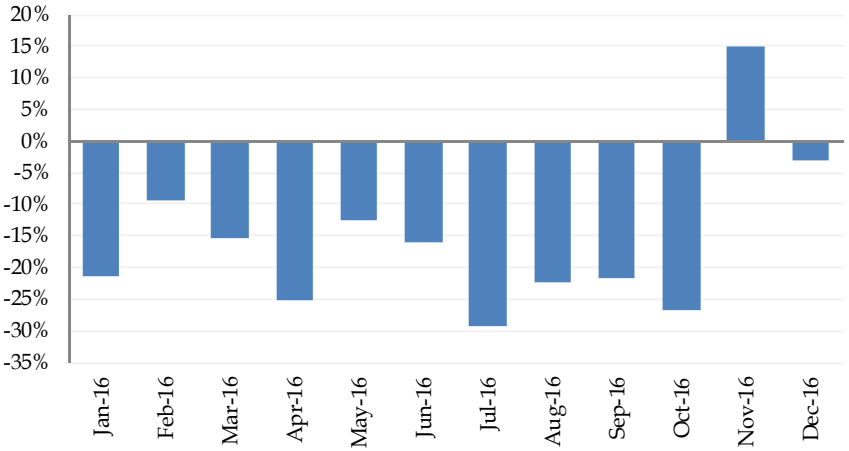


Use-based IIP growth: Large fall in consumer goods sector

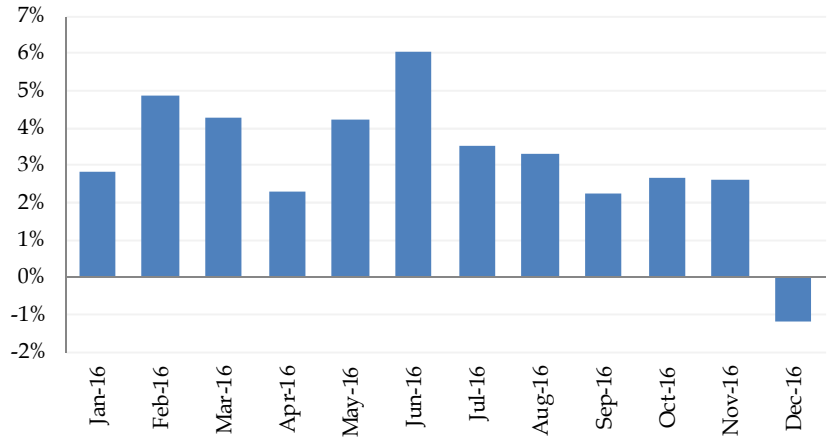
Basic Goods Growth



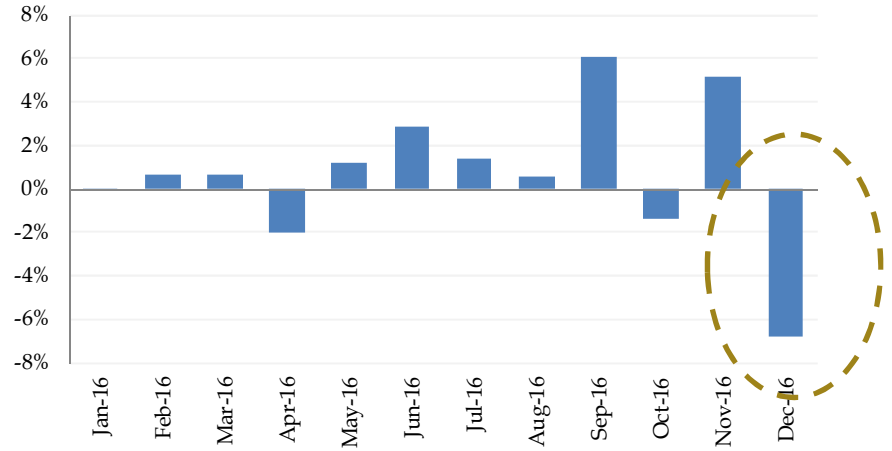
Capital Goods Growth



Intermediate Goods Growth

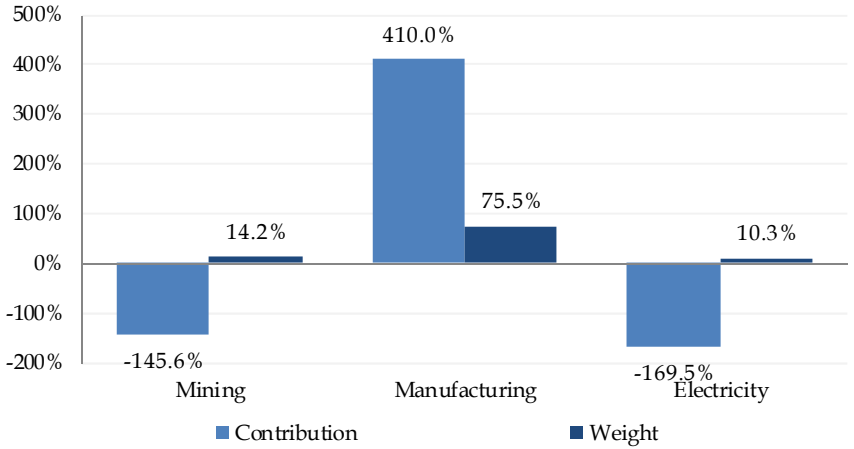


Consumer Goods Growth

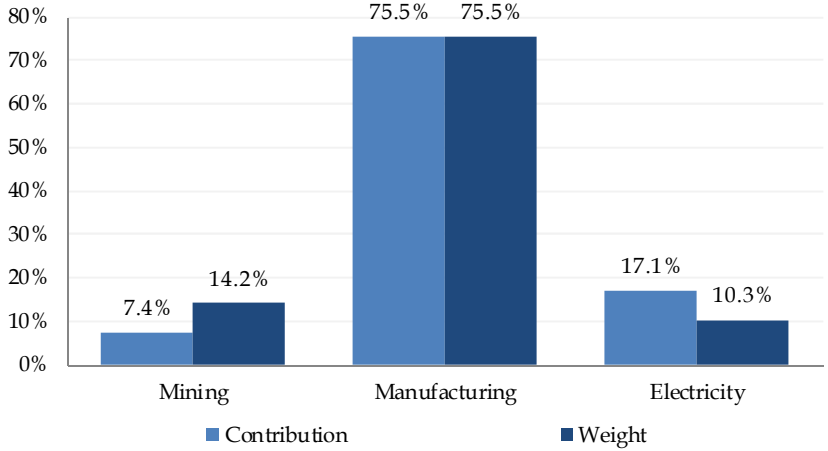


Contribution Analysis

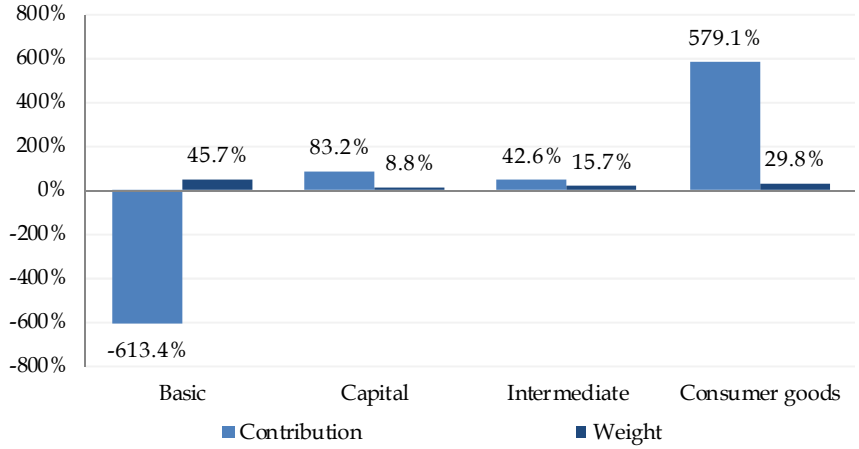
Sectoral Weight and Contribution to IIP Growth* (December)



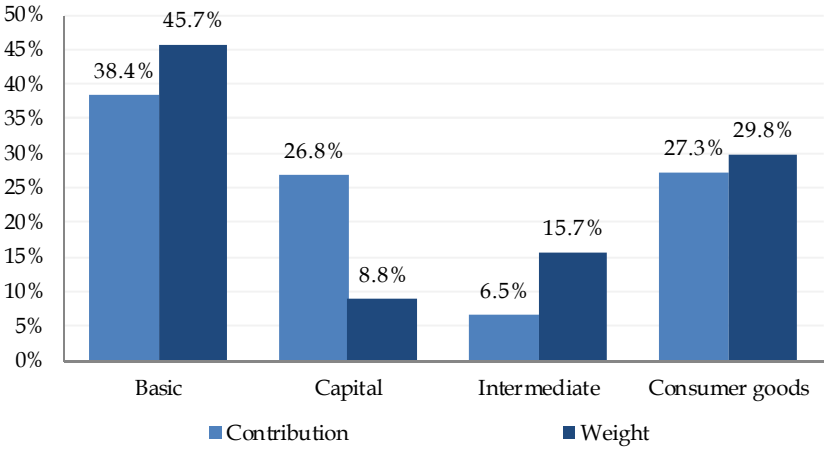
Sectoral Weight and Contribution to IIP Growth (November)



Use-based Weight and Contribution to IIP Growth (December)



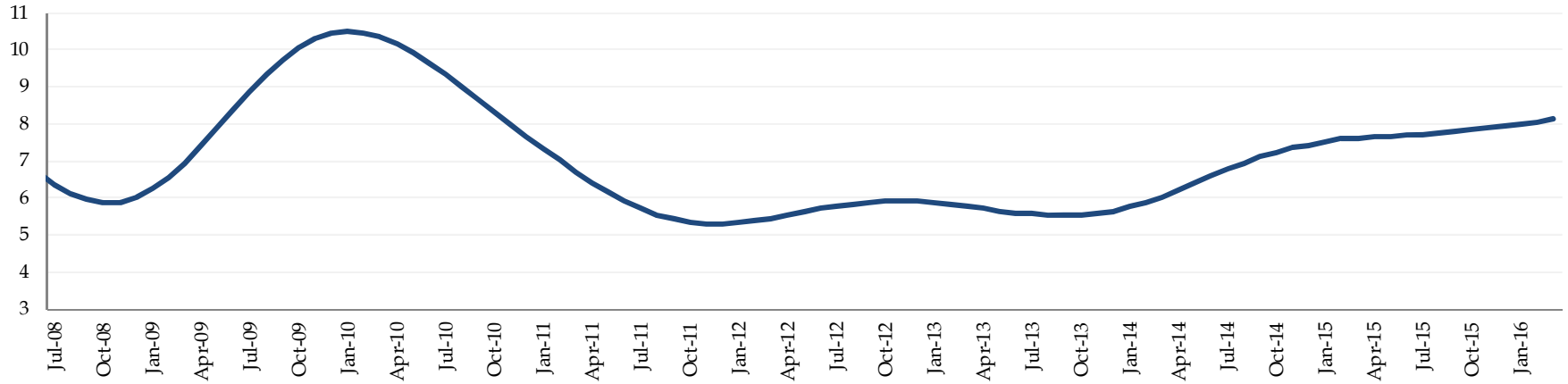
Use-based Weight and Contribution to IIP Growth (November)



* Contribution in December is to the negative growth

IIP growth remains muted

OECD India Composite Leading Indicators Growth (%)



Conclusions

- Following its more than expected growth in November the IIP has once again fallen to negative territory. After growing for twelve consecutive months up to October 2015, IIP growth has been muted and uneven since October. The muted growth in the IIP index indicates that manufacturers are facing sluggish demand conditions.
- The consumer index which had shown some improvement over the last year showed a large decline in December. Within the consumer index, consumer durables showed a decline 10.3% the first decline since May 2015 while the consumer non-durable index also fell by 5%. Looking forward, we expect some downward pressure from the recent demonetisation measures on the consumer index in the short term. In the medium term, the consumer index should see some improvement given the Pay Commission increases and the governments focus on stimulating the rural economy.
- Despite some improvement over the last several months, the growth in the mining continues to be muted. For example the mining index is still below the level it was at during March 2015. The mining sector has been showing muted growth reflecting regulatory and environmental issues affecting coal mining, iron ore mining and oil production. We expect the government will be focused on reviving the mining sector and continue with the reform process initiated in the sector.
- Going forward, conditions for growth are mixed. Falling cost pressures, and recent measures relating to project approvals, land acquisition, mining, and infrastructure will be supportive of growth in industrial output but the impact of demonetisation on the consumer and manufacturing sector could turn out to be larger than initially anticipated.

Rates and Credit Research
Binyam Taddese
+91 22 42245000
binyam.taddese@trustgroup.in

Head of Equity
Naren Shah
+91 22 42245074
naren.shah@trustgroup.in

Institutional Sales
Pranav Inamdar
+91 22 40845031
pranav.inamdar@trustgroup.in

FII Sales
Sandeep Bagla
+91 22 42245143
sandeep.bagla@trustgroup.in

Equity Sales
Sriram Rangarajan
+91 22 42245216
sriram.rangarajan@trustgroup.in

Thank You

DISCLAIMER:

We are committed to providing completely independent and transparent recommendations to help our clients reach a better decision. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Nothing in this document should be construed as investment or financial advice, and nothing in this document should be construed as an advice to buy or sell or solicitation to buy or sell the securities of companies referred to in this document. The intent of this document is not in recommendary nature. The recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Trust Group has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. Trust Group, its affiliates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information, which is already available in publicly accessible media or developed through analysis of Trust Group. The views expressed are those of analyst and the Company may or may not subscribe to all the views expressed therein. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose.

Copyright in this document vests exclusively with Trust Group.

Trust Group

109/110, 1st Floor, Balarama, Bandra Kurla Complex, Bandra (E), Mumbai -400 051, Maharashtra.

Ph: +91 22 4084 5000 • Fax: +91 22 4084 5052 • www.trustgroup.co.in