Morgan Stanley

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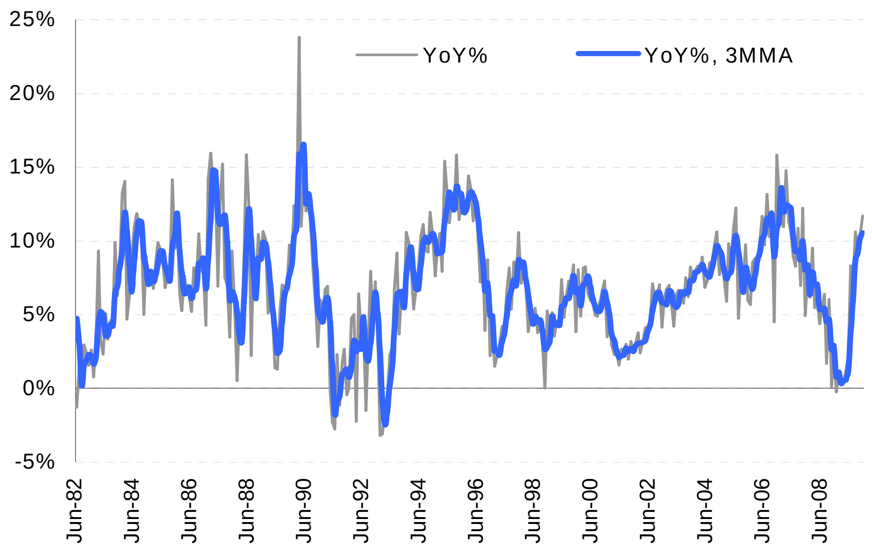
Research
India

India Quick Comment

IP Growth: Strong Momentum Continues in November

IIP Growth (YoY% and YoY%, 3MMA)



Source: CSO, CEIC, Morgan Stanley Research

India Quick Comment

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Summary

IP Growth: Strong Momentum Continues in November

- **Industrial production (IP) growth accelerated to 11.7%YoY in November 2009, highest in two years:** This compares with growth of 10.3%YoY in October and 9.6%YoY in September 2009. The growth in November was above market expectations (as per Bloomberg survey) of 10%YoY. On a seasonally adjusted sequential basis, IP growth rose 2.2%MoM (vs. decline of 1%MoM in October 2009 on account of the *diwali* festival holidays). We see upside risks to our full-year F2010 (12 months ended March 2010) IP growth estimate of 8.8%, considering the sharp rebound in this month's data.
- **Growth in manufacturing and mining up, electricity moderates:** Growth in the manufacturing segment accelerated to 12.7%YoY in November, compared with 11.1%YoY registered in the previous month. The key contributors to this acceleration were transport equipment & parts, food products, metal products & parts, and other manufacturing industries. While growth in the mining segment accelerated to 10%YoY (vs. 9% in October), the electricity segment growth decelerated further to 3.3%YoY in November (vs. 4.7% in the previous month).
- **Growth in capital goods up, consumer goods moderated slightly:** On the use-based classification, capital goods growth picked up further to 12.2%YoY in November, compared to 11%YoY in the previous month. Growth in the consumer goods segment decelerated marginally to 11.1%YoY in November from 11.9% in October. Within consumer goods, while growth in the durables segment accelerated sharply to 37.3%YoY (vs. 20.2% in October), growth in the non-durables segment decelerated further to 3.1%YoY (vs. 8.6% in October). Growth in the basic and intermediate goods segment accelerated to 6%YoY and 19.4%YoY in November (vs. 4.6% and 15.2% in October).
- **IP growth to remain strong:** We believe the overall trend in IP growth should remain strong in the coming months. The early indicators for December are showing a mixed trend. While commercial vehicle sales (162.4%YoY in December vs. 95.5% earlier) and two-wheeler sales (59.7%YoY vs. 38.4% earlier) accelerated largely on a favorable base effect, passenger car sales (40.1%YoY vs. 47.4% earlier) and cement dispatches (8.7%YoY (estimated) vs. 9.1% earlier) moderated slightly in December.
- **Second step towards monetary policy exit likely on January 29, 2010 monetary policy:** We believe that strong incoming growth data and increasing inflation risks warrant at least a 25 bps hike in the reverse repo rate (the rate at which commercial banks park excess liquidity with the Reserve Bank of India [RBI]). In case the RBI chooses not to hike rates, we believe an inter-meeting hike in February will be inevitable. We believe a rate hike would be unlikely to derail the recovery, as we see a potential increase in policy rate as a move towards normalization rather than tightening that would hurt growth.

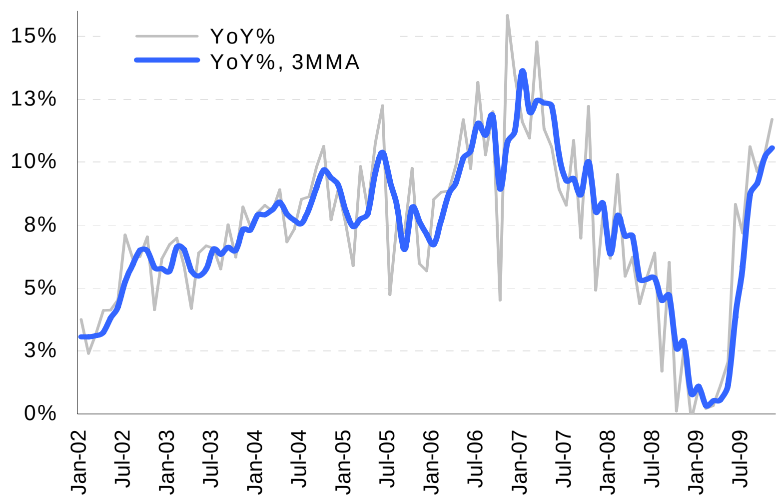
Trends in Industrial Production (YoY%) (Base Year – 1993-94)

	Weight	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09
IIP	**100**	**2.5**	**-0.2**	**1.0**	**0.2**	**0.3**	**1.1**	**2.1**	**8.3**	**7.2**	**10.6**	**9.6**	**10.3**	**11.7**
Sectoral														
Manufacturing	79.4	2.7	-0.6	1.0	0.2	-0.3	0.4	1.8	8.0	7.4	10.6	10.0	11.1	12.7
Mining & Quarrying	10.5	0.7	2.2	0.7	-0.2	1.9	3.4	3.4	14.2	8.7	11.0	7.4	9.0	10.0
Electricity	10.2	2.6	1.6	1.8	0.7	6.3	7.1	3.3	8.0	4.2	10.6	7.9	4.7	3.3
Core IIP*	68.4	2.7	-1.5	2.9	3.4	4.4	3.7	2.8	8.9	7.5	11.8	11.5	11.9	12.9
Non Core IIP	31.6	2.2	2.4	-3.0	-6.6	-8.9	-4.7	0.2	6.8	6.4	8.7	4.9	6.7	9.0
Use Based														
Basic Goods	35.6	2.2	2.0	-0.7	-0.1	1.9	4.5	3.8	10.7	4.7	7.7	6.5	4.6	6.0
Capital Goods	9.3	0.5	6.6	15.9	11.8	-6.3	-5.9	-3.6	13.4	1.7	9.2	13.3	11.0	12.2
Intermediate Goods	26.5	-3.9	-8.9	-7.2	-3.0	1.9	7.9	6.6	7.9	9.8	14.4	11.2	15.2	19.4
Consumer Goods	28.7	9.4	1.7	3.6	-1.3	1.3	-4.6	-1.1	4.4	9.7	10.9	9.4	11.9	11.1
---Durables	5.4	0.3	-4.2	2.1	6.0	8.4	17.6	13.2	16.2	22.1	24.7	22.2	20.2	37.3
---Non Durables	23.3	12.4	3.2	4.0	-3.4	-1.0	-10.5	-5.5	0.7	5.3	6.1	4.4	8.6	3.1

** Core IIP includes chemicals, non-metallic mineral products, basic metals & alloys, metal products, machinery & equipment, transport equipment, cotton textiles, mining and electricity. The sectors we have excluded from this index are food products; beverages; products made of wool, silk, jute, rubber, leather and wood; and other manufacturing industries. Source: CSO, Morgan Stanley Research*

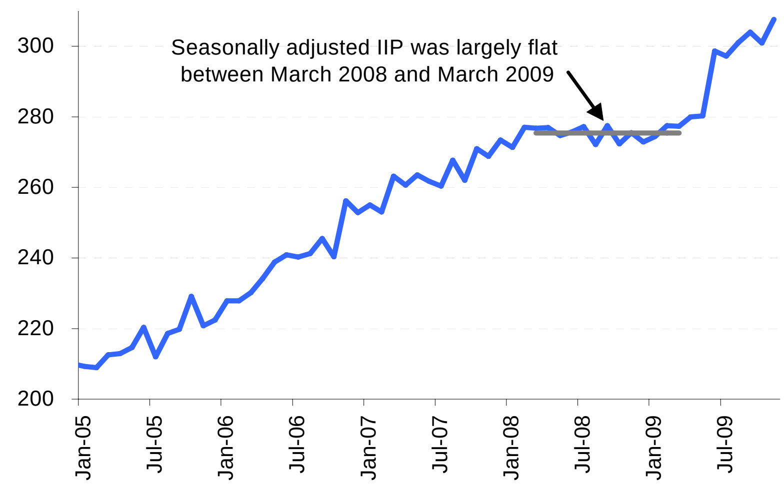
Trends in Industrial Production

IIP Growth (YoY% and YoY%, 3MMA)



Source: CSO, Morgan Stanley Research

Seasonally Adjusted IIP

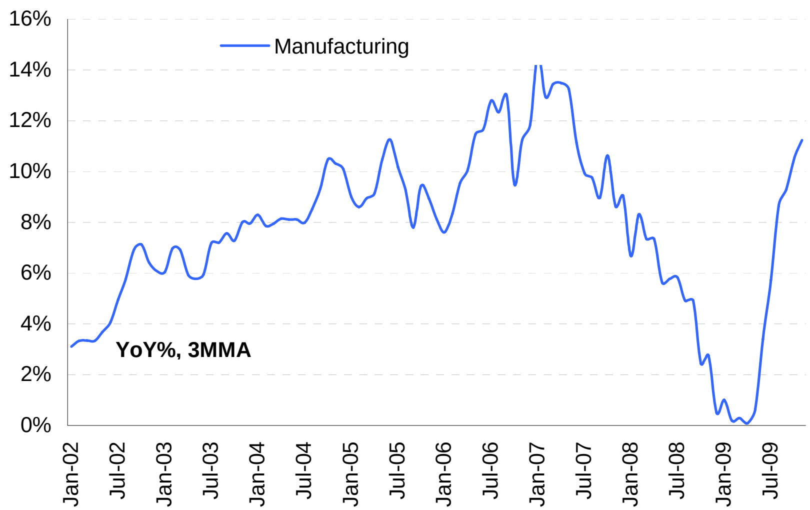


Source: Morgan Stanley Research

- **Industrial production (IP) growth accelerated to 11.7%YoY in November 2009, highest in two years:** This compares with growth of 10.3%YoY in October and 9.6%YoY in September 2009. On a seasonally adjusted sequential basis, IP growth rose 2.2%MoM (vs. decline of 1%MoM in October 2009 on account of the *diwali* festival holidays). We see upside risks to our full-year F2010 (12 months ended March 2010) IP growth estimate of 8.8% considering the sharp rebound in this month's data.

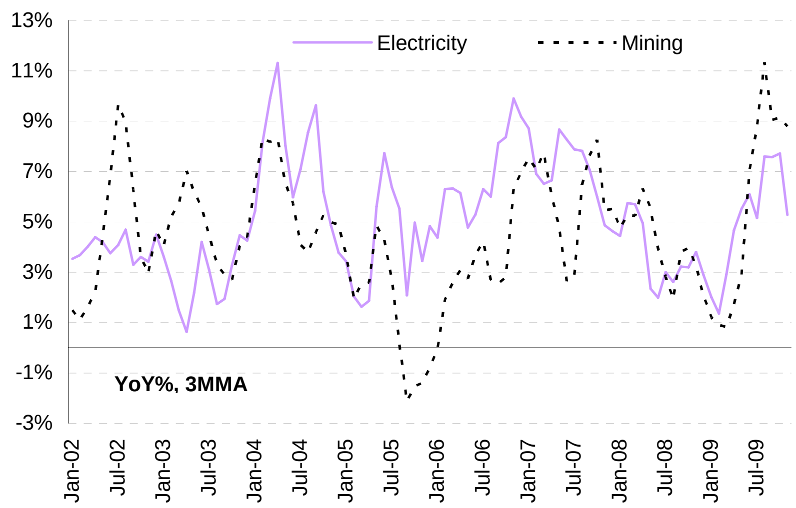
Trends in Industrial Production – Sectoral

Manufacturing Segment Growth (YoY%, 3MMA)



Source: CSO, Morgan Stanley Research

Electricity and Mining Segment Growth (YoY%, 3MMA)



Source: CSO, Morgan Stanley Research

- **Growth in manufacturing and mining up, electricity moderates:** Growth in the manufacturing segment accelerated to 12.7%YoY in November, compared with 11.1%YoY registered in the previous month. While growth in the mining segment accelerated to 10%YoY (vs. 9% in October), the electricity segment growth decelerated further to 3.3%YoY in November (vs. 4.7% in the previous month).

Trends in Industrial Production – Two-digit Classification (Base Year – 1993-94)

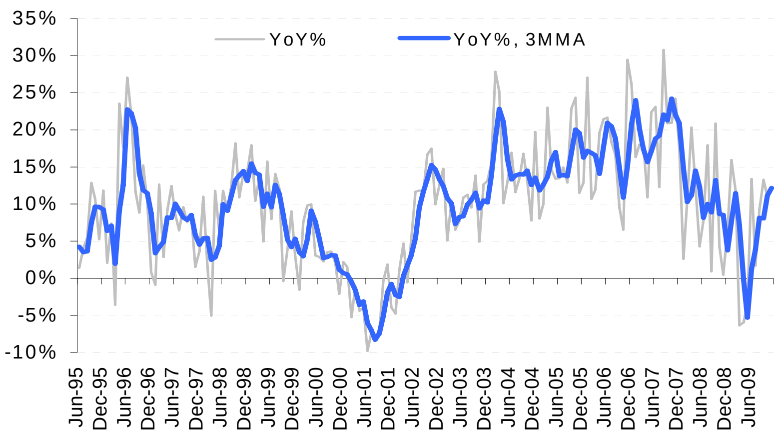
	Weight	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09
Food Products	9.1	5.0	-2.5	-11.4	-29.5	-36.0	-33.3	-9.7	0.1	-0.1	-5.7	-9.5	2.4	8.9
Beverages, Tobacco & related product	2.4	14.6	15.4	11.2	10.0	16.1	-4.6	-10.1	-3.4	3.7	5.8	-2.7	0.5	-2.6
Cotton Textiles	5.5	1.9	-2.9	-5.8	-6.6	-0.7	0.6	-3.6	-1.9	0.5	5.6	7.1	10.7	7.6
Wool, Silk & man-made fibres	2.3	-3.3	7.7	0.5	6.0	-4.4	23.5	-10.7	5.2	34.0	20.1	12.1	12.9	8.4
Mft of Jute & other fibre textiles	0.6	4.9	-66.4	-9.9	-7.1	-1.9	2.8	-20.3	-31.1	-28.1	-10.2	-15.8	-15.5	-11.4
Textile Products (incd. Wearing Apparel)	2.5	18.6	-0.9	-1.0	10.6	16.7	12.2	3.9	8.7	5.9	23.0	8.7	16.3	4.3
Wood and Wood Products	2.7	2.3	-19.1	-14.9	-16.1	-17.7	22.8	16.4	6.4	1.7	-3.5	1.1	18.9	19.9
Paper & Paper Products	2.7	0.5	-1.7	-7.9	-4.6	4.0	-3.2	1.4	12.9	1.7	-0.3	-2.3	0.7	7.2
Leather & Fur Products	1.1	-7.8	-5.3	-7.1	-14.4	-18.2	-11.1	-10.9	11.0	14.9	-0.5	-0.9	2.4	-4.5
Basic Chem and Chem Products	14.0	0.8	-9.0	5.3	6.6	14.7	-0.9	2.1	4.8	6.9	14.6	20.5	18.7	17.0
Rubber, Plastic, Petroleum & Coal Products	5.7	-1.1	-4.8	-0.7	2.0	6.7	7.2	17.4	7.6	12.5	21.4	10.0	14.5	19.1
Non-Metallic Mineral Products	4.4	2.7	7.4	-2.1	1.3	5.5	9.6	6.0	9.4	6.5	7.4	0.9	1.1	7.4
Basic Metal & Alloy Inds	7.5	5.6	4.1	-1.8	0.7	-4.5	4.7	5.5	12.8	3.7	8.5	5.5	2.4	4.1
Metal Products and Parts	2.8	-8.7	6.4	-6.0	-30.9	-12.7	-3.7	-3.0	-7.5	12.6	3.4	-7.6	8.8	28.4
Machinery & equipment	9.6	10.3	2.0	18.3	16.0	0.5	5.2	2.9	12.9	12.0	14.6	16.6	18.3	12.9
Transport equipment and parts	4.0	-9.0	-17.8	-14.1	-2.9	11.3	6.7	2.0	12.3	10.9	13.6	9.8	18.9	38.3
Other Manufacturing Inds	2.6	-16.1	21.6	7.6	12.6	-20.3	-5.0	16.2	32.6	-0.7	10.5	24.5	0.9	18.0

- **Growth in the manufacturing segment accelerated to 12.7%YoY in November**, compared with 11.1%YoY registered in the previous month. The key contributors to this acceleration were transport equipment & parts, food products, metal products & parts, and other manufacturing industries.

Source: CSO, Morgan Stanley Research

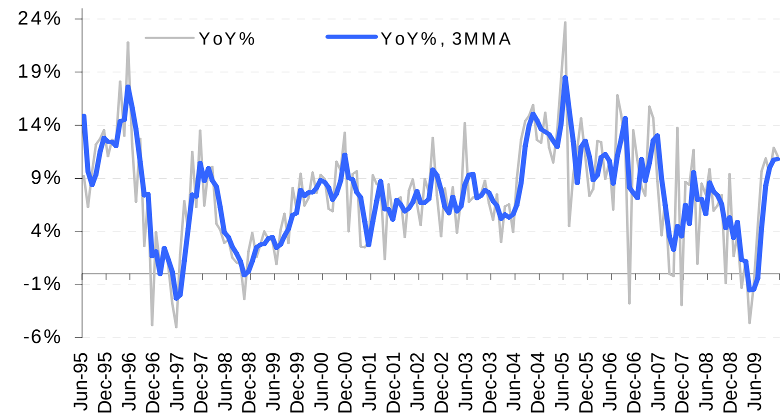
Trends in Industrial Production – Use-based Classification

Capital Goods Growth (YoY% and YoY%, 3MMA)



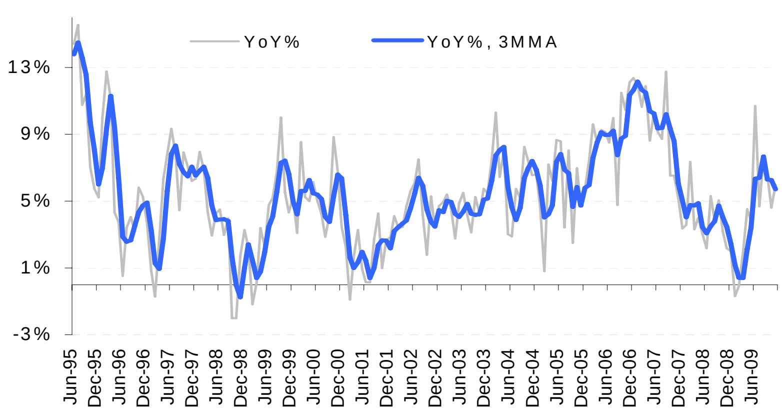
Source: CSO, Morgan Stanley Research

Consumer Goods Growth (YoY% and YoY%, 3MMA)



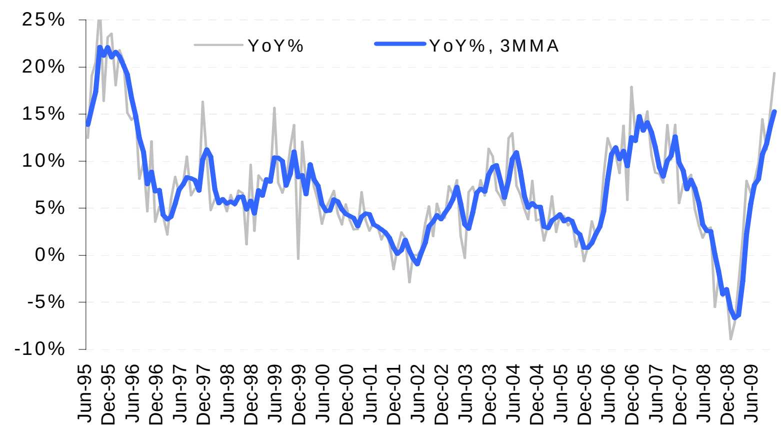
Source: CSO, Morgan Stanley Research

Basic Goods Growth (YoY% and YoY%, 3MMA)



Source: CSO, Morgan Stanley Research

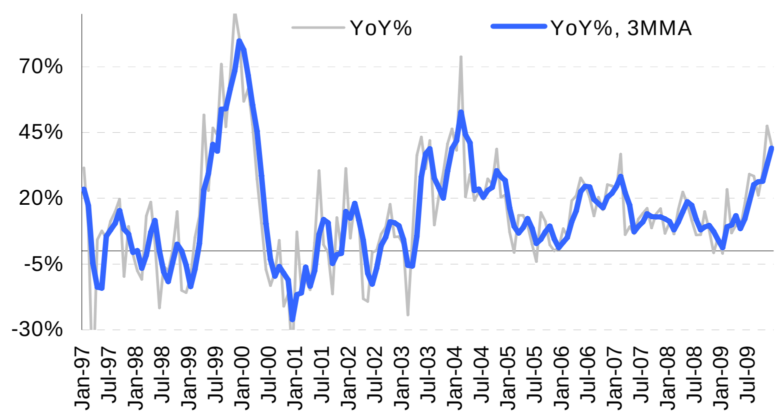
Intermediate Goods Growth (YoY% and YoY%, 3MMA)



Source: CSO, Morgan Stanley Research

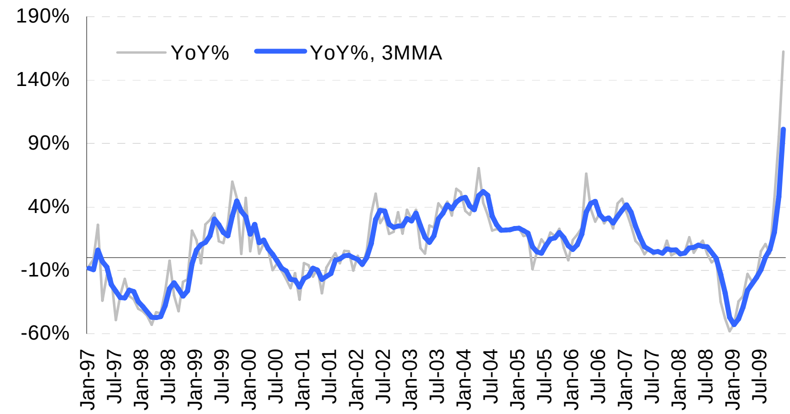
Chart Scan

Passenger Car Sales (YoY% and YoY%, 3MMA)



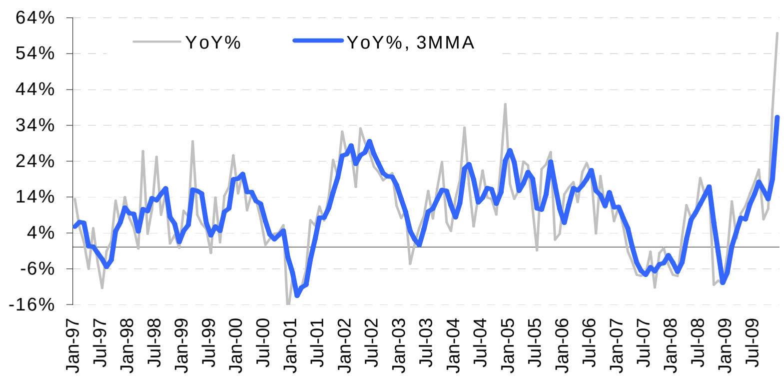
Source: SIAM, Bloomberg, Morgan Stanley Research

Commercial Vehicle Sales (YoY% and YoY%, 3MMA)



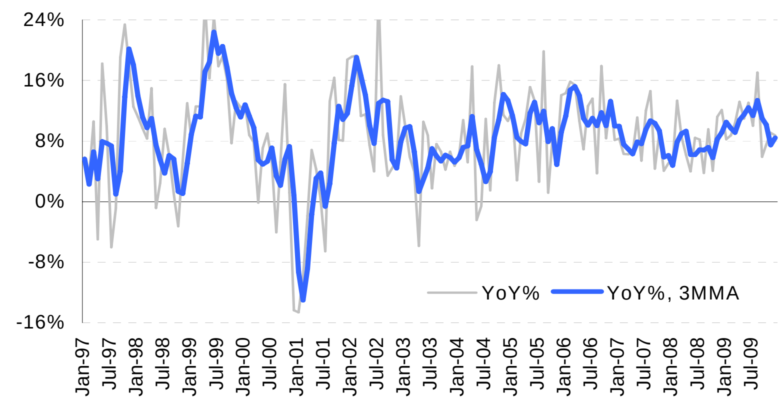
Source: SIAM, Bloomberg, Morgan Stanley Research

Two-wheeler Sales (YoY% and YoY%, 3MMA)



Source: SIAM, Bloomberg, Morgan Stanley Research

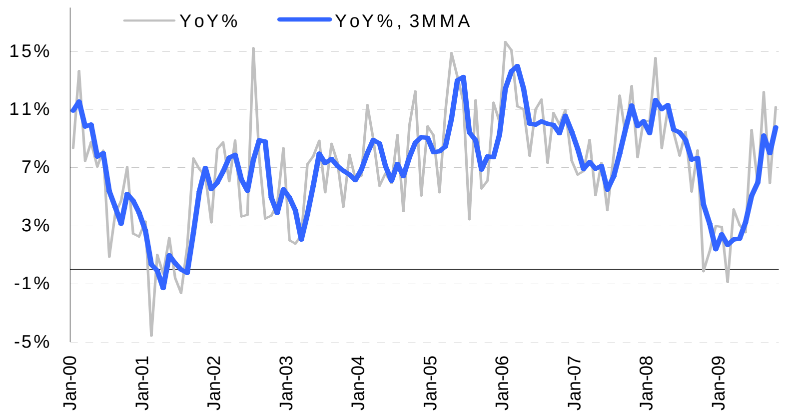
Cement Dispatches Growth (YoY% and YoY%, 3MMA)



Source: CMA, CMIE, Morgan Stanley Research

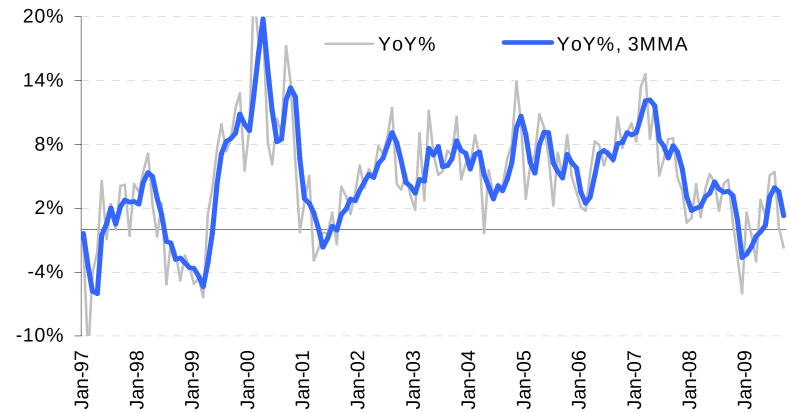
Chart Scan

Railway Freight Traffic Growth (YoY% and YoY%, 3MMA)



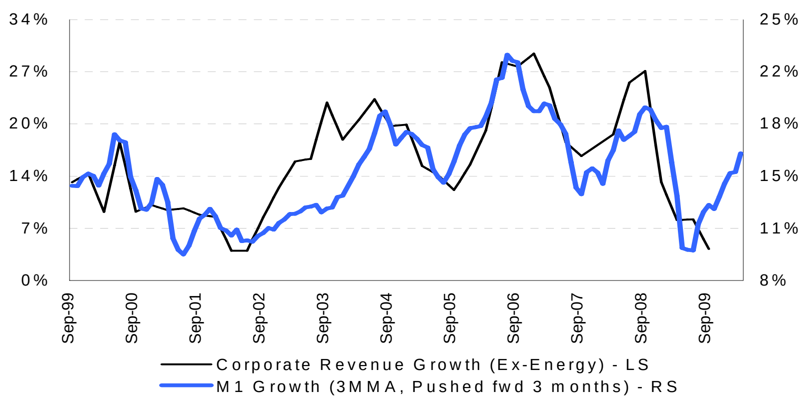
Source: CMIE, Ministry of Railways, Morgan Stanley Research

Steel Production Growth (YoY% and YoY%, 3MMA)



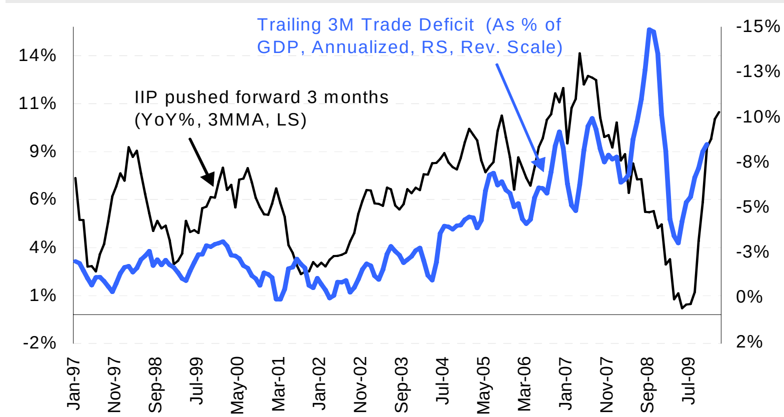
Source: CMIE, Morgan Stanley Research

M1 vs. Corporate Revenue[1] Growth



[1] Based on available data for Morgan Stanley coverage universe (97 companies)
Source: Capitaline, RBI, Morgan Stanley Research

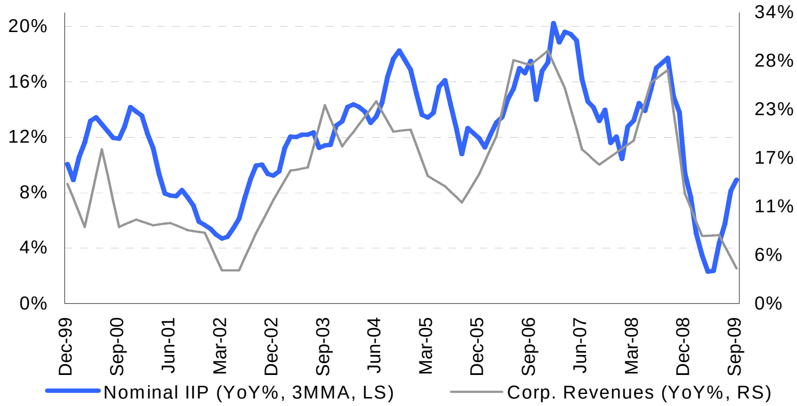
Trade Deficit vs. IP Growth



Source: CSO, Ministry of Commerce, Morgan Stanley Research

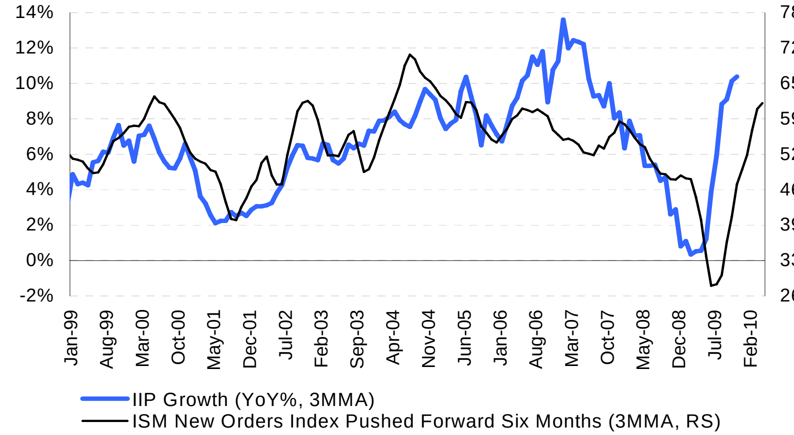
Chart Scan

IP Growth vs. Corporate Revenue Growth (ex-Energy) [1]



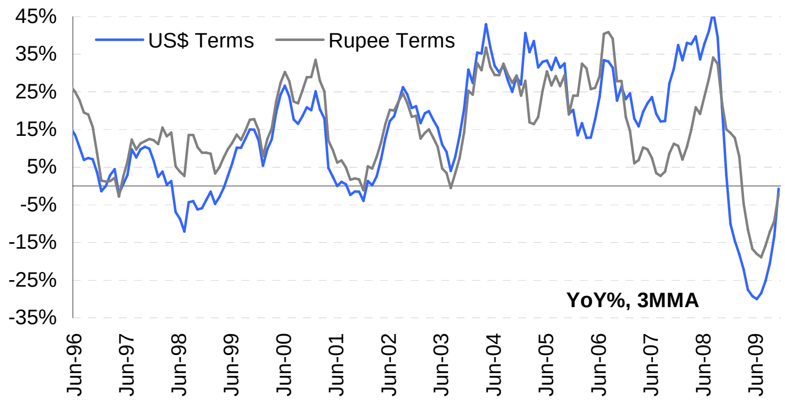
Source: Morgan Stanley Research [1.] Based on available data for Morgan Stanley coverage universe (97 companies)

India's IP Growth vs. US ISM New Orders Index



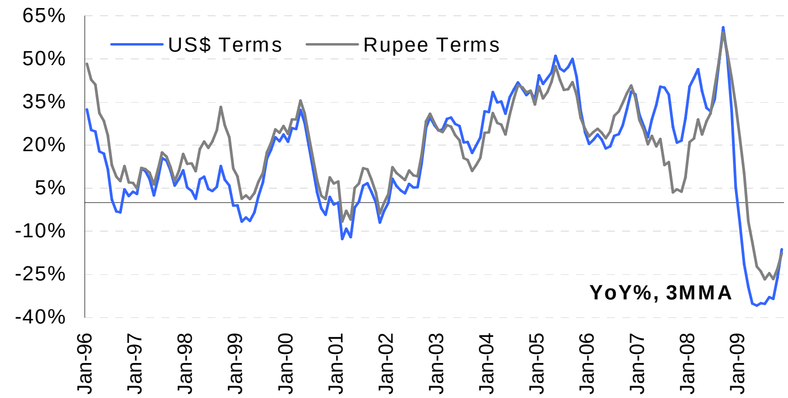
Source: Bloomberg, CSO, Morgan Stanley Research

Export Growth (YoY%, 3MMA)



Source: CEIC, Ministry of Commerce, Morgan Stanley Research

Import Growth (YoY%, 3MMA)



Source: CEIC, Ministry of Commerce, Morgan Stanley Research

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