



Industrial Production - May'11

Current Scenario:

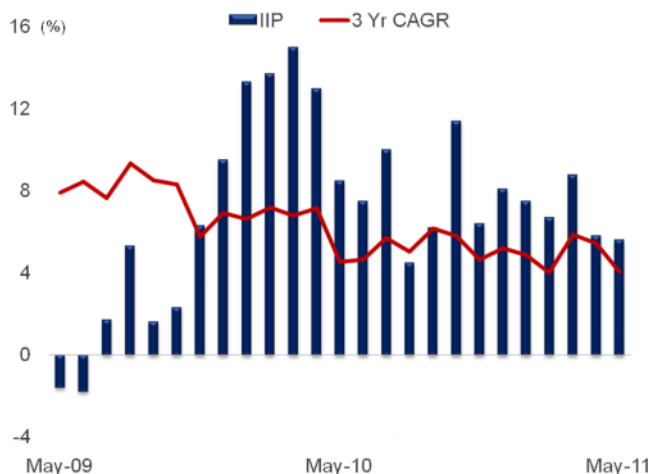
- ✘ May'11 IIP slowed down considerably to 5.6% YoY as compared to 8.5% in May'10
- ✘ Cumulative growth for Apr-May'11 registered a growth rate of nearly half, 5.7% as compared to 10.8% in the corresponding period last year
- ✘ Eight core infrastructure index moderated to 5.3% YoY as compared to 7.4% in May'10 mainly due to poor performance in natural gas, refinery products, steel and cement
- ✘ Capital goods and Intermediate goods continued to weighed upon the IIP index as it declined to 5.9% YoY and 0.9% in May'11 as compared to 15.8% and 11.7% in Jun'10 respectively
- ✓ Basic goods outperformed all other sectors as it advanced to 7.3% YoY as compared to 6.1% last year on the back of superior performance in electricity and fertilizer sector
- ✓ Apr'11 IIP number is revised downwards by 50 bps to 5.8% while Feb'10 IIP figure is revised upwards by mere 22 bps to 6.7%

Outlook:

- ✘ Jun'11 IIP is expected to be more or less in the similar range as Apr-May'11 as PMI is 55.3 is tab better than May'11 and auto volumes have registered an unimpressive growth
- ✘ According to ISM PMI data in the month of Jun'11 consumer non durables, basic metals and wood are expected to slowdown further
- ✓ While exports showed a upbeat performance with 45.7% growth in Jun'11 led by higher growth in engineering goods, electronic goods, basic chemicals, plastic items and mineral ores
- ✓ Electricity recorded a growth of 8.2% YoY as compared to 10.5% in May'11 and 3.7% in Jun'10. Electricity is expected to remain main driver in Jun'11 IIP
- ✓ RBI is expected to continue its restrictive stance by tightening Repo rates by another 25 bps in Jun'11 review as inflation remains sticky. We expect RBI to pause after this hike and increase the interest rates by another 50-75 bps in FY12

IIP

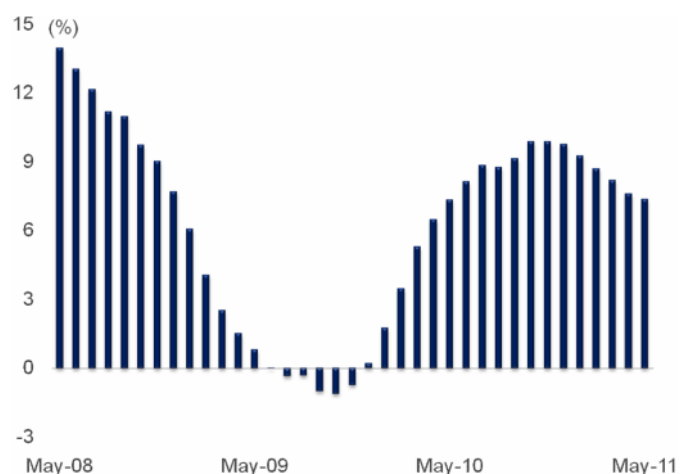
May'11 IIP continued its sluggish trend by growing at 5.6% YoY as compared to 5.8% YoY in Apr'11; registered 1.0% MoM decline.



Source: Khandwala Research, Bloomberg, CSO

12-mths Rolling IIP

Higher input prices, rising wage cost and increase in interest rates are expected to continue to impact margins going forward.



Source: Khandwala Research, Bloomberg, CSO

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Infrastructure Index

Industry (% Change)	Weight	Apr-11	May-11	May-10	Apr-May	
					FY11	FY10
Coal	4.4	2.8	1.1	0.3	1.9	1.4
Crude Oil	5.2	11.0	9.7	5.8	10.3	-8.1
Natural Gas	1.7	-9.3	-9.6	34.4	-9.5	5.5
Refinery Products	5.9	6.6	4.5	7.7	5.6	-3.2
Fertilizer	1.3	-1.3	7.3	-6.7	4.6	4.9
Steel	6.7	4.8	6.1	9.0	5.5	2.9
Cement	2.4	-1.1	-2.3	8.6	-1.6	3.5
Electricity	10.3	6.8	10.3	6.4	8.4	1.0
Infrastructure	6.7	4.6	5.3	7.4	4.9	0.4

Sector Analysis

Industry (% Growth)	Use-base Classified	Weight	Apr-11	May-11	Jun-11	Jun-10
CV	Cap Gds	1.9	24.8	35.5	17.5	56.8
Scooter & Mopeds	CD Gds	0.2	18.4	18.6	12.2	33.5
Motorcycles	CD Gds	1.0	20.0	17.1	18.1	26.1
3-wheeler	Cap Gds	0.3	18.2	24.7	26.0	29.6
Car s	CD Gds	2.0	23.5	18.6	10.6	27.5
Jeeps	Cap Gds	0.1	18.0	14.6	17.7	14.7
Electricity	Basic Gds	10.3	6.4	10.5	8.2	3.7
Infrastructure		26.7	4.6	5.3	-	4.4

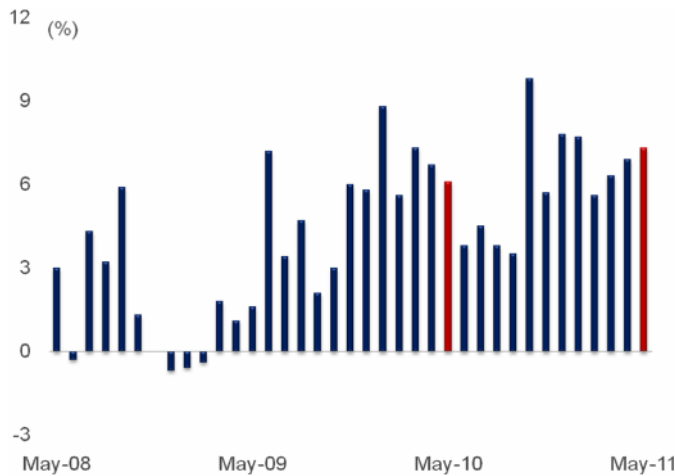
Source: Khandwala Research, SIAM



Use-based Classification

Basic Goods

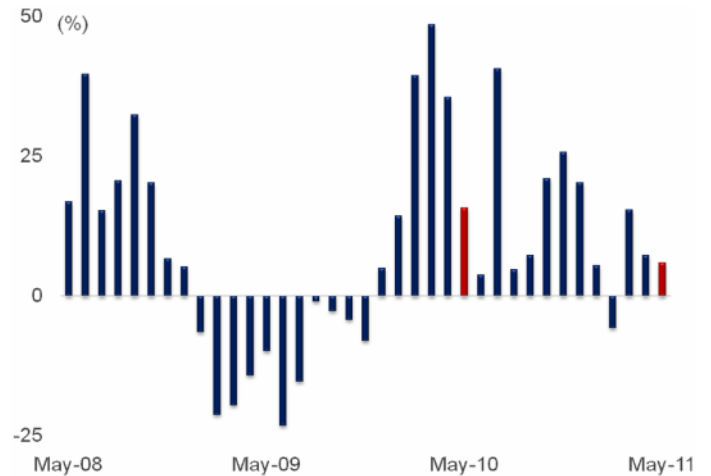
Basic goods have improved to 7.2% YoY growth as compared to 6.1% growth in May'10. Crude oil with the growth of 9.7%, basic metals with 13.4% growth and Electricity with 10.3% improved the performance in the sector. Sector is outperforming despite of slowdown in coal, cement and natural gas. Cumulative performance in Apr-May'11 is 7.0% as compared to 6.4% in the last year.



Source: Khandwala Research, Bloomberg, CSO

Capital Goods

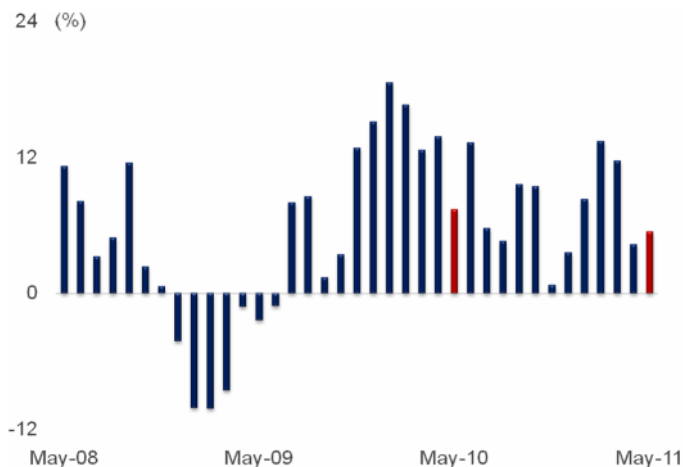
Sector declined rapidly to 5.9% YoY growth as compared to 7.3% (which was revised from 14.5%) in Apr'11. Despite of superior performance in CV of 32.1%, computers of 42.6%, boilers of 24.8% and tractors of 25.6% capital goods sector recorded a subdued growth. Cumulative performance in Apr-May'11 is 6.6% as compared to 25.2% in the corresponding period in the last year.



Source: Khandwala Research, Bloomberg, CSO

Consumer Goods

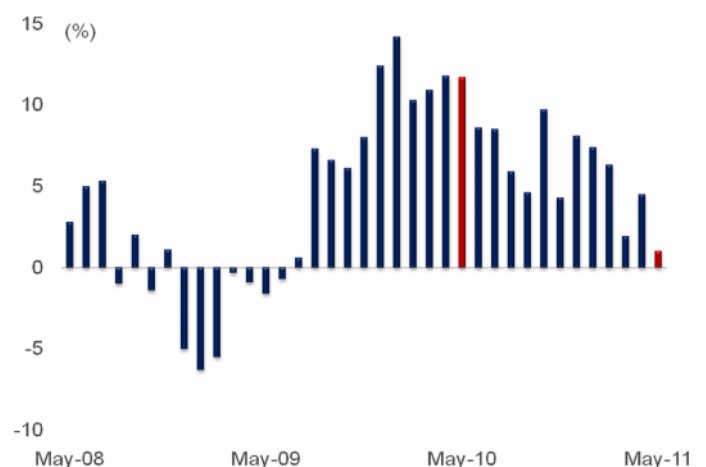
Consumer goods sector grew to 5.4% YoY as compared to 7.4% in May'10. Consumer durable sector slowed to 5.2% as compared to 14.7% in the last year. Growth in passenger cars, gems and jewellery and motorcycles stalled the decline in the sector. Consumer non-durable sector grew by 5.6% YoY as compared to decline of 1.9% in May'10.



Source: Khandwala Research, Bloomberg, CSO

Intermediate Goods

Intermediate goods sector slowed to 0.9% YoY as compared to 11.7% growth in May'10. Sector performed poorly due to meager performance in block board of (9.5%), polyester chips of (25.1%) and colour picture tubes of 51.7%. We expect going forward growth to remain in this range as the production is expected to further moderate.



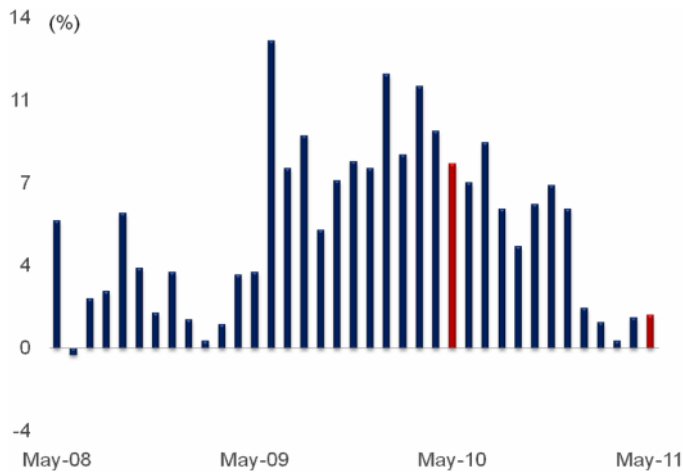
Source: Khandwala Research, Bloomberg, CSO



Broad-based Classification

Mining

Mining sector continued to decline as it recorded mere 1.4% YoY growth as compared to 7.9% growth in the last year. Coal production slowed to 1.2% as compared to 2.8% in Apr'11. We expect coal to persist poor performance due to seasonal effect. Cumulative performance in Apr-May'11 is mere 1.3% as compared to 8.5% in the corresponding period in the last year.



Source: Khandwala Research, Bloomberg, CSO

Manufacturing

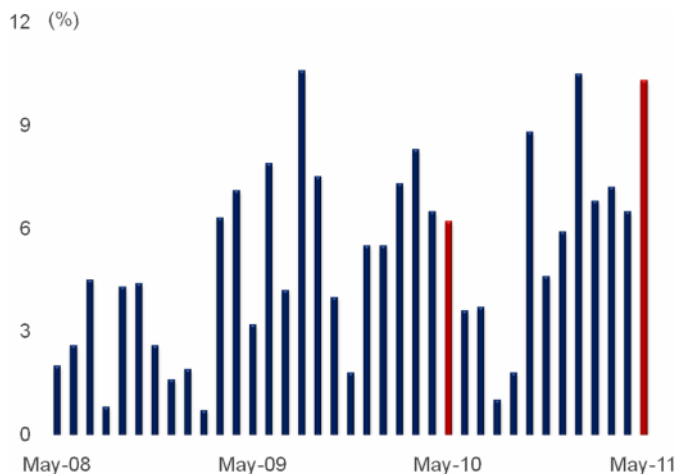
Manufacturing sector remained sluggish with a growth of 5.6% YoY as compared to 8.9% in May'10. Higher growth in motor vehicles, trailers & semi trailers, electricity, and food products and beverages aided the growth in the sector. Cumulative performance in Apr-May'11 is 6.0% as compared to 11.6% in the corresponding period in the last year.



Source: Khandwala Research, Bloomberg, CSO

Electricity

Electricity registered a significant growth of 10.3% YoY growth as compared to 6.1% in May'10. Electricity for the month of Jun'11 grew at 8.2% as compared to 3.7% in the last year. Cumulative performance in Apr-May'11 rose to 8.4% as compared to 6.3% in the corresponding period in the last year.



Source: Khandwala Research, Bloomberg, CSO



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