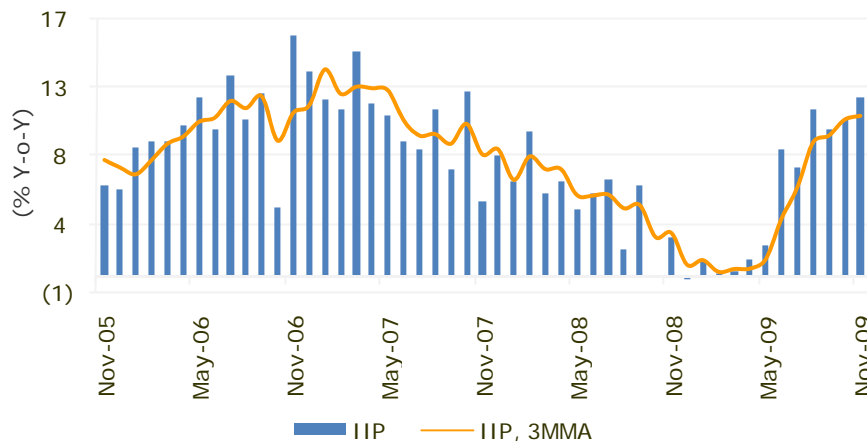


IIP

Stays firm in double digits

■ Growth in IIP continues to strengthen

IIP grew 11.7% Y-o-Y in November 2009, a notch above expectations (consensus: 10%). For October, IIP growth remained unchanged at 10.3%. After a difficult H2FY09, IIP during April-November 2009 posted a markedly healthy growth of ~7.6% Y-o-Y.



Source: CSO, Bloomberg

Note: Numbers are provisional

January 12, 2010

■ Industrial production to remain strong in coming months

On M-o-M seasonally adjusted basis, IIP recorded a gain in November 2009 (up 2.6%), led by higher growth in consumer goods and intermediate goods production. Lead indicators, including freight indices, PMI and intermediate goods production continue to show strength. Given the likelihood of continued sequential uptick and markedly favourable base for the next few months, we expect IIP to exhibit robust Y-o-Y growth.

■ Strong industrial and services sector to drive growth

Real GDP growth touched ~8% for Q2FY10 on the back of strong rebound in industrial activity and sustained momentum in services sector growth. However, while agriculture sector's growth managed to escape a fall, we factor in a possibility of markedly lower figure in Q3. We believe, non-agriculture (industry and services) GDP growth will be over 9% in Q3FY10. However, a negative growth in agriculture will drag the overall GDP growth below 6% Y-o-Y for the quarter ending December.

■ No change in policy stance: Emphasis on growth to remain centrestage

With improved industrial scenario and continued pressure on the fisc, gradual unwinding of certain stimulus measures and the overtly accommodative monetary policy are on the cards, possibly Q4FY10 onwards. However, given the current spell of inflation being largely supply-driven and growth recovery still at an early stage, such an "exit" will continue to be gradual and not at the cost of growth-recovery.

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