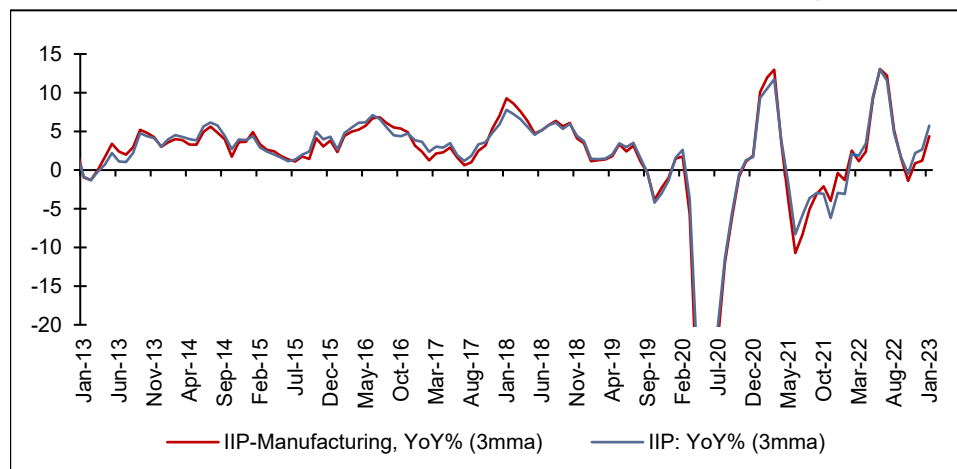


## Economy

### Industrial output accelerates in Jan'23, spurred by capex; labour-intensive manufacturing remains a drag

- ▶ Industrial output accelerated to 5.2% YoY growth in Jan'23, led by electricity (+12.7% YoY) and mining (+8.8% YoY). Manufacturing, which was the weak link holding down real GDP growth in the previous two quarters, accelerated to 3.7% YoY growth in Jan'23, from average growth of 1.4% YoY in Jul-Dec'22. Manufacturing and industrial output are poised to accelerate further in the final two months of FY23, which should enable real GDP to grow slightly more than the 7% officially estimated for FY23.
- ▶ Primary goods (+9.6% YoY), capital goods (+11% YoY) and infrastructure/construction goods (+8.1% YoY) led the industrial acceleration in Jan'23. Mining, electricity and refined petroleum products (+5.1% YoY) were key contributors to the robust growth in primary goods. Consumer non-durables ended a 2-year slump, growing 7.6% YoY in Nov'22-Jan'23. But consumer durables declined 7.5% YoY in Jan'23, primarily because of the persistent weakness in textiles and apparel, which offset the strong rebound in motor-vehicle output (+12.9% YoY). The weakness in key labour-intensive subsectors (also evident in decade-long near-stagnation in textile and garment exports) is worrying from a longer-term perspective, especially given their employment potential.
- ▶ Having endured a decade of near-stagnation, capital goods output grew 11% YoY in Jan'23 and 13.6% YoY in the first 10 months of FY23. Importantly, the level of capital goods output in Apr'22-Jan'23 was 3% higher than the pre-covid level in Apr'19-Jan'23. Capital goods imports also grew a healthy 7.4% YoY in Nov'22-Jan'23 (and were 22% higher than in the pre-covid period, Nov'19-Jan'20) — affirming the steady recovery in fixed investment spending. A sustained rebound in fixed investment is, in our view, the key factor that will enable India's real GDP to grow 7.2% in FY24.

**Chart 1: Modest acceleration in industrial and manufacturing output**



Source: I-Sec, based on data from MOSPI

**Chief Economist:**

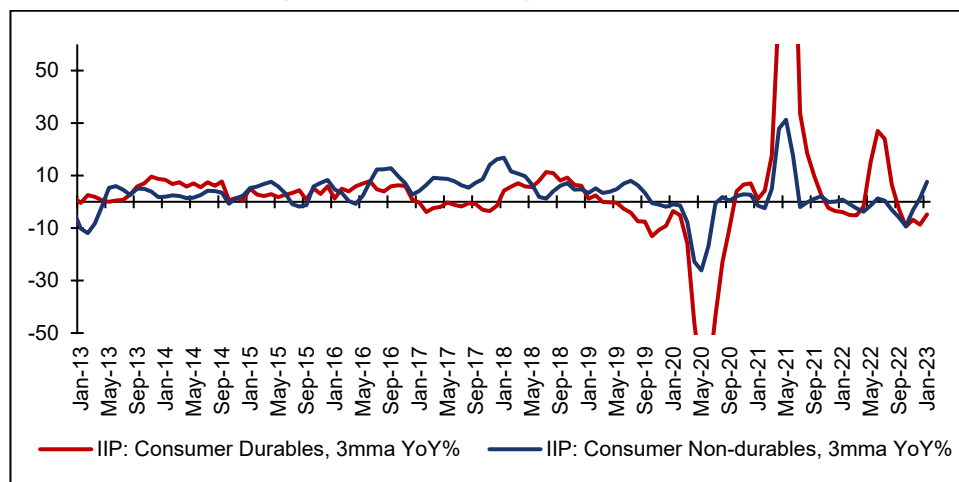
**Prasenjit K. Basu**

prasenjit.basu@icicisecurities.com  
+91 11 4221 8338

**Industrial output accelerated in Jan'23 from the modest pace of the previous 2 quarters.** Industrial production expanded 5.2% YoY in Jan'23, accelerating from the 2.7% YoY growth in Q3FY23 (Oct-Dec'22) and 1.7% YoY in Q2FY23 (both of which were revised up slightly). The acceleration in Jan'23 was broad-based, led by 12.7% YoY growth in electricity, 8.8% YoY in mining, and a relatively modest 3.7% YoY growth in manufacturing (which still represented an acceleration from the 1.2% YoY growth eked out in Q3FY23 and 1.6% YoY in Q2FY23). For the first 10 months of FY23, industrial output expanded 5.4% YoY, with manufacturing up 4.8% YoY, mining +5.8% YoY and electricity up 10.7% YoY. Industrial output in Jan'23 was 6.6% higher than in the pre-covid month 3 years ago (Jan'20), while manufacturing output was a modest 4.6% higher than in Jan'20.

**Primary goods output (which comprises more than a third of the IIP) increased 9.6% YoY in Jan'23, and was up 8% YoY in Apr'22-Jan'23.** Primary goods include minerals, electricity, fuels (petrol, diesel, kerosene, ATF), fertilisers and petrochemicals. Mining (+8.8% YoY) and electricity (+12.7% YoY growth) shored up primary goods output in Jan'23. Export duties imposed in May'22 aimed to contain domestic prices of petroleum products, but had also constrained external demand. Refined petroleum products grew 5.1% YoY in Jan'23, and 6.3% YoY in the first 10 months of FY23, but could do better if they regained access to external markets at competitive prices (i.e., in the absence of export duties).

**Chart 2: Consumer goods output troughed in Oct'22**

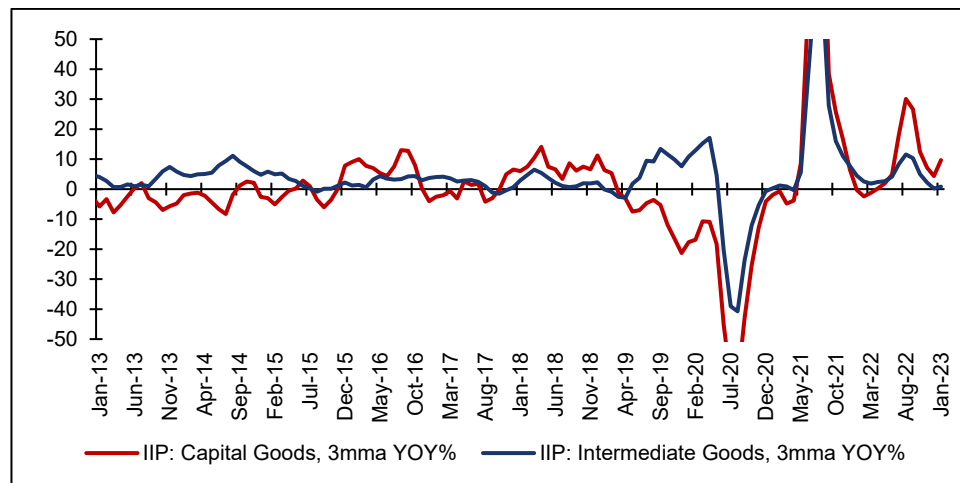


Source: I-Sec, based on data from MOSPI

**Signs of a turnaround in consumption in Nov'22-Jan'23.** Consumer non-durables output has been weak in FY23, declining 0.2% YoY in Apr'22-Jan'23, but it has been recovering since Nov'22, growing 6.2% YoY in Jan'23, and 7.6% YoY in Nov'22-Jan'23. For the latest 3 months, consumer non-durables output was 7% higher than in Nov'19-Jan'20 (pre-covid). India's consumer durables sector isn't dominated by vehicles, but includes items such as bed-linen, curtains, etc. Motor-vehicles output was up 12.9% YoY in Jan'23 and 22.2% YoY in Apr'22-Jan'23, but textiles (-11% YoY) and apparel (-23.2% YoY) output remained in the doldrums in Jan'23, causing consumer durables output to decline 7.5% YoY in Jan'23 (albeit still up 2.2% YoY in the first 10 months of FY23). The persistent weakness of textile and garments output and exports remain a worrying lacuna in India's industrial story, especially given their employment potential.

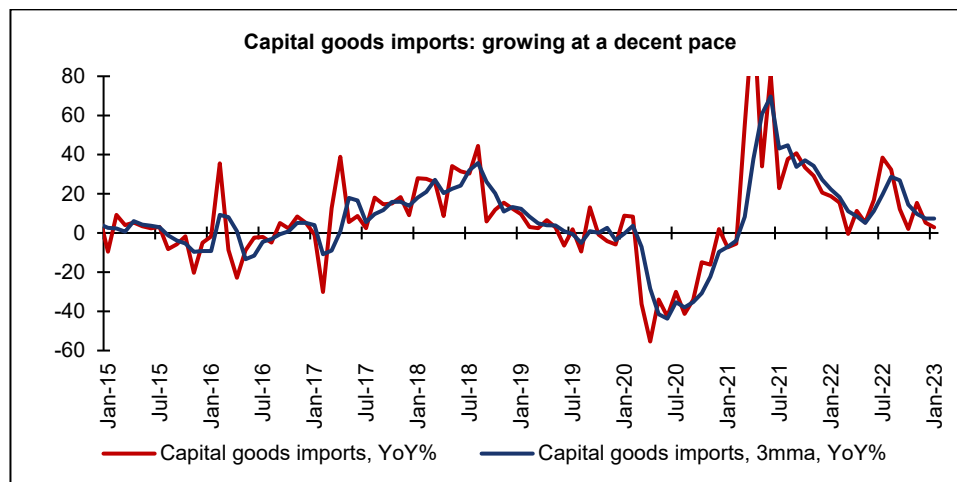
**Rebounding capital goods output indicates a steady turnaround in fixed investment spending...** Capital goods output had endured a prolonged slump since Q1CY19, as part of a decade-long period of near-stagnation, but has rebounded strongly in FY23, growing 13.6% YoY in Apr'22-Jan'23, with capital goods output up 11% YoY in Jan'23. The level of capital goods output in Jan'23 was a modest 2.8% higher than in Jan'20 (the pre-covid level) and the level for Apr'22-Jan'23 was 3% higher than Apr'19-Jan'20, indicative of a genuine but mild recovery in capital goods output this year. Infrastructure/construction goods have also rebounded, growing 8.1% YoY in Jan'23, contributing to 7.8% YoY growth in Apr'22-Jan'23. Intermediate goods output was more sluggish, up just 0.1% YoY in Jan'23, and 4.1% YoY in Apr'22-Jan'23.

**Chart 3: Capital goods strong this year, after a near-stagnant decade**



Source: I-Sec, based on data from CEIC

**...as does the strength of capital goods imports.** Our measure of capital goods imports (aggregating machinery, machine tool and project goods imports) grew 7.4% YoY in Nov'22-Jan'23, albeit decelerating in Jan'23 to 2.9% YoY growth. Comparing with the last pre-covid year, India's capital goods imports in Nov'22-Jan'23 were 22% higher than in Nov'19-Jan'20, while they were 12.9% higher in Apr'22-Jan'23 than in Apr'19-Jan'23 (and the Jan'23 level of capital goods imports was 13.2% higher than in Jan'20). The evidence from the rebound in both capital goods output and imports suggests a steady, robust recovery in fixed investment spending – the key factor that will deliver 7% real GDP growth in FY23, and also enable the economy to grow 7.2% in FY24 despite the recession in developed economies (US, EU, UK).

**Chart 4: Capital goods imports sustain steady growth**

Source: I-Sec based on data from CEIC

## Recent reports

Date	Report
28-02-2023	<a href="#">US inflation shock implies more aggressive tightening ahead, while a recession remains imminent</a>
16-02-2023	<a href="#">Trade deficit likely to narrow sharply in Jan-Sep'23, but labour-intensive export revival remains elusive</a>
14-02-2023	<a href="#">Inflation spike illusory (distorted by food-grain weights), but could induce a hawkish policy response</a>
10-02-2023	<a href="#">RBI stays hawkish; we expect inflation to recede faster than RBI projects, requiring no more hikes in CY23</a>
08-02-2023	<a href="#">US Economy: Recession imminent, but more monetary tightening needed to tame inflation</a>
02-02-2023	<a href="#">FY24 Budget: Balancing act achieves fiscal prudence while boosting capex further</a>
31-01-2023	<a href="#">Twin Deficit Watch: Revenue strength provides room for manoeuvre on the Budget; CAD set to moderate</a>
13-01-2023	<a href="#">Goldilocks economy? Industrial growth rebounds and inflation continues to abate</a>
29-12-2022	<a href="#">Twin Deficit Watch: CAD likely peaked in Q2FY23; fiscal improvement persists despite higher subsidies</a>
15-12-2022	<a href="#">Recession inevitable amid Fed hawkishness; inflation will wane and rate cuts are likely in H2CY23</a>
13-12-2022	<a href="#">A positive real rate is restored, as inflation abates and industrial output also wanes</a>
13-12-2022	<a href="#">Foreign exchange reserves being rebuilt, as INR holds steady against a depreciating USD</a>
07-12-2022	<a href="#">RBI tightens monetary policy as expected; no further rate hikes are likely in FY23, in our view</a>
01-12-2022	<a href="#">Fixed investment spending is being crowded-in as government borrowing stays below target</a>
24-11-2022	<a href="#">Period of surging USD over, but India likely to persist with mildly weaker NEER</a>
12-11-2022	<a href="#">Crises of domestic overcapacity and external overlending loom as Xi Jinping reduces focus on the economy</a>
05-11-2022	<a href="#">Holding up half the sky: Developed economies head to recession, but emerging economies remain resilient</a>
19-10-2022	<a href="#">Twin Deficit Watch: Sep'22 saw a positive shift in goods trade, while surging direct taxes buoyed the fiscal position</a>
13-10-2022	<a href="#">Dismal industrial performance amid high food-driven inflation</a>
03-10-2022	<a href="#">RBI raises repo rate as expected; external balances to improve as inflation differentials begin favouring INR</a>
28-09-2022	<a href="#">Low external debt is underpinned by large voluntary capital inflows</a>
22-09-2022	<a href="#">FOMC implicitly acknowledges its policy error; to front-load further rate hikes</a>
21-09-2022	<a href="#">Supply-side measures sacrifice growth to slay inflation</a>
01-09-2022	<a href="#">Investment-led recovery to buoy the economy amid global slowdown</a>
30-08-2022	<a href="#">US Economy: Far from recession now, but clearly headed toward one by Q1CY24</a>
22-08-2022	<a href="#">Growth will be marginally less robust as India sacrifices external strength to tackle inflation</a>
28-07-2022	<a href="#">The global investment drought &amp; China's quarter-century of over-investment</a>
28-07-2022	<a href="#">FOMC surprises (a bit) positively, with another 75bps hike; suggests smaller hikes in future</a>
15-07-2022	<a href="#">Twin Deficit Watch: Both deficits remain on a stable path, despite the noise</a>
13-07-2022	<a href="#">Growth gains ground, but inflation remains troubling</a>
16-06-2022	<a href="#">Tight labour market obliges the Fed to quickly reverse its policy error</a>
08-06-2022	<a href="#">RBI hikes 50bp as expected; policy to focus on bringing inflation into line</a>
01-06-2022	<a href="#">China faces the perfect storm: global tightening, capital flight, over-capacity</a>
01-06-2022	<a href="#">Rebounding GFCF a positive in Q4FY22; will take the growth baton from exports in FY23</a>

Date	Report
31-05-2022	<a href="#">IPEF and new FTAs to add medium-term dynamism to India's export engines</a>
24-05-2022	<a href="#">Growth was under-estimated in CY21, but reforms will spur strong growth in CY22 and CY23</a>
05-05-2022	<a href="#">MPC's inter-meeting rate hike: countering commodity inflation, and containing fallout from USD strength</a>
30-04-2022	<a href="#">US Economy: Weak GDP print for Q1 ironically reflects ample evidence of an overheating economy</a>
13-04-2022	<a href="#">Twin Deficit Watch: BoP current account to improve; revenue surge provides fiscal leeway for FY23</a>
09-04-2022	<a href="#">Monetary policy remains accommodative, but with a subtly hawkish twist</a>
07-04-2022	<a href="#">Monetary Policy errors have raised the risk of recession by 2024</a>
30-03-2022	<a href="#">Firing on all monetary cylinders, China's "selection-year" rebound is being derailed by covid</a>
25-03-2022	<a href="#">Global GDP to decelerate as FOMC tightens faster; robust external balances bolster India's monetary autonomy</a>
16-03-2022	<a href="#">Binary risks from revival of the JCPOA (Iran nuclear deal) and the wider impact of financial sanctions on Russia</a>
11-03-2022	<a href="#">A pro-incumbent win for BJP in 4 states, but longer-term challenger rises in Punjab</a>
03-03-2022	<a href="#">Higher oil prices in H1CY22 (and lower in H2) to bring forward India's rate hikes</a>
23-02-2022	<a href="#">The Risks from a Russia-Ukraine war: Higher oil prices, European recession</a>
11-02-2022	<a href="#">RBI is in calm seas despite the storm of imminent US tightening</a>
10-02-2022	<a href="#">A credible path toward crowding-in private investment</a>
31-01-2022	<a href="#">Budget Preview: Robust fiscal health opens numerous policy options</a>
25-01-2022	<a href="#">US Economy: Inflation is a monetary phenomenon; FF rate at 1.25% by end-2022 to contain it</a>
21-01-2022	<a href="#">Re-globalisation to drive growth momentum in 2022</a>

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40.92, Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet\_babbar@icicisecuritiesinc.com, Rishi\_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)  
 BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

#### ANALYST CERTIFICATION

I/We, Prasenjit K. Basu, MA, MPA authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

#### Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as an entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest in various companies including the subject company/companies mentioned in this report. ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.