

1 July 2014

## Economy – Core infrastructure

### Core infra growth slows down

Core infrastructure industries decelerated in May'14. Electricity, coal, cement and fertilisers have been robust. Natural gas, which has been in a prolonged lull for the last three years, also showed resilience. Growth in electricity, steel and cement is a harbinger of improvement in construction. Mining growth would lead to a modest revival in manufacturing. Growth being elusive and inflation high, the RBI is unlikely to alter policy rates now. A rate-cut cycle is likely to kick-start in 3QFY15, however.

**Performance.** The eight core infrastructure industries decelerated to 2.3% in May'14 compared with 5.9% growth in May'13. With 17.6% growth in May, fertilisers led the core-sector growth. Coal and cement growth picked up momentum to 5.5% and 8.7%, respectively. Steel sprang a surprise by contracting 2% in May. While refinery products and crude oil continue to shrink for a second month, natural gas offers slight hope. From -18.7% in May'13, it slowed to only -2.2% in May'14.

**Assessment.** The core industries continue to outpace overall industrial production (for the 18<sup>th</sup> month). While growth was supported by fertilisers, cement, coal and electricity, contraction in steel and crude slowed it down. Fertilisers surprised on the upside by posting a second high (double-digit) growth. With a small weighting in the core, it failed to impact overall core sector growth. Electricity growth decelerated, after a better-than-expected performance last month. Coal and cement growth accelerated further. Natural gas growth was resilient, with the best performance (by contracting the least) since Dec'10. The performance of crude and refinery products continues to be lacklustre.

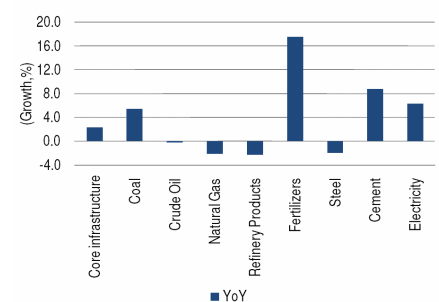
**Outlook.** The improvement in operational and procedural aspects in mining would help the coal sector grow further. Fertilisers, which grew the most since Feb'10, also look promising. Electricity, steel and cement (a combined weighting of 19%) are likely to continue to grow robustly. Despite compressing for the third year, May's small contraction makes us hopeful of an earlier-than-expected recovery in this sector. On the negative side, the shrinking in refinery products and crude is a worry, because of their large weights. The base for the core sector is favorable till Nov'14.

**Recommendations.** The buoyant performance of core industries in the last few months has finally reflected in the headline IIP figures for Apr'14. Growth in electricity, steel and cement are harbingers of growth in construction. This sector, besides electricity, was the only one of GDP (industry) to grow in 4QFY14. We expect a mining-led modest growth revival in the manufacturing sector. Despite GDP growth coming at sub-5% growth, consistent high inflation implies that the RBI would continue with policy rates. A rate-cut cycle is unlikely before mid-FY15.

Anand Rathi Shares and Stock Brokers Limited (hereinafter "ARSSBL") is a full service brokerage and equities research firm and the views expressed therein are solely of ARSSBL and not of the companies which have been covered in the Research Report. This report is intended for the sole use of the Recipient and is to be circulated only within India and to no countries outside India. Disclosures and analyst certifications are present in Appendix.

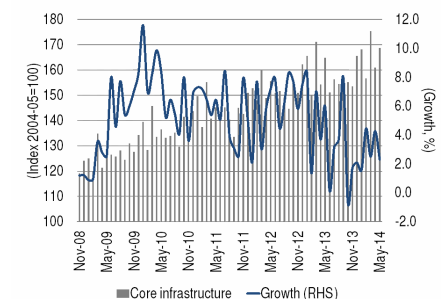
Core infrastructure (May'14): 2.3%

Fig 1 – Growth decelerates in May



Source: Government of India

Fig 2 – Core infra index rises



Source: Government of India (Gol)

Sujan Hajra

+9122 6626 6720

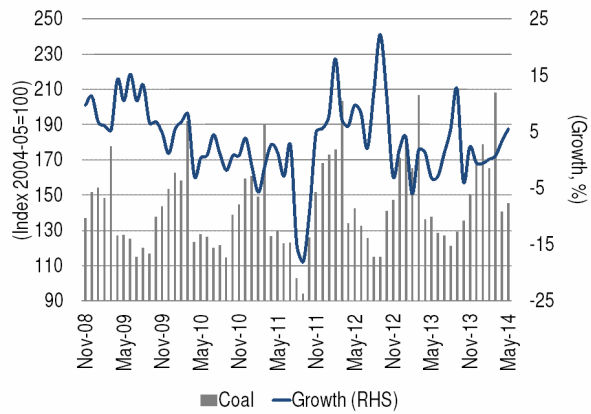
sujanhajra@rathi.com

Moumita Paul Samanta

+9122 6626 6743

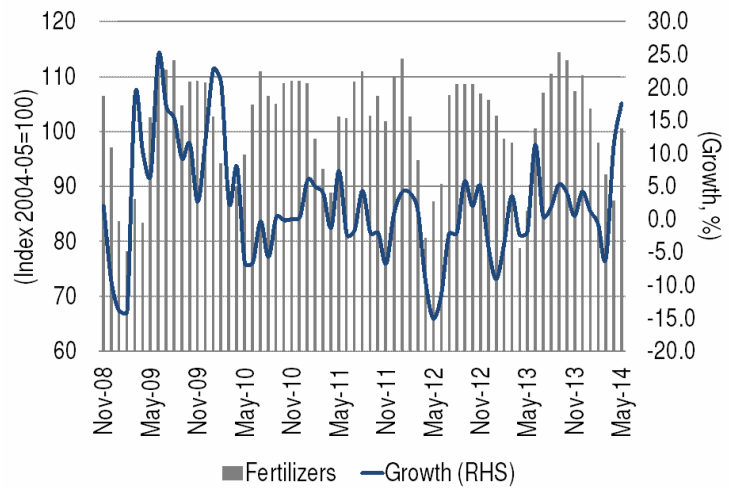
moumitapaul@rathi.com

**Fig 3 – Sustained acceleration in coal growth**



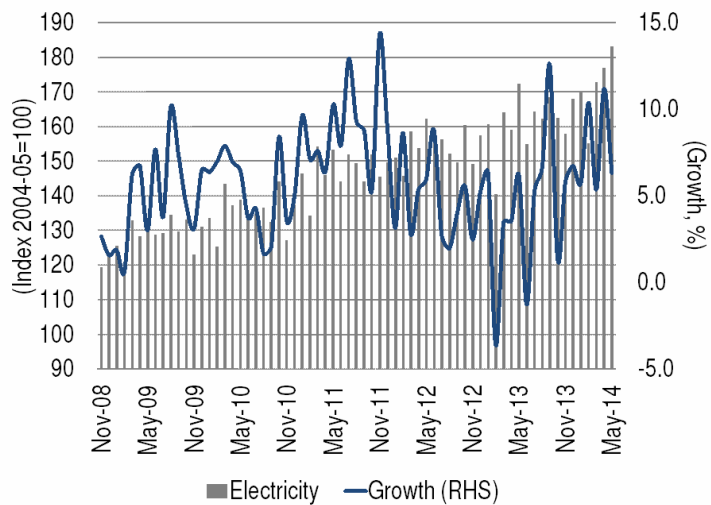
Source: Gol

**Fig 4 – Sharp jump in fertilizer index, 17.6% growth in May'14**



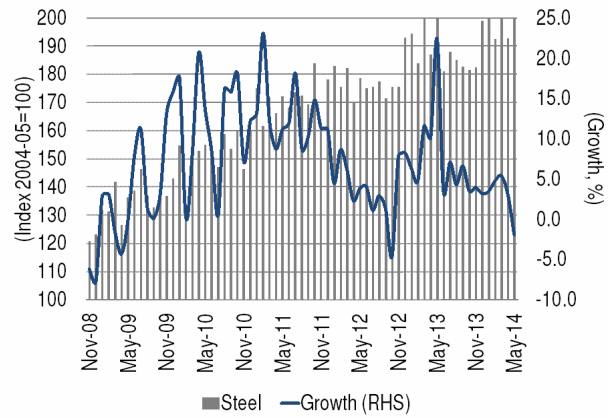
Source: Gol

**Fig 5 – Electricity index rose for the fourth month**



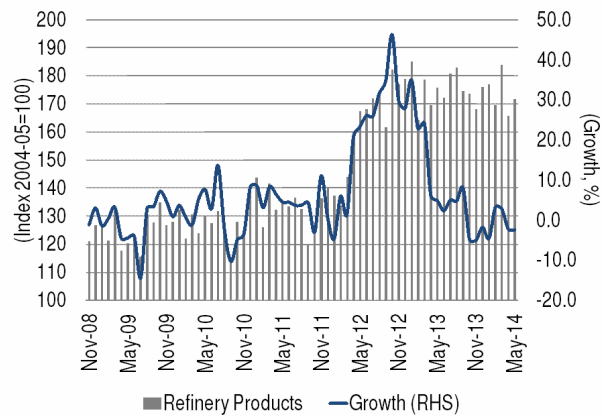
Source: Gol

**Fig 6 – Surprise drop in steel growth**



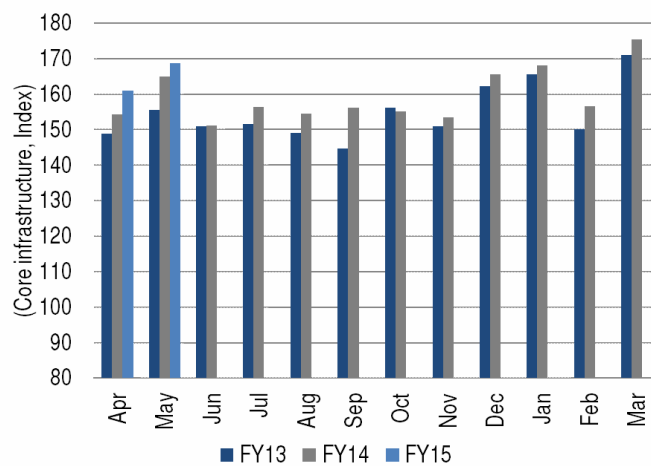
Source: Gol

**Fig 7 – Contraction in refinery; figure same as last month**



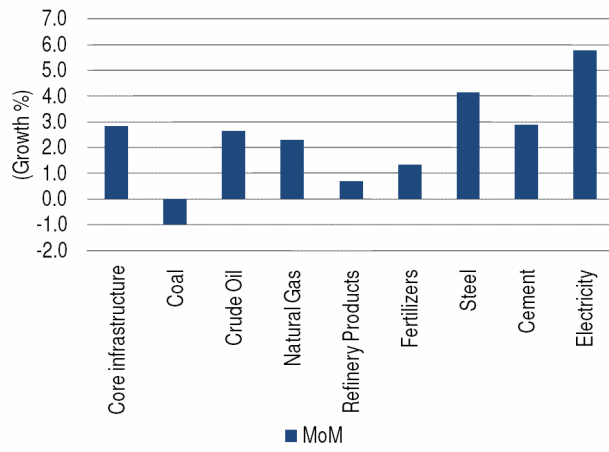
Source: Gol

**Fig 8 – Base favorable till Nov'14**



Source: Gol

Fig 9 – Only coal fell, m-o-m



Source: GoI

## Appendix

### Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

The research analysts, strategists, or research associates principally responsible for the preparation of Anand Rathi Research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and overall investment banking revenues.

### Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US\$1bn) and Mid/Small Caps (<US\$1bn) as described in the Ratings Table below:

#### Ratings Guide

	Buy	Hold	Sell
Large Caps (>US\$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US\$1bn)	>25%	5-25%	<5%

#### Anand Rathi Research Ratings Distribution (as of 26 June 2014)

	Buy	Hold	Sell
Anand Rathi Research stock coverage (185)	62%	27%	12%
% who are investment banking clients	5%	0%	0%

### Other Disclosures

This report has been issued by ARSSBL which is a SEBI regulated entity, and which is in full compliance with all rules and regulations as are applicable to its functioning and governance. The investors should note that ARSSBL is one of the companies comprising within ANAND RATHI group, and ANAND RATHI as a group consists of various companies which may include (but is not limited to) its subsidiaries, its affiliates, its group companies who may hold positions, views, stakes and may service the companies covered in this report independent of ARSSBL. Investors are cautioned to be aware that there could arise a potential conflict of interest in the views held by ARSSBL and other companies of Anand Rathi who maybe affiliated, connected or catering to the companies mentioned in the Research Report; even though, ARSSBL and Anand Rathi are fully compliant with all procedural and operational regulatory requirements. Thus, investors should not use this as a sole basis for making their investment decision and should consider the recommendations mentioned in the Research Report bearing in mind the aforementioned.

Further, the information herein has been obtained from various sources which we believe is reliable, and we do not guarantee its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes an offer, or an invitation to make an offer, to buy or sell any securities or any options, futures or other derivatives related to such securities (hereinafter referred to as "Related Investments"). ARSSBL and/or Anand Rathi may trade for their own accounts as market maker / jobber and/or arbitrageur in any securities of the companies mentioned in the Research Report or in related investments, and may be on taking a different position from the ones which have been taken by the public orders. ARSSBL and/or Anand Rathi and its affiliates, directors, officers, and employees may have a long or short position in any securities of the companies mentioned in the Research Report or in Related Investments. ARSSBL and/or Anand Rathi, may from time to time, perform investment banking, investment management, financial advisory or any other services not explicitly mentioned herein, or solicit investment banking or other business from, any entity and/or company mentioned in this Research Report; however, the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the other companies of Anand Rathi, even though there might exist an inherent conflict of interest.

Furthermore, this Research Report is prepared for private circulation and use only. It does not have regard to the specific investment objectives, financial situation and the specific financial needs or objectives of any specific person who may receive this Research Report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies discussed or recommended in this Research Report, and, should understand that statements regarding future prospects may or may not be realized, and we can not guarantee the same as analysis and valuation is a tool to enable investors to make investment decisions but, is not an exact and/or a precise science. Investors should note that income from such securities, if any, may fluctuate and that each security's price or value may rise or fall. Past performance is not necessarily a guide to future performance. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investments mentioned in this report.

### Other Disclosures pertaining to distribution of research in the United States of America

This material was produced by ARSSBL, solely for information purposes and for the use of the recipient. It is not to be reproduced under any circumstances and is not to be copied or made available to any person other than the recipient. It is distributed in the United States of America by Enclave Capital LLC (19 West 44th Street, Suite 1700, New York, NY 10036) and elsewhere in the world by ARSSBL or an authorized affiliate of ARSSBL (such entities and any other entity, directly or indirectly, controlled by ARSSBL, the "Affiliates"). This document does not constitute an offer of, or an invitation by or on behalf of ARSSBL or its Affiliates or any other company to any person, to buy or sell any security. The information contained herein has been obtained from published information and other sources, which ARSSBL or its Affiliates consider to be reliable. None of ARSSBL or its Affiliates accepts any liability or responsibility whatsoever for the accuracy or completeness of any such information. All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document. Emerging securities markets may be subject to risks significantly higher than more established markets. In particular, the political and economic environment, company practices and market prices and volumes may be subject to significant variations. The ability to assess such risks may also be limited due to significantly lower information quantity and quality. By accepting this document, you agree to be bound by all the foregoing provisions.

1. ARSSBL or its Affiliates may or may not have been beneficial owners of the securities mentioned in this report.
2. ARSSBL or its affiliates may have or not managed or co-managed a public offering of the securities mentioned in the report in the past 12 months.
3. ARSSBL or its affiliates may have or not received compensation for investment banking services from the issuer of these securities in the past 12 months and do not expect to receive compensation for investment banking services from the issuer of these securities within the next three months.
4. However, one or more of ARSSBL or its Affiliates may, from time to time, have a long or short position in any of the securities mentioned herein and may buy or sell those securities or options thereon, either on their own account or on behalf of their clients.
5. As of the publication of this report, ARSSBL does not make a market in the subject securities.
6. ARSSBL or its Affiliates may or may not, to the extent permitted by law, act upon or use the above material or the conclusions stated above, or the research or analysis on which they are based before the material is published to recipients and from time to time, provide investment banking, investment management or other services for or solicit to seek to obtain investment banking, or other securities business from, any entity referred to in this report.

Enclave Capital LLC is distributing this document in the United States of America. ARSSBL accepts responsibility for its contents. Any US customer wishing to effect transactions in any securities referred to herein or options thereon should do so only by contacting a representative of Enclave Capital LLC.

© 2014 Anand Rathi Shares and Stock Brokers Limited. All rights reserved. This report or any portion thereof may not be reprinted, sold or redistributed without the prior written consent of Anand Rathi Shares and Stock Brokers Limited.

Additional information on recommended securities/instruments is available on request.