

# **FIRST LIGHT**

## 13 April 2022

11-Apr

2.78

7.15

75.96

98.5

34,308

21,208

58.965

08-Apr

(6.1)

(52.2)

Chg (%)

8bps

3bps

(0.1)

(4.2)

(1.2)

(3.0)

(0.8)

Chg

24.3

540.8

(\$ mn)

## RESEARCH

BOB Economics Research | CPI and IIP

Industrial output up; inflation firms up

Ceramics & Gas | Expert call

Demand moderation and cost inflation to persist

## SUMMARY

## India Economics: CPI and IIP

India's industrial output inched up at a much slower pace to 1.7% in Feb'22 (1.5% in Jan'22) with manufacturing output up by 0.8%. CPI inflation rose to 7% in Mar'22 led by jump in food inflation to 7.7%. Core inflation accelerated to 6.3% in Mar'22. RBI had revised its inflation forecast upwards (5.7% in FY23) on the back of escalated geopolitical tensions. With inflation above its mandate, a pivot towards inflation and calibrated withdrawal of liquidity measures are prudential steps.

## Click here for the full report.

## Ceramics & Gas | Expert call

- Gas demand from Morbi ceramic cluster has plummeted but could recover partially in near term with potential increase in propane prices
- Sluggish exports due to higher freight costs and challenges in container availability have resulted in ~25% cut in Morbi turnover
- Ceramic players to face margin pressure near term owing to slowdown in domestic demand and commodity cost inflation

### Click here for the full report.

Source: Bank of Baroda Economics Research

**Daily macro indicators** 

08-Apr

2.70

7.12

75.91

102.8

34,721

21,872

59.447

07-Apr

(30.4)

(593.0)

Indicator

US 10Y

yield (%) India 10Y

yield (%) USD/INR

Brent Crude

(US\$/bbl) Dow

Hang Seng

Sensex

India FII

FII-D

FII-E

(US\$ mn)

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# **CPI and IIP**

# Industrial output up; inflation firms up

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**IIP growth inch up:** Industrial output rose to 1.7% in Feb'22 (-3.2% in Feb'21) from 1.5% in Jan'22 led by improvement across all the sectors. Mining sector edged upwards to 4-month high of 4.5% in Feb'22 (2.8% in Jan'22). Manufacturing output also crept up; albeit at much slower pace to 0.8% with over 12 sectors registering an improvement. Electricity output rose to a 6-month high at 4.5% in Feb'22 from 0.9% in Jan'22. On a FYTD basis, IIP growth has improved by 1.7% in Apr-Feb'22 compared with a contraction of (-) 3.2% in Apr-Feb'21. Notably, over a 2-year horizon, IIP index is (-) 1.6% below the pre-pandemic level, signally impact of higher commodity prices. Both Mining and manufacturing output too dropped (-) 0.1% (+0.3% in Jan'22) and (-) 2.5% (+0.4% in Jan'22) in Feb'22. Electricity output turned out to be 4.6% below the pandemic level (6.4% in Jan'22).

**Infra and primary goods strengthen:** Within use-based classification, primary and infra goods have registered an improvement. Primary goods clocked to 4-month high at 4.6% in Feb'22 from 1.6% in Jan'22. Infra and intermediate goods also registered a higher growth at 9.4% and 4.3% in respectively Feb'22. However, output of capital goods moderated to 1.1% in Feb'22 compared with a growth of 1.4% in Jan'22. Output of both consumer durable and non-durable goods declined sharply by (-) 8.2% (-3.6% in Jan'22) and (-) 5.5% (+2.1% in Jan'22) in Feb'22. On a FYTD basis, all the sectors registered an improvement in Apr-Feb'22 on a YoY basis led by base effect. Barring consumer non-durables, all the other sectors registered double digit growth in Apr-Feb'22.

**CPI rises further**: CPI inflation rose to 13-month high to 7% in Mar'22 from 6.1% in Feb'22 surpassing RBI mandate for the second straight month. Food inflation quickened to 16-month high of 7.7% in Mar'22 from 5.9% in Feb'22. Vegetable prices accelerated further and hit double digit mark at 11.6% in Mar'22 from 6.1% in Feb'22. Oil and fat index remained elevated at 18.8% versus 16.4% in Feb'22. Prices of meat and fish edged upwards to 9.6% in Mar'22 (7.4% in Feb'22). Inflation in fruits (2.5%) and sugar (5.5%) inched up marginally. On the other hand, prices of eggs and pulses moderated to 2.4% and 2.6% respectively in Mar'22. Global supply chain disruption is likely to drive food inflation higher.

**Core inflation elevated:** Core inflation rose by 40bps to 6.3% in Mar'22. This was led by significant jump in Personal care and effects (8.7% in Mar'22 versus 5.5%), clothing and footwear (9.4% in Mar'22 versus 8.9%), household's goods and services (7.7% in Mar'22 versus 7.2% in Feb'22) and health (7% in Mar'22 from 6.8% in Feb'22). Transport and communication (8% from 8.1% in Feb'22), housing (3.4% from 3.65 in Feb'22) and education showed some moderation.

**Inflation a concern:** On the back of uncertainty brewing amidst the geopolitical risks, disruption in global supply chain and elevated commodity prices remains a concern. This is likely to feed in to the food inflation and add to the input cost pressure in the coming months. RBI's proactive move to pivot towards inflation and withdrawal of liquidity measure in calibrated manner is a step in right direction.



# **CERAMICS & GAS**

## 12 April 2022

# Expert call: Demand moderation and cost inflation to persist

- Gas demand from Morbi ceramic cluster has plummeted but could recover partially in near term with potential increase in propane prices
- Sluggish exports due to higher freight costs and challenges in container availability have resulted in ~25% cut in Morbi turnover
- Ceramic players to face margin pressure near term owing to slowdown in domestic demand and commodity cost inflation

We interacted with Kiritbhai Patel, President – Sanitaryware Division, Morbi Ceramics Association, to gain a perspective on the ceramic industry's growth prospects and gas demand & cost outlook. Key takeaways:

Sluggish exports and higher gas cost driving ~25% cut in Morbi turnover: The Morbi ceramic industry has a Rs 400bn turnover, of which 60% is domestic and 40% comes from exports (130 countries). Turnover has decreased in both exports and domestic market. In the last six months, non-availability of containers and higher freight cost (US\$ 10k-12k per container from US\$ 7k-8k) have led to a 25% decline in exports. Freight cost has reduced a bit to US\$ 9-10k in April but container shortage remains a challenge. Additionally, the rising gas cost has intensified cost inflation, forcing a quarter of the Morbi plants into temporary shutdowns.

**Capacity growth of 0.4-0.5mn sq ft under implementation:** The Morbi industry is setting up ~100 units, with half of these already commissioned during the past year and another ~30 expected over 4-6 months. Last year, 60-70 units closed down but the industry saw a net addition of 2-3x the size of the closed capacity.

**Gas consumption down sharply but could recover partly near term:** Gas consumption has reduced to 4mmscmd from 7.0-7.2mmscmd, with a 1.5-2.0mmscmd decrease in consumption and 1.0-1.2mmscmd of substitution by propane and LPG. However, propane is no longer at a discount to gas and prices may turn higher near term. This could help raise gas consumption.

**Ceramic players to face margin pressure:** Post Covid, the ceramic industry witnessed strong pent-up demand which let players take multiple price hikes. Real estate demand has remained robust which increased the churning of old inventory. However, the rising metals/cement cost inflation and third pandemic wave in Jan'22 have hindered new construction activity over the last six months. Given the rising commodity inflation, ceramic players have taken price hikes in April to partially pass on costs despite demand moderation. However, margins still remain under pressure.

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# **FIRST LIGHT**



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