Industry

The Indian economy posted robust growth of 9.4 per cent in 2006-07. Despite a sharp deceleration in the agricultural sector, the strong GDP growth of 2006-07 was mainly powered by impressive growth of 10.9 per cent in industry and 11.0 per cent in services. Within industry, the manufacturing sector grew by 12.3 per cent, i.e. 3.2 percentage points over and the above 9.1 per cent growth achieved in 2005-06.

Table I.1: Group-wise Index of Industrial Production (% growth, y-o-y)

Industry	Manufacturing	Mining	Electricity	General
Weight	79.36	10.47	10.17	100.00
2002-03	6.01	5.79	3.22	5.78
2003-04	7.38	5.28	5.04	6.98
2004-05	9.13	4.38	5.15	8.37
2005-06	9.15	1.01	5.16	8.16
2006-07	12.50	5.28	7.26	11.50
April-May				
2006-07	12.16	3.14	5.45	10.82
2007-08	12.74	3.01	9.03	11.75

Source: Central Statisitcal Organisation, Quick Estimates of Index of Industrial Production and Use-based Index (Base 1993-94=100) May 2007, Press Note dated July 12, 2007

IIP Components

The Index of Industrial Production (IIP) posted smart acceleration in 2006-07. It grew by 11.5 per cent compared to 8.2 per cent growth experienced in 2005-06 (Table I.1). This was experienced in all its three components, namely manufacturing, mining and electricity. It is encouraging to note that electricity output grew by 7.3 per cent in 2006-07 compared to around 5.1 per cent average annual growth rate posted during the preceding triennium.

The acceleration in the IIP of manufacturing has been very convincing. Its 12.5 per cent growth compares well with the 9.1 per cent surge posted in the previous two years. It is now clear that the trend of acceleration in manufacturing output experienced since 2003-04 is well established. The growth rate of IIP manufacturing in 2006-07 is more than twice the 6 per cent growth posted by this sector in 2002-03.

The exuberance of industrial output has continued during the first two months of the current fiscal. The IIP has grown by 11.8 per cent during April-May 2007 compared with 10.8 per cent for the corresponding period of 2006. During the corresponding periods of 2007 and 2006, the growth figures for electricity generation were 9 per cent over 5.5 per cent and for manufacturing output 12.7 per cent over 12.2 per cent.

Use-based classification

Use-based classification provides the breakdown of industrial production under four major categories, viz. basic, intermediate, capital, and consumer goods (durable and non-durable). The notable feature is that there has been continued acceleration in capital goods production during the past five years, 2003-04 to 2006-07 (Table I.2).

Table I.2: Index Number of Industrial Prodcution – Use Based Classification (% growth, y-o-y)

Use based group	Basic goods	Interme diates	Capital goods	Consumer goods	Consumer Durables	Consumer Non Durables
Weight	35.6	26.5	9.3	28.7	5.4	23.3
2002-03	4.8	3.9	10.5	7.1	-6.3	12.0
2003-04	5.5	6.4	13.6	7.2	11.6	5.8
2004-05	5.5	6.1	13.9	11.7	14.3	10.8
2005-06	6.7	2.5	15.7	12.0	15.3	10.9
2006-07	10.3	11.9	18.3	10.1	9.1	10.5
April-May						
2006-07	9.2	10.5	20.6	9.7	12.5	8.8
2007-08	9.4	10.5	18.6	12.7	3.8	15.9

Source: Central Statisitcal Organisation, Quick Estimates of Index of Industrial Production and Use-based Index (Base 1993-94=100) May 2007, Press Note dated July 12, 2007

The growth rate of capital goods production has increased steadily from 10.5 per cent in 2002-03 to 18.3 per cent in 2006-07. This is indication enough of growing investment activity in the economy. There has been a surge in infrastructure investment and capacity expansion in industry. The output of basic goods has also posted gradual acceleration during this period. While the output of intermediate goods had decelerated during 2005-06, it picked up again in 2006-07, posting a growth rate of 11.9 per cent.

The continued acceleration in the production of consumer goods during 2003-04 through 2005-06 experienced a sudden retardation in 2006-07. It was caused mainly by a sharp slowdown in the production of consumer durable goods. The output of consumer durable goods grew by 9.1 per cent in 2006-07, compared to 15.3 per cent in 2005-06. The deceleration continued during the first two months of the current fiscal, April-May. The growth rate dipped to 3.8 per cent against 12.5 per cent posted in April-May 2006. The sharp slowdown in the output of consumer durables appears to have been caused by slump in demand on account of the rising rates of interest.

Infrastructure Industries

Among the six core infrastructure industries, growth in the production of petroleum products, crude oil and electricity accelerated during 2006-07 as compared to 2005-06 (Table I.3). The production of coal, steel and cement decelerated, but steel and cement were exceptions. Except for electricity and petroleum production, the output of the remaining four sectors has decelerated during the first two months of the current fiscal. Output of petroleum products has posted a high growth of 15 per cent in April-May 2007, compared with 12.6 per cent experienced during the corresponding period of 2006. The growth in output of steel continued to be quite robust.

Two-digit industry groups

The growth experience in 2006-07 has been one of acceleration (Table I.4). The sectors in which output decelerated in 2006-07 include beverages, tobacco and related products, jute and other textiles, and, other manufacturing industries including many in the consumer durables goods sector. Sharp acceleration was observed in the output of food products, cotton textiles, wool, silk and manmade fibre textiles, wood and wood products, paper and paper prod-

Table I.3: Index of Industrial Production for Infrastructure Industries (% growth, y-o-y)

Infrastructure Industry	Coal	Electricity	Steel	Cement	Crude Oil	Petro Products
Weights	3.22	10.17	5.13	1.99	4.17	2.00
2002-03	4.56	3.17	7.33	8.84	3.44	4.93
2003-04	5.13	5.06	9.76	6.10	0.72	8.24
2004-05	6.20	5.18	8.38	6.58	1.82	4.33
2005-06	6.56	5.12	11.21	12.35	-5.24	2.14
2006-07	6.05	7.32	10.88	9.13	5.56	12.29
			April-May			
2006-07	5.87	5.49	10.41	9.45	-0.30	12.55
2007-08	0.73	9.00	10.15	7.40	-0.11	15.00

Note: The weights of six infrastrucutre industries add upto 26.68 which represents thecomposite infrastructre index

Source: Department of Commerce, Ministry of Commerce and Industry, Index of Six Infrastructure Industries Base: 1993-94=100, Press Release dated July 10, 2007

Table I.4: Production growth in major industry groups of manufacturing sector: Two-digit level (%, y-o-y)

Industry Code	Year	2005-06	2006-07	April-May 2006-07	April-May 2007-08
20-21	Food products	2.0	8.6	-6.8	39.8
22	Beverages, tobacco and related products	15.7	11.2	14.2	6.4
23	Cotton textiles	8.5	14.8	11.7	8.2
24	Wool,silk and man-made fibre textiles	0.0	8.0	12.5	6.2
25	Jute and other vegetable fibre textiles (except cotton)	0.5	-15.8	-2.8	27.8
26	Textile products (including wearing apparel)	16.4	11.5	15.3	11.1
27	Wood and wood products, furniture & fixtures	-5.7	29.1	-14.1	112.2
28	Paper & Paper Products and Printing, Publishing & Allied Industries	-0.9	8.3	13.0	0.3
29	Leather and leather & fur products	-4.8	0.4	-13.4	8.4
30	Basic Chemicals & Chemical Products (except products of Petroleum & Coal)	8.3	9.6	14.5	7.2
31	Rubber, plastic, petroleum and coal products	4.3	12.8	8.3	11.5
32	Non-metallic mineral products	11.0	12.8	13.3	7.0
33	Basic metal and alloy industries	15.8	22.8	21.4	19.5
34	Metal products and parts (except machinery and equipment)	-1.2	11.4	-3.4	7.4
35-36	Machinery and equipment other than transport equipment	11.9	14.1	11.4	19.6
37	Transport equipment and parts	12.7	15.0	20.0	2.3
38	Other manufacturing industries	25.2	7.8	35.9	-5.2
2-3	Total manufacturing	9.15	12.50	12.16	12.74

Source: Central Statisitcal Organisation, Quick Estimates of Index of Industrial Production and Use-based Index (Base 1993-94=100) May 2007, Press Note dated July 12, 2007 ucts, rubber, plastic, petroleum and coal products, basic metal and alloy industries, and, metal products and their parts. There has been continued acceleration in the output of many of these groups even during April-May 2007. The most notable acceleration was seen in the case of capital goods (35-36 per cent), thus indicating the continued investment activity in the economy.

Investment Activity

FDI equity inflow touched $15.7 billion during 2006-07, recording a growth rate of 184 per cent over the previous year. It was the highest amount of FDI received during any financial year since the commencement of economic reforms in 1991. The congenial investment climate seems to have gained the confidence of foreign investors. As of April 2007, the cumulative FDI equity inflow touched $ 56.2 billion. Of the total cumulative FDI inflow from August 1991 to April 2007, the electrical equipments sector received the highest proportion (19.2 per cent) followed by the services sector (18.4 per cent) and telecommunications (8.4 per cent). However, the services sector, including financial and non-financial services, attracted the highest amount of FDI in April 2007. Simultaneously, Indian companies are also making investment inroads abroad. Outward FDI touched $ 11.0 billion during 2006-07.

Special Economic Zones (SEZs) attracted huge investments. The government formally approved more than 360 SEZs. However, only 133 SEZs are notified till date. These have attracted investment to the order of $10 billion and provided direct employment to over 35,000 people and indirect, supporting employment for many more. It is expected that the investments in new SEZs during this year would be of the order of another $12 billion. Suitable policy changes, including on land acquisition, would go a long way in restoring the confidence of domestic investors.

Investment activities are also building up in the development of infrastructures, which is crucial for sustaining buoyant manufacturing growth. In July 2007, India and Japan signed a memorandum of understanding to construct the Delhi-Mumbai Industrial Corridor with proposed investment of $90 billion. Besides connecting the existing seaports, the 1,483-Km industrial corridor will have a 4,000 MW power plant, three ports and six airports.

Corporate Performance

The strong rupee has affected the financial results of the companies differentially, depending on whether they are on the export or import side and the amount of dollar loans they have availed. The aggregate results for 701 comparable companies are presented in Table I.5. It may be observed that total sales grew at 22.4 per cent during the first quarter of 2007-08. The corresponding growth rate was 35.1 per cent in profit before tax (PBT) and 34.5 per cent in profit after tax (PAT). Growth in all the three indicators is lower than that observed during the full year 2006-07. However, "other income" has recorded a growth rate of 107 per cent in the first quarter of 2007-08 which is much higher than the 24.7 per cent growth rate posted during the full year 2006-07. As expected, the rising interest rate has impacted the interest payments by companies. The interest payments have shot up by 46.9 per cent during this first quarter.

Among industry groups, the appreciating rupee has adversely affected

Table I.5: Aggregate Results for 701 comparable results out of 716 companies

Particulars	Quarter Ended		Full Financial Year	
	April-June 2007-08 (Rs Crore)	% change over April -June 2006-07	2006-07 (Rs Crore)	% change over 2005-06
Sales **	220981	22.4	818757	30.0
Other Income **	7288	107.0	20561	24.7
PBIDT	78139	36.1	261558	37.0
Interest	29701	46.9	91678	38.0
PBDT	48438	30.2	169880	36.4
Depreciation	6889	6.7	28512	16.9
PBT	41549	35.1	141368	41.2
Tax	11035	36.9	35994	43.9
PAT	30514	34.5	105374	40.2

** For banks, term-lending institutions, housing finance companies, NBFCs and investment companies, Sales includes other income. The aggregates are based on reported figures and no adjustments are made for any extraordinary items. Tax includes deffered tax.
Source: Capital Market (www.capitalmarket.com)

the software companies' profits. The volatility in the currency market forced the companies to take recourse to hedging to protect profit margins. For instance, among the top four information technology companies -- Infosys, Tata Consultancy Services (TCS), Wipro and Satyam -- the performance of TCS has turned out to be above average during the first quarter of the current year. This is due to TCS' adoption of a relatively long-term hedging strategy to manage the risk. However, the Business Process Outsourcing (BPO) industry and many medium-sized software exporting companies seem to have reported low profits.

The pharmaceutical sector has registered slow growth sales, which resulted in lower profit growth during April-June 2007-08. The reported early results of the two-wheeler and fertiliser sectors reflect sharp deceleration in net profits. On the other hand, capital goods, cement and steel companies seem to have performed well.

Prospects

The NCAER Business Confidence Index had gone down during the last quarter of 2006-07 as well as during the first quarter of 2007-08. Nevertheless, industrial production, particularly manufacturing production, has not lost much of its sheen and exuberance. The impact of rising interest rates and the appreciating rupee may have a lagged effect on the economy. While the rising interest rate has already affected the growth rate of consumer durable goods, the same has not yet affected the output of capital goods output. The appreciating rupee would have a dual impact on India's industrial performance. While it may have some negative influence on the short-term competitiveness of India's export sector, it would also provide Indian industry with cheaper raw materials and intermediate goods. In the longer term, domestic producers would need to become more efficient through increasing their scale and productivity.