

Industry

In the last fiscal (2005-06) too, the industrial growth, started from the second quarter of 2003-04, continued its robust performance. The performance this fiscal is noteworthy as it has attained at a time when global oil prices touched an all-time high, and monsoon has been below par. The advance GDP estimate released by the CSO for FY 2005-06, has put the industrial growth at 9 per cent, 0.4 percentage points higher than last year. The manufacturing sector performance has also been spectacular with GDP from this sector is expected to grow at 9.4 per cent (1.3 percentage points higher than last year). This is the fourth consecutive year, when the industrial sector would record more than 7 per cent growth. The construction sector's good performance in the last three years also contributed towards the growth of this sector. The mining and quarrying, and electricity sectors pulled this sector's growth down. Industrial sector's robust growth in the last four years has helped increase its share in GDP by one percentage point.

There are indications that the current buoyancy in the manufacturing sector is here to stay for a while. The Business Confidence Index (BCI) of the NCAER has reached 154 during January-March 2006, which is the highest since November 1994 (159.4). Further, in spite of increased volatility, capital market is bullish and FIIs have pumped in more than Rs

17,000 crore into Indian equities in the first quarter of 2006, and nearly Rs 49,000 crore in FY 2005-06. Consequently, the BSE SENSEX crossed 12,000 mark on April 20, 2006. With second advance estimates of 2005-06 for most of the crops, higher than the fourth advance estimates of 2004-05 (except for cotton and mesta), the cash income of farmers is likely to be higher. This would certainly provide sustained demand for manufactured goods, which is good news for FMCG companies with high rural exposure. However, there are also downside risks, particularly due to high and uncertain oil prices.

Industrial Performance

Although the Index of Industrial Production-General (IIP-G) showed a decline in November-December 2005, it bounced back in January and February 2006 by growing at 7.9 per cent and 8.8 per cent, respectively. A cumulative picture, therefore, would be a better indicator for judging the industrial performance of 2005-06. The IIP-G recorded 8.0 per cent growth during April-February 2005-06 (Table I.1) - marginally lower than the growth recorded during the same period in FY 2004-05 (8.2 per cent). Whereas, the aggregate April-February 2005-06 IIP-G growth has been marginally lower than the same period last year, growth of IIP-Manufacturing (IIP-M) has been marginally higher this year (9.0 per cent) vis-à-vis 8.9

IIP-General grew by 8.0 per cent during April-February 2005-06

IIP-Manufacturing grew by 9.0 per cent during April-February 2005-06

per cent during the same period last year. The IIP-M growth, which declined to 6.0 per cent in December 2005, did a smart recovery in January and February 2006 by registering 8.8 and 9.5 per cent respectively. The IIP-Mining is pulling down IIP-G growth, while it grew by 2.8 per cent, 5.2 per cent and 4.8 per cent in April, May and June 2005, respectively. Thereafter, its growth went into negative territory continuously for the next six months. The fire in the ONGC platform in the Bombay High was mainly responsible for this lackluster performance. It was only in January-February 2006 that IIP-Mining resumed positive growth. As a result, average growth of IIP-Mining during April-February 2005-06, has been a paltry 0.5 per cent compared to 4.1 per cent during the same period last year.

Though, the performance of electricity sector has been unimpressive, it was better than mining sector. The IIP-Electricity grew by 5.3 per cent during April-February 2005-06 compared to 5.4 per cent the same period last year. The total electricity generation during April-February 2005-06 has been 562.702 billion Kwh, up from 534.493 billion Kwh in the same period of the previous year. The highlight of electricity production in 2005-06 has been the 21.4 per cent growth in hydro-electricity generation, which is noteworthy, since it attained over 14.5 per cent growth over the last year. Due to coal shortages, thermal electricity generation grew by a paltry 2.1 per cent and nuclear energy generation by 3.9 per cent.

Even the performance of infrastructure industries consisting of crude, coal, electricity, steel, cement and petroleum products have been unimpressive during this fiscal (Table I.2). Despite 5.6 per cent growth in February 2006, April-February 2005-06 growth has been 4.5 per cent, 1.3 percentage points lower than the growth recorded during the same period last fiscal.

**Table I.1: Growth of Index of Industrial Production
(Percentage Change, Y-o-Y)**

Sector	2004-05	2005-06 (April-February)	
		2004-05	2005-06
General	8.4	8.2	8.0
Manufacturing	9.1	8.9	9.0
Mining	4.4	4.1	0.5
Electricity	5.2	5.4	5.3
Basic Goods	5.5	5.3	6.4
Capital Goods	13.9	12.7	16.5
Intermediate Goods	6.1	6.1	2.5
Consumer Goods	11.7	11.8	11.7
Consumer Durables	14.3	14.7	14.1
Consumer Non-durables	10.8	10.9	11.0

The performance of cement and coal has been impressive at 11.9 per cent and 6.4 per cent respectively. The electricity production registered similar growth (5.3 per cent this year vis-à-vis 5.2 per cent last year). The growth of infrastructure industries is hampered by the decline in crude oil production by 5.5 per cent this year vis-à-vis 1.8 per cent growth last year. Even, production of refined petroleum products and finished carbon steel grew at a slower rate compared to last year.

**Table I.2: Performance of Infrastructure Industries
(Percentage Change, Y-o-Y)**

Infrastructure Industries	Weight	2005-06 (April-February)		
		2004-05	2004-05	2005-06
Crude Petroleum	4.17	1.8	1.9	-5.5
Petroleum Products	2.00	4.3	5.0	1.4
Coal	3.22	6.0	7.6	6.4
Electricity	10.17	5.2	5.4	5.3
Cement	1.99	6.6	6.6	11.9
Steel	5.13	6.3	7.5	5.3
Total	26.68	5.2	5.8	4.5

Use-based Classification

The IIP-M growth during the year has been led by capital goods sector it grew by 16.5 per cent during April-February 2005-06 compared to 12.7 per cent during

the same period last year. Monthly growth of capital goods sector in 2005-06 has been in excess of 11.5 per cent. Within the capital goods sector, production of well/offshore platforms, dumper, boilers, textile machinery, furnaces, industrial machinery, cranes, material handling equipments, control panels, PVC/PICL, ship building/repair, all types of locomotives, and laboratory and scientific instruments grew by more than 30 per cent during April-February 2005-06.

Similarly, consumer durables sector grew by 14.1 per cent during April-February 2005-06 compared to 14.7 per cent during the same period last year. Barring July 2005, monthly growth of consumer durables has been in excess of 10.8 per cent. The production of bicycle tyres and tubes, two-wheeler tyres, window type ACs, telephone instruments, motor cycles, AC poly phase house meters and wrist watches grew by more than 20 per cent during April-February 2005-06.

The consumer non-durable sector grew by 11 per cent in April-February 2005-06 against 10.9 per cent during the same period last year. Production of goods such as sugar, chocolate, confectionery, sunflower oil, rectified spirit, cigarettes, sulphadiazine, hair oil, contraceptives and writing instruments grew by more than 30 per cent during April-February 2005-06.

The growth performance of basic goods sector during April-February 2005-06 (6.4 per cent) has been slightly better than the same period last year (5.3 per cent). Among basic goods sector, production of formaldehyde, aviation turbine fuel, carbon steel, HR sheets, ferro silicon, copper metal, aluminium extrusions and aluminium wire rods grew by more than 30 per cent during April-February 2005-06.

It is intermediate goods sector, which is pulling down the growth of IIP-M. The intermediate goods sector registered a paltry growth of 2.5 per cent during April-

February 2005-06 compared to 6.1 per cent the same period last year. Production of carpet backing cloth, newsprint bleached, fatty acids, monocrotophos, optical whitening agents, laminates, PVC pipes and tubes, petroleum coke calcined, glazed/ceramic tiles, asbestos cement sheets, welded link chains, valves, motor starters and contactors, stamping, winding wires and auto ancillary grew by more than 10 per cent during April-February 2005-06. The production of sub-sectors such as yarn, finished leather, high explosive nitro glycerine, gelatine, PVC/rubber sheets, light diesel oil, LPG cylinders, spun pipes and TV picture tubes are pulling down the growth of intermediate sector.

Industrial Output at Two-digit Level of Industry Classification

The index of industrial production at two-digit level reveals that 14 out of 17 industry groups have shown positive growth during April-February 2005-06 as against 15 for the same period during FY 2004-05 (Table I.3). While industry groups such as beverages, textile products, non-metallic mineral products, basic metal and alloy industries, machinery other than transport equipment, transport equipment and parts and other manufacturing industries have witnessed significant growth (more than 10 per cent) during April-February 2004-05. The production of industries such as food products, wool, silk and man-made fibre textiles, jute and other fibre textiles (except cotton) and paper and paper products remained nearly stagnant (less than one per cent growth). Industries such as non-metallic mineral products, basic metal and alloy industries and transport equipment and parts registered significant growth this year, while growth of industries such as paper and paper products, basic chemicals and metal products decelerated during April-February 2005-06.

Manufacturing sector growth is led by the capital goods sector

14 out of 17 industry groups have shown positive growth during April-February 2005-06

Table I.3: Industrial Performance at Two-digit Level (Percentage Change, Y-o-Y)

Two-digit Industries	2004-05	2004-05	2005-06
		(April-February)	
Food Products	-0.4	-0.2	0.7
Beverages, Tobacco and Related Products	10.8	10.3	14.8
Cotton Textiles	7.5	7.3	9.4
Wool, Silk and Man-made Fibre Textiles	3.5	2.8	0.5
Jute and other Vegetable Fibre Textiles (except Cotton)	3.7	3.3	1.0
Textile Products (including Wearing Apparel)	19.2	17.2	18.8
Wood and Wood Products, Furniture & Fixtures	-8.5	-8.1	-5.6
Paper & Paper Products and Printing, Publishing & Allied Industries	10.5	8.9	0.6
Leather and Leather & Fur Products	6.8	5.7	-5.0
Basic Chemicals & Chemical Products (except Products of Petroleum & Coal)	14.5	15.3	8.5
Rubber, Plastic, Petroleum and Coal Products	2.4	1.7	4.3
Non-metallic Mineral Products	1.5	1.3	10.2
Basic Metal and Alloy Industries	5.4	4.6	14.7
Metal Products and Parts (except Machinery and Equipment)	5.8	6.5	-1.3
Machinery and Equipment other than Transport Equipment	19.8	20.0	11.7
Transport Equipment and Parts	4.1	3.6	12.6
Other Manufacturing Industries	18.6	18.3	24.3

Corporate Sector Performance

The robust performance of listed corporate sector in 2003-04 and 2004-05, continued in 2005-06 too. The net sales increased by 17.3 per cent during the first three-quarters of FY 2005-06, over 22.6 per cent last year (Table I.4). The sectors such as food and beverages, chemicals (including petroleum), non-metallic minerals, machinery and transport, witnessed substantial growth in sales. Salaries and wages in the first three-quarters of 2005-06 grew by 8.6 per cent compared to 6 per cent in the same period last year. The growth in salaries and wages for non-metallic minerals, machinery and diversified sectors has been higher compared to overall manufacturing sector. The interest expenditure by the corporates grew by 4.7

per cent in the third quarter of 2005-06, breaking the trend of decline, which is clearly a reflection of the impact of rising interest rate. However, for the first three-quarters of 2005-06, interest expenditure declined by 5.2 per cent compared to 9.7 per cent in 2004-05. The increase in interest expenditure is affecting growth of PAT.

The net profit (PAT) of listed corporate sector (manufacturing) witnessed a declining trend in 2005-06. The PAT growth slowed down from 43.4 per cent for the first three-quarters (April-December) of 2004-05 to 17.6 per cent and 12.8 per cent in the first and second quarter of 2005-06, respectively. However, in the third quarter of 2005-06, PAT declined by 16.9 per cent compared to 24.3 per cent in the same period of 2004-

Interest expenditure of the corporate sector grew by 4.7 per cent in the third quarter of 2005-06. This reverses the trend of the last 4 years

**Table I.4: Growth of Profit after Tax (PAT) of Listed Corporate Sector
(common sample, per cent)**

Sectors	Number of Firms	2004-05					2005-06		April-December	
		April-June	July-September	October-December	January-March	April-June	July-September	October-December	2004-05	2005-06
Food and Beverage	229	35.6	27.4	62.8	100.3	45.4	49.8	27.3	41.1	40.3
Textiles	295	-96.0	1153.9	-31.9	33.8	-9349.3	-10.7	141.2	283.7	71.4
Chemicals	531	33.2	9.5	-8.2	-7.0	-18.3	3.0	-55.3	7.8	-23.9
— Petroleum Sector	19	40.9	1.7	-15.4	-7.1	-48.2	-10.4	-105.8	3.0	-56.2
Non-metallic Minerals	124	110.2	-427.4	77.4	84.1	-9.5	51.7	181.5	280.2	44.7
Metal and Metal Products	206	216.2	190.5	119.6	105.4	41.0	-3.7	-18.3	163.6	2.0
Machinery	309	1711.0	55.6	81.7	846.7	198.9	191.1	92.2	98.2	145.1
Transport	114	41.6	48.4	40.3	23.9	50.7	7.9	30.5	43.6	27.5
Miscellaneous	108	-17.4	34.8	41.8	-6.5	238.0	113.4	50.9	21.7	112.7
Diversified	32	86.2	-0.7	44.0	80.5	43.9	18.1	-9.6	34.4	16.9
Manufacturing	1948	66.0	50.7	24.3	43.8	17.6	12.8	-16.9	43.4	3.5
Manufacturing excluding Petroleum Sector	1929	81.3	83.1	54.5	72.0	49.0	21.3	20.0	71.3	28.2
Mining	24	17.6	27.4	104.7	82.7	42.4	29.9	17.7	45.1	28.5
Electricity	15	19.4	-38.1	60.9	49.8	34.6	-3.2	23.3	-1.7	17.8
Construction	89	31.1	217.5	16.2	26.4	231.4	-16.1	82.7	78.1	65.0
Industry	2076	50.0	33.1	36.5	48.7	26.4	13.6	-5.7	38.6	10.1
Industry excluding Petroleum Sector	2057	53.0	43.8	63.3	68.9	49.4	19.4	21.0	52.9	28.0

Source: CMIE's Prowess Database

05. The listed corporate sector's (manufacturing) performance in the first two quarters of 2005-06 was commendable as the PAT growth during the same period the previous year was 66.0 per cent and 50.7 per cent, respectively. The aggregate growth for the first three-quarters of 2004-05 and 2005-06 has been 43.4 per cent and 3.5 per cent, respectively. Some of the manufacturing sectors that have recorded exceptionally high growth of PAT in the first three-quarters of 2005-06 are food and beverages (40.3 per cent), textiles (71.4 per cent), non-metallic minerals (44.7 per cent), machinery (145.1 per cent) and miscellaneous (112.7 per cent). The chemicals is the only sector experienced 23.9 per cent decline in PAT in the first three quarters; its PAT in the third quarter declined by 55.3 per cent. In other words, chemicals sector is dragging down PAT growth in negative territory. Petrole-

um sector companies are mainly responsible for this. At a time when international crude prices are at the highest level, domestic prices of petroleum products (mainly petrol, diesel, LPG and kerosene) are not raised in tandem with global prices. This has resulted the petroleum sector companies moving in red zone from the third quarter of 2004-05; their PAT declined by 105.8 per cent in the third quarter of 2005-06. Retail prices of petroleum products are not revised from September 2005. As a result, cumulative losses of public sector oil companies in the first three-quarters of 2005-06 were estimated at around Rs 9,700 crore. The PAT of manufacturing sector companies, excluding petroleum sector, grew by a healthy 28.2 per cent in the first three quarters of 2005-06, over 71.3 per cent in the first three quarters of 2004-05, which indeed is very commendable.

Petroleum sector firms are responsible for the slower growth of PAT of manufacturing firms

The performance of listed corporate sector firms from mining, electricity and construction has also been good. The aggregate PAT of manufacturing, excluding petroleum, mining, electricity and construction sectors, grew by 28.0 per cent in the first three quarters of 2005-06 over 52.9 per cent in the first three quarters of the previous year.

Budget 2006-07 and Future Prospects

The current phase of industrial recovery, which began in 2002-03 continued in 2005-06 also. The first 11 months' data show that despite the high base in 2004-05, the growth in 2005-06 has been maintained, with some monthly aberrations. An overall industrial growth of 8.0 per cent backed by 9.0 per cent growth of manufacturing sector, though not the best growth rate in post-1991 period, is commendable since it is achieved on the back of high growth rate of last year.

The present trend, therefore, indicates a positive outlook for industrial growth due to improved capacity utilisation, improved industrial climate, and expanding domestic and external demand. The industrial revival, which started in 2002-03 by consumer non-durables sector, made in-roads in the consumer durables and capital goods sector in 2003-04. It further got steam, and consumer durables, consumer non-durables and capital goods sectors led the industrial growth in 2004-05 and 2005-06. In 2003-04, growth of capital goods, mainly originated from transport equipment and parts, while in 2004-05, machinery and equipment other than transport equipment, led it by growing at 19.8 per cent. In April-February 2005-06 too, machinery and equipment other than transport equipment, grew at 11.7 per cent over 20 per cent the same period last year. The growth of machinery and equipment other than transport equipment represents growth of capital goods better.

Despite upturn in interest rate, sustained growth of this segment from two-digit industrial classification, higher business expectations coupled with more respondents opining that investment climate is positive and capacity utilisation rate at 97 per cent suggests that investment demand hasn't yet petered out. Moreover, more than three-fifth firms contacted in the business expectations survey opined that they were planning to invest in 2006-07, slightly more than half last year. Even the industrial investment intention that peaked in 2004 at nearly double the value of best year since 1991, grew by more than 30 per cent in 2005 (Table I.5).

One of the major strengths of the current industrial recovery is that the Indian manufacturers are not only catering to the domestic demand but also to the global demand. Riding on the wave of easy liquidity and upsurge in global demand, Indian manufactured goods exports grew by more than 20 per cent in the last four years. But, this to a certain extent, makes Indian firms vulnerable to the global shocks. The resilience shown by the industrial sector is certainly not a matter of good fortune alone, but is a reflection of the inherent strength of the sector that has been built over the time in response to the reforms that were initiated in the early 90s. The increasing efficiency and competitiveness of domestic producers, liberalised trade, de-regulated interest rate regime, all have contributed significantly to the current macro economic stability and industrial growth. However, the future medium and long run outlook would depend on how quickly the solutions to the bottlenecks to growth are found. The infrastructure and power supply are few bottlenecks to growth. Economic Survey 2005-2006 pegged GDP losses due to electricity shortage at Rs 3,00,000 crore. Certain sectors of industry such as automobiles and pharmaceuticals have shown their

Aggregate PAT of listed companies excluding petroleum grew by 28.0 per cent in the first three quarters of 2005-06

Industrial investment intentions grew by more than 30 per cent in 2005

competitive edge to our peers and have the potential of becoming global production hubs.

Budget 2006-07 gave a message of stable long-term tax regime. One of the major demands of the industry — scraping fringe benefit tax (FBT) — has been retained with some minor modifications in applicability and rate. The changes in excise and custom duty rates are mostly positive and aimed at sustaining the rate of growth of manufacturing sector. Although, in his budget speech, the finance minister promised to make India a manufacturing hub, due to high fuel and electricity prices, this promise is difficult

to be kept. Another problem is the absence of a world-class transportation hub. None of the Indian airports are up to world standard in respect of cargo handling, and India does not have a single deep-sea draft port.

To sum up, the industrial growth has indeed become broad-based now and with the investment demand well on track, the expectations are that it will continue to show buoyancy in 2006-07. However, in medium term, the growth prospects as noted above, would largely depend on how quickly issues related to constraints are addressed.

Table I.5: Industrial Investment Intentions in terms of IEMs, LOI and DILs #

Year	Industrial Entrepreneurs' Memorandum (IEMs)			Letter of Intent (LOI) and Direct Industrial Licenses (DILs)		
	Number	Proposed Investment (Rs Crore)	Proposed Employment ('000)	Number	Proposed Investment (Rs Crore)	Proposed Employment ('000)
1991 \$	3084	76310	769	195	2071	34
1992	4860	115872	923	620	13994	97
1993	4456	63976	703	528	12845	100
1994	4664	88771	829	546	17937	130
1995	6502	125509	1114	355	14265	91
1996	4825	73278	696	522	29932	181
1997	3873	52379	522	321	9528	96
1998	2889	57389	521	145	3274	27
1999	2948	128892	477	132	827	17
2000	3058	72332	411	203	1042	31
2001	2981	91234	809	117	1318	14
2002	3172	91291	380	89	649	8
2003	3875	118612	833	116	1395	14
2004	5118	267069	856	100	5265	21
2005	6203	353956	1271	135	2990	23
2006 ^	492	18267	74	2	9	1

#: The Department of IP&P has been issuing DILs since November 2003 against all applications except for the items reserved for exclusive production in SSI sector for which LOI is issued separately.

\$: August to December ^: January 2006

Source: Department of Industrial Policy and Promotion.