FIRST LIGHT

13 January 2025

RESEARCH

BOB ECONOMICS RESEARCH | IIP

Industrial production surges to 6-momth high

BOB ECONOMICS RESEARCH | MONTHLY CHARTBOOK

Budget to support growth

AUTOMOBILES | Q3FY25 PREVIEW

PV and tractor segment volume drivers, 2W takes a breather

SUMMARY

INDIA ECONOMICS: IIP

IIP growth registered a robust growth of 5.2% in Nov'24 against a growth of 3.7% in Oct'24. This was supported by improvement across all the sectors. Manufacturing sector expanded by 5.8%, with over 15 sub-sectors registering stronger growth than last year. Both mining and electricity sector registered strong growth in Nov'24. Within use-based classification, capital goods, infra good and consumer durable goods registered a healthy increase in Nov'24. A festival push during this period, supported the production. In the coming months, we expect a steady pick up in production level. This has been reflected by high frequency indicators. Moreover, given the expectation of higher government spending followed by improvement in investment in H2, the IIP growth is likely to be higher in H2FY25. The attention will now shift towards upcoming Budget and RBI policy which is expected to be growth conducive.

Click here **for the full report.**

INDIA ECONOMICS: MONTHLY CHARTBOOK

Advance estimates peg India's growth at 6.4% for FY25. With H1 growth at 6.1%, we expect a pickup in growth in H2. High-frequency indicators such as digital payments, power demand, service PMI, air passenger traffic, toll collections etc. suggest a recovery is already underway. GST collections too rose by 8.3% in Q3 FY25, indicating a pickup in consumption demand. Rabi sowing has been robust which bodes well for agricultural prospects and rural demand, while reports also indicate recovery in urban demand. Inflation is likely to have edged down in Dec'24, and is expected to further moderate in the coming months. However, rupee depreciation is a key risk. Some degree of uncertainty is likely to prevail in the global and domestic financial system until there is more clarity on US policies under the new President. We remain cautiously optimistic on India's growth prospects in 2025.

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AUTOMOBILES: Q3FY25 PREVIEW

- PV segment volume growth healthy ~10% YoY for the industry driven by festivities; MM and MSIL beat industry growth
- Aggregate 2W volume growth likely to remain at mid-single digits YoY for our coverage in Q3FY25 with healthy margin recovery of 120bps
- Tractor segment key driver with ~ 20% growth in Q3 backed by healthy monsoon, although MHCV segment stays on the sidelines

Click here for the full report.

IIP

10 January 2025

Industrial production surges to 6-momth high

Jahnavi Prabhakar
Economist

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IIP growth strengthens: IIP growth rose by 5.2% (6-month high) in Nov'24 compared with 3.7% in Oct'24. This was much higher than BoB's estimate of 4.5% increase. This was driven by broad-based improvement across all the sectors. Manufacturing sector registered a strong growth of 5.8% (8-month high) against a growth of 4.4% in Oct'24. Both mining and electricity output expanded to 1.9% (0.9% in Oct'24) and 4.4% (from 2%) respectively for Nov'24. The festive period has pushed forward the production. On a FYTD basis, IIP growth moderated to 4.1% compared with 6.5% growth registered last year. Manufacturing (4.1% against 5.9%) and mining (3.3% against 9.1%) sectors also noted slower growth in FYTD'24. Electricity growth too softened to 5.3% from 7.7% last year.

Within manufacturing, out of 23 sub-sectors, 15 contributed to higher growth in Nov'24. These included, manufacture of furniture, computer & electronic, fabricated metal, machinery equipment, other non-metallic minerals amongst others. Notably, 7 sectors have recorded slower growth including, manufacture of rubber, plastics, other transport equipment and coke and refined petroleum products during the same period.

Capital good shines: Within use-based classification, infrastructure and capital goods output registered remarkable growth at 10% (4.8% in Oct'24) and 9% (3.1% in Oct'24) in Nov'24 respectively. Both primary (2.7% from 2.5% in Oct'24) and intermediate goods (5% from 4.6% in Oct'24) also registered an improvement in Nov'24. Interestingly, growth for consumer durable output accelerated to a 13-month to 13.1% in Nov'24 compared with a growth of 5.7% in Oct'24. However, the only disappointment was the slower growth in FMCG goods at 0.6% (2.6% in Oct'24) in Nov'24.

MONTHLY CHARTBOOK

10 January 2025

Budget to support growth

Economic Research Department
Aditi Gupta | Jahnavi
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Economist

Advance estimates peg India's growth at 6.4% for FY25. With H1 growth at 6.1%, we expect a pickup in growth in H2. High-frequency indicators such as digital payments, power demand, service PMI, air passenger traffic, toll collections etc. suggest a recovery is already underway. GST collections too rose by 8.3% in Q3 FY25, indicating a pickup in consumption demand. Rabi sowing has been robust which bodes well for agricultural prospects and rural demand, while reports also indicate recovery in urban demand. Inflation is likely to have edged down in Dec'24, and is expected to further moderate in the coming months. However, rupee depreciation is a key risk. Some degree of uncertainty is likely to prevail in the global and domestic financial system until there is more clarity on US policies under the new President. We remain cautiously optimistic on India's growth prospects in 2025.

Mixed picture for domestic demand: Some high frequency indicators have indicated a pick up in demand with uptick noted in digital payments, power demand, electronic imports and fertilizer sales. However, total PV sales were lower owing to post-festive inventory and limited new launches. On the rural front, two-wheeler sales also witnessed sharp drop due to cash flow issues and a shift towards EV market. Notably, the first advance estimates have pegged PFCE growth at 7.3% in FY25 aginst 4% in FY24, raising the possibility of a steady pickup in the coming months. Agriculture sector is expected to register robust growth of 3.8% in FY25 (1.4% in FY24). So far, rabi sowing has been higher compared with last year and bodes well for agriculture growth.

Central government finances: Centre's fiscal deficit was stable at 5.1% as of Nov'24 (12MMA basis). Till Nov'24 (FYTD basis), total expenditure rose by 3.3%, unchanged pace from Oct'24. Within this, while revenue expenditure growth slowed (7.8% versus 8.7% as of Oct'24), decline in capex eased (-12.3% versus -14.7%) On the income side, Centre's net revenue growth was also stable at 8.7% as of Nov'24. Within this, while direct tax collections improved (12.1% versus 11.1%), indirect tax collections growth slowed a tad (9.2% versus 10.5%). Non-tax collections held ground. We expect government to save on capex and fiscal deficit to meet the target for FY25.

Yields to remain rangebound: India's 10Y yield broadly remained steady both in Dec'24 and Jan'25 (till 9th Jan). This is albeit the pressure on liquidity which plunged into an average deficit of Rs 0.7 lakh crore in Dec'24 and a further deficit of Rs 1 lakh crore in Jan'25 (1-9th Jan: average), on account of mounting pressure on INR which might have drained domestic liquidity. However, some correction on system liquidity is likely to be witnessed.

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AUTOMOBILES | Q3FY25 Preview | 10 January 2025

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- **Aggregate 2W volume growth likely to remain at mid-single digits YoY for our coverage in Q3FY25 with healthy margin recovery of 120bps**
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Passenger vehicle growth strong in festive season, SUVs continue to be preferred: We expect healthy double digit aggregate revenue growth for PV OEMs (original equipment manufacturers) in our coverage (MSIL and MM) in Q3FY25. OEMs focus continues on SUV segment (premium products). Gross margin growth is likely to average ~100bps driven by MM and stay in the 27% trajectory despite discounts driven by better product mix, while EBITDA margins are a mixed bag with MM gaining (300bps) and MSIL dropping marginally. Focused stayed on electric vehicles with MM introducing XUV-400 All Electric and MSIL to launch the E-Vitara in Q4FY25 unveiling its entry in the EV segment (passenger vehicles).

Two-wheeler (2W) growth healthy in the festive season tapers towards the end: The festive season stayed healthy however volumes were weak in the traditionally lean December month leading to only 5% YoY in 3QFY25. It was a mixed bag with BJAUT and HMCL staying below industry growth, while EIM and TVSL driving double digit growth indicating strong demand for high-end variants. This is reflected in the EBITDA margin driven by these companies while BJAUT and HMCL stayed listless.

Commercial vehicles (CV) stay side-stepped: CVs continue to await revival, with AL's volumes lower by 2% YoY (driven by the bus segment) as MHCV and LCV segment lagged behind. AL's margins are likely to be a mixed bag with gross margin gaining however EBITDA margins weakening YoY. EIM's CV segment fared steady, with flat volumes YoY while TTMT's (unrated) volumes were flat (fell marginally).

Tractors: Volumes in the tractor segment grew by a strong 20% driven by the market leader MM gaining on the back of above-normal monsoons and healthy reservoir levels. MM's tractor volumes rose ~20%YoY/YTD while ESCORTS' volumes gained 16% YoY in 3QFY25 (fell 10% YTD). The gains in the tractor segment will lead to upward revision of FY25 industry estimates of 5% growth YoY.

Top picks: We prefer MM and MSIL in the passenger vehicles segment and continue to prefer AL in the commercial vehicles segment.

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