

ICICI Securities Limited
is the author and
distributor of this report

Chart A: Headline and core inflation

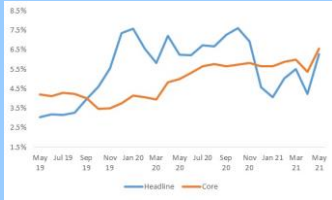


Chart B: Contribution to headline inflation

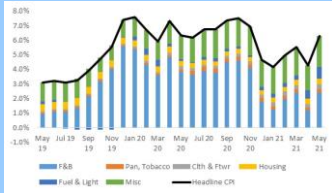


Chart C: Food inflation

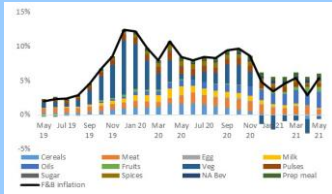


Chart D: Services inflation

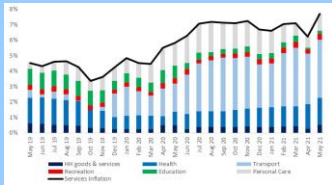
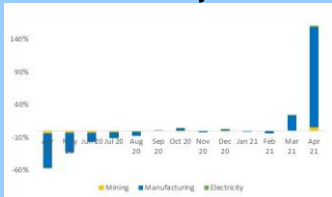


Chart E: IIP industry-wise



Research Analysts:

Anagha Deodhar

anagha.deodhar@icicisecurities.com
+91 22 2277 7622

INDIA

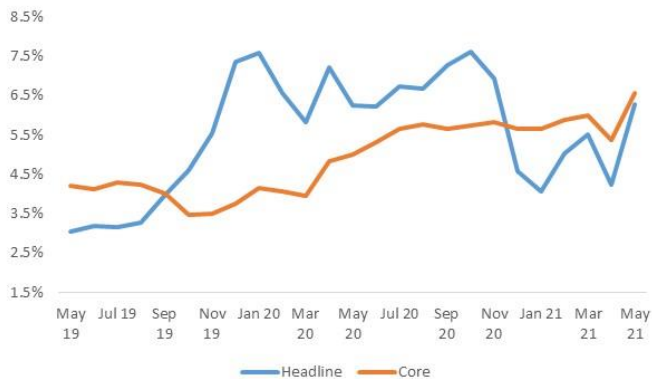


CPI IIP Monitor

Surge in food, fuel prices push CPI to 6-month high of 6.3%

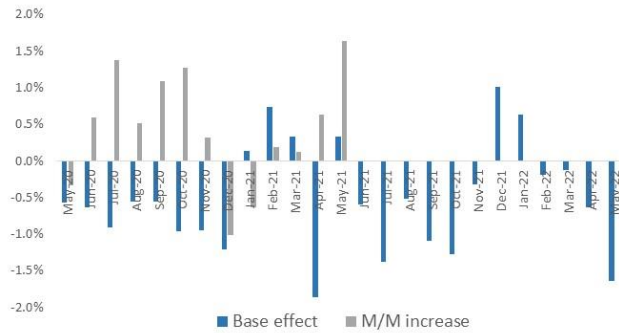
- ▶ **CPI surprises to the upside; rises to 6-month high of 6.3% in May 2021:** India's retail inflation inched up to 6-month high of 6.3% in May 2021, exceeding consensus and our estimate by 80-100bps. In Apr 2021 and May 2020, CPI had come in at 4.2% and 6.3% respectively. This print gives credence to the warning sounded off by RBI staff a couple of months ago that the second wave of Covid-19 could be inflationary. Almost all subcomponents of CPI basket recorded higher-than-expected inflation. With this print, average inflation in the first two months of FY22 stands at 5.3%.
- ▶ **In y/y terms, rising fuel and services costs compensate falling food prices:** Although headline CPI inflation stood at 6.3% in both May 2021 and May 2020, the internals were quite different. In May 2020, food contributed 380bps out of the total inflation of 630bps while fuel and services contributed 10bps and 160bps respectively. This was mainly due to the supply and transportation constraints faced during the early months of nationwide lockdown. However, in May 2021, food contributed only 240bps out of the total inflation of 630bps while fuel and services contributed 80bps and 210bps respectively. This shows that while supply constraints may not have been as severe during the second wave compared to the first wave, the persistent rise in fuel prices and costlier services have kept inflation high.
- ▶ **In sequential terms, increase in inflation driven by food, services, fuel:** However, contrary to year-on-year inflation, all three factors viz. food, fuel and services contributed to the rise in sequential inflation. Food inflation surged to 5.2% in May 2021 from 2.6% in Apr 2021, fuel inflation increased to 11.6% from 8% while services inflation increased to 7.5% from 6.1%. Within food, oilseeds and fruit prices continued to surge, contributing heavily to the rising inflation. We expect prices of these two items to remain elevated in the near term.
- ▶ **Month-on-month momentum contributes ~80% of the increase between May and Apr 2021; base effect contributes only 20%:** The base effect for May 2021 was unfavourable as inflation between May 2020 fell to 6.3% from 7.2% in Apr 2020. However, bifurcation of CPI print for May 2021 into base effect and month-on-month momentum shows that, out of the 210bps increase in inflation between May 2021 and Apr 2021, base effect contributed only ~20% while month-on-month momentum contributed ~80%. Hence, the increase in inflation in May 2021 is credible, genuine and is driven by uptick in monthly prices.
- ▶ **Core inflation surges to 6.7%, highest since May 2014:** Our measure of core inflation (ex food, fuel) increased to 6.7%, up from 5.5% in Apr 2021 and 5.1% in May 2020. This is the highest reading of core inflation since May 2014 and indicates that the underlying price pressures are credible and persistent. Within the core basket, healthcare and transportation costs have surged, driving the rise in core inflation. Healthcare inflation jumped to 8.4% in May 2021 from 4.1% in May 2020 as high demand for medicines and life-saving drugs led to increasing prices amidst the pandemic. Transportation inflation also surged to 12.4% in May 2021 from 6.1% in May 2020 on the back of rising fuel prices.
- ▶ **Inflation likely to overshoot MPC's projections:** The higher-than-expected inflation print for May 2021 calls for revising inflation forecasts for FY22. As per the latest MPC forecasts, inflation is expected to average 5.2% in Q1FY22. However, in the first two months of FY22, inflation has averaged 5.3%. Hence, we expect actual inflation prints to exceed the MPC's forecasts at least in Q1FY22.
- ▶ **IIP grows 134% in Apr 2021 on low base:** In a separate data release, the index of industrial production (IIP) grew 134.4% in Apr 2021, mainly due to low base. In Apr 2020, the nationwide lockdown led to IIP contracting 57%. In Mar 2021, IIP had grown 24%. As expected, manufacturing sector (which had contracted the most in Apr 2020), posted the strongest growth among the three sectors. Manufacturing sector grew 197% in Apr 2021 while mining and electricity sectors grew 37% and 8.5% respectively. From the use-based perspective, consumer durables, capital goods and infrastructure/construction goods posted the strongest growth. We expect low base to keep IIP growth high in the next 3-4 months.

Chart 1: Headline and Core Inflation



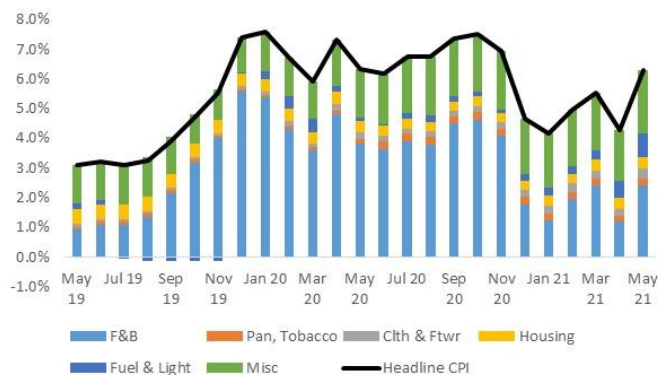
Source: Mospi, I-Sec Research

Chart 2: Base effect and sequential momentum



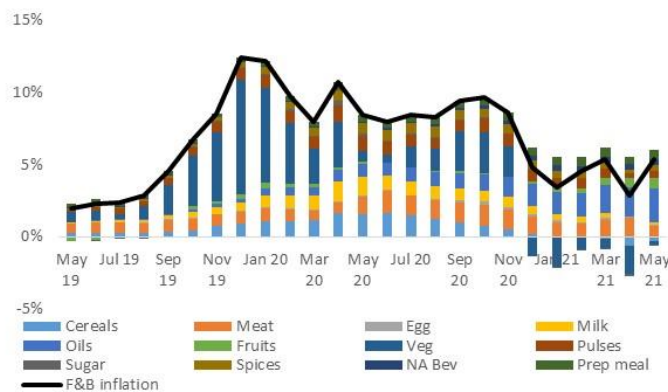
Source: Mospi, I-Sec Research

Chart 3: Contribution to headline inflation



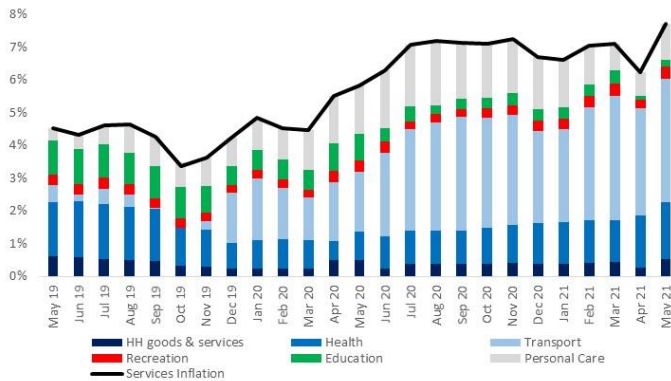
Source: Mospi, I-Sec Research

Chart 4: Contribution to food inflation



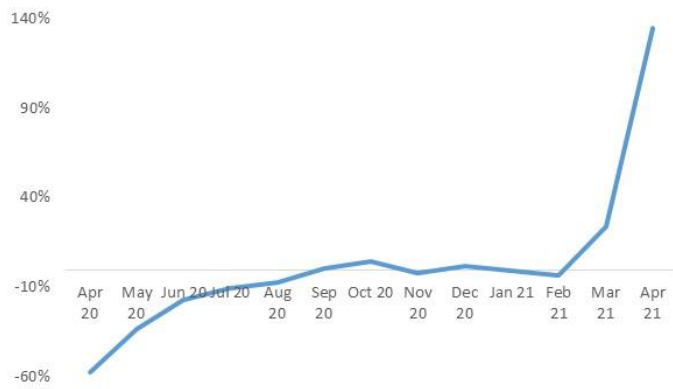
Source: Mospi, I-Sec Research

Chart 5: Contribution to services inflation



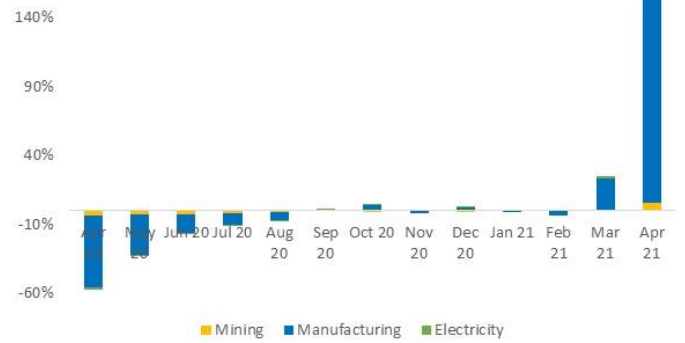
Source: Mospi, I-Sec Research

Chart 6: IIP headline



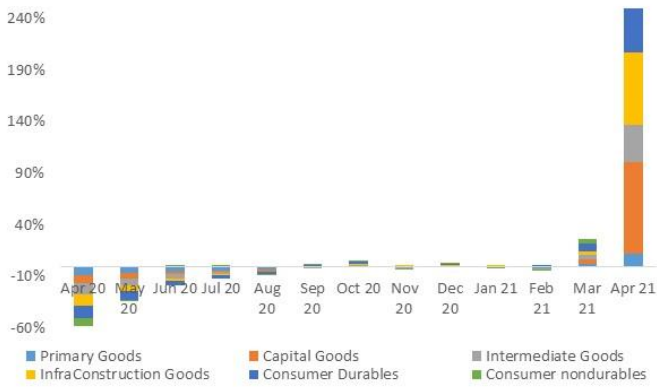
Source: CEIC, I-Sec Research

Chart 7: IIP industry-wise break up



Source: CEIC, I-Sec Research

Chart 8: IIP use-based break up



Source: CEIC, I-Sec Research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

I/We, Anagha Deodhar (MA Economics) authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990, ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as an entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.