

Industry Barometer

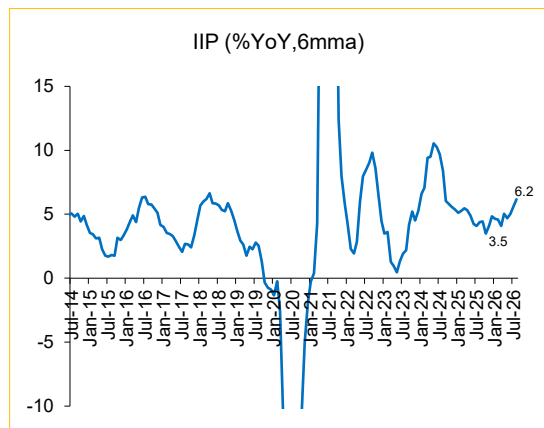
SEPTEMBER 2026



Deconstructing India's 8% Industrial Growth

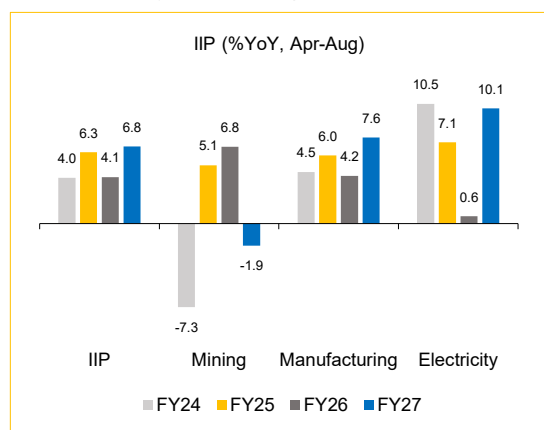
September 30, 2026

Industrial production has risen to 8% YoY in Aug'26 and rising by 6.2% on 6mma basis which is trending higher since 2H 2024



Source: CMIE, Choice Institutional Equities

Industrial activity growth is largely driven by Electricity (10%) followed by Manufacturing (7.6%)



Source: CMIE, Choice Institutional Equities

Key Takeaways

- **Bottom line:** Aug'26 industrial data prints strong at the top but narrow underneath. This is a fiscal-and-capex-led demand pulse, not the start of a broad-based industrial cycle.
- **The 8% headline overstates the trend** - IIP grew 8.0% YoY in Aug'26, but the six-month average of 6.2% is the honest run-rate, and seasonally adjusted output fell 1.3% MoM, with manufacturing down 1.9%. Momentum is fading even as the annual number looks its best.
- **Growth is concentrated, not broad** - Electricity, capital goods and infrastructure goods are carrying the index, while mining is contracting 1.9% YTD and every core energy sleeve, coal, crude, gas, refinery and fertilisers, is in the red. Even within core, steel has slowed to 3.4% in Aug from 11.8% across FY26.
- **Consumption is running two speeds** - Durables are up 9.4% YTD against just 1.3% for non-durables, the clearest sign that premium and investment demand are strong while the median household stays cautious.
- **Autos are the standout, but on borrowed time** - Two-wheelers, cars and commercial vehicles are all growing around 20% after a flat FY26, driven by the Sep'25 GST cuts. The risk is that this is demand pulled forward from FY28 rather than a durable reset.
- **The export story is uneven** - Engineering goods show genuine competitiveness, with exports up 20% YTD and tracking production. Electronics is weaker in quality, as imports surging to 40.8% outpace both output and exports, pointing to re-assembly rather than deep value-add.
- **The firm-level signals contradict the top line** - Capacity-utilisation net response collapsed to 3.5 in the June quarter, the weakest since COVID, while industry credit hit a series-high 20% led by medium firms, not large industry. Together they suggest working-capital demand, not a private capex revival.
- **What settles the debate:** whether non-durables lift off 1.3%, whether the capacity signal recovers from 3.5, and whether autos hold once the GST effect fades. Until at least two turn, the recovery stays narrow.

8% on the marquee, 6% on the meter, negative at the margin

IIP rose 8.0% YoY in Aug'26 and 6.8% YTD, with the six-month average at 6.2% and climbing since 2H2024. Firm on the surface, but two things undercut it. The base was soft, as Oct'25 had contracted 0.9%, and momentum has already rolled over, with seasonally adjusted output down 1.3% MoM in Aug and manufacturing off 1.9%. The level is high; the impulse is fading. Where the 8% comes from matters more than the number itself, and the answer is uneven from the first cut.

Wires and factories up, mines and wells down

Electricity is doing the lifting, up 9.5% YTD and 12.3% in Aug, with manufacturing behind it at 7.6% and 9.0%. Mining is contracting, down 1.9% for the year and 5.6% in Aug on monsoon and weak coal. Electricity's strength is partly weather and base, not pure demand. The awkward part is that the sectors tied to domestic extraction, mining and the core energy sleeves, are shrinking as the economy grows, widening import dependence. The demand-side cut is just as lopsided.

Capex and cars, not kitchens

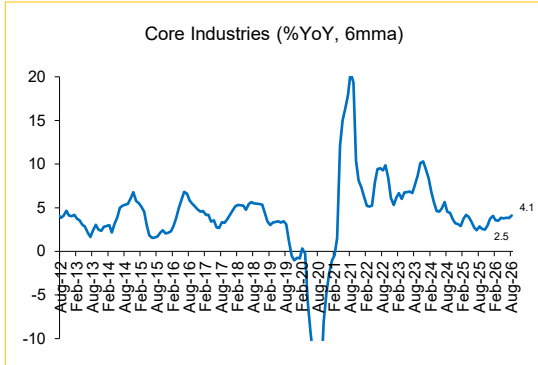
Capital goods, up 16.3% YTD, and infrastructure goods at 7.2% carry the public-capex story, with intermediate goods at 10.4% backing it upstream. But the consumer split is the real tell: durables are up 9.4% while non-durables have managed only 1.3%. Non-durables track the median household, and 1.3% means everyday consumption is close to stagnant. This is the K-shape in a single line, strong investment and premium demand over soft mass consumption. The core industries show the same shape.

Purvi Mundhra

Email: purvi.mundhra@choiceindia.com

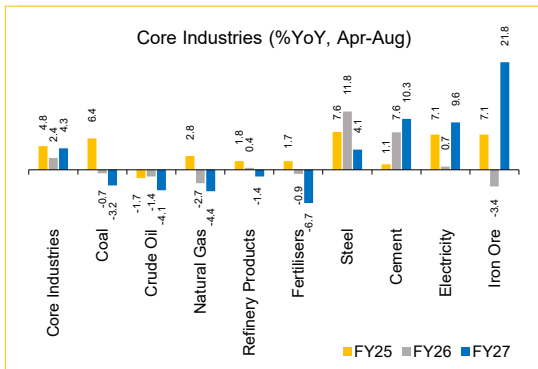
Ph: +91 22 6707 9241

Core industries growth has risen to 4.8% YoY in Aug'26 and rising by 6% on 6mma basis



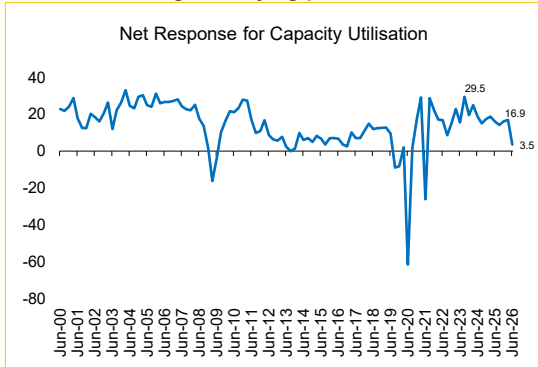
Source: CMIE, Choice Institutional Equities

Infra-led sectors drive the growth in the core industrial index upwards



Source: CMIE, Choice Institutional Equities

Net response for Capacity Utilisation (increase-decrease) had plummeted in 2Q, the lowest since COVID, indicating underlying pessimism



Source: CMIE, Choice Institutional Equities

A 4.8% core held up by two pillars

Core rose 4.8% YoY, six-month average 6%, year-to-date 4.3%. The breadth is thin. Electricity at 9.6% and cement at 10.3% (12.5% in Aug, an infrastructure tell) do the work, while coal, crude, gas, refinery and fertilisers are all negative YTD, down 3.2%, 4.1%, 4.4%, 1.4% and 6.7% respectively. Crude's fall is a multi-year structural decline, not a blip. Most striking, steel has slowed to 3.4% in Aug from 11.8% across FY26. Iron ore at 21.8% is the lone gainer, on a small, volatile base. Core growth is infra-led and narrow, not a broad upcycle. The one clearly broad demand signal is autos.

GST 2.0 shows up on the road

Two-wheeler sales are up 21.4% YTD, passenger vehicles 21.7% and commercial vehicles 20.3% in the first quarter. IIP motor-vehicle production confirms it at 19.2%, with other transport equipment at 22.7%. All three classes are accelerating together after a flat FY26, when two-wheelers grew 3.8% and cars 1.2%, which points straight to the Sep'25 GST cuts pulling demand forward. This is the print's standout positive. The open question is whether it is a durable reset or a one-off that borrows from FY28. Commercial vehicles are the most reassuring leg, since an investment-cycle signal is harder to manufacture with a tax cut. Trade tests how much of the manufacturing story is real.

Exports strong, imports stronger

Electronics production is up 13.6% YTD and exports 38.6%, but imports have surged to 40.8% from 15.3% in FY26. When components come in faster than output and exports go out, onshore value-add is thin. This is re-assembly, kits imported to be assembled and re-exported, not deep manufacturing. The PLI headline flatters what is happening underneath. Engineering goods tell the cleaner story.

The cleaner export story: engineering output and shipments rising together

Engineering-goods exports have accelerated to 20.0% YTD from 6.7% in FY26, ahead of imports at 13.5%, and the strength matches production, with machinery up 10.5%, fabricated metals 11.9% and electrical equipment 28.5%. Here exports outrun imports and track output, the mark of real competitiveness rather than pass-through assembly. It is the highest-quality growth signal in the print. Yet the firms themselves are not confirming the optimism, and that is where the barometer turns.

The dog that didn't bark: firms report the weakest capacity signal since COVID even as output prints 8%

The RBI survey's net response, higher-utilisation firms minus lower, collapsed to 3.5 in the June quarter from 16.9 in March, the weakest since COVID. Production prints 8%, but firms are not feeling tighter capacity. Either the strength is concentrated in a few sectors, matching the narrow breadth above, or firms doubt the demand will hold. Neither reading supports extrapolating 8% into broad growth, and the credit data deepens the doubt.

Credit at a record 20%, but it is the medium tier borrowing, not big industry building

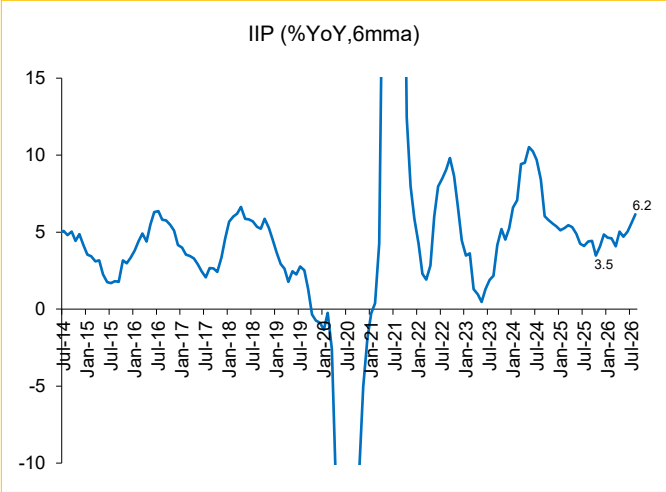
Industry credit hit 20% YoY in Jul'26, a series high, up sharply since Jul'25. The mix is the story. Medium industries are borrowing at 30% and small firms at 22.6%, while large industry, the best proxy for big-ticket private capex, is slowest at 17.7%. Against a collapsed capacity signal, this looks less like an investment cycle and more like mid-tier working capital and refinancing. The credit surge is being read as capex when the survey says capacity is not yet the constraint.

Conclusion: a pulse to trade, not a cycle to underwrite

The Aug'26 barometer is a pulse, not a cycle. The strength is real but confined to autos, durables, electricity, cement, capital goods and engineering exports, all leaning on the same fiscal and public-capex driver, all sitting on a soft base, and already softening on seasonally adjusted terms. What a cycle needs is missing. Mass consumption has not joined, with non-durables stuck at 1.3%. The energy and mining base is shrinking. And the two readings that come from firms rather than index arithmetic, capacity utilisation and large-industry credit, are the weakest parts of the print.

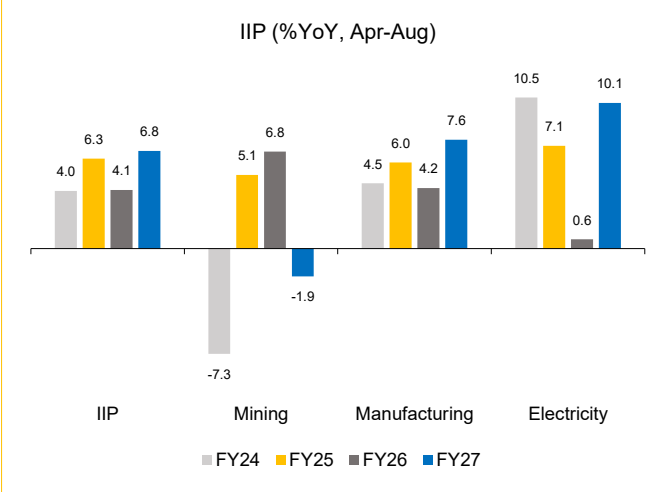
For positioning, that favours the drivers the data actually backs, autos and ancillaries, power and grid, cement and construction, and engineering exporters, and caution on the consumer-staples and energy names the barometer is not yet endorsing. Treat the "broad recovery" framing that an 8% headline invites with scepticism. Three prints will settle it: whether non-durables lift off 1.3%, whether the capacity net response recovers from 3.5, and whether autos hold once the GST pull-forward fades. Until at least two turn, Indian industry is best described as narrow, policy-supported and mid-cycle, not the durable upswing the top line advertises.

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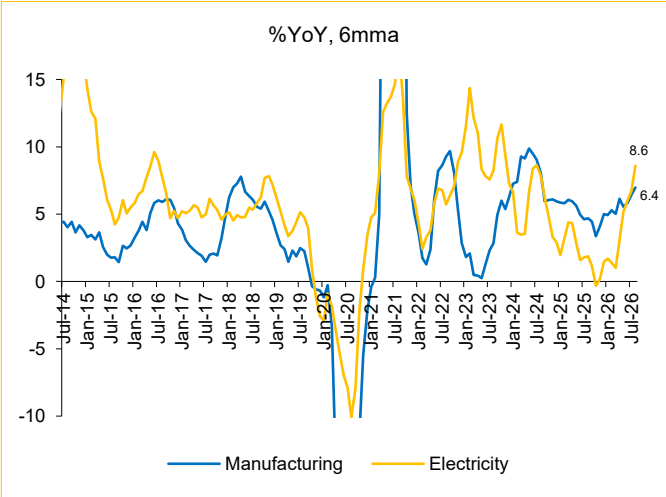
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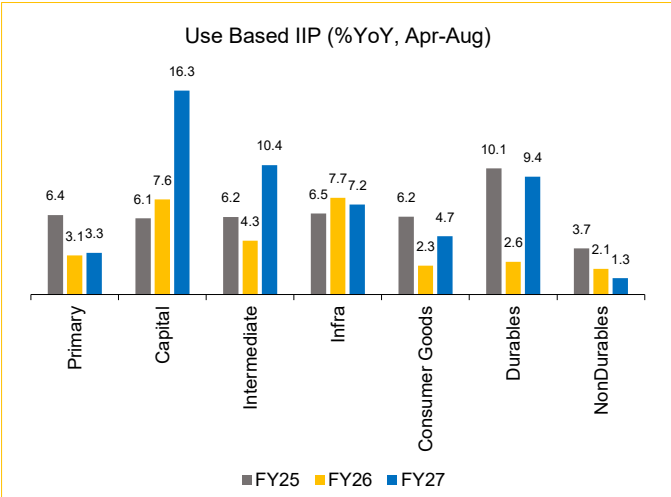
Source: CMIE, Choice Institutional Equities

Growth in electricity production surged as manufacturing activity continues to remain upbeat



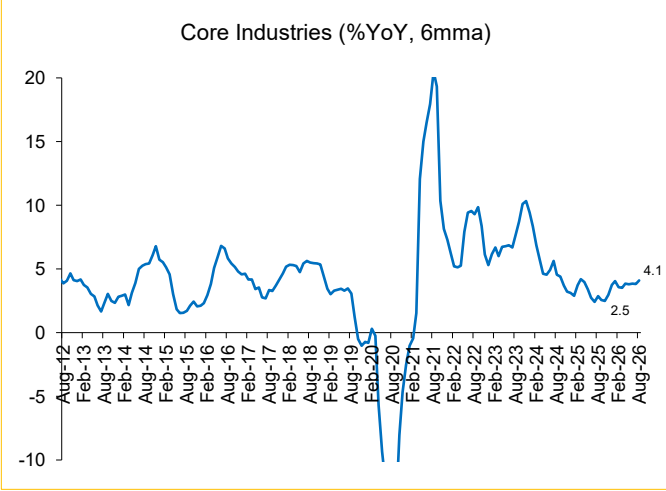
Source: CMIE, Choice Institutional Equities

Capital Goods (16.3%) and Durable goods (9.4%) drive the overall IIP growth from the use-based calculation; non-durables continued to lag



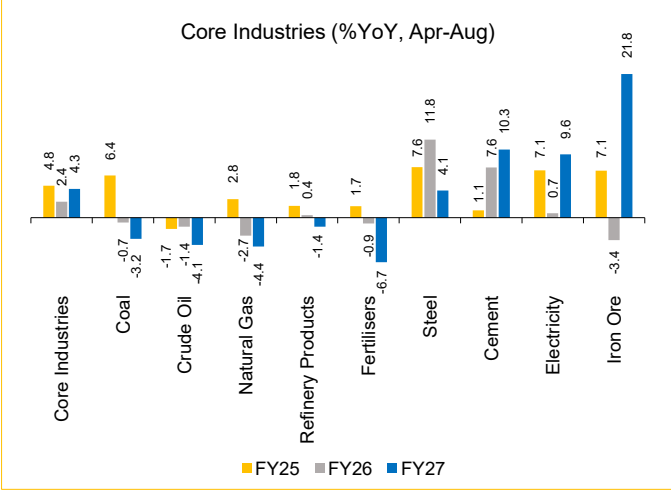
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Core industries growth has risen to 4.8% YoY in Aug'26 and rising by 6% on 6mma basis



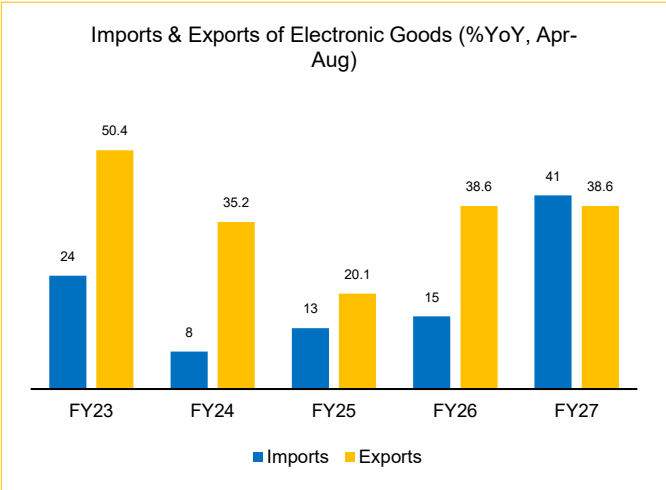
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Infra-led sectors drive the growth in the core industrial index upwards



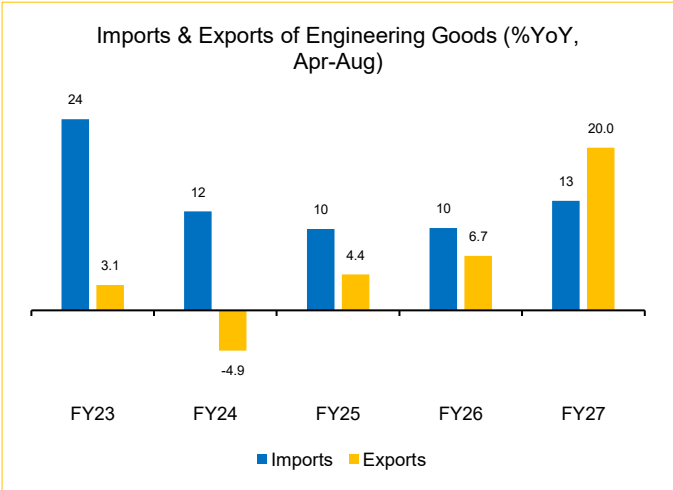
Source: CMIE, Choice Institutional Equities

Growth in electronics production largely aligns with the export but surging imports reflect re-assembling



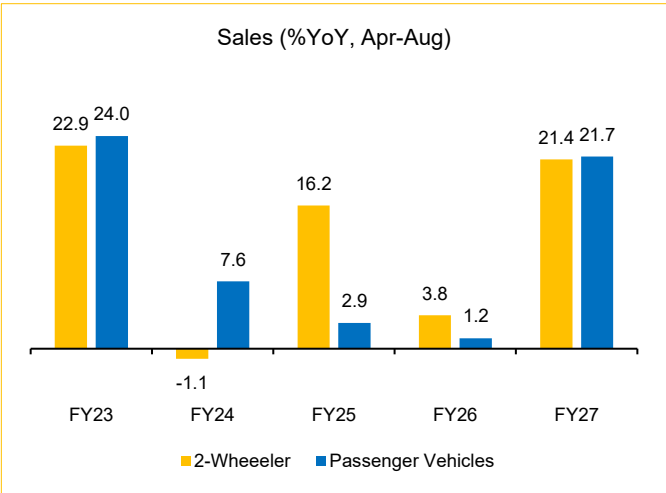
Source: CMIE, Choice Institutional Equities

Growth in engineering goods production largely aligns with the rise in exports



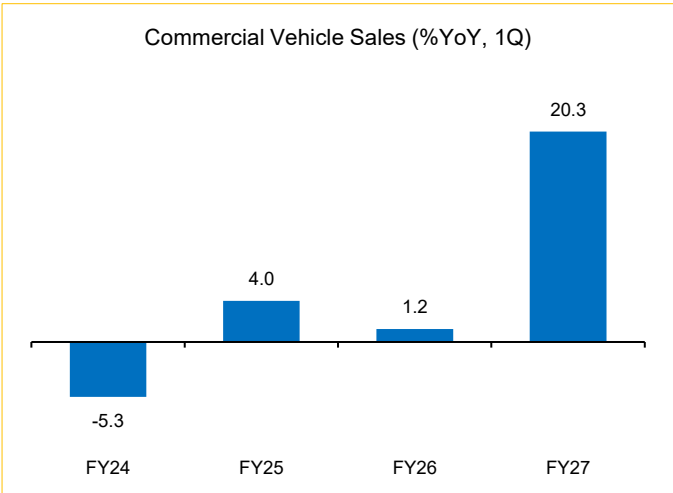
Source: CMIE, Choice Institutional Equities

Demand surge visible in sales growth of 2-wheeler and passenger vehicles are reflected in the motor vehicle production at 19.2% YTD



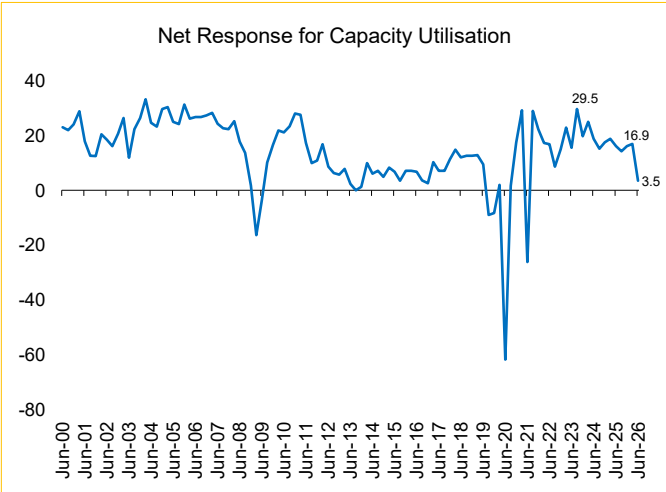
Source: CMIE, Choice Institutional Equities

Commercial Vehicle sales have also remained robust



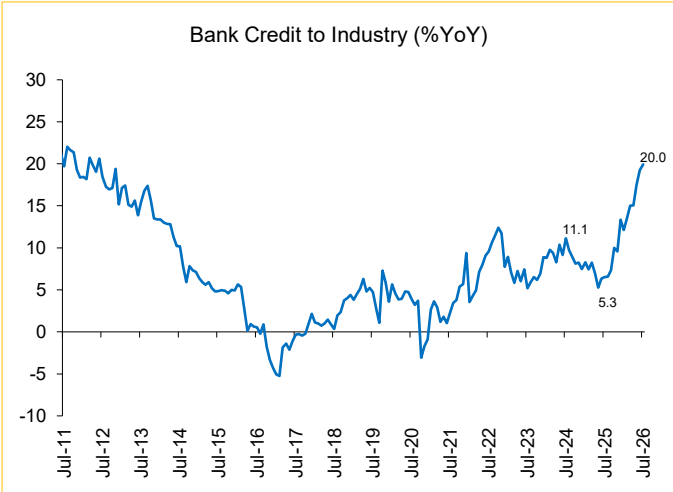
Source: CMIE, Choice Institutional Equities

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Source: CMIE, Choice Institutional Equities

Bank credit to industry has been surging since Jul'25 and is at a 15-year high of 20% in Jul'26, largely driven by medium industries



Source: CMIE, Choice Institutional Equities

Institutional Research Team			
Utsav Verma, CFA	Head of Institutional Research, India Equity Strategy and SMIDs	utsav.verma@choiceindia.com	+91 22 6707 9440
Purvi Mundhra	Economist	purvi.mundhra@choiceindia.com	+91 22 6707 9241
Ambrish Shah	Analyst - Power	ambrish.shah@choiceindia.com	+91 22 6707 9251
Ashutosh Murarka	Analyst – Building Materials	ashutosh.murarka@choiceindia.com	+91 22 6707 9521
Bhavik Shah, CFA	Analyst – Metals & Mining	Bhavik.shah@choiceindia.com	+91 22 6707 9521
Deepika Murarka	Analyst – Healthcare	deepika.murarka@choiceindia.com	+91 22 6707 9513
Dhaval Popat	Analyst – Energy	dhaval.popat@choiceindia.com	+91 22 6707 9949
Ishank Gupta	Analyst – NBFCs	ishank.gupta@choiceindia.com	+91 22 6707 9867
Karan Kamdar	Analyst – Consumer Discretionary, SMIDs	karan.kamdar@choiceindia.com	+91 22 6707 9451
Kunal Bajaj	Analyst – Technology	kunal.bajaj@choiceindia.com	+91 22 6707 9901
Maitri Sheth	Analyst – Pharmaceuticals	maitri.sheth@choiceindia.com	+91 22 6707 9511
Putta Ravi Kumar	Analyst – Defence	ravi.putta@choiceindia.com	+91 22 6707 9908
Preeyam Tolia	Analyst – FMCG & Retail	preeyam.tolia@choiceindia.com	+91 22 6707 9987
Vijjiya Rao	Analyst – AMC & Insurance	vijjiya.rao@choiceindia.com	+91 22 6707 9531
Aayush Saboo	Sr. Associate– Realty	aayush.saboo@choiceindia.com	+91 22 6707 9930
Avi Jhaveri	Sr. Associate – Technology	avi.jhaveri@choiceindia.com	+91 22 6707 9901
Bharat Kumar Kudikyala	Sr. Associate – Building Materials	bharat.kudikyala@choiceindia.com	+91 22 6707 9930
Samarth Goel	Sr. Associate– Small and Midcaps	samarth.goel@choiceindia.com	+91 22 6707 9451
Subhash Gate	Sr. Associate – Autos	subhash.gate@choiceindia.com	+91 22 6707 9233
Heer Gogri	Associate – Small and Midcaps	heer.gogri@choiceindia.com	+91 22 6707 9433
Heet Chheda	Associate – Autos	heet.chheda@choiceindia.com	+91 22 6707 9233
Rushil Katiyar	Associate – Technology	rushil.katiyar@choiceindia.com	+91 22 6707 9901
Shreya Mehra	Associate – Technology	shreya.mehra@choiceindia.com	+91 22 6707 9535
Stuti Bagadia	Associate – Pharmaceuticals	stuti.bagadia@choiceindia.com	+91 22 6707 9511
Vinay Rawal	Associate – Small and Midcaps	vinay.rawal@choiceindia.com	+91 22 6707 9433

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SELL	The security is expected to show downside of 5% or more over the next 12 months
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ADD	The security is expected to show upside returns from 5% to less than 20% over the next 12 months
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*Large Cap: More Than INR 20,000 Cr Market Cap
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