

Lower headline inflation for July (3.54%) is largely due to a favorable base effect, while sequential momentum was at a one-year high due to higher food prices. The vegetable price spike continued (14% MoM), but August has seen a sharp correction which should help prices mean-revert rapidly. Core inflation moved slightly higher owing to telecom tariff hikes. Aug CPI is tracking at ~4.1%, with lower food prices and some spillover effect of the tariff hikes, while Q2FY25E inflation is currently tracking ~15bps lower than the RBI's forecast of 4.4%. While the MPC has been wary of higher food spillover risks to core inflation, we see core inflation averaging at ~3.6% in FY25 and not moving above 4% till end-CY24. But the RBI is likely to continue to stress on being 'actively disinflationary', and maintain a wait-and-watch mode to assess multiple macro forces, unless of course swinging global winds compel it to focus on financial stability over the 4% inflation mandate.

### Favorable base pulls inflation lower, as food shocks propel sequential momentum

July CPI inflation at 3.54% YoY (Emkay: 3.72%; Consensus: 3.60%) was lower than June's (5.08% YoY), mainly due to an extremely favorable base effect, with this being reflected in food inflation as well (5.4% YoY vs 9.4% in Jun-24). However, on a sequential basis, headline inflation rose 1.4% – the highest increase in a year, with food inflation seeing a 2.8% MoM increase. Within food, the continued spike in vegetable prices (14.1% MoM) accounted for majority of the rise, led by tomatoes (42% MoM), onions (21% MoM), and potatoes (17% MoM). Other food components were also higher sequentially, led by pulses. The surge in vegetable prices was due to supply disruptions caused by heavy rainfall across the country, but data for August so far shows a sharp correction, as regular supplies have resumed along with government intervention. This should allow prices to mean-revert as rapidly as they shot up.

### Core CPI inches up owing to telecom tariff hike

The soft run of core prices continued, with core inflation (CPI ex-food, beverages, and fuel) at 3.3% YoY, albeit higher than the series-low seen in June (3.1% YoY). Monthly momentum of 0.56% was the highest in three months, albeit expected, on the back of a ~20% increase in mobile tariffs during the month. The communication sub-index rose 6.9% MoM, making it one of the biggest contributors for the month, while other components were subdued. With some hikes being delayed to August, a part of the tariff hike impact could be seen during the month as well.

### Fading food supply issues to help moderate near-term inflation, with FY25E at 4.5%

We are currently tracking August headline inflation at 4.1%, with the favorable base effect fading. However, prices for August so far show a sharp correction across major food categories, especially pulses, fruits, and vegetables which will help reduce the price momentum. Q2FY25 is currently tracking ~15bps lower than the RBI's forecast (4.4%). Progress of the monsoons is encouraging so far, with possible *La Niña* conditions likely to help rainfall over the second half of the monsoon which will aid sowing activity. While the MPC has been wary of higher food spillover risks to core inflation, we see core inflation averaging at ~3.6% in FY25 and not moving above 4% till end-CY24. We expect FY25E headline inflation to average at 4.5% (FY24: 5.4%), largely in line with the RBI's forecast.

### IIP growth slows in June

June IIP growth was lower at 4.2% YoY (May: 6.2% YoY), with manufacturing activity growing at a subdued rate of 2.6% YoY (May: 5.0% YoY), whereas mining activity improved to 10.3% YoY (May: 6.6% YoY) and electricity production rose 8.6% YoY (May: 13.7% YoY). By use-based classification, all categories registered positive growth, except consumer non-durables. With auto inventories building up, some payback in durables production may happen ahead.

### RBI to remain on wait-and-watch mode

We maintain that the Fed's pivot will precede and impact the RBI's change in stance and rate action, even though the RBI maintains that Fed actions are not a key determinant in their rate actions. As long as the global market turmoil remains contained, there will be flexibility for the RBI to stay focused on domestic inflation and risk management. We maintain that growth is sub-par in India, and weaker demand dynamics will keep pressuring core inflation. However, the RBI is likely to continue to stress on being 'actively disinflationary', and maintain a wait-and-watch mode to assess multiple macro forces, unless, of course, swinging global winds compel it focus on financial stability over the 4% inflation mandate.

### Madhavi Arora

madhavi.arora@emkayglobal.com  
+91 22 6612 1341

### Harshal Patel

harshal.patel@emkayglobal.com  
+91 22 6624 2434

### Key highlights:

- **Headline/food/core CPI at 3.5%/5.4%/3.3%**
- **IIP growth slows to 4.2%, with subdued manufacturing activity**
- **Q2FY25 inflation currently undershooting the RBI estimate by ~15bps**
- **RBI to remain 'actively disinflationary' and be on wait-and-watch mode**

**Exhibit 1: Breakdown of CPI and its components**

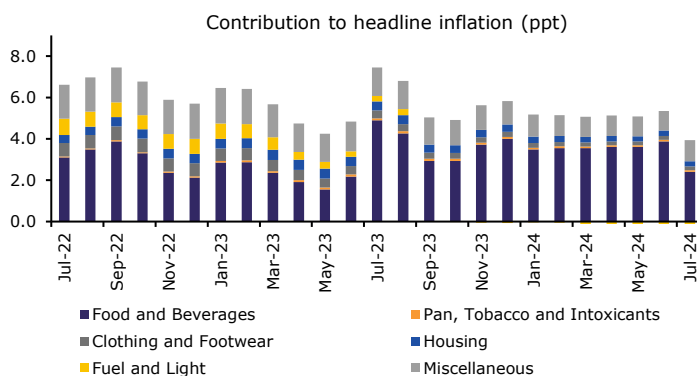
YoY (%)	Wt	Jul-24	Jun-24	May-24	Apr-24	Mar-24	Jul-23
Food & Beverages	45.9	5.1	8.4	7.9	7.9	7.7	4.7
Pan, Tobacco & Intoxicants	2.4	3.0	3.1	3.0	3.0	3.1	3.7
Fuel & Light	6.8	(5.5)	(3.6)	(3.7)	(4.0)	(3.4)	3.9
Housing	10.1	2.7	2.7	2.6	2.7	2.7	4.6
Clothing, bedding, footwear	6.5	2.7	2.7	2.7	2.9	3.0	6.1
Miscellaneous	28.3	3.8	3.4	3.4	3.5	3.5	5.2
<b>CPI</b>	<b>100.0</b>	<b>3.5</b>	<b>5.1</b>	<b>4.8</b>	<b>4.8</b>	<b>4.9</b>	<b>4.9</b>
<b>Core CPI</b>	<b>47.3</b>	<b>3.3</b>	<b>3.1</b>	<b>3.1</b>	<b>3.2</b>	<b>3.3</b>	<b>5.3</b>
CPI ex-vegetables	93.1	3.3	3.5	3.5	3.6	3.6	5.2

Source: MOSPI, Emkay Research

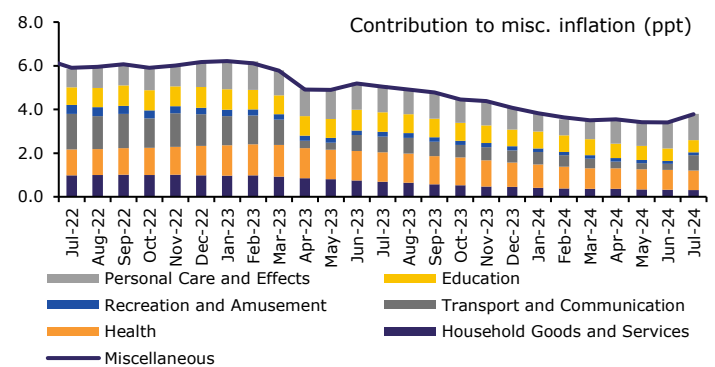
**Exhibit 2: Breakdown of food items in CPI**

Food Items (YoY, %)	Wt	Jul-24	Jun-24	May-24	Apr-24	Mar-24	Jul-23
Food	39.1	5.4	9.4	8.7	8.7	8.5	4.5
Cereals	9.7	8.1	8.8	8.7	8.6	8.4	12.8
Meat & Fish	3.6	6.0	5.4	7.3	8.2	6.4	1.5
Eggs	0.4	6.8	4.1	7.7	7.1	10.3	7.0
Milk & products	6.6	3.0	3.0	2.6	3.0	3.4	8.6
Oils & Fats	3.6	(1.2)	(2.7)	(6.7)	(9.4)	(11.7)	(18.2)
Fruits	2.9	3.8	7.2	6.7	5.2	3.0	1.4
Vegetables	6.0	6.8	29.3	27.4	27.8	28.3	(0.7)
Pulses	2.4	14.8	16.1	17.1	16.8	17.8	10.6
Sugar	1.4	5.2	5.8	5.7	6.0	7.3	3.0
Spices	2.5	(1.4)	2.1	4.3	7.8	11.4	19.2

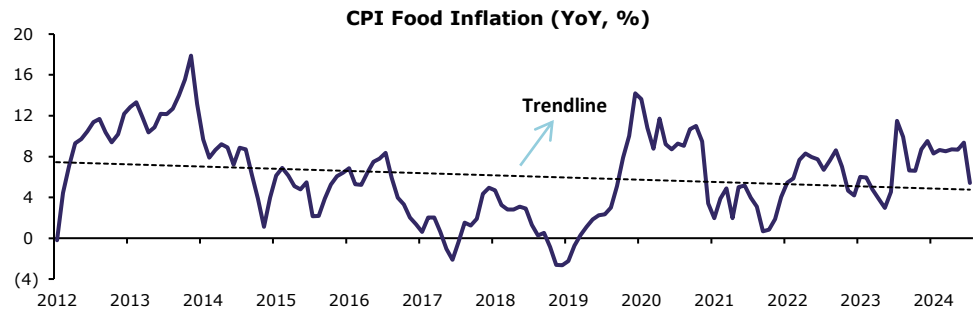
Source: MOSPI, Emkay Research

**Exhibit 3: F&B contributed ~62% to Jul-24 headline inflation**

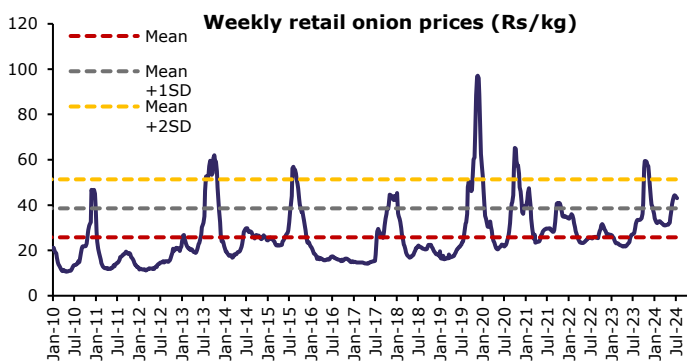
Source: MOSPI, Emkay Research

**Exhibit 4: Miscellaneous inflation at 3.8%, led by Personal Care**

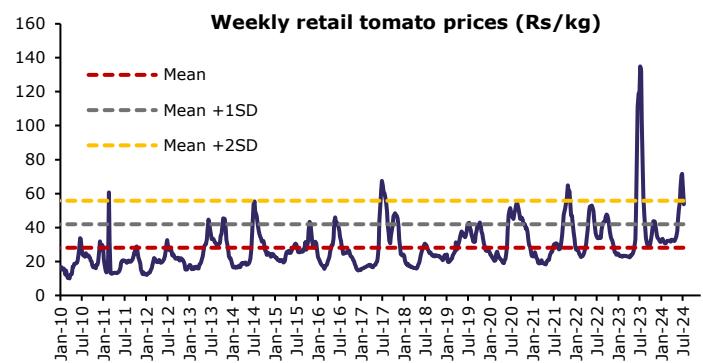
Source: MOSPI, Emkay Research

**Exhibit 5: Food inflation dropped to 5.4% in Jul-24, mainly due to a favorable base effect**

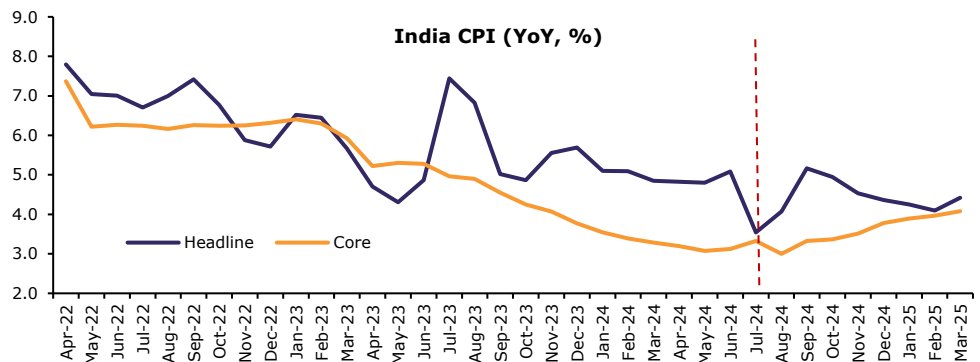
Source: MOSPI, Emkay Research

**Exhibit 6: Spikes in perishable vegetable prices usually shortlived...**

Source: CMIE, Emkay Research

**Exhibit 7: ...with the current spike also reversing rapidly**

Source: CMIE, Emkay Research

**Exhibit 8: Core inflation to continue undershooting headline inflation going ahead**

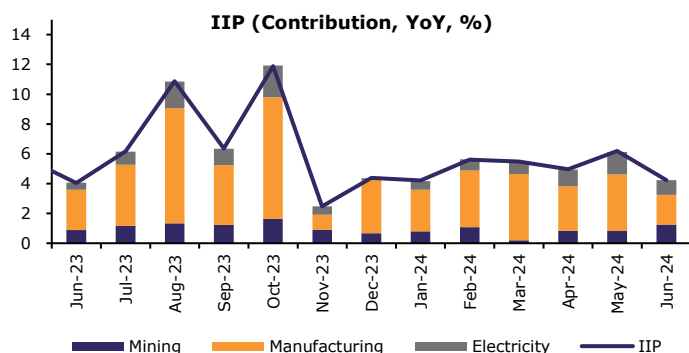
Source: MOSPI, Emkay Research estimates

Exhibit 9: Industry and use-based classification of IIP

YoY (%)	Wt	Jun-24	May-24	Jun-23
<b>Industry based classification</b>				
Mining	14.4	10.3	6.6	7.6
Electricity	8.0	8.6	13.7	4.2
Manufacturing	77.6	2.6	5.0	3.5
<b>IIP</b>	<b>100.0</b>	<b>4.2</b>	<b>6.2</b>	<b>4.0</b>
<b>Use-based classification</b>				
Primary goods	34.0	6.3	7.3	5.3
Capital goods	8.2	2.4	2.9	2.9
Intermediate goods	17.2	3.1	3.9	5.2
Infrastructure/ construction goods	12.3	4.4	6.3	13.3
Durables	12.8	8.6	12.6	(6.8)
Non-durables	15.3	(1.4)	2.5	0.5

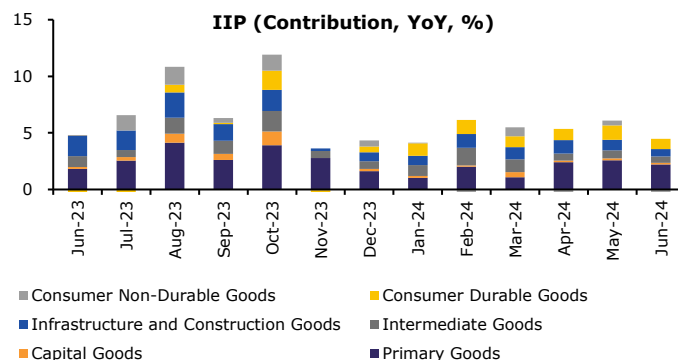
Source: MOSPI, Emkay Research

Exhibit 10: IIP rose 4.2% YoY in Jun-24, with subdued Manufacturing growth



Source: MOSPI, Emkay Research

Exhibit 11: Primary Goods were the largest contributor to use-based IIP



Source: MOSPI, Emkay Research

## Exhibit 12: IIP – Details on the manufacturing front

Items	Wt.	% YoY		
	(%)	Jun-24	May-24	Jun-23
Food products	5.3	3.0	(5.3)	(2.9)
Beverages	1.0	(1.0)	8.2	4.6
Tobacco products	0.8	(10.9)	4.9	(17.0)
Textiles	3.3	(1.7)	(0.5)	0.0
Wearing apparel	1.3	2.2	9.8	(23.5)
Leather and related products	0.5	(3.9)	1.3	7.8
Wood and Wood Products and Cork ex. Furniture; Articles of Straw and Plaiting Materials	0.2	5.4	1.6	(12.5)
Paper and paper products	0.9	(2.0)	4.1	(1.6)
Printing and reproduction of recorded media	0.7	(3.9)	3.6	(11.0)
Coke and refined petroleum products	11.8	(0.8)	2.0	3.2
Chemicals and chemical products	7.9	0.7	0.7	(2.2)
Pharma, Medicinal Chemical, and Botanical Products	5.0	(2.9)	7.3	4.1
Rubber and plastics products	2.4	6.4	(1.2)	1.3
Other non-metallic mineral products	4.1	3.1	0.5	4.8
Basic metals	12.8	4.9	8.3	16.1
Fabricated Metal Products ex Machinery and Equipment	2.7	3.1	12.3	(4.8)
Computer, electronic, and optical products	1.6	10.7	20.1	(32.5)
Electrical equipment	3.0	28.4	15.2	10.7
Machinery and equipment N.E.C.	4.8	1.5	2.1	7.1
Motor vehicles, trailers and semi-trailers	4.9	4.1	6.6	7.3
Other transport equipment	1.8	8.5	16.8	(0.1)
Furniture; Manufacturing N.E.C.	0.1	16.0	33.9	(12.1)
Other manufacturing	0.9	(12.6)	(8.6)	(10.6)
<b>Manufacturing</b>	<b>77.6</b>	<b>2.6</b>	<b>5.0</b>	<b>3.5</b>
<b>Other Important indicators</b>				
% of manufacturing with -ve growth		39.1	17.4	52.2
% of manufacturing growing less than 5%		73.9	56.5	78.3

Source: MOSPI, Emkay Research

**GENERAL DISCLOSURE/DISCLAIMER BY EMKAY GLOBAL FINANCIAL SERVICES LIMITED (EGFSL):**

Emkay Global Financial Services Limited (CIN-L67120MH1995PLC084899) and its affiliates are a full-service, brokerage, investment banking, investment management and financing group. Emkay Global Financial Services Limited (EGFSL) along with its affiliates are participants in virtually all securities trading markets in India. EGFSL was established in 1995 and is one of India's leading brokerage and distribution house. EGFSL is a corporate trading member of BSE Limited (BSE), National Stock Exchange of India Limited (NSE), MCX Stock Exchange Limited (MCX-SX), Multi Commodity Exchange of India Ltd (MCX) and National Commodity & Derivatives Exchange Limited (NCDEX) (hereinafter referred to as "Stock Exchange(s)"). EGFSL along with its [affiliates] offers the most comprehensive avenues for investments and is engaged in the businesses including stock broking (Institutional and retail), merchant banking, commodity broking, depository participant, portfolio management and services rendered in connection with distribution of primary market issues and financial products like mutual funds, fixed deposits. Details of associates are available on our website i.e. [www.emkayglobal.com](http://www.emkayglobal.com).

EGFSL is registered as Research Analyst with the Securities and Exchange Board of India ("SEBI") bearing registration Number INH000000354 as per SEBI (Research Analysts) Regulations, 2014. EGFSL hereby declares that it has not defaulted with any Stock Exchange nor its activities were suspended by any Stock Exchange with whom it is registered in last five years. However, SEBI and Stock Exchanges had conducted their routine inspection and based on their observations have issued advice letters or levied minor penalty on EGFSL for certain operational deviations in ordinary/routine course of business. EGFSL has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

EGFSL offers research services to its existing clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

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 clients simultaneously, not all clients may receive this report at the same time. 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.

EGFSL and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. EGFSL may have issued or may issue other reports (on technical or fundamental analysis basis) of the same subject company that are inconsistent with and reach different conclusion from the information, recommendations or information presented in this report or are contrary to those contained in this report. Users of this report may visit [www.emkayglobal.com](http://www.emkayglobal.com) to view all Research Reports of EGFSL. 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 research published by any other analyst or by associate entities of EGFSL; our proprietary trading, investment businesses or other associate entities may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. All material presented in this report, unless specifically indicated otherwise, is under copyright to Emkay. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of EGFSL. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of EGFSL or its affiliates. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

This report has not been reviewed or authorized by any regulatory authority. There is no planned schedule or frequency for updating research report relating to any issuer/subject company.

Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets.

**Disclaimer for U.S. persons only:** Research report is a product of Emkay Global Financial Services Ltd., under Marco Polo Securities 15a6 chaperone service, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of Financial Institutions Regulatory Authority (FINRA) or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor. In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors. Emkay Global Financial Services Ltd. has entered into a chaperoning agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

**RESTRICTIONS ON DISTRIBUTION**

This report is not directed to, 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 or regulation. Except otherwise restricted by laws or regulations, this report is intended only for qualified, professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom.

**ANALYST CERTIFICATION BY EMKAY GLOBAL FINANCIAL SERVICES LIMITED (EGFSL)**

The research analyst(s) primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst(s) also certifies that no part of his/her compensation was, is, or will be, directly or indirectly, related to specific recommendations or views expressed in the report. The research analyst (s) primarily responsible of the content of this research report, in part or in whole, certifies that he or his associated persons<sup>1</sup> may have served as an officer, director or employee of the issuer or the new listing applicant (which includes in the case of a real estate investment trust, an officer of the management company of the real estate investment trust; and in the case of any other entity, an officer or its equivalent counterparty of the entity who is responsible for the management of the issuer or the new listing applicant). The research analyst(s) primarily responsible for the content of this research report or his associate may have Financial Interests<sup>2</sup> in relation to an issuer or a new listing applicant that the analyst reviews. EGFSL has procedures in place to eliminate, avoid and manage any potential conflicts of interests that may arise in connection with the production of research reports. The research analyst(s) responsible for this report operates as part of a separate and independent team to the investment banking function of the EGFSL and procedures are in place to ensure that confidential information held by either the research or investment banking function is handled appropriately. There is no direct link of EGFSL compensation to any specific investment banking function of the EGFSL.

<sup>1</sup> An associated person is defined as (i) who reports directly or indirectly to such a research analyst in connection with the preparation of the reports; or (ii) another person accustomed or obliged to act in accordance with the directions or instructions of the analyst.

<sup>2</sup> Financial Interest is defined as interest that are commonly known financial interest, such as investment in the securities in respect of an issuer or a new listing applicant, or financial accommodation arrangement between the issuer or the new listing applicant and the firm or analysis. This term does not include commercial lending conducted at the arm's length, or investments in any collective investment scheme other than an issuer or new listing applicant notwithstanding the fact that the scheme has investments in securities in respect of an issuer or a new listing applicant.

**COMPANY-SPECIFIC / REGULATORY DISCLOSURES BY EMKAY GLOBAL FINANCIAL SERVICES LIMITED (EGFSL):**

Disclosures by Emkay Global Financial Services Limited (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

- EGFSL, its subsidiaries and/or other affiliates and Research Analyst or his/her associate/relative's may have Financial Interest/proprietary positions in the securities recommended in this report as of August 12, 2024
- EGFSL, and/or Research Analyst does not market make in equity securities of the issuer(s) or company(ies) mentioned in this Report  
**Disclosure of previous investment recommendation produced:**
- EGFSL may have published other investment recommendations in respect of the same securities / instruments recommended in this research report during the preceding 12 months. Please contact the primary analyst listed in the first page of this report to view previous investment recommendations published by EGFSL in the preceding 12 months.
- EGFSL, its subsidiaries and/or other affiliates and Research Analyst or his/her relative's may have material conflict of interest in the securities recommended in this report as of August 12, 2024
- EGFSL, its affiliates and Research Analyst or his/her associate/relative's may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the August 12, 2024
- EGFSL or its associates may have managed or co-managed public offering of securities for the subject company in the past twelve months.
- EGFSL, its affiliates and Research Analyst or his/her associate may have received compensation in whatever form including compensation for investment banking or merchant banking or brokerage services or for products or services other than investment banking or merchant banking or brokerage services from securities recommended in this report (subject company) in the past 12 months.
- EGFSL, its affiliates and/or and Research Analyst or his/her associate may have received any compensation or other benefits from the subject company or third party in connection with this research report.

**Emkay Rating Distribution**

Ratings	Expected Return within the next 12-18 months.
<b>BUY</b>	>15% upside
<b>ADD</b>	5-15% upside
<b>REDUCE</b>	5% upside to 15% downside
<b>SELL</b>	<15% downside

**Emkay Global Financial Services Ltd.**

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India  
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com



**OTHER DISCLAIMERS AND DISCLOSURES:****Other disclosures by Emkay Global Financial Services Limited (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) :-**

EGFSL or its associates may have financial interest in the subject company.

Research Analyst or his/her associate/relative's may have financial interest in the subject company.

EGFSL or its associates and Research Analyst or his/her associate/ relative's may have material conflict of interest in the subject company. The research Analyst or research entity (EGFSL) have not been engaged in market making activity for the subject company.

EGFSL or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of public appearance or publication of Research Report.

Research Analyst or his/her associate/relatives may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of public appearance or publication of Research Report.

Research Analyst may have served as an officer, director or employee of the subject company.

EGFSL or its affiliates may have received any compensation including for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. . Emkay may have issued or may issue other reports that are inconsistent with and reach different conclusion from the information, recommendations or information presented in this report or are contrary to those contained in this report. Emkay Investors may visit [www.emkayglobal.com](http://www.emkayglobal.com) to view all Research Reports. 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 research published by any other analyst or by associate entities of Emkay; our proprietary trading, investment businesses or other associate entities may make investment decisions that are inconsistent with the recommendations expressed herein. EGFSL or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. EGFSL or its associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report. EGFSL or its associates may have received compensation from the subject company in the past twelve months. Subject Company may have been client of EGFSL or its affiliates during twelve months preceding the date of distribution of the research report and EGFSL or its affiliates may have co-managed public offering of securities for the subject company in the past twelve months.