

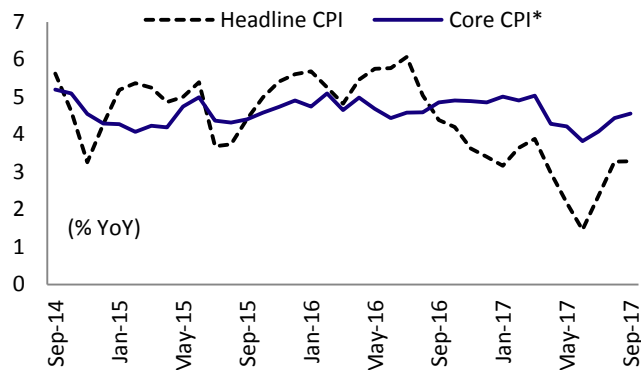
September inflation unchanged, August IIP surprises on the upside

Still some room for a rate cut given downside risks to RBI's growth projections

- CPI inflation remained unchanged MoM at 3.3% in September 2017. This was marginally higher than our expectation of 3.2%, but lower than market consensus of 3.6%.
- Food inflation eased slightly to 1.3% in September 2017, while core inflation touched a six-month high of 4.6%. The uptick in core inflation was largely on account of a surge in housing inflation.
- Furthermore, the index of industrial production (IIP) grew 4.3% YoY in August, exceeding our/consensus estimate of 2.4%/2.6%. A recovery was observed in manufacturing, along with a surge in mining activity and electricity generation.
- We expect headline inflation for 2HFY18 to remain in line with the RBI's projections, but also see some downside risks. Hence, we believe that there is still some room to cut interest rates.

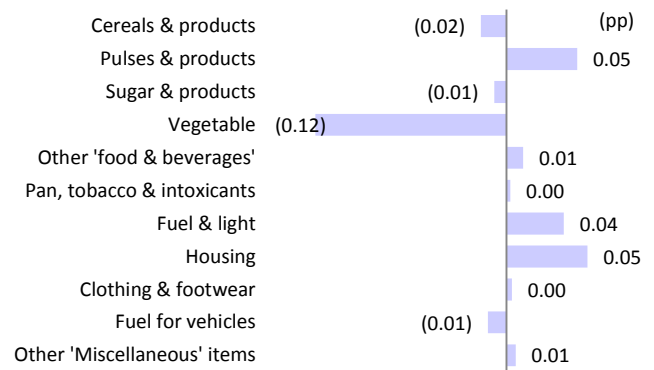
I. Retail inflation unchanged at 3.3% in September

- **CPI inflation unchanged at 3.3%:** CPI-based inflation remained unchanged MoM at 3.3% YoY in September 2017 (*Exhibit 1*). Although the number was marginally higher than our expectation of 3.2%, it was below market consensus of 3.6%. CPI inflation has come in lower than consensus estimates in five of the last six months (it was higher than expected in August 2017).
- **Food inflation eases slightly....:** Food inflation eased to 1.3% in September from 1.5% in the preceding month. This was largely driven by a fall in vegetables inflation to 3.9% from 6% in August 2017. On an MoM basis, vegetables prices declined 7.1%, after rising by 34.2% over the last four months. Inflation in other food items remained largely unchanged MoM in September.
- **...while core inflation touches six-month high....:** Core inflation (all items excluding 'food & beverages' and 'fuel & light') rose to a six-month high of 4.6% in September from 4.4% in the preceding month (*Exhibit 3*). This was the third straight month of rise in core inflation. Core-core inflation (excluding petrol/diesel from core inflation) too edged up to 4.4% from 4.2% in August.
- **...led by rise in housing inflation:** Uptick in both core and core-core inflation in September can largely be ascribed to a rise in housing inflation, which touched a three-year high of 6.1% (Aug'17: 5.6%) on account of implementation of 7th CPC House Rent Allowance (HRA) hikes from August. Inflation in core services eased, while that in goods remained unchanged in September (*Exhibit 4*).
- **Although headline inflation is expected to rise gradually in 2HFY18 on account of an adverse base effect, it should remain in line with the RBI's projections. However, we believe that there are downside risks to the RBI's growth projections, leaving room for interest rate cuts.**

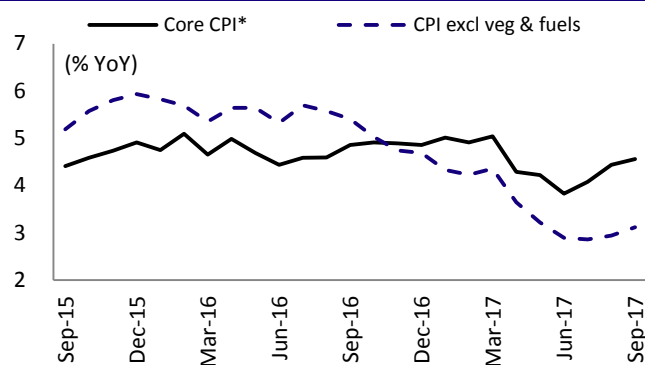
Exhibit 1: Retail inflation unchanged at 3.3% in Sep 2017

* Excluding F&B and F&L

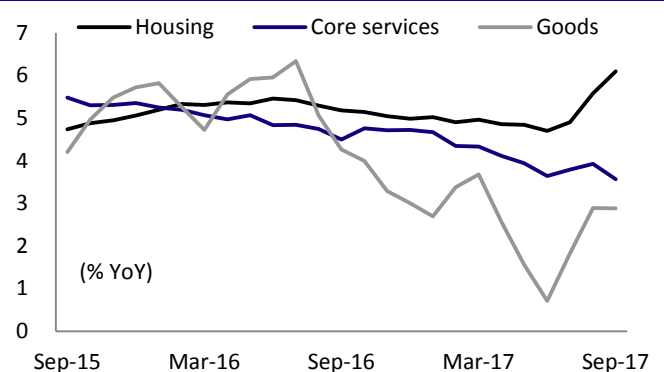
Source: Central Statistics Office (CSO), MOSL

Exhibit 2: Vegetables inflation eases slightly

Source: CSO, MOSL

Exhibit 3: Core CPI inches up slightly in September 2017

Source: CSO, MOSL

Exhibit 4: ...and inflation in 'core services' eased further

Source: CSO, MOSL

Exhibit 5: CPI and key components (% YoY)

% YoY	FY15	FY16	FY17	Sep-16	Jul-17	Aug-17	Sep-17
Overall CPI	5.9	4.9	4.5	4.4	2.4	3.3	3.3
Food & beverages	6.5	5.1	4.4	4.1	0.4	2.0	1.8
Cereal & products	5.2	1.8	4.2	4.3	4.0	3.9	3.7
Pulses & products	7.9	31.9	9.3	14.3	(24.7)	(24.4)	(22.5)
Meat & fish	6.3	6.3	5.6	5.8	3.2	2.9	3.2
Milk & products	10.3	5.2	4.1	4.3	3.7	3.7	3.9
Fruits & vegetables	6.4	1.4	(0.1)	(3.5)	(1.7)	5.8	4.3
Pan, tobacco & intoxicants	8.1	9.5	6.8	6.8	6.4	6.8	0.2
Fuel & light	4.2	5.8	3.3	3.1	4.9	5.0	5.6
Housing	6.9	4.9	5.2	5.2	4.9	5.6	6.1
Clothing & footwear	7.3	5.8	5.0	5.2	4.2	4.6	4.6
Miscellaneous	4.6	3.7	4.5	4.5	3.3	3.8	3.8
Transport & communication	2.5	0.4	3.0	2.7	1.8	3.7	3.5
Core CPI*	5.6	4.6	4.8	4.9	4.1	4.4	4.6
Core CPI excl petrol, diesel etc		5.2	4.8	4.9	4.1	4.2	4.4

Excluding F&B and F&L Source: CSO, MOSL

II. IIP growth at 11-month high of 4.3% in August 2017

- **IIP growth surprises on the upside:** Growth in the Index of Industrial Production (IIP) accelerated sharply to 4.3% YoY in August 2017 from an average of 0.4% in June-July 2017 (*Exhibit 6*). This was the fastest growth in 11 months. The number was much higher than our/consensus estimates of 2.4%/2.6%. Broad-based growth across sectors led to a surge in industrial output.

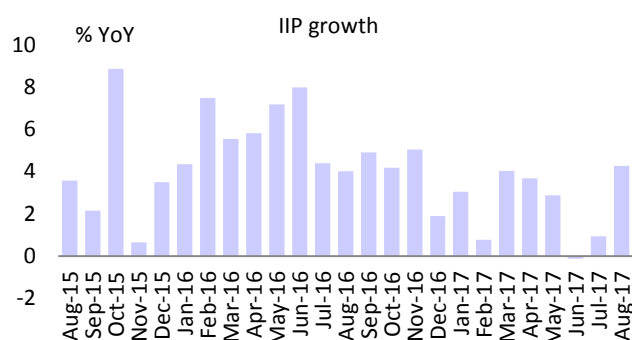
■ Recovery in manufacturing, surge in mining electricity pull up output:

Manufacturing output recovered in August 2017, after declining 0.4% in the previous two months. Output rose 3.1% YoY in the month, in line with 2.8% growth in April-May'17 prior to the implementation of GST. However, growth within the manufacturing sector was not broad-based; only 10 out of the 23 industries recorded a YoY rise in output. Mining output surged 9.4% YoY in August 2017 (five-month high) on account of a favorable base (Aug'16: -4.3%), while electricity generation rose by a healthy 8.3%.

■ Growth in capital goods turns around after four months: As per the use-based classification, output of capital goods rose by 5.4% in August 2017 (*Exhibit 9*), after declining continuously over the last four months. The turnaround was aided by a favorable base; growth in capital goods output had slowed down to 1.2% YoY in Aug'16 from 11.9% in Apr-July'16. Output of consumer durables grew 1.6% YoY in August 2017; this was only the second instance of output growth in the last nine months. Output of consumer non-durables and primary goods rose by a healthy 6.9% and 7.1%, respectively.

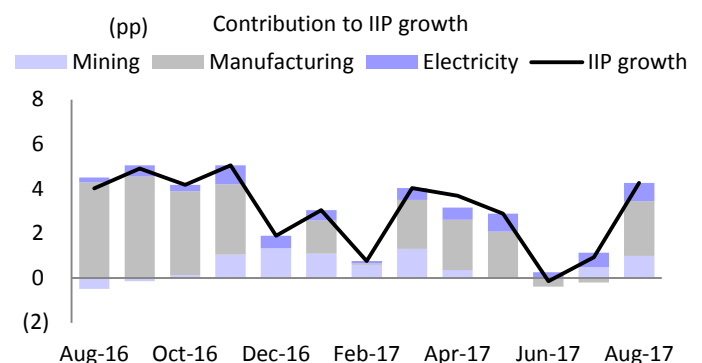
■ IIP growth to improve towards year end: IIP growth decelerated sharply to 2.2% in Apr-Aug'2017 from 5.9% in the year-ago period. We expect growth to improve in the remaining part of the year, particularly in the last four months on account of a favorable base. Our full-year FY18 estimate for IIP is at 3.1%, as against 4.6% in FY17.

Exhibit 6: IIP growth at 11-month high in August 2017...



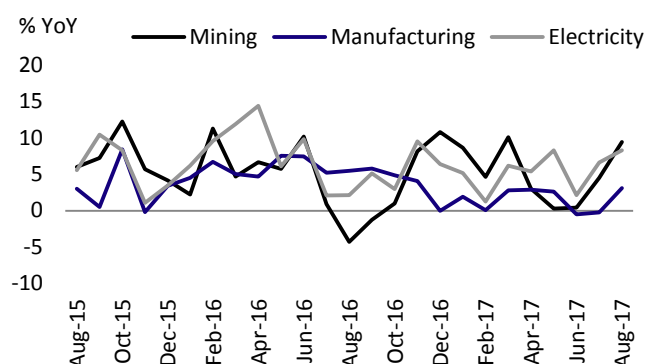
Source: CSO, MOSL

Exhibit 7: ...on account of a broad-based pick-up



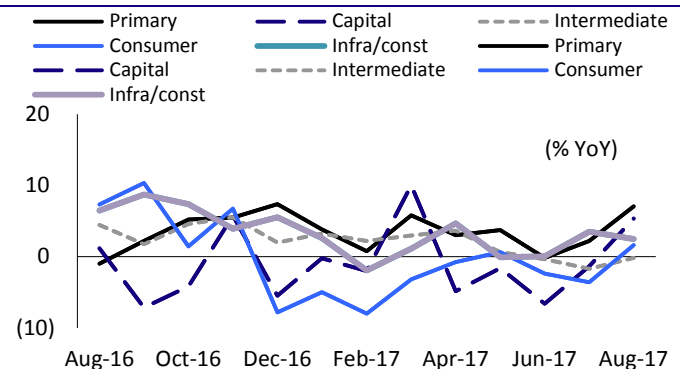
Source: CSO, MOSL

Exhibit 8: Growth trend in components of IIP



Source: CSO, MOSL

Exhibit 9: Use-based classification of IIP



Source: CSO, MOSL

Exhibit 10: Key components of IIP

% Y-o-Y	Weight	FY15	FY16	FY17	Aug-16	Jun-17	Jul-17	Aug-17
Industry-based classification								
Mining	14.37	(1.3)	4.3	5.3	(4.3)	0.4	4.5	9.4
Manufacturing	77.63	3.8	2.9	4.3	5.5	(0.5)	(0.3)	3.1
Electricity	7.99	14.8	5.7	5.8	2.1	2.1	6.6	8.3
IIP	100.0	4.0	3.3	4.6	4.0	(0.1)	0.9	4.3
Use-based classification								
Primary goods	34.05	3.7	5.0	4.9	(1.0)	(0.2)	2.2	5.8
Capital Goods	8.22	(1.1)	3.0	3.2	0.5	(6.6)	(1.3)	3.7
Intermediate Goods	17.22	6.1	1.5	3.3	4.6	(0.3)	(1.7)	0.3
Infrastructure/Construction	12.34	5.0	2.8	3.9	6.5	0.1	3.5	0.5
Consumer Goods	28.17	3.9	2.9	5.7	9.4	1.5	0.4	0.4
Durable Goods	12.84	4.0	3.3	3.0	7.3	(2.4)	(3.6)	(3.5)
Non-Durable Goods	15.33	3.9	2.6	8.0	11.3	4.7	3.6	3.7

Source: CSO, MOSL

NOTES

Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

Motilal Oswal Securities Ltd. (MOSL) is a SEBI Registered Research Analyst having registration no. INH000000412. MOSL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Investment Advisory Services, Depository participant services & distribution of various financial products. MOSL is a subsidiary company of Motilal Oswal Financial Service Ltd. (MOFSL). MOFSL is a listed public company, the details in respect of which are available on www.motilaloswal.com. MOSL is registered with the Securities & Exchange Board of India (SEBI) and is a registered Trading Member with National Stock Exchange of India Ltd. (NSE) and Bombay Stock Exchange Limited (BSE), Metropolitan Stock Exchange Of India Ltd. (MSE) for its stock broking activities & is Depository participant with Central Depository Services Limited (CDSL) & National Securities Depository Limited (NSDL) and is member of Association of Mutual Funds of India (AMFI) for distribution of financial products. Details of associate entities of Motilal Oswal Securities Limited are available on the website at <http://online.reports.motilaloswal.com/Dormant/documents/Associate%20Details.pdf>

Pending Regulatory Enquiries against Motilal Oswal Securities Limited by SEBI:

SEBI pursuant to a complaint from client Shri C.R. Mohanraj alleging unauthorized trading, issued a letter dated 29th April 2014 to MOSL notifying appointment of an Adjudicating Officer as per SEBI regulations to hold inquiry and adjudge violation of SEBI Regulations; MOSL requested SEBI to provide all documents, records, investigation report relied upon by SEBI which were referred in Show Cause Notice and also sought personal hearing. The matter is currently pending.

MOSL, it's associates, Research Analyst or their relative may have any financial interest in the subject company. MOSL and/or its associates and/or Research Analyst may have beneficial ownership of 1% or more securities in the subject company at the end of the month immediately preceding the date of publication of the Research Report. MOSL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of MOSL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report. Research Analyst may have served as director/officer, etc. in the subject company in the last 12 month period. MOSL and/or its associates may have received any compensation from the subject company in the past 12 months.

In the last 12 months period ending on the last day of the month immediately preceding the date of publication of this research report, MOSL or any of its associates may have:

- managed or co-managed public offering of securities from subject company of this research report,
- received compensation for investment banking or merchant banking or brokerage services from subject company of this research report,
- received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company of this research report.
- Subject Company may have been a client of MOSL or its associates during twelve months preceding the date of distribution of the research report.

MOSL and it's associates have not received any compensation or other benefits from the subject company or third party in connection with the research report. To enhance transparency, MOSL has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report. MOSL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that MOSL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

Terms & Conditions:

This report has been prepared by MOSL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential 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 MOSL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. MOSL will not treat recipients as customers by virtue of their receiving this report.

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Disclosure of Interest Statement	Companies where there is interest
■ Analyst ownership of the stock	No

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com. Research Analyst views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of MOSL or its associates maintains arm's length distance with Research Team as all the activities are segregated from MOSL research activity and therefore it can have an independent view with regards to subject company for which Research Team have expressed their views.

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOSL & its group companies to registration or licensing requirements within such jurisdictions.

For Hong Kong:

This report is distributed in Hong Kong by Motilal Oswal capital Markets (Hong Kong) Private Limited, a licensed corporation (CE AYY-301) licensed and regulated by the Hong Kong Securities and Futures Commission (SFC) pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) "SFO". As per SEBI (Research Analyst Regulations) 2014 Motilal Oswal Securities (SEBI Reg No. INH000000412) has an agreement with Motilal Oswal capital Markets (Hong Kong) Private Limited for distribution of research report in Hong Kong. This report is intended for distribution only to "Professional Investors" as defined in Part I of Schedule 1 to SFO. Any investment or investment activity to which this document relates is only available to professional investor and will be engaged only with professional investors." Nothing here is an offer or solicitation of these securities, products and services in any jurisdiction where their offer or sale is not qualified or exempt from registration. The Indian Analyst(s) who compile this report is/are not located in Hong Kong & are not conducting Research Analysis in Hong Kong.

For U.S.

Motilal Oswal Securities Limited (MOSL) is not a registered broker - dealer under the U.S. Securities Exchange Act of 1934, as amended (the "1934 act") and under applicable state laws in the United States. In addition MOSL is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act" and together with the 1934 Act, the "Acts"), and under applicable state laws in the United States. Accordingly, in the absence of specific exemption under the Acts, any brokerage and investment services provided by MOSL, including the products and services described herein are not available to or intended for U.S. persons. This report is intended for distribution only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the Exchange Act and interpretations thereof by SEC (henceforth referred to as "major institutional investors"). This document must not be acted on or relied on by persons who are not major institutional investors. Any investment or investment activity to which this document relates is only available to major institutional investors and will be engaged in only with major institutional investors. In reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") and interpretations thereof by the U.S. Securities and Exchange Commission ("SEC") in order to conduct business with Institutional Investors based in the U.S., MOSL has entered into a chaperoning agreement with a U.S. registered broker-dealer, Motilal Oswal Securities International Private Limited. ("MOSIPL"). Any business interaction pursuant to this report will have to be executed within the provisions of this chaperoning agreement.

The Research Analysts contributing to the report may not be registered /qualified as research analyst with FINRA. Such research analyst may not be associated persons of the U.S. registered broker-dealer, MOSIPL, and therefore, may not be subject to NASD rule 2711 and NYSE Rule 472 restrictions on communication with a subject company, public appearances and trading securities held by a research analyst account.

For Singapore

Motilal Oswal Capital Markets Singapore Pte Limited is acting as an exempt financial advisor under section 23(1)(f) of the Financial Advisers Act (FAA) read with regulation 17(1)(d) of the Financial Advisers Regulations and is a subsidiary of Motilal Oswal Securities Limited in India. This research is distributed in Singapore by Motilal Oswal Capital Markets Singapore Pte Limited and it is only directed in Singapore to accredited investors, as defined in the Financial Advisers Regulations and the Securities and Futures Act (Chapter 289), as amended from time to time. In respect of any matter arising from or in connection with the research you could contact the following representatives of Motilal Oswal Capital Markets Singapore Pte Limited:

Disclaimer:

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. This report and information herein is solely for informational purpose and may 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. 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. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. MOSL, its associates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information that is already available in publicly accessible media or developed through analysis of MOSL. The views expressed are those of the analyst, and the Company may or may not subscribe to all the views expressed therein. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. 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 MOSL 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. Neither the Firm, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The person accessing this information specifically agrees to exempt MOSL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold MOSL or any of its affiliates or employees responsible for any such misuse and further agrees to hold MOSL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

Registered Office Address: Motilal Oswal Tower, Rahimtullah Sayani Road, Opposite Parel ST Depot, Prabhadevi, Mumbai-400025; Tel No.: 022-3980 4263; www.motilaloswal.com. Correspondence Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad (West), Mumbai- 400 064. Tel No: 022 3080 1000. Compliance Officer: Neeraj Agarwal, Email Id: na@motilaloswal.com, Contact No.:022-30801085.

Registration details of group entities.: MOSL: NSE (Cash): INB231041238; NSE (F&O): INF231041238; NSE (CD): INE231041238; BSE (Cash): INB011041257; BSE(F&O): INF011041257; BSE(CD); MSE(Cash): INB261041231; MSE(F&O): INF261041231; MSE(CD): INE261041231; CDSL: IN- DP-16-2015; NSDL: IN- DP- NSDL-152-2000; Research Analyst: INH000000412. AMFI: ARN 17397. Investment Adviser: INA000007100. Motilal Oswal Asset Management Company Ltd. (MOAMC): PMS (Registration No.: INP000000670) offers PMS and Mutual Funds products. Motilal Oswal Wealth Management Ltd. (MOWML): PMS (Registration No.: INP000004409) offers wealth management solutions. * Motilal Oswal Securities Ltd. is a distributor of Mutual Funds, PMS, Fixed Deposit, Bond, NCDs, Insurance and IPO products. * Motilal Oswal Commodities Broker Pvt. Ltd. offers Commodities Products. * Motilal Oswal Real Estate Investment Advisors II Pvt. Ltd. offers Real Estate products. * Motilal Oswal Private Equity Investment Advisors Pvt. Ltd. offers Private Equity products