

October IIP: Holidays and rains hit industrial activity

- October IIP grew by a meagre 0.4% YoY vs. the upwardly revised 4.6% in September 2025. The slowdown was driven by fewer working days in October (Dussehra, Diwali, Chhath) as well as the late withdrawal of rains, which impacted mining and electricity production (especially thermal power, followed by hydro).
- With the GST rate cut taking effect from September 22nd, 2025, production of auto components/spares and accessories, passenger cars, and commercial vehicles grew in October. This highlights that the demand pickup has been broad-based across both PVs and CVs (positive for OEMs and auto ancillaries)
- Investment goods performed better, while production of consumption goods declined. Within the consumption basket, consumer durables outperformed non-durables.
- With trade tariff-related uncertainty persisting and growth still not broad-based across sectors, we continue to expect a 25bp rate cut in the upcoming policy (5th December). Although the strong 2QFY26 GDP of 8.2% YoY (please hyperlink this with the GDP note) provides comfort regarding a domestic demand uptick, the recovery is yet to be broad-based.

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Event Highlights

- Manufacturing posted its weakest growth in 14 months in October, rising 1.8% YoY (-2.8% MoM). This decline was in tandem with the imposition of US trade tariffs on India and the sharp 11.8% YoY slowdown in exports (both oil and core exports) in October.
- Out of 23 industries, nine contributed to growth in Oct'25 on a yearly basis. The top three positive contributors were basic metals (6.6%), coke and refined petroleum products (6.2%), and motor vehicles, trailers, and semi-trailers (5.8%).

Data Highlights

- Investment goods grew 5.7% YoY (-2.8% MoM), while consumption goods declined 2.7% YoY (-7.3% MoM).
- Capital goods production reported modest growth of 2.4% YoY (vs. 5.4% in September 2025). In contrast, infrastructure/construction goods posted higher growth of 7.1% YoY, compared to 10.6% in the previous month.
- Consumer durables posted a modest decline of 0.5% after a strong 10% growth in September 2025. Non-durables continued to decline for nine consecutive months (only registered 0.5% growth in July 2025).
- Coke and refined petroleum products, metals, wood products, computer and electronics, electrical equipment, motor vehicles, and furniture posted growth in October 2025.
- Among the eight core industries, which account for 40% of the IIP basket, steel, cement, fertilizers, and petroleum refinery products posted a single-digit growth rate (6.7%/5.3%/7.4%/4.6% YoY).
- Production in select segments, such as consumer durables and capital/infra goods, is likely to register higher growth than other segments, supported by easy liquidity (expect more OMOs), lower policy rates, and GST 2.0.

Outlook

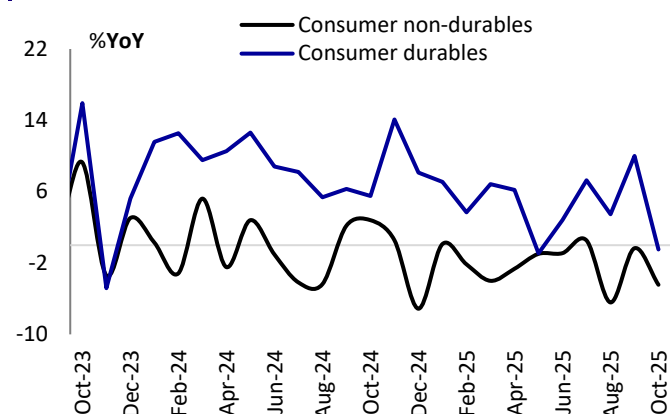
- With a strong GDP growth print in 2Q, the possibility of a rate cut appears limited. However, it is yet to be seen if the consumption-led pickup witnessed in Oct-Nov will fizzle out in 4Q. The global tariff situation also remains a key monitorable.
- That said, inflation is likely to remain significantly lower than the RBI's forecast of 2.6%, with a high possibility of headline inflation dropping below 2% in FY26. This implies there is room for a final insurance rate cut.
- In my view, the RBI should utilize the policy space and close the final loop in the upcoming policy. If the US-led tariff uncertainty lingers for longer than anticipated, the adverse impact would be far greater.

Exhibit 1: IIP breakup

	Wt (%)	%YoY				% MoM			
		Jul-25	Aug-25	Sep-25	Oct-25	Jul-25	Aug-25	Sep-25	Oct-25
IIP	100	4.3	4.1	4.6	0.4	1.9	-2.8	1.3	-1.8
Sectoral Classification									
Mining	14.4	-7.2	6.6	-0.4	-1.8	-12.6	6.0	-2.6	13.5
Manufacturing	77.6	6.0	3.8	5.6	1.8	3.7	-3.9	2.5	-2.8
Electricity	8.0	3.7	4.1	3.1	-6.9	3.8	-3.2	-3.5	-9.4
Use Based Classification									
Primary goods	34.0	-0.7	5.4	1.3	-0.6	-2.0	0.1	-4.0	4.0
Capital goods	8.2	6.8	4.5	5.4	2.4	6.2	-7.8	9.4	-9.0
Intermediate goods	17.2	6.1	5.2	6.3	0.9	4.1	-2.2	0.2	-2.6
Infrastructure/construction goods	12.3	13.7	10.4	10.6	7.1	3.5	-1.9	-1.3	-0.3
Consumer durables	12.8	7.3	3.5	10.0	-0.5	3.9	-1.1	8.9	-11.6
Consumer non-durables	15.3	0.5	-6.4	-0.3	-4.4	2.8	-10.3	9.4	-3.7

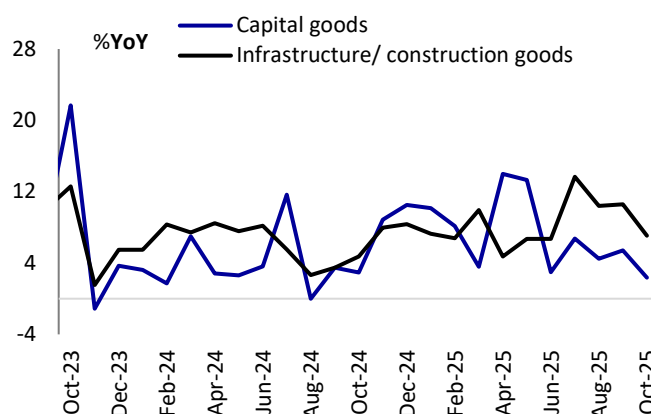
Source: CEIC, MOFSL

Exhibit 2: Consumer durables production declines after a pickup in October



Source: MOSPI, CEIC, MOFSL

Exhibit 3: Cap goods and construction moderate in October



Source: MOSPI, CEIC, MOFSL

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Nainesh Rajani

Email: nainesh.rajani@motilaloswal.com

Contact: (+65) 8328 0276

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Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
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