Press Release

Core sector growth slows to 4.3% in Mar-22

Coal shortages may impact core sector output in near term

02 May, 2022

The output of eight core sectors moderated to 4.3% YoY in Mar-22 from 5.9% in Feb-22. On sequential basis, the year-end seasonality pushed the index to 14.6% MoM in Mar-22 from a contraction of 5.2% in Feb-22. Nevertheless, the expansion was lower than the seasonal average of +16.2% recorded in the last three years. On a cumulative basis, the core sector has seen a healthy growth of 10.4% in FY22 vis-à-vis FY21, reflecting a good recovery from the pandemic disruption. Importantly, the cumulative output is modestly higher by 3.3% than the comparable pre-pandemic period in FY20. Except for crude oil and refined petroleum products, the other six segments of the core sector have shown moderate to healthy growth over FY22 vis-à-vis that in FY20, reinforcing the fact that the core sector has largely been able to attain normalization in its output despite multiple onslaughts of the pandemic waves.

On a YoY basis, only two segments of the core sector witnessed a contraction in Mar'22 albeit to a modest extent – crude oil and coal. Domestic crude oil output has been on a steady decline since FY18 which can be attributed to lack of adequate domestic reserves and the consequent production constraints.

On the other hand, coal output contracted for the first time in twelve months in Mar-22. Adding to the woes, the increase in electricity demand due to hotter than normal weather has led the coal stocks at more than 100 thermal power plants in India to have fallen below 25% of the required stock. The peak power demand in most days of the current month has been between 180 GW-200 GW and is projected to increase further to 215-220 GW in May'22. Such exceptional power demand has also coincided with the global supply bottlenecks and the surge in international coal prices since the onset of the Russia-Ukraine crisis. India continues to have a significant dependence on imported coal with around 30% of its requirements sourced externally. With a sizeable drop in imported coal volume in FY22, significant imbalances have arisen in the domestic demand-supply dynamics. A sudden drop in imports due to geo-political factors is difficult to compensate for in the short term through a step up in domestic production by Coal India Limited and so we expect the coal production to remain under pressure for next few months thereby leading to a potential slowdown in end-use sectors such as power, steel, aluminium, cement, fertilizers, chemicals, etc.

The fertilizer production recorded a robust double-digit growth of 15.3 % YoY in Mar-22 supported by a favorable base of -5.0% recorded in Mar-21 and restocking ahead of the onset of kharif season. However, the country remains heavily dependent on raw material imports for meeting its fertilizer requirements, despite government unveiling a host of initiatives for India to become self-reliant in fertilizer production. With the rise in raw material prices such as potash and natural gas, the government has already announced a significant increase in fertiliser subsidy for FY23. Nevertheless, the fertilizer production is likely to moderate in the current year given the significant supply bottlenecks amidst the ongoing geopolitical tensions between Russia and Ukraine.

The heightened activity in the infrastructure sector has led steel and cement production to remain strong in FY22, with the sectors recording an expansion of 4.0% and 4.8% respectively as compared to their pre-pandemic levels i.e. FY20. However, the significant increase in commodity prices such as that of coal and the supply challenges in imported coking coal amid Russia-Ukraine standoff may put pressure on steel output in the near term. Over the longer term of 1-3 yrs, government's initiatives in the form of PLI scheme for the steel sector and its focus on infrastructure segment is expected to play a pivotal role in enhancing steel and cement output.

Says Suman Chowdhury, Chief Analytical Officer, Acuité Ratings & Research "The spurt in prices of key commodities and importantly, the fresh supply chain bottlenecks triggered by the continuing Russia-Ukraine conflict are likely to slow down the revival in the industrial and core sector output in the near term. Nevertheless, we expect GDP growth for FY23 at 7.5% since government's strong thrust on infrastructure segment, solid coverage on vaccination, moderate recovery in rural consumption and the full play out of pent-up demand are likely to remain the major growth drivers."

Annexure

Chart 1: Performance of core sector growth in FY22

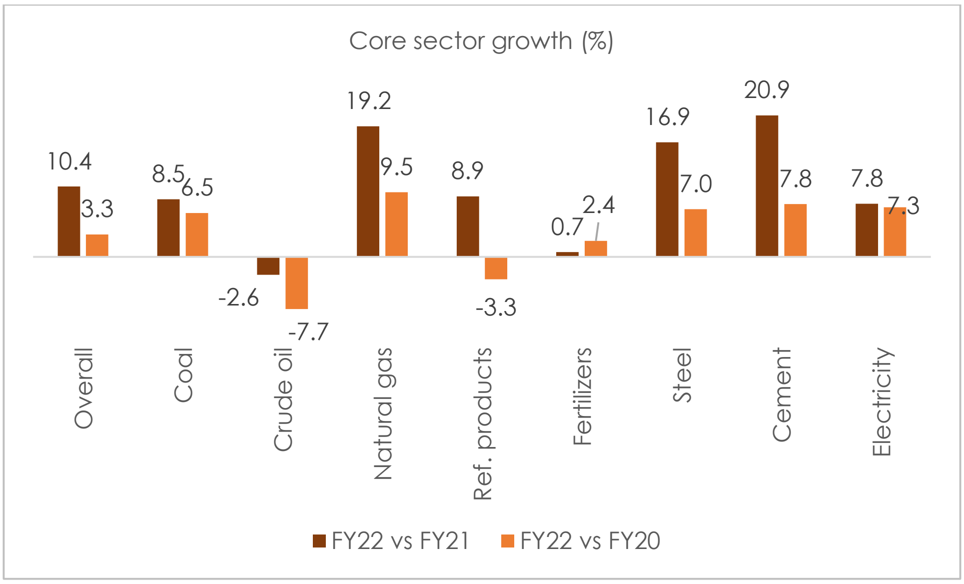


Chart 2: Annual and sequential growth in core sector in Mar-22

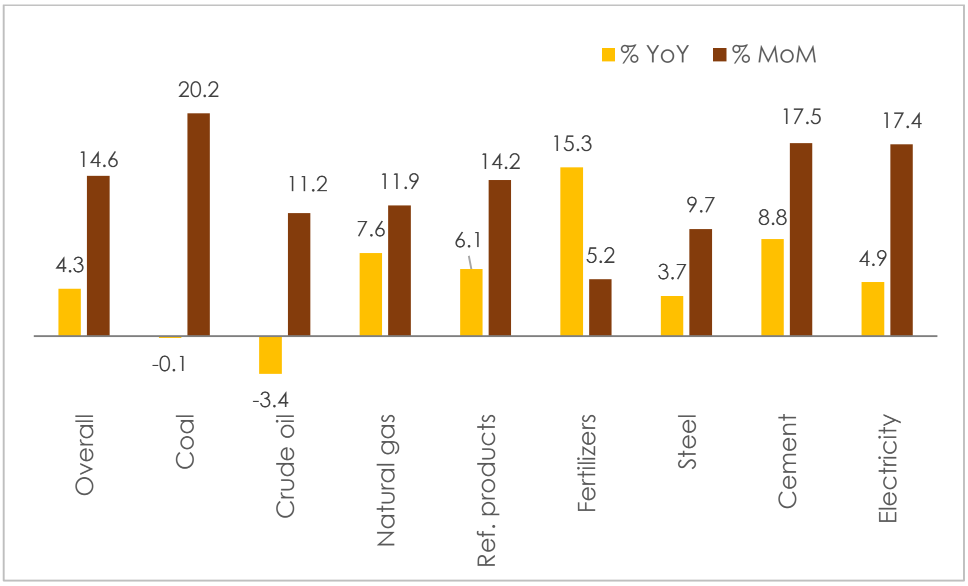
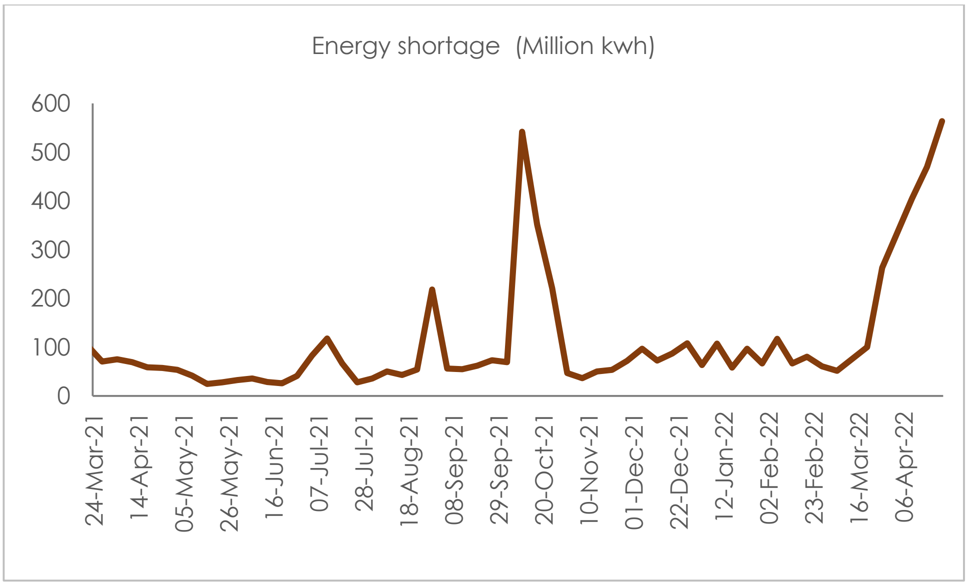


Chart 3: Increase in power demand and coal shortages led to energy shortages



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