Press Release

Visible moderation in industrial growth

Higher commodity prices may weigh on industrial output in FY23

13 May 2022

India's Index of Industrial production (IIP) recorded a modest expansion of 1.9% YoY in Mar-22 from a downwardly revised print of 1.5% in Feb-22 (earlier 1.7%). On sequential basis, the year-end seasonality pushed the index to 12.5% MoM in Mar-22 from a contraction of 4.9% in Feb-22. Such a sequential expansion in Mar-22 is consistent with the data before the pandemic. On a cumulative basis, the industrial output in FY22 is around 1.9% and 11.3% higher than in the comparable period of pre-pandemic FY20 and FY21 respectively which highlights a moderate industrial recovery despite bouts of the Covid pandemic in the previous fiscal. (Chart 1)

While manufacturing sector has recorded a marginal increase of 0.91% YoY in Mar-22 from 0.54% YoY in the previous month, the overall trend since Sep-21 has remained subdued reflecting incomplete demand revival and supply shortages in some sectors. On cumulative basis, out of 23 manufacturing industries, only 8 have recorded an expansion in FY22 as compared to the pre-pandemic year i.e. FY20. While output of basic metals, mineral products, food products, pharmaceuticals and chemicals have improved, the production of transport equipment, leather, furniture and wearing apparels still lower vs the pre-pandemic period. (Chart 2)

The activity in both the mining and the electricity sector has been relatively better with output growth of 4.0% and 6.1% YoY, although coal shortages could slow down power generation in the near term. The increase in electricity demand due to hotter than normal weather has led the coal stocks to dwindle significantly in the months of Apr-May-22. The peak power demand in most days of the current month has surged to 200+GW levels. 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, aluminum, cement, fertilizers, chemicals, etc.

On the use-based side, continued weakness was recorded in consumption demand with consumer goods (including consumer durables and non-durables) contracting for six consecutive months. Importantly, the consumer goods output is still 1.2% lower than in the pre-pandemic year. This reflects an uneven demand recovery especially in the rural sector which has been impacted by high inflation in commodities and its derivatives. On the other hand, investment related production activities have been tracking higher with production of infrastructure and construction goods recording a healthy improvement. It can be noted that the output in infrastructure and construction segment increased by 8.6% in FY22 over FY20.

The ongoing geopolitical crisis between Russia and Ukraine could potentially act as a dampener for certain sectors, esp. on account of acceleration in input prices, trade related supply disruptions, and the resultant weakness in global growth impulse. In addition, resurgence of Covid led disruptions in certain countries, esp. in China, could further compound uncertainties on the demand as well as supply front. Reflecting these uncertainties, optimism in the manufacturing sector for Q1 FY23 moderated marginally in RBI's latest round of industrial outlook survey "due to an ebb in sentiments on inventory of raw materials and finished goods". Nevertheless, for FY23, we expect GDP growth at 7.5% given the government's strong thrust on infrastructure segment, robust vaccination coverage, and the full play out of pent-up demand.

Annexure

Chart 1: Capital & Consumer goods trail way below their pre-pandemic levels

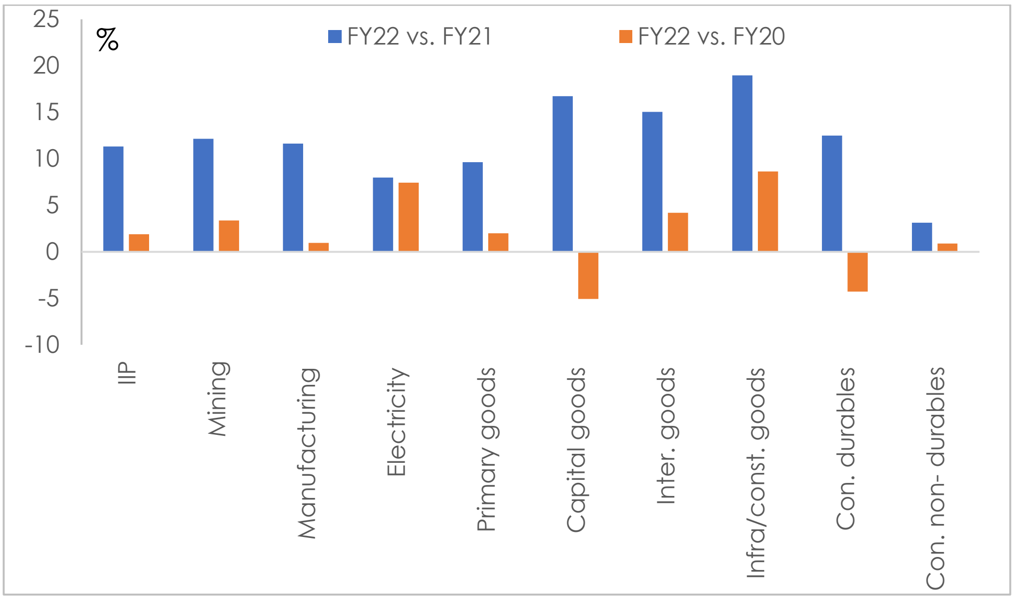
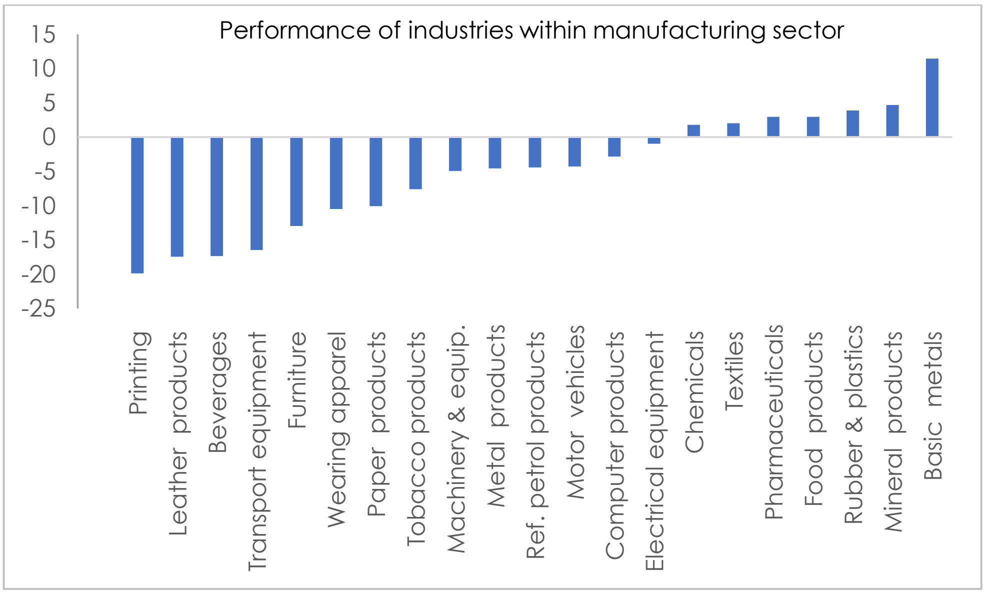


Chart 2: Out of 23 mfg sectors, only 8 sectors recorded growth in FY22 vs FY20



About Acuité Ratings & Research Limited:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 9,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

Media Contacts:

Roshni Rohira Ph: + 91-9769383310 roshnirohira@eminenceonline.in	Sahban Kohari Ph: + 91-9890318722 sahban@eminenceonline.in

Investor Outreach: **Analytical Contact:**

Rituparna Roy Deputy Vice President Ph: + 91-7506948108 rituparna.roy@acuite.in	Suman Chowdhury Chief Analytical Officer Ph: + 91-9930831560 suman.chowdhury@acuite.in