



ICRA

A MOODY'S INVESTORS
SERVICE COMPANY

INDEX OF INDUSTRIAL PRODUCTION February 2022

IIP growth rose to 1.7% in February 2022
from 1.5% in January 2022, while trailing
the pre-Covid level by 1.6%

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HIGHLIGHTS



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The pace of IIP growth improved to 1.7% in February 2022 from 1.5% in January 2022, but trailed our expectations

While consumer durables contracted by 8.2% in February 2022, consumer non-durables declined by 5.5% in the month

On a dismal note, the IIP slipped into a mild contraction of 1.6% in February 2022 relative to the pre-Covid levels of February 2020, after a gap of two months

We expect the IIP growth to print at ~3-5% in March 2022

While the easing of restrictions after the abatement of the third wave mildly propped up the IIP year-on-year (YoY) growth to 1.7% in February 2022 (-3.2% in February 2021) from the revised 1.5% in January 2022 (-0.6% in January 2021), it trailed our expectations (+2.5%) as well as the core sector's performance. This points to a disappointing showing of the non-core components, especially consumer goods. The mild rise in the IIP growth in February 2022 was led by mining and electricity, while manufacturing growth moderated to 0.8% YoY. In terms of the use-based classification, the performance was decidedly mixed, with a contraction in consumer goods being partly offset by a sharp 9.4% expansion in infra/construction goods. Given the YoY de-growth in the output of Coal India Limited (CIL; after a gap of 11 months; to -1.1% from +3.9%), along with a sharp moderation in the growth of non-oil merchandise exports (to a 13-month low +4.3% from +18.9%), we expect the IIP growth to print at ~3-5% in March 2022. Going forward, the surge in global commodity prices and the disruptions caused by the Russia-Ukraine conflict and the supply chain implications of the continued lockdowns in China since March 2022 following the outbreak of a fresh Covid-19 wave in the country do not augur well for output of those sectors, including automobiles, that are dependent on key raw materials provided by Russia, Ukraine or China, in the absence of any other alternatives.

- **IIP growth rose mildly to 1.7% YoY in February 2022:** The easing of restrictions after the abatement of the third wave mildly propped up the IIP growth to 1.7% in February 2022 from 1.5% in January 2022, led by electricity (to +4.5% from +0.9%) and mining (to +4.5% from +2.8%), even as the performance of manufacturing (to +0.8% from +1.3%) deteriorated. Moreover, growth in three of the six use-based categories (apart from consumer durables, consumer non-durables and capital goods) improved in February 2022 relative to January 2022.
- **Consumer goods register a sharp contraction in February 2022:** While consumer durables contracted by 8.2% YoY in February 2022, partly on account of a high base and the restrictions in the early part of the month, consumer non-durables also displayed a discouraging 5.5% decline in February 2022. Capital goods output rose by just 1.1% in February 2022, after a 1.4% rise in January 2022 and a contraction in Q3 FY2022, despite a sharp improvement in capacity utilisation levels in Q3 FY2022 and an improvement in new project announcements.
- **The IIP slipped into a mild contraction of 1.6% in February 2022 relative to the pre-Covid levels:** On a dismal note, the IIP contracted by 1.6% in February 2022 relative to the pre-Covid levels of February 2020, led by manufacturing (-2.5%) and mining (-0.1%), while electricity (+4.6%) registered a growth during this period. In addition, all the use-based categories (barring infrastructure/ construction goods; +5.5%), trailed their pre-Covid levels in February 2022, namely consumer non-durables (-9.1%), capital goods (-3.2%), consumer durables (-2.2%), intermediate goods (-1.2%) and primary goods (-0.2%), indicating that the growth recovery is yet to broad-base.
- **IIP growth to print at ~3-5% in March 2022:** Given the improvement visible in the performance of the high frequency indicators for March 2022, we expect the IIP to grow by ~3-5% in the month. Going forward, the surge in global commodity prices and the disruptions caused by the Russia-Ukraine conflict and the supply chain implications of the continued lockdowns in China since March 2022 do not augur well for output of those sectors, including automobiles, that are dependent on key raw materials provided by Russia, Ukraine or China, in the absence of any other alternatives.

OVERVIEW

- While the easing of restrictions after the abatement of the third wave and a favourable base mildly propped up the YoY IIP growth to 1.7% in February 2022 (-3.2% in February 2021) from the revised 1.5% in January 2022 (-0.6% in January 2021), it trailed our expectations (+2.5%). Notably, for the sixth consecutive month, the YoY rise in the broader IIP was lower than that for the core sector output (with a weight of 40.3% in the IIP), which had reported a 5.8% YoY growth in February 2022, pointing to a disappointing showing of the non-core components, especially consumer goods.
- The uptick in YoY IIP growth in February 2022 relative to January 2022 was led by electricity generation (to +4.5% in February 2022 from +0.9% in January 2022) and mining (to +4.5% from +2.8%) among the sectors, even as the performance of manufacturing (to +0.8% from +1.3%) deteriorated in the month.
- The YoY growth in manufacturing output eased to 0.8% in February 2022 from the revised 1.3% in January 2022. Notably, 13 of the 23 sub-sectors of manufacturing (with a weight of 47.2% in the IIP) displayed a YoY growth in February 2022, while 10 sub-sectors (with a lower weight of 30.4% in the IIP) witnessed a contraction in that month. Moreover, as many as 11 of the 23 sub-sectors of manufacturing (with a weight of 28.8% in the IIP) recorded a deterioration in the YoY performance in February 2022 relative to January 2022; this sub-set includes pharma, medicinal chemical and botanical products (to -13.1% in February 2022 from +7.8% in January 2022), computer, electronic and optical products (to -14.8% from +20.0%, amidst supply shortages), wearing apparel (to +14.4% from +19.2%), textiles (to +2.4% from +6.5%), other transport equipment (to -15.5% from -10.9%), etc. In contrast, 12 sub-sectors (with a substantial weight of 48.9% in the IIP) recorded an improvement in the YoY performance in February 2022 relative to January 2022; this sub-set includes tobacco products (to +14.5% from -3.9%), coke and refined petroleum products (to +5.9% from +0.9%), basic metals (+9.9% from +5.9%), motor vehicles, trailers and semi-trailers (to +1.8% from -3.2%), chemical and chemical products (to -1.9% from -7.7%), etc.
- In contrast, the YoY growth in mining output improved to a three-month high 4.5% in February 2022 from 2.8% in January 2022, driven by the trend in the output of natural gas (to +12.5% in February 2022 from +11.7% in January 2022) and crude oil (to -2.2% from -2.4%). In contrast, the growth in output of coal (to +6.6% from +8.2%) moderated during this period (refer Exhibit 5).
- Similarly, the YoY growth in electricity generation witnessed an improvement to a six-month high 4.5% in February 2022 from 0.9% in January 2022. This was in line with the data released by the Central Electricity Authority, which indicated that thermal electricity generation reverted to a growth of 1.8% in February 2022 from the contraction of 0.9% in January 2022. Further, hydroelectricity generation also recorded a YoY growth of 1.6% in February 2022 (-5.9% in January 2022), after a gap of two months.
- Among the use-based categories, the YoY performance of three of the six categories (apart from consumer durables, consumer non-durables and capital goods) improved in February 2022 relative to January 2022, partly reflecting a favourable base effect. The performance of infrastructure/construction goods improved to a six-month high 9.4% in February 2022 from 6.1% in January 2022, benefitting from a pickup in steel output (to +5.7% from +3.7%), even as the performance of cement moderated sharply (to +5.0% from +14.3). Similarly, the performance of primary goods and intermediate goods improved to four-month highs of 4.6% and 4.3%, respectively, in February 2022 from 1.6% and 0.7%, respectively, in January 2022.
- Partly attributed to a high base and the restrictions in the early part of the month, the YoY contraction in the output of consumer durables widened to an 18-month low of 8.2% in February 2022 from 3.6% in January 2022, declining for the fifth consecutive month. Similarly, the output of consumer non-durables contracted by a 21-month low of 5.5% in February

2022, compared to the growth of 2.1% recorded in January 2022, amid a high base. In addition, the YoY growth in the output of capital goods eased to 1.1% in February 2022 from 1.4% in January 2022. While the capacity utilisation levels for Q3 FY2022 surprised on the upside at 72.4% (68.3% in Q2 FY2022), and there has been an improvement in new project announcements (to Rs. 5.1 trillion in Q4 FY2022 from Rs. 2.5 trillion in Q4 FY2021), the growth in capital goods output has remained sub-1.5% in Jan-Feb 2022, after the contraction seen in Q3 FY2022.

- On a dismal note, the IIP slipped into a mild contraction of 1.6% in February 2022 relative to the pre-Covid levels of February 2020, led by manufacturing (-2.5%) and mining (-0.1%), while electricity (+4.6%) registered a growth during this period. Moreover, as many as 15 of the 23 sub-segments within manufacturing (with a substantial weight of 47.1% in the IIP) posted a lower output in the February 2022 vs. pre-Covid levels, evidence that the recovery is not broad-based; this sub-set includes leather and related products (-22.9%), printing and reproduction of recorded media (-22.4%), pharma, medicinal chemical and botanical products (-17.4%), other transport equipment (-13.3%), beverages (-11.7%), paper and paper products (-11.2%), machinery and equipment (-9.9%), etc. On the other hand, eight of the 23 sub-sectors (with a weight of 30.5% in the IIP) recorded a higher output in February 2022 relative to February 2020; this sub-set includes furniture (+1.3%), other non-metallic mineral products (+1.4%), food products (+2.6%), computer, electronic and optical products (+3.1%), tobacco products (+5.6%), basic metals (+6.1%), motor vehicles, trailers and semi-trailers (+7.5%), and other manufacturing (+16.4%).
- In addition, all the use-based categories (barring infrastructure/ construction goods; +5.5%), trailed their pre-Covid levels in February 2022, namely consumer non-durables (-9.1%), capital goods (-3.2%), consumer durables (-2.2%), intermediate goods (-1.2%), and primary goods (-0.2%). This provides further evidence that the growth recovery is yet to broad-base.
- In month-on-month (MoM) terms, industrial output recorded a sequential dip of 4.7% in February 2022 despite the rapid abatement of the third wave of Covid-19, owing to the fewer number of days in the month relative to January. The sequential fall was led by a lower manufacturing (-5.5%), electricity (-2.9%) and mining (-1.2%) output. As expected, the sequential decline in manufacturing in February 2022 (-5.5%) was in contrast to the MoM rise in the generation of GST e-way bills (+0.4%) in that month, which reflected higher dispatches after the easing of restrictions. Amongst the use-based categories, all the six segments witnessed a lower output in February 2022 relative to January 2022, led by consumer non-durables (-8.8%), intermediate goods (-4.5%), primary goods (-4.2%), consumer durables (-4.0%), infrastructure/ construction goods (-3.9%), and capital goods (-0.2%).
- The YoY growth in the IIP in January 2022 has been revised mildly upwards to 1.5% from the initial 1.3%, primarily driven by an upward revision in manufacturing (to +1.3% from an initial +1.1%), with the output of mining and electricity remaining unchanged at 2.8% and 0.9%, respectively. Amongst the use-based categories, the performance of infrastructure/construction goods (+6.1% vs. +5.4%) and capital goods (+1.4% vs. -1.4%) was revised upwards in January 2022. On the other hand, the performance of intermediate goods (+0.7% vs. +0.9%) and consumer durables (-3.6% vs. -3.3%) has been revised downwards in January 2022, while that for primary goods and consumer non-durables remained unchanged at 1.6% and 2.1%, respectively.

OUTLOOK

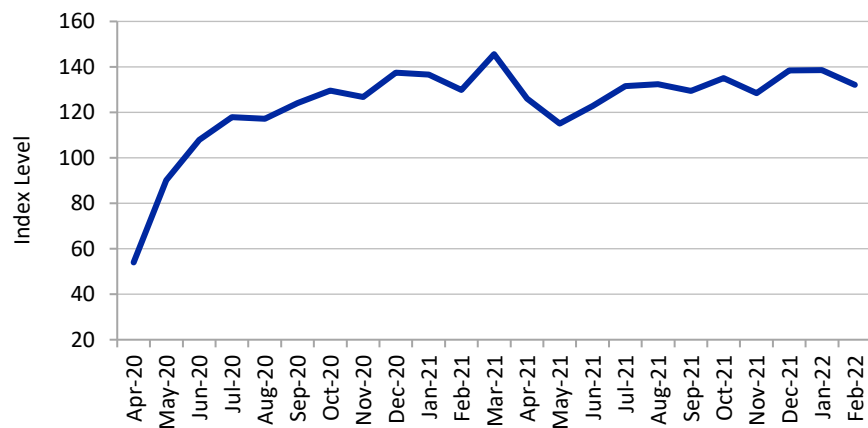
The YoY growth of several indicators improved in March 2022 relative to February 2022, such as ports cargo traffic (turning positive after a gap of four months; to +1.2% in March 2022 from -4.5% in February 2022), electricity generation (to +4.9% from +4.6%), rail freight traffic (to +6.7% from +6.6%), generation of GST e-way bills (to +9.7% from +8.3%), finished steel consumption (to +1.4% from -10.6%), vehicle registrations (to -3.1% from -9.1%), petrol consumption (to +6.2% from +3.5%) and diesel consumption (+6.7% from -0.7%). In contrast, the YoY growth in non-oil merchandise exports eased to the lowest levels in FY2022 (to +4.3% from +18.9%; as per provisional data released by the Ministry of Commerce and Industry) during this period, partly due to a high base (+66.8% in March 2021). Moreover, CIL's output slipped into a contraction of 1.1% after a gap of 11 months in March 2022, despite a low base (-3.8% in March 2021).

A majority of high frequency indicators witnessed an improvement in growth performance in March 2022, although the output of CIL declined after a gap of 11 months while non-oil merchandise exports witnessed a sharp moderation in YoY growth in the month. Given these trends, we expect the IIP growth to witness an acceleration in March 2022 relative to February 2022 and print at ~3-5% YoY in the month. Growth in March 2022 is unlikely to be dampened by the high base (+24.2% in March 2021) which was largely statistical in nature, given that the print for March 2021 itself was bumped up by a low base (-18.7% in March 2020 following the imposition of the nationwide lockdown in end-March 2020). Going forward, the surge in global commodity prices and the disruptions caused by the Russia-Ukraine conflict and the supply chain implications of the continued lockdowns in China since March 2022 following the outbreak of a fresh Covid-19 wave in the country do not augur well for output of those sectors, including automobiles, that are dependent on key raw materials provided by Russia, Ukraine or China, in the absence of any other alternatives.

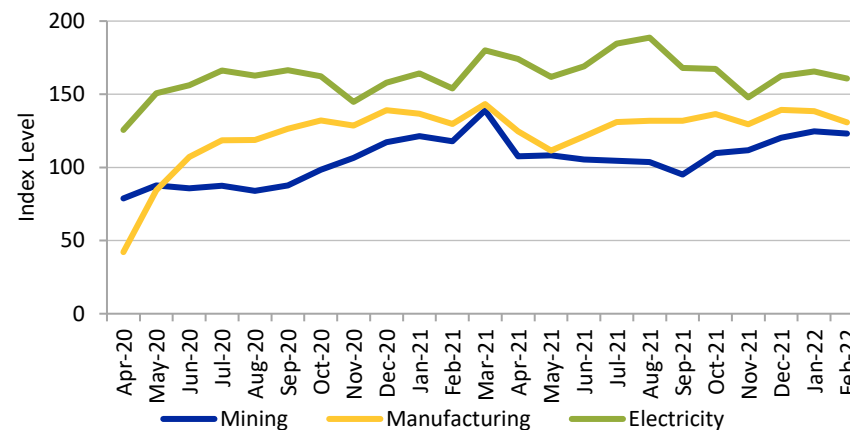
EXHIBIT 1: Trend in IIP Growth

		Sectoral			Use-Based Classification					
	IIP	Mining	Manufacturing	Electricity	Primary	Capital	Intermediate	Infra/ construction	Durables	Non-Durables
Weight	100.0%	14.4%	77.6%	8.0%	34.0%	8.2%	17.2%	12.3%	12.8%	15.3%
YoY (%)										
Jan-22	1.5%	2.8%	1.3%	0.9%	1.6%	1.4%	0.7%	6.1%	-3.6%	2.1%
Feb-22	1.7%	4.5%	0.8%	4.5%	4.6%	1.1%	4.3%	9.4%	-8.2%	-5.5%
MoM (%)										
Jan-22	0.1%	3.7%	-0.6%	1.9%	2.1%	2.5%	-0.2%	3.3%	-1.7%	-4.9%
Feb-22	-4.7%	-1.2%	-5.5%	-2.9%	-4.2%	-0.2%	-4.5%	-3.9%	-4.0%	-8.8%
Feb-22 vs. Feb-20	-1.6%	-0.1%	-2.5%	4.6%	-0.2%	-3.2%	-1.2%	5.5%	-2.2%	-9.1%

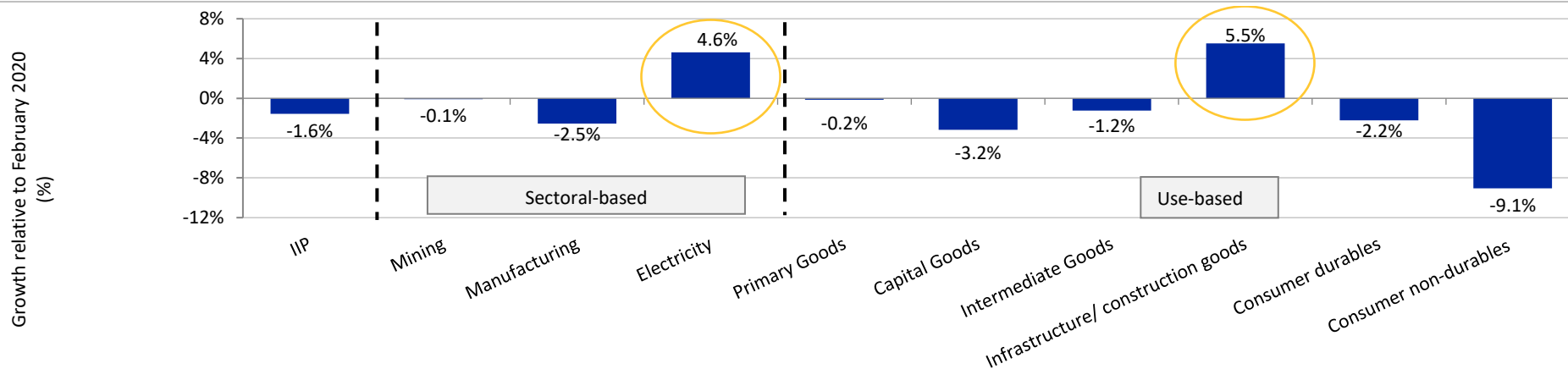
Source: National Statistical Office (NSO); CEIC; ICRA Research

EXHIBIT 2: Trend in IIP since April 2020


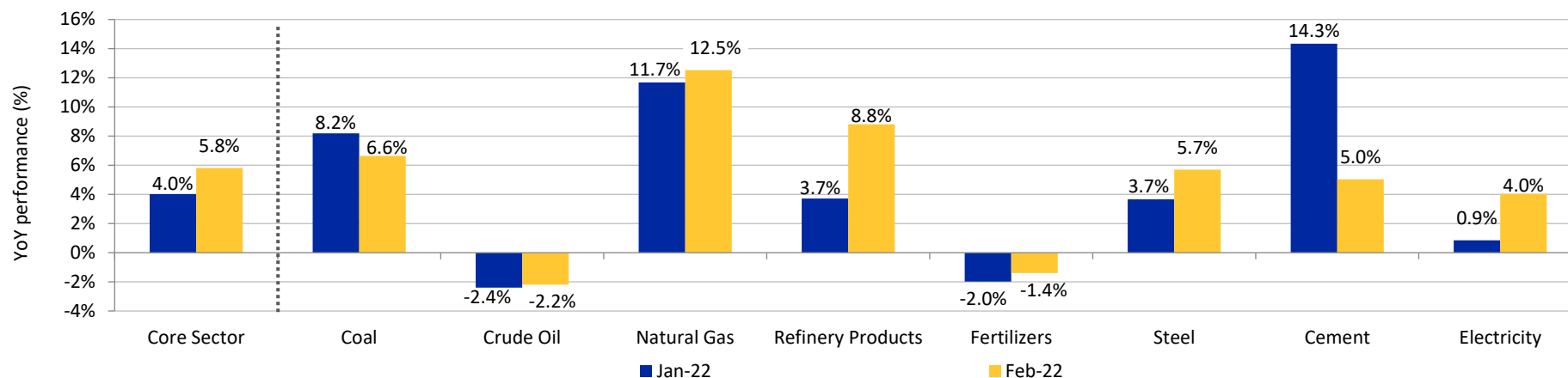
Source: NSO; CEIC; ICRA Research

EXHIBIT 3: Trend in index levels for mining, manufacturing and electricity since April 2020


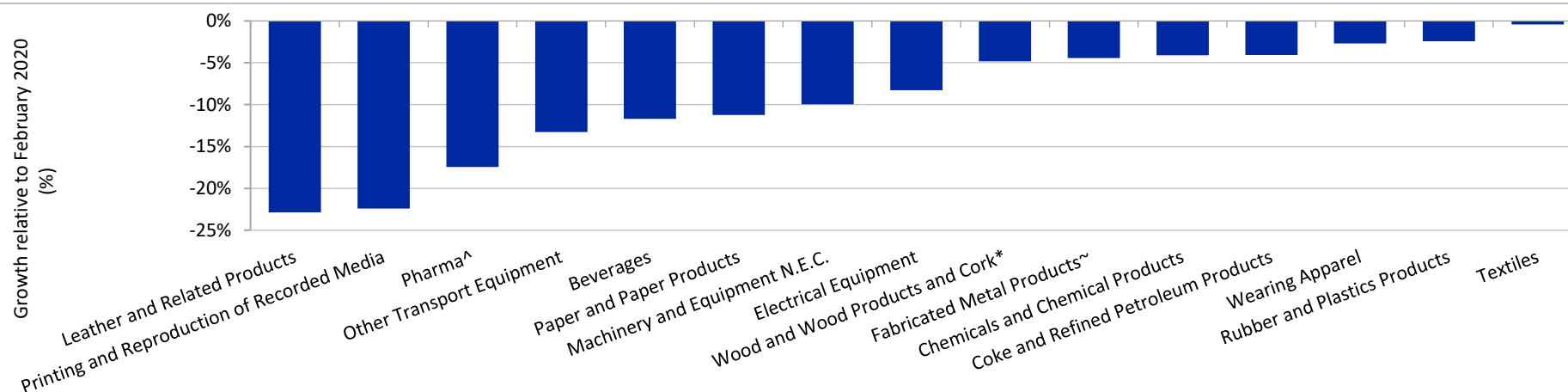
Source: NSO; CEIC; ICRA Research

EXHIBIT 4: Trend in performance of IIP and its sub-components in February 2022 relative to February 2020


Source: NSO; CEIC; ICRA Research

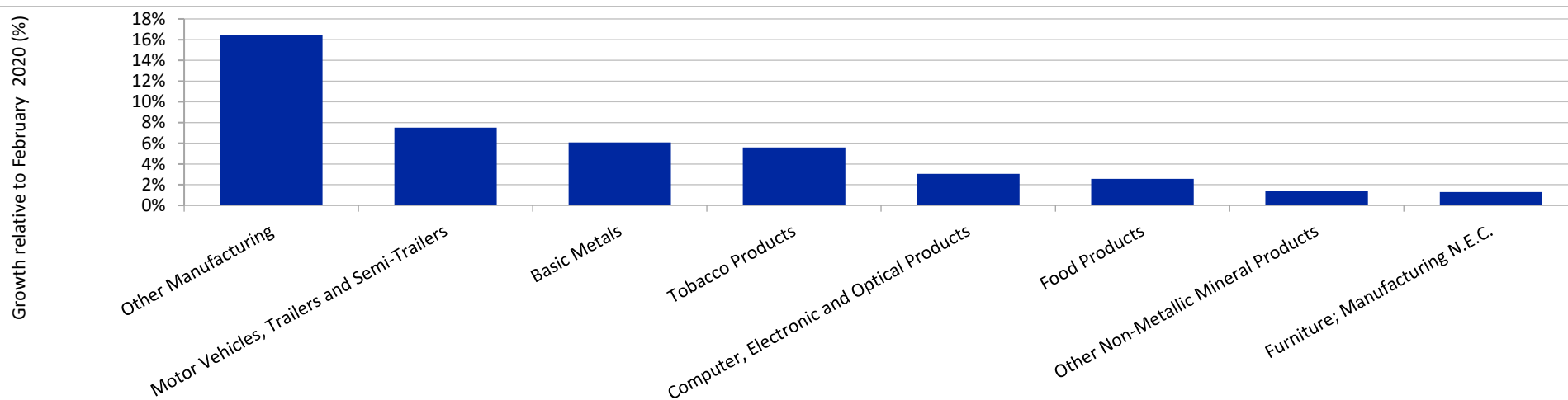
EXHIBIT 5: YoY performance of core sector and its sub-components in January 2022 and February 2022


Source: Index of Eight Core Industries, Office of Economic Adviser, Ministry of Commerce and Industry, CEIC; ICRA Research

EXHIBIT 6: Trend in performance of manufacturing sub-sectors in February 2022 relative to February 2020 (PART-I)


[^]Including Medicinal Chemical and Botanical Products; [~]ex Machinery and Equipment; ^{*}ex Furniture; Articles of Straw and Plaiting Materials; Source: NSO; CEIC; ICRA Research

EXHIBIT 7: Trend in performance of manufacturing sub-sectors in February 2022 relative to February 2020 (PART-II)



Source: NSO; CEIC; ICRA Research

EXHIBIT 8: Sub-groups with major contribution in IIP on the basis of use-based classification

Use-Based Classification	Item Group	Sub-group	Weight (%)	Use-Based Classification	Item Group	Sub-group	Weight (%)
Primary Goods (Wt.=34.0%)	Diesel	Coke and refined petroleum products	5.71	Infrastructure /Construction Goods (Wt.=12.3%)	Cement	Other non-metallic mineral products	2.16
	Petrol/Motor Spirit	Coke and refined petroleum products	1.66		Bars and Rods of Mild steel	Basic Metals	1.35
	LPG	Coke and refined petroleum products	0.84		HR coils and sheets of mild steel	Basic Metals	1.35
Capital Goods (Wt.=8.2%)	Commercial Vehicles	Motor vehicles, trailers and semi-trailers	0.94	Consumer Durables (Wt.=12.8%)	Auto components/ spares and accessories	Motor vehicles, trailers and semi-trailers	2.59
	Stationary and internal combustion piston engines not for motor vehicles	Machinery and equipment N.E.C.	0.51		Two-wheelers (motorcycles/ scooters)	Other transport equipment	1.36
	Generators / Alternators	Electrical Equipment	0.46		Readymade Garments	Wearing Apparel	1.01
Intermediate Goods (Wt.=17.2%)	Naphtha	Coke and refined petroleum products	1.15	Consumer Non-durables (Wt.=15.3%)	API & formulations of vitamins	Pharmaceuticals, medicinal chemical and botanical products	0.85
	MS blooms/ billets/ ingots/ pencil ingots	Basic Metals	0.95		Sugar	Food Products	0.76
	MS slabs	Basic Metals	0.84		Steroids and hormonal preparations	Pharmaceuticals, medicinal chemical and botanical products	0.72

Source: NSO; CEIC; ICRA Research



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