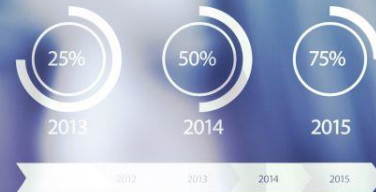


INDEX OF INDUSTRIAL PRODUCTION

Unseasonal rains, base effect dampened IIP growth to five-month low of 1.1% in March 2023

May 2023



€ % \$





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The YoY IIP growth eased to 1.1% in Mar 2023 from 5.8% in Feb 2023, trailing ICRA's forecast

Disaggregated data reveals mixed trends in Mar 2023; consumer goods recorded a discouraging YoY decline in that month

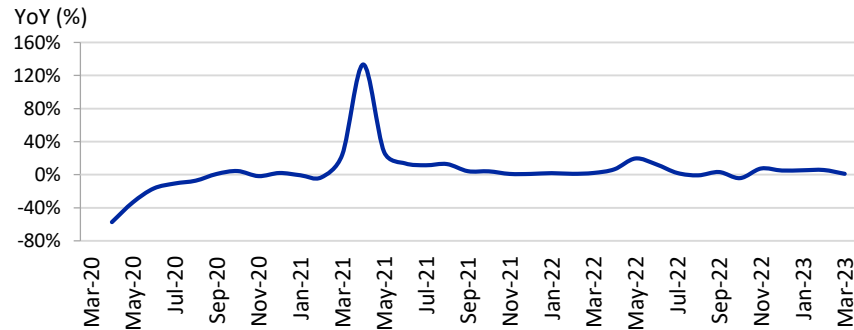
YoY performance of majority of available indicators worsened in Apr 2023 relative to Mar 2023; IIP growth likely to print at sub-2% in Apr 2023

The year-on-year (YoY) growth in the Index of Industrial Production (IIP) eased to a lower-than-expected 1.1% in March 2023 (ICRA's exp.: +3.3%) from the revised 5.8% in February 2023, led by unseasonal rainfall and a high base. While the disaggregated trend was uneven, the deterioration in the performance of consumer goods reflects the adverse impact of weak exports on manufacturing as well as a domestic preference for consumption of services. Encouragingly, the IIP growth rose to 4.0% during Q4 FY2023 from 2.8% in Q3 FY2023. The early high frequency data for April 2023 indicates a mixed trend, with the YoY performance of six of the 11 available indicators weakening in the month. Based on this ICRA expects the YoY IIP growth to print at sub-2% in March 2023.

- **IIP growth eased to five-month low of 1.1% in Mar 2023:** Trailing ICRA's expectation (+3.3%), the IIP growth eased to a tepid 1.1% in Mar 2023 from 5.8% in Feb 2023, driven by manufacturing (to a five-month low +0.5% from +5.6%) and electricity generation (to a 31-month low -1.6% from +8.2%), which offset the YoY improvement in mining output (to +6.8% from +4.8%).
- **Weaker YoY performance of use-based categories in Mar 2023:** The output of all use-based categories (apart from intermediate goods: to +1.0% in Mar 2023 from +0.7% in Feb 2023) recorded a moderation in Mar 2023, vis-à-vis Feb 2023, with a notable YoY decline in consumer durables (-8.4%) and non-durables (-3.1%).
- **Mar 2023 IIP was 4.4% higher than pre-Covid levels:** This was led by electricity (+17.4%) and mining (+16.2%), amid a relatively muted growth in manufacturing (+1.0%); only seven of the 23 sub-segments of the manufacturing sector (albeit with a sizeable weight of 46.0% in the IIP) recorded a higher output in March 2023.
- **YoY IIP growth seen sub-2% in Apr 2023:** As many as six of the 11 available high frequency indicators recorded a moderation in their YoY performance in April 2023, relative to Mar 2023, partly dampened by the continued unseasonal rainfall in that month. Based on these trends, ICRA expects the YoY growth in the IIP to remain subdued at sub-2% in Apr 2023.

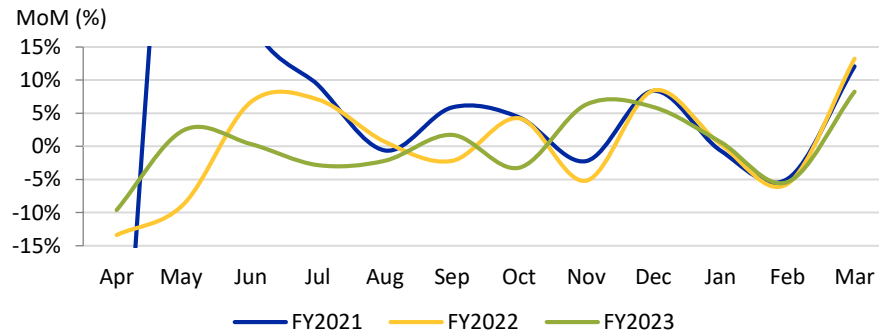
YoY IIP growth eased to five-month low 1.1% in Mar 2023, led by unseasonal rainfall and high base

EXHIBIT: YoY trends in IIP since April 2020



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

EXHIBIT: MoM trends in IIP

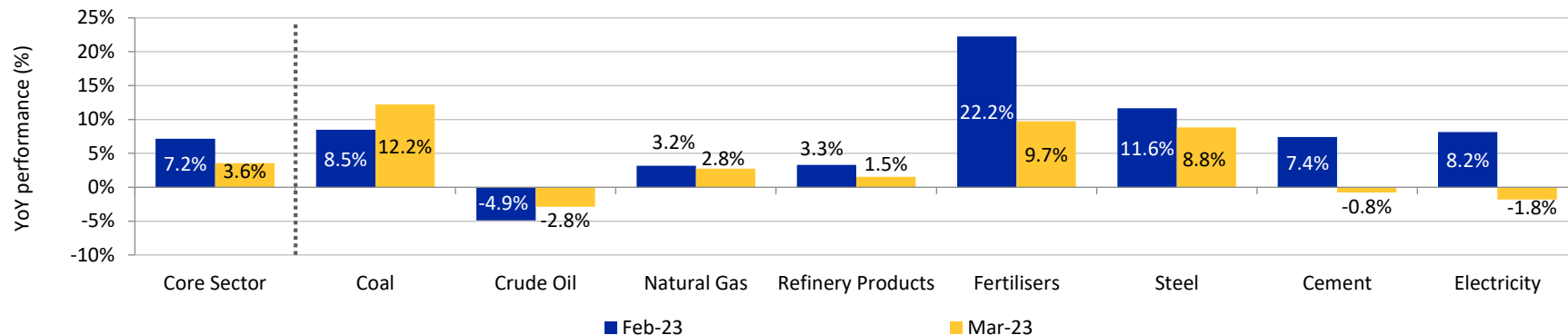


Source: NSO; CEIC; ICRA Research

- The YoY IIP growth eased to a five-month low of 1.1% in March 2023 (+2.2% in March 2022; ICRA's exp.: +3.3%), from the revised 5.8% in February 2023 (+1.2% in February 2022), dampened by unseasonal rainfall in the month as well as the base effect.
- The moderation in the IIP growth in March 2023, relative to February 2023, was led by manufacturing (to +0.5% in March 2023 from +5.6% in February 2023), and electricity generation (to -1.6% from +8.2%), while mining output recorded an improvement between these two months (to +6.8% from +4.8%).
- Boosted by the typical year-end push in volumes as well as the higher number of working days relative to February, industrial output recorded a sharp sequential uptick of 8.3% in March 2023, led by the double-digit rise in mining (+19.3%), followed by electricity (+8.0%), and manufacturing (+6.4%; lower than the MoM rise of +11.1% seen in the generation of GST e-way bills). However, this MoM rise was lower than that seen in March 2022 (+13.2%) and March 2021 (+12.1%).

YoY growth in IIP trailed the expansion in core sector output in March 2023

EXHIBIT: YoY performance of core sector and its sub-components in February 2023 and March 2023

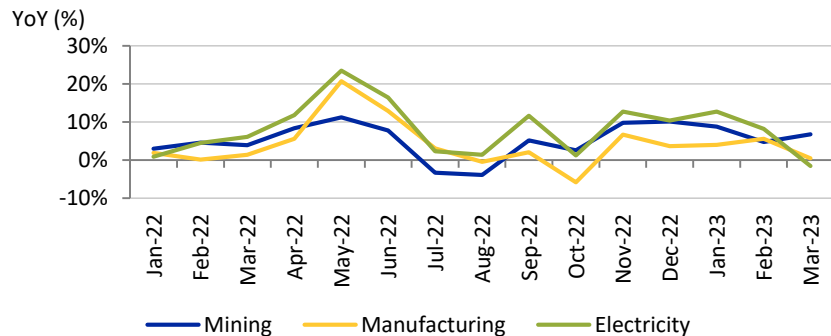


Source: Index of Eight Core Industries, Office of Economic Adviser, Ministry of Commerce and Industry, CEIC; ICRA Research

- The YoY expansion in the output of the core sector had deteriorated to a five-month low of 3.6% in March 2023 (+4.8% in March 2022) from 7.2% in February 2023 (+5.9% in February 2022). The output of cement (to a 16-month low of -0.8% in March 2023 from +7.4% in February 2023) and electricity generation (to a 31-month low -1.8% from +8.2%) slipped into a YoY contraction in March 2023, after expanding in the previous month.
- Additionally, the YoY performance of natural gas (to +2.8% from +3.2%), refinery products (to +1.5% from +3.3%), fertilisers (to +9.7% from +22.2%), and steel (to +8.8% from +11.6%) recorded a weaker YoY performance in March 2023, vis-à-vis February 2023.
- Moreover, the YoY expansion in the broader IIP trailed the 3.6% YoY growth recorded in the core sector output (with a weight of 40.3% in the IIP) in March 2023, for the fourth consecutive month.

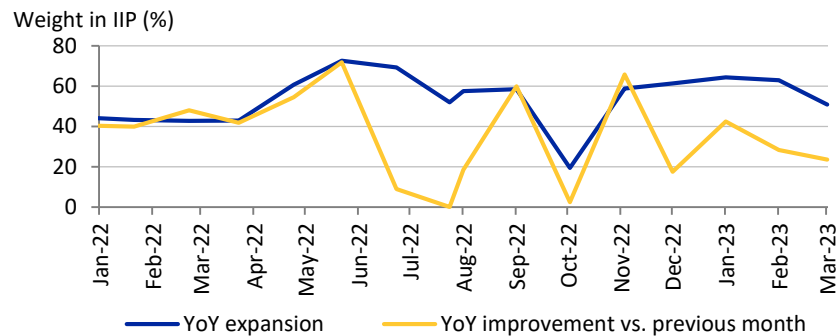
Improvement in mining in Mar 2023 more-than-offset by moderation in manufacturing and electricity

EXHIBIT: YoY trends in IIP (sectoral-based)



Source: NSO; CEIC; ICRA Research

EXHIBIT: Weightage (%; in IIP) of manufacturing sub-sectors reporting YoY expansion and improvement in YoY growth vs. previous month

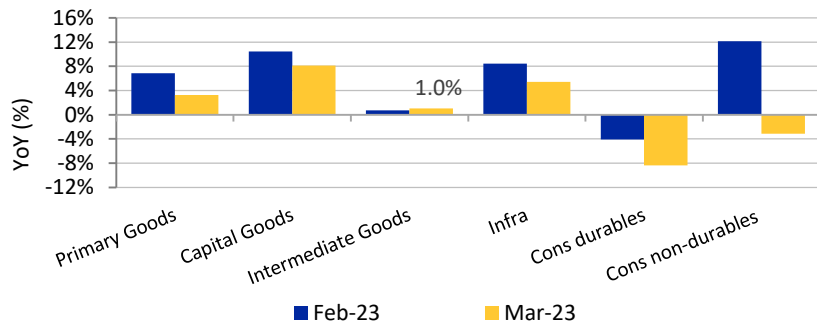


Source: NSO; CEIC; ICRA Research

- In terms of the sectoral-based classification, the moderation in the YoY performance of manufacturing (to a five-month low +0.5% from +5.6%) and electricity generation (to a 31-month low -1.6% from +8.2%; led by excess unseasonal rainfall), more-than-offset the improvement in the YoY growth of mining (to +6.8% from +4.8%) in March 2023, relative to February 2023.
- Notably, 10 of the 23 sub-sectors of manufacturing (with a weight of 51.0% in the IIP) displayed a YoY growth in March 2023, while the output of the remaining 13 sub-sectors (with a lower weight of 26.7% in the IIP) contracted.
- Further, 12 of the 23 sub-sectors of manufacturing (with a substantial weight of 54.0% in the IIP) recorded a deterioration in their YoY performance in March 2023, relative to February 2023; this sub-set includes machinery and equipment n.e.c., beverages, coke and refined petroleum products, etc. In contrast, 11 sub-sectors (with a lower weight of 23.7% in the IIP) witnessed an improved YoY performance in March 2023, relative to the previous month; this sub-set includes textiles, chemicals and chemical products, etc.

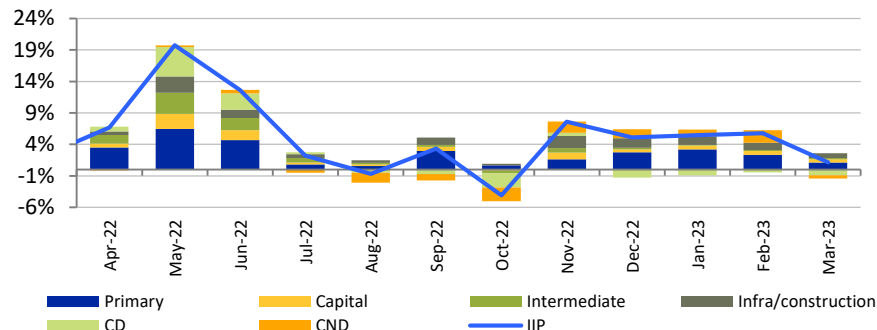
YoY contraction in output of consumer goods weighed upon IIP growth

EXHIBIT: YoY trends in IIP (use-based)



*Infra: Infrastructure/ construction goods; Cons durables: Consumer durables; Cons non- durables: Consumer non-durables; Source: NSO; CEIC; ICRA Research

EXHIBIT: Contribution to IIP growth by use-based categories

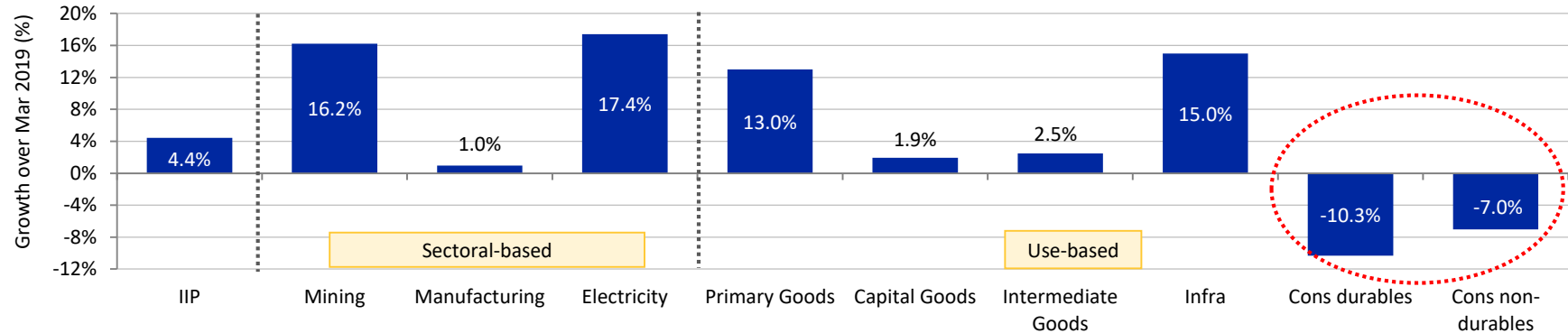


*CD: Consumer durables; CND: Consumer non- durables; Source: NSO; CEIC; ICRA Research

- The YoY performance of all use-based categories (apart from intermediate goods: to +1.0% in Mar 2023 from +0.7% in Feb 2023) deteriorated in March 2023, relative to the prior month. The output of consumer durables (to -8.4% from -4.1%) continued to contract for the fourth consecutive month in March 2023, amidst a flagging external demand reflected by a YoY dip in the exports of certain items such as textiles (-20.9%), yarns/fabrics/made ups (-27.6%), plastic and linoleum (-16.8%), etc. Additionally, consumer non-durables slipped into a YoY decline in March 2023 (to -3.1% from +12.1%), after a gap of four months.
- The growth of primary goods (to a five-month low +3.3% from +6.9%), capital goods (to +8.1% from +10.5%), and infrastructure/construction goods (to a five-month low +5.4% from +8.4%) moderated in March 2023, vis-à-vis February 2023.
- All the use-based categories (apart from consumer non-durables: -5.6%), recorded an MoM uptick in March 2023, led by a double-digit rise in capital goods (+15.8%) and primary goods (+13.2%), followed by intermediate goods (+9.3%), consumer durables (+9.0%), and infrastructure/construction goods (+8.4%).

IIP rose by 4.4% over pre-Covid levels in March 2023, amidst lag in consumer goods

EXHIBIT: Trend in performance of IIP and its sub-components in March 2023 relative to March 2019

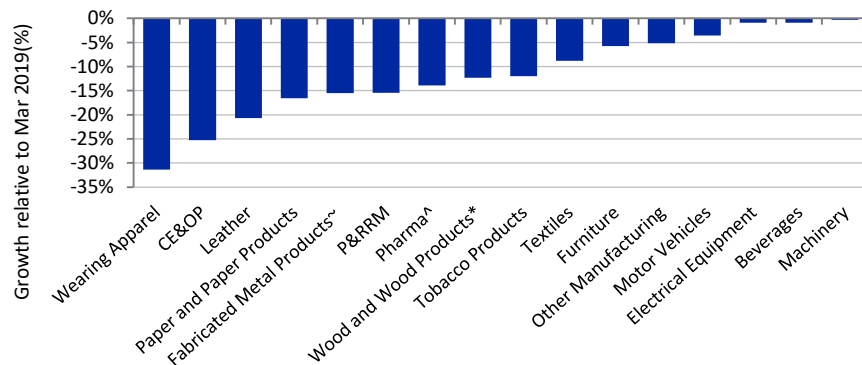


*Infra: Infrastructure/ construction goods; Cons durables: Consumer durables; Cons non-durables: Consumer non- durables; Source: NSO; CEIC; ICRA Research

- The IIP rose by 4.4% in March 2023 relative to the pre-Covid levels of March 2019, benefitting from a double-digit expansion in electricity (+17.4%) and mining (+16.2%), followed by a muted growth in manufacturing (+1.0%).
- Four of the six use-based categories exceeded their respective pre-Covid levels in March 2023. The output of infrastructure/construction goods (+15.0%) and primary goods (+13.0%) reported a double-digit expansion in March 2023, followed by modest increases in capital goods (+1.9%) and intermediate goods (+2.5%), relative to the pre-Covid levels of March 2019.
- In contrast, consumer durables (-10.3%; owing to a continued lower demand appetite for durables amid shift in consumer preferences towards services, and a decline in exports for such goods) and consumer non-durables (-7.0%) trailed their respective pre-Covid volumes in March 2023.

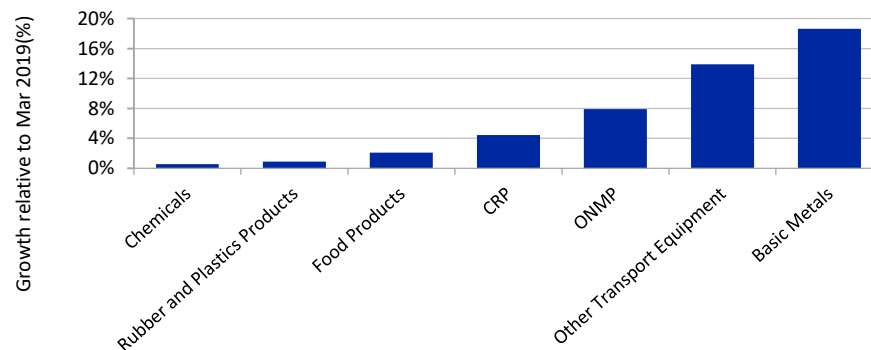
Output of 16 of the 23 manufacturing sub-sectors was below pre-Covid levels in March 2023

EXHIBIT: Trend in performance of manufacturing sub-sectors in March 2023 relative to March 2019 (PART-I)



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

EXHIBIT: Trend in performance of manufacturing sub-sectors in March 2023 relative to March 2019 (PART-II)



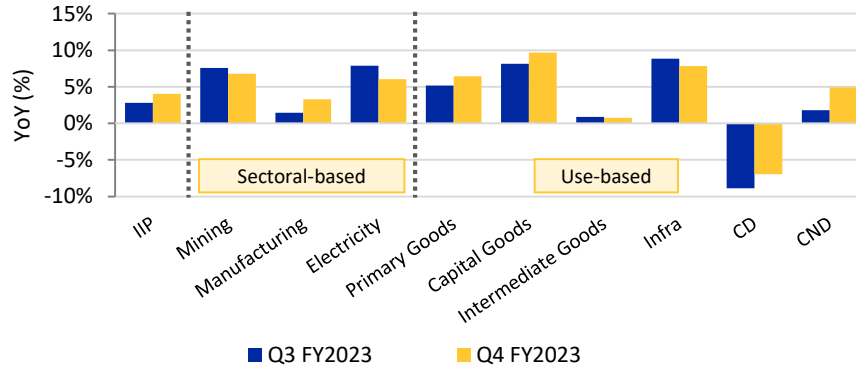
Source: NSO; CEIC; ICRA Research

- Compared to pre-Covid levels of March 2019, only seven of the 23 sub-segments of the manufacturing sector (albeit with a sizeable weight of 46.0% in the IIP) recorded a higher output in March 2023; this subset includes basic metals (over pre-Covid: +18.6%; weight: 12.8%), coke and refined petroleum products (+4.5%; 11.8%), food products (+2.1%; 5.3%), chemicals and chemical products (+0.5%; 7.9%), etc.
- In contrast, the output of as many as 16 of the 23 sub-sectors (with a relatively lower weight of 31.6% in the IIP) in March 2023 trailed the March 2019 levels; this sub-set includes leather and related products (-20.7%; 0.5%), wearing apparel (-31.4%; 1.3%), textiles (-8.8%; 3.3%), computer, electronic and optical products (-25.3%; 1.6%), etc., partly dampened by weak external demand.

Leather: Leather and related products; P&RRM: Printing and Reproduction of Recorded Media; CE&OP: Computer, Electronic and Optical Products; CRP: Coke and Refined Petroleum products; Chemicals: Chemicals and Chemical products; ONMP: Other Non-metallic Mineral products; Motor Vehicles: Motor Vehicles, Trailers and Semi-Trailers

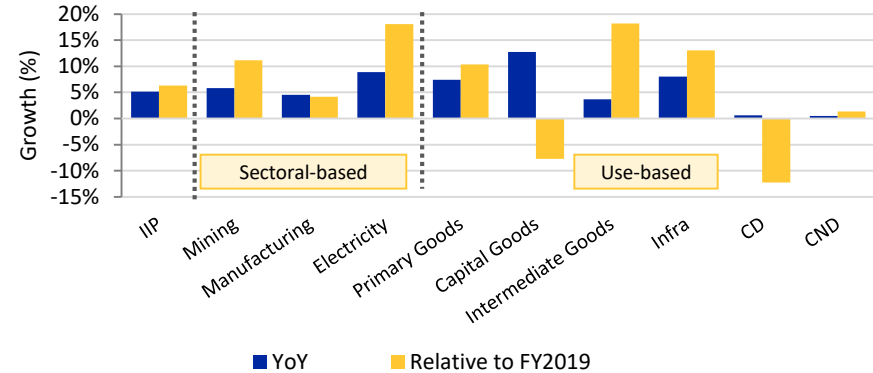
YoY expansion in IIP improved in Q4 FY2023; industrial output up by 5.1% in FY2023

EXHIBIT: YoY performance of the IIP, its sectoral categories and use-based categories in Q3 and Q4 FY2023



*Infra: Infrastructure/construction goods; CD: Consumer durables; CND: Consumer non- durables;
Source: NSO; CEIC; ICRA Research

EXHIBIT: YoY and pre-Covid performance of IIP, its sectoral categories and use-based categories in FY2023

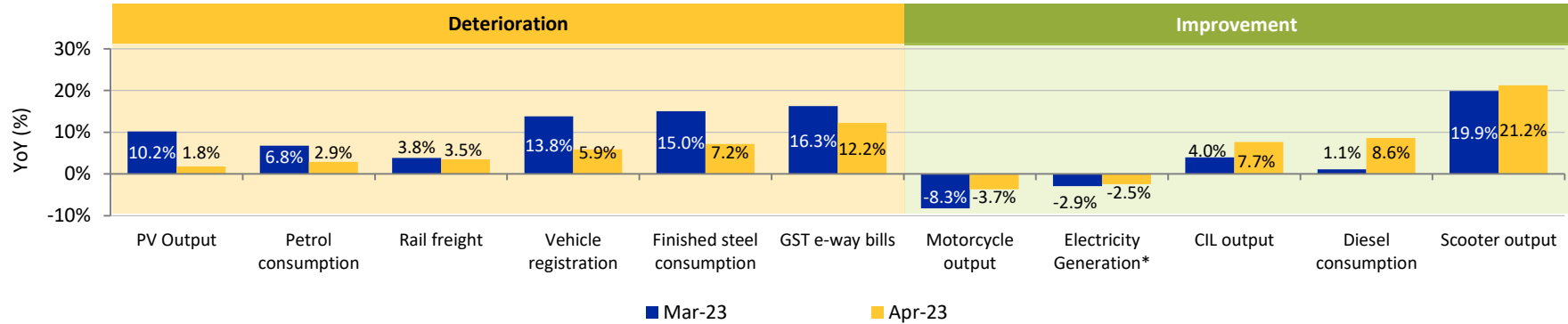


*Infra: Infrastructure/construction goods; CD: Consumer durables; CND: Consumer non- durables;
Source: NSO; CEIC; ICRA Research

- The IIP rose by 4.0% YoY in Q4 FY2023 (+2.8% in Q3 FY2023), led by an uptick in manufacturing (to +3.3% in Q4 FY2023 from +1.4% in Q3 FY2023). As per the use-based classification, all categories (apart from intermediate goods: to +0.7% from +0.9% and infrastructure/construction goods: to +7.8% from +8.8%) recorded an improved YoY performance in Q4 FY2023, vis-à-vis Q3 FY2023. Additionally, the IIP rose by 7.5% in Q4 FY2023 relative to Q4 FY2019, led by an expansion across all sub-sectors and use-based categories, apart from capital goods (-0.9%), consumer durables (-13.0%), and consumer non-durables (-1.2%).
- In FY2023, the IIP rose by 5.1%, led by a broad-based growth across all the sub-sectors. Moreover, all the use-based categories recorded an expansion in FY2023, even as the growth in consumer durables (+0.6%) and non-durables (+0.5%) was muted. Additionally, the IIP exceeded the FY2019 levels by 6.3% in FY2023, amidst an expansion across all sub-sectors and use-based categories, apart from capital goods (-7.7%) and consumer durables (-12.2%).

OUTLOOK: Trends in available high frequency indicators suggest sub-2% IIP growth in Apr 2023

EXHIBIT: YoY trends of high frequency indicators



*excludes renewable energy; CIL: Coal India Limited; petrol and diesel refer to growth in consumption volumes; Source: SIAM; JPC; CIL; CEA; Goods and Services Tax Network; PPAC; Indian Railways; Vahan Portal; CEIC; ICRA Research

- The early high frequency data available for April 2023 reveals a mixed trend. Six of the 11 available indicators recorded a deterioration in their YoY performance in April 2023, relative to March 2023, partly on account of the unseasonal rainfall seen during the month. These include petrol sales (to +2.9% in April 2023 from +6.8% in March 2023), vehicle registrations (to +5.9% from +13.8%), rail freight traffic (to +3.5% from +3.8%), finished steel consumption (to +7.2% from +15.0%), generation of GST e-way bills (to +12.2% from +16.3%), and production of PVs (to +1.8% from +10.2%).
- However, electricity generation (to -2.5% from -2.9%; while continuing to contract for the second consecutive month), output of CIL (to +7.7% from +4.0%), diesel sales (to +8.6% from +1.1%), productions of scooters (to +21.2% from +19.9%) and motorcycles (to -3.7% from -8.3%) witnessed an improvement in their YoY performance in April 2023, vis-à-vis March 2023.
- Given the mixed YoY performance of high frequency indicators in April 2023, ICRA expects the YoY IIP growth to remain sub-2% in the month.

Annexure A.1

Table A.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 (%)										
February-23	5.8%	4.8%	5.6%	8.2%	6.9%	10.5%	0.7%	8.4%	-4.1%	12.1%
March-23	1.1%	6.8%	0.5%	-1.6%	3.3%	8.1%	1.0%	5.4%	-8.4%	-3.1%
MoM (%)										
February-23	-5.4%	-4.9%	-5.2%	-6.8%	-6.6%	-0.7%	-6.2%	-5.6%	-0.5%	-6.0%
March-23	8.3%	19.3%	6.4%	8.0%	13.2%	15.8%	9.3%	8.4%	9.0%	-5.6%
Quarterly Growth (%)										
Q4 FY2023 vs. Q4 FY2022	4.0%	6.8%	3.3%	6.0%	6.4%	9.7%	0.7%	7.8%	-7.0%	4.9%
Q4 FY2023 vs. Q4 FY2019	7.5%	15.1%	4.5%	22.2%	14.2%	-0.9%	14.3%	16.7%	-13.0%	-1.2%
Mar-23 vs. Mar-19	4.4%	16.2%	1.0%	17.4%	13.0%	1.9%	2.5%	15.0%	-10.3%	-7.0%

Source: NSO; CEIC; ICRA Research

Table A.2: 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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Analytical Contact Details

Name	Designation	Email	Contact Number
Aditi Nayar	Chief Economist, and Head- Research and Outreach	aditin@icraindia.com	0124- 4545 385
Rahul Agrawal	Senior Economist	rahul.agrawal@icraindia.com	022 – 6114 3425
Aarzoo Pahwa	Senior Associate Economist	aarzoo.pahwa@icraindia.com	0124 – 4545 835
Tiasha Chakraborty	Senior Associate Economist	tiasha.chakraborty@icraindia.com	0124- 4545 848
Anusha Jindal	Associate Economist	anusha.jindal@icraindia.com	0124 – 4545 399





ICRA

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Neha Agarwal	Head – Research Sales	neha.agarwal@icraindia.com	022-61693377
Rohit Gupta	Head Business Development - Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development - Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vipin Saboo	Head Business Development – Corporate Sector - West & East	vipin.saboo@icraindia.com	022-61693348
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	shivam.bhatia@icraindia.com	0124-4545803
Naznin Prodhani	Head – Media & Communications	communications@icraindia.com	0124-4545860





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