INDEX OF INDUSTRIAL PRODUCTION

YoY IIP growth leaped to four-month high of 5.7% in Feb 2024; to ease to 4.5-5.5% in Mar 2024

APRIL 2024

Highlights

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IIP growth rose to four-month high of 5.7% in Feb 2024 from 4.1% in Jan 2024

Uptick in YoY IIP growth in Feb 2024 vs. Jan 2024 was broad-based across all sub-sectors, reflecting leap year effect

Sequential dip of 4.1% in IIP in Feb 2024 narrower than that seen in Feb 2023

YoY IIP growth to print at 4.5-5.5% in Mar 2024, amid moderation in YoY growth of most high frequency indicators, while being aided by a low base

The year-on-year (YoY) growth in the Index of Industrial Production (IIP) expectedly rose to a four-month high of 5.7% in February 2024 from 4.1% in January 2024, partly benefitting from the extra day in the leap month, while largely printing in line with ICRA's expectations (+6.0%). This was driven by a broad-based improvement across all the sub-sectors in February 2024, vis-à-vis January 2024. However, the YoY performance of use-based categories was quite mixed, ranging from a contraction of 3.8% in consumer non-durables to a double-digit expansion of 12.3% in consumer durables in February 2024. Looking ahead, the YoY performance of most available high frequency indicators deteriorated in March 2024, relative to February 2024. Given this, ICRA anticipates the YoY IIP growth to print at 4.5-5.5% in March 2024, while being supported by a low base (+1.9% in March 2023).

- **IIP growth rose to 5.7% in February 2024:** The YoY IIP growth improved to a four-month high of 5.7% in February 2024 (ICRA's exp.: +6.0%) from 4.1% in January 2024, led by a broad-based improvement across all the sub-sectors, with the YoY expansion in each sub-sector touching a four-month high in that month. This includes the output of mining (to +8.0% in Feb 2024 from +5.9% in Jan 2024 from +5.9%) and manufacturing (to +5.0% from +3.6%), as well as electricity generation (to +7.5% from +5.6%). Notably, the YoY IIP growth (+5.7%) trailed the 6.7% YoY expansion seen in the core sector output (weight in IIP: 40.3%) in Feb 2024, after marginally exceeding the same in Jan 2024.

- **Sequential dip in IIP in February 2024 narrower than that seen in February 2023:** In month-on-month (MoM) terms, the industrial output contracted by 4.1% in February 2024, narrower than the 5.5% decline seen in February 2023. This was driven by the narrower MoM dip in electricity generation (-5.1% in Feb 2024 vs. -6.8% in Feb 2023), mining (-3.1% vs. -5.1%), and manufacturing (-4.1% vs. -5.4%) output in February 2024, vis-à-vis 2023.

- **IIP growth to print at 4.5-5.5% in March 2024:** Looking ahead, the YoY performance of most available high frequency indicators deteriorated in March 2024, relative to February 2024. Based on this, ICRA anticipates the YoY IIP growth to print at 4.5-5.5% in March 2024, while being supported by a low base (+1.9% in March 2023).

IIP growth improved to four-month high of 5.7% in Feb 2024 from 4.1% in Jan 2024, largely in line with expectations

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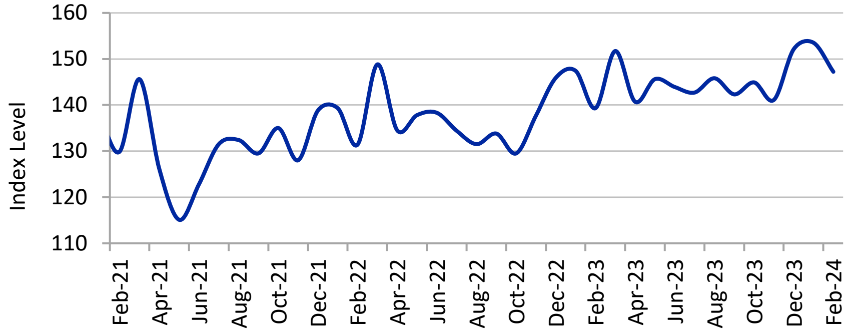
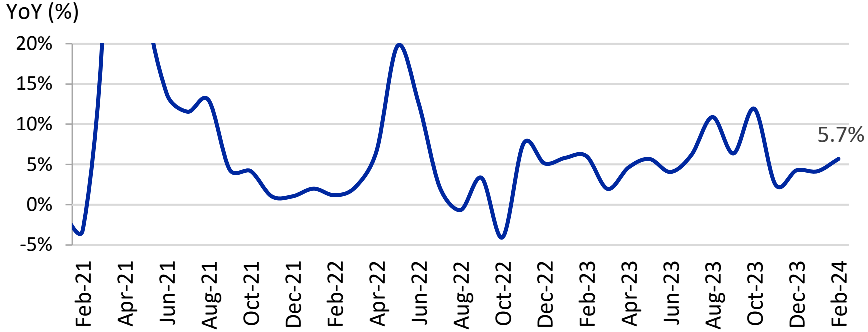
EXHIBIT: Trends in index levels of IIP



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

EXHIBIT: Trends in YoY growth of IIP



Source: NSO; CEIC; ICRA Research

- The YoY growth in the IIP expectedly improved to a four-month high of 5.7% in February 2024 (+6.0% in February 2023) from the revised 4.1% in January 2024 (+5.8% in January 2023), partly benefitting from the extra day in the leap month, while printing largely in line with ICRA's forecast (+6.0%) for the month.
- The uptick in the YoY IIP growth in February 2024, relative to the previous month was led by a broad-based improvement across all the sub-sectors, with the YoY expansion in each sub-sector touching a four-month high in that month.
- This includes the output of mining (to +8.0% in Feb 2024 from +5.9% in Jan 2024) and manufacturing (to +5.0% from +3.6%), as well as electricity generation (to +7.5% from +5.6%; partly owing to deficient rainfall of 14% below LPA in Feb 2024).

YoY expansion in IIP trailed that of the core sector output in Feb 2024, after marginally exceeding the same in Jan 2024

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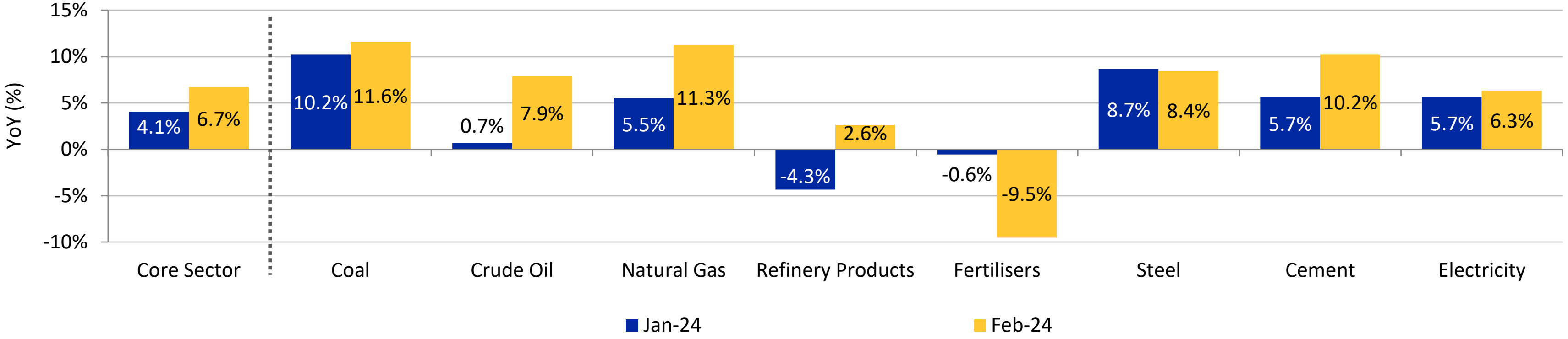
EXHIBIT: YoY performance of core sector and its sub-components

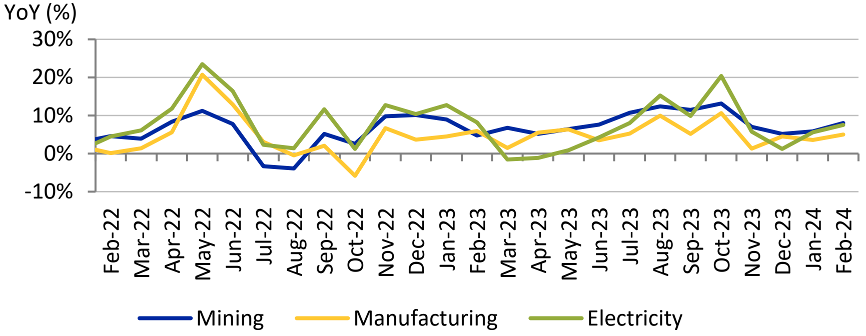


Source: Index of Eight Core Industries, Office of Economic Adviser, Ministry of Commerce and Industry; CEIC; ICRA Research

- The YoY expansion in the output of the core sector rose to a three-month high of 6.7% in Feb 2024 from 4.1% in Jan 2024, boosted by a sequential improvement recorded by six of its eight constituents, other than fertilisers and steel, which may partly reflect the extra day in the leap month.
- While the YoY growth in crude oil output (to +7.9% in Feb 2024 from +0.7% in Jan 2024) surged to a series-high in Feb 2024, that for coal (to +11.6% from +10.2%), cement (to +10.2% from +5.7%), and electricity generation (to +6.3% from +5.7%) each rose to a four-month high in that month. Additionally, the YoY performance in the output of natural gas (to a 24-month high +11.3% from +5.5%) and refinery products (to +2.6% from -4.3%) also saw an improvement between these two months.
- In contrast, the YoY contraction in the output of fertilisers deepened to 9.5% in Feb 2024 from 0.6% in the prior month, while the YoY growth in steel output eased slightly to 8.4% from 8.7%, respectively.
- Notably, the YoY IIP growth (+5.7%) trailed the 6.7% YoY expansion seen in the core sector output (weight in IIP: 40.3%) in February 2024, after marginally exceeding the same in January 2024 (IIP: +4.14% vs. core sector: +4.06%).

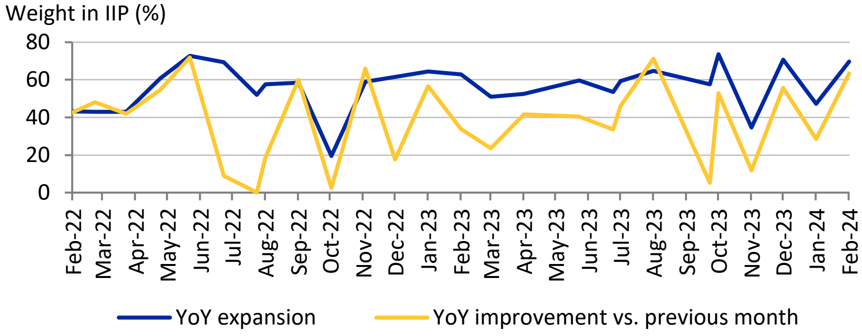
Manufacturing IIP witnessed broad-based improvement in growth in Feb 2024 vis-à-vis Jan 2024

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

- The YoY expansion in the output of manufacturing (to a four-month high +5.0% in Feb 2024 from +3.6% in Jan 2024) improved in February 2024 relative to January 2024. Additionally, the YoY growth in the mining output (to a four-month high +8.0% from +5.9%, in line with the trends in coal, crude oil, and natural gas output) and electricity generation (to +7.5% from +5.6%) saw an uptick between these two months, amidst deficient rainfall in February 2024.
- Notably, 19 of the 23 sub-sectors of manufacturing (with a sizeable weight of 69.6% in the IIP) displayed a YoY expansion in February 2024, while the output of the remaining four sub-sectors (with a marginal weight of 8.0% in the IIP) contracted in the month.
- Additionally, 19 of the sub-sectors of manufacturing (with a sizeable weight of 63.4% in the IIP) saw an improvement in their YoY performance in February 2024 relative to the previous month; this sub-set includes food products, basic metals, coke and refined petroleum products, etc. In contrast, the output of four sub-sectors (with a lower weight of 14.3% in the IIP) saw a deterioration in YoY performance in February 2024 relative to January 2024; this subset includes motor vehicles, trailers and semi-trailers, other transport equipment, fabricated metal products, and pharma, medicinal chemical and botanical products.

YoY performance of four of the six use-based categories improved in Feb 2024, relative to Jan 2024; contraction in consumer non-durables widened

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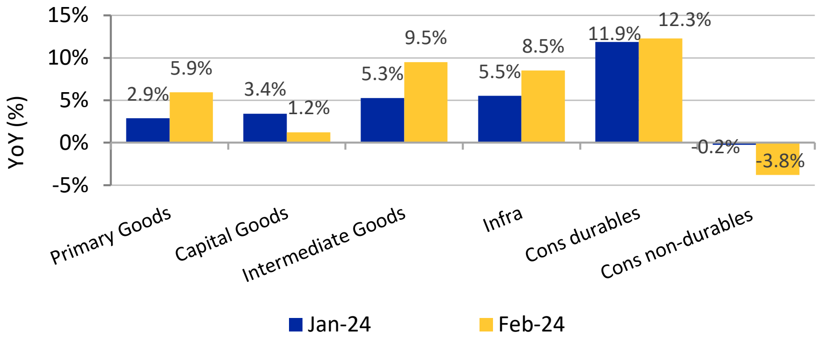
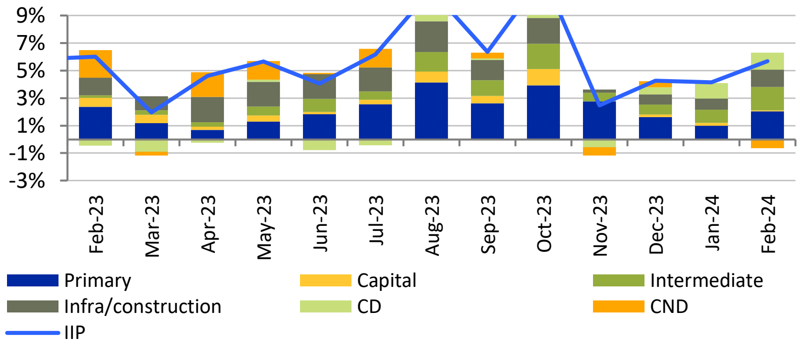
EXHIBIT: YoY trends in IIP (use-based)



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

EXHIBIT: Contribution to IIP growth by use-based categories

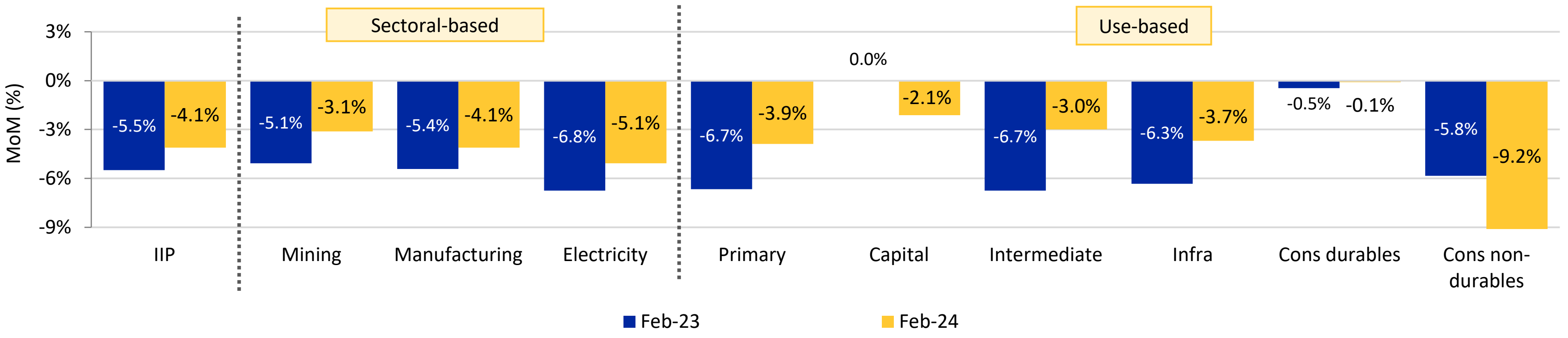


**CD: Consumer durables; CND: Consumer non- durables; Source: NSO; CEIC; ICRA Research*

- Four of the six use-based categories recorded an improved YoY performance in February 2024 vis-à-vis January 2024. This includes primary goods (to +5.9% in Feb 2024 from +2.9% in Jan 2024), infra/construction goods (to +8.5% from +5.5%, in line with the improvement in the growth of cement output), consumer durables (to a four-month high +12.3% from +11.9%; aided by a favourable base), and intermediate goods (to a four-month high +9.5% from +5.3%).
- In contrast, the contraction in the output of consumer non-durables widened to a 16-month low of 3.8% in February 2024 from 0.2% in the previous month, partly owing to an unfavourable base (+12.5% in Feb 2023). Additionally, the YoY growth in the output of capital goods (to +1.2% from +3.4%) deteriorated between these two months.
- Interestingly, the output of consumer non-durables trailed the corresponding pre-Covid level by 2.9% in February 2024, after a gap of four months.

MoM contraction in February 2024 narrower than the sequential dip seen in February 2023

EXHIBIT: MoM trends in IIP and its sub-components



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

- In sequential terms, industrial output contracted by 4.1% in February 2024, narrower than the 5.5% decline seen in February 2023, aided by an extra day in the former month on account of the leap year. This was driven by the narrower MoM dip in electricity generation (-5.1% in Feb 2024 vs. -6.8% in Feb 2023), mining (-3.1% vs. -5.1%), and manufacturing (-4.1% vs. -5.4%) output in February 2024, vis-à-vis 2023.
- Moreover, four of the six use-based categories of the IIP, namely, primary goods (-3.9% in Feb 2024 vs. -6.7% in Feb 2023), infrastructure/construction goods (-3.7% vs. -6.3%), consumer durables (-0.1% vs. -0.5%), and intermediate goods (-3.0% vs. -6.7%) witnessed a lower MoM contraction in February 2024, relative to 2023. In contrast, the MoM dip in the output of consumer non-durables (-9.2% vs. -5.8%) and capital goods (-2.1% vs. 0.0%) was sharper than the levels seen in February 2023.

OUTLOOK: IIP growth to print at ~4.5-5.5% in March 2024

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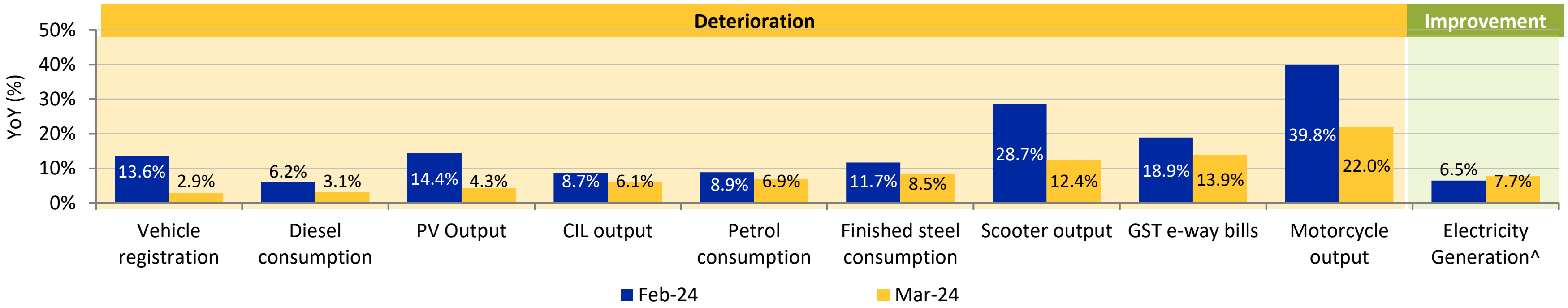
EXHIBIT: YoY trends of high frequency indicators



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

- The YoY performance of most available high frequency indicators deteriorated in March 2024 vs. February 2024, indicating that growth in economic activity is likely to have softened in the month; this subset includes generation of GST e-way bills (to +13.9% in Mar 2024 from +18.9% in Feb 2024; record-high in absolute terms), output of PVs (to +4.3% from +14.4%), scooters (to a four-month low +12.4% from +28.7%), and motorcycles (to +22.0% from +39.8%; albeit remaining healthy), finished steel consumption (to +8.5% from +11.7%), petrol sales (to +6.9% from +8.9%), output of Coal India Limited (to +6.1% from +8.7%), diesel sales (halved to +3.1% from +6.2%), and vehicle registrations (to a five-month low +2.9% from +13.6%).
- In contrast, the YoY performance of electricity generation (to +7.7% from +6.5%) improved in March 2024 relative to February 2024, aided by a rise in temperatures in some parts of the country.
- **Based on the available high frequency data for March 2024, ICRA anticipates the YoY IIP growth to print at ~4.5-5.5% in that month, while being supported by a low base (+1.9% in March 2023).**

Annexure A.1.

Table A.1: Trends in IIP Growth

	IIP	Mining	Manufacturing	Electricity	Primary	Capital	Intermediate	Infra/ Construction	Durables	Non-Durables
	Sectoral				Use-Based Classification					
Weight	100.0%	14.4%	77.6%	8.0%	34.0%	8.2%	17.2%	12.3%	12.8%	15.3%
YoY (%)										
January-24	4.1%	5.9%	3.6%	5.6%	2.9%	3.4%	5.3%	5.5%	11.9%	-0.2%
February-24	5.7%	8.0%	5.0%	7.5%	5.9%	1.2%	9.5%	8.5%	12.3%	-3.8%
MoM (%)										
January-24	0.9%	3.3%	-0.5%	8.5%	1.5%	4.6%	2.3%	3.9%	6.2%	-8.2%
February-24	-4.1%	-3.1%	-4.1%	-5.1%	-3.9%	-2.1%	-3.0%	-3.7%	-0.1%	-9.2%
Feb-24 vs. Feb-20	9.7%	13.2%	7.7%	21.7%	13.1%	9.0%	9.0%	24.0%	3.7%	-2.9%

Source: NSO; CEIC; ICRA Research

Annexure A.2.

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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Thank You!