

INDEX OF INDUSTRIAL PRODUCTION

Excess rains, unfavourable base, shift in festive calendar dampened IIP growth to 5.8% in Sep 2023; expect 7-10% expansion in Oct 2023

NOVEMBER 2023



€ % \$





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IIP growth moderated sharply to a three-month low 5.8% in Sep 2023

YoY deceleration in growth in Sep 2023 over Aug 2023 was broad based across sectors and use-based categories

A tepid 1.9% rise in consumer goods dulled the manufacturing performance

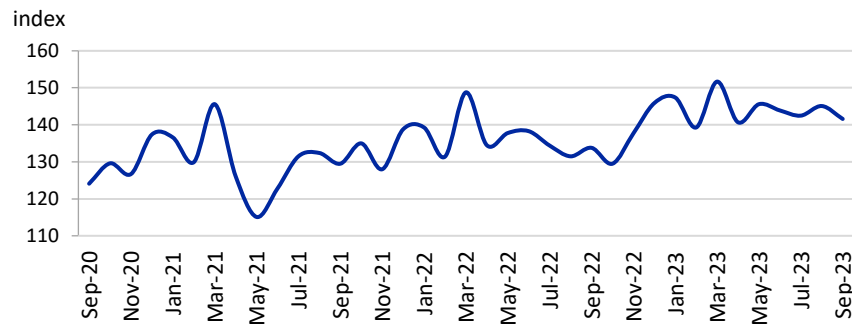
Late onset of festive period in 2023 to boost IIP growth to 7-10% in Oct 2023

An unfavourable base, a shift in the festive calendar and excess rainfall caused the year-on-year (YoY) growth in the Index of Industrial Production (IIP) to nearly halve to 5.8% in September 2023 (ICRA's exp.: +8.0%) from 10.3% in August 2023. This was mainly driven by a deceleration in manufacturing and electricity, with a tepid ~2% growth in consumer goods dampening the performance of the former. Looking ahead, the YoY performance of a majority of the available high frequency indicators improved in October 2023, relative to September 2023. Consequently, ICRA expects the YoY IIP growth to rise to 7-10% in that month, boosted by a favourable base effect for some sectors, owing to the early onset of festive season in 2022. The shift in the festive calendar is likely to muddy YoY comparisons for the next two months. Therefore, it would be more meaningful to compare the average YoY growth performance in Oct-Nov 2023 vis-à-vis Oct-Nov 2022.

- **IIP growth dipped to a three-month low 5.8% in Sep 2023:** An unfavorable base, a shift in the festive calendar and excess rainfall caused the YoY IIP growth to nearly halve to a lower-than-expected 5.8% in Sep 2023 (ICRA's exp.: +8.0%) from 10.3% in Aug 2023.
- **Deceleration was broad-based across sectors and use-based categories:** While the moderation was broad-based across all sub-sectors and use-based categories, the growth in consumer goods was tepid at 1.0% and 2.7%, respectively, for durables and non-durables, resulting in the manufacturing sector's performance (+4.5%) trailing that of mining (+11.5%) and electricity (+9.9%) in Sep 2023.
- **However, quarterly growth in IIP rose in Q2 FY2024:** The YoY growth in the IIP rose to a five-quarter high 7.4% in Q2 FY2024 from 4.8% in Q1 FY2024. Nevertheless, narrowing YoY differentials of commodity prices may impact margins of some sectors, which would limit the uptick in the growth of industrial GVA in Q2 FY2024 vis-à-vis Q1.
- **IIP growth to improve to 7-10% in Oct 2023:** ICRA estimates the IIP growth to increase to 7-10% in Oct 2023, boosted by a favourable base for some sectors owing to the early onset of festive season in 2022 and the relatively fewer working days in Oct 2022. However, ICRA expects fewer working days to dampen the growth in Nov 2023; hence, it would be more meaningful to compare the average YoY growth performance in Oct-Nov 2023.

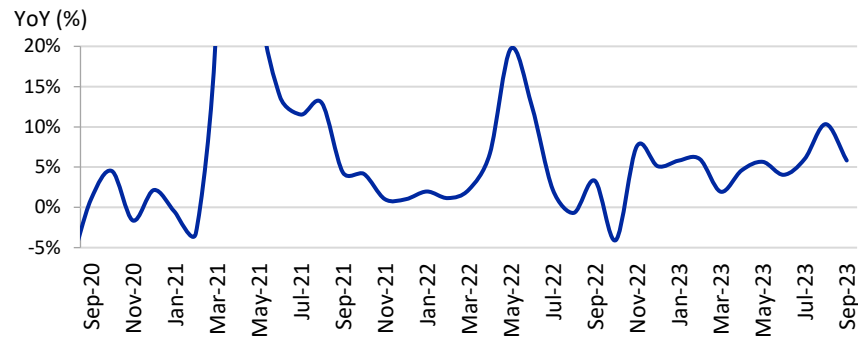
IIP growth decelerated to lower-than-expected 5.8% in Sep 2023, owing to unfavourable base, excess rainfall and shift in festive calendar

EXHIBIT: Trends in index levels of IIP



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

EXHIBIT: Trends in YoY growth of IIP

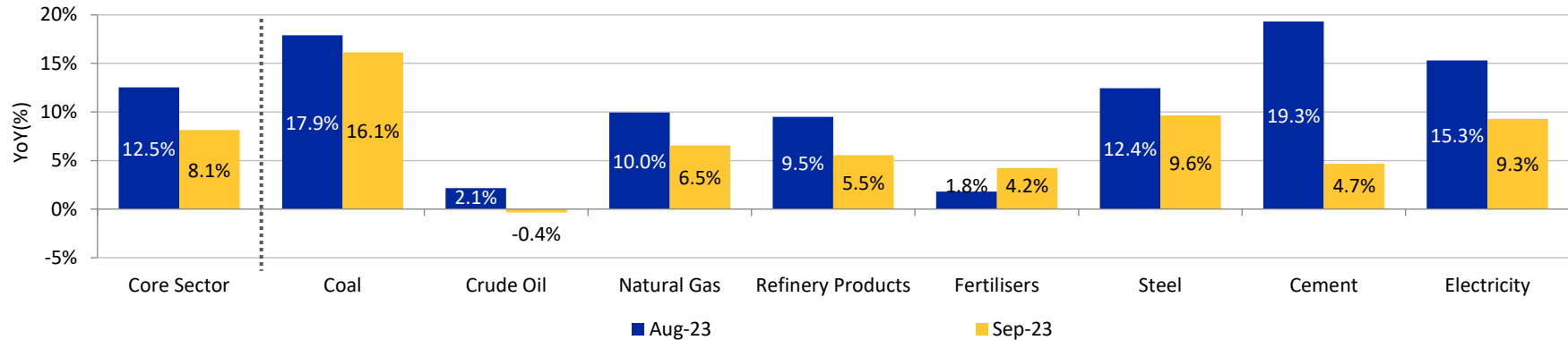


Source: NSO; CEIC; ICRA Research

- Trailing ICRA's forecast (+8.0%), the YoY growth in the IIP nearly halved to 5.8% in September 2023 (+3.3% in September 2022) from 10.3% in August 2023 (-0.7% in August 2022), partly led by an unfavourable base, seasonal disruptions owing to excess rainfall, as well as a shift in the festive calendar.
- The moderation in the IIP growth in September 2023 relative to August 2023 was broad-based across sectors, mainly driven by manufacturing (to +4.5% in September 2023 from +9.3% in August 2023) and electricity generation (to +9.9% from +15.3%). The growth in mining eased slightly to 11.5% from 12.3%, respectively, while remaining in double digits for the third consecutive month.

YoY expansion in IIP trailed that of the core sector for fourth consecutive month in Sep 2023

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

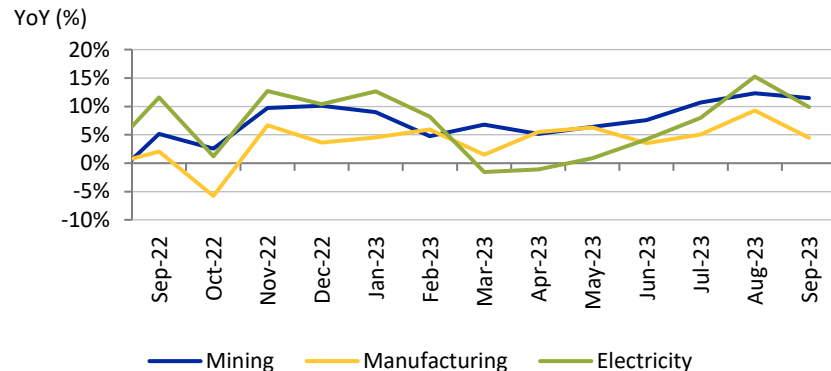


Source: Index of Eight Core Industries, Office of Economic Adviser, Ministry of Commerce and Industry; CEIC; ICRA Research

- The YoY expansion in the output of the core sector eased to a four-month low 8.1% in September 2023 from 12.5% in August 2023, with a pickup in rainfall restricting the output of sectors like construction and electricity in that month.
- This was led by a broad-based deterioration in seven of the eight sub-sectors in September 2023 vis-à-vis August 2023, namely the output of cement (to a six-month low +4.7% in Sep 2023 from +19.3% in Aug 2023), steel (to an 11-month low +9.6% from +12.4%), coal (to +16.1% from +17.9%), refinery products (to +5.5% from +9.5%), crude oil (to -0.4% from +2.1%), natural gas (to +6.5% from +10.0%), and electricity generation (to +9.3% from +15.3%). In contrast, the output of fertilisers (to +4.2% from +1.8%) saw an improved YoY performance in September 2023, relative to August 2023.
- Notably, the YoY growth in the IIP (at +5.8%) was significantly lower than the 8.1% YoY expansion recorded in the core sector output (with a weight of 40.3% in the IIP) in September 2023, for the fourth consecutive month.

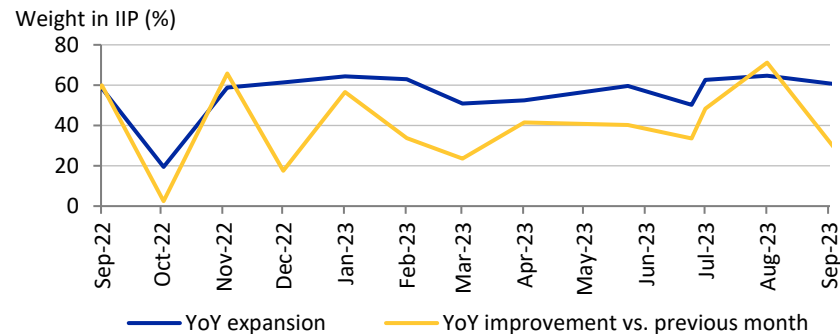
19 of 23 segments of manufacturing sector witnessed a deterioration in YoY growth in Sep 2023 vs. Aug 2023

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

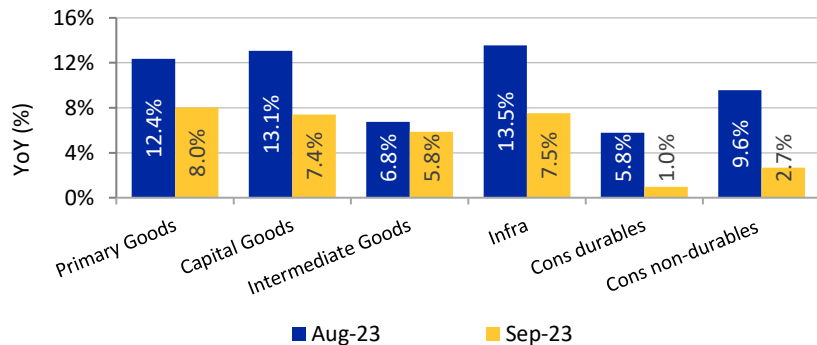


Source: NSO; CEIC; ICRA Research

- The YoY expansion in all sub-sectors witnessed a broad-based moderation in September 2023, vis-à-vis August 2023, including manufacturing output (to a three-month low +4.5% in September 2023 from +9.3% in August 2023), electricity generation (to +9.9% from +15.3%; amid excess rainfall in Sep) and mining output (to +11.5% in September 2023 from +12.3% in August 2023, in line with the trends in coal, crude oil, and natural gas output).
- Notably, 14 of the 23 sub-sectors of manufacturing (with a considerable weight of 58.1% in the IIP) displayed a YoY growth in Sep 2023, while the output of the remaining nine sub-sectors (with a lower weight of 19.5% in the IIP) contracted in the month.
- Further, 19 sub-sectors of manufacturing (with a sizeable weight of 73.0% in the IIP) witnessed a deterioration in their YoY performance in September 2023, relative to the previous month; this sub-set includes food products, basic metals, coke and refined petroleum products, etc. In contrast, just four of the 23 sub-sectors of manufacturing (with a lower weight of 4.7% in the IIP) recorded an improvement in their YoY performance in September 2023, relative to August 2023; this sub-set includes textiles, beverages, wood and wood products, and furniture.

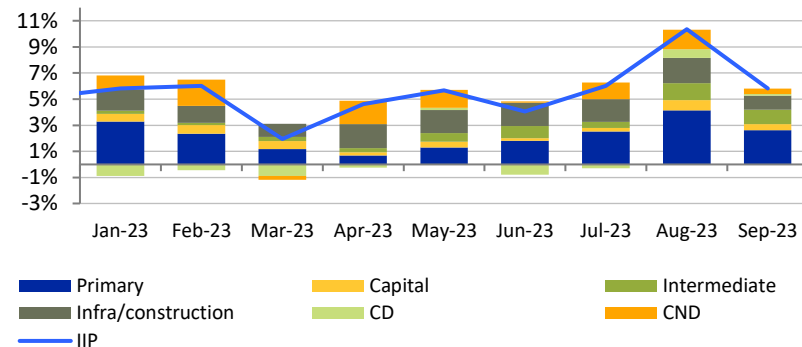
All use-based categories witnessed slowdown in YoY performance in Sep 2023

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

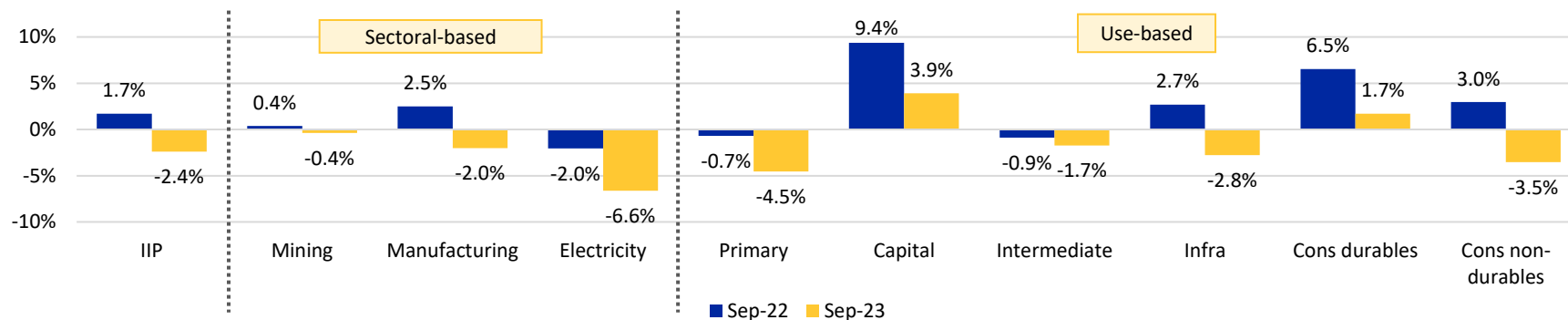


*CD: Consumer durables; CND: Consumer non- durables; Source: NSO; CEIC; ICRA Research

- The YoY performance of all the use-based categories recorded a slowdown in September 2023, vis-à-vis August 2023. This includes the output of primary goods (to +8.0% in Sep 2023 from +12.4% in Aug 2023), capital goods (to +7.4% from +13.1%), infra/construction goods (to a six-month low +7.5% from +13.5%, in line with the moderation in steel and cement output), intermediate goods (to +5.8% from +6.8%), and consumer non-durables (to +2.7% from +9.6%).
- Additionally, the output of consumer durables recorded a YoY expansion for the second consecutive month, albeit moderating to 1.0% in Sep 2023 from 5.8% in Aug 2023, in line with the continued contraction in the exports of certain items such as readymade garments (-11.2%), plastic and linoleum (-8.1%), etc.

MoM decline in September 2023 deeper than in September 2022

EXHIBIT: MoM trends in IIP and its sub-components

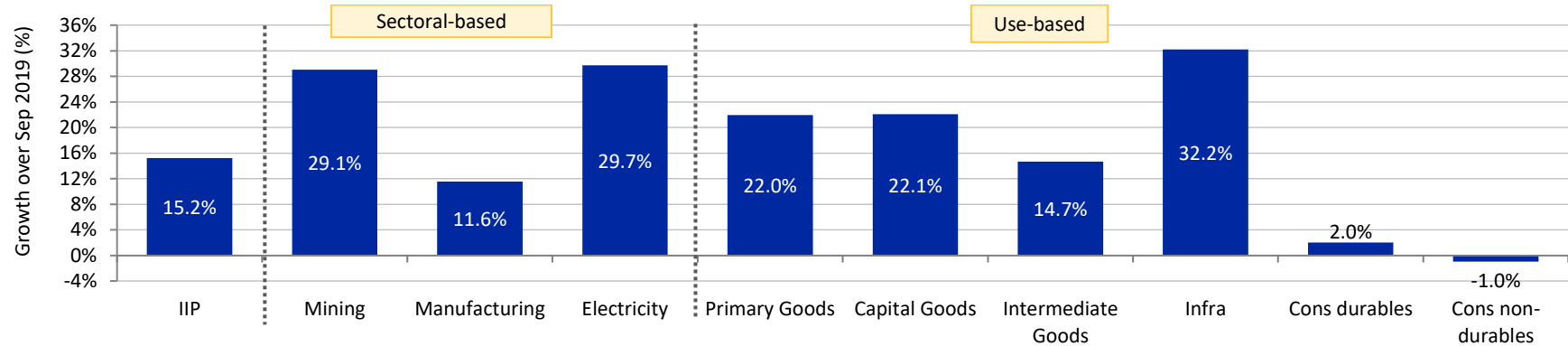


*Infra: Infrastructure/ construction goods; Cons durables: Consumer durables; Cons non-durables: Consumer non-durables; Source: NSO; CEIC; ICRA Research

- In sequential terms, industrial output dipped by 2.4% in September 2023, which stood in contrast with the 1.7% uptick seen in September 2022.
- As per the sectoral classification, there was a steeper MoM fall in electricity generation (-6.6% vs. -2.0%) and a weaker performance in mining (-0.4% vs. +0.4%) output in September 2023, relative to September 2022. This was mainly on account of a sharp turnaround in the pan-India monsoon rainfall to a 13% surplus in September 2023, from a large 36% deficit in August 2023, unlike the trend seen in 2022 (surplus in August: +3% and Sep: +8%).
- Additionally, the output of the manufacturing sector contracted by 2.0% MoM in September 2023, in contrast with the 2.5% sequential increase in September 2022, amid a shift in the festive season, with pre-festive stocking bumping up the growth in the year-ago month.
- Moreover, all six use-based categories of the IIP witnessed a weaker MoM trend in September 2023 relative to 2022, led by primary goods (-4.5% vs. -0.7%), consumer non-durables (-3.5% vs. +3.0%), infrastructure/construction goods (-2.8% vs. +2.7%), and capital goods (+3.9% vs. +9.4%).

IIP exceeded pre-Covid levels by 15.2% in Sep 2023 even as consumer non-durables output lagged

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

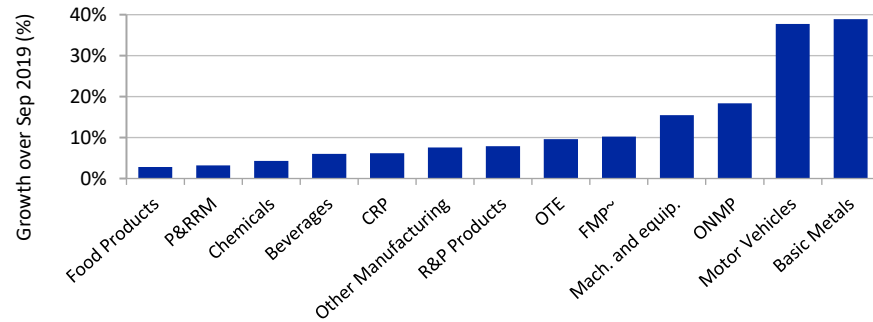


*Infra: Infrastructure/ construction goods; Cons durables: Consumer durables; Cons non-durables: Consumer non-durables; Source: NSO; CEIC; ICRA Research

- The IIP was a robust 15.2% higher in September 2023 relative to the pre-Covid levels of September 2019 (highest expansion over pre-Covid levels seen in FY2024 so far), benefitting from a double-digit expansion across all the sub-sectors, such as electricity generation (+29.7%), mining (+29.1%), and manufacturing (+11.6%).
- Encouragingly, five of the six use-based categories also exceeded their respective pre-Covid levels in September 2023, with a healthy double-digit expansion in infra/construction goods (+32.2%), capital goods (+22.1%), primary goods (+22.0%), and intermediate goods (+14.7%), followed by a muted growth in consumer durables (+2.0%; growth over pre-Covid levels for the second time in FY2024 so far). The output of the consumer non-durables (-1.0%) was lower than the pre-Covid levels in September 2023.

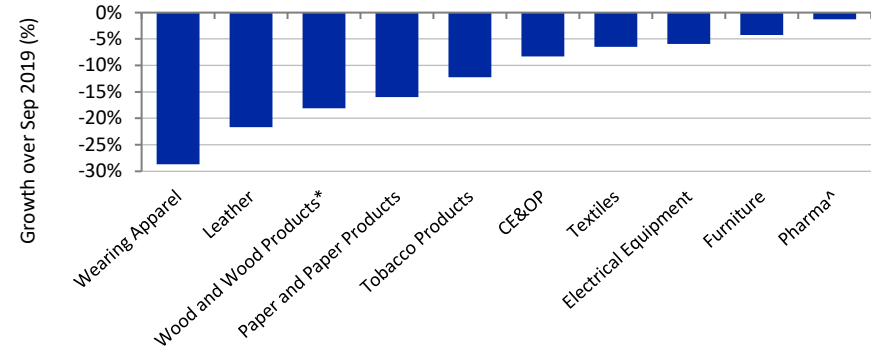
Output of 13 of the 23 manufacturing sub-sectors exceeded pre-Covid levels in Sep 2023, with combined weight of ~61% in IIP

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



~ex Machinery and Equipment; Source: NSO; CEIC; ICRA Research

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



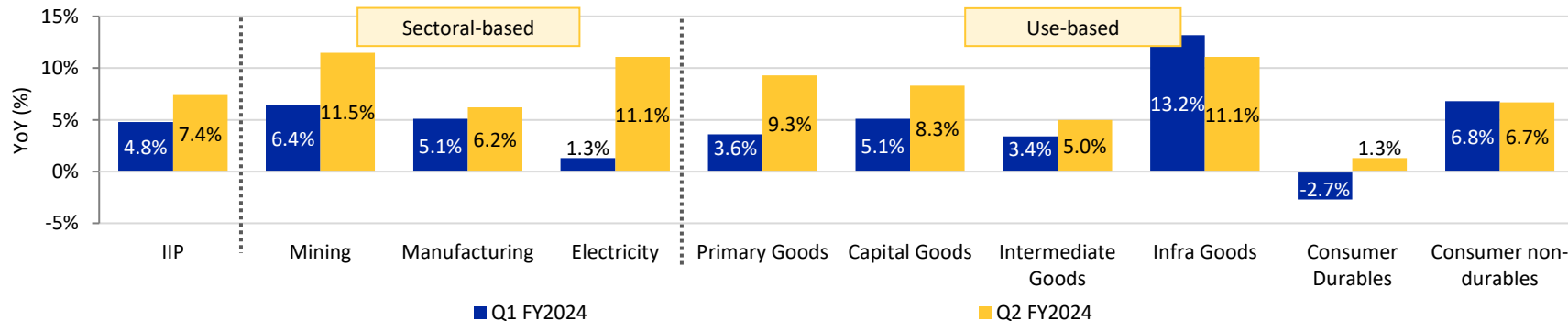
*ex Furniture; Articles of Straw and Plaiting Materials; ^Including Medicinal Chemical and Botanical Products; Source: NSO; CEIC; ICRA Research

- Compared to the pre-Covid levels of September 2019, as many as 13 of the 23 sub-segments of the manufacturing sector (with a sizeable weight of 61.0% in the IIP) recorded a higher output in September 2023; this subset includes basic metals (expansion over pre-Covid: +39.0%; weight: 12.8%), motor vehicles, trailers and semi-trailers (+37.8%; 4.9%), chemicals and chemical products (+4.3%; 7.9%), food products (+2.9%; 5.3%), etc.
- In contrast, the output of 10 of the 23 sub-sectors (with a relatively lower weight of 16.7% in the IIP) in September 2023 trailed the September 2019 levels; this sub-set includes wearing apparel (-28.7%; 1.3%), leather and related products (-21.6%; 0.5%), textiles (-6.5%; 3.3%), etc. Notably, most of these segments have consistently trailed the corresponding pre-Covid volumes throughout FY2024 so far, partly reflecting the recent weakness in external demand.

OTE.: Other Transport Equipment; R&P Products: Rubber and Plastic Products; Mach. And equip.: Machinery and Equipment; Machinery: Machinery and Equipment N.E.C.; Wood: Wood and Wood Products; Rubber: Rubber and Plastic Products; FMP: Fabricated Metal Products; 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 growth in IIP rose to 7.4% in Q2 FY2024; uptick in industrial GVA growth to be muted owing to narrower differentials in commodity prices vs. year-ago levels

EXHIBIT: Quarterly performance of the IIP, its sectoral categories and use-based categories

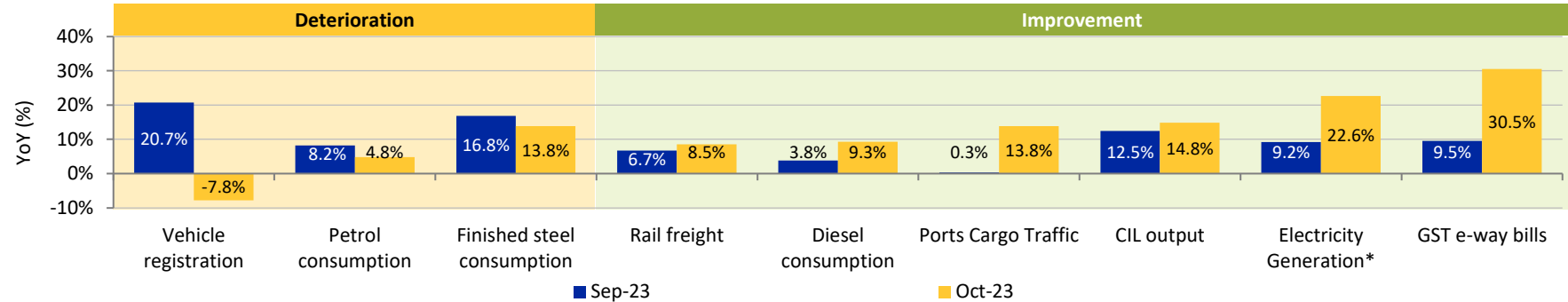


**Infra goods: Infrastructure/construction goods; Source: NSO; CEIC; ICRA Research*

- The YoY growth in the IIP rose to 7.4% in Q2 FY2024 (+1.6% in Q2 FY2023) from 4.8% in Q1 FY2024 (+12.8% in Q1 FY2023), partly boosted by a favourable base and pre-festive stocking. This was led by a broad-based uptick in the growth of electricity generation (to +11.1% in Q2 FY2024 from +1.3% in Q1 FY2024), mining (to +11.5% from +6.4%) and manufacturing (to +6.2% from +5.1%) in Q2 FY2024, relative to the previous quarter.
- While the growth in industrial GVA is likely to improve in Q2 FY2024 from 5.5% seen in Q1 FY2024, the extent of improvement would be curtailed by the impact of narrowing differentials in commodity prices vis-à-vis year-ago levels on margins.
- As per the use-based classification, the YoY growth in four of the six categories (apart from construction/infra goods and consumer non-durables) improved in Q2 FY2024 vis-à-vis Q1 FY2024, partly attributed to a favourable base.
- Additionally, the IIP rose by 12.7% in Q2 FY2024 relative to Q2 FY2020, led by an expansion across all sub-sectors and use-based categories, apart from consumer durables (-2.3%).

OUTLOOK: IIP growth to witness an uptick to 7-10% in Oct 2023, boosted by favourable base

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; IPA; CEA; Goods and Services Tax Network; PPAC; Indian Railways; Vahan Portal; CEIC; ICRA Research

- The YoY performance of majority of the available high frequency indicators improved in October 2023 relative to September 2023, with their growth rates rising to multi-month highs, supported by a low base impacted by the relatively fewer working days in October 2022. This subset includes diesel sales (to a five-month high +9.3% in Oct 2023 from +3.8% in Sep 2023), generation of GST e-way bills (to an 11-month high +30.5% from +9.5%), cargo traffic at major ports (to a 13-month high +13.8% from +0.3%, led by POL, coal, fertilisers, etc.), electricity generation (to a 30-month high +22.6% from +9.2%), rail freight traffic (to a 13-month high +8.5% from +6.7%, led by coal, fertilisers, etc.), and output of Coal India Limited (to +14.8% from +12.5%).
- In contrast, the pace of YoY rise in vehicle registrations (to a 15-month low -7.8% from +20.7%, affected by the inauspicious Shradh period), petrol sales (to +4.8% from +8.2%) and finished steel consumption (albeit to a robust +13.8% from +16.8%) deteriorated in October 2023 relative to September 2023.
- **Overall, ICRA expects the YoY IIP growth to improve to 7-10% in October 2023, boosted by a favourable base (October 2022: -4.1%) for some sectors owing to the early onset of the festive season* in 2022 vis-à-vis 2023; however, ICRA expects fewer working days to dampen IIP growth in November 2023.**

*festive period: a) 2022 –Sep 26, 2022 to Nov 6, 2022; b) 2023 –Oct 15, 2023 to Nov 25, 2023

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 (%)										
August-23	10.3%	12.3%	9.3%	15.3%	12.4%	13.1%	6.8%	13.5%	5.8%	9.6%
September-23	5.8%	11.5%	4.5%	9.9%	8.0%	7.4%	5.8%	7.5%	1.0%	2.7%
MoM (%)										
August-23	1.8%	0.0%	1.2%	8.1%	2.6%	5.8%	2.6%	2.0%	4.0%	-3.3%
September-23	-2.4%	-0.4%	-2.0%	-6.6%	-4.5%	3.9%	-1.7%	-2.8%	1.7%	-3.5%
Quarterly Trends (%)										
Q1 FY2024 (YoY)	4.8%	6.4%	5.1%	1.3%	3.6%	5.1%	3.4%	13.2%	-2.7%	6.8%
Q2 FY2024 (YoY)	7.4%	11.5%	6.2%	11.1%	9.3%	8.3%	5.0%	11.1%	1.3%	6.7%
Sep-23 vs. Sep-19	15.2%	29.1%	11.6%	29.7%	22.0%	22.1%	14.7%	32.2%	2.0%	-1.0%

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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