



ICRA

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SERVICE COMPANY

## INDEX OF INDUSTRIAL PRODUCTION March 2022

IIP growth displayed lower-than-  
expected pickup to 1.9% in March 2022  
from 1.5% in February 2022

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## HIGHLIGHTS



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*The pace of IIP growth recorded a disappointing improvement to 1.9% in March 2022 from 1.5% in February 2022, below our forecast of 3.25%*

*Consumer durables and non-durables continued to contract by 3.2% and 5.0%, respectively, in March 2022*

*The IIP recorded a growth of 2.9% in March 2022 relative to the pre-Covid levels of March 2019*

*We expect the IIP to report a double-digit expansion in April 2022; however, the performance relative to the pre-Covid level is likely to be mixed*

The pace of year-on-year (YoY) growth of the Index of Industrial Production (IIP) improved, albeit to a lower-than-expected 1.9% in March 2022 (ICRA exp: +3.25%) from 1.5% in February 2022. While the pace of YoY growth of manufacturing and electricity improved in March 2022 relative to the previous month, mining growth eased to 4.0%. Notwithstanding some improvement relative to the previous month, consumer durables (-3.2%) and non-durables (-5.0%) continued to report an unnerving YoY contraction in March 2022, underscoring the fragile nature of consumption demand amidst the commodity price-inflicted price increases being undertaken by producers. Moreover, the growth in capital goods output remained subdued, raising doubts about the pick-up in investment activity in Q4 FY2022. With a high YoY expansion in coal, electricity, coal and non-oil exports on the back of a low base related to the second wave of Covid-19 in India, we expect the IIP to report a double-digit expansion in April 2022. Going forward, the surge in global commodity prices following the ongoing Russia-Ukraine conflict and the resultant rise in domestic inflation owing to a pass-through of higher input costs across several categories of goods is expected to impact consumption demand and thereby hurt the growth in the output of consumer goods. Further, protracted tensions could impact corporate profits and dampen the investment climate, impacting the output of capital goods and infra/construction goods.

- **IIP growth improved marginally to 1.9% YoY in March 2022:** The IIP growth rose marginally to 1.9% in March 2022 from 1.5% in February 2022, led by electricity (to +6.1% from +4.5%) and manufacturing (to +0.9% from +0.5%), even as the performance of mining (to +4.0% from +4.5%) deteriorated. The growth performance trailed our expectation of a 3.25% rise.
- **Use-based categories displayed a mixed trend:** The sequential improvement in the performance of primary and consumer goods was largely offset by a dip in the expansion of capital, infrastructure/construction and intermediate goods. However, consumer durables (-3.2%) and non-durables (-5.0%) continued to report a YoY contraction in March 2022, underscoring the fragile nature of consumption demand amidst the commodity price-inflicted price increases being undertaken by producers.
- **The IIP reported a growth of 2.9% in March 2022 relative to the pre-Covid levels:** The pickup relative to the pre-Covid level in March 2022, was led by electricity (+19.3%) and mining (+9.0%), while manufacturing output remained unchanged at the March 2019 level. However, the performance of the use-based categories was mixed- three of the six categories, namely primary goods (+9.5%), infrastructure/construction goods (+9.7%), and intermediate goods (+0.3%) rose above their corresponding pre-Covid levels in March 2022, while the other three trailed the same (capital goods: -7.3%; consumer durables: -2.2%, consumer non-durables: -4.7%).
- **IIP to report a double-digit expansion in April 2022:** The outlook for the April 2022 IIP growth is quite benign, given the low base related to the second wave of Covid-19 in India in April 2021. With a high YoY expansion in coal, electricity, and non-oil exports, amidst a flattish performance of the auto sector, we expect the IIP to report a double-digit expansion in April 2022. In our view, the performance relative to the pre-Covid level would be mixed across the various constituents of manufacturing, even as electricity and mining would surpass the April 2019 levels.

## OVERVIEW

- The YoY growth in the IIP rose marginally to a five-month high 1.9% in March 2022 from the revised 1.5% in February 2022 (-3.2% in February 2021), while trailing our expectations (+3.25%). Growth was not dampened by the high base (+24.2% in March 2021) which was largely statistical in nature (-18.7% in March 2020). Notably, for the seventh 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 4.3% YoY growth in March 2022, pointing to a disappointing showing of the non-core components, especially consumer goods.
- The uptick in YoY IIP growth in March 2022 relative to February 2022 was led by electricity generation (to +6.1% in March 2022 from +4.5% in February 2022) and manufacturing (to +0.9% from +0.5%) among the sectors, even as the performance of mining (to +4.0% from +4.5%) deteriorated in the month.
- The YoY growth in manufacturing output rose mildly to 0.9% in March 2022 from the revised 0.5% in February 2022, below our expectations. Notably, nine of the 23 sub-sectors of manufacturing (with a weight of 38.1% in the IIP) displayed a YoY growth in March 2022, while 14 sub-sectors (with a weight of 39.6% in the IIP) witnessed a contraction in that month. As many as 12 of the 23 sub-sectors of manufacturing (with a weight of 38.7% in the IIP) recorded an improvement in the YoY performance in March 2022 relative to February 2022; this sub-set includes wearing apparel (to +37.3% in March 2022 from +15.9% in February 2022), food products (to +8.4% from +2.8%), computer, electronic and optical products (to -9.7% from -16.0%), leather and related products (to -11.8% from -16.8%), machinery and equipment N.E.C. (to -3.7% from -7.7%), pharma, medicinal chemical and botanical products (to -12.8% from -13.4%), coke and refined petroleum products (to +6.3% from +5.7%), other transport equipment (to -11.8% from -15.5%), other manufacturing (to +34.1% from +11.3%), etc. In contrast, 11 sub-sectors (with a substantial weight of 38.9% in the IIP) recorded a deterioration in their YoY performance in March 2022 relative to February 2022; this sub-set includes tobacco products (to -15.5% from +14.3%), textiles (to -0.8% from +1.9%), basic metals (+7.3% from +9.5%), motor vehicles, trailers and semi-trailers (to -0.4% from +1.8%), furniture (to +13.0% from +19.2%), paper and paper products (to -6.5% from -1.1%), chemical and chemical products (to -5.4% from -3.0%) etc.
- The YoY growth in electricity generation witnessed an improvement to a seven-month high 6.1% in March 2022 from 4.5% in February 2022. As per the data released by the Central Electricity Authority, the YoY growth in hydroelectricity generation rose to a 34-month high 26.4% in March 2022 (-7.9% in March 2022). In contrast, thermal electricity generation growth moderated to 1.5% in March 2022 from 1.8% in February 2022.
- In contrast, the YoY growth in mining output eased to 4.0% in March 2022 from 4.5% in February 2022, driven by the trend in the output of natural gas (to +7.6% in March 2022 from +12.5% in February 2022) and crude oil (to -3.4% from -2.2%). In addition, the output of coal recorded a YoY contraction of 0.1% in March 2022 (+6.8% in February 2022), after a gap of 12 months (refer Exhibit 5).
- Among the use-based categories, the trend remained mixed, with a sequential improvement in the performance of primary and consumer goods being largely offset by a dip in the expansion of capital, infra and intermediate goods. The YoY growth in primary goods improved to a five-month high 5.7% in March 2022 from 4.6% in February 2022. Moreover, the YoY contraction in consumer durables and consumer non-durables narrowed to 3.2% and 5.0%, respectively, in March 2022 from 8.7% and 5.8%, respectively, in February 2022. Notwithstanding the improvement relative to the previous month, the continued decline in consumer durables and non-durables output for the sixth and the second consecutive month, respectively, is disappointing, reflecting the fragile nature of consumption demand amidst the commodity price-inflicted price increases being undertaken by producers.
- The YoY growth in the output of capital goods eased to a three-month low 0.7% in March 2022 from 2.0% in February 2022. Although capacity utilisation levels for Q3 FY2022 had surprised on the upside at 72.4% (68.3% in Q2 FY2022) and new project announcements also improved to Rs. 5.1 trillion in Q4 FY2022 from Rs. 2.5 trillion in Q4 FY2021, the growth

in capital goods output remained weak at sub-1.5% in Q4 FY2022. The YoY growth in the output of infrastructure/construction goods eased to 7.3% in March 2022 from 9.1% in February 2022, in line with the performance of the steel sector (to +3.7% in March 2022 from +5.9% in February 2022), even as the cement output growth (to +8.8% from +5.0%) witnessed an improvement. The YoY growth in the output of intermediate goods eased sharply to a 13-month low 0.6% in March 2022 from 3.7% in February 2022.

- The IIP reported a growth of 2.9% in March 2022 relative to the pre-Covid levels of March 2019, driven by electricity (+19.3%) and mining (+9.0%), even as the manufacturing sector recorded no growth in March 2022 relative to March 2019. As many as eight of the 23 sub-segments within manufacturing (with a substantial weight of 39.6% in the IIP) recorded a higher output in the March 2022 vs. pre-Covid levels. On the other hand, 15 of the 23 sub-sectors (with a weight of 38.1% in the IIP) recorded a lower output in March 2022 relative to March 2019. In addition, in March 2022, three of the six use-based categories exceeded their pre-Covid levels of March 2019, namely infrastructure/ construction goods (+9.7%), primary goods (+9.5%) and intermediate goods (+0.3%). On the other hand, capital goods (-7.3%), consumer non-durables (-4.7%) and consumer durables (-2.2%) recorded lower output in March 2022 relative to March 2019.
- In month-on-month (MoM) terms, industrial output recorded a sequential uptick of 12.5% in March 2022 owing to a larger number of days in the month relative to February as well as the typical fiscal year-end push. The sequential rise was led by a higher output in electricity (+18.8%), mining (+17.4%) and manufacturing (+10.9%). As expected, the sequential rise in manufacturing in March 2022 (+10.9%) was lower than the MoM rise in the generation of GST e-way bills (+13.0%) in that month, which reflected higher dispatches after the easing of restrictions. Amongst the use-based categories, all the six segments witnessed a higher output in March 2022 relative to February 2022, led by primary goods (+17.3%), capital goods (+15.5%), consumer durables (+12.9%), infrastructure/ construction goods (+11.7%), intermediate goods (+8.2%) and consumer non-durables (+7.4%).
- The YoY growth in the IIP in February 2022 has been revised downwards to 1.5% from the initial 1.7%, driven by a downward revision in manufacturing (to +0.5% from an initial +0.8%), with the output of mining and electricity remaining unchanged at 4.5% each. Amongst the use-based categories, the performance of infrastructure/construction goods (+9.1% vs. +9.4%), intermediate goods (+3.7% vs. +4.3%), consumer durables (-8.7% vs. -8.2%) and consumer non-durables (-5.8% vs. -5.5%) has been revised downwards in February 2022, while that for capital goods (+2.0% vs. +1.1%) was revised upwards. Additionally, the performance of primary goods remained unchanged at 4.6%.
- In quarterly terms, the YoY IIP growth moderated to 1.6% in Q4 FY2022 (+6.0% in Q4 FY2021) from 2.1% in Q3 FY2022 (+1.7% in Q3 FY2021), led by manufacturing (to +0.9% in Q4 FY2022 from +1.4% in Q3 FY2022) and mining (to +3.8% from +6.1%), while electricity (to +3.9% from +2.7%) recorded an improvement. Among the use-based categories, the YoY contraction in consumer durables widened to 5.1% in Q4 FY2022 from 3.5% in Q3 FY2022, while consumer non-durables slipped into a contraction of 2.9% after a gap of six quarters. In contrast, capital goods reverted to a growth of 1.4% in Q4 FY2022 (-2.4% in Q3 FY2022).
- Additionally, relative to the pre-Covid level of Q4 FY2019, the IIP recorded a modest growth of 3.1% in Q4 FY2022, with a broad-based trend across electricity (+15.3%), mining (+7.7%), and manufacturing (+1.0%). However, capital goods (-10.1%), consumer durables (-6.0%) and non-durables (-6.0%) trailed their respective pre-Covid volumes in Q4 FY2022.
- Overall, in FY2022, the IIP recorded a YoY growth of 11.3%, on the back of a low base (-8.4% in FY2021), led by mining (+12.2%), manufacturing (+11.7%) and electricity (+7.9%). Moreover, all the use-based categories recorded a broad-based growth, led by a double-digit expansion in infrastructure/construction goods (+19.0%), capital goods (+16.7%), intermediate goods (+15.1%), and consumer durables (+12.5%), followed by primary goods (+9.7%), and consumer non-durables (+3.2%). Relative to the pre-Covid level of FY2019, the IIP recorded a tepid growth of 1.1% in FY2022, led by electricity (+8.4%) and mining (+5.0%), while manufacturing (-0.4%) recorded a contraction. Additionally, four of the six categories (apart from capital goods; -18.3% and consumer durables; -12.6%), exceeded the FY2019 levels in FY2022.



## OUTLOOK

Owing to the low base on account of the second Covid-19 wave in April 2021, the YoY growth of all available high frequency indicators witnessed an improvement in April 2022 relative to March 2022, such as ports cargo traffic (to a six-month high +5.5% in April 2022 from +1.2% in March 2022), electricity generation (to an eight-month high +10.5% from +4.9%), rail freight traffic (to an eight-month high +9.4% from +6.7%), generation of GST e-way bills (to an eight-month high +28.0% from +9.7%), finished steel consumption (to +1.0% from -0.5%), vehicle registrations (turning positive after a gap seven months; to +36.9% from -2.9%), non-oil merchandise exports (to +12.3% from +8.9%; as per provisional data released by the Ministry of Commerce and Industry), petrol consumption (to a 12-month high +17.3% from +6.2%), diesel consumption (to an eight-month high +7.9% from +6.7%) and Coal India Limited's output (to a 19-month high 27.6% from -1.1%).

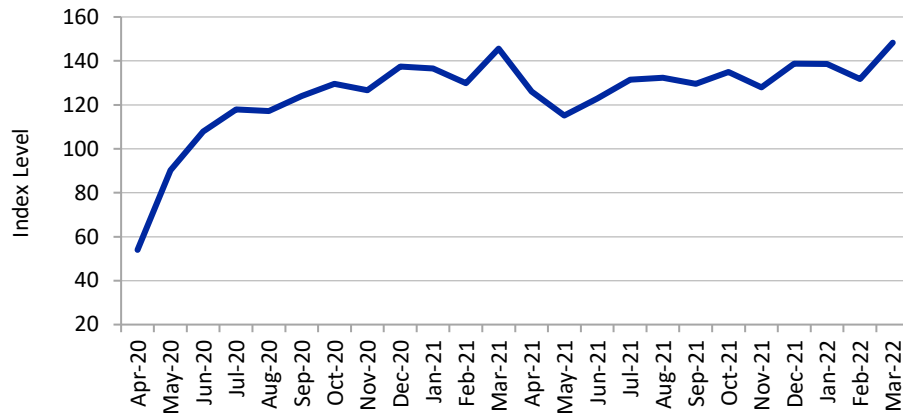
The outlook for the April 2022 IIP growth is quite benign, given the low base related to the second wave of Covid-19 in India in April 2021. With a high YoY expansion in coal, electricity, and non-oil exports, amidst a flattish performance of the auto sector, we expect the IIP to report a double-digit expansion in April 2022. Nevertheless, the performance relative to the pre-Covid level would be mixed across the various constituents of manufacturing, even as electricity and mining would surpass the April 2019 levels.

Going forward, the surge in global commodity prices following the ongoing Russia-Ukraine conflict and the resultant rise in domestic inflation owing to a pass-through of higher input costs across several categories of goods is expected to impact consumption demand and thereby hurt the growth in the output of consumer goods. Further, protracted tensions could also impact corporate profits and dampen the investment climate, impacting the output of capital goods and infra/construction goods. Besides, the supply chain implications of the continued lockdowns in China along with the geopolitical tensions will continue to impart downside risks for the output of sectors that are dependent on key raw materials provided by Russia, Ukraine or China.

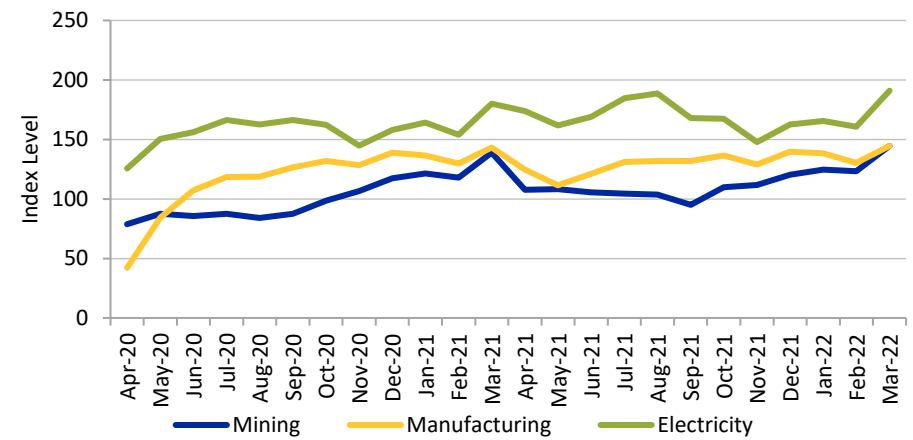
### EXHIBIT 1: Trend in IIP Growth

	IIP	Sectoral			Use-Based Classification					
		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%
<b>YoY (%)</b>										
<b>Feb-22</b>	1.5%	4.5%	0.5%	4.5%	4.6%	2.0%	3.7%	9.1%	-8.7%	-5.8%
<b>Mar-22</b>	1.9%	4.0%	0.9%	6.1%	5.7%	0.7%	0.6%	7.3%	-3.2%	-5.0%
<b>MoM (%)</b>										
<b>Feb-22</b>	-4.9%	-1.2%	-5.8%	-2.9%	-4.2%	0.7%	-5.1%	-4.1%	-4.5%	-9.2%
<b>Mar-22</b>	12.5%	17.4%	10.9%	18.8%	17.3%	15.5%	8.2%	11.7%	12.9%	7.4%
<b>Quarterly growth (%)</b>										
<b>Q4 FY2022 vs. Q4 FY2021</b>	1.6%	3.8%	0.9%	3.9%	4.0%	1.4%	1.6%	7.5%	-5.1%	-2.9%
<b>Q4 FY2022 vs. Q4 FY2019</b>	3.1%	7.7%	1.0%	15.3%	7.2%	-10.1%	12.2%	8.7%	-6.0%	-6.0%
<b>Mar-22 vs. Mar-19</b>	2.9%	9.0%	0.0%	19.3%	9.5%	-7.3%	0.3%	9.7%	-2.2%	-4.7%

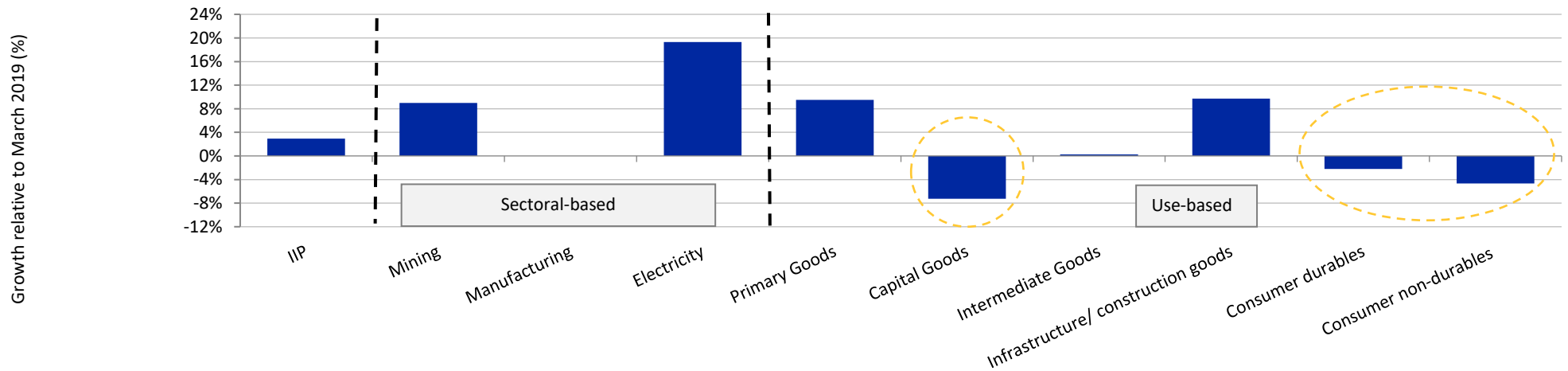
Source: National Statistical Office (NSO); CEIC; ICRA Research

**EXHIBIT 2: Trend in IIP since April 2020**


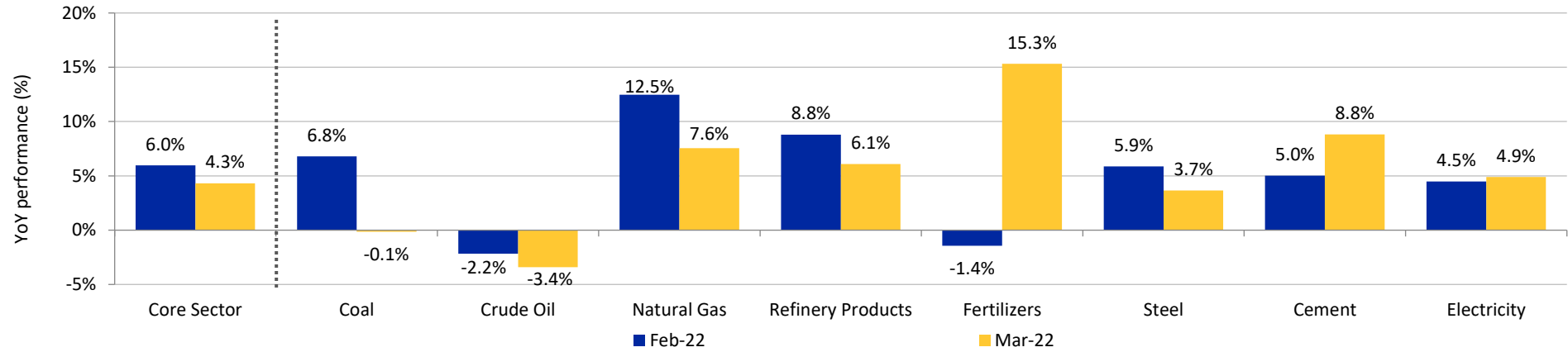
Source: NSO; CEIC; ICRA Research

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


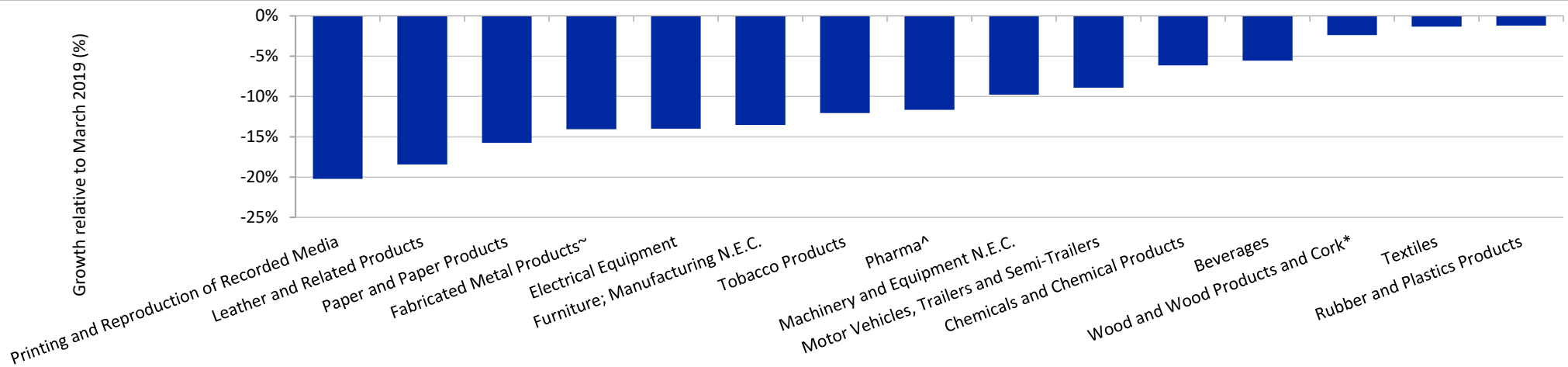
Source: NSO; CEIC; ICRA Research

**EXHIBIT 4: Trend in performance of IIP and its sub-components in March 2022 relative to March 2019**


Source: NSO; CEIC; ICRA Research

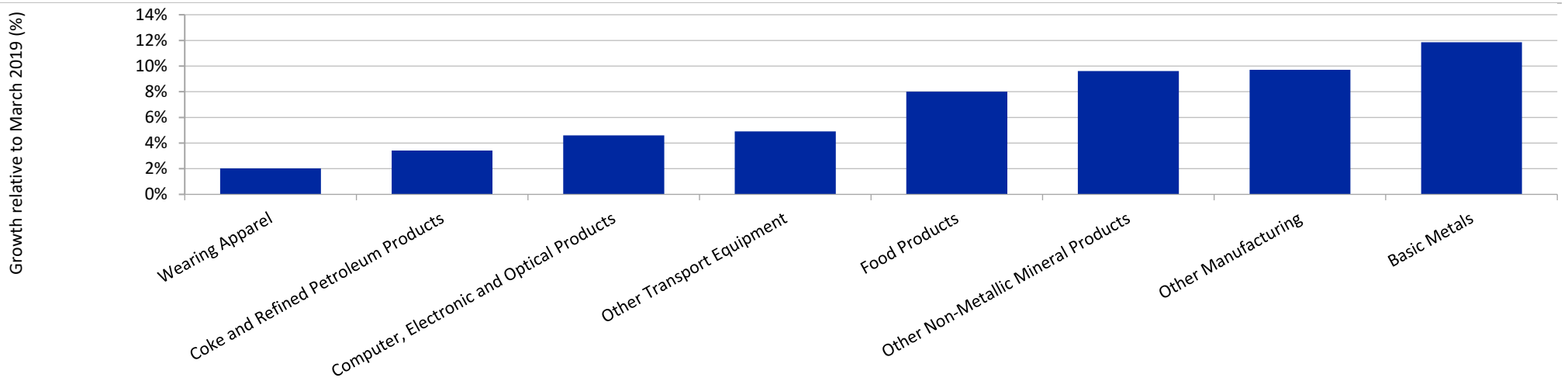
**EXHIBIT 5: YoY performance of core sector and its sub-components in February 2022 and March 2022**


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 March 2022 relative to March 2019 (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 March 2022 relative to March 2019 (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 (%)
<b>Primary Goods (Wt.=34.0%)</b>	Diesel	Coke and refined petroleum products	5.71	<b>Infrastructure /Construction Goods (Wt.=12.3%)</b>	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
<b>Capital Goods (Wt.=8.2%)</b>	Commercial Vehicles	Motor vehicles, trailers and semi-trailers	0.94	<b>Consumer Durables (Wt.=12.8%)</b>	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
<b>Intermediate Goods (Wt.=17.2%)</b>	Naphtha	Coke and refined petroleum products	1.15	<b>Consumer Non-durables (Wt.=15.3%)</b>	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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## ABOUT ICRA

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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- Assist the regulators in promoting transparency in the financial markets;
- Provide intermediaries with a tool to improve efficiency in the funds raising process.

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