

## Press Release

### Core sector puts on the brakes in August

Base factor along with excess rains likely behind the unexpected YoY contraction

October 1, 2024

In August 2024, the eight core industries experienced an unexpected contraction in output of 1.8% YoY which can be attributed to the high base factor and excess rains in some parts of the country that impacted mining and manufacturing operations. This is the first contraction in core sector output in 42 months since the Covid period. The core index had risen sharply by 13.4% in August 2023, highlighting the impact of the base factor. Nevertheless, the contraction in Aug'24 which follows a 6.1% YoY growth in Jul'24, signals a moderation in industrial activity in the current year. The slowdown, however, is not expected to persist for long as the core sector will get a push from the acceleration in capital expenditure by the government in the remainder of the fiscal year.

During the month of August, six out of the eight industries experienced an annualized contraction in output. Heavy rains in some regions had affected mining operations, leading to lower output for coal, crude oil, and natural gas, along with also a reduction in electricity generation. However, steel and fertilizer production saw a sequential increase during the month.

Here are our brief comments on each of the core industries:

**Coal** production (weight: 10.33%) declined by 8.1% in August 2024 over August 2023. The cumulative index for April to August, 2024-25 rose by 6.5% compared to previous year. Coal production slipped to 62.6 MT in August 2024, down from 67.7 MT in August 2023, signifying a 7.5% drop which can be attributed to heavy rainfall in the mining areas. However, the overall trend remains encouraging; the total production from April to August 2024 amounted to 384.0 MT, showing a 6.4% increase from 360.7 MT during the same period of FY24. Coal production has steadily increased over the past four years, starting from 730.9 MT in 2019-20, with a 10.7% growth in the first quarter of the current fiscal year, reflecting the government policy measures to enhance domestic production and minimize coal imports.

**Cement** production (weight: 5.4%) saw a 3.0% drop compared to August 2023, but the cumulative index increased by 0.7% YoY from April to August 2024-25. The production of cement faced challenges in August 2024 due to slower demand and delays in projects caused by a heavy monsoon. Many producers in the North, Central, and East regions reduced their output by ~10-15%, leading to an average clinker utilization of approximately 70-75%. While the situation in South India was relatively better, production in the West and East regions was affected by floods, impacting the industry. Overall, weak price realizations and ongoing project delays disrupted the production patterns in the industry.

**Steel** production (weight: 17.9%) saw a 4.5% growth over August 2023, with the cumulative index up 7.3% from April to August 2024-25. During the first five months of FY 2024-25 (April-August), India experienced a 4.4% growth in crude steel production and a 5.3% increase in finished steel production, while consumption surged by 13.7%. The declining domestic steel prices, influenced by reduced international prices and dumping from China, have prompted the Indian steel industry to push for higher Basic Customs Duty on imports, prompting the Ministry to review the situation for potential action.

**Electricity** generation (weight: 19.85%) fell by 5.0% in August 2024 versus August 2023, yet it enhanced by 6.8% from April to August 2024-25 compared to same period of last year. In August 2024, power consumption fell by 4.7% to 144.21 billion units compared to the previous year, largely due to above-normal wet weather, which impacted the use of cooling machinery and also caused a significant drop in merchant power prices. This contrasts with the August of last year, which saw a rainfall deficit and higher demand for irrigation and cooling.

**Natural Gas** production (weight: 6.9%) decreased by 3.6% in August 2024 compared to August 2023, while the cumulative index grew by 2.6% during the April to August 2024-25 period. In August 2024, there was a 3.7% YoY decrease in India's natural gas production, amounting to 3,048.2 million metric standard cubic meters (MMSCM) compared to 3,165.6 MMSCM in August 2023. The decrease in production coincided with a decline in demand due to the tropical wet season. Despite the decline, natural gas production had a modest 2% increase from April to August, although it remained below the designated targets. Following a period of decline until FY21 due to diminishing fields and limited new discoveries, production began to improve in FY22 with the emergence of new offshore findings. Looking forward, further increases are anticipated as production escalates from recent discoveries and additional new sources are brought.

**Crude Oil** production (weight: 8.98%) dipped by 3.4% from the previous year and the cumulative index fell by 1.7% from April to August 2024-25. In August 2024, India's crude oil production declined by 3.4% YoY to 2,403.7 from 2,487.7 thousand metric tonnes (TMT) in August 2023 due to several factors, including aging infrastructure, technical issues in existing fields, and insufficient investment in exploration and production. As the economy grows and refining activities expand, domestic production struggles to keep pace with rising demand, highlighting the need for new discoveries to reduce reliance on imports and mitigate vulnerability to global market fluctuations.

Consequently, India's reliance on imported crude oil intensified in August. With the decline in domestic production, crude oil imports to India jumped by 6.4% in August, driving a 3.3% cumulative increase in oil imports over the period between April and August, as the country's economy continues on an expansion path.

**Petroleum Refinery** production (weight: 28.0%) saw a 1.0% drop in August 2024 compared to August 2023, while the cumulative index increased by 1.6% from April to August 2024-25. India petroleum refinery production saw slight decline of 1.0% in

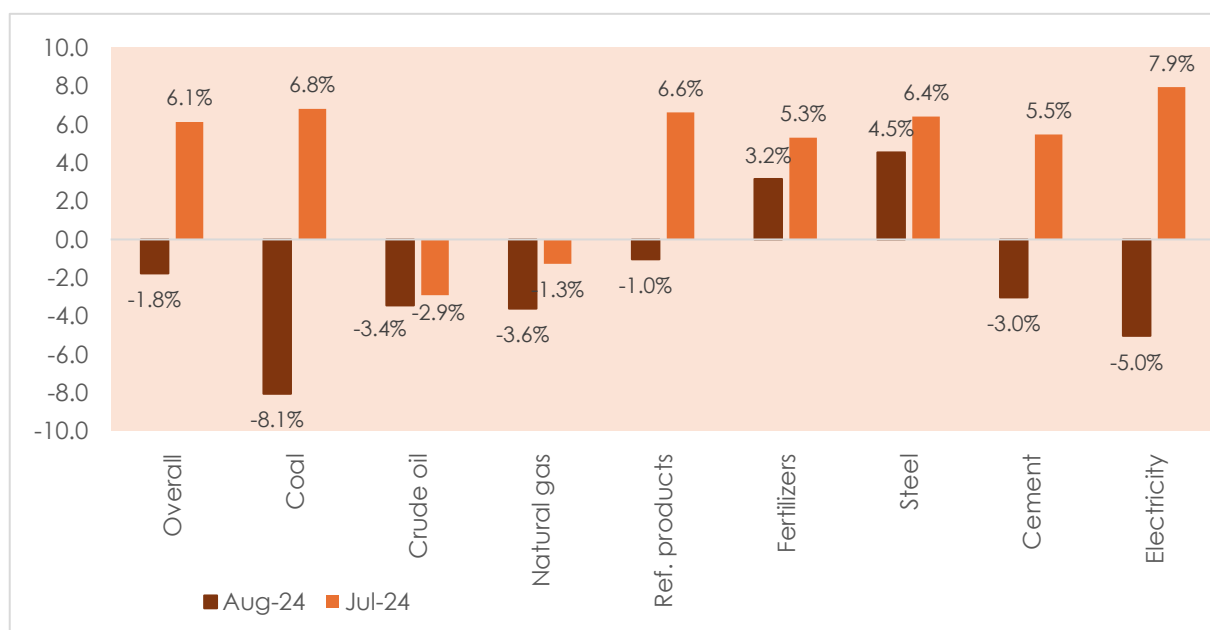
August 2024 vs August 2023. The overall trend indicated a decline due to reduced exports and decreased consumption in key export markets. Efforts to enhance refinery capacities and adapt to changing demand, such as the rise of electric vehicles, are ongoing to improve future production levels.

**Fertilizer** production (weight: 2.6%) saw a 3.1% growth over the previous year, with the cumulative index up 1.7% from April to August 2024-25. India's fertilizer sector grew due to heightened demand from farmers and government support, particularly an INR 24,475 Cr. subsidy for phosphatic and potassic (P&K) fertilizers for the rabi season. This subsidy enhanced affordability and demand. Additionally, improved supply chain stability and rising agricultural commodity prices encouraged farmers to invest in fertilizers. Innovations in sustainable and organic fertilizers further boosted interest, creating a positive outlook for the sector.

Says **Suman Chowdhury, Chief Economist and Executive Director, Acuite Ratings & Research** "India's core sector output has witnessed an unexpected contraction by 1.8% YoY in Aug'24 vs Aug'23. This is the first monthly contraction since the Covid period (Feb'21) and while the base factor has played a role, the data reflects a broad-based underperformance across most of the eight segments except for fertilizer and steel. It may be noted that the core sector output had grown sharply by 13.4% in the previous August due to lower rainfall and higher demand for electricity.

We expect the core sector output to pick up significantly from Oct'24 with an acceleration in government spending on infrastructure projects. Nevertheless, we expect a moderation in sector growth to 4.5%-5.0% in FY25 compared to 7.6% in FY24. This will also have an impact on industrial output which is set to grow at a slower rate of around 5.0% in the current year."

**Chart 1: Monthly output (YoY) growth in Core Sector in August vs July 2024**



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