Press Release

Nov-21 IIP- An unpleasant surprise

India's index of industrial production eased to a 9-month low

13 January 2022

India's Index of Industrial production (IIP) grew at a slowest pace since Mar-21 by 1.4% YoY in Nov-21 from an upwardly revised print of 4.0% in Oct-21 led by broad-based moderation in manufacturing and electricity segment. On sequential basis, the index contracted by 4.7% in Nov-21 from an expansion of 5.1% in the previous month. The contraction in the IIP index was largely anticipated by our proprietary AMEP (Acuité Macroeconomic Performance) index which fell to 111.0 in Nov-21 from a post-Covid peak of 124.9 led by easing of festive demand.

The decline in sequential print was primarily driven by electricity followed by manufacturing output. However, mining output increased moderately due to expansion in coal production which also reflected in the core sector data for the month. While demand for coal from the power sector has been increasing with the revival in business and industrial activities, supply from coal mines was interrupted in Sep-Oct'21 due to extended monsoons apart from the seasonal factor at play during the winter months, leading electricity output to contract sharply by -11.6% MoM in Nov-21 from -0.4% in the previous month. The breadth of recovery in the manufacturing space weakened significantly with just 3 out of 23 industries showing a sequential expansion, weakest in the last six months.

What is noteworthy is that the cumulative industrial output in the first eight months of the current fiscal (Apr-Nov'21) is still lower than the comparable period in the pre-pandemic FY20 albeit the gap has steadily reduced standing at -0.5%.

On use-based side, barring consumer non-durables, all other sectors registered a sequential contraction with major drag coming from consumer goods followed by capital goods and infrastructure & construction goods. On cumulative basis as well, for the first eight months (Apr-Nov'21), weakness continues to be particularly visible in the capital and consumer durables segments the output of which is still tracking way below their pre-pandemic levels.

Amidst increasing base of the previous year when the economy was gradually reverting to normalcy post the impact of the first Covid wave and before the onslaught of the second, we expect the annualised print to remain in low to mid single digits for the next couple of months. Having said that, the focus remains on sequential momentum that will help in gauging growth trends across sectors.

For the remainder of FY22, raw material shortages due to persistent supply chain bottlenecks and resurgence of Covid cases globally as well as domestically led by the rise in Omicron variant could further amplify the existing logistical challenges thereby hampering industrial activity. While the healthcare cost due to spread of the Omicron variant may to be limited, another round of state level restrictions can also dampen the potential industrial output in Q4 FY22. Additionally, the rise in input price pressures due to higher commodity prices may lead to a further pass through to end consumers impacting demand and thereby overall production. However, Acuité believes that good progress in the pace of vaccinations along with the accommodative monetary and fiscal policies will limit the adverse impact of the third covid wave.

Annexure

Chart 1: Capital and Consumer durables trail well below their pre-pandemic levels

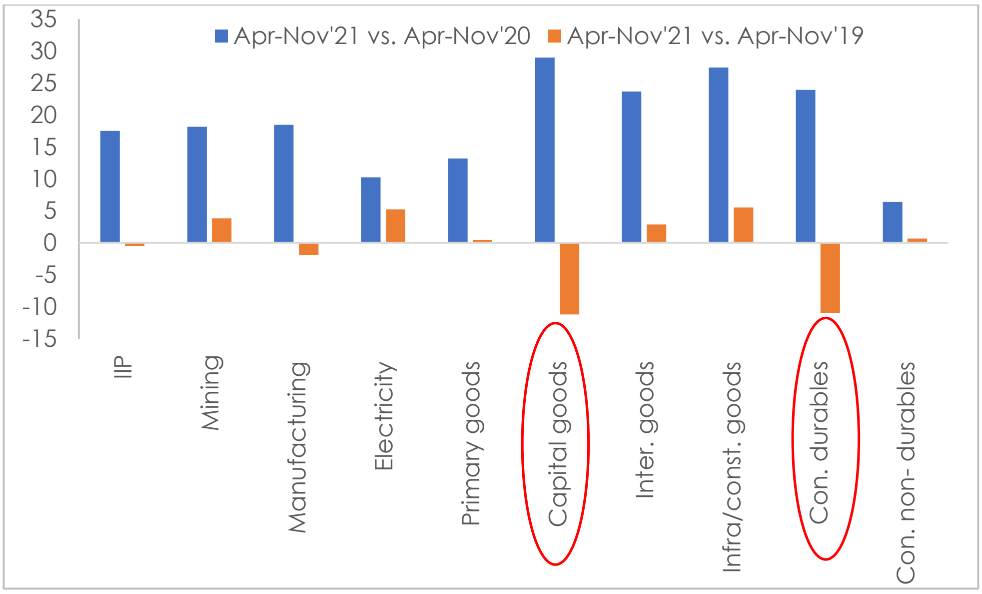
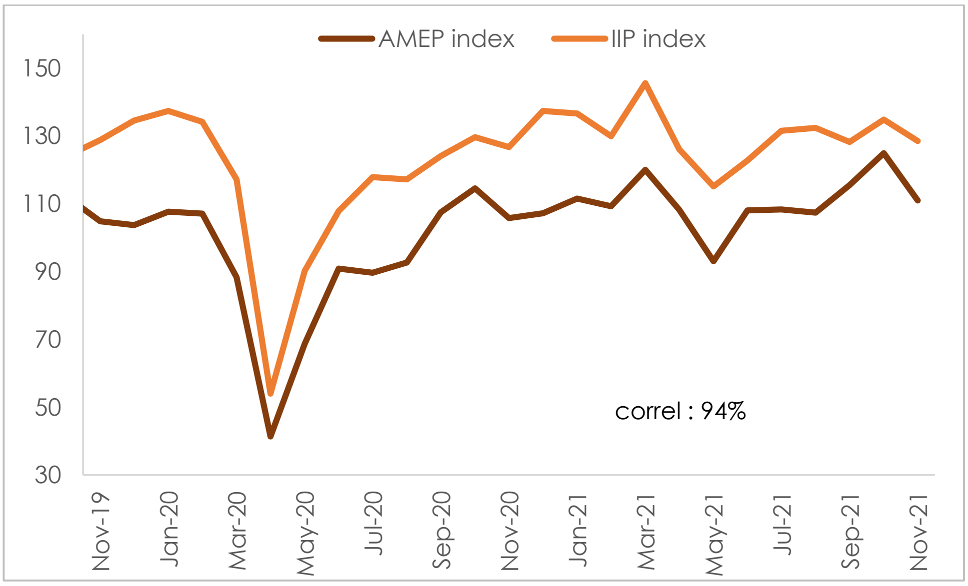


Chart 2: AMEP index serves as a predecessor to IIP index



About Acuité Ratings & Research Limited:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,900 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

Media Contacts:

Roshni Rohira Ph: + 91-9769383310 roshnirohira@eminenceonline.in	Sahban Kohari Ph: + 91-9890318722 sahban@eminenceonline.in

Investor Outreach: **Analytical Contact:**

Rituparna Roy Deputy Vice President Ph: + 91-7506948108 rituparna.roy@acuite.in	Suman Chowdhury Chief Analytical Officer Ph: + 91-9930831560 suman.chowdhury@acuite.in