Press Release

Sep IIP: Some comfort but global headwinds to weigh

FY23 GDP growth revised lower to 7.0% amid incremental external risks

11-Nov-2022

After contracting for the first time in nearly 18 months by -0.7% in Aug-22, India's Index of Industrial production (IIP) expanded by 3.1% YoY in Sep-22 beating our and market expectation, primarily supported by favorable base. The uptick in the IIP growth is in line with the other high frequency indicators such as core sector growth, auto sales, exports, GST collection and E-way bills. Encouragingly, the festive induced rise in consumption demand also led the monthly momentum to expand by 1.5% MoM from two consecutive negative prints in Jul-Aug'22. Considering today's print, overall industrial production for H2 FY23 stands expanded by 4.9% as compared to the pre-pandemic period of H1 FY20 with investment related production consistently outpacing consumption-oriented production.

On industry side, annualized growth for mining, manufacturing and electricity registered an expansion in Sep-22 as compared to a contraction seen in the categories of mining and manufacturing in Aug-22. Notwithstanding the monthly gyrations, if we compare the overall trajectory for the first six months of FY23, the output of electricity has remained buoyant expanding by 14.9% in H1 FY23 as compared to H1 FY20 primarily supported by coal-based power generation. Coal production recorded a robust growth of ~27% in H1 FY23 as compared to its pre-pandemic level. The total coal production in H1 FY23 stood at 382 million tonnes as compared to 315 million tonnes in the same period last year. The growth was primarily supported by various government initiatives aimed to meet the coal demand-supply mismatch along with contribution from new commercial mines that became operational in Q1 FY23. With support from robust coal production, the mining segment recorded a production of 7.9% in H1 FY23 as compared to H1 FY20. On the other hand, manufacturing sector recorded only a modest expansion of 3.1% in H1 FY23. On sub-sector basis, production of furniture, transport and electrical along with motor vehicles has been robust while production of leather products, textiles, pharmaceuticals and electronic equipment has contracted in H1 FY23 as compared to the pre-pandemic period of H1 FY20.

On the use-based side, Investment oriented production, captured by Capital Goods and Infrastructure & Construction Goods, continues to remain relatively healthy amidst government's capex push. On the other hand, consumption-oriented production, captured by Consumer durables and non-durables, has been weaker in comparison amidst uneven demand recovery. Within the consumption basket, there seems to be a divergence between urban and rural consumption. According to Nielsen's FMCG report for Q2 FY23, the sector continued to reel under stress led by slowdown in rural demand as elevated price pressures caused companies to go for price hikes especially that for consumer non-durables. In addition to inflationary pressures uneven rainfall distribution and sizeable run-up in agri-input costs have also led to dampening of rural incomes and thus overall demand. Nevertheless, despite the uneven distribution of monsoon, the Kharif season closed with near normal acreage. While we do not rule out a modest shortfall in the crop production and the resultant price pressure especially for cereals (i.e., wheat and rice), the downside in agriculture output is likely to be capped. A late withdrawal of monsoon and bountiful reservoir levels, along with the higher than previous year's hike in wheat MSP for 2022-23 season, augurs well for Rabi sowing and output keeping the prospects of gradual improvement in rural demand alive. On the other hand, urban demand has remained relatively stronger as also reflected in certain high-frequency indicators such as robust passenger vehicle (PV) and a revival in housing sales.

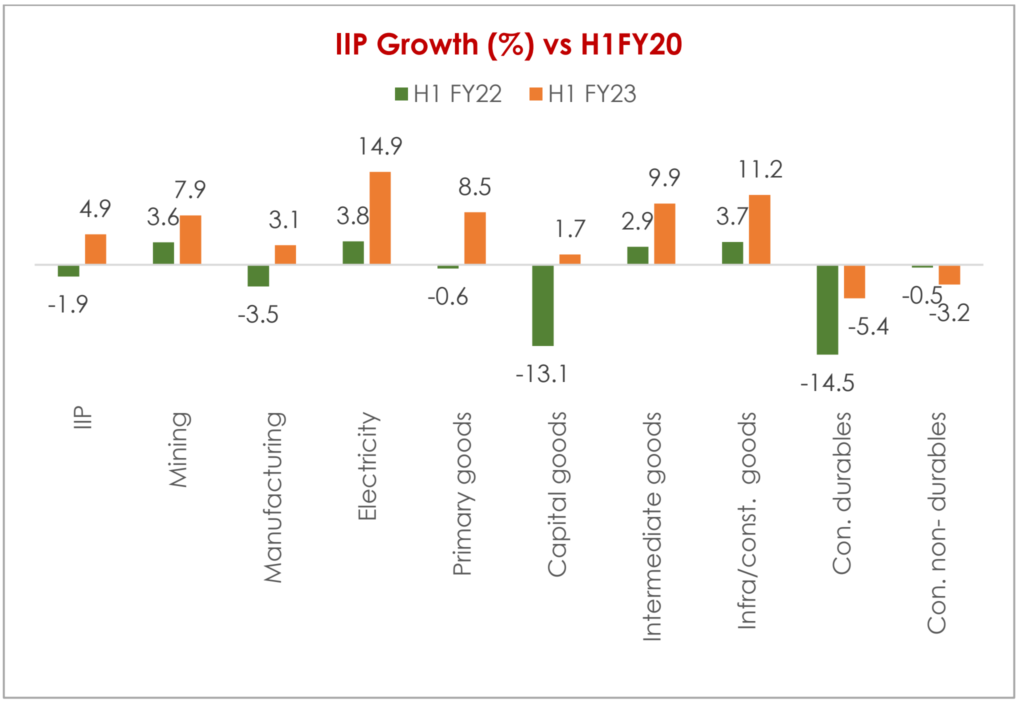
Going forward, improvement in manufacturing capacity utilization which stood juxtaposed with robust central government capex during Apr-Sep'22, festive heavy H2 FY23 along with lingering pent-up demand, and moderation in commodity prices could help support the industrial activity in H2 FY23. However, amid waning global demand external support from exports is deteriorating. Domestic exports in Sep-22 slipped further to USD 35.5 bn i.e., 16% lower compared to the recent peak of USD 42.2 bn in Jun-22. In its latest update to the World Economic Outlook report, the IMF slashed its growth forecast for 2023 World GDP and World Trade by 20 bps and 70 bps to 2.7% and 2.5% - this marks a sharp loss of momentum vis-à-vis IMF's 2022 growth estimates of 3.2% and 4.3% earlier.

From growth perspective, on annualised basis, as the favorable statistical effect tapers, incremental GDP growth is expected decelerate over Q3 and Q4 of FY23. As such, we revise lower our FY23 GDP growth forecast lower to 7.0%, from 7.2% given the impact of incremental external risks.

Says Suman Chowdhury, Chief Analytical Officer, Acuité Ratings & Research "IIP print for Sep-22 looks better primarily due to the base factor since Sep-21 had been a weak month for industrial activity. The output has recovered from a low of Aug-22 with a sequential uptick of 1.5% shaped by the capital goods and the consumer goodssectors, the latter largely due to the expectations from the festive season. Nevertheless, the fragile rural demand in the current fiscal has not been able to support the consumer sector adequately whose aggregate output in H1FY23 is still below the pre-pandemic levels of H1FY20."

Annexure

Table 1: IIP Growth in current year vs Pre-Pandemic levels



Note: The growth prints have been compared to the pre-pandemic period of H1 FY20

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 9,200 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.

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