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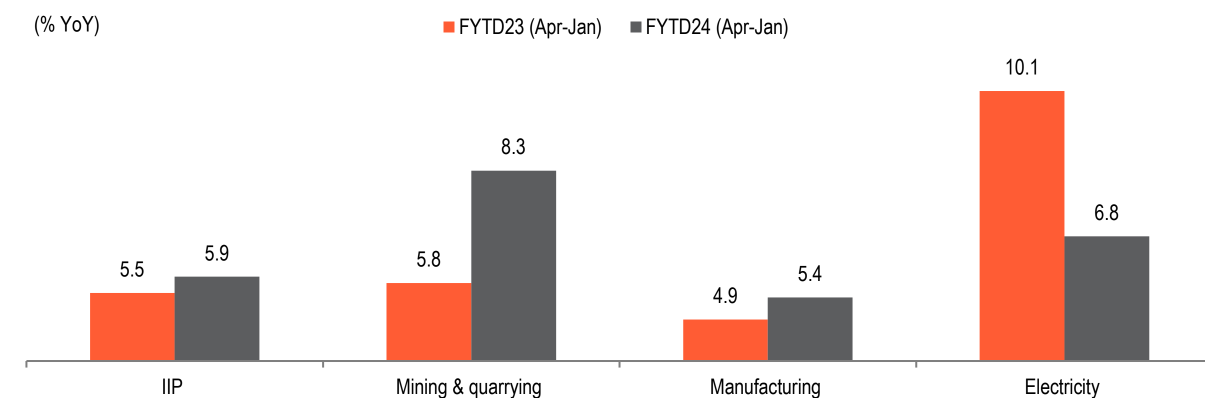
Manufacturing growth

Situation so far:

Growth in industrial production this year has been marginally higher at 5.9% compared with 5.4% in the same period last year. Amongst major components, mining and manufacturing growth has noted an improvement over last year. Given that manufacturing accounts for over 75% of total weight in IIP it is important to look at this sector closely to ascertain if there are some industries which are outperforming or underperforming.

Figure 1: IIP growth in FYTD24



Source: CMIE, Bank of Baroda Research

Out of a total of 23 sub-sectors, only 7 have shown an improvement in growth rate over the last year. Within this, performance of pharma products and electrical equipment has been impressive. It must be noted that both these sectors are covered under the government's production linked incentive (PLI) scheme and are reported to have made good progress under the said scheme.

After declining by 4.5% in FYTD23, production of pharma products increased by 9.1% in FYTD24. It must be noted that pharmaceutical industry in India is highly competitive globally. Pharma exports account for ~6% of India's total exports with US being the biggest market. In FY23, close to 30% of India's pharma exports were to the US, followed by Europe. Exports of drugs and pharmaceuticals has picked up this year, increasing by 20% compared with 3% growth last year (Apr-Feb). This is consistent with a resilient growth picture in the US. Pharma companies have also alluded to an improvement in export demand from the US. This coupled with declining costs of raw materials has benefited the sector. Within pharmaceuticals, production of antibiotics has seen a sharp improvement in FYTD24, while production of APIs and vitamins has continued to contract in both FYTD23 and FYTD24. Production of ayurvedic and homeopathy medicines has also picked up significantly, probably due to a shift in consumer preferences.

For electrical equipment, production was 6.2% higher in FYTD24, after declining by 7.3% in FYTD23. Within this, production of small appliances such as electric heaters, UPS, geysers and fans has seen an

improvement. This is consistent with the trend seen in increased demand during the festive season, which in turn resulted from higher advertising spending by major players. On the other hand, production of intermediate inputs such as AC motor, optical and PVC fibers, electrical wires etc. was lower than last year. In the case of machinery and equipment, production growth was sustained at 7.4% this year, after an increase of 10.3% last year. Production of construction-related equipment such as cranes, lifting and hoisting machines, mixers, lorries etc. has been higher. On the other hand, production of agricultural tractors has contracted.

On the other hand, *production of computers and other electronics has seen a sharp decline this year* at 14%, building up on a contraction of 3.1% last year. Specifically, production of consumer durables such as computers (decline of 30.4%), telephones (-19.8%) and TV sets (-4.8%) has seen a sharp decline. This can perhaps be explained by tepid demand, particularly in the rural areas due to uneven monsoon and high inflation. However, the situation is likely to improve in the coming quarters as rural demand is showing signs of recovery.

Production of auto and other transport equipment continued to register double-digit growth even in FYTD24, even though there was moderation due to a base effect. Production of motor vehicles moderated from 22.2% in FYTD23 to 11.8% this year. Within this, production of passenger cars declined by 7.2%. For commercial vehicles, production moderated to 4.3% from 39.2% last year. It must be noted that the financial performance of auto companies has been robust, led by strong domestic demand and easing input prices. Hence, it is surprising that this has not been reflected in the production figures. Lower domestic production can perhaps be due to limited capacity and many companies have indicated plans to ramp up capacity expansion to clear the order backlog. Production of other transport equipment such as ship building, railway coaches etc was steady. Two-wheeler production was marginally lower at 7.5% compared with 12.2% last year. Given that demand for 2-wheelers picked up in Q3FY24, we can expect production to catch up in the coming months.

Basic metals, which has the highest weight in the manufacturing index, saw an improvement in FYTD24. Production of basic metals increased by 11.9% this year, after increasing by 8% in FYTD23. This sector has been doing well due to government's push on infrastructure development. Hence, it is no surprise that barring a few exceptions, almost all products in this category witnessed an improvement over last year.

Production of fabricated metals too saw an increase of 7.1% in FYTD24 compared with a decline of 0.7% in FYTD23. This was supported by higher production of steel frameworks for construction, as well as steel utensils.

Production of textiles was marginally higher than last year. Between Apr-Jan'23 textiles production had declined sharply by 8.8%. This was led by higher production of cotton yarn. Production of home textiles improved led by festive demand, even though companies reported a slowdown in momentum slowed post festive season. On the other hand, production of wearing apparel declined sharply by 17.5% compared with a fall of 2.9% last year. Weak global demand due to inflationary pressures in major markets remained a key factor. However, with a decline in inflationary pressures, exports and hence production is likely to improve.

Chemicals and chemical products, which have a weight of 7.9% in the overall manufacturing index, have seen a decline in production. After increasing by 6.9% in FYTD23, production of chemicals is down by 1.9% this year. It must be noted that the industry has been facing challenges on the macro front

such as weak global demand and lower sowing in some key cropping areas. Even so production of urea has been steady. On the other hand, deceleration was seen in the production of NPK fertilizers. Similarly, while production of paints witnesses a decline in FYTD24, varnish saw an improvement.

For food products, production decelerated to 1.6% in FYTD24 from 4.4% in FYTD23. Within this, production of major edible oils such as groundnut oil (-57.9%), palm oil (-10.7%), mustard and rapeseed oil (-7.2%) and soyabean oil (-0.2%) has been lower this year. This mirrors the trend in the production of these oilseeds which is expected to be lower this year as per the 2nd Advance Estimates released by the government. Similarly, production of dal, sugar and non-basmati rice is also lower. Production of spices too has moderated to just 1.2% this year, compared with 8.2% in the same period last year which can help explain the rising inflation in this category.

Production of coke, which has the second highest weight in the manufacturing basket, has also been lower at 4.2% this year, as compared to 6.3% last year. Within this, production of aviation turbine fuel (ATF) has moderated sharply from 45.8% in FYTD23 to 16.1% in FYTD24. Production of PET coke and LPG has declined. On the other hand, production of naphtha, hard coke and kerosene has seen a rebound.

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