Metal pipes industry shows its mettle in pandemic: Demand pipeline strong

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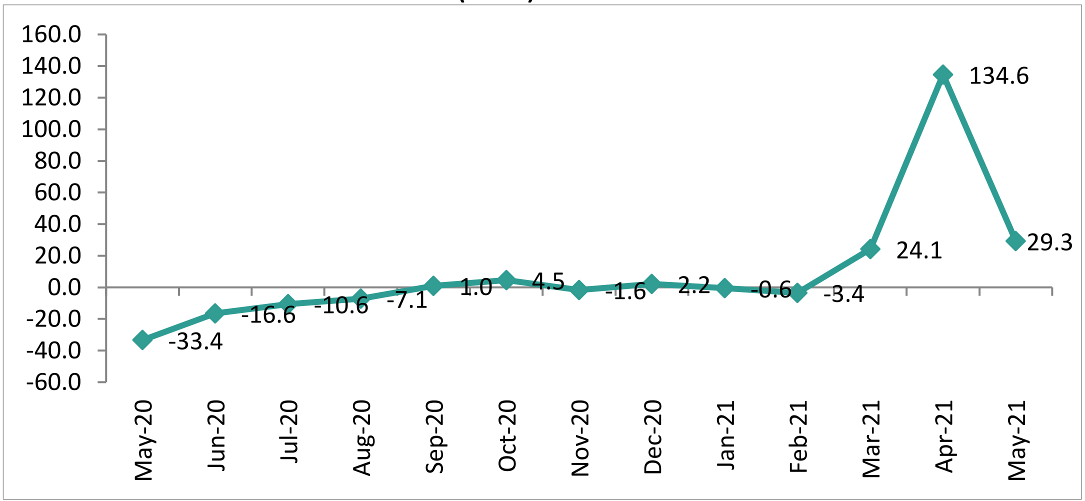
Industrial activity measured by the **IIP** witnessed a year-on-year growth of 29.3% in May 2021 compared with 134.6% in April 2021. This growth in factory output can be attributed to the low base of -33.4% in May 2020. Thus, this is the third consecutive month that the IIP has witnessed robust growth backed by a statistical push and it is imperative to view these numbers with caution. *CARE Ratings has estimated IIP growth at 47.8% during the month*. Although, the IIP scaled up on a year-on-year basis it witnessed an 8% contraction of over April 2021. This weakness is due to the of re-imposition of restrictive measures with the onset of the 2nd wave of coronavirus in India hampering the production activities in the first two month of FY22. During the month the core sector recorded a y-o-y growth of 16.8% while on a m-o-m basis it witnessed a deacceleration of 3.7%.

The growth during the month has been primarily driven by a low base-effect which has resulted in a broad-based growth across all sectors and use-based classification of the IIP basket. However, except mining all heads under sectoral and use based classification have recorded a decline in May 2021 over the previous month. The sharpest fall is witnessed in output of capital goods (-20%) and consumer durables category (-27.7%)

Exhibit 1: Index of Industrial Production (YoY%)



Source: MOSPI

By Economic Activity – May 2021

- **Mining sector** activity recorded a 23.3% growth in May 2021 compared with a contraction of 20.4% in May 2020. However, mining sector grew at 0.6% over April 2021 on account of subdued power sector demand.

- **Manufacturing** which contributes to the highest weightage (77.6%) in the industrial output index grew at 34.5% in May 2021 against a low base of -37.8% in the corresponding month last year. The manufacturing output witnessed a m-o-m de-growth of 9.5%. This is mainly on account of the restrictions imposed across states in the month of April further carried into May to restrict the rising covid-19 caseload.
    - All industries in the manufacturing segment have recorded a y-o-y growth In May 2021 whereas 21 out of 23 industries have witnessed a de-growth compared with the previous month.
    - Double digit de- growth (m-o-m) was witnessed in the 14 out of 23 industries with notable fall witnessed in transport equipment (-51%), wood and products of wood (-27%), leather and related products (-26%), tobacco products (21%) and beverages (-34%).
    - **Basic metals** which constitute the highest weight (12.8%) in the IIP index has recorded a growth of 55.7% (y-o-y) and -3.4% (m-o-m) in May 2021.

- **Electricity** output during the month recorded a growth of 7.5% compared with -14.9% in May 2020. However, output in this segment witnessed a monthly contraction of 7%. Output was dampened by low commercial sector demand amid restrictions on manufacturing and services activities imposed across states during the month of May. However, the downside was capped by higher demand from the residential segment.

IIP By Use-Based Classification – May 2021

All items based on the use-based classification have registered a year-on-year growth in May 2021.

- **Capital goods** production grew by a robust 85% in May 2021 against negative growth of -70% in May 2020. The growth in this segment is purely on the back of a favourable base-effect and does not capture a true picture of the investment scenario in the economy. The fall in capital goods output by 20% over the previous month is reflective of low investment and low capacity utilisation in the manufacturing sector.
- **Consumer durables** and **consumer non-durables** output grew by 98.2% and 0.8% respectively on a year-on-year basis. Output in both the segments have deaccelerated by -27.7% and -3.7% respectively on a month-on-month basis reflective of weak consumer demand.
- **Primary goods** output increased by 15.8% in May 2021 compared with -19.6% in the corresponding month last year.
- **Infrastructure** and **intermediate goods** output registered a growth of 46.8% and 55.2% respectively in May 2021. However, output in both segments witnessed a monthly contraction i.e., infrastructure goods (-8.1%) and intermediate goods (-6.7%).

Table 1: Component wise breakup of IIP growth (YoY%)

% Growth		Weight	May-20	April-21	May-21	FY20 (Apr-May)	FY21 (Apr-May)
Sectoral	Mining & quarrying	14.37	-20.44	37.06	23.3	-23.7	29.4
	Manufacturing	77.63	-37.85	197.15	34.5	-51.7	88.8
	Electricity	7.99	-14.87	38.54	7.5	-18.7	21.7
Used based	Primary goods	34.05	-19.64	37.12	15.8	-23.0	25.6
	Capital goods	8.22	-65.93	1077.14	85.3	-78.8	243.4
	Intermediate goods	17.22	-39.7	209.19	55.2	-51.5	109.7
	Infrastructure/construction goods	12.34	-39.03	564.04	46.8	-61.1	149.3
	Consumer durables	12.84	-70.33	1943.64	98.2	-82.7	315.0
	Consumer non- durables	15.33	-9.68	95.74	0.8	-28.2	33.8

Cumulative April-May 2021

During the first two months of FY22, the industrial activity grew by 68.8% over -45% in the corresponding period last year. Though the restrictive measures imposed across several states in the beginning of FY22 have weighed upon the industrial activity during April-May, the fall has been cushioned by an even larger output fall of last year given the stringency in lockdown measures and the resultant statistical push.

CARE Ratings' View:

The strong industrial production in the first two months of FY22 have been driven by a low-base effect and hence fail to capture a true picture of the industrial activity in the economy. Subsiding second wave of coronavirus and subsequent easing of lockdown restrictions in June will aid in strengthening the industrial performance over the coming months. The PMI numbers for June show a definite decline in activity being less than 50 and it needs to be seen if there is any recovery in July. While the states have opened up it has not been uniform and while the investment oriented industries look to do better, the consumer based industries will be tested given high inflation and higher expenses on health which will affect spending power.

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