Industrial Growth Gains Momentum: IIP Rises to 4.1% in March 2026

The industrial sector maintained a steady pace in the final quarter, with the General IIP growth averaging approximately 4.8%. While January and February 2026 both recorded a growth rate of 5.1% and 5.2%, there was a slight moderation to 4.1% in March 2026. This period was characterized by exceptionally strong performance in Capital Goods, which peaked at 14.6% in March, signaling robust investment activity. However, the quarter ended with a visible slowdown in the Electricity sector, which dropped to a marginal growth of 0.8%.

The full financial year, India's Index of Industrial Production recorded a cumulative average growth of 4.1%. The Manufacturing sector was a key pillar for the year, achieving an annual average growth of 5.0%. Investment-linked categories performed well over the twelve months, the Mining sector saw more modest annual expansion, ending the year with a cumulative growth of 1.4%.

Industrial Production (IIP): India's industrial performance showed a moderation in March 2026, with the Index of Industrial Production (IIP) expanding at 4.1% year-on-year, compared to 5.2% in February 2026. This indicates a slight slowdown in momentum after steady improvement in previous months.

On a yearly basis, the index increased from 166.3 in March 2025 to 173.2 in March 2026, reflecting a continued rise in production levels. The moderation in March compared to February suggests that industrial performance remains stable but has lost some pace, supported primarily by manufacturing and mining activity.

Overall IIP Performance: The overall IIP growth in March 2026 reflects a moderate expansion across sectors, supported by continued economic activity. The rise in industrial output was driven by positive contributions from manufacturing and mining sectors, along with investment-oriented segments such as capital goods and infrastructure.

However, compared to the previous month, the pace of growth has softened, indicating uneven sectoral performance and some moderation in demand conditions. Despite this, the industrial sector continues to maintain a stable growth trajectory, contributing to overall economic activity.

Sector-wise Growth: (Growth over the corresponding period of previous year in %)

Sector	Mar'25	Apr'25	May'25	Jun'25	Jul'25	Aug'25	Sep'25	Oct'25	Nov'25	Dec'25	Jan'26	Feb'26	Mar'26
Manufacturing	3.0	3.1	3.2	3.7	6.0	3.8	5.6	1.8	8.5	8.4	5.3	5.9	4.3
Mining	0.4	-0.2	-0.1	-8.7	-7.2	6.6	-0.4	-1.8	5.8	6.9	4.3	3.1	5.5
Electricity	6.3	1.7	-4.7	-1.2	3.7	4.1	3.1	-6.93	-1.5	6.3	5.1	2.3	0.8

Sector-Wise Performance Analysis

Sector Indices: Mining: 166.8, Manufacturing: 169.4, Electricity: 221.3 and overall IIP: 173.2

Manufacturing: The overall IIP growth in March 2026 was largely supported by the manufacturing sector, which grew by 4.3%, continuing to be the key contributor to industrial expansion, though at a slower pace compared to February.

Within manufacturing, strong performance in industries such as basic metals (8.6%), motor vehicles (18.1%) and machinery and equipment (11.2%) significantly supported output. In terms of industrial performance, 14 out of 23 industry groups recorded positive growth in March 2026, indicating a broad-based but uneven expansion.

Mining: The mining sector registered a 5.5% growth in March 2026, showing an improvement compared to the previous month. The performance reflects increased extraction activity supported by demand from core industries such as manufacturing and infrastructure. The sector contributed positively to the overall industrial output.

Electricity: The electricity sector grew by 0.8% in March 2026, showing a significant slowdown compared to February. The lower growth reflects relatively weaker demand conditions or base effects. Despite this, it continued to support industrial activity by ensuring energy availability.

Use-Based Classification Analysis

As per the use-based classification, industrial growth in March 2026 was largely driven by investment-oriented segments. Capital goods recorded a strong growth of 14.6%, reflecting a pickup in investment activity, while infrastructure/construction goods expanded by 6.7%, indicating continued momentum in core sector development. Intermediate goods grew by 3.3%, pointing to steady industrial demand and supply chain activity. On the consumption side, consumer durables registered a growth of 5.3%, suggesting stable discretionary demand, whereas consumer non-durables grew modestly by 1.1%, indicating some softness in essential consumption. Meanwhile, primary goods grew at 2.2%, reflecting moderate expansion in basic goods production.

India Manufacturing PMI fell to 53.8 in March 2026 from 56.9 in February, exceeding expectations for a slight easing to 56.8, preliminary estimates showed. This marks the weakest expansion in factory activity since September 2021, as output growth slowed amid softer domestic demand and uncertainty from the Middle East conflict. New orders rose only modestly, while international sales surged at a record pace. Employment increased moderately, supporting ongoing capacity expansion.

India Services PMI fell to 57.2 in March 2026 from 58.1 in February, signaling a slower yet still solid expansion in the services sector. The latest reading marked the weakest growth since January 2025, weighed by softer domestic demand despite resilient external conditions. New business growth eased to a three-year low, though export orders hit a series high, supported by broad-based international demand. However, geopolitical tensions in the Middle East, market volatility, and inflationary pressures, weighed on activity and disrupted segments such as international travel.

IIP Growth Vs Bank Credit Growth Vs Core Industries Growth

	IIP growth % (YoY)	Gross Bank Credit to Industry growth % (YoY)	Core industries growth % (YoY)
Mar-26	4.1	--	0.4
Feb-26	5.2	13.5	2.3
Jan-26	5.1	12.1	4.7
Dec-25	7.8	13.3	4.7
Nov-25	7.2	9.6	2.1
Oct-25	0.4	10.0	-0.1
Sep-25	4.0	7.3	3.3
Aug-25	4.0	6.5	6.5
Jul-25	4.3	6.0	3.7
Jun-25	1.5	5.5	2.2
May-25	1.9	4.8	1.2
Apr-25	2.6	6.6	1.0
Mar-25	3.0	7.8	4.5

Source: RBI & PIB

Core industries continue to exhibit high volatility, falling from a peak of 6.5% in August 2025 to a low of -0.1% in October 2025, before settling at a marginal 0.4% in March 2026. This sharp deceleration in core sector momentum, despite a 5.5% growth in Mining and 4.3% in Manufacturing, indicates uneven demand in primary segments like steel and cement. The overall trend reflects strong financial support to the industry, but patchy transmission into real economic activity, with core sector inconsistency acting as a drag on sustained IIP acceleration.

Observations on Economy and Banking Sector

The Index of Industrial Production (IIP) recorded a growth of 4.1% in March 2026. While this indicates a slight moderation from the 5.2% seen in February, the underlying data suggests a shift in growth drivers: The steady performance in Manufacturing (4.3%) and Mining (5.5%) acts as a primary growth driver for the month.

The fact that 14 out of 23 manufacturing industry groups recorded positive growth reflects a broad-based recovery, though contraction in specific segments like Wearing Apparel (-14.6%) and Tobacco Products (-10.0%) indicates unevenness across the sector.

Exceptional growth in Capital Goods (14.6%) and Infrastructure/Construction Goods (6.7%) indicates a significant push in investment activity and continued government-led capex. This is a positive signal for medium-term capacity expansion.

The recovery in Consumer Durables (5.3%) suggests improving discretionary spending. However, Consumer Non-durables (1.1%) remains sluggish, pointing to lingering weakness in mass consumption, likely in rural segments. Muted growth in Primary Goods (2.2%) and Electricity (0.8%) suggests that core sector momentum is not accelerating as sharply as the investment-linked sectors.

Implications for the Banking Sector:

Project Financing: Robust growth in capital and infrastructure goods implies higher demand for project financing and long-term corporate lending portfolios.

Working Capital: Expansion in sectors like Basic Metals (8.6%) and Motor Vehicles (18.1%) indicates increased production and inventory levels, which will support short-term working capital requirements.

Asset Quality: Improvement in heavy industrial activity reduces stress on corporate balance sheets, potentially lowering NPA risks in the machinery and transport equipment sectors.

Rural Consumption: The continued weakness in consumer non-durables suggests muted demand for retail loans and micro-finance in consumption-linked segments.

Selective Risk: With only 14/23 manufacturing sectors showing growth, credit risk remains selective; banks need to be cautious with exposure to weaker industries like textiles and apparel.

Geopolitical Risks:

The US-Iran-Israel conflict (starting late February 2026) introduces external risks. Potential volatility in crude oil prices could impact the input costs and repayment capacity of energy-intensive firms.

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