

Tractor volumes likely to moderate after hitting all-time high

SOHINI DAS

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The tractor industry volumes are likely to remain healthy, even as an El Niño occurrence may materially impact monsoon precipitation and dilute farm sentiment.

After touching an all-time high of 945,000 units in 2022-23 (FY23), the industry growth rate, however, is likely to moderate.

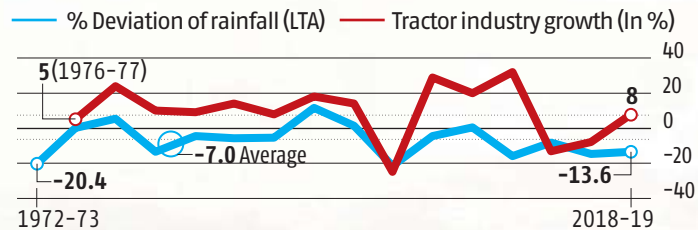
Industry volumes grew 12 per cent year-on-year (YoY) in FY23.

In its April report, rating agency ICRA noted that the industry's wholesale volumes remained at healthy levels.

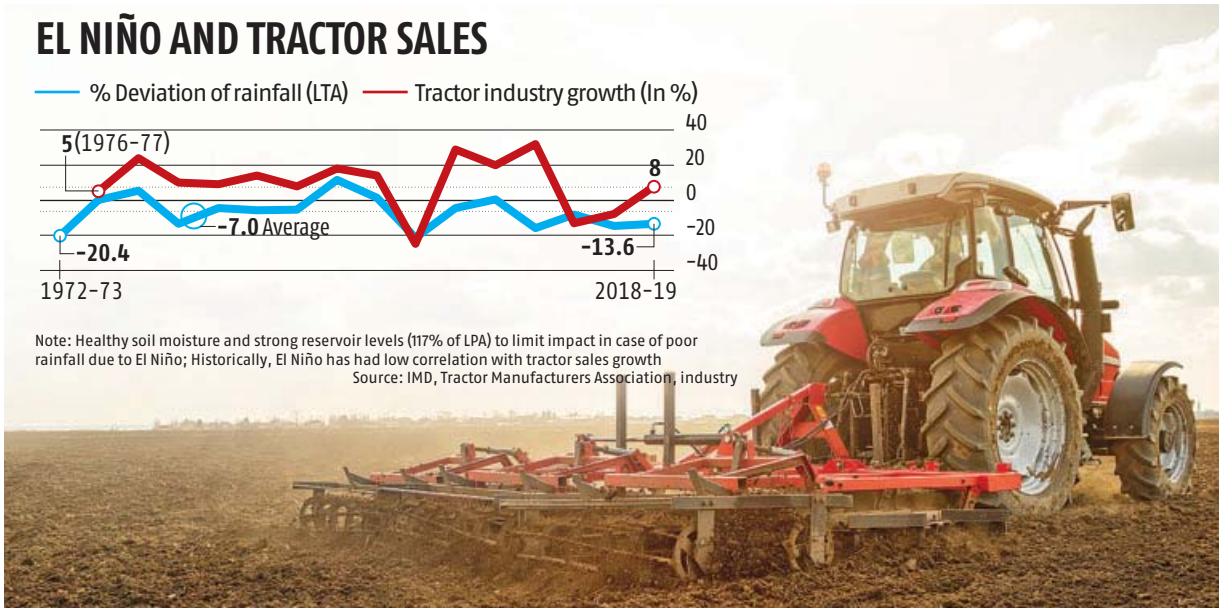
"The wholesale volumes over September-November represented healthy growth, with original equipment manufacturers building up dealer inventory to cater to strong demand during the festival season. With retail sales during the festival period continuing to remain healthy and farm cash flow remaining stable, wholesale volumes continued to remain healthy in the fourth quarter of FY23, with volumes in March 2023 representing a growth (14 per cent YoY) over the past financial year," said ICRA.

In April, however, there have been some signs of a slowdown.

EL NIÑO AND TRACTOR SALES



Note: Healthy soil moisture and strong reservoir levels (117% of LPA) to limit impact in case of poor rainfall due to El Niño; Historically, El Niño has had low correlation with tractor sales growth
Source: IMD, Tractor Manufacturers Association, Industry



Hemant Sikka, president, farm equipment sector, Mahindra & Mahindra (M&M), and president, Tractor and Mechanization Association, says, "FY23 was the best year for the tractor industry. It witnessed double-digit growth YoY. Last month, we, at M&M, clocked the second-highest-ever domestic sales for April, coming off a high base of April

2022.

The degrowth during the month was due to the festivals of Navratri and Gudi Padwa happening in March this year, as opposed to April last year."

The industry is in a wait-and-watch mode but does not see a huge downside in sales in 2023-24 (FY24).

T R Kesavan, chairman, FICCI National Agriculture Committee and

group president, TAFE, says while there has been a nearly 10 per cent decline in sales in April, how the first quarter plays out will be keenly watched.

"The season for tractor sales will continue until July. If we have reasonable rainfall, I do not see any reason for a major decline in volumes in FY24," he adds.

Kesavan points out that typically after a very good year, there is some moderation in demand.

"At present, the sentiment is upbeat, with the harvesting and procurement of crops taking place. Wheat procurement is very strong and has already crossed last year's levels. High reservoir levels will aid in kharif sowing and good cash flow from rabi crops will further provide liquidity to farmers. We expect the tractor industry to grow in low single digits," says Sikka.

Said Kotak Institutional Securities: "The domestic tractor industry reported an 8-10 per cent YoY decline in volumes in April 2023 due to inventory correction after the festival season."

"Farm sentiment remains upbeat, given the steady harvesting season, high reservoir levels, and good cash flow from the rabi harvest. However, unseasonal rainfall remains a concern. The total tractor volumes of M&M and Escorts declined by 9-11 per cent YoY in April 2023," it added.

ICRA noted that four consecutive years of normal monsoon supported farm cash flow over the past few years.

"Even as the India Meteorological Department forecast a 'normal' monsoon in its first estimate, private weather forecaster Skymet predicted a

'below-normal' monsoon. An El Niño occurrence could materially impact monsoon precipitation and dampen farm sentiment," it observed.

In its Southwest Monsoon Outlook 2023, ICRA said in April: "Since reservoir levels are healthy by historical standards, and El Niño conditions may only develop in the second half of the monsoon season, kharif sowing may not be sharply affected."

In its March report on Rural Pulse, Centrum Institutional Broking's channel checks at a rural Uttar Pradesh tractor dealer dealing with Escorts, Sonalika, and Massey Ferguson brands found that demand had remained flat in the past 60 days.

Notwithstanding the rise in interest rates by 1-2 per cent, the rural dealer feels there has been no impact on on-demand as financing companies did not alter rates. Moreover, most farmers choose the rotavators of branded companies over local players, which make up 5-10 per cent of total sales.

Kesavan says several farmers also have income from horticulture, which provides an additional income source. He estimates that the industry will grow 4-5 per cent this financial year.

Industry insiders also feel that government spending is expected to be high, with elections in 10 states and the general elections in 2024.