

Demand for low-cost tractors hits margins

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Mumbai, 9 August

Margins of most tractor makers took a knock in the quarter ended June as farmers opted for cheaper, low-horsepower (HP) models. This is despite volumes touching a record high.

With inflation unlikely to cool off any time soon, demand for cheaper tractors is likely to continue in the months ahead, according to industry representatives. In fact, the trend could accelerate once the new emission norms for tractors — TREM IV — take effect from October, said Raman Mittal, joint managing director, Sonalika Tractors.

“With the new regulations, tractors will have to move to CRDi technology, which is likely to make them expensive by ₹100,000 to 150,000,” Mittal told Business Standard. That would mean an increase of 20 to 25 per cent in prices, he said.

This incremental cost would majorly impact the demand for tractors that are greater than 50 HP in Q4, said Mittal. The aver-



**BUMPY
RIDE**

Tractor
category

■ 41-50 Hp ■ >50 Hp
% chg YoY **16.1** **-5.3**

Apr-Jun 2021

124,404

16,413

Apr-Jun 2022

144,476

15,545

Hp: Horsepower

Source: Industry

age market operating price of a 50HP tractor is ₹7.5 lakh.

Tractor demand is typically influenced by commercial considerations such as farm profitability, which has been impacted by high input costs including frequent increase in price of tractors. Turn to Page 6 ▶

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Tractor..

This is driving a shift towards lower- priced HP tractors.

The EBIT (earnings before

interest and tax) margins for Escorts Kubota's agri machinery business shrunk by 490 basis points to touch 10.6 per cent year-on-year.

Even market leader Mahindra & Mahindra had a sharp year-on-year fall of 428

BS SUDOKU

3737

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SOLUTION TO #3736

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8	1	4	2	7	3	5	9	6
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7	8	5	4	9	1	6	3	2
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4	2	6	8	3	7	1	5	9
1	7	9	3	5	6	8	2	4
6	4	2	1	8	9	3	7	5
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Easy: ★★

Solution tomorrow

HOW TO PLAY

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basis points in its margins to touch 16 per cent. Other tractor firms like Tafe, Sonalika, John Deere are privately held and do not share financials.

Bharat Madan, Group CFO and Corporate Head, Escorts Kubota, said over the last 18 months, the company had to hike prices six times. "This has mounted pressure on demand and forced farmers to shift to lower HP segments."

In addition to the commodity inflation and the company's inability to pass it on to consumers, Rajesh Jejurikar, executive director (farm equipment and automotive sector) at Mahindra and Mahindra also attributed the drop in margins to an inferior model mix.

The mix will continue to be adverse for some time, said Madan. "But still we expect the margins to come back to the earlier levels by Q4 as commodity prices soften," he said. The recent ban on wheat exports and the late onset of monsoons coupled with high price of farm inputs are also hurting the farm profitability,

wrote Joseph George, analyst at IIFL, in a recent research report.

FPIs...

"While the charges levied by Sebi would now attract GST and all securities market intermediaries should now be prepared, it is essential to clarify whether charges levied on overseas entities remain zero-rated," said MS Mani, partner, Deloitte India.

A rough estimation suggests this move may fetch about ₹13 crore from foreign investors.

The tax was imposed following the recommendation of the GST Council, which met in June to withdraw the exemption granted to services by Sebi. The same was notified on July 13.

The council approved the ministerial panel interim report, which suggested that services rendered by regulators, such as RBI, Irdai, Sebi, FSSAI, and GST Network, should be taxed.