Tractor sales to decline by half in FY23: Crisil

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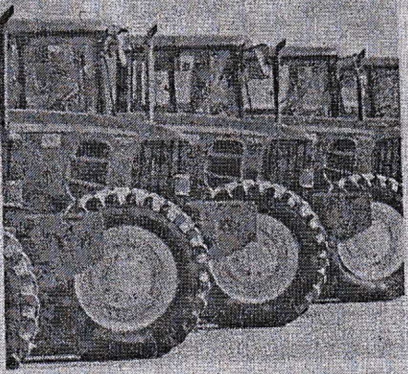

Domestic tractor sales will halve to 4-6 per cent this fiscal on a higher base of compound average growth rate of 10 per cent recorded since fiscal 2020 on the back of successive normal monsoons.

However, softening prices of inputs such as steel and pig iron will provide a 100-200 basis points respite to the operating margin of tractor makers, says Crisil Ratings.

Further, net cash-positive balance sheets will continue to support strong credit profiles.

In fiscal 2023, tractor sales volume will hit a record as farm sentiment remains healthy after another good monsoon — the key driver of farm incomes — and increase in Minimum Support Price for the 2022-23 market season.

GROWTH FACTORS

Naveen Vaidyanathan, Director, Crisil Ratings says riding on a high base, tractor volume growth next fiscal will be driven by both farm and commercial segments.

The 5 per cent increase in MSP for wheat for the ongoing rabi crop — the highest in the last four fiscals — will improve farm incomes, while the government's infrastructure push and higher construction activity will drive commercial demand, he said.

Replacement demand, which accounts for 60 per cent of volume, will also support tractor volume. Tractors typically have a lifecycle of 6-8 years. Record sales in fiscals 2017 and 2018 foretell healthy replacement demand next fiscal.

DOWNSIDE RISKS

To be sure, there are downside risks to this expectation. Unusually high temperatures followed by unseasonal rainfall in parts of northern and central India in the past month have raised concerns of a weaker rabi harvest this year.

Weather agencies have also flagged the rising probability of an El Nino event in July-August this year, which could lead to below-normal rainfall.