



ICRA RESEARCH SERVICES



INDIAN TRACTOR INDUSTRY

Buoyant agri-economy spurs sharp recovery in domestic tractor market

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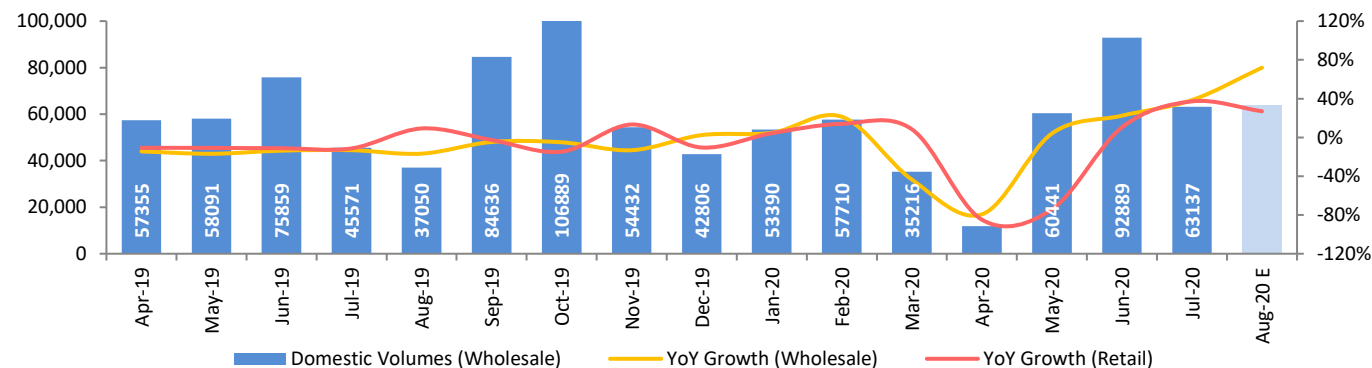
Tractor Industry has remained resilient to enforced lockdowns vis-à-vis other automotive segments

Rural Economy remains a silver lining amid the crisis

Healthy farm cash flows and monsoon progress have aided robust growth in tractor sales

The lockdown measures undertaken in view of the Covid-19 pandemic, had hampered tractor industry volumes significantly in March 2020 and April 2020. However, aided by healthy rabi cash flows across regions and progress of monsoon (in line with forecasts), there has been a sequential improvement in tractor sales ever since. In August 2020, the industry is estimated to have recorded ~72% growth in wholesale volumes and ~27% growth in retail volumes on a YoY basis. OEMs have been ramping up production levels to ramp-up inventory ahead of festive season and are gearing up for healthy sales for the rest of the year.

Exhibit 1: Trend in monthly domestic tractor volumes



Source: Industry Data; VAHAN – Ministry of Road Transport & Highways; ICRA Research

ICRA estimates Industry volumes to grow between 7-9% in FY2021

ICRA had earlier forecasted of 2-4% growth in domestic tractor volumes in FY2021, led by uncertainty regarding the impact of the pandemic on the farming community; while uncertainty continues to exist in relation to pandemic, farm sentiments are expected to remain healthy, aided by a) Healthy farm cash flows across regions; stable crop prices, supported by enhancement government focus on procurement, b) healthy monsoon precipitation across regions till date, c) favourable kharif crop outlook, supported by early sowing, seasonally high reservoir levels and adequate labour availability and d) Government support programmes (including direct benefit transfers). In addition, adequate financing availability has also been supportive. Our channel check pegs the percentage of farmers opting for moratorium to be at low of ~10-20%. Accordingly, we revise our growth estimates to 7-9% in FY2021 with downside risk emanating from spells of unfavorable rainfall/floods leading to crop damage and supply chain disruption if any. The credit outlook on the sector remains Stable.

Two healthy crop cycles have helped augment rural sentiments...

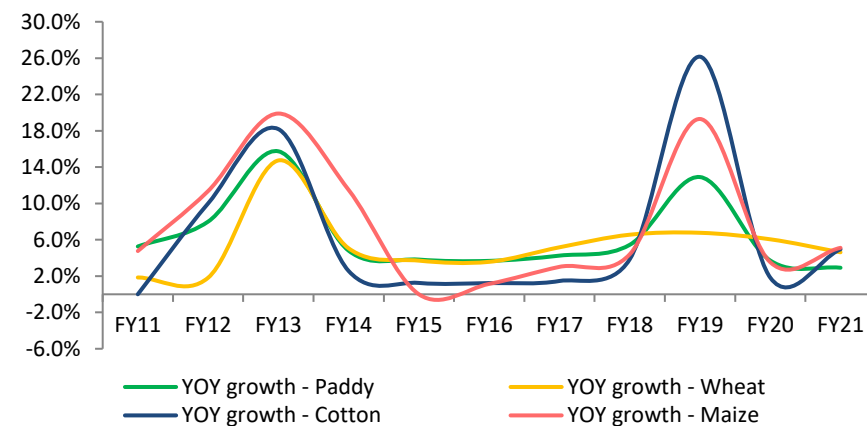
Exhibit 2: Crop Production Estimates (in Million Tonnes)

| Crop | Kharif | | | Rabi | | |
|----------------|--------------|---------------------------|--------------------|--------------|---------------------------|--------------------|
| | Final FY2019 | 4 th AE FY2020 | Surplus/ Shortfall | Final FY2019 | 4 th AE FY2020 | Surplus/ Shortfall |
| Wheat | - | - | - | 103.6 | 107.6 | 4% |
| Rice | 102.0 | 102.0 | -0% | 14.4 | 16.5 | 14% |
| Coarse Cereals | 31.4 | 33.7 | 7% | 11.7 | 13.8 | 18% |
| Pulses | 8.1 | 7.7 | -5% | 14.0 | 15.4 | 10% |
| Oilseeds | 20.7 | 22.3 | 8% | 10.8 | 11.1 | 2% |
| Cotton | 28.0 | 35.5 | 27% | - | - | - |
| Sugarcane | 405.4 | 355.7 | -12% | - | - | - |

Source: Department of Agriculture, Cooperation & Farmers Welfare; ICRA Research

...while MSP hikes have remained modest

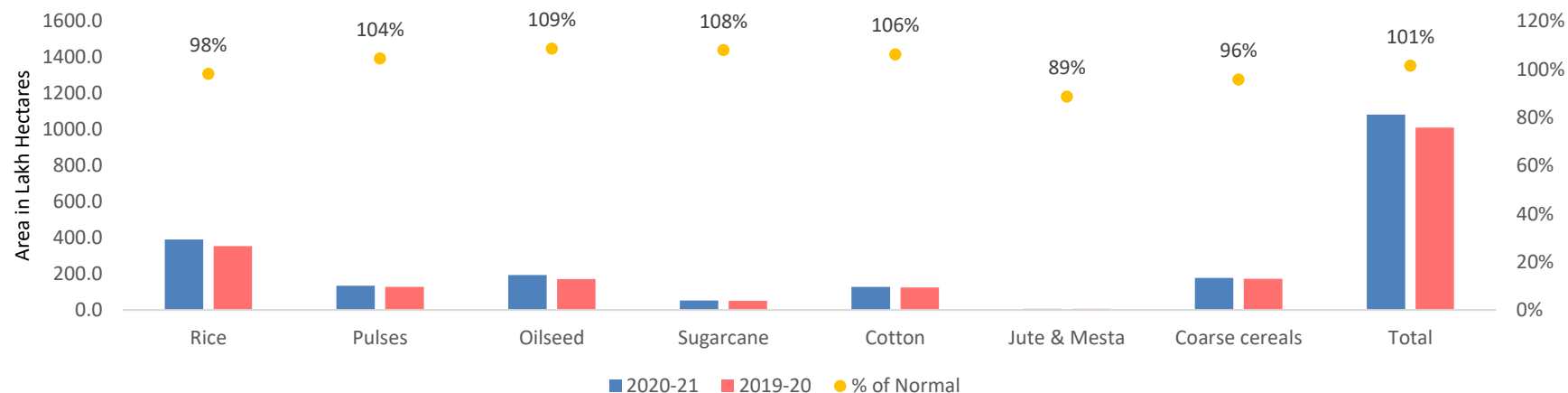
Exhibit 3: Trend in Minimum Support Prices



Source: Department of Agriculture, Cooperation & Farmers Welfare; ICRA Research

Kharif sowing has progressed well, surpassed normal levels for most crops

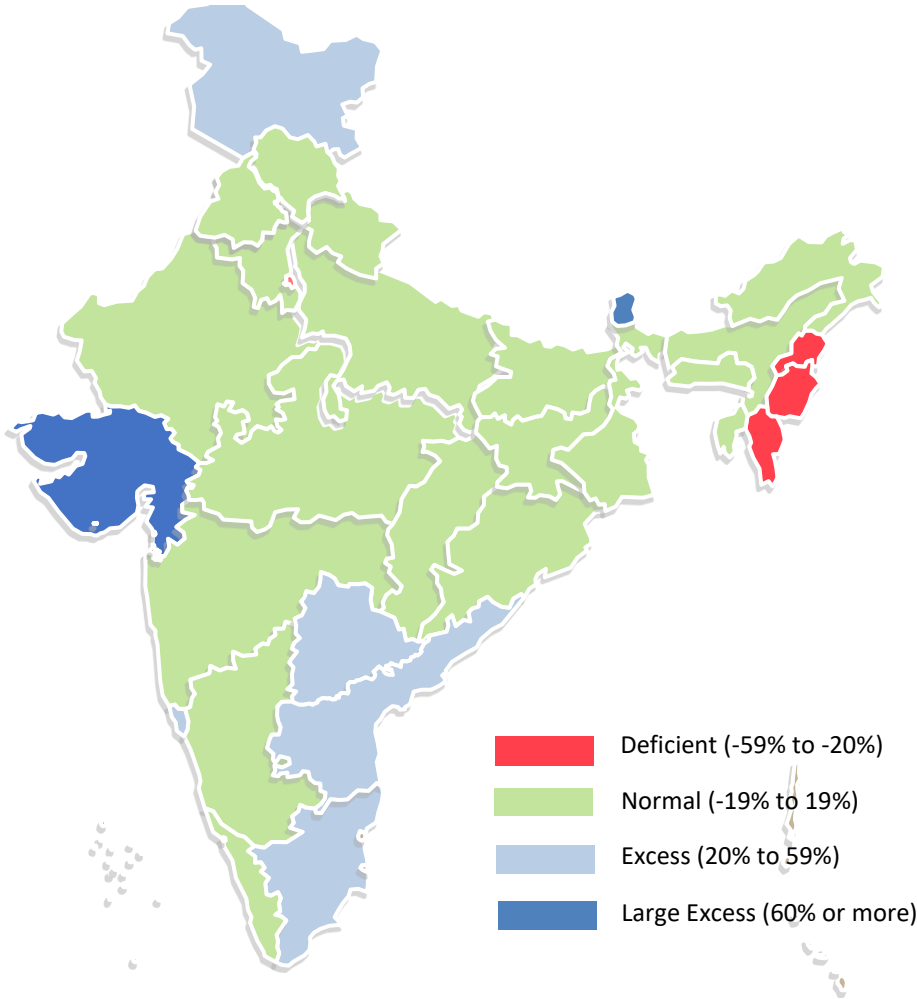
Exhibit 4: Kharif sowing acreage (As of August 28, 2020)



Source: Ministry of Agriculture; ICRA Research

Healthy monsoon precipitation across regions

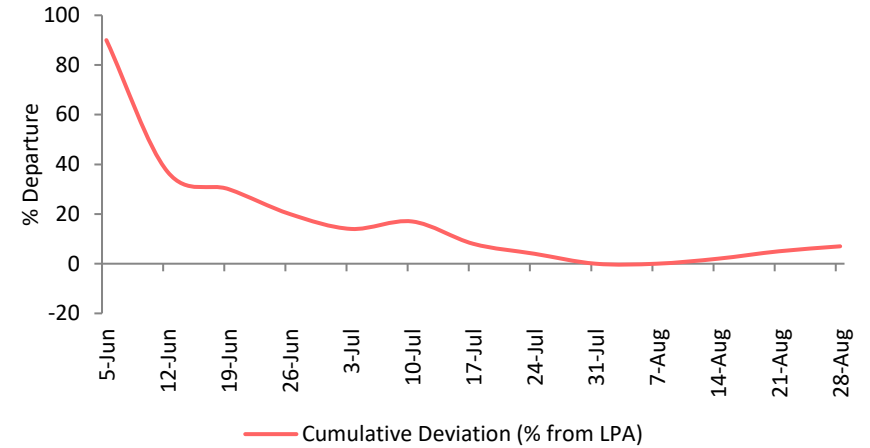
Exhibit 5: Monsoon Rainfall Deviation from LPA (June 1, 2020 – Sep 2, 2020)



Source: Indian Meteorological Department; ICRA Research

Monsoon arrival was timely; aided early sowing

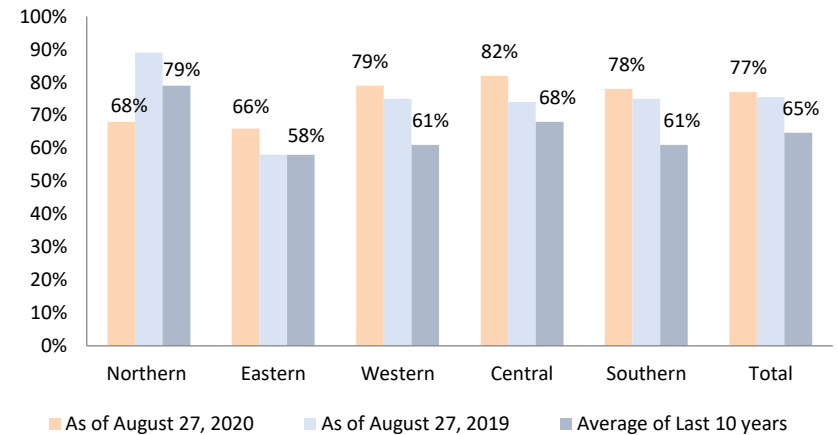
Exhibit 6: Performance of south west monsoon



Source: Indian Meteorological Department; ICRA Research

Reservoir levels remain healthy across regions

Exhibit 7: Reservoir levels across regions



Source: Central Water Commission; ICRA Research; As of August 27, 2020

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