

INDIAN TRACTOR INDUSTRY

Healthy rural cash flows to support tractor demand even as MSP hikes remain modest

JUNE 2022





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Government remains committed towards supporting rural cash flows; MSP hikes for kharif crops announced, however, remain modest

ICRA's channel check indicates uptick in retail sales supported by healthy rabi procurement; tractor industry volumes expected to remain at healthy levels in FY2023



- The Government of India recently approved a modest hike in minimum support prices (MSP) of kharif crops for the upcoming marketing season in FY2023, with a view to ensure remunerative prices to the farmers. Hike in MSPs over the past few years have remained at modest levels, post the sharp uptick in FY2019.



- Even as concerns continue to persist regarding a decline in yields and final estimates on the back of the severe heat wave, which has swept northern and Central India, third advance estimates indicate an overall healthy production of rabi crops. ICRA's channel check too indicates a recovery in sentiments aided by healthy rabi cash flows along with sharp rise in prices of agri-commodities.



- Furthermore, continuation of healthy outlay by the Government towards procurement of key crops is important in supporting crop realisations and farm cash flows; various farmer support schemes continue to support farm sentiments and remain a positive.



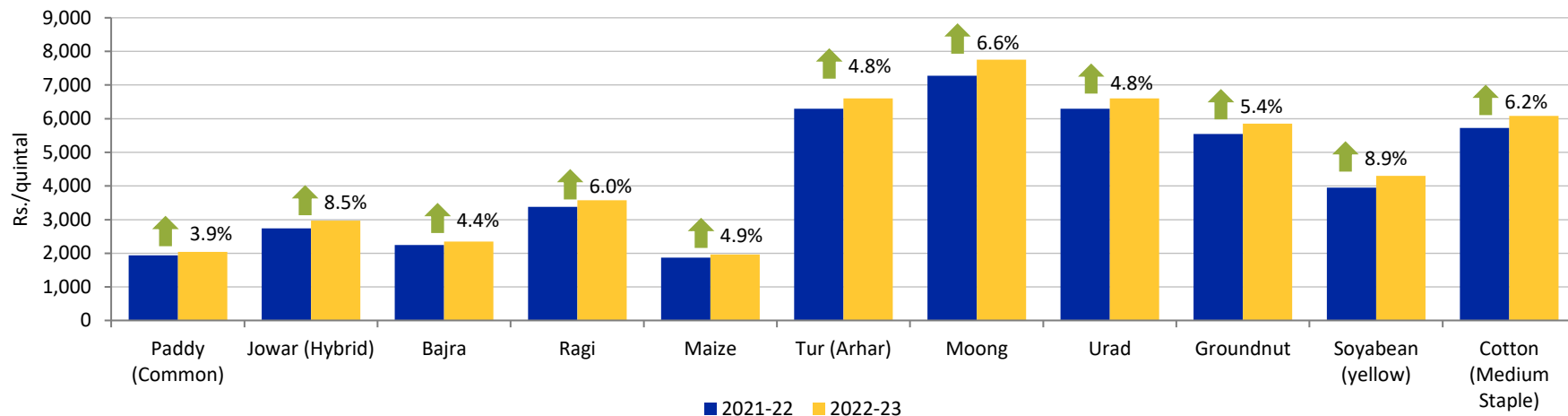
- The Indian Meteorological Department, in its second stage forecast, has projected normal monsoon for the fourth consecutive year (103% of LPA +/-4%), which comes as a big relief for the farming community and should support sowing levels; however, adequate availability of fertilisers and labour would remain key monitorables.



- The tractor Industry volumes are estimated to remain healthy aided by favourable underlying drivers for farm cash flows. However, given the high base and increase in cost of ownership necessitated by raw material hardening, industry volumes are likely to represent only a marginal growth over the previous year (0-4% growth YoY in FY2023).

Modest increase in MSPs announced for kharif crops

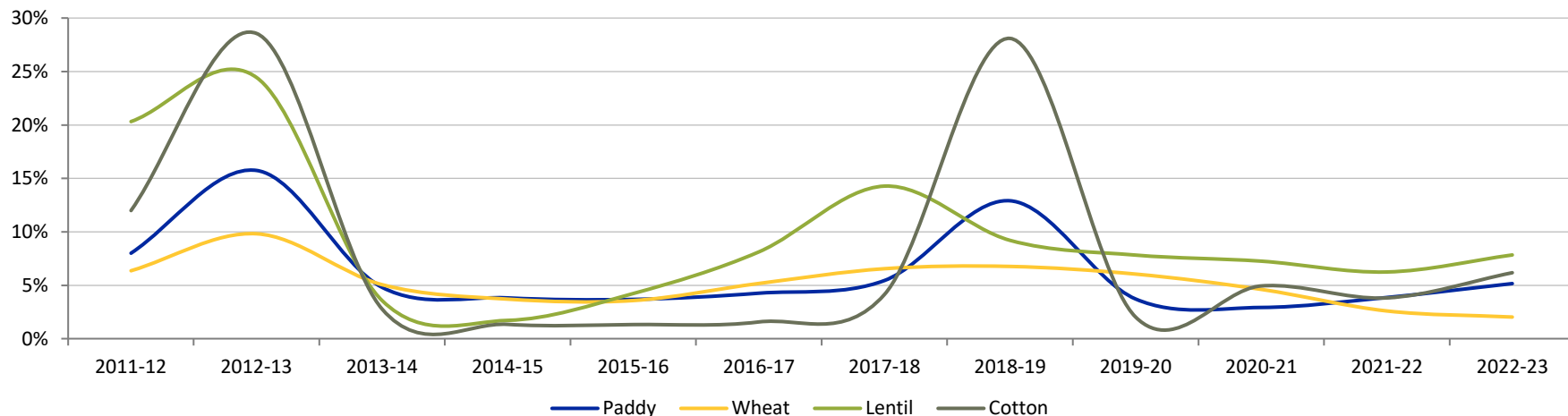
EXHIBIT : MSP for kharif crops for marketing season FY2023



- The Cabinet Committee on Economic Affairs on June 8, 2022, approved a modest hike in the MSP of kharif crops for marketing season FY2023, with a view to ensure remunerative prices to the farmers for their produce and aid farm income in the ongoing fiscal.
- The hikes in MSP remain rangebound between 4-7% across most crops; the absolute increase in MSP are the highest for oilseeds and pulses, with the Government looking at incentivising farmers to increase production of these crops.

Hikes in MSP have remained at moderate levels in recent years

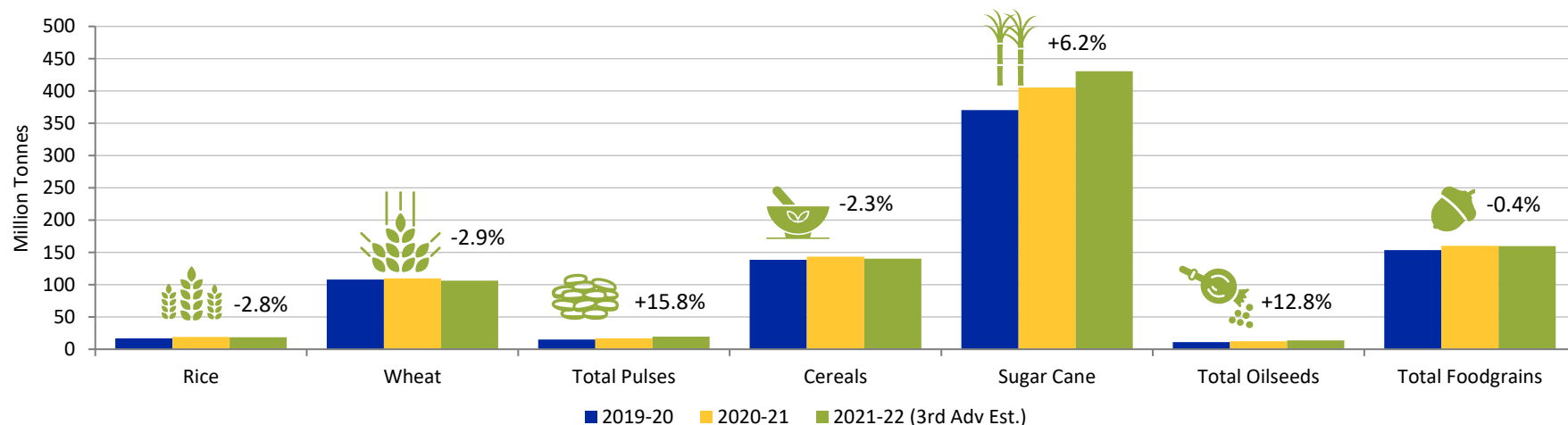
EXHIBIT : Trend in hikes in Minimum Support Prices



- The MSP increases across crops saw a sharp uptick in 2019, in line with the Union Budget 2018-19 announcement pertaining to fixation of MSP at a level of at least 50% over the all-India weighted average cost of production.
- Post the sharp increase in 2019, MSP hikes remained at moderate levels (average of 3-6% across crops) over the past few years; even as prices of various agricultural inputs have increased over the past one year, the Government has refrained from hiking the MSPs significantly for the upcoming marketing season as well.

Advance estimates indicate mixed trend across crops

EXHIBIT: Third Advance Estimates of rabi production of food grains for FY2022



- The overall production of rabi crop as per the third advance estimates, though declining marginally by 0.4% (on YoY basis), is expected to remain healthy at 159.6 million tonnes. Even as the output for pulses, sugarcane and oilseeds is expected to increase, the output for wheat, rice and cereals is estimated to decline.
- Concerns, however, continue to persist regarding a decline in yields/final estimates on the back of the severe heat wave which has swept North and Central India.

Government procurement continues to support farm cash flows

EXHIBIT: Trend in Wheat Procurement

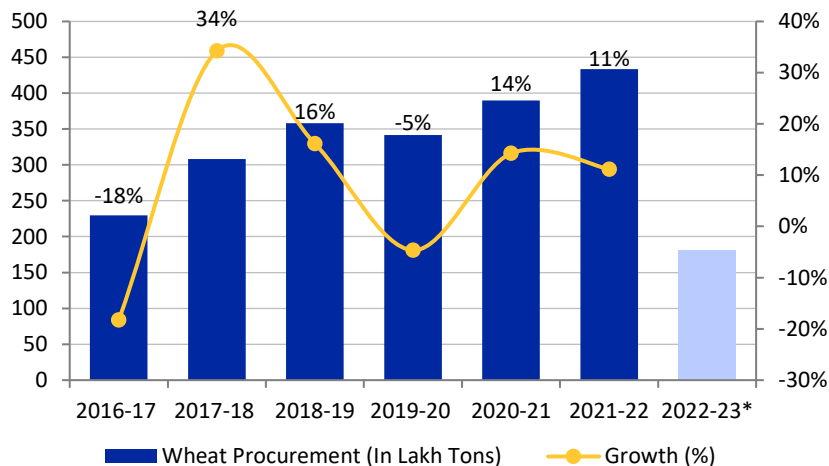
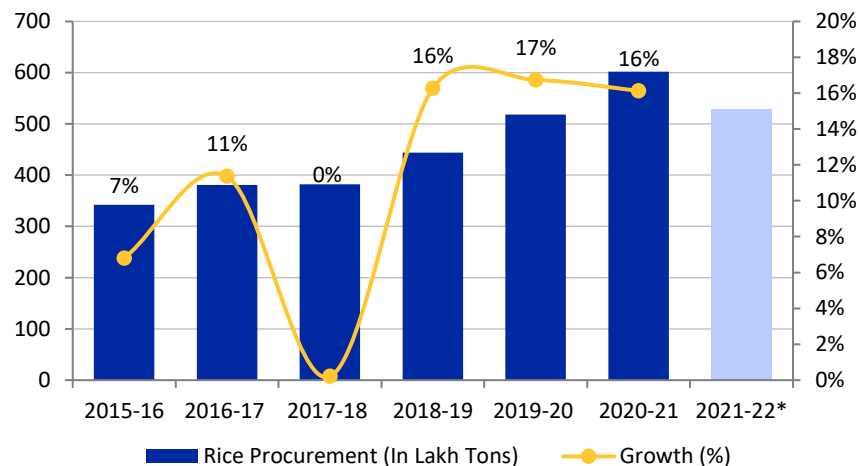


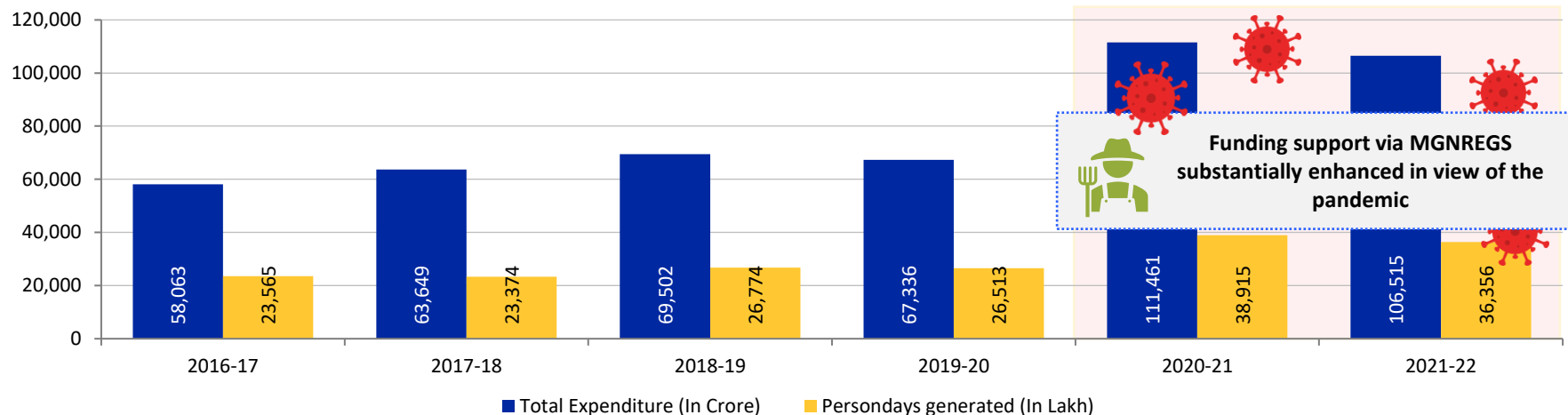
EXHIBIT: Trend in Rice Procurement



- Healthy procurement has remained the key in ensuring stable crop realisations and supporting farm cash flows.
- Procurement of 433 lakh metric tonne of wheat in 2021-22 season was an all-time high, surpassing the previous high of 389 lakh metric tonne; outlay towards procurement of paddy in the previous marketing season also remained strong.

Substantial outlay under other Government support schemes a positive

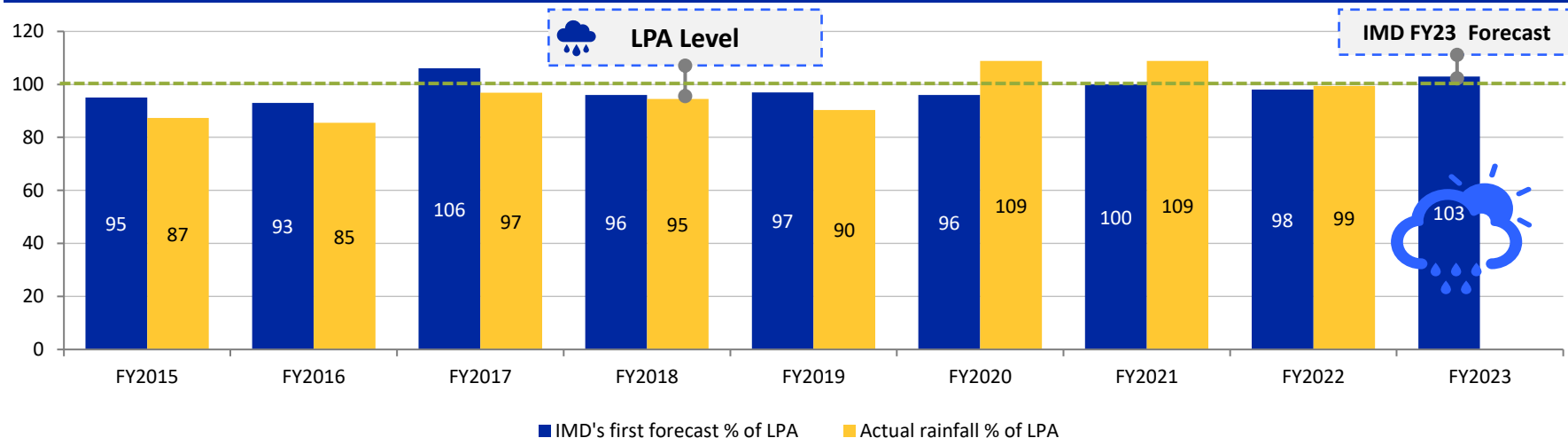
EXHIBIT: Annual trend in government outlay towards MGNREGS



- MGNREGS outlay saw a substantial increase in previous fiscal, with the Government committed towards supporting migrant workers; acting as a strong boost for rural cash flows. Even though the budgeted estimate for the current fiscal has been kept in line with the budgeted estimate for the previous fiscal and lower than the actual outlay, the Government is expected to step up the outlay in case of further Covid disruptions.
- Enhanced outlay by the Government under various support schemes (for ex. PM Kisan) over the past few years have aided in supporting the rural incomes and continues to remain a positive.

Forecast of fourth consecutive normal monsoon, a relief

EXHIBIT: Trend in monsoon rainfall over past few years



- The IMD's first stage forecast had predicted the volume of rainfall in the upcoming South-west monsoon season (June-September) at 99% of LPA, with an error range of +/-5%, indicating a normal monsoon for the fourth consecutive year; the forecast has been subsequently revised upwards to 103% of LPA (+/-4%) in the agency's second forecast.
- Despite the positive outlook, a timely onset and healthy spatial and temporal distribution of the monsoon remains key.

Reservoir levels remain better than decadal average

EXHIBIT: Trend in Reservoir Levels (As % of FRL)

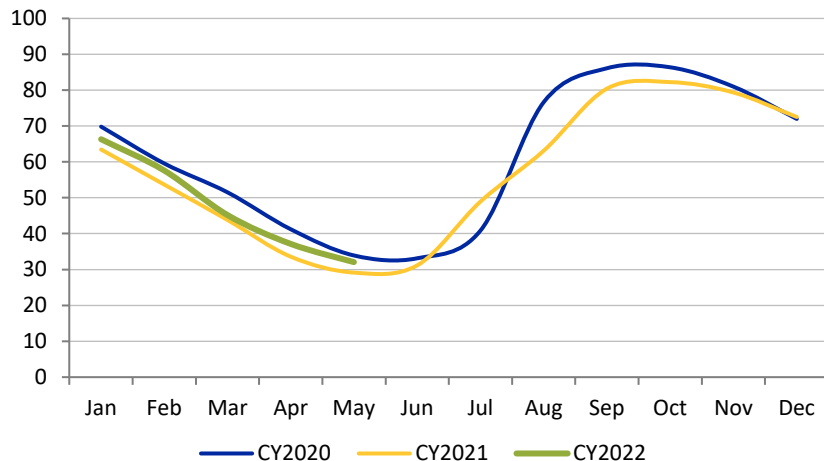
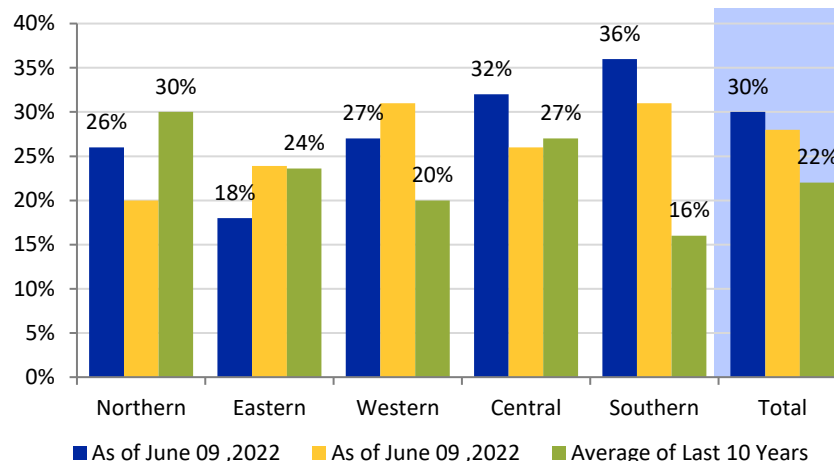


EXHIBIT: Reservoir Levels Across Regions



- Pan-India reservoir levels have declined over the past few months in line with seasonal trends; nonetheless the levels have remained healthier than the decadal average, aided by above normal rainfall in during the winter season.
- The reservoir levels remain weaker than decadal averages in the northern and eastern regions; a healthy irrigation system in the North mitigates the low reservoir levels in the region to an extent.

Expectation of healthy rural cash flows to support tractor demand

EXHIBIT : Factors supporting rural cash flows



Healthy Procurement

Continuation of healthy procurement by Government agencies to aid cash flows



Agri Production

Advance estimates indicate a continuation of healthy food grain production levels for the recently concluded rabi harvest.



Government Support and Incentive Schemes

Various ongoing initiatives to improve rural economy continue to remain a positive.



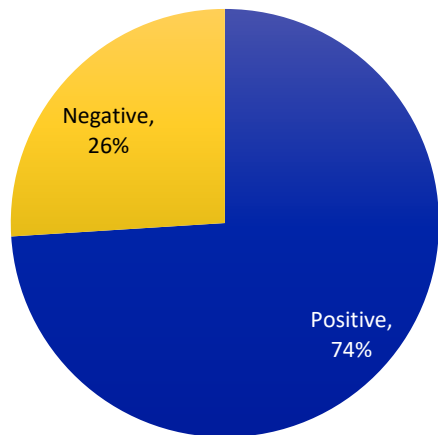
Monsoon

IMD forecast specified a fourth consecutive normal monsoon, thereby boosting sentiments; temporal and spatial distribution of rainfall would, however, continue to remain critical.



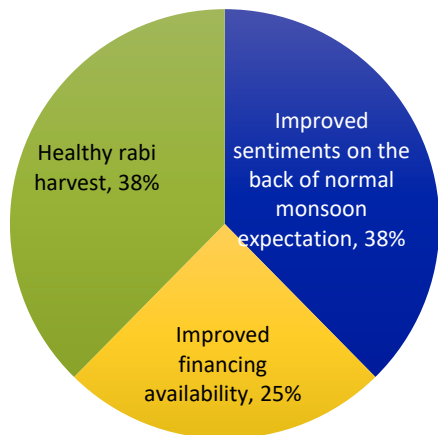
Channel check also indicates a recovery in demand sentiments

EXHIBIT: Trend in tractor sales in last 3 months



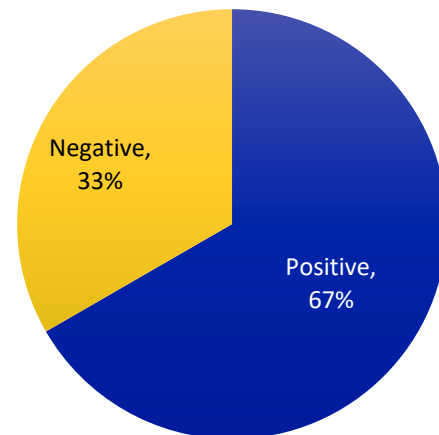
Three fourth of the dealers surveyed reported positive retail sales over the past three months; the same comes after a period of moderation in volumes (H2 FY2022).

EXHIBIT: Key factors aiding recovery



Healthy rabi harvest along with expectation of a normal monsoon highlighted as the key factors which have aided recovery.

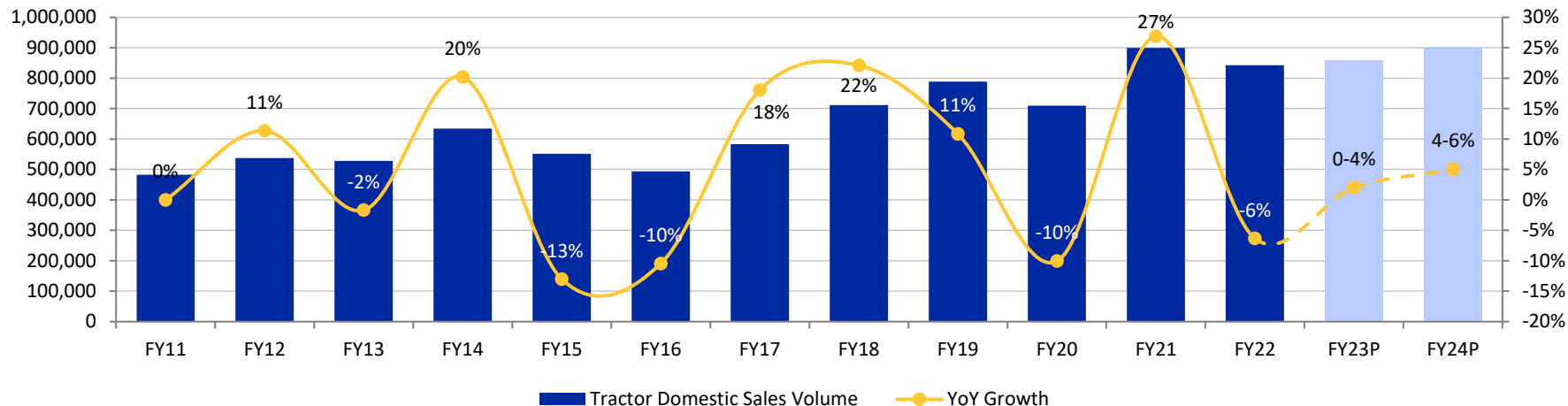
EXHIBIT: Industry Outlook (FY2023)



Majority of the dealers surveyed indicated a positive outlook for industry sales in the fiscal, aided by favourable underlying demand drivers.

Industry volumes to remain at healthy levels

EXHIBIT: Annual trend in tractor domestic sales volume



- Tractor sales remained robust in FY2021; industry touched all-time high of ~9 Lakh domestic industry volumes. Given the high base and a moderation in demand in H2 FY2022, the industry size contracted by 6% in FY2022.
- Industry volumes are estimated to remain at healthy levels in FY2023 (0-4% YoY growth) aided by favourable underlying drivers for rural cash flows; downside risk to estimates may arise upon unseasonal rainfall/consequent crop damage or weak monsoon performance.



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Analytical Contact Details



Shamsher Dewan

*Senior Vice-President and
Group Head*

K Srikumar

*Vice-President and
Co- Group Head*

Rohan Kanwar Gupta

*Vice-President and
Sector Head*

Shivam Nagpal

Analyst



shamsherd@icraindia.com

ksrikumar@icraindia.com

rohan.kanwar@icraindia.com

shivam.nagpal@icraindia.com



0124- 4545 328

044 – 4596 4318

0124 – 4545 808

0124 – 4545 394





ICRA

Business Development/Media Contact Details



L. Shivakumar

Executive Vice-President

Jayanta Chatterjee

Executive Vice-President

Naznin Prodhani

Head Media & Communications



shivakumar@icraindia.com

jayantac@icraindia.com

communications@icraindia.com



022- 6114 3406

080 – 4332 6401

0124 – 4545 860





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