

# INDIAN TRACTOR INDUSTRY

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**Moderation in farm sentiments dampens demand; Domestic demand likely to be subdued in FY2023**

**MARCH 2022**



*Industry volumes remain healthy, despite some moderation in sentiments over the past few months*

*Government's focus on continued procurement expected to continue to aid rural cash flows*

*Tractor OEMs continue to maintain strong credit profiles despite near-term earnings pressure*



- The domestic tractor industry volumes touched an all-time high of ~9 Lakh in FY2021 aided by a combination of robust farm cashflows and healthy monsoons. In the current fiscal, tractor sales remained healthy since the abatement of second wave, however, from August 2021 onwards, the industry has witnessed some moderation, partly on account of a higher base of last year and partly due to the uneven rainfalls.



- ICRA continues to maintain a Stable outlook for the industry, even as volumes are expected to moderate in FY2023 (forecast of 2-5% decline in volumes on YoY basis). Despite concerns about hardening commodity costs exerting pressure on margins, credit profiles of OEMs are expected to remain robust aided by low debt, healthy cash & liquid investments and limited investment plans.



- Sharp rise in rural infections and associated healthcare costs during the second wave weakened rural sentiments and impeded growth momentum; recovery since the abatement of second wave was however healthy, with favourable underlying demand drivers aiding volumes.



- Food production in India is estimated to touch an all-time high of 316.1 Mn tonne in FY2022 (1.7% growth YoY) as per the second advance estimates. Going forward, a healthy procurement of rabi crop will lead to cash flows, in turn, aiding tractor demand.



- In addition, haulage demand has improved over the past few months, aided by continued Government push on infrastructure projects. ICRA's channel check indicates that financing availability is expected to remain adequate, with delinquencies remaining moderate.



- Industry's export volumes (around 13% in 9M FY2022) have remained healthy since H2 FY2021, aided by improved demand across geographies and enhanced production levels for OEMs. The industry is expected to post its all-time high exports in FY2022.



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