



INDIAN TRACTOR INDUSTRY

**Forecast of above normal monsoon
a relief for the farming community**

APRIL 2024





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In its first forecast for the south-west monsoon, the IMD has indicated that the occurrence of La Nina conditions during the later part of the monsoon season would aid precipitation.

The IMD has forecast an above normal monsoon, with the volume of rainfall in the upcoming South-west Monsoon season (June-September) at 106% of LPA, with an error range of +/-5%.



The IMD's first stage forecast has predicted the volume of rainfall in the upcoming South-west Monsoon season (June-September) at 106% of LPA (87 cm for the period 1971-2020), with an error range of +/-5%, indicating an above normal monsoon.



IMD expects the prevailing El Niño conditions over the Pacific region to weaken further to neutral El Niño conditions during the early part of the monsoon season and La Niña conditions (the automatic cooling of ocean surface temperature in the Pacific - favourable for monsoons) are likely to develop during the second half of the monsoons; additionally, positive Indian Ocean Dipole (IOD) conditions are expected to develop during the later part of the monsoon season. A healthy precipitation would aid crop sowing and boost the prospects of the tractor industry.



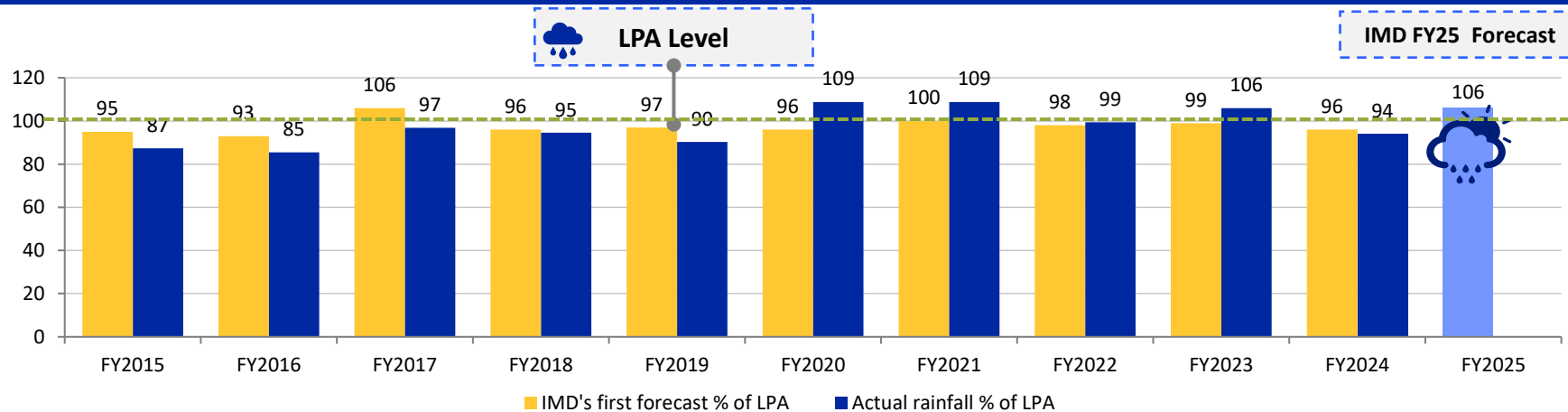
Advance Estimates indicate moderation in crop production: The second Advance Estimates for crop production for 2023-2024, released by the Ministry of Agriculture and Farmers Welfare on February 29, 2024, indicated a muted production across most crops. Rabi sowing was delayed by a late kharif harvest (amid an uneven precipitation in previous fiscal) and consequently, the overall area sown under rabi crops had remained flattish on a YoY basis, infusing caution into farm sentiment.



Tractor volumes expected to grow at a modest pace in FY2025: Weak sentiments post an uneven monsoon contributed to a volume decline of ~7% for tractors in FY2024. Demand is expected to remain sombre in Q1 FY2025, before improving in the later quarters, if the IMD's forecast of an above-normal monsoon materialises, with a favourable temporal and spatial distribution. Dampened by a likely dull Q1 FY2025, ICRA expects the domestic tractor industry's volumes to grow at a modest pace of 1-4% in FY2025.

Forecast of above normal monsoon, a relief for the farming community

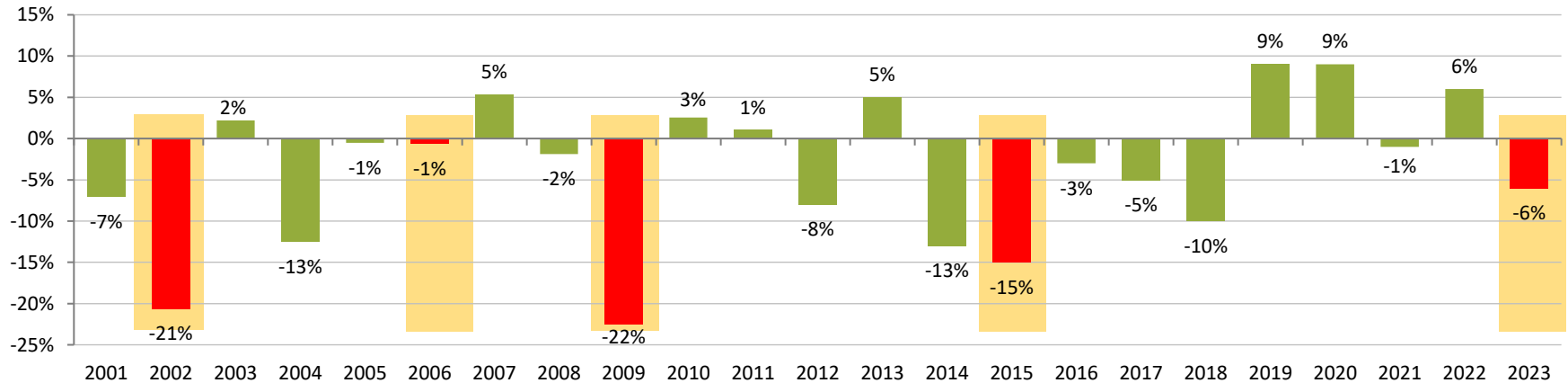
EXHIBIT: Trend in monsoon rainfall over past few years



- The IMD's first stage forecast has predicted the volume of rainfall in the upcoming South-west Monsoon season (June-September) at 106% of LPA (87 cm for the period 1971-2020), with an error range of +/-5%, indicating above normal monsoon.
- IMD expects the prevailing El Nino conditions over the Pacific region to weaken further to neutral El Nino conditions during the early part of the monsoon season and La Nina conditions (favourable for monsoon) are likely to develop during the second half of the monsoon; additionally, positive Indian Ocean Dipole (IOD) conditions are expected to develop during the later part of the monsoon season.

El Nino occurrence had led to uneven monsoon last fiscal

EXHIBIT: Trend in monsoon deviation over the years (from Long period average)



- Four consecutive years of normal monsoon over CY2019-CY2022 had aided farm cash flows during the period. Subsequently, precipitation in the 2023 monsoon was below normal (-6% deviation from Long Period Average); the temporal and spatial distribution of precipitation was also highly uneven and impacted crop yields.
- A healthy monsoon precipitation with a favourable temporal and spatial distribution in 2024 remains key for reviving the fortunes of the farming community after weak crop production during the previous fiscal.

Source: IMD, ICRA Research; Strong/moderate El Niño years highlighted in yellow bars

Healthy precipitation needed to boost reservoir levels

EXHIBIT: Trend in reservoir levels (as % of full reservoir level)

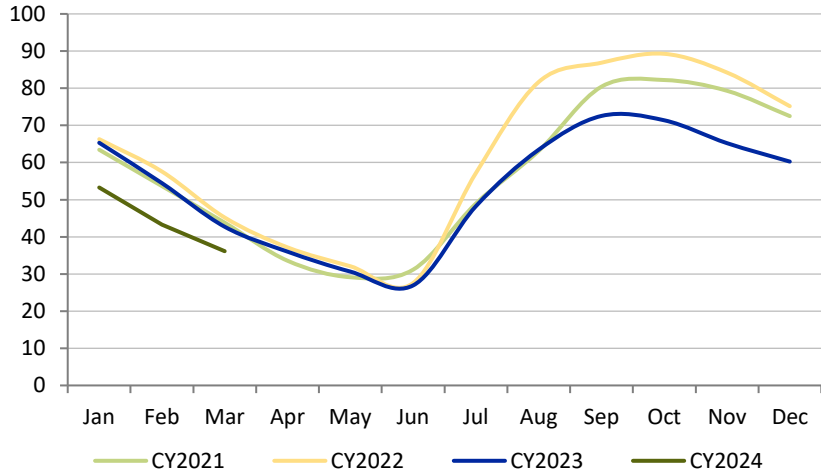
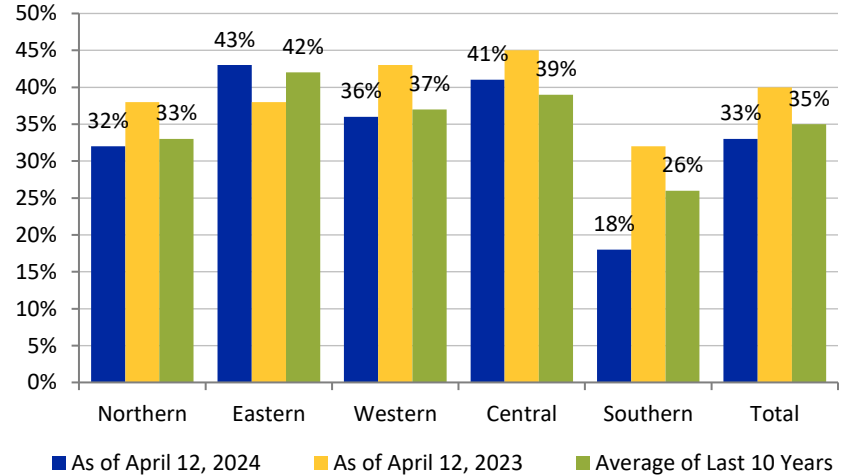


EXHIBIT: Reservoir levels across regions (as % of full reservoir level)

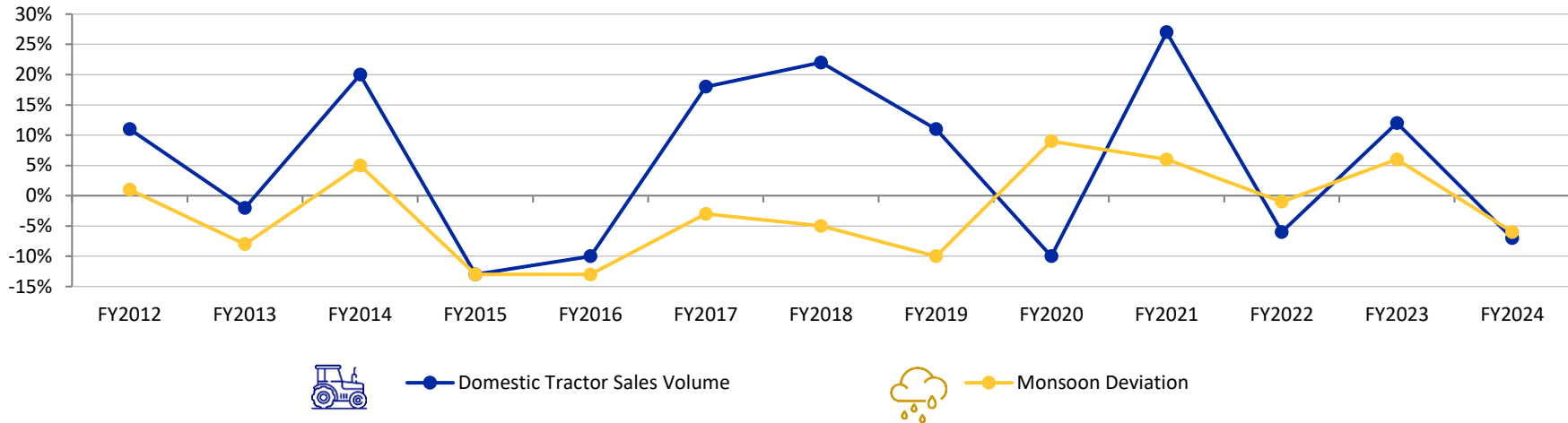


- The reservoir levels remain low; as of April 12, 2024, the overall reservoir levels lagged the last year levels as well as the decadal average.
- A timely onset on monsoon and healthy precipitation during June-July would remain critical in supporting the kharif sowing levels.

Source: Central Water Commission; ICRA Research

Tractor demand has exhibited strong correlation with monsoon performance

EXHIBIT: Trend in Impact of monsoon deviation on tractor industry over the years

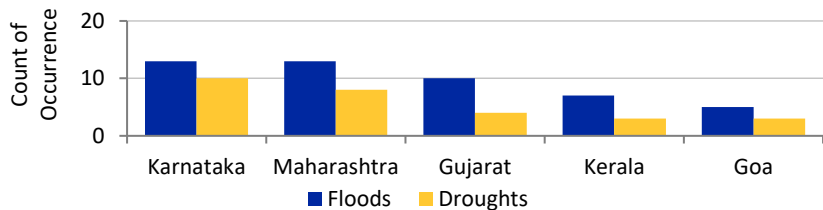


- Tractor Industry volume growth largely tracked monsoon performance over the years, barring some aberrations.
- A healthy monsoon precipitation is likely to lead to an improvement in agricultural production, which in turn would aid demand for tractors.

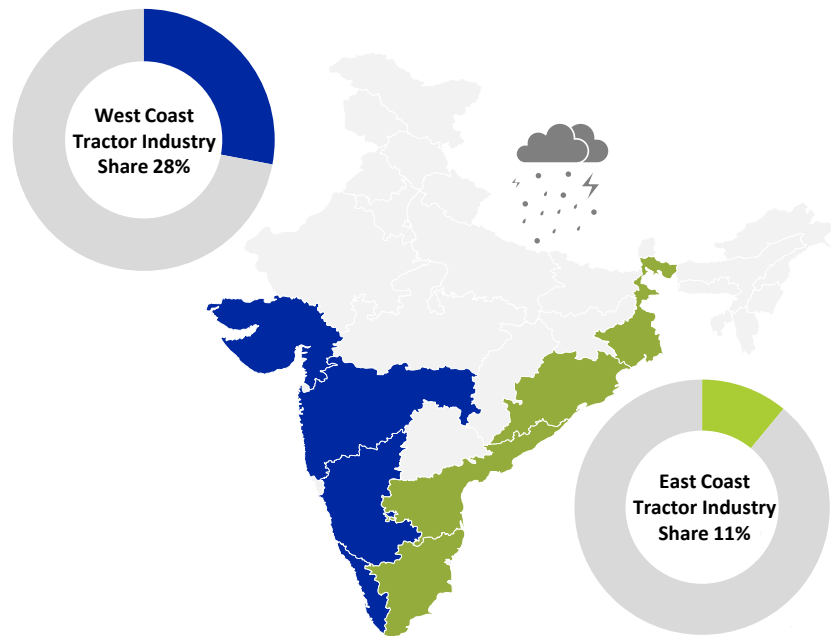
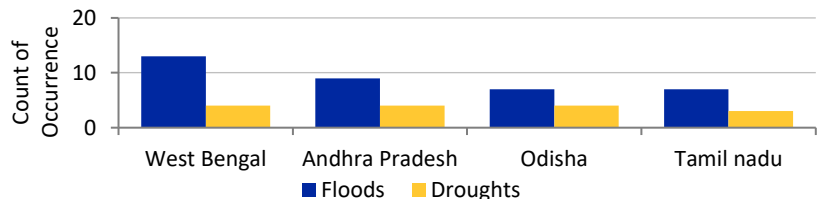
Coastal states remain at heightened risk of demand disruption by excess rainfall

EXHIBIT: State-wise frequency of floods and droughts (1951-2020)

West Coast



East Coast



- Coastal states constitute ~40% of the overall tractor market and are exposed to higher probability of occurrence of floods and droughts led by global climate events, such as El Nino/La Nina, accordingly tractor demand in these regions would remain particularly sensitive to the extent of precipitation.

Financing Environment

Delinquency in retail financing at moderate levels; financing availability adequate

Haulage Demand

Haulage demand to remain supported by healthy budgetary allocation to infrastructure

Reservoir Levels

Reservoir storage levels trail historical decadal average and remain a concern; timely arrival of monsoon remains key

Government Support

Various ongoing initiatives to improve rural economy/infrastructure remain a positive



Agri Production

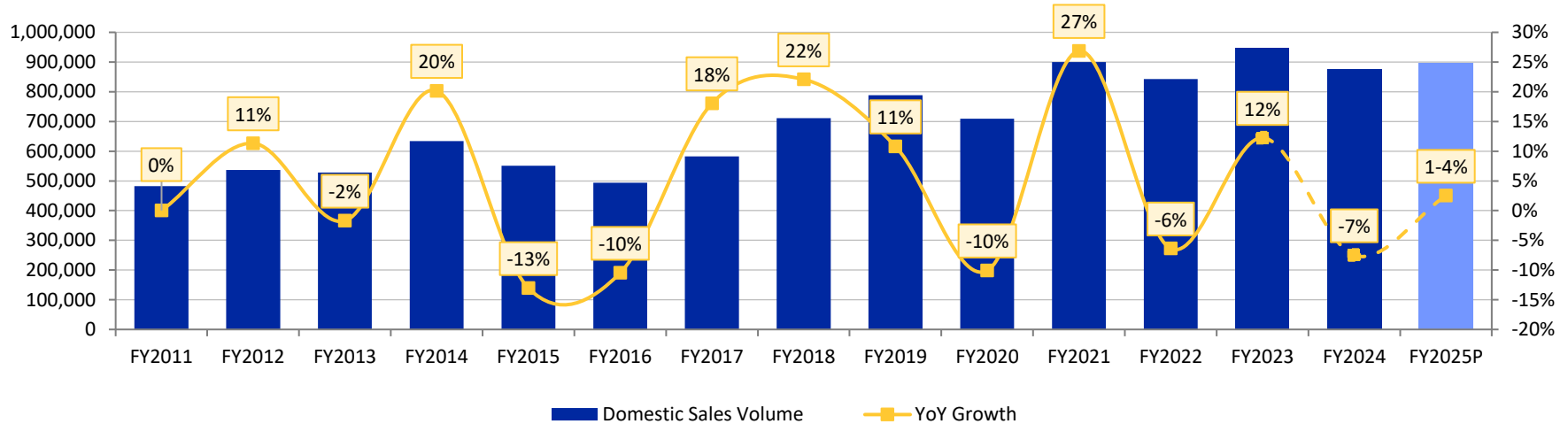
Advance estimates indicate a moderation in agri cash flows in FY2024

Monsoon

Forecast of above normal monsoon a positive; spatial and temporal distribution a monitorable

Industry volumes to grow at a modest pace in FY2025

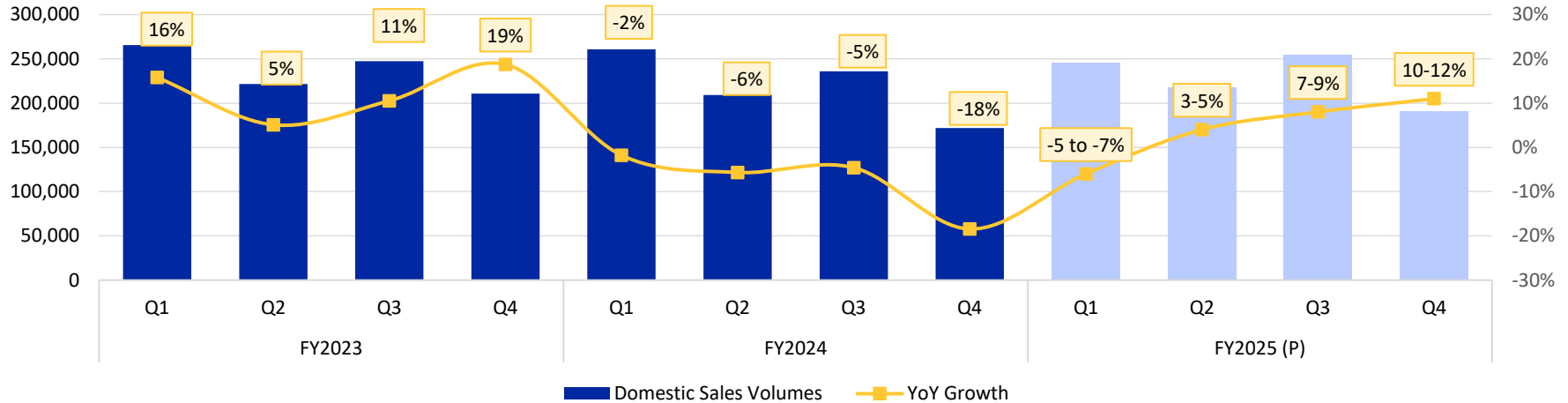
EXHIBIT: Annual trend in domestic tractor sales volume



- The domestic tractor industry's volumes remained steady in H1 FY2024. However, with farm sentiments impacted by weak precipitation, industry sales moderated in H2 FY2024, resulting in an overall contraction in industry volumes by ~7%.
- ICRA estimates the industry volumes to grow at a modest pace in FY2025, aided by expectation of an above normal monsoon and consequent favourable impact of the same on farm cash flows.

Industry volume growth likely to pick up in the second half of fiscal

EXHIBIT: Quarterly trend in domestic tractor sales volume



- Demand is expected to remain sombre in Q1 FY2025, before improving in the later quarters, if the IMD’s forecast of an above-normal monsoon materialises, with a favourable temporal and spatial distribution.
- Dampened by a likely dull Q1 FY2025, ICRA expects the domestic tractor industry’s volumes to grow at a modest pace of 1-4% in FY2025.



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