



INDIAN TRACTOR INDUSTRY

**Tractor volumes continue to remain
sombre**

MAY 2024





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The IMD has forecasted an above normal monsoon for the 2024 South West monsoon season at 106% of LPA, with an error range of +/-5%.

Industry volumes are estimated to grow at a modest pace of 1-4% in FY2025. The demand is expected to remain sombre in Q1 FY2025, before improving in the subsequent quarters.



- **A sub-par and uneven monsoon impacted farm sentiments and constrained tractor demand in FY2024:** The industry volumes, after reaching an all-time high of 9.4 lakh units in FY2023, moderated in FY2024. The volumes declined by ~7% YoY (on a high base) in FY2024 on account of a high base effect as well as weak precipitation and uneven monsoons.



- **IMD expects above normal monsoons and prevailing El Nino conditions over the Pacific region to weaken:** This is expected to further neutralize El Nino conditions during the early part of the monsoon season. La Nina conditions 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 farm cash flows and boost the prospects of the tractor industry.



- **Tractor volumes expected to report modest growth in FY2025:** Demand is expected to remain sombre in Q1 FY2025 (YoY decline of 3% in April 2024) and then improve in the later quarters, considering the IMD's forecast of an above-normal monsoon with a favourable temporal and spatial distribution. ICRA expects the domestic tractor industry's volumes to grow at a modest pace of 1-4% in FY2025.



- **Tractor OEMs continue to maintain strong credit profiles:** ICRA continues to maintain a Stable outlook for the industry. The margins of tractor manufacturers are likely to continue to be healthy, aided by operating leverage and easing raw material costs.



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