Research

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Straight drive for four

Policy support would help tractor makers log volume growth for the fourth straight fiscal, provided monsoon is normal yet again

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CRISIL Research expects domestic tractor sales log double-digit growth for the third consecutive year in fiscal 2019, rising 10-12% to just short of 8 lakh units.

Given the high base, growth in fiscal 2020 is seen coming off a notch, though it could still be a respectable 6-8%. A normal monsoon could ensure growth of 4-6%, while various state and central government schemes – if executed well – could add 1-3%.

High-growth phases backed by normal monsoon and loan waivers

The high growth in the three preceding years has come on the back of normal monsoons – at 3%, 5% and 9% short of the long period average in fiscals 2017, 2018 and 2019, respectively. As per the Indian Meteorological Department, rainfall deficiency up to 10% is considered normal (compared with the long period average). So, all eyes are on whether monsoon will be normal yet again.

To be sure, the past 15 years have seen two such periods of four consecutive normal rainfall years –2005-2008 and 2010-2013 – during which the industry logged compound annual growth rate (CAGR) of 5.4% and 9.8%, respectively.

A growth of 6-8% in fiscal 2020 will result in a robust CAGR of 12-14% for fiscal 2017-2020.

Interestingly, farm loan waivers have played a key role in both the earlier periods – in Kerala and Tamil Nadu during 2005-2008, and in Karnataka, Chhattisgarh and Uttar Pradesh in 2010-2013. And so far in 2017-2020, as many as seven states have given farm loan waivers, including Uttar Pradesh, Punjab, Maharashtra, Karnataka, Rajasthan, Madhya Pradesh and Chhattisgarh.

Key determinants of tractor demand continue to support industry

Higher availability of tractor financing, better on-year farm profitability for major kharif crops in marketing year 2018, scarcity of farm labour and increase in the usage of tractors in construction activities are some of the demand determinants that will continue to provide support to tractor demand at a pan-India level in fiscal 2020.

However, stringent ban on sand mining activities in the eastern region can potentially pare growth to some extent.

Farm loan waivers to expand industry in fiscal 2020…

In fiscal 2018, Uttar Pradesh and Maharashtra governments had announced significant farm loan waivers, totalling around Rs 60,000 crore. This is estimated to have provided a 2-4% push to the tractor industry, which grew 22% that year, as majority of the farmers stopped paying outstanding loans, increasing the cash in their hands for tractor purchases. Tractor sales in Uttar Pradesh and Maharashtra grew faster, at 34% and 40%, despite a high base of 34% and 24%, respectively. Growth in the two states was also aided by normal monsoon, bumper sugarcane production, and release of arrears.

In fiscal 2019, loan waivers have been announced by newly elected governments in states such as Karnataka, Madhya Pradesh, Rajasthan and Chhattisgarh, which constitute ~27% of domestic tractor market, to help farmers tide over losses incurred due to uneven monsoon and drought conditions. Cumulatively, around 14.7 million farmers are expected to benefit from the farm loan waivers announced, with the total package at Rs 108,000 crore.

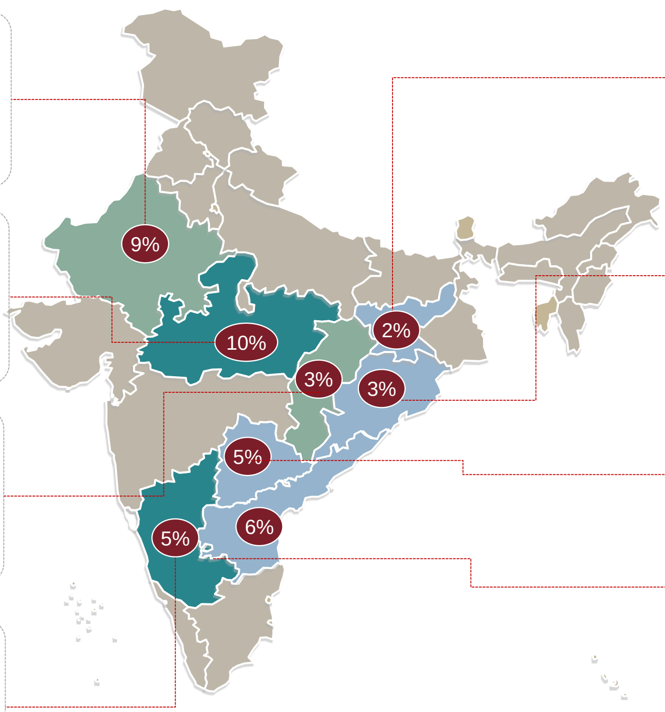
Farm Loan Waivers

Rajasthan
- Announced in December 2018
- 30 lakh farmers to benefit
- Rs 18,000 crore allocated
- Loan waiver upto Rs 2 lakh with additional covenants

Madhya Pradesh
- Announced in December 2018
- 55 lakh farmers to benefit
- Rs 50,000 crore allocated
- Loan waiver upto Rs 2 lakh with additional covenants

Chhattisgarh
- Announced in December 2018
- Complete waiver of loans taken from
  - Co-operative banks
  - Chhattisgarh gramin banks

Karnataka
- Announced in June 2018
- 45 lakh farmers to benefit
- Rs 34,000 crore allocated
- Loan waiver upto Rs 2 lakh with additional covenants



Direct Income Support Schemes

Jharkhand
- Announced in December 2018
- Rs 5,000 per acre for 23 lakh small and marginal farmers
- Rs 2,250 crore allocated

Odisha
- Announced in February 2019
- Rs 5,000/annum for 47 lakh farmers including tenants for next 5 cropping seasons
- Rs 10,180 crore allocated

Telangana
- Announced in May 2018
- Rs 5,000/acre for 58 lakh farmers tenants for two cropping seasons
- Rs 11,440 crore allocated

Andhra Pradesh
- Announced in February 2019
- Rs 10,000 per annum to be given to 70 lakh farmers including tenants (Rs 4,000 if farmer benefits from PM-KISAN)
- Rs 5,000 crore allocated

% Share of state in overall tractor sales | Marginal impact of direct income support scheme | Marginal impact of farm loan waiver | High impact of farm loan waiver

These loan waivers are expected to provide a 1-3% uptick to the industry growth in fiscal 2020.

…but direct income support schemes unlikely to impact much

In addition to schemes aimed at improving irrigation, road construction and crop insurance, the central government in its interim budget for fiscal 2020 announced the PM-KISAN scheme, a fixed-income support of Rs 6,000 to all small and marginal farmers in three equal instalments.

Announcement month	Central government scheme guidelines	Beneficiary farmers expected (in lakhs)	Amount (Rs crore)
Feb-19	Under PM-KISAN, central government will provide Rs 6,000 to all the **small and marginal farmers**, in three equal instalments with effect from December 1, 2018.	**1200**	**75,000**

Current annual profit per family with small and marginal landholding (considering key MSP crops for both kharif and rabi) is estimated at Rs 50,000-60,000 (at A2+FL cost). Thus, an additional Rs 6,000 in the hands of the farmer augurs well for low-cost consumer goods and low-ticket discretionary products rather than tractors. We therefore, expect the PM-KISAN scheme to have limited impact on the tractor industry.

Meanwhile, four states (which constitute ~16% of domestic tractor market) have announced direct cash support schemes wherein money is transferred directly into the bank accounts of beneficiary farmers. Cumulatively, around 19.8 million farmers are expected to benefit from the direct income support schemes announced, with the total package at Rs 28,870 crore.

Incremental cash is expected to be higher in the hands of Telangana and Jharkhand beneficiary farmers if the schemes are successfully implemented. However, the sales proportion in these two states is not as meaningful to expand the overall tractor industry significantly. Also, majority of the demand in Jharkhand is driven by infrastructure development. In other states, the impact is expected to be negligible as the incremental cash is minuscule to trigger tractor sales. Besides, as most of the schemes have been announced recently, actual disbursements remain a key monitorable.

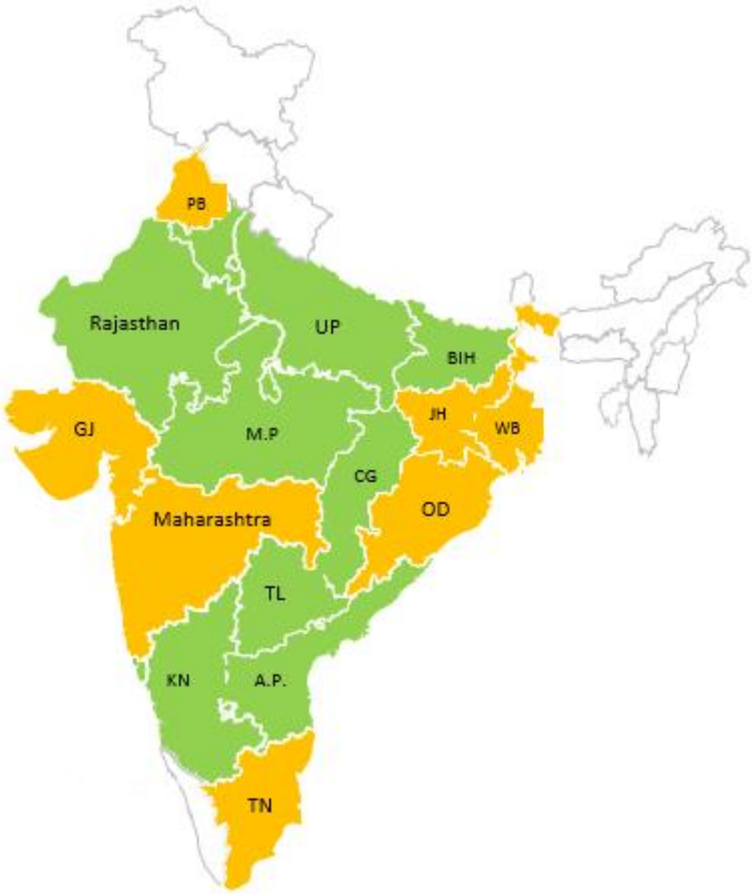
How regional dynamics will play out in fiscal 2020

Northern region: Contributes ~35% to total tractor industry sales. This region is expected to grow at a higher pace on the back of normal monsoon in fiscal 2019, expected higher profitability of paddy and wheat crops (owing to high share of government procurement and thereby mandi prices trending higher than MSP) and higher reservoir levels.

Western region: Contributes ~30% to total tractor industry sales. The region is expected to grow at a slower pace on the back of deficient rainfall and lower reservoir levels in Maharashtra and Gujarat in fiscal 2019. However, better rainfall on-year and farm loan waiver in Madhya Pradesh are expected to support growth in the western region.

Southern region: Contributes ~20% to total tractor industry sales. The region is expected to grow at a higher pace on the back of tractor subsidies and farm loans waivers. Direct income support scheme of Telangana is expected to meaningfully increase cash in the hand of farmers (Rs 8,000/ acre per year) and aid the tractor industry in the state.

Eastern region: Contributes ~15% to total tractor industry. The region is expected to grow at a moderate pace on the back of continued government investment in infrastructure.



Note:

Green: growth expected to be equal to or higher than industry growth in fiscal 2020

Amber: growth expected to be lower than industry growth in fiscal 2020

White: represents states which do not meaningfully contribute to tractor sales

Source: CRISIL Research

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