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Tractor makers have little reason to be worried over new emission norms

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Bharat Stage-VI emission norms have been wreaking havoc in the domestic auto demand-supply cycle for the last couple of quarters. In contrast, the proposed Bharat Trem-IV emission norms for tractors, which will take effect from October, are expected to have a minimal impact on sales.

The saving grace is that at least in the near term, the norms will apply only to tractors with capacity of 50 horsepower (hp) and above. According to sector analysts, this segment comprises less than 10% of the industry's sales. In the listed universe, market

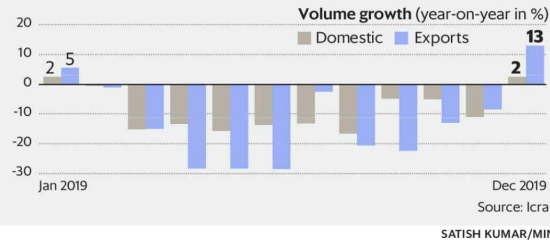
leader Mahindra and Mahindra Ltd (M&M), and Escorts Ltd, have relatively low exposure to this category. Hence, a backlash on production and sales is unlikely, as was seen in other segments, where customers deferred purchase of vehicles.

To be sure, the cost escalation in high-end tractors is foreseen to be a steep 10-15% over the current price. "The pass through of the incremental cost (related to the technological changes) to the farmers may prove to be a challenge, given the price-sensitive nature of the farming community," said Rohan Gupta, assistant vice president (corporate sector ratings) at Icra Ltd.

The higher cost of manufac-

Greener pastures

The tractor industry has started showing green shoots of recovery both in the domestic and export markets after a prolonged slowdown.



turing will, therefore, have to be absorbed at least partially by the original equipment manufacturers (OEMs). This could constrain profitability in high-end tractors.

Even then, the above 50hp

tractors are a minuscule portion of the overall portfolio mix, and will not hurt profits. Besides, profitability of relatively large tractor makers has been healthy, even during arduous times as

seen in the last 10 months. Both M&M and Escorts have reported Ebit (earnings before interest and tax) margins in double-digits (12-15%) in the last few quarters. The farm equipment segment did well to offset pain points in other segments.

Meanwhile, analysts believe that OEMs will be proactive as the October deadline for Bharat Trem-IV emission norms approaches. They may tweak the capacity of tractors and keep it below 50hp to prevent cost escalation, at least initially.

Fortunately, the announcement has come at an opportune time when there are green shoots of revival in the rural sector. Icra's data on tractor sales shows

a year-on-year improvement in domestic sales in December, after a 10-month-long downward trajectory (see chart).

"Tractor demand is likely to see positive momentum, led by the expectations of a good rabi output, besides renewed focus by the government on the rural sector through higher fund allocation," said Rajesh Jejurikar, president (farm equipment sector) at M&M.

Be that as it may, a full-fledged compliance of Bharat Trem-IV emission norms is expected only by October 2023. The phased implementation is likely to cause less pain from cost pressures, technological know-how and demand backlash.