INDIAN TRACTOR INDUSTRY

Domestic tractor demand continues to remain healthy, unfazed by demonetisation

Analytical Contacts:
Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Anupama Arora
+91 124 4545 303
anupama@icraindia.com

Rohan Kanwar Gupta
+91 124 4545 808
rohan.kanwar@icraindia.com

March 2017

TABLE OF CONTENTS

LIST OF EXHIBITS

ICRA

Overview

Domestic volumes continue to grow at a moderate pace; limited impact of demonetisaion on industry volumes

Domestic volumes increase by 18.2% in April-January FY2017; exports volumes remain flat

Tractor volumes in domestic market have reported a positive growth trajectory during current fiscal (growth in volumes of 18.2% in 10m, FY2017 on a YoY basis) fuelled by favourable farm sentiments as southwest monsoon performance remained healthier as compared to previous two fiscals. While the monsoon performance augured well for kharif production, it also replenished reservoir levels that supported rabi sowing despite weak winter monsoons. The growth momentum witnessed a pause in November, 2016, with demonetisation causing cash crunch resulting in a decline in monthly volumes by 13% (YoY basis). After the minor blip, however, domestic volumes have recovered, with the industry volumes growing by 8% and 6% respectively in December 2016 and January 2017 respectively (YoY basis). In February, 2017 also, leading tractor OEMs have reported a healthy growth in domestic volumes, pointing to continuation of growth momentum for the domestic industry.

Tractor exports growth, which moderated in FY2016, remained weak during the current fiscal as well; the weak demand in the global markets has led to near stagnant volumes in 10m, FY2017. Although OEMs have continued to take initiatives to enhance their distribution networks in various geographies and launched products tailored for specific markets, the weak demand in the global markets constrained export volumes.

M&M extends its market leadership position in the current fiscal; TAFE has struggled, losing market share across all regions

M&M maintain market leadership; TAFE has lost market share

Competitive intensity in the domestic tractor market remains high; although there have been subtle changes in market share over the past few years, the market structure has remained largely similar. M&M continues to maintain its market leadership status, constituting ~44% of the total domestic industry volumes in 9m, FY2017. The company has gained market share across all regions, benefiting from strong brand recognition, financing support from captive and pan India presence. TAFE, the second largest player, has lost market share across various markets over the past two years, owing to aggressive product launches by competition.

Escorts, the fourth largest tractor manufacturer in the country, has gained market share across most regions, benefitting from enhanced management focus and improved product portfolio post new launches. The company's weak presence in the Southern region has however hindered market share gains at a pan India level. John Deere, which was the only OEM to record a growth in volumes in FY2016, has continued to gain further market.

Southern region continues to lead growth; northern region struggles amid weak replacement demand

Rabi sowing remained healthy in spite of demonetisation; healthy estimates of crop production provide hope

Sustained demand at a pan-India level; select pockets of Northern region however continues to struggle

The southern region has outpaced growth across all others regions on a consistent basis over the past three years, with the growth being led by a robust demand in states like Andhra Pradesh, Tamil Nadu and Karnataka, on account of government support programs and better rural sentiments which helped maintenance of growth trajectory in some of these states even in November 2016 (in the immediate aftermath of the demonetisation). Notwithstanding strong growth, a weak northeast monsoon with drought like conditions across several states in the region has kept reservoir levels low, and thus, remains an area of concern. The eastern region continues to report strong volume growth in the current fiscal, albeit on low base, benefitting from various government initiatives to boost farm mechanization.

There has been a recovery in demand in the central and western regions led by improved farm sentiments on account of estimates of improved crop production and resulting farm cash flows. The northern region continues to lag the pan-India growth; while Uttar Pradesh, the largest tractor market in the region, has recorded healthy growth, other key markets such as Rajasthan and Punjab continue to struggle, as a result of weak haulage and replacement demand respectively.

Advance estimates indicate healthy increase in crop production; El Nino formation possibility remains a concern

The performance of south west monsoon was healthier and relatively widespread than past few years; a healthy monsoon helped improve farm sentiments and has led to estimates of an improvement in crop production. After weak crop production for two consecutive years, there was an uptick in rabi production of wheat, oilseeds and pulses in April 2016; the Second Advance Estimates of crop production released in February 2017 indicated a healthy increase in crop production for both kharif and rabi seasons. If the final estimates are similar, then farm cash flows are expected to mark a healthy improvement over previous fiscals

As per Australian Bureau of Methodology, there is a moderate possibility of El Nino formation towards the fag end of the monsoon season; although initial estimates have generally ruled out a significant impact of the same on rainfall precipitation, the impact of the same on south west monsoon and consequently crop production would remain critical.

Outlook: Industry growth to remain at moderate levels over the medium term

Industry growth moderated by demonetisation in the current fiscal; any significant impact of El Nino on monsoon precipitation could adversely impact farm sentiments

The tractor industry has witnessed a healthy recovery in domestic demand since the beginning of the fiscal, with farm sentiments uplifted by reasonable rabi crop production, healthy rainfall precipitation as well as government support programmes. A healthy monsoon precipitation in the current season, when compared to the previous two fiscals, has helped replenish reservoir levels across various regions. The advance estimates of crop production indicate a healthy growth in production for both the kharif and rabi seasons; an improved crop production on the back of two fiscals of disappointing crop production estimates is likely to provide a boost to farm cash flows; additionally the government remains committed towards rural development and agri-mechanization, and has enhanced allocations in its budgetary plans to promote farm incomes. After a robust growth in domestic volumes in the festive period, the growth momentum in monthly domestic sales was halted in November 2016 by demonetisaion, wherein the domestic volumes declined by 13% (on a YoY basis). After the minor blip, sales volumes growth has recovered over the past three months, with industry volumes continuing to grow at a moderate pace.

The healthy sales volumes growth in the past three months points to continuation of healthy farm sentiments; a fallout of the demonetisation however, has been a rise in delinquency levels as per channel check, which is likely to limit incremental lending in the industry and hinder volume growth. This apart, various channel partners also remain circumspect about the impact of the recent cash crunch on the quality of rabi sowing, even as the advance estimates point to a healthy production. ICRA has an outlook of 14-15% growth in tractor volumes (domestic + exports) in FY2017 (a slight moderation from growth recorded in the fiscal till date). In light of concerns about probable formation of El Nino towards the middle of the monsoon season, the impact of the same on monsoon precipitation and consequently industry demand still remains unclear. ICRA, thus, has a growth forecast of about 6-7% for the industry (domestic + exports) in FY2018, which is marginally lower than the long term CAGR estimate of 8-9% for the industry. The long term industry drivers continue to remain intact. The government of India (GOI) remains committed towards rural development and agri-mechanization, a critical component in improving the state of agriculture in the country. Also, continued support towards enhancing irrigation penetration through fresh allocations would reduce rainfall dependence over long term. This coupled with other factors such as increasing rural wages and scarcity of farm labour is likely to aid growth in industry volumes over the long term.

ICRA Contact Details

CORPORATE OFFICE Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002 Ph: +91-124-4545300, 4545800 Fax; +91-124-4545350 **REGISTERED OFFICE** 1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi – 110 001 Tel: +91-11-23357940-50 Fax: +91-11-23357014	**CHENNAI** Mr. Jayanta Chatterjee Mobile: 9845022459 Mr. P Kalaivanan Mobile: 9894204551 5th Floor, Karumuttu Centre, 498 Anna Salai, Nandanam, Chennai-600035. Tel: +91-44-45964300, 24340043/9659/8080 Fax:91-44-24343663 E-mail: jayantac@icraindia.com p.kalaivanan@icraindia.com	**HYDERABAD** Mr. M.S.K. Aditya Mobile: 9963253777 301, CONCOURSE, 3rd Floor, No. 7-1-58, Ameerpet, Hyderabad 500 016. Tel: +91-40-23735061, 23737251 Fax: +91-40- 2373 5152 E-mail: adityamsk@icraindia.com
MUMBAI Mr. L. Shivakumar Mobile: 9821086490 3rd Floor, Electric Mansion, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025 Ph : +91-22-30470000, 24331046/53/62/74/86/87 Fax : +91-22-2433 1390 E-mail: shivakumar@icraindia.com	**KOLKATA** Ms. Vinita Baid Mobile: 9007884229 A-10 & 11, 3rd Floor, FMC Fortuna, 234/ 3A, A.J.C. Bose Road, Kolkata-700020. Tel: +91-33-22876617/ 8839, 22800008, 22831411 Fax: +91-33-2287 0728 E-mail: Vinita.baid@icraindia.com	**PUNE** Mr. L. Shivakumar Mobile: 9821086490 5A, 5th Floor, Symphony, S. No. 210, CTS 3202, Range Hills Road, Shivajinagar, Pune-411 020 Tel : +91- 20- 25561194, 25560195/196, Fax : +91- 20- 2553 9231 E-mail: shivakumar@icraindia.com
GURGAON Mr. Soumitra Sarkar Mobile: 9582335927 Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002 Ph: +91-124-4545300, 4545800 Fax; +91-124-4545350 E-mail: soumitra.sarkar@icraindia.com	**AHMEDABAD** Mr. Animesh Bhabhalia Mobile: 9824029432 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049/2008/5494, Fax:+91-79- 2648 4924 E-mail: animesh@icraindia.com	**BANGALORE** Mr. Jayanta Chatterjee Mobile: 9845022459 'The Millenia', Tower B, Unit No. 1004, 10th Floor, Level 2, 12-14, 1 & 2, Murphy Road, Bangalore - 560 008 Tel: +91-80-43326400, Fax: +91-80-43326409 E-mail: jayantac@icraindia.com

CORPORATE OFFICE
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300; Fax: +91 124 4545350
Email: info@icraindia.com, Website: www.icra.in

REGISTERED OFFICE
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50; Fax: +91 11 23357014

Branches: **Mumbai**: Tel.: + (91 22) 24331046/53/62/74/86/87, Fax: + (91 22) 2433 1390 **Chennai**: Tel + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294, Fax + (91 44) 2434 3663 **Kolkata**: Tel + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008, Fax + (91 33) 2287 0728 **Bangalore**: Tel + (91 80) 2559 7401/4049 Fax + (91 80) 559 4065 **Ahmedabad**: Tel + (91 79) 2658 4924/5049/2008, Fax + (91 79) 2658 4924 **Hyderabad**: Tel +(91 40) 2373 5061/7251, Fax + (91 40) 2373 5152 **Pune**: Tel + (91 20) 2556 1194/0195/0196, Fax + (91 20) 2556 1231