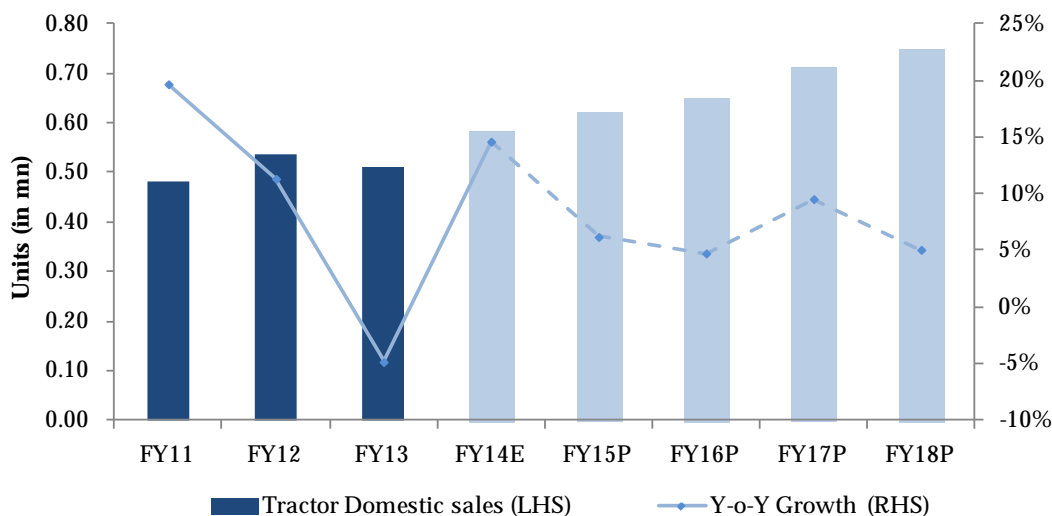


“Tractors sales thrive on good rainfall”

The FY13 has been a challenging year for the tractor industry, as the industry witnessed a drop of around 5 per cent in its domestic sales. Factors like rise in the MSP for key crops, continuing shortage of farm labour because of Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) and attractive financing schemes continued to pose encouraging scenario for the industry. However, strain in agriculture activities owing to below normal rainfall in key agriculture states during last fiscal combined with slowdown in infrastructure activities across the country pulled down the demand for the tractors during FY13. Nevertheless, the first four months of FY14 (i.e. April – July 2013) has been encouraging for the tractor industry as it witnessed a rise of around 21 per cent. CARE Research believes good monsoons witnessed across key agriculture states in the country has in turn led to improvement in crop intensity, combined with the lower base effect aided healthy rise in tractor demand during first four months of FY14.

Going forward, CARE Research believes, strong fundamentals like low tractor penetration, rise in MSP, labour shortage, improving credit scenario, increasing co-operative farming etc will continue to remain intact for short to medium term period. CARE Research believes tractor demand to witness a healthy revival in FY14. Healthy crop produce influenced by good monsoons would be the key growth driver for the industry this fiscal. CARE Research believes the growth in tractor demand would be driven by the agriculture sector in near to medium term. However as the short term concerns hovering over construction and infrastructure activities taper off gradually in the medium term, the tractor demand is expected to get significant push from these activities as well.

Outlook of domestic Tractor industry



Source: CARE Research and Industry

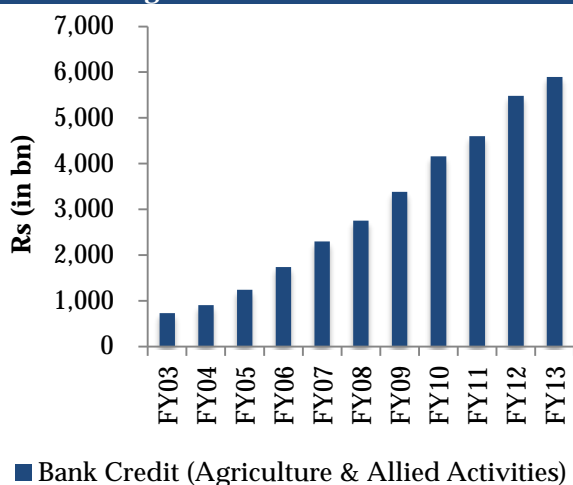
Note: - P: Projected

Increased government focus towards development to drive rural spending

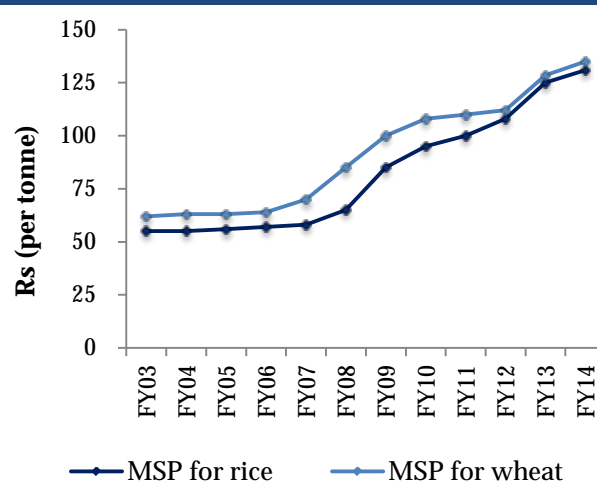
The agriculture sector contributes less than 15 per cent to the total GDP, but it is critical to the economy as it supports around 52 per cent of the total workforce. Agriculture is not only source of livelihood for large section of population but the fact that an average Indian spends half of the total expenditure on food makes it important from the food security point of view. In addition, to support the healthy and sustainable economic growth CARE research believes agriculture sector needs to grow in a range of around 3-4 per cent annually. The performance of the agriculture sector thus assumes great significance for the government

In order to achieve targeted growth government has allocated substantial funds through various schemes and subsidies for rural population. For example increasing farm credit, schemes like Pradhan Mantri Gram Sadak Yojana (PMGSY), Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), fertilizer subsidies, seed subsidies, irrigation subsidies, refinancing of Regional Rural Banks (RRBs) through NABARD, initiative to modify Kisan Credit Card (KCC) schemes into smart cards which can be used in ATMs, etc. In Union Budget FY14, the agriculture credit was raised to Rs. 700,000 crore from Rs. 575,000 crore allocated in the previous fiscal year. Collectively these initiatives have led to improvement in money supply in the rural system and in turn increasing farmer’s liquidity.

Growth in agriculture credit



Trend in MSP



Source: CARE Research and CMIE

Source: RBI

Good rainfall across the country in FY14 – A much needed relief to agriculture sector

The monsoon season this fiscal year has been encouraging, as almost all the key agriculture states like Maharashtra, Uttar Pradesh, Punjab Haryana, Gujarat, Andhra Pradesh and Karnataka have received excess rainfall. It has been observed that except for east and north east, all the regions across the country have received excess rainfall. Southern and Central India has received highest rainfall so far. Good rainfall this season has benefited the kharif crops produce across the country and thereby leading to significantly improvement in the earnings of the farmers.

Rainfall from 1st June 2013 - 22nd September 2013 (in mm)			
Regions	Actual	Normal	% (Deficit)/Excess
East & Northeast	984.4	1367.2	(28%)
Northwest	639.7	594.6	8%
Central	1119.4	939	19%
Southern	815.6	667.8	22%
Overall	890.7	848.1	5%

Source: India Meteorological Department

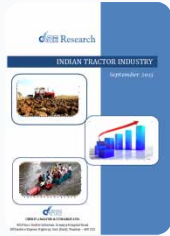
Demand would continue to remain strong towards higher HP tractors

The demand for large tractors (above 40HP) has witnessed a sharp spurt during the last five years (i.e. FY08-FY13), growing at a CAGR of around 12 per cent. Rise in demand from southern and western regions that are predominantly higher HP tractor market due to hard soil condition combined with shift in the demand from northern region from lower-HP tractors to higher-HP tractors owing to its multiple usage (both agriculture and non agriculture) to ensure better utilisation led this growth.

Furthermore, increased usage in infrastructure and construction projects where higher HP tractors are preferred provided boost to industry demand. CARE Research estimates, large tractors would continue to drive the industry growth.

Investments of around Rs 1,400-1,500 crore are expected in next 2 years towards both capacity expansion and new product development

Strong recovery in tractor demand post FY09 raised the utilisation levels of tractor industry considerably till FY12. Gauging the huge opportunities in the domestic market, almost all major tractor manufacturers announced expansion plans during this period. However, owing to below normal monsoon and economic downturn, industry witnessed decline in FY13 which led utilisation levels to fall significantly. Nonetheless, considering strong fundamentals of tractor industry like low tractor penetration levels in India and governments increasing impetus towards agriculture sector, tractor players are continuing with their expansion plans as planned. It is estimated that around Rs1,400-1,500 crore has been lined up towards investments in capacity expansion and product development in the next 2-3 year period.



To subscribe to our report on 'Indian Tractor Industry – 2013', please contact careresearch@careratings.com.

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Contact:

Revati Kasture
CGM & Head - CARE Research & Grading Services
revati.kasture@careratings.com

Vishal Srivastav
Manager
vishal.srivastav@careratings.com

Samay Ganhar
Analyst
samay.ganhar@careratings.com

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