

Tractors continue to witness steady demand, outlook stable

- We interacted with Rajat Gupta, founder member of Tractor Junction – a leading digital marketplace for all major tractor brands in India
- Despite strict lockdowns in rural areas, tractor sales fell only 8% YoY in May. Buyer enquiries and bookings have picked up in the last two weeks
- Rajat believes the industry could grow 5-7% YoY in FY22 following the strong 26% YoY uptick seen in FY21

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We present key takeaways from our interaction with Rajat Gupta below:

Strong demand visibility: Despite strict lockdowns and strong Covid-19 headwinds in rural areas, the decline in tractor sales was limited to 8% YoY in May'21. Enquiries and bookings have picked up in the last couple of weeks as we enter peak buying season. In FY21, first-time buyers are estimated to have contributed 30-35% of the industry's total sales of over 900,000 units. Following strong 26% YoY sales growth in FY21, Rajat believes the tractor industry could grow 5-7% YoY in FY22. Most leading players in the industry have also voiced similar growth expectations.

Labour paucity fuelled growth in FY21 sales: According to Rajat, FY21 saw higher growth in tractors primarily due to a dearth of labourers which led to increased mechanisation and thus demand for tractors.

Structural shift toward higher HP models: Growing awareness among farmers, high labour costs and a paucity of skilled workers have increased dependence on farm implements. A >40hp tractor is a prerequisite for using farm implements such as rotovators, ploughers and cultivators, driving structural growth in higher HP models.

Unorganised second-hand market sales 1.3x new tractor sales: The second-hand market is estimated to have clocked sales of 1.2mn units in FY21 vs. 0.9mn sold by the organised sector. A total of ~7mn tractors are estimated to be currently in use in India. However, the second-hand market remains fragmented.

Rental model unsuccessful thus far: The tractor rental model has not caught on in India due to the concentration of demand during a particular season coupled with a weak organised market.

Tractor financiers cautious due to Covid: About 70% of tractors sold are financed. Though the rural economy remains steady, vehicle financiers have turned cautious due to the pandemic. Tractor financing is determined based on monsoon forecasts, MSPs and farm produce, all of which affect rural income. Typically, tractor financiers target an IRR of 15-18% on newer tractors and 18-24% on preowned units.

Meeting of Minds

– An Expert Perspective

This is the fifth in our 'Meeting of Minds' series where we host experts and leaders in various fields to discuss key events and trends in the Auto and Aviation sectors.

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#2	Aviation: Time for airline fleet consolidation; near-term pain to persist
#3	Auto: Gearing up for EV battery technology
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Other takeaways

- **Channel expansion key to increasing market share:** Prices and features of tractors made by different OEMs are more or less similar in India. Hence, distribution channel reach and the ability to provide aftersales service plays a pivotal role in gaining market share. Most OEMs have enjoyed steady market share over several years, except John Deere which has gained share at the cost of TAFE in recent years.
- **Newer players (VST Tillers, Kubota) making inroads in lower HP tractors:** Existing large OEMs have reduced their focus on the <30hp category and outsourced production to Rajkot-based manufacturers. This has enabled newer players such as VST Tillers and Kubota to make inroads into the category via new product launches.

About Rajat Gupta

Rajat is a founder member of Tractor Junction which plays a key role as an aggregator and digital marketplace for all major tractor brands in India. Tractor Junction lists 300+ new tractors, 75+ harvesters, 580+ implements, 135+ farm tools, and 120+ tyres across brands, including Mahindra, Sonalika, Swaraj, New Holland, Eicher, John Deere and many more.

Tractor Junction witnesses traffic flow of over 3mn farmers monthly for product & pricing comparison and for various other services offered. Farmers owning over 25 acres have a higher online presence.

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