

**RESEARCH**
**[#5 Meeting of Minds] Automobiles**

Tractors continue to witness steady demand, outlook stable

**BOB Economics Research | Monetary Policy Review**

RBI extends liquidity to support growth

**SUMMARY**
**Automobiles**

- 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

[Click here for the full report.](#)

**India Economics: Monetary Policy Review**

MPC kept repo rates on hold and will continue with accommodative stance as long as necessary to revive growth. RBI pared down its GDP forecast to 9.5% in FY22 from 10.5%. CPI is estimated at 5.1% in FY22 from 5%. To support growth, RBI increased GSAP purchases to Rs 1.2tn in Q2 from Rs 1tn in Q1 and will now include SDLs. Targeted liquidity has also been provided to contact intensive sectors and MSMEs (via SIDBI) and borrowers upto Rs 500mn will now be eligible for restructuring. We believe policy reversal is likely in Q4FY22.

[Click here for the full report.](#)

**TOP PICKS**
**Large-cap ideas**

Company	Rating	Target
<a href="#">TCS</a>	Buy	3,780
<a href="#">Tech Mahindra</a>	Buy	1,190
<a href="#">Tata Power</a>	Buy	131

**Mid-cap ideas**

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	3,620
<a href="#">Ajanta Pharma</a>	Buy	2,300
<a href="#">Alembic Pharma</a>	Buy	1,230

Source: BOBCAPS Research

**Daily macro indicators**

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.63	4bps	3bps	80bps
India 10Y yield (%)	6.00	(1bps)	0bps	24bps
USD/INR	72.91	0.2	1.4	3.5
Brent Crude (US\$/bbl)	71.31	(0.1)	5.6	78.3
Dow	34,577	(0.1)	1.4	31.6
Shanghai	3,584	(0.4)	4.0	22.8
Sensex	52,232	0.7	7.2	53.7
India FII (US\$ mn)	2 Jun	MTD	CYTD	FYTD
FII-D	(46.8)	10.9	(2,569.7)	(542.5)
FII-E	149.2	221.2	6,807.3	(519.0)

Source: Bank of Baroda Economics Research

**BOBCAPS Research**

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## Tractors continue to witness steady demand, outlook stable

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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.

### Reports in this series

SN	Title
#1	<a href="#">Auto</a> : Rubber prices headed for a structural bull run
#2	<a href="#">Aviation</a> : Time for airline fleet consolidation; near-term pain to persist
#3	<a href="#">Auto</a> : Gearing up for EV battery technology
#4	<a href="#">Auto</a> : Transforming India into a global cell manufacturing hub



## MONETARY POLICY REVIEW

04 June 2021

### RBI extends liquidity to support growth

MPC kept repo rates on hold and will continue with accommodative stance as long as necessary to revive growth. RBI pared down its GDP forecast to 9.5% in FY22 from 10.5%. CPI is estimated at 5.1% in FY22 from 5%. To support growth, RBI increased GSAP purchases to Rs 1.2tn in Q2 from Rs 1tn in Q1 and will now include SDLs. Targeted liquidity has also been provided to contact intensive sectors and MSMEs (via SIDBI) and borrowers upto Rs 500mn will now be eligible for restructuring. We believe policy reversal is likely in Q4FY22.

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**Rates on hold:** MPC maintained a status quo on rates and decided to continue with accommodative as long as necessary to revive and sustain growth on a durable basis, while ensuring inflation remains within the target going forward.

**Growth forecast revised lower:** RBI lowered its growth forecast for FY22 to 9.5% from 10.5% earlier due to impact of localised lockdowns on economic activity. Most of the downward revision is concentrated in H1FY22. Growth in Q1 is now expected at 18.5% versus 26.2% earlier and in Q2 at 7.9% versus 8.3% earlier. On the other hand, growth estimate for Q3 has been revised upwards to 7.2% from 5.4%, and for Q4 growth is now estimated at 6.6% versus 6.2% earlier.

**CPI forecasts revised upward:** RBI has revised its CPI projection upward to 5.1% in FY22 from 5.0% earlier. The trajectory for Q1FY22 has only been kept unchanged at 5.2%. However, for Q2, Q3 and Q4, it has been revised upward by 20-30bps at 5.4% (5.2% earlier), 4.7% (4.4% earlier) and 5.3% (5.1%) respectively. However, outlook remains broadly balanced with upside risks emanating from supply side bottlenecks due to second wave and rising crude prices (currently at US\$ 71/bbl-highest since May'19) and downside risks from normal south west monsoon (food inflation) and buffer stocks of cereals.

**Targeted liquidity support:** RBI increased the quantum of GSAP purchases to Rs 1.2tn in Q2 from Rs 1tn in Q1. The next GSAP purchase of Rs 400bn this month will include SDL of Rs 100bn. Apart from this, additional OMOs of Rs 365bn have been conducted in Q1 as of now. Additionally, Rs 150bn on-tap liquidity has been provided for contact intensive sectors and will form part of Covid loan book. Further, Rs 160bn of liquidity support has been extended to SIDBI for on-lending to MSMEs. Borrowers with exposure upto Rs 500mn can now avail restructuring from Rs 250mn earlier.

#### KEY HIGHLIGHTS

- Policy rate kept unchanged at 4%, accommodative stance to continue.
- CPI forecast for FY22 revised upwards from 5% to 5.1%.
- GDP forecast for FY22 revised lower to 9.5% from 10.5% earlier.



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**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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