

Monsoon to rev up rural demand

The positive commentary by two leading weather forecasters has helped rural themed stocks gain significantly over the past few trading sessions. The companies that will be among the early beneficiaries of a normal monsoon are those that offer agricultural inputs such as seeds, pesticides and farm equipment.

The rise in disposable income will, then, help push up the demand for discretionary items, benefiting a host of sectors from auto makers, consumer goods to financial services and consumer durables.

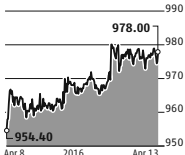
Business captains, however, say most of the gains for companies would come in the second half of the financial year. Rajesh Jejurikar of Mahindra & Mahindra says given the sentiment and latent effect, real

improvement can be expected after October. Harsh Mariwala, chairman of Marico, too, believes the second half will be better than the first for consumer goods firms.

Other than good monsoon, what would push up farm income would be higher crop yields and minimum support prices. Industry players add that the slew of measures taken in the Union Budget to boost the rural economy – infrastructure, rural welfare, social schemes – will play a vital role in improving rural income. Given the positive outlook, companies tapping rural consumers could see a substantial improvement in volumes and revenues with the early signs likely to be visible in the June quarter.

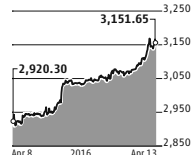
A look at some key companies with high rural exposure:

EMAMI
3-day return: 2.5%




- Rural India forms about half of its revenues
- Owing to seasonal nature of its products, such as Boro Plus, Navratna hair oil, it might not see much uptick, say analysts
- An extended winter season will aid its revenues in the March 2016 quarter

HERO MOTOCORP
3-day return: 7.9%



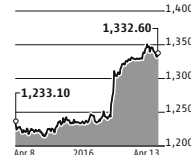
- Even as the company is expanding into new products and geographies, half of volumes come from rural areas
- Deep rural distribution and servicing network will improve market share
- Higher rural road spends to boost scooter sales, as well

HINDUSTAN UNILEVER
3-day return: 5.4%



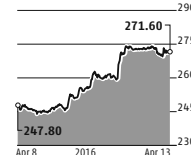
- It derives 40-45 per cent of revenues from rural India
- Volume growth, which has remained five-six per cent in recent quarters, could see uptick due to better monsoon and the 7th Pay Commission hike
- Higher competition and normal monsoon can increase revenues, EPS by two-three per cent in FY18

M&M
3-day return: 8.1%



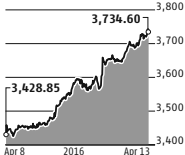
- Tractors volumes, which are bottoming out, will benefit as 55 per cent revenue comes from rural areas
- Volume uptick in more profitable tractor business will boost overall margins
- Higher rural spends will also aid volume growth of its expanding utility vehicles portfolio

M&M FINANCIAL
3-day return: 9.6%



- Company derives over 60 per cent of credit from rural pockets
- Incremental credit growth of 12-15 per cent on monsoon revival
- Net profit to improve, as provisioning for bad loans might reduce

MARUTI
3-day return: 8.9%



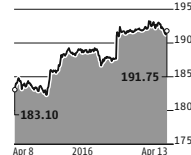
- 30 per cent of volumes come from rural areas
- Higher farm incomes will boost discretionary spends, benefitting Maruti which has biggest rural network
- New product launches and rural reach along with the 7th Pay Commission hike to aid volume and market share

MONSANTO INDIA
3-day return: 2.7%




- Normal rainfall and market share gains should lead to earnings recovery
- Technological edge, market-reach and new product launches to boost revenues
- Strong balance sheet helps support valuations

STATE BANK OF INDIA
3-day return: 4.7%



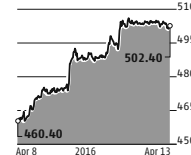
- Over 60 per cent of branch network in semi-urban and rural areas; network largest among banks
- Good monsoon will strengthen its agri and SME loan portfolio, which accounts for 21 per cent of the bank's total credit
- Relief on asset quality will help curb credit slippages

SKS MICROFINANCE
3-day return: 2.3%



- Over 70 per cent of business derived from Tier-II and Tier-III cities
- Healthy monsoon to aid credit recovery and revenue growth, leading to faster earnings growth
- It is also looking to improve presence in markets such as Maharashtra and Karnataka

UPL
3-day return: 9.1%



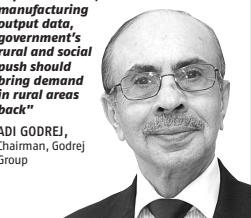
- India's largest agro-chem firm will benefit the most from higher rural disposable earnings
- Above 22 per cent of its revenues come from rural India, where it is growing at double the pace of the industry
- New product launches, higher market share should aid in revenue growth

Share price in ₹ on BSE, compiled by BS Research Bureau

Source: Bloomberg
Contributions by Ram Prasad Sahu, Viveat Pinto, Swaraj Baggonkar, Sheetal Agrawal, Ajay Modi and Hamsini Kartik


RAIN FORECAST GETS A THUMBS UP

"It will accelerate rural sales growth, which had decelerated due to two consecutive years of drought. This, coupled with the 7th Pay Commission implementation, CPI and manufacturing output data, government's rural and social push should bring demand in rural areas back"



ADI GODREJ,
Chairman, Godrej Group

"Good rains will reduce rural distress and push demand for agriculture and consumer credit. It will translate into pick-up in demand from industrial credit down the line"



ARUNDHATI BHATTACHARYA,
Chairman, SBI

"The news is good because our economy depends heavily on monsoons. While the rural economy is expected to get a boost after two years of drought, there are other factors, like the Seventh Pay Commission hike, that will aid a demand revival. The government's rural, agri, infrastructure and social push will also ensure that rural consumers can enjoy a better quality of life"



KISHORE BIYANI,
Group CEO, Future Group

"This is positive for fast-moving consumer goods (FMCG) companies, though the impact should be felt with a lag. In my view, the second half will be better than the first half for FMCG companies. At the same time, the government's rural and agri push should also help in improving demand for products in rural areas"




HARSH MARIWALA,
Chairman, Marico

"I am happy with the monsoon forecast. While the long and hot summer had helped our air conditioner sales, the monsoon forecast was important since it has larger ramifications for the rural economy. Two years of drought had strained farm incomes, which had impacted purchasing power, and hence, sales"



ANIRUDH DHOOT,
Director, Videocon Industries

"While monsoon has been predicted above normal, its uniform and timely distribution is critical for crops. If all goes well, there will be more money circulation in rural markets and a feel good factor will help. We grew at 10 per cent in rural market in FY16, against about 20 per cent in FY15. This year should be better than 10 per cent"



R S KALSI,
Executive director (marketing & sales), Maruti Suzuki

"Historically, we have never had three failed monsoons in a row. The projection of even spread of rainfall across the country is very good. While the real effect will only be seen in second half of this year, there will be some sentiment effect before that. We are expecting a double digit growth in Q1 at about 10 per cent"



RAJESH JEJURIKAR,
President & chief executive – farm equipment and two-wheeler division, M&M

"IMD's prediction on the monsoon is a big relief to our end-customers. We remain optimistic about durable sales, which will see an upswing, thanks to a better monsoon this year. While the summer season has come as a boon to cooling products such as ACs, the news on the monsoon front is encouraging"



MANISH SHARMA,
President & CEO of Panasonic, India and South Asia