

Good monsoon to boost rural demand

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India's farm sector contributes 15-16 per cent of the country's GDP and given that even today only 35-40 per cent of the cultivable land is under assured irrigation, monsoons play a crucial role.

The south-west (June-to-September) monsoon has been normal so far, but, the India Meteorological Department (IMD) expects it to complete at 106 per cent of Long Period Average (LPA) - which is an 'above normal' rainfall.

This is encouraging, as it will stoke food grain output. For 2016-17, the Agriculture Ministry has set itself a target of producing 270.1 million tonnes of food grains. Last year, the total output was 252.23 million tonnes (fourth advance estimate). In 2013-14, a year of record production in food grains, the total output was 265.04 million tonnes.

According to the latest information available from the Agriculture Ministry, the total area sown under all kharif crops as on August 19 is 992.76 lakh hectares, up from last year's 938.57 lakh hectares. The area sown for coarse cereals is up 7.5 per cent, for pulses is up by 35 per cent and under groundnut is up by 28.5 per cent.

In 2015-16, despite a not so bad growth in industries (7.4 per cent) and a strong 9 per cent growth in services, the overall GDP growth was only 7.6 per cent, as the agri sector grew by a smaller 1.2 per cent.

In 2016-17, however, NITI Aayog expects agriculture growth to rebound to around 6 per cent and contribute 100 basis points to the overall economic growth.

The other positive of a good monsoon is that it will bring down food inflation and increase the disposable income in the hands of consumers.

Which stocks will be impacted?

FMCG and consumer durable goods makers derive a large portion of their demand from the rural sector. Hence, bountiful rains should see these players benefit from increased disposable income in the hands of their target consumers. Dabur India, HUL, Jyothy Labs, Colgate, Whirlpool of India, V-Guard Industries, Blue Star, TTK Prestige, Havells India and Bajaj Electricals are some stocks that can benefit. FMCG players will also see their margins expand if the price of inputs drops further. Gold jewellers and also automakers, including Mahindra and Mahindra, a leading player in tractors segment, and Hero MotoCorp and Maruti Suzuki, should see sales grow.

Some of the stocks mentioned above have seen a sharp price rally in the last two months. But, in the coming quarters, if results show pick-up in earnings, they may see more action in the bourses.