

# Boost to rural economy, MSMEs good for earnings growth cycle

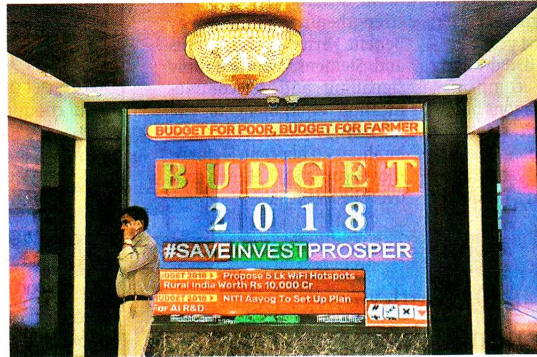
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Growth evidently takes care of everything, including the stock market. Although investors may, over the next few trading sessions, react negatively to the imposition of long-term capital gains tax, they will forget the pain once earnings growth starts kicking in and, in turn, the market goes up.

The challenges faced by the rural economy (especially in the wake of demonetisation and crop failures) and the slowing private capex cycle were the two big hurdles to a recovery in earnings growth and were the main concerns of equity investors.

The government partly addressed this on Thursday by giving a boost to the rural sector with many measures, including a formal support price of agricultural produce, allocations to the food processing sector, incorporation of a farm development fund, provision of kisan credit cards, and plans for food parks to enhance farm exports.

Mustafa Nadeem, CEO, Epic Research, expects the Budget to stoke rural demand and boost corporate earnings. According to Rakesh Tarway, Head Research, Reliance Securities, "Companies and sectors deriving



much of their revenues from the rural economy, including two-wheelers, fast-moving consumer goods and fertiliser, will benefit."

Tarway reckons that policy measures in the Budget will lift the agrarian economy and economically weaker sections of the population, which will, in turn, have a far-reaching impact on macroeconomic growth rates and narrow the income gap.

The growth of the rural economy will also benefit sectors such as four-wheelers, con-

sumer durables, housing (across the entire chain, from housing finance to building materials), cement and steel.

Along with the rural economy, the boost to the MSME sector will offer similar benefits and also address the problem of the slowing private capex cycle.

"All initiatives are centred around development, growth and enabling the rural poor towards getting higher income and better quality of life," said Sunil Sharma, Chief Investment Officer, Sanctum Wealth Management.

"The other notable point was the reduction in corporate tax rates for MSMEs, which are the engines that drive the economy. This will help free up earnings and capital for investment," he added.