GST

Propitious winds of change

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Ideas create, values protect

GST

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Executive summary

Chances of the GST Bill getting passed in Parliament's current winter session have brightened considerably with an apparent thaw in the government's and opposition's stance on contentious issues that had stalled the bill so far. We anticipate the GST regime, once implemented, to usher in lower taxes, seamless input tax credit, logistics savings and market share swings from unorganised to organised players. In this report our endeavour is to delve deeper to identify sectors/companies that we believe will emerge winners and losers from the GST churn. We place our bets on Maruti Suzuki, Hero MotoCorp, ACC, Asian Paints amongst large caps and PVR, Amara Raja, JK Cement and Supreme Industries in the mid caps space.

GST getting closer to reality

Honourable Prime Minister Narendra Modi's recent efforts to break the political impasse on crucial GST have brightened the chances of the Bill finally being passed in the Parliament's current winter session. The bone of contention, so far, has been the opposition's demand of eliminating 1% additional tax, setting up of a dispute resolution mechanism and capping of GST rate at 18% in the Constitution. While we believe the government could give in to the first 2 demands, the opposition is likely to cede ground on the rate capping issue, eliminating a crucial hurdle in GST's implementation. Our belief is further bolstered by the Chief Economic Advisor (CEA) led committee's recent recommendations—1% additional levy be eliminated and no cap on GST rate.

Benefits to accrue via 4 direct channels

Apart from obvious benefits like fall in tax rates and seamless credit of input taxes, GST will also lead to significant savings in logistics & transportation cost. Moreover, waning of tax arbitrage / evasion could be a potent trigger for demand shifting from unorganised to organised players. However, higher tax incidence (telecom, textiles, pharma) and exclusion from GST (petroleum, liquor, electricity etc.) could impact a few sectors negatively.

Table 1: Key beneficiaries

GST impact	Sectors	Key players
Tax incidence coming down to 18-20% (current 28-30%) and tax credit/offset on inputs.	Auto, Cement, Capital goods, consumer durables, FMCG, Media.	Maruti, Hero Moto, Bajaj Auto, Eicher, Ashok Leyland. Havells, Voltas, Blue star, Bajaj Electricals, Symphony Ultratech, Ambuja, ACC, Shree Cement. HUL, GCPL Asian Paints PVR, Inox Leisure, Dish TV, Den.
Logistics cost benefits will come as GST to allow free flow of goods without having multiple depot/warehouses	Companies in Cement, Auto, FMCG sectors will potentially gain by way of lower logistics/ transportation cost. Logistics companies like Blue dart, Gati, Gateway distriparks, TCI, VRL will be benefited from consolidation of warehouses, faster movement of goods leading to reduction of travel time at check posts thereby reducing freight cost.	
GST to positively impact sectors with large unorganised players as it shrinks differential tax rates and increases tax compliance.	Building materials (ceramics, faucets, sanitary ware), plywood, plastic, paints, footwear, luggage, battery, plastics and textiles.	Exide, Amara Raja Kajaria, Somany, HSIL, Cera Sanitaryware VIP, Century ply, Green Ply Asian paints, Berger paints Bata, Relaxo Supreme Industries, Finolex Industries.

Source: Edelweiss research

Table 2: Some losers

GST impact	Sectors
Higher tax incidence for services sectors and sectors already enjoying low tax rate.	Telecom , Metals, Textiles*, Pharmaceutical*, and few select FMCG players enjoying lower VAT rates (Dabur, Emami, Marico)
Sectors outside GST will not get benefit of GST paid on raw materials/ inputs and hence negatively impacted	Petroleum products (kept outside of GST for initial 2 years) and Liquor.

** Neutral impact if lower taxes continue under GST regime for pharmaceutical products and textiles.*

Source: Edelweiss research

Tobacco/cigarettes and luxury/ premium motor vehicles are expected to attract higher tax; the CEA led committee too has recommended 40% rate on demerit/ sin goods (tobacco, luxury cars, aerated drinks, etc). While liquor, real estate and electricity are likely to remain outside GST's ambit, specified petroleum products will be zero rated, leading to loss of input tax credit.

Top picks

We anticipate Auto, Cement, Logistics, Media and select FMCG/ consumer durables to be biggest beneficiaries of GST. In our coverage universe, our top picks within large caps are Maruti Suzuki, Hero MotoCorp, ACC and Asian Paints and within midcaps we like PVR, Amara Raja, JK Cement and Supreme Industries.

Maruti Suzuki & Hero MotoCorp – Transmission of lower effective tax rates will boost demand for Auto companies. Maruti and Hero will be the biggest beneficiary, as they cater to low income group where demand elasticity to price change is relatively higher.

Asian Paints - Effective tax rate expected to decline to~18% (currently ~23%). The company also stands to benefit from the presence of large unorganised (~35%) segment; demand for which could gradually shift to organised segment, facilitated by GST.

ACC & JK Cement - While the entire cement sector will be a potential beneficiary, we like ACC and JK Cement given higher earnings sensitivity to releasitaion.

PVR – Effective tax rate on box office revenues expected to decline to ~18% (currently ~22-24%). Further, availability of input tax credit on expenses and capex will lower the operating and capex cost respectively.

Amara Raja – Company will benefit from decline in effective tax rates and reduction in price difference of organised and unorganised players (currently 20-25% difference exist).

Supreme Industries – GST will be an enabler for shift of demand from unorganised players to companies like Supreme which operates in a segment with significant unorganised presence (>70%).

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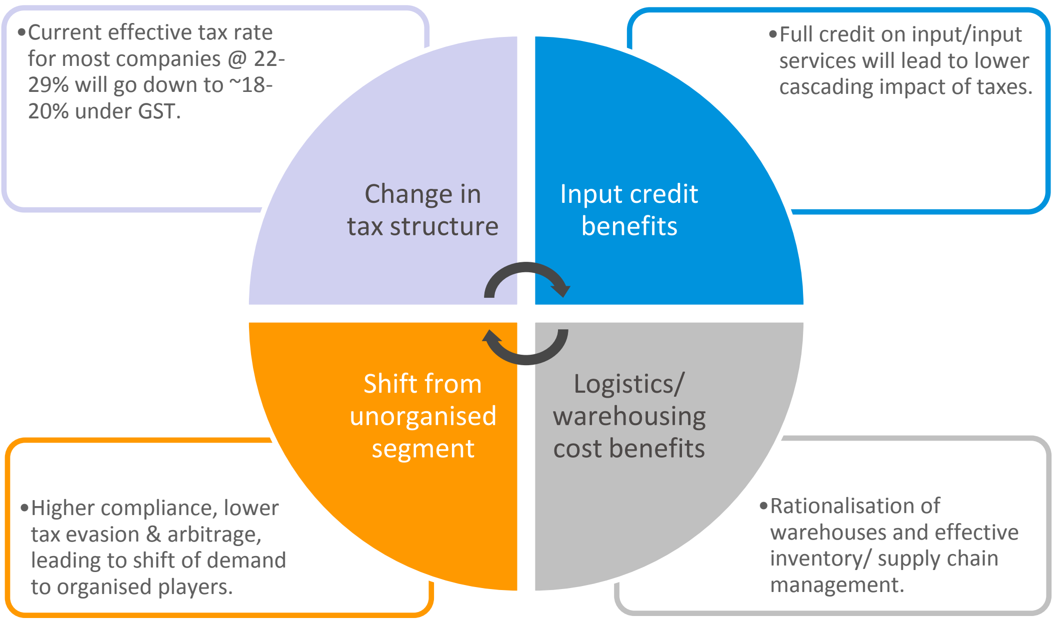
Key benefits of GST

GST will result in lower tax incidence for manufacturers in organised sector, with a harmonised tax structure, unified tax base and common rules and administrative procedures coming into effect across the nation. It will also result in widening of the tax base to include a comprehensive list of goods and services. This will bring in transparency and encourage investments in the organised sector, helping the economy gain growth momentum.

Fig. 1: GST benefits via 4 channels



Source: Edelweiss research

GST is a comprehensive value-added tax (VAT) on goods and services and expected to accelerate the pace of GDP growth in India. A simplified tax structure will improve ease of doing business and thus boost investments in the country. As highlighted in our earlier report, we list below key benefits that will follow the promulgation of GST:

GST to subsume large number of taxes and lower effective tax rates

- GST will subsume large number of taxes imposed by the central and state governments. Full credit of input tax will be available which will avoid double taxation, currently prevalent in some sectors. This will lower effective tax rates for multiple sectors.

Logistics and inventory carrying costs to decline

- Logistics and inventory carrying costs will decline. Currently, companies put additional set ups like depots and C&F agents in different states to bypass CST. With GST coming into force, these companies can have centralised warehouses and avoid additional costs (refer Annexure 3 for illustration).
- Logistics costs and transit time will also reduce going forward. Currently, considerable time is wasted by trucks at the state border check-points due to the various sales and entry tax requirements of the different states.

GST an enabler for shift of market share to organised players

- Shift of business from unorganised to organised players as tax advantages currently enjoyed by the unorganised players will diminish and market share of the organised players may potentially increase.

We have analysed the aforementioned benefits of GST in detail as under.

A. Lower tax incidence for manufacturing companies

Overall tax incidence under GST will decline for sectors like small cars, commercial vehicles, 2-wheelers, batteries, cement, consumer durables, FMCG (not enjoying exemptions) and media.

Services sector (telecom, aviation, hospitality) will be negatively impacted due to higher tax rates. Sectors enjoying lower tax rates (readymade garment/textiles, pharmaceuticals, select FMCG companies, metals, pipes, bearings, chemicals, packing material, lubricants, etc) will also get hit.

On tractors, which currently enjoy 6-7% effective tax rate, there is no clarity whether lower rate will continue under GST. However, considering the segment's nexus with the agricultural sector and its national importance, the government may continue lower concessional tax rates.

While most manufacturing companies stand to benefit, it is important to note that several companies may be currently enjoying exemptions or paying concessional tax on their products and hence the impact could be company specific.

Table 3: Current effective tax structure **

Sectors	CENVAT/Service tax (%)	VAT (%)	CST (%)	Effective tax rate (%)
Automobile				
Tractors	-	4.0 - 5.0	2.0	6.0 - 7.0
Small car/ LCVs/ HCVs/ 2 wheelers	12.5	12.5	2.0	29.0
Mid size passenger vehicles	24.0-27.0	12.5	2.0	42.0 - 46.0
Premium cars/ SUVs	30.0	12.5	2.0	49.0
Auto Ancillary				
Batteries	12.5	12.5	2.0	29.0
Tyres	12.5	4.0 - 5.5	2.0	19.0 - 21.0
BFSI	14.0	-	-	14.0
Cement @	12.5	12.5 - 14.5	2.0	27.0 - 32.0
Consumer Durables	12.5	12.5	2.0	29.0
FMCG (ex-tobacco, Liquor)	12.5	12.5	2.0	29.0
Logistics (goods transport agency)	4.2	-	-	4.2
Textiles				
Cotton yarn, fabric, polyster/silk yarn	0 - 12.5	-	2.0	2.0 - 15.0
Readymade garments/ Silk fabric	-	4.0 - 5.0	2.0	6.0 - 7.0
Media & entertainment				
Multiplex #	22.0 - 24.0	-	-	22.0 - 24.0
DTH/ Cable *	20.0 - 21.0	-	-	20.0 - 21.0
Metals	12.5	4.0 - 5.0	2.0	19.0 - 20.0
Oil and Gas (other than 0% rated petro products)	14.0	4.0-12.5	2.0	21.0 - 31.0
Paints and construction chemicals	12.5	10 - 12.5	2.0	23.0 - 27.0
Pharmaceuticals	6.0	4.0 - 5.0	2.0	11.0 - 14.0
Telecommunications	14.0	-	-	14.0

Source: Ace Equity database, Edelweiss research

Note: @ Excise duty of 12.5% of MRP (after 30% abatement) + INR120 PMT on cement sold in retail

** Includes service tax of 14% and entertainment tax of 5-7% - # Multiplex sector taxes represent entertainment tax ranging from 22-24%.*

*** Note: Above taxes calculation excludes cess, surcharges and entry taxes prevailing in various states, if any*

Table 4: Companies with lower excise duty as a % of sales*

Automobiles	Excise duty as % of sales
Mahindra & Mahindra	6%
Hero MotoCorp	6%
Bajaj Auto	7%
Ashok Leyland	8%
TVS Motor Company	9%
Eicher Motors	10%
Tata Motors	10%
Maruti Suzuki India	11%
Motherson Sumi Systems	12%

Consumer - FMCG/ Paints	Excise duty as % of sales
Marico	0%
Dabur India	1%
Procter & Gamble	1%
Bata India	2%
Emami	2%
Britannia Industries	2%
Nestle India	3%
Hindustan Unilever	6%
Godrej Consumer Products	6%
Colgate-Palmolive (India)	7%

Capital Goods	Excise duty as % of sales
Suzlon Energy	0%
Siemens	3%
Bharat Heavy Electricals	4%
Thermax	4%
Crompton Greaves	5%
Alstom T&D India	6%
ABB India	6%
AIA Engineering	9%
Cummins India	11%

Auto Ancillaries	
SKF India	7%
Bosch	8%
Bharat Forge	9%
Amara Raja Batteries	11%
Exide Industries	12%
MRF	12%
Apollo Tyres	12%

Paints	
Asian Paints	11%
Berger Paints India	11%

Consumer - durables	
Voltas	0%
Havells India	6%

Textile	
Page Industries	0%

Plastic Products	
Jain Irrigation Systems	4%
Supreme Industries	11%

Chemicals	
Coromandel International	2%
Tata Chemicals	3%
Bayer CropScience	6%
Pidilite Industries	7%
PI Industries	10%
UPL	12%

Pharmaceuticals	
Torrent Pharmaceuticals	0%
Wockhardt	0%
Cipla	2%
Ipca Laboratories	2%
Lupin	2%
Biocon	3%
Cadila Healthcare	3%
Dr. Reddys Laboratories	3%
Glenmark Pharmaceuticals	4%
Sun Pharmaceutical Industries	4%
Aurobindo Pharma	8%

Source: Ace Equity database, Edelweiss research

Note: (Universe - BSE-200 ex-BFSI, Oil & Gas, Telecom, IT and other services and exempted sectors)

(Based on standalone net revenue ex-FOB exports value as per annual report)*

Existing area-based exemptions may continue till the time limit, while concessional tax rates on products of companies may vary depending on the fine print of the GST Act and rules thereon.

Many companies in FMCG, pharma, capital goods and few in auto sectors have lower proportion of excise duty to sales (net of exports) as highlighted above. This could be on account of either: a) exemptions/concessional rates enjoyed currently; or b) companies operating on an outsourcing model wherein excise is paid by the manufacturer and not by the companies.

B. Logistics/transportation cost benefits

We believe GST will result in lower logistics costs due to decline in transit time on account of elimination of multiple check points (octroi/state borders) and consolidation of warehouses. The cement sector entails significant logistics/freight/ transportation costs, as a proportion of revenue, followed by FMCG, metals and chemical/paints sector. While most companies operating in the B2B segment will probably pass on the cost benefits to their customers, companies with strong brand/ pricing power (for instance FMCG and cement to a certain extent) may be able to retain these benefits. On the flip side, reduction in transit time (30-40% savings) may lead to lower demand for commercial vehicles (CVs) over medium term.

Table 5: Companies with significant logistics/freight/transportation costs (>5% of net sales)

Company Name	Sector	Freight, transportation, port, hire charges	As % of sales
Ambuja Cements	Cement	24,435	24%
Ultratech Cement	Cement	54,255	22%
ACC	Cement	25,784	22%
The Ramco Cements	Cement	7,958	22%
Shree Cement	Cement	13,955	21%
Century Textiles & Industries	Cement	11,381	15%
United Breweries	FMCG - Liquor	3,327	7%
Britannia Industries	FMCG	4,271	5%
Nestle India	FMCG	4,795	5%
Glaxosmithkline Consumer Healthcare	FMCG	2,052	5%
Procter & Gamble Hygiene & Health Care	FMCG	1,070	5%
Hindustan Unilever	FMCG	14,604	5%
Tata Chemicals	Chemicals	19,111	11%
Berger Paints India	Chemicals	2,673	6%
Coromandel International	Chemicals	6,952	6%
Asian Paints	Chemicals	7,089	5%
Pidilite Industries	Chemicals	2,263	5%
Tata Steel	Metals & mining	88,114	6%
NMDC	Metals & mining	7,404	6%
Jindal Steel & Power	Metals & mining	8,836	5%
AIA Engineering	Capital Goods	1,014	5%
Suzlon Energy	Capital Goods	9,151	5%

Source: Ace Equity database, Edelweiss research

Note: (Universe - BSE-200 ex-BFSI – Consolidated financials – Impact of more than 5% of sales)

According to studies (by World Bank and CRISIL) truck drivers in India spend substantial time (~30-40%) off roads negotiating multiple check posts and toll plazas leading to lower turnaround time and high freight costs. Post GST, travel time of truck operators will decline and freight costs are expected to decline.

"Mr Mahindra Agarwal, CEO, GATI, stated in an interview that GST will trigger consolidation of warehouses, reduce transit time for goods and thus will lead to decline in inventory cost".

C. Unorganised segment

GST can accelerate the shift towards organised sector, as it will eliminate/reduce tax arbitrage (including tax evasion) and advantages currently enjoyed by unorganised players. Thus, it will create a level playing field between unorganised and organised segments.

We believe GST is one of the key factors which will drive the shift to organised segment. But, other factors that will play a pivotal role in determining the magnitude and extent of the shift to organised players are:

- Price difference between organised and unorganised players;
- Difference in product quality and basket of offerings between organised and unorganised players;
- Brand appeal of products from the organised sector;
- Distribution network and availability of products; and
- Tax and regulatory considerations.

Based on the above factors we believe the below mentioned sectors have high presence of unorganised players. An illustrative list of companies which stand to benefit from this shift is as given below.

Table 6: Sectors with significant unorganised players

Product type	Unorganised segment (%)	Key companies in organised segment (Listed)	Remarks
Building and home products			
Decorative paints	30-35%	Asian paints , Berger paints, Akzo Nobel, Kansai Nerolac	1. Decorative paints account for ~73% of the overall paint industry in India . 2. ~98% of the organised decorative paints market dominated by the top five players.
Construction chemicals	25%	Pidilite, BASF, SIKA India, Chembond Chemicals	
Ceramic tiles	50%	H&R Johnson (Prism Cements), Kajaria Ceramics , Somany Ceramics	1. Top eight manufacturers constitute over 75% of the organised market. 2. Unorganised players have high market share in western region due to low transport cost.
Faucets	55-60%	HSIL , Cera Sanitaryware	In the organised segment Jaguar is the market leader with ~70% share
Sanitary ware	35-40%	HSIL , Cera Sanitaryware	1. Mass market segment has lower competitive intensity and is dominated by domestic companies like HSIL and Cera 2. Luxury/ premium market, though growing at a faster rate (~20-25%), has become highly competitive with MNC brands like Kohler, Duravit and Toto entering into the segment
Plywood & laminates	Plywood- 70%, Laminates- 35%	Greenply, Century, Greenlam Industries	1. Century and green ply have ~25% market share each in organised plywood segment. 2. Greenlam Industries is the largest laminate players followed by Merino and Century
Electrical equipment and appliances			
Air coolers	75-80%	Symphony, Bajaj, Voltas	1. Organised air cooling market is growing at ~20-25% as against industry growth of 10-15%. 2. In the organised segment, Symphony is the market leader with 40-50% market share.
Fans	25-30%	Crompton greaves, Bajaj, Havells	
Switchgear / Cables	40-45%	Havells, KEI Industries, Finolex Industries	

Source: Edelweiss research

Table 6: Sectors with significant unorganised players (Contd...)

Product type	Unorganised segment (%)	Key companies in organised segment (Listed)	Remarks
Others			
Footwear	50-55%	Bata, Relaxo footwear, Liberty, Mirza International	International brands largely dominate the higher end of the spectrum, the lower end is dominated by home-grown players as well as unorganised players
Plastic products	>70%	Supreme Industries, Astral Poly Technik, Finolex industries	Industry comprises of >30,000 firms of which only 85-90% firms operate on small scale basis. Top players accounting for mere 20% of the industry. More than 95% of the firms are either partnership/ proprietor firms or private companies.
Packaging	45-50%	Uflex, Jindal PolyFilm, Huhtamaki PPL	There are approximately 16,000 players in the unorganized sector, accounting for approximately ~45 percent market
Batteries- After market	35-40%	Exide Industries, Amara Raja Batteries	Price difference between organised and unorganised players ranges between 20-25%.
Consumer durables	Large	Havells, Crompton, Voltas, Bajaj Electricals, Bluestar, Symphony	
Consumer/ FMCG (Ex-tobacco and Liquor)	Large	HUL, Dabur, GCPL, Emami, Marico, Britannia, Nestle.	- > 60% in most categories (Source: Marico AR) - 2/3rd in Footwear - > 90% in jewellery - 20-25% in Soaps/ detergents

Source: Edelweiss research

In addition to the above sectors, there is high presence of unorganised players in the FMCG (hair oil, biscuits, etc) and auto ancillary sectors too.

"Mr Ashok Kajaria, CMD, Kajaria Ceramics expects organised sector to pass on the benefits of lower taxes to consumers. He also stated that price difference between the unorganised and organised sectors, which is currently 15-20%, will decline to ~10-12% on implementation of GST".

GST: Current status

NDA has support of 137 MP's as against required 163 MP's in Rajya Sabha.

After years of delay, the Lok Sabha passed the Constitutional Amendment Bill on GST in the Budget Session of the parliament in Feb-Mar 2015. However, a major challenge for the government is to get the bill passed in the Rajya Sabha (RS), where it is in a minority. In the Lok Sabha, the government managed to get the bill cleared with support from all the political parties except the Congress (68 MPs), AIADMK (12 MPs) and Left parties (10 MPs). However, it would be tough get the requisite two-third majority (163 MPs) in the RS without the Congress support.

Table 7: Party-wise position in Rajya Sabha

Party	MP
Parties supporting GST	
NDA	64
SP	15
JD (U)	12
TMC	12
BSP	10
BJD	6
NCP	6
DMK	**3**
Others	**9**
	137
Parties against GST	
UPA	68
AIADMK	12
CPI & CPM (Left)	10
	90
Others	
Nominated	8
Independents	7
Vacant	3
	18
Total	**245**

Source: Edelweiss research

While the Congress has stated it principally supports GST, it wants the government to accept 3 of its demands before seeking its support for passage of the GST bill in the RS. The Congress demands on GST are as follows:

- Maximum GST rate should be capped at 18%, which should find mention in the Constitutional Amendment Bill.
- Abolition of 1% manufacturing tax on inter-state sale of goods.
- Establishment of credible and independent disputes resolution mechanism.

While the government may accept the last 2 demands of the Congress, the first one could be a point of contention as it restricts the government's executive power to raise tax rates, especially during contingencies.

Post Rajya Sabha nod, implementation at least 6-9 months away

Even if the government does manage to get the Constitutional Amendment Bill passed in the RS in the ongoing winter session of the parliament, roll out of GST from April 1 2016 could be challenging, given the time-consuming legislative and administrative processes involved. Some hurdles that need to be cleared before the GST roll out are mentioned below.

GST Council to be formed within 60 days of passage of Constitutional Amendment Bill

Post RS nod, ratification from atleast 50% (15) of the state legislatures required.

BJP and allies are currently in power in 11 states.

- At least half (15) of the state legislatures will have to ratify the Constitutional Amendment. While the BJP and its allies are in power in 11 states and can quickly ratify the Constitutional Amendment, at least 4 other state assemblies should also support it before the amendment becomes effective.
- Formation of the GST Council post passage of the bill. Key decision making with respect to GST will be done by the GST Council.
- After passage of the Constitution amendment bill, the GST bill will be tabled for discussion and passed in both houses of parliament. The state legislatures will also have to table and pass their own state GST bills.
- Adequate IT infrastructure is required for effective roll out of GST.
- Consolidation of various tax departments into GST and training of employees in tax departments.
- Registration of businesses under GST and streamlining of processes to adopt the new regulations.

Table 8: Party-wise position in state legislatures

Particulars	No	States
BJP Ruled states	8	Chhattisgarh, Goa, Gujarat, Haryana, Jharkhand, Maharashtra, Madhya Pradesh, Rajasthan
BJP (Ally) Ruled states	3	Andhra Pradesh, Jammu & Kashmir, Punjab
Non BJP/Non Congress ruled states	4	Odisha, Uttar Pradesh, West Bengal, Telangana
	15	
Congress ruled states	9	Arunachal Pradesh, Assam, Himachal Pradesh, Karnataka, Kerala, Manipur, Meghalaya, Mizoram, Uttarakhand
Other states	6	Bihar #, Nagaland, Puducherry, Tamil Nadu, Sikkim, Tripura
	30	

Source: Edelweiss research

 # Congress is an alliance partner in Bihar legislature. JD(U) key alliance partner supports GST

Taking into consideration the time-consuming legislative and administrative processes, we believe that the most optimist target for GST implementation will be October 2016 (unlike direct taxes, indirect tax changes can take place in between financial years).

Key highlights from CEA panel recommendations:

Panel recommended:

- 17-18% standard GST rate.
- 12-14% for essential goods
- 2-6% for precious metals
- 40% for luxury/ sin goods

Panel suggested removal of 1% additional levy.

Panel hints minimal Inflation impact.

- Revenue neutral rate (RNR) of 15-15.5% for GST. RNR is the standard tax rate if all the goods and services are to be taxed at a uniform rate.
- Since essential goods like medicines, agro products etc is expected to be taxed at lower rate (12-14%), committee also recommended a standard GST rate of ~17-18%. This is the rate at which all other goods & services (except those taxable at lower rates) will be taxed. Actual standard GST rate will mainly be dependent upon numbers of goods eligible for taxation at concessional rate and taxation rate of precious metals. Precious metals are proposed to be taxed at a rate which ranges between 2-6%.
- Committee also recommended higher tax rate (upto 40%) on products like Tobacco, Aerate drinks, Luxury cars etc.
- Committee also recommended removal of 1% manufacturing tax (currently included in constitutional amendment bill passed by Lok Sabha) on interstate sale of goods. Further, committee also stated that GST rate should not be capped in the constitutional bill.
- Report suggested that the proposed structure of tax rates will have minimal inflationary consequences. But careful monitoring and review will be necessary to ensure that implementing the GST does not create the conditions for anti-competitive behavior.

While computing the RNR and tax rates, the panel excluded real estate, electricity and alcohol and petroleum products, as some states have expressed reservations over giving up tax control on the lucrative items but the CEA panel suggested these be brought under the GST ambit soon.

122nd Constitutional Amendment Bill, 2014: Key features

Centre to compensate revenue loss of states for 5 years.

In the GST council, States to have 2/3rd votes while centre to have 1/3rd.

- Various central and state taxes will subsume under GST (discussed in detail in subsequent pages of the report).
- The central government will have to compensate the states for loss of revenues arising on account of implementation of GST for a period of 5 years.
- All goods and services, except alcoholic liquor for human consumption will come within the ambit of GST. However, petroleum and petroleum products will not be subject to the levy of GST till a date notified on the recommendation of the GST Council.
- Both centre and state governments will simultaneously levy GST across the value chain.
- Inter-state transaction of goods and services subject to control of centre, and centre is entitled to levy tax called integrated goods and service tax (IGST).
- It is proposed to levy a non-vatable additional tax of not more than 1% on supply of goods in course of inter-state trade or commerce for a period not exceeding 2 years, or further such period as recommended by the GST Council. This additional tax will accrue to the state from where such supplies originate. However, recently the opposition has demanded removal of this 1% tax.
- The GST Council, the apex body that will take all major decisions, will have to be formed within 60 days of commencement of the Bill. The GST Council will comprise central and state-level ministers in charge of the finance portfolio. States will enjoy two-third votes in the Council, while the central government will have the balance one-third vote.

GST in brief

GST is expected to simplify the tax structure, create seamless flow of input credit and increase the tax base. GST will be a destination-based tax on consumption of goods and services with an input credit mechanism across the value chain.

- **Taxes to be subsumed**

  It will subsume most indirect taxes (currently levied on both goods and services) under a single umbrella. Major taxes likely to be subsumed are CENVAT, VAT and service tax.

Fig. 2: Taxes to be subsumed under GST

Indirect Taxes – Proposed under GST

Central Taxes

- **Subsumed under GST**
  - Central Excise Duty (on manufacturing)
  - CST (on interstate sales)
  - Service Tax (on services)
  - Countervailing customs duty (CVD) Special Additional Customs Duty (SACD) (on imports)
- **Not subsumed under GST**
  - Basic Custom Duty (on imports)

State taxes

- **Subsumed under GST**
  - State VAT
  - Luxury Tax, taxes on lottery, betting, gambling
  - Entertainment tax
  - Entry Tax
  - Purchase Tax
  - Octroi*
- **Not subsumed under GST**
  - Stamp duty on properties
  - Excise duty on alcohol and petroleum
  - Electricity tax
  - Entertainment taxes levied by Panchayat/ municipality.

Source: Edelweiss research

**Entry taxes will be subsumed, however an additional (non-vatable) levy of 1% will be charged on inter-state transactions and shall be retained by originating state (Currently opposition parties have opposed this 1% tax levy).*

- **Shift to uniform taxation replacing multiple taxes**

  Currently, businesses have to deal with multiple tax jurisdictions, which will get reduced under GST (as explained below). Taking into account the federal structure, the GST will have a dual structure wherein it will comprise CGST and SGST. Moreover, multiple slabs will get reduced to fewer which in our view will be:

  - Normal GST rate (most of the goods and services will fall under this bucket).
  - Concessional GST rate (for public services, medicines, agri inputs, goods services meant for the poor, etc.).
  - Exempted category (public services, basic education and essential commodities will continue to enjoy exemptions).
  - Luxury /additional GST rate (will be levied on few luxury and socially sin goods).

The above structure will result in significantly lower compliance costs and lesser classification disputes.

- **Availability of input tax credit across value chain:** The current system involves multi-layered taxes levied at multiple points in the supply chain. Some of these taxes are not cenvatable and thus leads to cascading impact of taxes resulting in higher effective tax rate. GST is expected to simplify the tax structure wherein full credit of taxes paid on inputs will be available to be adjusted against output tax liability (refer below - sectoral analysis for more details/ illustrations).

GST is a destination based tax structure, wherein consuming states will earn tax revenues.

- **Destination-based tax:** GST is a destination-based comprehensive tax levied at a specified rate on sale and consumption of goods and services within a country. It facilitates creation of a national tax standard with consumers paying uniform rates of GST, thereby enabling flow of seamless credit across the supply chain.

CGST, SGST and IGST model

GST will be a dual rate structure under which both the Union and State governments will be empowered to levy and administer taxes concurrently on a uniform base of goods and services.

Dual GST structure to include CGST, SGCT and IGST.

- **CGST:** The Centre would levy and collect CGST on all transactions within a state.
- **SGST:** The States would levy and collect SGST on all transactions within a state, to be levied by the states.
- **IGST:** The Centre would levy and collect IGST on all inter-state transactions. Rate of IGST will be approximately equal to sum of CGST and SGST.

Refer annexure 1 for details/ illustrations.

Tax base and Revenue Neutral Rate (RNR)

GST rate will be decided considering RNR, exemptions and products with concessional tax rates.

- Revenue Neutral Rate (RNR) under GST is the rate at which there will be no revenue loss to the states after the adoption of GST. The GST rate will be based on RNR to be determined by the GST Council and success of GST will be largely dependent on determination of an ideal RNR.
- We believe that there will be a single GST rate wherein goods and services will be taxed at a uniform rate. In addition to normal rate, there will be lower rate for essential goods like food/vegetables, medicines and agro products, etc., and zero rates for exports. Further, there will be additional levy over and above the GST rate on tobacco products and luxury/premium motor vehicles.

States will have flexibility to keep tax rate within a band of 2% above or below standard GST rate.

- States will have the discretion to change the SGST rate, as set by the GST Council, within a narrow range (up to +/- 2%).
- Thus, the effective tax rate on services will increase post GST roll out, which is likely to impact companies in the service sectors - telecom, logistics, cable, financial services, etc. However, with the set off of entire taxes on inputs, the impact of higher effective rate may be subdued. Under GST, VAT will be subsumed and the entire tax paid on procurement of infrastructure can be set off against GST liability, which will reduce the cost of services.

Minimum threshold under GST to be around INR2.5mn

- Levy of GST will be extended to imports as well to impart a level-playing field to the domestic industry. Currently, states are not allowed to levy tax on imports.
- **Minimum threshold limit:** Under GST, minimum threshold limit is expected to be around INR2.5mn and companies having turnover of >INR2.5mn will have to pay tax as against the current regime where limits are INR15mn for excise and INR1mn for service tax payers. This will benefit the organised sector as more companies from the unorganised sector will come under the new tax regime leading to increase in their taxes and costs.

Assessment of RNR

- RNR is an outcome of the tax base and coverage of goods and services under GST. More widespread the coverage (wider the tax base), lower will be RNR.
- India's FY15 GDP (at current market prices) stood at ~INR125tn. Total centre and state tax collections (excluding tax on petroleum and alcohol) stood at INR6.9trn (6% of GDP). Comprehensive GST base in FY15 (total consumption) was at INR90tn (approx).
- Derived RNR based on FY15 tax revenues under various scenarios is as below :

If GST introduced at lowest base @ 30% of GDP, RNR stands at 18%.

Table 9: Tax base and RNR

Scenario's	RNR
Scenario-1: If GST is introduced on comprehensive tax base of INR90.0tn (72% of GDP)	RNR @ 8%.
Scenario-2: If GST is introduced on moderate tax base of INR62.5tn (50% of GDP)	RNR @ 11%.
Scenario-3: If GST is introduced on low tax base of INR37.5tn (30% of GDP)	RNR @ 18%.

Source: RBI, CSO, Budget documents, E&Y, Edelweiss research

Thus, if GST is introduced on wider tax base (INR90trn) then the tax rate will be as low as 8%. However, introduction of GST on such a wide tax base is unlikely considering likely exemptions and lower rate for essential goods and services.

Considering the current long list of exemptions, GST is not expected to be an ideal one, but a diluted one and most likely the standard GST rate seems to be anywhere around scenario 3 (refer Annexure 2 for list of goods/services currently exempt or taxed at lower/concessional rates).

Refer our earlier reports "GST - ***The Next Big Reform***, ***Back in limelight***, ***A vital cog of "Make-in-India" wheel***", and Annexure 1 below for detailed GST concept along with tax structure currently prevalent in India.

Sector-wise impact analysis

Automobile

The automobile sector, which is entirely organized, has different tax structures for different vehicles. Midsize/ luxury passenger vehicles and SUVs attract highest tax rates of ~42-49%. Other segments (ex-tractors) attract effective tax rate of 29%.

Under GST, in our view, the luxury car segment will continue to attract higher tax i.e., additional levy over and above the 18-20% expected GST rate. However, for other segments (small cars, 2W, CVs) overall effective tax incidence will decline under GST and benefit OEMs/consumers. Tractors may be charged at a concessional rate, though there is still no clarity. On the flip side, reduction of transit time for trucks (~30-40% savings) due to abolition of multiple check posts may be a demand dampener for CV players in the medium term.

Key beneficiaries include Maruti Suzuki, Hero MotoCorp, Bajaj Auto, Eicher Motors, Ashok Leyland

Effective tax rate (ex-tractors) range from 29% to 49%

Table 10: Snapshot – Current tax structure

Segment	Current tax structure (%)			
	Excise	VAT	CST	Total
Small Passenger vehicles	12.5	12.5	2.0	29.0
Midsize Passenger vehicles	24.0 - 27.0	12.5	2.0	42.0 - 46.0
SUVs	30.0	12.5	2.0	49.0
LCVs/ HCVs	12.5	12.5	2.0	29.0
Tractors	-	4 - 5	2.0	6.0 - 7.0
Motorcycles/ mopeds	12.5	12.5	2.0	29.0

Source: SIAM, Edelweiss research

In the absence of a cross credit mechanism, CST paid on inputs cannot be set off against VAT liability on output. Moreover, in the case of inter-state stock transfers, 2% of input tax gets retained resulting in loss of tax credits.

Under GST regime, this problem will get addressed as CST, VAT, excise and service tax shall be subsumed under single GST.

Tractors, we believe, will continue to be charged at lower rates.

Luxury cars to attract higher tax rates.

Tax rate of 18-20% is expected to be levied on all vehicles except luxury/premium car segment, which will be charged additional tax. Further, we believe, tractors will continue to be charged lower tax due to its agricultural importance to nation; we await more clarity on same.

Auto Ancillaries

Batteries

Overall battery players will benefit not only from lower tax rates but also due to shift from sizeable unorganised players in the aftermarket segment which currently avail tax advantages. Price advantage, enjoyed by unorganised segment due to tax evasion, is expected to reduce, thereby benefiting organised players.

Key beneficiaries: Amara Raja, Exide Industries.

Tyres

On tyres, we believe, impact of GST will be neutral to marginally positive as the current tax structure is similar to that expected under GST. However, benefits of logistics costs and correction in current inverted duty structure may be beneficial.

Organised players dominate OEM demand, while large unorganised players cater to the aftermarket segment.

The organised sector caters to the OEMs and consists of high-value precision instruments. The unorganised sector comprises low-valued products and caters mostly to the aftermarket category.

The auto components industry consisted of ~700 organised players as of FY14 that were registered with the ACMA (Auto Component Manufacturers Association). The number of unorganised players stood at a high ~5,800 members as of FY10, that mainly catered to aftermarket demand. However, on revenue base, organised players account for a massive 85% of the market.

Tax structure: Currently, companies pay ~18.5-27% as effective tax depending on industry. Under GST, overall tax incidence may come down to 18-20%.

Several categories exist in the auto ancillaries segment. We analyse few large segments here below:

Table 11: Batteries

Current tax structure	Presence of Unorganised	GST regime	Key beneficiaries
Taxes on inputs: Excise 12.5%/ service tax of 14, VAT 12.5% and CST of 2% - Total effective tax rate - 27%.	Large unorganised players in replacement battery market.	GST @ 18-20% is expected	Amara Raja, Exide Industries.
Additional custom duty @ 5% on imports - 70% of raw materials is imported.	Price difference ranges between 20-25%.		
Taxes on output: Excise @12.5%, VAT rate @12.5% and CST @2% takes the total effective tax rate to 27%.			

Source: Edelweiss research

Large unorganised players in aftermarket segment with price difference of 20-25%

Unorganised players in aftermarket battery segment

Large unorganised players are present in the replacement battery market where the price difference ranges from 20-25% lower than branded batteries, which we believe is mainly due to tax savings and environmental compliance costs. Unorganised players largely cater to the CV segment.

One of the major advantages to unorganised players is the tax structure and leakage which creates incentive for small scale manufacturers not to report sales and evade taxes. Issues like differential tax structure within states, lack of tracking the full supply chain, CST on inter-state movement of goods, etc., have seen the unorganised market flourish.

With roust IT systems, tracking of entire movement of goods including inter-state movement, and monitoring and verification of periodic returns will help widen the tax net and prevent tax leakage. Consequently, the price advantage enjoyed by unorganised segment due to tax issues will reduce thereby benefiting organised players.

Table 12: Tyres

Current tax structure	Presence of Unorganised segment	GST regime
Effective taxes on inputs – ~18.5-27%.	Industry is largely organised except for unorganised players predominant in bi-cycle tyres and Chinese tyres imported by unorganised players.	Inputs shall bear basic custom duties on imports and GST of ~18-20%. Similarly on output, GST will be leviable.
On imports of Natural rubber, nylon/polyester tyre fabric - 5 to 20% custom duty is applicable.		Overall impact of GST rate expected to be neutral on tyre industry however, warehouse rationalization can benefit along with correction in present inverted duty structure.
Effective taxes on output - @ 18.5-20%.		
Inverted duty structure prevails		

Source: Edelweiss research

Neutral impact of GST on Tyre industry.

Tax structure: Currently, customs duty is levied on natural rubber and styrene-butadiene (SBR), which are imported for the manufacture of tyres. VAT at 4.0-12.5%, excise of 12.5% and CST of 2% are paid on other raw materials like nylon tyres fabric, carbon black and other chemicals.

Inverted duty structure: Currently, tax on inputs is higher than tax on output directly imported, which is disadvantageous to local manufacturing, leading to higher costs.

Overall impact of GST may be neutral on tyre industry. However, companies will benefit to the extent of lower logistics costs due to warehouse rationalisation and potential correction in the current inverted duty structure.

Consumer Durables

Companies currently not availing tax exemptions or concessional rates will benefit from lower tax rates and warehouse/logistics costs potentially in 300-400bps range, to be shared between consumers and companies.

Impact of GST may be neutral to negative for companies with exemptions and/or lower concessional rates if under GST these lower rates are discontinued.

Key beneficiaries: Havells, Voltas, Blue Star, Bajaj Electricals, Symphony

Table 13: Snapshot

Current tax structure	Industry size and unorganised segment	Benefits under GST regime
Effective tax rate @ 27%	Size – USD9.7bn (FY14) with 65% share of Urban and 35% rural markets.	**We believe potential cost savings in the system can be:** Due to tax efficiency - ~300bps
Tax arbitrage exists (Eg: Electronics goods in Karnataka taxed @5% - Maharashtra and Gujarat VAT @12.5%.	Industry expected to grow to USD12-13 by 2020[*].	Due to rationalisation of depot/ warehouses - ~100bps
		Total cost savings in the system - ~400bps
	Unorganised segment - Large	

Source: Edelweiss research

*Note: *Joint report by Consumer Electronics and Appliances Manufacturers Association (CEAMA) and consultancy firm EY.*

State-level tax arbitrage exists in terms of differential rates.

Tax arbitrage exists in terms of different rates prevailing in different states. For instance importing electronic goods and selling from Karnataka attracts 5% VAT rate versus selling from other states like Gujarat or Maharashtra where VAT rates of 12.5% is applicable.

This not only leads to tax arbitrage, but also encourages participants to not report transactions and save tax in states with high VAT rates. This leads to increase in the share of unorganised market.

Overall, GST will strengthen the positioning of organised players in market and lend fillip to growth.

Consumer/FMCG (ex-tobacco and liquor)

Many FMCG companies are currently either in tax-free zones or enjoy lower tax rates on medicinal, herbal products and certain other categories specific to individual companies. Players like Emami, Marico and Dabur, whose products are currently charged at lower rates, may not benefit from decline in tax rates under GST. However, like other FMCG companies, savings can come from reduction in warehouse and related costs.

Overall savings in the system pertaining to: a) warehouse rationalisation that existed solely for tax saving purposes; and b) reduction of overall tax rates, cumulatively could range between 200-300bps to be shared between consumers and companies.

Impact of GST may be neutral to negative for companies availing exemptions and/or lower concessional rates if under GST these lower rates are discontinued.

Key beneficiaries: HUL, GCPL, P&G, Asian Paints, Berger Paints
Neutral to potentially negative impact: Emami, Dabur, Marico

Table 14: Snapshot

Current tax structure	Industry size and unorganised segment	Benefits under GST regime
Effective tax rate @ 27% + entry taxes in various states.	4th largest market in economy expected to grow at average CAGR of 12%[*]. In last decade growth stood @11% CAGR.	**We believe potential cost savings in the system can be:**
		i) For Goods directly sold to distributors/ retailers – **3.3.5%**
	<u>**Unorganised segment**</u> - > 60% in most categories (Source: Marico AR)	ii) For Goods sold via depots/ warehouses – ~1.5-2.0% + logistics savings of ~0.5-1.0% - **Total ~2.0-3.0%**
	- 2/3rd in Footwear -20-25% in Soaps/ detergents - 30-35% in decorative paints	

Source: Edelweiss research
*Note: *Nielsen, Ibef.org.*

Paints and other Construction Chemicals

Paints and other construction chemicals companies are expected to benefit from lower effective tax rate. Further, lower effective tax rate will narrow price difference with unorganised players and increase opportunities for organised players.

Key beneficiaries- Asian Paints, Berger Paints, Kansai Nerolac, Akzo Nobel, BASF India, Pidilite.

- **Decline in effective tax rate:** Currently, indirect taxes burden (excluding CST of 2%) stands at ~23-27%, which is expected to decline to ~18-20%, leading to improvement in realisations.

Tax rate for paints sector to decline from 23% to 18-20%

Table 15: Comparison of output taxes under current and proposed tax regime

Current	Proposed
Excise duty: 12.5%	GST : 18-20%
VAT: 10-12.5%	
CST: 2% (on inter state sale)	
Entry tax: 0.5-1%	

Source: Edelweiss research

- Asian Paints highlighted that it currently pays ~23% indirect tax, which includes excise duty of 12.5% and VAT of 11%. Any GST rate below the current tax rate (~23%) will tend to benefit the company.
- **Lower logistics/warehouse sector:** Further, there may also be savings on account of rationalisation of depots/warehouses, lower inventory carrying and logistics costs.
- **Shift to organised segment**: Decline in effective tax rate, post implementation of GST, will create a level playing field between the unorganised and organised segments, as the former competes with organised players based on its lower costs due to non/less compliance with tax laws. As the unorganised sector cedes its competitive edge, it will increase the opportunity for organised players.

  Currently, organised players have ~65% share in the decorative paints industry (INR360bn), with the top-4 companies commanding more than ~90% market share.

Unorganised players have 35% market share

Liquor

The 122nd Constitutional Amendment Bill, 2014 has kept liquor outside the purview of GST. Hence, the current tax structure will prevail for liquor companies. However, companies will not be able to claim full input tax credit on various input costs, for which credit was otherwise available earlier, as GST credit will not be available against excise and VAT on liquor products. This will lead to higher costs for the companies and exert further pressure on profitability unless passed on completely to customers, which we believe is more likely.

Liquor industry, being outside GST purview, will lose on non-availability of input tax credits

Cigarettes/ Tobacco

Tobacco has been included under GST. Tax rate is expected to be higher on tobacco products as these are considered to be demerit goods (or sin goods) and hence are charged higher taxes. We believe there will be an extra levy over and above the GST rate for tobacco/ cigarette manufacturers.

Tobacco expected to be charged at rates higher than standard rates

Specific excise duty is currently levied on Cigarettes.

There is no clarity whether specific excise will continue or Advalorem duty will be applicable under GST.

Currently, specific excise duty is levied based on length of cigarettes (INR/1,000 sticks) as summarised under:

- 60-64mm - INR1,438
- 65-70mm – INR1,896
- 70-75mm – INR2,587
- 75-85mm – INR3,784
- 85-100mm – INR3,784

VAT is levied at different rates in various states ranging from 20% to 50% and in some states a specific rate is levied.

Logistics

Currently, service tax of 4.2% is levied on road transport industry with a condition of non-availment of input tax credit. While modalities (including tax rates) of application of GST on road transport industry are unclear, in our view, levy of higher GST rate without corresponding input tax credit may not be justifiable. GST will lead to higher truck utilisation (lower transit time) and boost demand for high tonnage trucks, which will lower transportation costs. Further, GST is expected to accelerate demand for logistics services as it facilitates seamless inter-state flow of goods.

Key beneficiaries: VRL Logistics, GATI, Blue Dart, Transport Corporation of India, Snowman Logistics.

GST will lower logistics and inventory carrying costs

GST is expected to reduce transit time by ~30-40% and will thus increase the truck utilisation

- Currently, trucks spend considerable time (~30-40%) on check posts set up to collect octroi, entry tax, etc. This leads to long transit time and consequently higher transportation costs. Under the proposed GST, the entire country will become one single common market without any state borders. Thus, time currently being wasted at check posts will be saved leading to higher truck utilisation and lower logistic costs for most industries.
- GST will lead to consolidation of multiple small warehouses (shift towards hub and spoke model), which were set up to avoid state taxes at the cost of operational efficiencies. GST will accelerate the demand for large size warehouses. Organised players who are better positioned to manage such large warehouses will gain further market share.
- Setting up large warehouses will gradually increase the demand for high tonnage trucks, which are more cost effective and will further lower transportation costs.

GST will lower the transportation and inventory carrying cost

- Currently, inventory carrying cost is very high across sectors due to multiple warehouses and high/uncertain transit time. GST will reduce the requirement of carrying large inventory and thus will lower inventory carrying costs.
- Moreover, with organised retail and E-commerce gaining prominence, there is a pressing need to have centralised warehouses, thereby enabling proper stocking and timely availability of inventory

Cement

Cement sector is expected to benefit from lower effective tax rate under GST and savings in logistic costs.

Key beneficiaries: ACC, Ultratech, JK Cement, Shree Cement.

Indirect tax on cement sector is expected to decline to ~18-20% versus ~27-32% currently

- Currently, indirect taxes (output) on cement ranges ~27-32%, which is expected to decline to ~18-20% under GST. Thus, realisations of cement companies are expected to increase post GST rollout.

Table 16: Comparison of output taxes on retail sales of cement

Current	Proposed
Excise duty: 12.5% * + INR 120 PMT	GST : 18-20%
VAT: 12.5-14.5%	
CST: 2% (on inter state sale)	
Entry tax: 4-5%	

** to be computed after abatement of 30% on MRP.*

Source: Edelweiss research

- Companies will also be able to save on their logistic costs, which range between ~20-25% of revenues, due to rationalisation of warehouses and lower transportation costs (due to decline transit time), etc.

Entertainment (Multiplexes)

Availability of input tax credit with respect to service tax (ST) paid on lease rentals, maintenance costs, etc., and excise duty/ST paid on capex will lead to decline in operating and capex costs for the players. Further, decline in effective tax rate on box office collections (ticket sales) to 18-20% versus the current ~22-24%, will lead to increase in average ticket price (ATP) post tax and consequently higher revenues. EBITDA margins of players could increase by ~250-350bps post implementation of GST.

Key beneficiaries: PVR, Inox Leisure

Current tax structure

Taxes on output: Currently, multiplexes pay entertainment tax (ET) on box office (ticket sales) collections. Entertainment tax rates vary across states and areas high as 50% in few states. While food & beverages (F&B) sale attracts VAT and Service Tax, advertisement revenue attracts ST. -

Effective tax rate on box office revenues expected to decline to ~18-20% (currently ~22-24%).

Table 17: Revenue composition of multiplex companies and current output taxes

Particulars	Tax rate	PVR	Inox
Box office	ET- ~22-24%	55%	65%
Food & beverages	VAT- ~10-12.5% Service Tax- 5.6%	25%	19%
Advertisement	Service Tax- 14%	12%	8%
Others	Service Tax- 14%	8%	8%

Revenue composition is based on FY15 financials

Source: Edelweiss research

Taxes on input: Currently, no/limited credit of ST paid on lease rentals, maintenance cost, advertisements, security charges, etc., is available. These input taxes stood at ~INR500mn (~3% of revenues) and INR275mn (~2.6% of revenues) for PVR and Inox, respectively. VAT credit on purchase of F&B can be offset against VAT liability on F&B sales. Further, credit of taxes paid on capex is unavailable.

Availability of input tax credit on expenses and capex will lower the operating and capex cost respectively

Table 18: Set off eligibility of input taxes against output taxes

Particulars	Entertainment tax	VAT	Service tax
Input taxes			
Service tax	x	x	✔
Excise duty	x	x	x
VAT- on fixed assets	x	x	x
VAT- on Food & beverages	x	✔	x
Central sales tax	x	x	x

Source: Edelweiss research

- Blended entertainment tax rate on box office collections is in the range of ~22-24% and the same is not cenvatable against any input taxes, leading to higher cost of operations. Under GST, tax rate is expected to decline and credit of input taxes will also be available. This will lead to twin benefits of increase in ATP ex-taxes and decline in operating costs.
- F&B sales attract VAT of ~10-12.5% currently and service tax of 5.6%, which is expected to go up marginally under GST. We believe that companies will be able to pass on the higher taxes to consumers and it will not have any significant impact on SPH.

- Currently, most of the taxes paid on capex are not allowed to be adjusted against output tax liability. However, under GST, taxes paid on capex will be allowed to be adjusted against output tax liability, leading to lower cash outflows on fixed assets and consequently lower depreciation expenses on future capex.
- EBITDA margins of the players could increase by ~250-350bps post implementation of GST. Further, industry will continue to benefit from shift in customer preference to multiplex over single screen theatres (mainly in unorganised sector)
- GST will also benefit movie production and distribution companies like Eros International as multiplex revenues (net) from box office is slated to increase, which will in turn share higher revenues with producers and distributors.

Media (DTH)

Tax rate for the sector is expected to decline, which will lead to increase in ARPU. Special additional duty on imported equipment (mainly set-top boxes), which currently adds up in the capex cost, will get subsumed under GST and lower capex cost.

Key beneficiary: Dish Tv

ARPUs for the sector to improve due to decline in tax rate

- Currently, effective indirect tax rate on industry (D2H and digital cable) is ~20-21%, which includes ST of 14% and ET of ~5-7%. If lower tax rate (say 18-20%) under GST is fixed, it will led to increase in ARPUs as industry is unlikely to pass on the benefits of lower taxes to consumers.

Capex cost to decline due to availability of input tax credit

Table 19: Current tax structure

Particulars	Current taxes	Taxes under GST
Subscription revenue	Entertainment tax - ~5-7% Service Tax- 14%	GST- ~18-20%
Capex (Set top boxes)	BCD- ~10% SAD- ~4% CVD- ~12.5%	BCD- ~10% GST- ~18-20%

Source: Edelweiss research

- Dish TV management highlighted that ARPUs will increase once GST is implemented, as DTH industry will price its packages at net level and charge uniform GST separately. Extent of increase in ARPU will depend on the GST rate fixed by government.
- Since Special Additional Duty (SAD) on import of goods will subsume under GST, it will benefit the DTH industry as currently no input credit/refund of SAD is allowed, leading to higher effective price of imported items (mainly set-top boxes). Even if higher GST rate is fixed on imports, entire tax paid (excluding basic customs duty) will be cenvatable and can be adjusted against output tax liability. Thus, GST will lead to decline in capex costs and consequently depreciation expense.

Retail

The industry will be positively impacted due to offset of input tax credit on several costs, which currently comprise a significant portion (~15-20% of sales) for retail companies. We believe costs for these companies can potentially decline by ~150-200bps.

Output taxes will increase under GST at ~18-20% vis-à-vis current 5-7%. However, we believe it should be a complete pass through to ultimate customers.

Key players: Multi-brand retail players - Shoppers Stop, Future Retail, Trent, Pantaloons Fashion & Retail, V-Mart Retail, Reliance Industries (retail segment).

Footwear: Bata, Relaxo –significant unorganised players exists.

Table 20: Snapshot of tax structure – Current versus under GST

Current tax structure	Unorganised segment	Benefits under GST regime
State wise VAT (largely 5%), CST@2% and state level octroi/ entry taxes.	A highly fragmented sector with more than 90% of the business is unorganized in form of family run (kirana) stores, street stores, etc	Tax rates will go up from current 5-7% to expected rate of ~18-20% in GST, however will be a pass through.
		Companies will significantly benefit from seamless credit for all taxes paid on inputs/ services, potentially ranging from 150-200bps.
Service tax paid on several inputs (rentals, logistics etc), is currently not eligible for set off against VAT.	Garments/ apparels segment contributes 30-35% in the retail industry followed by foods, grocery, electronics, etc.	

Source: Edelweiss research

Availability of input tax credit will lower cost by ~150-200 bps (of sales)

We believe any taxes included in capex, which are currently not eligible for credit, may also potentially be available under GST.

Huge unorganised segment: According to a committee report by the National Statistical Commission, the Government of India, share of labour input in unorganised wholesale and retail trade segments stood at 98.3% in 2004-05. In 2009, organised modern retail's market share stood at 4% as per another report[1]. Various retail companies are making efforts to tap the unorganised segment by way of modernisation, new format stores, super/hyper markets, specialty stores, etc., and are also penetrating faster into metros and tier-II cities.

Inventory management: Inventory and supply chain management play key role for retailers to have right inventory mix depending on recent trends, customer behavior, etc. Inventory days are typically higher in high-priced luxury goods, reasonable in clothing/ garments segment and lower in fast-moving foods, beverages and grocery segments. Transportation, distribution and logistics management are generally outsourced by retailers to third parties. GST will help companies in managing inventories efficiently without having the need of multiple warehouse locations driven by tax reasons.

[1] *Report by Corporate catalyst India*

Textiles/ Garments

Unlike the current tax regime wherein companies pay 6-7% on readymade garments, under GST there is no clarity whether a lower rate will be charged on these products. Companies may be negatively impacted by higher output tax rate, considering normal rate of GST.

Further, many exporting companies also avail duty drawback benefits. We await more clarity on GST will impact these benefits.

Cost savings on account of full input tax credit can range between 70 and 120bps for few large companies.

Although the unorganised segment is large (estimated at more than 90%*), tax differential between organised and unorganised players is not material currently, and most likely will only widen under GST. Hence, shift of unorganised segment due to taxation reasons is not expected.

Key players to be impacted: Arvind, Raymond, Page Industries.

Effective tax rate on textile sector, which is ~6-7% currently, is expected to increase under GST

Table 21: Current tax structure

Segment	Current tax structure (%)			
	Excise	VAT	CST	Total
Cotton yarn and fabric	-	-	2.0	2.0
Polyester and silk yarn	12.5	-	2.0	14.5
Cotton, manmade, woolen fabric	-	-	2.0	2.0
Silk fabric	-	4.0 - 5.0	2.0	6.0 - 7.0
Finished/ ready made garments	-	4.0 - 5.0	2.0	6.0 - 7.0

Source: Edelweiss research

Input taxes: Major raw materials (cotton, yarn, etc) are exempt from VAT in most states.

Loss of input credit on various expenditures

Currently, companies pay service tax on lease rentals, advertisement costs, legal, professional and other administrative costs wherein input tax credit is not eligible, as there is no CENVAT on output. Hence, these taxes become costs for companies.

Savings of 70-120 bps (of sales) on account of availability of input tax credit under GST

For most large companies, 60-70% of revenues constitute raw material, employee costs and power/fuel expenses, while 5-10% of the costs include rentals, advertising, legal/professional, etc. Under GST, companies will be able to take credit of these costs and in our view will potentially lower the costs. Service tax component is currently a cost for companies and approximates to **70-120bps** of sales.

Pharmaceutical

GST is expected to be neutral for the pharmaceutical sector. In our view, the sector will continue to get taxed at concessional rates. Since the sector enjoys various location-based tax incentives, effective tax rate (excise duty) for most companies in the sector is much below the statutory tax rate (6%). While existing tax exemptions will continue till expiry of the tax exemption period, new exemptions will be difficult to get going forward. GST is also expected to address inverted duty structure and lower logistic costs for the sector.

Pharmaceutical sector may continue to be taxed at concessional rate

Table 22: Comparison of output taxes under current and proposed regime

Current	Proposed
Excise duty: 6%	GST : Not Available
VAT: 5%	Expected to be taxed at concessional rate
CST: 2% (on inter state sale)	

Source: Edelweiss research

- Currently, indirect tax (output) on formulations is ~11% (excluding CST of 2%) which includes excise duty of 6% and VAT of 4-5%. We expect that pharmaceuticals being essential goods will continue to be taxed at concessional rate under the proposed GST regime.
- **Input tax benefits:** Raw material costs generally range ~30-40% of sales in pharmaceutical industry. Currently, no tax credit of CST paid on inputs (API, etc) is available, leading to higher manufacturing costs. Under GST, full credit of input taxes paid will be available leading to lower manufacturing costs and higher profits.

  GST is also expected to address the tax anomaly wherein Inputs (API: 12.5%) are taxed at a higher rate than output (6%), leading to accumulation of tax credit and blockage of funds.

GST is expected to address inverted duty structure

Lower logistics/warehousing costs: Under the existing tax regime, to avoid CST, companies set up warehouses in each state for distribution and sale of their products. Since CST will subsume under GST, it will facilitate consolidation of vendors and suppliers, eliminating the need to have state-wise warehouses (C&F agents) to avoid CST and the associated paper work. This will enable companies to consolidate warehouses, rationalise their networks and take advantage of economies of scale, improved efficiencies, better control and reduction in inventory.

IT & ITeS – Software industry

The IT industry earns a large part of its revenue from exports, which will continue to be exempt under GST.

Impact on IT industry is expected to be neutral to slightly negative led by increase in taxes from 14% currently to ~18-20% under GST.

Litigation around taxability of canned software will probably end under GST regime as there will be no distinction between goods and services.

Table 23: Snapshot

Software components	GST regime
Software industry (predominantly organized) can be classified as canned (packaged software), uncanned (customized) software and other services.	Single rate to end the litigation on differentiation between goods and services
Canned software are treated on par with goods, thereby attracting Excise and VAT and the other two being in the nature of services fall under service tax levy.	Full input credit of taxes paid including excise, service tax and VAT.

Source: Edelweiss research

Canned software cannot be modified or altered beyond the original functionality and are classified as "goods" for the purpose of levy of VAT at the rate of 5% in majority of the states. On software licenses/end user licence agreements both service tax and VAT are charged. Hence, taxes amount to 19%.

Table 24: Tax on various software products and services

Particulars	Treatment	Rate
Canned software	Excise and VAT	17.5%
Uncanned software	ST	14%
Sale of licence/EULA	VAT & service tax	19%
Onsite Customised Softwares & Implementation	ST	14%
Twitching of existing customer owned softwares	ST	14%
Supplying technical staff to BPO/KPO	ST	14%
AMC	ST	14%
Cloud Sharing	ST	14%
Online Database Access	ST	14%
Value Added Services	ST	14%

Source: Edelweiss research

Effective tax rate is expected to increase which will be marginally negative for telecom sector

Telecommunication

Increase in effective tax rate will be marginally negative for the sector as telcos may not be able to pass on all the increase in taxes to end consumers, especially for lower ARPU prepaid segment. However, availability of input tax credit will lower the sector's capex cost.

- Currently, telecommunication services are subject to service tax of 14%, which could increase to 18% under GST. We expect telcos to pass on the increased tax burden in case of postpaid subscribers. However, negative price elasticity may force them to absorb some burden of higher tax, especially in case of low ARPU subscribers, or they may have to let go of some volume.
- On the capex front, currently, credit of various taxes paid (eg. VAT, CST, SAD and entry tax) on purchase of capital equipment is not available. However, under the proposed GST regime, input tax credit in respect of capex will be available, which may lower the sector's capex costs.

Metals

Table 25: Current Tax structure

Segment	Current tax structure (%)			
	Excise	VAT	CST	Total
Ferrous metals	12.5	4-5	2	19-21
Non-ferrous metals	12.5	4-5	2	19-21

Source: Edelweiss research

- Currently, base metal products attract ~19-21% of effective tax rate: VAT ranges from 4-5% depending on the state, excise 12.5%, CST 2% and entry taxes in respective states. Under GST, it is not known whether metal products will attract a special rate that is lower than the standard GST rate. In case metal products get taxed at standard GST rate (expected to be between 18-20%), impact will be neutral though will be partly offset by savings in input tax credit.

Capex cost for power sector is expected to increase as companies will not be able to acquire goods at concessional tax rate

Power

- Electricity tax has been currently kept outside the purview of GST. Many power companies procure equipment for setting up power plants and maintenance of generation and distribution systems. Currently, goods purchased on inter-state basis attract 2% CST. Thus, companies enjoyed this concessional rate of tax on purchase of goods/ equipment.
- Under GST, this advantage of lower tax rate will go away and companies will have to purchase goods at GST rate (expected at around 18-20%). As electricity tax is kept outside GST, companies will not be able to avail input tax credit on these purchases and hence costs may go up for these companies.

Petroleum/ Oil & gas

Zero (0%) rated petro products

- Although petroleum products have been subsumed in the GST model, the 122nd Constitutional Amendment Bill has excluded (up to a future date based on recommendations from GST Council) certain petroleum products from GST i.e. petroleum crude, high-speed diesel, motor spirit (petrol), natural gas and ATF, wherein

GST will be zero rated (0%) and current taxes levied by the centre and states (excise, VAT, etc) will continue. However, other petro products like naphtha, furnace oil, lubricants, etc., will be covered under GST.

- Companies having these 5 (0% rated) petro products will have a negative impact in the form of loss of taxes paid on inputs, which is currently available to them. Since output for these companies will continue to attract current taxes (excise and VAT), input tax credit for GST paid on other products will not be eligible for set off against the excise and VAT. Hence, companies will face pressure on their profitability unless the cost is completely passed on to consumers.

Other products

- Many products like naphtha, furnace oil, lubricants, etc., attract excise rate of 14% while VAT rate varies from state to state between 4-12.5% and some states also provide exemptions on these products.
- Impact of GST expected at 18-20% will be positive to neutral, led by lower tax incidence and seamless input credit availability, except for companies enjoying area-based exemptions.

Banking and Financial Services

Higher taxes will marginally increase operating expenses for banks

- Currently, service tax is levied only on fee component (and not interest) of the transaction. Under GST, effective tax rate on fee-based transactions is expected to increase to 18-20% (versus 14% currently).
- Since, taxes on input services will increase, operating expenses (mainly rent, legal & professional fee, advertisement, insurance, telecommunication expenses etc) for banks will increase marginally.
- **GST will lead to moderate increase in cost of banking and other financial services such as loan processing fees, debit/credit card charges, insurance premiums, etc.**

Table 26: Fee-based income of banks

Particulars	Fee income (% to total revenue)	Fee income (% to PPOP)
PSUs		
Bank of Baroda	14.1	25.1
Oriental Bank	14.3	26.1
Punjab National Bank	14.6	27.4
State Bank of India	19.5	38.8
Union Bank	11.4	23.4
Private sector		
Axis Bank	31.5	53.1
HDFC Bank	24.2	43.7
ICICI Bank	28.9	45.8
Yes Bank	34.5	58.8
IndusInd Bank	38.9	73.1

Source: Edelweiss research

Fee-based income accounts for significant proportion of profitability (PPOP) of private sector banks.

GST: No major impact on inflation

- Impact of GST on inflation will depend on the Revenue Neutral Rate (RNR) to be decided by the government. It is widely believed that under the proposed GST, effective tax rate on goods (~70-75% of the CPI basket) will decline, while taxes on services (~25-30% of CPI basket) will increase.

Table 27: CPI inflation components

Component	Weights	Remarks
Food, beverages & tobacco	**49.7**	
Cereals and products	14.6	No taxes
Milk and products	7.7	No taxes
Fruits & vegetables	7.3	No taxes
Other agro and other product	20.1	No/Low taxes
Fuel & light	**9.5**	
Housing	**9.8**	Mainly includes House rent on which no service tax is leveid
Clothing, bedding & footwear	**4.7**	
Miscellaneous	**26.3**	
Transport and communication	7.6	Includes both service (taxable) and goods
Medical care	5.7	Service tax is exempt in most services
Household requisites	4.3	
Education, stationery etc.	3.4	Service tax is exempt in most services
Personal care and effects	2.9	
Recreation and amusement	1.4	Service tax is leveid
Others	1.1	

Source: Edelweiss research

- A significant proportion (~35-40%) of goods (mainly agro products) included in the CPI basket is not subject to tax currently. Thus, transition to GST will not have any direct impact on inflation, if these goods continues to be exempt under GST.

- For the remaining goods included in the CPI basket, impact of inflation/disinflation will be contingent on the extent to which the manufacturers pass on the benefits of lower taxes to consumers and time lag with which lower taxes passed on to the consumers.

- Services-oriented components constitute ~25-30% of the CPI basket with high weights on housing, transport and communication, etc. Currently, service tax is not imposed on certain (~12% of the CPI basket) services and these services are also expected to be exempt under GST regime. Thus, hike in tax rate on services is unlikely to have any material direct impact on CPI.

- While we believe that there will not be direct significant impact of GST on CPI, other indirect factors might stoke inflation in near term on adoption of GST.

GST: Global experience and perspective

GST is one of the widely accepted indirect taxation system prevalent in more than 150 countries across the globe. Globally, GST has been structured as a destination-based comprehensive tax levied at a specified rate on sale and consumption of goods and services within a country. It facilitates creation of a national tax standard with consumers paying uniform rates of GST, thereby enabling flow of seamless credit across the supply chain. In countries where GST has been adopted, producers (manufacturers, wholesalers, retailers, and service providers) charge GST at the specified rate on the price of goods and services, and claim input credits for GST included in the price paid by them on procurement of goods and services (raw material). Technically, sellers or service providers collect GST from their customers (who may or may not be the final consumers) and prior to depositing this with the exchequer, deduct the tax (GST) paid by them. The ultimate cost is borne by the final consumer who cannot claim GST credit. In this sense, it is an indirect tax—not borne by manufacturers and service providers. The net effect is that the seller or service provider charges GST but does not retain it, and pays GST but receives a credit for it, making him a pseudo collecting agent for the government. On most goods and services, the tax rate is uniform, but depending on the circumstances in a country, certain goods and services can be declared 'exempted' or charged at a lower rate.

Table 28: GST/VAT rates in different countries

Country	Standard rate (%)	Country	Standard rate (%)
Australia	10	Malaysia	6
Austria	20	Mauritius	15
Belgium	21	Mexico	16
Canada	5+PST*	Netherland	21
Denmark	25	Portugal	23
France	20	Singapore	7
Germany	19	South Africa	14
Hungary	27	South Korea	10
Indonesia	10	Spain	21
Israel	17	Sweden	25
Italy	22	Switzerland	8
Kenya	16	UK	20

**Provincial sales tax*

Source: Edelweiss research

Annexure 1

Current indirect tax structure

The current indirect tax regime in India is a complex multi-layered system under which governments at various levels—centre, state and local—have the power to levy taxes at different points in time in the value chain. This creates a complex structure, cascading impact of taxation, hinders inter-state trade and triggers litigation.

Key issues

- **Cascading impact (tax on tax):** Absence of cross credit mechanism between various statutes leads to taxing the tax.
- **Inter-state trade:** Absence of credit availability of CST against other taxes hinders free inter-state trade.
- **Complex structure:** Current tax regime involves multiple tax laws, rules and administrative procedures; entities with pan-India presence have to deal with multiple laws of each state.
- **Regional differences in tax rates:** Even after implementation of VAT across the state there is no uniformity in the rate of tax charged. Also, there is difference in the basic rate of tax across the state.
- **Differential rates in value chain:** Difference in the rate of tax on input and output leads to tax evasion.
- **Double taxation:** Certain ambiguous items are subject to both service tax and VAT, eg., occurs in sectors like media & entertainment, IT/ITes, etc.
- **Inverted duty structure:** In certain sectors like pharmaceuticals taxes on inputs are higher than taxes on finished goods, which results in accumulation of tax credit and blockage of funds.
- **Exemptions:** Regional and product exemptions lead to higher tax on other goods and services.

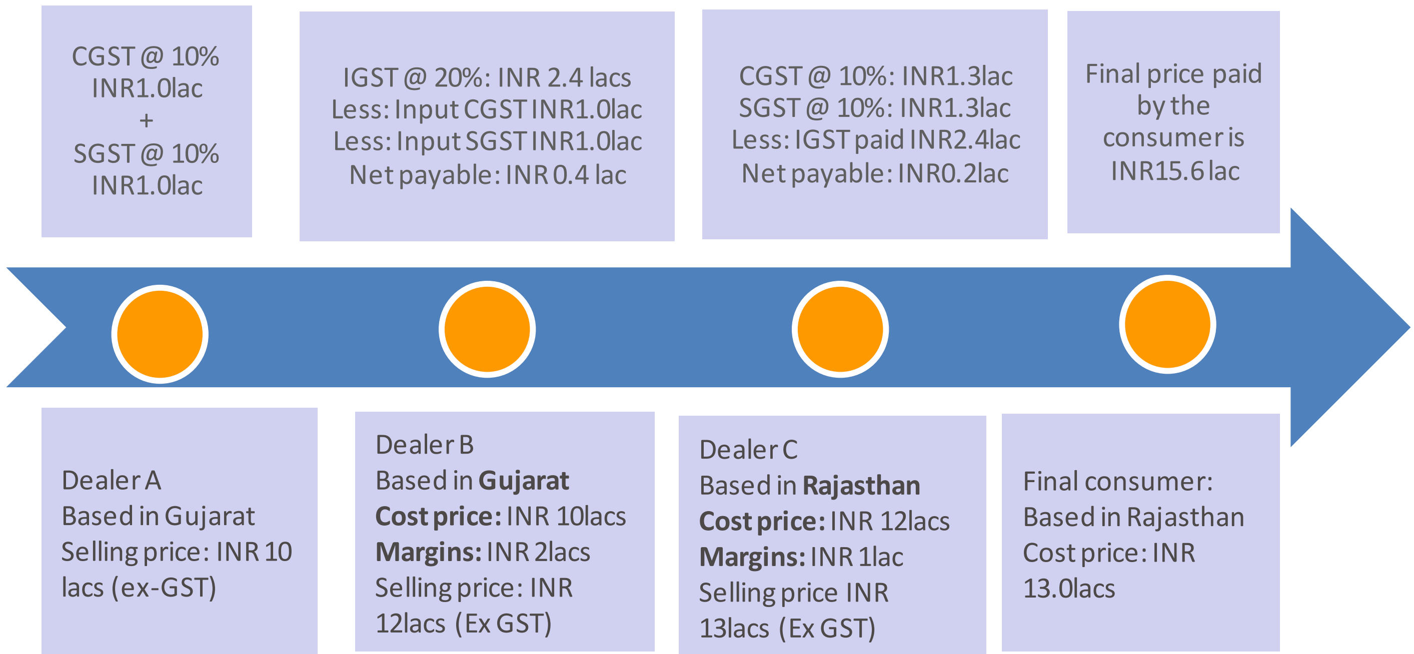
Refer our earlier report for details

CGST, SGST and IGST model

Key features of IGST model

- Sellers in origin state will charge IGST on inter-state sales transactions. Sellers shall use their input CGST and input SGST for payment of IGST.
- Inter-state buyers shall avail input tax credit on the basis of tax invoice for payment of their own IGST, CGST or SGST.
- Both, the sellers and buyers shall report these transactions in their respective e-returns.
- Since GST is a destination based tax, GST paid by the sellers in their states (including input tax credit claimed by them) will be remitted to the buying states.

Fig. 1: CGST, SGST and IGST model



Source: Edelweiss research

Formation of GST Council and its powers

The GST Council will be constituted within 60 days from date of passage of the Constitutional Amendment Bill. The GST Council will comprise central and state level ministers in charge of the finance portfolio. The Union finance minister will be chairperson of the Council.

Decision of the GST Council will be taken at a meeting, by a majority of not less than $3/4^{th}$ of the weighted votes of the members present and voting. States will be provided $2/3^{rd}$ vote in the Council, while the central government will have the balance $1/3^{rd}$ vote.

GST Council will make recommendations with respect to the following:

- The taxes, cesses and surcharges levied by the Union, the States and the local bodies which may be subsumed in the goods and services tax.
- The goods and services that may be subjected to, or exempted from tax.
- Model Goods and Services Tax Laws, principles of levy, apportionment of Integrated Goods and Services Tax and the principles that govern the place of supply.
- The threshold limit of turnover below which goods and services may be exempted.
- The rates including floor rates with bands of goods and services tax.
- Other matters.

The GST Council may decide about the modalities to resolve disputes arising out of its recommendations.

IT platform – Goods and Service Tax Network (GSTN)

Goods and Services Tax Network (GSTN), a Section 25 (not for profit), a non-government private limited company was incorporated on March 28, 2013. The Government of India holds 24.5% equity in GSTN, and all States and Empowered Committee of State Finance Ministers (EC) together hold another 24.5%. Balance 51% equity is held by non-government financial institutions. The company has been set up primarily to provide IT infrastructure and services to the central and state governments, tax payers and other stakeholders for implementation of GST.

Under the prior government, the Ministry of Finance, with the concurrence of the Empowered Committee of State Finance Ministers, had set up an Empowered Group on IT Infrastructure for GST (headed by Mr Nandan Nilekani) with the mandate of developing, approving and setting up an IT architecture of the common GST portal and related IT systems.

Key features of GSTN

- Common portal providing 3 core services (registration, returns and payments)
- PAN-based registration number
- Simplicity for tax payers
- No dilution of the autonomy of states as a result of the IT system, or the re-engineering
- Uniformity of policy administration
- Enable digitisation and automation of the whole chain
- Reduce leakages: Tools such as matching the input tax credit, data mining and pattern detection will deter tax evasion and thus increase collections
- Leveraging existing IT investments

Current status of the IT platform

Based on feedback from authorities in the indirect tax departments, a lot of background work has already been done for setting up of GSTN and the whole IT infrastructure which will be the backbone of a successful GST. Various initiatives including approval of utilities and systems, pilot runs in select states, appointment of a full-time CEO and other related activities have been completed. The government will be ready with the IT Infrastructure when rollout of GST happens.

Annexure 2

List of exemptions prevailing in current indirect tax structure in India – Major categories

Table 1: State level VAT

Exempt goods in 1 or more states	Goods taxed @ 4-5% in 1 or more states
Agri inputs, food, vegetables, fruits, milk and dairy products	Acids, processed foods, spices, Castor and castor oil, coconut
Pulses, seeds, sugar	Bearings
Cotton yarn, fabric and silk yarn	Bicycles, tricycles , auto and their parts
	Bulk drugs, chemicals, fertilisers, lubricants, Soda ash
	Pesticides, Insecticides, fungicides, herbicides, weedicides
	Hand pumps , parts and fitings, hose pipes
	Industrial cables, paper, pipes, Transmission towers, Transformers, Windmill
	Plastic footwear, packing material
	Plant and machinery / capital goods, rail coaches
	Ready made garments
	Software
	Tractors
	Iron and steel

Source: Edelweiss research

Table 2: Excise

Exempt from duty	Taxable - Nil rate
Live Animals; Animal Products	Meat and edible meat offal, Fish, etc and dairy produce
Live trees and other plants; cut flowers, etc	Animal products, edible vegetables, fruits, nuts, coffee, tea, spices
Cereals	Waste from the food industries; prepared animal fodder
Miscellaneous grains, seeds and fruit; industrial or medicinal plants.	Salt; sulphur; earths and stone; plastering materials, lime and cement
Raw hides and skins of bovine (including buffalo) or equine animals. Raw skins of sheep or lambs	Oxygen - Medicinal grade, Heavy water (deuterium oxide), Nuclear fuels not elsewhere included
Newspapers, Journals and Periodicals.	Animal or vegetable fertilisers
Worn Clothing And Other Worn Articles	Agarbatti
Rags, Scrap Twine, Cordage, Rope And Cables Of Textile Materials	Photographic plates and film (except cinematographic film)
Waste/ scrap primary cells, batteries, electrical parts	Natural Rubber, leather of animals in any form
	Wood Charcoal, Veneer sheets, for match boxes and match splints
	Books, Newsprint; Boxes, pouches, wallets and writing compendiums, paper stationery, etc
	Raw Silk ; Silk waste; Wool; Fine or Coarse animal hair
	Cotton, Cotton Waste
	Diamonds, Hand-made lace, Bangles, Beads
	Agriculture related machinery
	Spacecraft (Including Satellites) and Suborbital/ Spacecraft Launch Vehicles
	Fishing Vessels; Factory Ships and related Fishery Products; Warships
	Orthopaedic Appliances, Hearing Aids And Other Appliances for Disability

Table 3: Service taxes

Negative list	Mega exemption
Government services ,RBI ,foreign diplomatic mission services	Services provided to the UN, government, service to education institution, Training or coaching in arts, culture or sports
Agriculture related services	Health care & veterinary services, charitable activities,
Advt space selling, time slots for broadcast by radio/TV.	Services provided to or by sponsorship of sporting events
Toll collection	Technical testing or analysis of newly developed drugs
Betting, gambling or lottery	Services for public infrastructure
Admission to entertainment events & amusement facilities	Hotel rental below INR 1,000 per day, Restaurant services except 1) AC restaurants & 2) those with license for alchol
Electricity transmission or distribution utility	Transport by rail for goods with national importance
Education, Renting of residential dwelling	Services provided to state transport or other goods transport agency
Interest & discount, inter-bank forex	Transport of passengers to specified states
Passenger transportation services	Services for vehicle parking, general insurance under specified scheme
Goods transport services except 1)Courier & 2) Goods transport agency	Job work for agri processing, jewellery and manufacturing of goods < INR1,50,000p.a

Source: Edelweiss research

Annexure 3

Fig. 1: Depot rationalisation and supply chain management

Supply chain	Company	Warehouse/ Depot	Distributor	Retailer	Customer
Current situation - Interstate sale to distributor - CST applicable					
Cost of Prod'n	200		287	345	
Margin	50		20	10	
Total	**250**	**NA**	**307**	**355**	**Price to consumer**
Excise@12.5%	31		-	-	
Total	**281**		**307**	**355**	**361**
CST @2%	6		-	-	
VAT @ 12.5%	-		38	44	
VAT set off	-		-	(38)	
Total	**287**		**345**	**361**	
Current situation - Local sale via depot/ warehouse:					
Cost of Prod'n	200	281	281	339	
Margin	50	-	20	10	
Total	**250**	**281**	**301**	**349**	**Price to consumer**
Excise@12.5%	31	-	-	-	
Total	**281**	**281**	**301**	**349**	**355**
VAT @ 12.5%	-	-	38	44	
VAT set off				(38)	
Total	**281**	**281**	**339**	**355**	

Under GST:

	Company	Warehouse/ Depot	Distributor	Retailer	Customer	
Cost of Prod'n	200	Not required	300	334		
Margin	50		20	10		
Total	**250**		**320**	**344**	**Price to consumer**	
GST @20%	50		64	69	**349**	***3.5%***
GST set off	-		(50)	(64)		
Total	**300**		**334**	**349**		

Source: Edelweiss research

Ultimate cost to consumers may come down by 3.5% (at 20% GST rate) to 5.7% (at 18% rate) under GST. Companies with various depots/warehouses set up across states will benefit in the range of 2-3%. They will save on warehousing costs due to rationalisation of warehouses.

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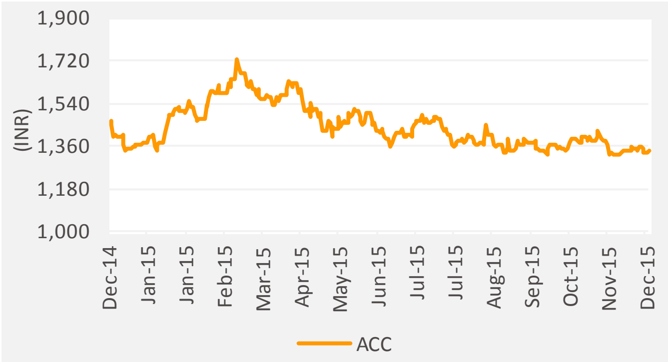
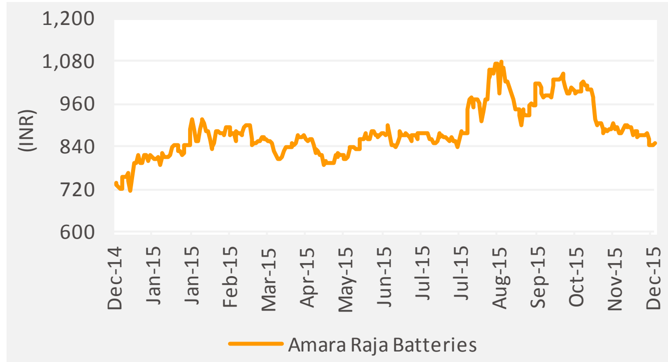
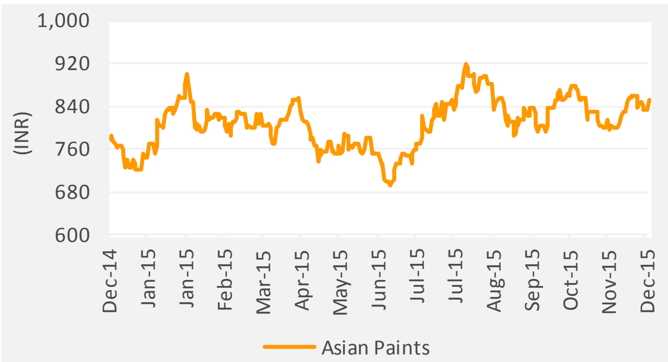
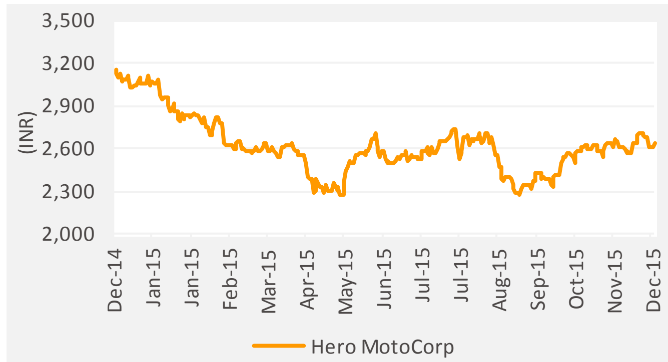
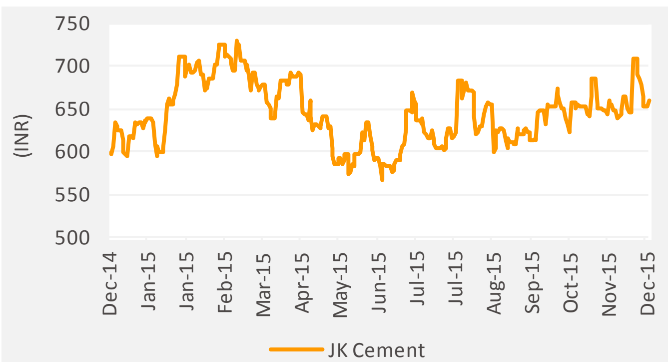
One year price chart

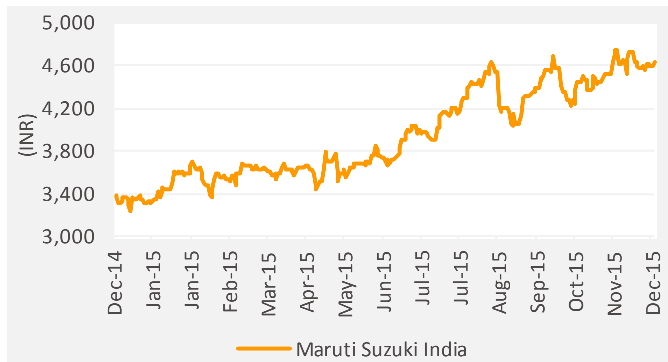


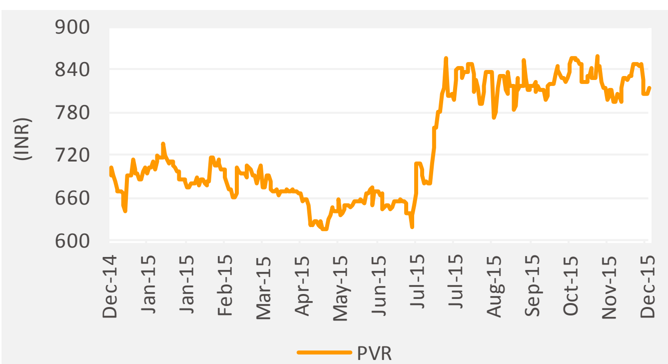


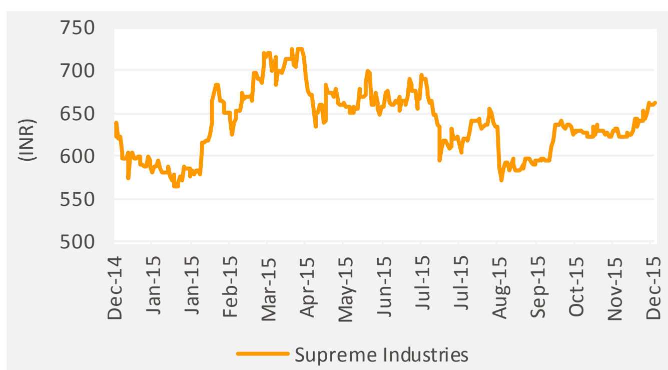












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