

Change in rates		
Item	GST rate %	Current (%)
Hair Oil	18%	23-24%
Toothpaste	18%	23-24%
Soap	18%	23-24%
Detergent	28%	23-24%
Cereals	Nil	11%
Tea	5%	3-9%
Edible Oil	5%	3-9%
White goods		
Air Cooler	18%	26%
Paint	28%	24-27%
LED Lights/fixtures		
Lamps	12%	0
Fixtures	12%	22%
Adhesive	18%	23-24%

Source: cbec.gov.in, ICICIdirect.com Research

Consumer

GST implementation in final lap...

With the conclusion of the GST Council meet, rates of most consumer products have been decided. Given 81% of items to be taxed below 18% standard rate, we believe the implementation of GST would not be inflationary in nature. Most FMCG products have been subsumed in the nearest slab of existing indirect tax. However, for toothpaste, hair oil & soaps, it would come down from current ~23% to 18%. With the anti-profiteering clause in place, companies would be required to pass on the benefit of tax rates to the consumer in the form of lower prices. We believe this could result in faster consumption shift from unbranded to branded products, spurring volume growth for FMCG companies. Simultaneously, it will also bring operational efficiency with rationalisation of supply chain through de-bottlenecking. Similarly, in the consumer discretionary space, tax incidence on paints & air conditioner would increase marginally. However, indirect tax on air coolers, led lights & adhesives would come down substantially, which could spur demand for these products as majority of the industry is dominated by unorganised players. Decision on GST rates shows the government is prepared to roll out GST by July 1, 2017. We believe it will be a big boost for consumer companies as it will bring a level playing field against unorganised industry by eradicating the possibility of tax evasion.

Dairy industry – exemption, lower incidence is positive

- Considering the basic need, fresh milk, curd, lassi, butter milk remain exempted from the tax
- UHT and paneer are kept under 5% slab whereas fatty items, namely cheese, butter, ghee, etc, will attract 12% tax
- Ice creams, condensed milk and milk based beverages with nuts are attracting the highest tax rate in the dairy space at 18%

FMCG – taxes mainly kept anti-inflationary in nature

- Foodgrains are exempted whereas cereals will be taxed at 5% under GST considering food as the basic necessity item
- Keeping it anti-inflationary in nature, personal care products, soaps, hair-oil & toothpaste are kept in the 18% slab against current 23-24%
- Cosmetics and beauty related products, deodorants along with hair-care category (shampoos, hair dye and cream) are kept under 28%
- Surprisingly, the detergents category has been kept under the highest bracket of 28% against industry expectation of 18%. We believe this may require companies to take price hike to pass on the burden
- Under the edible category, honey, edible oil, tea, flour has been kept in the lowest bracket of 5%, as they are the basic need of the common man. Fruit & vegetable juices will attract 12% whereas instant coffee has attracted 28% tax incidence
- Jams, sauces, pasta are in 12% category whereas malt has been kept in the slab of 18%
- Chocolates, including white and cocoa based, fall under 28%

Cigarette – tax incidence to remain revenue neutral

- On expected lines, tax incidence on cigarettes is expected to be neutral for the companies with GST rate at 28% (currently average VAT for ITC – cigarettes is ~26%) in addition to cess
- Cess has been identified to be 5% plus a) ₹ 1.59/stick for below 65 mm, b) ₹ 2.12/stick for 65-70mm, c) ₹ 2.86/stick for 70-75 mm and d) ₹ 4.17/stick for cigarettes above 75 mm, which we believe replaces the current excise duty structure

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Exhibit 1: GST rate on cigarette

Cigarette (Filter)	
GST rate	28%
Cess	
Less than 65 mm	5% + ₹1.59/stick
65-70mm	5% + ₹2.12/stick
70-75	5% + ₹ 2.86/stick
More than 75 mm	5%+ ₹ 4.17/stick

Source: cbec.gov.in, ICICIdirect.com Research

Consumer discretionary: demand shift to follow

- To promote use of efficient lighting products, GST rate on LED has been kept at 12%
- As expected, the white goods category (air conditioner, washing machines, TVs) has been kept under the 28% GST bracket considering the luxurious product category. The air cooler category has been kept under the 18% bracket, which will benefit organised players in terms of shift in demand from unorganised categories (still 75% unorganised)
- GST rate for paint/varnishes have been kept at 28%, which is approximately similar to the previous tax slab
- Adhesive products category have been kept at the 18% slab
- GST rates for PVC pipes and furniture categories have been subsumed in the nearest tax bracket of 18% and 28%, respectively. We believe this would lead to a shift in demand from the unorganised players to the organised industry
- Electrical wire & cable and switches have been kept at the upper tax category at 28% each

Exhibit 2: List of various items and their respective GST rates

Items	Nil	5%	12%	18%	28%	Companies affected
Fresh & pasteurised milk	✓					Nestle, Britannia, Kwality, Prabhat Dairy, Parag Milk Foods
UHT, Skimmed milk powder, Yoghurt, Whey		✓				Nestle, Britannia, Kwality, Prabhat Dairy, Parag Milk Foods
Beverages containing milk			✓			Britannia, Prabhat Dairy
Milk containing edible nuts				✓		Britannia, Prabhat Dairy
Curd, Lassi, Buttermilk	✓					Nestle, Britannia, Kwality, Prabhat Dairy, Parag Milk Foods
Paneer (Branded)		✓				Prabhat Dairy, Parag Milk Foods
Milk food for babies		✓				Nestle
Butter, Ghee, Cheese, dairy spreads			✓			Britannia, Prabhat Dairy, Parag Milk Foods
Condensed Milk				✓		Nestle, Prabhat dairy
Ice cream (whether or not containing cocoa)				✓		HUL, Amul, Vadilal
Honey (Branded)		✓				Dabur
Instant coffee					✓	Nestle, HUL, Tata Global Beverages , ITC
Tea		✓				Tata Global beverages, HUL
Flour (branded)		✓				ITC
Malt, whether or not roasted				✓		GSK Consumer Healthcare
Edible oil including coconut, sunflower, mustard, olive, goundnut oil		✓				Marico
Chewing Gum					✓	ITC
White Chocolate					✓	Nestle
Chocolates and other food preparations containing cocoa					✓	ITC, Nestle
Waffles and wafers coated with chocolate					✓	Nestle
Bread (branded or otherwise)	✓					Britannia
Rusks, toasted bread and similar toasted products		✓				Britannia
Pasta such as spaghetti, macaroni, noodles (whether or not prepared)				✓		Nestle, ITC
Pastries and cakes				✓		Britannia
Fruit & vegetable juices, Fruit pulp or fruit juice based drinks			✓			Dabur
Jams, fruit jellies, fruit or nut purée				✓		HUL, Dabur
Sauces and preparations, Soups				✓		HUL, Nestle
All kinds of food mixes including instant food mixes, soft drink concentrates, Sharbat				✓		Dabur
Waters, including natural or artificial mineral waters and aerated waters				✓		Tata Global beverages
Tender coconut water (branded)			✓			Dabur
Agarbatti			✓			ITC
Hair-oil				✓		Dabur, Marico, HUL, Baja Corp, Emami
Toothpaste				✓		Colgate, HUL, Dabur, GSK Consumer
Beauty or makeup preparations and preparations					✓	HUL, Dabur, Emami
Shampoos, Hair cream, Hair dyes (natural, herbal or synthetic)					✓	HUL, Dabur, Godrej Consumer Products, Marico
Pre-shave, shaving or after-shave preparations					✓	Gillette
Deodorants & other perfumes					✓	HUL, ITC, Marico, Godrej consumer Products
Soap (in the form of bars, cakes)				✓		HUL, Godrej consumer, ITC
Soaps (in liquid form)					✓	HUL, Godrej consumer, ITC
Detergents					✓	HUL, Jyothy Laboratories
Insecticides				✓		Jyothy Laboratories, Godrej Consumer Products
Consumer Durable						
Air cooler				✓		Symphony Ltd, Bajaj Electrical, Voltas, Wim plast, Kenstar
Air conditioner					✓	Voltas, Blue Star, Hitachi, Llyod (Havells)
Adhesives				✓		Pidilite Ind, Astral Poly
Appliances (Domestic)					✓	Havells, Bajaj Electricals, V-guard, Crompton Greaves
Electric wire & cable					✓	Havells, V-guard, KEI Ind
LED Lightings/Fixtures			✓			Havells, Bajaj Electricals, Crompton Greaves, Eveready
Paints					✓	Asian Paints, Berger Paints, Kansai Nerolac, Akzo
Plastic Furniture					✓	Nilkamal, Supreme Ind, Prima Plastic, Wim plast
PVC Pipes				✓		Supreme Industries, Astral Poly, Finolex Ind
Switches					✓	Havells, V-guard, Anchor, Schneider

Source: cbec.gov.in, ICICIdirect.com Research

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