

MAY 21, 2017

UPDATE

BSE-30: 30,465

GST: The finishing line is finally here. We believe GST is all set to be implemented on July 1, 2017 with (1) the GST Council finalizing the GST rates on almost all goods and services and (2) 12 states passing the state GST laws; more will do so over the next few weeks. The government has followed a multi-pronged approach to prepare for the implementation of GST. However, we are less sure about the readiness of companies, especially the smaller ones, to adopt GST in a smooth manner.

GST rate on most services at 18% versus the current 15%

Exhibit 1 gives the GST rates of various services broken down by key sectors and sub-sectors. As can be seen, the government has put most services in the 18% category. As in the case of goods, the government has exempt certain mass-consumption items (education, healthcare, transportation on local and metro trains) from GST or kept the GST rate at 5% (transportation in general). However, the 18% tax on communication is on the higher side, in our view. Also, the GST rate of 28% on cinema tickets for multiplexes and 12-40% GST rate on F&B items (blended 11% currently) will be negative for the listed multiplex stocks versus expectations.

GST rates on most goods in the range of 12-28%

Exhibit 2 shows the GST rates on various goods broken down by key sectors and sub-sectors. We have already covered this in detail in our May 19 report. The government is yet to decide on the rates for two important sectors—textiles (apart from branded garments at 18%; the definition of branded garment is not clear since it can technically include private labels from the unorganized sector too) and precious metals and jewelry. The government will decide on the rates for these two categories of goods on June 3.

Limited impact on inflation as GST tax rates on common items are below current rates

We see limited impact on CPI inflation due to the changes to tax rates from July 1 following the implementation of GST as the government has (1) exempt fresh food items completely from GST, same as in the current taxation system, (2) kept the rates on edible oils and processed foods items at 5-12% (with the exception of aerated waters), (3) exempt services such as education and healthcare completely from GST, same as under the current system and (4) kept the rate on transportation at 5% in general. The aforementioned goods and services account for a large share of the CPI basket (see Exhibit 3).

Interesting to see how the government handles tax on gold, precious metals and jewelry

It would be interesting to see how the government handles the vexatious issue of tax on gold and jewelry since (1) the industry vehemently opposes any changes to the taxation structure and (2) gold imports have surged of late (see Exhibit 4). In our view, the government should separate the two 'roles' of gold between savings and consumption and tax the 'roles' separately to achieve its objectives of (1) higher disclosures on purchase and sale of gold and (2) higher household financial savings. Accordingly it can (1) exempt 'paper' gold (gold bonds) completely from tax as is the case for other financial savings products (other than any GST on transaction fees), (2) tax bullion at a rate of 5% to discourage savings in the form of physical gold and (3) tax jewelry overall at 12% GST or making charges (service) separately at 18% GST.

QUICK NUMBERS

- **7% of goods exempt, 14% at 5%, 17% at 12%, 43% at 18% and 19% at 28% GST rate**
- **Most services to be taxed at 18% versus current rate of 15%**
- **40% of CPI basket exempt from GST**

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Exhibit 1: GST rate on most services at 18% versus the current 15%
Current service tax rates and GST rates on various services

Services	Current rate	GST rate	Companies impacted
Communication			
Broadband services	15	18	
DTH& cable services	15	18	Dish TV
Telecom services	15	18	Airtel, Idea
Education			
Elementary and secondary	Nil	Nil	
Higher education & PG	Nil	Nil	
Vocational education	Nil	Nil	
Entertainment			
Amusement parks	15% + E-tax	28	
Gambling	15	28	
Live sports	15% + E-tax	28	
Movies	~30 blended	28	PVR
Theatre, drama, classical dance	15% + E-tax	18	
Healthcare			
Diagnostics	Nil	Nil	Dr Lal Pathlabs
Hospitals, clinics	Nil	Nil	Apollo Hospitals
Hospitality			
Non-AC/alcohol serving restaurants	15	12	
AC, alcohol serving restaurants	15% + VAT	18	
Five star restaurants	15% + VAT	28	
Hotels & lodging between Rs1,000 & Rs2,500/day	15	12	
Hotels & lodging between Rs2,500 & Rs5,000/day	15% + VAT	18	
Hotels & lodging above Rs5,000/day	15% + VAT	28	
Transportation			
Air transportation (economy)	~6	5	
Air transportation (other than economy)	~9	12	
Rail transportation (local & metro)	Nil	Nil	
Rail transportation (AC & 1st class)	~5	5	
Renting of metered cab, auto-rickshaw	Nil	Nil	
Public transport (other than tourism)	Nil	Nil	
Renting of cab, radio taxi	~5	5	

Source: Government of India, Kotak Institutional Equities

Exhibit 2: GST rate on most goods in the range of 12-28%
Central excise duty, state VAT and GST rates on goods

Goods	Central excise duty	State VAT	Current effective rate	GST rate	Companies impacted
Automobiles					
Two-wheelers	12.5	12.5-14.5	24.3	28	Bajaj Auto, Eicher Motors, Hero Motocorp and TVS Motors
Three-wheelers	12.5	12.5-14.5	24.3	28	
Small petrol cars/Compact SUVs	12.5	12.5-14.5	24.3	29	Maruti Suzuki
Small diesel cars/Compact SUVs	12.5	12.5-14.5	24.3	31	Maruti Suzuki
Mid-sized cars	24	12.5-14.5	32.3	43	Maruti Suzuki
Large cars	30	12.5-14.5	34.1	43	Maruti Suzuki
Large SUVs	27	12.5-14.5	35.9	43	M&M
Commercial vehicles	12.5	12.5-14.5	24.3	28	Ashok Leyland, Bharat Forge, Eicher Motors, Tata Motors and Wabco
Tractors	8.8	4-6	11.9	12	M&M
Cement					
Cement	12.5% + Rs125/ton (Chargeable on 30% discount to MRP)	12.5-14.5	23-26	28	UltraTech, ACC, Ambuja, Shree Cement and other mid-cap names
Consumer durables					
Air-conditioner, microwave oven, refrigerator, washing machines	12.5	12.5-14.5	26-30	28	Havells, Voltas, Whirlpool
Fans, water heaters, mixer juicer grinders	12.5	12.5-14.5	26-30	28	Crompton
Consumer staples					
FMCG products (except those stated below)	12.5	5-12.5 (varies across states)	16-24	28	All FMCG companies
Bakery items					
Bread	Nil	Nil	Nil	Nil	
Pastries and cakes	6	5-12.5	11-18	18	Britannia
Rusks, toasted bread and similar toasted products	Nil	5-12.5	5-12.5	5	Britannia
Beverages					
Aerated waters containing added sugars	21	15	32-36	28	
Fruit pulp or fruit juice-based drinks	6	5	11-12	12	Dabur, Manpasand Beverages
Mineral water	12.5	12.5	26-28	18	
Tea and coffee	Nil	5	4-6	5	
Cigarettes					
Cigarettes	46 (blended; varies based on stick's length)	27 (blended - varies across states)	40-70	28% + fixed cess + ad valorem cess	ITC, VST, Godfrey Phillips
Dairy products					
Butter and others fats (ghee, butter oil etc.)	Nil	5-12.5	5-12.5	12	Britannia
Cheese	Nil	12.5	12.5	12	Britannia
Fresh milk (ex-UHT), curd, butter milk, paneer	Nil	Nil	Nil	Nil	
Milk powder/ UHT milk, skimmed milk, cream, yoghurt	Nil	5	4-6	5	Nestle, Britannia
SMP, milk food for babies (ex-condensed milk)	Nil	Nil	Nil	5	Nestle
Other food items					
Chocolates, chewing gum	12.5	12.5	26-28	28	Nestle
Honey (branded)	Nil	5	4-6	5	Dabur
Ice cream	6	12.5	16-20	18	HUVR
Namkeens	12.5	12.5	26-28	12	
Pasta	6	12.5	18	18	Nestle, ITC
Sauce, soup and broths	12.5	12.5	26-28	18	
Vegetable oils	Nil	5	4-6	5	Marico, Agro Tech Foods
Personal care items					
Coconut oil	Nil	5	4-6	5	Marico, Dabur
Hair oils (excluding coconut oil), toothpaste, soaps	12.5	12.5	26-28	18	Marico, Dabur, Bajaj Corp., Emami
Perfumes, deodorants, shampoos, hair cream, hair dyes	12.5	12.5	26-28	28	
Sanitary napkins	Nil	5	4-6	12	P&G Hygiene
Building materials					
Paints	12.5	12.5	26-28	28	All paint companies
Prepared glues and other prepared adhesives (under 1Kg)	12.5	12.5	26-28	18	
Sanitaryware, faucets, tiles	12.5	7-12.5	18-24	28	Cera, HSIL, Kajaria, Somany
Others					
Apparel/garments	2	4-5	6-7	Not decided	Arvind, Kewal Kiran, Nandan Denim and Page Industries
Bullion/Jewelry	1	1	2	Not decided	Titan, PC Jeweller

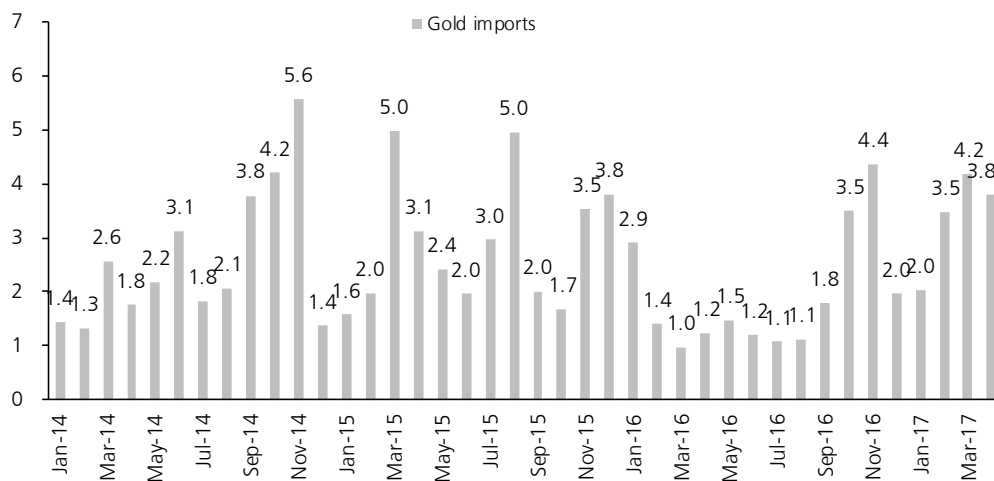
Notes:

- Excise duty and state VAT are charged on different 'bases' and hence, they are not additive.
- Swachh Bharat, Krishi Kalyan and Infrastructure cess to be subsumed in GST within one year of implementation.
- Small cars/mini SUVs includes vehicles <4 m in length and engine size less than 1,200 cc/1,500 cc for petrol/diesel vehicles
- Mid-sized cars/SUVs includes vehicles >4 m in length and engine size less than 1,500 cc
- Large SUVs/Cars includes vehicles with engine size greater than 1,500 cc

Source: Government of India, Kotak Institutional Equities

Exhibit 3: Gold imports have surged recently

Value of gold imports, March fiscal year-ends, 2014-17 (US\$ bn)



Source: CEIC, Kotak Institutional Equities

Exhibit 4: GST-exempt items have 40% weight in CPI basket

Weight of various food items in CPI basket (%)

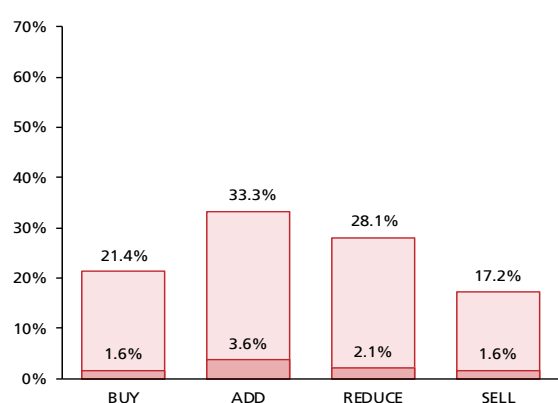
	Weight in CPI
Fresh food items	30.0
Edible oils and processed food items	15.2
Education	4.5
Healthcare	5.8
Transportation	2.5
Others	42.0
Total	100.0

Source: MOSPI, Kotak Institutional Equities

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Source: Kotak Institutional Equities

As of March 31, 2017

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