Date: 20th July, 2016

GST- The way forward

We have prepared a detailed note on GST covering the following areas:

❖ Background

1. **Taxes expected to be subsumed under GST:**
   Following are the taxes which the Empowering Committee has recommended to be subsumed in the GST.

Central Taxes	State Taxes
Excise (Basic and Additional)	VAT/ Sales Tax
Service Tax	Entertainment tax (unless levied by local bodies).
Additional & Special Customs Duty	Luxury Tax
Surcharges	State cesses & surcharge in relation to goods & services
Cesses	Taxes on lottery, betting and gambling.

2. **Sectors expected to be kept out of GST purview:**
   As of now Petroleum products and Alcohol for human consumption are kept outside the purview of GST. Whether other sectors like Tobacco and Electricity are also kept out of GST remains to be seen. As per the Empowering Committee Report, Tobacco products would be subjected to GST with Input Tax Credit (ITC). Centre may be allowed to levy excise duty on tobacco products over and above GST with Input Tax Credit.

❖ Concerns

1. **Taxes Rate:**
   - We believe that the neutral rate is likely to be higher than 18%. A tax rate of 18% can only be possible if a lot of services/goods that are out of the tax net currently or get taxed at a very low rate are included in the GST, which seems unlikely. Currently, we believe that there is no Excise Duty on ~75 items and no VAT on ~70 items (in Maharashtra that will give an idea for other states).
   - In case of service tax there is a negative list of 14 services which are not taxed while there are ~20 services which are under exemption (read Mega Exemption notification). The concern remains of their prospective treatment under GST.
   - Further, there are various services (eg. Hotels, Goods Transportation, Restaurants, Air Fare) which enjoy abatements and thus are only partially taxed. Clarity is awaited as to whether such abatements continue under GST.
   - Even in case of Excise and VAT, certain goods like Medicines, branded agricultural/food items, etc., are taxed at a concessional rate. Will it continue under GST remains to be seen.
     - **No CENVAT on capital inputs for certain services**
       Currently there are various services (eg. Goods Transportation, Hotels, Construction, etc.) which enjoy abatement and thus are taxed at concessional rate. Because of such abatements these service providers are not allowed to take credit for taxes paid on capital goods. It is expected that such disallowance of tax credit will continue under GST which we believe will defeat the very purpose of removing cascading effects on tax. So whether the Government continues with such abatements and disallowance of tax credit or withdraws the abatement and gives credit on capital inputs remains to be seen.
     - **Compensation to State Governments**
       As GST is a tax on consumption, many manufacturing states will lose while the consuming states will benefit. Since the Govt. is promising to make up the losses of states that lose revenue, it would essentially mean that the surplus states will keep the additional money with them while the Centre will have to compensate the losing states. We believe that this will push up the revenue neutral rate and in fact, the overall taxes will be higher.
     - **Low compliance in initial years may push up the rate**
       It is quite likely that the compliance will remain low (in terms of number of dealers under GST net) for the initial few years and that might cause the Govt. to propose a higher rate. Globally, past precedence on GST shows high tax rate in the initial years which also causes high inflation. The point we are trying to make is the overall burden is likely to be higher than the tax neutral rate.

Harsh Shah (Research Analyst) harsh.shah@dimensional.in +91-22-66545231
Aditya Iyer (Research Analyst) aditya.iyer@dimensional.in +91-22-66545290

2. **Current Exemptions**
   Many states have given VAT exemption to corporates in order to attract investments. The exemptions are given in two ways:
   a. No VAT for initial certain number of years (generally 5-10) subject to some limit.
   b. The other way is to refund the VAT paid.

   We believe that such VAT exemptions will not be continued under GST– even if it were to continue it will have no meaning because the person who buys from companies enjoying such exemption cannot take a credit and would be liable to pay the entire GST – therefore, the buyer has no incentive to buy from such manufactures and there is no tax arbitrage. There is a possibility that the mechanism for VAT refund might continue at State level, but it is questionable. In our view the Excise duty exemptions will no more be there. This will be negative for companies who are in areas where they do not pay excise duty.

3. **Increase in compliance procedures**
   We believe that there will be a huge increase in compliance procedures. At the moment, Service Tax returns can be centralized while VAT has to be filed state wise. For a majority of services company there is no VAT, and hence have to file returns only for Centralized Service Tax. The returns to be filed are going to multiply manifold as a company will have to furnish on monthly basis details of inward supplies, details for outward supplies and consolidated returns with each state/union territory it operates in. This would mean =36*3*12 = 1296 returns in a year for a company that operates in all the 29 states and 7 union territories.
   The proposed threshold of Rs 10 lakhs would mean that most of the retail shops and SMEs using machinery would be covered. The current threshold for excise is Rs. 1 crore & Rs. 10 lakhs for VAT (in case of Maharashtra). However in order to keep the compliance simpler for small traders with annual turnover up to Rs. 50 lakhs, Composition Scheme has been introduced in the GST. Under the composition scheme, the assessee can pay tax at 1% of their annual turnover and claim compliance.

❖ Overall Impact

1. **Working Capital**
   The Working Capital requirement is expected to go up. Currently, Excise Duty is paid when the goods leave the factory and VAT is paid only when sales happen. Under the GST law, taxes would have to be paid even when goods are moved by the company to its own warehouses or to third party warehouses. Moreover, the taxes would have to be paid at GST rate, which will be much higher than the current Excise rate. Further, the credit for GST can only be taken if the subsequent entity has paid GST. This will result in a substantial increase in working capital

2. **Efficiency Gains**
   Some sectors will see a great increase in efficiency. For example, trucks spend 20 to 30% of its travel time at State Check nakas burning a lot of diesel. This will mean that the efficiency of trucks will improve lowering cost of transportation, as lesser diesel will be consumed, as well as lower demand for trucks in the short term. The number of kilo meters that a truck drives in India is one of the lowest in the world and greater efficiency would mean less demand for trucks. In the long term the demand will bounce back but still on a lower base since the life of trucks will increase substantially due to lesser wear and tear.

3. **Supply chain benefits**
   Another efficiency gain would be in form of improved Supply Chain management. Companies which now operate multiple warehouses in different states, to avoid CST can now consolidate logistical operations wherever economically feasible. The impact of this however cannot be calculated immediately and needs to be seen. Consolidation of warehouses will increase the use of 'hub and spoke' model for logistics and thus drive the demand for pick up vans (LCVs) in longer run.

4. **Unorganised Sector**
   The unorganised sector will take a huge hit as in the long term the tax arbitrage they currently enjoy versus the organized sector would narrow making them less competitive. In the short term we believe there will be a total chaos with the threshold being Rs 10 lakhs. Almost all will not be able to comply and we expect strikes/protests galore. We believe this will seriously disrupt businesses when GST is implemented and people see the new complications that arise as a result of strict compliance requirements.

The shift to organised sector will be gradual. Initially there will be a lot of resistance from people who currently are not liable to pay taxes. We believe that getting them into the GST net will take some time and in the interim there will be chaos and disruptions.

5. **Impact on inflation**
The extent of impact on inflation is still unknown as sector wise there would be losers and winners which will offset increase in prices to some extent. While services are expected to become expensive, goods will get cheaper if GST is fixed at 18-20%. Some inflationary pressure will emerge if unorganized sector come under the tax net which aren't paying taxes now. According to our calculations, GST will lead to increase in consumer inflation by 75-100bps. Also, tax of 1% that will be paid by small dealers will result in higher inflation as they would collect it from the end consumers.

6. **GDP Expansion**
GDP is expected to boost the economic growth of country by ~1 to 2% on the back of following:
    - Enhancement in ease of doing business
    - Increase in exports due to an Impetus for manufacturing activities
    - Higher tax collection by consuming states like Bihar and UP could lead to holistic growth

7. **Winners & Losers**

Winners	Losers
Auto & Auto Components including batteries	Most Services liable to pay service tax like Telecom, Education
Consumer Electronics & Kitchenware	Apparels
Cement	Pharmaceuticals
FMCG	Branded:- Edible Oil
Multiplex	Branded:- Tea & Coffee
DTH Services	Packaged Dairy Products & Biscuits
Paints & Chemicals	Luggage & Footwear
Hotels	Insurance
Logistics	Jewellery
Watches	Print Media
	Travel & Tourism
	Renewable Energy

❖ Issues where clarity is awaited

1. Currently there is no CENVAT available on petroleum products like light diesel oil, High Speed Diesel Oil or Motor Spirit. Also, would credit on these products be disallowed in GST too?
2. What will happen to the various abatements given in service tax to various service providers like Hotel, restaurant, goods transport agency, tour operator, etc? Will they continue?
3. Currently, taxes on loose (unbranded) agricultural items as well as branded ones is given below; What happens under GST for loose and branded agricultural and related products. Is there a possibility that there will be no GST on loose (unbranded) agri products and GST on branded products?

Products	Excise	VAT	Products	Excise	VAT
Meat & Poultry	Nil	Nil	Cereals	Nil	Nil
Frozen/Canned Meat	Nil	5.5%	Pulses	Nil	Nil
Dairy Product	Nil	Nil	Spices	Nil	4%
Cottage Cheese, Milk with Additives, Branded Curd	Nil	4%	Fruits & Vegetables	Nil	Nil
Edible Oil	6%	5%	Frozen/Canned Fruits & Vegetables	Nil	5.5%
Rice	Nil	Nil	Eggs	Nil	Nil
Flour	Nil	Nil			

4. GST will be levied on transaction value. Currently VAT is charged on MRP (wherever there is MRP) and no VAT reduction is available on discounts – what happens under GST?

❖ Notes to Appendices (How to read the document)

1. We have aimed to calculate the blended tax rate (current) in order to make the rate comparable to the GST rate which would be levied
    - Method of Calculation
        - Where Excise Duty & VAT are applicable:-
            - We have applied Excise duty on the ex-factory price while VAT is applicable on MRP (VAT also levied on, trade margins + Excise Duty Paid)
            - We have excluded CST from the calculation as it would not be applicable under many circumstances
        - Where Service Tax, Entertainment tax and Luxury Tax are applicable:-
            - We have applied all the taxes on the same base price (Ex-Factory Price, as these taxes do not compound (Unlike VAT on Excise Duty)
2. We have tried to classify Industries based on the share that un-organized players currently enjoy
    - Industries with a larger share of unorganized competition would tend to have a paradigm growth in sales as market share shifts toward the organized players
    - We have also mentioned a few sectors where we expect an inverse shift from organized players to un-organized players due to a steep increase in taxation post the implementation of GST
3. Set-off benefits: We have aimed to quantify the set-off benefits that would incrementally be available to an Industry under GST, which were earlier un-available
4. Net Margin Impact:- Based on the total differential in taxation (Existing blended tax rate and GST rate expected) we have assumed based on bargaining power of various industries what would be the net margin impact for the Industry based on the quantum of gains or losses passed on to the trade channel and consumers
    - The same is Incremental bps which would be added to the EBITDA margin
        - i.e. An industry with a net margin impact of 4% would add 400 bps to existing EBITDA margins as per our calculations
5. Sales growth/decline:- Our expectations for a growth or decline in volumes for the organized players of the industry as a result of GST implementation
6. Overall Impact:- We have taken into consideration all the above factors to classify an Industry into 5 primary buckets namely Highly Positive, Positive, Neutral, Negative and Highly Negative

Industry	Excise	VAT	Service Tax	Trade Margin (MRP less Ex Factory)	Current Blended Rate Ex-CST	GST Rate Expected	Unorganised share	Note	Set Off Benefits	Fixed Asset Turn-over	Net Margin Impact	Shift From and To Un-Orgainzed	Sales Growth/Decline	Overall Impact
2 wheelers	12.5%	12.5%	0.0%	4%	25.9%	18.0%	0%	* Part benefit pass on to consumers & Dealers to remain competitive * Will get additional set off (Cenvat Credit) on services which were earlier disallowed like logistics. (0.2%) margin gain	Marginal	10x	3.0%	NA	Positive	Positive
Hatch Back	12.5%	12.5%	0.0%	5%	25.8%	18.0%	0%	* Part benefit pass on to consumers & Dealers to remain competitive * Will get additional set off (Cenvat Credit) on services which were earlier disallowed like logistics. (0.2%) margin gain	Marginal	4x	3%	NA	Positive	Positive
Sedan less than 1500cc & Compact SUVs	24.0%	12.5%	0.0%	5%	37.9%	18.0%	0%	* Part benefit pass on to consumers and dealers to remain competitive * Will get additional set off (Cenvat Credit) on services which were earlier disallowed like logistics. (0.2%) margin gain	Marginal	4x	5%	NA	Highly Positive	Highly Positive
Sedan more than 1500cc	27.0%	12.5%	0.0%	6%	40.6%	40.0%	0%	* Might levy 40% for cars with higher engine capacity * If levied only 18% then this segment will be a big beneficiary * Will get additional set off (Cenvat Credit) on services which were earlier disallowed like logistics. (0.2%) margin gain	Marginal	4x	0%	NA	Neutral	Neutral
Premium/SUV	30.0%	12.5%	0.0%	7%	43.2%	40.0%	0%	* Will get additional set off (Cenvat Credit) on services which were earlier disallowed like logistics. (0.2%) margin gain	Marginal	2x	2%	NA	Positive	Positive

Industry	Excise	VAT	Service Tax	Trade Margin (MRP less Ex Factory)	Current Blended Rate Ex-CST	GST Rate Expected	Unorganised share	Note	Set Off Benefits	Fixed Asset Turn-over	Net Margin Impact	Shift From and To Un-Orgainzed	Sales Growth/Decline	Overall Impact
Tractors	0.0%	5.5%	0.0%	8%	5.5%	4.0%	0%	*Might not be taxed at 18% Populist measure, massive negative if taxed at 18%. * Companies for which negative if taxed at 18%:- M&M, Escorts	Marginal	2x	1%	NA	Negative if 18%	Negative if 18%
LCV	12.5%	12.5%	0.0%	8%	25.3%	18.0%	0%	Would not face a severe slowdown in demand like MHCV's, as they are used for short-haul transport and do not currently spend idle time at check posts unlike MHCVs *Will get additional set off (Cenvat Credit) on services which were earlier disallowed like logistics. (0.2%) margin gain	Marginal	4x	3%	NA	Highly positive for pick up vehicles (below 3.5 tn)	Positive
MHCV	12.5%	12.5%	0.0%	8%	25.3%	18.0%	0%	Part pass on to consumers to remain competitive *End users to face over-capacity due to efficiency gains would hurt demand as a result of over-capacity, *Will get additional set off (Cenvat Credit) on services which were earlier disallowed like logistics. (0.2%) margin gain	Marginal	4x	3%	NA	Negative because of Efficiency Gains at Check naka level where they currently spend 30% time	Neutral
Metal Sector	12.5%	5.0%	0.0%	1%	18.0%	18.0%	NA	B2B sales, thus negligible impact as customers would receive a set off Will get additional set off (Cenvat Credit) on services which were earlier disallowed like logistics. (0.4%) margin gain	0.40%	1.5-3x	0%	NA	NA	Neutral

Industry	Excise	VAT	Service Tax	Trade Margin (MRP less Ex Factory)	Current Blended Rate Ex-CST	GST Rate Expected	Unorganised share	Note	Set Off Benefits	Fixed Asset Turn-over	Net Margin Impact	Shift From and To Un-Orgainzed	Sales Growth/Decline	Overall Impact
Kitchen Appliances	12.5%	12.5%	0.0%	25%	22.7%	18.0%	Large	*Could see a huge shift to organized segment, as the unorganized segment would also have to comply with taxes. (Inputs such as stainless steel would be bought only from organized players paying GST) *Will get additional set off (Cenvat Credit) on services which were earlier disallowed like logistics. (0.2% margin gain)	Marginal		2%	Will shift to organized	Positive	Positive
Consumer Durables/ White Goods + Consumer Electronics	12.5%	12.5%	0.0%	15%	24.2%	18.0%	Negligible	Part pass on to consumers to remain competitive * Setoff only on GST paid on logistics and other services earlier disallowed *Setoff on GST paid on logistics and other services earlier disallowed (0.1% Margin)	Marginal	7-10x	3%	NA	Positive	Positive
Air Conditioners	12.5%	12.5%	0.0%	15%	21.9%	18.0%	Negligible	Part pass on to consumers to remain competitive * Setoff on GST paid on logistics and other services earlier disallowed	Marginal	7-10x	2%	Negligible	Positive	Positive
Air Cooler	12.5%	12.5%	0.0%	15%	24.2%	18.0%	Air Coolers-75-80%	* Lower pass-forward of benefits as Symphony has a 60+% organized market share *Could see a huge shift to organized segment, as the unorganized segment would also have to comply with taxes. (Inputs such as stainless steel would be bought only from organized players paying GST) * Setoff on GST paid on logistics and other services earlier disallowed (0.3% Margin)	Marginal	10x	4%	Will shift to organized	Positive	Positive

Industry	Excise	VAT	Service Tax	Trade Margin (MRP less Ex Factory)	Current Blended Rate Ex-CST	GST Rate Expected	Unorganised share	Note	Set Off Benefits	Fixed Asset Turn-over	Net Margin Impact	Shift From and To Un-Orgainzed	Sales Growth/Decline	Overall Impact
Cement	12.5%	12.5%	0.0%	12%	24.7%	18.0%	Negligible	Part benefits would be passed on in the B2B Business. Massive benefit for the B2C Business (40-60% of topline) Will get additional set off (Cenvat Credit) on services which were earlier disallowed like logistics. (0.6%) margin gain	0.60%	1.2x to 2x	4.0%	NA	Highly Positive	Highly Positive
Restaurants	0.0%	12.5%	6.0%	0%	18.5%	18.0%	90%	* Neutral, no major change slight benefit possible on lower taxes on serving alcohol * Currently enjoys abatement under Service Tax Rules. Will it continue under GST? * Since restaurant service enjoys abatement under service tax law, they are not allowed to take credit on capital inputs. Such disallowance might continue under GST	Marginal	3 to 4x	0%	Neutral	Neutral	Neutral
Apparels	12.5%	5.5%	0.0%	40%	13.0%	18.0%	80%	Negative, 1 year's price hikes gone (EBITDA Margins Thin). Strong brands might be able to pass on price hike	Marginal	4.0x	-2.5%	*Might shift to organized (Unorganized sector to pay GST on purchase of RM and come into the tax net)	Neutral	Negative
FMCG	12.5%	12.5%	0.0%	10%	25.0%	18.0%	Negligible	Should be able to retain benefits especially in categories with low ticket sizes due to coinage issues Will get additional set off (Cenvat Credit) on services which were earlier disallowed like logistics. (0.1%) margin gain	Marginal	4.0x to 10.0x	3.5%	Negligible	Positive	Positive

Industry	Excise	VAT	Service Tax	Trade Margin (MRP less Ex Factory)	Current Blended Rate Ex-CST	GST Rate Expected	Unorganised share	Note	Set Off Benefits	Fixed Asset Turn-over	Net Margin Impact	Shift From and To Un-Orgainzed	Sales Growth/Decline	Overall Impact
Pharma- Life Saving	0.0%	0.0%	0.0%	30%	0.0%	0.0%	NA	Life Saving medicines might continue to remain in exempted list, If taxed would be a negative as companies largely operate under price-caps for this category Highly negative if taxed	Marginal	3.0x to 5.0x	0.0%	Negligible	Neutral	Neutral
Pharma Branded OTC	6.0%	4.0%	0.0%	20%	8.9%	18.0%	NA	Would face some margin impact, should however be able to pass on most of the price increase to consumers	Marginal	3.0x to 5.0x	-2.3%	NA	Neutral	Negative
Pharma Branded Non-OTC	6.0%	4.0%	0.0%	30%	8.3%	18.0%	NA	Strong ability to pass on price hikes, However might see some shift to generics hurting volume growth, Pharmacy retail chains might also have to give up some margins due to the price hikes	Marginal		-2.4%	Might be negative due to a shift to generics	Neutral	Negative
Pharma Generics	6.0%	4.0%	0.0%	70%	5.8%	18.0%	NA	Might gain in volumes from the Branded Non-OTC segment, However would not be able to pass on price hikes as much as brands as a result of strong competitive forces, Pharmacy retail chains might also have to give up some margins due to the price hikes	Marginal		-6.1%	Positive due to a shift from Branded Non OTC segment	Positive	Highly Negative

Industry	Excise	VAT	Service Tax	Trade Margin (MRP less Ex Factory)	Current Blended Rate Ex-CST	GST Rate Expected	Unorganised share	Note	Set Off Benefits	Fixed Asset Turn-over	Net Margin Impact	Shift From and To Un-Orgainzed	Sales Growth/Decline	Overall Impact
Multiplex	0.0%	0.0%	0.0%	0%	35% (Entertainment Tax)	18.0%	89%	* Entertainment tax is heavy at ~40% in Mumbai, would be highly positive if cut down. Even if gains passed on to consumers, volume growth in a high operating leverage business would be positive * Multiplexes are allowed to charge Rs. 11 as service charge on which no taxes are levied * Currently they are disallowed from claiming credit of taxes paid on capital goods. Whether they'd be able to take such credit in GST remains to be seen. * Margin gains to accrue on ticketing revenues which account for ~60%-70% of revenues	If allowed, set off benefits would be large (18% on fresh Capex, Annual Capex currently at10% to 15% of topline)	2.0x	10-15%	Positive (Pricing gap compression)	Positive (Price Cuts could, boost demand)	Highly Positive
DTH/Cable	0.0%	0.0%	15.0%	20%	27.5% (Service tax+ Entertainment tax)	18.0%	60%	Highly Sticky/ no price cuts/ benefits wont be passed on. Also liable for entertainment tax which might get removed/reduced Would have to share gains with broadcasting companies as they enjoy strong bargaining power	Marginal	2.0x	5%	Positive (Pricing gap compression)	Neutral (Highly sticky even in inflationary envt)	Positive
Jewellery	1.0%	1.0%	0.0%	0%	2.0%	4.0%	85%	Highly competitive, might not be able to pass on hike *Might receive a set-off on service tax paid on rentals, advertising spends and making charges	Sizable (1%)	16 to 20x	-1%	Huge positive shift could be expected in the long term as the small units are currently enjoying exemptions which they may not be able to avail of under GST	Negative	Long Term Positive

Industry	Excise	VAT	Service Tax	Trade Margin (MRP less Ex Factory)	Current Blended Rate Ex-CST	GST Rate Expected	Unorganised share	Note	Set Off Benefits	Fixed Asset Turn-over	Net Margin Impact	Shift From and To Un-Orgainzed	Sales Growth/Decline	Overall Impact
Real Estate	0.0%	1.0%	4.5%	0%	5.5%	4.0%	90+%	*Highly negative if taxed at 18%, Companies would change their business model to an asset heavy model selling only on completion. *Given the low service tax rates (4.5%) might be able to utilize, currently unutilized cenvat credit * Currently enjoys abatement under Service Tax Rules. What will be the case under GST? * Since the construction service enjoys abatement they are not allowed to take credit on capital inputs. Such disallowance might continue under GST	High	0.3x to 10x	Negative if 18%	Negligible (whole sector would have to comply	Negative if taxed at 18%	Negative if taxed at 18%
Oil/Gas (Equipment supplier, Naptha, Furnance Oil)	14.0%	8.0%	0.0%	5%	22.3%	18.0%	NA	*(B2B Business) 50% passed on, *Negative will not get a Set-off as inputs are petroleum products	Negative	~7x	2.1%	NA	NA	Neutral
Paints & Construction Chemicals	12.5%	12.5%	0.0%	12%	24.7%	18.0%	Negligible	Would have to pass on margin gains for B2B Business Positive for the B2C business (decorative segment) 40 to 80% of sales	Minimal	5-7x	3.3%	Negligible	+ve for Automotive paints & B2C	Positive
Glass	12.5%	12.5%	0.0%	12%	24.7%	18.0%	Negligible	Would have to pass on margin gains for B2B Business Positive for the B2C business, small segment	Minimal	2.0x	3.3%	Negligible	+ve for Automotive suppliers	Positive

Industry	Excise	VAT	Service Tax	Trade Margin (MRP less Ex Factory)	Current Blended Rate Ex-CST	GST Rate Expected	Unorganised share	Note	Set Off Benefits	Fixed Asset Turn-over	Net Margin Impact	Shift From and To Un-Orgainzed	Sales Growth/Decline	Overall Impact
Yarn(Jute)	0.0%	5.0%	0.0%	0%	5.0%	18.0%	Negligible	Massive Negative (Hike questionable Agri Input?) Competes against synthetic fibres ability to pass on price hike negligible Given the current thin margins on this segment the industry might die with the proposed tax structure	Huge	1.5x	-10%	NA	Negative (Synthetic Fibre taxation hike lower)	Highly Negative
Cotton Yarn,fabric,polyester/silk yarn	12.5%	5.5%	0.0%	2%	18.4%	18.0%	90% unorganized	Neutral	Neutral	1 to 2x	0%	Would shift to organized as unorganized players will not be able to pass on credit	Positive (Shift to Organized)	Positive
Textiles(Cotton)	0.0%	4.0%	0.0%	2%	4.0%	18.0%	Very Large	Negative (Questionable Massive Employment generator/ Agricultural Input) * B2B might pass through, Massive negative for companies selling fabric directly to the consumer or onorganized sector which will not get set-off benifits	Marginal	1 to 2x	-2%	Would shift to unorganized	Negative (Apparel sector volume to drop)	Negative
Edible-oils	6.0%	5.0%	0.0%	8%	10.8%	18.0%	80%	Highly Negative, No play on grammage possible unlike in FMCG or packaged foods, Margins are Wafer-thin so they will have to pass on price hikes. Margin impact to be low due to thin EBITDA margins, however would have a massive volume de-growth	Neutral	4.0x	-1%	Shift to Un-organized	Negative as increase will have to be passed on due to thin margins	Negative
Aerated Drinks	18.0%	25.0%	0.0%	10%	44.9%	40.0%	Negligible	Strong brands will not pass on any benefits to dealer/ consumers	Neutral	6x to 10x	5%	NA	Neutral	Positive

Industry	Excise	VAT	Service Tax	Trade Margin (MRP less Ex Factory)	Current Blended Rate Ex-CST	GST Rate Expected	Unorganised share	Note	Set Off Benefits	Fixed Asset Turn-over	Net Margin Impact	Shift From and To Un-Orgainzed	Sales Growth/Decline	Overall Impact
Capital Goods (Industrial Machinery & Electrical Machinery)	12.5%	4.0%	0.0%	0%	17.0%	18.0%	Large	Negligible impact Should be passed on (B2B Business)	Neutral	2 to 5x	Negligible	Negligible	Neutral	Neutral
Wires & Cables	12.5%	5.5%	0.0%	15%	16.5%	18.0%	Small	Increase in rate would be passed on. For B2B, they would be able to take the credit while B2C will have to bear the hike from their pocket	Minimal		-1%	Would shift to organized as unorganized players will not be able to pass on credit	Neutral	Neutral
Telecommunication Services	0.0%	0.0%	15.0%	0%	15.0%	18.0%	Negligible	Would be able to pass on ~50% of the tax hike, as ARPU's are somewhat sticky	Minimal	0.5x to 1x	-1.5%	NA	Negative	Negative
Logistics	0.0%	0.0%	4.5%	0%	4.5%	18.0%	Huge (90+% trucking)	* Large efficiency gains due to lower idle time at check naka, can-not be quantified, but will have to pass on atleast 30-50% of the gains to customers given business is competitive with limited bargaining power. B2B Pass through * Currently enjoys abatement under Service Tax Rules. Will it continue under GST remains to be seen. * Since the logistics service enjoys abatement under service tax law they are not allowed to take credit on capital inputs. Such disallowance might continue under GST	Minimal	2.0 to 3.0x	NA	Shift to unorganized possible as tax on the organized sector would increase	Long term Positive	Long Term Positive

Industry	Excise	VAT	Service Tax	Trade Margin (MRP less Ex Factory)	Current Blended Rate Ex-CST	GST Rate Expected	Unorganised share	Note	Set Off Benefits	Fixed Asset Turn-over	Net Margin Impact	Shift From and To Un-Orgainzed	Sales Growth/Decline	Overall Impact
Hotels	0.0%	0.0%	9.0%	0%	21% (includes Luxury tax @ 12%)	18.0%	(80+%)	* Highly competitive would have to pass on benefits, would also benefit to the extent of the prevailance of Luxury tax. However as costs largely passed on the customers benefit might not be large * Currently enjoys abatement under Service Tax Rules. Will it continue under GST remains to be seen * Since hotel service enjoys abatement under Service Tax Law, they are not allowed to take credit on capital inputs. Such disallowance might continue under GST	Minimal	0.3 to 1x	2-3%	Negligible	Positive	Positive
Education-Coaching business	0.0%	0.0%	15.0%	0%	15.0%	18.0%	80+%	Sticky would be able to pass on hike	Minimal	5.0x	-1%	NA	Negative	Negative
Tyres	12.5%	5.0%	0.0%	8%	16.5%	18.0%	Negligible	Can pass on for B2B sales (which is ~50%), aftermarket will take a margin impact of 1% Will get additional set off (Cenvat Credit) on services which were earlier disallowed like logistics. (0.4%) margin gain	Sizable (0.4%)	4.0x to 5.0x	-0.5%	Negligible	Growth in auto sales to boost volumes	Neutral
Batteries	12.5%	12.5%	0.0%	10%	25.0%	18.0%	35-40%	Would be able to retain a sizable portion of margin gains as it’s a duopoly business	Minimal	4.0x	5%	Positive (Compliance by unorganized and shrinking of price gap)	Positive (Auto Sales)	Highly Positive
Home Furnishings	12.5%	12.5%	0.0%	40%	20.5%	18.0%	Very High	Highly competitive would have to pass on most of the benefits.	Minimal	2.0x	0.5%	Negligible (large chunk of un-organized might not comply). B2C business do not require set off	Positive	Positive

Industry	Excise	VAT	Service Tax	Trade Margin (MRP less Ex Factory)	Current Blended Rate Ex-CST	GST Rate Expected	Unorganised share	Note	Set Off Benefits	Fixed Asset Turn-over	Net Margin Impact	Shift From and To Un-Orgainzed	Sales Growth/Decline	Overall Impact
Ceramics	12.5%	12.5%	0.0%	30%	22.0%	18.0%	0.5	Positive (Unorganized would mostly comply) Brands however could most probably retain pricing	Minimal	4.0x	2%	Positive (Preference for brands+ Pricing gap to narrow)	Positive	Positive
Faucets & Sanitaryware	12.5%	12.5%	0.0%	30%	22.0%	18.0%	Faucets-55-60%,Sanitaryware-35-40%	Brands might be able to retain B2C pricing	Minimal	3.75x	2%	Positive (Compliance of unorganized)	Positive	Positive
Watches	12.5%	12.5%	0.0%	40%	20.5%	18.0%	60%	Brands/ Retailers of strong brands have strength to retain ~50% of margin gains	Minimal	3.0x to8.0x	1.0%	Positive (growing preference for brands)	Positive	Positive
Processed Foods	12.5%	5.0%	0.0%	10%	16.7%	18.0%	Negligible	Neutral, usually sticky staple consumption, brands have ability to take price hikes/ play on grammage. Negative for repackaged agricultural products	Minimal	2.0x to 4.0x	-0.5%	NA	Negative	Negative
Dairy Products	0.0%	0.0%	0.0%	0%	0.0%	0.0%	High	We expect no GST given socially sensitive product, Would be negative if taxed as either the hike would be passed on which will lead to lower consumption of high value added products or company might have to absorb the margin loss. If taxed would incentivize a huge shift to the unorganized sector * Few products such as cottage cheese, branded curd and flavoured milk taxed MVAT at 4%-5.5% Might come under 18% would impact companies with a high % of value added products (Parag Dairy, Umang, Prabhat Dairy)	NA		Neutral	Neutral Would shift to unorganized if taxed	Neutral	Neutral

Industry	Excise	VAT	Service Tax	Trade Margin (MRP less Ex Factory)	Current Blended Rate Ex-CST	GST Rate Expected	Unorganised share	Note	Set Off Benefits	Fixed Asset Turn-over	Net Margin Impact	Shift From and To Un-Orgainzed	Sales Growth/Decline	Overall Impact
Tea	0.5%	4.0%	0.0%	10%	4.5%	18.0%	High (70+%)	Highly Negative, will have to pass on price hikes as operating in wafer thin margins of 3-5%, can-not play on grammage unlike other FMCG companies. (Excise duty applicable but at a negligible rate of INR 1/KG, Less than 1%)	Minimal	0.5x to 1x	-2%	Huge shift to un-organized for economy brands, premium brands might be unaffected as they are staples to their consumers	Negative	Highly Negative
Coffee	0.0%	4.0%	0.0%	10%	4.0%	18.0%	High (70+%)	Highly Negative, will have to pass on price hikes as operating in wafer thin margins of 3-5%, can-not play on grammage unlike other FMCG companies.	Minimal	1.0x	-2%	Huge shift to un-organized for economy brands, premium brands might be unaffected as they are staples to their consumers	Negative	Highly Negative
Newspapers/Magazines	0.0%	0.0%	0.0%	20%	0.0%	18.0%	Negligible	18% highly questionable given the political leverage held by newspapers. If taxed will get set off benefits n excise on purchase of paper. However, sector will lose out to competition from other advertising platforms	High	4.0x	Highly Negative-8 to 10% , cant play on coinage	Negligible	Negative	Negative @18%
Air Tickets	0.0%	0.0%	6%-Economy 9%-Higher	1%	6-9%	18.0%	0%	* ST is currently charged only on base fare * Currently enjoys abatement under Service Tax Rules. Will it continue under GST remains to be seen	Minimal	2.0x	-5%	NA	Negative (PLF/ Capacity Utilization to get hit)	Negative

Industry	Excise	VAT	Service Tax	Trade Margin (MRP less Ex Factory)	Current Blended Rate Ex-CST	GST Rate Expected	Unorganised share	Note	Set Off Benefits	Fixed Asset Turn-over	Net Margin Impact	Shift From and To Un-Orgainzed	Sales Growth/Decline	Overall Impact
Tour Operator	0.0%	0.0%	4.5%		4.5%	18.0%		*Can be inreased to 18% * ST is charged on lower base so passing it on can be easy * Currently enjoys abatement under Service Tax Rules. Will it continue under GST remains to be seen * Since restaurant service enjoys abatement under service tax law, they are not allowed to take credit on capital inputs. Such disallowance might continue under GST	Very High (Service Tax on planes and hotels)	NA	Negligible	Negligible	Negative due to higher ticket prices, if no abatement for Airline companies	Negative
Defence Goods	0.0%	0.0%	0.0%	0%	0.0%	18.0%	0%	Neutral as Government to buy goods at an IRR ex taxes while tendering	Minimal	2 to 5x	Neutral	Negligible	Neutral	Neutral
Construction Equipment	12.5%	5.0%	0.0%	0%	18.1%	18.0%	0%	Neutral (B2B Will be passed on)	Minimal	3.0x	0%	NA	Neutral	Neutral
Renewable Energy Equipment	0.0%	5.0%	0.0%	0%	5.0%	18.0%	Small	Will be highly negative if taxed as cost of power will go up.However Govt might subsidize incremental tax because of its thrust on this sector	Minimal			NA	Negative	Negative
Rail Freight	0.0%	0.0%	6.0%	0%	6.0%	18.0%	None	*Might not increase it to 18% as it would be contraditory to Govt.'s ambition of improving railway's share in total freight. * Sincefreight service enjoys abatement under service tax law, they are not allowed to take credit on capital inputs. Such disallowance might continue under GST	Minimal	NA	Neutral	NA	Increase in warehousing activities will lead to higher utilization of ICDs	Positive

Industry	Excise	VAT	Service Tax	Trade Margin (MRP less Ex Factory)	Current Blended Rate Ex-CST	GST Rate Expected	Unorganised share	Note	Set Off Benefits	Fixed Asset Turn-over	Net Margin Impact	Shift From and To Un-Orgainzed	Sales Growth/Decline	Overall Impact
Luggage	15.0%	5.0%	0.0%	40%	13.9%	18.0%	50%	Negative, will loose 1 years price/hikes, however should be able to pass on some of the hike given the oligopolistic nature of the business. Safari & VIP to be hit more than samsonite as price conscious customers might move to unorganized	Minimal	20.0x	(3%) (50% margin hit passed on)	Neutral for the high end products, negative for mass market brands	Negative	Negative
Footwear	12.5%	5.5%	0.0%	40%	13.0%	18.0%	50%	Negative, would loose over a year's price hikes	Minimal	2.0 to 4.0x	(2%)50% price hike passed on	Negative for mass market brands due to shift to unorganized	Negative	Highly Negative
Pre-school	0.0%	0.0%	15.0%	0%	15.0%	18.0%	80%	~50% of price hike assumed to be passed on	Minimal	1.0x	-2%	Shift to unorganized (No compliance could be expected)	Neutral as a sector ,negative for organized	Negative
Fertilizers Urea	1.0%	0.0%	0.0%	10%	0.9%	0.0%	NA	Highly questionable if will be taxed. B2C no set-off for customers. If taxed will be offset with higher subsidies	Minimal		0%	Neutral	Neutral (Subsidized)	Neutral
Fertilizers Non Urea	12.5%	5.0%	0.0%	10%	16.7%	18.0%	NA	Assuming 50% pass through of price increase	Minimal	2.0x	-0.5%	Slighty Negative	Slighty Negative	Slighty Negative
Chemicals Elements- (Both organic and inorganic)	12.5%	12.5%	0.0%	5%	25.8%	18.0%	NA	Positive impact. Will pass on 50% benefit for B2B business.	Minimal	2.0x to 5.0x	4%	Positive	Neutral	Positive
Coal	5.0%	5.0%	0.0%	1%	10.2%	18.0%	0%	Negligible impact Should be passed on (B2B Business)	Minimal	5.0x	0%	Neutral	Neutral	Neutral
Limestone	0.0%	0.0%	0.0%	0%	0.0%	18.0%	High	Negligible impact Should be passed on (B2B Business)	Minimal	NA	0%	NA	NA	Neutral

Industry	Excise	VAT	Service Tax	Trade Margin (MRP less Ex Factory)	Current Blended Rate Ex-CST	GST Rate Expected	Unorganised share	Note	Set Off Benefits	Fixed Asset Turn-over	Net Margin Impact	Shift From and To Un-Orgainzed	Sales Growth/Decline	Overall Impact
Auto Components	12.5%	12.5%	0.0%	13%	24.5%	18.0%	80%	Positive as shift from unorganized to organized can be expected due to availability of higher quality parts at comparable rates to that of unorganized players Would get a huge benefit on after market sales (3-4% margin, negligible pass through)	Minimal	3.0x to 7.0x	4%-aftermarket. No benefit in case of OEM	There can be huge shift as price differential could bridge down to 5-10% from current 15-20%	Positive. Also due to auto volume growth	Highly Positive
General Insurance (including Mediclaim)	0.0%	0.0%	15%	0%	15.0%	18.0%	0%	Demand inelastic, therefore increase in taxes would be passed. In case of B2B customers will be able to claim set off	Minimal	NA	None	NA	Neutral	Neutral
Life Insurance	0.0%	0.0%	3.75% and 1.875%	0%	0.0%	4.0%	0%	* Savings Plan 3.75% - 1st Yr and 1.875% subsequent years * Might not get taxed at 18%. Rise upto 4% will be passed on to consumers	Minimal	NA	NA	NA	Negative as would incrementally compete with other forms of savings such as Bank FDs	Negative
Agrochemicals	12.5%	5.5%	0.0%	9%	17.4%	18.0%	60%	There is slight increase in taxes which wil be passed on to end customers	Minimal		0%	NA	Negative	Negative
Biscuit	6.0%	5.0%	0.0%	10%	10.6%	18.0%		Despite larger companies like Britannia would be able to pass on the incremental hikes or reduce the size of their products the sector should see some margin compression as not the entire incremental tax can be passed on	Minimal	15.0x	-3%	Negative	Negative	Negative

Industry	Excise	VAT	Service Tax	Trade Margin (MRP less Ex Factory)	Current Blended Rate Ex-CST	GST Rate Expected	Unorganised share	Note	Set Off Benefits	Fixed Asset Turn-over	Net Margin Impact	Shift From and To Un-Orgainzed	Sales Growth/Decline	Overall Impact
Seeds	0.0%	0.0%	0.0%	10%	0.0%	0.0%		Unlikely to be taxed as agricultural product. Companies today do not pay income tax as well (Kaveri Seeds)	Minimal	15.0x	None	Neutral	Neutral	Neutral
PVC Pipes	12.5%	5.5%	0.0%	10%	17.2%	18.0%		Neutral even if taxed at 18% as increase is marginal.	Minimal	15.0x	0.4%	Would shift to organized as unorganized players will have to pay GST on purchase of RM reducing the price gap	Neutral	Neutral
Ply-Wood	12.5%	5.0%	0.0%	15.0%	16.0%	18.0%		Negative on margin front as there will be part pass through. However, there will be shift to organized segment especially in B2B sales	Minimal	15.0x	-1%	Would shift to organized as unorganized players will not be able to pass on credit	Neutral	Neutral
Health Care Services	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		* Currently Meidcal services in case of both Doctors and Hospitals are exempted from Service Tax and most likely will continue to remain so.	Minimal		Neutral	Negligible	Neutral	Neutral

ANALYST CERTIFICATION

We /I (Aditya Iyer/Harsh Shah), Research Analysts, authors and the names subscribed to this report; hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & conditions and other disclosures:

Dimensional Securities Private Limited (DSPL) is engaged in the business of stock broking and distribution of financial products. This Report has been prepared by Dimensional Securities Private Limited (DSPL) in the capacity of a Research Analyst having SEBI Registration No. INH000001444 and distributed as per SEBI (Research Analysts) Regulations 2014.

The information and opinions in this report have been prepared by DSPL and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of DSPL. While we would endeavour to update the information herein on a reasonable basis, DSPL is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent DSPL from doing so.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. DSPL or its associates accept no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

DSPL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. DSPL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither DSPL nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that (Aditya Iyer/Harsh Shah), Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

DSPL or its associates collectively or Research Analysts do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of DSPL are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

It is confirmed that (Aditya Iyer/Harsh Shah), Research Analysts do not serve as an officer, director or employee of the companies mentioned in the report.

DSPL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

We submit that no material disciplinary action has been taken on DSPL by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject DSPL and associates to any registration or licensing requirement within such jurisdiction.

The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

DSPL shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, break down of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of DSPL to present the data. In no event shall DSPL be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by DSPL through this report.