Next generation GST reforms to drive consumption

GST rate cut – festive consumption boost

- In Independence speech, Prime Minister – Mr. Narendra Modi indicated of additional consumption boost in the form of GST rate cut by rationalising tax slabs and reducing rates on daily consumption items and essential goods.
- According to industry sources, tax slab of 12% is likely to be eliminated and most of the items under 12% tax slab will be brought under 5% tax slab.
- It will be additional benefit along with the tax benefit provided in the union budget and interest rate cut post softening of inflation.
- This will help the consumer demand to improve in H2FY26 for consumer goods and discretionary companies.

FMCG – Packaged foods and Dairy products

- In packaged foods segments items such as snacking item ready for consumption, nuts & dry fruits and packaged fruit juices are currently bracket under 12% GST rate.
- In dairy segments, products such as ghee, cheese, butter, condensed milk and beverages (containing milk) are currently taxed under 12% GST rate. Cut in GST rate will lead to reduce product price in the hands of end consumer resulting in improvement in the sales volume in the quarters ahead.
- Key beneficiaries: Tata Consumer Products, Dabur India, Nestle India and Hatsun Agro

Discretionary – Apparels, Footwear & Hotels to be large benefit

- In apparel segment, GST rate of 12% is charged on garments above Rs.1,000/pc, while in the footwear segment, GST rate of 12% is charged on footwear of sale value not exceeding Rs.1000/pair.
- We expect GST rate on Apparels (> Rs.1000/pc) and Footwears (<= Rs.1,000/pair) to reduce to 5%. This will benefit apparels and footwear companies as it will not improve the consumption but will also help in competing with regional/non-branded players available in the domestic market.
- Further, hotel rooms priced in the range of Rs.1,000-7,500 per night are likely to come under 5% tax slab from 12% currently. Further, the industry will be indirect beneficiary of reduction in GST rates on cement and other products from the perspective of some benefit in capex per room.
- Key Beneficiaries: Trent, Arvind Fashion, Relaxo Footwear, Bata India and Lemon Tree Hotels, Indian Hotels and ITC Hotels.

Consumer Durables – AC industry to be key beneficiary amongst others

- Consumer durables industry currently faces a higher tax burden on select categories, with ACs, TVs (>32"), and dishwashers taxed at 28% GST, while most other appliances such as washing machines, refrigerators, ceiling fans, water purifiers and mobile phones attract 18% GST.
- A potential rate cut from 28% to 18% would translate into an immediate price correction of ~8–9%, likely spurring demand, especially in under-penetrated categories such as air-conditioners.
- Currently ACs segment is going through a rough phase with elevated AC inventories at ~20 lakhs at company level and around similar at channel level, given the weak summer season.
- GST-led price correction could act as a catalyst for inventory liquidation during the upcoming festive season, easing supply chain pressures and supporting primary sales momentum.
- Key Beneficiaries: Blue Star, Voltas, Crompton Greaves consumer electricals, Havells, Amber Enterprises and Dixon Tech.

Sector Views

Positive

Key Beneficiaries

FMCG

- Tata Consumer Products
- Dabur India
- Nestle India
- Hatsun Agro Product

Discretionary

- Trent
- Arvind Fashion
- Relaxo Footwear
- Bata India
- Lemon Tree Hotels
- Indian Hotels Company
- ITC Hotels

Consumer Durables

- Blue Star
- Voltas
- Havells
- Crompton Greaves

EMS

- Dixon Technologies
- Amber Enterprises

Our Top Buys in FMCG Space

- Tata Consumer Products
- Marico

Our Top Buys in Discretionary Space

- Trent
- Lemon Tree Hotels
- ITC Hotels

Our Top Buys in Consumer Durables and EMS space

- Crompton Greaves
- Dixon Technologies

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Exhibit 2: GST Rate Overview

Sector	Products	Rate	Possible Rate Change
FMCG & Dairy Products	Butter, Ghee, Cheese	12%	5%
	Almonds, Nuts	12%	5%
	Packaged Fruit Juices (Non-Carbonated)	12%	5%
	Jams and other related products	12%	5%
	Meat (Juices and Processed Meat products)	12%	5%
	Condensed Milk	12%	5%
	Beverages (containing milk)	12%	5%
Footwear, Apparel and Others	Apparels (Above Rs.1000)	12%	5%
	Footwear (upto Rs.1000)	12%	5%
Hospitality	Hotel Room (less than or equal to Rs.7500/night)	12%	5%
Tobacco and Related Products	Cigarettes	28% + Cess*	40%
Consumer Durables	Air Conditioner	28%	18%
	TV (> 32 inches)	28%	18%
	LED Lighting	12%	5%

Source: Company, ICICI Direct Research **Cess includes Compensation cess, NCCD and Excise Duty which totals to 35-55% depending on size of cigarette stick*

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Sell: <-15%

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