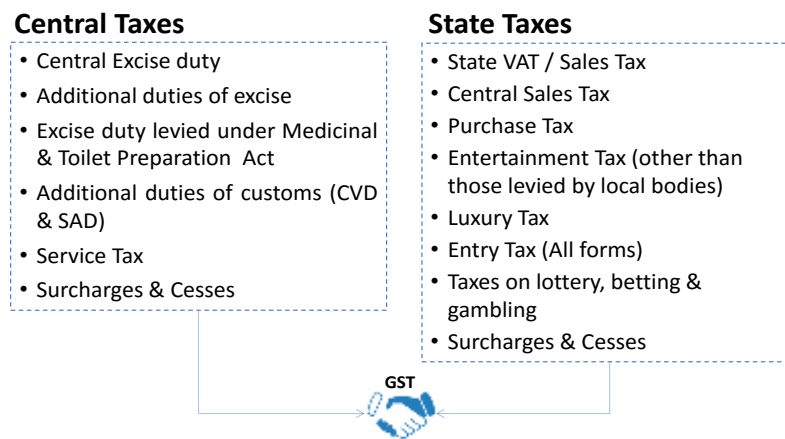


## Goods and Services Tax Regime – What does it hold!

The much awaited Goods and Service Tax (GST) has come into effect from 1 Jul'17. GST is a destination based tax which follows a multi-base collection mechanism that will replace all the indirect taxes levied on goods and services by both the centre and state governments. The GST would apply to all goods other than alcohol for human consumption and five petroleum products - petroleum crude, motor spirit (petrol), high speed diesel, natural gas and aviation turbine fuel. It would apply to all services barring a few to be specified. The mechanism is governed by the GST Council which is chaired by the Finance Minister of India.

Under the 'One Nation One Tax' regime, most of the centre and state government taxes will subsume into a single tax which will not only simplify the tax structure and mitigate the negative effects of cascading, but also help in improving the competitiveness of the nation at a global level.

### Exhibit 1: Subsuming central and state taxes into a single tax



Source: Press Information Bureau, Centrum Wealth Research

### GST Council

The GST is governed by the GST Council, which is the main decision making body, wherein it can make recommendations on the law or rates pertaining to GST.

#### Members

- Chairperson - the Finance Minister of India;
- Vice Chairperson - to be chosen amongst the Ministers of State Government;
- Members – Minister of State (Finance) and all Ministers of Finance / Taxation of each State;

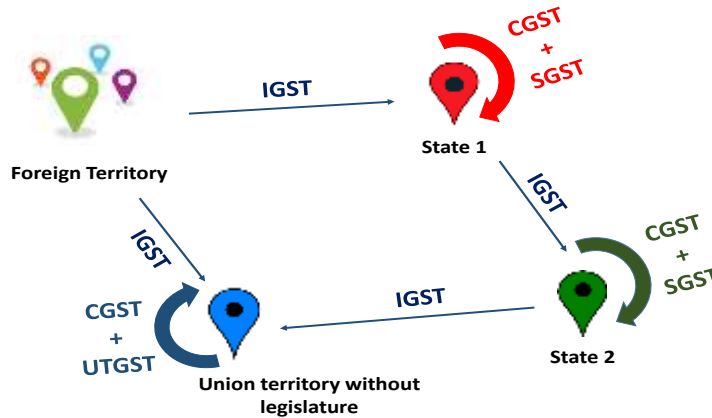
#### Functioning

- Quorum (minimum number of members required to be present to make the meeting valid) is 50% of total members;
- Weightage - States - 2/3 and Centre - 1/3;
- Any decisions requires a support of at least 75% majority;

**Classification of taxes under GST**

- **Central Goods and Services Tax (CGST)** – Tax levied by the Centre on intra-state supply of good and services.
- **State (or Union Territory - UT) Goods and Services Tax (SGST/UTGST)** – Tax levied by the State including Union territories with legislature/Union Territories without legislature on good and services.
- **Integrated Goods and Services Tax (IGST)** – Tax levied by the Central Government on inter-state supply of goods and services.

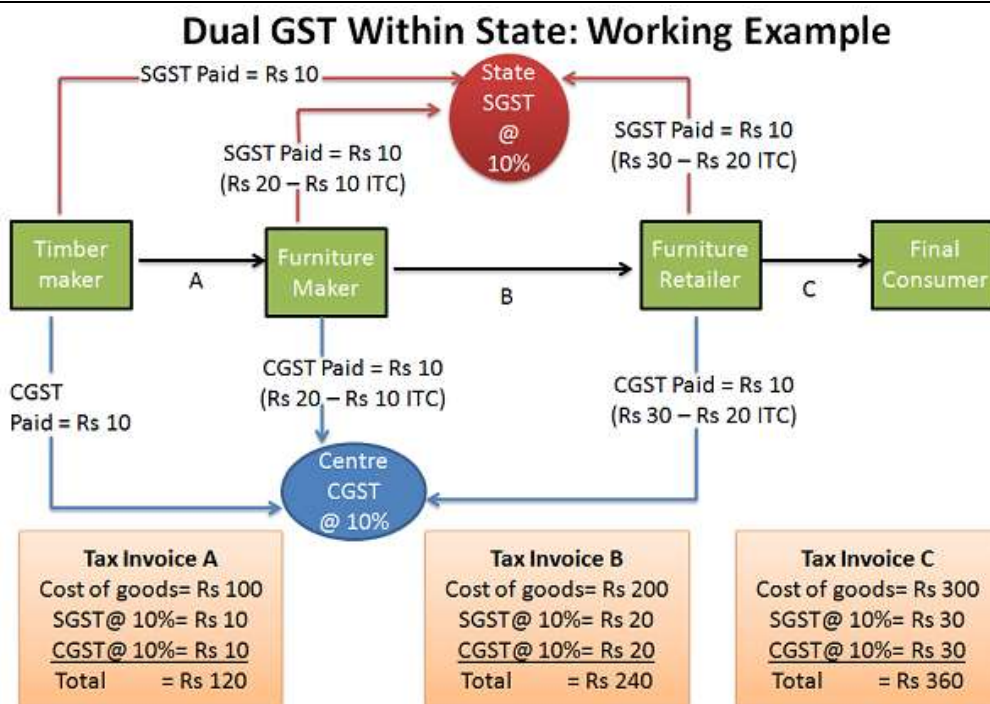
**Exhibit 2: CGST, SGST/UTGST, IGST Model**



Source: Press Information Bureau, Centrum Wealth Research

The government has constantly been making efforts to promote India’s exports so as to maximize its foreign exchange reserves and improve the balance of payment position. In terms of exports and supplies to SEZ are treated as zero-rated supplies under GST. Suppliers who export will have two options namely a) to either pay output tax and claim its refund or b) export under bond without tax and claim refund of Input Tax Credit (ITC). On the other hand, import of goods and services would be treated as inter-state supplies and hence being subjected to IGST in addition to the applicable customs duties. The IGST paid shall be available as ITC for further transactions.

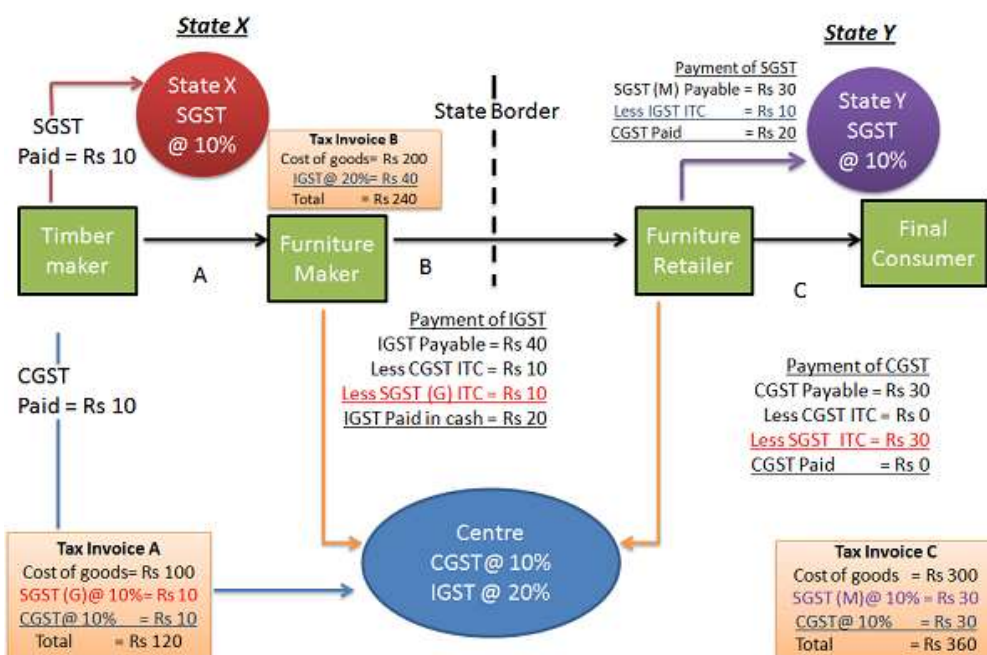
**Exhibit 3: Dual GST within State**



Source: Press Information Bureau, Centrum Wealth Research

Exhibit 4: IGST Model

IGST Model: Working Example



Source: Press Information Bureau, Centrum Wealth Research

Tax slab structure under GST

The GST Council has broadly classified goods and services under a four slab structure being categorised into the following tax rates - 5%, 12%, 18% and 28%, with the lower slab for essential items and the highest for luxury goods along with tobacco products. Majority of the goods and services have been listed under the four slabs, but a few items like gold and jewellery will have GST rate of 3%, while rough diamonds will be levied with 0.25%. In addition, some essential items which are utilised on a daily basis are either at 0%. Apart from this, a cess will be levied over the peak rate of 28% on specified luxury and sin goods.

Exhibit 5: GST Tax slab structure

Tax Rate	Some of the Goods/Services Included
0%	Salt, milk, buttermilk, unbranded curd, unbranded paneer, fresh meat, Kaja (other than kaja pencil sticks), Kumkum, Bindu, Sindur, Alta, Firewood or fuel wood, Handloom (weaving machinery), Fresh Meat, Services by a hotel below ₹1,000 etc
0.25%	Rough diamonds, Precious stones, Synthetic or Reconstructed Precious or Semi-Precious stones
3%	Gold, Silver, Jewellery, Pearls etc
5%	Milk and cream, Cream, Yogurt, Branded Paneer, Frozen Vegetables, Cashewnuts, Coffee, Tea, Ground-nut and olive oil and their fractions, Apparel and clothing below ₹1,000, Footwear below ₹500, Solar water heater and system, Passenger air travel by economy class, Transport of goods by rail etc
12%	Frozen Meat, Butter and Other fats, Cheese, Jams, fruit jellies, marmalades, Namkeens, bhujia, mixture, Soya Milk drinks, Fruit pulp or fruit juice, Tooth powder, All diagnostic kits and reagents, Carpets and other textile floor coverings, Terry towelling, Apparel and clothing above ₹1,000, Utensils, LED lamps, Tractors, Non-AC Hotels, Passenger air travel apart from economy class etc.
18%	Condensed milk, Flavoured refined sugar, Pasta, Corn flakes, Pastries and cakes, Preserved vegetables, Ice cream, All kinds of food mixes, Printing ink, writing or drawing ink, Kaja pencil sticks, Hair oil, Soap, Toothpaste, Plastic (tube, pipes & hoses and fittings), AC Hotels, Outdoor catering of food and drinks etc
28%	Molasses, Chewing gum / bubble gum, Chocolates and other food preparations containing cocoa, Pan masala, Unmanufactured tobacco, Cigars, Paints and varnishes, Perfumes and toilet waters, Shampoos, Hair cream and dyes, Blocks, tiles and other ceramic goods, Gambling, Accommodation in hotels (5 star and above) where room tariff per day is above ₹7,500, Gambling, Cinema Tickets, Amusement Parks, Any Sporting event etc.

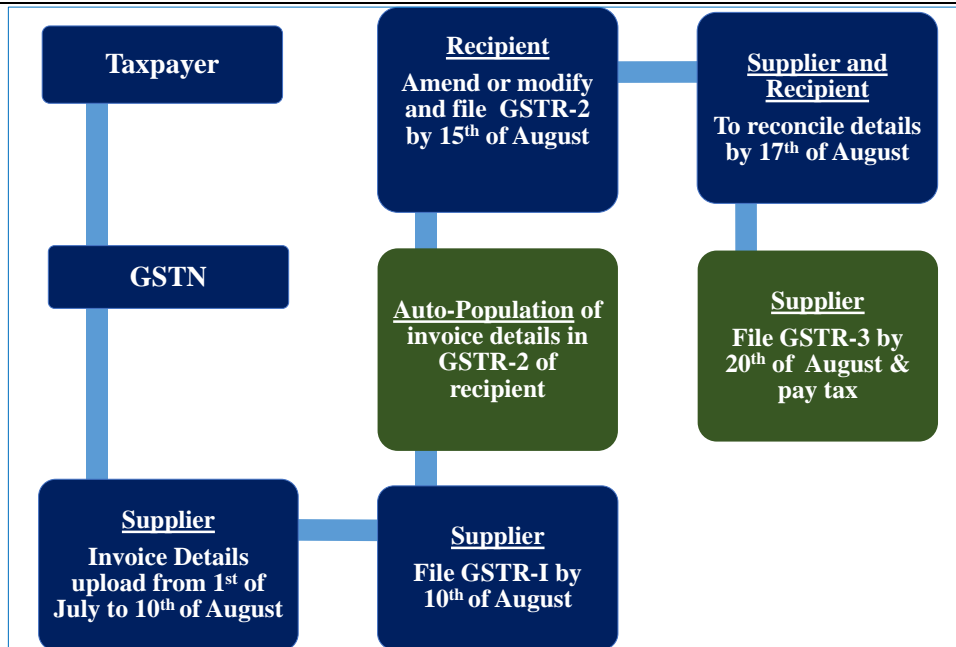
Source: GST Council, Centrum Wealth Research

Note: To view the entire list of GST Rates for Goods please [click here](#) and that for services [click here](#)

**Going Digital**

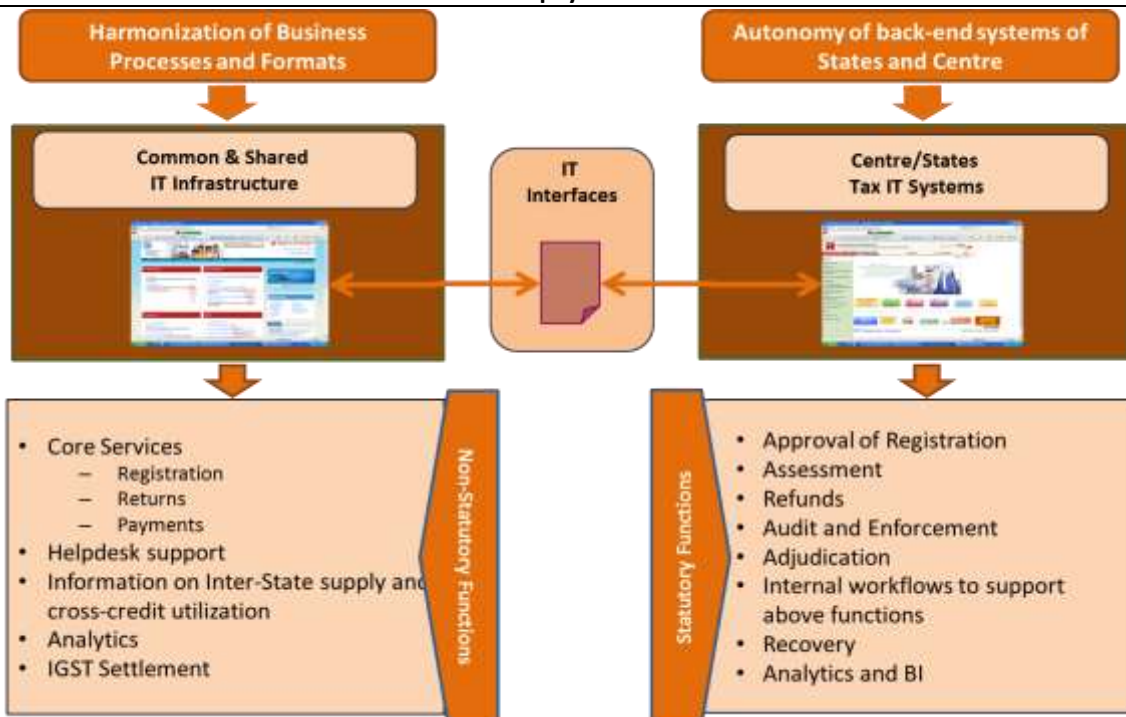
Under GST mechanism, efforts have been taken to reduce human interference and utilise technology which would not only help in decision making but also ease compliance and avoid any malpractice. With this regards the GST Network (GSTN) has been set up which “will provide a shared IT infrastructure and services to Central and State Governments, taxpayers and other stakeholders for implementation of GST”. As per the GST Act, businesses have to file monthly returns and annual return.

**Exhibit 6: Return Process under GST**



Source: Press Information Bureau, Centrum Wealth Research Note: Example - Return for Jul'17

**Exhibit 7: GSTN will act like a common interface for the tax payer**



Source: GSTN, Centrum Wealth Research

### Transition from a multiple tax structure to single tax structure to bode well in the long term

The implementation of GST from 1 Jul'17, has led to a shift in the indirect tax structure from being taxed multiple times to a single uniformed tax layout. This would create a common national market and reduce the tax burden the consumers, thereby making the Indian businesses globally competitive. VAT/GST model has been implemented in around 160 countries – Malaysia's rate stands at 6%, Thailand at 7%, Japan 8%, Indonesia 10%, China 17%, Germany 19%, the United Kingdom 20%.

Although the GST Council has kept the GST tax rates on goods and services in close proximity of the then effective tax rates, the flawless implementation of the new tax regime would show benefits in the long term. In the near term, we believe Indian businesses could see some disturbances mainly on account of the transition into the new tax regime.

The adoption of One Nation One Tax will allow the free flow of goods across the nation with the elimination of multiple taxes. It could witness a shift from unorganized to organized sector. Businesses having a turnover above ₹20 lakh (₹10 lakh for special category states) will be liable to register under GST as compared to the earlier tax structure where threshold for VAT was ₹5 lakh in most states, Service Tax limit was ₹1 lakh, excise limit was ₹1.5 crore. Currently, in many sectors the share of unorganized players is high. With many businesses coming under the purview of the GST, many large corporates could witness market share gains from these small players. This would provide better cash flows to businesses and help control their working capital position. Seamless implementation of GST would enable the ease of doing business and is also estimated to improve GDP growth by 1.5% to 2%.

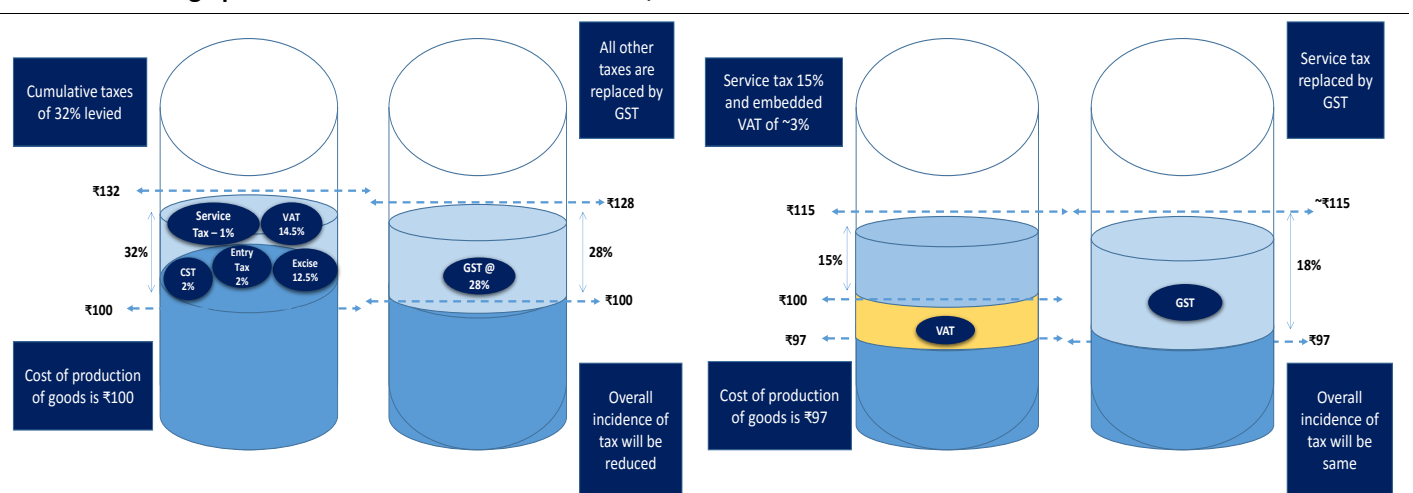
The Indian economy post the de-monetisation event (Nov'16) witnessed a slowdown in consumer demand due to lack of disposable spends, which has now been getting back on track. In an effort to prepare their businesses, many companies/suppliers/distributors resorted to de-stocking of inventory along with giving discounts to avoid complications during the transition phase. We believe, there could be some pressure on earnings in Q1FY18, but the same is expected to pick up in the coming quarters.

#### Exhibit 8: Benefits of GST to all stakeholders

Consumer	Trade/Industry	Central/State Governments
<ul style="list-style-type: none"> <li>• Simpler tax structure</li> <li>• Removal of cascading to reduce prices of goods and services</li> <li>• Uniformed tax rate throughout the country</li> <li>• Transparent tax system</li> <li>• Increase in employment opportunities</li> </ul>	<ul style="list-style-type: none"> <li>• Uniformity of tax rates</li> <li>• Increase in competitiveness</li> <li>• Removal of cascading and double taxation</li> <li>• Better efficiency in neutralization of taxes especially for exports</li> <li>• Increase in the market base - common national market</li> </ul>	<ul style="list-style-type: none"> <li>• Common national market to boost foreign investment and Make in India campaign</li> <li>• Increase in exports /manufacturing activity to lead to GDP growth</li> <li>• Better investment climate</li> <li>• Uniform rates to reduce tax evasion</li> <li>• Better compliance</li> </ul>

Source: Central Board of Excise and Customs, Centrum Wealth Research

#### Exhibit 9: Although price of Goods are seen to come down, but that of services would remain same



Source: Press Information Bureau, Centrum Wealth Research

## Impact on sectors and companies

There has been much anxiety amongst businesses with regards to the GST rates put forth and the implementation of the same. The GST Council, with an aim to curb any adverse impact on inflation, has kept most of the rates at par or lower than the effective rates paid by the company. The main challenge for the businesses is to adopt and implement the new tax framework, which if done could result in tax benefits being passed on to the consumers and reduce inflation. However, GST rates on some services is higher by 3% (18% vs 15% earlier), this could result in some near term pressure which is expected to taper off in the long term. The GST Council has also made a provision for an anti-profiteering clause, which states that the benefits of reduction in costs (as a result of lower tax rates and high input tax credit) have to be passed on from the suppliers to the consumers. The effective implementation of the anti-profiteering clause would be a key monitorable.

### Exhibit 10: GST impact on some sectors and companies

Sector	GST rate differential	Implication on Sector	Company Impact
Automobile	All categories come under 28% slab for GST, small cars (length <4m) will attract 1% cess above the tax rate (vs 30.2% pre-GST) while Mid-sized cars, SUVs and luxury cars will attract 15% cess (vs 47-55% pre-GST)	<b>Neutral to Positive:</b> Auto sales during the month of Jun'17 witnessed a decline owing to the uncertainty in pricing post the implementation of GST. While small cars are expected to see some price hikes, luxury cars and SUVs could witness price cuts. This would lead to better sales in the future.	Maruti Suzuki, Tata Motors,
Fast Moving Consumer Goods (FMCG)	Rates for most of the products have been reduced to 18% from 25-26% pre-GST	<b>Positive:</b> GST rates for commonly used items like Soap, Hair Oil have been reduced. Although there was de-stocking across products for better transition into the new tax regime, lower tax rate could result in lower prices there by enabling volume growth and better margins.	Colgate-Palmolive, Hindustan Unilever, Emami, Nestle, Marico
Building Material	Tiles, laminates, sanitary ware, plywood attract a rate of 28% (vs 25-28% pre GST)	<b>Neutral:</b> Although the rate under GST is marginally high and this could result in some price hikes, this sector will benefit from demand shift from unorganized to organized players.	Kajaria Ceramics, Cera Sanitaryware, Greenply Industries
Cement	Rate under GST is marginally higher at 28% (vs 25% pre-GST)	<b>Neutral:</b> The tax structure has been broadly in line and hence there would not be any drastic impact as saving in transportation cost and ITC could off-set some part of the higher tax rate.	Ultratech Cement, JK Lakshmi Cement, ACC
Consumer Durables	Rate of air-conditioners, refrigerators have been increased to 28% (vs 24-28% pre-GST)	<b>Negative to Neutral:</b> Most of the domestic players have absorbed the higher GST tax impact but there could be some products which could witness price hikes. Near term there could be some pressure.	Symphony, Havells India, Blue Star
Dairy Products	Although rate on fresh milk is 0%, other milk products like butter, cheese have witnessed an increase in tax rate to 12% (vs 5-6% pre GST) while milk powder have been levied with the same rate of 5%	<b>Positive:</b> Being under the lower tax slabs we believe there would not be any significant change in price. As most of the products are used on a daily basis we see better consumption driving business growth.	Britannia, Nestle, Prabhat Dairy

Source: Centrum Wealth Research

**Mrinalini Chetty**, Research Analyst  
**Siddhartha Khemka**, Sr. VP Research

**Appendix****Disclaimer**

Centrum Broking Limited ("Centrum") is a full-service, Stock Broking Company and a member of The Stock Exchange, Mumbai (BSE), National Stock Exchange of India Ltd. (NSE) and MCX-SX Stock Exchange Limited (MCX-SX). One of our group companies, Centrum Capital Ltd is an investment banker and an underwriter of securities. As a group Centrum has Investment Banking, Advisory and other business relationships with a significant percentage of the companies covered by our Research Group. Our research professionals provide important inputs into the Group's Investment Banking and other business selection processes.

Recipients of this report should assume that our Group is seeking or may seek or will seek Investment Banking, advisory, project finance or other businesses and may receive commission, brokerage, fees or other compensation from the company or companies that are the subject of this material/report. Our Company and Group companies and their officers, directors and employees, including the analysts and others involved in the preparation or issuance of this material and their dependants, may on the date of this report or from, time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein CBL or its affiliates do not own 1% or more in the equity of this company Our sales people, dealers, traders and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. We may have earlier issued or may issue in future reports on the companies covered herein with recommendations/ information inconsistent or different those made in this report. In reviewing this document, you should be aware that any or all of the foregoing, among other things, may give rise to or potential conflicts of interest. We and our Group may rely on information barriers, such as "Chinese Walls" to control the flow of information contained in one or more areas within us, or other areas, units, groups or affiliates of CBL. CBL or its affiliates do not make a market in the security of the company for which this report or any report was written. Further, CBL or its affiliates did not make a market in the subject company's securities at the time that the research report was published.

This report is for information purposes only and this document/material should not be construed as an offer to sell or the solicitation of an offer to buy, purchase or subscribe to any securities, and neither this document nor anything contained herein shall form the basis of or be relied upon in connection with any contract or commitment whatsoever. This document does not solicit any action based on the material contained herein. It is for the general information of the clients of CBL Though disseminated to clients simultaneously, not all clients may receive this report at the same time. Centrum will not treat recipients as clients by virtue of their receiving this report. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Similarly, this document does not have regard to the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The securities discussed in this report may not be suitable for all investors. The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Persons who may receive this document should consider and independently evaluate whether it is suitable for his/her/their particular circumstances and, if necessary, seek professional/financial advice. Any such person shall be responsible for conducting his/her/their own investigation and analysis of the information contained or referred to in this document and of evaluating the merits and risks involved in the securities forming the subject matter of this document.

The projections and forecasts described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. Projections and forecasts are necessarily speculative in nature, and it can be expected that one or more of the estimates on which the projections and forecasts were based will not materialize or will vary significantly from actual results, and such variances will likely increase over time. All projections and forecasts described in this report have been prepared solely by the authors of this report independently of the Company. These projections and forecasts were not prepared with a view toward compliance with published guidelines or generally accented accounting principles. No independent accountants have expressed an opinion or any other form of assurance on these projections or forecasts. You should not regard the inclusion of the projections and forecasts described herein as a representation or warranty by or on behalf of the Company, CBL, Centrum group, the authors of this report or any other person that these projections or forecasts or their underlying assumptions will be achieved. For these reasons, you should only consider the projections and forecasts described in this report after carefully evaluating all of the information in this report, including the assumptions underlying such projections and forecasts.

The price and value of the investments referred to in this document/material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance. Future returns are not guaranteed and a loss of original capital may occur. 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. We do not provide tax advice to our clients, and all investors are strongly advised to consult regarding any potential investment. CBL and its affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk. Certain transactions including those involving futures, options, and other derivatives as well as non-investment-grade securities give rise to substantial risk and are not suitable for all investors. Please ensure that you have read and understood the current risk disclosure documents before entering into any derivative transactions.

This report/document has been prepared by CBL, based upon information available to the public and sources, believed to be reliable. No representation or warranty, express or implied is made that it is accurate or complete. CBL has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed. The opinions expressed in this document/material are subject to change without notice and have no obligation to tell you when opinions or information in this report change.

This report or recommendations or information contained herein do/does not constitute or purport to constitute investment advice in publicly accessible media and should not be reproduced, transmitted or published by the recipient. The report is for the use and consumption of the recipient only. This publication may not be distributed to the public used by the public media without the express written consent of CBL. This report or any portion hereof may not be printed, sold or distributed without the written consent of CBL.

The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. Neither CBL, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information.

This document does not constitute an offer or invitation to subscribe for or purchase or deal in any securities and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. This document is strictly confidential and is being furnished to you solely for your information, may not be distributed to the press or other media and may not be reproduced or redistributed to any other person. The distribution of this report in other jurisdictions may be restricted by law and persons into whose possession this report comes should inform themselves about, and observe any such restrictions. By accepting this report, you agree to be bound by the foregoing limitations. No representation is made that this report is accurate or complete.

The opinions and projections expressed herein are entirely those of the author and are given as part of the normal research activity of CBL and are given as of this date and are subject to change without notice. Any opinion estimate or projection herein constitutes a view as of the date of this report and there can be no assurance that future results or events will be consistent with any such opinions, estimate or projection.

This document has not been prepared by or in conjunction with or on behalf of or at the instigation of, or by arrangement with the company or any of its directors or any other person. Information in this document must not be relied upon as having been authorized or approved by the company or its directors or any other person. Any opinions and projections contained herein are entirely those of the authors. None of the company or its directors or any other person accepts any liability whatsoever for any loss arising from any use of this document or its contents or otherwise arising in connection therewith.

CBL and its affiliates have not managed or co-managed a public offering for the subject company in the preceding twelve months. CBL and affiliates have not received compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for service in respect of public offerings, corporate finance, debt restructuring, investment banking or other advisory services in a merger/acquisition or some other sort of specific transaction.

This report is not directed to 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 or regulation or which would subject Centrum Broking Limited or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom.

The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market.

**Disclosures under the SEBI (Research Analysts) Regulations 2014**

<b>Disclosure of Interest Statement</b>		
1	Business activities of Centrum Broking Limited (CBL)	Centrum Broking Limited (hereinafter referred to as "CBL") is a registered member of NSE (Cash, F&O and Currency Derivatives Segments), MCX-SX (Currency Derivatives Segment) and BSE (Cash segment), Depository Participant of CDSL and a SEBI registered Portfolio Manager.
2	Details of Disciplinary History of CBL	CBL has not been debarred/ suspended by SEBI or any other regulatory authority from accessing /dealing in securities market.
3	Registration status of CBL	CBL is registered with SEBI as a Research Analyst (SEBI Registration No. INH000001469)

4	Whether Research analysts or relatives' have any financial interest in the subject company and nature of such financial interest	No
5	Whether Research analysts or relatives have actual / beneficial ownership of 1% or more in securities of the subject company at the end of the month immediately preceding the date of publication of the document.	No
6	Whether the research analysts or his relatives has any other material conflict of interest	No
7	Whether research analysts have received any compensation from the subject company in the past 12 months and nature of products / services for which such compensation is received	No
8	Whether the Research Analysts have received any compensation or any other benefits from the subject company or third party in connection with the research report	No
9	Whether Research Analysts has served as an officer, director or employee of the subject company	No
10	Whether the Research Analysts has been engaged in market making activity of the subject company.	No

**Member (and BSE)****Regn No.:**

CAPITAL MARKET SEBI REGN. NO.: BSE: INB011454239  
 CAPITAL MARKET SEBI REGN. NO.: NSE: INB231454233  
 DERIVATIVES SEBI REGN. NO.: NSE: INF231454233  
 (TRADING & CLEARING MEMBER)  
 CURRENCY DERIVATIVES: MCX-SX INE261454230  
 CURRENCY DERIVATIVES:NSE (TM & SCM) – NSE 231454233

**Depository Participant (DP)**

CDSL DP ID: 120 – 12200  
 SEBI REGD NO. : CDSL : IN-DP-CDSL-661-2012

**PORTFOLIO MANAGER**

SEBI REGN NO.: INP000004383

**Website:** www.centrum.co.in

**Investor Grievance Email ID:** investor.grievances@centrum.co.in

**Compliance Officer Details:**

Kavita Ravichandran  
 (022) 4215 9842; Email ID: compliance@centrum.co.in

**Centrum Broking Ltd. (CIN: U67120MH1994PLC078125)**

<b>REGD. OFFICE Address</b> <b>Bombay Mutual Bldg.,</b> <b>2nd Floor,</b> <b>Dr. D.N. Road,</b> <b>Fort,</b> <b>Mumbai - 400 001</b>	<b>Corporate Office &amp; Correspondence Address</b> <b>Centrum House</b> <b>6th Floor, CST Road,</b> <b>Near Vidya Nagari Marg,</b> <b>Kalina, Santacruz (E)</b> <b>Mumbai 400 098.</b> <b>Tel: (022) 4215 9000</b> <b>Fax: +91 22 4215 9344</b>
---	--