Consumer

GST reforms: Rate cuts to support consumption

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The GST Council as part of its exercise to rationalise rates has made notable changes with drastic reduction in key Staples (Foods & Personal care) categories. The segments which saw reduction in Food & Beverages space were: a) from 12% to 5% - Branded namkeens, Bhujia, Instant noodles, Fruit juices and Ayurvedic products and b) from 18% to 5% - Packaged water, Chocolates, Biscuits and Instant coffee. Within Personal care, GST rate for Hair oils, Shampoos, Oral care and Soaps was reduced from 18% to 5%. Key negative surprise was Home care segment (Detergents, Household Insecticides, Dishwash) which did not see any reduction in GST rate (18% currently). On the Sin goods (Aerated beverages & Cigarettes) – GST slab will move to 40% (vs. 28% + cess currently). For Aerated beverages transition to new slab without compensation cess is effectively neutral and on expected lines. On Cigarettes, our initial understanding is that MRP to tax ratio (for ITC) will come down to 40% (vs. currently at 47-48% ex of NCCD). However, we believe we could see some increase in excise duty post the transition either in Union budget or future GST meetings to make tax incidence neutral for Cigarettes. Prima-facie, based on current salience of product segments which have seen reductions within our coverage universe – Britannia, Colgate, Nestle, Dabur, Bikaji, DOMS should see maximum benefit. The impact of lower GST rates on consumer demand or profitability of companies will depend on the extent of pass-through by companies. We expect stocks in all the large beneficiary segments to react positively to this development.

- **Food & Beverages – Britannia, Nestle, Bikaji are key beneficiaries:** Packaged food products like Branded namkeens, Bhujia, Instant noodles, Fruit juices and Ayurvedic products have seen 7% reduction in output tax which is on expected line. Bikaji, Gopal Snacks, Nestle & Dabur are the key beneficiaries given their strong play in some of these segments. Reduction in Packaged water, chocolates, Instant coffee (was a surprise) and Biscuits (on expected lines) from 18% to 5% calls for quite a large price cut to be implemented to pass on the commensurate benefits to the end-consumers – Britannia & Nestle are the large beneficiaries here. The interplay of the need to cut prices to pass on the tax cut benefits on one hand and the need to hike prices to deal with inflationary input costs could make near-term pricing decisions a bit tricky, given that businesses would have to ensure that they do not trigger 'anti-profiteering' provisions.

- **Essential Personal care sees major reductions; Beauty & Home care remains at 18% – Colgate a key beneficiary:** Within HPC, major reductions in GST rate were seen for essential consumption categories like Hair oils, Shampoos, Soaps, Toothpaste and Toothbrush. Colgate will be a key beneficiary given its large salience in Oral care followed by HUL & Dabur which have presence across all these segments. However, Home care segments like Detergents and Household insecticides haven't seen any reduction in GST rate which is a negative surprise (especially for HUL, GCPL, Jyothy Labs).

- **Sin Goods – No bad news is positive:** Within our coverage universe two segments fall under Sin goods – Aerated beverages and Cigarettes. For Aerated beverages, GST rate moves to 40% vs. (28% + 12% compensation cess currently), hence it is neutral and on expected lines for Varun Beverages. On Cigarettes, GST rate will also move to 40% on retail sale price – Currently for ITC, MRP to tax per stick ratio is 47-48%, hence its positive. However, we expect government to eventually make tax incidence neutral through changes in excise duty either in Union budget or future GST meetings. While all the GST rate changes will be w.e.f. from Sep'22, current GST structure on Cigarettes & tobacco products will continue till loan (taken to offset to revenue shortage) gets repaid (likely within this year as per FM).

- **Reduction in GST rates for stationery items – positive for DOMS:** Key stationery items like Pencils, Sharpeners, Crayons, Exercise books have seen reduction in GST rate from 12% to NIL while, GST rate for Geometry box has been reduced from 12% to 5%. This is positive for DOMS as overall these segments accounts for c.50% of its consolidated sales.

Exhibit 1. GST Reforms: Snapshot of change in GST tax rate for major product categories

Product Categories	New Rate	Current Rate	Positive for	Contribution to overall sales (For coverage stocks)
Branded Namkeens, Bhujia,Extruded snacks	5%	12%	Bikaji	75%
			Gopal Snacks	c.80-85%
Paneer	NIL	5%	Dairy players	NA
Butter/Cheese/Ghee/Condensed Milk	5%	12%	Dairy players	NA
Toothpowder	5%	12%	Colgate	Low-double-digit salience of overall sales
			Dabur	Low-double-digit salience of overall sales
Instant noodles/pasta/cornflakes/ketchup	5%	12%	Nestle	31%
			TCPL	5% through Capital Foods
			HUL	NA
Fruit Juices (non-aerated)	5%	12%	Dabur	c.11%
			Varun Beverages	Low-double-digit salience of overall sales
Ayurvedic products	5%	12%	Dabur	Dabur - chywanprash is 8-9% of overall sales
			Emami	NA
Dry fruits/Nuts	5%	12%	TCPL	NA
Diapers	5%	12%	DOMS	8%
Paperboards	5%	12%	ITC	NA
Packaged Water	5%	18%	Varun Beverages	12-13% of overall volumes
			Tata Consumer	5%
Chocolates	5%	18%	Nestle	17%
Ice-creams	5%	18%	Dairy players	NA
			HUL	NA
Hair Oil	5%	18%	Marico	9-10%
			Dabur	14%
			Honasa	Mid-single-digit salience of overall sales
Shampoo	5%	18%	HUL	Low-double-digit salience of overall sales
			Dabur	Low-double-digit salience of overall sales
			Honasa	Mid-single-digit salience of overall sales
			P&G	NA
Shaving Cream/Lotion	5%	18%	Gillete	NA
Toothpaste/toothbrush	5%	18%	Colgate	92-93%
			Dabur	13%
			HUL	Mid to High-single-digit salience of overall sales
Soaps	5%	18%	HUL	15%
			GCPL	19-20%
			Jyothy labs	c.10-11%
Biscuits/cookies/cakes	5%	18%	Britannia	80%
Coffee	5%	18%	Nestle	14%
			HUL	NA
			TCPL	NA
Pencils, Sharpener, Crayons	0%	12%	DOMS	Pencils: 30% of sales, Sharpener: 3% of sales, Crayons: 6% of sales
Exercise book	0%	12%	DOMS/ITC	c.4-5% of sales for DOMS
Mathematical/Geometry box	5%	12%	DOMS	6% of sales
Product Categories (Sin Goods)	**New Rate**	**Current Rate**	**Key players**	**Contribution to overall sales (For coverage stocks)**
Aerated beverages	40%	28% + Compensation cess	Varun Beverages	c.50-51% of overall volumes
Cigarettes	40%	28% + Compensation cess	ITC	c.40%
Home care segments	**New Rate**	**Current Rate**	**Key players**	**Contribution to overall sales (For coverage stocks)**
Detergents/Homecare	18%	18%	HUL/Jyothy/GCPL	Detergents is 36% of HUL sales, Fabric/Dishwash is 44%/34% of sales for Jyothy Labs
Household Insecticides	18%	18%	GCPL/Jyothy labs	GCPL (27-28% of sales), Jyothy labs (7% of sales)

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APPENDIX I

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