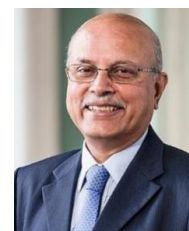


## GST 2.0: Potential to usher in a new era

We hosted Mr. Shailesh Haribhakti, a veteran finance and strategy professional, to understand the effects of GST 2.0 announcements on the economy and key sectors. He hailed the announcement as a potential 'growth reform' and not just a 'tax reform', sounding optimistic about the wide-ranging economic benefits expected to accrue after the implementation of the proposed reform.

- **Quick takeaways from the call:** (a) There is a strong significance in Prime Minister Narendra Modi personally announcing GST 2.0, signaling the government's serious intent and preparation; (b) Rationalization of slabs to 5%/18% (vs. 5%/12%/18%/28%) is more than an exercise in arithmetic; it can have a multiplier effect on the whole GST ecosystem; (c) Beyond the simplification of the rate structure, the government could also consider structural reforms like bringing the hitherto excluded segments such as oil & gas, electricity, real estate under the GST regime; this will mark the much-needed transition towards a universal coverage and allow a seamless flow of goods and services through the supply chain; (d) The chronic issue of inversion and inadequate input tax credit flow should be addressed after the rationalization and better coverage; (e) Strong gains can flow from the seemingly mundane but practical streamlining and procedural simplification; (f) Better compliance and widening of tax net could follow; (g) Autos, cement, consumer durables (RAC) and consumption sectors are among the key beneficiaries; Cement can see more benefits if real estate gets uniform treatment; (h) All indicators suggest the possibility of fast implementation; (i) The fiscal impact will be manageable.
- **After his initial address on GST during the inauguration in 2017, this Independence Day was the first time that PM himself made a declaration on GST, suggesting deeper significance. This could be viewed as political signaling and an economic rebuttal of US tariffs by highlighting and enhancing the strong potential of the Indian economy.**
- **Mr. Haribhakti shared finer details on the impact of GST rationalization to 2 core rates of 5% & 18%. Multiple rates have been the key source of disputes, and the rate arbitrage will end after the two-rates-regime comes into force. Several far-reaching benefits can accrue if this rationalization is carried out in spirit. The vexatious issue of a partial flow-through of input tax credit (ITC) will be significantly resolved as lower rates and a lesser number of rates will help to address the issue of inversion, a key reason preventing the full realization of ITC benefits. Moreover, the digital ecosystem is now well primed to ensure a smooth adoption of the proposed new regime. This implies that since the system is ready for a full flow-through of ITC, the concerns of industry and investors over ITC's unavailability at lower GST slab should be assuaged. He also indicated that the blocked credit list should be pruned to a minimum and should be applied only to personal consumption.**
- **In the auto sector, though there is some ambiguity about UVs' taxation owing to the current definition of luxury cars, there may be an economic case to reconsider this definition.**
- **While Mr. Haribhakti did not give clear contours on the timeline for the implementation, as per him the bold announcement by the PM and the scheduling of discussions in the next GST council meeting suggest a sense of urgency to roll out the new measures.**
- **Our view: We believe that the government is clearly in overdrive to lift and stimulate the economy, and the GST announcement, once implemented, will be the first big structural reform of the government in the current term. In our view, this has also kick-started a positive sentiment cycle for the Indian market, which has been a key underperformer in the past year. The current valuation at ~21x (vs. LPA of 20.7x) is reasonable and has room to expand, supported by expectation of double-digit PAT growth (9.8%/12.1% for Nifty/MOFSL univ).**



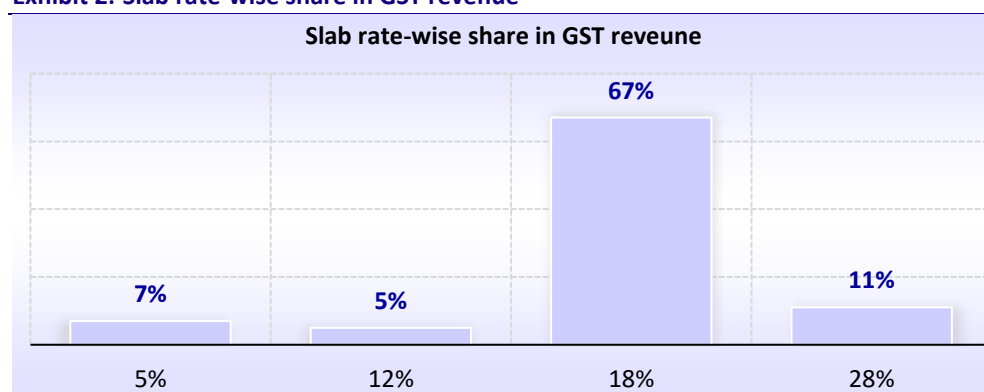
**MR. Shailesh Haribhakti**

Mr. Shailesh Haribhakti is a pioneering advocate of ESG, CSR, and sustainability, with a five-decade career as a Chartered and Cost Accountant. His illustrious career encompasses roles as a Chartered and Cost Accountant, Certified Internal Auditor, Financial Planner, and Fraud Examiner. Beyond his impressive credentials, he is recognized as a transformative leader, serving as Board Chairman, Audit Committee Chairperson, and Independent Director at several of the nation's leading organizations. He has served on the Securities and Exchange Board of India (SEBI)'s Committee on Disclosures and Accounting Standards and Takeover Panel and was Chairman of the NPS (National Pension Scheme) Trust from 2015-2017.

**Exhibit 1: Potential key beneficiaries of the proposed GST related announcement (MOFSL analyst views)**

| Sector                  | Key Stocks      | Rationale   |
|-------------------------|-----------------|---|
| <b>Autos</b>            | Maruti          | ❖ 4Ws are in the 28% slab; should benefit from 18% GST rate   |
|                         | Tata Motors     | ❖ 4Ws are in the 28% slab; should benefit from 18% GST rate   |
|                         | Ashok Leyland   | ❖ CVs can benefit from the lower GST of 18% vs. 28% currently   |
| <b>Banks</b>            | ICICI Bank      | ❖ Overall benefits for the sector, with consumption expected to pick up; household confidence and demand for debt to increase, driving credit growth to double digits in 2HFY26; direct benefits for consumer-heavy lenders and credit card players   |
|                         | HDFC Bank       |   |
|                         | IDFC First Bank |   |
| <b>NBFCs</b>            | Bajaj Finance   | ❖ EMI obligation for consumer durables should reduce, benefitting NBFC lending in this segment  |
| <b>Cement</b>           | Ultratech       | ❖ Positive for the sector; a lower GST rate of 18% (from 28%) could reduce prices by 7.5%/8%; volume relatively less elastic though   |
|                         | JK Cement       |   |
| <b>Consumer Staples</b> | HUVR            | ❖ Majority of items in the 18% slab, though staple companies generally benefit since several raw materials are in the 12% slab, resulting in lower input GST; the segment benefits as it is a core revival area for the government  |
|                         | Britannia       |   |
| <b>Consumer Durable</b> | Voltas          | ❖ Air conditioners benefit from a lower GST rate of 18% vs. 28%   |
|                         | Havells         | ❖ Positive as ~24% of its revenue comes from Lloyd's  |
| <b>EMS</b>              | Amber           | ❖ A key supplier to AC companies; will benefit if RACs' GST rate is lowered from 28% to 18%   |
| <b>Hotels</b>           | LemonTree       | ❖ GST on the sub INR7,500 ARR inventory can move lower from 12% to 5%   |
|                         | Indian Hotels   | ❖ Benefits through Ginger, which has the sub INR7,500 ARR inventory   |
| <b>Insurance</b>        | Niva Bupa       | ❖ Senior citizens' policies currently attract 18%, but there is a possibility that this may be reduced to 5% or completely exempted. In such an eventuality, health insurers and term life-heavy insurers can benefit   |
|                         | Max Life        |   |
|                         | HDFC Life       |   |
|                         | Star Health     |   |
| <b>Logistics</b>        | Delhivery       | ❖ Key beneficiary of expected volume increase in categories like consumer durables and electronics, which form a large part of Delhivery's volumes  |
| <b>Quick Commerce</b>   | Eternal         | ❖ The segment benefits from higher consumption demand, a substantial part of which will be fulfilled through the Q-commerce channel   |
|                         | Swiggy          |   |
| <b>Retail</b>           | Relaxo          | ❖ Mass market products can benefit from a shift to lower slabs; GST rate on footwear priced below INR1,000 had earlier increased from 5% to 18%, resulting in significant demand shifting to unorganized; with the latest announcements, the tax arbitrage of the unorganized segment will shrink, benefitting organized players. |
|                         | Bata            |   |
|                         | Campus          |   |

Source: MOFSL

**Exhibit 2: Slab rate-wise share in GST revenue**


Source: Financial media; Gol

**Exhibit 3: Proposed GST slab changes for key goods**

| Sector/Goods                             | Current GST Slab (2025)              | Likely New Slab       |
|--|--------------------------------------|-----------------------|
| Clothing & Apparel                       | 5% ( $\leq$ INR1k), 12% ( $>$ INR1k) | 5%                    |
| Essential Goods (Food & Basic Needs)     | 0% to 5%                             | 5%                    |
| Hotels & Restaurants                     | 5% - 18%                             | 5% or 18%             |
| Insurance, Financial & IT Services       | 18%                                  | 18%                   |
| Mobiles & Electronics                    | 12% - 18%                            | 18%                   |
| Packaged Foods & Beverages               | 12%                                  | 5%                    |
| Personal Care & FMCG                     | 18%                                  | 18%                   |
| Precious Metals (Gold, Silver, Diamonds) | 3%                                   | TBD (likely retained) |
| Raw Stones / Semi-Precious stones        | 0.25%                                | TBD                   |
| Tobacco, Pan Masala, Alcohol             | 28% + cess (effectively 38–60%)      | 40% (Luxury/Sin Slab) |

Source: MOFSL

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| Explanation of Investment Rating |  |
|----------------------------------|--|
| Investment Rating                | Expected return (over 12-month)  |
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| SELL                             | < - 10%  |
| NEUTRAL                          | < - 10 % to 15%  |
| UNDER REVIEW                     | Rating may undergo a change  |
| NOT RATED                        | We have forward looking estimates for the stock but we refrain from assigning recommendation |

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