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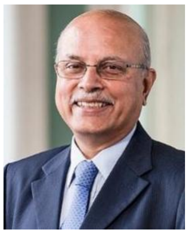
Financial Services

Expert Speak

GST 2.0: A new 'grammar of trust'



Mr. Shailesh Haribhakti

Mr. Haribhakti, Founder and Chairman of Shailesh Haribhakti & Associates, is a renowned chartered and cost accountant, and a certified internal auditor, financial planner, and fraud examiner, with over five decades of experience. He has served as Board Chairman, Audit Committee Chairperson, and Independent Director at several of the nation's leading organizations. He has served on SEBI's Committee on Disclosures and Accounting Standards and Takeover Panel. He was Chairman of the NPS (National Pension Scheme) Trust from 2015 to 2017.

- **We hosted Mr. Shailesh Haribhakti, a tax veteran and a business strategy professional, to get his perspectives on the GST 2.0 reforms and their multi-faceted effect on various sectors, businesses and the economy. He believes that GST 2.0 is not just a rejig of tax slabs but a reformative step toward bringing in a new 'grammar of trust' into the GST ecosystem, which can unleash collateral benefits, setting the Indian economy on a path of productivity gains and higher growth. He placed GST 2.0 reform potential on the same pedestal as that of license regime abolition, Aadhaar rollout and UPI adoption, underscoring the productivity benefits that can accrue over years. While most aspects of GST 2.0 are laudable, the lack of clarity over progress toward universal coverage was somewhat disheartening, but may be included in the future when the system matures further and becomes an invisible yet deep enabler of commerce.**
- **While the benefits of the reduction in tax rates from four slabs (5%/12%/18%/ 28%) to two (5%/18%) are apparent and immediate (esp. in stimulating overall demand owing to lower retail prices, addressing the issue of inversion, better implementation of input tax credit mechanism), the silent and slow-churn benefits of process redesign, better compliance, base broadening, tax buoyancy, lower vexatious litigations, etc. will transform the current inefficiencies into a progressive trust-based system, boosting factor productivity and output.**
- **The top beneficiary sectors:** GST 2.0 is truly an all-pervasive reform that will benefit most domestic-oriented sectors. Mr. Haribhakti delineated 10 sectors that will emerge as the top beneficiaries of these reforms: (i) insurance – potential price reduction of up to 15%; (ii) FMCG staples, (iii) essential medicines, (iv) medical devices, (v) cement, (vi) bikes and small cars, (vii) textiles and apparels, (viii) renewable equipment, (ix) agricultural machinery, (x) power tariff (owing adjustment in cess). On the other hand, one segment that may be adversely affected is the large, long-gestation, complex construction projects, which may be pushed back. However, here too, there could be mitigating factors if growth surprise comes through, and companies may then be willing to undertake project risk in order to capture the expanded demand potential. Essentially, the worst-case outcome could be a continuation of the current momentum, while a blue-sky scenario will include a material uplift in the growth impulse owing to better tax buoyancy, base broadening and compliance cadence.
- **Limited impact on government finances:** These reforms will have a manageable impact on government finances and should easily be digested. The government has multiple levers to defray the short-term impact of revenue foregone due to lower tax rates, including asset monetization, PSU disinvestments, subsidy savings or better targeting. The current regime has amply demonstrated its fiscal rectitude credentials over the past decade and will not deviate from the long-term path of fiscal consolidation. Moreover, while tax collections will take a hit in the short term, it could be offset by higher demand, tax buoyancy and better compliance.
- **Sharp focus on streamlining processes and easing compliance:** In addition to crunching tax rates to less unwieldy 2 slab structure, there are several key proposals that will ensure the ease of compliance and the ease of doing business, including: (i) 90% provisional refunds in identified cases – a big working capital boost to businesses; (ii) auto approval for registration in three days; (iii) simplified registration of e-commerce sellers; (iv) PoS clarity for intermediary service; (v) establishment of GST Appellate Tribunal with Dec'26 cut-off for legacy litigations; (vi) clear rules on discount credit notes that will help to resolve disputes in segments like staples, autos, etc.

Please refer our earlier report

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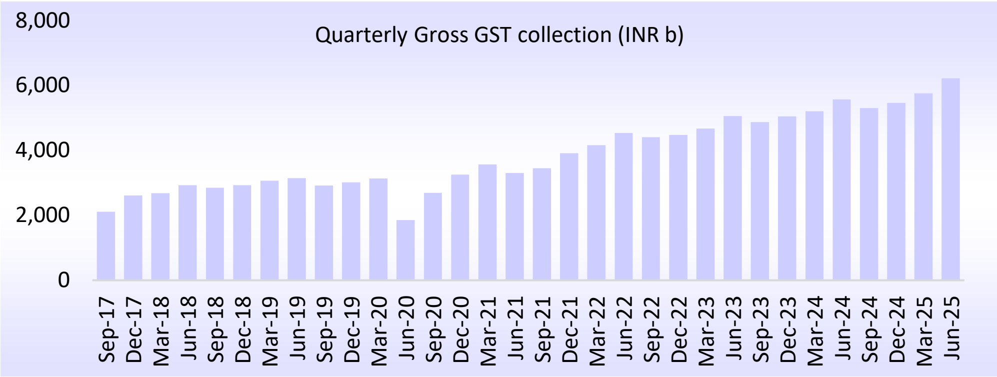
- **Manageable transition pain:** While there will be some natural teething issues during the transition phase from the new regime to old regime, the IT systems are much more robust and comprehensive vs. the time when GST was first introduced in 2017. The transition pain should be manageable and also be pre-empted by some agile moves like the ones adopted by auto companies where OEMs have already announced price cuts ahead of 22nd Sep'25, the effective date of these reforms. Mr. Haribhakti suggested the industry wait for the final notifications and that they should be fully ready to face a duty inversion situation and claim ITC nimbly. He also stressed that the tax-collecting authorities will be instructed to be quick and repose trust in taxpayers. 90% of the refund/ITC claims are likely to be processed without litigation or interrogation, thus laying brickwork for a trust-based system.
- **A much-needed booster shot for MSMEs:** The critical MSME segment, employing ~250m, will be a key beneficiary of the measures as it will benefit from streamlined compliance requirements in the form of cost and time savings, faster refund credit and working capital release. The new appellate structure will aid MSMEs with quick resolutions and reduced ambiguities on business-critical issues. It is imperative for MSMEs to comply fully so that they can benefit from being part of the humongous and interconnected GST value chain.
- **Sunset clause for compensation cess to engender new form of efficiency:** The gradual abolition of compensation cess by Mar'26 is targeted at improving the federal competitive efficiency, and the revenue loss grievance of any states will be taken up by the next finance commission. The incentive structure for states has been inverted and is aimed at incentivizing states with a better pass-through mechanism, simpler processes, refund fairness, harmonized laws, higher MSME registration, better tax buoyancy and faster liquidation of inventory.
- **Profiteering concerns overdone:** Some market participants have expressed concerns over profiteering tendencies of few businesses and limited/partial pass-through to retail prices. Mr. Haribhakti assuaged these concerns, suggesting that the digital systems are now robust and the government is empowered through access to nuanced information and AI/ML tools, which make it easy for the authorities to monitor any deviant behavior and enforce the rule of law. Moreover, several large businesses have publicly indicated their intent to honor the law, hence it becomes a competitive disadvantage for any non-conforming business entity.
- **Missing universal coverage somewhat disheartening:** While Mr. Haribhakti hailed GST 2.0 as a path-breaking reform, it was somewhat disheartening that there was no material measure for universal coverage by including some outside-GST ambit products like oil & gas, liquor, electricity, etc. He thinks universal coverage is the most desired structure for an indirect tax regime like GST. Nonetheless, we think it could be taken up in future after these measures are fully digested and the system is ready for universal coverage, with the affected states taken onboard.
- **Speed in delivery of justice – a key reform:** The GST council has proposed setting up of GST appellate tribunal with a fixed deadline of Dec'26 to resolve legacy litigations. This, as per Mr. Haribhakti, is another high point of GST 2.0 where the focus on speedy delivery of justice and dispute resolution will yield several benefits. This naturally leads to greater clarity among taxpayers and faster throughput and productivity gains. Moreover, the government's intent to expand reforms into other areas of economy is also evident from decriminalization of 300 laws, with the elimination of several irksome old laws, which have ceased to be relevant in current times.
- **An aspirational vision of India's GST:** In addition to analyzing the impact of GST 2.0, Mr. Haribhakti also laid out his aspirational vision of an ideal GST ecosystem. GST is the best form of indirect taxation and all states should, over time, willingly agree to subsummation of state-level levies, duties, and taxes into the GST structure. In an ideal form, the GST framework should have one single rate covering all sectors, goods and services without providing any exemption, even for micro businesses. He stressed that there should not be any need for tax assessment, and all tax payments, barring extreme cases, should be done on the basis of self-determination, ensuring automaticity of tax payments and near-zero litigation. This harmonized system would eventually ensure that businesses are focusing more on gainful economic activities of innovation, growth and production/process improvements rather than stressing over the maze of multiple rates, exemptions, fear of legal actions or cost of compliance.
- **Our view: We believe that the government is committed to lifting and stimulating the Indian economy in the face of frosty global headwinds, weak private capex and sub-optimal consumption. The latest GST reform will be the first big structural reform of the government in the current term. In our view, the proactive steps of the government in tandem with the RBI's stimulus measures have kick-started a cycle of positive uptrends for the Indian equity market, which has been a key underperformer over the past 12 months. The current valuation at ~20.6x (vs. LPA of 20.7x) is reasonable and has room to expand given our expectations of double-digit PAT growth for Nifty/MOFSL at 10%/13%.**

Exhibit 1: Key sectoral impact and beneficiaries of GST 2.0 (MOFSL analysts' views)

Sector	Impact on sector	Earlier Rate	New Rate	Key Stocks	Key observations
AUTOMOTIVE					
Small Cars	Positive	28-31%	18%	MSIL and HMIL	
SUVs	Positive	43-50%	40%	MSIL, M&M, HMIL	
Tractors	Positive	12%	5%	M&M, Escorts	
3W, CVs, 2W (up to 350cc), Auto Components	Positive	28%	18%	Bajaj, Ashok Leyland, VECV, HMCL benefit the most, but other listed players also benefit; Domestic focused; tyres, battery companies, MSWIL, Happy, Endurance, Bosch	
2W (above 350cc)	Negative	31%	40%	Eicher	
All EVs	Neutral	5%	5%		
BANKS					
	Positive			ICICI Bank, HDFC Bank, IDFC First Bank	❖ Sector benefits from second-order flow through as consumption and economic activities will pick up. Household confidence and demand for debt should rise and credit growth should be in double digits in 2HFY26. Direct benefits for consumer-heavy lenders and credit card players
CEMENT					
	Sentimentally positive	28%	18%	All stocks	❖ Possible price reduction of 7.5-8%, though demand elasticity is low. GST on coal is raised to 18% vs. 5%, but clarity on green energy cess (INR400/t) is needed. In case green energy cess is removed, then this is marginally positive for the sector. Else production cost can rise by INR20-25/t.
CONSUMER DURABLES					
Consumer Durables (for RAC, TVs above 32" and Dish washers)	Positive	28%	18%	Havells, Voltas, Blue Star	❖ Demand can get a boost from reduction in prices; RAC demand in 1HCY25 was weak
EMS					
EMS	Positive			Amber	❖ A key supplier to AC companies; benefits from a cut in RAC GST from 28% to 18%
CONSUMER STAPLES					
Cigarette	Positive	28%	40%	ITC	❖ GST rate will now be applicable on MRP vs. transaction value earlier. Current total tax is 50-55% of MRP. In case there is no additional duty beyond revised GST rate, it is positive for the space; clarity awaited
Food	Positive	18%	5%	BRIT, NEST	❖ Packaged foods products like biscuits, bakery items, noodles, etc.
Fruit Juices	Positive	12%	5%	DABUR, VARUN BEV	❖ Fruit juice, flavored milk reduced from 12% to 5%; Water+Soda from 18% to 5%
Personal Care	Positive	18%	5%	MRCO, HMN, DABUR, HUVR	❖ Includes large categories such as soaps, hair oils, shampoos, oral care
CONSTRUCTION					
Works Contract	Neutral to Negative	12%	18%	Infra companies	❖ This would likely be passed on to awarding authority. Hence, largely neutral impact
Fertilizers	Positive	18%	5%	Coromandel	❖ Corrects inverted duty structure by lowering GST on raw materials from 18% to 5%
HOTELS					
Hotels (sub INR7,500 ARR)	Positive	12%	5%	LemonTree; Indian Hotels	❖ GST on sub INR7,500 ARR inventory can move lower from 12% to 5%; ❖ Indian Hotels benefits through Ginger

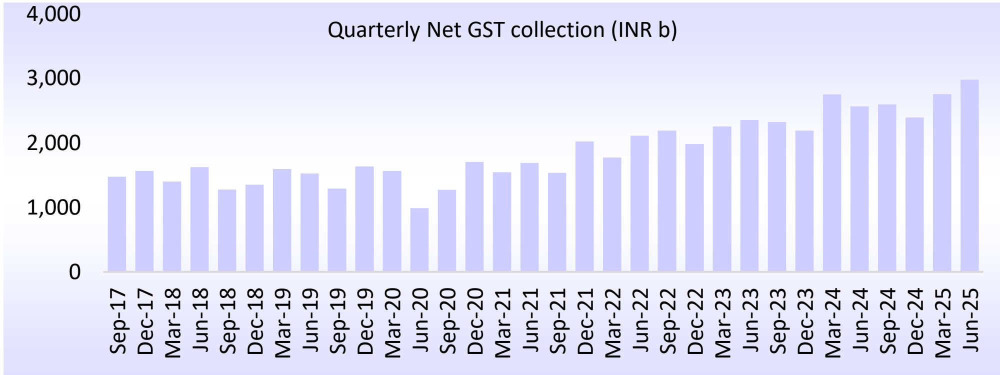
Sector	Impact on sector	Earlier Rate	New Rate	Key Stocks	Key observations
INSURANCE					
Retail health insurance with reinsurance thereof	Positive	18% + ITC	Exempt	Niva Bupa, Star Health, ICICI Lombard	
Retail life insurance with reinsurance thereof	Positive	18% + ITC	Exempt	HDFC Life, SBI Life, ICICI Pru Life, Max Fin, LIC	
Motor TP for goods carriage	Neutral	12% + ITC	5% + ITC	ICICI Lombard	
LOGISTICS					
Logistics	Positive			Delhivery	❖ Key beneficiary of expected volume increase in categories like consumer durable and electronics, which form large part of Delhivery's volumes
MAN-MADE FIBERS	Positive	18%	5%	Grasim Industries	❖ GST on VSF is now at par with Cotton and hence, will be more competitive
NBFCs					
Consumer Durables (for ACs, TVs above 32" and Dish washers)	Positive	28%	18%	Bajaj Finance and HDB Financial	❖ Demand can improve from reduction in prices; EMI obligation on ACs, TVs above 32 inches and Dish washers should come down benefitting NBFCs lending in this segment
Vehicle Financiers [for CV, 3W, Tractors, Small Cars, SUVs, 2Ws (up to 350cc)]	Positive	Higher GST Rate	Lower GST Rate	CV, 3W, small cars, 2W (up to 350cc) - New GST rate of 18% Tractors - New GST rate of 5% SUVs - New GST rate of 40% MMFS, CIFC, SHFL	❖ Except 2Ws above 350cc (rate will go up) and EVs (rate unchanged), GST reduction will happen in all other auto segments. Relative to earlier expectations, a rate cut even in SUVs is positive. Inverted duty structure in tractors has been addressed. Improvement in consumption can improve volumes and cash flows of VF customers
OIL & GAS					
CNG Cars below 1200 cc	Positive	28%	18%	IGL, MAHGL, GUJGA	
Coal	Neutral	5%	18%	Coal India	❖ Taxes and Statutory levies are entirely passed on. Hence no event for Coal India
QUICK COMMERCE					❖
Quick Commerce	Positive			Eternal, Swiggy	❖ The segment benefits from higher consumption demand, a good part of which will be fulfilled through Q-commerce channel
RETAIL					
Apparel					
INR1,000-INR2,500	Positive	12%	5%	Trent (Westside), Pantaloons (ABFRL), ABLBL, Go Fashion	
INR2,500+	Negative	12%	18%	Vedant Fashions, Raymond, Shoppers Stop	
Footwear					
<INR1,000	Positive	12%	5%	Relaxo, Bata, Campus	
INR1,000-INR2,500	Positive	18%	5%	Metro Brands, Campus	
Electronics retailers					
AC, TV etc	Positive	28%	18%	Reliance Retail, EMIL, Aditya Vision	
Daily essentials	**Positive**	**12%/18%**	**5%/NIL**	**DMart, Reliance Retail**	
UTILITIES/RENEWABLES					❖
Solar cells	Positive	12%	5%	Waaree Energies, Premier Energy	❖

Exhibit 2: Trend in quarterly GST collections (Gross)



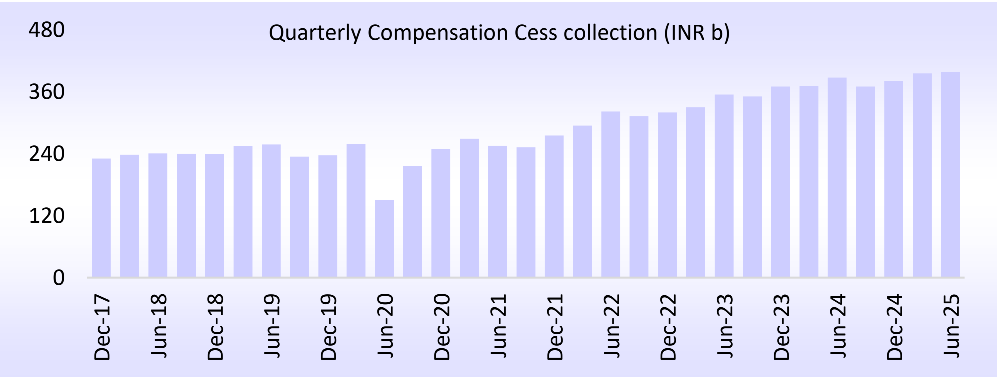
Source: GoI

Exhibit 3: Trend in quarterly GST collections (Net)



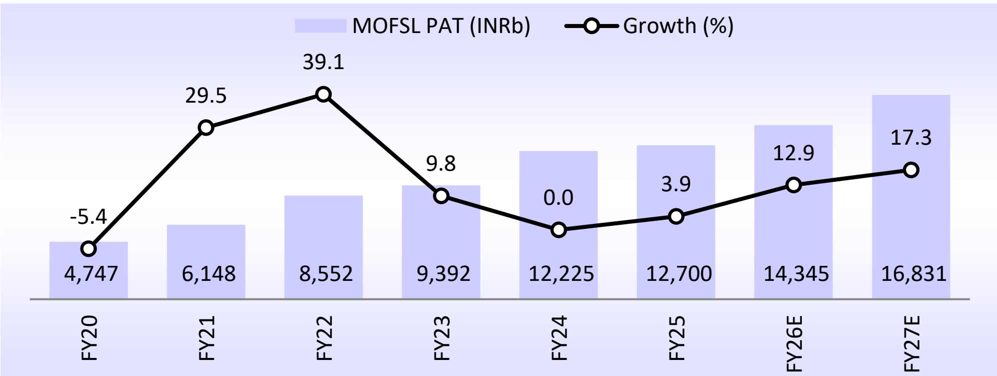
Source: GoI

Exhibit 4: Trend in quarterly compensation cess collections



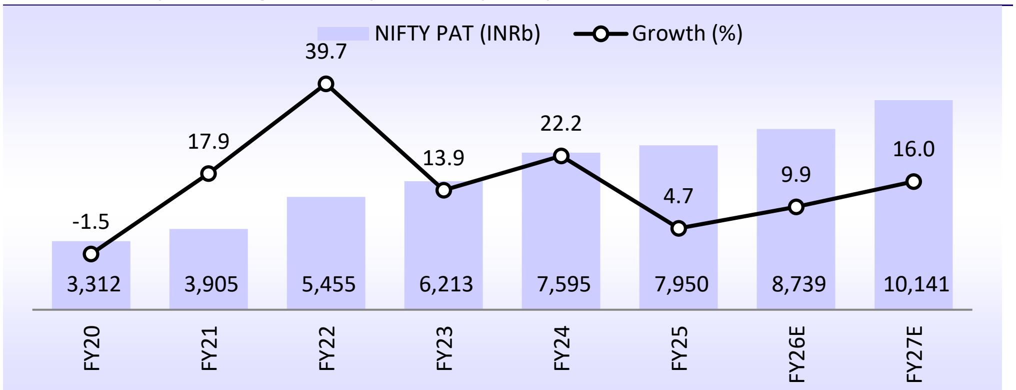
Source: GoI

Exhibit 5: MOFSL universe PAT growth expected to pick up to 13% in FY26



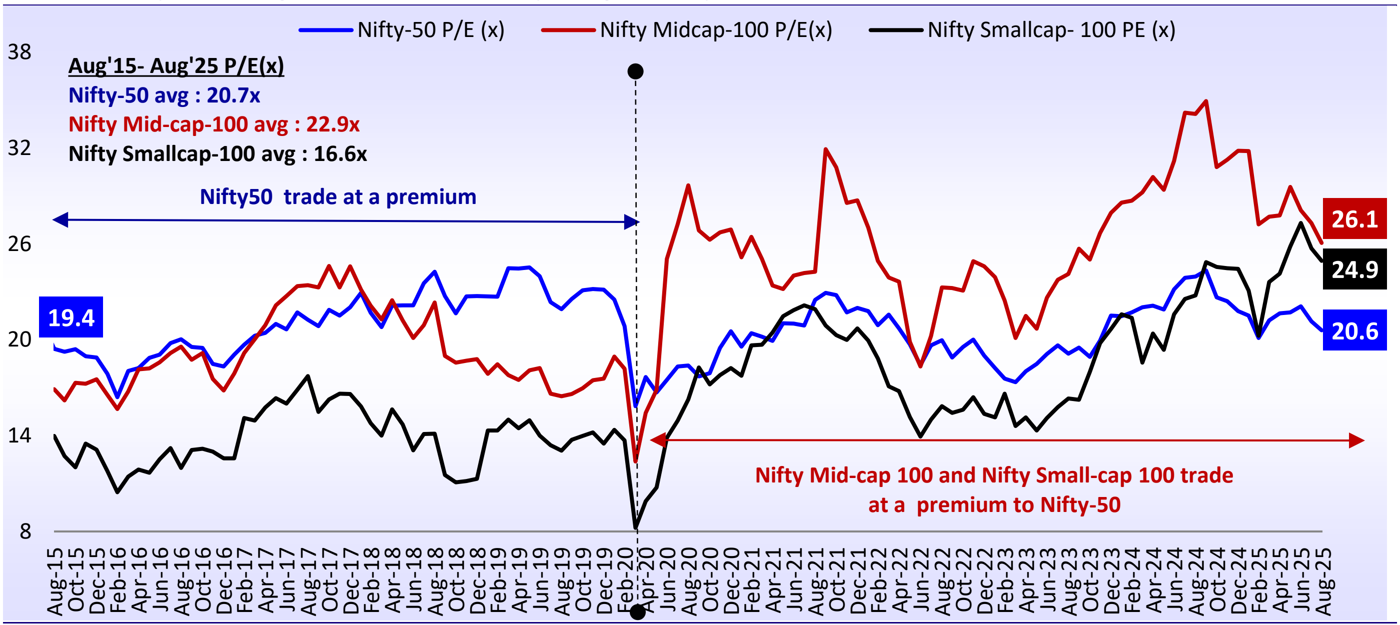
Source: MOFSL

Exhibit 6: Nifty 50 PAT growth expected to pick up to 10% in FY26



Source: MOFSL

Exhibit 7: Nifty-50 trading close to LPA, Small Cap at significant premium



Source: MOFSL

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