How the GST Bill will impact various sectors and stocks

A snapshot on how the bill is likely to impact various sectors and stocks

The GST bill is seems to be in the last stages of clearing the Rajya Sabha hurdle. Most analysts suggest that from a macro-economic perspective, while the short-term impact of GST could be mixed, the long-term impact will be positive.

"Besides simplifying the indirect tax structure, GST should also help to create 'One India' by eliminating geographical fragmentation. It will remove the current cascading of taxes by ensuring the seamless flow of input credit across the value chain of both goods and services," suggests a report from Nomura.

Indranil Pan, chief economist at IDFC Bank, on the other hand believes that while in the long-run GST will have a positive impact on inflation and government finances, in the near-term, inflation is likely to go up and government finances are likely to be strained due to compensation to states.

Here is a sector-wise snapshot excerpted from a recent Nomura report on GST on how the bill is likely to impact various sectors and stocks.

AUTOMOBILES

Largely positive for demand, as it will lead to a 10-17 per cent fall in prices, assuming an 18 per cent GST rate. Margin benefits to accrue for tractors, as these can claim set-off against taxes paid on input. Organised battery and other spares would become more cost competitive and gain market share.

Stock impact: Positive for Maruti Suzuki, Hero MotoCorp, Exide, Amara Raja, Eicher Motor, Mahindra & Mahindra, Bajaj Auto. Negative for Ashok Leyland

FMCG

GST will be positive for household and personal care space, as the effective tax rate reduces by 200-500 basis points (bps), apart from reducing warehousing and logistical requirements. However, working capital for retailers, and additional tax rates for jewellery and cigarette manufacturers are negatives.

Stock impact: Positive for Hindustan Unilever, Emami, Godrej Consumer. Negative for Titan, Bata, ITC

LOGISTICS

Passage of GST will lead to elimination of central sales tax and inter-state value-added tax arbitrage possibilities. This will lead to consolidation of warehouses and increased efficiencies in the logistics chain.

Stock impact: Positive for Container Corporation of India, Adani SEZ, Gujarat Pipav Port (longer term)

INFRASTRUCTURE

Clarity on works contract taxation is the key benefit for the sector. This could reduce litigation, as it eliminates the difference between sales and services.

Stock impact: Positive for Larsen & Toubro (L&T)

CONSUMER DURABLES

Consumer durables will benefit from improved logistics. Direct benefits up to 200-300 bps in cost savings may accrue. A significant portion of direct benefits will be passed on to end consumers because of a highly competitive market.

Stock impact: Positive for Voltas, Havells, Crompton Greaves

OIL & GAS

Key petroleum products like crude, natural gas, high speed diesel and ATF have been kept out of GST. Clarity is awaited for others. Compliance costs are likely to rise because of dual indirect tax mechanism.

Stock impact: Neutral. Do not foresee any meaningful change on oil & gas companies

CEMENT

Overall tax incidence on the sector could decline. The sector will also benefit from expected decline in logistic costs. Firms can be expected to pass on the benefits, given that demand and plant utilisation levels are picking up.

Stock impact: Positive for most companies

WIND POWER

GST will be negative for wind, turbine generator manufactures like Suzlon and InoxWind, as pressure on developer margins and internal rates of return could eventually force reduction in prices and realisations, up to 10-13 per cent. However, if components are included in the exemption list, the impact of GST will be nullified.

Stock impact: Negative for Suzlon, Inox Wind

UTILITIES

Exclusion of "sale of electricity" from GST could potentially raise the cost of coal-fired and renewable energy for Discoms. Profitability of independent power producers selling via medium/long-term PPAs is unlikely to be dented as cost escalation would likely be passed on.

Stock impact: Positive for CESC, negative for JSW Energy

PHARMACEUTICALS

GST rollout could be negative for the sector, as it is likely to increase indirect tax. Analysts say indirect taxes paid by pharma companies could increase by 60 per cent and MRP by four per cent.

Stock impact: Negative for Alkem, Glaxo Pharma

(Business Standard)