



ICRA RESEARCH SERVICES



## INDIAN AUTOMOBILE INDUSTRY

**Bigger Cars and SUVs to benefit under GST regime; Taxation on other segments largely neutral**

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### Key Announcements under GST for Automobile Sector:

- ❑ Base rate for automobile sector set at 28% with an additional cess of 15% of Bigger Cars, SUVs and Hybrid Vehicles
- ❑ Small Cars to attract an additional cess of 1% and 3% on petrol and diesel variants, respectively
- ❑ Two Wheelers, Three Wheelers, Commercial Vehicles will be taxed at a base rate of 28%
- ❑ Motorcycles with engine size > 350 cc to attract an additional cess of 3%; This segment constitutes just 0.4% of Indian 2W market during FY2017
- ❑ Tractors fall under the 12% slab with provision to take input tax credit on raw materials

### Likely Impact

- ❑ Proposed tax rate for small car will either be price neutral or marginally lower considering GST will subsume infrastructure-cess
- ❑ Bigger sedans (engine size > 1,500cc and length >4,000 mm) and SUVs (engine size > 1,500cc and ground clearance > 170mm) will see lower taxation and eventually reduction in vehicle prices given the fact that they are currently taxed above the proposed 43% tax rate
- ❑ Introduction of 15% cess on Hybrid Vehicles appears to be contrary to Government's plans to promote greener vehicles
- ❑ In addition, vehicles with passenger carrying capacity between 10-13 would also attract 15% cess; This may mandate a review
- ❑ Tax rate for other segments such 2Ws, 3Ws and CVs are broadly in line with the current taxation norms
- ❑ Likewise for Tractors, the tax rates of 12% broadly compares with existing taxation 12-13% currently applicable in form of VAT (i.e. 5%) and Excise duty on components (~8%)

### Impact Analysis

#### Bigger Cars and SUVs to benefit under GST regime; Taxation on other segments largely neutral

- ❑ The GST Council in its 14<sup>th</sup> meeting held on May 18, 2017 announced the GST across various categories of goods including automobiles. The rates however will be subject to further vetting, during which the rates may undergo some changes. In line with expectations, the base GST rates for the automobile segment have been set at 28%, which is broadly in line with overall indirect tax rates at present. However, in addition to the base rate, the Government has also proposed to levy a cess of 1% and 3% on small cars with petrol and diesel engines, respectively.
- ❑ Considering GST will subsume infrastructure-cess currently levied on domestic Passenger Vehicle industry, proposed tax rate for small cars will either be price neutral or reduce marginally. Moreover, bigger sedans (engine size > 1,500cc and length >4,000 mm) and SUVs (engine size > 1,500cc and ground clearance > 170mm) will see lower taxation and eventually reduction in vehicle prices, despite 15% cess above the base GST rate of 28%.
- ❑ Contrary to Government's thrust on promoting greener vehicles, the Hybrid vehicles will also attract a cess of 15% over and above the base GST rate of 28%. This will result in Hybrid vehicles becoming more expensive going forward.
- ❑ Under GST, the effective taxation is likely to be almost neutral for Commercial Vehicles, Three Wheelers and Two Wheelers (up to 350 cc). However, within the CV space, the mini-bus segment (with carrying capacity of 10-13 passengers) has also been clubbed with bigger vehicles and would attract an additional cess of 15%. We believe this anomaly would most likely be reviewed by the Government.

#### Input Tax Credit and Supply Chain efficiencies added benefits of GST

- ❑ Apart from simplification of taxation structure and a shift towards uniform regime across the country, the automobile sector will also see additional benefits by virtue of input tax credit on various elements of the cost structure. Some of the common example would include – a) Service Tax paid on inputs such as Lease Rentals, IT Services, Freight Charges (on finished products) and b) Lower tax credit on outsourcing activities.
- ❑ The other major benefit of GST is expected to be easing out of various bottlenecks and complexities involved in transportation of goods using road logistics from one state to another. Since CST will be subsumed in GST, companies will no longer be required to have depots/warehouses at multiple locations and also do away with C&F agents. In the automobile industry, while OEMs dispatch vehicles directly from their factories to dealers; in their spare parts business, the sales are routed through depots and C&F agents. With the implementation of GST, companies will be able to consolidate their warehousing infrastructure and benefit from lower costs incurred in supply chain.

*Bigger Cars and SUVs are major beneficiary under GST*

### Passenger Vehicles: Taxation on Bigger Cars and SUVs to reduce; Hybrid vehicles to cost more

- Within the automobile sector, the Passenger Vehicle segment will see reduction in overall taxation under GST will subsume infrastructure-cess currently levied on the segment. As shown in exhibit 1 & 2, the extent of reduction in overall taxes will vary across segments and Bigger Cars and SUVs will see the most benefit.
- However, contrary to Government's thrust on promoting greener vehicles, the Hybrid vehicles will also attract a cess of 15% over and above the base GST rate of 28%. This will result in Hybrid vehicles becoming more expensive going forward. However, as clarified by Government officials, the small hybrid vehicles will not attract additional cess of 15%. Comparatively, electrically operated vehicle will be levied GST rate of 12%, whereas Hybrid will attract duty of 43%.

#### Pre – GST

**Exhibit 1: Duty Structure for Passenger Vehicles (Pre GST)**

Segment	Excise Duty	NCCD	Infra Cess	CST	VAT*	Effective Tax
Small Cars (length < 4m)	12.5%	1.0%	1.0%	2.0%	12.5%	~31.4%
Mid Size (length > 4m with engine < 1,500cc)	24.0%	1.0%	4.0%	2.0%	12.5%	~46.6%
Bigger Cars (length > 4m with engine > 1,500 cc)	27.0%	1.0%	4.0%	2.0%	12.5%	~51.8%
SUVs^	30.0%	1.0%	4.0%	2.0%	12.5%	~55.3%
Hybrid Vehicles	12.5%	1.0%	0.0%	2.0%	12.5%	~30.3%

Source: GST Documents, ICRA research;

\* VAT may be higher in some states; NCCD – National Calamity Contingent Duty ^ Additional specs: ground clearance > 170 mm

#### Post - GST

**Exhibit 2: Duty Structure for Passenger Vehicles (Post GST)**

Segment	Before GST	Post GST		
		Base Rate	Cess	Effective Rate
Small Cars (length < 4m) – Petrol	~31.4%	28.0%	1.0%	29.0%
Small Cars (length < 4m) – Diesel	~33.4%	28.0%	3.0%	31.0%
Mid Size (length > 4m with engine < 1,500cc)	~46.6 %	28.0%	15.0%	43.0%
Bigger Cars (length > 4m with engine > 1,500 cc)	~51.8%	28.0%	15.0%	43.0%
SUVs	~55.3%	28.0%	15.0%	43.0%
Hybrid Vehicles*	~30.3%	28.0%	15.0%	43.0%

Source: GST Documents, ICRA research; \* Applicable for Large Hybrid Vehicles only – as per clarification from Government officials

\* In certain states like Delhi, the VAT rate is lower thereby leading to lower than 30.3% total tax on hybrid vehicles

*GST rates likely to be neutral for Two Wheeler OEMs*

*Motorcycles above 350cc will attract an additional cess of 3%*

*GST rates likely to be neutral for CV OEMs barring the additional cess proposed on mini-buses, which we believe will be reviewed in due course*

### Two Wheelers: Largely neutral except for Motorcycles above 350cc segment

- For the two wheeler segment, the GST rates are likely to be neutral as the segment will attract a tax rate base rate of 28% compared to an existing tax rate of ~30%. However, motorcycles above 350cc segment will attract an additional cess of 3%, leading to an overall tax rate of 31%. In ICRA's view, the impact will be limited as this segment accounts for miniscule share of (0.4%) of overall industry sales.

#### Exhibit 3: Duty Structure for Two Wheelers (Pre GST)

Segment	Excise Duty	NCCD	VAT*	CST	Effective Tax
Two Wheelers	12.5%	1.0%	12.5%	2.0%	30.2%

Source: GST Documents, ICRA research; \* VAT may be higher in some states

#### Exhibit 4: Duty Structure for Two Wheelers (Post GST)

Segment	Before GST	Post GST
Two Wheelers (Engine Size < 350cc)	30.2%	28.0%
Two Wheelers (Engine Size > 350cc)	30.2%	31.0%

### Commercial Vehicles: Likely to be neutral under GST

- Likewise for the CV segment as well, the GST rates are likely to be neutral as the segment will attract a tax rate base rate of 28% compared to an existing tax rate of ~30%. However, within the CV space, the mini-bus segment (with carrying capacity of 10-13 passengers) has also been clubbed with bigger vehicles and would attract an additional cess of 15%. We believe this anomaly would most likely be reviewed by the Government.

#### Exhibit 5: Duty Structure for Commercial Vehicles (Pre GST)

Segment	Excise Duty	NCCD	VAT*	CST	Effective Tax
Commercial Vehicles	12.5%	1.0%	12.5%	2.0%	30.2%
Three Wheelers <sup>^</sup>	12.5%	-	12.5%	2.0%	29.1%

Source: GST Documents, ICRA research; \* VAT may be higher in some states; <sup>^</sup> Three Wheelers didn't attract NCCD

#### Exhibit 6: Duty Structure for Commercial Vehicles (Post GST)

Segment	Before GST	Post GST
Commercial Vehicles	30.2%	28.0%
Buses (with 10-13 Passenger Capacity)	30.2%	43.0%
Three Wheelers	29.1%	28.0%

Source: GST Documents, ICRA research

*Tractor industry will be taxed at 12% under GST; This will be similar to the overall indirect tax paid by the industry at present*

### Tractors: Likely to be neutral under GST

- ❑ The tractor industry in India is exempt from paying Excise Duty (on finished vehicles), however, it attracts VAT of 5 to 5.5% and is also not eligible to take credit on input tax paid by vendors on manufacturing of components. As a result, the overall indirect tax on tractor industry works out to be 12-13%.
- ❑ Under GST, the tractor segment will be taxed at 12% with provision to take input tax credit. Accordingly, the impact of GST is likely to be neutral for the tractor industry.

Exhibit 7: Duty Structure for Tractors – Pre & Post GST

Segment	Excise Duty	VAT	Effective Tax	Comments
Pre GST	Nil	5%	12-13%	Tractor OEMs were not eligible to take credit on input tax paid by component suppliers
Post GST	-	-	12.0%	Under GST, Tractors will be taxed at 12%. While GST on input components has increased, since the OEMs will be eligible for ITC, the overall taxation will be broadly in line with current tax on tractors.

Source: GST Documents, ICRA research



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