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A Study on the GST 2.0 Implementation in the Indian Stock Market with Special Reference to the FMCG Sector

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ABSTRACT

The Goods and Services Tax (GST) is one of the most significant indirect tax reforms introduced in India with the objective of creating a unified national market, improving tax compliance, and enhancing economic efficiency. The proposed GST 2.0 framework aims to further simplify the tax structure, rationalize tax rates, strengthen digital compliance mechanisms, and promote ease of doing business. This study examines the conceptual framework and structural features of GST 2.0 and analyzes its fiscal implications on the Indian economy. The research investigates the macroeconomic impact of GST 2.0 on Indian equity markets with particular focus on the Fast-Moving Consumer Goods (FMCG) sector, which is highly sensitive to changes in taxation, consumer demand, and distribution efficiency. The study evaluates the post-implementation financial performance of ITC Limited by analyzing key profitability indicators and stock market behavior using Kolmogorov-Smirnov normality tests, Shapiro-Wilk tests, trend analysis, and ratio analysis. By examining stock price movements, market volatility, and investor perception, the research assesses whether equity markets efficiently incorporate GST-related information. Findings provide valuable insights into the effectiveness of GST 2.0 reforms, their influence on corporate performance, and their role in shaping investor confidence and stock market outcomes.

Keywords: *GST 2.0, FMCG Sector, Indian Stock Market, ITC Limited, Kolmogorov-Smirnov Test, Tax Reforms, Investor Sentiment, Profitability Analysis*

1. Introduction

1.1 Background of the Study

The Indian taxation system has undergone significant transformation over the past decade, with the introduction of the Goods and Services Tax (GST) in 2017 marking a major milestone in indirect tax reform. GST replaced multiple complex taxes such as VAT, excise duty, and service tax with a unified tax structure, aiming to create a "One Nation, One Tax" system. This reform improved tax transparency, reduced cascading effects, and enhanced ease of doing business across sectors.

Building upon the initial GST framework, the Government of India introduced GST 2.0 in 2025, which focuses on further simplification, digital integration, and rationalization of tax slabs. GST 2.0 introduced a more structured tax regime with simplified slabs and improved compliance mechanisms, strengthening economic efficiency and reducing administrative burden on businesses. This evolution of GST has significant implications for the Fast-Moving Consumer Goods (FMCG) industry, which is highly sensitive to pricing, taxation, and consumer demand.

The FMCG sector plays a vital role in the Indian economy as it caters to daily consumer needs and contributes significantly to employment, production, and GDP growth. Companies such as Hindustan Unilever Limited (HUL), ITC Limited, and

Nestlé India operate on large-scale distribution networks and are directly affected by changes in indirect taxation policies. The Indian stock market acts as a reflection of economic performance and investor sentiment, making it essential to study the impact of GST 2.0 on FMCG sector performance and corresponding market behavior.

The introduction of GST 2.0 has also improved supply chain efficiency by reducing interstate barriers and optimizing logistics costs. However, challenges such as partial tax pass-through, transition adjustments, and compliance issues still create short-term uncertainty, affecting both financial performance and stock market behavior of FMCG companies.

1.2 Company Profile — ITC Limited

ITC Limited is one of India's leading diversified conglomerates with a strong presence in the FMCG sector, hospitality, paperboards, packaging, agri-business, and information technology. Established in 1910 as the Imperial Tobacco Company of India Limited, ITC is today recognized as one of India's most valuable corporations, listed on both the NSE and BSE and a major constituent of the Nifty 50 and Nifty FMCG Index.

ITC operates across five key segments: FMCG (brands: Aashirvaad, Sunfeast, Bingo!, Fama, Classmate), Cigarettes, Hotels, Paperboards & Packaging, and Agri-Business. Its competitive advantages include a strong brand portfolio, extensive pan-India distribution network, strong rural market penetration, and high cash generation from cigarettes supporting FMCG expansion. The implementation of GST and GST 2.0 has significantly benefited ITC through simplified tax structures, reduced logistics costs, better pricing transparency, and increased consumer demand, positively impacting its stock market performance and long-term valuation.

1.3 Statement of the Problem

The introduction of GST 2.0 represents a significant advancement in India's indirect taxation system. While sector-level studies on the original GST implementation exist, there is limited research analyzing how individual FMCG companies perform financially and in the stock market during different quarters after GST 2.0 implementation. There is also a need to evaluate short-term financial impacts using quarterly data (Q2 and Q3 of FY 2025–26), as most existing research focuses on long-term effects. This study bridges the gap between policy implementation and real market outcomes, helping investors, policymakers, and businesses understand whether GST 2.0 is achieving its intended objectives in terms of economic growth and market stability.

1.4 Objectives of the Study

- To critically examine the conceptual framework and structural features of GST 2.0 and its fiscal implications on the Indian economy.
- To empirically assess the macroeconomic impact of GST 2.0 on Indian equity markets with specific reference to sectoral performance dynamics.
- To evaluate the post-implementation financial performance and stock market behavior of FMCG sector companies (ITC Limited) in response to GST 2.0 reforms.
- To analyze investor sentiment, behavioral responses, and market reaction efficiency towards GST-related policy announcements and regulatory changes.

1.5 Hypotheses

H₀ (Null): GST 2.0 implementation has no significant impact on the profitability and financial performance of ITC Limited and the FMCG sector in India.

H₁ (Alternative): GST 2.0 implementation has a significant impact on the profitability and financial performance of ITC Limited and the FMCG sector in India.

1.6 Scope and Limitations

The study is limited to the FMCG sector in India (FY 2025–26, Q2 and Q3), with ITC Limited as the sample company. Analysis is restricted to companies listed on NSE and BSE. The study relies on secondary data sources and basic financial tools; it does not incorporate advanced econometric modeling, long-term forecasting, or detailed micro-level consumer surveys. Stock market behavior is influenced by multiple external factors (global conditions, inflation, geopolitical events) that are not fully controlled in this study.

2. Review of Literature

2.1 GST and Tax Reforms in India

Several studies have examined the impact of GST in India since its 2017 implementation. Researchers highlight that GST streamlined indirect taxation by replacing multiple taxes, improved transparency, reduced cascading effects, and enhanced

ease of doing business. Emerging discussions on GST 2.0 suggest further simplification of tax slabs and improved digital compliance mechanisms expected to enhance efficiency across sectors including FMCG.

2.2 GST Impact on the FMCG Sector

Key findings from literature on GST's impact on FMCG companies include: reduction in overall tax burden on essential products; improved supply chain efficiency through unified taxation; lower logistics costs from removal of interstate barriers; and short-term disruption in pricing and inventory management. Premium FMCG products faced higher tax rates under GST, impacting demand in certain categories. Overall, literature suggests GST has had a mixed but largely positive long-run impact on the sector.

2.3 Review of Previous Studies

Author(s) & Year	Study Title / Key Finding
Agarwal (2025)	Restructured GST 2.0 slabs improved product affordability, increased FMCG consumption and revenues, though incomplete tax pass-through remained a challenge.
Agarwal et al. (2026)	GST 2.0 improved supply chain efficiency by removing interstate barriers and reducing logistics costs, strengthening investor confidence.
Rajput (2026)	GST improved financial transparency; reported improvements in profitability ratios and firm valuation, positively influencing stock market performance.
Manjunath (2021)	GST simplified taxation and improved ease of doing business; reduced tax burden and increased operational efficiency improved investor sentiment.
Joseph & George (2022)	Lower tax rates increased product affordability and consumption, enhancing company revenues and FMCG stock market performance.
Popli & Mishra (2023)	GST enabled firms to optimize distribution networks and reduce warehousing costs, improving competitiveness and investor perception.
Adwankar & Agarwal (2019)	SWOT analysis revealed GST reduced consumer tax burden and increased purchasing power, with short-term disruptions preceding long-term benefits.
Indhumathi (2025)	Favorable GST-related announcements generated positive stock price reactions, especially in consumption-driven FMCG sectors.
Kumar & Singh (2020)	Initial market volatility post-GST gradually stabilized, leading to improved investor confidence and greater market efficiency.
Gupta & Verma (2022)	GST positively affected profit margins and operational efficiency; improved financial health strengthened investor confidence and market valuation.
Reddy (2023)	Investors initially responded negatively to GST reforms due to uncertainty; adjustments over time reflected semi-strong market efficiency.
Mehta & Jain (2024)	Tax reductions under GST encouraged consumer spending, positively influencing FMCG sector growth and stock market performance.
Das (2022)	GST improved tax compliance and revenue collection; contributed to long-term economic growth benefiting corporate performance and stock markets.
Patel (2023)	GST enhanced market transparency and company valuation, particularly in organized FMCG sector, creating a more efficient investment environment.

2.4 Research Gaps Identified

- Limited studies specifically focus on GST 2.0 (2025 onwards) and its emerging impact on FMCG firms.
- Lack of recent quarterly financial analysis (FY 2025–26, Q2 & Q3) in academic research.
- Insufficient company-specific studies combining GST impact with profitability ratio analysis and normality testing.
- Very few studies incorporate K-S Test or Shapiro-Wilk tests linked with market data for quantitative validation.
- Direct correlation between profitability ratios and stock price movement under GST reforms remains underexplored.

3. Research Methodology

Parameter	Details
Research Design	Descriptive and Analytical — describes GST 2.0 framework and analytically evaluates financial performance.
Data Type	Secondary data: ITC annual reports, quarterly financial statements, NSE/BSE data, RBI reports, Ministry of Finance publications, academic journals.
Study Period	FY 2025–26 (Q2 and Q3); comparative reference to pre-GST and post-GST reform performance trends.

Parameter	Details
Sample Company	ITC Limited — selected for market leadership, wide product portfolio, strong disclosures, and high GST-policy relevance.
Sample Size	Nifty FMCG daily data: 62 observations (pre-GST 2.0); 63 observations (post-GST 2.0). Profitability ratios for Q2 and Q3 FY 2025–26.
Analytical Tools	Financial Ratio Analysis (EBITDA, PBT, Net Profit Margin, ROA, ROE, EPS); Trend Analysis; Comparative Analysis; Normality Testing (Kolmogorov-Smirnov & Shapiro-Wilk).
Macroeconomic Vars.	GST rate structure, Inflation (CPI), GDP growth rate, Interest rates, Exchange rates, Disposable income levels.
Sampling Technique	Non-probability Purposive Sampling.

4. Data Analysis and Interpretation

This chapter presents and interprets financial and market data to examine the impact of GST 2.0 on the FMCG sector with special reference to ITC Limited. Data includes Nifty FMCG index daily growth values (pre and post GST 2.0), ITC profitability ratios for Q2 and Q3 FY 2025–26, and statistical normality test results using the Kolmogorov-Smirnov (K-S) and Shapiro-Wilk tests.

4.1 Table 1: Nifty FMCG Daily Growth Values — Pre-GST 2.0 (n = 62)

The table below presents the complete set of daily difference values of normal distribution for the Nifty FMCG Index during the pre-GST 2.0 implementation period.

Day	Value	Day	Value	Day	Value
1	0.0405	22	-0.0133	43	-0.0697
2	0.0733	23	-0.0264	44	-0.0822
3	0.0612	24	-0.0155	45	-0.0798
4	0.0454	25	-0.0301	46	-0.0757
5	0.0332	26	-0.0287	47	-0.0466
6	0.0212	27	-0.0258	48	-0.0443
7	0.0105	28	-0.0226	49	-0.0086
8	-0.0040	29	-0.0349	50	-0.0070
9	-0.0028	30	-0.0303	51	0.0395
10	-0.0137	31	-0.0233	52	0.0581
11	0.0013	32	-0.0069	53	0.0548
12	-0.0136	33	-0.0052	54	0.0534
13	-0.0149	34	-0.0118	55	0.0670
14	-0.0248	35	-0.0268	56	0.0518
15	-0.0337	36	-0.0367	57	0.0493
16	-0.0207	37	-0.0310	58	0.0538
17	-0.0295	38	-0.0407	59	0.0388
18	-0.0433	39	-0.0535	60	0.0232
19	-0.0215	40	-0.0527	61	0.0072
20	-0.0360	41	-0.0509	62	0.0022
21	-0.0432	42	-0.0645		

Table 1: Daily Difference Values of Normal Distribution — Pre-GST 2.0 Implementation (62 Trading Days)

Interpretation: The Nifty FMCG index showed an initial strong positive growth of approximately 6–7% in the first seven days, reflecting pre-reform optimism. From Day 8 onwards, the index entered a prolonged decline phase, with values falling between -2% and -8.22% (Day 44), indicating a sector-wide slowdown, reduced consumer demand, and market uncertainty. From Day 51, a sharp recovery occurred with values rising back to approximately 4–6.7%, demonstrating the inherent resilience of the FMCG sector. The overall trend highlights a classic cyclical pattern of decline and recovery, ending on a modest positive note.

4.2 Table 2: Nifty FMCG Daily Growth Values — Post-GST 2.0 (n = 63)

The table below presents the complete set of daily difference values of normal distribution for the Nifty FMCG Index during the post-GST 2.0 implementation period.

Day	Value	Day	Value	Day	Value
1	0.0260	22	-0.0438	43	0.0575
2	0.0210	23	-0.0572	44	0.0525
3	0.0159	24	0.0180	45	0.0574
4	0.0087	25	0.0566	46	0.0492
5	-0.0053	26	0.0485	47	0.0377
6	-0.0110	27	0.0452	48	0.0288
7	-0.0129	28	0.0440	49	0.0418
8	-0.0127	29	0.0429	50	0.0365
9	-0.0280	30	0.0390	51	0.0432
10	-0.0412	31	0.0251	52	0.0304
11	-0.0222	32	0.0475	53	0.0193
12	-0.0361	33	0.0695	54	0.0122
13	-0.0491	34	0.0655	55	-0.0020
14	-0.0311	35	0.0675	56	0.0113
15	-0.0435	36	0.0799	57	0.0007
16	-0.0546	37	0.0745	58	0.0115
17	-0.0524	38	0.1116	59	0.0026
18	-0.0598	39	0.0967	60	-0.0107
19	-0.0720	40	0.0939	61	-0.0096
20	-0.0435	41	0.0797	62	-0.0242
21	-0.0305	42	0.0690	63	-0.0230

Table 2: Daily Difference Values of Normal Distribution — Post-GST 2.0 Implementation (63 Trading Days)

Interpretation: Post-GST 2.0 implementation, the Nifty FMCG index initially declined into negative territory (Days 5–23), indicating a transitional adjustment phase. A sharp recovery occurred around Days 23–25, suggesting improved market conditions in response to GST reforms. Growth peaked between Days 37–40, reaching a maximum of 11.16% (Day 38), reflecting a period of strong expansion driven by improved tax efficiency and supply chain optimization. After this peak, the trend gradually declined, and towards the end (Days 55–63), growth fluctuated near zero and slightly negative, indicating market instability and a cautious outlook.

4.3 Table 3: Comparative Profitability Analysis — ITC Limited (Q2 vs Q3 FY 2025–26)

Profitability Indicator	Q2 FY 2025–26	Q3 FY 2025–26	Change (Q3 – Q2)
EBITDA (₹ Crore)	9,369	9,846	+477 (+5.09%)
EBITDA Margin (%)	46.64%	47.76%	+1.12 pp
Profit Before Tax (₹ Cr)	8,982	9,462	+480
PBT Margin (%)	44.73%	45.87%	+1.14 pp
Net Profit (₹ Crore)	7,190	7,866	+676 (+9.40%)
Net Profit Margin (%)	35.79%	38.13%	+2.34 pp
Return on Assets (ROA)	4.21%	4.52%	+0.31 pp
Return on Equity (ROE)	5.04%	5.45%	+0.41 pp
Earnings Per Share (EPS)	₹ 4.09	₹ 3.96	-₹ 0.13

Table 3: Comparative Analysis of Profitability Ratios — ITC Limited (Q2 vs Q3 FY 2025–26)

Interpretation: ITC Limited demonstrated strong improvement across all key profitability indicators from Q2 to Q3 FY 2025–26. EBITDA rose by ₹477 Cr (+5.09%) and EBITDA margin improved to 47.76%, indicating better cost management and improved operating leverage. Net profit grew significantly by ₹676 Cr (+9.40%) with net profit margin improving by 2.34 percentage points (35.79% to 38.13%), reflecting lower relative tax burden and strong revenue-to-bottom-line conversion. ROA increased from 4.21% to 4.52%, indicating better asset utilization, while ROE improved from 5.04% to 5.45%, showing

stronger returns to shareholders. The EPS marginally decreased by ₹0.13 due to share base adjustments. Overall, Q3 performance is stronger and more margin-driven than Q2, indicating that GST 2.0 reforms have not negatively impacted firm-level profitability — rather, efficiency has improved.

4.4 Normality Tests — Kolmogorov-Smirnov & Shapiro-Wilk

To validate whether the Nifty FMCG growth rate data follows a normal distribution, two normality tests were applied: the Kolmogorov-Smirnov (K-S) test and the Shapiro-Wilk test, at a 5% level of significance ($\alpha = 0.05$).

Table 4: K-S Test — Pre-GST 2.0 Implementation (n = 62)

Test	Statistic	df (n)	Sig. (p-value)	α Level	Decision	Conclusion
Kolmogorov-Smirnov	0.098	62	0.200	0.05	Fail to Reject H_0	Data appears normal
Shapiro-Wilk	0.951	62	0.015	0.05	Reject H_0	Data NOT normal

Table 4: Tests of Normality — Pre-GST 2.0 Implementation (Kolmogorov-Smirnov & Shapiro-Wilk)

Interpretation Aspect	Details
K-S Test Result	Statistic = 0.098, p-value = 0.200 > 0.05 → Fail to reject H_0 . Suggests data may be normally distributed.
Shapiro-Wilk Result	Statistic = 0.951, p-value = 0.015 < 0.05 → Reject H_0 . Data does NOT follow normal distribution.
Preferred Test	With n = 62, Shapiro-Wilk is more statistically powerful and reliable than K-S test.
Final Decision	H_0 is REJECTED. GST reforms significantly impact prices. Pre-GST 2.0 dataset is NOT normally distributed.
Statistical Implication	Non-parametric methods (e.g., Mann-Whitney U, Wilcoxon) are more appropriate for further analysis of this dataset.

Table 4a: Detailed Interpretation — Pre-GST 2.0 Normality Test

Table 5: K-S Test — Post-GST 2.0 Implementation (n = 63)

Test	Statistic	df (n)	Sig. (p-value)	α Level	Decision	Conclusion
Kolmogorov-Smirnov	0.112	63	0.050	0.05	Borderline	Marginally normal
Shapiro-Wilk	0.961	63	0.042	0.05	Reject H_0	Data NOT normal

Table 5: Tests of Normality — Post-GST 2.0 Implementation (Kolmogorov-Smirnov & Shapiro-Wilk)

Interpretation Aspect	Details
K-S Test Result	Statistic = 0.112, p-value = 0.050 = α (borderline). Suggests data is marginally at the threshold of normality.
Shapiro-Wilk Result	Statistic = 0.961, p-value = 0.042 < 0.05 → Reject H_0 . Data does NOT follow normal distribution.
Preferred Test	With n = 63, Shapiro-Wilk is more reliable and sensitive; its result takes precedence over the K-S borderline finding.
Final Decision	H_0 is REJECTED. GST reforms significantly impact prices. Post-GST 2.0 dataset is NOT normally distributed.
Statistical Implication	Non-parametric tests are more suitable for further statistical analysis of this post-GST dataset.

Table 5a: Detailed Interpretation — Post-GST 2.0 Normality Test

Table 6: Comparative Summary of Normality Tests — Pre vs Post GST 2.0

Parameter	Pre-GST 2.0 (n=62)	Post-GST 2.0 (n=63)
K-S Statistic	0.098	0.112
K-S p-value	0.200	0.050
K-S Decision	Fail to Reject H_0	Borderline
Shapiro-Wilk Statistic	0.951	0.961
Shapiro-Wilk p-value	0.015	0.042
Shapiro-Wilk Decision	Reject H_0	Reject H_0
Preferred Test	Shapiro-Wilk	Shapiro-Wilk
Final Normality Decision	NOT Normal	NOT Normal
H_0 Status	REJECTED	REJECTED
Recommended Analysis Method	Non-Parametric	Non-Parametric
GST Impact on Prices	Significant	Significant

Table 6: Comparative Summary — Normality Test Results (Pre vs Post GST 2.0)

Overall Interpretation: The normality tests confirm that both pre-GST 2.0 (n=62) and post-GST 2.0 (n=63) Nifty FMCG datasets are NOT normally distributed. The Shapiro-Wilk test, being more reliable for these sample sizes, leads to rejection of the null hypothesis in both periods, confirming that GST reforms have a statistically significant impact on FMCG market prices. The non-normal distribution implies that market returns exhibit volatility and irregular patterns that deviate from standard parametric assumptions, validating the use of non-parametric methods for any further statistical analysis.

5. Findings, Suggestions, and Conclusion

5.1 Major Findings

Objective 1: Conceptual Framework of GST 2.0

- GST 2.0 has streamlined the indirect tax structure and improved tax transparency in India.
- Cascading tax effects have been reduced and compliance efficiency enhanced under the new framework.
- Short-term disruptions in business operations and demand cycles were observed during implementation.

Objective 2: Macroeconomic Impact on Indian Equity Markets

- The Nifty FMCG index showed high volatility during both pre-GST (n=62) and post-GST (n=63) periods.
- A cyclical pattern of decline → recovery → stabilization was observed in both datasets.
- Post-GST 2.0 implementation, market instability temporarily increased, reflecting transitional economic adjustments, before peaking at 11.16% growth (Day 38).
- Normality tests (Shapiro-Wilk) reject H_0 in both periods, confirming GST 2.0 has a statistically significant impact on FMCG market prices.

Objective 3: Financial Performance of ITC Limited

- Net Profit grew by ₹676 Cr (+9.40%) from Q2 to Q3 FY 2025–26, with Net Profit Margin rising from 35.79% to 38.13%.
- EBITDA and PBT improved by +5.09% and ₹480 Cr respectively, indicating better operating efficiency.
- ROA improved from 4.21% to 4.52% and ROE from 5.04% to 5.45%, showing stronger asset utilization and shareholder returns.
- Growth was margin-driven rather than purely revenue-driven, indicating improved cost efficiency under GST 2.0.

Objective 4: Investor Sentiment and Market Behavior

- Investor sentiment showed mixed reactions during GST 2.0 implementation phases.
- Initial uncertainty led to negative growth trends and elevated market volatility.
- Gradual recovery reflects improved market confidence and progressive adaptation to the new tax regime.
- Market reactions suggest semi-efficient behavior where policy information is absorbed progressively over time.

5.2 Suggestions and Recommendations

- **Policy Stability:** Government should ensure consistency in GST policies to reduce market uncertainty and allow businesses adequate adjustment time.
- **Simplification of GST Structure:** Further simplification of tax slabs can improve compliance and reduce operational burden on FMCG companies.
- **Support for FMCG Sector:** Targeted incentives or subsidies to boost demand, especially in rural markets, would amplify GST 2.0 benefits.
- **Data Transparency:** FMCG companies should enhance financial disclosure practices for better investor decision-making and market efficiency.
- **Investor Awareness:** Financial literacy programs can help investors better interpret policy impacts, reducing panic-driven volatility.
- **Advanced Analytics:** Firms should adopt predictive analytics and data-driven strategies to manage cost and demand fluctuations from tax changes.

5.3 Conclusion

The study concludes that GST 2.0 has had a mixed but largely positive impact on the FMCG sector and on the financial performance of ITC Limited. Normality tests (Kolmogorov-Smirnov and Shapiro-Wilk) applied to 62-day pre-GST and 63-day post-GST Nifty FMCG datasets confirmed that both distributions are non-normal, with the Shapiro-Wilk test rejecting the null hypothesis (H_0) in both cases ($p = 0.015$ and $p = 0.042$ respectively). This confirms that GST 2.0 reforms have a statistically significant impact on FMCG market prices.

At the firm level, ITC Limited demonstrated strong improvement in profitability from Q2 to Q3 FY 2025–26, with net profit growing by 9.40%, EBITDA margins improving by 1.12 percentage points, and return ratios (ROA and ROE) rising, indicating effective adaptation to GST 2.0 reforms. While the broader stock market experienced transitional volatility, it demonstrated a strong recovery phase peaking at 11.16% growth before stabilizing.

Overall, GST 2.0 has contributed to structural improvements in the Indian economy — enhanced tax transparency, streamlined supply chains, and strengthened corporate efficiency — although its full benefits are realized gradually. This study emphasizes the need for stable fiscal policies, better market awareness, and continued empirical research using non-parametric statistical methods to fully understand the long-term economic impact of such far-reaching tax reforms.

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