

2.0 is bolder , bigger and better.

The 56th GST Council meeting, held on September 3, 2025, has introduced the most significant overhaul to India's indirect tax regime since its inception. Effective from September 22, 2025, the new "GST 2.0" framework aims to rationalize rates, simplify the tax structure, and, most importantly, provide a major fiscal stimulus to the economy by making a wide range of goods and services more affordable.

The core of this reform is the abolition of the 12% and 28% slabs. The new system will operate on a two-rate structure: 5% for merit goods and 18% for standard goods, with a special 40% slab for luxury and demerit items.

Here is a detailed, segment-wise analysis of the changes and their implications:

1. Automotive and Auto Components

This sector is one of the biggest beneficiaries of the new tax structure, with a clear distinction being made between mass-market and luxury vehicles.

Small Cars and Two-Wheelers: GST on small passenger cars (petrol engines up to 1200cc or diesel up to 1500cc) and motorcycles up to 350cc has been reduced from 28% to 18%. This will significantly lower vehicle prices, boosting consumer demand in a market that has been under pressure.

Luxury Vehicles and SUVs: A new, higher GST rate of 40% has been introduced for large passenger cars, SUVs (with engine capacity over 1500cc, length over 4000mm, and ground clearance over 170mm), and high-end motorcycles. This replaces the previous GST plus compensation cess model.

Auto Components: The GST on all automobile parts has been rationalized to a uniform 18%, which is a significant relief for the manufacturing and after-market sectors.

Beneficiary Companies:

Maruti Suzuki, Hyundai, Tata Motors, and Mahindra & Mahindra: Will gain from tax cuts on their small cars and utility vehicles.

Hero MotoCorp, Bajaj Auto, and TVS Motor: Will see increased demand for their entry-level and commuter motorcycles.

Motherson Sumi, Bosch, and Schaeffler India: The uniform 18% GST on auto parts simplifies their supply chain and pricing. Impact on 3w is positive for Bajaj Auto . VBL has mix impact with few positives like lower duties on packaged drinking water and removal of cess .

2. Electric Vehicles (EVs)

Key Change: The GST on all electric vehicles and their chargers remains unchanged at a concessional rate of 5%.

Impact: This move reinforces the government's commitment to promoting clean mobility. By keeping the tax low, it makes EVs more price-competitive against internal combustion engine (ICE) vehicles, which now face higher taxes. This stability is crucial for manufacturers making long-term investments in the EV ecosystem.

Beneficiary Companies: Tata Motors, Mahindra & Mahindra, TVS Motor Company, and Hero MotoCorp, who are at the forefront of the EV push, will continue to benefit from this favorable tax environment.

3. Insurance and Financial Services

Key Change: The most impactful change in this segment is the complete exemption of GST on individual health and life insurance policies. The tax rate has been reduced from 18% to nil.

Impact: This landmark decision is a massive step towards increasing insurance penetration in India. By making premiums more affordable, it encourages more citizens to opt for health and life coverage, enhancing financial security and inclusion. However, a potential side effect is that insurers may not be able to claim Input Tax Credit (ITC) on their expenses, which could lead to some premium adjustments, though experts believe the overall cost to the consumer will still be lower.

Beneficiary Companies: All major life and health insurance providers like HDFC Life Insurance, Max Life Insurance, Niva Bupa Health Insurance, and Star Health and Allied Insurance are expected to see a significant boost in policy sales.

4. Fast-Moving Consumer Goods (FMCG)

Key Changes: Most consumer goods previously taxed at 12% and 18% have been moved to the lower 5% slab. This includes packaged foods like biscuits, cornflakes, ghee, and namkeens, as well as personal care items like hair oil, soaps, and shampoos.

Impact: This will make a vast range of daily essentials more affordable for the common person, particularly in rural and semi-urban areas. It is expected to stimulate consumption and improve sales volumes for companies in this sector.

Beneficiary Companies: Hindustan Unilever (HUL), Dabur, Marico, Nestle, and Britannia are poised to be the biggest winners, as a significant portion of their product portfolios will now attract a lower tax.

5. Consumer Durables and Electronics

Key Changes: The GST on consumer durables like air conditioners, large-screen televisions, refrigerators, and washing machines has been reduced from 28% to 18%.

Impact: This reduction makes big-ticket items more affordable, which is likely to spur festive season sales and overall consumer spending. The industry has been a strong advocate for this change to boost demand.

Beneficiary Companies: Voltas, Blue Star, Havells India, and Whirlpool in the home appliance segment, and companies like Sony, LG Electronics, and Samsung in the electronics space, will see a positive impact.

6. Real Estate and Cement

Key Changes: GST on cement has been reduced from 28% to 18%. Other construction materials like marble and granite blocks have also seen their GST cut from 12% to 5%.

Impact: This is a major relief for the real estate and construction sectors. Lower GST on these key inputs will reduce construction costs for developers, and the benefits are expected to be passed on to homebuyers.

Beneficiary Companies: Cement manufacturers like UltraTech Cement, Ambuja Cement, and Shree Cement will benefit in the long run from increased demand, even if they face short-term pressure to pass on the tax benefits.

7. Retail and Apparel

Key Changes: The GST on footwear and apparel priced up to ₹2,500 has been uniformly set at 5%.

Impact: This change is a significant benefit for the vast majority of consumers and the mass-market retail segment. It will make everyday clothing and footwear more affordable, boosting sales and formalizing the market.

Beneficiary Companies: Companies like Trent, Vmart , V2 retail, Relaxo Footwears and Metro Brands with a strong presence in the mass-market segment will see a positive impact.

8. Services

Key Changes: The majority of services will be taxed at 18%. However, some key services have seen a reduction:

Hospitality: GST on hotel rooms with a tariff of up to ₹7,500 per day has been reduced from 12% to 5%.

Wellness: Services from gyms, salons, and yoga centers have also been moved from 18% to 5%.

9. Other Sectors: Pharma, Ceramics, and Gas

Pharma: The GST on most life-saving drugs has been reduced to 5% or even brought to nil, reinforcing the government's focus on affordable healthcare.

Ceramics: The GST rate on ceramic tiles remains at 18%. However, the reduction in GST on other construction materials may indirectly benefit the sector by boosting overall construction activity.

Gas: Domestic LPG continues to be taxed at 5%, while commercial and industrial gas attracts an 18% GST. The GST on Compressed Natural Gas (CNG) for vehicles remains at 5% to promote a cleaner fuel.

Impact of Input Tax Benefits and Cess

Input Tax Credit (ITC): The GST rate rationalization will have a significant impact on ITC. For companies whose products have moved to a lower tax slab (e.g., from 18% to 5%), they may face an inverted duty structure, where they accumulate unutilized ITC on their inputs, which are still taxed at 18%. The government has assured expedited refund mechanisms for such cases. For the insurance sector, while premiums are now at nil GST, insurers may lose the benefit of ITC on their expenses, which could lead to some adjustments in their business models.

Compensation Cess: The GST Council has made it clear that the compensation cess on demerit goods like tobacco and pan masala will continue until all outstanding loans and interest are repaid. Once this is done, these items will likely be moved to the new 40% slab, simplifying the tax structure and ensuring the government's revenue stream from these items is not impacted. The valuation of tobacco products has also been shifted to the retail sale price to plug tax leakages. We have been positive on market and maintain same view: One more bonanza for 8th pay commission to be seen .

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