August 26, 2025

GST Reforms – An Important Fiscal Move to Support Consumption!

What's the Point?

- On the 79th Independence Day, the Prime Minister of India, Shri Narendra Modi highlighted that Central Government has planned to rationalize the Goods and Services Tax (GST) structure.
- These reforms could translate to an estimated economic boost of around ₹2.4 lakh crore (Source: Kotak Institutional Equities [KIE]) by reducing classification-related disputes, correcting inverted duty structures in specific sectors, ensuring greater rate stability, and further enhancing ease of doing business.
- Lower GST rates could complement other potential positives for India's consumption growth recovery, such as income tax rate cuts, monetary easing, higher welfare spends and prospects of higher-than-average monsoon. Since Private Final Consumption Expenditure accounts for ~60% of GDP, any factors that support consumption will provide impetus to India's economic growth.

GST Collections – Setting Numbers into Perspective

- India's GST collections have grown steadily with average monthly GST collections clocking over ₹2 lakh crore for the first time in 4MFY26 (Apr-Jul 25), outpacing the average monthly collections between 4MFY22 and 4MFY25.
- Tax payers filing after due date have reduced by 12% between FY22 and FY25, which indicates higher compliance and discipline, and reduced Government revenue uncertainty.
- Detection of GST evasion has become quicker and audit coverage under GST has risen from 62.2% in FY23 to 88.7% in FY25 with no taxpayer audited more than once in a 3-year span. E-way bills generation – a key indicator to monitor goods movement and reduce evasion – has risen nearly 2x between FY22 and FY26YTD.

Chart 1: Average Monthly GST collections have been robust indicating India's fiscal strength

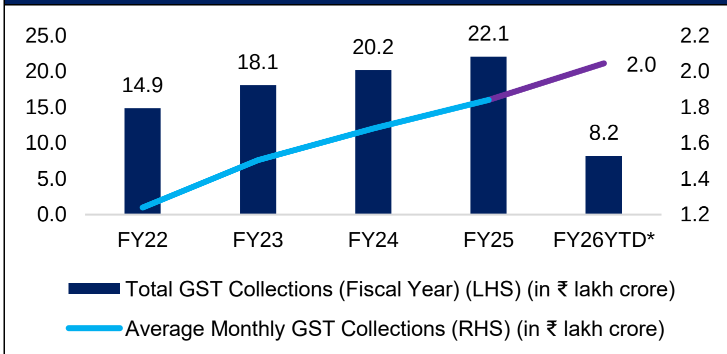
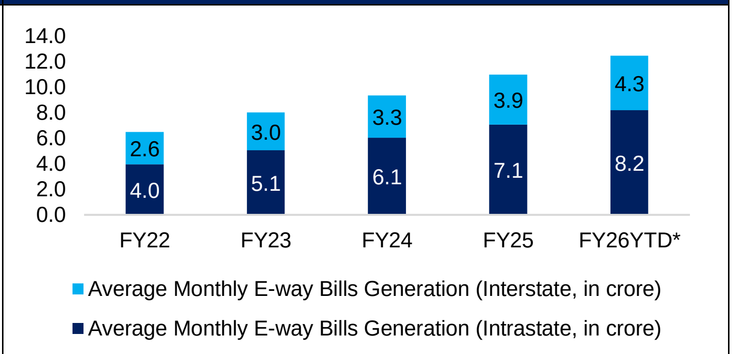


Chart 2: Increased number of E-Way Bills indicate higher tax compliance and economic buoyancy



Source: Centre for Monitoring Indian Economy (CMIE), *FY26YTD: April 30, 2025 to July 31, 2025

What is expected in the Next Phase of GST Reforms?

As per Press Information Bureau (PIB), the Central Government is proposing significant reforms in GST with the goal of building an *Atmanirbhar Bharat*. It will be focused on **3 pillars**, namely:

Pillar 1: Structural Reforms	Pillar 2: Rate Rationalization	Pillar 3: Ease of Living
1) **Inverted duty structure correction**: Align input and output tax rates to reduce accumulation of input tax credit, thereby supporting domestic value addition 2) **Resolving classification issues**: Streamline rate structures, minimise	1) **Reduction of taxes on essential items and aspirational goods**: Enhance affordability, boost consumption, and make essential and aspirational goods more accessible to a wider population	1) **Registration**: Seamless, technology-driven, and time-bound 2) **Return**: Implement pre-filled returns, thus reducing manual

disputes, simplify compliance processes, and ensure greater equity and consistency across sectors 3) **Stability and Predictability**: Long-term clarity on rates and policy direction to build industry confidence and support better business planning	2) **Reduction of slabs**: Essentially move towards simple tax with 2 slabs – *standard* and *merit*. Special rates only for select few items 3) **Compensation Cess**: End of compensation cess creating fiscal space, providing greater flexibility to rationalise and align tax rates within GST framework for long-term sustainability	intervention and eliminating mismatches 3) **Refund**: Faster and automated processing of refunds for exporters and those with inverted duty structure

Implication of GST Reforms – Expectation of Rise in Consumption

As mentioned above, India's GST structure is expected to shift from a 4-tiered structure (5%, 12%, 18%, 28%) to a 2-tiered structure (5% and 18%). By virtue of this, it is expected taxes on different product segments and categories would get simplified. In essence, most of non-discretionary goods should fall into lower bracket of 5% and discretionary goods should fall into 18% bracket. The table below provides a snapshot of the current GST rate structure:

Goods	No. of Goods	% Share	Broad Categories
Total Goods	**1,495**	**100%**	
0%	164	11%	Unpacked Food Grain / Atta, Vegetables, Milk, Eggs, Salt, Children's Drawing & Colouring Books
5%	291	19%	Essential Food Items (Sugar, Tea, Coffee, Spices, Mustard Oil), Life Saving Drugs
12%	270	18%	Processed Foods (Butter, Cheese, Ghee), Dry Fruits, Fruit Juices, Medicine (Non-Essential), Apparel & Footwear (>₹1,000), Tractors
18%	647	43%	Household Consumables / Durable Goods – TVs, Washing Machines, Smartphone, Fridge
28%	37	2%	Cars, SUVs, 2-wheelers (excluding Electric Vehicles), ACs (>1.5 tons), Cement, Cosmetics
28% + Cess	66	4%	Luxury Cars, Intoxicants, Tobacco, Aerated Drinks

Source: UBS, GST Network

As per noted research reports and publicly available information, the biggest beneficiary of the change, in addition to Cement and Air Conditioners, is expected to be auto sector, with 2-wheelers, 3-wheelers, Smaller Passenger Vehicles and Commercial Vehicles, which are likely to fall in the lower 18% tax bracket as against the higher 28% tax bracket. In addition to this, rationalization is expected in the consumer staples sector, with goods moving from the 12% tax bracket to 5% tax bracket.

With goods meant for mass consumption and aspirational goals likely move to lower rates, it could help reduce inflation and could create room for further easing of Monetary Policy.

Conclusion

In the last 8 years, GST has helped in formalization of the Indian economy, made tax compliance easier, reduced costs for businesses, and allowed goods to move freely across states. Despite that, the y-o-y growth rate in India's total GST collections have decreased – going from 20.9% between FY22 and FY23 to 9.6% between FY24 and FY25. This was majorly driven by: a) a slowdown in consumption, particularly for discretionary goods in urban areas with consumer spending shifting away higher GST rate levied on luxury goods, b) higher difficulty in replicating the high base effect created by the strong growth in GST collections in FY24, and c) a slower-than-expected pickup in rural demand for certain key sectors like FMCG.

Against this backdrop, the GST reforms would likely lead to an increase in revenue deficit, which could put pressure on fiscal deficit. Having said that, since the Government is focused on reviving consumption in the economy, GST reforms are expected to aid the same through lower retail prices commensurate to tax cuts and related volume growth. Keeping the above points in mind, investors could consider investing in HDFC Non-Cyclical Consumer Fund and HDFC Transportation and Logistics Fund.

HDFC Non-Cyclical Consumer Fund aims to invest in companies, which are (a) Across different market cap segments, (b) Leaders and/or are gaining market shares due to better execution, scale, better adoption of technology etc., while focussing equally on companies which are likely to witness steady and secular growth, and (c) Likely to see a turnaround in profitability and have potential of being re-rated.

HDFC Transportation and Logistics Fund aims to invest in companies, which are (a) Within the basic industries like Passenger Cars and Utility Vehicles, 2/3 Wheelers, Auto Components and Equipment, etc., (b) Across different market cap segments, (c) Leaders or have potential to become market leaders in their respective segments, and (d) Have potential to benefit from evolving landscape in transportation and logistics theme.

Sources: CMIE, GST Network, PIB, MoSPI, KIE, and other publicly available information

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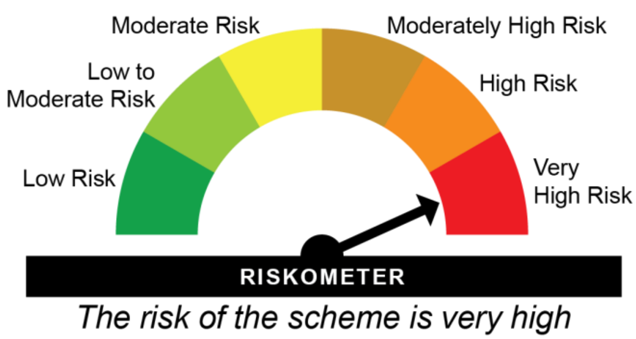
MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.

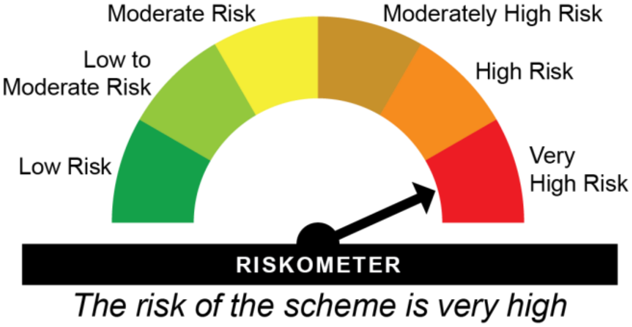
Product Labelling and Riskometer of HDFC Non-Cyclical Consumer Fund

HDFC Non-Cyclical Consumer Fund (An open-ended equity scheme following non-cyclical consumer theme) is suitable for investors who are seeking*:	**Riskometer#**
• To generate long-term capital appreciation • Investment in equity and equity related securities of companies with a focus on non-cyclical consumer theme	
*Investors should consult their financial advisers, if in doubt about whether the product is suitable for them. #For latest riskometer, investors may refer to the Monthly Portfolios disclosed on the website of the Fund viz. www.hdfcfund.com .	

The Scheme being thematic in nature carries higher risks versus diversified equity mutual funds on account of concentration and sector specific risks.

Product Labelling and Riskometer of HDFC Transportation and Logistics Fund

HDFC Transportation and Logistics Fund (An open-ended equity scheme investing in Transportation and	**Riskometer#**

Logistics themed companies) is suitable for investors who are seeking*:	
• To generate long-term capital appreciation • Investment in equity and equity related securities of companies under Transportation and Logistics theme	
*Investors should consult their financial advisers, if in doubt about whether the product is suitable for them. #For latest riskometer, investors may refer to the Monthly Portfolios disclosed on the website of the Fund viz. www.hdfcfund.com .	

The Scheme being thematic in nature carries higher risks versus diversified equity mutual funds on account of concentration and sector specific risks.