

September 9, 2025

GST's 'Take 2': Twin-Rate structure to accelerate consumption!**What's the Point?**

- **Consumption to get a major boost:** Potential household savings of Rs 2 Trillion from lower GST rates on Autos, Consumer Durables, FMCG, Cement, Hospitality etc. to improve affordability and drive higher household spending ahead of the festive season
- **Wider ripple effects across the economy:** Stronger consumer demand to support credit growth for banks and NBFCs, while Auto Ancillaries could benefit from increased vehicle production and component demand.
- **Fiscal impact well-managed:** Bulk of household savings from GST cut to come from revenue-neutral removal of compensation cess, ensuring that growth is supported without compromising fiscal stability.

In one of the most significant tax reforms in recent times, the GST Council delivered a much-awaited GST overhaul last week. The earlier four-slab system and Compensation Cess will give way to a new two-slab structure of 5% and 18%, with a demerit rate of 40% for luxury and sin goods. The revised rates will come into effect from 22nd September, 2025 ensuring timely boost to consumption ahead of the festive season. For consumers, the move could mean lower prices on essentials and durables, while for businesses it signals easier compliance.

Key beneficiaries of GST rate cut

Sector/Segment	Old Rate	New Rate	Comments
Automobiles (Cars, 2-Wheelers Commercial Vehicles)	28%+ Cess (0% to 22%) i.e. GST (incl. Cess) = 28% to 50%	18% for Entry-level cars, 2Ws. 40% for Mid/High-end cars	Strong demand boost for entry-level cars and two-wheelers. Moderate benefit for mid/high-end SUVs too as cess removal reduces effective rate (40% New vs 43–50% earlier). Electric Vehicles stay unchanged at 5%.
Consumer Durables (ACs, refrigerators, washing machines)	28%	18%	Improves affordability of higher-value household products. Timely rate cut for ACs which had seen muted growth earlier this year owing to unseasonal rains.
Consumer Staples (Packaged Foods)	12%	5%	The sharp rate cut will lower the cost of everyday packaged foods such as biscuits, packaged snacks etc and personal care products like Soaps, toothpaste etc. Beyond driving volume growth, the added affordability can also encourage consumers to shift towards higher-quality or premium variants within the category, especially in price-sensitive rural and semi-urban markets.
Consumer Staples (Personal Care Products)	18%	5%	
Building Materials (Cement)	28%	18%	Could boost IHB (Individual House Builders) and Affordable Housing demand
Hospitality (Hotel fare < Rs 7,500 per day)	12% with Input Tax Credit	5% without Input Tax Credit	Encourages domestic tourism. The rate cut targets middle-income segment (Daily Tariff < Rs 7500) which is more price-sensitive and could witness demand uptick
Insurance (Life and Non-life)	18%	Exempt	Lower insurance costs could aid insurance penetration in the near future. Clarity awaited on Input Tax credit though.
Pharmaceuticals (Medical & Life-Saving Drugs)	5-12%	0-5%	Will reduce healthcare costs and ease the financial burden on patients, while also freeing up household budgets for other discretionary spending.

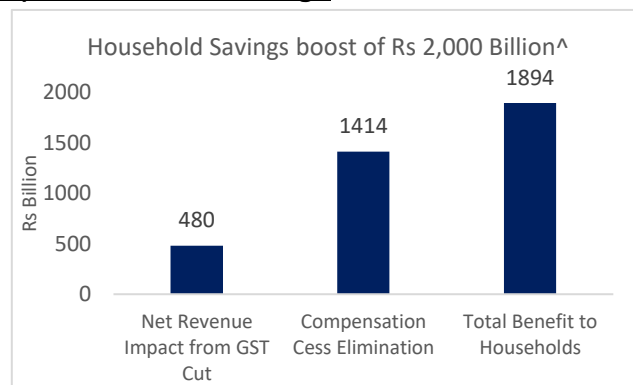
'Indirect' impact on other sectors

While sectors like Banking/Financial Services are not direct beneficiaries of the GST rate cuts, they could stand to benefit indirectly. Higher consumer demand means stronger credit offtake for banks, especially retail loans. For NBFCs, a pickup in two-wheeler and white goods demand supports loan growth. Likewise, Auto ancillaries too stand to gain as higher vehicle sales revive demand from Auto manufactures for various components, tyres, batteries etc.

GST rationalization could result in ~ Rs 2,000 Billion (Rs 2 Trillion) of Household savings

Rs 2 Trillion worth of household savings accounting for 0.6% of GDP could go a long way in boosting domestic consumption (discretionary and non-discretionary) and could help offset US tariff-related headwinds in the foreseeable future.

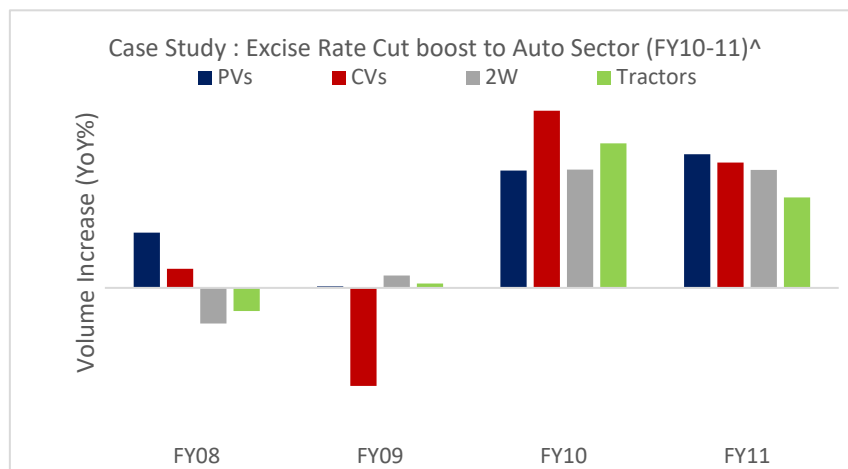
This reform coupled with other potential tailwinds to consumption from **State-Government led increase in welfare spending, Income Tax rationalization in Budget 2025, Upcoming implementation of 8th Pay Commission, healthy monsoon, low inflation, interest rate cuts** create a ripe environment for consumption boom.



How Indirect Tax Cuts revived Auto demand post Global Financial Crisis

History offers a valuable lesson on how targeted tax cuts can reignite consumer demand. In **FY09**, amid the global financial crisis, the Indian government sharply reduced excise duty (CENVAT) on automobiles by 4%. This effectively lowered car prices making vehicles more affordable, at a time when consumer confidence was low and sales had slumped.

The result was a strong rebound in auto sales through **FY10 and FY11**, which in turn supported related sectors such as auto components, financing, and logistics. Upcoming GST rate cuts could trigger a similar revival in Consumption.



Sound Fiscal Math behind GST rate reduction

While the household savings of Rs 2,000 Billion could give the impression of a huge fiscal loss, the **actual fiscal loss is expected to be only Rs 480 Billion** (Rs 930 Billion loss from GST rate reduction - Rs 450 Billion Gains from shift to 40% Tax rate). Also, bulk of the savings (~Rs 1400 Billion) will be driven by elimination of Compensation Cess, which is revenue neutral.

Elimination of Compensation Cess is revenue neutral - When GST was introduced in 2017, the Centre assured states compensation for any shortfall in tax revenues for five years (2017-2022), funded through a special Compensation Cess on select luxury and demerit goods. However, during the COVID-19 pandemic, cess collections fell sharply while states' compensation needs rose significantly. To bridge this gap, the Centre borrowed from the market and transferred the proceeds to states. Collection of Cess was extended beyond 2022 to March-2026 and the cess collected was being used to repay these loans. Consequently, elimination of this Cess does not have fiscal revenue implications, since it was being used to repay these loans. (Note: Compensation Cess on Cigarettes and other tobacco products will continue till repayment of above loans, possibly until end of CY2025)

Importantly, **lower rates tend to widen compliance, reduce evasion, and encourage more transactions to come under the formal net**, cushioning the effect on collections. The government is also banking on the fact that higher consumption will expand the tax base and partly offset immediate revenue foregone. In that sense, the reform provides a significant consumption boost without compromising on fiscal math.

Rising Compliance with the spirit of Anti-Profiteering – Tax cut benefits to reach consumers!

While the government has decided against reconstituting an anti-profiteering body following the GST rate cuts, The Finance Minister has asserted that industry must pass on GST rate cuts to customers and that the Government was engaging with Industry to ensure that gains are transferred. Also, the Revenue Secretary has highlighted that since inception of GST, only 704 cases of profiteering were registered with the erstwhile National Anti-Profiteering Authority (NAA) and 60% of those cases were registered within the first 3 years of GST implementation, indicating rising compliance with the spirit of anti-profiteering.

Conclusion

The GST rate cuts offer a timely and strategic boost to consumption. With geopolitical uncertainties weighing on the economy, this push to revive spending could play a crucial role in sustaining growth and softening the impact of global headwinds. For investors, this creates a compelling opportunity to participate in India's consumption cycle through Funds like HDFC Transportation and Logistics Fund and HDFC Non-Cyclical Consumer Fund, which aim to offer targeted exposure to Consumption theme.

^Sources: Kotak Institutional Equities, Bloomberg, and other publicly available information

PVs: Passenger Vehicles, 2Ws: 2-Wheelers, CVs: Commercial Vehicles

About Tuesday's Talking Point (TTP): TTP is an effort by HDFC AMC to guide key conversations in the Indian financial markets and investing ecosystem. We aspire to do this by providing relevant facts, along with our perspective on the issue at hand. Please provide your feedback at this link: <https://forms.office.com/r/Cr8JNjMGWk>

Disclaimer: Views expressed herein are based on information available in publicly accessible media, involve known and unknown risks and uncertainties that could cause actual results, performance, or events to differ materially from those expressed or implied herein. The information herein is for general purposes only. Stocks/Sectors/Views referred are illustrative and should not be construed as an investment advice or a research report or a recommendation by HDFC Mutual Fund ("the Fund") / HDFC Asset Management Company Limited (HDFC AMC) to buy or sell the stock or any other security. The Fund/ HDFC AMC is not indicating or guaranteeing returns on any investments. Past performance may or may not be sustained in the future and is not a guarantee of any future returns. The recipient(s), before taking any decision, should make their own investigation and seek appropriate professional advice.

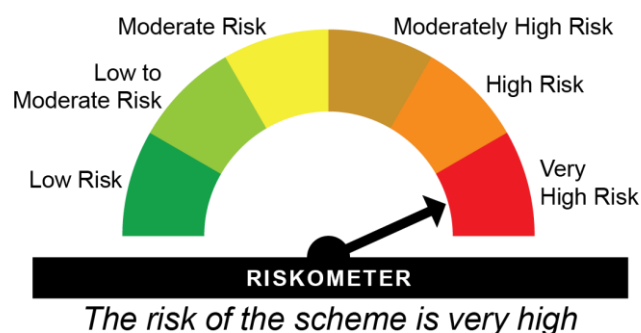
MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.

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#
<ul style="list-style-type: none"> 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.

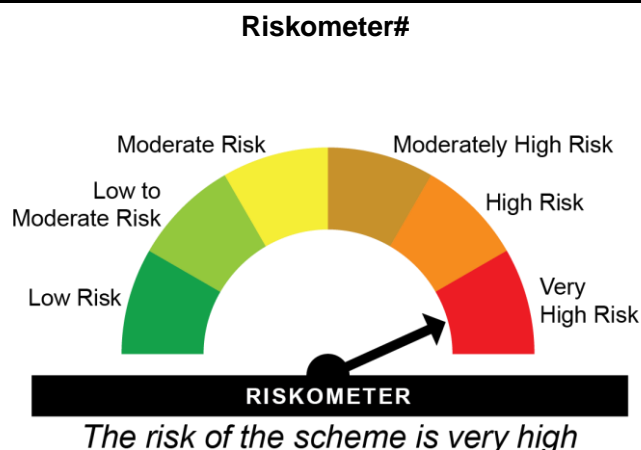
Product Labelling and Riskometer of HDFC Transportation and Logistics Fund

HDFC Transportation and Logistics Fund (An open-ended equity scheme investing in Transportation and 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.