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GST Rationalisation

GST reforms to take away some of the tariff sting; GDP growth seen at 6.5% for FY2026

SEPTEMBER 2025

Outlook

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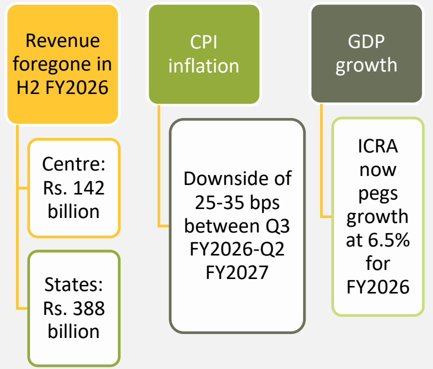
EXHIBIT: Estimated implications of GST rationalisation



Source: ICRA Research

The rationalisation of Goods and Services Tax (GST) is a well-timed and welcome move, which is expected to reinvigorate domestic consumption in the run up to the festive season amidst the risks posed by the steep US tariffs on India's exports. Under the new GST structure, the 12% tax slab has been merged with 5% and 28% has been subsumed into 18%, along with several other changes. This is likely to reduce the weighted average GST rate to single digits from 11.64% in 2023-24, bringing cheer to consumers and producers alike, while creating fiscal implications for the Central and State Governments.

Based on the available information, the first-round revenue foregone to the Centre and states governments is likely to be moderate at Rs. 142 billion and Rs. 338 billion, respectively, in H2 FY2026, as per ICRA's understanding. The latter reflects the likely downside to both SGST and central tax devolution (CTD). The revenue foregone may necessitate other revenue mobilisation or expenditure saving measures, although the second-round impact of enhanced consumption would provide some cushion. Notably, the revenue implications as a percentage of revenue receipts will not be uniform, and will vary across the states, based on the share of SGST and CTD within their total revenue pie.

Encouragingly, the GST rejig could dampen the headline CPI prints by at least 25-35 bps during Q3 FY2026-Q2 FY2027, suggesting that the full year average for FY2026 may slip below 3.0%. Given the earlier-than-expected implementation of the rationalisation at the start of the consumption-heavy festive period, the moderate revenue likely to be foregone in H2 FY2026, and the stronger-than-expected Q1 FY2026 GDP print, ICRA now assesses the FY2026 GDP growth at 6.5% (from +6.0% earlier), although this continues to be dampened by the prevailing uncertainty related to the US tariffs.

Macroeconomic variables	FY2025	FY2026 ICRA P
GDP Growth (at 2011-12 prices)	6.5%	6.5%
GDP Growth (at current prices)	9.8%	8.5%
CPI Inflation (average)	4.6%	Sub-3.0%

NEXT GEN GST 2.0 REFORMS have brought down rates for key items

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Key items that have seen rate changes

From 18%/12%/5% to Nil

- Life and health insurance.
- Ultra-high temperature milk.
- Paneer, pizza bread, chapati, Indian breads.
- Education and stationery products- erasers, exercise book, graphs, maps, pencil sharpeners, etc.
- 36 lifesaving drugs and medicines, of which 3 are used for treatment of cancer, rare diseases and other severe chronic diseases.

From 18%/12% to 5%

- **Daily essentials/common man items:** hair oil, shampoo, toilet soap, pre-packaged namkeens, utensils, sewing machines, butter, ghee, handbags, cheese, brazil and other nuts, dates, plant-based milk drinks, sugar confectionary, handbags, etc.
- **Agri:** Tractors, tractor tyres and tubes, agricultural machinery.
- Potassium iodate, steam, iodine, sulphuric & nitric acid, ammonia, wood pulp, etc.
- Reduction of GST on all other drugs and medicines from 12% to 5%.

From 28% to 18%

- **Entry level Automobiles:** Cars (petrol, petrol hybrid, LPG, CNG with engine capacity <1200 cc or length <4000 mm, diesel and hybrid diesel <1500 cc, <4000 mm), 3Ws, motorcycles (<=350cc, and for goods transport), accessories.
- **Consumer Electronics:** ACs, TVs (LED and LCD), dishwashers, monitors and projectors
- **Other sectors:** Cement, bidis.

From 28% to 40%*

- **Pan, tobacco and intoxicants.**
- **Some beverage categories:** All goods and beverages containing added sugar, caffeinated beverages, other non-alcoholic beverages.
- **Luxury Auto:** Racing cars, motor vehicles (petrol) with engine >1200 cc or length >4000 mm, diesel or semi-diesel motor vehicles and electric motors (>1500 cc and >4000 mm) and motorcycles (>350 cc).
- **Other luxury goods:** aircrafts for personal use, yachts and pistols.

*Note: Rates for 22 items have been raised from 5%/12% to 18%, including Coal, Lignite, peat, Bio diesel, cotton quilts and textile material of sale value > Rs. 2500/piece; *While GST rate has been hiked to 40% from 28% for most items, the effective rate is either lower or at par with the earlier rate, after the discontinuation of GST cess on most items except pan, tobacco and intoxicants; Source: Ministry of Finance, PIB, ICRA Research*

GST rationalisation effectively moves the median tax rate from 12% to 5%

EXHIBIT: GST tax slab-wise share of 391 items, on which rates have undergone a change

Previous		New	
5% Tax Slab	2%	Nil	3%
12% Tax Slab	70%	5% Tax Slab	79%
18% Tax Slab	16%	18% Tax Slab	13%
28% Tax Slab	12%	40% Tax Slab	5%

Source: Ministry of Finance, ICRA Research

- Under the new GST structure, which will be implemented from September 22, 2025, the 12% tax slab has been merged with 5% and 28% has been subsumed into 18%. Additionally, some items are moving to the nil as well as 40% categories, with the latter in place of the levy of cess atop the 28% GST rate.
- Accordingly, **the rationalisation effectively moves the median tax rate from 12% to 5% for these 391 items. This is sure to be cheered by consumers, and producers alike. With these changes, the weighted average GST rate is likely to reduce further to single digits after the GST rejig from 11.64% in 2023-24 (as per GoI estimates), and 14.4% in 2017 (as per RBI's study).**

First round revenue implications of GST rationalisation suggest that fiscal impact in FY2026 may be limited

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EXHIBIT: Fiscal implication of the GST changes in H2 FY2026

	Rs. Billion
Estimated Revenue Foregone*	**480**
SGST	240
CGST	240
Centre's net loss (after adjusting for CTD)	**142**
States losses (on account of SGST + CTD)	**338**

**As stated by the Revenue Secretary, GoI based on the disaggregated data for 2023-24; Source: ICRA Research*

- It is challenging to finely compute the fiscal implications of the GST rationalisation, given the multiplicity of changes across tax slabs and the unavailability of data pertaining to the revenue contribution of individual items. The Revenue Secretary of the Government of India (GoI) placed the revenue implication of the rationalisation at Rs. 480 billion (computation based on the GST data for 2023-24). We have presumed that this amount is equivalent to the gross revenue foregone by the GoI and the states' in H2 FY2026 and have used this as a starting point for our calculations.
- With the CGST loss at Rs. 240 billion, the net loss to the Centre after the CTD (at ~41%) would amount to ~Rs. 142 billion in H2 FY2026, which does not seem substantial, and may be absorbed by the higher than budget dividend shared previously by the Central Bank. However, if expenditure rises, for instance towards a potential package for exporters, the size of the same would affect the overall fiscal deficit.
- For the states, we assess the first-round revenue to be foregone in terms of SGST and devolution, at around Rs. 338 billion in H2 FY2026. Overall, the total annualised 'loss' of ~Rs. 0.96 trillion (Centre + states) would be similar to the revenue assessed by the GoI to be foregone from the personal income tax changes announced in this year's budget. These losses are computed on the base of 2023-24, and the actual losses would be somewhat larger and necessitate other revenue mobilisation or expenditure saving measures. However, the second-round impact of enhanced consumption would also absorb some of the revenue foregone.

States with higher share of SGST in their revenues could be relatively more impacted due to GST rate rationalisation in the near term

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EXHIBIT: Trends in SGST collections of 28 states

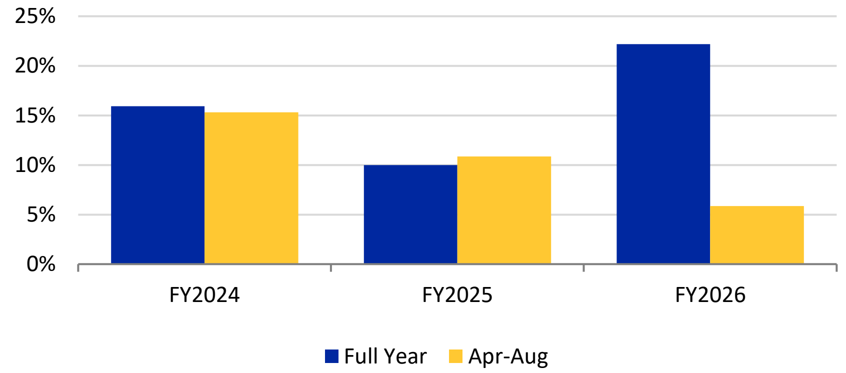
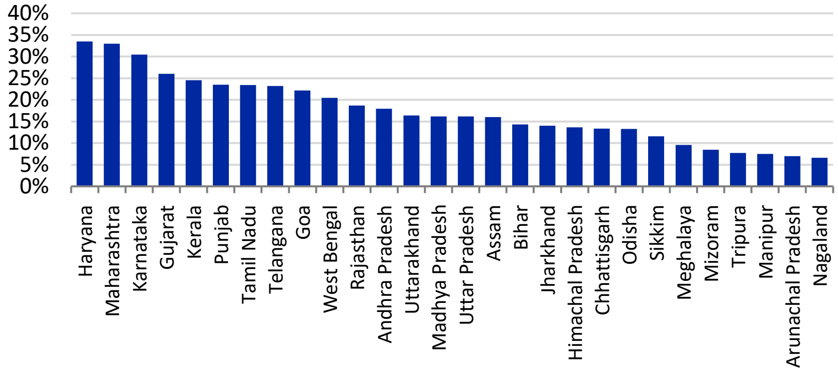


EXHIBIT: State-wise share of SGST revenues in total revenue receipts



- In the FY2026 budget estimates, the combined SGST collections of the 28 states were expected to increase by a healthy 22.2% to Rs. 10.8 trillion from the year ago level. However, during Apr-Aug FY2026, the SGST collections have increased by a modest 5.8% suggesting that the growth budgeted by the states was highly optimistic.
- However, with the GST rate rationalisation the average GST rate will be lower than prevailing at the time of finalisation of state budgets. While lower tax rates can provide some boost to consumption, especially consumer durables, the lower GST rates and other factors, will lead to the actual SGST collections in FY2026 trailing the budgeted level by a sizable extent. As a base case, we expect the annualised loss in SGST collections at Rs. 240 billion for H2 FY2026, same as the loss in CGST indicated by the GoI.
- The state-wise impact of GST rate rationalisation will vary depending upon the share of the SGST collections in the total revenues of a state. While the aggregate SGST revenues of the 28 states is nearly a fifth of their revenue receipts, there are significant inter-state variations with the share of SGST in Haryana's revenue receipts at 34% and a limited share of same in the north-eastern states at 7-12%.

Source: GST Portal; State Budgets; Comptroller and Auditor General of India (CAG); ICRA Research

Tax devolution to states could be lower by Rs. 98 billion in FY2026 reflecting decline in CGST revenues of the GoI

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EXHIBIT: Trends in tax devolution

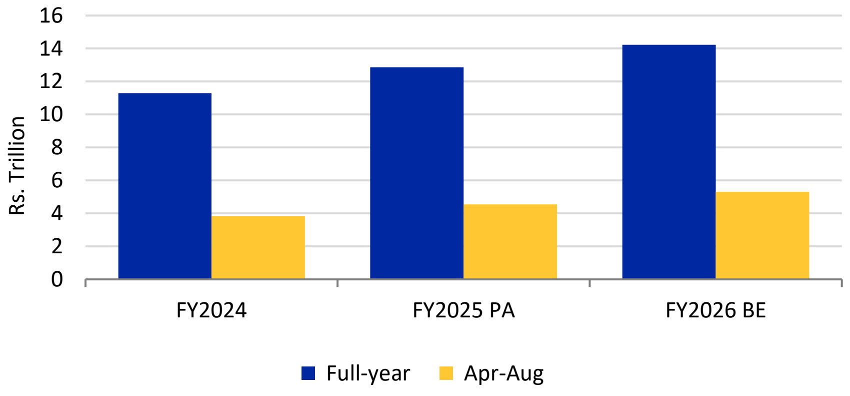
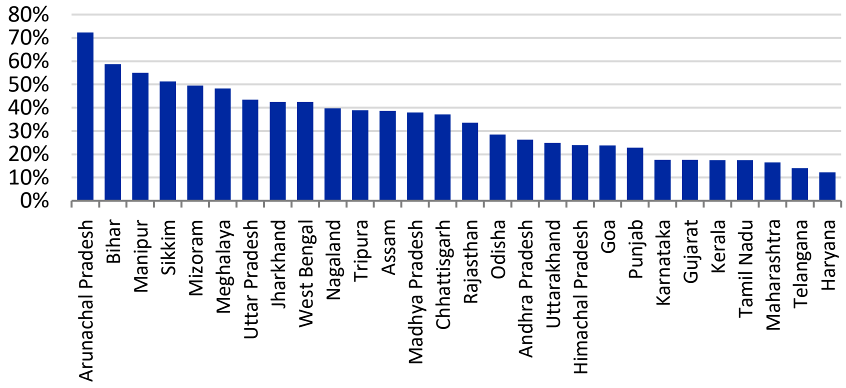


EXHIBIT: State-wise share of tax devolution in total revenue receipts



- In the Union Budget FY2026, the GoI had indicated total tax devolution at Rs. 14.2 trillion for the ongoing fiscal, 10.5% up on a YoY basis. Till August 2025, states have received Rs. 5.3 trillion as tax devolution, 16.3% higher from the same period last year. Based on the loss of Rs. 240 billion in CGST collections of the GoI in H2 FY2026, we estimate that the devolution to the states will be lower by Rs. 98 billion (41% of Rs. 240 billion). This suggests that the GoI would be transferring Rs. 8.8 trillion to the states during September-March FY2026, a modest 6.2% higher on a YoY basis.
- Similar to SGST, the impact of lower-than-expected tax devolution in FY2026 will vary depending upon the share of tax devolution in their total revenue receipts. The combined tax devolution of 28 states accounts for 30% of the total revenue receipts, with Arunachal Pradesh's share being as high as 72% and Haryana's at a modest 12%.

Source: GST Portal; State Budgets; CAG; CGA; ICRA Research

GST compensation cess to be discontinued after repayment of back-to-back loans; luxury, sin goods to attract ‘special 40% GST rate’

EXHIBIT: Some items on which GST Compensation Cess (GSTCC) is levied

Pan masala, tobacco and cigarettes

Motor vehicles including SUVs

Aircrafts, yachts for personal use

Aerated waters, lemonade

Coal and briquettes

Please refer to the Annexure for details regarding GSTCC rates which is levied on these items; Source: ICRA Research

- The GST Council has recommended to end the compensation cess on the sin and luxury goods and instead levy a ‘special rate’ of 40% on these items, with effect from September 22, 2025. The cess rate is being merged with GST to maintain the tax incidence on most goods, including motor vehicles (SUVs), aircrafts, yachts for personal use, aerated waters/lemonade, coal and briquettes relatively unchanged.
- Notably, the Council has decided to continue with the cess on pan masala, tobacco and cigarettes until the loan and interest payment obligations under the compensation cess account are completely discharged. The new GST rates on these items would be implemented at a later date decided by the Ministry of Finance and the GST Council.
- As per the FY2026 Budget documents, a repayment of Rs. 675 billion was supposed to be met through additional recovery from GST Compensation Fund in FY2026 against the back-to-back loans extended to States/UTs in lieu of shortfall in GST revenue. This amount does not include interest payment accrued on such loans. The GST compensation cess was budgeted at Rs. 1.67 trillion in FY2026, up from Rs. 1.53 trillion in the FY2025 PE.

Potential losses to states from GST rationalisation would need to be offset through other revenue streams and/or expenditure realignment

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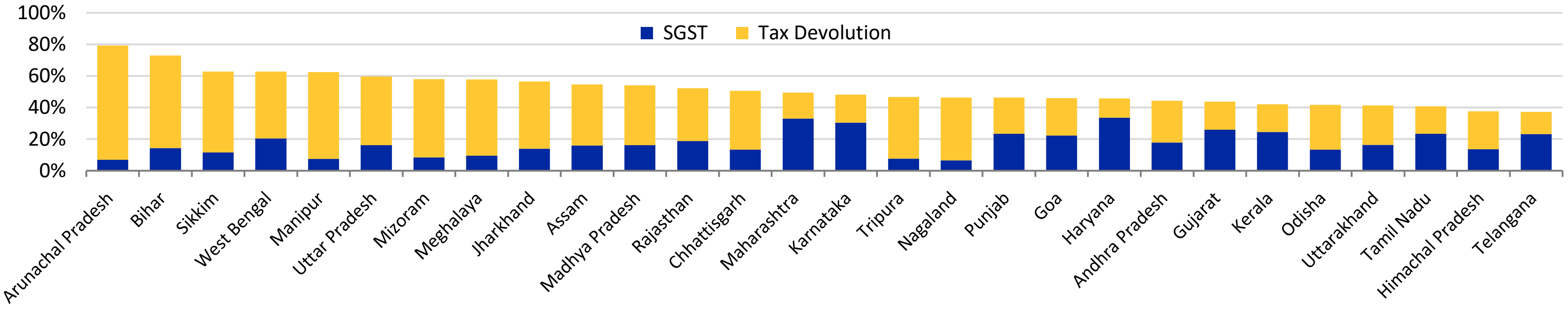
EXHIBIT: State-wise share of SGST and tax devolution in revenue receipts in FY2024



Source: State Budgets; CAG; CGA; ICRA Research

- In aggregate, SGST plus tax devolution accounts for over half of the states' total revenue receipts.
- Interestingly, the revenue foregone as a percentage of revenue receipts will not be uniform across the country; it will vary across the states based on the share of SGST and central tax devolution within their total revenue pie.
- The states that run revenue deficits will need to effect a greater adjustment in their fisc, through raising other revenues or finding expenditure savings.
- Any revenue foregone by the Centre and the state governments would need to be offset through other revenue streams or expenditure rationalisation. Therefore, the final size of the fiscal stimulus remains to be gauged.

Rationalisation of GST tax slabs to dampen CPI inflation by at least 25-35 bps

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Food and Beverages (F&B)

- **12% to 5%** - noodles, condensed milk, other milk products, ghee, butter, sauce, jelly/jam, *papad/bhujia/namkeen,* other packaged food, mineral water, fruit juice
- **18% to 5%** - prepared sweets
- **28% to 40%** - aerated/canned beverages

Pan, Tobacco, and Intoxicants

- **28% to 40%** - pan (leaf), ingredients, pan (finished), cigarettes, leab tobacco snuff, *zarda*, hookah tobacco, cheroot, other tobacco products
- **28% to 18%** - Bidi

Fuel and Light

- **5% to 18%** - Coal*

Miscellaneous items

- **12% to 5%** - dressing table, chair, table, other furniture, carpets/other floor mattings, electric iron, toaster, other cooking appliances, stainless steel utensils, pressure cooker, feeding bottle, bicycle, TVs, stationery, toilet soap, shampoo, toothbrush, toothpaste, powder, etc., umbrella , hotel accommodation
- **18% to 5%** - barber, beautician, etc.
- **28% to 18%** - ACs, washing machines, motorcar, motorcycle

*Note: The changes in GST rates on few major items has been shown here; this list is not exhaustive; *this may be offset by the discontinuation of compensation cess; Source: Ministry of Finance, GoI; ICRA Research*

EXHIBIT: Key items in the CPI basket – new vs. old GST rates

In %	Weight in CPI^ (%)	Old GST rate* (Avg.)	New GST rate (Avg.)
Food and Beverages (F&B)	1.94	14	8
Pan, Tobacco, and Intoxicants	1.43	28	38
Fuel and Light	0.04	5	18
Miscellaneous Items	4.88	15	8

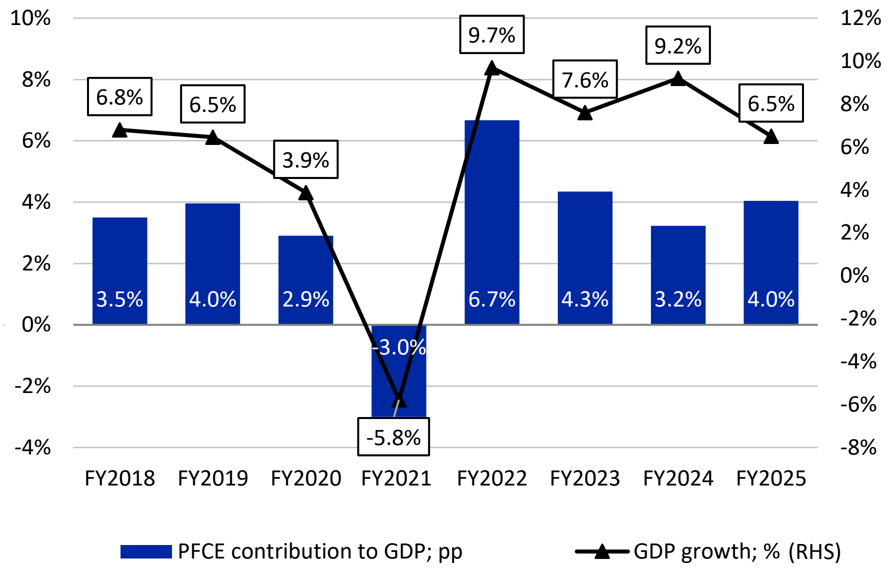
*^Note: Weight of few major items (shown on the left) in these sub-indices has been considered; this is not the total weight of these indices in the CPI basket; *Excluding compensation cess; Source: Ministry of Finance, GoI; ICRA Research*

- The rationalisation of GST tax slabs is likely to augur favourably for the CPI inflation, amid the positive impact of the shift in most F&B and miscellaneous items from the 12% to 5% tax slab.
- **The GST rationalisation could dampen the headline CPI inflation prints by at least 25-35 bps from Q3 FY2026 through Q2 FY2027, taking the average for FY2026 sub-3%.** This may open up the space for one more repo rate cut, although the stronger-than-expected GDP growth in Q1 FY2026, and the positive impact of the GST reforms on growth in the later quarters, would suggest otherwise.

Early implementation of GST rationalisation to boost consumption during festive season

- While the GST rate rationalisation creates fiscal implications for the Centre and the State governments, the household sector is expected to benefit through expenditure savings, which in turn augurs well for boosting consumption. Private final consumption expenditure (PFCE) contributes ~57% to India's GDP growth/annum on an average.
- The initial announcement of the rationalisation by Diwali had raised some concerns over deferment of purchases and treatment of tax on inventories. However, the implementation date being preponed by nearly a month to September 22, 2025, i.e. the start of the festive season has assuaged many of these concerns.
- Higher sales within the last eight days of September 2025, would also allay concern on the potential negative impact of deferred purchases on Q2 GDP growth. From a volume growth assessment point of view, it would be more prudent to look at three-month averages from August-October, with the caveat that last year's late Diwali muddies the base effect.
- The revenue foregone for the Centre and states would accrue to households, which ICRA assessed at ~Rs. 1.0 trillion on annualised basis. Assuming that ~60-70% of this amount is spent, the PFCE is expected to increase by at least Rs. 0.6-0.7 trillion/annum in terms of the direct impact. **The overall push to the GDP growth in H2 FY2026 would be larger, given the multiplier effect of this enhanced spending. We now expect the GDP growth to print at 6.0-6.5% in H2 FY2026.**

EXHIBIT: PFCE contribution to GDP growth

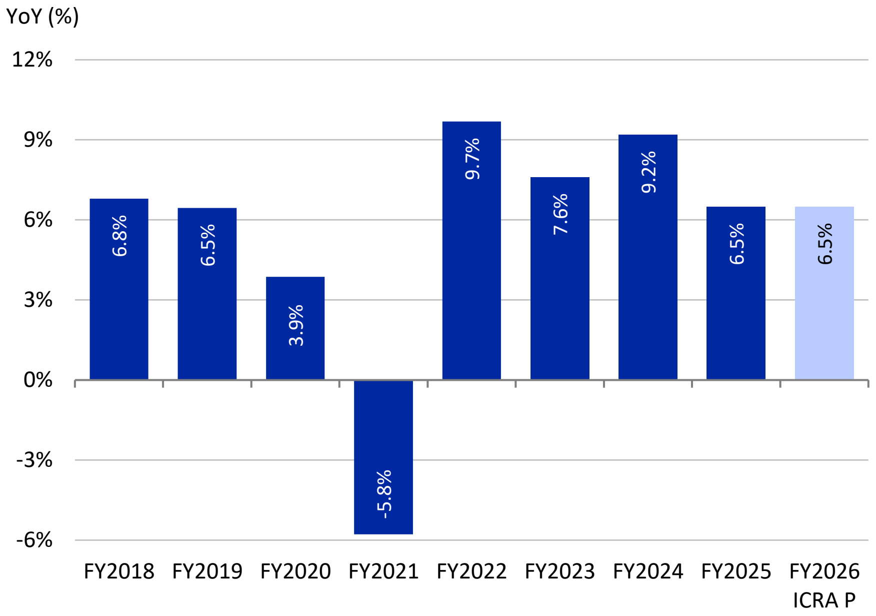


Source: NSO; ICRA Research

GDP growth seen at 6.5% in FY2026; GST reforms to take away some of tariff sting

- Further, the domestic consumption and sentiment boost will help to offset the worries triggered by the tariffs and penalties imposed by the US on Indian exports. Nevertheless, job losses in some sectors would still constrain the demand of the associated households.
- Private sector capex decisions may get a boost for domestic consumption-oriented sectors. However, exporters may still feel jittery about embarking on fresh capex.
- **Given the earlier than expected implementation of the GST rationalisation at the start of the consumption-heavy festive period, the moderate revenue likely to be foregone in H2 of this fiscal, which would however necessitate other revenue mobilisation or expenditure saving measures, and the stronger-than-expected Q1 FY2026 GDP print, ICRA now assesses the FY2026 GDP growth at 6.5% (from +6.0% earlier). However, this continues to be dampened by the prevailing uncertainty related to US tariffs.**
- **Interestingly, the weighted average GST rate is estimated to reduce to sub-10% after the GST rejig from 11.64% in 2023-24 (as per GoI estimates), and 14.4% in 2017 (as per RBI's study).** This will further exert a downward pressure on the indirect tax growth on products, thereby weighing on net indirect tax component part of the GDP. At present, nominal GDP growth is expected to print at ~8.5%, with a mild downside.

EXHIBIT: Annual GDP growth trends (at constant 2011-12 prices)



P: Projected; Source: NSO; ICRA Research

Sectoral Impact of GST rationalisation

Sectoral impact of GST rate cut

With rationalisation of tax slabs—now simplified to 5%, 18%, and 40%—the Council aimed to reduce compliance complexity, enhance transparency, and stimulate consumption across sectors. The following table presents a sector-wise analysis of the GST reforms, highlighting the anticipated economic impact and strategic implications for businesses and consumers alike.

Sector	Impact
Consumer Electronics	↑
Hotels	↑
Food/FMCG	↑
Speciality chemicals	↑
Fertilisers	↑
Construction Equipment	↑
Cement	↑
Film exhibition Industry	↑
Thermal/coal	↑
Renewable Energy	↑
Two wheelers	↑

Sector	Impact
Commercial Vehicle	↑
Passenger Vehicle	↑
Tractor	↑
Auto comp	↑
Tyres	↑
Hospitals	↑
Pharmaceuticals	↑
General insurance	↑
Life insurance	↔
Textiles	↔
Book publishing	↓
Upstream oil and gas	↓

GST rate cuts to support demand from value cautious customers

Sector	Category/products	Current GST Rate	Revised GST Rate	Comments	Impact
Consumer Electronics	Air-conditioners, dish-washing machines and television sets	28%	18%	▪ The reduction in GST rates on consumer electronics is a strategic push to boost discretionary spending in a segment that has seen mixed growth trends. ▪ Lower taxes on appliances and home entertainment products will make them more affordable, encouraging upgrades and first-time purchases. ▪ Retailers and e-commerce platforms are likely to leverage this change through promotions, further amplifying the impact. ▪ While the industry will need to manage supply chain dynamics as import dependence for certain bill-of-material parts remains high, the GST rate cut improves affordability and will revive consumption demand that has been relatively subdued lately.	↑
Hotels	Hotel accommodation services of value less than Rs. 7,500 per day	12% (with ITC)	5% (without ITC)	▪ The GST rate rationalisation augurs well for demand and occupancies in non-luxury hospitality segments across Tier-II and Tier-III cities, in emerging categories like religious tourism, as well as mid-scale and economy properties in the Central Business Districts locations. These locations are increasingly seeing more room supply additions. ▪ By lowering the tax burden on hotel accommodation priced below Rs. 7,500 per day, the policy offers timely support to segments that cater to value-conscious travelers.	↑

Manufacturing cost to come down for textiles with GST cuts

Sector	Category/products	Current GST Rate	Revised GST Rate	Comments	Impact
Textiles	• Fabrics • Home textiles • Manmade fibre • Manmade yarn • Apparel and clothing accessories exceeding Rs. 2,500 per piece	12% 12% 18% 12% 12%	5% 5% 5% 5% 18%	• The reduction in GST rates on textile fabric and other related products will reduce the overall manufacturing costs thus benefiting apparel makers. • In the light of ongoing tariff related impact on home textile exporters, the reduction in rates on home textile products is likely to spur domestic demand. • The rate rationalisation on manmade products corrects the prevalent inverted duty structure as this will support the cost competitiveness of Indian MMF apparel exporters • However, the increase in GST rate for apparels priced above Rs. 2,500 per piece is a negative for the domestic branded premium apparel segment. • Overall, the GST rate actions are a mixed bag for the textile industry	↔

Consumption expected to increase with lower GST on FMCG and food products

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Sector	Category/products	Current GST Rate	Revised GST Rate	Comments	Impact
Food/ FMCG	Ultra-high temperature (UHT) milk, paneer, pizza bread, khakra	5%	Nil	▪ The GST rate cut on key FMCG categories is expected to stimulate consumption, at a time when demand impulses, particularly in urban markets had lost sheen. ▪ Lower shelf prices on everyday essentials such as packaged foods, personal care items, and household products will likely drive volume growth and improve consumer sentiment. ▪ For companies, this could translate into higher throughput and better inventory turnover, especially ahead of the festive season. If demand accelerates, it will also benefit allied sectors such as packaging, distribution, and retail networks. While companies will need to manage competitive pricing and margin dynamics, the real benefit lies in expanding market penetration and accelerating demand recovery	↑
	Paratha and other Indian breads	18%	Nil		
	Among others, condensed milk, butter, ghee, cheese, dairy spreads, dates, citrus fruits, dried nuts, pasta, animal fats, prepared or preserved fish and meat, namkeens, drinking water in 20 ltr bottles, soya milk drinks, fruit pulp or fruit juice based drinks, beverages containing milk	12%	5%		
	Among others, chocolates and other food preparations containing cocoa, pastry, cakes, biscuits, ice cream, other non-alcoholic beverages	18%	5%		
	Pan masala, caffeinated beverages, carbonated beverages of fruit drink	28%	40%		
	Tooth powder, candles, handbags made of cotton or jute, umbrellas, tableware or kitchenware, bicycles, sewing machines, furniture fully made of bamboo or cane, combs	12%	5%		
	Talcum or face powder, hair oil, shampoo, shaving cream, soap, tooth brushes	18%	5%		

Two wheelers rate cut to uplift consumer/fleet operators sentiments

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Sector	Category/products	Current GST Rate	Revised GST Rate	Comments	Impact
Automotive	Two wheelers • Motorcycles (350 cc and below) • Motorcycles (above 350 cc)	 28% 28%	 18% 40%	▪ Over 90% of domestic production are within the 350cc and accordingly the GST rate cut will uplift consumer sentiments and support demand. On-road prices are likely to come down and will enhance the affordability of the highly-price sensitive rural and semi-urban segments. With better rural output and supportive financing environment coupled with cheaper tyres and spares, 2W demand is likely to be favourable in the upcoming festive season. ▪ A net increase of 9% in GST (cess adjusted) on premium vehicles could soften the demand momentum and accordingly there could be a shift in customer preference towards sub-350cc or rather slower upgrades to the premium segment.	↑
	Commercial vehicles	28%	18%	▪ The GST rate cut on commercial vehicles (CVs) and other building materials that feed into construction activities is a positive development for both LCV and M&HCV segments. ▪ Reduction in GST rates on parts like tyres will reduce the replacement costs and improve the economics for fleet operators. ▪ Overall, favourable macro-economic activities and improved cashflows in the hands of fleet operators are a structural positive and will stimulate CV demand. Given the multiplier effect on logistics demand, the GST rate cut is expected to support replacement demand from long-haul transporters. ▪ Electrification in Bus segment is likely to sustain its pace of penetration with sustenance of same rate of 5%.	↑

Passenger cars benefit ahead of festive season; tractors benefit ahead of harvest season

Sector	Category/products	Current GST Rate	Revised GST Rate	Comments	Impact
Automotive	Passenger cars • Petrol & Petrol Hybrid, LNG, CNG cars (not exceeding 1200 cc & 4000 mm) • Diesel & Diesel Hybrid cars (not exceeding 1200 cc & 4000 mm) • Petrol & Petrol Hybrid, LNG, CNG cars (exceeding 1200 cc & 4000 mm) • Diesel & Diesel Hybrid cars (exceeding 1200 cc & 4000 mm)	28% 28% 28%* 28%*	18% 18% 40% 40%	▪ Amidst headwinds around sluggish demand (from both domestic and exports) and inventory build-up pressures, the lower tax incidence, especially on entry-level and micro/compact utility vehicles, is a favourable move. ▪ Luxury car segment is also benefited (post cess adjustments). ▪ Ahead of the festive season, the lower on-road prices, will revive showroom footfalls, accelerate retail sales, and help OEMs clear a large part of the inventory. ▪ While the long-term trends will still hinge on income sentiment and fuel prices, the immediate effect is likely to be a positive uptick in demand, particularly in the entry and the mid-price automobile segments. ▪ Continuation of 5% GST on electric vehicles is likely to support the rising penetration of EVs, although the penetration is expected to remain slow in PVs.	↑
	Tractors ▪ Tractors (except road tractors for semi-trailers of engine capacity more than 1800 cc) • Road tractors for semi-trailers of engine capacity more than 1800 cc • Tractor parts and tyres	12% 28% 18%	5% 18% 5%	• Tractors segment has maintained its growth path in recent quarters and has been supported by favourable rural demand drivers. • The GST rate cut on tractors and tractor parts (engines, tyres etc.) is a welcome move - not only will it further support the demand momentum ahead of the harvest season, it also augurs well for long-term demand, aiding farm mechanization and lowering operating costs. • Overall, this measure will further the aim of enhancing farm productivity and output.	↑

*Note: *Over and above this, GST compensation cess also applies that pushes up the effective rate to 43-50%*

GST rate cut on new vehicles augurs well for auto component and tyre demand

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Sector	Category/products	Current GST Rate	Revised GST Rate	Comments	Impact
Automotive	Auto components	28%	18%	• Reduction in GST rates for new vehicles (in the entry and the mid-price automobile segments) augurs well for auto-component demand for supplies to domestic OEMs (which accounts for 56% of the overall auto component industry). • In the after-market segment, which represents 15% of the auto-component market, the move would enhance liquidity in the hands of consumers and accelerate formalisation of the sector. • Structurally, the rate cut narrows the price gap between OEM-authorised parts and unauthorised spares, thus benefiting organised aftermarket players. • Considering the challenges ongoing in the export market with macro-economic uncertainties and tariff wars, the rate cut is a timely and welcome positive for the auto components sector.	↑
Automotive	Tyres (Excluding tractor, three-wheeler, and bicycles) Tractor Tyres Tyre Cord fabric	28% 18% 12%	18% 5% 5%	• GST rate cut on most tyre categories augers well for the domestic replacement demand, which accounts for around two-third of Indian tyre industry. Transport operators will benefit from the reduced operating costs thus enhancing fleet profitability and cashflows. This apart, the lower logistics costs across industries will spur after-market demand. • Additionally, rate cuts on new vehicles (entry and mid-price auto segments) and tractors is likely to support OEM tyre demand, driven by increased vehicle production and sales. • Rate cut on tyre cord fabric is a positive from margins standpoint, although its share is not material in the overall cost structure	↑

GST rationalisation to reduce power purchase costs for discoms

Sector	Category/products	Current GST Rate	Revised GST Rate	Comments	Impact
Power	Thermal/ coal	5% + compensation cess of Rs. 400 per tonne	18%	• Prior to GST rate rationalisation, coal attracted 5% GST plus a Compensation Cess of Rs. 400 per tonne; the GST Council has recommended discontinuing the cess and merging it with GST, thereby increasing the rate to 18%. • As the power utilities typically consume coal at a gross calorific value of 3,500-3,800 kcal/ kg at a notified pre-GST price of Rs. 800-900 per ton (plus sizing, royalty, and other charges), the removal of compensation cess despite increase in the GST rate, is expected to reduce the cost of power generation for coal-based power producers by around 15 paise per unit. • Further, given the fact that ~70% of the generation at an all-India level is from the coal-based capacity, this is expected to result in a reduction in the cost of supply for the discoms by around 12 paise per unit. • However, the pass through of this benefit by the state discoms to the consumers remains to be seen.	↑
Power	Renewable energy devices and parts for their manufacture	12%	5%	• The rationalisation of GST rates for solar PV modules and wind turbine generators is expected to reduce the capital cost for solar and wind power projects by ~5%. • This is expected to reduce the cost of generation for solar power projects by ~10 paise per unit and for wind power projects by ~15-17 paise per unit. • This would reduce the capital cost for under-implementation projects and also likely to reflect in upcoming bids. • This in turn will benefit the power distribution companies in the form of lower power purchase cost, going forward.	↑

Upstream oil & gas firms face squeezed margins as GST-driven cost hikes collide with falling global prices

Sector	Category/products	Current GST Rate	Revised GST Rate	Comments	Impact
Upstream oil and gas	Crude oil and natural gas	12%	18%	• As crude oil and natural gas are outside the purview of GST, an increase in the cost of exploration, development and production (owing to higher GST on services like hiring of drilling rigs etc.) without an offset available on sale of these products will lead to stranded taxes. As oil and gas prices have moderated significantly since April 2025 on account of global economic headwinds and unwinding of production cuts by OPEC+, realisations of Upstream companies have reduced. Accordingly moderating realisations and increase in cost of production would be a double whammy for the Upstream industry and would adversely impact the returns.	↓

Affordability in healthcare to improve with GST rate cuts

Sector	Category/products	Current GST Rate	Revised GST Rate	Comments	Impact
Hospitals	Health insurance	18%	Nil	• The GST exemption on health insurance premium is expected to enhance healthcare affordability and accessibility for patients. • This will in turn benefit the hospitals sector, which has already been witnessing increasing demand on the back of higher insurance penetration over the past few years.	↑
Pharmaceuticals	Certain lifesaving/general medicines	5%	Nil	• The GST exemption/reduction on certain lifesaving/general medicines, and some medical supplies and equipment is expected to enhance affordability and accessibility of healthcare. • In the long run, this step aligns with the government's vision of making healthcare more inclusive and affordable.	↑
		12%	Nil		
		12%	5%		

Customers to benefit from exemption although extent of benefit to be seen

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Sector	Category/products	Current GST Rate	Revised GST Rate	Comments	Impact
Life Insurance	Term Insurance	18%	nil	• In the absence of Input Tax Credit (ITC), insurers must either absorb the cost on input GST, which will adversely impact the Value of New Business (VNB) margins, or they will have to increase the premium. • According to ICRA, insurers will partially absorb the cost and pass the remainder to customers. Even after partial or full pass through of higher cost, the cost of insurance will be cheaper for customer. • The policies that have already been sold were priced factoring in the ITC, which will no longer be available. Companies will thus absorb the associated cost, impacting embedded value from existing business. • The sales are anticipated to increase, which will enhance market penetration and provide long-term benefits to insurers.	↔
	ULIPs	18% (only on fund management fees, fund allocation charges, mortality charges)	nil		
	Endowment Plans	4.5% (1st Year Premium)	nil		
	Endowment Plans	2.25% (Renewal Premium)	nil		
	Single Premium Annuity	2%	nil		

Affordability of health insurance to improve with GST rate cuts

Sector	Category/products	Current GST Rate	Revised GST Rate	Comments	Impact
General Insurance	Retail health insurance	18%	nil	• Retail health segment accounted for 16% of the overall Gross Direct Premium Income (GDPI) for the general insurance industry in FY2025. Standalone health insurers (SAHI) hold a dominant share in the retail health segment. (58% in FY2025). • In absence of ITC, the pass-through of GST rate cut may not be complete and in case the insurers decide to fully pass the GST cut benefit, the profitability of health insurers is likely to be adversely affected. • Overall, the premium shall decline for the customers, which bodes well for the growth of the industry.	↑
	Motor Insurance			• With the reduction in GST on new vehicles and likely increase in vehicle sales, the business volume from motor segment is expected to grow. • However, as the cost of vehicles decreases, the Insured Value of vehicle is expected to decline, thereby leading to a decline in premium per vehicle. However, this shall not adversely impact the profitability of insurers, as the claims payout could also decline as repair costs can come down with lower GST rate.	

GST cuts positive for chemicals and fertilisers with reduced prices and expected demand boost in consuming industries

Sector	Category/products	Current GST Rate	Revised GST Rate	Comments	Impact
Specialty Chemicals	• Natural menthol and products made from natural menthol • Sulphuric acid and nitric acid • Certain bio-pesticides	12% 18% 12%	5% 5% 5%	• Reduction of GST rates would reduce the prices of a few specialty chemicals products such as natural menthol, bio-pesticides. • Most of the chemicals were in the 18% rate which has not been changed; however, second order impact of reduced product prices of several consuming industries such as pharmaceuticals, textiles and auto would support demand growth.	↑
Fertilisers	• Ammonia, sulphuric acid and nitric acid	18%	5%	• This corrects the inverted duty structure on phosphatic fertilisers, by bringing the GST rate on inputs in line with the rates on the end-product. • This could improve the cash flow management on account of lower tax blockage. • Further, the reduction of GST rates on micronutrients and agricultural goods such as tractors, soil preparation machinery, harvesting machinery etc bodes well for the farm economy, improving affordability and access as well as spurring demand.	↑

Construction sector to benefit from GST rate cuts

Sector	Category/products	Current GST Rate	Revised GST Rate	Comments	Impact
Construction Equipment (CE)	Concrete mixing equipment and Crane manufacturers (original equipment manufacturers)	18%	No change	▪ OEMs procuring concrete mixer trucks and Crane lorries will benefit from reduced tax rate on Components like Chassis fitted with engines, bodies, parts and accessories (8706, 8707, 8708) from 28% to 18%. Pass-through of the same (fully or partly) to customers may stimulate demand and/or support profitability of the OEMs. ▪ Construction (and by association – CE) demand from real estate and housing sector will benefit from reduced rates on essential construction materials (cement – 28% to 18%; marble and travertine blocks, granite blocks, sand-lime bricks and stone inlay work – from 12% to 5%).	↑
Cement	Cement	28%	18%	▪ With the recent rate cut being passed on to customers, and the average retail price of cement currently ranging between Rs. 350 – 360 per bag, consumers are expected to benefit by Rs. 26–28 per bag. GST cut supports making rural housing more affordable and is likely to result in 0.8%-1.0% reduction in overall construction expenses in rural housing. The impact won't be material for mid/premium urban housing segment. ▪ A cut in GST would give cement companies the flexibility to pare retail prices across markets, spurring demand during the upcoming festive and post-monsoon construction season, without compromising on profitability. ▪ This move would make premium cement more affordable, and customers may upgrade from lower-end brands to premium ones.	↑

Boosting affordability in semi-urban cinemas while challenging book publishers with rising input costs

Sector	Category/ products	Current GST Rate	Revised GST Rate	Comments	Impact
Film exhibition Industry	Movie Tickets	12% with ITC – for ticket price of Rs. 100 or less	5% with ITC - for ticket price of Rs. 100 or less	▪ The benefit will be largely in semi-urban regions, where ticket prices are below Rs 100. Lower GST on movie tickets can make films more affordable, attract larger audiences to theatres, and support the entertainment industry by increasing revenue, ancillary income (like F&B) and new screen development. Larger multiplex, having presence in metros, where ticket prices are generally higher than Rs 100, will not benefit from the proposal.	↑
Book Publishing	Textbooks, academic books and others	0-12%	No change	▪ An increase in GST on printing paper (HSN 4802/4810– from 12% to 18%) will raise production costs for book publishers, leading to increased book prices or reduced profit margins, as books themselves are generally GST-exempt (Nil for textbooks supplied directly by schools or sold in school premises; 12% on privately purchased; 5-12% for certain commercial or non-academic printed materials) and do not provide Input Tax Credit (ITC) to recover these costs. ▪ For publishers who outsource printing on a job-work basis, the reduced GST (9988 - including good falling under chapter 49 – viz. Printed Books, Brochures, Leaflets, and Similar Printed Matter) of 5% Vs. 12% previously, may partially help off-set the negative impact of increased paper cost. ▪ Reduction in GST rate for packaging – corrugated and non-corrugated boxes – from 12% to 5% - will be a cost saving for publishers.	↓

Annexure: GST compensation cess rates levied on various items

Description of supply of goods/services (Part 1)	GST Compensation Cess rate
Pan Masala	0.32R per unit
Unmanufactured tobacco (with/without lime tube) – with brand name; tobacco extracts and essence (with/without brand name); branded hookah/gudaku	0.36R per unit
Tobacco refuse - bearing a brand name	0.32R per unit
Cheroots and Cigar; Cigarillos	21% or Rs. 4,170 per thousand, whichever is higher
Filtered khaini; Jarda scented tobacco	0.56R per unit
Cigarettes containing tobacco excluding filter cigarettes, of length not more than 65 mm	5% + Rs. 2,076 per thousand
Cigarettes containing tobacco apart from filter cigarettes, of length more than 65 mm and up to 75 mm	5% + Rs. 3,668 per thousand
Filter cigarettes of various lengths (rates levied as per length of cigarettes)	5% or Rs. 2,076 – Rs. 3,668 per thousand
Cigarettes/Cigarillos of tobacco substitutes	Rs. 4,006 per thousand/12.5% or Rs. 4,006 per thousand whichever is more
Smoking mixtures for pipes and cigarettes	290%
Tobacco used for hookah; other tobacco–related items*	0.08R – 0.61R per unit

Description of supply of goods/services (Part 2)	GST Compensation Cess rate
Chewing tobacco (with/without lime tube)	0.56R per unit
Pan masala (Gutkha) containing tobacco	0.61R per unit
Coal, ovoids, briquettes, and similar solid fuels manufactured whether or not agglomerated, excluding jet, peat, whether or not agglomerated	Rs. 400 per tonne
Aerated waters; lemonade; others	12%
Motor vehicles^	15%
Petrol, LPG or CNG driven motor vehicles of engine capacity <1200 cc and of length <4000 mm	1%
Motorcycles of engine capacity >350 cc; aircrafts; yacht; diesel driven motor vehicles of engine capacity <1500 cc and length <4000 mm	3%
Motor vehicles of engine capacity <1500 cc	17%
Sports Utility Vehicles (SUVs), including utility vehicles	22%
Motor vehicles of engine capacity >1500 cc, other than those specified against entry at S. No 52B	20%

*R – retail sale price; *Including Tobacco used for smoking hookah/chilam, other water pipe smoking tobacco without brand name, other smoking tobacco without/without brand name, homogenised tobacco with brand name; chewing tobacco, pan masala with tobacco, all other goods containing tobacco, snuff and preparations of snuff; ^Motor vehicles for the transport of not more than 13 persons, including the driver; Motor vehicles, excluding ambulances, three-wheelers and vehicles of engine capacity not exceeding 1500cc and of length not exceeding 4000 mm, with both spark-ignition internal combustion reciprocating piston engine and electric motor as motors for propulsion or with both compression-ignition internal combustion piston engine [diesel-or semi diesel] and electric motor as motors for propulsion; Source: CBIC; ICRA Research*

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Thank You!