



GST 2.0 announced largely on expected lines

Clarification on compensation cess and tractor parts incremental positive for MM

The GST Council has announced the much-awaited GST rate rationalization, which has largely happened on expected lines as below: 1) the majority of the auto pack would shift from a 28% GST + cess structure to an 18% flat structure; 2) all SUVs above 4mtr (and other specifications) move to a 40% rate without cess from the earlier avg of 43-50% rate; 3) 2Ws above 350cc move to a 40% rate from earlier 31%. The revised rates would be effective from 22nd Sep'25. While most of these measures have been on expected lines, the clarity on cessation of compensation cess and GST rate reduction for tractor parts will be an incremental key positive. Also, the fact that the government has implemented this before the festive season is a key positive. This is in addition to several tailwinds for the sector such as: 1) positive progress of monsoon driving up rural sentiment, 2) income tax benefits, 3) 8th pay commission, and 4) interest rate cuts. Thus, we believe the GST rate rationalization should drive a demand revival in the festival season and lead to potential re-rating within the sector. In our assessment, the biggest beneficiaries are Hero MotoCorp (HMCL), Maruti Suzuki India (MSIL) and Hyundai Motor India (HMIL). Note that while these stocks have moved in line with expectation, a key beneficiary is M&M (given cess clarification highlighted above). We would revisit our estimates on the sector soon. Our top OEM picks in the sector remain MSIL and M&M, and our top auto ancillary picks are Endurance, SAMIL and Happy Forgings.

Understanding sectoral nuances

Passenger vehicles (PVs) – clarity on cess and tractors positive for MM

- All PVs previously fell under the 28% GST bracket.
- However, there are multiple sub-segments, and each used to get taxed at a different rate depending on the fuel mix and the cess levied on each vehicle.
- Simply put, small cars (up to 4mtr in length) were taxed at 28%, whereas large cars (above 4mtr) were taxed in the range of 43-50%.
- As per the new GST rate structure, the small cars (up to 4mtr in length), which as of FY25 accounted for 32% of industry volumes, will now be taxed at a flat rate of 18%. Cars above 4mtr (the remaining 69%) would be taxed at a peak rate of 40%, which is still lower than the previous average of 43-50% tax bracket, as compensation cess is no longer being levied on automobiles.

Our view

- The GST rate cut will lead to a correction in car prices and is expected to provide a much-needed fillip to the car segment, which has been seeing muted traction over the past few years.
- In our assessment, in the PV segment, MSIL and HMIL stand to emerge as the biggest beneficiaries of this rate cut as they have a sizeable portion of their mix coming from the sub 4mtr segment.
- Further, given that there was still an uncertainty around whether or not the final tax incidence on UVs would be lower or not, MM stands to gain after the clarification regarding the cessation of compensation cess. MM also benefits from the fact that GST rates on both tractors and tractor parts have been reduced to 5% from 12% / 18% earlier.

Two wheelers (2Ws) – in line with expectations

- 2Ws up to 350cc were taxed at 28%, and 2Ws above 350cc attracted another 3% cess and hence were taxed at 31%.
- According to the revised structure, 2Ws up to 350cc will be taxed at 18%, whereas 2Ws above 350cc will attract a 40% tax rate.

Our view

- In our assessment, HMCL stands to benefit the most given that 95% of its volumes come from the domestic segment of up to 350cc.
- Benefits for Bajaj Auto (BJAUT) and TVS are limited given their relatively high exposure to exports and EVs. Similarly, for Royal Enfield (RE), its up-to-350cc segment (81% of mix) stands to benefit, while its >350cc domestic segment (8% of mix) will be adversely impacted by the higher GST rates.

Commercial vehicles (CVs)

- The GST rate on trucks has been reduced to 18% from 28% earlier.

Our view

- We expect the CV segment to see an indirect benefit, as a reduction in GST rates on key segments would increase consumption in the economy, which would, in turn, help revive CV volumes in the coming quarters.
- However, the only pure-play CV company that would benefit from this is Ashok Leyland (AL).

Tractors

- The GST rates on tractors and tractor parts have been reduced from 18% to 5%.

Our view

- The inverted duty structure on tractors has now been taken care of.
- Major beneficiaries include M&M and Escorts.

Quick observation on few auto ancillaries

- According to the new rates, all auto parts (excl. farm-related products) would now attract an 18% GST slab.
- Overall, the GST restructuring would be a pass-through for all auto ancillaries, though we believe domestic-focused companies are likely to be indirect beneficiaries of this rationalization given the expected demand revival. Since export-focused companies continue to face headwinds in their end markets, we think the final benefit of this measure is unlikely to be material for them.
- Hence, key auto ancillaries within our coverage universe that are expected to benefit include all tyre companies, battery companies, Bosch, Endurance, Happy Forgings and MSWIL. Tyre and battery companies will also benefit as they have a relatively high replacement share.
- **A quick take on Endurance:** Endurance enjoys a dual benefit: 1) the indirect effect of auto demand recovery, 2) the possible implementation of ABS on all 2Ws.

Near-term factors to watch out for

- We understand that the compensation cess can be offset only by cess in the value chain. With the cessation of compensation cess, it remains to be seen how this can be offset for the stock of vehicles lying in the system.

Our View

- FY26 had started off on a weak note for the auto sector as most segments, except tractors, were currently trailing growth expectations.
- After the first four months of FY26, domestic 2W industry was down 4% YoY (earlier estimate of high-single-digit growth), PVs were down 1% YoY (est of 2-4% growth) and CVs were flat YoY (estimate of mid-single digit growth).
- The GST cut rationalization was a much-needed booster shot for the sector. This is in addition to upcoming favorable tailwinds such as: 1) positive progress of monsoon driving up rural sentiment, 2) income tax benefits, 3) 8th pay commission in Jan'26, and 4) interest rate cuts.
- Given that the government has ensured that the GST rate rationalization happens before the festive season, we expect to see a revival in sector demand from the festive season onward.
- Our top OEM picks in the sector remain MSIL and M&M, and our top auto ancillary picks are Endurance, SAMIL and Happy Forgings.

Exhibit 1: Segment-wise GST rates (in %)

Segments	Sub segments	GST	Cess	Total	Revised
PVs petrol, CNG, LPG	❖ Up to 4mtr and up to 1200cc	28	1	29	18
PV diesel	❖ Up to 4mtr and up to 1500cc	28	3	31	18
PV	❖ Up to 1500cc	28	17	45	40
PV	❖ above 1500cc	28	20	48	40
PV	❖ >4mtr and >1500cc and >1700mm ground clearance	28	22	50	40
PV hybrid	❖ Up to 4mtr and 1200cc petrol	28	0	28	18
PV hybrid	❖ above 4mtr or above 1200cc petrol	28	15	43	40
Two wheelers	❖ up to 350cc	28	0	28	18
Two wheelers	❖ >350cc	28	3	31	40
Three wheelers		28	0	28	18
CV	❖ goods	28	0	28	18

Exhibit 2: Assessment of key beneficiaries

Segments / Players	GST rate change	Extent of benefit	Comments
Two Wheelers			
Hero MotoCorp	❖ 18% from 28%	*****	❖ Benefits 95% of its portfolio
Bajaj Auto	❖ 18% from 28%	***	❖ Benefits 51% of its mix, no change for exports and EVs
TVS Motors	❖ 18% from 28%	***	❖ Benefits 69% of its mix, no change for exports and EVs
Eicher Motors	❖ 18% from 28% up to 350cc, but 40% from 31% for >350cc+	***	❖ Benefits 81% of mix, no impact on 11%, negative on 8% which is 350cc+
Passenger Vehicles			
Maruti Suzuki	❖ 18% from 29% on cars, 40% from range of 43-50% on UVs	****	❖ strong benefits on 48% of mix, some benefit on large UVs + Vans - 31% of mix
M&M	❖ 40% from avg of 43 to 50% on UVs; 5% from 12% on tractors	***	❖ some benefit to UVs (40% mix), strong benefits to tractors (31% mix)
Tata Motors	❖ 18% from 29% on cars, 40% from range of 43-50% on UVs	*	❖ India business ~28% of consol revenue, of this 13% comes from cars and 47% from UVs
Hyundai	❖ 18% from 29% on cars, 40% from range of 43-50% on UVs	****	❖ strong benefit to 51% of mix, some benefit on large UVs (28% mix)
Escorts	❖ 5% from 18% on tractors	****	❖ Tractors is 83% of revenues which benefits positively
Commercial Vehicles	❖ 18% from 28% on trucks	NA	❖ indirect benefit from improvement in consumption

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