

# Strategy

June 10, 2025

## Can the government supplement the RBI's efforts?

In our view, a broad-based reduction in household expenses through (1) a cut in retail automobile fuel prices and/or (2) a cut in GST rates can deliver a moderate boost to household savings/consumption and supplement the RBI's monetary efforts to support growth. The government has enough fiscal space to attempt broad-based support or sector-specific stimulus.

### Government can deliver Rs1.2 tn of fiscal boost to households

The government can supplement the RBI's pro-growth policies by passing on around Rs1.2 tn of annualized savings to households through large cuts in retail automobile fuel prices. Household balance sheets may require support, given a gradual erosion in the household savings rate, even as corporate and government balance sheets improved (see Exhibit 1). In our view, the government can look at (1) broad-based measures such as reducing the GST rate of high-rated GST items and (2) sector-focused measures such as lower retail automobile fuel prices and/or lower GST rates for mass-market items. In addition, the government can redirect savings from a likely lower-than-expected capex to cut GST rates. We doubt it will be able to spend on AI and R&D initiatives (Rs550 bn higher in FY2026BE versus in FY2025P; see Exhibit 2).

### Targeted fiscal neutral GST rate cuts can offer marginal benefits to demand

We estimate that a complete pass-through of the Rs1.2 tn through a cut in GST rates and a commensurate increase in central and state taxes on diesel and gasoline instead of a reduction in retail automobile fuel prices from the current high levels could reduce the effective GST rate by around 65 bps from around 11.5% to 10.9% (see Exhibit 3). As such, we believe that the government has options to reduce GST rates on (1) select items in the 18-28%+ brackets; we would recommend a reduction in items such as automobile 2Ws and cement and/or (2) items of mass consumption in the 12% bracket. Exhibit 4 shows the estimated contribution of major sectors to GST collection in India.

### Normalized marketing margins for OMCs may provide 0.3% of GDP boost

We compute that reducing marketing margins of diesel and gasoline to normalized levels of Rs3-4/liter from the current elevated levels (see Exhibits 5-6) can generate Rs1.1-1.3 tn of savings for the government and/or households (see Exhibit 7). OMCs can still make decent profits at normalized marketing margins over FY2026-28E, after a sharp increase over FY2019-25 (see Exhibit 8). The government can choose to (1) pass on a portion of the benefits through a cut in retail fuel prices and/or (2) retain the balance by raising the excise duty.

### Fuel price cuts could further reduce ownership costs of auto

We note that a large fuel price cut could provide an added boost to the automobile sector, given the large sensitivity of the cost of ownership to retail fuel prices. Exhibits 9-12 show the sensitivity of the cost of ownership of 2Ws and PVs to fuel prices and interest rates. We note that retail fuel prices have a far bigger impact on the total cost of ownership than interest rates.

### Key estimates summary

	2025	2026E	2027E
<b>Nifty estimates</b>			
Earnings growth (%)	6.4	12.4	15.2
Nifty EPS (Rs)	1,013	1,129	1,301
Nifty P/E (X)	24.8	22.2	19.3
<b>Macro data</b>			
Real GDP (%)	6.5	6.2	6.5
Avg CPI inflation (%)	4.6	3.5	4.2

Source: Company data, Kotak Institutional Equities estimates

### Quick Numbers

Rs1.2 tn of potential savings for households from a cut in automobile fuel prices to import-parity prices with normalized marketing margins

A cut of 65 bps is possible in the blended GST rate through an increase in central and state taxes on automobile fuels and stable retail automobile fuel prices

A Rs4/liter cut in retail automobile fuel prices reduces the cost of ownership of 2Ws and 4Ws by 2-3%, while a 100 bps cut in interest rates reduces the cost of ownership of 2Ws and 4Ws by 0.5-1%

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## Household savings have declined 220 bps over FY2019-24

Exhibit 1: Savings rates as proportion of GDP, March fiscal year-ends, 2015-24 (%)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Change (bps) 2019-24
Household (physical + net financial savings) (a)	19.6	18.0	18.1	19.3	20.3	19.1	22.7	20.1	18.6	18.1	(221)
Household physical savings	12.5	9.9	10.7	11.6	12.4	11.4	11.0	12.8	13.4	13.0	53
- Savings in gold	0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.3	0.3	0.4	18
Gross household financial savings	10.1	10.9	10.5	12.0	12.0	11.6	15.5	11.1	11.2	11.4	(59)
Financial liabilities	(3.0)	(2.8)	(3.0)	(4.4)	(4.1)	(3.9)	(3.7)	(3.8)	(5.9)	(6.2)	(216)
Net household financial savings	7.1	8.1	7.4	7.6	7.9	7.7	11.7	7.3	5.3	5.2	(275)
Public savings (b)	1.0	1.2	1.7	1.6	0.9	0.2	(4.1)	(0.1)	1.1	2.0	105
Private corporate savings (c)	11.7	11.9	11.5	11.2	10.5	10.2	10.5	11.2	11.0	10.7	15
Domestic savings rate (a) + (b) + (c)	32.2	31.1	31.3	32.1	31.7	29.6	29.1	31.2	30.7	30.7	(101)

Source: CEIC, Kotak Institutional Equities

## Government has room to pass on higher savings, if it is unable to spend on its new budgeted initiatives

Exhibit 2: Revenue and capital expenditure through budget and internal and extra budgetary resources (IEBR), March fiscal year-ends, 2025-26 (Rs bn)

	2025RE					2026BE					Capex growth yoy (%)
	Revenue	Capital	IEBR	Bonds	Total capex	Revenue	Capital	IEBR	Bonds	Total capex	
Atomic Energy	120	125	126	88	251	121	120	131	99	251	0
Defense	4,706	1,705	—	—	1,705	4,888	1,924	—	—	1,924	13
Economic Affairs	452	127	—	—	127	24	466	—	—	466	266
Electronics and Information Technology	172	4	—	—	4	256	4	—	—	4	24
Food and Public Distribution	2,054	1	255	—	256	2,114	0	287	—	287	12
Housing and Urban Development	320	317	421	100	738	592	376	622	150	998	35
New and Renewable Energy	173	0	317	130	317	265	0	355	105	355	12
Petroleum and Natural Gas	170	3	1,289	189	1,292	127	66	1,324	124	1,390	8
Power	187	11	707	199	718	212	7	858	242	865	20
Railways	33	2,520	130	—	2,650	34	2,520	130	—	2,650	0
Road Transport and Highways	80	2,725	—	—	2,725	151	2,722	—	—	2,722	(0)
Science and Technology	25	—	—	—	—	34	200	—	—	200	NM
Telecommunications	494	750	7	—	757	292	518	8	—	525	(31)
Transfer to states	1,583	1,394	—	—	1,394	1,574	1,706	—	—	1,706	22
Others	26,412	503	573	36	1,076	28,758	581	601	36	1,182	10
All ministries	36,981	10,184	3,824	742	14,009	39,443	11,211	4,316	756	15,527	11

Notes:

(a) Bonds imply bonds and debentures issued as part of the IEBR.

(b) Data for IEBR are based on revised estimates for each year.

Source: Union Budget, Kotak Institutional Equities

## Effective GST rates can be cut by as much as 65 bps

Exhibit 3: Estimated cut in GST rate through savings on auto fuels, March fiscal year-end, 2026 (%)

	Pass through GST rate cuts (%)		
	33	50	100
Annualized savings from auto fuel (Rs tn)	1.2	1.2	1.2
FY2025 GST collections (Rs tn)	22	22	22
Cut in GST revenues (Rs tn)	0.4	0.6	1.2
Cut in GST revenues (%)	1.8	2.8	5.5
Current effective GST rate (%)	11.5	11.5	11.5
New effective GST rate (%)	11.3	11.2	10.9
Net cut in effective GST rate (bps)	21	32	64

Source: Ministry of Finance, Kotak Institutional Equities estimates

## Autos, cement, metals, insurance and telecom are the largest contributors to GST collection

Exhibit 4: GST rates for major products and estimated GST contribution, March fiscal year-ends, 2025 (Rs bn)

Sector	Current	GST contribution	
	GST rate (%)	(Rs bn)	(% of total)
<b>Automobiles</b>			
2W ICE	28	1,410	6.4
2W EV	5	127	0.6
3W	28	88	0.4
PVs - Hatchbacks + Sedans	29	845	3.8
PVs - Micro/Compact SUVs (<1.2L engine)	29	960	4.3
PVs - Micro/Compact SUVs (>1.2L engine)	45	475	2.2
Mid-size SUVs	48	690	3.1
Large SUVs/MPVs	50	875	4.0
Commercial vehicles	28	1,162	5.3
Tractors	12	611	2.8
<b>Building materials</b>			
Paints	18	157	0.7
Prepared glues and other prepared adhesives (under 1Kg)	18	16	0.1
Sanitaryware, tiles	18	NA	NA
<b>Cement</b>	<b>28</b>	<b>716</b>	<b>3.2</b>
<b>Consumer durables</b>			
Air-conditioner	28	84	0.4
Fans, refrigerator, washing machines, microwave oven, mixer juicer grinders	18	144	0.7
Wires & cables	18	162	0.7
<b>Consumer staples</b>			
Aerated waters containing added sugars	28% + 12% cess	124	0.6
Butter and others fats (ghee, butter oil etc.)	12	32	0.1
Chocolates, chewing gum	18	55	0.2
Cigarettes	28% + other taxes	414	1.9
Coconut oil	5	4	0.0
FMCG products (except those stated below)	18	407	1.8
Fruit pulp or fruit juice-based drinks	12	43	0.2
Hair oils (excluding coconut oil), toothpaste, soaps	18	71	0.3
Ice cream	18	31	0.1
Mineral water	18	87	0.4
Namkeens	12	36	0.2
Pastries and cakes	18	19	0.1
Perfumes, deodorants, shampoos, hair cream, hair dyes	18	40	0.2
Sanitary napkins	12	23	0.1
Sauce, soup and broths	18	60	0.3
Tea and coffee	5	24	0.1
Vegetable oils	5	97	0.4
<b>Others</b>			
Apparel/garments	5	233	1.1
Bullion/Jewelry	3	183	0.8
Metals	18	1,246	5.6
Life insurance	2.4 (blended)	214	1.0
Non-life insurance	18	566	2.6
Telecom	18	422	1.9
<b>Total</b>		<b>12,950</b>	<b>59</b>
<b>Total GST collected in FY2025</b>		<b>22,089</b>	<b>100</b>

Source: Kotak Institutional Equities estimates

### Indian households and government can see meaningful savings from lower automobile fuel prices

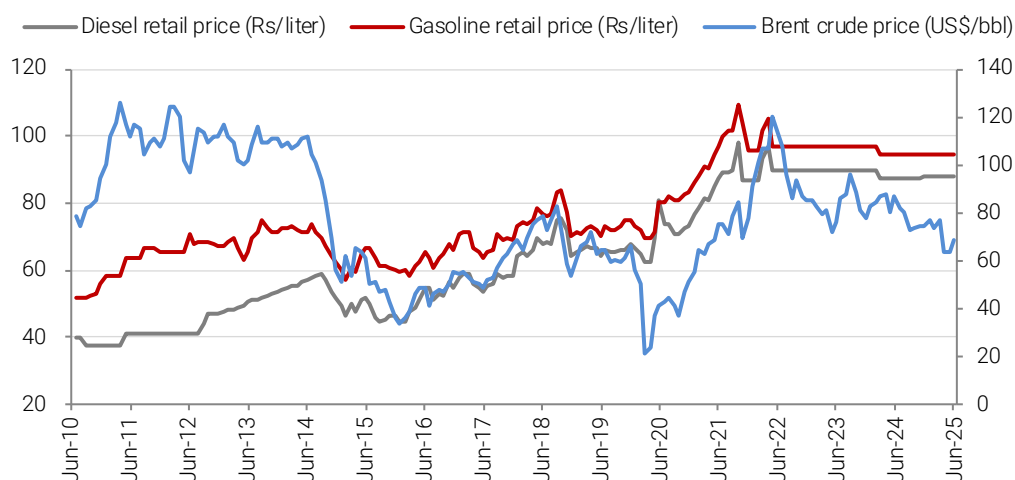
Exhibit 5: Savings to households/government from normalized auto fuel marketing margins, March fiscal year-end, 2026 (Rs bn)

	Marketing margins (Rs/liter)		
	3.0	3.5	4.0
FY2025 diesel consumption (mn tons)	91	91	91
FY2025 diesel consumption (bn liters)	111	111	111
Current marketing margins (Rs/liter)	10.3	10.3	10.3
<b>Savings at normalized margins (Rs bn)</b>	<b>806</b>	<b>750</b>	<b>695</b>
FY2025 gasoline consumption (mn tons)	40	40	40
FY2025 gasoline consumption (bn liters)	56	56	56
Current marketing margins (Rs/liter)	11.8	11.8	11.8
<b>Savings at normalized margins (Rs bn)</b>	<b>498</b>	<b>470</b>	<b>442</b>
<b>Total savings (Rs bn)</b>	<b>1,304</b>	<b>1,220</b>	<b>1,137</b>

Source: Kotak Institutional Equities estimates

### Diesel and gasoline prices have been at elevated levels despite fall in crude prices

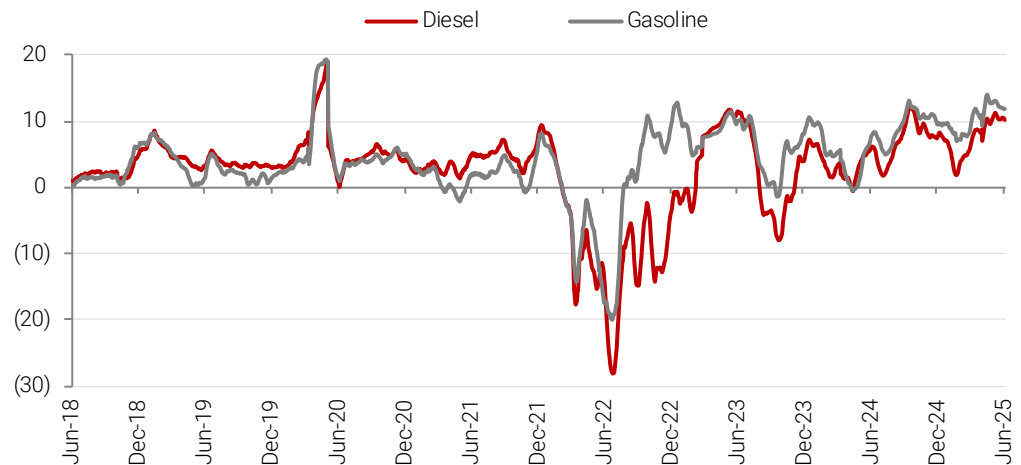
Exhibit 6: Monthly retail price of diesel and gasoline in Delhi, March fiscal year-ends, 2011-26 (Rs/liter)



Source: Companies, Kotak Institutional Equities

### Marketing margins on auto fuels have been at elevated levels in CYTD25

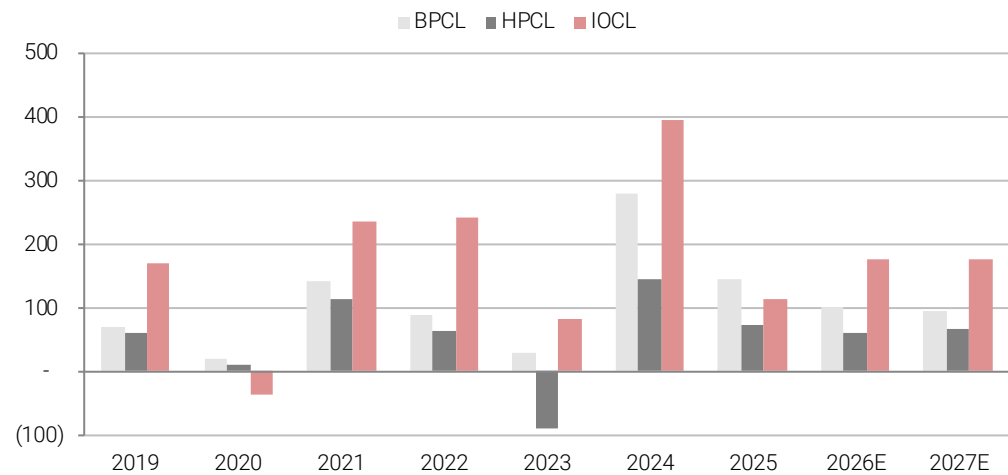
Exhibit 7: Marketing margins on diesel and gasoline, calendar year-ends, 2018-25 (Rs/liter)



Source: PPAC, Kotak Institutional Equities estimates

### OMCs made super-normal profits in FY2024 due to very high marketing margins

Exhibit 8: Adjusted PAT of OMCs, March fiscal year-ends, 2019-27E (Rs bn)



Source: Companies, Kotak Institutional Equities estimates

### A Rs4/liter cut in gasoline prices reduces ownership cost of 2Ws by 3%

Exhibit 9: Sensitivity of ownership costs of 2W to change in gasoline price (%)

	Gasoline price (Rs/liter)	
	Current	Current-4
<b>Entry segment (Hero Deluxe) - Delhi prices</b>		
Ex-showroom price (Rs) (a)	62,332	62,332
Financed amount (%)	80.0	80.0
Interest rate (%)	9.5	9.5
Total loan tenure (years)	3.0	3.0
Total interest cost (Rs) (b)	14,212	14,212
<b>Total cost of vehicle (Rs) (a)+(b), (c)</b>	<b>76,544</b>	<b>76,544</b>
<b>Gasoline price (Rs/liter)</b>	<b>94.8</b>	<b>90.8</b>
Average fuel efficiency (km/liter)	60	60
Annual kms run	12,000	12,000
Total years	5.0	5.0
<b>Total fuel cost (Rs) (d)</b>	<b>94,770</b>	<b>90,770</b>
Annual maintenance cost (Rs)	1,000	1,000
Total maintenance cost (Rs) (e)	5,000	5,000
Insurance cost for five years (f)	6,233	6,233
Resale value after five years (Rs) (g)	31,166	31,166
<b>Total cost of ownership (Rs) (c)+(d)+(e)+(f)-(g)</b>	<b>151,381</b>	<b>147,381</b>
<b>Change (%)</b>		<b>(2.6)</b>
<b>Scooter (Honda Activa) - Delhi prices</b>		
Ex-showroom price (Rs) (a)	78,684	78,684
Financed amount (%)	80.0	80.0
Interest rate (%)	11.0	11.0
Total loan tenure (years)	3.0	3.0
Total interest cost (Rs) (b)	11,242	11,242
<b>Total cost of vehicle (Rs) (a)+(b), (c)</b>	<b>89,926</b>	<b>89,926</b>
<b>Gasoline price (Rs/liter)</b>	<b>94.8</b>	<b>90.8</b>
Average fuel efficiency (km/liter)	40	40
Annual kms run	12,000	12,000
Total years	5.0	5.0
<b>Total fuel cost (Rs) (d)</b>	<b>142,155</b>	<b>136,155</b>
Annual maintenance cost (Rs)	1,000	1,000
Total maintenance cost (Rs) (e)	5,000	5,000
Insurance cost for five years (f)	7,868	7,868
Resale value after five years (Rs) (g)	39,342	39,342
<b>Total cost of ownership (Rs) (c)+(d)+(e)+(f)-(g)</b>	<b>205,607</b>	<b>199,607</b>
<b>Change (%)</b>		<b>(2.9)</b>

Source: Companies, Kotak Institutional Equities estimates

# A Rs4/liter cut in gasoline prices reduces ownership cost of PVs by 2%

## Exhibit 10: Cost of ownership for a Maruti Swift customer, LXI (Rs)

	Gasoline price (Rs/liter)	
	Current	Current-4
<b>Cost of ownership for a Maruti Swift customer, LXI (Rs)</b>		
<b>Purchase Price (Rs) (a)</b>	<b>624,225</b>	<b>624,225</b>
Financed amount (%)	80.0	80.0
Interest rate (%)	10.0	10.0
Total loan tenure (years)	4.0	4.0
Total interest cost (Rs) (b)	108,567	108,567
<b>Total cost of vehicle (Rs) (a)+(b), (c)</b>	<b>732,792</b>	<b>732,792</b>
<b>Gasoline price (Rs/liter)</b>	<b>94.8</b>	<b>90.8</b>
Average fuel efficiency (km/liter)	13.5	13.5
Annual kms run	12,000	12,000
Total years	5.0	5.0
Total fuel cost (Rs) (d)	421,200	403,422
Annual maintenance cost (Rs)	15,162	15,162
Total maintenance cost (Rs) (e)	75,809	75,809
Total insurance cost (Rs) (f)	72,416	72,416
Registration and road taxes (Rs) (g)	37,454	37,454
Resale value after 5 years (Rs) (h)	374,535	374,535
<b>Total cost of ownership (Rs) (c)+(d)+(e)+(f)+(g) -(h)</b>	<b>965,136</b>	<b>947,358</b>
<b>Yoy increase (%)</b>		<b>(1.8)</b>

Source: Company, Kotak Institutional Equities estimates

# A 100 bps cut in interest rates reduces ownership cost of 2Ws by 1%

Exhibit 11: Sensitivity of ownership costs of 2W to change in interest rates (%)

	Interest rate (%)	
	Current	Current-1%
<b>Entry segment (Hero Deluxe) - Delhi prices</b>		
<b>Ex-showroom price (Rs) (a)</b>	<b>62,332</b>	<b>62,332</b>
Financed amount (%)	80.0	80.0
<b>Interest rate (%)</b>	<b>9.5</b>	<b>8.5</b>
Total loan tenure (years)	3.0	3.0
Total interest cost (Rs) (b)	14,212	12,716
<b>Total cost of vehicle (Rs) (a)+(b), ( c)</b>	<b>76,544</b>	<b>75,048</b>
Gasoline price (Rs/liter)	94.8	94.8
Average fuel efficiency (km/liter)	60	60
Annual kms run	12,000	12,000
Total years	5.0	5.0
Total fuel cost (Rs) (d)	94,770	94,770
Annual maintenance cost (Rs)	1,000	1,000
Total maintenance cost (Rs) ( e)	5,000	5,000
Insurance cost for 5 years (f)	6,233	6,233
Resale value after 5 years (Rs) (g)	31,166	31,166
<b>Total cost of ownership (Rs) (c)+(d)+(e)+(f)-(g)</b>	<b>151,381</b>	<b>149,885</b>
<b>Change (%)</b>		<b>(1.0)</b>
<b>Scooter (Honda Activa) - Delhi prices</b>		
Ex-showroom price (Rs) (a)	78,684.0	78,684.0
Financed amount (%)	80.0	80.0
<b>Interest rate (%)</b>	<b>9.5</b>	<b>8.5</b>
Total loan tenure (years)	3.0	3.0
Total interest cost (Rs) (b)	9,643	8,588
<b>Total cost of vehicle (Rs) (a)+(b), ( c)</b>	<b>88,327</b>	<b>87,272</b>
Gasoline price (Rs/liter)	94.8	94.8
Average fuel efficiency (km/liter)	40	40
Annual kms run	12,000	12,000
Total years	5.0	5.0
Total fuel cost (Rs) (d)	142,155	142,155
Annual maintenance cost (Rs)	1,000	1,000
Total maintenance cost (Rs) ( e)	5,000	5,000
Insurance cost for five years (f)	7,868	7,868
Resale value after five years (Rs) (g)	39,342	39,342
<b>Total cost of ownership (Rs) (c)+(d)+(e)+(f)-(g)</b>	<b>204,008</b>	<b>202,953</b>
<b>Yoy change (%)</b>		<b>(0.5)</b>

Source: Kotak Institutional Equities estimates



# A 100 bps cut in interest rates reduces ownership cost of PVs by 1%

Exhibit 12: Cost of ownership for a Maruti Swift customer, LXI (Rs)

	Interest rate (%)	
	Current	Current-1%
<b>Cost of ownership for a Maruti Swift customer, LXI (Rs)</b>		
<b>Purchase Price (Rs) (a)</b>	<b>624,225</b>	<b>624,225</b>
Financed amount (%)	80.0	80.0
<b>Interest rate (%)</b>	<b>9.5</b>	<b>8.5</b>
Total loan tenure (years)	4.0	4.0
Total interest cost (Rs) (b)	102,828	91,446
<b>Total cost of vehicle (Rs) (a)+(b), (c)</b>	<b>727,053</b>	<b>715,671</b>
Gasoline price (Rs/liter)	94.8	94.8
Average fuel efficiency (km/liter)	13.5	13.5
Annual kms run	12,000	12,000
Total years	5.0	5.0
Total fuel cost (Rs) (d)	421,200	421,200
Annual maintenance cost (Rs)	15,162	15,162
Total maintenance cost (Rs) (e)	75,809	75,809
Total insurance cost (Rs) (f)	72,416	72,416
Registration and road taxes (Rs) (g)	37,454	37,454
Resale value after 5 years (Rs) (h)	374,535	374,535
<b>Total cost of ownership (Rs) (c)+(d)+(e)+(f)+(g) -(h)</b>	<b>959,396</b>	<b>948,014</b>
<b>Yoy increase (%)</b>		<b>(1.2)</b>

Source: Company, Kotak Institutional Equities estimates

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**ADD.** We expect this stock to deliver 5-15% returns over the next 12 months.

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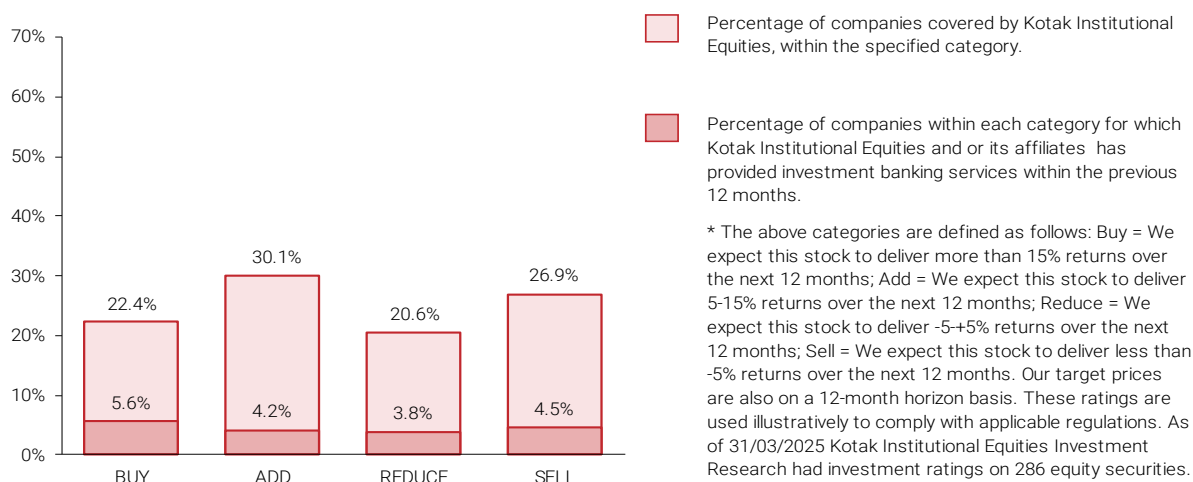
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Our Fair Value estimates are also on a 12-month horizon basis.

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Source: Kotak Institutional Equities

As of March 31, 2025

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