

Automobiles



Possible GST cut on tractors: a tailwind for tractor OEMs

As per [media reports](#), the upcoming GST Council meeting may consider rationalising tax slabs by eliminating the 12% rate and shifting items like tractors to either the 5% or 18% slabs. Further, the government's net revenue from the current 12% GST rate on tractors is broadly neutral to 1% positive. Given tractors' critical role in the agriculture sector—which contributes ~18% to India's GDP—and the government's focus on rural development, a move to the 5% slab appears more likely than an upward shift. Such a reduction would support farm affordability and help sustain rural sentiment ahead of state elections. Moreover, the government's net GST revenue impact from lowering the slab is estimated to be merely 0.2% (considering 987,000 tractor units in FY26E and an ASP of INR600,000) of annual GST collection of INR22,080 bn. And, on the 5% GST rate, companies may incur losses due to higher input tax rates. However, they can claim refunds from the government, although the recovery may come with a lag of one or two quarters. While OEMs are likely to pass on most of the tax savings to consumers, improved pricing flexibility and better operating leverage could benefit tractor OEMs. We currently have HOLD rating on Mahindra & Mahindra (MM) (if the GST rate is reduced, we may need to revise our estimates upwards and upgrade the rating). Other beneficiaries include Escorts (Not Rated) and VST Tillers Tractors (Not Rated).

■ **Our expectations:** According to recent media reports, the GST Council may soon meet to review and rationalise GST rates, including a possible removal of the 12% slab. As part of this, we believe that tractors, which are currently taxed at 12%, could potentially be shifted to the 5% slab. Furthermore, as per our understanding, the government's net revenue from the current 12% GST rate on tractors is broadly neutral to 1% positive, as it is largely offset by higher GST input rates (18%-28%).

- Tractors being essential equipment for the agriculture sector, which is not only a major contributor to India's GDP (18.2% contribution in overall GDP in FY24) but also a focal point of the government's policy and budgetary initiatives.
- Moving tractors to the higher 18% slab could adversely impact affordability for farmers, dampen rural sentiment, and run counter to the government's push for inclusive growth and agricultural self-sufficiency. Further, it may upset rural voters ahead of upcoming 4-5 key rural focused state elections in next 8-10 months.
- Additionally, reduction in GST slab will help partially absorb the price hike that is anticipated due to implementation of TREM-V (Tractor/Engine/Machinery Emission norms), which is set to be in force from April 2026.
- As per our calculations, the GST impact on the government is minimal- estimated at just ~0.2% of the annual GST collections (Exhibit 1).
 - Domestic tractor industry volumes are estimated to be ~987,000 units in FY26.
 - Assuming average selling price (ASP) of a tractor is ~ INR 600,000.
 - The estimated GST revenue loss from moving tractors to a lower slab is ~INR 41bn, which is merely 0.2% of the government's total GST collection in FY25.
- Given the strategic importance of the rural economy in driving overall consumption and economic momentum, a rate cut rather than a hike appears more probable.
- Reducing the GST rate on tractors would likely support rural incomes, improve farm mechanisation, and align with the govt.'s goal of strengthening the rural economy.

■ **Who benefits?**

While companies are expected to pass on most of the tax benefit to end consumers, the reduction would still enhance their pricing flexibility and improve operating leverage as the demand may get boosted. This could prove to be a positive development for tractor OEMs. We currently have HOLD rating on Mahindra & Mahindra (MM) (if the GST rate is reduced, we may need to revise our estimates upwards and upgrade the rating). Other beneficiaries include Escorts (Not Rated) and VST Tillers Tractors (Not Rated).

Saksham Kaushal

saksham.kaushal@jmfll.com | Tel: (91 22) 66303019

Nitin Agrawal

nitin.agrawal@jmfll.com | Tel: (91 22) 66303687

Sahil Malik

sahil.malik@jmfll.com | Tel: (91 22) 66301652

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Exhibit 1. Net impact of reduction in GST rate on India Govt.'s GST collection

Estimated domestic tractor volume in India in FY26 (in 000's) (a)	987
ASP for a tractor (in 000's) (b)	600
Estimated domestic tractor industry in India in FY26 (in INR bn) (c = a*b/1,000)	592
GST differential (12% - 5%) (d)	7.0%
Absolute impact on Govt.'s annual GST collections (in INR bn) (e = c*d)	41
Govt.'s annual GST collections in FY25 (in INR bn) (f)	22,080
Net impact on Govt.'s annual GST collections (in %) (g= e/f*100)	0.2%

Source: pib.gov.in, JM Financial

Exhibit 2. Slab wise breakup of GST collection

Slab Rate (%)	Contribution in GST collection (%)
5%	8.0%
12%	5.0%
18%	73.0%
28%	12.5%

Source: Moneycontrol, JM Financial

APPENDIX I

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SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.

Board: +91 22 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.comCompliance Officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1743 | Email: sahil.salastekar@jmfl.comGrievance officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1743 | Email: instcompliance@jmfl.com

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