

# Event Update

A NEW CHAPTER IN CONSUMPTION-LED GROWTH!



## GST Reform 2.0: A New Chapter in Consumption-Led Growth!

The 56<sup>th</sup> GST council meeting was held on 3<sup>rd</sup> Sep'25. In a landmark move, the central government has rationalised the GST slabs from four to three, indicating an overall reduction in taxes on essential as well as aspirational goods. Now with GST 2.0 reforms, 12% and 28% categories have been scrapped, and the majority of the items are now under the 5% and 18% slabs. Some sin goods have been moved to the 40% category. On a positive side, Nil GST has been imposed on certain categories to boost the consumption in the economy. All the revised GST rates are applicable from 22<sup>nd</sup> Sep'25 onwards, the day marked with the first day of the Navratri festival. This reform aims to simplify the GST rates, ease compliance, create higher disposable income and stimulate long-term economic revival.

### A New Chapter in Consumption-Led Growth!

The government has now shifted gears from *Capex-oriented* spending to *consumption-led* spending, starting from the FY26 Budget onwards. The past decade was defined by development-focused schemes, with the construction of roads, bridges, metro systems, and other infrastructure projects serving as benchmarks for the ruling party's success. Now, with the Feb'25 budget, more focus has been given to the rural masses and the middle class for spurring consumption via tax relief, indicating a shift in the economic regime. And now, GST 2.0 reforms are further strengthening the agenda of consumption pick-up moving forward. This consumption-led growth will have a cascading effect on the economy and provide a much-needed boost to the private capex, which has been sluggish for several years.

### Macro-economic Impact of GST 2.0

- 1) **Impact will be broad-based:** Unlike Income tax cuts, welfare schemes, and subsidies, the GST rate cut would benefit all sections of the household and impact a wider population, especially rural India and lower to medium-income households.
- 2) **It was a need of an Hour:** Consumption patterns were clearly muted from the last 4-6 quarters, subdued due to multiple challenges like higher inflation, slowing urban demand, and slowing credit growth. Now with GST 2.0, a new leg of consumption-led growth opens the avenues of the multiplier effect in the economy.
- 3) **Prospects for the domestic economy to bounce back have improved further:** Both the RBI and the government are providing support by front-loading all the fiscal and monetary measures to the Indian economy. These are all pro-growth initiatives. These measures include a) A 50 bps CRR cut in Dec'24, b) A 100 bps rate cut till now, c) Improved bank liquidity, d) The RBI Dividend, e) A consumption boost provided in the budget, and f) An uptick in the government CAPEX spending. On top of this, the government has passed GST 2.0 reforms. Collectively, all these indicate better days for the economy going ahead.
- 4) **Sectoral Impact:** Rationalisation in GST is likely to benefit MSMEs, SMEs, Rural, and Urban consumption. It is also likely to improve the discretionary income for the masses, which will benefit the Consumer Discretionary sector and improve the credit growth, which has been sluggish since FY25. Some of the key sectors that could be key beneficiaries are: *Insurance, Consumer Durable, Building Materials, Automobiles, Retail, Cement, FMCG, and Real Estate*

The market is likely to give a thumbs up to the recent development; however, the meaningful development in the operational performance of the Indian corporate is likely to come in H2FY26. Furthermore, the earnings of the Indian corporates are likely to revive from the second half onwards. Till then, the market will continue to closely watch key developments in the a) Macro economy, b) Tariffs, c) Bond Yields, d) Developments in the consumption trends and d) Flows.

**Our Positive GST 2.0 play (Coverage):** Majority of FMCG companies, All Cement Companies, Maruti, TVS Motors, Hero Motocorp, UNO Minda, Trent, Avenue Supermart, Doms Industries, Relaxo, Westlife Foodworld, Inox Wind, SBI Life, Bajaj Finance and SBI Cards

### Key Sectors to Watch

- ✓ **FMCG**
- ✓ **Automobiles**
- ✓ **Agriculture Equipment**
- ✓ **Insurance**
- ✓ **Cement**
- ✓ **Consumer Durable**
- ✓ **Apparel**
- ✓ **Footwear**
- ✓ **QSR**
- ✓ **Retail**
- ✓ **Stationery Retail**
- ✓ **Textile**

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## Likely Beneficiary of GST 2.0: Key Sectors & Stocks

Product Category	Current Status	Proposed Tax Change	Impact
<b>BFSI</b>			
Banks, NBFCs			Consumption demand beneficiaries mainly include <b>Bajaj Finance, SBI Cards</b>  <b>Positive for Banks and NBFCs</b> , with lower indirect tax burden and lower direct tax rate supporting consumption demand, thereby aiding credit growth.
Insurance – Individual Health and Life Insurance	18%	NIL (Exempted)	<b>SBI Life</b> , LIC, HDFC Life Insurance, ICICI Prudential Life Insurance, Max Life, Star Health, Niva Bupa and NIACL
<b>Building Materials</b>			
Cement	28%	18%	<b>All Cement companies (Coverage &amp; Non-Coverage)</b>
RMX	28%	18%	<b>All Cement companies (Coverage &amp; Non-Coverage)</b>
<b>Auto</b>			
2w	ICE 2Ws at 28% + cess.	18% for ≤ 350cc 40% for > 350cc	<b>Positive for Legacy players: Hero MotoCorp, Bajaj Auto, TVS Motor, Eicher Motors</b> ; Negative for pure-play EV OEMs.
3W	28% (ICE)	18% (ICE),	<b>Bajaj Auto, TVS Motor, M&amp;M</b>
4W	28% + cess (1% to 22%); luxury vehicles (+40%) with higher cess	Small Cars - <1200cc Petrol and <1500cc diesel up to 4000mm length. GST rate to be cut from 28% to 18%. Hybrid/CNG Passenger Vehicles (up to 4000mm length & 1200cc petrol / 1500cc diesel engines) to be flat 18%. Other Passenger Vehicles (any powertrain), like big cars, luxury cars and SUVs to attract 40%.	<b>Maruti Suzuki, M&amp;M, Tata Motors, Hyundai</b>
CV	28% (Hydrogen Vehicles 12%)	18%; (Hydrogen Vehicles on fuel cell technology will be 5%)	<b>Ashok Leyland, VECV (Eicher)</b> , Tata Motors (CV), M&M, SML Izuzu.
Tractors	Road tractors: 28%/ Others:12%	Road tractors for semi-trailers with engine capacity >1800cc will be 18%; other 5%	<b>Escorts</b> , M&M, VST Tillers & Tractors.

Ancillary	18% (most parts), 28% (e.g., tyres, batteries)	New Pneumatic Tyres: 18%; Tractor Tyres/Tubes: 5%	<b>Endurance Tech, Uno Minda, Minda Corp, Sansera Engineering, SSWL</b> , Exide, Amara Raja, Sona BLW, Greaves Cotton, Samvardhana Motherson, Motherson Wiring.
*5% GST on EVs remain unchanged.			
<b>Infrastructure &amp; Construction</b>			
Infrastructure & Construction	28% (Cement)	18% (Cement)	<b>Coverage:</b> GR Infra, HG Infra, PNC Infratech, J Kumar Infraproject, Ahluwalia Contract, Non coverage: NCC Ltd, Ashoka Buildcon, Afcons Infrastructure
<b>Consumer Discretionary</b>			
Hotels	Up to Rs 1,000/night – GST Exempt Rs 1,001–Rs 7,500/night – 12% (with ITC) Above Rs 7,500/night – 18% (with ITC)	Up to Rs 7,500/night – 5% (without ITC) Above Rs 7,500/night – unchanged at 18% (with ITC)	<b>Positive:</b> Lemon Tree Hotels, as ~50% of revenue comes from room tariffs below Rs 7,500.
QSR	1) A 5% GST applies to most restaurant services, including dine-in and takeaway, when Input Tax Credit (ITC) is not claimed. This is the standard rate for casual dining outlets.  2) An 18% GST is levied on food served in restaurants within hotels where room tariffs exceed Rs 7,500/night and ITC is claimed.	<b>Stand-alone restaurants</b> must continue to pay <b>5% GST without ITC. Only restaurants within qualifying hotels</b> can be treated as “specified premises (like hotels with room tariffs above Rs7,500 per night) to pay 18% GST with ITC.	<b>Westlife Foodworld Ltd,</b> Jubliant Foodworld, Devyani International
Footwear & Apparel up to Rs 1000	5%	5%	
Footwear & Apparel above Rs 1000	12%	Now, Footwear and Apparel up to Rs 2500 will be taxed at <b>5%</b> and Footwear and Apparel above Rs 2,500 - <b>taxed at 18%</b>	Footwear Companies will be the beneficiaries, along with Retail companies <b>Dmart, Trent, and V-mart.</b>
All categories of finished leather (bovine, sheep, lamb, chamois, patent, laminated, metallised, composition leather, etc.)	12%	5%	Significant relief for the <b>leather industry</b> , lowering raw material costs for footwear, handbags, and accessories. Boosts the competitiveness of Indian leather exports and supports domestic brands. Positive for companies like <b>Relaxo, Bata India, Metro brands</b>
<b>Consumer Durable</b>			

Air Conditioners	28%	18%	Blue Star, Voltas, Havells
Washing Machines, TVs (above 32" including LED & LCD TVs), Dishwashers	28%	18%	Whirlpool, Havells, IFB Industries
<b>Fertilizers</b>			
Key Inputs for fertilizers such as Sulphuric acid, Nitric Acid, Ammonia, etc.	12%	5%	<b>Aarti Industries Ltd</b> , Tata Chemicals, Gujarat State Fertilizers & Chemicals. Hindustan Zinc, Deepak Fertilizers, Rashtriya Chemicals and Fertilizers (RCF), National Fertilizers Ltd. (NFL)
Commonly used fertilisers and crop protection products like urea, DAP, and Potash	5%	Rates remain unchanged, but are likely to benefit from lower input costs, the elimination of inverted duty correction, and increased demand in general.	<b>Dhanuka Agritech Ltd, PI Industries Ltd</b> , Chmabal fertilisers, GNFC, Coromandel International, RCF, NFL
<b>Textiles</b>			
Various input materials	12%	Lower rate of 5%, also benefits from the correction of the inverted duty structure.	<b>Overall sector</b>
Cotton fibre, yarn	5%	5%	<b>Overall sector</b>
Synthetic yarn	12%	5%	Sanathan Textiles
Carpets and other textile floor coverings, etc.	12%	5%	<b>Welspun Living</b>
Towels and Woven fabrics, and Technical Textiles	12%	5%	<b>Welspun Living</b> , Raymond, Arvind, Vardhman, Alok, Trident
Readymade garments (MRP ≤ Rs 1000)	5%	5%	<b>NA</b>

Readymade garments (MRP between Rs 1000 and Rs 2500)	12%	5%	Page Industries, Vedant Fashions, KPR Mill, Arvind, Vardhman
Readymade garments (MRP above Rs 2500)	12%	18%	Negative Impact: Vedant Fashions, KPR Mill, Arvind, Vardhman
<b>Agri Equipment</b>			
Irrigation equipment such as sprinklers, drip irrigation nozzles, etc.	12%	5%	Jain Irrigation
Agricultural Machinery, including harvesting machinery, soil preparation equipment, etc.	12%	5%	Overall sector
<b>Power &amp; Ancillaries</b>			
Renewable Energy:			
<ol style="list-style-type: none"> <li>Bio-Gas Plant</li> <li>Solar power-based devices</li> <li>Solar power generator</li> <li>Wind mills, Wind-operated electricity generator</li> <li>Waste-to-energy plants</li> <li>Solar lantern / Lamps</li> <li>Ocean waves/ tidal waves energy devices/plants</li> <li>Photovoltaic cells</li> </ol>	12%	5%	<p>Positive for overall renewable space with potential increase in investments in the sector, including Solar, Wind and Hydro Space.</p> <p>Potential beneficiaries: <b>Inox Wind, JSW Energy</b>, Suzlon Energy, Waaaree Energies, Premier Energies, Vikram Solar</p>
<b>FMCG</b>			
Sauces, Ice Cream, Pasta, Instant Noodles, Vegetables, Saps and Extracts, Chocolate, Coffee, Preserved Meat, Talcum Powder, Hair Oil and Shampoo, Toothpaste	18%	5%	<p><b>Significant reduction in tax burden. These items will become far more affordable for consumers.</b></p> <p><b>FMCG companies (Nestlé, HUL, ITC, Britannia, etc.) could see higher demand volumes due to lower retail prices.</b></p> <p><b>Positive for discretionary consumption.</b></p> <p>Non-coverage companies like Emami, Godrej Consumer, Patanjali, and Marico would be beneficiaries.</p>
Namkeen, Bhujia, Pre-packaged food item, Condensed Milk, Butter & Ghee, Cheese, Dried Fruits, Frozen Vegetables, Dried Nuts, Almonds, Animal Fats, Citrus Fruits Like Oranges, Mangoes, Avocados	12%	5%	Positive for <b>Bikaji</b> , and <b>From Coverage - Britannia, ITC</b> and other packaged food companies.
Ultra high temperature Milk, Paneer, All Indian Breads	5%	NIL	Positive for <b>Nestle</b> and all <b>dairy companies</b>
Luxury Items, alcohol, Soft Drinks, Fast Food, Sugar and Tobacco Products	40%	<p>GST and cess on gutkha and tobacco will remain unchanged, as collections from these sin goods are earmarked to repay past</p>	<p><b>Neutral For ITC</b></p> <p>Non-coverage companies like Godfrey Phillips, VST Industries, and DS Group- the tax burden remains unchanged.</p>

			compensation-cess borrowings. Rates will only be reviewed once these liabilities are fully discharged.
Pencils, Paper Stationery Kits (boxes, pouches, wallets, compendiums containing assorted paper stationery)	12%	5%	Stationery sets become cheaper, supporting affordability for students and offices. Boost for organised stationery makers, <b>DOMS</b> from coverage and from non-coverage - <b>Navneet Education, ITC – Classmate</b> .
Erasers	5%	NIL	Relief in school/stationery costs, benefiting low-income households; positive for stationery companies like <b>DOMS</b>
Notebooks & Exercise Books (incl. graph books, lab notebooks)	12%	NIL	Positive for <b>DOMS</b>
Aerated/flavoured/sweetened waters (like colas, sweetened soda, energy drinks)	28%	40%	Much costlier. From Coverage-Negative for <b>Varun Beverages</b> , and from Non-Coverage, it's negative for <b>Coca-Cola, Parle Agro</b> , etc.
Other non-alcoholic beverages (juices, sports drinks, iced tea, mocktails, etc.)	18%	40%	Sharp increase in effective tax. Premium juices, health drinks, and energy/sports beverages will see higher prices, which may hurt demand.
Note: Companies under our coverage are marked in green.			



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