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GST 2.0 reforms to revitalize auto demand...

The government has proposed GST 2.0 reform which aims to rationalize the current multi-slab structure into a simpler framework, with two main rates of 5% and 18%, and a higher 40% slab for luxury and sin goods. For the auto sector, this overhaul seeks to address long-standing classification disputes—such as those between small cars and SUVs—by moving to clearer, unified tax categories. ICE powered vehicles could see a reduced tax burden, **while EVs will retain their favourable 5% GST rate**, with discussions ongoing to cut component-level GST as well.

- **Presently, automobiles are taxed at highest GST slab rate i.e. 28%. A compensation cess, ranging from 1-22%, is levied on top of this rate.**
- The total tax incidence on cars, depending on engine capacity and length, ranges from 29% for small petrol cars to ~50% for SUVs.
- For Two-wheelers effective taxation is in the range of 28%-31%, and three wheelers, 28%. Tractors and CVs attract 12% / 28% GST, respectively.

Exhibit 1: Current GST tax structure across segments in automobile space

Vehicle category	GST	Compensation Cess	Total Tax payable
Electric Vehicles	5%	NIL	5%
Hydrogen Fuel Cell Vehicles	12%	NIL	12%
Three Wheeled Vehicles	28%	NIL	28%
Two-Wheelers upto 350cc Engine	28%	NIL	28%
Two-Wheelers >350cc Engine	28%	3%	31%
Passenger Vehicles (Petrol, CNG) - <=4m length & 1200cc engine	28%	1%	29%
Passenger Vehicles (Diesel) - <=4m length & 1500cc engine	28%	3%	31%
Passenger Vehicles (Upto 1500cc engine)	28%	17%	45%
Passenger Vehicles (Above 1500cc engine)	28%	20%	48%
Passenger Vehicles -SUVs (>4m in length, above >1500cc engine & >=170mm Ground Clearance)	28%	22%	50%
Hybrid passenger Vehicles (<=4m & upto 1200cc engine Petrol) or (<=4m & upto 1500cc engine Diesel)	28%	NIL	28%
Hybrid passenger Vehicles (>4m or above 1200cc engine Petrol or above 1500cc engine Diesel)	28%	15%	43%
Public Transport Vehicles: 10-13 seater	28%	15%	43%
Public Transport Veh. > 13 seater & Commercial Goods Vehicles	28%	NIL	28%

Source: SIAM, ICICI Direct Research

Our View: If the base GST rate of 28% gets revised to 18%, this is positive for the entire sector (including the auto component supply chain) and is expected to drive demand across all segments (PV, 2-W, 3-W & CV). This shall lower the initial purchase price of vehicles for consumers in the range of ~5-10%.

- For compact cars effective taxation (GST+ cess) can get revised from 28-31% to 21% while big SUV's effective taxation (GST+ cess) can potentially decline from ~50% to ~40%.
- For 2-W's, effective taxation can get revised from ~28-31% to ~18-21%.
- **Entry level segment however was the real pain point and subject to muted volume growth in recent past. We believe this space will be the biggest beneficiary of GST rate cut with top beneficiaries in our coverage being Maruti Suzuki in PV space, Bajaj Auto in 2W/3W space.**
- One point worth mentioning is that since consumer is now aware of the potential reduction in prices, there exists a potential short-term deferment of demand in lieu of GST rate cut expectation. **The reform is expected to be finalized by Diwali 2025, marking a significant step toward a more simpler taxation regime, official notification is however awaited.**

Sector View

Positive

Major Beneficiaries

Passenger Vehicles Segment

- Maruti Suzuki
- Hyundai Motors

Two-Wheeler

- Bajaj Auto
- Eicher Motors

Three- Wheeler

- Bajaj Auto
- Mahindra & Mahindra

Commercial Vehicles

- Ashok Leyland
- Tata Motors

Auto Ancillary – OEM heavy

- Uno Minda
- Gabriel India

Our Top Buy's in Auto OEM Space

- **Mahindra & Mahindra**
- **Eicher Motors**
- **Bajaj Auto**

Our Top Buy's in Auto Ancillary Space

- **Lumax Auto Technologies**
- **Apollo Tyres**
- **Exide Industries**
- **Steel Strips Wheels**
- **Sansera Engineering**

Research Analysts

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

Bhavish Doshi
bhavish.doshi@icicisecurities.com

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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Name of the Compliance officer (Research Analyst): Mr. Atul Agarwal
Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Bhavesh Soni Email address: headservation@icicidirect.com Contact Number: 18601231122

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