



# **GST 2.0 – Sectoral Impact**

**September 2025**

# Consumption boost amidst continued reforms

2-slab structure to ease compliance and working capital requirement

## **GST council approves new structure**

GST Council confirmed discontinuing 12% and 28% slabs, leaving only two primary rates of 5% and 18%, plus 40% for sin/demerit goods. These measures will get effective from September 22 (first day of Navratri), which is the beginning of the festive season. It will be the last day for compensation cess on all products except tobacco.

## **Clean structure with less complexities**

~75% of total taxes are likely to be collected at 18% rate now. Over the past 7-8 years, GST effective rate (given exemptions/ zero-rated goods) falls to around 10% (from almost 15%). Several inverted duty structure issues have been corrected which should help in better working capital for smaller firms.

## **Fiscal stimulus to boost consumption**

Based on FY24 consumption data, government estimates ~Rs 930bn of revenue loss (~1.8tn for full-year; 0.5% of GDP), with net impact of Rs 480bn (~1tn for full-year) post considering benefit from increase in rates for certain products from 28% to 40%. The benefit of this cut should start accruing over coming months.

Source: Government of India, GST RNR Committee, Axis Bank Research estimates, HSBC Mutual Fund

# Key sector impact & assessment

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Sector	Measure	Likely impact
FMCG	Packaged Foods like Biscuits, Baked goods, Chocolates, Ice cream, Instant Coffee, etc. moving to 5% GST from 18%	Positive for Food players which will induce up-trading with enhanced affordability
	Beverages including Dairy, Fruit juices as well as Staples such as Butter, Cheese, Namkeens, etc. to 5% from 12% GST	Positive for Branded companies which will help in further accelerating shift from unorganized to organised
	Home and Personal Care products which are essentials such as Soaps, Hair oil, Shampoos, Toothpaste, has been reduced from 18% to 5%	Positive boost to consumer wallet for overall consumption growth to accelerate
Footwear	Below Rs2,500 will attract 5%, while others will have a rate of 18% (vs footwear below/above Rs1,000 @12%/18% earlier)	Two-fold benefit from the GST rationalization exercise – enhanced affordability while also improving competitiveness vs the unorganized sector
Apparel	Threshold of 5% GST rate increased to Rs2,500 (vs Rs1,000 earlier) Apparel priced above Rs2,500 will attract a higher GST incidence of 18% (vs 12% earlier)	Neutral to Positive – Mid priced discretionary will see demand improvement and/or premiumization, while higher priced category won't have a material impact given the contribution from this price segment is low
Hotels	GST on hotel rooms priced less than Rs7,500 comes down from 12% to 5%	Expected to boost occupancy and affordability in mid-segment hotels
Cigarettes	GST rate will move to 40% on retail sale price vs current MRP to tax per stick ratio of 47-48%	Expect government to eventually make tax incidence Neutral through changes in Excise duty either in Union budget or future GST meetings

# Key sector impact & assessment

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Sector	Measure	Likely impact
<b>Consumer Durables</b>	GST on RAC and TVs more than 32 inches reduced from 28% to 18%	Positive for all RAC/ TV manufacturers and contract manufacturers over long term
<b>Petrochemicals</b>	GST reduced for Polyester Yarn (PFY): 12% to 5%; for Polyester Fibre (PSF): 18% to 5%	Lower pricing pressure on PSF and PFY and thus benefit petrochemical players
<b>Oil &amp; Gas</b>	GST on Petroleum operations for exploration licenses: increased from 12% to 18%	Raises the cost of O&G services. This aligns with standard professional services slab of 18%. Availability of ITC will provide relief to some extent. At the margin, negative for O&G explorers.
<b>Real Estate</b>	GST reduced on Cement : 28% to 18%   Marble granite : 12% to 5%	Typically, cost of construction is 1/3rd total value of project sold. GST is charged at 5% on the value of under construction project during sale. No ITC for residential project. Hence, reduction will be gain for developers and increase margins, but they can also pass on the benefit to buyers For commercial real estate, 5% GST is charged on sales but developers are allowed to take ITC. This reduction in GST will help reduce costs.
<b>Renewables</b>	GST on Solar Cells/ Solar Generator, Windmills reduced to 5% from 18%	Project cost gross of GST to come down for Solar projects and Wind Projects
<b>Power Generation</b>	GST on coal from 5% to 18%	Power cost to go up slightly as it is largely negated by elimination of compensation cess of Rs 400/ tonne.
<b>Cement</b>	GST cut from 28% to 18%	No likely immediate impact, as it will be passed on to consumers. Demand for cement is relatively inelastic. Companies may however attempt to raise prices some time later.

# Key sector impact & assessment

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Sector	Measure	Likely impact
Insurance	GST exempted on all individual life insurance policies	Positive for Life Insurance companies with higher traditional policies (including higher pure protection plans)
	GST exempt on all retail health policies. Also, cut on GST rates on medical devices and medicines.	Positive for Standalone Health Insurers (SAHI) and General Insurance companies with higher retail health business, as overall claim cost will reduce
Fertilizers	Lower GST (From 12%/18% to 5%) for fertilizer inputs	Positive for domestic agrochemical and fertilizer companies as it will lead to boost in agricultural activities
Healthcare	GST rate cut on diagnostics reagents/consumables to 5% from 18% earlier	Positive for hospitals and diagnostics companies with higher share of pathology
	GST rate cut from 12% to 5%. GST rate cut on select 33 drugs brought down to 0%	Neutral for Pharma as the products are price inelastic and GST benefit will be passed on. Lower price gap versus trade generics is positive.
Textiles	Rates on man-made fibre and yarn revised to 5% from 18%/12% earlier	Positive as it removes inverted duty structure while improving working capital for man-made fibre players
Autos	GST on two wheelers reduced to 18% from 28%	Positive for 2W manufacturers expect a strong revival in industry growth
	GST on small cars reduced from 29%-31% to 18%. GST on larger cars reduced from 43-50% to 40%.	Positive for Passenger vehicle manufacturers
	GST on commercial vehicles reduced from 28% to 18%	Positive for commercial vehicle manufacturers. Expect more improvement in light commercial vehicles and some improvement in heavy commercial vehicles.

Source: Government of India, HSBC Mutual Fund

# Economic momentum to continue

Renewed push to drive consumption

## Our Take

- ◆ We continue to remain positive on Consumption, especially discretionary consumption.
- ◆ Over the past few years, Consumption sector was already seeing tailwinds with shift from unorganized to organized, premiumization, convenience, middle class aspirations, digitalization/ smartphone penetration, nuclearization, etc.
- ◆ Since the beginning of 2025, we see low inflation, rate cuts, good monsoons and harvest season, government's social welfare schemes, easing RBI regulations resulting in better system liquidity and now GST cuts giving additional levers for consumption growth.
- ◆ In our view, as consumption demand may improve further, strong corporate balance sheets and higher capacity utilization levels should kick-start the private capex cycle.
- ◆ Overall, we remain positive on India's long-term growth outlook with strong government push towards reforms, led by 3 key pillars of Consumption, Capex (both government and private) and Financialization.

Source: Government of India, HSBC Mutual Fund

# Important information

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**Note:** Data and estimates as on Sept 4, 2025 or as latest available.

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