



GST 2.0

In a new avatar,
supporting India's growth
aspirations – income tax
reforms + RBI

India's most consequential tax reform since 2017 has arrived in a new, and improved, avatar. GST 2.0 is not just a tweak to the indirect tax system but a decisive growth reform that simplifies compliance, reduces costs, and unlocks fresh demand impulses. By collapsing the complex four-tier structure into two slabs—5% and 18%, with a 40% demerit rate on sin and luxury goods—the government has signalled its intent to prioritise efficiency, affordability, and consumption.

Complementing this, the earlier round of income-tax changes has already put more disposable income in the hands of households, while the RBI's infusion of abundant liquidity into the financial system ensures that credit conditions remain supportive. Together, these measures form a powerful policy trifecta: lowering costs, boosting purchasing power, and easing financing.

Announced just ahead of the festive season, this coordinated push is poised to lift sentiment, stimulate demand, and energise sectors across the board—creating a virtuous cycle of consumption and investment that could meaningfully accelerate growth momentum.

Simplification with impact

The new structure eliminates distortions, eases compliance burdens, and reduces the cost of goods and services for consumers. Fiscal implications remain contained, with an estimated revenue loss of INR 480 billion, which the government expects to offset through disciplined fiscal management and buoyant receipts. For businesses, especially MSMEs, the resolution of inverted duty structures and blocked credits translates into improved working capital efficiency and competitiveness.

Sectoral winners stand out

The reform's benefits extend deep into the real economy. Automobiles emerge as clear beneficiaries, with reduced GST rates on small cars, tractors, two-wheelers, and commercial vehicles boosting affordability. Consumer staples and durables, from packaged foods and soaps to refrigerators and dishwashers, now fall under lower tax brackets. Hospitality and insurance too gain, as mid-market hotels with moderate tariffs and retail insurance products become more affordable, expanding reach to middle-class households. Further, there is also likely to boost in infrastructure capex led by lower GST on cement, construction equipment, trucks, etc. Even renewables and logistics are set to thrive, aided by lower taxes on solar cells and the multiplier effect of rising consumption volumes.

A reform blueprint for the future

More than its immediate benefits, GST 2.0 represents the government's reform mindset. By addressing long-standing inefficiencies—such as inverted duties in textiles and fertilisers—it clears structural bottlenecks. Anti-profiteering provisions ensure that tax savings are passed on to consumers, reinforcing trust. Crucially, GST 2.0 is seen as a precursor to deeper reforms in land, labour, judicial processes, and faster clearances. Together, these steps will anchor India's ease of doing business and reinforce its domestic growth engine at a time when global economic momentum remains fragile.

Portfolio positioned for growth

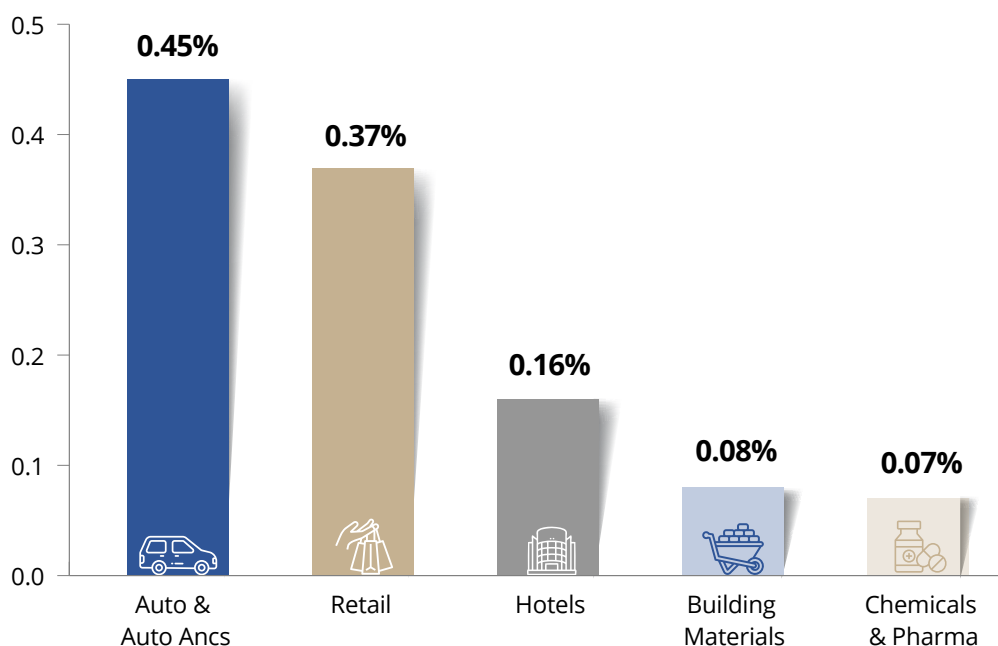
At Quest Investment Advisors, we are well-positioned to harness the benefits stemming from the government's reform and growth mindset. Currently, ~44% of the portfolio will be positively impacted by GST 2.0 through exposure to companies that are likely to gain from the revised tax structure. This could translate to improved margins for affected holdings, assuming companies retain some tax savings rather than fully passing them to consumers or benefit from demand impetus driving operating efficiency.

The overall benefits from these reductions, with a net positive weighted impact of approximately 1.13% (calculated as the sum of weighted GST rate reductions adjusted for domestic revenue exposure), augurs well for the portfolio.

Exhibit: Portfolio exposure to GST 2.0 positive companies

Impact Category	Positive	Neutral
Description	Sectors/Companies with net GST reduction benefits	Sectors unchanged by GST reforms
Portfolio Weightage (%)	44	56
Key Sectors involved	Auto & Auto Ancillaries, Retail, Hotels, Building Materials, Chemicals & Pharma	Banking, Capital Goods, Capital Market, IT, Metals & Mining, Real Estate, Telecom

Exhibit: Weighted sectoral impact on portfolio



Sector-Wise Updates and impact

Positive trends are concentrated in consumer-driven sectors (e.g., Auto & Retail showing positive margins impacts of more than 5% post-reform due to rate cuts). Neutral sectors (0 impact) indicate stability, with overall portfolio trending modestly positive (1-2% uplift) from September 22, 2025, onward, assuming tax savings boost earnings.

Exhibit: Sector-wise impact

Sector	GST Update	Impact on sector	Affected Portfolio Companies	Weighted impact on portfolio
 Auto & Auto Ancs	Auto parts and vehicles shift from 18%/28% to 5%/18%, reducing costs (e.g., electric vehicles already at 5%, but others benefit).	Could improve margins on domestic sales, boosting demand. May drive 2-5% volume growth post-implementation.	Sansera Engineering Ltd (price impact: 8.97%), TVS Holdings Ltd (price impact: 8%)	0.45%
 Banking	Financial services remain at 18%, unchanged.	No impact. Stable outlook.	AU Small Finance Bank Ltd, Axis Bank, HDFC Bank, Home First Finance Company India Ltd, ICICI Bank	0.00%



 Building Materials	Items like cement/ stones from 28% to 18%, or lower (e.g., some at 5% already).	Enhances affordability, potentially lifting construction activity by 5-10%. Upward trend in infrastructure spending.	Ultratech (price impact: 10%)	0.08%
 Capital Goods	Machinery/equipment largely at 18%, minimal changes.	No impact. Neutral.	ABB India Ltd, GMM Pfaudler Ltd, Hitachi Energy India Ltd, Kalpataru Projects International Ltd, Siemens Energy India Ltd, Techno Electric & Engineering Company Ltd	0.00%
 Capital Market	Services at 18%, unchanged.	No impact.	360 One Wam Ltd, BSE Ltd, Nippon Life India Asset Management Ltd	0.00%
 Chemicals & Pharma	Pharma/chemicals from 12%/18% to 5% (e.g., medicaments, chemicals at 5%).	Improves access and exports. Growth in healthcare demand.	Piramal Pharma Ltd (price impact: 1.33%), Sequent Scientific Ltd (price impact: 1.04%)	0.07%
 Hotels	Room tariffs/services from 12% to 5% (without ITC), lowering costs and boosting tourism.	Occupancy may rise 5-7%. Festive season uplift.	Samhi Hotels Ltd (price impact: 7%), Indian Hotels, ITC Hotels Ltd (unchanged)	0.16%
 IT	Services at 18%, no changes.	No impact.	OFSS, ONE 97 Communications Ltd, Persistent Systems Ltd, TCS	0.00%
 Metals & Mining	Metals/ores at 5-18%, largely unchanged (e.g., some at 5%).	No impact.	Kirloskar Ferrous Industries Ltd, Sarda Energy & Minerals Ltd	0.00%
 Real Estate	Construction at 5%, unchanged.	No impact. Indirect benefits from building materials.	Ajmera Realty & Infra India Ltd, Kolte-Patil Developers Ltd	0.00%
 Retail	Consumer goods from 12-28% to 5-18% (e.g., apparel/food at 5%).	Stimulates sales. E-commerce/aviation growth.	Trent Ltd (price impact: 7%), Eternal Ltd, Interglobe Aviation Ltd, Swiggy Ltd, Vishal Mega Mart Ltd (unchanged)	0.37%
 Telecom	Services at 18%, unchanged.	No impact.	Bharti Airtel Ltd	0.00%

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