

India's GST Reset: Driving into Tax Cuts

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Key Takeaways

- India's proposed Goods and Services Tax (GST) reform, cutting rates on vehicles from more than 29% to 18%, could deliver a significant fiscal stimulus and ignite a fresh wave of consumer demand ahead of Diwali 2025.
- Maruti Suzuki and Mahindra & Mahindra stand to benefit most, offering investors targeted exposure to affordability-driven small car recovery and scale-focused SUV and EV expansion.
- With macro tailwinds like easing rates, stronger rural demand and export growth aligning with the tax reset, autos may be the most powerful lever for playing India's next consumption surge.

The Policy Shock That Could Rewire Consumption

India is on the cusp of a policy move that could redefine its consumption cycle. Prime Minister Narendra Modi, in his August 15 Independence Day address, announced "next generation GST reforms" to be implemented before Diwali 2025.¹ The Finance Ministry has since outlined a plan for a two-tier GST system—5% for essentials and 18% for standard goods.²

The change is more than just administrative simplification. It has teeth: Small cars and many SUVs, currently taxed effectively at 29%–31% or higher, may fall to 18%. That is a direct reduction in household outlay on India's most aspirational consumer good—the passenger vehicle.

It's possible that this could deliver a **0.5%–0.6% of gross domestic product (GDP) equivalent fiscal stimulus**, trimming consumer price index (CPI) inflation by ~40 basis points (bps) and lifting GDP growth by 50–70 bps.³ These are macro numbers with corporate balance sheet implications. In particular, they might set up India's two most important automakers—**Maruti Suzuki and Mahindra & Mahindra**—as outsized beneficiaries.

Why the Auto Sector Is Ground Zero

Autos are a politically and economically visible sector. They employ millions directly and indirectly, and they sit at the edge of affordability for households. That makes them hyper-sensitive to tax changes.

A GST cut rewires the industry's demand curve. Small cars, once affordable entry points, were squeezed by regulatory costs and higher levies. Sport utility vehicles (SUVs), increasingly dominant in the consumer preference mix, were stuck in the punitive 28%+ tax bucket. Both could benefit under a new 18% standard rate.

In effect, autos may provide investors with the cleanest, most levered way to play GST reform. And within autos, **Maruti Suzuki and Mahindra & Mahindra represent two complementary strategies**—the former tied to affordability and first-time buyers, the latter to SUVs, electric vehicles (EVs) and rural farm equipment.

Maruti Suzuki: Affordability Reset

For years, Maruti has been challenged by the shrinking of India's hatchback market. From 46% of sales in FY19, hatchbacks are now just 21%.⁴ First-time buyer affordability has been under siege.

Yet Maruti still has **more than half of its sales tied to small cars**. What was a liability potentially becomes a weapon under GST reform. A drop from 29%–31% effective taxation to 18% could reset price points by double digits. That, coupled with rate cuts and rising real wages, is a powerful catalyst for reviving the entry-level market.

Operating leverage could magnify the benefit. We have seen recently raised FY26–FY28 earnings per share (EPS) forecasts for Maruti by 5%–7% on SUV launches and softer input costs—before even baking in GST reform.⁵ With volumes recovering in small cars, the earnings power looks stronger still.

Timing helps. On September 3, 2025, Maruti will launch a new five-seater SUV between the Brezza and Grand Vitara.⁶ Deliveries could begin in the festive season—just as tax cuts are expected. It is the rare case where policy and product calendars align.

Mahindra & Mahindra: Scale and Diversification

If Maruti is the affordability reset story, **Mahindra & Mahindra (M&M) could be the scale-up story**.

M&M is India's SUV powerhouse. In Q1 FY26, auto revenues rose **32% YoY**, with SUV volume growth guidance in the mid-to-high teens for FY26.⁷ Its SUVs—Scorpio, XUV700, Thar—are precisely in the tax bracket that would fall from 28% to 18%. For Mahindra, GST reform is gasoline on an already burning fire.

Unlike Maruti, Mahindra is not constrained to small cars. It straddles SUVs, EVs and farm equipment, giving it a hedge across urban aspirational demand and rural income growth.

- **EV traction.** M&M's EV arm (MEAL8 + contract manufacturing) posted a positive EBITDA⁹ margin of **3.6% in Q1 FY26**, up from 1% in the prior quarter. Crucially, **~80% of BEV**¹⁰ customers are new-to-Mahindra buyers. The EV business is expanding the franchise, not cannibalizing it. And with eligibility for India's Production Linked incentives, policy tailwinds reinforce margin expansion.¹¹
- **Pricing power.** Average selling prices in the auto division rose **13% YoY** in Q1. Even as steel costs rise, Mahindra has shown a willingness and ability to pass costs onto customers.¹²

- **Farm resilience.** Tractor sales rose 10% YoY in Q1, and EBIT13 margins in farm equipment remain near **20%**. With kharif sowing up 4% year-over-year and a strong monsoon, farm income could support continued growth.¹⁴

Together, these drivers make Mahindra less dependent on a single segment and more insulated from policy or cyclical shocks. If GST is the tide, M&M is positioned with multiple boats in the water.

Exports as an Additional Catalyst

Watch the U.S.–India track. In April 2025, Washington and New Delhi set "terms of reference" for a bilateral trade agreement, reviving the possibility of a limited deal that could restore preferences or carve out supply-chain tariff relief. Indian officials said in mid-July that talks were "progressing," yet it was reported in early August that the negotiations stalled after new U.S. tariff moves, even as both sides left the door open to salvage an agreement. If a narrow package materializes, it would layer an external tailwind atop GST reform—helpful for export lines (components, select models) and input costs.¹⁵

Both Maruti and Mahindra now see exports as a structural leg of growth.

- **Maruti:** Exports grew **37% YoY** in Q1 FY26, offsetting domestic weakness. The Fronx and Jimny are gaining traction in Japan, now the company's second-largest export market. With its upcoming EV rollout to 100 countries, Maruti is becoming a small-car export hub.¹⁶
- **Mahindra:** Its global SUV ambitions are bolstered by platform launches slated for 2026–27. With EV margins turning positive and incentives in place, overseas markets could increasingly accept M&M as more than a domestic rural brand.¹⁷

Exports provide both companies with diversification and an additional multiplier effect when domestic demand surges under the GST reform.

The Macro Tailwinds Surrounding the Reform

GST reform isn't a solo act; it lands in the middle of a tailwind stack that's already nudging India toward a stronger consumption pulse. Households have a little more cash in their pockets from recent tax relief. Borrowing costs are easing, and if inflation cools further, the cost of money can drift lower still. Hiring is broadening beyond tech into the everyday economy, and pay packets are stretching a bit farther as prices stabilize. Out in the hinterland, a cooperative monsoon and healthy sowing season are doing what they always do—quietly underwriting rural demand.

Put together, that's not just noise around the edges; it's a tone change. This is the kind of backdrop where a price-level reset like GST doesn't merely trim the sticker, it changes the psychology of buying. First-time buyers who've been on the fence suddenly see the numbers pencil out. That's Maruti's sweet spot. At the same time, aspirational upgrades don't feel like a stretch when credit is easier and incomes feel less fragile. That's where Mahindra's SUVs and even tractors on the rural side find fresh fuel.

In short, policy is meeting momentum. GST is the spark, but the tinder (cash flow, credit, confidence and countryside) is already dry. That's why this doesn't read as a one-quarter blip. It reads like the opening chapter of the next consumption leg.

Conclusion: Two Sides of the Same Coin

GST reform could be India's most significant consumption reset in a decade. For investors, the clearest expression lies in autos.

- **Maruti Suzuki:** the affordability play, where small-car elasticity meets policy-driven relief.
- **Mahindra & Mahindra:** the scale-up play, riding SUVs, EV adoption and farm resilience into higher growth.

Together, they offer two complementary exposures to India's consumption surge. One revives the first-time buyer; the other monetizes aspirational upgrades and rural strength. Both reflect the potential multiplier power of tax cuts.

In 2008, the [WisdomTree India Earnings Fund \(EPI\)](#) was launched, and it is designed to track the total return performance of the [WisdomTree India Earnings Index](#). This strategy seeks to include the profitable companies of India across the market capitalization spectrum, and these companies are weighted by earnings. As of August 18, 2025, both Maruti Suzuki and Mahindra & Mahindra were constituents, as is visible in figure 1.

Figure 1: Riding into Potential Tax Relief—Maruti Suzuki andM&M Exposure in the WisdomTree India Earnings Index

WisdomTree India Earnings Index	
Company Name	Weight
Mahindra & Mahindra Ltd	3.13%
Maruti Suzuki India Ltd	0.91%

Source: WisdomTree, with data as of 8/18/25. Holdings subject to change.

1 N. Modi, "English rendering of the text of Prime Minister Shri Narendra Modi's address from the ramparts of Red Fort on the occasion of 79th Independence Day" [speech transcript], Press Information Bureau, Prime Minister's office, 8/15/25.

2 Source: N. Ohri, "India's complex GST tax and how Modi's reform will make goods cheaper," Reuters, 8/19/25.

3 Source: U. Chachra and B. Gambhir, "Ecoview: Fiscal policy steps in to boost consumption" (India Economics | Asia Pacific) [research report], Morgan Stanley India Company Private Limited, 8/17/25.

4 Source: "Q1 FY26 earnings conference call" [transcript]. Maruti Suzuki India Limited, 7/31/25.

5 Source: C. Muthiah, K. Yuzawa and R. Rathi, "Maruti Suzuki India (MRTI.BO): Adding upcoming 5 seater SUV to our estimates" [equity research report], Goldman Sachs Global Investment Research, 8/18/25.

6 Source: Muthiah et al., 2025.

7 Sources: B/ Singh and S. Ghalsashi, "F1Q26—In-line quarter; 2026 & beyond pipeline in focus" [research update], Morgan Stanley India Company Private Limited, 7/30/25; C. Muthiah, K. Yuzawa and R. Rathi, "Mahindra & Mahindra (MAHM.BO): 1Q beat—Pricing power + EV margins fortify setup into next launch phase; Buy (on CL)" [equity research report], Goldman Sachs Global Investment Research, 7/31/25.

8 MEAL stands for Mahindra Electric Automobile Limited.

9 EBITDA stands for earnings before interest, taxes, depreciation and amortization.

10 BEV stands for battery electric vehicles.

11 Source: Singh & Ghalsashi, 2025.

12 Source: Muthiah et al., 2025.

13 EBIT stands for earnings before interest and taxes.

14 Source: Muthiah et al., 2025; Chachra & Gambhir, 2025.

15 Sources: "FACT SHEET: U.S.–India establish terms of reference on bilateral trade agreement," Office of the U.S. Trade Representative, April 2025; "India–US trade deal progressing as per terms of reference, says govt official," New Indian Express, 7/15/25; "Missed signals, lost deal: How India–US trade talks collapsed," Reuters, 8/6/25.

16 Source: Maruti Suzuki India Limited, 2025.

17 Source: Singh & Ghalsashi, 2025.

Important Risks Related to this Article

For current holdings of EPI, please click [here](#). Holdings are subject to risk and change.

You cannot directly invest in an index.

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