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## **Diwali bonanza for auto sector: Vehicle prices set to drop as GST rates to be rationalised**



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### **Article Content:**

The Indian automobile sector is set to receive a handsome gift this festive season as the Group of Ministers (GoM) set up by the Goods and Services Tax (GST) Council has approved the Centre's tax rate rationalisation proposal, a move that will bring down the prices of vehicles across various categories.

While the current GST structure has four slabs – 5%, 12%, 18% and 28% – the GoM has supported a two-slab structure, as part of which the 12% and 28% slabs will be removed and the 5% and 18% slabs will be retained.

In India, all types of internal combustion engine (ICE) vehicles – passenger vehicles (PVs), two-wheelers, three-wheelers and commercial vehicles (CVs) – fall under the 28% GST slab. While the electric vehicles (EVs) come under 5% slab, the hydrogen fuel cell vehicles (FCEVs) are in the 12% slab. Apart from GST, the government imposes a compensation cess, ranging from nil to 22%, depending on the vehicle category.

With the GoM accepting the Centre's proposal to do away with the 12% and 28% slabs, all ICE vehicles are expected to move to the 18% slab. A detailed discussion will be held during the GST Council meeting to move items out of the 12% and 28% slabs.

While this step will benefit mass-market models, the luxury vehicles are expected to be moved to a new 40% bracket

The ex-showroom price of any vehicle is inclusive of GST. A reduction in the levy, from 28% to 18%, will directly bring down the ex-showroom price, and consequently, the on-the-road price.

In his address on the occasion of 79th Independence Day, Prime Minister Narendra Modi said: "This Diwali, I am going to make it a double Diwali for you. This Diwali, you, fellow countrymen, are going to get a very big gift. In the last eight years, we have done a big reform of GST, reduced the tax burden across the country, simplified the tax regime, and after eight years, the need of the hour is that we should review it once. We started the review by setting up a high-power committee and also held discussions with the states."

"We are coming with the next generation of GST reforms, which will be a gift for you this Diwali. Taxes needed by the common man will be reduced substantially, and a lot of facilities will be increased. Our MSMEs, our small entrepreneurs, will get a huge benefit. Everyday items will become very cheap and

that will also give a new boost to the economy," he added.

According to sector experts, while a GST rate cut from 28% to 18% will benefit all kind of vehicles and spur demand, it will play a significant role in improving the affordability quotient of entry-level cars and two-wheelers.

Among the carmakers, the top beneficiaries are expected to be Maruti Suzuki India, Hyundai Motor India and Tata Motors, as all three offer small cars. In the two-wheeler segment, the move will positively impact companies like Hero MotoCorp, Honda Motorcycle & Scooter India, TVS Motor Company and Bajaj Auto as they offer multiple entry-level motorcycle and scooter models.

As per Primus Partners Advisor Anurag Singh, a GST rate cut will lower the price of the base variant of a popular entry-level car by up to Rs 36,000 and that of a top-selling commuter motorcycle by about Rs 6,200. In a price-sensitive market like India, such price drops are substantial, he said.

Maruti Chairman R C Bhargava recently told Moneycontrol that the announcement by the Prime Minister that the entire GST structure is being revamped is very welcome. "It is a much-needed reform. I think the whole country was waiting for it. The government needs to be congratulated for what they are doing," he added.