

Primus Partners

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Tax cut likely to drive car sales

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GST 2.0 IMPACT

Tax cut likely to drive car sales

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THE POSSIBILITY OF a fairly sharp cut in the GST (Goods and Service Tax) on automobiles, especially smaller vehicles, has cheered manufacturers who say the lower prices will bring relief to consumers. The Centre is believed to be in favour of an 18% levy on small cars and affordable two-wheelers down from the current 28%. Small cars have seen relatively tepid demand with consumers opting for larger vehicles such as SUVs. The proposed GST rejig is expected to be rolled out ahead of Diwali.

Rajiv Bajaj, MD, Bajaj Auto, said, "In my view, 18%, although still somewhat high for our aam aadmi, has been long overdue and will bring significant respite in the overall inflation that they've been impacted by in recent years. A lower GST should equally have a salutary impact on the competitiveness of the concerned companies and therefore on job creation across the auto supply chain and hence the economy itself," Bajaj said, adding that he hopes the cuts would be extended to 3-wheelers where it has "even greater merit".

RC Bhargava, chairman,

A WELCOME MOVE

- Lower GST should equally have a salutary impact on the competitiveness of the concerned companies
- Tractors, three-wheelers and commercial vehicles are likely to see on-road price cuts of 5-8%
- Two-wheelers may see price cuts of 8%; ABS implementation might pare this to 4%
- With the proposed cuts, Maruti will be among biggest beneficiaries



Maruti Suzuki India, said in principle the PM's announcement is most welcome. "It would only be appropriate to talk on specifics when the GST council decisions are known," Bhargava said.

Should the tax cuts come through, Maruti which sold 1.26 million small cars out of the total of 2.66 million sold in FY25, will be among the biggest beneficiaries. Nearly 62% of PVs are classified as 'small cars'.

Som Kapoor, partner at EY India Automotive, said the GST reduction would particularly

benefit small cars. "With the reduced rate, they will become more affordable for buyers, thereby pushing industry growth."

"Potential GST cuts to 18%, with cess removal, could lower on-road prices by 5-8% across segments, potentially driving demand recovery," analysts at Kotak Institutional Equities wrote. Passenger vehicles may see price cuts of 6-13%, with the 13% cut coming through only if the GST is reduced to 18% for all segments. Two-wheelers may see price cuts of

RC BHARGAVA, CHAIRMAN,
MARUTI SUZUKI INDIA

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MD, BAJAJ AUTO

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8%, though the implementation of ABS (Anti-lock braking system) might pare this to 4%. Tractors, three-wheelers and CVs are likely to see on-road price cuts of 5-8%.

Total savings on the Tata Tigor, currently priced at ₹6.64 lakh (on-road), would be approximately ₹51,700, estimates Primus Partners. For the Hyundai Creta, currently priced at ₹18.75 lakh (on-road), the estimated savings would be ₹1.6 lakh.

Puneet Gupta, director, S&P, believes the government may impose an agriculture cess on PVs. "We will be cautious in our assessment and that once the cess is factored in, the effective

relief would narrow down to merely 3-4%," Gupta told FE.

The tax cuts should boost sales of two-wheelers whose sales in FY25 were only at 90-92% of the peak reached in FY19. Around 95% of nearly 20 million two-wheelers sold have engines smaller than 350cc.

"While the specifics are not confirmed, if 2 & 3 wheelers are moved to the 18% slab from the current 28%, demand will get stimulated and the industry should see some robust growth. Both 2Ws & 3Ws are used by the common people and deliver an essential service today as the mobility needs are rising exponentially," Rakesh Sharma, ED, Bajaj Auto, said.

