

The Resurgence of the Automotive Sector Post-GST Reforms

A Temporary Relief or Here to Stay?



This October witnessed a fascinating confluence of policy and culture that profoundly impacted the spending patterns of Indian consumers. Consumer spending is typically directed by two simple things: the price you see on the sticker and the cash in your wallet. However, in India, this economic equation is layered with another powerful aspect: culture. The auspicious festive period, encompassing Navratri, Dussehra, Dhanteras, and Diwali, is a time when Indian customers often look beyond the sticker price, driven by sentiment and tradition, significantly changing the landscape of spending patterns during these days.

This unique dynamic came together beautifully this year when the positive sentiments around these cultural norms collided with the recently implemented changes in the Goods and Services Tax (GST) structures in September 2025.

For the Indian automotive market, which had been under considerable stress for the first three quarters of the year, this alignment brought a wave of much-needed relief.

However, the critical question that most analysts and industry stakeholders are asking, and one that merits a deep dive, is whether this surge in sales is a short-lived festive happiness or a sustainable trend that is here to stay.

Before we explore this question, let's first understand the market and its changing landscape in the period leading up to these reforms. The Indian auto market witnessed a rare stumble in 2025, with most OEMs reporting flat to declining sales. The overall growth was muted, with passenger vehicles recording a 1.3% growth from January to June compared to the same period last year. This slowdown was not caused by a single factor but rather a combination of several underlying pressures.

There were some obvious factors contributing to this sudden change in dynamics.

#1 High Base Effect

The auto industry had just come off three back-to-back years of double digit growth post-COVID. This period was fuelled by pent-up demand and a “revenge buying” phenomenon, which was bound to normalize. A market correction or a period of stagnancy was, to some extent, expected.

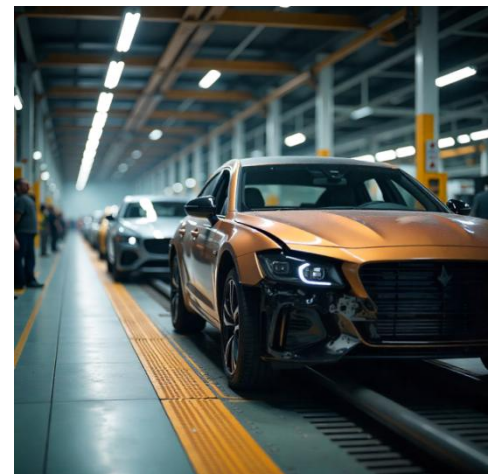


#2 High Cost of Vehicles

Particularly in the entry-level segment, had become a major deterrent. Over the last six years, vehicle prices have increased by as much as 70% on account of new safety regulations like mandatory dual airbags and ABS, stringent BS6 Phase 2 emissions upgrades, and rising raw material and manufacturing costs. This consistent price inflation made these vehicles unaffordable for a large part of the population that forms the bedrock of the entry-level market. Furthermore, with fuel prices remaining at an all-time high, the total cost of ownership became a difficult financial commitment for many households to make.

#3 Too Much Stock

In the last quarter of the previous fiscal year, carmakers pushed large shipments into the market to stay ahead of China’s new export rules on rare-earth magnets. In anticipation of continued strong demand, this practice continued, resulting in a problem of huge over-stocks at the dealership level. By the end of June, inventory numbers had swelled to as high as 67 days, the highest seen in the recent past. This created immense pressure on dealers, who faced high carrying costs, and while retail numbers showed some growth, they did not translate into equivalent wholesale dispatches from OEMs.



#4 Rural Momentum Slowed for Two-Wheelers

This segment, often considered a barometer of the rural economy’s health, was also impacted by higher upfront vehicle prices. This, combined with an intense summer heatwave and a cautious consumer outlook during the election period, dampened sales of the popular 100cc-125cc commuter motorcycles in rural areas. While scooter sales in urban markets held steady, they were not enough to fill the gap in the overall sales of two-wheelers.

Apart from these, some not-so-obvious factors also impacted the growth momentum this year.

1. Fewer Launches - of high-volume models in 2025. With most OEMs' launch cycles clashing with a slow market period, there was a lack of new products to generate excitement, leading to a "wait and watch" period for many potential car buyers.
2. Simultaneously, the unabated Growth of SUVs has reshaped the market. While this trend is undoubtedly good for the SUV segment, the overall passenger vehicle numbers were impacted due to lower sales of entry-level cars, which are a key driver of volume. Many buyers in this segment found themselves at a crossroads: they either couldn't afford the high entry cost of new cars, OR were moving to the used vehicle market, OR simply delaying their purchase to save up for something they considered more "value for money," often an SUV.
3. Higher Debt v/s Savings- Household financial liabilities have surged, with annual liabilities growing by 102% between 2019 and 2025. Household debt rose to 6.2% of GDP in FY24. Data from the Reserve Bank of India (RBI) also shows that household financial savings as a percentage of GDP had seen a sharp decline, falling from 11.5% in 2020-21 to just 5.3% of GDP in 2023-24. This, particularly impacts spending on big-ticket items like cars or two-wheelers. Higher existing debt and lower savings (lower comfort to spend on high ticket items) means a reduced ability to take on more loans, especially for vehicles, which are considered discretionary in most households and often attract higher interest rates.



Keeping this complex scenario in context, the announcement of GST relief brought a welcome change. The reduction of GST from 28% to 18% for cars under 1200cc and measuring less than 4 meters in length, and for two-wheelers with engines smaller than 350cc, gave a much-needed respite. Furthermore, the abolition of the compensation cess, an additional levy on cars, simplified pricing and further reduced the final cost for consumers.

This restructuring made mass-market vehicles significantly more affordable. For example, a small car priced at ₹5,00,000 before taxes would see its GST component drop from a potential ₹1,40,000 (at 28%) to just ₹90,000 (at 18%), a direct and substantial saving for the buyer.

Complementing the GST cuts, the Union Budget 2025 introduced substantial changes to the income tax slabs under the new tax regime, effective April 1, 2025. These reforms were designed to increase the disposable income in the hands of taxpayers, thereby boosting their spending capacity. These direct tax reforms left more money in the pockets of a large segment of the population, empowering them to consider significant purchases like a new car or two-wheeler.

Finally, the timing of the GST cuts, just before the festive season, meant that this policy-driven affordability boost coincided with a period when the positive cultural frame of mind is at its peak. This combination created a perfect storm for record automotive sales.





The results were immediate and spectacular, as reflected in the figures from the last quarter.

Navratri Surge saw a robust recovery in auto retail sales. The Federation of Automobile Dealers Associations (FADA) reported that overall retails during Navratri surged by a historic 34% year-over-year, with two-wheelers growing by 36% and passenger vehicles by 34.8%.

Record October Sales making it a landmark month for the industry. Wholesale dispatches of passenger vehicles were estimated at a record 470,000 units, a 17% increase over the previous October, while retail sales were estimated to be even higher, between 5.5 lakh and 5.7 lakh units. The auspicious 'Dhanteras' period alone saw deliveries of over 100,000 passenger vehicles.

Company-specific performance underscored this boom.

Maruti Suzuki, the country's largest carmaker, reported a 20% growth in retail sales in October. This was driven by the compact segment – such as Baleno, Dzire, Swift and Wagon-R, Fronx.

Tata Motors also had an exceptional month with retail sales of 74,705 units,

Mahindra & Mahindra achieved its highest-ever monthly SUV sales.

Two-Wheeler Boom was equally impressive, with sales growing by around 35% year-on-year during Navratri.

After this bumper quarter, the question at hand is if this momentum is likely to stay.

Short term

The GST reforms have indeed brought welcome relief, directly addressing the affordability challenges that were suppressing demand in the price-sensitive, mass-market segments. The impact could be more on the mid-hatch segment and the compact SUVs as already seen in the Oct sales numbers

However, the sustenance of entry segment cars in the Indian context still remains a question due to changing value perceptions linked to these models and the changing aspirations of the Indian customers

Mid-term

The enhanced affordability is likely to lead to a structural expansion of the automotive market, not just a temporary spike. It would accelerate vehicle penetration into Tier-2 and Tier-3 cities and rural India, creating a larger and more stable customer base. Industry analysts project that such a cut could boost sales volumes by 2-6% over the mid-to-long term.

Consistent high demand would incentivize manufacturers to increase production, leading to better capacity utilization and new investments. As a massive employer supporting over 37 million jobs and contributing about 7.1% to India's GDP, a healthier auto industry stimulates job creation and strengthens the economy.

Long-term

The industry is optimistic. However, sustainable growth depends on addressing systemic challenges, such as liquidity constraints within the supply chain. Broader market trends like the push for electrification and global trade shifts will also play a significant role.

We also cannot ignore changing consumer preferences towards larger vehicles. The key question is whether these short-term gains will impact the long-term planning of OEMs and bring about a renewed focus on compact cars. The long-term trajectory will be significantly impacted by the product line-ups that OEMs plan for the next 2-3 years and the investments made in this foundational segment.

Ultimately, the industry's long-term health is tied to broader economic growth, consumer sentiment, and financing costs. Continued supportive policies are necessary to fully realize the benefits of these changes, as a one-time policy shift may not be sufficient to permanently alter the complex economic situation of spending patterns and debt

In conclusion, the reduction of GST on entry-level cars and two-wheelers has acted as a transformative policy. In the short term, it functioned as a powerful demand catalyst, giving a short-term relief to some struggling segments. In the long term, with continued support and systematized investment plans from the industry, it has the potential to structurally expand the market, boost domestic manufacturing, and reinforce the automotive sector's crucial role as a primary engine of India's economic growth.



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