

GST 2.0 is here. How should you tweak your mutual fund portfolio

By Surbhi Khanna, Published on: September 05, 2025.



With Finance Minister Nirmala Sitharaman introducing GST 2.0 through key decisions at the 56th GST Council meeting, India's indirect tax system is set for a major revamp. Mutual fund experts say that the biggest beneficiaries are domestic-facing sectors and on the flip side, some sectors such as premium apparel, luxury cars and big bikes, etc. may feel some pressure as their tax incidence has gone up.

"The biggest beneficiaries are domestic-facing sectors—autos (small cars, tractors, CVs etc.), staples and packaged foods, personal care, consumer durables, cement, retail, insurance, hotels, and logistics. These categories see meaningful tax cuts that should translate into better demand. On the flip side, premium apparel, luxury cars and big bikes, etc. may feel some pressure as their tax incidence has gone up," Sagar Shinde, VP of Research at Fisdome, shared with ETMutualFunds.

According to another expert, some sectors such as life and non-life insurance companies, auto, FMCG, consumer durables, construction will benefit from this GST rationalization whereas sectors such as apparel/garments, high end motorcycle, cigarettes, and tobacco products will be negatively impacted.

"All life and non-life insurance companies could benefit as they will attract a nil rate from 18% on the premium charged to the policyholder. Auto - Small cars and motorcycles (≤ 350 cc) now attract 18 % GST, down from ~28-31 %, slashing on-road prices by approximately 6-8%, 2-wheeler Companies and Tractor segment could also benefit," Vishal Dhawan, CEO, Plan Ahead Wealth Advisors, a wealth management firm in Mumbai told ETMutualFunds

"Apparel/garments, other man-made textiles (exceeding Rs2,500) will now be attracting 18% from 12%. High-end motorcycle, i.e., (>350 cc engine), will be attracting 40% from the current 32% approx. high-end bikes will be impacted," he added. According to the India Strategy report on the GST by Motilal Oswal Financial Services, this is a welcome boost to consumption and growth as this is the first big reform measure of the government in the current term, which will boost consumer sentiment and provide a consumption fillip.

Finance Minister Nirmala Sitharaman on Wednesday announced the restructuring of the goods and services tax (GST), collapsing four slabs into two rates of 5% and 18%, while maintaining a 40% levy on luxury and sin goods.

For the automobile sector, the changes slash GST on most categories from 28% to 18% and cut tractors to 5%. SUVs above four meters will be taxed at a uniform 40%, down from 43–50% earlier. For FMCG, the GST has been slashed to 5%.

For Apparel & Footwear and Cement, garments priced between rs 1,000–rs 2,500 now attract 5% gst, down from 12%, footwear GST has been cut from 18% to 5%, and GST on cement has been lowered to 18% from 28% respectively.

For the insurance sector, life and health insurance policies have been exempted from GST whereas in consumer durables, tax on ACs, TVs and other durables has been cut to 18% from 28%. And lastly, for GST rate cut to 5% is a tailwind for textile and apparel makers.

The changes revised rates will come into effect from September 22, 2025 according to the official communication by the council under the chairpersonship of Union Finance and Corporate Affairs Minister Nirmala Sitharaman.

The important thing to know is will manufacturing and infrastructure-related sectors gain from ease of doing business? Dhawan says that GST rates for most mass-consumption categories—two-wheelers, entry-level passenger vehicles, consumer durables, and FMCG staples like soaps, shampoos, biscuits, and juices—have

been cut to 5–18% from 12–28% and this translates into lower prices and higher affordability, particularly for middle-income households.

He further believes that the reforms could unlock Rs 1.8 trillion a year (0.6% of GDP) in household savings, providing a boost to discretionary spending and the rate cuts on cement and other rationalisations should support manufacturing, infrastructure, and MSMEs over the medium term, creating structural benefits and in the near term, consumption-focused thematic funds may be considered tactically, though much of the upside may already be priced in.

On the other hand, Shinde mentions that lower GST rates on everyday essentials and popular consumption items should free up disposable income, directly benefiting FMCG, autos, and retail. “Demand from rural and middle-income households in particular is likely to strengthen. On the manufacturing and infra side, correction of inverted duty structures, smoother ITC refunds and simpler compliance improve cost structures, making these funds attractive in the medium term,” he adds.

Mutual fund experts always say that investors who have thorough knowledge of the theme or sector should invest then only and the investment horizon should be long term as these funds are cyclical in nature.

Post the GST rationalisation by government and investors selecting these sectoral and thematic funds for investments, for the long term investors Shinde recommends that consumption themes (FMCG, discretionary) autos, financial services (banks, NBFCs, insurance), and renewables stand out as these sectors not only gain from rate cuts but also from greater formalisation and better compliance, which support scale and sustainability and additionally logistics and building materials also emerge stronger as efficiency improves.

Sharing somewhat similar opinion, Dhawan recommends that organised FMCG, branded durables, and listed retailers benefit from a level playing field as GST compliance squeezes informal/unorganised competition.

He further anticipates that with life and health insurance now under 0% GST, penetration is expected to rise, strengthening long-term growth prospects for insurers and financial savings themes and attractive valuations in parts of this sector further present opportunities for long-term investors.

There are several mutual funds based on consumption, infrastructure, consumer durables, and only one fund based on the auto sector. There are actively managed funds based on these sectors whereas there are passively managed funds also which just follow the benchmark.

As variety of options are available for the investors to choose and also to choose between the active and passive type, Dhawan believes that allocation to sectoral and thematic funds can be a tactical approach for a high-risk appetite investor to benefit from attractive valuations and certain growth catalysts like the GST rate reduction for themes and sectors.

For a large cap space, a passive approach could be much more efficient due to diversification and cost effectiveness whereas the exposure in sectoral and thematic funds which includes mid and small caps, actively managed funds would be a prudent choice as they can provide better risk-adjusted returns.

On the contrary to this, Shinde believes that in this phase of transition, active funds should have an edge over the passive counterparts.

“The impact of GST 2.0 isn’t uniform—some categories benefit sharply while others face headwinds. Active funds are better positioned to capture this dispersion by overweighting beneficiaries and avoiding laggards. Passive ETFs, by design, will hold both winners and losers. Hence, in this phase of transition, active management should have an edge,” Shinde said.

One should always invest based on their risk appetite, investment horizon, and goals.