

# Study of Impact of GST on the FMCG Industry of India

<sup>1</sup>Raghav Tapuria, <sup>2</sup> Dr Leena James

<sup>1</sup>Student, Department of Management Studies, Christ (Deemed to be University), Hosur Road Bengaluru 560029

<sup>2</sup>Associate Professor, Department of Management Studies, Christ (Deemed to be University), Hosur Road, Bengaluru, 560029

**Abstract :** An attempt is made in this project to study the concept of Goods and Services tax and its impact on Fast Moving Consumer Goods Industry that is prevalent in India from the viewpoint of the consumers as well as the viewpoint of the companies. The paper studies the Stocks of 6 NSE listed companies and uses Statistical tools such as Correlation and T-test of 1 year Pre and Post GST stock prices. It also analyses the Income Statement of the company for 1 year Pre and Post GST implementation in order to ascertain any major changes in the financial position of the company.

## I. INTRODUCTION

Indian taxation is divided into two categories, i.e. –Direct and Indirect. Direct taxes are the taxes that are levied directly on an individual's income. Examples of direct taxes include income tax, surcharge, tax on gifts, etc. Direct taxes are implemented in India by the Central Board of Direct Taxes (CBDT). Indirect taxes are taxes not directly levied on an individual's income but indirectly levied on the individual's expense. In principle, this tax is levied on the seller of goods or the service provider, but in most cases it is passed on to the end consumer and therefore it is the end consumer who bears this in the form of an indirect tax.

In other words, the Indirect Tax is levied on the seller, but he can recover the same from the buyer. In some cases, the Indirect Tax portion is specifically mentioned in the invoice, while in other cases, the indirect tax portion is automatically included in the transaction value and not separately disclosed. An Indirect Tax increases the product or service price and is levied at the same rate to everyone regardless of the person's income, whereas the income tax rate varies depending on the individual's income.

In India, there were a lot of different applicable Indirect Taxes. For example: service tax has been levied on services, excise duties have been levied on manufacturing, customs duties have been levied on goods imports, etc.

Since many different types of indirect taxes were levied on a buyer's expense, the government intended to combine all these forms of indirect taxes and levy a common indirect tax by the name of GST i.e. Goods and tax on service.

GST is a comprehensive indirect tax levy on goods and services produced, sold and consumed at the national level. It replaced all the state and central indirect taxes levied on goods and services. GST is in place in around 160 countries around the world. GST is a tax-based destination where the tax is collected by the State of consumption of the goods. As of 1 July 2017, India implemented GST and adopted the Dual GST model in which both States and Central levy tax on goods or services or both. The introduction of GST is considered a major step in India's indirect tax reform. The amalgamation of different central and state taxes into a single tax would help to mitigate double taxation, cascading, tax multiplicity, classification issues, taxable events, and so on, and lead to a common national market.

## II. REVIEW OF LITERATURE

**Anita Modi. (2017):** Moving goods across the country will now become much simpler and cheaper as the new regime replaces the old system, where a product has been taxed multiple times at different rates. GST, as estimated by the government, will increase India's GDP by around 2%.

**Bennett, Coleman & Company Limited. (2018):** There are transactions relevant to the FMCG on which clarity is still awaited, such as whether input tax credit required will be reversed in cases such as goods given free under schemes such as buy 1 get 1 free, free samples and gifts given to distributors, promotional materials such as banners, posters, etc.

**Elavarasan R & Jagadeesan P. (2018):** GST affects the FMCG sector through the adjustment of tax brackets and reduction of distribution costs for different companies. Some firms will "gain" with lower taxes and cost of distribution, and thus may respond by increasing product volume and lowering prices, while others may "lose" with higher taxes, and therefore need to compensate by increasing prices.

**Gowtham Ramkumar. (2018):** The factors influencing young adults' purchase decision after implementation of GST are centered around two factors, namely factor oriented towards consumers and factor oriented towards sellers. Discounts and offers are the major consumer-oriented factors that after GST implementation influence purchase decision. Store location is the major seller-oriented factor that influences purchase decision after implementation of GST due to the impact of transport costs on commodity prices.

**Jayashree, R Kotnal. (2017):** GST will change the current system of taxation based on production to one based on consumption. This means that tax will now be transferred to the end consumer and not all the tax burden on the producer alone would fall.

**Malviya, Sagar(2017):** Consumer goods giant Unilever said that India is seeing signs of improvement with higher demand - led growth helped by price cuts due to the new tax regime.

**Mohan Kumar & CA Yogesh Kumar. (2017):** GST would affect pricing, working capital, vendor and customer contracts, ERP systems, processes, internal control and accounting. The opportunity to review the supply chain and move to a supply chain based on business parameters would be another important impact of GST on FMCG companies.

**Monika Sehrawat, and Upasana Dhandu(2015):** There is no doubt that GST will give India a world - class tax system by grabbing manufacturing and service sectors with different treatments. But all this will be achieved only through its rational design and timely implementation.

**Nidhi Parashar, Deepa Joshi and P. K. Chopra. (2017):** The study found that people are aware of the tax they pay on commodity purchases but are not very interested in giving importance to such tax on their FMCG purchase.

**Ranjith karat and Prajith Karat. (2017):** There is a positive relationship between price and consumer buying behavior (the appropriate price makes consumers more willing to buy items). The study concluded that there is no effect on consumer purchase decisions even after a small variation in product prices has occurred.

**Sreekumar P. G.,(2018):** In fact, retailers expect some long - term changes as their implementation is now in its initial phase. IT - driven taxation regime, lower tax authorities ' manual intervention, positive impact on so many sectors, and a uniform tax structure may be witnessing an increase in Indian economy's GDP.

**Sushant Sarin. (2018):** GST will have the most prominent impact on the warehousing sector by spawning different distribution models from traditional distributor-based models of clearing and forwarding (C&F). Companies had to set up warehouses in almost every state due to various indirect taxes under the former regime. As this is not required by the uniform GST, smaller warehouses are decreasing in size, while capacity is increasing. Consolidation and expansion followed. Warehousing and logistics have emerged as one of the most important post-GST growth areas.

### III. RESEARCH GAP

GST has played a very crucial role in the Indian economy as it has a direct impact on all the Business processes. The FMCG sector has a lot of factors that will come under consideration viz. Warehousing, Transportation, etc. that will get affected by a revised taxation system and by newly introduced tax slabs under GST. Thus, the research is conducted to study the impact of the Goods and Services Tax on the Fast Moving Consumer Goods Industry of India.

### IV. RESEARCH OBJECTIVES

- To study the change in indirect tax rates to tax slabs under GST.
- To analyse and compare the impact of the revised taxation system on the financial statements of the companies with the Indirect Taxation system.
- To study the impact of Goods and Services Tax on the Indian Fast Moving Consumer Goods Industry.
- To forecast future prospects and possible impacts of GST on FMCG Industry of India as a secondary objective.

### V. HYPOTHESIS

H0: There is no significant impact of Goods and Services Tax on the Fast Moving Consumer Goods Industry of India.

### VI. RESEARCH METHODOLOGY

**Table 1 : Companies Chosen**

High Cap	Medium Cap	Small Cap
Dabur	Tata Global Beverages	Heritage Foods
Hindustan Unilever	Emami	Vadilal Industries

The time period considered for the study is 4 quarters each for both PRE and POST GST. The time period selected is based on the theory that on a long run when all the Factors of Productions are purchased by paying GST as well as sales are also made in GST the effect of GST will be measurable and the impact can be seen, if any. So, four quarters immediately preceding GST and four quarters immediately succeeding GST are taken into Consideration.

Pre GST – 1<sup>st</sup> July 2016 to 30<sup>th</sup> June 2017 (4 quarters)

Post GST – 1<sup>st</sup> July 2017 to 30<sup>th</sup> June 2018 (4 quarters)

The main aim of the study is to analyze the Financial Performance of the companies after the implementation of GST which is seen as a major Taxation reform in history of indirect taxes in India. Therefore, the data needed for the conduct of GST will be collected via Secondary mode. The data will be collected from the official websites of the company, from their annual reports and other press release. The stock prices data will be collected from the site of NSE.

The data collected will be analyzed by using various statistical tools like:

- Co-relation – Shows the association between two variables: Closing Stock Price and Volume Traded.
- Independent Sample T-test – Compares means of two independent groups: Pre GST and Post GST abnormal returns.
- Comparative Statements – Comparative Income statement: Pre GST and Post GST 4 quarters.

## VII. SUMMARY OF FINDINGS

### Price- Volume Traded Co-relation Findings

It can be clearly seen that the rollout of G.S.T. (Goods and Services Tax) had a different impact on the stock prices of different FMCG stocks.

**Table 2: Correlation Findings**

Particulars	Category I		Category II		Category III	
	HUL	Dabur	Emami	Tata Global Beverages	Vadilal Industries	Heritage Foods
Pre GST	0.169	0.028	-0.003	0.245	0.375	-0.238
Post GST	0.057	0.024	0.035	-0.128	0.3	-0.071

**Table 3: Comparative Statements Findings**

Particulars	Category I		Category II		Category III	
	HUL	Dabur	Emami	Tata Global Beverages	Vadilal Industries	Heritage Foods
Sales	10%	26.92%	8.63%	6.65%	-0.35%	6.37%
Operating Profit	22.35%	33.99%	17.63%	25.51%	5.59%	-70.06%
Net Profit	19.19%	29.84%	13.19%	49.08%	27.87%	11.01%
Consumption of RM	14.25%	34.81%	-2.34%	0.82%	5.37%	19.81%

From the above table, we can see that:

- Sales for the High Cap companies saw a greater positive impact than the Mid cap and Small companies. Vadilal Industries saw a slight decline.
- The Operating Profit and Net Profit for all High Cap and Mid Cap companies saw a tremendous rise. The Net Profit for Heritage Foods declined a lot whereas the Net Profit was positive.

### Independent Samples T-test

Since the significant test value of all the six companies is more than 0.05 we had to reject the null hypothesis and which tells us that there is no significance on abnormal returns due to the roll out of GST.

**Table 4: Summary of Independent Samples T-test**

Particulars	Value Of 2 tail T-test
HUL	0.99
Dabur	0.972
Emami	0.91
Tata Global Beverages	0.99
Vadilal Industries	0.99
Heritage Foods	0.93

## VIII. CONCLUSION AND RECOMMENDATIONS

The above Research shows that GST implementation is expected to produce impetus to various reforms and policy measures envisaged by the Government for the ease of doing business and to usher India into a simple, transparent and tax friendly regime. It has simplified the previous procedures by converting various complex indirect taxes into a unified platform. Under GST, the taxes are charged on consumption state rather than the origin state, which has given a boost to the growth rate of the FMCG industry. Overall, after the analysis, it is presumed that it has brought upon positive changes in the FMCG sector. The FMCG Industry is expected to earn from the new tax reform and the companies are requiring growth with the implementation of the GST in India. This will decrease many unnecessary logistics cost, remove trade hurdle and give better interstate sales and delivery in the future.

### IX. SCOPE FOR FUTURE RESEARCH

Further research can and should be done in this field of study. There are a lot of things which are expected to be seen in the form of future impact due to GST implementation. These changes are more capital in nature and will impact the industry due to the closely knit and well-linked networks between FMCG and other industries.

Thus, in the future, research on the same topic might show a higher quantitative substantial evidence to prove the current qualitative factors which are predicted in the industry.

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