"GST Impact on Share Return of Selected Indian FMCG Companies"

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Abstract:

Despite of the economic slowdown, India's Fast Moving Consumer Goods (FMCG) has grown consistently during the past three – four years reaching to $25 billion at retail sales in 2008. Implementation of proposed GST and opening of Foreign Direct Investment (F.D.I.) are expected to fuel the growth and raise industry's size to $95 Billion by 2018

The present study focuses on "A Study of Impact of Goods & Services Tax (GST) on Shares return of Indian FMCG Companies". This study aims to find the reaction of Indian FMCG CompaniesShare return with respect to the announcement of GST rates and also tries to test efficiency of the stock market. The performance of stock market and its behavior serves as an indicator of the reactions of the economy of the nation. The Goods and Services Tax is a major tax reform in India which is most likely to boost the economic growth of the country. This expectation of the investors is assumed to be transformed to stock price returns that are either negative or positive. So for GST impact is concerned, here Daily, Monthly and Yearly, pre and post GST implementation share return is taken and different statistical tools applied to find impact of GST on these returns.

Introduction:

Goods and Services Tax is a comprehensive indirect tax on manufacture, sale and consumption of goods and services throughout India, to replace taxes levied by the central and state Governments. Goods and services tax would be levied and collected at each stage of sale or purchase of goods or services based on the input tax credit method. This method allows GST-registered businesses to claim tax credit to the value of GST they paid on purchase of goods or services as part of their normal commercial activity. Taxable goods and services are not distinguished from one another and are taxed at a single rate in a supply chain till the goods or services reach the consumer. Administrative responsibility would generally rest with a single authority to levy tax on goods and services. Exports would be zero-rated and imports would be levied the same taxes as domestic goods and services adhering to the destination principle.

The current Indirect Tax regime in India provides for a complex tax environment due to multiplicity of taxes, tax cascading and elaborate compliance obligations. Under the proposed GST regime, various Indirect Taxes would be subsumed (except for few taxes such as Stamp Duty) and hence it is expected that it would result in a simpler tax regime, especially for industries like FMCG. Apart from simplification of tax compliances, the rate of tax will also have a significant impact on the FMCG sector. Presently the peak tax costs for industry players amount to approximately 27% (i.e. Excise Duty of 12.5% and VAT ranging from 12% to 15%). Under the GST regime, it is proposed that the revenue neutral rate would be in the range of 17% to 19%, thereby resulting in significant benefit for the sector.

Review of Literature:

GirishGarg,(2014)- “Basic Concepts and Features of Good and Service Tax in India”, it is found that GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. GST will create a single, integrated Indian market to make the economy stronger. Under GST, the taxation burden will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions. Through this it is likely to improve tax collections and Boost India’s economic development by breaking tax barriers between States and integrating India through a uniform tax rate.

Pinki, SupriyaKamna&RichaVerma (2014) Goods and Service Tax - Panacea for Indirect Tax System in India” it is found that the GST is India’s most ambitious indirect tax reform plan, which aims at removing the cascading effect of tax. The movement of GST was declared in 2008 and supposed to be in force by 2010. Due to various reasons it could not be in force. GST has been implemented in more than 150 countries which will leads to economic growth of the country.

Syed Mohd Ali Taqvi (2013) “Challenges and Opportunities of Goods andService Tax in India” the researcher explains the GST is only indirect tax that directly affect all sectors and sections of our country. It is aiming at creating a single, unified market that will benefit both corporates and economy. He also explain the proposed GST model will be implemented parallel by the central and state governments as Central GST and State GST respectively.

Jana V. M., Sarma& V Bhaskar (2012)"A Road Map for implementation of Goods and Service Tax", from the study it is found that the steps to be undertaken to implement the comprehensive tax system i.e., GST. The authors have thrown light on the constitutional amendment required for the implementation of GST in India.

RESEARCH METHODOLOGY:

1. **RESEARCH STATEMENT:** "A Study of Impact of Goods & Services Tax (GST) on Shares return of Indian FMCG Companies"

2. **ABOUT THE RESEARCH PROBLEM:** The present study focuses on "A Study of Impact of Goods & Services Tax (GST) on Shares return of Indian FMCG Companies". This study aims to find the reaction of Indian FMCG Companies Share return with respect to the announcement of GST rates. So for GST impact is concerned, here Daily, Monthly and Yearly, pre and post GST implementation share return is taken and different statistical tools applied to find impact of GST on these returns.

3. **RESEARCH DESIGN:** The present research study is based on Descriptive, Exploratory and Event Study. Descriptive method used when the researcher wants to describe specific behaviour as it occurs in the environment. It provides an accurate description of characteristics of a particular individual, situation or Group. These studies are a mean of discovering new meaning, describing what exist, determining the frequency with which something occurs and categorizing information. Exploratory research studies that are mainly formative, for the purpose of gaining new insights, discovering new ideas and increasing knowledge of phenomena. An event study is an analysis of the impact of any specific new or event directly or indirectly affected to a company and its stock. An event study mostly conducted for the specific company looks at the changes in its stock price relative to the news or event.

4. **OBJECTIVES OF THE STUDY:** To determine the impact of Goods and Services tax (GST) on share returns of Selected Indian FMCG Companies of BSE.

5. **HYPOTHESIS: H_0:** There is no significant difference in return of the Selected Indian FMCG Companies of BSE before and after GST implementation.

6. **NATURE AND SOURCES OF DATA:** The present study is mainly based on secondary data. Secondary data are those which have been collected by someone else and which have already been passed through the statistical process. All the related data are collected from the official sites of the companies and financial website like (www.bseindia.com).

7. **SAMPLE SIZE:** Out of numbers of companies of FMCG sector, researcher has selected Top 5 companies in a sample on the basis of Market Capitalization.Here, sample has been selected by convenient sampling method.

8. **TOOLS AND TECHNIQUES:** Here, researcher has used Paired sample T-test for the study of impact of GST on share returns of Indian FMCG Companies. Paired sample T-test is used for the two measurement on the same items, person or thing and also use for two items that are being measured with unique condition.

9. **PERIOD OF STUDY:** In present study "A Study of Impact of Goods & Services Tax (GST) on Shares return of Indian FMCG Companies"period of study is selected according to the date of implementation of GST. Date of GST implementation is 1/7/2017 (Saturday). So before and after implementation selected share opening and closing price taken.

Analysis period	Before GST Implementation	After GST Implementation
7 Working Days Analysis	21st June to 30th June 2017	3rd July to 11th July 2017
15 Working Days Analysis	9th June to 30th June 2017	3rd July to 21th July 2017
30 Working Days Analysis	19th May to 30th June 2017	3rd July to 11th Aug 2017
6 Months Analysis	January to June 2017	July to December 2017
1 Year Analysis	July 2016 to June 2017	July 2017 to June 2018

DATA ANALYSIS:

H$_0$: There is no significant difference in return of the Selected Indian FMCG Companies of BSE before and after GST implementation.

Name of Company			**Colgate**	**ITC**	**Nestle**	**Brittania**	**P&G**
t-Test: Paired Two Sample for Means		df	P(T<=t) two-tail	P(T<=t) two-tail	P(T<=t) two-tail	P(T<=t) two-tail	P(T<=t) two-tail
7 Working Days Pre and Post GST Analysis	*Change in Price Before GST*	6	0.3898*	0.0832*	0.8636*	0.3915*	0.9137*
	Change in Price After GST						
15 Working Days Pre and Post GST Analysis	*Change in Price Before GST*	14	0.1876*	0.1406*	0.7173*	0.7806*	0.7723*
	Change in Price After GST						
30 Working Days Pre and Post GST Analysis	*Change in Price Before GST*	29	0.1100*	0.0084**	0.4540*	0.1193*	0.8535*
	Change in Price After GST						
6 Month Pre and Post GST Analysis	*Change in Price Before GST*	5	0.1601*	0.0959*	0.5725*	0.5654*	0.7489*
	Change in Price After GST						
1 Year Pre and Post GST Analysis	*Change in Price Before GST*	11	0.6841*	0.0875*	0.2073*	0.1738*	0.8774*
	Change in Price After GST						

(Source: BSE INDIA)

(* = Null Hypothesis Accepted)
(** = Alternative Hypothesis Accepted)

DATA INTERPRETATION:

1) **Colgate Ltd:** with the help of above table researcher can easily identified that before and after GST implementation, there were not much differences in share price so it is concluded that there were not big impact on prices of Colgate Ltd shares due to GST. Above table show that in all different time frame analysis in Colgate ltd (p value) of t-test paired two sample foe means is more than 0.05.so null hypothesis is accepted.
2) **ITC Ltd:** Above table show that in 7 days, 15 days, 30 days, 6 month and 1 year before and after GST implementation Analysis, the significant value of the paired sample t-test observed more than 0.05. As per statistical parameter null hypothesis accepted if significant value is more than 0.05. Here researcher says that there is no significant difference in price of ITC Ltd. Share due to implementation of GST.
3) **Nestle Ltd:** In case of Nestle Ltd null hypothesis is accepted as significant value is more than 0.05. So, the researcher says that there is no significant difference in share return due to implementation of GST. Nestle Ltd is multinational company so that they easily know how to work on Goods and Service Tax and also maintained all the accounts of the taxes according to new tax reforms.
4) **Brittania Ltd:** In case of Brittania Ltd, it is also a multinational company so far they are dill with many countries and most of the countries using GST system so, Brittania Ltd may not face any trouble due to GST implementation. Only in long run significant value is less than 0.05, so researcher can says that there is significant difference in price of Brittania Ltd due to GST implementation in Long run.
5) **P&G Ltd:**The researcher has taken sample of 7 working days, 15 working days, 30 working days, 6 month and 12 month before and after GST implementation in India. Here the significant value of the paired sample t-test observed more than 0.05. As per statistical parameter null hypothesis accepted if significant value is more than 0.05. Here researcher says that there is no significant difference in price of P&G Ltd. Share due to implementation of GST.

CONCLUSION:

Here researcher concluded that, overall there is no significant difference in share returns of Indian FMCG companies due to GST implementation. Because There will be significant improvement in Indian FMCG industry's supply chain efficiency as well as a decline in manufacturing cost of FMCG products. Post GST, FMCG industry's traditional cost and distribution model will get replaced by supply chain efficiencies. The central tax subsumed under GST and interstate transactions between two dealers will become tax neutral. This will lead to decrease in cost which can be added to margins.GST will also have positive effect on warehousing strategy. There are many of the FMCG companies maintaining their warehouses in different states in order to avoid Central Sales Tax (CST) of different states. Post GST, manufacturers can set their warehouses at their strategic locations and consolidation of warehouses will take place across the sector.

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