

A Study on Impact of GST on FMCG Companies in India

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Abstract: The topic is all about the GST and Taxation is the inherent power of the state to impose and demand contribution upon persons, properties, or right for the purpose of generating revenue for public purposes. Taxes are enforced proportional contribution from persons to property levied by the law-making body of the state by virtue of its sovereignty for the support of the government and all public needs. All government require payment of money taxes from people. Government use revenues to pay soldiers and police to build dams and roads, to operate schools and hospitals, to provide food to the poor and medical care facilities etc and also hundreds of other purposes without taxes to fund its activities, government could not exist. So, taxation is the most important source of revenues for modern government typically according to 90% or more of their income. The fast-moving consumer goods are our important contributors to both direct and indirect tax. When we look into the GDP contribution, FMCG is an important player. Goods and Service Tax which subsumed most of the indirect taxes in the country would have a significant impact on the fast-moving consumer goods sector

Keywords: FMCG, GST, Impact.

1. Introduction

The earlier tax system in India is a complex tax system. It results in a multiplicity of taxes, cascading and complicated tax obligation. GST (Goods and services taxes) which came into effect from 1 July 2017 subsumed various indirect taxes under it. GST would result in the simple tax regime. India has adopted a dual taxation system wherein the state and central government together collect the tax. Tax slabs under GST are 5%, 12%, 15% and 18%. Some essential goods like fresh meat, eggs, bread, fruit, honey and salt are exempted.

The fast-moving consumer good (FMCG) sector of India comprises more than 50 percent of the food and beverage industry and another 30 percent from personal and household care. The sector is likely to see a significant impact once the Goods and Services Tax (GST) is implemented as the companies set up warehouses across the states in a bid to have a more tax efficient system. Indian FMCG industry has a market size of 2.0 trillion and it is the fourth largest state of the economy. Major segments in the FMCG sector are:

- 30% household sector (Fabric wash, household cleaners).
- 30% Personal care (Oral care, Hair care, Skincare, cosmetics, Hygiene and paper products).

- 50% Food and Beverages (Health beverages, Bakery, snacks, chocolates, ice cream, processed fruits and vegetable and dairy products etc.)

GST is going to have a significant impact on the FMCG sector. Simpler tax regime under GST is going to benefit the FMCG companies. It is also going to impact on the pricing strategies, sales, cost, and tax compliances of FMCG companies.

2. Research Problem Identification

A. Impact of GST on Iron and Steel

Materials like iron and steel are very useful and utilized in everyday life. Goods and Services Tax (GST) has a positive impact on the iron and steel and material made up of these. Kitchen utensils that are useful in day to day life become cheaper than the previous. Utensils like pan, stainless steel cooker and many more are now charged with 12% of Goods and Services Tax (GST). It is charged 7.5% less than the current tax laws. There are benefits for all the steel-related companies as there is a 5% low tax rate on all the large inputs used by them under the Goods and Services Tax (GST). These inputs are iron ore, coal, etc.

B. Impact of GST on Food Industry

The application of GST to food items will have a significant impact on those who are living under subsistence level. But at the same time, a complete exemption for food items would drastically shrink the tax base. Food includes grains and cereals, meat, fish and poultry, milk and dairy products, fruits and vegetables, candy and confectionery, snacks, prepared meals for home consumption, restaurant meals and beverages. Even if the food is within the scope of GST, such sales would largely remain exempt due to small business registration threshold. Given the exemption of food from CENVAT and 4% VAT on food item, the GST under a single rate would lead to a doubling of tax burden on food.

C. Impact of GST on export

When Goods and Services Tax (GST) was introduced in India it relaxed the Export Tax. Relaxation of tax on the export helped in decreasing the product cost. There is also a relaxation in the availability of input credits on all related services. Ultimately this has helped the country to grow in the economic

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sector as the export industries will flourish due to relaxation in the export tax.

D. Impact of GST on the Automobile Industry

The two taxes charged to the end consumer on car and bikes previously were excise and VAT, with an average combined rate of 26.50 to 44% which is higher than the GST rates of 18 and 28%. Therefore, there will be less burden of tax on the end consumer under GST.

3. Literature Review

1. *Milan deep Kaur, Kajal Chaudhary, and Suffjan Singh, Beijinger Kaur (2016): "A Study On Impact of GST after its implementation" for IJISSH volume 1 issue 2:* The above research mainly focuses on what are the impacts of GST after its implementation, the difference between the present indirect taxes and GST and also benefits and challenges of GST after its implementation. Research being a qualitative research analysis on how various goods and services are being taxed under GST. Researches use the consumer price index which is a statistical estimate constructed using the prices of items collected periodically. With the help of CPI researcher analysis, the significant impact of GST on various items which comes up to 20-25%. Researchers conclude stating that GST would reduce the tax burden and also play an active role in the growth and development of our country.
2. *Lourdunathan F and Xavier P: December 2016, "A study on implementation of goods and service tax in india" Prospects and challenges, an internal journal of Applied Research:* There is a mixed response, inexplicit, arguments and opinions among manufacturers, traders and society about the Goods and Services Tax to be implemented by Government of India from 01.04.2017. Various news organizations from all around the world focused on the bill unifying the country and it is an achievement of the Government. As GST bill was passed in Rajya Sabha it also brought India at the centre of the global economy. The paper highlights the background, prospectus and challenges in the implementation of GST in India.
3. *Dr. Mohan Kumar, CA Yogesh Kumar: "GST and its probable impact on the FMCG industry in India", (April 2017) for the international journal of research in finance and marketing:* This paper analyses the impact of the FMCG industry. The fast-moving consumer goods (FMCG) sector of India comprises more than 50% of the food and beverage industry and another 30% from personal and household care. Presently the peak tax cost for industry players amount to approximately 27% i.e. (excise duty of 12.5% and VAT ranging from 12-15%) under the GST regime, it's proposed that the revenue neutral rate would be in the range of 16-19%.
4. *R Hiremani Naik, Sudina TA: "A study on perspective impact of GST on FMCG sector in India", December 2017, for international journal of research in Business studies:* The fast-moving consumer goods (FMCG) segments are the fourth largest sector in the Indian economy. The sector is

likely to see a significant impact once the goods and service tax (GST) bill is passed as the companies set warehouses across the states in a bid to have a more tax efficient system. FMCG is one such sector directly having its impact on the large public. It is very important to study the possible positive and negative impact of GST implementation on the FMCG sector. (Naik & A, 2017).

5. *Rajkumar Chandran: September 2017, "A study on impact of goods and service tax on Indian industries" with reference to FMCG sector, an international journal of Innovative Research in Management studies:* India's most awaited and biggest tax reforms have come into reality, the Goods and Service tax (GST) which has replaced most multiple indirect taxes which were used to be levied on different items of goods and service. The GST has helped in terms of revenue from the past two months; hence it has been affected by 01.07.2017 and helped in solving the cascading effects of the tax.

4. Objectives of the Study

- To study the impact of GST on the companies in the FMCG Industry in India.
- To analyze whether the impact if any is positive or negative
- To analyze the impact of Goods and Service Tax on the sales, purchases, net profit, tax and stock prices of the selected companies pre and post GST.
- To understand how it will become boon or bane for Indian Economy.

5. Research Methodology

The goal of the research process is to produce new knowledge or deepen understanding of a topic or issue.

A. Data collection

A sample size of ten companies' viz. Hindustan Unilever Ltd, ITC, Britannia, Dabur Ltd, Godrej, Procter and Gamble, Manpas and beverages Ltd, Marico Ltd and Nestle India Ltd are taken for analyzing the impact of goods and service tax with respect to companies in the FMCG sector. The companies chosen are mostly Indian companies and based on the data available with respect to the financial statements available on quarterly basis for a period of five annually pre and post implementation of the Goods and Service Tax Act as on 1st July 2017 and the scale and magnitude of operations of these companies. Also, regarding the stock prices, data for a period of ten days each pre and post-GST has been taken by computing abnormal returns during this period. Using the Microsoft Excel software, a Two-Sample Assuming Unequal Variances was used to check whether the change in net sales and net profit for pre and post-GST has a significant impact. This was done using the significance value obtained by using t-Test.

B. Descriptive study

The descriptive study is a fact-finding investigation with adequate interpretation. This descriptive study aims at identifying the various characteristics of a problem under study.

It reveals the potential relationship between variables and also setting the stage for further investigation later. The results of such research are not usually useful for decision making by them, but they can provide significant insight into a given situation. Although the results of qualitative research can give some indication as to “WHY”, “HOW” and “WHEN” something occurs, it cannot tell us “HOW often” or “HOW many”.

6. Research Instruments and Data Analysis

A. Hypothesis

- *Null hypothesis H0*: there is no significant impact of GST on the company
- *Alternative hypothesis H1*: there is a significant impact of GST on the company

B. Nestle India

We notice that in the year 2016 increased percentage in sales is 12% compared to last year 2015. In 2017 it is 8.5% compared last year 2016. In 2018 and 2019 sales increased to 12.82% and 9.5% compared to its last years. From this we can tell that during the year (2017) of implementation of GST, there is least increase in the sales that is 8.5%. And net profit for the year 2016 it is 64%, and for the year 2017, 2018 and 2019 it is 32%, 31% and 22% correspondingly. From this we can conclude that there is a significant impact on net profit of the company after implementing GST and gradual decrease in the net profit.

C. Marico

We notice that in the year 2016 sales decreased by 1.6% compared to last year 2015. In 2017 it is increased by 6.8% compared last year 2016. In 2018 sales increased by 16% and in 2019 sales decreased by 0.25% compared to its last years. And net profit for the year 2016 it is 12%, and for the year 2017, 2018 it is 1.9% ,37% and in 2019 there is decrease in the profit of 8.1% compared to last year 2018. Overall, we can conclude that there is high fluctuation and increased in sales and profit of the company after implementing the GST

D. Manpas and Beverages LTD

We notice that in the year 2016 sales increased by 54.87% compared to last year 2015. In 2017 it is increased by 26% compared last year 2016. In 2018 sales increased by 35% and in 2019 sales decreased by 33% compared to its last years. And net profit for the year 2016 it is 4.2%, and for the year 2017, 2018 it is increased by 44%, 40% and in 2019 there is a huge Net loss for the company. Overall, we can conclude that there is high fluctuation and decreased in sales and profit of the company during 2019 after implementing the GST.

E. ITC

We notice that in the year 2016 sales increased by 54.87% compared to last year 2015. In 2017 it is increased by 26% compared last year 2016. In 2018 sales increased by 35% and in 2019 sales decreased by 33% compared to its last years. And net profit for the year 2016 it is 4.2%, and for the year 2017, 2018 it is increased by 44%, 40% and in 2019 there is a huge

Net loss for the company. Overall, we can conclude that there is high fluctuation and decreased in sales and profit of the company during 2019 after implementing the GST.

F. HUL

We notice that in the year 2016 sales increased by 3.03% compared to last year 2015. In 2017 it is increased by 7.18% compared last year 2016. In 2018 sales increased by 9.5% and in 2019 sales increased by 1.2% compared to its last years. And net profit for the year 2016 it is 8.03%, and for the year 2017, 2018 it is increased by 16.05% ,15.98% and in 2019 it is 11.48% correspondingly compared to its last year .Overall, we can conclude that there is not much fluctuation after implementing the GST.

G. P and G

We notice that in the year 2016 sales increased by 6.4% compared to last year 2015. In 2017 it is increased by 6.61% compared last year 2016. In 2018 sales increased by 6.61% and in 2019 sales increased by 19.98% compared to its last year. And net profit for the year 2016 it is 22.5%, and for the year 2017, 2018 it is increased by 2.2% ,15.5% and in 2019 it is 11.89% compared to its last year correspondingly. Overall, we can conclude that there is constant increase in the net profit after implementation of GST.

H. Godrej

We notice that in the year 2016 sales increased by 10.0% compared to last year 2015. In 2017 it is increased by 6.2% compared last year 2016. In 2018 sales increased by 4.78% and in 2019 sales decreased by 3.91% compared to its last year. And net profit for the year 2016 it is 36.46%, and for the year 2017, 2018 it is increased by 24.93%, 43.34% and in 2019 sales decreased by 56.5% compared to its last year 2018. Overall, we can conclude that there is increase in the net profit after implementation of GST, but there is depletion in the net profit and sales rate of increase for the year 2019.

I. Dabur

We notice that in the year 2016 sales decreased by 2.13% compared to last year 2015. In 2017 it is increased by 1.42% compared to last year 2016. In 2018 sales increased by 10.27% and in 2019 sales increased by 2.21% compared to its last year. And net profit for the year 2016 it is 2.09%, and for the year 2017, 2018 and 2019 it is increased by 6.5%, 10.62% and 0.18% compared to its last years correspondingly. Overall, we can conclude that there is increase in the net profit after implementation of GST.

J. Britannia

We notice that in the year 2016 sales increased by 6.8% compared to last year 2015. In 2017 it is increased by 7.8% compared last year 2016. In 2018 sales increased by 9.49% and in 2019 sales increased by 11.50% compared to its last year. And net profit for the year 2016 it is 9.5%, and for the year 2017, 2018 it is increased by 7.27%, 13.54% and 15.16% correspondingly compared to its last years. Overall, we can conclude that there is increase in the net profit after

Table 1
Sales

S. No.	Companies	Net Sales	Net Profit
1	Nestle India	6.018075749	-4.965214196
2	Marico	-3.150412485	-2.737166347
3	Manpas and Beverages LTD	0.357954336	1.213464417
4	ITC	-4.049451613	- 4.854423882
5	HUL	-7.461125692	-6.733061062
6	P and G	-2.007557683	-0.120183612
7	Godrej	-5.062213921	-2.629412925
8	Dabur	-3.449081704	3.860950506
9	Britania	-9.003319397	-5.499785788

implementation of GST.

The highlighted ones have does not lies between the t-critical range.

After analyzing the Two-Sample Assuming Unequal Variances with respect to net sales and net profit of the following companies have been impacted by GST(t-values is doe not lies between the t-critical range so we rejected the null hypothesis)

1. Nestle India
2. Marico
3. ITC
4. HUL
5. Godrej
6. Dabur
7. Britania

The not highlighted ones have lies between the t-critical ranges. After analyzing the Two-Sample Assuming Unequal Variances with respect to net sales and net profit of the following companies have been not impacted by GST(t-values is lies between the t- critical range so we accept the null hypothesis)

1. Manpas and beverages LTD
2. P and G

7. Results or Findings of the Study

- According to the Data analysis of financial statement most of the company's sales and net profit has significant impact after implementing GST.
- Nestle India Ltd, Marico Ltd, ITC Ltd, HUL, Godrej,

Dabur and Britannia have significant impact on GST.

- Manpas and P & G do not have significant impact on GST.
- GST came into effect in middle of the financial year. As GST was implemented on the 1st of July 2017, businesses followed the old tax structure for the first 3 months and GST for the rest of the financial year.
- Most of the people does not know about GST, people thinks we pay extra money to the Government but CGST, SGST and IGST are nothing but new names for Central Excise/Service tax, VAT and CST
- Increased cost due to software Purchase and increase in operational cost.
- GST is an online taxation system. As earlier business is switching from pen and paper invoicing and filing to online return filing and making payments. This is tough for some smaller business to adapt to.

8. Conclusion

GST came into effect in the middle of the year, government could have introduced this system in beginning or end of the fiscal year instead of introducing it in July, so that businesses might not found it hard to get adjusted to the new tax regime and some of them are might not resulted in confusion and compliance issues. Special focuses on awareness and training of all officers, professionals and small business entrepreneurs assess should be given on GST. Free billing software from GSTN and Invoice format for cost minimization. IGST credit should be restricted only on import of raw materials; manufacturers of India must be boosted to their position with traders of imported finished goods. So that we can build "Swavalambi Bharat". Small Traders should be relieved from GST system.

References

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