

A Study on impact of Goods and Service Tax on FMCG Sector in India

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Abstract:

The Indian FMCG sector is the fourth largest sector in the economy with a total market size in excess of US\$ 13.1 billion. Fast Moving Consumer Goods (FMCG) goods are popularly named as consumer packaged goods. Items in this category include all consumables (other than groceries/pulses) people buy at regular intervals. FMCG is also one of the fastest growing sectors among all the sectors in the Indian economy. The present study has been based on to investigate the determinants of a study of pre and post impact of goods and service tax on FMCG Sector in India using various descriptive Statistical tools and techniques. To test the impact of Goods and Service Tax,Statistical t-test and descriptive Statistical tools are used for this research study.

Keywords: GST, FMCG, Tax, CGST, SGST, IGST

Introduction:

Fast Moving Consumer Goods (FMCG) Sector is the fourth largest part of the Indian economy. About half of FMCG sales come from food and drinks, and the other half comes from household and personal care products. In this age of globalization, there are a lot of FMCG companies on the market, and they try to sell their products by making customers think of them as a brand. The main reason for growth in the sector is that more young Indians are shopping online and that their lifestyles are changing. Most of the money that the FMCG Sector in India makes comes from the people who live in cities. It's important to note that the FMCG market has grown faster in rural India than in cities over the past few years. The FMCG retail market in India is expected to grow at a rate of 20–25% per year and reach US\$ 2.9 Trillion by 2023, up from US\$ 672 Billion in 2016. This will help the FMCG sector make more money. In 2016–17, FMCG companies made US\$ 49 billion in sales. In 2018–19, they are expected to make \$ 54 (approx.) billion, which means that the size of the market will be Rs. 5400 crores. In India, there are four different GST rates: 5%, 12%, 18%, and 28%. The GST council changes the things that are included in these rates from time to time to make sure that different types of products are priced correctly. Whether a good or service is a necessity or a luxury affects the rate that is charged for it. In general, the tax rate on things that people need is lower, at 5% or 12%, while the tax rate on things that people want is between 18% and 28%.

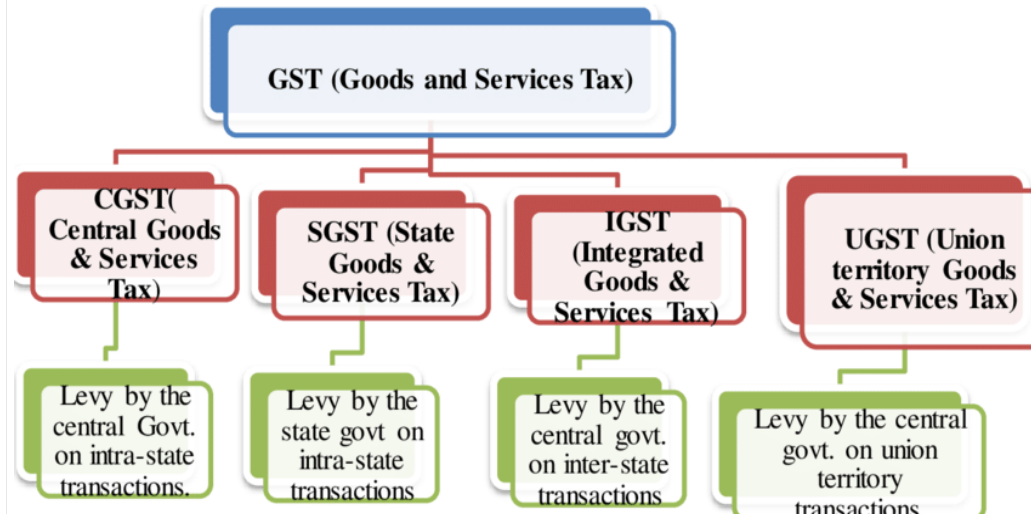
Aside from these, the GST on gold is 3%, and semi-precious and rough stones are 0.25%.

The FMCG is also known as a CPG (Consumer Packaged Goods). The annual growth rate of FMCG is 11%. The FMCG sector would likewise profit from GST by saving a lot of costs on planned operations. Dissemination cost of the FMCG area as of now adds up to 2-7% of the complete expense, as most would consider normal to drop to 1.5% after the execution of GST.

Because of the smoother production network the board, installment of expense, guaranteeing input credit, and evacuation of CST under the GST system there will be an expense decrease concerning transportation and capacity of merchandise. It is normal that the decrease in cost and expenses would make the customer's products less expensive. Quick turnover, Low cost, High Annual growth rate, Well Established distribution channels, low operating cost, lower per capita consumption, low penetrations level, these are

the main characteristics of FMCG Company. Availability of raw materials, cheaper labor cost, lower margin gives competitive advantages to India.

GST Model in India:



Review of Literature

Lourdunathan F and Xavier P., 19 (2016) studied inexplicit opinion of manufacturers, traders and society. It also included challenges and prospectus of GST in future in India. Centre and state level taxes also discussed in this paper. Various states are shown in which GST is followed for growth of economy. Some issues such demonetisation issue, inappropriate time, political issues, rate for manufacturers and traders, impact on working and cash flow and implementation in unorganised sectors became some main issues in path of GST.

B, MitraPriya, 27 (2017) stated GST as a Game changer in Indian Economy. The paper showed that GST reduced complexity of various taxes and also removed cascading effect. Tax structure shown in paper in which various tax rates included. Impact on Tax incidence included various sectors such as Telecom, E-Commerce, Automobile, real estate, banking and consumer goods. Impact on input tax credit showed that there would be availability of cross credit utilization in CGST and SGST

Nair, S., & Pillai, R. (2018), This study examines the impact of GST on consumer prices of FMCG products in India. Using a time-series analysis, the research assesses changes in prices before and after GST implementation. The study finds that while some FMCG products experienced a reduction in prices due to input tax credits, others witnessed marginal price increases, leading to mixed effects on consumer affordability.

Maruthi, M. V. (2020). The researcher stated that, the GST Council announced its decision to exempt taxation on a total of two hundred frequently bought Fast-Moving Consumer Goods (FMCG). The tax status of various Fast Moving Consumer Goods (FMCG) has been a subject of considerable ambiguity. The tax implications of a buy-one-get-one promotion are ambiguous. The implementation of promotional plans by FMCG firms is not readily apparent.

Research Methodology

This research will be based on secondary data for analysing the impact of GST on FMCG Sectors, 10 products related to FMCG goods after implementation of GST had been taken. The products are taken from the various official website. The data was collected on November 2023

Type of Research

This research paper being quantitative research uses data relating to ten FMCG companies collected from Moneycontrol.com and various other data from journals, articles to analyse the impact of GST on the companies in the FMCG sector.

Research Objective:

1. To Study the impact of GST on FMCG Sector
2. To compare pre and post GST Impact on FMCG sector to find out the impact of GST on the Retail Sector.

Statement of Problem

The implementation of the Goods and Services Tax (GST) in the Fast-Moving Consumer Goods (FMCG) sector has introduced a transformative shift in the taxation landscape. While GST aims to simplify and streamline the tax structure, its specific impact on the FMCG industry presents challenges and opportunities that require careful examination.

Scope of the study

The impact of GST on FMCG sector, can be a valuable study with potential insights into how this tax reform has affected the performance of the top companies of FMCG in the market.

Tools Used

For the calculation of data, the tool used is paired sample test and statistical tools like Mean, Standard deviation, Standard error, t test etc with the help of Microsoft Excel.

Hypothesis:

1. **Null hypothesis (H0):** There is no significant difference between stock indices of pre and post GST in India.
2. **Alternative hypothesis (H1):** There is a significant difference between the stock indices of pre and post GST in India.

Sample Size:

The Following Companies has been selected for this research segments:

- 1.CNX FMCG Index (CNX), 2.Nestle India (NI), 3. Hindustan Unilever Ltd (HUL), 4. ITC
5. Colgate – Palmolive Ltd (COL), 6. Britannia Industries Ltd (BIL), 7. Marico Ltd (ML) 8.Procter and Gamble (P & G) 9.Gillette India (GI) and 10.Dabur India (DI)

:Rate of GST (table 1) : The following Products of FMCG and tax rate before GST and After GST indicate the significant impact for this study

Name of Products	Pre-GST	Post-GST	Impact on following company
Powder detergent	23%	18%	HUL, P&G, Jyothylaboratories.
Shampoo	24-25%	18%	Dabur, Himalaya, Patanjali.
Sanitary Napkins	10-11%	12%	Hygiene and Health Care.
Skin Care	24-25%	18%	Himalaya, Patanjali.
Hair Dyes	23-28%	18%	Godrej consumer products.
Ayurveda Medicine	7-10%	12%	Dabur, Emami
ToothpastesSoaps, hair oil	22-24%	18%	Colgate – Palmolive, HUL
Paints	25-26%	18%	Berger Paints, Nerolac.

Paneer	3-4%	5%	Nestle, Mother Dairy.
Ghee, Cheese	4-5%	12%	Amul, Nestle, Mother Dairy.

Source: www.gst.council.govt.in

Data Analysis:

There are Several alterations had been seen in the product after execution of GST. In Cleaner there was before in tax rate was 23% but after that the tax rate was 28%; In Shampoo also changes was seen from 24-25% to 28%; In Sanitary Napkins the changes was from 10-11% to 18%; In Skin Care from 24-25% to 28% changes had been seen; In Hair Dyes changes occurred from 23-28% to 28%; Ayurveda Medicine changes seen from 7-10% to 12%; In Toothpastes, soaps, hair oil changes occurred from 22-24% to 18%; In Paints 25-26% to 28% changes has been seen; In Branded Paneer 3-4% to 5% has occurred; In Butter, ghee, cheese 4-5% to 12% had been seen.

GST Collection (table 2)

(Rs.Cr)

GST type	2018-19	2019-20	2020-21	2021-22	2022-23
CGST	341695	348486	312492	312603	452162
SGST	361584	385921	336406	396348	480965
IGST	685947	685971	727495	920221	1025641

Data Analysis:

- The highest CGST collection is observed in the financial year 2022-23, indicating a notable increase compared to the previous years.
- The highest SGST collection is observed in 2022-23, suggesting growth in intra-state transactions and economic activity.
- The highest IGST collection is observed in 2022-23, indicating an increase in inter-state transactions and international trade.

The sample population was with 9 companies with FMCG Index. All companies’ normality was taken out through logistic index. To analyzed the impact, Paired t- Test is applied. The Result and findings are as under:

2. Descriptive Statistical tools (table 3)

	Name of the company	Mean	N	S. D	SEM
1	CNX: Before GST	-0.2265	123	1.0125	0.09166
	After GST	-0.0574	123	0.6830	0.06183
2	NI: Before GST	-0.9044	123	9.0357	0.81806
	After GST	-0.0800	123	0.9846	0.08914
3	HUL: Before GST	-1.0599	123	9.0260	0.81718
	After GST	-0.8100	123	9.0200	0.81705
4	ITC: Before GST	-1.0902	123	9.0937	0.82331
	After GST	-0.8245	123	9.0430	0.81871
5	COL: Before GST	-0.9800	123	9.0380	0.81827

	After GST	-1.0257	123	9.0521	0.81954
6	BRI: Before GST	-0.2047	123	1.2128	0.10980
	After GST	-0.0040	123	0.9608	0.08699
7	MARI: Before GST	-1.0178	123	9.0498	0.81933
	After GST	-0.0489	123	1.4447	0.13080
8	P&G: Before GST	-0.9580	123	9.0339	0.81789
	After GST	-0.1549	123	1.3279	0.12022
9	GILL: Before GST	-0.9860	123	9.0335	0.81785
	After GST	-0.2577	123	1.6066	0.14545
10	DAB: Before GST	-0.0464	123	1.0659	0.09650
	After GST	-0.7824	123	9.0483	0.81919

(Source:www.moneycontrol.com).

Data Analysis:

- It is being found that the mean value of Pre-GST is less than the Post-GST. That means the stock indices of pre does not affect significantly than the stock . The sample population was with 9 companies and 1 index.
- The mean value decreased after the implementation of GST, indicating a potential impact on Nifty index of post.
- A significant reduction in the mean value after GST suggests a substantial change in NI, with lower variability.
- The mean value remains negative, but with a decrease in variability, indicating a more stable performance for HUL after GST.
- A noticeable decrease in the mean value along with reduced standard deviation implies a positive effect on ITC after the implementation of GST.
- The mean values for COL remain close, but there is a slight increase in variability after the introduction of GST.
- The mean values for COL remain close, but there is a slight increase in variability after the introduction of GST.
- BRI experiences a shift from MARI displays a considerable decrease in mean and standard deviation after GST, indicating a potential positive impact. a negative mean to a positive mean after GST, with a decrease in variability.
- P&G shows a decrease in both mean and standard deviation after GST, suggesting a more stable performance.
- GILL experiences a reduction in mean and standard deviation after GST, indicating a potential positive impact.
- DAB sees a shift from a slightly negative mean to a more negative mean after GST, with an increase in variability.

1. Paired Samples Test (Table 4)

Name of the company	Paired difference			t-cal	d.f.	Sig.(2tailed)
	Average	S. D	SEM			
CNX: Before GST – After GST	-0.16904	0.03294	0.02983	-15.6667	122	0.000
NI: Before GST After GST	-0.82720	0.05114	0.07289	-17.3486	122	0.000
HUL: Before GST After GST	-0.25141	0.01245	0.00013	--24.2795	122	0.000
ITC: Before GST After GST	-0.26574	0.05072	0.00459	-10.5787	122	0.000
COL: Before GST After GST	-0.04571	0.01410	0.00128	-10.4929	122	0.000
BRI: Before GST After GST	-0.20879	0.02519	0.00228	-19.15344	122	0.000
MARI: Before GST After GST	-0.96898	0.03050	0.00688	-20.0733	122	0.000
P&G: Before GST After GST	-0.80304	0.05060	0.00976	-30.3626	122	0.00
DAB: Before GST After GST	-0.73603	0.04823	0.00722	-28.2687	122	0.000
GILL: Before GST After GST	-0.72826	0.04269	0.00672	-27.6770	122	0.000

Data Analysis:

- In above table of paired sample test the average showing the mean difference between the two variables, the standard deviation shows the deviation of different scores and d.f. shows the degree of freedom of test. The d.f. of all the companies are 122. The significant 2 tailed value equal to (Sig.) of $0.000 < 0.05$ that means the data has significant difference between. The data collected shows that the result of NIFTY FMCG Index, Colgate Palmolive Limited, Nestle Limited, Britannia Industries Limited, Marico Limited, Procter and Gamble, Gillette India, Dabur India Limited and Hindustan Unilever Limited is Sig. (2-tailed) 0.05.
- Thus, the test rejects the null hypothesis (H0) and accepts the alternative hypothesis (H1). Thus, the result shows that there is significant difference between the pre and post GST.

Findings:

- There is variation in tax rate before and after implementation of GST.
- The collection of CGST,SGST and IGST are high during the year 2022-2023 as compared to the previous years.
- There is more variability in mean and SD of Nifty index as well as most of the FMCG stocks.
- To check the validity of the data , Paired t-test at 5% level of significance reveals that,there is a significant impact on pre and post implementation of GST.i.e There is a significant difference between the stock indices of pre and post GST in India

Suggestion:

Implementation of GST throughout India (included Jammu and Kashmir) is the biggest change in India. It is an outstanding step for a comprehensive indirect tax reform in India. Implementation of GST has put mixed impact on FMCG sector. Those FMCG companies whose tax incidence lowered, like Dabur, HUL, ITC have started to pass on the effect in the form of low prices. Changes in GST rates on regular intervals is very fruitful for some firms but not for other firms in the FMCG industry. GST may become game changer in the long run for the FMCG sector and may also have deep impact on Indian economy as well.

Conclusion:

.This Study based on six months before and after GST data. Statistical samples t test is applied in all the six stock indices to see the result. The result shows that there is significant difference between the pre and post. So, it can be perceived that implementation of goods and service taxes has affected in the economy. Thus, GST has proved to be major financial reform can be a step towards better economy. Due to the smoother supply chain management, payment of tax, claiming input credit, removal of CST under the GST regime there will be a cost reduction in terms of transportation and storage of goods. It is expected that the reduction in cost and taxes would make the consumer goods cheaper. The above study indicates the statistical t -test with 10 pairs defined the significant 2-tailed value is less than 0.05 which means the alternative hypothesis is accepted and null hypothesis is rejected. Thus the result shows that there is significant difference between the pre and post GST

It's proven that the gross Goods and Services Tax (GST) revenue collected in the month of November, 2023 is Rs 1,67,929 crore out of which CGST is Rs 30,420 crore, SGST is Rs 38,226 crore, IGST is Rs 87,009 crore (including Rs 39,198 crore collected on import of goods) and cess is Rs 12,274 crore (including Rs 1,036 crore collected on import of goods). The government has settled Rs 37,878 crore to CGST and Rs 31,557 crore to SGST from IGST. The total revenue of Centre and the States in the month of November, 2023 after regular settlement is Rs 68,297 crore for CGST and Rs 69,783 crore for the SGST.

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