Original Article

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Impact & Implications of GST on FMCG Sector in India

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Abstract

Fast moving consumer goods sector is the 4th largest sector in India. This includes food products house hold products and personal care products. All together FMCG companies are providing the huge employment. The growth of the FMCG sector depends upon the consumers demand and as well as supply of the product. The present paper is an attempt to study the impact of GST on FMCG sector by analyzing pre and post GST condition of the said sector. A comparative analysis of selected FMCG companies has been done to get a comprehensive picture of how GST has implied on different set of FMCG product groups. This study has also tried to give an answer to the question whether GST has a positive or negative impact on FMCG sector of India.

Keywords: FMCG; GST.

Introduction of Study

Fast-moving consumer goods (FMCG) sector is the 4th largest sector in the Indian economy. This includes manufacturing and selling of food products, households and personal care products. Together FMCG companies are generating remarkable employment in the Indian economy. The Indian FMCG sector has strong presences of leading multinational companies and unorganized players with well distribution system with lowest operational cost. The growth of FMCG sector depends upon the consumers demand and as well as supply of the product. Market reach of FMCG sector products are extensive in India as it has captured most urbanized population and at the same time reached to the interior rural areas. Looking at the growth and development of this sector, Indian governments have put special measures to regulate FMCG sector including the FMCG market. Some recent measures are consumer protection bill, food safety bill, FDI in 100% in retail, etc. These measures have well accepted and so far shown some positive impact on the growth of FMCG sector. But the recent introduction of Good and Service Tax (GST) has got an unexpected reaction from the sector.

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Review of Literature

FMCG sector play a vital role on every human's life. Fast Moving Consumer Goods are economical products these are the non-durable products. FMCG sector is a significant contributor to India's GDP development. The International Monetary Fund has projected that India's GDP will grow by 7.4% during 2016–17. At present house hold and personal care are the leading segments in accounting of 50% in overall FMCG market. Encouraging demographic things are increase an earning level to enhance the Indian FMCG sector. The key drivers of this sector is easier to access, life style changes, growing awareness, increasing the brand value, growing youth population, easy to import the material and technology, rapid growth of the real estate, new product development , improving the service quality, growth in rural sector ,availability of raw material and low labour cost etc.. To boost up the growth of Indian FMCG sector.

According to the past reports Indian FMCG sector overall estimated growth is US$185 billion. Fmcg sector has grown at a CAGR 12% at last decade. The total market size of US$ 49 billion in 2016 According to BCG report and ASSOCHAM reports expected grow of Fmcg sector is CAGR 20.6% to reach US$103.7 billion by 2020.

Some of the most important initiatives taken by the government to encourage the FMCG sector in India are as follows:

- In the Union Budget 2017-18, the Government of India has proposed to spend more on the rural side with an aim to double the farmer's income in five years; as well as the cut in income tax rate targeting mainly the small tax payers, focus on reasonable housing and infrastructure growth will provide various development drivers for the consumer market industry.
- The NDA Government taken decision to allow 100 per cent Foreign Direct Investment (FDI) in online retail of goods and services from end to end the automatic route has provided clarity on the existing businesses of e-commerce companies working in India.
- The Government of India has drafted a new Consumer Protection Bill with special importance on setting up a wide mechanism to make sure simple, speedy, easily reached, reasonable and timely delivery of justice to consumers.
- The Goods and Services Tax (GST) is helpful for the FMCG industry as many of the FMCG products such as Soap, Toothpaste and Hair oil now come under 18 per cent tax group against the earlier 23-24 per cent rate.

The Indian government has adopted Dual GST, I.e. Central and state level goods and services. It is a major and important step in tax reforms. Goods and Services Tax (GST) is a complete tax duty on manufacture, sale and utilization of goods and service at a national level. "New Article 366(12A) of the Indian Constitution defines Goods and Services Tax (GST) to mean any tax on supply of goods or services or both except taxes on the supply of the alcoholic liquor for human consumption". Before introducing the GST in India tax policies is different they are central tax, and state taxes. In central taxes are Excise duty, / sales tax, customs tax and service tax. In state level taxes are VAT, entertainment tax, luxury tax, electricity duty, entry tax and octroi. Presently these are all taxes under one law I.e. Goods and Service Tax (GST). The GST divided into 3 categories they are CGST, SGST/UTGST, and IGST.

GST law while having unique principles ,has a significant elements of prior central and state laws and also inspired by GST legislation of EU, Australia, Malaysia etc. along with international VAT/GST guidelines of OECD.

France: The first country to implement GST in 1954. Today 160 countries have GST/VAT. Most European countries introduced GST back in the 1970s-80s China completed Value Added Tax* (VAT) reforms in 2016 to replace its conflicting Business Tax system. Doing away with business tax and other taxes and switching to VAT has contributed to bursting of the Chinese real estate bubble. China also has partial GST, on some goods Japan introduced consumption tax in 1989 at a rate of 3%. In 1997 this increased to 5% and Japan went into recession. In 2012, Diet doubled the tax to 10%. Later the Shinzo Abe government delayed tax increase until April 2017. In 2016, a second postponement was announced which pushes the increase to October 2019!

Empowered Committee of Finance Ministers (2009) introduced their First Discussion Paper on Goods and Services Tax in India which analyzed the structure and loopholes if any in GST.

Vasanthagopal (2011) in the article GST in India: A Big move taken by the NDA government in the Indirect Taxation System to implement the GST and discussed the impact of various sectors. The article further stated that GST is a big move and a new encouragement to change the Indian economy.

Seventy Third Report of Standing Committee on Finance (2012-2013). The Constitution (One Hundred Fifteenth Amendments) Bill, 2011 Bird (2012) summarizes in the article The GST/HST: Creating an integrated Sales Tax in a Federal Country the impact of GST will be on Canada.

Herekar, (2012) The Ministry of Finance had set up the Task Force with Mr. V. Kelkar as the chairman of the Task Force. The main task of the Task Force was to evaluate the impact of the proposed GST on the Indian economy. The author in the paper has studied the different parts of GST and their impact on the common man, the business and the economy. The author has concluded based on secondary data that if GST is introduced in India, it would have a positive impact on the overall economy Garg (2014) in the article named Basic Concepts and Features of Good and Services Tax in India analyzed the impact and GST on Indian Tax scenario and concluded that it will strengthen out free market economy.

Pinki et al. (2014) studied, "Goods and Service Tax Panacea for Indirect Tax System in India "concluded the Indian government has implementation of GST is giving the positive signs to the both governments and the consumers with a strong IT enables. *Kumar (2014) studied*, "Goods and Service Tax - A way forward" The implementation of GST in India all the indirect taxes under one tax. The GST is excepted to support equability tax structure.

Sehrawat and Dhanda (2015) studied, "GST in India: A Key Tax Reform" and concluded that due to dissilent environment of India economy, it is demand of time to implement GST *Chaurasia et al. (2016) Studied,* "Role of Goods and Services Tax in the growth of Indian economy" and concluded that in overall GST will be helpful for the development of Indian economy and this will also help in improving the Gross Domestic Products of the country more than two percent.

Objectives

- To study implications and impact of GST on selected FMCG companies.
- To study the comparative effect on FMCG products before and after introduction of GST.

Impact of GST on FMCG Sector

The research majorly concentrates the overall impact of GST and comparative analysis of tax gains and losses in Indian FMCG sector before and after Implementation of GST. Indian tax system was wider before implementing GST. The tax divided into 2 groups I.e. direct tax and indirect tax. Introduction of the Value Added Tax (VAT) at the Central and the State level has been considered to be a main step – a major step forward –in the globe of indirect tax reforms in India. If the VAT is a major development over the pre-existing Central excise duty at the national level and the sales tax system at the State level, then the Goods and Services Tax (GST) will really be an additional important perfection – the next logical step – towards a widespread indirect tax reforms in the country. Initially, it was conceptualized that there would be a national level goods and services tax, however, with the release of First Discussion Paper by the Empowered Committee of the State Finance Ministers on 10.11.2009, it has been made clear that there would be a "Dual GST" in India, taxation power – both by the Centre and the State to levy the taxes on the Goods and Services. Almost 150 countries have introduced GST in some form. While countries such as Singapore and New Zealand tax virtually everything at a single rate, Indonesia has five positive rates, a zero rate and over 30 categories of exemptions. GST is giving positive and negative effects on over all sectors. Food industry having the negative impact, housing and construction industry having the positive impact, and etc . All sectors of economy viz., big, medium, small scale units, intermediaries, importers, exporters, traders, professionals and consumers shall be directly affected by GST. Under GST the taxation burden will be divided equalibility between manufacturing and services through lower tax Rate by increasing tax based exemptions.

GST applies only to goods and the provision. The FMCG sector is a one of the largest sector in India. This sector mostly represented packaged goods and other consumer durables. The FMCG sector growth depends on some key drives they are changing lifestyle, easier to access the technology, increasing the income levels, and etc. Indian FMCG sector includes house hold, personal care, food and beverages and others. The GST is not applicable of alcohol liquor for human consumption. Food and beverages segment is the largest share in Indian FMCG setor.India is the world's second largest producer for food.

Table 1: Leading FMCG Companies in Food & Beverages Segment along with key product

ITC	Aashirvaad, Sun feast, Bingo! Yippee! Kitchens of India, B Natural, mint-o, Candy man
Amul	Amul Milk, Cheese, Ice Cream, Mithai Range, Chocolates, Butter milk, beverages
Parle Agro	Frooti, Café Cuba, Hippo, Maaza, Parle-G, Melody, Mango Bite, Poppins, Kismi Toffee Bar, Monaco and Krack Jack
Britannia Industries	Dairy products, Biscuits (Vita Marie Gold, Tiger, Nutri choice Junior, Good day, 50- 50, Treat, Pure Magic, Milk Bikis, Good Morning, Bourbon), breads, etc. Nestle Nescafe, Kit Kat, Maggi, etc.

Food and beverages segment has one of the smallest share in E-commerce market. However, due to change the consumer shopping habits presently significant growth having witnessed in purchase of food and beverages through online like bigbascket.

India is known to have a long heritage of personal care products. Personal care product segment in India is estimated to be worth of US $17.4 billion in 2018.personal hygiene products such as bath and shower products, deodorants, etc., hair care, skin care, colour cosmetics and fragrances are the key segments of the personal care segment. Lower price and small quantities offered by the companies have improved the Peace of saturation of FMCG personal care products. Increasing literacy levels, government welfare programs and support the agriculture sector and increasing the technology these are the key drives of boosting the rural demand of the FMCG personal care segment.

Table 2: Leading FMCG Companies in house hold Segment along with key products

HUL	Clinic Plus, Lifebuoy, Pears, Dove, Lakme, Sunsilk, Vaseline, Fair & Lovely etc
ITC	Vivel, Fiama Di Wills, Engage, Savlon, Superia
GCPL	Cinthol, Godrej No. 1, Godrej Nupur, Godrej Expert, Renew, etc.
P&G	Vicks, Oral-B, Olay, Gillette, Pampers, etc. Colgate Palmolive India Toothpastes, Toothbrushes, Mouthwash, Toothpowder, Palmolive thermal spa, etc

House hold segment mostly include the fabric and house hold cleaners. This segment facing the stiff competition with the lowest margins. This segment occupied of the share 12-14% in Indian FMCG sector.

Table 3: Leading FMCG Companies in house hold Segment along with key products

HUL	Wheel detergent, Cif Cream Cleaner, Comfort fabric softeners, Domex disinfectant, Surf Excel detergent, Vim, etc
Reckitt Benckiser	Lysol, Air Wick, Mortein, Harpic, etc
Rohit Surfactants	Xpert Ultra Gel (Liquid), Ghari Detergent Powder, Ghari Detergent Cake, etc
P&G	Ariel, Tide, Ambi Pur, etc
GCPL	Goodnight, HIT, Aer, Ezee, etc.

Indian FMCG companies such as ITC, Patanjali, Amul, Godrej, etc. have witnessed a higher profit to compare with foreign brands namely HUL, GSK, Nestle, etc. Indian companies have improved their product portfolios, supply chain, and market share through non-living growth.

Indian FMCG companies have focused on increasing their charisma in idle markets such as Ayurvedic products. Other factors such as new product developments, pricing decisions, increasing international business have also helped these companies to improve their presence compared to the multinational firms.

Tax rates on FMCG Products before GST

FMCG has many taxes like VAT, Excise duty, central sales tax, service tax. Before implementing of GST the tax rate is 22-24%. The tax on detergents was 23% while sanitary napkins used to be taxed at the rate of 10-11%. Skincare products including shampoo were taxable at 24-25% standard rate, Butter, ghee, cheese used to be taxed at the rate of 4-5%. The average tax rate on FMCG products before GST was not more than 25% .

Post GST on FMCG Sector

GST was introduced the five standards of tax levels they are 0%, 5%, 12%, 18%, and 28%. Under new tax regime, the average tax on FMCG products is in the range of 18 to 20 percent, which is clearly lower than the previous tax system. Many of FMCG products and services are lower under GST. It is beneficiary to the business and manufactures. It is also benefit to the end costumer. The logistics cost also reduce under GST, distribution system having the low cost under implementing the new taxation. Overall the storage and transportation cost of goods and services having low under GST. The products are widely consumed broad range of hair oils, tooth pastes, soaps under 18% of slab, which is lower than the previous tax rate I, e. 22-24%. The branded paneer and frozen vegetables has under 5% tax rate, it is more from previous tax rate 3-4%. Most of the item are in the 18% slab group. Detergents, shampoos, skin care and hair dyes these are the 28% slab, it is higher than the 24-25% tax rates. No tax on basic food products like milk, cereals and eggs would allow people to liberally spend on these items.

The total previous tax rate for the FMCG sector was around 22-24%. The new tax system (GST) for the FMCG sector is an average of 18-20%.

Some of the reputed FMCG companies like HUL, Patanjali, Dabur and ITC in India have started transitory on the benefits of reduced tax to their customers. These benefits passing to different form i.e. reduce the prices or by increasing the amount of product for the same price. Always the lower cost has encouraged the people to invest/spend more in FMCG sector. This will help to the reducing the cost of living. The FMCG companies deal in dryfruits, dairy-related products and etc it will also have a deal with the higher tax rate on their products. Under GST the macro level companies that deal in these supplies are enjoying the benefits of GST.

Beverages have been given the highest rate slab of 28% under GST, with cess 12%. According to the different Beverage companies, 40% is the effective tax rate for the sweetened aerated water and flavored water, which is not in line with the stated policy of maintaining uniformity with the existing weighted

Table 4: The new tax rates under GST impact major products and companies with in the sector

Product	Before GST	After GST	companies
Detergents	23%	28%	HUL, P&G, Jyothy Laboratories
Shampoo	24-25%	28%	HUL, P&G, Dabur, Himalaya, Patanjali
Sanitary napkins	10-11%	18%	P&G Hygiene and Health Care
Skincare	24-25%	28%	HUL, Dabur, Himalaya, Patanjali
Hair dyes	23-28%	28%	Godrej Consumer Products
Ayurvedic medicine	7-10%	12%	Dabur, Emami
Toothpastes, soaps, hair oil	22-24%	18%	Colgate-Palmolive, HUL, P&G
Paints	25-26%	28%	Asian Paints, Berger Paints, Nerolac
Branded paneer	3-4%	5%	Nestle, Mother Dairy
Butter, ghee, cheese	4-5%	12%	Amul, Nestle, Mother Dairy

average tax that is below 40%. This has been very disappointing for different companies like Coca-Cola India, Dabur India Ltd, Red Bull India Pvt. Ltd, Pepsi Co India Holdings Pvt. Ltd, and Pearl Drinks Ltd, as stated by the Indian Beverages Association (IBA).

Large retail outlets have started advertising the downward revised prices of FMCG items on account of GST tax rates. Tax rate on items such as coffee, custard powder, dental hygiene products, polishes and creams, sanitary ware, and washing power, razors and blades, has been cut from 28 percent to 18 percent.

This sector consists of more than 50% of food and beverage industry and around 30% of personal and household care thereby including the entire urban as well as rural parts of India.

Under the pre-GST regime, the distribution cost of the FMCG sector accounted for 2 to 7%, which may fall to 1.5% after the complete implementation of GST. An enormous impact and changes in terms of decrease cost due to the tax payments, smoother supply chain management, claiming input credit, under the GST Scenario. This result will lead to cheaper consumer goods.

Companies such as Marico will benefit from the change in the rates of edible oil, and the rates of hair oil have decreased in their favor as well. Colgate-Palmolive will also gain under GST, as toothpaste will become cheaper now. Gifting dry fruits on festivals will become an expensive affair now as the rates have increased from 4-5 percent to 12 percent. Also, the rates of dairy products like ghee, butter, and cheese have increased from an average of 4-5 percent to 12 percent. Companies like Amul and Nestle will likely revise prices on their products as a result of GST.

All FMCG companies said that GST will help boost rural demand. FMCG companies decided to reduce the MRP and added extra quantity in the line of GST reduction, and provide the additional discounts to their trade partners. The FMCG companies are decide to passing the benefits of reduce the tax rates to their consumers. They are also re design the MRPs of previous products and also fresh products under GST slabs. The union budget 2018 is also gave the boost in FMCG companies to grow in a fast manner. Mainly the macro level firms having the benefits immediately but micro level companies waiting for the benefits of GST under long run. Some of the FMCG companies having the gains of Under GST. The consumers also benefited for some of the FMCG products to spend their income on those purchases but some of the products are having higher tax rates so the people lose the benefits.

Findings

GST is giving the boost in FMCG companies to contribute the Indian economy. GST helps the FMCG sector to pool the investments and increases their market share value.

FMCG products prices would be decreased and companies also giving the benefits to their consumers to reduced tax rate. It helps the companies to reduce their logistics and transportation cost, it always improving their production. FMCG companies encounter the effects of GST i.e. Positive as well as negative impact, and also try to gain the tax Benefits under GST.

Conclusion

Different products are taxed at different rates, on a macro level, the average tax and the final prices that the end customer ends up paying will average out, with some products becoming more expensive and others becoming cheaper. GST would give the boost up in investments and reduce the overall transportation cost, it always help the companies to reduce their production cost. Hence, shows an impact in a long period.

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