iJRASET
International Journal For Research in Applied Science and Engineering Technology



INTERNATIONAL JOURNAL FOR RESEARCH

IN APPLIED SCIENCE & ENGINEERING TECHNOLOGY

Volume: 12 **Issue:** XII **Month of publication:** Dec 2024

DOI:

www.ijraset.com

Call: 08813907089 | E-mail ID: ijraset@gmail.com

International Journal for Research in Applied Science & Engineering Technology (IJRASET)
ISSN: 2321-9653; IC Value: 45.98; SJ Impact Factor: 7.538
Conference 'Technology and Knowledge Based Entrepreneur for Sustainable Industrial Development', held at Sridevi Women's Engineering College, Dec 2024

A Study on Impact of GST on FMCG Sector in India

Dr. U. Padmavathi[1], B. Mythri[2]
[1]*Professor HOD,* [2]*MBA (Finance), Sridevi Women's Engineering College, Hyderabad*

Abstract: ***With the advent of Goods and Services tax (GST) in India proposed from July 1st 2017, the biggest and most impactful change in Indian indirect taxation happened. The GST will replace the existing indirect taxes on consumption and will be applied on both goods and services. For goods, it will be levied destination based, whereas for services, it will be levied consumption based. Fast moving consumer goods sector is the 4th largest sector in India. This includes food products, household products and personal care products. The growth of the FMCG sector depends upon consumers demand and supply of the product. This study has also tried to give answer to the question whether GST has a positive or negative impact on FMCG sector of India.***

Keywords: FMCG, CGST & SGST.

I. INTRODUCTION

The Goods and Service Tax (GST) is considered to be one of the great reformations implemented in India. The impact of GST on Indian fast moving consumer goods is going to be manifold. Due to the implementation of GST there is a transparency and the tax liability will be moving to the consumers only for the quantity that they had consumed for.The FMCG sector in India comprises more than 50 percent of the food and beverage industry and another 30 percent from personal and household care, thereby spanning the entire rural and urban parts of the country. 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 Goods and Service Tax (GST) has got an unexpected reaction from the sector. The Indian FMCG sector has strong presences of leading multinational companies and unorganized players with well distribution system with lowest operational cost. 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.

II. OBJECTIVES

1) To examine the major segments in FMCG sector.
2) To study impact of GST on FMCG companies.
3) To study the comparative effect on FMCG products before and after introduction to GST.

III. REVIEW OF LITERATURE

Empowered committee of finance ministers (2009), introduced their first discussion paper on GST in India which analyses the structure and loopholes if any in GST. Vasanthagopal (2011) in the article GST in India, A big leap in the indirect taxation system discussed the impact of GST on various sectors of the economy. Garg(2014) in the article names basic concepts and features of goods and services tax in India analyses the impact and GST on Indian tax scenario and concluded that it will strengthen out free market economy.

A. What is GST?

GST stands for "Goods and Services Tax". And is proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. It will replace all indirect taxes levied on goods and services by the Indian central and state governments.

1) SGST – State GST, collected by state government.
2) CGST – Central GST, collected by central government.
3) IGST – Integrated GST, collected by central government.

©IJRASET: All Rights are Reserved

B. Need for study

Fast Moving Consumer Goods (FMCG) are popularly names as consumer-packaged goods. Items in this category include all the consumables people buy at regular intervals. FMCG is also one of the fastest growing sectors among all the sectors in the Indian economy. FMCG segment is the fourth largest in the Indian economy. For most segments within the FMCG spare, GST brings good tidings on the back of lower tax incidence when compared to the total tax paid pre-GST.

In this sector GST would have an impact on the pricing, working capital, contracts with vendors and customers etc. The sale of retailers, wholesalers and the monthly budget of common people regarding fast moving consumer goods (FMCG) should have an impact of GST. Moreover, the concept of GST awareness among common man is an important matter to be analyzed.

C. Importance of this study

The FMCG industry represents an island of stability during times of economic uncertainty. Among the various industries that characterize the modern global economy, the Fast-Moving consumer goods industry is amongst the most resilient to economic shocks. Unlike other industries, the FMCG sector is not prone to mass layoffs or substantial dips in profit when the economy slows down. This is due to the nature of the goods themselves. For a developing country like India a sector like FMCG which does not get affected by economic stability is to be focused on. So, it is important to analyze the impact of a big tax reform in the country with respect to the 4th largest sector of the Indian economy. It will focus on innovation and expansion.

D. Impact Of Gst On Fmcg Sector

1) REDUCTION IN LOGISTICS COSTS: The FMCG sector will also benefit fromGST by saving a considerable amount of expenses on logistics. Distribution costs for the FMCG sector currently amount to 2-7 percent of the total cost, but are expected to drop 1.5 percent after implementation of GST software. Due to the smoother supply chain management in regards to paying tax, claiming input credit, and removing CST under the GST regime, there will be a cost reduction in terms of transportation and storage of goods. The reduction in taxes and distribution costs should enable companies to lower prices on consumer goods.

2) INCREASE IN EFFECTIVE TAX RATES: Aerated beverages have been placed in the highest tax slab of 28 percent and will now attract an additional tax of 12 percent.

E. 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%. Skin care 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%.

F. 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 18-20 percent. 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 customer.

Table showing 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
Shampoo	24-25%	28%	Dabur,Himalaya,Patanjali
Sanitary napkins	10-11%	18%	P&gHygiene,Healthcare
Skincare	24-25%	28%	Dabur,Himalaya,Patanjali
Hair dyes	23-28%	28%	Godrejconsumerproducts
Ayurvedic medicine	7-10%	12%	Dabur,emami
Toothpastes,soaps,hairoil	22-24%	18%	Colgate,HUL,P&G
Paints	25-26%	28%	Nerolac,Nestle
Branded paneer	3-4%	5%	Nestle,Motherdairy
Butter,ghee,cheese	4-5%	12%	Amul,Nestle

©IJRASET: All Rights are Reserved

G. Major Segments In FMCG Sector Are

1) 30% household sector (fabric wash, household cleaners)

2) 30% personal care (Oral care, Haircare, Skincare, Cosmetics, Hygiene and Paper products)

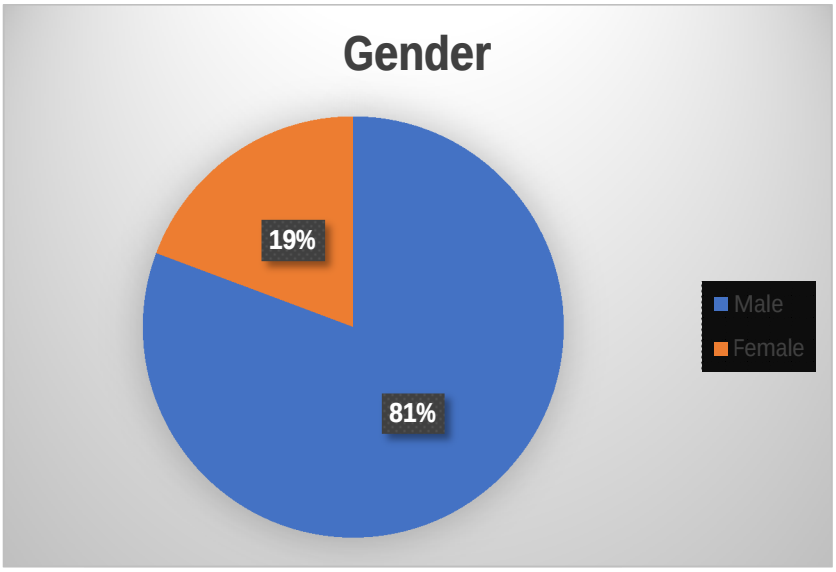
3) 50% Food and Beverages (Health beverages, Bakery, Snacks, Chocolates, Ice cream, processed fruits and vegetables and dairy products etc)

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

IV. DATA ANALYSIS AND INTERPRETATION

The data has been collected from secondary sources in order to analyze the impact of GST on FMCG sector.

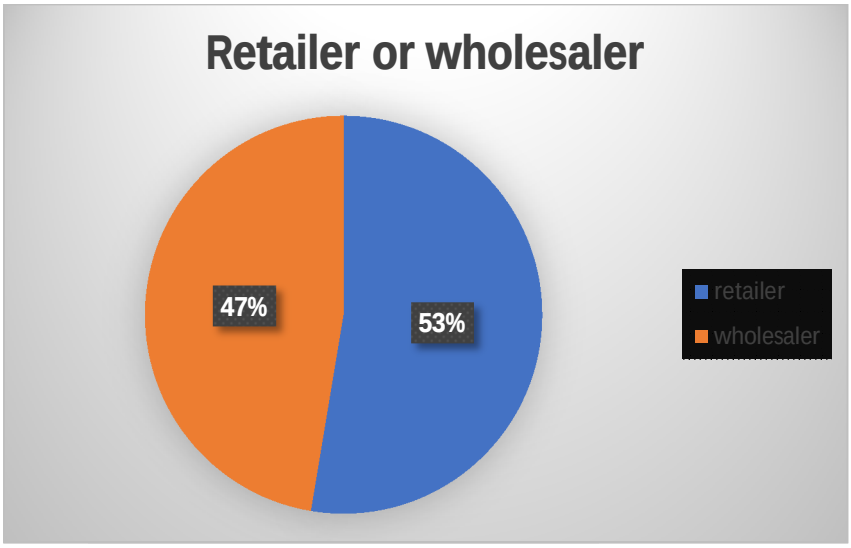
1) Your gender?



INTERPRETATION:

From the figure 81% people out of 100% were males which means that most of the wholesalers and retailers in the FMCG sector are males.

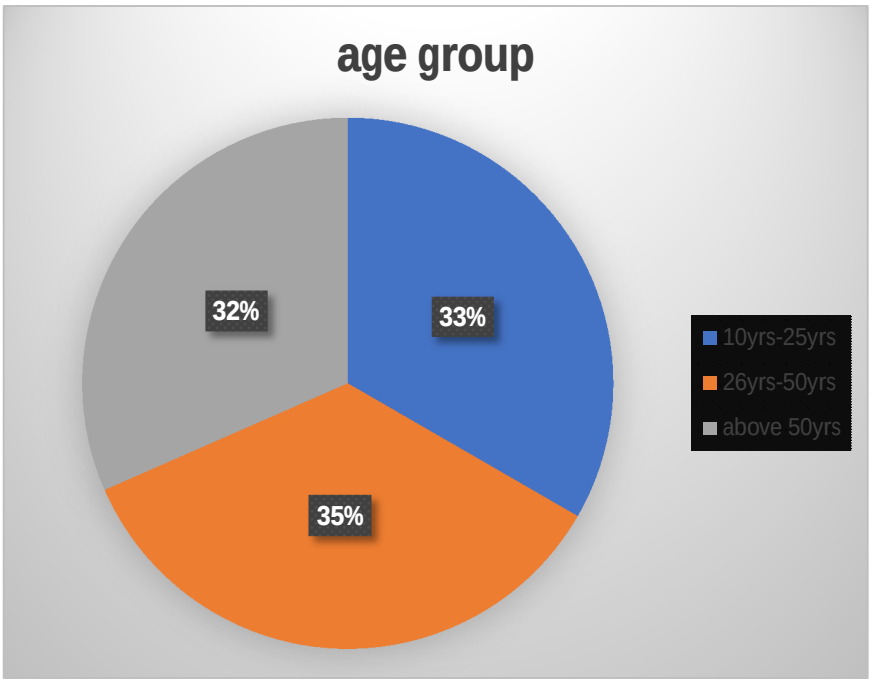
2) Are you a wholesaler or retailer of FMCG?



INTERPRETATION:

From the figure the number of wholesalers are 47% and retailers are 53%.

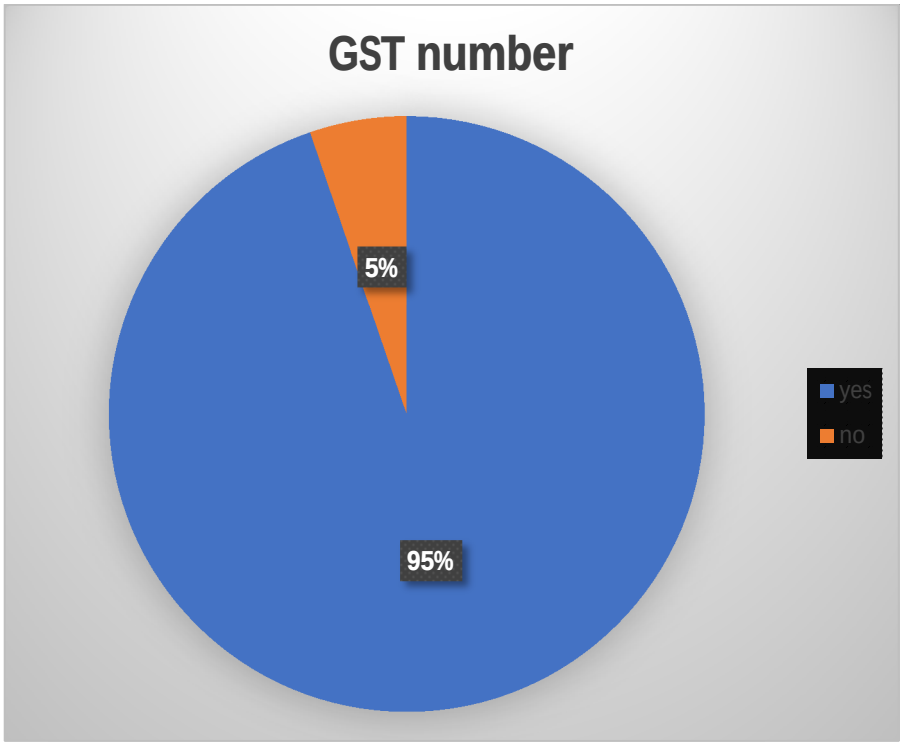
3) Your Age group?



INTERPRETATION:

From the figure the age group of most retailers and wholesalers is 35% where as 32% and 33% are less when compared to 35%.

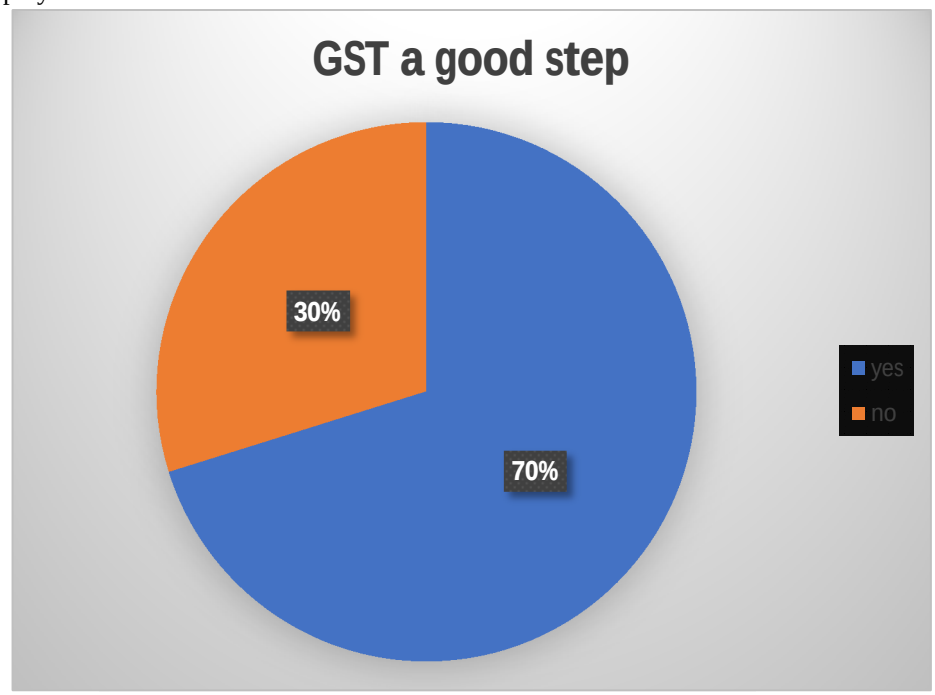
4) Do you have a GST number?



INTERPRETATION:

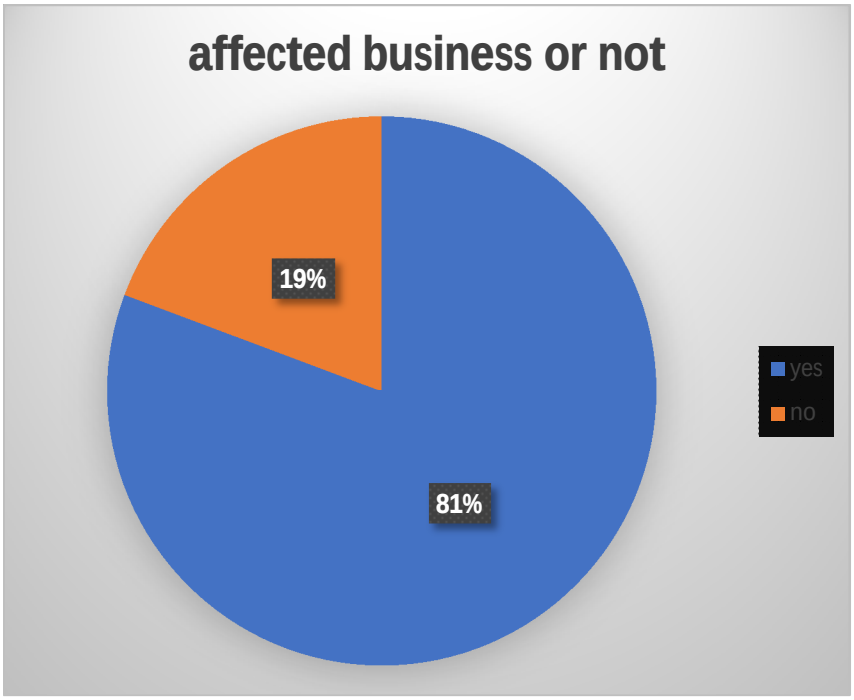
From the figure 95% of people have a GST number whereas 5% of people does not have a GST number this shows the awareness of people.

5) Is GST a good step by the Government?



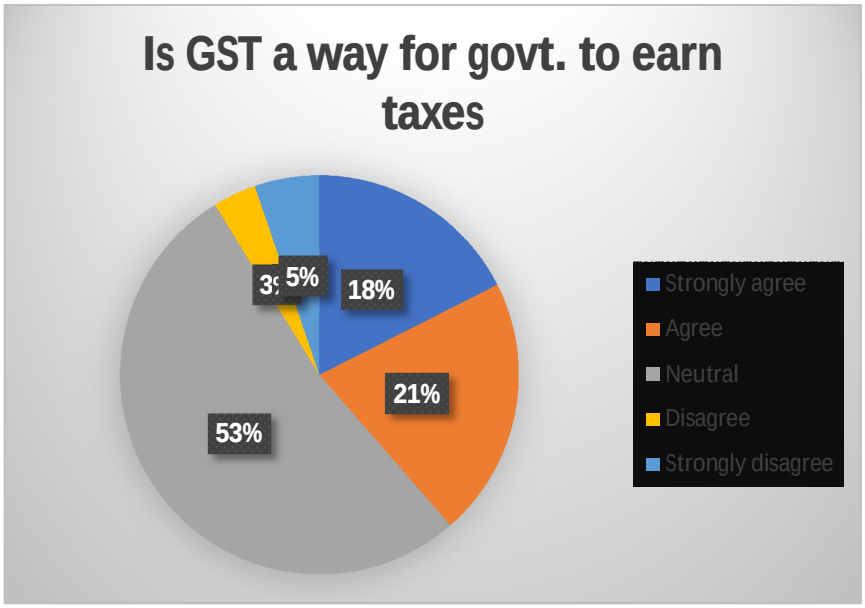
INTERPRETATION:
Most of the people believe that GST is a good step taken by government(70%), whereas 30% people believe that it is not a good step that the government took.

6) Has GST affected your business?



INTERPRETATION:
From the figure 81% of people believe that their business has been affected due to GST and 195 of people believe that it hasn't affected.

7) Is GST a way for government to earn more taxes?



INTERPRETATION:
From the figure most of the people (53%) are neutral and don't have an opinion on it whereas 21% people agree that it is a way to make more taxes, 18% people strongly agree, 3% people disagree and 5% people strongly disagree.

V. 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.

VI. CONCLUSION

GST is a recent policy introduced. GST aims at simpler tax regime and transparency in all transaction. FMCG sector which is an important player in the market sector has been impacted by GST to some extent. This research concludes that GST has an impact on various aspects of FMCG companies. Since it has been three years from when the GST law came into force, the extent or degree of such impact cannot be completely fathomed. It would require more time evaluate whether GST would prove to be beneficial to FMCG retailers and wholesalers.
The increase in prices of raw materials of FMCG has effect on price of goods therefore the price of raw material has a direct relation and the hiked price ultimately is paid by the consumers. We also found that if the government provides relief on FMCG the purchasing power of the consumer will be affected as the prices will fall down the purchasing power will go up. The purchasing power also has relationship with the credit period. GST is followed by many top economies in the world and hopefully it will bear fruit to the Indian economy as well.

REFERENCES

[1] The Economic Times (August 07, 2016), GST impact: cars, FMCG items to get cheaper, services dearer.
[2] Indian FMCG market- 2020.
[3] Chavan, R. (2017) A study on impact of goods and service tax on Indian industries with reference to FMCG sector.
[4] Dr. R. Vasanthagopal, GST in India: A big leap in the Indirect Taxation System, International Journal of Trade, Economics and Finance, 2011 April; 2 (2):145.
[5] Herekar P.M. Evaluation of Impact of Goods and Service Tax, Indian Streams Research Journal, 2012:2(1):1-4.
[6] http://www.gstcouncil.gov.in/
[7] http://www.ibef.org/industry/fmcg.aspx

QUESTIONNAIRE

NAME:

Q1. Your gender?
A. Male
B. Female

Q2. Age group?
A. 10-25
B. 26-50
C. Above 50

Q3. Are you a wholesaler or retailer?
A. Wholesaler
B. Retailer

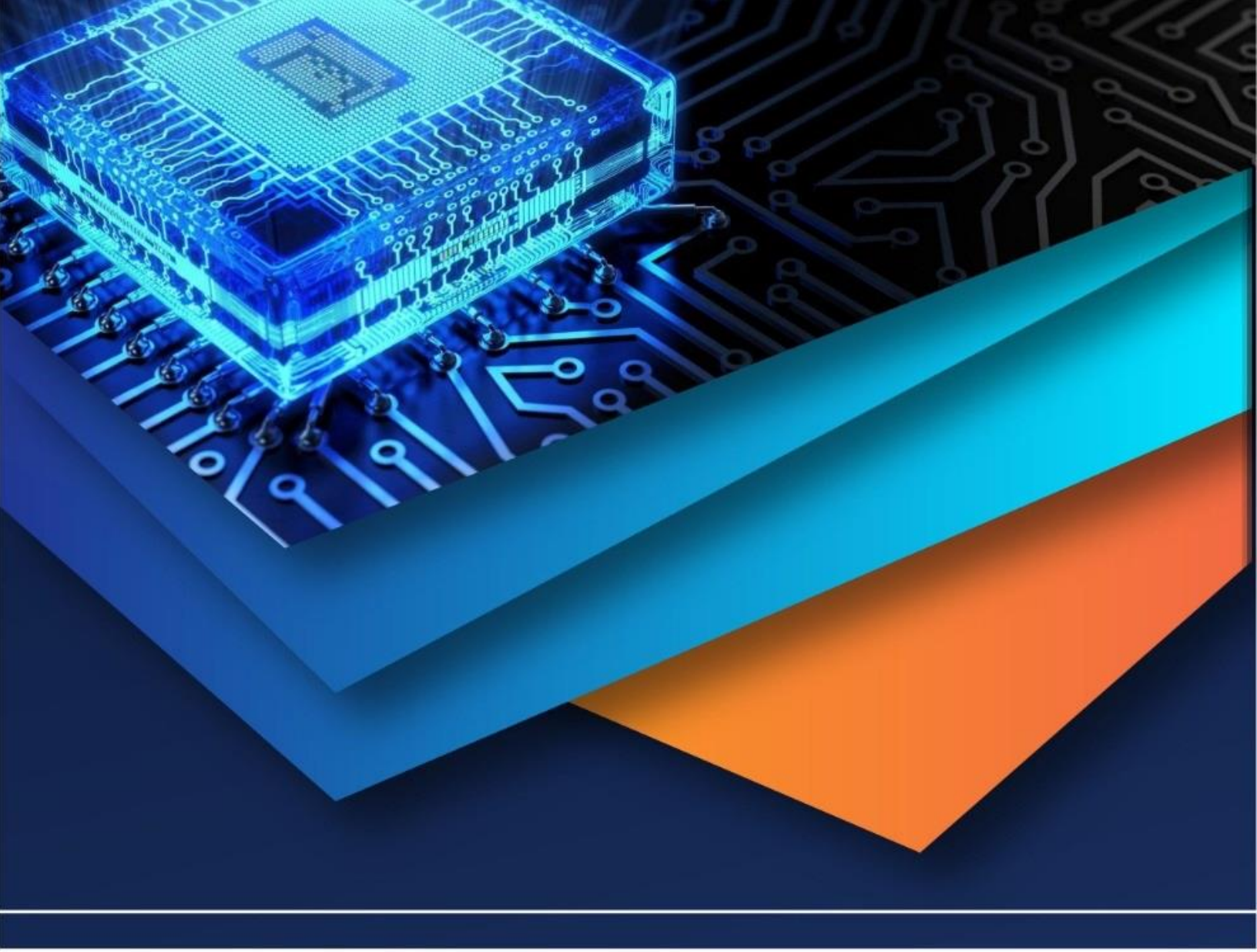
Q4. Do you have a GST number?
A. Yes
B. No

Q5. Is GST a good step taken by the government?
A. Yes
B. No

Q6. Has GST effected your Business?
A. Yes
B. No

Q7. Is GST a way for government to take more taxes?
A. Strongly agree
B. Agree
C. Neutral
D. Disagree
E. Strongly disagree

©IJRASET: All Rights are Reserved | SJ Impact Factor 7.538 | ISRA Journal Impact Factor 7.894 |



10.22214/IJRASET

45.98

IMPACT FACTOR: 7.129

IMPACT FACTOR: 7.429

INTERNATIONAL JOURNAL FOR RESEARCH

IN APPLIED SCIENCE & ENGINEERING TECHNOLOGY

Call : 08813907089 (24*7 Support on Whatsapp)