

IMPACT OF GST ON INDIAN LOGISTICS SECTOR

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Abstract—The proposed reform “make in India” scheme initiative taken by the government is aligning with the implementation of the GST. Goods and service tax is a colligation of multiple taxes levied by both Central (i.e., excise duty, countervailing duty and service tax) and state (Value-added tax, Octroi and entry tax, luxury tax, etc.) governments when an end-user purchases goods or services. It means same level of taxation would be charged on a specific product or service across the entire country irrespective of being manufactured and sold in different states. Logistics is generally the detailed organization and implementation of a complex operation. In a general business sense, logistics is the management of the flow of things between the point of origin and the point of consumption in order to meet requirements of customers or corporations. This paper is an analysis of what the impact of Goods and Service Tax (GST) is on Logistics Sector in India primarily in Transportation, Warehousing and Logistics Service Providers.

Keywords—Customers, Freight Forwarding, GST, Logistics Service Providers, Warehouse.

INTRODUCTION

Logistics Sector in India is highly fragmented. Due to increased industrial activities, the India logistics industry has gained immense significance over the years and a major contributor of Indian GDP. The India logistics industry is projected to grow at CAGR of 15-20% during the financial year 2016 to the financial year 2020. The primary bottleneck in driving economic growth of this sector is due to multiple tax charged by authorities at interstate check posts. This results in high logistics costs putting extra cost burden on the customers. The logistics costs in India is high (13 per cent of GDP) as compared to developed countries (8-9 per cent of GDP). The India logistics sector is primarily categorized into four segments comprising transportation, warehousing, freight forwarding and value-added logistics. Transportation alone holds 60 per cent share of the logistics industry and rest 40 per cent is contributed by warehousing, freight forwarding and value-added logistics. GST implementation will be a game-changing event for businesses and particularly for organized logistics players. Logistics is considered to be the backbone of manufacturing and trading activities in the economy. It has a critical role to play for developing countries like India wherein consumption is growing and demand is always high.

We can fairly assume that a well-organized and mature logistics industry has the potential to leapfrog the “Make in India” initiative of the Government of India to its desired position. In simple words, logistics can be considered as the movement of goods from its point of origin to the point of consumption. A well-planned logistics and supply chain ensures delivery of right items in right quantities at the right time to the right place for the right price in the right condition to the right customer. And if not well managed, everything goes for a toss. The stakes remain high for both consumer and supplier.

REVIEW OF LITERATURE

Introduction of GST would make Indian products competitive in the domestic and international markets. This would instantly spar economic growth. (Girish Gang-2014- Basic concepts and features of GST in India- International Journal of Scientific Research and Management- vol. 2 ISSUE 2 PP 542-549)

The ambitious GST would help the transport sector in improving its efficiency besides reducing the logistics costs. GST

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will help the country in two areas- logistics cost will come down and efficiency will increase both within India and exports. **(Deccan Chronicle May 15, 2016).**

As per **World Bank estimates**, delays are caused by roadblocks, checkpoints and other stoppages could cut freight times by 20 to 30 percent and logistics costs by 30 to 40 percent. With proper GST implementation, this can boost India's manufacturing sectors by almost 3 to 4 per cent of net sales.

The passage of GST bill, when it happens, can spur large warehouse related investors by logistics providers to derive cost savings from route and warehouse optimization **(Business Line July 3 2016, Transport Corporation of India: en route to growth“).**

The joint study report of Transport Corporation of India and India Institute of Management, Calcutta on operational efficiency of freight transportation by road suggests that government shall resolve issues regarding GST with various stakeholders to reduce the stoppage delays that take place for documentation check and tax collections.

OBJECTIVES OF THE STUDY:

The objective of the study is

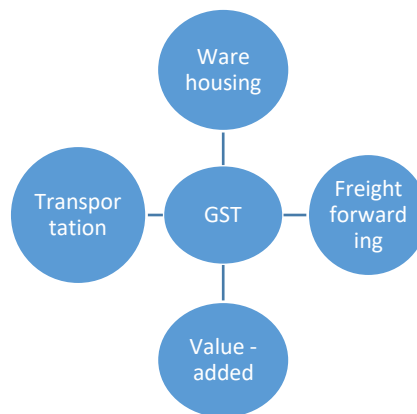
- To analyze the impact of GST on various sectors of logistics
- To present the advantages of post GST in logistics sector

METHODOLOGY OF THE STUDY

Being an explanatory research, the methodology is based on secondary data that comprises research articles of the experts from journals, newspaper and magazines.

OVERVIEW OF INDIAN LOGISTIC INDUSTRY:

The Indian logistic industry is expected to grow steadily, led by e-commerce penetration, economy revival, proposed GST implementation and government initiatives like “Make in India”, National Integrated Logistic Policy, 100% FDI in warehouses, food storage facilities. Furthermore, with respect to India's GDP growth the logistics industry is expected to grow at 1-1.5x as logistics business is directly correlated with economic activity. Despite these reasons, the logistic sector in India remains entangled in several complexities which primarily includes higher logistic costs and complex tax structure. The implementation of Goods and Service Tax (GST) bill is expected to trim the logistic costs up to 20% from the current levels, however, the persisting high logistic costs could only be resolved by development of logistics infrastructure. The Indian logistic sector is primarily categorized into four segments as



The transportation which contributes maximum to the whole pie of logistic sector comprises various means such as road, rail, air and water. India being emerging country with prime dependency upon transportation through land, i.e. through road and rail together which contributes about 60% followed by Warehousing 24.5% compromising industrial and agricultural storage. The current article delineates upon the complex tax structure issue faced by the logistic industry and the benefits that this industry would derive upon implementation of GST, thus providing respite to certain extent to the industry.

IMPACT OF GST ON LOGISTICS INDUSTRY

The Goods and Service Tax (GST) – taxation on goods and services consumed on value additional basis without any distinction is the directive in the Indian tax reforms with effect from July 1, 2017. It is expected to play a crucial role in integrating the fragmented logistics industry, a major contributor in improving supply chain efficiency and product cost. The \$130 billion Indian logistics industry is growing at 15% CAGR. The real backbone of the Indian economy, it is currently reeling under heaviness, making it unattractive, the main reasons for it being the unorganized stature of the players, absence of clarity in taxation, multi-layered effects, and harassment at each cross-over point, all adding to the cost to the customer and productivity delays.

Classification of logistics service provider as a goods transport agency (GTA) or courier service agency is a main debated discussion in the Pre-GST regime, the reason being the complicated procedures applicable on GTA services drives all operators to declare them as courier service agency. Post-GST, there is expected to have a clear understanding, bifurcation of services, classification / application of appropriate taxes enabling a seamless flow of credit in the entire chain. So far, logistics players in India have been maintaining multiple warehouses across states to avoid CST levy and state entry taxes. Most of these warehouses are operating below their capacity and thus adding to their operational inefficiencies. However, once GST sees the light of the day, most of the current challenges of this industry will be a story of the past as India will become one single market wherein goods can move freely inter-state without any levy.

This will further bring warehouse consolidation across the country and we can witness mega logistic hubs and high investments in infrastructure wherein 100% FDI has already been allowed. As an outcome of GST, warehouse operators and e-commerce players have already shown interest in setting up their warehouses at strategic locations such as Nagpur, which is the zero-mile city of India and is well connected throughout. We are sure to witness more transformations happening as we go forward. Initial uncertainties, courtesy goods and services tax (GST), could affect profitability of the logistics sector in the short run, but operational efficiency is bound to improve in the long run. The logistics sector broadly comprises the road transport sector (consisting of unorganized small businesses, trucking, fleets and large transport companies), the storage and warehousing sector and finally third-party logistics (3PL). These can be further classified into big and small players and asset heavy/light companies. Given this classification, comparing industry performance as a whole is a complicated exercise. We tackle this by analyzing data pertaining to 166 companies during 2010-2015 from the Centre for Monitoring Indian Economy (CMIE)'s industrial database to arrive at some useful insights into the industry's performance.

We look at two key performance measures—profit after tax (PAT) as percentage of income and profit before interest, taxes, depreciation and amortization (PBITDA) as percentage of income. Between 2010 and 2015, PAT has declined for all sub sectors and shows volatility for the logistics and the storage sector (see graphic). PBITDA is an important measure that reflects operating efficiency and ranges between a low of 7% for the road transport sector to a high of approximately 20% for the storage sector.

HOW THE INTRODUCTION OF GOODS AND SERVICE TAX (GST) WOULD BENEFIT THE INDIAN LOGISTIC INDUSTRY?

The planned dual GST model (central GST and state GST) proposes to replace around 29 state and federal taxes and tariffs for a single tax at the point of sale. The current combined Centre and State statutory rate for most goods works out to be 26.5% (CENVAT of 14%, and VAT of 12.5%), whereas post GST implementation the same is expected to reduce to standard rate of about 18-21% which will be levied on most goods and all services.

GST – BEFORE AND AFTER

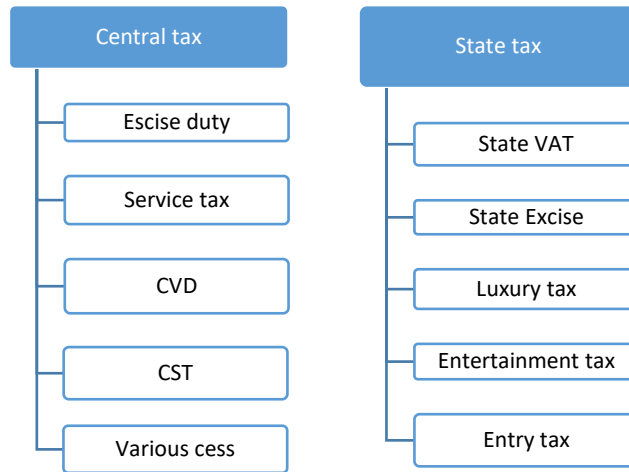
Let us consider the example of a manufacturing company in Chennai, which moves its goods to New Delhi. The actual sale happens in New Delhi and the finished goods have to be transported from Chennai to New Delhi across different states. As per the current taxation norms, one has to pay Central Sales Tax (CST) when moving a good to another state and selling it in the other state. However, if the good is moved for stocking and not for sale, then CST need not be paid. So many companies in order to avoid paying CST, they show this movement as moving to stock and not moving to sell. To do this, companies have warehouses in every state where the finish goods are stored and then the goods are transported for sale from the warehouse in each state.

Let us consider another example of a city called Hosur in Tamil Nadu which is approximately 30km from Bangalore. Shipping the goods from Bangalore warehouse to Hosur requires the company to pay CST as Hosur in Tamil Nadu and

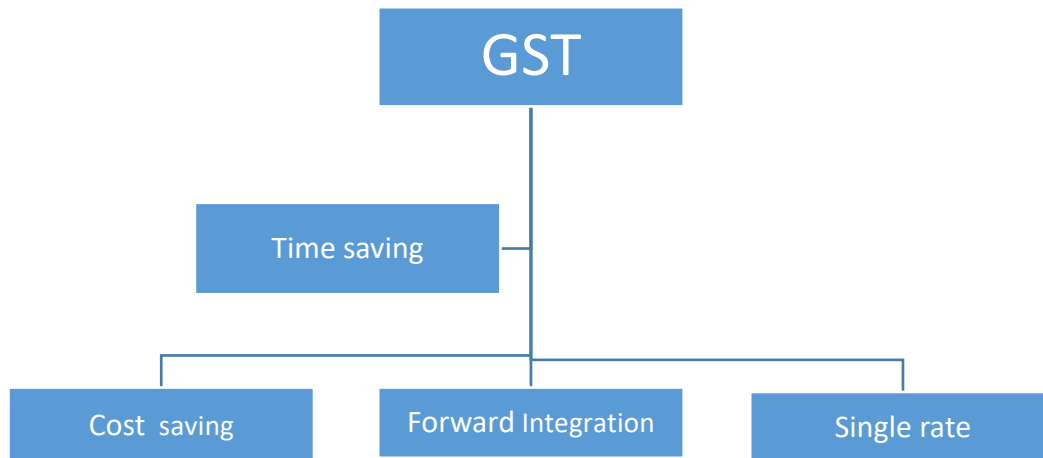
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Bangalore is in Karnataka. So, the companies ship goods from Chennai warehouse, which is approximately 250km to Hosur to avoid CST.

With the implementation of GST, the companies will be free to setup their own warehouses to optimize cost and improve customer service. The following central and state taxes are integrated into GST.



ADVANTAGES OF GST TO LOGISTIC COMPANIES



Cost / Time Saving

Bigger warehouses and end market driven logistics planning is likely to result in meaningful costs savings over time. On account of entry taxes and heavy paper work at state check posts, there is an additional 5-7 hours added to the transit time for inter-state transport of goods. Abolishment of entry tax and easier tax compliance procedures is likely result in easier movement of goods across the country.

Forward Integration

As these companies gather scale, that will enable them to offer services at lower costs. As a result, companies for whom transportation is not a core part of their business will increasingly outsource their logistics operations to third party logistics (3PL) and fourth party logistics (4PL) service providers.

Single Rate

Standard tax rates will allow corporations to move away from the practice of building a warehouse in different states to adhere to each state's tax code. A big packaged consumer goods company could thus make do with one large mother warehouse at critical points in the country and employ logistics companies to manage distribution and supply chains

LIMITATIONS

- GST has the potential to accelerate growth in the logistics industry. However, its complete impact can only be understood after the announcement of the final GST Law and Rules.
- State-border checkpoints, which are tasked with material scrutiny and location-based tax compliance, negatively impact the overall production and logistics time and account for roughly 60% of a truck's transit time.
- With GST's imminent implementation, the logistics industry should start exploring different supply chain models with their clients and at the same time develop a completely synchronized ERP accounting system to support inventory supply management as required under the GST regime.

MODEL OF LOGISTIC INDUSTRY AFTER GST

The proposed goods and services tax (GST) will help companies reduce logistics cost by redesigning their supply chains with four key structural changes

- India becomes one big market, there will be fewer and larger warehouses.
- GST will result in larger trucks on road while the overall number of vehicles will go down. The new tax will result in greater adoption of a hub-and-spoke model in segments such as warehousing, cold chain, container freight stations and inland container depots.
- GST will also bring in scale to logistics companies as there will be a lot of savings, stoppage of wastage and lower delays,
- These above changes will lead to greater economies of scale for transport operators and lead to more companies outsourcing their logistics operations.

CONCLUSION

From the above analysis, it is clear that the implementation of GST will have a significant impact on logistics sector in India. If GST is properly implemented, then it will have a double positive impact on the logistics industry that is logistics costs will come down and logistics efficiency will increase both within India and exports. So, the main objective of logistics management, that is customer satisfaction at least logistics costs, will be achieved with the implementation of GST. The GST implementation will also lead to emergence of organized service providers since taxes will not be added costs for the business. In the current scenario, the logistics sector is a highly fragmented industry with very few large organized players.

The unorganized sector would have to shape up and join hands with the organized players for setting up economies of scale. In a nut shell, the successful implementation of GST could reduce transportation cycle times, enhance supply chain decisions, lead to consolidation of warehouses etc. which could help logistics reach its potential in terms of service and growth. So, it will be great boom for the logistics sector which leading to accelerated economic growth. Overall, one can say that the impact of GST on the logistic sector is positive.

It provides a unique opportunity to streamline business operations to become more compliance and profitability-oriented, rather than tax-oriented. It puts power in the hands of business leaders to bring about positive change and steer their enterprises on a growth path, powered by GST-compliance. GST holds exciting time for all the stakeholders, be it logistics operator, e-commerce players and the end consumer. It won't be unfair to say that GST will disrupt the existing ecosystem and will make it more efficient and competitive going forward.

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