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AN ANALYSIS OF GST'S EFFECT ON THE FINANCIAL PERFORMANCE OF SELECTED INDIAN COMPANIES

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ABSTRACT

There is a wide range of opinions and responses to GST between producers, service providers, and market intermediaries. Especially in India, there is a dearth of research providing empirical support for the positive or bad consequences of GST. So, we set out to see how businesses fared a full year after implementing GST by conducting an experiment. Companies listed on the BSE were selected at random, and three were picked for further scrutiny. The financial impact of the GST was measured. The results and methodology were discussed in this study. In order to fill a void in the literature, our study shed light on how the new indirect tax regime affects the bottom lines of businesses. Findings from this research will help policymakers, strategists, and managers address the challenges posed by GST. Research shows that businesses' financial performance is not noticeably different before and after GST.

Keywords: *GST, Tax, Financial Performance, Good & Service*

INTRODUCTION

More than 160 countries now utilise a tax system called the Goods and Services Tax (GST). Domestically consumed products and services are subject to a value-added tax known as the Goods and Services Tax (GST). Those businesses, such as wholesalers and retailers, that offer goods and services to the general public are the ones obligated to pay the GST to the government. Therefore, the growth of the economy is to the government's advantage thanks to the GST. The Goods and Services Tax (GST) is a federal indirect sales tax that is determined using tax rates on the aforementioned saleable items and services (Goods and Services Tax). Consumers are required to pay the whole purchase amount, plus GST, at the time of purchase. The GST collected from customers must be sent to the federal government by the business or seller. In many nations, this tax is referred to as value-added tax (VAT). Since its inception in France in 1954, the Goods and Services Tax (GST) has been adopted by and implemented in almost 160 countries. Countries that have already adopted the GST include Canada, Vietnam, Italy, Nigeria, Brazil, Australia, Singapore, the United Kingdom, Monaco, Spain, and South Korea. India was the last country to impose the Goods and Services Tax, but it did so a year ago on July 1. (GST).

Countries that have adopted the GST tend to have a unified tax system, with a single tax rate that is imposed nationally. In a country with a unified GST system, federal taxes like excise duty, sales tax, and service tax, and state taxes like entertainment, admission, transfer, sin, and luxury taxes are all rolled into one uniform rate. Consumers, businesses, and the government would have an easier time keeping tabs on GST when it could be calculated at a single rate and in a single location.

India has entered an exclusive club of nations by adopting the goods and services tax concept. France introduced the GST in 1954, before any other country. Countries including Germany, Italy, the UK, South Korea, and Japan have all adopted the GST since then. The first country to implement a goods and services tax was France in 1954, then Russia in 1991, and finally China in 1994.

Canada is one of only a handful of countries with a dual-rate GST structure. In a GST economy, the federal government collects taxes and sends the revenue to the states and localities. When two separate sales taxes are in place, as is the case in a dual GST system, the central or federal GST is applied in addition to the state sales tax. A PST (Provincial State Tax) is collected by some provinces or states in addition to the GST (Federal Goods and Services Tax) of 5%. This tax varies from province to province. A customer or consumer's receipt will prominently display the GST and PST rate applied to the total purchase price. In some provinces of Canada, the Goods and Services Tax (GST) and the Provincial Sales Tax (PST) have been combined into a single tax system known as the Harmonized Sales Tax (HST) (HST). For the first time in 2013, Prince Edward Island implemented the HST by combining the federal and provincial sales taxes of Canada. Nova Scotia, Ontario, New Brunswick, and Newfoundland and Labrador are just few of the places that have instituted a comparable tax system since then.

The Goods and Services Tax (GST) was implemented in India on July 1, 2017, and it is a two-tiered tax structure. Implementing the GST is primarily motivated by a desire to finally put an end to being taxed for being taxed for being taxed for being taxed for being taxed. In India, GST has effectively replaced all but a handful of indirect taxes.

The introduction of a goods and services tax by the Indian government on July 1, 2017 was a landmark move. Before that time, citizens and companies alike were hit with a variety of taxes at the federal and state levels. Medications and hygiene products are subject to a number of federal levies. To name a few examples: sales tax, additional excise taxes, customs duties, and further customs duties. Entertainment taxes, luxury taxes, and taxes on lotteries, betting, and gambling were only a few of the many state-level VAT/Sales taxes in effect.

LITERATURE REVIEW

As an example, Ram Singh and Shalini Shukla (2018) Businesses in every sector, from manufacturers to service providers to market middlemen, are bracing themselves for the arrival of GST. Neither the positive nor the negative effects of GST on the Indian economy have been supported by empirical research. Accordingly, the purpose of this study was to conduct a controlled experiment to assess how firms fared after GST implementation. Random sampling was used to produce the representative sample. The study looked at 192 BSE-listed companies. Financial indicators (total assets, profit, and market capitalization for FY2017 and FY2018) and demographic characteristics were used to evaluate the effects of GST adoption (the size and experience of enterprises.) The research found that only total assets were considerably different from the pre-GST era (FY2017). Further research showed that the organisation's age and size were also significant in influencing its performance after the introduction of the GST. This report presents the results of extensive analysis. The research team undertook this analysis to fill the information gap about the effect of a new indirect tax regime on the financial performance of corporations. The conclusions of this study will help policymakers, strategists, and managers address the challenges posed by GST.

The authors are M. Jayalakshmi and G. Venkateswarlu. (2018) On July 1, 2017, the Goods and Services Tax (GST) in India went into effect nationwide, effectively replacing a variety of other indirect taxes levied by the federal government and state governments. Without a doubt, Goods and Services Tax (GST) in India represents a "Great Step towards Transformation" and "Great Step towards Transparency" but who should be given credit for "giving birth" to it and who should be given credit for "nurturing" it? The implementation of a "single taxation" system for indirect taxes has been a long-held ambition. The Goods and Services Tax (GST) moniker implies a potential expansion of scope to include services. Whenever goods or services are exchanged for money, the government collects a tax known as the Goods and Services Tax (GST). Every vendor or service provider must account for and remit GST on their sales. The effects of this tax shift on the economy and the dynamics of small and medium-sized firms are now becoming clear. Over the course of the previous few years, small and medium-sized businesses in India have experienced a wide range of successes and failures. Since the Indian economy is anticipated to become one of the world's top economies by 2025, significant effort is being put toward bolstering the SME sector, which is predicted to become a $5 trillion market by that year. This document offers an introduction to the GST and its implications for SMEs.

Summary Pinki et al. (2014) concluded that the new NDA administration in India supports the implementation of the Goods and Services Tax and feels that it will benefit the federal and state governments, as well as consumers, if implemented with proper IT infrastructure.

According to Kumar's (2014) research, "Goods and Service Tax - A Way Forward," many indirect tax regimes in India will be finalised and consolidated into a single tax, GST. It is hoped that this will foster more equitable tax policies.

Sehrawat and Dhanda's "GST in India: A Key Tax Reform," (2015) argues that GST's implementation is necessary due to India's fragmented economy.

While both CGE and GST are well-known concepts in indirect taxation, study by Anushuya and Narwal (2014) on the "Application of CGE Modals in GST" found that the latter was more effective.

According to the research by Chaurasia et al. (2016) titled "Role of Goods and Services Tax in the growth of Indian economy" GST will be helpful to the expansion of the Indian economy and will contribute to an increase in GDP of more than 2%.

RESEARCH OBJECTIVE

- To study the concept of GST
- To analyse the effect of GST on financial performance

SAMPLE SIZE

Three listed companies have been taken in this study based on market capitalisation from the Oil-Gas, IT and FMCG Industry

1. Reliance Industries Ltd
2. Tata Consultancy Services Ltd
3. Hindustan Unilever Ltd

TIME PERIOD

2017-18 to 2020-21 Post-GST data have been analysed in this study
2013-14 to 2016-17 Pre-GST data have been analysed in this study

DATA ANALYSIS TECHNIQUES

Ratio, Mean and T test have been used to analyse financial data

DATA ANALYSIS

1. CURRENT RATIO

COMPANY	POST-GST				PRE-GST			
	CURRENT RATIO							
	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14
Reliance Industries Ltd	1.34	0.63	0.73	0.59	0.62	0.69	0.99	1.31
Tata Consultancy Services Ltd	2.91	3.33	4.17	4.56	5.53	4.06	2.4	2.74
Hindustan Unilever Ltd	1.28	1.32	1.37	1.31	1.32	1.46	1.08	1.05

COMPANY	POST-GST	PRE-GST
	CURRENT RATIO	
Reliance Industries Ltd	0.82	0.90
Tata Consultancy Services Ltd	3.74	3.68
Hindustan Unilever Ltd	1.32	1.23

t-Test: Paired Two Sample for Means

	POST-GST	*PRE-GST*
Mean	1.961667	1.9375
Variance	2.440402	2.310175
Observations	3	3
Pearson Correlation	0.998607	
Hypothesized Mean Difference	0	
df	2	

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t Stat	0.45665
P(T<=t) one-tail	0.346361
t Critical one-tail	2.919986
P(T<=t) two-tail	0.692721
t Critical two-tail	4.302653

The current ratio can be used to evaluate a company's capacity to pay down its current debt. These graphs and tables demonstrate that several firms' current ratios are lower than they were in previous years. According to these current ratios, businesses have more current assets than current debt after the GST than they did before.

RESULT
The H0 Hypothesis is accepted and there is no significant variation in the current ratio before and after GST, according to the P value (Two Tail) in the preceding table, which is greater than the significance value 0.05 (P value 0.05).

2. CURRENT TAX

COMPANY	POST-GST				PRE-GST			
	CURRENT TAX							
	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14
Reliance Industries Ltd	2,205.00	8,630.00	11,683.00	10,098.00	8,880.00	8,042.00	6,296.00	5,929.00
Tata Consultancy Services Ltd	11,635.00	10,378.00	9,502.00	8,265.00	8,235.00	7,508.00	6,275.65	6,148.26
Hindustan Unilever Ltd	2,520.00	2,243.00	2,610.00	2,216.00	1,947.00	1,879.00	1,929.03	1,403.44

COMPANY	POST-GST	PRE-GST
	CURRENT TAX	
Reliance Industries Ltd	8154.00	7286.75
Tata Consultancy Services Ltd	9945.00	7041.73
Hindustan Unilever Ltd	2397.25	1789.62

t-Test: Paired Two Sample for Means

	POST-GST	*PRE-GST*
Mean	6832.083	5372.698
Variance	15552730	9643860
Observations	3	3
Pearson Correlation	0.964162	
Hypothesized Mean Difference	0	
df	2	
t Stat	2.010661	
P(T<=t) one-tail	0.09103	
t Critical one-tail	2.919986	
P(T<=t) two-tail	0.18206	
t Critical two-tail	4.302653	

The post-GST tax amount is greater than the pre-GST tax amount, per the current tax table. Tata Consultancy Services Ltd. has made the largest tax payment post-GST.

RESULT
In the table above, the P value (Two Tail) is 0.18206, which is greater than the significance level of 0.05. (P value 0.05). The H0 Hypothesis is therefore accepted, and it is determined that there is no discernible difference between current tax before and after GST.

3. NET PROFIT MARGIN

COMPANY	POST-GST				PRE-GST			
	NET PROFIT MARGIN							
	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14
Reliance Industries Ltd	11.39	6.65	6.98	9.19	9.80	10.81	6.29	5.18
Tata Consultancy Services Ltd	19.83	20.67	21.54	21.02	22.34	22.40	21.19	23.63
Hindustan Unilever Ltd	17.00	16.98	15.41	14.70	13.53	12.92	13.68	13.53

COMPANY	POST-GST	PRE-GST
	NET PROFIT MARGIN	
Reliance Industries Ltd	8.55	8.02
Tata Consultancy Services Ltd	20.77	22.39
Hindustan Unilever Ltd	16.02	13.42

t-Test: Paired Two Sample for Means

	POST-GST	*PRE-GST*
Mean	15.11333	14.60833
Variance	37.90623	52.69226
Observations	3	3
Pearson Correlation	0.963479	
Hypothesized Mean Difference	0	
df	2	
t Stat	0.413293	
P(T<=t) one-tail	0.359746	
t Critical one-tail	2.919986	
P(T<=t) two-tail	0.719491	
t Critical two-tail	4.302653	

A smaller net profit margin ratio denotes that the company has no upcoming initiatives that will require investment or that it wants to display more profit and pay dividends to shareholders, whereas a larger net profit margin ratio indicates that the company is keeping more of its sales as net income. Companies now are in a better financial position than they were in the pre-GST era.

RESULT

The H0 Hypothesis is accepted and there is no appreciable difference in the Net Profit Ratio between the periods before and after GST, according to the P value (Two Tail) in the above table, which is greater than the significance value 0.05 (P value 0.05).

4. RETURN ON ASSETS

COMPANY	POST-GST				PRE-GST			
	RETURN ON ASSETS							
	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14
Reliance Industries Ltd	3.71	3.37	3.94	4.41	4.19	4.96	4.67	5.24
Tata Consultancy Services Ltd	24.8	26.74	27.38	24.29	25.46	27.24	26.95	28.54
Hindustan Unilever Ltd	11.62	33.48	32.49	29.19	28.49	27.97	30.23	28.65

COMPANY	POST-GST	PRE-GST
	RETURN ON ASSETS	
Reliance Industries Ltd	3.86	4.77
Tata Consultancy Services Ltd	25.80	27.05
Hindustan Unilever Ltd	26.70	28.84

t-Test: Paired Two Sample for Means

	POST-GST	*PRE-GST*
Mean	18.785	20.21583
Variance	167.3218	179.845
Observations	3	3
Pearson Correlation	0.999482	
Hypothesized Mean Difference	0	
df	2	
t Stat	-3.89104	
P(T<=t) one-tail	0.030076	
t Critical one-tail	2.919986	
P(T<=t) two-tail	0.060151	
t Critical two-tail	4.302653	

The company is more efficient the greater the ratio. Compared to the post-GST phase, companies employed their assets more effectively during the pre-GST time.

RESULT
The H0 Hypothesis is accepted and there is no significant change in Return on Assets before and after GST, according to the preceding table's P value (Two Tail), which is higher than the significance value 0.05 (P value 0.05).

CONCLUSION

Overall, the Goods and Services Tax (GST) system is designed to simplify India's existing indirect tax structure. Given the existing process's distortion due to numerous taxation, and the government's promise that GST will minimise compliance cost, a well-designed GST is an attractive solution to eliminate these problems.
A recent evaluation of the GST rollout found that the company's financial performance had remained stable. Ratio Analysis and T-tests have been used to analyse the company's financial performance. The benefits of goods and services tax (GST) include higher rates of tax compliance, larger tax bases, the end of harmful rivalry between states, and the introduction of levies based on the separation of production and consumption taxes. Since GST has been put into effect, businesses and their owners have begun paying taxes. Therefore, it is suggested that the company's management make adjustments to its operations in order to increase its customer base, revenue, and potential for growth. The company has been given advice on how to develop after a detailed analysis of its strengths and flaws. We suggest that the organisation take part in a wide range of audits, including those conducted by MNCs, banks, insurance companies, and government agencies (PSOs). The introduction of GST is not expected to have much of an impact on prices. What this means is that the goods and services tax rate should not affect the final price paid for a good or service (GST). It should be a business' top priority to expand its clientele through word of mouth. A great promotional tool for the business. Keeping customers happy and coming back for more is essential to a company's success. The company is strongly urged to host seminars for a wide range of stakeholders, including business professionals and students at accounting academies. The objective of the seminar should be to encourage people to pay their taxes on time so that the government can make up for some of its financial losses.

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