

Goods and Service Tax: Impact on Cement Industry and its Stock Price

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Abstract: Introduction of Goods and Service Tax has made changes in tax rate of all sectors of Indian Economy. Goods and service tax is expected to eliminate the cascading effect of taxes it provides the much needed stimulant for economic growth in India by transforming the existing base of indirect taxation towards the free flow of goods and services. India's cement industry is a vital part of its economy and it generates high revenue for government. The housing and real estate sector is the biggest demand driver of cement, accounting for about 65 % of the total consumption in India. The other major consumers of cement include public infrastructure at 20 % and industrial development at 5 %. Implementation of GST will affect stock price of Cement Company. So it is important to understand change in stock price of cement Industry.

Key words: Goods and Service tax, Cement Industry, GST, Stock price.

1. Introduction

1.1 Introduction of Goods and Service Taxes

GST is an indirect tax throughout India that replaces various taxes levied by the Central and State Governments. Introduced as The Constitution (One Hundred and Twenty Second Amendment) Act 2017, following the passage of Constitution 122nd Amendment Bill, the GST is governed by GST Council and its Chairman is Finance Minister of India. Under GST, goods and services will be taxed at the following rates: 0 %, 5 %, 12 %, 18 %, and 28 % respectively. There is a special rate of 0.25 % on rough precious and semi-precious stones and 3 % on gold. There will be no GST on the sale and purchase of securities.

That will continue to be governed by the Securities Transaction Tax (STT). GST, which launched on July 1, 2017 midnight, will be levied on all transactions such as sale, transfer, purchase, barter, lease, or import of goods and/or services. Thus the GST subsumes the existing;

1. Central Excise Duty
2. Commercial Tax
3. Value Added Tax (VAT)
4. Food Tax
5. Central Sales Tax (CST)
6. Introit
7. Entertainment Tax
8. Entry Tax
9. Purchase Tax
10. Luxury Tax
11. Advertisement Tax

The Government has adopted a dual GST model, meaning that tax will be administered by both the Union and State Governments. Transactions made within a single State will be levied with Central GST (CGST) by the Central Government and State GST (SGST) by the Government of that State. For inter-State transactions and imported goods or services, an Integrated GST (IGST)

is levied by the Central Government. GST being a consumption-based tax, taxes are paid to the State where the goods or services are consumed not the State in which they were produced. IGST complicates tax collection for State Governments by disabling them to collect the tax owed to them directly from the Central Government. Under the previous system, a State would have to only deal with a single Government in order to collect tax revenue. (<http://www.indiancementreview.com>, 2017).⁵

1.2 Introduction of Cement Industry

Cement is the basic raw material in the construction sector and a necessity for building homes. It is supposedly positioned at the 5th- to be an essential material accounting for the construction costs in India. Therefore, the issue on taxability of Cement garnered GST Council's attention after multiple requests of the Cement Manufacturers Association India.

The cement industry is a significant input to the infrastructure sector. India is the second largest producer of cement in the world after China. No wonder, India's cement industry is a vital part of its economy, providing employment to more than a million people, directly or indirectly. Ever since it was deregulated in 1982, the Indian cement industry has attracted huge investments, both from Indian as well as foreign investors. India has a lot of potential for development in the infrastructure and construction sector and the cement sector is expected to largely benefit from it. Some of the recent major initiatives such as development of 98 smart cities are expected to provide a major boost to the sector. A significant factor which aids the growth of this sector is the ready availability of the raw materials for making cement, such as limestone and coal. The Indian Government is highly focused on developing infrastructure, affordable housing and roads as announced by the FM Mr. Arun Jaitley in the Budget 2017. So, the cement industry is expected to get a boost in the near future. The question though is, will the implementation of GST affect this projected growth?

2. Literature Review

Meet H. Rawal et al (2018)¹ have analysed the impact on Building Construction before and after implementation of GST. It was observed that even though ITC is not taken in consideration, there has been a considerable reduction of up to 1.2% of the Project Cost by application of GST. If the ITC studies are taken in consideration, then this cost will reduce even more & hence, it can be said that it is a good effect of GST on construction industry. It is also seen that only the Labour Contracts are at total loss which is to be paid attention by the contractors bidding for labour contract.

Mr Priyanshu Sharma and Dr Manoj Sain (2015)² examined that GST regime is a half-hearted attempt to rationalize indirect tax structure. More than 150 countries have implemented GST. The government of India should study the GST regime set up by various countries and also their fallouts before implementing it. At the same time, the government should make an attempt to insulate the vast poor population of India against the likely inflation due to implementation of GST. No doubt, GST will simplify existing indirect tax system and will help to remove inefficiencies created by the existing current heterogeneous taxation system only if there is a clear consensus over issues of threshold limit, revenue rate, and inclusion of petroleum products, electricity, liquor and real estate. Until the consensus is reached, the government should resist from implementing such regime. Efficient formulation of GST will lead to resource and revenue gain for both Centre and States majorly through widening of tax base and improvement in tax

compliance. It can be further observed that GST have a positive impact on various sectors and industry.

K.Neelavathi and Mrs. Rachana Sharma (n.d.)³ had observed that the execution of GST, charges moves from the root state to the utilization state because of that general financial action is required to roaden and it could expect a vastly improved GDP development that should push interest for vehicle crosswise over classes. Effect of duty falling will escape that may decrease general cost of auto creating as all assessments on input paid are counterbalanced with the yield obligation of GST. Automobile industry in India is one of the most successful and emerging manufacturing industry post liberalization.

2.1 Old Taxation Source

Tax rates Published by the Central and State regarding cements and other material like Refractory cement, mortars, concretes and similar composition. Tax rates Published by the Central and State regarding the main raw materials used for manufacturing cement like limestone, coal and electricity.

2.2 Goods & Service Tax Rate Source

Android Application named GST Rate Finder provided by the government for the betterment of consumers to avoid being cheated by any means.

3.1 Objectives of the GST

The study has been geared towards achieving the following objectives:

1. To understand the uncertainties ahead of GST
2. To analyse effects on Cement Company's share before and after GST implementation
3. To study impact of GST on cement industry

4. Assumptions & Limitations of Study

The rates of cement and other material are prevailing market rates & may change as decided in GST Council Meeting. The study is limited to observe stock price of randomly selected company.

5. Rational of Study

The housing and real estate sector is the biggest demand driver of cement, accounting for about 65 % of the total consumption in India. The other major consumers of cement include public infrastructure at 20 % and industrial development at 15 %. (India Brand Equity Foundation (IBEF))⁶

On the back of growing demand, due to increased construction and infrastructural activities, the cement sector in India has seen many investments and developments in recent times. Due to the increasing demand in various sectors such as housing, commercial construction and industrial construction, cement industry is expected to reach 550-600 Million Tonnes Per Annum (MTPA) by the year 2025 (India Brand Equity Foundation (IBEF)).⁶

A large number of foreign players are also expected to enter the cement sector, owing to the profit margins and steady demand. In future, domestic cement companies could go for global listings either through the FCCB route or the GDR route. With help from the government in terms of friendlier laws, lower taxation, and increased infrastructure spending, the sector will

grow and take India's economy forward along with it. So it is important to study the impact of GST on Cement Industry.

5.1 Under the Earlier Tax Regime

The tax rates for cement are extremely complex. For example, there are various rates and specific duties of excise applicable on different types of cement depending on whether they are supplied in bulk form or in packaged form or whether for industrial or trade purposes. The effective rates including excise & VAT are about 24-25%.

5.2 Impact of GST on Cement

Particulars	GST Rates
Cement	28%
Refractory cement, mortars, concretes (mainly used for building industry furnaces, huge ovens etc.)	18%
Cement Bonded Particle Board	12%
GST Rates for raw material used for manufacturing cement like: -Limestone, coal - Electricity	5% -

From the above table it can be concluded that Cement will attract 28% GST, i.e., a higher rate of tax which means increased costs for the infrastructure sector. Coal is capped at 5%, which is a reduction from the earlier rate of 11.69%. Electricity is outside the purview of GST.

5.3 Impact on Share Price of Cement Industries

Name of stock	Before GST implementation on Share price (14/06/17)	Stock Price on (14/07/17)	Stock price after GST implementation Stock Price (31/07/17)	Stock Price after one year of GST implementation (02/07/2018)
Ambuja Cement	235.95	261.90	263.25	200.30
UltraTech Cement	4050.40	4218.40	4059.95	3781.50
Shree Cements	17882.50	18585.70	18638.55	15763.80
ACC	233.70	261.90	263.25	230.05
Ramco Cements	699.65	708.75	679.80	700.15
OCL India	1193.75	1276.70	1238.75	1030.20
Birla Corp.	920.55	926.45	945.60	713.35
J.K. Cements	1047.45	963.00	1018.85	859.60
India Cements	209.25	208.95	203.40	104.30

(Source:-www. Money control.com)⁷

From the above table it is observed that Stock price of Ambuja Cements, Ultratech Cements, Shree Cements, Acc, Ramco Cements, OCL India and Biral Corp had increased where as J.K. Cements and India Cements had decreased as on 14/07/2017 as compared to 14/06/2017. So it is

observed that no major impact on cement company. After one month of implementation of it was observed that Stock price of Ambuja Cements, Shree Cements, Acc, Biral Corp and J.K. Cements had increased where as UltraTech Cement, OCL India, and India Cements had decreased as on 31/07/2017. After one year of implementation of it was observed that Stock price of Ambuja Cements, UltraTech Cement, Shree Cements, Acc, Biral Corp, J.K. Cements and India Cements had decreased where Ramco Cement had increased as on 31/07/2017. This decrease in stock price was due to depression in real estate market.

5.4 Positive Impact of GST on Cement Industry

- Lower GST rate of 5 per cent on key inputs/raw materials like limestone, coal, lignite will reduce the cost of production of cement. Further, cement makers will also be able to save on their logistics cost due to rationalisation of warehouses and lower transportation costs due to decline in transit time. However, the exact impact of these changes on the cost of production will depend on the fuel mix of cement manufacturers. Since, electricity and petroleum are kept outside the ambit of GST; it will break the credit chain and may increase cost of production.
- GST has resulted in lower transportation cost and fast delivery time, which has also impacted the cement industry by reducing the cost and time on transport.
- Maintaining godowns for non-trade and for the other sales that will be eliminated and bring cost of stocking down. So on a net basis, it will be beneficial for the consumer.
- Like all other industries, GST benefits the cement industry in terms of reduced tax complexity and compliance. The one tax system removes the need to manage separate records for various taxes and is also easier to understand as there is one standard tax rate on cement.

5.5 Negative Impact of GST on Cement Industry

- The increased cost may temporarily affect the demand and exports in the cement industry of India. The production and supply cost has increased, which is ultimately burdening the cost on the end consumer. Proposal placed before the council to reduce the rates for under-construction homes. It has been proposed to reduce to 5% from 12% and to 3% from 8% in the case of affordable housing. In both cases, the Input Tax Credit (ITC) will not be available.
- One of the primary issues that builders currently face is that the balance ITC remains unutilized due to the high tax rate on cement and other raw materials. ITC is more when compared to tax liability. Hence, there attracts a need for applying GST refund -a process which is yet to stabilise.

7. Conclusion

The online registration process will definitely reduce the paperwork for which uninterrupted connectivity to the GSTN will be very important. But the new regime requires plethora of digital papers to be submitted. All these put together may reduce the operating costs for the cement industry in the future. However, reduction in costs for the end-consumer will occur only if the cement companies pass on their savings to the consumers. In turn, costs for infrastructure and housing which are highly dependent on cement, will also increase if input Tax Credit (ITC) is

not pass on to the consumer. Stock price of share are also not much affected due to implementation of GST.

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