

GST In Logistics: A Game Changer

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Logistics expense determines the final cost of any product and it pinches the end-user's pocket often. GST which is labelled as a game changer - perhaps India's most significant tax reform in decades will have wide repercussions for the logistics sector.


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With the introduction of Goods and Services Tax (GST), it will be a game-changer for the logistics industry. Currently, all states within the country tax goods that are transported across borders at different rates. The state authorities examine the goods and levy appropriate duty on the freight causing delay in deliveries. As a result of this, a lot of transportation is lost in the transit.

GST will be a single tax on manufacture, sale, and consumption of goods and services throughout India. The purpose behind this move is to have one indirect tax for India which will make the country a unified common market. GST will be collected at every stage of sale or purchase of goods or services, based on input tax credit method. This simplification of the taxation system would make the inter-state transportation of goods more efficient.

As higher than optimal time is consumed per transportation, logistics costs incurred in India 2 to 3 times compared to the global benchmarks, according to the World Bank.

In simple terms, the logistics cost in India is about 13 per cent of GDP as compared to about eight per cent in western countries and about 18 per cent in China.

But with the introduction of GST, India will become a seamless market without any difference between inter-state or intra-state sales. This will essentially disrupt the existing ineptitude and facilitate structural re-engineering of the logistics network. Service providers would be incentivised to leverage hub-and-spoke supply chain networks by operating large central warehouses and remodeling transportation routes.

On the taxation front, at national level, it will result in more competent and efficient cross-state transportation, lesser paperwork for transporters, thereby reducing the logistics costs. Not just costs, it will also save a lot of transportation time. As transporters are resorting to digital space to book trucks, the scope of online truck booking in India is broad. The revolution in the industry has been brought by truck aggregators who are providing reliable online truck booking services to transporters.

However, the GST will be a comprehensive nationwide single tax which will subsume the plethora of taxes in the country.

Says Chander Agarwal, Managing Director, TCI EXPRESS, "The introduction of GST will result in the unification of various taxes involved in the transportation of goods and services as well as escalation of efficiency in the business." Industry estimates suggest that the logistics industry is expected to grow at a CAGR of 15-20 per cent over the next few years. It will enable faster and cheaper movement of goods across the country with a uniform taxation structure by reducing delays at the check posts and other entry points within and between the states. Over-all logistics cost can also come down drastically and this will result in increased business volumes and help boost the GDP by 100-200 bps. So definitely, says Agarwal, "it will be a big game-changer and we will see a lot of business opportunities."

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Experts opine that the industry is likely to gain due to the free flow of credits, which were not fully fungible in the present indirect tax system.

Throwing light on this, Ranjeet Mahtani, Partner, Economic Laws Practice, avers, "Duality of taxes on certain transactions such as leasing of equipments/goods will be eliminated where previously disputes arose as to whether liable to VAT or Service tax. Also, uniformity in rates across States and elimination of Central Sales Tax could encourage consolidation of warehouses along with elimination of smaller warehouses thus boosting the logistics sector indirectly as supply chain systems are overhauled.

A negative aspect is that, fuel which is a major cost for the sector, remain outside the purview of GST (for at least the initial years), and taxes on these products will be a cost in the chain, as is the case are even today. Another concern area could become the system of e-permits, which may subsist under GST regime thus casting some burden on conduct of business.

"It is heartening to note that the GST Council has set up a task force to ensure seamless freight movement yet, the industry would have to closely monitor the aspects of valuation of services and the applicable place of supply to a given transaction, both of which aspects will be sensitive spots," adds Mahtani.

Opines an established Mumbai-based Logistics Consultant, Ashay Deshpande, "Logistics cost today is impacting the profit and loss all across. Post implementation of GST the current tax (Approx 26 – 30 per cent by major industries) would be reduced (Uniform tax proposed is Approx 18 – 20 per cent) thereby reducing the impact of logistics cost and improving the P&L thereby contributing to the growth."

Raghav Himatsingka, CEO & Founder, Truckola believes that GST will have a threefold impact on the logistics industry. Firstly, taxes such as entry-tax, OCTROI, etc. will be removed and will lead to faster movement between states leading to better utilisation of vehicles and thus lower costs of operations. Secondly, consolidation of smaller stock-transfer warehouses into large warehouses in seven major pockets of the country.

Industry analysts anticipate that the largest warehouses will come up in the seven largest consumption centers of the country catering to more than 50 per cent of the country's needs. The rest of the country will be served from these large warehouses via secondary dispatch. Finally, the requirements for long distance trucks will increase due to consolidation of warehouses and long distance secondary dispatches.

"At this stage, it's hard to predict how the multiple scenarios actually play out on the ground," adds Raghav.

According to Raaja Kanwar, Vice Chairman & Managing Director, Apollo International Limited, GST is expected to act as the secondary factor which will build upon the primary foundation of a good infrastructure and the faster adoption of technology in the sector. "According to various industry estimates, freight times will come down by 30-40 per cent and logistics costs are expected to reduce by 20-30 per cent," he says.

The quantum of investment from the private sector, government regulations, the investment in infrastructure by the government year-on-year are all those factors that determine whether the logistics sector will grow or be inhibited. The logistics sector in India has been performing well in the last few years growing at a rate of 15 per cent annum. However, it is the implementation of GST which will give the sector a much needed impetus in India.

The logistics sector in India, including the Third Party Logistics Service Providers (3PL) is a highly fragmented sector with highly inefficient supply chains of the firms. Kanwar says, "After GST implementation, companies will have an added incentive to either develop its own logistics arm or tie up with the domain experts who are 3PL companies." This will benefit the companies as a system of seamless tax-credits throughout the value chain and across state boundaries will bring down the cascading effect of taxes and thus reduce the hidden costs of doing business, especially the benefits of entering 3PL will increase.

Current system of indirect taxation in India is very complex and logistics faces it the most. According to Pratish Sanghvi, Director and Co-founder, Grab, "Each of the states in India levies different magnitude of taxes when goods are moved across their borders. Both central and state taxes sum up to around 25-27 per cent on goods. Post GST implementation, existing taxation structure will dissolve and a new unified structure for all states will come into force. Hence, the effective rate is expected to come down to around 19-21 per cent."

This reduction of 6 per cent in taxes will count a lot for the final burden bearing consumers. Moreover, GST will lead to a total reduction of 20 per cent in other logistics cost like warehousing, freight forwarding etc.

But before that, the major challenge before the government is to arrive at a revenue neutral rate to ascertain no adverse effects on the revenues of central and state governments after the implementation of GST. Furthermore, the government has to protect the interests of all the stakeholders including the ultimate consumers.

Agarwal feels GST will bring in digitisation in the documentation which would ultimately cut down on the time at the check posts and help faster movement of goods across the country with a uniform tax structure. Apart from that, this historic bill implementation will enable the operators to rationalise and restructure their infrastructure, warehouses and/or sorting centers, resulting in bringing down the overall cost of operations. Post the implementation, we can expect a reduction in the number of warehouses but players will go in for capacity expansion by increasing size of warehouses/sorting centers. This is likely to drive investments, better inventory control, better technology application/process controls. Overall redefining and re-engineering the way logistics will perform.

By some estimates logistics costs in India is 2-3 times global benchmark, on account of several factors, including delays at state border check points.

Moreover, the World Bank in its "India Development Update" (Report No. AUS10373) of October, 2014 has estimated that GST



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will free up decisions on warehousing and distribution from tax considerations so that operational and logistics efficiency determines the location and movement of goods. The World Bank report further notes that "Freight and logistics networks will realign according to the location of production and consumption activities, creating the hub-and-spoke models that are needed to improve freight and logistics performance."

"On account of entry taxes and heavy paper work at state check posts, there is additional time and cost 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 and correspondingly saving, feels Mahtani.

Currently across the globe most of the sectors have already implemented GST (e.g. UK, Canada, Australia, New Zealand, etc.) "Post GST India will also come on the common platform for apple to apple comparison. Although the current proposed GST rate is too high as compared to the other countries' GST rate, but it definitely has good scope for reduction in coming years," says Ashay.

Truckola's Raghav feels after GST, taxation will not remain a significant determinant of the logistics industry. Instead, the routes will be determined by geographical advantage. Thus, while earlier there would be multiple warehouses that were nothing but small fronts to show a minimum exchange of products and save on taxes, the focus post-GST will be to strategically place large warehouses and ensure that goods are delivered in the most efficient and timely manner. Also, the reduction in the number of warehouses will skew the traffic volume towards the most important routes in the country.

However, the benefits of GST is not specifically related to booking trucks online but how a gradual inclination towards employing technology can help the Indian logistics industry immensely. Currently the Indian transportation sector is highly fragmented – largely because of the dependency on manual workforce for every activity in the transportation value chain – leading to inefficient utilisation of assets and therefore higher costs. "The new-age tech-driven companies enable automation of every process that reduces the dependencies on manual labor and the errors that come from them. This will eventually help transportation operations scale up and bring about convenience as well as cost efficiency to the transportation sector," adds Raghav.

In his view two factors will determine how fast the logistics cost starts declining in India: The speed with which the Indian industry adapts to the new rules of distribution networks post-GST and penetration of technology in the transportation sector which will create cost efficiency and reduce overall costs.

As far as Raaja Kanwar is concerned, a streamlined logistics processes and better bottom lines will lead to consolidation of the sector. Further, newer players will enter the arena and investors will find it lucrative to invest in the sector knowing that returns are guaranteed in a much more predictable business dynamics. Plus, he says, "Existing players are fully expected to scale up the business environment that will follow GST implementation in the logistics sector in India."

According to Kanwar, the benefits of online truck booking are manifold - There is an inherent advantage of getting competitive price/ bids from the transporters when truck booking is done online. Online truck bookings ensure that the client can directly contact the logistics service providers thus cutting down on costs incurred due to intermediaries. Online booking ensures that the customer can directly see the real time movement of the vehicles and can track the goods accordingly because of real time tracking systems (GPS enabled). Moreover, "There is easier access to booking history, nature of consignments, dates and more," he concludes.

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