

IT Won't be all That Easy as Cos are Not Fully Prepared for Transition

Consumer-facing cos could be ready for GST only by mid-July; take to halting supplies or billing limited stocks in June

Our Bureaus

Consumer-facing companies selling groceries, medicines, cars and electronics could be ready for the new tax regime only by mid-July as a significant part of their ecosystem — dealers, wholesalers and retail stores — still lack basic IT infrastructure and licences for the transition.

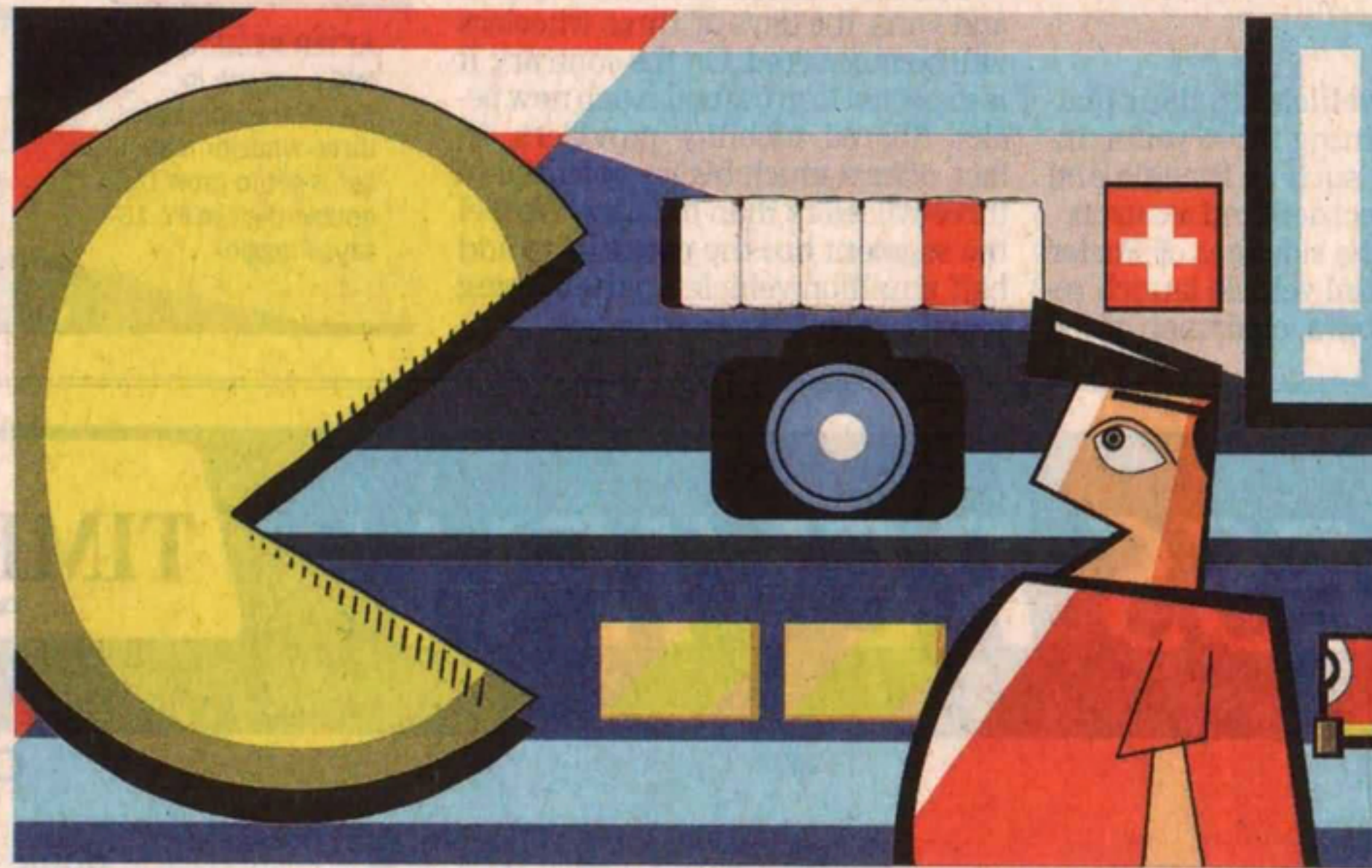
In the run-up to GST, several companies are either halting their supplies or plan to bill limited stock during the last week of the month, a period when companies typically push more products and primary shipments to meet quarterly sales targets.

"We have minimised production to the bare necessity and need-based so that both we and dealers can liquidate in-house stock. The focus is now fully on secondary sales from retailers to customers," said Videocon chief operating officer CM Singh.

Television and refrigerator makers such as Panasonic, Godrej Appliances and Videocon have decided to stop billing to the trade from June 27-28 to prepare for the migration. Godrej Appliances business head Kamal Nandi said companies will close transactions for three or four days at the month end to take stock and ensure a smooth transition to the GST regime. "We are also supporting the dealers with helpdesk and training programmes," he said.

Consumer companies have said that destocking of inventory is occurring across trade channels as the date of GST implementation draws closer. Hindustan Unilever said at a recent analyst meet that growth is likely to be impacted by temporary thinning of trade pipelines, but the company will compensate customers appropriately.

"Stock blackout could happen for few days but even that is not certain. The biggest wor-



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ry is lack of clarity on sales channel and we estimate at least half of FMCG trade to be unprepared for GST now," said B Krishna Rao, deputy marketing manager at Parle Products.

Most food, home and personal care categories, including biscuits, toothpaste, soaps and hair oil, will be taxed at 18% under GST compared with about 22% in the current indirect tax structure of excise duty and value-added tax (VAT).

However, detergents, shampoos and skin-care items will be taxed higher at 28%. GST laws include an anti-profiteering clause requiring companies to pass on the benefits of lower taxes to consumers.

Some companies have paused daily operations to shift focus on GST.

"We have stopped all our business and are running behind collecting C forms and some states have not issued them yet. Stockists

do not want to pick up any stocks too. Lot of ours drugs are manufactured on contractual basis and we need to transfer all this to our mother warehouse before 30th June and transfer it back to the loan licence account," said Dharmesh Shah, MD at BDR Pharma.

To counter destocking by distributors, most companies across sectors are offering higher commissions to push the stocks before July 1.

Major auto companies have assured dealers of financial support to offset losses incurred on unsold vehicles during the transition.

Anurag Mehrotra, managing director of Ford India, said, "We do anticipate a drop in industry wholesales with industry focusing on liquidating inventory to avoid tax credit implications for dealers post-GST implementation."

Lack of input credit on vehicles, which are more than a year in stock, would also trigger

distress sales.

Toyota Kirloskar Motor has decided to lower the volume of vehicles sold to dealers this month. "This strategy has been undertaken to ensure that there is minimum burden on our dealer partners and they can focus on clearing the existing stocks at the dealerships," said N Raja, senior vice-president and director (sales & marketing) at Toyota Kirloskar Motor (TKM).

Besides, while the government has made provisions for refunding excise duty on unsold stocks beyond July 1, there is no such relief for central sales tax, infra cess and national calamity contingent duty. The loss on non-credit of tax (CST, NCCD, infra cess) amounts to 3-7% of the cost of a vehicle. As per industry estimates, there are over 300,000 unsold vehicles across the country.

Analysts said changes in inventory levels can significantly skew quarterly numbers, masking real consumption growth. Staples have 30-90 days of channel inventory and stock changes can severely skew growth.

There will be a reduction in stock levels in the first quarter and the second quarter will see a boost with weakness in wholesales, while the third quarter may be affected by demonetisation in the year-ago period, Credit Suisse said in a recent report. It said the extent of channel inventory and wholesale mix varies across companies and it will be hard to gauge real growth trends for the next three quarters.

However, some companies disagree.

"There will undoubtedly be a period of adjustment in terms of the inventory pipeline as the various channel partners adjust to the new requirements. This will impact short-term primary and secondary reported sales growth by the FMCG players. However, that should not really impact end-consumer demand," said Vivek Gambhir, MD at Godrej Consumer Products.