

“Impact of GST on Profitability of Selected Automobile Companies in India”

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Abstract

In India, the Goods and Services Tax (GST) has been in effect since July 1, 2017. It plays the most significant change in the indirect tax system. The majority of indirect taxes have been incorporated into it. It is founded on the concept of "One Nation, One Tax." GST is one of the major sources of revenue to the government. The gross GST revenue collected in the month of November 2021 is ₹ 1,31,526 crore of which CGST is ₹ 23,978 crore, SGST is ₹ 31,127 crore, IGST is ₹ 66,815 crore (including ₹ 32,165 crore collected on import of goods) and Cess is ₹ 9,606 crore (including ₹ 653 crore collected on import of goods).

Financial analysis reveals how the company has performed in the past as well as its current financial situation. The primary goal of this study is to determine whether the company's profitability ratio has changed since the installation of GST. An attempt has been made to study the financial statements of a few vehicle businesses before and after the implementation of GST for this purpose. The study is based on secondary data collected from the relevant websites for analysing the financial performance of vehicle businesses. To study and analyse the impact of GST on the said units T-test has been used.

Keywords: Financial Statement, Automobile Industry, GST, Indirect Tax, Ratio Analysis, and Profitability.

Introduction:

The country's booming business is the automobile sector. India has the world's fifth-largest vehicle sector. The Indian automobile industry is one of the world's largest. The industry contributes 7.1 percent of the country's GDP. This sector generates around 13 percent of government excise revenue and accounts for 4.3 percent of India's total exports. In 2019, India was the world's fifth-largest automotive manufacturer and seventh-largest commercial vehicle manufacturer. India's automobile sector is diversified. Vehicles ranging from two to four wheels, as well as commercial vehicles, are manufactured. It is always on the verge of being electrified. India is one of the world's largest producers of two-wheelers, three-wheelers, and tractors in the world. India ranks fourth in the automobile industry. In India, the first car race took place on the road in 1937. In 1940, India became the birthplace of the automobile industry. The Hindustan Motor Company was founded in 1942. In the economy, automobile sector plays the most important function in providing jobs, creating money, and transportation. In 2019, India was the world's fourth largest car manufacturer and

seventh largest commercial vehicle manufacturer. According to data given by the Department for Promotion of Industry and Internal Trade, the industry attracted US\$ 24.5 billion in Foreign Direct Investment (FDI) between April 2000 and June 2020, accounting for 5% of total FDI during the period (DPIIT). The impact of GST on the vehicle industry is good since automakers were forced to deal with less tax liabilities, which benefits end-users. Various taxes, such as sales tax, road tax, sector tax, vet, motor vehicle tax, registration charge, and so on, were in place before GST. All of these taxes have since been incorporated into the GST. Because no commodities travel through a transport check-post or numerous taxes in India, the transportation cost of goods has been greatly lowered in the automobile business. In comparison to the previous price, GST has reduced the cost of an automobile.

In the previous tax system in the GST, Dealers could not claim the credit of Excise Duty, CST, and various cess which was paid earlier, so that the cost of the vehicle was increased. When the GST rule is available, CGST, SGST, and IGST credits. Dealers can claim input tax credits. So that the cost of the vehicle is reduced.

GST Rate on Automobiles:

GST rate on automobiles is calculated with the fixed base rate of 28% on all cars with additional cess slabs such as 1%, 3%, 15%, 17%, 20%, and 22%. Both the cess and interest rate together impact the GST rate on the care sector.

Table -1

Category	Before GST	After GST
Two wheelers	30.2%	28-31%
Commercial vehicles	30.2%	28%
Luxury cars	50%	42-45%
Small cars	24-25%	29-31%
Hybrid cars	30%	43%
Spare parts	12%	28%

Source: <http://www.gstinindia.in/gst-on-automobiles-sector.aspx>

Review of Literature:

R. Karthick and Mangdalene Peter (2020) in their research paper “A study on impact of GST in excellent gasket limited, Chennai.” In conclusion, the company's net worth has increased with the implementation of GST, as compared to before GST. This demonstrates that the corporation has sufficient assets to cover its liabilities. The company's net profit ratio is good after GST implementation, indicating that assets have been employed profitably by the company.

Tarun Goel (2020) conducted research on the “IMPACT OF GST ON DF PRIVATE LIMITED.” GST has a little impact on the company's performance, according to the findings.

In order to be profitable, a corporation with a profit ratio of 10% had to lose money in its early years. Because we can't assess the long-term impact of GST, we can't tell if it was a good or terrible decision for the industry.

Rashmi V N and Savitha K P (2019) conducted research on the "Impact of GST on Financial Performance." The primary purpose of this study is to investigate the cause and effect of GST implementation on Muralidhar and Naveena Associates' financial performance. The impact of GST on financial performance would be significant. Profits would be cut or, in some situations, the companies would earn money. The firm's overall financial performance has been constant since the implementation of GST. Ratio Analysis, Trend Analysis, and Forecast Function are used to examine the company's financial performance over time. GST increases tax compliance while also broadening the tax base and eliminating exclusions.

Dr. P. Ganapathi, M. Kulandaivedu and P. Keerthala (2018) studied, "A Study on Financial Statement Analysis of Tamilnadu Newsprint and Paper Limited (TNPL) Karur District." TNPL Ltd. was shown to be losing money over the research period. As a result, the company should concentrate on increasing profits in the following years while considering both internal and external issues. In terms of resources, the company is making effective use of its assets. In addition, the company maintains a minimal inventory level.

J. Pavithra, K.P. Thooyamani, and KermikiDkhar (2017) concluded that the company's overall financial performance is good in their research paper "A Study on the Analysis of Financial Performance with Reference to Jeppiaar Cements Pvt. Ltd." Current assets must be properly maintained in order to restore the current ratio to normal.

Dusan, Andrej, and Daniela (2016) conducted research on "Financial Analysis of Selected Companies." Conclusion: Financial analysis is a key aspect of monitoring the business issue and an important instrument to support the decision-making of many stakeholder groups in today's volatile competitive market. It also gives a picture or feedback on the general state and development of business themes, as well as the state of individual operational sectors.

Objectives of the Study:

To study and analyse the profitability performance of selected Automobile companies before and after implementation of GST.

Methodology:

The present study is empirical in nature and based on secondary data. The relevant data for the study is collected from various official websites and money control websites as well as various reports, research papers, books, etc.

Sample Size: For the study, sample has been selected randomly of five top-most Automobile companies in India. The selected companies are;

1. Tata Motors Ltd.
2. Maruti Suzuki India Ltd.
3. Mahindra & Mahindra Ltd.
4. Hero MotoCorp Ltd.
5. Bajaj Auto Ltd

Hypothesis Testing (t-test)

1. H0: There is no significant difference between Net Profit Ratio of sample units before and after GST.
H1: There is a significant difference between Net Profit Ratio of sample units before and after GST.
2. H0: There is no significant difference between Return on Equity of sample units before and after GST.
H1: There is significant difference between Return on Equity of sample units before and after GST.
3. H0: There is no significant difference between Return on Capital Employed of sample units before and after GST.
H1: There is significant difference between Return on Capital Employed of sample units before and after GST.
4. H0: There is no significant difference between earnings per share of sample units before and after GST.
H1: There is significant difference between earnings per share of sample units before and after GST.

Tools and Techniques of Analysis:

To draw better inferences of the performance of automobile sector the researcher has used Ratio analysis with help of T-test.

Data Analysis:**1. Profitability Ratios of Tata Motors Ltd.**

Particulars	Year	Before GST				After GST			
		2014	2015	2016	2017	2018	2019	2020	2021
Profitability	Net Profit Ratio	0.97	-13.05	-0.14	-5.48	-1.75	2.91	-16.59	-5.9
	Return on Equity	1.74	-31.93	-0.26	-11.48	-5.13	9.11	-39.64	-12.57
	Return on Capital Employed	2.75	-16.02	5.31	-1.19	5.04	11.57	-7.18	-3.46
	Earnings per share	1.03	-14.72	-0.18	-7.15	5.94	5.94	-21.06	-6.59

Source: moneycontrol.com

Table -2
t-test Analysis

Particulars	T-Calculated Value	T- Critical Value	Ho-Accepted / Rejected
Net Profit Ratio	0.1728	2.45/-2.45	Accepted
Return on Equity	0.1228	2.45/-2.45	Accepted
Return on Capital Employed	-0.5935	2.45/-2.45	Accepted
Earnings per share	-0.1778	2.45/-2.45	Accepted

Source: Compiled from secondary data

The table 2 reveals the t-test analysis of Tata Motors Ltd. The null hypothesis is tested at 5% level of significance and it is found that there is no significant difference between net

profit ratio, return on equity, return on capital employed, Earnings per share before and after GST.

2. Profitability Ratios of Maruti Suzuki India Ltd.

Particulars	Year	Before GST				After GST			
		2014	2015	2016	2017	2018	2019	2020	2021
Profitability	Net Profit Ratio	6.36	7.42	9.32	10.80	9.68	8.71	7.47	6.01
	Return on Equity	13.26	15.65	17.95	20.17	18.49	16.25	11.66	8.23
	Return on Capital Employed	12.39	15.00	17.35	26.42	25.83	21.60	14.04	9.74
	Earnings per share	92.13	122.85	177.58	243.32	255.62	248.30	187.06	140.02

Source: moneycontrol.com

Table -3
t-test Analysis

Particulars	T – Calculated value	T Critical Value	Ho-Accepted / Rejected
Net Profit Ratio	0.4005	2.45/-2.45	Accepted
Return on Equity	1.1316	2.45/-2.45	Accepted
Return on Capital Employed	-0.0026	2.45/-2.45	Accepted
Earnings per share	-1.1345	2.45/-2.45	Accepted

Source: Compiled from secondary data

The table 3 shows the t-test analysis of Maruti Suzuki Ltd. The null hypothesis is tested at 5% level of significance and it is found that there is no significant difference between net profit ratio, return on equity, return on capital employed, Earnings per share before and after GST.

3. Profitability Ratios of Mahindra & Mahindra Ltd.

Particulars	Year	Before GST				After GST			
		2014	2015	2016	2017	2018	2019	2020	2021
Profitability	Net Profit Ratio	9.27	8.52	7.83	8.27	8.94	8.94	2.92	0.59
	Return on Equity	22.39	17.25	14.29	13.60	14.37	14.01	3.86	0.77
	Return on Capital Employed	16.68	13.85	12.49	14.28	16.95	16.86	13.26	12.35
	Earnings per share	63.67	56.23	53.05	30.69	36.64	40.29	11.16	2.25

Source: moneycontrol.com

Table -4
t-test Analysis

Particulars	T –Calculated Value	T Critical Value	Ho-Accepted/Rejected
Net Profit Ratio	1.4540	2.45/-2.45	Accepted
Return on Equity	2.1473	2.45/-2.45	Accepted
Return on Capital Employed	-0.3575	2.45/-2.45	Accepted
earnings per share	2.4086	2.45/-2.45	Accepted

Source: Compiled from secondary data

The table 4 exhibits the t-test analysis of Mahindra & Mahindra Ltd. The null hypothesis is tested 5% level of significance and it is found that there is no significant difference between net profit ratio, return on equity, return on capital employed, before and after GST.

4. Profitability Ratios of Hero Motor Corp Ltd.

Particulars	Year	Before GST				After GST			
		2014	2015	2016	2017	2018	2019	2020	2021
Profitability	Net Profit Ratio	8.34	8.64	10.95	11.84	11.47	10.05	12.59	9.62
	Return on Equity	37.66	36.47	39.42	33.39	31.41	26.32	25.70	19.50
	Return on Capital Employed	37.16	35.93	37.77	44.00	42.35	37.15	26.52	24.43
	Earnings per share	105.61	119.46	156.86	169.12	185.14	169.48	181.91	148.39

Source: moneycontrol.com

Table -5
t-test Analysis

Particulars	T -Calculated	T Critical Value	Ho-Accepted/Rejected
Net Profit Ratio	-0.9032	2.45/-2.45	Accepted
Return on Equity	4.0009	2.45/-2.45	Rejected
Return on Capital Employed	1.3149	2.45/-2.45	Accepted
earnings per share	-1.9461	2.45/-2.45	Accepted

Source: Compiled from secondary data

The table 5 shows the t-test analysis of Hero Motor Corp Ltd. The null hypothesis is tested at 5% level of significance and it is found that there is no significant difference

between net profit ratio, return on capital employed, earnings per share before and after GST. The null hypothesis is rejected on return on equity.

5. Profitability Ratios of Bajaj Auto Ltd.

Particulars	Year	Before GST				After GST			
		2014	2015	2016	2017	2018	2019	2020	2021
Profitability	Net Profit Ratio	16.09	13.01	17.39	17.58	16.16	15.45	17.04	16.41
	Return on Equity	33.75	26.31	29.62	22.46	21.29	21.46	25.59	18.07
	Return on Capital Employed	32.37	25.38	28.67	30.32	29.50	28.28	32.08	22.96
	Earnings per share	112.10	97.20	135.80	132.30	140.60	161.60	176.30	157.50

Source: moneycontrol.com

Table No.6: t-test Analysis

Particulars	T -Calculated	T Critical Value	Ho-Accepted/Rejected
Net Profit Ratio	-0.2238	2.45/-2.45	Accepted
Return on Equity	2.2540	2.45/-2.45	Accepted
Return on Capital Employed	0.4046	2.45/-2.45	Accepted
earnings per share	-3.4037	2.45/-2.45	Rejected

Source: Compiled from secondary data

The table no. 6 reveals the t-test analysis of Bajaj Auto Ltd. The null hypothesis is tested 5% level of significance and it is found that there is no significant difference between net profit ratio, return on equity, return on capital employed, before and after GST. The null hypothesis is rejected in earnings per share.

Conclusion:

Since independence, the GST has been the most significant tax change. The automobile industry now pays a lower tax rate as a result of the implementation of the GST. A favorable effect has occurred. As a result, the end user reaps the rewards. Various taxes have been merged into GST, such as sales tax, road tax, sector tax, VAT, motor vehicle tax, registration duty, and so on, reducing the number of taxes. The purpose of this research is to look at the financial performance of a few vehicle businesses before and after the GST was implemented. The profitability ratios of companies were analyzed before and after the implementation of GST, and it is concluded that the implementation of GST has no

significant impact on the profitability ratios of companies. The overall performance of the company before and after the implementation of GST is satisfactory.

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