

IMPACT OF GST ON THE MANUFACTURING SECTOR IN INDIA

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ABSTRACT

The introduction of the Goods and Services Tax (GST) in India on July 1, 2017, marked a significant milestone in the country's economic and taxation landscape. Designed as a comprehensive, destination-based tax system, GST aimed to replace the complex web of central and state-level indirect taxes with a unified structure, promoting ease of doing business and creating a common national market. The manufacturing sector, being one of the largest contributors to India's Gross Domestic Product (GDP) and employment, experienced profound changes under the GST regime. Prior to GST, the manufacturing sector faced numerous inefficiencies arising from cascading taxes, fragmented supply chains, and varying tax rates across states. The burden of multiple levies such as excise duty, VAT, CST, and entry taxes not only increased the cost of production but also complicated compliance processes. GST addressed these challenges by subsuming major indirect taxes and introducing a seamless input tax credit mechanism, which significantly reduced tax cascading and improved cost efficiency for manufacturers.

The impact of GST on the manufacturing sector has been multifaceted. On the positive side, it has led to reduced logistics costs, optimized supply chains, and enhanced competitiveness for both domestic and export-oriented manufacturers. The abolition of state border check-posts has improved the speed and predictability of goods movement, while uniform tax rates have simplified pricing and market expansion strategies. However, the sector also faced challenges, particularly during the initial transition period, such as increased compliance requirements, technological adaptation, and temporary disruptions in operations.

Overall, GST has catalyzed a shift towards formalization, transparency, and efficiency within the manufacturing sector. While some segments faced short-term difficulties, the long-term implications point towards a more integrated, competitive, and growth-oriented manufacturing ecosystem in India.

Keywords: Impact, GST, Manufacturing Sector, India

1. INTRODUCTION

The manufacturing sector has long been a crucial pillar of India's economy, contributing significantly to GDP, employment, and exports. Historically, Indian manufacturing operated under a fragmented tax structure marked by a complex web of central and state taxes, including excise duty, VAT, CST, entry tax, octroi, and others. This multiplicity of taxes created inefficiencies, increased compliance costs, and led to tax cascading, thereby inflating the cost of manufacturing goods. Furthermore, the interstate movement of goods was hampered by border check-posts and varying state levies, which resulted in logistical delays and higher costs for manufacturers. To address these structural inefficiencies, the Government of India introduced the Goods and Services Tax (GST) on July 1, 2017. GST replaced multiple indirect taxes with a unified, destination-based tax system, applicable across goods and services. For the manufacturing sector, GST brought major reforms, including the elimination of cascading taxes through seamless input tax credits, simplification of tax compliance, and the removal of interstate barriers. The GST structure comprises four main tax slabs: 5%, 12%, 18%, and 28%, with some items subject to additional cesses. The tax is divided into Central GST (CGST), State GST (SGST), and Integrated GST (IGST) for interstate transactions.

By streamlining taxation, GST has enhanced ease of doing business, reduced tax-related disputes, and encouraged formalization in the manufacturing sector. Although initial implementation faced challenges, the long-term outlook

reflects greater efficiency, competitiveness, and integration of India's manufacturing industry into a unified national market.

1.1. OBJECTIVE OF THE STUDY

This study explores the Impact of GST on the Manufacturing Sector in India by evaluating case studies.

2. RESEARCH METHODOLOGY

This study is based on secondary sources of data such as articles, books, journals, research papers, websites and other sources.

Case Study 1: Impact of GST on the Textile Manufacturing Industry in Surat

The introduction of the Goods and Services Tax (GST) in India brought about a monumental shift in the country's indirect tax system, with far-reaching implications across various sectors. The textile industry, particularly the manufacturing hubs of Surat, witnessed significant changes in the post-GST landscape. Prior to GST, the textile industry enjoyed a largely unregulated tax structure, with several exemptions and a complex web of VAT, excise, and entry taxes. Surat, being one of the largest centers for synthetic textile manufacturing, faced an initial period of confusion and disruption following the rollout of GST. The primary concern among manufacturers was the imposition of tax on fabrics, which were previously either tax-exempt or lightly taxed under the VAT regime. This shift led to widespread protests by textile traders and manufacturers who were suddenly brought under the tax net and required to adhere to the GST's compliance-heavy framework. However, as the system matured and stakeholders became more familiar with GST protocols, many of the initial challenges began to diminish.

For textile manufacturers in Surat, the input tax credit (ITC) mechanism under GST emerged as a key advantage. Under the erstwhile regime, manufacturers often faced cascading taxes because the excise duty on yarn and the VAT on fabrics were not creditable across stages. GST streamlined this process by allowing credit across the value chain, thereby reducing the overall tax burden. Many small and medium-sized manufacturers found that their working capital requirements, initially strained by the need for upfront tax payments, gradually stabilized as the GST refund process improved over time. The formalization of the sector under GST also led to enhanced access to institutional credit, as proper invoicing and tax compliance increased the financial transparency of textile businesses. Manufacturers in Surat, who were previously reliant on informal credit channels, began to benefit from bank loans and government schemes tailored for compliant businesses. Additionally, the logistics costs associated with textile distribution decreased due to the abolition of state border check posts, which previously led to significant transit delays. This improvement in logistics efficiency allowed manufacturers to serve a wider market base more competitively. While initial resistance to GST in Surat was intense, with many fearing that the new tax regime would erode profit margins and stifle small manufacturers, over time it became evident that GST fostered better pricing structures, greater market access, and a more level playing field. Nevertheless, the journey was not without hurdles. Small textile manufacturers, particularly those operating in the unorganized sector, struggled to cope with the digitized compliance requirements, leading to a temporary contraction in business activities. The demand-side impact was also felt as end consumers faced higher prices initially due to the pass-through of tax increases. However, with subsequent rationalization of GST rates on textiles and improvements in compliance systems, the sector gradually adapted. In the broader context, GST catalyzed a shift towards formalization, better supply chain management, and greater competitiveness for Surat's textile manufacturers, positioning them more favorably in the national and international markets.

Case Study 2: GST and the Automobile Manufacturing Sector in Pune

The automobile manufacturing sector, with a significant base in Pune, Maharashtra, underwent transformative changes following the introduction of GST. Prior to GST, the automobile industry was subject to a convoluted tax structure, including excise duty, VAT, sales tax, road tax, and octroi. This fragmented system often led to tax inefficiencies, cascading taxes, and complex interstate supply chain management. The arrival of GST aimed to address these challenges by subsuming multiple taxes into a single, unified system. For automobile manufacturers in Pune, GST brought an immediate benefit by reducing the overall tax incidence on most categories of vehicles. The cumulative tax burden pre-GST often ranged between 26% to 50%, depending on the vehicle type and state-specific levies. With GST, the rates for

most cars and two-wheelers were consolidated into the 28% bracket, along with an additional cess based on vehicle specifications.

Initially, automobile manufacturers welcomed the simplification of tax rates and the reduction in logistical barriers. The removal of interstate taxes and check posts significantly reduced transit times, optimizing the supply chain and lowering inventory carrying costs. The Pune auto sector, which supplies components and finished vehicles across the country, particularly benefited from these logistical efficiencies. Additionally, GST allowed seamless credit utilization across the supply chain, encouraging manufacturers to better integrate their vendors and suppliers into a unified tax-compliant framework. However, the imposition of the compensation cess on luxury vehicles and SUVs posed a new challenge for manufacturers targeting the premium segment. Companies in Pune catering to these markets had to re-evaluate their pricing strategies and supply chain structures to mitigate the impact of higher taxes on consumer demand. The initial post-GST period saw a surge in vehicle sales driven by the expectation of price benefits, but this was later tempered by the rise in cess and subsequent adjustments.

From a compliance perspective, large automobile manufacturers adapted quickly to the GST regime due to their pre-existing experience with complex tax structures and digitized inventory systems. However, smaller ancillary units faced hurdles in aligning with GST's rigorous filing and invoicing requirements. The cascading impact of this was evident as smaller component manufacturers either consolidated or were absorbed by larger players with better compliance infrastructure. GST also prompted a strategic reassessment of warehouse locations. Previously, companies established depots in multiple states to minimize CST and stock transfer taxes. With GST eliminating these barriers, many automobile manufacturers streamlined their warehousing networks, leading to operational cost savings and improved inventory management. The uniformity in taxation also allowed manufacturers to price their vehicles more consistently across states, reducing price arbitrage and simplifying marketing strategies.

Nevertheless, the GST journey was not without friction for the automobile sector. The frequent changes in GST rates and cesses created uncertainty in pricing, which occasionally disrupted demand cycles. Manufacturers had to continually adjust their pricing and promotional strategies to accommodate such revisions, leading to short-term planning difficulties. Despite these challenges, the long-term impact of GST on Pune's automobile manufacturing sector has been broadly positive, with greater operational efficiencies, streamlined supply chains, and an improved tax compliance ecosystem.

Case Study 3: GST and the Pharmaceutical Manufacturing Sector in Hyderabad

Hyderabad, known as India's pharmaceutical hub, faced unique challenges and opportunities following the introduction of GST. The pharmaceutical sector, which previously navigated a complex tax environment comprising excise duties, VAT, CST, and local levies, initially faced considerable uncertainty regarding GST classifications, input credits, and rate applicability on life-saving versus non-essential drugs. Prior to GST, the movement of pharmaceutical goods across states was often hindered by multiple tax layers and paperwork, delaying delivery of critical medicines. The implementation of GST aimed to create a uniform tax structure, and for pharmaceutical manufacturers in Hyderabad, this transition came with mixed outcomes.

On the positive side, GST's elimination of the cascading effect of taxes allowed pharmaceutical companies to optimize their input costs. Manufacturers could now claim input tax credits on capital goods and services, which was previously restricted under the excise-VAT regime. This resulted in a reduction in the effective tax burden and improved cash flows. The harmonization of tax rates across states also simplified supply chain logistics, enabling faster distribution of medicines and medical equipment. For Hyderabad-based pharmaceutical exporters, GST's alignment with international tax norms and the facility of zero-rated exports provided further advantages. The streamlined tax credit system facilitated better working capital management and enhanced competitiveness in global markets.

However, the GST rollout was not without challenges for the sector. The initial lack of clarity on rate classifications for life-saving drugs and medical devices created compliance hurdles. Manufacturers and traders struggled with software glitches, delayed refunds, and confusion over transitional stock treatments. This led to temporary disruptions in the supply chain, affecting the availability of certain drugs in the market. Moreover, the pharmaceutical sector faced an increased compliance burden with monthly filings and strict reconciliation of invoices to claim input tax credits. Smaller manufacturers, particularly those focused on generic drugs, found the increased administrative workload to be a significant strain on resources. They had to invest in training personnel and upgrading accounting systems to stay compliant with the GST regime.

The pricing impact of GST was another critical concern. While many life-saving drugs attracted a lower GST rate, some essential medical products were taxed at higher rates than before, leading to marginal price increases for consumers. Pharmaceutical manufacturers in Hyderabad had to recalibrate their pricing strategies to balance regulatory compliance, profitability, and market competitiveness. The government's periodic revisions and rate rationalizations added to the complexity, necessitating constant vigilance and adaptability from manufacturers.

Despite these initial difficulties, over time, GST fostered greater transparency in the pharmaceutical supply chain and reduced the prevalence of under-invoicing and tax evasion. Large pharmaceutical companies in Hyderabad were able to leverage GST's benefits more effectively, using technology to streamline compliance and optimize logistics networks. Furthermore, the integration of supply chains across the country enabled better inventory management and reduced the incidence of stockouts for critical medicines. In the longer term, GST's contribution to formalizing the pharmaceutical manufacturing sector in Hyderabad has helped build more robust and accountable business practices, enhancing both domestic and export potential.

Case Study 4: Impact of GST on the Fast-Moving Consumer Goods (FMCG) Sector in Himachal Pradesh

The FMCG sector, which encompasses daily consumer products ranging from food to personal care items, is highly sensitive to changes in taxation due to its dependency on price competitiveness and extensive distribution networks. Himachal Pradesh, which had established itself as a significant FMCG manufacturing hub owing to historical tax exemptions, experienced a pronounced shift post-GST. The erstwhile excise exemptions granted to manufacturing units in tax-incentivized zones like Himachal Pradesh were a primary driver for setting up plants in the region. Under the GST regime, these location-based tax incentives were gradually phased out, reducing the region's attractiveness as a manufacturing base.

The removal of excise exemptions under GST posed a strategic dilemma for FMCG manufacturers. The viability of continuing operations in Himachal Pradesh had to be reassessed in light of the now uniform tax regime across India. Several manufacturers experienced an erosion of the cost advantages they previously enjoyed, prompting some to consider relocating operations to regions closer to consumption centers to minimize logistical costs. However, a complete exit was not immediate, as the government provided transitional provisions and budgetary support schemes to cushion the impact.

For FMCG manufacturers in Himachal Pradesh who continued operations, the GST brought several operational benefits. The simplification of the tax structure enabled faster movement of goods across states without the need for extensive documentation at border check-posts. This significantly reduced lead times and stockholding requirements. The input tax credit mechanism under GST improved cost efficiencies by allowing credit on previously non-creditable items like advertising services, which are significant expenditure components in the FMCG sector. Yet, the phasing out of area-based incentives combined with increased compliance requirements under GST posed challenges, particularly for small and mid-sized FMCG units. Compliance with monthly returns, e-way bills, and invoice matching strained the administrative capabilities of these firms. The initial GST rollout also led to supply chain disruptions as companies recalibrated their tax planning strategies and stock distribution models. FMCG manufacturers had to engage in widespread re-pricing exercises and reconfigure their enterprise resource planning (ERP) systems to align with the GST framework.

Consumer pricing was another area of adjustment. While GST aimed to bring tax parity across states, the inclusion of items like cosmetics and chocolates in the highest GST slab led to higher consumer prices in some product categories. FMCG manufacturers in Himachal Pradesh had to balance these pricing pressures with the need to remain competitive in a price-sensitive market. Over time, however, GST has contributed to improving the efficiency and transparency of the FMCG sector. Companies have rationalized their supply chains, improved inventory turnover ratios, and leveraged the input credit system to optimize tax liabilities. For manufacturers in Himachal Pradesh, this has meant navigating a more competitive landscape but also benefiting from a more seamless pan-India market with fewer logistical hurdles. Despite the initial headwinds, GST has thus reshaped the FMCG manufacturing dynamics in the region, encouraging a shift towards more efficient and compliant operations.

Case Study 5: GST's Impact on Steel Manufacturing in Jamshedpur

The steel manufacturing sector, with Jamshedpur as one of its historic centers, witnessed a significant transformation in its tax and operational structure with the implementation of GST. Prior to GST, the steel industry operated under a multi-layered tax framework, involving excise duty, VAT, CST, and octroi, which collectively resulted

in a substantial tax burden and logistical inefficiencies. The introduction of GST aimed to consolidate these taxes into a single system, thereby reducing the overall complexity and promoting ease of doing business.

For steel manufacturers in Jamshedpur, GST brought immediate benefits through the elimination of cascading taxes and the introduction of input tax credits across the entire value chain. This allowed for a more transparent and efficient cost structure, which in turn improved competitiveness both domestically and in international markets. The simplification of interstate goods movement under GST was particularly advantageous for the steel sector, as it significantly reduced transportation times and costs. Prior to GST, steel shipments often faced delays at state borders due to inspection of documents and octroi payments. With GST removing these barriers, manufacturers were able to optimize their supply chain logistics and reduce inventory carrying costs.

However, the initial transition was not without its complications. Steel manufacturers in Jamshedpur faced challenges related to the classification of goods, determination of applicable GST rates for different steel products, and the complexity of reconciling input credits across multiple units and supply lines. The increased compliance burden under GST required significant investment in upgrading accounting systems and training personnel to handle the intricacies of the new tax regime.

Another notable impact of GST was the change in pricing dynamics for steel products. While the overall tax incidence on steel marginally reduced in the post-GST era, market competition and global steel price fluctuations continued to exert pressure on pricing strategies. Steel manufacturers had to carefully calibrate their pricing to remain competitive while also ensuring full compliance with GST's anti-profiteering provisions. The requirement to pass on tax benefits to consumers mandated careful monitoring and adjustment of pricing models. The phasing out of location-based tax incentives under GST also affected some ancillary units and suppliers in the Jamshedpur ecosystem that had previously benefited from state-level concessions. However, the overarching advantage of a unified national market and streamlined input credit systems outweighed these regional disadvantages in the long term.

Steel exports from Jamshedpur saw a positive impact under GST, as the zero-rated export provision and quicker refund processes improved cash flows and reduced working capital requirements for exporting units. Additionally, the reduction in procedural bottlenecks contributed to enhanced delivery timelines and improved relationships with international clients. Over time, GST has contributed to greater transparency and formalization in the steel manufacturing sector in Jamshedpur. The elimination of tax arbitrage between states has led to more uniform pricing across regions, reducing regional price disparities that previously influenced buyer behavior. Steel manufacturers have also streamlined their warehousing and distribution networks, taking advantage of GST's elimination of entry taxes and check-post delays. Despite the initial disruptions and the learning curve associated with adapting to GST's compliance ecosystem, the long-term impact on Jamshedpur's steel manufacturing sector has been largely positive. The sector is now more integrated, operationally efficient, and tax compliant, with improved cost structures and better alignment with global trade practices.

3. CONCLUSION

The implementation of the Goods and Services Tax (GST) has brought significant structural reforms to India's manufacturing sector. By replacing multiple indirect taxes with a unified tax framework, GST has simplified compliance, reduced cascading tax effects, and promoted the creation of a common national market. These changes have resulted in increased operational efficiency, cost reductions, and improved competitiveness for manufacturers across various industries, including textiles, automobiles, pharmaceuticals, FMCG, and steel. The removal of interstate barriers and the seamless input tax credit mechanism have optimized supply chains and reduced logistics costs, contributing to the sector's growth potential. Manufacturers, especially large and organized players, have been able to leverage these benefits effectively, leading to better pricing strategies, enhanced market access, and greater formalization within the industry. However, the transition to GST was not without its challenges. Smaller manufacturers, particularly those in the unorganized sector, struggled with the digital compliance requirements and initial disruptions in operations. Despite these hurdles, over time, the sector has adapted to the new tax regime.

CONFLICT OF INTERESTS

None.

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