

GST IMPACT ON SALES OF PHARMACEUTICAL INDUSTRY WITH SPECIAL REFERENCE TO TORRENT PHARMACEUTICALS LTD.

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ABSTRACT

GST stands for Goods and Services Tax, and it is the most significant tax reform since independence. Which went into effect on July 1, 2017. Many indirect taxes are included. Many industries, enterprises, and corporations will be affected. It's effected the pharmaceutical industry as well. GST is expected to have a positive impact on the pharmaceutical industry. It eliminates the tax on goods and services, thereby preventing the cascading effect. The Goods and Services Tax (GST) has reduced the number of taxes. It is a solitary tax. GST will lower manufacturing costs, which will benefit the Indian pharmaceutical industry. The National Pharmaceutical Price Authority has issued the necessary instructions to fix drug prices for essential medicines to make them affordable to all. According to the revised list released by the NPPA (National Pharmaceutical Price Authority), the prices of the majority of drugs have decreased, including antibiotics and drugs used to treat cancer, HIV, and diabetes. The purpose of this research paper is to understand the impact of GST on the pharmaceutical industry. To know the effect of GST on the pharmaceutical industry, a study has been done on the effect of GST on the sale of Torrent Pharmaceutical Ltd. An attempt has been made to analyze the effect of GST on the sale of Torrent Pharmaceutical Ltd.

KEYWORDS: *Indirect Tax, GST, Pharmaceutical Industry, Torrent Pharmaceuticals Ltd.*

Introduction

GST is the biggest tax reform. Which has come into force from 1st July 2017. Many of them are indirectly included. It will affect many industries, businesses, and corporations. It has also had an impact on the Pharmaceutical industry. The pharmaceutical industry occupies a singular case due to the medicinal and pharmaceutical requirements it provides. If taken the share of GDP, it contributes to 5% of it. The Government of India with the GST Council and its Chairman, Union minister of finance of India - Arun Jaitley have introduced it so on enhance FDI (Foreign Direct Investment). The alteration will cause some changes in each industry.

GST is likely to have a stimulating effect on the pharmaceuticals industry. It eliminates the tax on goods and services i.e. the cascading effect. GST has reduced the number of taxes. It is a single tax. The implementation of GST has increased the cost of production in pharmaceuticals companies. MRP is also likely to increase as costs increase. Most drugs used to come in 4% slabs now 5% come in slabs. Ayurvedic medicines have become expensive. Earlier it was 4% VAT but now it is 12% GST.

The traditional cost and delivery model will be replaced by supply chain functionality, which will become neutral to close central nuisance costs and interstate transactions between the two dealers. This will reduce the costs that can be added to the margins and what happens to the customers. Businesses will have complete freedom to acquire this strategic supply chain and channel. Healthcare services and life-saving drugs are exempt from GST. In the pre-GST tax system, it was exempted from excise duty and customs duty and in some states, it was taxed at 5%.

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The pharmaceutical industry levies GST at four different rates. 0, 5%, 12% and 18%. Life-saving drugs are exempt from GST. 5% lowest and 18% highest rates are charged on drugs. 28% slab is charged on some other products. This rate is not charged on any medicine or medical supply. GST will simplify the tax system and process, which will save time and cost. Therefore, along with the positive effect of GST, there is also a negative effect.

Profile of the Company

Torrent Pharmaceuticals Ltd is a multinational pharmaceutical company based in India that was founded in 1959 by the Torrent Group. It is a publicly-traded company. U.N.Mehta is the company's founder. The services are available all over the world. Ahmedabad, India, is the company's headquarters. Torrent Pharmaceuticals is present in over 40 countries and has over 2000 product registrations worldwide. Torrent Pharmaceuticals Ltd is involved in the cardiovascular (CV), central nervous system (CNS), gastrointestinal, diabetology, anti-infective, and pain management therapeutic segments. It has also expanded into the therapeutic areas of nephrology and oncology while maintaining a strong focus on gynecology and pediatrics. Torrent Pharmaceuticals reported a 32.51 percent increase in its consolidated net profit to Rs 216 crore for the quarter ended 30 June, owing primarily to robust sales in most geographies, on July 23, 2019.

Torrent Pharmaceuticals Ltd is a company that is traded on both the BSE and the NSE. It operates three world-class manufacturing facilities in Gujarat, Himachal Pradesh, and Sikkim. The number of employees is approximately 12,881 (2020), and the revenue is approximately 8,060 crores INR (US\$1.1 billion, 2020). The competitive advantage of Torrent Pharmaceuticals stems from its world-class manufacturing facilities, advanced R&D capabilities, extensive domestic network, and global presence.

Review of Literature

Ajit Kumar and Prof (Dr.) Jeevan Kumar Chaudhary (2019) studied, "GST and Its Impact on Pharmaceutical Industry." Concluded that GST has both positive as well as negative effects on the pharmaceutical business, but the quantum of positive impact is more, and the government is still working towards the changes to reduce the negative effect and such activity is an ongoing process for further improvement.

Sandip Kumar De (2016) studied, "GST and the Effects on Pharmaceutical Industry" in this paper, RSM explores at a broad level, the impact that GST has had on impact on the pharmaceutical industry. It was concluded that the inverted duty structure could result in a significant loss of input tax credit in the pharmaceutical industry. There is burnout as a result of the inability to reclaim input tax paid on capital goods. Furthermore, disbursements due to budgetary support are expected to be delayed, potentially leading to further working capital constraints. All of these impediments raise the cost of working capital and are likely to harm pharmaceutical product prices.

Dr. Priyanka Jain (2017) studied, "Impact of GST in Various Indian Industries." This paper explains the concept of GST with the pros and cons of implementing GST in India along with their impacts on various sectors. It also highlights comparative details between the proposed GST scenario and the current tax scenario. Concluded that there will be problems and challenges in implementing GST in India. Its pros for one industry can become the challenges of other industries. So it is very imperative to be proactive measures for the upcoming challenges. There should be all-around equal development.

Bhawana Khanna and Pavneet Kaur (2017) studied, "A Research Paper on an Impact of Goods and Services Tax (GST) on Various Sectors of Economy." The finding shows that tax rates have significantly impacted various sectors of the economy but still it has reduced the burden of tax on the final consumer by removing the cascading effect on consumers. The paper elaborates that no doubt the current GST system is a multistage, destination-based effect on goods and services but it will be a major source of revenue for Govt. as it shows a significant impact on each sector of the economy.

Ranjana Upashi (2017) studied, "Study on Effect of Goods and Services Tax on Different Sectors in India." Also discuss the concept and framework of GST, benefits of GST, the impact of GST on different sectors like Automobile, FMCG, Banking, Insurance, Financial Services, Pharmaceutical Sector, Agriculture, Real Estate, Oil and Gas, Cement, Telecom, Airlines and, Gold. Concluded that GST impact is neutral and positive on different sectors of the economy.

Objectives of the Study

- To compare pre and post implementing GST impact on the sale of Torrent Pharmaceuticals Ltd
- To know the impact of GST on the pharmaceuticals industry
- To understand the trend of year-wise sales of Torrent Pharmaceuticals Ltd

Hypothesis of the Study

H₀: There is no impact of GST on sales of Torrent Pharmaceuticals Ltd

H₁: There is an impact of GST on sales of Torrent Pharmaceuticals Ltd

Methodology

The study is based on secondary data. The relevant data for this study was collected through various secondary data sources. Data collected from official websites, Annual Reports, Journal articles, Newspaper, magazines, etc.

Statistical Tools Used

T test

Analysis of the Study**Table 1: Sales of Torrent Pharmaceutical ltd before and After GST**

(Rs in Crore)

Before GST				After GST			
Year	Sales in India	Sales outside India	Total Sales	Year	Sales in India	Sales outside India	Total Sales
2014	1462.32	1765.68	3228	2018	2570.53	1567.56	4138.09
2015	1882.18	1535.51	3417.69	2019	3509.18	2047.54	5556.72
2016	2226.59	3075	5301.65	2020	3792.11	2233.82	6025.93
2017	2337.96	2123.79	4461.66	2021	3998.22	2334.82	6333.04
Mean	1977.26	2124.99	4102.25	Mean	3467.51	2045.93	5513.44
S.D.	394.323	678.014	966.207	S.D.	630.694	340.392	970.884

Source: Annual reports

Paired t-Test values for Sales in India

N	4
Correlation 'r'	0.9788
Paired sample t-test	11.5658
P value of Paired Sample t-test	0.0013

Paired t-Test Values for Sales outside India

N	4
Correlation 'r'	0.5041
Paired Sample t-test	0.2700
P value of Paired Sample t-test	0.8046

Paired t-Test values for Total Sales

N	4
Correlation 'r'	0.7398
Paired Sample t-test	4.0395
P value of Paired Sample t-test	0.0272

The above table shows the paired t-test and correlation coefficient for the change in sales before and after the implementation of GST. The correlation between sales in India, sales outside India, and total sales before and after the implementation of GST is 97.88%, 60.34%, and 73.98% respectively. It shows a high correlation between sales of before and after GST.

The average sales in India before the implementation of GST were Rs.1977.26 Cr. After the implementation of GST, it has increased to Rs.3467.51 Cr. Average sales have increased by 75%.

The average sales outside India were Rs.2124.99 Cr before the implementation of GST. After the implementation of GST, it has come down to Rs.2045.93 Cr. Average sales are down 3.72%.

The average total sales in India were Rs.4105.25 Cr before the implementation of GST. After the implementation of GST, it has increased to Rs.5513.44 Cr. Average sales have increased by 34%. Based on data, conducted a hypothesis testing with 0.05% significant level. The results of the paired t-test show that sales have changed/increased since the implementation of GST. Therefore the H1 hypothesis is accepted and it is concluded that sales have increased after the implementation of GST. So there is a positive significant impact on GST on sales of Torrent Pharmaceutical Ltd.

Table: 2 Year wise Growth of Sales (%) of Torrent Pharmaceuticals Ltd.

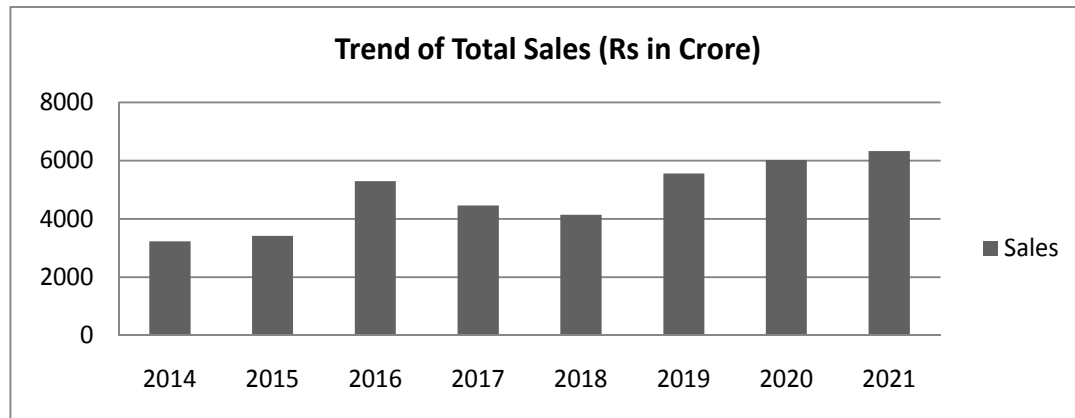
(Rs. in Crore)

Year	Sales in India	Growth %	Sales outside India	Growth %	Total Sale	Growth %
2014	1462.32	14.44	1765.18	31.08	3228.00	22.98
2015	1882.18	28.71	1535.51	-13.03	3417.69	5.87
2016	2226.59	18.27	3075	100.25	5301.65	55.12
2017	2337.96	5.00	2123.70	-30.93	4461.66	-15.84
2018	2570.53	9.94	1567.56	-26.18	4138.09	-7.25
2019	3509.18	36.51	2047.54	30.61	5556.72	34.28
2020	3792.11	8.06	2233.82	9.09	6025.93	8.44
2021	3998.22	5.43	2334.82	4.52	6333.04	5.09

Source: Annual Reports

In the year 2014, the sales of torrent pharmaceuticals ltd in India were Rs.1462.32 Cr. In 2015, the sales of torrent pharmaceuticals ltd increased by 28.7%. After the implementation of GST, the sales of torrent pharmaceuticals ltd in India increased. An increase of 9.94% in the year 2018. 36.51% in 2019, 8.06% in 2020, and 5.43% in 2021. After the implementation of GST, the sales of torrent pharmaceutical ltd outside India decreased by -26.18% in the year 2018. Then in the year, 2019 sales outside India increased by 30.61%. In the years 2020 and 2021 also an increase of 9.09%, 4.52%. After the implementation of GST, the total sales of torrent pharmaceuticals ltd will decrease by -7.25% in 2018. In the year 2019, the total sales will increase by 34.28%. An increase of 8.44% and 5.09% in the years 2020 and 2021. After the reduction in the year 2018, the sales increase after the implementation of GST.

Figure: The Chart Shows the Trend of Year-Wise Total Sales of Torrent Pharmaceuticals Ltd



Source: Annual Reports of Torrent Pharmaceuticals Ltd

The total sales of torrent pharmaceuticals ltd in the year 2014 was Rs.1765.18 Cr. In 2015, total sales dropped to Rs.1535.51 Cr. The company's sales increase in 2016. Increases to Rs.3075 Cr. Then in the year 2017, it drops to Rs.2123.70 Cr. After the implementation of GST in the year 2018, the sales of torrent pharmaceuticals ltd are declining. Then after the implementation of GST, the sales of torrent pharmaceuticals ltd increase in the years 2019, 2020, and 2021. Rs.2047.54, Rs.2233.82, Rs.2334.82 Cr respectively. After the implementation of GST, the total sales of Torrent Pharmaceuticals Ltd decreased in the year 2018 and then the total sales gradually increased in the remaining years.

Findings

- After the implementation of GST, the overall sales of torrent pharmaceuticals ltd increase.
- Sales of torrent pharmaceuticals ltd in India increase after the implementation of GST. In the year 2019, sales in India will increase by 36.51%.
- After the implementation of GST, the sales of torrent pharmaceuticals ltd outside India decreased by -26.18% in the year 2018. Then gradually increase. An increase of 30.61% in the year 2019.
- After the implementation of GST, the total sales of torrent pharmaceutical ltd decreased by - 7.25% in the year 2018. Then it gradually increased, in the year 2019 it increased by 34.28%.

Conclusion

The implementation of GST has affected all major industries. GST has had both positive and negative effects on the pharmaceutical industry. GST has more positive than negative effects. The government is making efforts to reduce the negative effects. Sales of Torrent pharmaceuticals ltd decline in the first year of 2018. Then the overall sales gradually increase. GST has an overall positive effect on the sales of torrent pharmaceuticals ltd. Lack of proper Knowledge, training and lack of proper infrastructure etc. are obstacles in the implementation of GST. The government is making efforts to remove these barriers.

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