

## **Critical Issues in GST on Logistic Cost in Fertilizer Industry**

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### **ABSTRACT**

*Fertilizer sector plays a very significant role in the development of our nation. The Indian fertilizer industry is expected to develop rapidly. The logistics costs in fertilizer sector India are very much high in comparison with the developed countries. This is primarily due to multiple tax structure and lack of good infrastructure. Currently the freight that moves across the country is taxed multiple times. So this paper is an analysis of what the impact of Goods and Service Tax (GST) will be on Logistics cost in fertilizer industry in India.*

**Keywords:** GST, Fertilizer industry, Warehouse, Input Cost

### **INTRODUCTION**

India is prominent country from fertilizer point of view. India is Agri economy where 60% of the people depend on agriculture. On the other hand India is the second number country in terms of population. It has been projected to be the world's most population country by 2025 surpassing china. To feed the population there is need to increase food grain production. To enhance agricultural production and diversify the agricultural base, the government focuses on irrigation, adoption of new agricultural technologies, credit facilities to farmers and the use of various agriculture input like better quality seeds, efficient and balanced use of fertilizers and insecticides.

Fertilizer is one of the main agriculture inputs for increasing food grain production. It strengthens the soil and enhances its fertility. In Fertilizer industry fertilizers contain three basic nutrients for agriculture: nitrogen (N), phosphorous (P) and potassium (K). Nitrogen is primarily provided by nitrogenous fertilizers such as urea (46%N) or ammonia fertilizers, e.g., ammonium sulfate (20.6%N). Further shares of nitrogen are contained in complex fertilizers that combine all three plant nutrients (NPK). Phosphate comes in the form of straight phosphatic fertilizers such as single super phosphate (16%P<sub>2</sub>O<sub>5</sub>) or as part of a complex fertilizer. Potassic fertilizer is available as straight potassic fertilizer, such as muriate of potash (60%K<sub>2</sub>O) or sulfate of potash (50%K<sub>2</sub>O) or as a complex NPK fertilizer component.

Logistics play very important role in the organization and its good implementation in fertilizer sector is very effective tool for cost minimization. In a general business sense, logistics is the management of the flow of things between the point of origin and the point of consumption in order to meet requirements of customers or corporations. The logistics of physical items usually involves the integration of information flow, material handling, production, packaging, inventory, transportation, warehousing. The Major share of Logistic cost in Fertilizer industry as follows:

Transportation	60 % ( Road-36%, Rail-19%, Water-5%,Air—1%
Value added logistics	5%
Freight forwarding	10%
warehousing	25%

## II. REVIEW OF LITERATURE

Introduction of GST would make Indian fertilizer products competitive in the domestic and international markets. This would instantly spar economic growth. (Girish Gang-2014- Basic concepts and features of GST in India- International Journal of Scientific Research And Management- vol. 2 ISSUE 2 PP 542-549).

The ambitious GST would help the transport sector in improving its efficiency besides reducing the logistics costs. GST will help the country in two areas- logistics cost will come down and efficiency will increase both within India and exports. (Decan Chronicle May 15, 2016). As per World Bank estimates, delays are caused by roadblocks, checkpoints and other stoppages could cut freight times by 20 to 30 percent and logistics costs by 30 to 40 percent. With proper GST implementation, this can boost India’s fertilizer manufacturing sectors by almost 3 to 4 per cent of net sales. The passage of GST bill, when it happens, can spur large warehouse related investors by logistics providers to derive cost savings from route and warehouse optimization (Business Line July 3 2016-, Transport Corporation of India: En route to growth”).

The joint study report of Transport Corporation of India and India Institute of Management, Calcutta on operational efficiency of freight transportation by road suggests that government shall resolve issues regarding GST with varies stakeholders to reduce the stoppage delays that take place for documentation check and tax collections.

## III. Objective of the study

The objective of the study is to analyses the impact of GST on fertilizer sectors logistics cost such as transportation, freight forwarding, warehousing, freight forwarding because almost 80 percent of the total spent on logistics in fertilizer sector consists of transportation, warehousing and freight forwarding.

## IV.FINDINGS

1. Apart from being entangled in complex tax structure, the industry is also affected by poor rate of customs efficiency of clearance processes and procedures thus affecting the international export logistics stratum. Furthermore, sub-optimal comfort provided by the existing Indian infrastructure combined with lack of implementation of efficient IT-enabled tracking and tracing mechanisms has adversely affected the performance of logistics in fertilizer sector.

2. Earlier, each of India’s 29 states taxes goods that move across their borders at various rates. As a result, freight that moves across the country is taxed multiple times. Current interstate taxation has resulted in a large number of unorganized players in this industry. Resulting in fragmented industry.

The following are pre-GST taxes in India on fertilizer logistics:

Type of Tax	Taxable Event	Appox. Tax Rate
Excise Duty	At the time of Manufacture	12.50%
Service Tax	Service	15%
VAT/	Sales	15%
Custom Duty	Import and Export	11.90%

3. Due to trade barriers such as entry taxes, local body taxes, OCTROI and other hurdles, trucks lie idle for 30 to 40% as per fertilizer industry estimates during their delivery schedule. The post GST interstate taxation system has forced the fertilizer companies to create and maintain warehouses in each state. Currently, there are around 20-30 fertilizer warehouses per company, one in every state, in addition to this 20-30 Carry & Forwarding agents per state making the supply chain longer and inefficient.

4. The logistics costs in fertilizer sector in India are high as compared to developed countries. This is due to various issues and challenges faced by the fertilizer industry. Apart from being entangled in complex tax structure, the key challenges of logistics are truck regulations, poor infrastructure, trained manpower, lack of training institutions and information and communication technology poor warehouse and storage. Truck delays amount to 6-7 hours of wait time at interstate check posts which includes lot of manual work by the authorities. Since 65% of the freight in India moves by road, it is a fact which leads to see the logistics experts to investigate the GST as crucial area of concern in India.

### Conclusion:

1. With the introduction of GST, there is to be major consolidation in the fertilizer industry. Uniform taxation and no varying tax structures beneficial across the states. Improvement in the logistic time after phasing out the border check posts resulting in upgrading in functioning efficiency through faster and increased number of distributions along with reduction in logistic cost during the transit. As per World Bank estimation Indian fertilizer corporate can save up to 15-20% of logistic costs incurred due to stoppages at various tolls and check posts.
2. With the implementation of GST, the companies will be free to setup their own warehouses to optimize cost and improve customer service. Some of the important advantages to logistic companies includes:
  1. Cost / Time Saving
  2. Forward Integration
  3. Single Rate

Earlier most of the companies operate with multiple warehouse strategy, having different warehouses in different states, to avoid interstate taxes. With GST in place, India will become a common market without any difference between interstate or intrastate sales. It will allow companies to operate a large central warehouse rather than operating multiple warehouses.

3. It provides an exclusive opportunity to modernise business operations to become more acquiescence and profitability-oriented, rather than tax-oriented. It puts power in the hands of business leaders to bring about positive change and steer their enterprises on a growth path, powered by GST-compliance. GST holds exhilarating time for all the participants in the fertilizer industry. It won't be unfair to say that GST has change the existing ecosystem in fertilizer sector and will make it more effectual and viable.

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