



Project report on implications of Goods and Service Tax (GST) on Automobile Industry of India

A Project Submitted in partial fulfillment of the requirement for the award of PGDM

Roshan Roy

PGDM (2016-18)

IILM Institute for Higher Education, Lodhi Road

New Delhi

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stand your world

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May 02 ,2017

Roshan Roy
Gurgaon

Dear Roshan

We are pleased to appoint you as a Project Trainee in **Retail Branch Banking at Gurgaon**, from Period **May 02 ,2017 to Jun 30 ,2017**. During this period of training, you will undertake the following project:

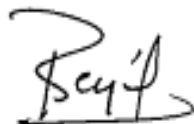
"Relationship Management In Rbb"

You will be paid a consolidated stipend of **Rs. 12000/- p.m.** You will not be entitled to any other benefits.

Please sign the copy of this letter as a token of acceptance of your Training with the Bank.

We wish you all the best for your assignment.

Yours truly,
For **HDFC BANK LIMITED**,



Beejal Das
Deputy Vice President – Human Resource



We understand your world

HDFC Bank Limited
HDFC Bank House,
Vatika Atrium "A Block"
Sector 53, Golf Course Road
Gurgaon - 122 002.

July 10, 2017

TO WHOMSOEVER IT MAY CONCERN

This is to certify that **Mr Roshan Roy** has completed his Project Training with us in **Retail Branch Banking at Gurgaon** from **May 02, 2017** to **June 30, 2017**.

He has completed a project on "**Implication Of GST On Automobile Sector.**"

We wish him all the best for the future.

Yours truly,
For HDFC BANK LIMITED.

Kamalika Bhattacharya
Deputy Vice President – Human Resources

Declaration

I, the undersigned **Roshan Roy** student, of **IILM Institute for Higher Education, Lodi Road, New Delhi** of hereby declare that I have completed my project, titled '**Implications of Goods and Service Tax (GST) on Automobile Industry of India**'.

The information submitted herein is true and original to the best of my knowledge.

Roshan Roy

Place – New Delhi

Acknowledgement

I would like to express my special thanks of gratitude to all those who have provided me with guidance and assistance in doing this project.

I would like to thank **Mr. Vikas Tuteja, the Branch Manager at HDFC Bank, GK-1 Branch, New Delhi** for allowing me the opportunity to do this wonderful project and helping me to complete this project with his wide experience and knowledge. I would also like to thank all the employees of the bank who provided me all the necessary information in the completion of the project report.

Last but not the least, I would like to extend my thanks to **IILM Institute for Higher Education (Lodhi Road), New Delhi** for allowing me the opportunity for doing this internship.



Index

<u>S.No</u>	<u>Particulars</u>	<u>Page.No</u>
1	Executive Summary	1
2	Banking Sector	3
3	About HDFC Bank	4
4	SWOT Analysis	6
5	Objective of study	9
6	Goods and Services Tax	10
7	Impact of GST on Automobile sector	11
8	Limitations	14
9	Effect of GST on Indian Economy	17
10	Observations and Suggestions	18
11	Conclusion	21
12	References	23

Executive Summary

The internship report on implications of Goods and Service Tax (GST) on automobile industry of India was assigned by Mr. Vikas Tuteja, the Branch Manager at HDFC Bank, GK-1 Branch.

The objectives of the study was to find implications of Goods and Service Tax (GST) on automobile industry of India, whether it will act as a boon or bane for industry. The other sub-objectives are as follows:-

- To study how Auto loans will get impacted after GST implementation.
- How GST will affect Indian Economy.

Only secondary data was used to prepare this report. This report is divided into few chapters such as introduction to banking sector, overview of company profile (HDFC Bank), introduction to tax and elaboration of GST insights, impact of GST on automobile sector and Indian economy. The last chapter is about conclusion and recommendations which are drawn from analysis of whole study.

The main findings of the study are as follows: Automobile industry is looking forward to introduction of GST. However, there are quite a few concerns in GST model, which need to be addressed. Restrictions and conditions on eligibility to tax credits on assets used for business is also a major area of concern, and the credit mechanism should be more liberal. Overall, GST will be boon for automobile industry.

Some recommendation of the study are: Companies need to upgrade their enterprise resource planning (ERP) — a category of business-management software — so as to accommodate the complexities of calculating GST. ERP helps companies manage and monitor everything

in the organization, including supply chain, finance and even human resource functions. SAP and Oracle are the big players in the Indian ERP space.

Overall learning from internship duration: It has been one of the most important learning curves of my life, working with HDFC Bank, one of the leading banks in industry. I have gained insights regarding sales pitch, building relationship with customers. I got to know about the real market and how to make customers feel benefitted with their investments.

This experience has helped me to grow my personality and taught me about not only the position but also industry goals and initiatives.

Banking Sector

As per the Reserve Bank of India (RBI), India's banking sector is sufficiently capitalized and well-regulated. The financial and economic conditions in the country are far superior to any other country in the world. Credit, market and liquidity risk studies suggest that Indian banks are generally resilient and have withstood the global downturn well.

Indian banking industry has recently witnessed the roll out of innovative banking models like payments and small finance banks. RBI's new measures may go a long way in helping the restructuring of the domestic banking industry.

Market Size - The Indian banking system consists of 27 public sector banks, 26 private sector banks, 46 foreign banks, 56 regional rural banks, 1,574 urban cooperative banks and 93,913 rural cooperative banks, in addition to cooperative credit institutions. Public-sector banks control more than 70 per cent of the banking system assets, thereby leaving a comparatively smaller share for its private peers. Banks are also encouraging their customers to manage their finances using mobile phones.

ICRA estimates that credit growth in India's banking sector would be at 7-8 per cent in FY 2017-18.

About HDFC Bank

The HDFC Bank was incorporated on August 1994 by the name of 'HDFC Bank Limited' with its registered office in Mumbai, India. HDFC Bank commenced operations as a scheduled Commercial Bank in January 1995. The **Housing Development Finance Corporation (HDFC)** was amongst the first to receive an 'in principle' approval from the **Reserve Bank of India (RBI)** to set up a bank in the private sector, as part of RBI's liberalization of the Indian Banking Industry in 1994. Few facts about HDFC bank -

- ❖ HDFC Bank has 84,325 employees as on March, 2017 and has a presence in Bahrain, Hong Kong and Dubai.
- ❖ HDFC Bank is India's second-largest private sector lender by assets.
- ❖ It is the largest bank in India by market capitalization as of February 2016. It was ranked 69th in 2016 BrandZ™ Top 100 Most Valuable Global Brands.
- ❖ HDFC Bank merged with Times Bank in February 2000. This was the first merger of two private banks in the New Generation Private Sector Banks category.
- ❖ In 2008, Centurion Bank was acquired by HDFC Bank. HDFC Bank Board approved the acquisition of CBoP for 95.1 billion INR in one of the largest mergers in the financial sector in India.
- ❖ The latest entry in the league is 'Project AI', under which HDFC Bank, over the next few weeks, would deploy robots at select bank branches. These robots will offer options such as cash

withdrawal or deposit, forex, fixed deposits and demat services displaying on the screen to persons coming into the branch.

<u>SHAREHOLDERS</u>	<u>SHAREHOLDING</u>
Promoter Group (HDFC)	21.57%
Foreign Institutional Investors (FII)	32.4%
Individual shareholders	8.75%
ADR/GDRs	18.78%
Insurance companies	5.38%
Mutual Funds	8.65%

Products & Services :

- Travelers cheques
- Credit card
- Home loan
- Personal loan
- Foreign currency cash
- Foreign currency demand drafts
- Cheque deposits
- Remittances
- Trade services
- Mutual funds
- Insurance

SWOT ANALYSIS :

Strength

- HDFC is one of the leading new age private sector bank.
- HDFC Bank has over 4500+ branches and over 12000 ATMs, in more than 800 cities in India as on March, 2017.
- HDFC has a large collaborations with corporate for employee salary accounts.
- Acquisitions have boosted the operations of the bank.
- HDFC bank has been responsible for several CSR activities and has also been recognized with several banking awards.

Weakness

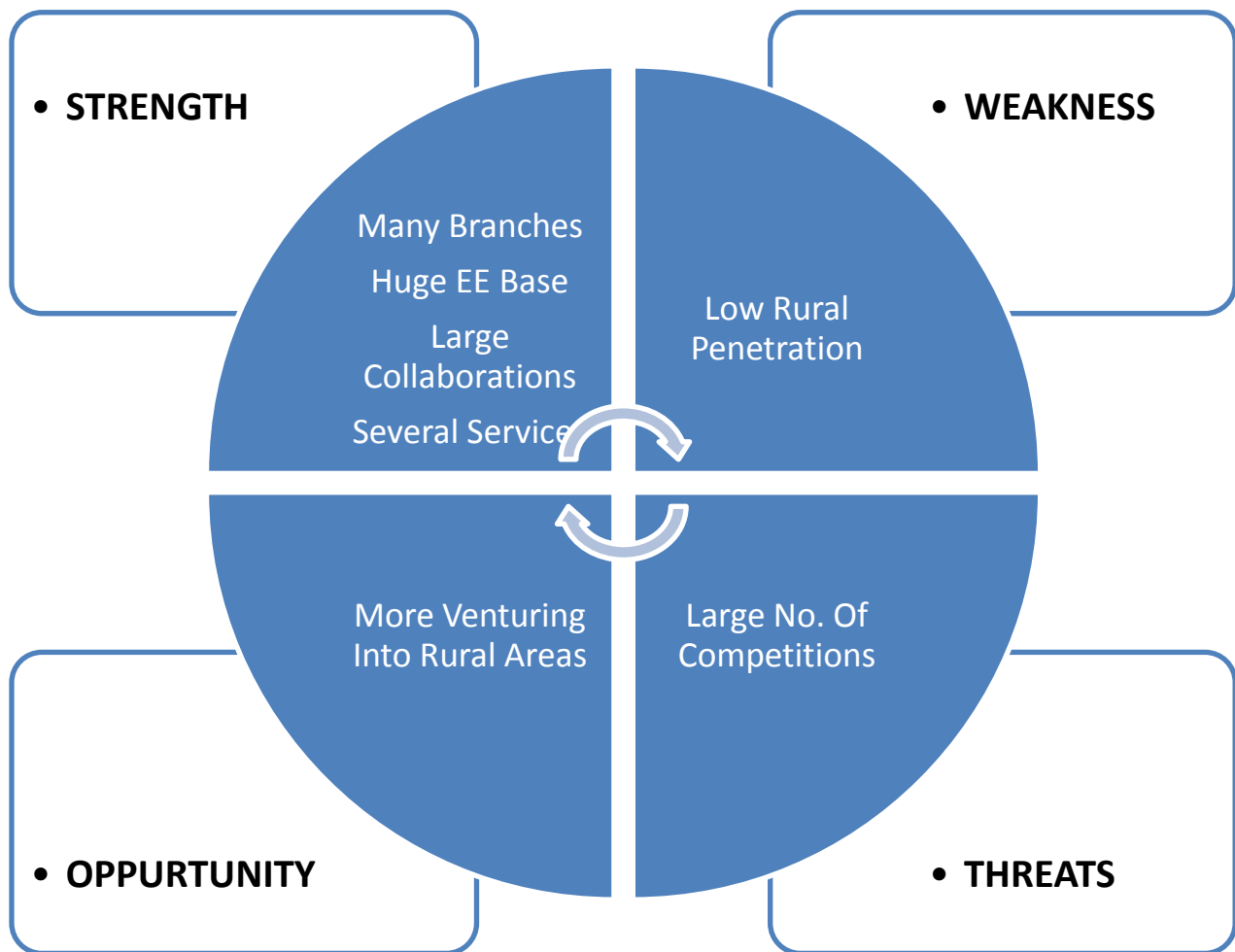
- Rural penetration is low for HDFC as compared to nationalized banks.
- Competition from public sector and private sector banks means limited market share growth.

Opportunities

- Mobile banking, internet banking etc can be a huge boon for HDFC's business.
- Venturing more into rural areas can be done by HDFC.
- Providing more complex products to the ever increasing demands of the industry.

Threats

- Competitors increasing their business can adversely affect HDFC's business.
- New banking licenses and regulations can impact operations.
- Foreign banks that offer complex products.



VISION Statement :

- ❖ "Become the undisputed market leader in providing housing related finances, to realize the dream of shelter for all in India".

MISSION Statement :

- ❖ Optimize returns for shareholders.
- ❖ Provide caring and satisfactory service to the customers.
- ❖ Maintain the financing and National Housing Policy.

Objective of Study

The Objective of the study is to find implications of Goods and Service Tax (GST) on automobile industry of India, whether it will act as a boon or bane for industry. The other sub-objectives are as follows:-

Sub-Objectives :-

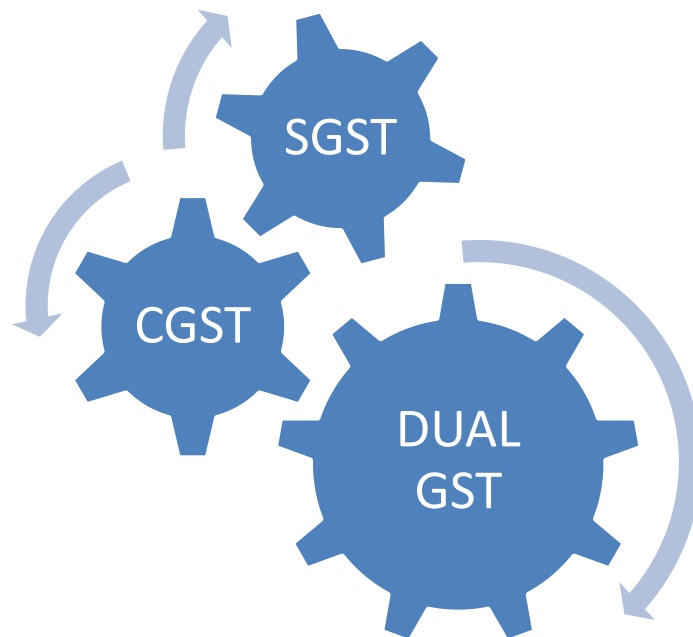
- To study how Auto loans will get impacted after GST implementation.
- How GST will affect Indian Economy.

✓ Government rolled out GST on 1st July,2017

Goods and Services Tax (GST)

Goods and Services Tax (GST) is an indirect taxation in India merging most of the existing indirect taxes into single system of taxation. It was introduced as The Constitution (One Hundred and First Amendment) Act 2016, following the passage of Constitution 122nd Amendment Bill. The GST is governed by GST Council and its Chairman is Union Finance Minister of India, **Mr. Arun Jaitley**.

GST is a comprehensive indirect tax on manufacture, sale and consumption of goods and services throughout India (Except state of Jammu and Kashmir), to replace taxes levied by the central and state governments.



- **SGST** - State Goods and Services Tax
- **CGST** - Central Goods and Services Tax

Facts -

- ✓ **France**, first country to introduce single GST(VAT) in 1954.
- ✓ **Brazil, Canada** has dual GST.
- ✓ **160** countries have implemented GST/VAT in some form or other.
- ✓ **India** will follow **Canadian model** of GST.

GST has 4 tax slabs :-

- 5% slab
- 12% slab
- 18% slab
- 28% slab

Impact of GST on Automobile sector

Taxes at time of buying car –

Tax type	Percentages	Collectors
Excise duty	12%, 24%, 27% (Depending on the size of cars)	Central Government
Infrastructure Cess	1% to 4%	Central Government
VAT	12.5% to 14.5%	State Government
Road tax	3% to 24%	State Government
Entry tax	4%	State Government

❖ So, the total tax amounts to 32 % to 35 % if we calculate all the current taxes. Since around 17 taxes will get subsumed in the GST.

S.No	Segment	Excise	VAT	Others	Total Taxes	Proposed GST slab	Impacted cars
1.	Small Hatches, Sedan and SUVs with length <4m	13%	14%	3.2%	29.7%	28%	Alto, Wagon R, Swift, Elite i20, I10, Zest, Xcent, Amaze, Ameo, Breeza, Ecosport etc
2.	Mid Size Length >4m but engine capacity less than 1500cc	24%	14%	2.1%	40.1%	28% + 3% cess	City, Ciaz, Vento etc
3.	Big Cars/Luxury cars Length >4m and engine capacity more than 1500cc	27%	14%	2.1%	43.1%	28% + 15% cess	Cruze, Elantra, Altis
4.	SUVs/MUVs Length >4m, engine capacity>1500cc	30%	14%	2.1%	46.1%	28% + 15% cess	Scorpio, Safari, Creta, Innova

HOW CAR WILL COST LESS POST – GST					
		Maruti Swift Petrol		Honda City Petrol	
Pre-GST	Price		100		100
	Central Excise Duty	12.50%	13	27%	27
	Infrastructure Cess	1%	1	4%	4
	Freight	5%	5	5%	5
	Insurance	2%	2	2%	2
	Octroi	4.50%	5	4.50%	6
	VAT/CST	13.50%	17	13.50%	19
	Total		143		164
Post-GST	Price		100		100
	Freight	5%	5	5%	5
	Insurance	2%	2	2%	2
	GST	28%	30	28%	30
	Total		137		137
Impact	Change over pre-GST price (%)		-4.2		-16.3

Limitations

Limitations Concerns over GST are as follows –

❖ **Lack of clarity on subsuming of cess**

The automotive industry has witnessed several cesses, including automobile cess, NCCD, tractor cess and infrastructure cess. In the discussions on GST, the Government has indicated its intention to subsume all Central and State cesses into GST. However, on a reading of the Model GST law and the constitutional amendment bill, it is not clear as to whether the cesses levied under different legislations (for specified purposes) will be subsumed into GST or would continue under the GST scenario.

❖ **Impact on Registration, Return and Accounting**

Registration: Dealers need to obtain separate registration for each state even if it pertains to the same dealership and covered under the same PAN. But dealer can opt for multiple registrations within the state for various cars.

Returns: Compliance burden will be very high in the GST System as one has to file 37 Returns in one financial year for each registration apart from ISD returns. In case taxes are not paid by the vendors or if the returns are not filed by the vendors, then the credit of such taxes is denied to the customers. Therefore, timely payment of taxes, filing of returns needs to be ensured in the GST.

Accounting: Communication, flow of documents from all branches to H.O. should be before 10th of the subsequent month. Therefore, accounting department needs to be faster.

❖ Valuation Disputes

The Automobile industry has seen significant disputes under central excise valuation like: sale below the cost for market penetration, inclusion of State Industrial Promotion Subsidies retained by the manufacturer, deductibility of post-sale discounts from value under excise, valuation of demo cars, advertisement charges recovered from dealers etc., and sales through marketing companies and mutuality of interest. The Model GST law continues with the concept of 'transaction value' which is a welcome measure however the powers for rejection of the transaction value are very wide, and could lead to significant valuation disputes.

❖ Transfer of Right to use of Car with accessories, handling charges

Dealers charge various ancillary services such as insurance, extended warranty, accessories, logistics and handling, registration etc in addition to amount for sale of vehicle. It important whether the entire transaction shall be classified as separate supplies or as a 'composite supply' or as a 'mixed supply' (new concept), which will create litigation at large.

❖ Post Supply Discounts

Generally, dealers receive various discounts from its manufacturers based on targets, vehicles lifted, Special Customers [like CA, Doctor], Year- End Discounts etc. It is to note that post supply discounts will not be allowed as deduction from the value if the same is not linked to any invoice in the GST

Effect of GST on Indian Economy :

Some effects of GST on the Indian Economy are discussed as follows :

- **Increased FDI** - The flow of Foreign Direct Investments may increase once GST is implemented as the present complicated/ multiple tax laws are one of the reasons foreign Companies are wary of coming to India in addition to widespread corruption.
- **Growth in overall revenues** - It is estimated that India could get revenue of \$15 billion per annum by implementing the Goods and Services Tax as it would promote exports, raise employment and boost growth. Over a period, the dilution of the principles may see that only part of this is accruing.
- **Simplified tax laws**..- This reduces litigation and waste of time of the judiciary. Present law appears to be much worse and an amalgam of the bad parts of VAT/ ST.
- **Increase in exports and employment**..- GST could also result in increased employment, promotion of exports and consequently a significant boost to overall economic growth and factors of production -land labour and capital.

Experts are also making positive speculations regarding GST.

So, in long run GST will act as a boon for the society and we can take example from CANADA.

Observations and Suggestions

The GST or the Goods and Services Tax bill was the biggest talk of this year's budget. Some say that it could upset the balance of the economy, some are saying it is flawed in its current state whereas others are saying that if it isn't passed it could lead to crisis in the Indian economy.

Now manufacturers like Maruti-Suzuki and Hyundai are all in favour of the GST in its current format as it gives small car manufacturers massive tax reductions.

For the carmakers, the GST is undoubtedly a good news but till it gets implemented, they run the risk of losing sales as people may hold on to their car purchase till July, 2017. With the festive season around the corner, the gravity of this trend only seems to compound further but in the long-run the GST is set to benefit each one of us, beyond the automotive industry and more. In the end though, the customer wins and remains the king. Now let's hope the GST implementation doesn't hit a roadblock.

GST was implemented from July 1, 2017. The day marked changes in most tax structures and would help India unite under a single framework.



**ONE COUNTRY
ONE TAX**

Introduction of GST will result in –

- ❖ GST will lead to merger of firms
- ❖ Reduction in number of taxes.
- ❖ Decrease in effective tax rate of goods over a period.
- ❖ Increase in transparency and tax collection.
- ❖ Uniformity in tax rates across India.
- ❖ It will result in lower prices and consecutively, boost demand for automobiles. The on-road prices of vehicles could go down by 4% to 8%.
- ❖ The automotive sector will be one of the most positively impacted sectors.
- ❖ Other than the center imposed taxes, the other major chunk of taxation comes from state imposed Value added tax (VAT) that ranges between 12-14.5 per cent across states. Add the various cess in the country and even for a small car, a customer pays upwards of 30 per cent on tax and cess alone.
- ❖ Proper GST administration and dispute resolution (more importantly on inter-state transactions) is very critical.

Companies need to upgrade their enterprise resource planning (ERP) — a category of business-management software — so as to accommodate the complexities of calculating GST. ERP helps companies manage and monitor everything in the organisation, including supply chain, finance and even human resource functions. SAP and Oracle are the big players in the Indian ERP space.

Many companies will have to move from their current system, where every transaction is recorded separately, to an upgraded system where

there is a correlation between every entry, according to industry executives.

GST rollout is one of the biggest tax reforms for India. Timely GST preparedness is a key to smooth transition for industry, and we have a huge and experienced talent pool that is fully geared for this.

Conclusion

India has many taxes in place like excise, sales tax, service tax, entertainment tax, VAT etc. These taxes are divided at Central as well as state level. These bundle amount of taxes are difficult to manage and sometimes causes inconvenience to businesses and customers. GST aims to solve it with single indirect taxation system.

GST has been the buzzword in the country for the last few days and finally the bill has passed, leading to the realization of “One country, one tax”, at least on papers for now.

Goods and Services Tax Network (GSTN) is a nonprofit organization formed to create a platform for all the concerned parties i.e. stakeholders, government, taxpayers to collaborate on a single portal. The portal will be accessible to the central government which will track down every transaction on its end while the taxpayers will be having a vast service to return file their taxes and maintain the details. The IT network will be developed by private firms which are being in tie up with the central government and will be having stakes accordingly.

While overall the industry is looking forward to the introduction of GST, more will be clear only when the actual tax rate under the new Bill has been decided. The exclusion of petrol and diesel from the GST umbrella may be another concern as otherwise prices would have come down. However, as states have correctly pointed out, petroleum related products (and alcohol) as the biggest source of revenue for state governments, maybe this is for the better.

Nevertheless, automobile industry is looking forward to introduction of GST. However, there are quite a few concerns in the draft Model GST

law, including some of the key aspects highlighted above, which need to be addressed. Restrictions and conditions on eligibility to tax credits on assets used for business is also a major area of concern, and the credit mechanism should be more liberal.

Proper GST administration and dispute resolution (more importantly on inter-state transactions) is very critical apart from the competitive GST rate.

So, GST will act as boon for automobile industry.

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