International Journal of Research Publication and Reviews

Journal homepage: www.ijrpr.com ISSN 2582-7421

GST COMPLIANCE IN THE FMCG SECTOR: A COMPARATIVE STUDY OF HUL, ZYDUS WELLNESS, AND VENKY'S INDIA

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ABSTRACT :

The Goods and Services Tax (GST) has revolutionized India's taxation system, profoundly affecting the Fast-Moving Consumer Goods (FMCG) industry. GST compliance practices in three FMCG companies, namely Hindustan Unilever Limited (HUL), Zydus Wellness, and Venky's India, are studied in this research. Based on secondary data, the paper examines compliance issues, financial effects, and company strategies to cope with GST regulations. Results suggest that while big-cap companies such as HUL have managed to adopt well with strong governance and investments in technology, mid-cap and small-cap companies face increased compliance cost and litigation threat. The paper concludes by laying emphasis on digital adoption, streamlining tax architecture, and sectoral reforms for improving GST compliance.

Keywords: GST compliance, FMCG, tax disputes, input tax credit, financial impact, India

INTRODUCTION

The Goods and Services Tax (GST), rolled out on July 1, 2017, was a historic change in India's taxation system by unifying different central and state indirect taxes under a single tax system. As a destination-based tax on the consumption of goods and services, GST was conceived to usher in transparency, abolish cascading taxes, and simplify compliance for businesses in all sectors. One of the most immediately affected sectors was the Fast Moving Consumer Goods (FMCG) industry, an integral part of India's economy that is responsible for selling high-volume, low-margin items with large supply chains.

FMCG players are engaged in a tax-vulnerable space in which compliance, logistics, prices, and customer affordability are mutually interdependent. With its tiered supply chain and sophisticated product offerings, the industry was plagued by both operating difficulties and advantages under the GST regime. Though GST was meant to streamline tax and enhance efficiency in logistics, it also triggered new compliance duties like on-time filing of returns, invoice matching, and e-record keeping.

This paper examines the comparative GST compliance approaches of three major FMCG players: Hindustan Unilever Limited (HUL), Zydus Wellness, and Venky's India. Through an analysis of their annual reports, tax disclosures, and secondary industry publications, the research assesses how company size, infrastructure, and digital preparedness affect GST compliance outcomes. The aim is to determine emerging trends in compliance, sector-specific roadblocks, and possible policy measures that can ease GST compliance across the FMCG sector.

OBJECTIVES AND RESEARCH QUESTIONS

Objectives:

- To analyse GST compliance challenges in FMCG firms.
- To evaluate the financial impact of GST compliance on these firms.
- To compare compliance strategies among large-cap, mid-cap, and small-cap FMCG companies.
- To recommend policy measures for enhancing GST compliance.

Research Questions:

1. What are the key GST compliance challenges faced by FMCG firms?
2. How does GST compliance affect the financial performance of FMCG companies?
3. How do compliance strategies differ among firms of varying sizes?
4. What policy changes could improve GST compliance efficiency?

LITERATURE REVIEW

GST has been extensively debated in policy and academic circles as a revolutionary change to boost tax compliance and economic efficiency. Rao (2019) says that GST is a paradigm shift from an origin-based to a destination-based tax model, requiring extensive restructuring of internal systems in companies, particularly in industries with high transaction volumes and pan India operations such as FMCG.

Mukherjee and Rao (2020) propose that GST has considerably lowered the overall logistics and warehousing cost by facilitating tax-neutral movement of goods, which is most useful for large FMCG companies with extensive distribution networks. Yet, compliance issues continue to haunt mid-sized and regional players. These are issues like invoice mismatches, delayed refunds, and complexity in filing GSTR-2 and GSTR-3B returns correctly (Patel & Shah, 2021).

Empirical analyses like Kumar and Singh (2021) point out that big FMCG organizations like HUL, possessing better ERP systems and special compliance teams, tend to switch more easily into the GST regime. It is different with the smaller companies like Venky's India, which are often bogged down by constant policy revisions, poor digital literacy of distributors, and integrating GST-compliant software systems.

Another periodic theme is the contribution of automation in GST compliance. The Federation of Indian Chambers of Commerce and Industry (FICCI, 2020) highlights the significance of digital solutions in the submission of returns, monitoring input tax credits (ITC), and minimizing human error during the tax calculation. Such systems not only maximize transparency but minimize the risk of penalty because of non-compliance as well.

The other concern area noted in the literature is availability and processing of GST refunds, particularly for manufacturers and exporters. Delays in refund impacts work capital cycles, especially for businesses with high input costs. FMCG firms with an export component like Zydus Wellness, dealing in nutraceuticals and wellness products get affected much by inefficiency in refund-related processes.

In short, literature points to a consensus that whereas GST streamlines tax structure and encourages efficiency, the success of GST implementation depends on digital flexibility, policy upgradation in time, and a strong support mechanism for small and medium enterprises. This article contributes to the literature through a company-level comparison of GST compliance performance within the FMCG industry.

METHODOLOGY

This study uses a qualitative content analysis methodology, utilizing a rich mix of secondary data sources to cover GST compliance practices in the FMCG industry in depth. The secondary data were obtained from reputable sources like annual reports, GSTN returns, financial statements, government notifications, and court cases. This approach enabled the detailed examination of actual compliance issues and strategic responses in real world settings without the constraints of primary data gathering in sensitive corporate contexts. The focus was on the close critical examination of publicly available documentation to uncover organizational behaviour related to GST compliance.

Overview of the Company

4.1 Hindustan Unilever Limited (HUL)

HUL is India's largest FMCG company with a large portfolio of home hygiene, food, and personal care products. HUL has implemented automated GST filing systems and sophisticated inventory management tools with an established digital and supply chain infrastructure. Its size of operation and investment in compliance teams have facilitated seamless GST adaptation and policy monitoring.

4.2 Zydus Wellness Ltd.

Zydus Wellness is a market leader in the health and nutrition space, manufacturing brands such as Sugar Free, Complan, and Glucon-D. Being a midsized FMCG company with some export business, Zydus has special compliance requirements, particularly in terms of input tax credit (ITC) reconciliation and refund claims. Its digital transformation has been evolutionary, with an emphasis on SAP integrations and minimal automation.

4.3 Venky's India Ltd.

Venky's India is involved in poultry processing, livestock healthcare products, and animal feed. Although it works in a niche subsector of FMCG, Venky's follows a more conventional compliance infrastructure and low digital penetration. The organisation has endured GST compliance issues like tackling reverse charge mechanisms, categorisation problems, and delayed claims of ITC.

The analytical methods used were thematic content analysis, comparative case study approach, and financial impact analysis. Thematic content analysis assisted in the identification of recurring patterns and prominent compliance themes across firms. Comparative analysis facilitated cross-firm comparison of compliance strategies, costs, and results. Finally, financial impact studies were executed to develop an understanding of the dollar implications of compliance decisions. Research variables were classified into independent variables, e.g., changes in regulations, operational intricacies, and financial considerations, and dependent variables such as GST compliance status, financial impact, and operational efficiency. The multi-dimensional methodological paradigm ensured the reliability, validity, and richness of the research findings.

ANALYSIS AND DISCUSSION

GST Compliance Trends

The FMCG industry has faced several compliance issues, such as intricate classification problems, rejection of ITC claims, and anti-profiteering audits. Some of the key observations are increased scrutiny by tax authorities, higher compliance expenses due to e-filing mandates, and constant changes in tax rates making product pricing and classification more difficult.

5.1 Hindustan Unilever Limited (HUL)

Being a market leader with a large portfolio of products and extensive distribution network, HUL has shown robust compliance under GST. The organisation has also invested in digital compliance solutions like ERP systems coupled with GST Network (GSTN) APIs for real-time generation and reconciliation of invoices. HUL’s tax teams have adopted a proactive approach in tracking regulatory changes, enabling the company to stay ahead in terms of timely return filings and ITC optimisation. Moreover, HUL’s centralised compliance model has enabled standardisation across regional warehouses and distributors, reducing the risk of mismatches or errors.

Tax controversies included disallowance of GST credit and cumulative demand notices of INR 447.5 crores pertaining to expatriate wages and input tax misstatement. HUL was alleged to have failed to pass GST rate benefits to consumers, inviting anti-profiteering complaints. Strategic responses entailed significant spending on compliance mechanisms and legal solutions against unfavourable tax orders.

5.2 Zydus Wellness

Zydus Wellness, though not as big as HUL, has embraced a systematic compliance strategy in recent times. The company shifted to GST compliant accounting software after 2017 and standardized its internal procedures to ensure timely filing of GSTR-1 and GSTR-3B. Yet, owing to its moderate size and partial coverage of export transactions, Zydus has been facing difficulties in availing input tax credit refunds in a timely manner. Refund lags have occasionally affected its working capital cycle, particularly for those products falling in more than one tax slab.

The company has also attempted to educate its in-house finance personnel and suppliers in GST procedures, though the degree of automation is still limited. Zydus' capacity for handling GST compliance has been rising steadily, though additional improvement in digital integration and predictive compliance capabilities would make it stronger.

5.3 Venky's India

Operating largely in food products and poultry, Venky's India encountered a comparatively less complex compliance regime. GST classification for the majority of poultry items was exempt or taxed at negligible rates (0-5%). Compliance issues mostly pertained to operational issues regarding transport (e-way bills) and processed foods taxed at 12-18%. Tax litigation was minimal but involved matters relating to the classification of processed vs. unprocessed poultry products. In addition, Venky's has several semi-urban and rural distribution points that are usually not adequately GST-trained or digitized. Such loopholes translate into invoice matching, reconciliation, and vendor compliance bottlenecks. Though overall awareness has improved, the company's filings indicate intermittent discrepancies in claims reconciliation and refund settlements.

FINDINGS

Classification disputes were a recurring issue at all three companies, as they brought to light the vagueness in GST slab classification for FMCG products. Nutritional supplements, processed foods, and some personal care products tended to be in gray areas, triggering notices and classification disputes with tax authorities.

Input Tax Credit (ITC) delays had a considerable impact on corporate liquidity. Although ITC mechanisms are structured to reduce tax cascading, procedural delays and reporting mismatches resulted in delayed refunds. Mid-cap companies such as Zydus Wellness were hit hard, with extended working capital cycles impacting operating efficiency.

Cost of compliance was proved to be disproportionately higher in larger and mid-level companies owing to the necessity for complex ERP-GST integration as well as permanent training of the employees. However, small businesses like Venky's India only used basic tools for compliance but had compliance risk because of less digitalization. Hence, digital readiness proved to be the biggest deciding factor between the long-run success of GST compliance in FMCG businesses.

CONCLUSION

This study demonstrates that while GST has streamlined tax administration in the FMCG sector, sector specific compliance challenges persist. Larger firms manage compliance better but face greater regulatory scrutiny. Mid cap and small cap firms struggle with compliance costs and technological upgrades.

RECOMMENDATIONS

- **Enhance GST Literacy Through Industry Training Programs**

Semi-urban and rural markets' awareness gaps and filing errors can be addressed by conducting regular workshops for SMEs, distributors, and retailers.

- **Simplify Input Tax Credit Mechanisms**

The GST Council must keep refining ITC regulations to minimize the administrative hassle of invoice matching across platforms, especially for businesses handling multi-rate commodities.

- **Enable Speedier Refund Processing**

Export-oriented companies such as Zydus Wellness would gain immensely from an automated refund system with set timelines, alleviating working capital pressure.

- **Enhance Compliance Transparency**

Businesses must include GST disclosures in their ESG and CSR reports, highlighting tax transparency as a good governance metric.

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