



Impact of GST on Cement Industry

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Introduction



- The cement industry is a significant input to the infrastructure sector.
- The tax rate on cement industry was between 27 per cent and 32 per cent. The tax rate for the cement sector is declined at 18-20 percent under the GST regime.
- This important reduction in indirect tax on the cement industry is anticipated to aid the cement companies to save on their logistic costs, due to a rationalization of warehouses and lower transportation values. The warehousing and transportation sector includes revenue generation between 20 percent to 25 percent.

Overview of Cement Sector



The Indian cement industry is the second largest cement producer in the world right after China. The cement industry in India is expected to grow leaps and bounds in the years to come. Right now, it is expected to be having a growth rate of 11.14 percent in terms of volume from the financial year 2011 to the ongoing 2017. The production recorded around 407 million tons till March 2017, which is a huge quantity and a mega achievement in itself.

Leading cement manufacturers, such as Ultratech, JK Cement, and Shree Cement is expected to benefit from the new indirect tax reform in India.

Under Existing GST Regime



Refractory cement, mortars, concretes (mainly used for building industry furnaces, huge ovens etc.) will attract 18% tax.

Cement Bonded Particle Board will attract 12%.

The main raw materials for cement are limestone, coal and electricity. The tax rates on these are as follows:

Limestone is taxed at 5%

Coal is capped at 5%, which is a reduction from the earlier rate of 11.69%

Electricity is outside the purview of GST

Negative Impact under GST



Nothing is mentioned regarding the royalty that the cement companies pay to the state governments for quarrying limestone. Clean energy cess is levied on coal, which is not available as an input credit because it is not subsumed by GST.

So, these two factors will continue to be outside the purview of GST and will be included in the cost of the cement production even after GST is implemented, as was done previously.

Positive Impact under GST



Warehousing

Most companies maintain multiple warehouses across states to avoid CST and state entry taxes. These warehouses generally operate below their capacity which leads to operational inefficiencies. With GST implemented, there will no longer be necessity of having a warehouse in every state, where a firm does business.

Transportation cost

With the GST bill, the transport industry will greatly benefit. Lesser interstate review and compliance, and reduced paper work, will lead to a reduction in idle hours, lower transit time, quicker turnaround time, an increased uptime and higher truck utilization. The seamless movement of goods in and out of states will accelerate demand for logistics services. Also, reduction in delivery time would lead to reduction in distribution costs by 10-15 per cent, thus lowering the final cost of the goods.

Positive Impact under GST



Less complex Taxes

Pre-Gst there were multiple excise duties applicable to cement manufacturers. There are separate rates and specific duties applicable on different types of cements depending on whether they are supplied in bulk form or in packaged form, or whether they are for industrial or trade purposes etc. All these multiple rates will be done away with under GST. Only a fixed rate of 28% will apply on cement. This will result in lesser compliances and less complexity.

Conclusion



Higher outlay and focus on infrastructure, housing and rural development are likely to boost the cement demand in the long-term, which in turn will benefit the companies in the sector. Also, with the price hikes and easy access to mines due to passage of Mines and Minerals (Development and Regulation) Act, the profit margins of cement companies are expected to improve marginally going forward. Furthermore, prices may further increase as the companies are likely to pass on the impact of GST peak rate to the consumers. This is, however, expected to be partially offset by the lower GST rate on coal and limestone coupled with lower tax incidence on logistics which will reduce the freight and transportation costs and hence the overall cost of production of the cement companies.

THANK YOU

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