

# The GST launch: An inflection point for India's logistics sector

*It helped integrate supply chains and spurred outsourcing to lend our economy a competitive edge*



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Five years after the GST roll-out, one can say that India has truly benefited from this game-changing implementation of "One nation one Tax". India has replaced the United States as the second-most favourable manufacturing hub, according to Cushman & Wakefield's 2021 Global Manufacturing Risk Index.

Not only has the Goods and Services Tax (GST) unified the country into one common economic market, it has also resolved frictions between states by building a tight interlocking system between buyers and sellers. The use of technology and the transparency this ensures has resulted in high compliance and minimal leakage. As was initially budgeted, monthly gross GST collections have crossed ₹1 trillion. This revenue buoyancy augurs well for the country and its economy.

The logistics sector has been a major beneficiary of GST, as observed over the past five years. The benefit has been two-fold. First, seamless transportation reforms have resulted in the faster movement and turnaround of products (a reduction of at least 12% to 15% in transport time between major cities and in some cases as much as 30% to 40%). Second, the introduction of the e-way bill has facilitated and streamlined supply chain management for most companies. Logistics service providers have become part of manufacturing supply

chains. The success of the 'Make in India' initiative, which was launched a few years ago, is driving the growth of the manufacturing sector, which contributes around 15% to our gross domestic product. It is estimated that for each percentage-point rise in manufacturing sector output, the logistics and supply chain industry has to grow one-and-a-half times as much.

Further, GST has enabled multiple layers of sub-component manufacturers to become part of integrated supply chains. Similarly, on the consumer side, retailers and distributors have a level playing field, thanks to the alignment of set-off tax credits.

A significant benefit for both the manufacturing and logistics sectors is the ability to now optimize a supply chain, whether it be warehousing or transport planning, and link it with sales planning to enable quick delivery to consumption points. This can be done now on a real-time basis through the use of technology, and most importantly, without having to bother about tax-based allocation efficiency.

'Just in time' operations have become a reality in India, as in the developed world. Logistics companies have benefited, as the usage of technology has reduced cash flow cycles, making finance management a lot easier. There is complete integration of processes that involve manufacturers, logistics service providers and consumers. GST has removed any need of re-engineering supply chains for tax arbitrage and management. Integrated service providers, such as TVS SCS and others are all part of a large supply chain and are able to add true value.

The supply chain has moved from being the problem of lower-level employees to being a strategic focus of CXOs. The use of technology has also resulted in awareness of the need to outsource more and more services to enable companies to focus on their core competencies, while leveraging the capacity and capability of integrated logistics

providers. The government's production linked incentive (PLI) scheme and export thrust are further catalysts of this.

Importantly, the rise of third-party integrated logistics service providers has helped small transport operators ally with them and grow. India's special advantage of having livelihood businesses in the transport sector has been harnessed by this win-win partnership. The usage of e-way bills has almost made it necessary for users and players in the logistics sector to further develop digital technology capabilities. This will also assist in building leaner supply chains and achieving better capacity utilization.

This process can be speeded up to the benefit of India's manufacturing sector by GST being coupled with the Centre's Gati Shakti initiative of integrating six different ministries digitally aimed at providing users with online information.

The organization of the logistics sector has led to more than 40 million people being employed by it, as against 22 million five years ago (in the pre-GST era). This kind of robust growth will be enhanced by more outsourcing, which would lead to more jobs being generated by this sector.

Further value addition will happen when the utilization of infrastructure and capacities goes up with rising levels of outsourcing taking place with the help of logistics service providers. GST has enabled such significant improvements already. Going forward, the tracking of infrastructure under development and its utilization will further accelerate this.

Overall, the benefits of GST have been impressive. One can safely say that what mobile technology did to the country's communication sector has happened to Indian supply chains and the logistics sector, thanks to GST. The entire sector has begun to enjoy the benefits of this tax regime, and its growth over the next few years is expected to result in multiple benefits for the country. The logistics sector will always see the introduction of GST and e-way bills as the inflection point that catapulted it ahead.