



cutting through complexity

Society of Indian Automobile Manufacturers

Goods and Services Tax (‘GST’) – Preparing for the Transition

July 2015



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Progress So Far..

Three Official Documents issued outlining broad GST structure

Committees formed by the EC to sort out critical issues (threshold, inter-state transactions, exemptions, etc.)

Constitution Amendment Bill - Passed by Lok Sabha, referred to Select Committee of Rajya Sabha

Select Committee to table its report in the first week of Monsoon Session

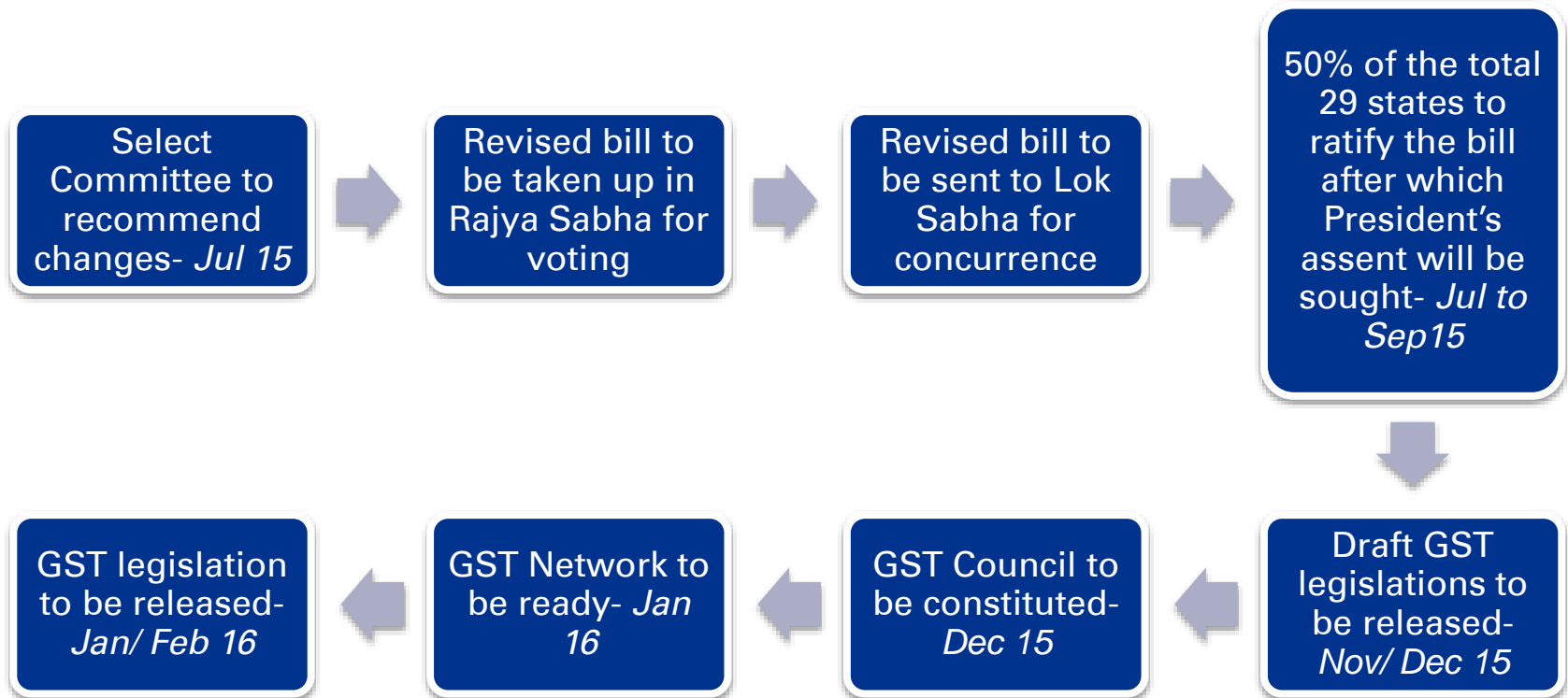
Drafting of model GST legislation in progress

Progress on IT infrastructure – Steering committee formed to monitor the progress

Broad consensus on CST compensation

GST implementation in
2016
appears likely...

Estimated timelines- *If April'16 is to happen, then...*



Transitional Challenges

Challenges for the Company

The upcoming months before 1 April 2016 is a critical period for Industry as GST will trigger major business transformation

Companies need to prepare a roadmap for smooth transition to new tax regime

Unlike other countries, not much time would be available to business for transition once draft GST legislation is ready

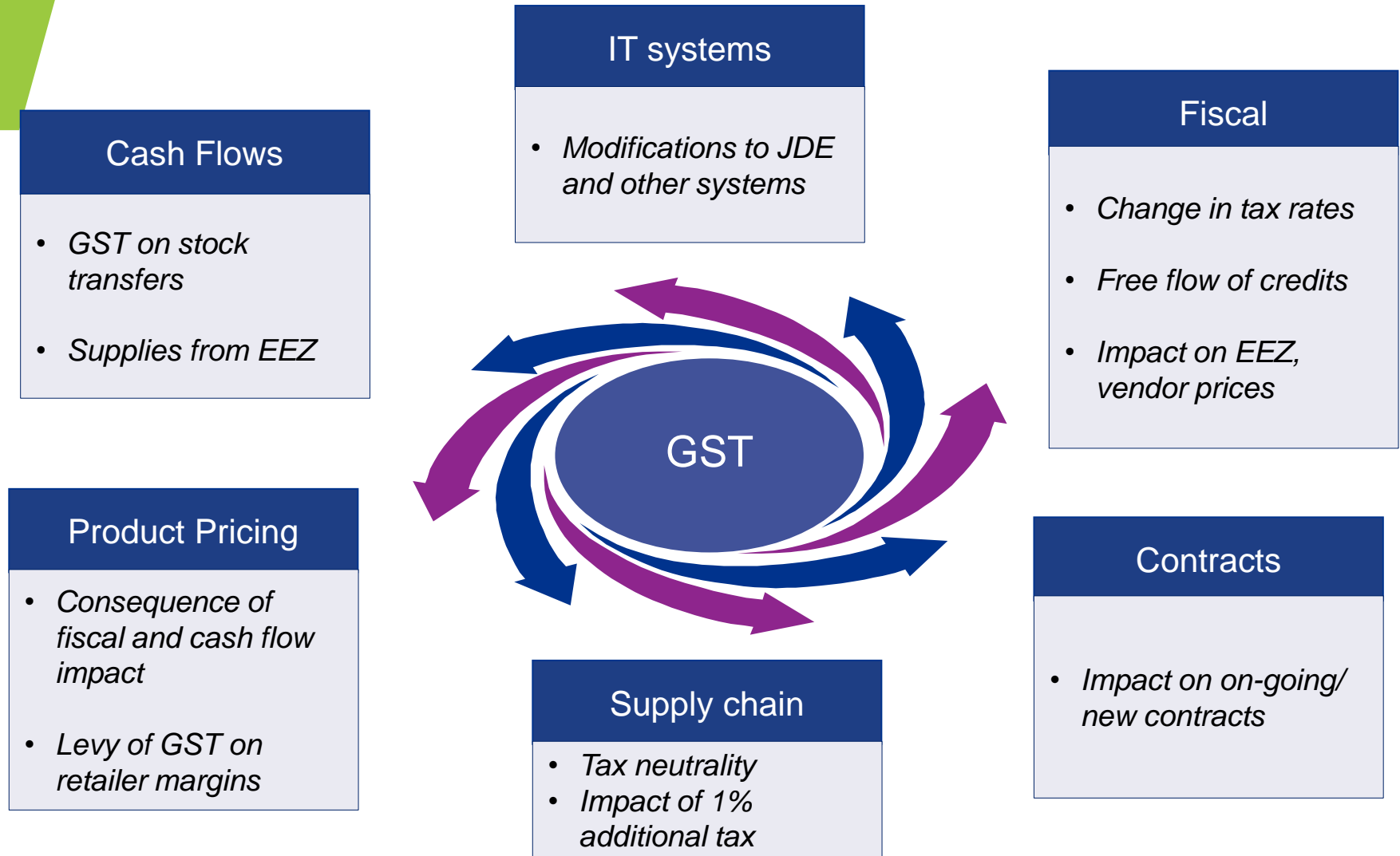
Due to lack of sufficient time for transition, it would be difficult for companies to automate their systems

| Country | Year of draft legislation | Year of implementation |
|-----------|---------------------------|------------------------|
| Australia | 1999 | 2000 |
| Canada | 1989 | 1991 |
| Malaysia | 2014 | 2015 |
| Singapore | 1993 | 1994 |
| Indonesia | 1983 | 1984 |



Key Impact Areas

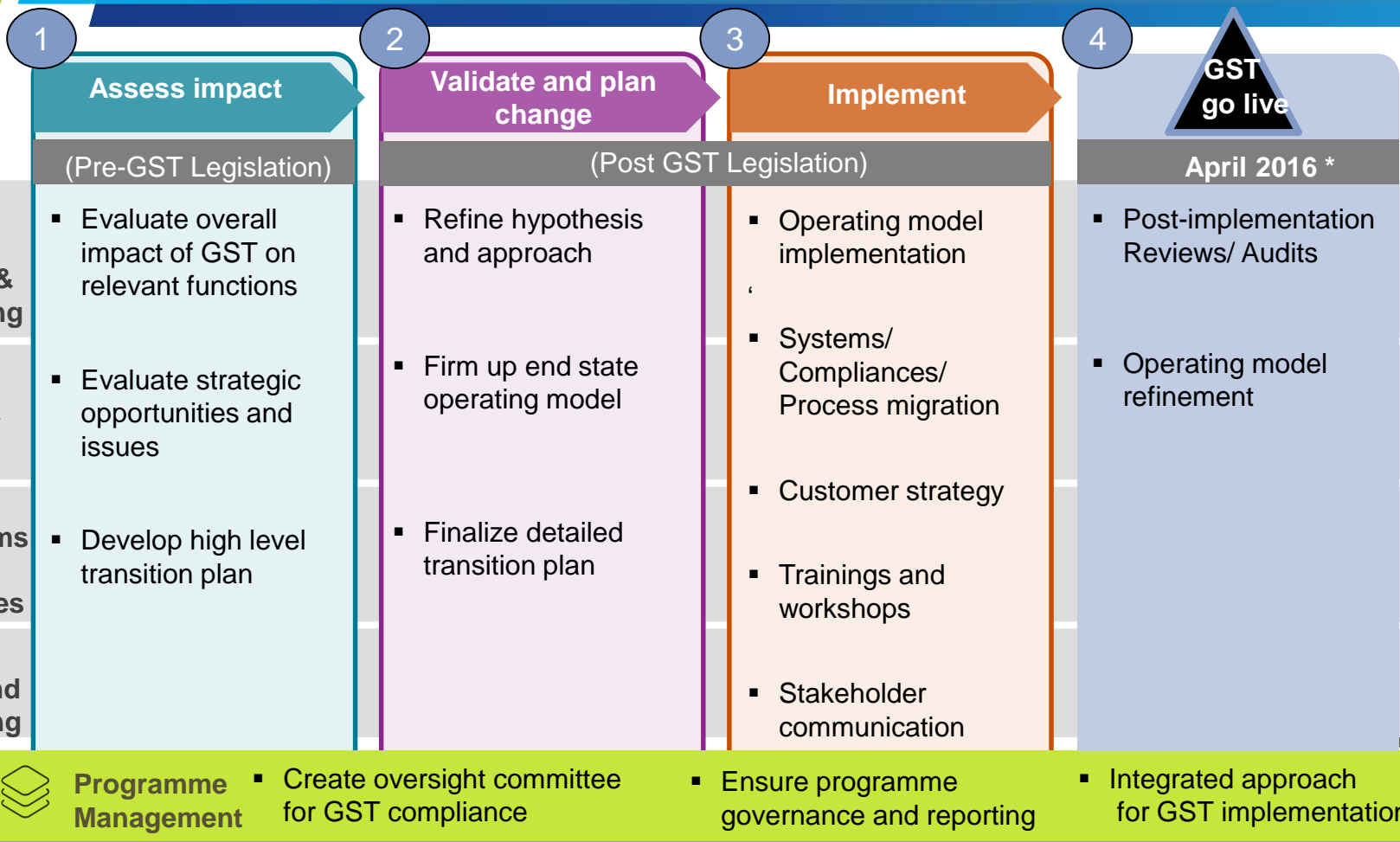
GST will have a significant impact on business...



A construction worker wearing a blue hard hat is using a white spirit level with yellow end caps to check the alignment of wooden joists in a roof structure. The background shows a wooden roof truss system with rafters and joists. The image is partially obscured by a blue horizontal banner and several overlapping geometric shapes in green, purple, and blue on the left side.

What Industry needs to do

While government works towards timely roll out of GST, auto industry will have to prepare itself by proactively identifying and rolling out initiatives in parallel



Industry will have to work as per 3-4 distinct phase based approach (which is in sync with govt.'s roll out plan) to address the wide ranging impact that GST is expected to bring along

* Scheduled for implementation

1A

Assess potential fiscal impact of GST on business

Action

- Quantify potential financial impact of GST on the top-line, bottom-line w.r.t. existing business operations/ new projects expected to be rolled out in near future
- Evaluate potential impact on cash flows
- Isolate key impact areas for relevant action (e.g. advocacy)
- 'What if' analysis with respect to important GST assumptions

Key Parameters

- Tax rates (including exemptions/ concessions)
- Valuation
- Availability of credit
- Product pricing

Maintaining the same MRP could reduce the top-line of the Company

Possible reduction in overall cost due to free flow of credit

Fiscal Impact Assessment

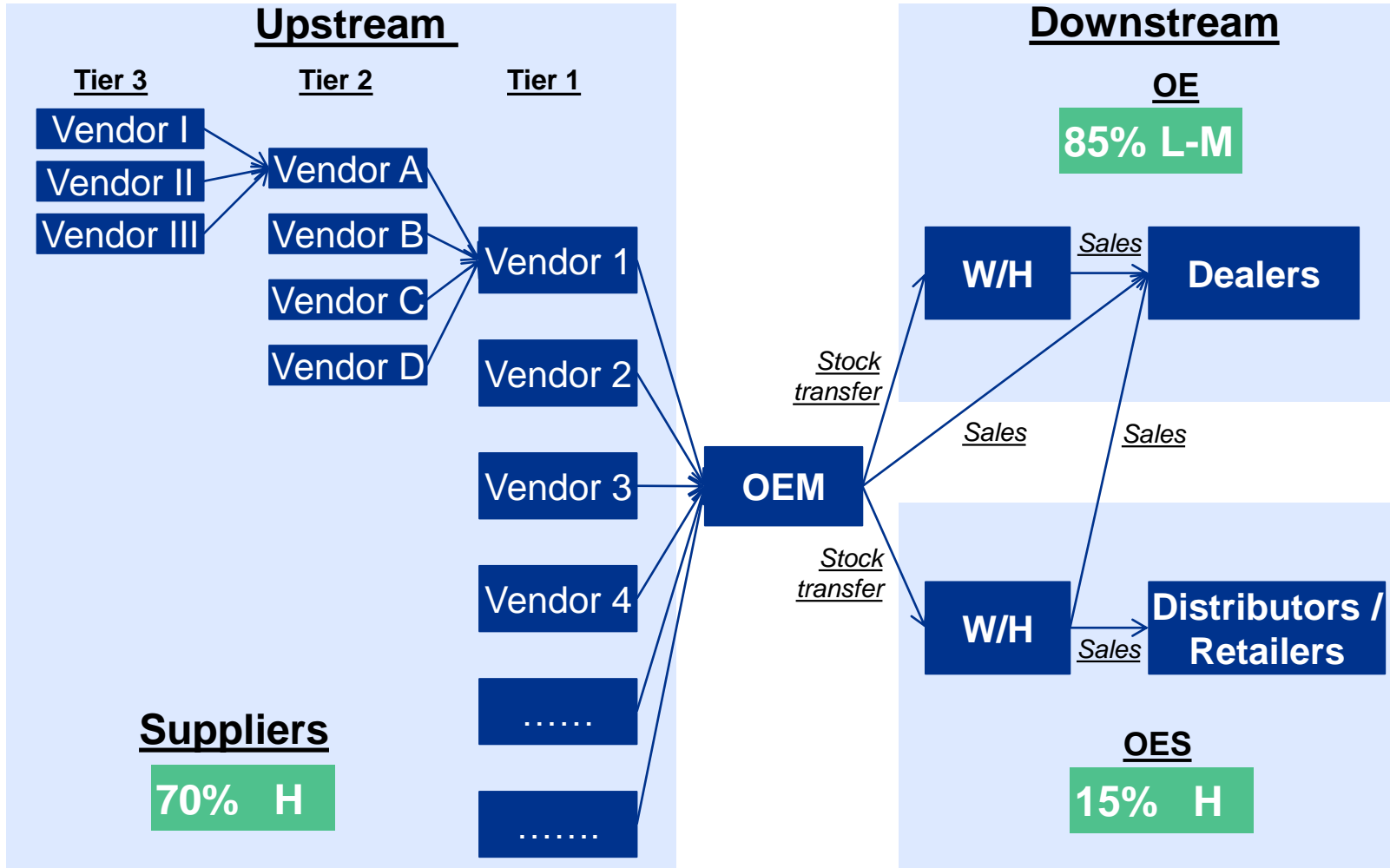
Supply Chain

IT Systems

Sales & Marketing

1B

Assess potential impact of GST on Supply Chain (across Upstream and downstream)



Contribution to firm's top line **XX YY** Impact of GST

Fiscal Impact Assessment

Supply Chain

IT Systems

Sales & Marketing

1B

Assess potential impact of GST on IT systems

Activity

- Review IT system to evaluate changes that may be triggered by GST – software used by Companies in-house such as BPCS, Costing, SOP Module, etc. (including distributor claims management) and software accessed by the distributors
- Coverage: Master data (vendor, customer etc.), transactions (PO, invoice, sales order), records/ reports (credit registers, tax MIS reports etc.) – Refer to Next Slide
- Possibility of automating key tax related compliances (e.g. GST returns, etc.) that are currently handled offline
- Conduct workshops for IT team to help them understand the overall impact of GST on IT systems
- IT team to engage with ERP/SAP vendor(s) to draw up implementation plan (after evaluating vendor's commitment, internal resourcing, estimated timeframe for deployment/ customization,

Hybrid system widely not supported by vendors

Minimum 4-6 months for transition

Need for changes in the platform accessed by the distributors

Could effect business continuity

Fiscal Impact Assessment

Supply Chain

IT Systems

Sales & Marketing

1D

Assess potential impact of GST on other business functions & explore optimization avenues.. (contd..)

1

Top Line

2

Promotional Schemes

3

Impact on intermediary margin

Fiscal Impact Assessment

Supply Chain

IT Systems

Sales & Marketing

Base price/ MRP likely to undergo revision under GST

Accordingly, top line may have to be revisited to achieve expected level of performance

Currently, free supplies do not attract any tax, and no input credit is available for such free supplies

Under GST, free supplies are likely to attract tax and input credits should accordingly be available

Levy of GST on retailer margin

Need for re-assessing the discounts/ incentives

To Summarize ..

- GST appears to be a reality in 2016

- Assess the overall impact of GST on various business functions

- Opportunity assessment across supply chain

- Significant impact on IT system – Business continuity issue

- Prepare for transition by drawing up an implementation plan

- Set up PMO to coordinate/ monitor progress

- Once GST legislation is available, fine tune and operationalize the implementation plan

- Managing trade and industry benchmarking



Thank you

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