

# Movement of goods in India

Report by EY and RAI

December 2013

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font.

Building a better  
working world



rai

RETAILERS ASSOCIATION OF INDIA

# Foreword



Ernst & Young LLP and the Retailers Association of India are proud to release this publication, *Movements of goods in India*, at the annual Retail Supply Chain Summit at Hotel Westin in Goregaon (E), Mumbai on 5 December 2013. The publication focuses on the state of movement of goods in India in India's retailing sector, the challenges faced in the business and regulatory domain, and the opportunities offered in it.

India's retail sector is poised for growth, with growing domestic demand and easing of regulations on FDI. The entry of foreign retailers and the growth of e-tailing are expected to give a boost to the sector. However, it is essential that movement of goods is improved in the country in order to enable the next wave of growth in retail.

Retail sector in India grapples with challenges in movement of goods due to an evolving tax/regulatory structure, delays at check-posts, the low penetration of technology and inefficient collaboration between vendors and retailers

These challenges provide opportunities for innovative technology-based solutions such as RFID, GPS, the Warehouse Management System and Collaboration tools. The industry is pinning its hopes on the successful implementation of the Goods and Services Tax (GST) in the country, to simplify and optimize the regulatory environment.

This publication aims to highlight key opportunities and challenges in movement of goods in the retail sector. It attempts to provide a base for discussion among industry stakeholders to help them navigate the complex structure of movement of goods in India, and related challenges and opportunities.

With kind regards,

**Pinaki Mishra**  
Partner, Ernst & Young LLP  
Leader - Retail & Consumer Products

**Kumar Rajagopalan**  
CEO  
Retailers Association of India (RAI)





# Table of contents

- 1 Current state of movement of goods in India.....2
  - 1.1 State of road transport in India.....3
  - 1.2 How does India fare against other countries in its movement of goods?.....3
  - 1.3 Tax and regulatory landscape in India .....4
- 2 Movement of goods in India – challenges and opportunities.....6
  - 2.1 Business and operational – challenges and opportunities.....7
  - 2.2 Challenges relating to taxes, regulations and interstate movement .....13
  - 2.3 Possible interventions by state/Central Government .....15
  - 2.4 Comparison with China (taxation and regulations).....17
- 3 Conclusion.....20
- 4 Appendix.....22





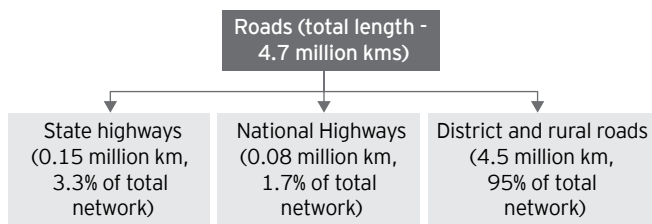
# 1. Current state of movement of goods in India



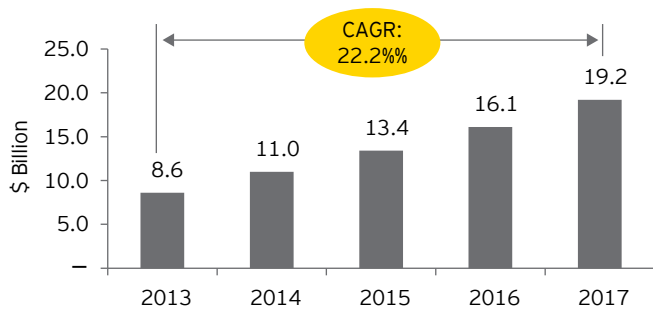


## 1.1 State of road transport in India

India has the second-largest road network in the world, spanning over 4 million km. Roads constitute the most important mode of transport in the country, carrying 60% of the country's total freight traffic and 85% of its total passenger traffic.<sup>1</sup>



The value of road and bridge infrastructure in India is expected to grow at a CAGR of 22.2% and reach US\$9.2 billion by 2017.<sup>1</sup>



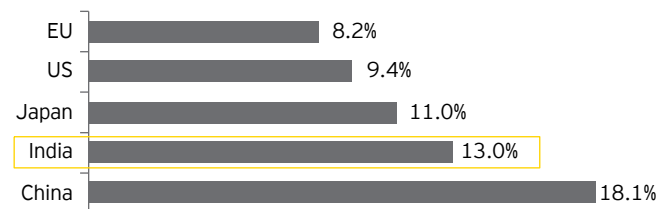
While road freight volumes and the number of road vehicles are growing at a CAGR of 9.1% and 10.8%, respectively, the growth rate of the length of roads lags behind at 4%. This indicates that growth of road infrastructure is not keeping up with the growth in demand.<sup>2</sup>

The last few years have been difficult for development of highways in the country and physical achievement has fallen short of its intended target. While the goal was to achieve 20 kms per day, the National Highway Authority of India has been able to complete only 13.7 kms per day (2009-10) and 10.4 kms per day (2011-12).<sup>3</sup>

## 1.2 How does India fare against other countries in its movement of goods?

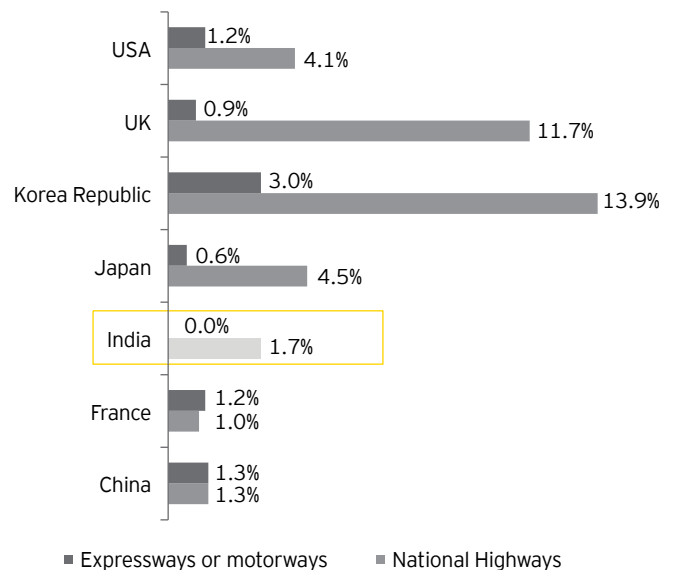
At a macro level, India spends much more than developed markets in terms of logistics costs. This can be primarily attributed to inadequate infrastructure and the fragmented nature of the industry in the country.<sup>4</sup>

### Cost of logistics as a percentage of India's GDP<sup>1</sup>



India's road network is dominated by rural roads. The share of the National Highways and motorways<sup>5</sup> in its overall road network is miniscule, when compared with developed markets. Moreover, only ~24% of the highways have four lanes and meet required standards, which further exacerbates the problem.<sup>6</sup>

### Share of National Highways and motorways in total road length



1. Ministry of Road, Transport and Highways (MoRTH) - Annual Report 2012-13

2. "2nd Edition: Operational Efficiency of National Highways for Freight Transportation by Road in India" - A joint study by the Transport Corporation of India Ltd. & IIM Calcutta

3. Ernst & Young Infrastructure Summit, 2012 with FICCI

4. Ernst & Young Infrastructure Summit with FICCI, 2012

5. Refer to Appendix 5.1

6. "Report of the Working Group on Central Roads Sector," Planning Commission website

There is significant room for improvement in the transit time between major cities as well. The average transit time by road or train between cities in India is significantly higher than the time taken for similar distances in China.

### Other parameters of comparison

Logistics efficiency indicators	India – ranking
Logistics performance index (out of 155) <sup>7</sup>	46
Quality of overall infrastructure (out of 148) <sup>8</sup>	85
Quality of road infrastructure (out of 148) <sup>8</sup>	84

Efficiency indicators in road transportation	India	Global
Average truck speed (in km/ph)	20-40	60-80 (developed countries)
Average truck distance covered in a year (kms)	60,000-1,00,000	4,00,000-6,00,000
Average truck distance per day (kms)	250-400	500 (BRICS) 700-800 (US & Europe)
Total length of expressways (kms)	~1000	74,000 (China)

## 1.3 Tax and regulatory landscape in India

Under the federal system of governance followed in India, the legislative and taxation powers have been clearly demarcated between the Centre and the states. The power to impose taxes on sale of goods within a state (where the movement of the goods sold remains within a single state's jurisdiction) rests with the respective state governments. The Central Government is empowered to tax inter-state sale of goods (where the movement of goods sold takes place between and across one or more state boundaries, with sales having occasioned this movement of goods) as well as pan-India supply of services (by levying Service Tax). The multiplicity of indirect tax-related legislations is therefore the direct consequence of the constitutional structure of taxation in India. While this division of power ensures proportionate tax-related revenues generated in the state and Central governments, it is a significant source of complexity for tax payers in India, and leads to substantial overlapping and sometimes double taxation of various transactions.

7. Logistics Performance Index (2012) published by the World Bank - Ranking out of 155 countries. Refer to Appendix 5.2

8. The Global Competitiveness Report (2013) published by the World Economic Forum - Ranking out of 148 countries. Refer to Appendix 5.3

Year	INR Billions
	Sales Tax collections
2011-12	3,508.74
2010-11	2,962.40
2009-10	2,314.61
2008-09	1,908.17
2007-08	1,677.31

Source: Economic Survey of India 2012-13

Given the structure of the Indian Indirect Tax administration (as previously mentioned), transactions in goods within India are often exposed to multiple taxes. Sale of goods within a state is subject to a state-level VAT, which may vary from 4% to 15%. Inter-state sales of goods are subject to Central Sales Tax (CST), which varies from 2% to 15%. Furthermore, transportation charges incurred on movement of goods are subject to Service Tax at an effective rate of 4.8%, while stock movements between inter-state branches or stocking locations are not subject to VAT/CST (although such movements often trigger input tax credit reversals in the range of 2% to 5% for the branches transferring the goods).

States	Octroi	Entry Tax
Andhra Pradesh	No	No
Delhi	No	No
Gujarat	No	Yes
Karnataka	No	Yes
Madhya Pradesh	No	Yes
Maharashtra	Yes	No
Punjab	No	Yes
Rajasthan	No	Yes
Tamil Nadu	No	No
Uttar Pradesh	No	Yes
West Bengal	No	Yes

Source: State Legislations

In addition to the intricacies relating to taxation of supply of goods at the point of sale, a number of state governments also levy an Entry Tax (ET) in the range of 2% to 5% on entry of (notified) goods into a local or municipal area in the state.

Applicable ETs are generally not eligible under law as input tax credits that are creditable against output tax (VAT/CST) liabilities and contribute directly to the supply chain costs of the goods for the end consumer.

In India, goods in movement, in addition to being subject to taxes, also have to contend with intra-state and border check-posts and deal with associated documentation including road permits, waybills, etc.. Every state in India has multiple Sales Tax check-posts along its national highways and borders to monitor movement of goods through it and prevent leakage or evasion of taxes. Road permits monitor movement of goods in and out of the states, accounting and reconciling that these have been subject to VAT/CST in the right jurisdiction or territory.

State	In-bound	Out-bound
Andhra Pradesh	Yes	Yes
Delhi	No	No
Gujarat	Yes	Yes
Karnataka	Yes	Yes
Madhya Pradesh	Yes	Yes
Maharashtra	No	No
Punjab	Yes	Yes
Rajasthan	Yes	Yes
Tamil Nadu	No	No
Uttar Pradesh	Yes	No
West Bengal	Yes	Yes

Source: State Legislations

On the compliance front, every state has its own requirements in relation to registration and payment of tax as well as tax returns, forms, permits, audits, assessments, etc., and processes and procedures can differ significantly from state to state. Although there have been significant efforts made in the area of automation or digitization of compliance procedures by many states, much more needs to be done in terms of their moving from their current levels of automation or digitization to a robust, efficient computer-based and compliant administration.

The expected GST legislation has the ability to standardize and harmonize legislations in relation to movement of goods in India and provide a simplified system for taxation and movement of goods in the country.







## 2. Movement of goods in India - challenges and opportunities



We have segmented the challenges into two major sections:

1. Business and operational
2. Tax, regulatory and interstate movement-related

## 2.1 Business and operational challenges and opportunities

The business and operational challenges have been further grouped under the following heads:

1. Infrastructure-related
2. Supply chain-related
3. Logistics service provider-related
4. Shortage of skilled manpower

### 2.1.1 Infrastructure-related

Infrastructural-related bottlenecks constitute the primary challenge faced by retailers, transport providers and logistics providers. In addition, inadequate infrastructure in the country limits the geographic reach of retailers.

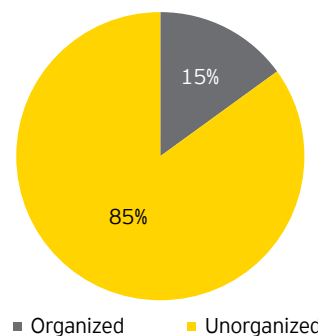
Increased investments in development of infrastructure have not yet yielded the desired results in terms of good roads, cold chains, warehouses, logistics parks and hubs, etc.

#### ▶ Road network:

- ▶ India loses significant value every year due to congestion (and wastage of fuel), the slow speed of freight vehicles and the waiting time at toll plazas and checking points.<sup>9</sup>
- ▶ Vehicles being stopped at state border check-posts and on the roads are a major cause for delays. Trucks are stopped frequently to fill forms required by various government departments, checking of documents and physical checking of the vehicles, drivers and consignments by Regional Transport Offices and traffic police, as well as to collect highway toll and taxes. It is estimated that 40% of the time lost on the road is due to stoppages at state border check-posts alone.<sup>10</sup>

- ▶ The share of surfaced road –concrete and bituminous – in the overall road network is a mere 54%<sup>11</sup>. Poor road quality leads to wear and tear in vehicles.
- ▶ Frequent breakdowns and inefficient vehicular management leads to a slow average speed of 20 kms per hour on Indian roads. Moreover, trucks in ply for 20 days a month against an average of 25 days a month in other developing countries.<sup>9</sup>

#### Warehouse infrastructure<sup>10</sup>



- ▶ This high fragmentation and dominance of unorganized players, due to various applicable taxes at the state and central levels, is a pressing concern. It has led to a dearth of quality warehouse infrastructure in the country.
- ▶ India's warehousing sector is plagued with low capital and operational efficiencies (low utilization and poor throughput/unit space).
- ▶ There is limited value addition that is specific to the retail industry. This stems from an inadequate understanding of the sector.
- ▶ Most warehouses are manually operated or have inappropriate levels of automation.
- ▶ **Other infrastructure**
  - ▶ Cold chain infrastructure<sup>10</sup>
    - ▶ India's cold chain market is highly fragmented with more than 3,500 companies. Organized players constitute only ~8%-10% of the market

9. "2nd Edition: Operational Efficiency of National Highways for Freight Transportation by Road in India" - A joint study by the Transport Corporation of India Ltd. & IIM Calcutta

10. The Global Competitiveness Report (2013) published by the World Economic Forum - Ranking out of 148 countries. Refer to Appendix 5.3

10. The Indian Warehousing Industry: An Overview, October 2013 - EY and CII Report

11. Ministry of Road Transport & Highways, Annual Report 2012-13

- ▶ The absence of cold chain infrastructure leads to wastage levels of around ~40% of agricultural produce and perishables.
- ▶ It is estimated that the current cold storage infrastructure can only cater to 11% of its total produce.
- ▶ Moreover, ~80% of storage capacity is for a specific single commodity (potato) and 80% of reefer vehicles only cater to dairy products.
- ▶ Cold stores are high fixed cost businesses by nature, entailing heavy initial investments in refrigerator units and land.

Not only do these intermediaries result in a significant time lag in products reaching stores from farms, but they also increase the cost to the final customer by adding their own margins.

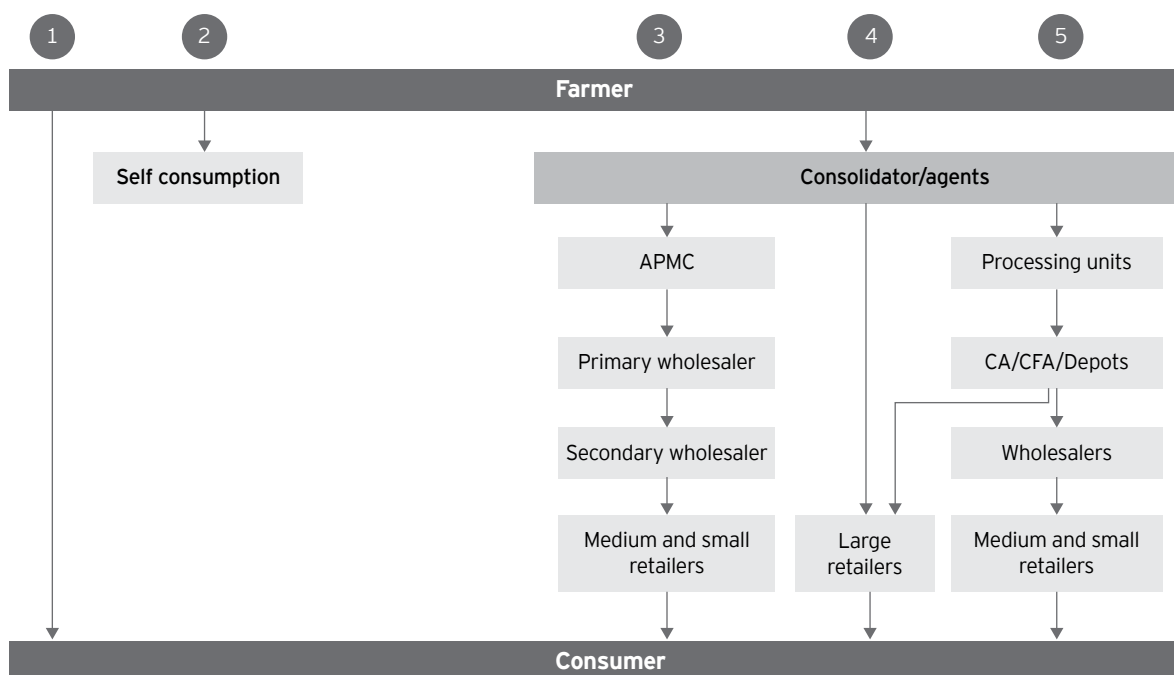
▶ **Collaboration and vendor management-related challenges**

- ▶ There is no common information exchange platform between retailers and their vendors, which leads to lack of collaboration in the end-to-end supply chain.
- ▶ Retailers are many times unprepared and unaware of the delivery schedules of suppliers due to communication- and collaboration-related gaps. Furthermore, day- and time-related scheduling of delivery of stocks is uncertain, and in many cases, time slots are not fixed in advance.
- ▶ Another common issue is non-availability of return loads. (Vehicles often have to wait three to four days to get a return load or travel as far as Visakhapatnam from Kolkata or Guwahati without load to secure a load.)
- ▶ The practice of sending advance shipping notes is seeing slow adoption in India. Retailers often do not get to know in advance the exact quantities dispatched by vendors vis-à-vis quantities actually received at warehouses or distribution centers.

### 2.1.2 Supply chain-related challenges

#### Multiple intermediaries in supply chain

India's retail supply chain suffers due to the presence of multiple intermediaries. As seen below, there are as many as five intermediaries in a typical supply chain for perishable commodities such as fruits and vegetables.





## How a global retailer improved its collaboration with vendors by using technology

### Case study

#### Background

A leading global retailer wanted to improve the efficiency of its supply chain and reduce its costs. It sought to leverage technology to support its supply chain and business strategy of offering low prices to consumers.

#### Solution

- ▶ The company developed a supply chain visibility tool in-house to facilitate its communication and collaboration with its supply chain partners. The three major functions of the tool were to store data, to share it with the company's vendors, and help in shipment routing assignments. Through this tool, it provided suppliers with large amounts of raw data relating to their product sales in the company's stores. It also informed them that all relevant information could be downloaded into vendors' data managing systems, and manipulated and analyzed in any way that would help them manage their products better.
- ▶ The company also uses another system to automate its replenishment process in its retail stores. According to users, the tool considers two important variables when making inventory-related decisions –the point of sale data and the quantity of inventory in hand. Taking these two factors, along with trends and variability of demand and supply, the tool also made decisions on when and how much inventory to order.

#### Benefit

- ▶ With this data, vendors have been able to make their supply chains more efficient and improve their services to the company
  - ▶ The first tool makes collaborative efforts on making vendor-managed and co-managed inventory.
  - ▶ The second tool enables the replenishment process to be made more accurate with less human intervention

#### ▶ Demand-forecasting complexities

- ▶ Retailers find it difficult to forecast the demand for products in different regions due to the varied tastes and habits of customers across India. This leads to inefficient management of inventory at retailers, distribution centers and outlets. Some of the challenges faced include:
- ▶ Seasonal fluctuations in demand patterns for certain products
- ▶ Regional/Local variances in demand patterns
- ▶ Geographically widespread nature of the market
- ▶ Low adoption of forecasting tools

#### ▶ Inefficient supply chain management

- ▶ Currently, retailers suffer due to pilferage of goods. The quantity of products received in warehouses does not match with the ordered quantity. Moreover, once out of a vendor's location, there is no way in which retailers can track the status of goods in transit. In some cases, the wrong products are loaded on trucks, which results in additional costs for retailers. Furthermore, some of the processes conducted by DCs consume a significant amount of time when executed manually.

## How a global logistics provider is enhancing its customer service by leveraging technology

### Case study

#### Background

A leading global third-party carrier wanted to improve its customer service and reduce its carbon footprint, and thereby, become more efficient in its deliveries.

#### Solution

- ▶ A “smart truck pilot” project was undertaken by the company to test its innovative route planning.
- ▶ Its implementation of RFID tags and readers first ensures that the right packages are on the right truck. Furthermore, its dispatch team sends out an optimum route, based on real-time traffic conditions, to retailers.
- ▶ Built-in GPS guides the driver to the first delivery and RFID checks to ensure that the right package is delivered. Turn-by-turn directions are then sent to the truck driver to guide the truck to its second delivery, and so on.

#### Benefit

- ▶ The enhanced visibility provided by the RFID system confirms the status of all the packages at any given time, and ensures that they are delivered correctly. This reduces fuel costs and emissions through optimized routing and reduction in the number of re-deliveries

---

## How an Indian retailer uses automation to improve process efficiency at its distribution centers

### Case study

#### Background

- ▶ The company is a big-box hypermarket with three stores covering more than 220 thousand sq. ft. All the hypermarkets have “back-stores” to store merchandize, but these can only hold a day’s worth of inventory because retail space is expensive
- ▶ The bulk of the company’s inventory is maintained at DCs on the outskirts of cities. These DCs handle around a million SKUs from 1,200 vendors in a year
- ▶ DCs’ processes have to be automated to ensure on time fulfillment of store transfers. The company therefore decided that the solution needed to run on a mobile device to optimize various processes to reduce the time it spends in the DC.

#### Solution

- ▶ Today, when a product arrives at a DC, the receiving team loads its purchase order on a handheld scanner device. This helps to reduce manual entry (and resultant errors).
- ▶ Once items are received, the warehouse management system prints a “put-away” document, which is now available on the scanner and guarantees that a DC staffer puts away products in their right places.
- ▶ Finally, a “pick” document is assigned to a “picker” using a wireless hand-held scanner when it is time for inventory to be moved to a store. This document indicates the exact location of a product and the number of pieces that need to be collected. An error message informs the picker if an item is not on the pick list.

#### Benefit

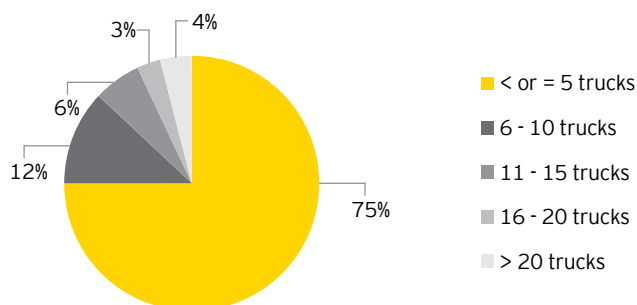
- ▶ Within a month of implementation of the solution, staff costs at the DC fell by 23% and sales rose by 25%.
- ▶ As envisioned, turnaround time fell by 12 hours because errors due to data being “misread” were virtually eliminated.
- ▶ The solution also created a unique bond between IT and business processes, and led to happier employees.



### 2.1.3 Logistics service provider-related challenges

#### ► Unorganized and fragmented road freight transport market

Around 70% -75% of the trucking industry is dominated by small transport operators with fleet sizes of a maximum of five trucks. At the other end of the spectrum, only about 4% own more than 20 trucks.



Source: National Skill Development Corporation

This fragmentation of the market leads to overloaded trucks and fatigued drivers, since only one driver per truck is deployed on long trips, whereas two or more drivers should be driving in shifts on such trips.

This fragmented ownership structure leads to a shortage of established and organized transport providers with adequate capability and a significant presence in the market.

#### ► Only a few logistics service providers with pan-India reach

The 3PL market is at a nascent stage in India. There are hardly any players with a pan-India presence in the country. Therefore, retailers often need to take on multiple local players with expertise in their particular regions, especially in the case of last-mile deliveries. In fact, they frequently have four or more logistics providers catering to different regions.

#### ► Dearth of 3PLs specializing in specific product categories

- According to retailers of apparel, there are only a few logistics providers with the requisite experience and expertise in handling products in the apparel and fashion category.
- e-tailers are facing challenges in their search for logistics service providers who can cater to the

former's specific needs in terms of reach to several pin code areas, last-mile deliveries, processing of cash on delivery and reverse logistics capabilities to manage inventory returns. This has led to some e-tailers developing their own in-house logistics teams.

- Retailers of perishable goods face a similar challenge in finding logistics service providers with the requisite competence and cold chain infrastructure needed to handle such products.
- Several retailers in the market are on the lookout for logistics service providers that also provide a variety of value-added services in the form of warehousing capabilities, inventory and order management, product labelling, packing and assembly, cross-docking, customs clearance, etc. More often than not, most providers only cater to a particular component of the logistics value chain –transport or warehousing. There is therefore a significant demand for integrated end-to-end logistics service providers.

### 2.1.4 Shortage of skilled manpower

India's transportation and logistics sector faces a severe shortage of skilled manpower, and this is especially critical in the case of integrated logistics providers.

The unorganized and fragmented nature of the industry has led to problems relating to inefficient organization, lack of leadership, disjointed skills and positions, and lack of process-driven IT systems. This is particularly true at the nascent stage of the industry, which is struggling to overcome critical infrastructure-related and organizational challenges,

According to a report produced by the National Skill Development Corporation, the various skill gaps witnessed in the road transportation sub-segment include<sup>12</sup>:

- Inadequate knowledge of procedures, paper-work for inter-state movement and taxation related aspects
- Lack of knowledge of modern warehousing and inventory management practices
- Inadequate knowledge of new technologies in the IT domain in the transportation sector, and on the RFID, GPS and vendor-collaboration platforms
- Inadequate availability of drivers with sufficient training and experience in handling increasing tonnage and high-capacity trucks, and following GPS directions
- Drivers' ignorance of safe driving practices and special precautionary measures in transportation of sensitive materials such as chemicals and petroleum tankers

12. National Skill Development Corporation: Human Resource & Skill Requirements in the Transportation, Logistics, Warehousing & Packaging Industry (2022) - a report

## **How an American manufacturer partnered with a specialized reverse logistics provider to enhance its returns capabilities**

### **Case study**

Reverse logistics has traditionally been placed low in the supply chain hierarchy. However, apparel businesses, service providers and technology companies have recently begun to understand that strategic reverse logistics management can have a huge and positive impact on their overall operations. Companies do not usually proactively obtain information about products sent back to their warehouses. In the case of apparel companies, in particular, growing their online operations means they need to pay more attention to this process.

### **Background**

- ▶ The company is a leading manufacturer and retailer of women's high-quality, comfortable and fashion-right shoes and boots at affordable prices. It is based out of New Jersey.
- ▶ It has three divisions – retail, wholesale and direct marketing – that are engaged in catalog and internet sales.

### **Problem**

- ▶ Before entering the partnership, the company did not have the ability to proactively manage its returns.
- ▶ The onus would be on the consumer, who was responsible for packing the order, shipping it back and following up on this.
- ▶ The company was not able to provide the required level of customer service for returns it offered on the forward supply chain.
- ▶ It was also unable to analyze returns-related data to gauge trends in the merchandise being sent back or prepare its warehouse ahead of time for a large volume of returns.

### **Solution**

- ▶ While searching for reverse logistics technology, the company evaluated the key players, sent out an RFP and searched for a system that would remove the burden of returns from the consumer.
- ▶ The company also wanted a solution that was scalable and could provide rich data on the reverse supply chain.
- ▶ After a nine-month selection process, it selected a solution from a logistics provider.
- ▶ During its implementation, ensuring that the logistics provider's technology was aligned properly with the back-end systems used by the company and its warehouse partners was its top priority.
- ▶ The companies went through a long and detailed process to make sure that data files were set up properly, that the systems could "talk" to each other and that data was easy to decipher.
- ▶ Currently, almost 75% of the company's returns "come back" through the chosen solution.
- ▶ Every order placed on its website or mail-order catalog now comes with a pre-paid, pre-addressed and bar-coded label. When returning orders, customers fix the label to their packages and drop these off wherever the U.S. Postal Service retrieves mail.
- ▶ A dynamic bar code links a package to the customer's invoice and enables its visibility from early in the returns process. This helps customer service representatives to proactively address customers' exchanges or credit needs.
- ▶ The returns are scanned three times during the return cycle – at the pick-up point, the logistics provider's regional facilities and the company's warehouse. This enables the company to keep its customers updated and manage customer expectations.
- ▶ Visibility of this data also helps the company analyze its returns trends to look for badly performing styles or colors and forecast demand more effectively



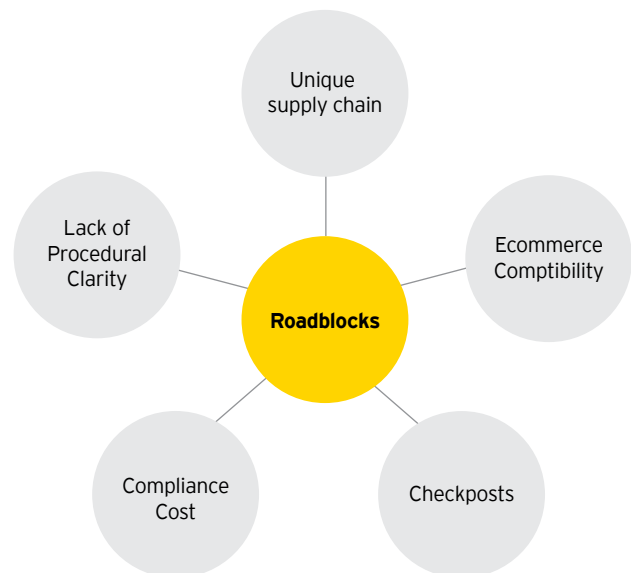
## 2.2 Tax, regulatory and interstate movement challenges

### a) Unique supply chain

The retail supply chain has a number of components including manufacturers, distribution centers, city hubs, retail stores and consumers. The movement of goods from the place of manufacture to end consumers is managed by various intermediaries including transporters, clearing and forwarding agents and third-party logistic service providers (3PL). Given India's geographical spread, the span of retail stores and the magnitude of consumers, goods have to be maneuvered through various warehouses, storage points, check posts, ownership transfers and bulk splitting. This process is very cumbersome and involves a considerable amount of paperwork to ensure regulatory compliance.

In the case of goods that have to be moved across multiple states to be kept in distribution hubs and/or be made available in retail stores, players have to navigate multiple check posts in each state of transit. In addition, they need to manage a number of road permits/statutory forms/transit pass requirements, as stipulated under respective state VAT legislations. To add to the woes, compliance requirements can often lead to delays (at times running into days), which can severely impair efficiency and can add to the cost of the supply chain.

Most of the state VAT legislations and CST legislation and compliance requirements were put in place between the 1950s and 1970s. These are in line with the then-prevailing "manufacturing" practice, which involved the bulk movement of goods in a full truck/container load format. VAT was implemented in India during 2005-2008 and makes use of updated terminology and contemporary concepts associated with a sophisticated VAT/GST from a developed economy. Unfortunately, in India, the basic concepts of the movement of goods' regulations continue to be outdated. The modern retail supply chain requires goods to be shipped in smaller quantities/portions. In addition, the carton, container or truck load format have now been deemed redundant. However, the current regime in India has not evolved adequately to embrace and incorporate such dynamic requirements. In addition, the compliance needs of invoice, delivery challans, permits, etc., also make it extremely cumbersome for manufacturers and retailers to freely transfer goods to the desired destinations.



The retail industry operates around various business and operations formats, including the traditional stock and sale, consignment and concessionaire models. Each of these models has its own set of practices pertaining to transaction pattern, ownership and the movement of goods. The new VAT/ CST legislations can be comfortably applied to the traditional platform of stock and sale; however, it will not be feasible while dealing with new formats of business models, as the various aspects of registration, ownership of goods, storage, invoicing and recording of transactions in books of accounts would be left open to interpretation.

### b) e-Commerce incompatibility

e-Commerce retail has taken the Indian landscape by storm and has seen considerable growth in online shopping in the last four to five years. e-Commerce is being hailed as the future of Indian retail, as an increasing number of consumers are finding it convenient and cost efficient to shop for goods in the comforts of their homes. e-Commerce retailers adopt various models of sale and delivery. The essence of survival in the marketplace is gauged by the speed (and accuracy) at which the ordered goods reach consumers. Delivery schedules initially spanned 7 to 10 days; however, given the intense competition in the space, players are now struggling to deliver products between 12 and 24 hours in many major cities.



It has already been established that the speed of delivery is the unique selling proposition of e-retail. As a result, it is difficult to fix one set of governing legislations for the same set of goods. This is because the various VAT/CST legislations are not able to effectively accommodate the unique features of the e-Commerce industry. On account of these gaps, e-retailers face regular routine issues at check posts, etc.

### c) Check posts

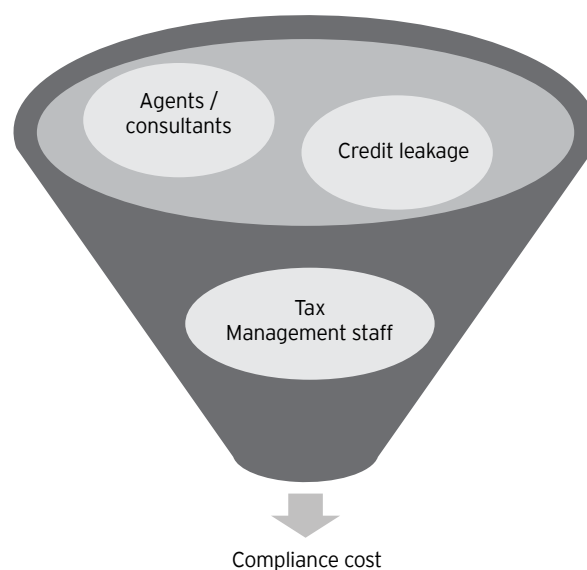
Check posts were traditionally put in place to monitor the movement of goods and prevent smuggling, as well as the illegal entry of spurious products. Gradually, check posts were established under the aegis of commercial tax/sales departments.

While check posts are not directly a serious hindrance to the movement of goods, the associated regulations, lack of automation (with the exception of a few states), inadequate staffing, unexplained and in-ordinate delays in clearance of consignments, unbridled powers of the check post officer to detain goods/levy penalty, detention of goods for inconsequential reasons, etc., have, for decades, burdened transporters. This has prevented the free movement of goods across the country for the purpose of trade and commerce.

### d) Compliance management cost

Indirect taxes should ideally be a pass-through cost, where the actual burden of payment is borne by the final consumer. However, while eligible input VAT is creditable with VAT payable,

the credit of CST and ET paid is not available as an eligible input tax credit, posing as an additional cost in the supply chain. Furthermore, the lack of inter-credibility of VAT, service tax, CST and ET leads to credit leakages, adding to the supply chain tax cost. Although domestic players have integrated these tax costs into their business over time, it poses as an impediment for foreign companies entering India.



The regulatory complexity associated with movement of goods in India, coupled with the lack of clarity in legislations, leads to businesses spending a large amount of money on third-party consultants, legal counsels, etc. Businesses also prefer to offload work pertaining to documentation and liaison with tax authorities to third-party consultants/agents with expertise in the relevant field. Furthermore, training an in-house team regularly to apprise them of the latest trends and changing regulations adds up to the tax cost budget.

### e) Lack of procedural clarity

Another impediment in the free flow of goods in India is the lack of clarity in procedures with regard to VAT/CST/ET regulations. Every state in India has put in place various forms, permits and other documents that need to be produced /verified for the unhindered movement of a consignment. The paperwork includes the necessary invoice, self-declarations, permits from tax authorities and forms (in the case of specified goods). State governments are ever watchful of goods entering and exiting their borders. Due to high tax implications, goods are subject to

heavy scrutiny at the various check posts established by states. States are faced with the complex task of ensuring sufficient checks for the collection and maintenance of appropriate information/records regarding the movement of goods, while simultaneously maintaining simple and hassle-free procedures.

Businesses are plagued by the lack of clarity in the nature of documents required for movement, the process of obtaining these, as well as the items and persons liable to pay ET. Transactions such as sales, leased goods and intellectual property complicate matters further.

**f) Automation**

India is the land of information technology and takes pride in its export of software and growth of the information technology sector. However, it has lagged in modernizing the management of tax and regulatory requirements. Some states have made significant efforts to automate processes pertaining to forms' procurement, permit procurement, online self-declaration, etc. However, the process remains manual or a combination of electronic and manual in a large number of states, resulting in the dealer spending substantial time and effort.

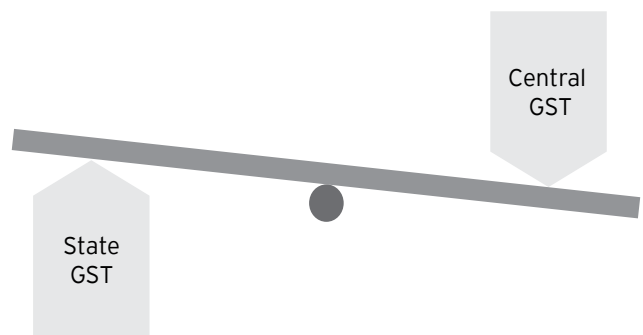
**2.3 Possible interventions by state/Central government (s)**

The movement of goods in India is currently teeming with complexities. Stakeholders are aware of the insufficiency of the tax and regulatory environment in India in this regard. Businesses are pushing for a simplified tax and regulatory framework; however, the federal structure of the country, political conditions and division of legislative power make it a very onerous and cumbersome task. Nevertheless, the Central and state governments could look to step in and facilitate the free movement of goods across the country.

**a) GST**

GST, by design, would transform the current indirect tax system from an origin-based model to a consumption-based one. GST is expected to replace central excise duty (or CENVAT), service tax, CST etc., as well as state taxes such as VAT and ET. Inter-state transactions, including stock transfers, for which the taxation model is still being debated, may be chargeable as per Integrated Goods & Services Tax (IGST). GST is expected to facilitate the availability of full input tax credit on input taxes paid at the time of purchase (of goods and services), as well as utilize the amount toward output GST liabilities.

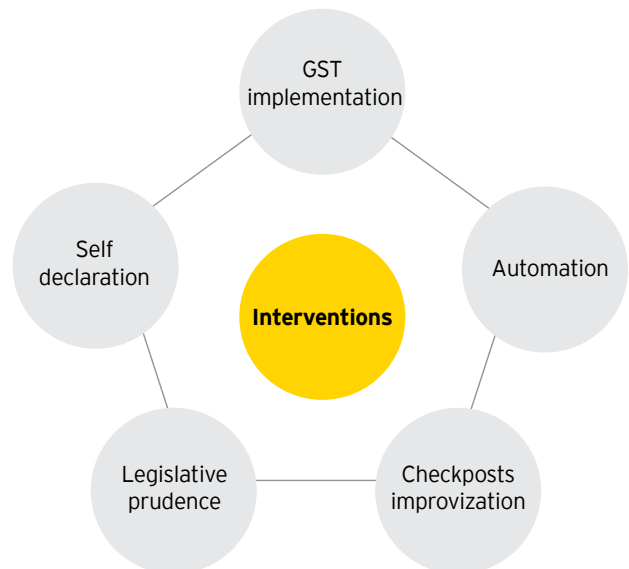
GST might come as a breather and help with the standardization, simplification and automation of compliance requirements associated with the trading and movement of goods, especially inter-state movement of goods. GST, when implemented, is expected to automate most of the compliance requirements (including forms/permits/way bills, etc.), thereby reducing the cost and effort for the industry.



The GST structure has been the focus of discussion and debate for the Central and state governments for a number of years. It is imperative that the governments find a collective solution soon to the disputes on the GST structure and proceed with implementation for the benefit of the industry and the country at large.

**b) Self-declaration**

Given that GST might still be a couple of years away from implementation, state governments can adopt measures, in the meantime, to simplify and strengthen the process of moving goods across the country. This could also aid in implementing the GST structure in time.





In a number of states, the movement of goods warrants the procurement of waybills, road permits, etc., from the authorities. Such paperwork needs to be filled up manually and needs to be carried with the goods in movement. Even in states where such procurement of waybills, road permits, etc., is automated, authorities intervene to release the online waybill/permit.

Some states that have tested the model of self-declaration by the dealer moving goods into and outside the state, without intervention by VAT authorities, have been successful in simplifying the goods movement process. In the self-declaration model, the dealer moves goods based on a self-declaration (with the details of the goods moved), which is available to the VAT authorities on-line for review/scrutiny at any point in time. Such self-declaration can be assessed for accuracy during the course of the annual assessment process or during any of the audit/investigation process.

Given the success story of the self-declaration model, VAT authorities in all of the states could consider its implementation to expedite and simplify the movement of goods.

### c) Cross-state automation

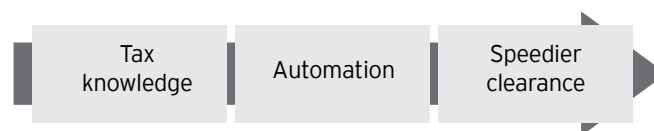
The current requirements of statutory Form C (for charging concessional rate of tax on inter-state sales) and statutory Form F (for supporting sales tax exemptions on account of stock transfers) are driven by the need of the VAT authorities of the sending states to validate whether the concessional rate and the exemption from CST on stock transfers have been fittingly claimed. The lack of visibility into the dealer database in the buying state triggers the need for the sending state to demand manual copies of Form C/Form F (which have to be procured by the dealer from the VAT authorities of the buying state) to validate the claims to concession and exemption made by the sending dealer.

Automation of the VAT/CST registered dealer database (dealer database) across the states and of the buy/sale transactions in the sending and buying states, along with on-line inter-connectivity between the states, could provide visibility to both the sending and receiving states on the transaction being undertaken. A review of the dealer database, either during the process of assessment or at any other point in time, would prove the eligibility of the transaction, along with allowing dealers to avoid the cumbersome process of procurement and issue for statutory forms for every transaction/consignment.

Regardless of the implementation time of GST, states could explore the suitability of undertaking robust cross-state automation.

### d) Check post improvisation

The most critical issue faced by parties moving goods through check posts pertains to the delay in the clearance of goods, often on account of detention of carriages at check posts. In most cases, such delays (and detentions in relevant cases) are triggered by the lack of sufficient training and tax knowledge in the case of officers manning the check posts, as well as the inadequacy of computerization. As a result, officers have to rely heavily on the manual checking of goods and documentation.



Check posts have largely remained the same since their creation. Nevertheless, a few states have managed to bring in reasonable computerization to hasten the clearance of goods and provide online data to VAT authorities for scrutiny. State governments across the country could think about the benefits of investing in deploying suitable computerization at check posts, ensuring adequate staffing for speedy clearance of goods and avoiding unwarranted/unjustified detention of goods.

### e) Legislative prudence

Central and state legislations governing the movement of goods in India have not kept pace with the growth and evolution of the marketplace and in this context, especially the retail industry. The legislations have not adequately accounted for and adapted to the explosive growth of retail trade and e-Commerce.

Another concern is that existing regulations are ambiguous about documentation requirements. The resulting consequence is open to interpretations at the ground level, leading to perceivably random delays and possible detentions.

With GST in sight, it seems to be the right time to ramp up rules and regulations to provide clarity on procedures and simplify the movement process.

## 2.4 Comparison with China (tax and regulatory)

China is similar to India in terms of size, population, number of states/provinces etc. Given the growing comparison and competition with China for economic supremacy, a broad review of the efficiencies/inefficiencies surrounding the movement of goods in China could provide a template for India to review its policies and regulations and accordingly make them more conducive.

In China, VAT is levied on the supply of goods and related services such as processing and repair and Business Tax (BT) for services including transportation and construction. VAT is payable at 17% and BT at 3% to 5%.

VAT in China is levied and administered by the local municipality (called county). As such, VAT rates, compliances and procedures differ with each county. Furthermore, the transfer of goods from one branch to another for the purpose of sale is also treated as a supply of goods, regardless of whether any consideration is paid (unless the branches are located within one county).

China is on the cusp of introducing its most ambitious VAT reforms in many years, the VAT pilot, which has sought to merge BT and VAT in a phased manner throughout the country.

This measure, aimed at consolidating the Chinese indirect tax regime, may be instrumental in reducing the cascading effect and tax blockages faced by assesseees due to non-credibility of BT and VAT.

In relation to the movement of goods, China has managed to provide an environment for free movement across the length and breadth of the country without intervention by tax authorities on a consignment-to-consignment basis. Furthermore, China has largely managed to de-regulate the movement of goods by doing away with check posts, permits or statutory forms and relying instead on tax filings/self-declarations made by assesseees. This has enabled dealers in China to freely access markets across the country, resulting in all-round development of trade and commerce.

VAT administration and collection in China seems to largely resemble that of India. However, China seems to have made substantial progress in simplifying tax and regulatory requirements for the movement of goods. This has helped improve the trade and commerce environment within the country.

The Indian Government could consider a comprehensive analysis of the Chinese VAT structure and procedures involved in the movement of goods. The best practices hence understood and identified could be followed in the country to enable faster and smoother movement of goods.



## Comparison of the VAT regimes of India and China

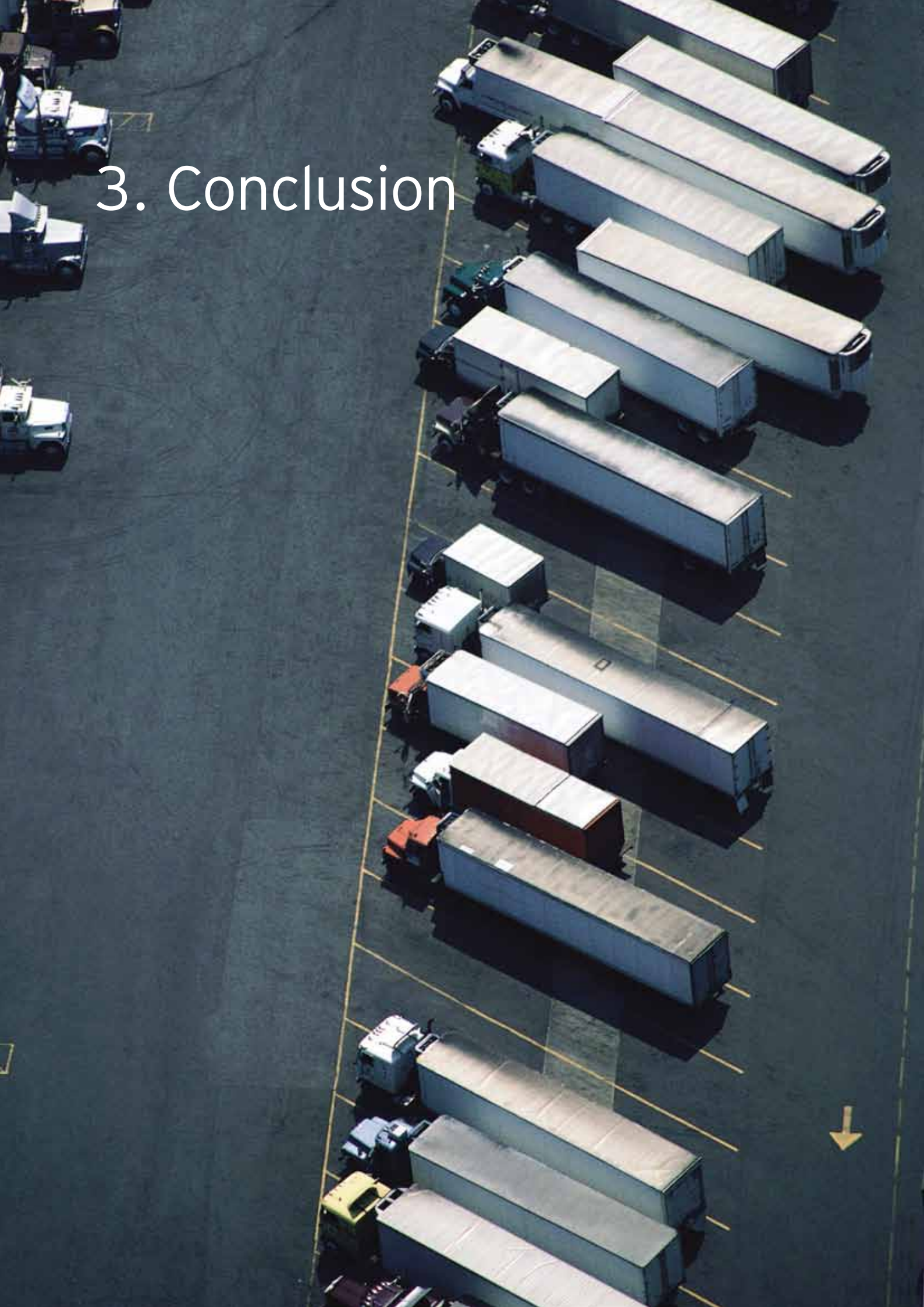
Parameter	Under Indian VAT	Under China VAT
<b>Applicability</b>	VAT on the intra-state sale of goods	VAT on the supply of goods and related services such as repair and processing
	CST on the interstate sale of goods	BT on the supply of specified services, including transportation
	ST on the provision of services	
<b>Payable by</b>	Person affecting sale for VAT and CST	Person affecting supply
	Person providing service for ST	
<b>Standard Rates</b>	VAT @ 4%-15%	VAT @17%
	CST at 2% or the VAT rate	BT @ 3%-5%
	ST @ 12%	
<b>Levied and administered by</b>	VAT by the state government	Levied by the Ministry of Finance State Administration of Taxation (SAT)
	CST levied by the Central Government and administered by the state government	Rules formulated by county/municipality
	ST by the Central Government	
<b>Return</b>	VAT and CST on a monthly/quarterly basis	May range from one day to one quarter
	ST is bi-annual	
<b>Statutory Forms</b>	Form C for inter-state concessional rate sale	None
	Form F for stock transfer	
<b>Road Permits / Waybills</b>	Applicable in most states for both inbound and outbound movement of goods	Not required for the movement of goods between counties
<b>Check posts</b>	Multiple commercial tax check posts to track goods in every state	No VAT related check posts to monitor/control the movement of goods between counties







# 3. Conclusion



India is positioned to become an economic super power in the near future. The traditional Indian store-based retail market and the new entrant e-retail would together post sizeable growth, driven by the increased size and buying power of Indian consumers, as well as greater exposure to global markets. However, the poor road infrastructure, inadequate technology and service levels, scarcity in manpower skills, and complex tax and regulatory policies, especially with regard to the movement of goods within the Indian boundaries, threaten to slow down this growth.

In this backdrop, corporate entities could consider reviewing their supply chain and logistics operations. They could then identify improvement opportunities in terms of collaboration with vendors, enhanced sales and operations planning, and technology deployment. The need of the hour is for the government to rapidly improve road infrastructure and take bold steps to streamline the movement of goods process in India and bring it at par with that of China and other rising economies. This may not be easy, considering the federal structure of the country and existing political pressures. Nevertheless, India has undertaken timely and daunting reforms in the past that have held the Indian economy in good stead, with the most notable being the introduction of the VAT regime.

Immediate and structured steps in the implementation of GST may provide the much-needed relief to issues associated with the movement of goods in India. Indian businesses can only hope that it is introduced sooner than later and would pave the way for a simplified tax and regulatory structure for the movement of goods in India.



# 4. Appendix



5.1 An expressway (also called motorway or freeway) is a controlled-access highway; it is a highway that controls entrances and exits by incorporating the design of the slip roads for entry and exit into the design of the highway.

A controlled-access is designed for high-speed vehicular traffic, with all traffic flow and ingress/egress being regulated.

Access-control should not be confused with the collection of toll. An expressway may be free to use and may not collect toll at all. Expressways are the most supreme roads in the Indian road network. These are six- or eight-lane highways with controlled access.

The national highway system of India consists of approximately 10,000 km (6,200 mi) of 4-laned highways that collect toll from users but do not have control of access and cannot be called expressways.

Currently, a massive project is underway to expand the highway network. In addition, the Government of India plans to add 18,637 km (11,580 mi) of expressways to the network by 2022.

5.2 The Logistics Performance Index is based on a worldwide survey of operators on the ground (global freight forwarders and express carriers), providing feedback on the logistics "friendliness" of the countries in which they operate and those with which they trade. They combine in-depth knowledge of the countries in which they operate with informed qualitative assessments of other countries with which they trade. It is a weighted average of the country scores on the following six key dimensions:

- ▶ Efficiency of the clearance process (i.e., speed, simplicity and predictability of formalities) followed by border control agencies, including customs

- ▶ Quality of trade and transport related infrastructure (e.g., ports, railroads, roads, information technology)
- ▶ Ease of arranging competitively priced shipments
- ▶ Competence and quality of logistics services (e.g., transport operators, customs brokers)
- ▶ Ability to track and trace consignments
- ▶ Timeliness of shipments in reaching their destination within the scheduled or expected delivery time

This measure indicates the relative ease and efficiency with which products can be moved into and inside a country.

5.3 The Global Competitiveness Report (GCR) is a yearly report published by the World Economic Forum. The report assesses the ability of countries to facilitate high levels of prosperity to their citizens. This, in turn, depends on how productively a country uses available resources. Therefore, the Global Competitiveness Index measures the set of institutions, policies, and factors that set the sustainable current and medium-term levels of economic prosperity. The various variables considered are:

- ▶ Institutions
- ▶ Infrastructure
- ▶ Macro-economy
- ▶ Health and primary Education
- ▶ Higher education
- ▶ Market efficiency
- ▶ Technological readiness
- ▶ Business sophistication
- ▶ Innovation

# Connect with us

## Our services

---

### Assurance, Tax, Transactions, Advisory

A comprehensive range of high-quality services to help you navigate your next phase of growth

Read more on [ey.com/IN/en/Services](http://ey.com/IN/en/Services)

## Sector focus

---

### Centers of excellence for key sectors

Our sector practices ensure our work with you is tuned in to the realities of your industry

Read about our sector knowledge at [ey.com/IN/en/Industries](http://ey.com/IN/en/Industries)

## Stay connected

---

Easy access to our knowledge publications. Any time.

[www.ey.com/subscription-form](http://www.ey.com/subscription-form)

Webcasts and podcasts

<http://webcast.ey.com/thoughtcenter/>



Follow us @EY\_India



Join the business network from EY

For more information, visit [www.ey.com/in](http://www.ey.com/in)



# EY offices

## Ahmedabad

2<sup>nd</sup> floor, Shivalik Ishaan  
Near C.N. Vidhyalaya  
Ambawadi  
Ahmedabad - 380 015  
Tel: + 91 79 6608 3800  
Fax: + 91 79 6608 3900

## Bengaluru

12<sup>th</sup> & 13<sup>th</sup> floor  
"UB City", Canberra Block  
No.24 Vittal Mallya Road  
Bengaluru - 560 001  
Tel: + 91 80 4027 5000  
+ 91 80 6727 5000  
Fax: + 91 80 2210 6000 (12<sup>th</sup> floor)  
Fax: + 91 80 2224 0695 (13<sup>th</sup> floor)

1st Floor, Prestige Emerald  
No. 4, Madras Bank Road  
Lavelle Road Junction  
Bengaluru - 560 001  
Tel: + 91 80 6727 5000  
Fax: + 91 80 2222 4112

## Chandigarh

1<sup>st</sup> Floor, SCO: 166-167  
Sector 9-C, Madhya Marg  
Chandigarh - 160 009  
Tel: + 91 172 671 7800  
Fax: + 91 172 671 7888

## Chennai

Tidel Park, 6<sup>th</sup> & 7<sup>th</sup> Floor  
A Block (Module 601,701-702)  
No.4, Rajiv Gandhi Salai, Taramani  
Chennai - 600113  
Tel: + 91 44 6654 8100  
Fax: + 91 44 2254 0120

## Hyderabad

Oval Office, 18, iLabs Centre  
HITECH City, Madhapur  
Hyderabad - 500081  
Tel: + 91 40 6736 2000  
Fax: + 91 40 6736 2200

## Kochi

9<sup>th</sup> Floor, ABAD Nucleus  
NH-49, Maradu PO  
Kochi - 682304  
Tel: + 91 484 304 4000  
Fax: + 91 484 270 5393

## Kolkata

22 Camac Street  
3<sup>rd</sup> floor, Block 'C'  
Kolkata - 700 016  
Tel: + 91 33 6615 3400  
Fax: + 91 33 2281 7750

## Mumbai

14<sup>th</sup> Floor, The Ruby  
29 Senapati Bapat Marg  
Dadar (W), Mumbai - 400028  
Tel: + 91 022 6192 0000  
Fax: + 91 022 6192 1000

5<sup>th</sup> Floor, Block B-2  
Nirlon Knowledge Park  
Off. Western Express Highway  
Goregaon (E)  
Mumbai - 400 063  
Tel: + 91 22 6192 0000  
Fax: + 91 22 6192 3000

## NCR

Golf View Corporate Tower B  
Near DLF Golf Course  
Sector 42  
Gurgaon - 122002  
Tel: + 91 124 464 4000  
Fax: + 91 124 464 4050

6<sup>th</sup> floor, HT House  
18-20 Kasturba Gandhi Marg  
New Delhi - 110 001  
Tel: + 91 11 4363 3000  
Fax: + 91 11 4363 3200

4<sup>th</sup> & 5<sup>th</sup> Floor, Plot No 2B,  
Tower 2, Sector 126,  
NOIDA 201 304  
Gautam Budh Nagar, U.P. India  
Tel: + 91 120 671 7000  
Fax: + 91 120 671 7171

## Pune

C-401, 4<sup>th</sup> floor  
Panchshil Tech Park  
Yerwada  
(Near Don Bosco School)  
Pune - 411 006  
Tel: + 91 20 6603 6000  
Fax: + 91 20 6601 5900

## EY team

### Pinaki Mishra

Partner  
Leader - Retail & Consumer Products  
Tel: +91 22 6192 0400  
E-Mail: pinaki.mishra@in.ey.com

### Deepak V

Associate Director  
Indirect Tax  
Tel: +91 80 6727 5072  
E-Mail: deepak.v@in.ey.com

### Janak Patwari

Senior Manager  
Business Advisory Services  
Tel: +91 80 67275398  
E-Mail: janak.patwari@in.ey.com

## Retailers Association of India

Mr. Bhavesh Pitroda Director  
Marketing & Events  
Tel: +91 22 2826 9527/28  
Email id bhavesh@rai.net.in

## Ernst & Young LLP

EY | Assurance | Tax | Transactions | Advisory

### About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit [ey.com](http://ey.com).

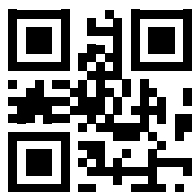
Ernst & Young LLP is one of the Indian client serving member firms of EYGM Limited. For more information about our organization, please visit [www.ey.com/in](http://www.ey.com/in).

Ernst & Young LLP is a Limited Liability Partnership, registered under the Limited Liability Partnership Act, 2008 in India, having its registered office at 22 Camac Street, 3rd Floor, Block C, Kolkata - 700016

© 2013 Ernst & Young LLP. Published in India.  
All Rights Reserved.

ED None

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither Ernst & Young LLP nor any other member of the global Ernst & Young organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.



Scan this QR Code for more or visit [www.ey.com/in](http://www.ey.com/in)

Available on    

To download your free QR code scanner, visit your smartphone's app-store