



Run Simple with VAT
Chemicals and Pharma Industry

VAT - The New Molecule

Financial Year 2018-19 will be the defining year for GCC. With the advent of much awaited Value Added Tax (VAT) reform. VAT is expected to have a far reaching and wide impact on business, society and general economy. Smooth transition to VAT is one of the top 3 agenda items on the Board and Management's strategy and execution list. With VAT, the past no longer holds good and future is laden with number of implementation challenges. The Chemicals and Pharmaceutical industries are expected to have a high level of impact across multiple functions, business areas and models.



VAT regime is likely to substantially amend the basic molecule of the Chemicals and pharmaceuticals Industry.

Supply Chain

- High level of dependency on area based incentives
- CNF Agency arrangements
- Consolidation of warehousing and logistics
- Supply rules impacting movement of goods

Working Capital

- Inventory management and SKU management
- Tax credit and compliance managemerit
- Grandfathering of accumulated tax credit

Manufacturing

- Multi-locational manufacturing facilities
- Sub-contracting arrangements

Customer

- High level of B2B and B2C exposure
- High level of direct marketing costs
- Emergence of alternate distribution arrangements
- Price control measures

Business Model

- Co-marketing and bundle product arrangements
- Use of intellectual property
- High level foreign and domestic investments
- Complex transfer pricing arrangements
- Changes in valuation rules



An organization needs to re-evaluate the out significant changes in order to sail through business models, business processes and carry the VAT implementation journey smoothly.

impacted Processes/ Functions/Departments	Impact Sub-areas	Key Imperatives	Sap S/4HANA Solutions
Procurement to pay (P2P) Manufacturing	<ul style="list-style-type: none">• Withdrawals of area based incentives impacting cost of sourcing• Consolidation of the Warehousing, Logistics and Distribution facilities• Renegotiation of the transportation and logistics contracts• Transition of the key suppliers and strategic vendors• Implications of imports of key ingredients and supplies to vendors• Stock transfers between suppliers• Tolling and sub-contracting arrangements• Procurement of inputs exempt from taxes/ inputs out of the VAT regime (E.g. certain type of fuels and petroleum products)• Duty free movement of goods	<ul style="list-style-type: none">• Re-calibrated supply chain design and identification of opportunities for enhancing supply chain efficiencies• Review of the implications of area based incentives on end to end supply chain• Re-alignment of the procurement function to new taxation regime• Review the volume and value of Interstate movement of the key inputs• Build adequate flexibility in the overall supply chain• Plan for management of non-sale transactions (free supplies, trials etc.)• Evaluate manufacturing facilities, C&F agents, stockists and distributors, depots and retail point arrangements	<ul style="list-style-type: none">• SAP Business Planning add-on on SAP S/4HANA• SAP Predictive Analytics• SAP Profitability and Cost Management• SAP Net Margin Analysis on SAP S/4HANA• SAP GRC - Access Control, Process Control
Order to Cash (O2C)	<ul style="list-style-type: none">• Pricing of the products especially considering concern related to continuity of exemption for certain life-saving drugs and APIs• VAT on transaction value instead of MRP reduced by abatement• Pricing arrangements clearing and forwarding Partners/Distributors/ Dealers	<ul style="list-style-type: none">• Evaluate channel partners margin neutral pricing• Evaluate impact of controlled price mechanism under the VAT regime• Channel partner education and awareness transition plan• Evaluation of impact of supply chain efficiencies on pricing	<ul style="list-style-type: none">• SAP Business Planning add-on on SAP S/ 4HANA• SAP Predictive Analytics• SAP Profitability and Cost Management• SAP Net Margin Analysis on SAP S/4HANA• SAP GRC - Access Control, Process Control



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	<ul style="list-style-type: none">• Withdrawals of area based incentives impacting the pricing of key products• Re-modelling of the dealer and distributor commissions• Review of Institutional (B2B) contracts/ arrangements• Co-marketing/product bundling arrangements• Taxability of free supplies, assistance programs run for patients supplies of testing		
Record to Report (R2R)	<ul style="list-style-type: none">• Accurate recording and reporting of the tax credits• Correct administration of the taxable and exempt inputs/products• Generation of multiple reports, returns and timely filing	<ul style="list-style-type: none">• Initiatives for increasing awareness of the key reporting requirements across business functions• Establishment of strong internal controls for transaction capture, record, review and reporting	<ul style="list-style-type: none">• SAP GRC - Access Control, Process Control• SAP Master Data Governance• SAP S/4HANA• SAP Financial Closing Cockpit• SAP Receivables Management• SAP Disclosure & Notes Management• SAP Shared Services Framework
Tax and Compliance Management	<ul style="list-style-type: none">• Upgradation of the vendor data based and tax registration details	<ul style="list-style-type: none">• Initiatives for increasing awareness of the key reporting requirements across business functions• Establishment of strong Internal controls for transaction capture, record, review and reporting	<ul style="list-style-type: none">• SAP GRC - Access Control, Process Control• SAP Master Data Governance• SAP S/4HANA• SAP Financial Closing Cockpit• SAP Receivables Management• SAP Disclosure & Notes Management• SAP Shared Services Framework



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Working Capital Management	<ul style="list-style-type: none">• Grandfathering/utilization of accumulated tax credit• Identification, recording and efficient utilization of the input tax credit• End to end visibility of the inventory across the re-modelled supply chain	<ul style="list-style-type: none">• Evaluate impact on the accumulated tax credit• Understanding and evaluation of the elimination of cascading impact of the taxes on working capital efficiencies	<ul style="list-style-type: none">• SAP Cash Management on SAP S/4HANA
Business Planning and Forecasting	<ul style="list-style-type: none">• Accurate planning and management of volume• Channel partner profitability and efficiency analysis	<ul style="list-style-type: none">• Formulation of robust budget and operations plan incorporating the Impact of VAT regime• Frequent review, monitoring and sharing Insights with business to reframe operations strategy• Recording and reporting of the savings in supply chain costs• Understand evaluate and guide business team for leveraging opportunities arising due to VAT implementation like expansion of margin better realizations etc,• Evaluate impact of VAT on key capital investment decisions	<ul style="list-style-type: none">• SAP Business Planning add-on on SAP S/4HANA• SAP Predictive Analytics• SAP Profitability and Cost Management

With SAP S/4HANA companies engaged into the business of Chemicals and Pharmaceuticals will be able to analyze high volume of data on the basis of market demand, production and inventory across various locations and compare

with the post-VAT scenario. Such analysis will enable the management of the companies to capture the opportunities in disguise which will be unfolded only after the launch of the new tax regime.