


Impact of GST on Financial Management of Retail Pharmacy Business

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Abstract

Goods and Services Tax (GST) is levied on all goods and services in India, ranging from 0% to 28% at the point of final consumption is structured based on the internationally recognized Harmonized System of Nomenclature (HSN) code. The introduction of GST has a significant impact on the retail sector, particularly the retail pharmacy business. While most retailers have adopted new technologies and operational strategies in the post-GST era, sound financial management is important for sustained success. Financial management has emerged as a key determinant of their long-term success; it includes demand forecasting, strategic pricing, and efficient cash flow management. The present study aims to examine the impact of GST on the financial management practices of retail pharmacy businesses after its implementation. Primary data were collected from 169 pharmacy retailers through a structured questionnaire, utilizing a simple random sampling method. Analytical tools such as the Paired Sample t-test and Structural Equation Modeling (SEM) were employed to evaluate the substantial changes in financial management practices before and after GST implementation.

Keywords: Tax Regime, GST, Financial Management, Retail Pharmacy Business



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Introduction

The retail pharmacy sector in India plays a vital role in contributing to the country's GDP and is projected to experience substantial growth in the coming years. This sector is also a significant contributor to government revenue through indirect taxation, as registration under the GST regime is mandatory for pharmacy retailers. The implementation of GST has brought several positive changes to the retail pharmacy industry. As an internet-based, multi-stage tax system, GST allows retailers to claim Input Tax Credits (ITC) at each point of value addition, thereby enhancing their financial viability. This structured system enables improved financial transparency, facilitates market expansion, and supports long-term growth¹. Retail financial management involves the supervision and optimization of key financial operations such as cash flow, inventory control, budgeting, forecasting, and financial analysis to ensure both profitability and sustainability. The GST regime has influenced all aspects of the business process, requiring a transformation in financial strategies. Motivated by these changes and the discussions at the 15th London International Conference, this research investigates the impact of GST on the financial management practices of retail pharmacy businesses in India.

Statement of the Problem

The mandatory adoption of GST posed primary challenges for many retailers unfamiliar with the new tax regime, resulting in confusion regarding procedures, tax rates, and compliance requirements. Retailers were required to realign their financial strategies to conform with GST procedures. In the pharmaceutical business, the shift to GST has drawn attention to the need for cost reduction in medicine prices, which is important for achieving sustainable healthcare across the country. However, the new tax payment procedures and complexities in availing Input Tax Credit have affected the working capital and overall liquidity of retail pharmacy businesses. Despite these challenges, GST has also introduced several positive aspects, such as improved cash flow management and financial planning capabilities, which contribute to enhanced financial stability. These contrasting outcomes encouraged the researchers to explore and examine the fastidious impacts of GST on the financial management of retail pharmacy businesses. The core research question is:

❖ *Is there a significant impact of GST on the financial management of retail pharmacy businesses after its implementation?*

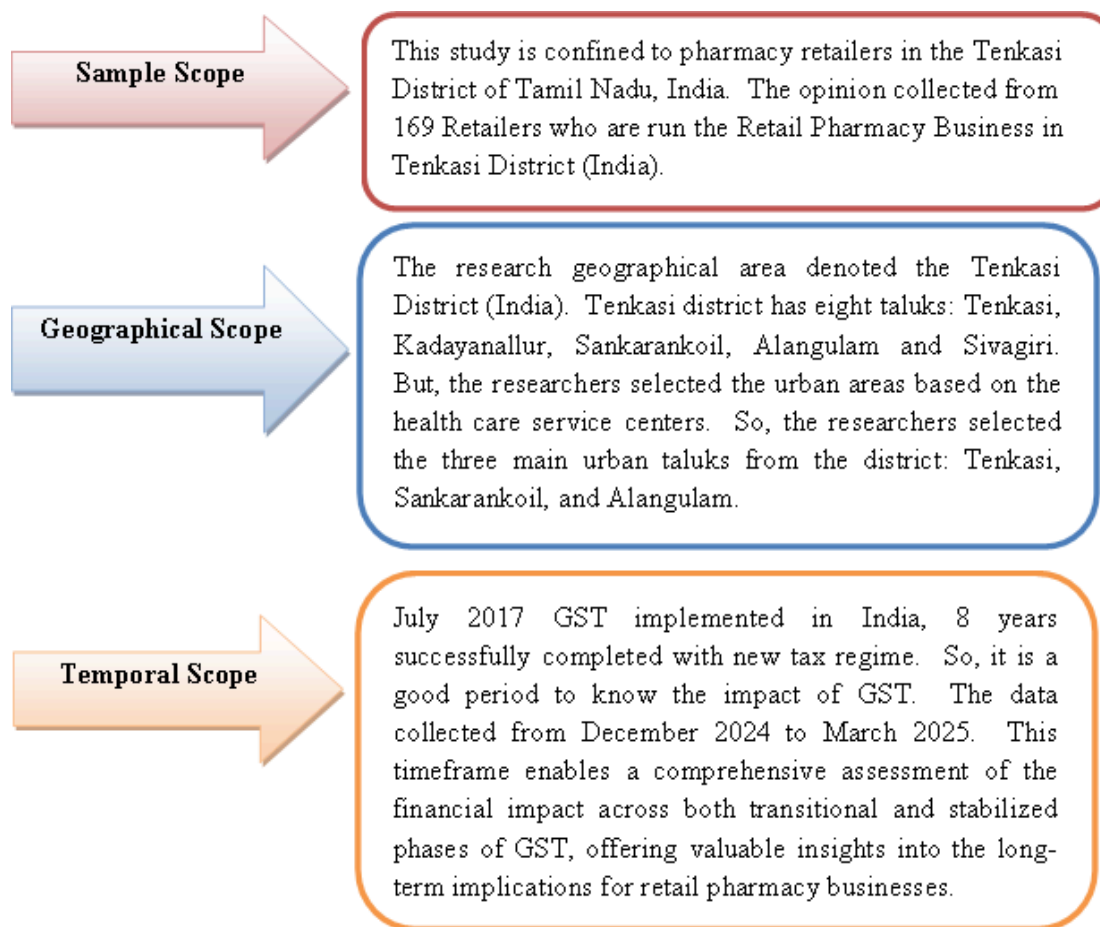
Objective of the Study

The objective of the study is

- ★ To examine the impact of GST on the Financial Management Practices of Retail Pharmacy Business.

Scope of the Research





Review of Literature

A comprehensive review of literature was undertaken to strengthen the conceptual framework of the present study and to gain in-depth insight into the research problem. The review aids in identifying gaps in existing studies, particularly regarding the impact of GST on financial management in the retail pharmacy sector.

Malini et al. (2024) conducted a study titled “Pre and Post Impact of GST on Medicines: Retailers’ Perspective”. The research aimed to understand the positive and negative attitudes of medicine retailers toward GST implementation. Data was gathered through a questionnaire from 67 respondents in Tenkasi district using a convenient sampling method, along with secondary data from journals and online sources. The study revealed a mix of positive and negative perceptions. While GST was seen to enhance the supply chain system, concerns remained over its practical impact on essential medicines.

Rupali Jadhav (2024) explored the impact of GST from an economic perspective, comparing the old indirect tax system with the new GST regime. This explanatory research was based solely on secondary data. The study concluded that GST could potentially boost India’s GDP by 0.9 to 1.7 percentage points, highlighting its significant role in national economic development. It also analyzed the advantages and challenges faced in the post-GST period.

Munusamy and Senthilkumar (2024) assessed the impact of GST on retail shops in Kerala's southern coastal region. Data was collected from 140 retailers through random sampling. The study found that while retailers initially faced challenges due to a lack of GST awareness, over time they benefited from a reduced tax burden. GST positively impacted revenue collection and overall retail operations, although awareness and adaptability remained issues during its implementation phase.

Rakesh Kumar Jain and Anjali Gokhru (2023) analyzed the financial performance of selected companies from the oil & gas, IT, and FMCG sectors after GST implementation. Using secondary data from 2013 to 2021 and applying ratio analysis, means, and t-tests, the study concluded that GST had minimal impact on product pricing and did not significantly alter financial stability. Companies continued to focus on consumer satisfaction and tax compliance through awareness initiatives.

Prateek Jain and Manish Gupta (2022) examined the impact of GST on the pharmacy sector using descriptive research. Data from 30 professionals and various secondary sources were analyzed using SPSS software. The findings suggested that GST made life-saving drugs more affordable and improved access to medicines. However, challenges such as reduced sales revenue due to poor inventory management were also noted. Overall, the pharmacy sector experienced positive growth under GST.

Shilpa Kulkarni and Sudhindra Apsingekar (2021) studied the macroeconomic implications of GST in India using data from 200 customers and industry stakeholders. The study found that GST simplified the tax system, increased employment opportunities, enhanced market integration, and contributed positively to GDP growth. It also encouraged foreign direct investment (FDI) and supported start-up ecosystems.

Shakir Alam (2020) analyzed the GST's effect on the Indian retail business using secondary data. The study emphasized that GST has significantly benefited the retail sector by reducing supply chain costs and enabling smoother interstate business. However, it also highlighted challenges for small taxpayers due to the digital tax filing system.

Malini and Ebanisha (2022) investigated the post-COVID impact of GST on medicine retailers. Data from 54 retailers in Tenkasi district was analyzed using weighted average and neutral score methods. The study found a balanced view among respondents, with notable positives emerging post-COVID, such as tax relief and reduced tax rates in the medical sector. These changes were found to support more equitable and sustainable healthcare.

Research Gap

Based on the above literature, the following gaps have been identified:

a) Theoretical Gap

Existing literature broadly covers GST's impact on the Indian economy, retail sector, pharmacy sector and retail pharmacy businesses:

- ★ 25% of studies focused on macroeconomic impacts (Kulkarni & Apsingekar, Jadhav).



- ★ 25% addressed retail shop-level impacts (Munusamy & Senthilkumar, Shakir Alam).
- ★ 25% examined pharmacy sector impacts (Prateek Jain & Gupta).
- ★ 25% analyzed retail pharmacy business impacts (Malini et al., Malini & Ebanisha).

Despite this, few studies directly investigate GST's influence on financial management practices such as capital structure, working capital control, pricing, cost management, and profitability within the retail pharmacy sector.

b) Empirical Gap

- ❖ Most studies rely either solely on secondary data or use basic statistical tools.
- ❖ There is limited comparative analysis using statistical models like Paired t-Test and Structural Equation Modelling (SEM) to evaluate pre- and post-GST financial strategies.
- ❖ Empirical studies focusing on operational and financial adjustments in retail pharmacy businesses post-GST remain scarce.

Research Methodology

The researchers tabulated research design with “**Six S**” Model:

1	Source of Data	Primary and Secondary Sources
2	Study Period	December 2024 to March 2025
3	Study Area	Tenkasi District, Tamil Nadu
4	Sampling Method	Simple Random Sampling Method
5	Sample Size	169 Medicine Retailers
6	Statistical Tool	Paired Sample ‘t’ Test and SEM

Analysis and Interpretation

Impact of GST on financial management of the pharmacy retailer's opinion collected at two different periods before and after GST implementation. The selected ten variables are tested and the following hypothesis was tested by Paired t – test:

- H₀: There is no significant difference in impact of GST on financial management before and after GST implementation.**
- H₁: There is a significant difference in impact of GST on financial management before and after GST implementation.**

The below Table 1 exemplifies that the paired t - test scores of the impact of GST on financial management before and after GST implementation.

Table 1
Impact of GST on Financial Management of Retail Pharmacy Business

Statement	Test	Mean	Std.	t	P
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			Deviation	Value	Value
Tax legislation affects the retail pricing strategies.	Before	2.13	.923	-4.716	.000
	After	2.53	.740		
It maintains optimal capital structure.	Before	1.50	.536	-7.466	.000
	After	2.21	.925		
It maintains optimal capital structure.	Before	1.85	.748	-3.144	.002
	After	2.06	.595		
It stimulates the operational efficiency	Before	2.11	.775	2.512	.013
	After	1.84	.826		
It determines the optimum selling price.	Before	2.37	.857	0.292	.770
	After	2.34	.724		
It acts as a tool of cost control.	Before	1.56	.644	-9.174	.000
	After	2.47	.824		
It controls the distribution and administration expenses	Before	1.37	.519	-12.265	.000
	After	2.34	.724		
It provides the profitability appraisal	Before	2.24	.828	1.696	.092
	After	2.12	.634		
Tax rate influences the merchandise features to fix fine tune price	Before	2.31	.838	-2.657	.009
	After	2.47	.824		
Different tax rates affects inelastic merchandise price	Before	1.67	.871	-6.656	.000
	After	2.35	.881		

Source: Primary Data***Significant at 5% Level**

Paired-samples t-test revealed that the mean responses changed significantly from Before to After, indicating real effects beyond chance: large absolute t -values (e.g., -12.265 for distribution/admin costs, -9.174 for cost control) alongside very small P -values ($< .001$) show strong evidence to reject the null hypothesis. Positive mean differences (After $>$ Before) on pricing strategy, working capital shortages, cost control, distribution expenses, and inelastic merchandise pricing reflect meaningful gains, while a notable negative mean difference for operational efficiency (-0.27 , $t = +2.512$, $P = .013$) indicates a significant decline.



In contrast, statements about profitability appraisal and optimal selling price—where $P > .05$ —does not show statistically significant change. Overall, statistically significant P -values ($< .05$) and large t -statistics confirm that most observed shifts are healthy, with only a few measures remaining unaffected. Hence, the null hypothesis is rejected except the two variables. It concluded that the statistically significant difference in impact of GST on financial management before and after GST implementation. But, it determines the optimum selling prices and it provides the profitability appraisals are statistically no difference in before and after GST implementation on financial management.

Table 2

Standardized Estimates of Impact of GST on Financial Management of Retail Pharmacy Business (Before and After GST implementation)

Dependent Variable		Independent Variable	Before		After		Result (H1 accepted/R ejected)
			Esti.	P value	Esti.	P value	
GST	←	Tax legislation affects the retail pricing strategies	1.000	0.000	1.000	0.000	Accepted
GST	←	It maintains optimal capital structure	0.062	0.000	0.945	0.032	Accepted
GST	←	It leads to shortage of working capital	0.542	0.000	0.612	0.000	Accepted
GST	←	It stimulates the operational efficiency	0.851	0.070	0.980	0.000	Accepted
GST	←	It determines the optimum selling price	0.624	0.000	0.413	0.550	Rejected
GST	←	Different tax rates affects inelastic merchandise price	0.712	0.001	0.500	0.000	Accepted
GST	←	It controls the distribution and administration expenses	0.900	0.510	0.812	0.000	Accepted
GST	←	It provides the profitability appraisal	0.784	0.000	0.420	0.702	Rejected
GST	←	Tax rate influences the merchandise features to fix fine tune price	0.683	0.431	0.745	0.000	Accepted
GST	←	It acts as a tool of cost control	0.792	0.000	0.921	0.000	Accepted

***Significant at 0.05 Level

Figure 1

**Impact of GST on Financial Management of Retail Pharmacy Business
(Before and After GST implementation)**



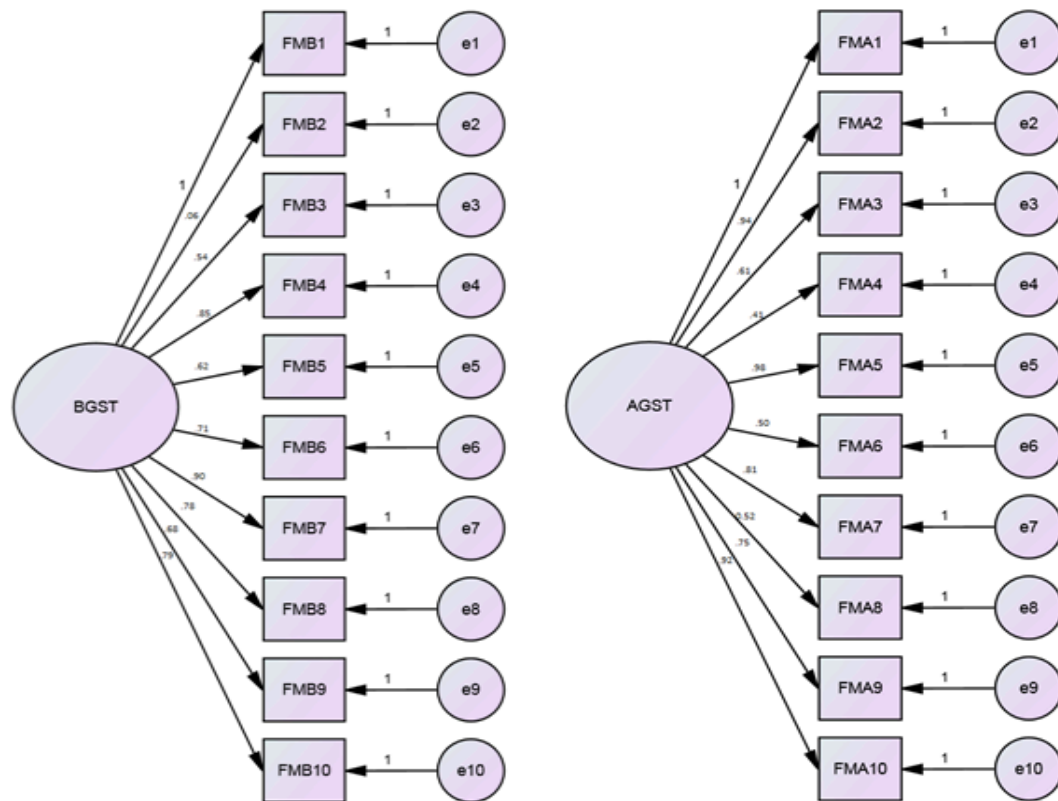


Table 3 and Figure 1 demonstrate the standardized regression weights of impact of GST on financial management before and after GST implementation. Both before and after GST, estimates are 1.000 with (p-values = 0.000) indicating a strongest influence. GST clearly shapes how retailers set prices. GST positively influenced the financial structure of firms. It proved by a low estimate before GST (0.062) revealed the weak influence, but post-GST the estimate rise sharply to 0.945 (p = 0.032). Estimates increased from 0.542 to 0.612, both with significant p-value 0.000. GST may have contributed to cash flow due to delayed input credits and compliance costs. Pre-GST, the relationship was moderately strong but not significant p-value 0.070. Post-GST, the relationship becomes both strong and significant (Estimate = 0.980, p = 0.000), showing that GST may have improved transparency. Despite a drop in estimates in the post-GST (from 0.712 to 0.500), both are statistically significant. This indicates GST's structure still influences pricing of goods with inelastic demand. Although not significant before (p = 0.510), it became highly significant post GST showing that GST acts as a cost controller through standardized processes. Before GST, the relationship was not statistically significant (p = 0.431), but became significant after GST implementation. It resulted in the tax rates influencing product positioning and price fixing in post-GST. Strong and significant relationship before and after GST, with increasing influence estimate from 0.792 to 0.921 reinforcing the role of GST in helping businesses management and control cost more effectively.

Although significant before (p = 0.000), the estimate dropped and the relationship became non significant after GST p value is 0.550. This implies that GST does not directly influence optimal pricing decisions, which may depend on market forces and competition instead.

Strong and significant before (estimate = 0.784, $p = 0.000$) but both the estimate and significance drop post-GST ($p = 0.702$). It revealed that the GST does not consistently help in evaluating profitability.

Findings

★ Impact of GST on Financial Management of Retail Pharmacy Business

Paired sample t Test statistically proved the significant difference in impact of GST on financial management before and after GST implementation. But, it determines the optimum selling prices and it provides the profitability appraisals are statistically no difference in before and after GST implementation on financial management.

★ Positive impacts

Tax reform appears to support cost control, enhanced pricing strategy, and capital structure through simplified compliance and centralized ITC benefits.

★ Challenges

Immediate operational friction, working-capital constraints, and administrative burdens are the primary pain points.

★ Neutral effects

Core margin and pricing fundamentals hold stable, but managers report subtle shifts in capital structure alignment.

Suggestions

The following suggestions emanated from the findings of the Study:

For Pharmacy Retailers:

- **Strengthen ITC workflows:** Pharmacy Retailers are automating and closely monitoring input tax credit timing to ease working capital constraints.
- **Evaluate process efficiency:** Pharmacy Retailers are mapping out new tax compliance stages and identify redundancies or automation gaps slowing operations.
- **Train staff and upgrade systems:** Pharmacy Retailers enhance digital literacy about tax IT systems to minimize friction.
- **Adjust pricing strategies strategically:** Align merchandise features and pricing with differential tax regimes in product categories—especially inelastic ones.

Conclusion

This study revealed that the implementation of GST has significantly impacted the financial management of retail pharmacy business. Thus, GST acts as cost controller and it stimulates



the operations efficiency of the business as well as helps to control the expenses of the retail business compared with the before tax regime. However, legal formalities and compliance still pose challenges. To address these complexities, Government support in the form of tax concessions and operational subsidies, especially for essential pharmaceutical products is recommended. Continuous digital renovation and financial agility will be important for sustainable growth under the GST system.



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