



Impact Of GST Reforms On Msmes In The Textile Sector In Northern Delhi

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Abstract : The GST (Goods and services tax) was introduced on 1st July, 2017 as a historic step in the trajectory of advancements in indirect taxation system in India as it was meant to increase revenue productivity in India by widening the eligible tax base, removing cascading effect of indirect taxes and putting an end to multifarious and complex indirect tax system in India and replace it with one single indirect tax applicable across the nation. This research studies the impact of the implementation of GST on the long-term growth and development and employment generation in MSMEs in Textile Sector in Northern Delhi; in places like Karol Bagh, Rohini, Gandhi Nagar, Chandni Chowk and Samaypur Badli. By employing graphical analysis tools like Pie charts and qualitative analysis based on data and subjective comments in the survey, the study aims to provide a holistic view on the problems faced by MSME owners and benefits enjoyed by them due to developments in the GST system, like boost in export competitiveness and removal of cascading effect. The research also makes use of secondary qualitative data from government reports and case studies available online. Inferences from the research suggest that several creeping problems like disruptions in supply chain, fluctuation in price of raw material, excessive compliance costs and delays in receiving input tax credit still continue to haunt MSMEs while the benefits of it are also enjoyed by them.

Index Terms - Textile, Supply chain, logistics, Goods and Services Tax (GST), inverted Duty structure

I. INTRODUCTION

The Goods and Services tax (GST) was implemented on 1st July, 2017 and was popularly branded by the government as a watershed and historical moment in India's financial history. After the implementation of GST, it has been observed that there has been a dramatic revolution in indirect tax system in India; which is especially evident from the very fact that GST has subsumed the preceding 17 indirect taxes and 23 cesses into it, which not only helped to expand the eligible tax base, but also enhance revenue productivity in India and nurture a unified national market for smooth and uninterrupted transactions in the exchange of various type of products and services across India. Existing research highlight that while GST was meant to produce beneficial long term impact for the growth and development of Indian MSMEs, especially in sectors like Textiles and garments, Plastic and polymers, Autoparts, electronics and pharmaceuticals, several 'short-term' obstructions like delay in receiving input tax credit, logistical and supply chain disruptions, frequent fluctuations in prices of raw materials, labour and transportation costs have proved to be detrimental for the MSMEs.

Researchers around the indirect tax landscape have suggested that GST has severely impacted the MSMEs functioning the textiles sector in Delhi. Several MSMEs faced problems in transitioning from unorganized setups to formalized functioning due to mandates under the GST law. This very transition presented many challenges for the MSMEs which were earlier operating in an unorganized sector with minimal formalization but now are obliged to formalize due to revision in taxable bracket under GST. Research suggests that many MSMEs which didn't pace up with the formalization needs after the implementation of GST, have faced detrimental impact after the implementation of this taxation reform. The core objectives of this study are:

- Examining the effect of GST upon the financial arena of MSMEs in Northern Range of Delhi operating in the textile sector
- Examining the problems faced by MSMEs due to complex GST frameworks pertaining to compliance enforcements, delay or rejection in claiming ITCs and lack of digital literacy about GST
- Examining the impact of GST on the holistic export competitiveness of goods produced in the textile sector and opportunities created by it.

II. LITERATURE REVIEW

Historically speaking, India has always been renowned across the world for its exquisite and fine textiles. Muslin, a fine cotton fabric once woven in Bengal and peripheries of Eastern India till the 18th Century was once so popular in Europe for its comfort and quality that it was believed to be woven by ghosts of Bengal. Other forms of textiles and embroideries like Kanjeevaram, Kantha and Zardozi present themselves as the facets of Indian textile sector renowned for its exports to very countries across the world. In Delhi, places like Chandni Chowk, Rohini, Karol Bagh, Gandhi Nagar are considered as Manchesters of the city, owing to its textile sector and trade dynamics.

According to (Ghosh; 2022), the implementation of Goods and Services Tax (GST) focused on consolidating the preceding decentralized and haphazard indirect taxation system. Before the implementation of GST, textile sector enjoyed a comparatively clement and lenient with several tax rebates and exemptions for small businesses in the informal sector. This severe fragmentation in the tax system has led to aggravation of inefficiencies, challenges regarding compliances and operational hurdles for small enterprises.

According to (Kumar & Singh; 2020) the implementation of GST was perceived as a necessary reform to streamline indirect taxation system into one direction, minimize cascading effects of indirect tax, encourage efficiency and transparency in the taxation system. Small MSMEs however, in Delhi, faced many challenges while moulding themselves to the new GST system due to excessive compliance requisites, cash flow and working capital management disruptions, delays in claiming Input Tax Credit.

According to (Gupta, S. & Sharma, M.; 2017), while the implementation of GST was meant to positively effect the MSMEs in the textile sector, the sheer disorganized and informal nature of the sector was a major problem apparent in Delhi. Furthermore, these informal MSMEs that enjoyed tax relaxations before GST, have now faced excessive pressure from compliance enforcement to modernize themselves and the opportunity cost of not formalizing their operations is huge since it directly penalizes their business operations and profit mechanisms.

According to (Reddy, B.;2021), even though GST has put a pressure on MSMEs to formalize and adopt for digitization, on a long-term basis it is meant to reduce operational costs by introducing input tax credit refunds. While the core objective of input tax credit refund has been to improve the logistical efficiencies of the MSMEs, several structural issues regarding it cause the objective to crumble down. For example, due to poor digital literacy and infrastructure, many manufacturers can't claim Input Tax credit refunds or are denied because the suppliers of their raw materials have not filed GST returns adequately.

As per (Sharma and others, 2020) MSMEs now face a number of difficulties as a result of the introduction of the GST into India's indirect tax system, including delays in the receipt of input tax credits, logistical roadblocks in supply chain operations, and issues with tax compliance. But over time, it should increase export competitiveness, formalise unorganised businesses and industries, and promote moral corporate conduct. Long-term profit margins would increase if the issues with obtaining input tax credit were resolved, especially in the textile industry, whose supply chain depends on the import of raw materials and the export of completed goods.

III. RESEARCH METHODOLOGY

This study makes use of both qualitative as well as quantitative data through sample surveys of 100 business enterprises in the textile sector from Gandhi Nagar, Karol Bagh, Rohini and Chandni Chowk and in order to maintain fair representation of all sub-sectors in textile manufacturing, enterprises classified for as wholesaling, manufacturing, and retail were considered equally.

1. **Data Collection:** Several interviews and surveys were put together to present holistic Graphical and qualitative research on the implications of GST on SMEs in the textile sector in Northern Delhi. The survey has focused on major themes of research on GST like pre- and post-GST performance of enterprises, rise in compliance costs, supply chain disruptions, and the use of Input Tax credit. Qualitative data was taken from subjective responses from the responses of the survey questionnaire and complemented by information from official government reports from the Central Board of Indirect Taxes and Customs (CBIC), Ministry of Textiles and the Confederation of All India Traders (CAIT).
2. **Sampling Technique:** The research used a Purposive sampling technique to study responses and feedback from core stakeholders of the textile manufacturing sector Northern Delhi and analyse the effect of GST on enterprises in the textile sector.
3. **Data Analysis:** Graphical analysis through pie charts and Qualitative analysis based on subjective survey responses and existing literature was used to identify core themes of research on implications of GST on Textile enterprises in Northern Delhi, through systematic interviews and thematic analysis of qualitative data. The main methodologies used in the data analysis were:

I. **Graphical analysis:** Several questions were asked to respondents in the survey to enquire about the impact of GST on MSMEs on textile enterprises in the northern range of Delhi. The responses were recorded on a five pointer likert scale with responses namely:

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

II. **Qualitative analysis:** Based on responses on subjective question in the survey and secondary information from government sources, key pointers were highlighted that remain as pressing points to be highlighted upon, while talking about challenges faced by MSMEs after implementation of GST and should be addressed by policy interjections.

IV. RESULTS

i. Graphical analysis

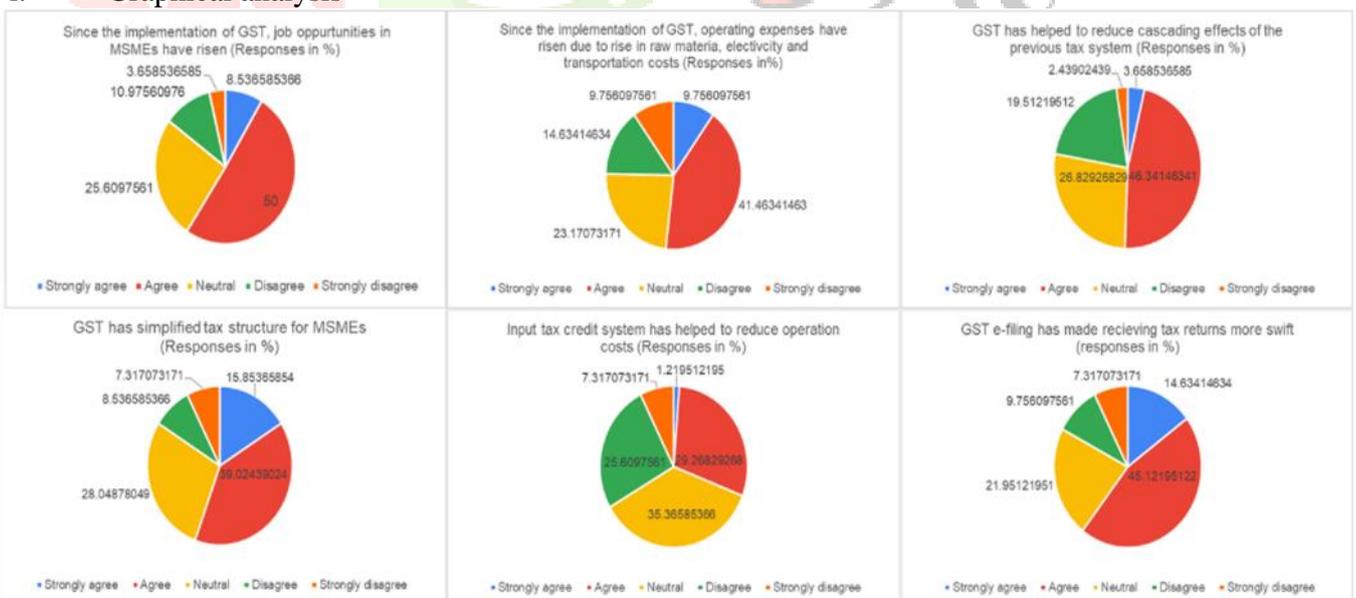


Figure 1: Graphical analysis depicting responses on efficacy of GST on growth of MSMEs in textile sector- I; source: Primary data

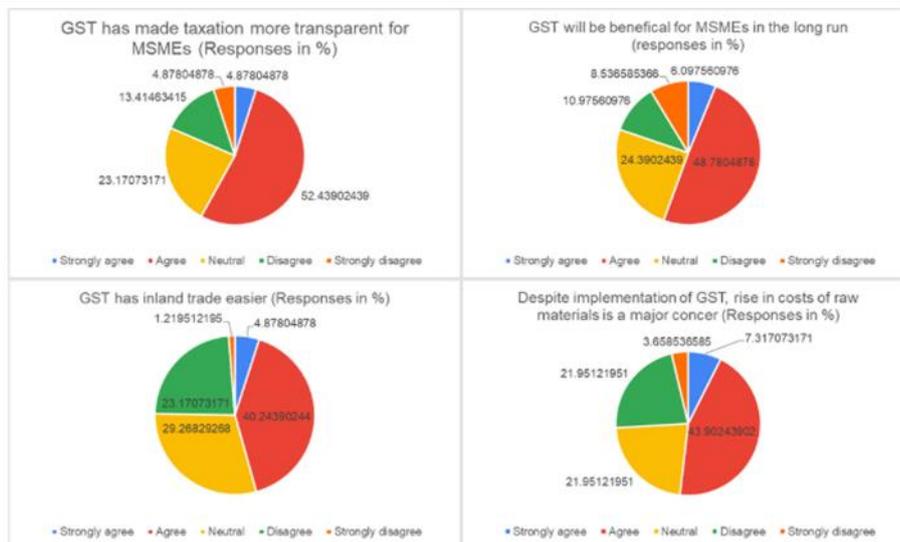


Figure 2: Graphical analysis depicting responses on efficacy of GST on growth of MSMEs in textile sector- II; source: Primary data

The graphical analysis pictorially depicts the survey responses on the efficacy of GST on the growth and development of MSMEs in textile sector in the northern range of Delhi. In the first set of pie charts, it can be concluded that GST has not significantly increased job opportunities in the textile sector, hasn't reduced operational expenses and cascading effects by a very large degree; this is reflected by the high proportion of disagreement in the given pie charts. However, GST attracts a marginally favourable view in its role in simplifying the taxation process and improving e-filing efficiency. In the second set of pie charts, majority of the respondents agree to the statement that GST has made taxation comparatively more transparent and are enthusiastic towards achieving the long term benefits Of GST for the MSMEs. However, concerns regarding operational expenses and cost of raw materials are still a major concern for MSMEs. While the graphical analysis of responses to the survey questions present a moderate to good review of GST and its impact on the growth of MSMEs in the textile sector in Delhi, qualitative analysis based on subjective responses highlighted several issues faced by the MSMEs as well.

ii. Qualitative analysis

Based on subjective responses and secondary information from government sources, several important challenges were identified for the MSMEs which were aggravated after the implementation of GST. These challenges were:

1. **Financial Impact on SMEs:** Financial hardships faced by SMEs was one of the principal challenges identified in the research. It was noted that before the implementation of GST, businesses had lesser compliance requisites. However, after the enforcement of GST, the need to formally file regular returns, maintain exhaustive financial records and enhance GST literacy emerged as major problems for many SMEs. It was noted that around 75% of surveyed SMEs witnessed a surge in operational costs due to need for exhaustive record keeping and appointing tax experts. Further, 60% of the SMEs reported delay in claiming ITC refunds, having negatively impacted their cash flow and working capital, ability to procure raw materials etc.
2. **Supply Chain Disruptions:** While GST as anticipated to eliminate the logistical disruptions in interstate businesses in Delhi, the GST implementation was observed to have actually bought multiple logistical constraints due to delays in transportation and, increase in lead times in production; this problem was further aggravated in states with lower GST compliance.
3. **Inverted Duty Structure:** In an inverted duty structure where taxes levied on inputs and other raw materials are higher than the tax on final finished goods, 55% of surveyed businesses reported a disbalance between raw material and finished good taxes that severely impacted their cash flows and profit margins.
4. **Export Competitiveness:** While GST simplified interstate transportation by eliminating state-level barrier entries and taxes and this quickened the process of export operations.. Delayed tax refunds created liquidity issues, making it difficult for exporters to compete globally. About 45% of exporters reported delays in fulfilling international orders due to these financial bottlenecks.
5. **Technological Adaptation:** Larger businesses were able to adapt quickly to the digital requirements of GST compliance, benefiting from improved transparency and operational efficiency. In contrast, 65%

of SMEs reported difficulties in adopting the necessary technology due to a lack of familiarity with digital systems and the associated costs.

Product Category	Demand Level (Pre-GST)	Key Characteristics	Challenges
Cotton Fabrics	High	Exempt from most taxes; affordable prices	Informal trading; low transparency
Synthetic Textiles	Moderate	Competitive pricing; imported materials	Supply chain bottlenecks
Ready-made Garments	High	Low cost; strong domestic demand	Fragmented market with varying tax rates
Exported Textiles	Moderate	Tax exemptions for export zones	Interstate tax hurdles

Table 1: Demand of Products Before GST Implementation (based on primary data)

Product Category	Demand Level (Post-GST)	Key Characteristics	Observed Changes
Cotton Fabrics	Moderate	Subject to 5% GST; higher end-user costs	Reduced demand due to price increases
Synthetic Textiles	High	Simplified taxation; better interstate movement	Enhanced competitiveness
Ready-made Garments	Moderate	Tax rate depends on value (5% or 12%)	Mixed impact; luxury garments affected
Exported Textiles	High	Simplified compliance for exporters	Boost in global competitiveness

Table 2: Demand of Products After GST Implementation (based on primary data)

Supply Factor	Post-GST Impact	Key Observations
Raw Materials	Inconsistent	Issues due to inverted duty structure
Finished Goods	Improved	Easier interstate transport; unified taxes
Exported Goods	Moderate	Delayed refunds hampered supply chains
Informal Sector Goods	Decline	Formalization of the sector under GST

Table 3: Supply of Products After GST Implementation (based on primary data)

Value Component	Chain	Impact Post-GST	Key Changes
Procurement		Challenging	Higher raw material costs due to tax credits issues
Manufacturing		Mixed	Increased costs but improved transparency
Logistics		Positive	Removal of interstate CST streamlined transport
Retail Distribution		Strained	Retailers faced increased compliance costs
Exports		Boosted	Simplified processes; delay in tax refunds a drawback

Table 4: GST Impact on the Value Chain (based on primary data)

Problem Area	Description	Impact
Compliance Costs	Need for digital filing and record-keeping	Increased operational expenses
ITC Issues	Delays in claiming input tax credits	Cash flow disruptions
Technology Adoption	Lack of familiarity with GST software	Delayed adaptation among smaller retailers
Pricing Adjustments	Difficulty in recalibrating prices	Loss of competitiveness
Customer Confusion	Lack of awareness about GST	Temporary decline in demand

Table 5: Problems Faced by Retailers During GST Implementation (based on primary data)

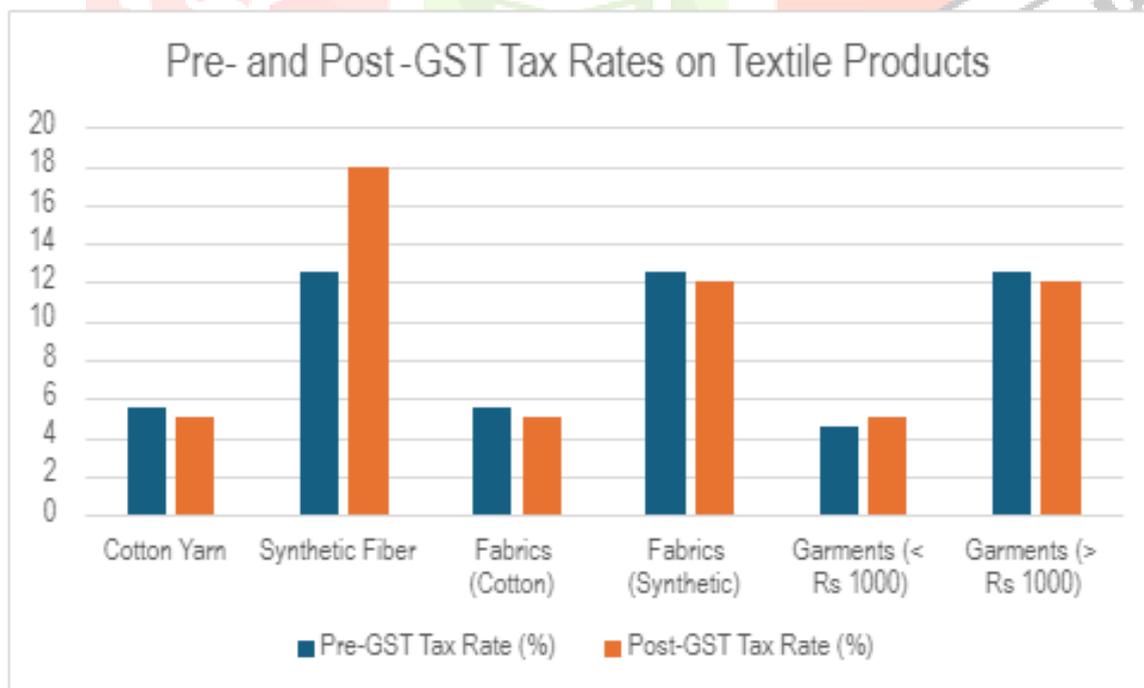


Fig.3: Pre- and Post-GST Tax Rates on Textile Products (Ministry of Textiles, 2019)

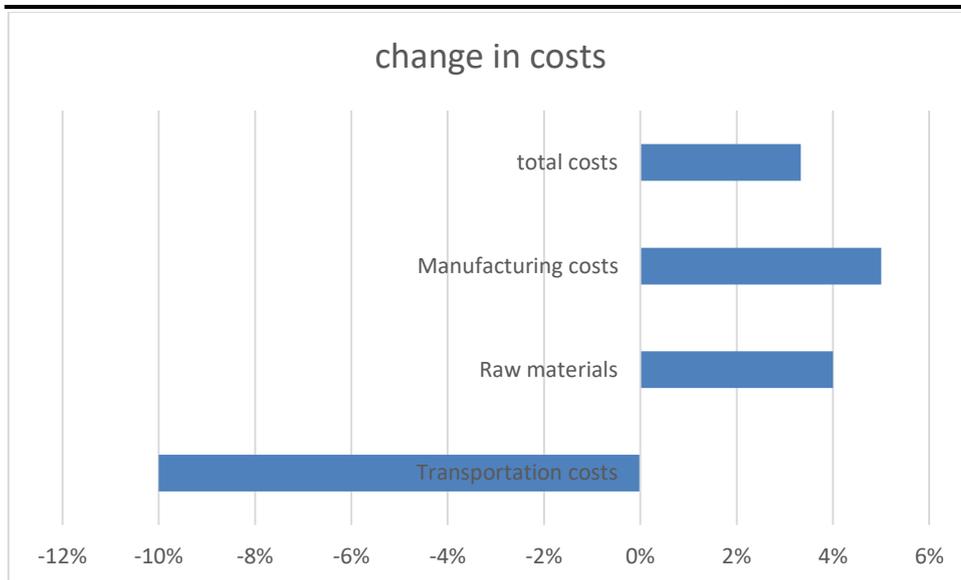


Figure.4 Comparative Analysis of Production Costs (Pre- and Post-GST) (Confederation of Indian Industry [CII], 2018)

V. CONCLUSION

The introduction of GST has brought both challenges and opportunities to Delhi's textile sector. Some of the key takeaways from the research about the impact of GST in textile sector in Northern region of Delhi are:

1. **Increased Compliance Costs:** SMEs faced significantly higher operational expenses due to the need for formal registration, digital filing, and detailed record-keeping as mentioned in figure 1 & 2.
2. **Cash Flow Issues:** Delayed ITC refunds severely impacted the liquidity of SMEs, especially in the wholesale and manufacturing segments.
3. **Supply Chain Disruptions:** While GST was anticipated to eliminate the logistical disruptions in interstate businesses in Delhi, the GST implementation was observed to have actually brought multiple logistical constraints due to delays in transportation and, increase in lead times in production; this problem was further aggravated in states with lower GST compliance.
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While SMEs faced aggravation in compliance costs and cash flow issues, and difficulties with the claiming input tax credit, the reform has also opened up doors to new opportunities for market expansion and enhance operational transparency. The long-term success of GST in the textile sector still relies on the issue of addressing the inverted duty structure, easing ITC processes, and improving refund mechanisms for exporters. With the right policy interventions and support for SMEs, GST has the potential to enhance the competitiveness of Delhi's textile industry in both domestic and global markets.

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Appendices:

Table 6: Pre GST and post GST per unit costs

Component	Pre-GST (INR per unit)	Post-GST (INR per unit)	% Change in Cost
Raw Material Cost	500	520	4%
Manufacturing Cost	200	210	5%
Transportation Cost	50	45	-10%
Total Cost	750	775	3.33%