

Impact of GST on Textile and Handlooms in MSME sector in India

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Abstract:

The implementation of GST on the textile and handloom MSME sector in India has brought a shift toward formalization, simplifying taxes by replacing multiple state/central levies with a uniform system, reducing logistics costs, and lowering manufacturing costs. While it enhanced long-term transparency and compliance, MSMEs initially faced cash flow hurdles due to input tax credit (ITC) delays and compliance burdens.

The GST (Goods and Services Tax) was introduced on 1st July, 2017 as a historic step in the trajectory of advancements in the indirect taxation system in India, as it was meant to increase revenue productivity by widening the eligible tax base, removing the cascading effect of indirect taxes, and putting an end to the multifarious and complex indirect tax system in India, replacing 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, development, and employment generation in MSMEs in the textile sector in Telangana state. The study aims to provide a holistic view of the problems faced by MSME owners and the benefits enjoyed by them due to developments in the GST system, like a boost in export competitiveness and removal of the 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 persistent problems like disruptions in the supply chain, fluctuations in the price of raw materials, excessive compliance costs, and delays in receiving input tax credit still continue to affect MSMEs, while the benefits are also being realized by them.

Key words: Textile, Supply Chain, Logistics, Goods and Services Tax (GST), Inverted Duty Structure

Introduction

The Goods and Services Tax (GST) was implemented on 1st July, 2017 and was popularly branded by the government as a watershed and historic moment in India's financial history. After the implementation of GST, it has been observed that there has been a dramatic transformation in the indirect tax system in India. This is especially evident from the fact that GST has subsumed the preceding 17 indirect taxes and 23 cesses into one system, which not only helped to expand the eligible tax base but also enhanced revenue productivity and nurtured a unified national market for smooth and uninterrupted transactions of goods and services across India.

Existing research highlights that while GST was meant to produce beneficial long-term impacts for the growth and development of Indian MSMEs, especially in sectors like textiles and garments, plastics and polymers, auto parts, electronics, and pharmaceuticals, several short-term obstructions like delays in receiving input tax credit, logistical and supply chain disruptions, and frequent fluctuations in prices of raw materials, labour, and transportation costs have proved detrimental for MSMEs.

Researchers around the indirect tax landscape have suggested that GST has significantly impacted MSMEs functioning in the textile sector in Telangana. Several MSMEs faced problems in transitioning from unorganized setups to formalized functioning due to mandates under GST law. This transition presented many challenges for MSMEs which were earlier operating with minimal formalization but are now obliged to comply with revised taxation frameworks.

Objectives of the Study:

- Examining the effect of GST on the financial performance of MSMEs in the textile sector
- Examining problems faced by MSMEs due to complex GST compliance frameworks, ITC delays, and lack of digital literacy
- Examining the impact of GST on export competitiveness and opportunities in the textile sector

Literature Review

According to Ghosh (2022), GST focused on consolidating the previously decentralized and fragmented indirect taxation system. Before GST, the textile sector enjoyed lenient taxation with several exemptions, but fragmentation caused inefficiencies and compliance challenges.

Kumar & Singh (2020) observed that GST streamlined taxation and improved transparency, but MSMEs faced challenges related to compliance, working capital, and ITC delays.

Gupta & Sharma (2017) noted that informal MSMEs faced pressure to modernize due to GST compliance requirements.

Reddy (2021) highlighted that while GST encourages digitization and reduces long-term costs, structural issues like poor digital literacy hinder ITC claims.

Sharma et al. (2020) stated that GST created short-term difficulties but can improve export competitiveness and formalization in the long run.

Research Methodology

This study uses both qualitative and quantitative data through a sample survey of 100 textile enterprises in Telangana. Equal representation was ensured across wholesale, manufacturing, and retail sectors.

The findings indicate that GST is viewed positively for improving transparency and e-filing efficiency. However, concerns remain regarding operational costs and raw material prices. Qualitative responses highlight multiple challenges faced by MSMEs.

Qualitative Analysis

Financial Impact on SMEs:

SMEs faced increased compliance requirements, record-keeping burdens, and the need for tax experts. Around 75% reported increased operational costs, and 60% reported delays in ITC refunds.

Supply Chain Disruptions:

GST was expected to streamline logistics but initially caused delays and increased lead times.

Inverted Duty Structure:

Higher taxes on raw materials than finished goods affected 55% of businesses, reducing profit margins.

Export Competitiveness:

While logistics improved, delayed refunds caused liquidity issues, affecting 45% of exporters.

Technological Adaptation:

Large firms adapted quickly, but 65% of SMEs faced difficulties due to lack of digital skills and costs.

Table1: Demand of Products Before GST Implementation

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

Table2: Demand of Products After GST Implementation

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

Table3: Supply of Products After GST Implementation

SupplyFactor	Post-GST Impact	KeyObservations
RawMaterials	Inconsistent	Issues due to inverted duty structure
Finished Goods	Improved	Easierinterstate transport; unifiedtaxes
Exported Goods	Moderate	Delayed refund shampered supply chains
Informal Sector Goods	Decline	Formalization of thesector underGST

Table4: GST Impactonthe Value Chain

Value Chain Component	Impact Post-GST	KeyChanges
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
RetailDistribution	Strained	Retailersfacedincreasedcompliance costs
Exports	Boosted	Simplified processes; delay in tax refunds a drawback

Conclusion

The introduction of GST has brought both challenges and opportunities to the Telangana textile sector.

- Increased compliance costs for SMEs
- Cash flow issues due to ITC delays
- Supply chain disruptions
- Inverted duty structure problems
- Export competitiveness affected by refund delays

While MSMEs faced compliance burdens and financial stress, GST has also opened opportunities for market expansion and improved transparency. Long-term success depends

on resolving ITC issues, improving refund mechanisms, and addressing inverted duty structures.

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