IMPACT OF GST ON THE WORKING CAPITAL IN THE TEXTILE INDUSTRY OF TIRUPPUR

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ABTRACT

This research paper shows the analysis of the Impact of GST on the working capital in the region of Tiruppur textile industry. From the analysis of the period 2017-2018, as this was the newly implemented tax system, the importance of the paper shows that there is requirement of increase in the working capital which causes simultaneous increase in the short term borrowings affecting the growth of the textile industry.

Keywords: GST, Working Capital, Textile Industry, Input Tax Credit

INTRODUCTION:

GST (Goods and services tax) is being considered as one of the biggest tax reforms in India after independence. The idea of "One nation, one tax" has been the most sought one by Businessmen, Governments, Professionals and policy makers. GST will simplify indirect taxes by integrating all major indirect taxes like Excise duty, service tax, VAT, Octroi etc. into one single tax, thus increasing the ease of business in India. The present paper tries to investigate the impact of GST on the textile industries of Tiruppur.

LITERATURE REVIEW

Rana (2018), in her research paper titled "Impact of GST on India" has stated the following that, before GST there were many indirect taxes like VAT, service tax etc. The cost of a product was varying according to taxation slab of the particular state. Some retailers were selling their products at high rates. These things were harming the economy. To avoid this, the introduction of GST was done by Indian government. It was observed that after the implementation of GST, the economy of nation has increased as all the indirect taxes have been removed and direct tax is coming under government. The cost of manufacturing has also reduced due to lesser complexity in taxes.

Mahalakshmi.M & Karthikeyan.R (2018), have studied about the expected impact of GST and have provided possible solutions to reduce the tax burden on agriculture. In their paper they have pointed out the various slab rates under which the various categories of agriculture and its products fall. They have also noted on how the markets for agricultural products got liberalized on the implementation of GST in this paper. They have concluded by saying that GST will not increase the tax burden drastically, and in many cases total tax burden will decline due to removal of cascading effect replacement of gamut of tax systems by one tax system.

Ansari & Jain (2017), have studied about the "Impact of GST on Indian startups". They have explored into the basics concepts of GST like taxable person, taxable point and composition levy scheme and a comparison of existing tax regime with the proposed GST and their impact on manufacturers, Traders, Service providers, Importers and Exporters. With regard to startups the have noted that it will increase transparency and simplify the existing tax system, hence reducing documentation cost and increasing the ease of business for startups but it will also lead to an increase in effective tax rate for service providing startups and will at least increase inflation in short term. Their conclusion being, GST is one of the most business friendly reforms in India and in long term the benefits of GST are likely to overcome the problems of GST.

Nath (2017), in his research paper. GST is the biggest positive indirect tax reform which spreads across the world and there is increasing trend in more than 160 countries. The GST implemented in India on 1st July 2017 with constitution act 2016 under GST, there is only one tax rate for both goods and services to believed by Central and State government. This study aims to know about the benefits of GST and its impact on Indian economy

Ramli, Palil, Hassan, & Mustapha (2015), in their research paper Compliance costs of Goods and Service Tax among Small and Medium enterprise . The tax is the revenue of the country. History has shown that many countries develop from and service tax. Small and Medium enterprise are among the focal point of discussion related to the compliance cost of GST. As the profit of SME's is expected to increase soon as GST is implemented. There are two main objectives of this study; first is to identify the compliance cost of SME's in fulfilling their tax obligation; and second to investigate the expected costs. This information was collected using structure questionnaire method. This study estimates the compliance costs among SME's as well as suggestions to tax administration so that they could consider the tax liability and compliance cost in their daily operation.

TAMIL NADU:

Tamil Nadu is the largest cotton textile industry cluster in India which contributes to 39 percent of the total production in the country. The country's largest textile cluster, Tiruppur, is also situated in Tamil Nadu. This cluster accounts for 90 percent of the country's cotton knitwear exports. The state is emerging as a global sourcing hub for readymade garments and hosts many global brands.

GST REGIME:

The proposed GST rate structure for the textile industry takes into account the current effective incidence of tax and tries to eliminate the inefficiencies of the pre-GST structure, while protecting the end-customer from an abnormal hike in prices.

GST on Goods	**Stages**			
Material/Fibre	Fibre/Raw	Yarn	Fabric	Apparels/garment
Cotton	5%	5%	5%	Sale value> Rs.1000:12% Sale value <1000:5%
Synthetic/MMF	18%	18%	5%	
Silk	0%	5%	0%	
Jute	0%	0%	0%	

GST on job work charges	**STAGES**			
	Fibre	Yarn	Fabric	Garments
GST	5%	5%	18%	18%

The keys feature of the GST regime for textiles are:

1. Cotton sector which was hitherto exempted from central taxes and leviable to VAT at the fibre and yarn stage only, has been brought into the GST net, albeit with a low rate of 5%. This will ensure availability of input credit to all.
2. The GST rate structure is fibre neutral at the fabric stage with 5% GST on both cotton and synthetic/man-made fabric, thus eliminating the inefficiencies arising out of the varied duty structures on different fibres

3. Job work charges which were hitherto exempted from service tax provided the principal is paying excise duty upon clearance of goods are now leviable to GST. This will allow job-workers to avail ITC on inputs, consumables and input services.

4. Wool, raw silks, silk waste, khadi yarn, raw jute and processed jute except jute yarn have been exempted from GST.

INPUT TAX CREDIT:

ITC is a charge on any supply of goods or services. in other words, business can reduce its tax by claiming the credit to the extent tax paid on GST.

PROCEDURE FOR CLAIMIMG ITC UNDER GST SEC 18(1):

1. Purchase invoice which is furnished by the supplier must not be earlier than 1 year from the relevant date
2. Declaration must be filed within 30 days in FORM GST ITC-01 from the date he is eligible.
3. The details for claiming ITC on stock or finished goods must be filed in FORM GST ITC-01 within 30 days.
4. The above said form must be certified by a practicing chartered accountant or cost accountant, if the value of credit claimed in excess of 2 lakhs.

VALIDITY FOR CHOOSING WORKING CAPITAL TO STUDY THE IMPACT OF GST

The impact of any tax regime on businesses could be extracted and depicted by valuing and analyzing the turnovers of different years of the same. In the case of GST, it is not possible to study the impact from turnovers, since it's been just one year from the introduction of GST. Hence it is sensible to analyze the working capital of businesses, to identify the impact of GST, in the past one year.

WORKING CAPITAL:

Working capital is the major source of financing that a manufacturing firm needs to deal with working capital management efficiency is crucial especially for manufacturing firms, hence a major part of assets is composed of current assets. It is considered to be the most important function of corporate management. All corporate entities irrespective of size, nature, or its legal form whether profit oriented or not, requires necessary amount of working capital for their survival. It helps to maintain liquidity, solvency and profitability of business.

In simple terms working capital means: Current Asset- Current Liability

There are four major items of **current asset:**

a) cash and cash equivalent,
b) cash and cash equivalents,
c) accounts receivables, and
d) inventory.

There are three major items of **current liability:**

a) accounts payables,
b) expenses payable including accrued wages and taxes, and
c) notes payable.

PRACTICAL HINDRANCES IN THE GST REGIME

There are practical hindrances in the GST regime whose magnitude of turbulence is larger than that of the previous indirect taxes. Some of them are listed as under:

1. Small Scale Industries (SSI) are heavily affected by the imposition of GST. These SSIs which were earlier running under SSI registration are now forced into GST regime. They are also in the need of maintaining books of accounts which affects the products cost and pricing.

2. Many unorganized sectors find it difficult to register under the GST regime, fearing the competitive nature amongst them.

3. Since the introduction of GST, there has been a hike in the price level of both yarn and melange. This is due to the increase in the inflation index of the yarn market. The reason for the increase in the inflation index of the yarn market is, cyclic pressure on the cotton value chain.

4. With relation to the textile industry, there are numerous of processes in converting the yarn to finished goods such as ginning, spinning, knitting, calendaring, dyeing, compacting, cutting, stitching, printing, checking and packing. Bigger export houses have most of these processes under their roof and others outsource them. When goods flow through this process chain, there arises the difficulty of transferring the GST Credits.

5. Input-tax Credit plays an important role in deciding the working capital requirements in the industry. As discussed above, the industry comprises of various processes, resulting in cash crunch which affects working capital.

6. Claiming Input-tax Credits is a tedious process. It demands appropriate GST return filing. Most of the mediatory units does not have adequate infrastructure to maintain the books of accounts and comply with procedural standards viz., billing software. This gives rise to a procedural difficulty for them to file GST returns.

7. Failure of filing appropriate and timely GST returns by these intermediaries affects the ones in the value chain and/or bigger players. Here comes the practical difficulty. **.**According to the GSTN, one has to report all the sales or outward services made by him in the previous month within 10 days from the beginning of the following month in the Form - 3B. Likewise, the purchases should be reported within next 10 days in the Form - GSTR 2. Failure or inappropriate filing of any of the above forms tends to break the transfer of GST credits in the value chain.

8. Any purchase made by the intermediaries of the value chain, should have been reported as sales by the person from whom the purchase was made. Only then it **auto-populates** in the purchaser's return and he can claim the Input-tax credit.

SAMPLE ANALYSIS:

In order to analyze the impact of GST on the working capital we have taken 3 samples. We will be analyzing the impact on the increase in working capital between the period 2016-17 and 2017-18 i.e.; pre GST and post GST.

LIMITATIONS

1.Availability of data for the post GST period.

2.Only 3 samples could be considered for the study.

3.The sources of data may not have complete knowledge on GST and the analysis may vary on closing of the financial year.

1. **Table showing increase in working capital :**

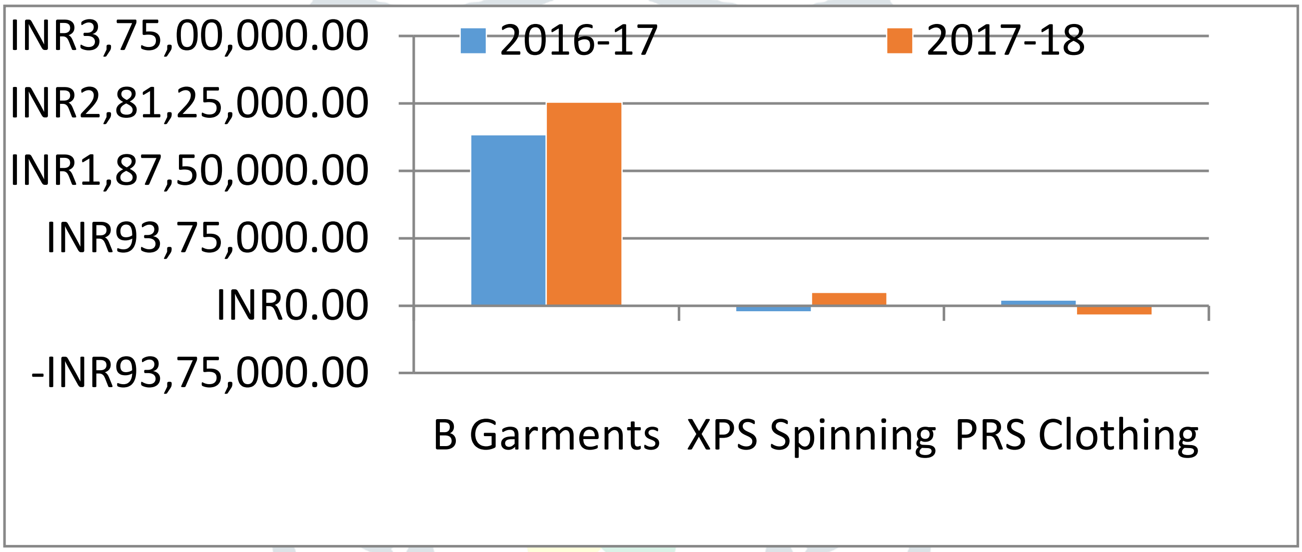
WORKING CAPITAL

COMPANY	2016-17	2017-18	CHANGE IN WORKING CAPITAL	PERCENTAGE CHANGE IN WORKING CAPITAL
B GARMENTS	23750720.24	28323836.76	4573116.52	19.2546435383385
XPS SPINNING	-852746.17	1844930.51	2697676.68	-316.351661831562
PRS CLOTHING	767171.56	-1311574.48	-2078746.04	-270.962343807427

Working capital = Current Assets - Current Liabilities

- B Garments is having a positive working capital in both the financial years and there has been an increase of upto 19.25% of the working capital requirements in the year 17-18 when compared to the last year . This indicates that post GST the additional funds required to keep the business in operation increased by 19.25%.

- XPS Spinning is having a negative working capital in the year 2016-17. This indicates that the entity has a heavy cash crunch because of the delay of payments from the customers (exporters and



domestic players). This cash crunch faced by the customers is because if the demonetization that was effected during that period. In the year 2017-18 the working capital has seen a tremendous increase. It has moved from a negative to a positive scale, during such period we can observe that there has been a increase in turnover by 64.9% which in turn helped the financing of the working capital requirements and settlement of the short term liabilities.

- PRS clothing has a positive working capital in the pre GST period which indicates that the firm current assets are sufficient enough to pay off the short term liabilities. The entity has a negative working capital in the post GST period which clearly indicates that their current liabilities have shot up . This is because of the funds being locked up in the input tax credit receivable which has not yet been received. The debtors in the current assets has also risen up, due to the GST effect the debtors also feel the cash crunch which leads to inability to pay off their creditors (PRS clothing) On a net basis their working capital requirement has increased by 270.9%

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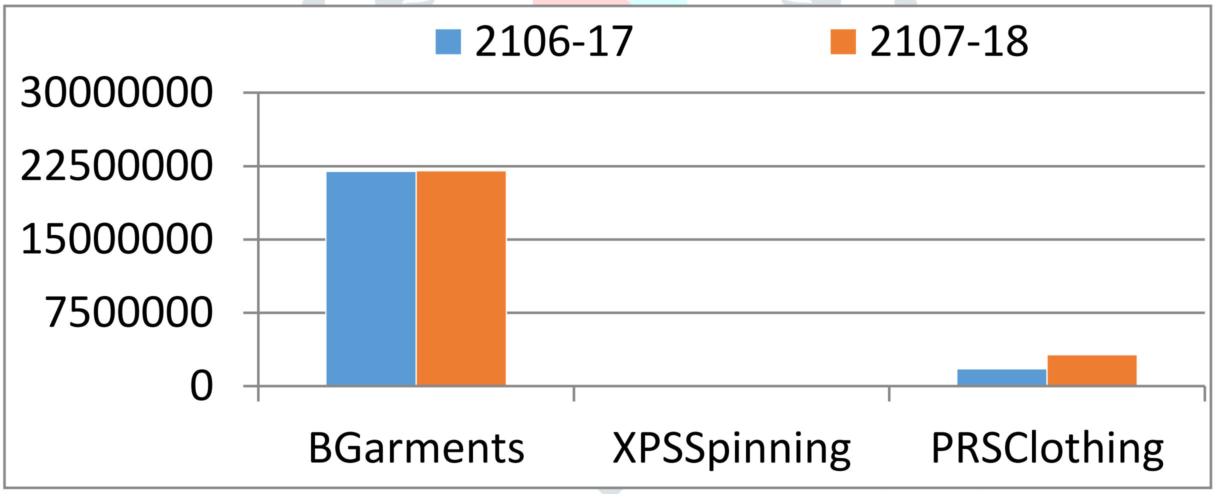
2. Table showing the increase in short term borrowings:

There is an increase in short term borrowings because of the cash crunch that happens in the entity. This is due to maximum part of the working capital getting locked in the GST. The funds are locked up in the form of input tax credit receivable. Thus, the entity is forced to go in for short term borrowings in-order to keep the business in operation.

SHORT TERM BORROWINGS

COMPANY	2016-17	2017-18	CHANGE IN SHORT TERM BORROWINGS	PERCENTAGE CHANGE IN SHORT TERM BORROWINGS
B GARMENTS	21,969,593 .60	22,018,346 .60	48,753.00	0.22
XPS SPINNING	0	0	0	0
PRS CLOTHING	1,777,783. 00	3,202,800. 00	1,425,017. 00	80.16



B Garments has taken an additional Export packing credit to the extent of 0.22% from the State bank of India in-order to finance their the additional working capital requirement of 19.25%. It is also seen that their turnover has increased by 11.79% when compared to the last year which might have caused an increase in the cashflow to the company. This additional cashflow could have also sufficed the working capital requirement increase.

XPS spinning hasn't had any short term borrowing in both the periods. It is to be noted that the turnover of XPS spinning has increased by 64.9% and there is a simultaneous increase in cash and debtors by 13.5 times when compared to the pre GST period. This increase in cashflow to the entity has sufficed the entity and prevented it from going in for short term borrowings. We can conclude that the entity had managed its funds well

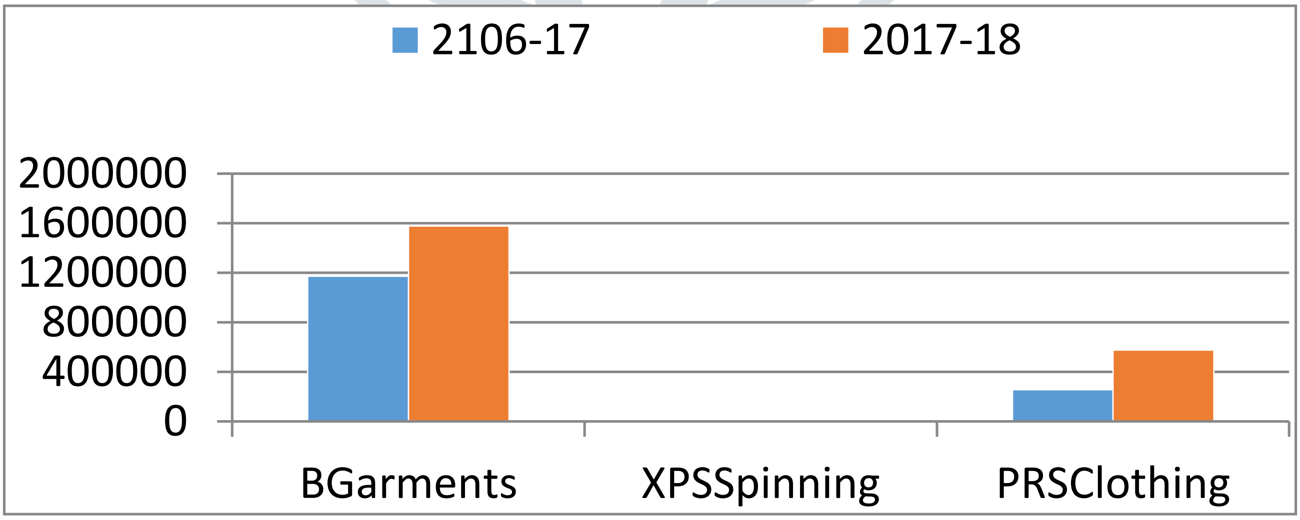
PRS Clothing had increased its short term borrowings by around 80% when compared to the year 2016-17. The need for working capital in the firm had also increased by around 270% in relation to the previous year (2016-17).Thus in order to finance this working capital requirement they had gone in for short term borrowings. They have borrowed from both financial institutions (HDFC) and non baking financial institutions (Bajaj Finserv).

3.Table showing the increase in finance costs

There is an natural increase in the finance costs when the entity goes in for short term borrowings to finance their requirement. This in-turn leads to the reduction in the Net Profit.

FINANCE COSTS

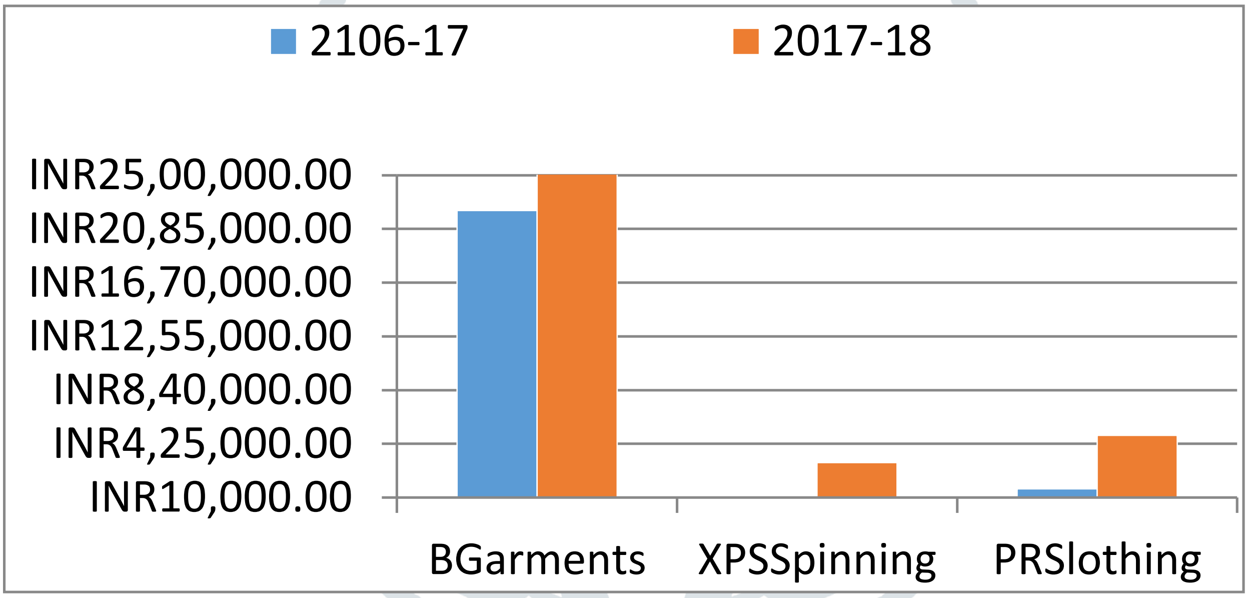
COMPANY	2016-17	2017-18	INCREASE IN FINANCE COSTS	PERCENTAGE INCREASE IN FINANCE COST
B GARMENTS	1,171,851.00	1,577,142.00	405,291.00	34.59
XPS SPINNING	-	-	0	0
PRS CLOTHING	255,667.00	574,262.31	318,595.31	124.61



5. **Table showing increase in the Input-tax credit receivable in the previous VAT regime and the GST Regime**

INPUT-TAX CREDIT

COMPANY	2016-17	2017-18	INCREASE INPUT-TAX CREDIT	PERCENTAGE INCREASE IN INPUT-TAC CREDIT
B GARMENTS	2,226,236.00	6057756	3831520	172.107539362404
XPS SPINNING	11,857.60	279,227.00	267,369.40	2,254.84
PRS CLOTHING	76,711.00	488982	412271	537.43400555331



From the above table we are able to draw a conclusion that when compared to the pre GST era the entities are entitled to receive more Input-Tax credit post GST. We can see that B Garments has an increased level of input tax credit to the extent of 172.12% (XPS SPINNING-2254.84%, PRS Clothing-537.434%). This also shows us that the percentage of funds getting locked up in GST i.e. the input Tax credit receivable has increased after the implementation of GST. This evidently tells us that the working capital requirement post GST has increased due the funds being locked up.

CONCLUSION:

From this study we are able to come to a conclusion that there is a relationship between the working capital and GST. Due to the increased working capital requirements there is concurrent effect in the increase in the short term borrowings and the finance cost. The entities are forced to go in for short term borrowings in order to finance their working capital. A huge portion of the working capital is locked up in the form of Input-tax credit receivable and a maximum portion of it becomes irrecoverable because of the reasons as discussed earlier.

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