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Comparison of Financial Performance of Micro, Small, and Medium Enterprises in India before and After the Implementation of GST

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ABSTRACT: This paper investigates the financial performance of Micro, Small, and Medium Enterprises (MSMEs) in India before and after the implementation of the Goods and Services Tax (GST). The study aims to discern any discernible shifts in performance metrics such as revenue, profitability, and liquidity, attributable to the GST regime. Utilizing quantitative research methods, financial data from MSMEs spanning both periods are analyzed and compared. The analysis employs statistical tools to identify significant differences in performance indicators and assess the impact of GST on the MSME sector. The findings offer insights into the implications of GST on the financial health of MSMEs and provide valuable information for policymakers and stakeholders.

KEYWORDS: MSMEs, Financial Performance, GST Implementation, India, Comparative Analysis

I. INTRODUCTION

The implementation of Goods and Services Tax (GST) in India marked a significant economic reform aimed at streamlining taxation and fostering a conducive business environment. In the wake of this transformative policy change, it becomes imperative to evaluate its impact on various sectors of the economy. Specifically, the Micro, Small, and Medium Enterprises (MSMEs) sector, being the backbone of India's industrial landscape, warrants close scrutiny regarding its financial performance before and after the GST rollout.

This publication delves into the comparative analysis of the financial performance of MSMEs in India, juxtaposing their pre and post-GST implementation periods. Understanding how GST has influenced key performance metrics such as revenue generation, profitability, and liquidity among MSMEs is crucial for policymakers, industry stakeholders, and academic researchers alike.

The study utilizes quantitative research methods to analyze financial data obtained from MSMEs operating across different sectors and regions in India. By examining trends and patterns in financial indicators before and after the GST era, the paper seeks to unravel the nuanced effects of this tax reform on the financial health of MSMEs.

Similar to the process of image inpainting, where damaged pictures are restored and unnecessary elements are removed to enhance visual appeal, this study aims to uncover hidden insights and trends obscured by the complexities of economic data. By employing rigorous analysis techniques akin to automatic text detection in image processing, the paper endeavors to reveal the underlying narrative of MSMEs' financial performance amid the GST landscape.

The structure of the publication is organized as follows: Section II elucidates the methodology employed for data collection and analysis, akin to the process of automatic text detection using morphological operations and connected component analysis. Section III delineates the comparative analysis framework utilized to discern shifts in financial performance pre and post-GST, analogous to the process of text region detection and removal in image inpainting. Section IV presents empirical findings derived from the analysis, akin to experimental results showcasing the efficacy of the proposed approach. Finally, Section V encapsulates concluding remarks and implications drawn from the study's findings, akin to summarizing the insights gleaned from the image inpainting process.

Through this comparative analysis, the publication endeavors to contribute to the ongoing discourse surrounding the economic ramifications of GST on MSMEs in India, akin to the broader applications of image inpainting in the restoration and enhancement of visual content.

II. RELATED WORK

Several studies have delved into the financial performance of enterprises in various contexts, providing valuable insights into the factors influencing their economic viability. Ghatak and Guha [1] conducted a comparative analysis of the financial performance of small and medium-sized enterprises (SMEs) in India before and after the implementation of economic reforms. Their study highlighted the significant improvements in SMEs' profitability and productivity following the liberalization measures.

Similarly, Mishra and Datta [2] examined the impact of policy changes on the financial performance of MSMEs in India, focusing on factors such as access to finance, regulatory environment, and market dynamics. Their findings underscored the critical role of supportive policy frameworks in enhancing MSMEs' competitiveness and sustainability. In a related study, Jain and Singh [3] explored the effects of tax reforms on the financial performance of enterprises in India, with a specific focus on the introduction of GST. Their analysis revealed mixed outcomes, with some enterprises experiencing a boost in profitability due to streamlined tax compliance processes, while others faced challenges in adapting to the new regulatory environment.

Furthermore, Patel and Desai [4] investigated the financial performance of MSMEs in Gujarat, India, post-GST implementation, emphasizing the importance of technological advancements and digitalization in mitigating the compliance burden associated with GST.

Building upon these prior studies, the current publication aims to contribute to the existing literature by providing a comprehensive comparative analysis of the financial performance of Micro, Small, and Medium Enterprises (MSMEs) in India before and after the implementation of GST. By examining key performance indicators such as revenue growth, profitability margins, and liquidity ratios, this study seeks to elucidate the nuanced effects of GST on MSMEs' financial health and competitiveness in the Indian market.

III. METHODOLOGY

This study will utilize a secondary data analysis approach to investigate the impact of GST on the taxation and custom duty aspects of financial performance for textile and food MSMEs in India. Secondary data will be sourced from government databases, industry reports, and financial statements of MSMEs in the textile and food sectors.

The data will be analysed using both descriptive and inferential statistical methods. Descriptive statistics will summarize tax-related data trends, while inferential statistics will test the hypotheses proposed for the study and analysing using Compound Annual Growth Rate (CAGR), Description Analysis, Correlation Analysis and Multiple Regression Analysis by taking No. of Units, employment and investment and production.

The findings will be presented through tables and graphs and will be discussed in the context of existing literature on GST's impact on MSMEs. The implications of the findings for policymakers and MSMEs in the textile and food sectors will also be discussed.

IV. DATA ANALYSIS AND INTERPRETATION

Over a decade, spanning from 2012 to 2016 and 2018 to 2022, I meticulously gathered and analyzed financial data from ten key players, five each from the food and textile industries. This comprehensive dataset serves as a valuable lens into the economic trajectories of these sectors. As financial bedrocks for nations worldwide, the food and textile industries play pivotal roles in shaping economic landscapes. Through a rigorous examination of the companies' financial performance, encompassing parameters such as revenue growth, and profit margins, a nuanced understanding emerges. The cyclical nature of these industries, influenced by global economic shifts, regulatory changes, and consumer preferences, reveals intriguing patterns. This analysis not only sheds light on the individual companies' financial robustness but also provides insights into the broader economic trends impacting the food and textile sectors. From operational efficiency to market adaptability, this study aims to unravel the intricacies that define the financial narratives of these companies and, by extension, the industries they represent.



Growth and Performance of MSMEs in India Before and After of Implementation of GST

TABLE 1.2
YEAR WISE TREND IN THE GROWTH OF MSMEs IN INDIA

S No.	Year	Total working enterprise (in Lakh)	Market value of fixed Asset (Rs. in Crore)	Employment (in Lakh)
1	2006-07	361.71	868,543.79	805.23
2	2007-08	377.36	920,459.84	842.00
3	2008-09	393.7	977,114.72	880.84
4	2009-10	410.8	1,038,546.08	921.79
5	2010-11	428.73	1,105,934.09	965.15
6	2011-12	447.64	1,182,757.64	1011.69
7	2012-13	447.54	1,268,763.67	1061.4
8	2013-14	488.46	1,363,700.54	1114.29
9	2014-15	510.57	1471912.94	1171.32
10	2015-16	453.63	763847.80	1901.42
11	2016-17	361.76	947693.00	1370.24
12	2017-18 (up to 31.12.2017)	633.88	1014761.10	1109.89

Source: GOI, Ministry of MSME in Annual report 2017-18,

TABLE 1.3
DESCRIPTIVE ANALYSIS FOR MSMEs IN INDIA

		Statistics		
		Enterprises	Investment	Employment
N	Valid	12	12	12
	Missing	0	0	0
Mean		442.9817	1077002.9342	1096.2717
Std. Error of Mean		22.08973	60616.87074	86.21862
Median		438.1350	1026653.5900	1036.5450
Mode		361.71 ^a	763847.80 ^a	805.23 ^a
Std. Deviation		76.52106	209982.99984	298.67006
Variance		5855.473	44092860219.843	89203.803
Skewness		1.424	.546	1.980
Std. Error of Skewness		.637	.637	.637
Kurtosis		2.704	-.381	4.694
Std. Error of Kurtosis		1.232	1.232	1.232
Range		272.17	708065.14	1096.19
Minimum		361.71	763847.80	805.23
Maximum		633.88	1471912.94	1901.42
Sum		5315.78	12924035.21	13155.26

a. Multiple modes exist. The smallest value is shown

The table 1.2 shows that the Mean, Std. Error of Mean, Median, Mode, Std. Deviation, Variance, Skewness, Std. Error of Skewness, Kurtosis & Std. Error of Kurtosis calculation of Total working enterprise, Market value of fixed Asset and Employment.

TABLE 1.4
GROWTH RATE OF EMPLOYMENT

SI No.	Year	Employment (in Lakh)	Growth Rate (%)
1	2006-07	805.23	-
2	2007-08	842.00	4.57
3	2008-09	880.84	4.61
4	2009-10	921.79	4.65
5	2010-11	965.15	4.70
6	2011-12	1011.69	4.82
7	2012-13	1061.4	4.91
8	2013-14	1114.29	4.98
9	2014-15	1171.32	5.12
10	2015-16	1901.42	62.33
11	2016-17	1370.24	-27.94
12	2017-18 (up to 31.12.2017)	1109.89	-19.00

The table 1.4 the highest growth rate is 62.33 % of the year 2015-2016. There is continuous growth in MSME employment as MSME providing more employment opportunities over last 10 years and there is fluctuation in annual growth rate and during 2016-2017 and 2017-2018 there is -19% and -27.94 % negative growth rate due to MSME providing less employment opportunities in the respective years.

TABLE 1.5
GROWTH RATE OF MARKET VALUE OF FIXED ASSET

SI No.	Year	Market value of fixed Asset (Rs. in Crore)	Growth Rate (%)
1	2006-07	868,543.79	-
2	2007-08	920,459.84	5.98
3	2008-09	977,114.72	6.16
4	2009-10	1,038,546.08	6.29
5	2010-11	1,105,934.09	6.49
6	2011-12	1,182,757.64	6.95
7	2012-13	1,268,763.67	7.27
8	2013-14	1,363,700.54	7.48
9	2014-15	1471912.94	7.94
10	2015-16	763847.80	-48.11
11	2016-17	947693.00	24.07
12	2017-18 (upto 31.12.2017)	1014761.10	7.08



The table 1.5 the highest growth rate is 24.07 % in 2016-2017. There is continuous growth in MSME’s Market value of fixed Asset over last 9 years from 2007 to 2015 and there is fluctuation in annual growth rate and during 2015-2016 there is -19% negative growth rate.

the combining t-Test paired Two Sample for means are as follows for Net profit growth rate, Operating profit margin, Net profit margin, shareholder’s equity, and revenue growth rate:

t-Test: Paired Two Sample for Means		
	Variable 1	Variable 2
Mean	6397.507	15025.48
Variance	1.93E+08	9.64E+08
Observations	30	30
Pearson Correlation	0.93708	
Hypothesized Mean Difference	0	
df	29	
t Stat	-2.53073	
P(T<=t) one-tail	0.008533	
t Critical one-tail	1.699127	
P(T<=t) two-tail	0.017066	
t Critical two-tail	2.04523	

Net Profit Growth Rate:

T-Test Results:

t Stat: -10.23

P-Value (two-tail): 0.00199

Interpretation: The t-test reveals a significant difference in net profit growth rates between the pre-GST and post-GST periods. There is a significant change in how much profit the companies made before and after GST. The change is not random but appears to be influenced by GST implementation.

Operating Profit Margin:

T-Test Results:

t Stat: -7.30

P-Value (two-tail): 0.00187

Interpretation: The t-test indicates a significant difference in operating profit margins between the two periods. The percentage of profit a company makes from its operations has significantly shifted after GST, indicating a notable impact on profitability.

Net Profit Margin:

T-Test Results:

t Stat: -0.21

P-Value (two-tail): 0.846

Interpretation: The t-test suggests no significant difference in net profit margins between pre-GST and post-GST. No clear difference was found in the percentage of profit left after all expenses. The profit margin remained relatively stable pre and post GST.

Shareholder's Equity:

T-Test Results:

t Stat: -12.81

P-Value (two-tail): 0.00021

Interpretation: The t-test indicates a significant difference in shareholder's equity between the two periods. The financial health, as reflected in shareholder's equity, experienced a substantial change after GST. This suggests a meaningful impact on the company's overall worth.

Revenue Growth Rate:

T-Test Results:

t Stat: 0.80

P-Value (two-tail): 0.468

Interpretation: The t-test suggests no significant difference in revenue growth rates between pre-GST and post-GST. There isn't a significant difference in how fast the company's revenue is growing before and after GST. The growth rate seems consistent.

V. CONCLUSION

The implementation of GST in India has brought about a paradigm shift in the financial dynamics of MSMEs, particularly in the textile and food industries. This study meticulously examines the consequences of GST on MSMEs, revealing both positive and negative impacts across various financial matrices. Despite challenges such as excessive capital requirements and reorganization of procurement and supply chains, GST has also ushered in benefits such as ease of starting businesses, lower logistics overhead, and support for MSMEs in sales and services. The analysis delves into key financial metrics post-GST, including net profit growth rate, operating profit margin, net profit margin, shareholder's equity, and revenue growth rate, highlighting shifts in the financial landscape and the need for businesses to adapt strategically. These findings underscore the imperative for MSMEs to navigate the evolving tax regime with agility and innovation, while policymakers are urged to refine GST policies to address sector-specific challenges and foster a conducive business environment for sustainable growth.

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