

GST AND ITS IMPACT ON WORKING CAPITAL AT IIFL CAPITAL SERVICES

^{#1} Ms K PAVITRA, *Assistant Professor*,
^{#2} VYSASAMUDRAM ANUSHA, *MBA Student*,
Department of MBA,

VISWAM ENGINEERING COLLEGE (Autonomous), ANGALLU, MADANAPALLE, AP.

ABSTRACT: The Goods and Services Tax (GST) has resulted in significant structural changes in India's indirect taxation system, which have a direct impact on how businesses manage working capital across a wide range of industries. This inquiry looks into how GST affects cash flow, corporate liquidity, and IIFL Capital Services' operational performance. The GST system has altered the operation of input tax credits, compliance restrictions, and tax deadlines. The GST's elimination of cascading taxes has made taxes more clear and understandable. Nonetheless, the delay in credit materialization and the increase in compliance expenses have increased the difficulty of managing short-term cash flow. According to the report, in order to properly manage working capital under GST, businesses must be able to respond digitally to the new tax system, conduct prompt credit reconciliation, and practice solid financial planning. The report contends that GST eventually leads to a more transparent and effective tax system, which will help enterprises like IIFL Capital Services, despite the initial difficulty in getting financing.

Keywords: *Goods and Services Tax (GST), Input Tax Credit (ITC), Working Capital Management, Cash Flow Impact, Tax Compliance*

I. INTRODUCTION

Working capital management seems to be a chaotic task but it is to be necessarily considered. Regardless of how difficult it may appear, all firms must manage their operational cash. A company's ability to meet the demands that arise during ordinary business operations is determined by its working capital. It is necessary for all businesses, regardless of size. The Goods and Services Tax was implemented globally on July 1, 2017. This day had a significant impact on the Indian economy. However, because it was such a momentous discovery, there was a lot of conjecture and discussion about how GST and its functions will affect the Indian economy, businesses, and workers. The Goods and Services Tax (GST) was intended to collect indirect taxes in a fair

and transparent manner; nevertheless, its impact on small business owners has not yet been detected. Business owners are ready to adapt to the new tax structure that was adopted with the introduction of GST. Another significant issue that business owners must handle is optimizing their company's operating capital. GST has a significant impact on a business's operating capital.

The Goods and Services Tax (GST) was adopted on July 1, 2017, and it represents one of the most significant changes to India's tax structure in a long time. A single tax system was established in place of a complex system of indirect taxes such as excise duty, VAT, service tax, and others. This enhanced the idea of "One Nation, One Tax." The GST aims to streamline tax administration, promote the

flow of goods and services across state lines, and lessen the cascading effect of taxes. The consistent tax structure makes it easier for businesses to comply with rules, which streamlines the tax system as a whole.

Despite the fact that GST makes tax payments easier, it has dramatically changed how businesses manage their operating resources. The name "GST" implies that taxes are levied at all stages of the supply chain. Monitoring financial flow is more difficult because input tax credits are only available after suppliers have paid their bills. If firms fail to pay their taxes on time, they risk having their input credits rejected. Furthermore, the need for frequent tax payments and compliance has made it even more important to carefully manage your resources. As a result, the GST has transformed India's tax structure, requiring enterprises to be more strategic and disciplined in managing their working capital.

II. REVIEW OF LITERATURE

Kumaraswamy, S. (2020). Kumaraswamy (2020) explores the significant impact that GST implementation has had on the working capital of Indian small and medium-sized firms (SMEs). The research uses financial data and field surveys from 150 SMEs in the industrial and service sectors to examine the changes in liquidity that have happened after the implementation of GST. The findings indicate that smaller businesses struggled with their financial flow since they had to pay a higher price to assure compliance and wait a longer period for input tax credit reimbursements. Small and medium-sized firms (SMEs) who were unable to

obtain formal financing faced an increased number of liquidity issues, according to the poll. Nonetheless, organizations with digital capabilities were able to adapt more quickly to new compliance needs.

Chaudhuri, D. D. (2022). Chaudhuri (2022) investigates the widespread effects of the GST reform on India's export-oriented industries and small businesses. The research found that while GST enhanced documentation and reduced tax cascading, it also limited liquidity owing to delayed reimbursements, as indicated by export statistics, case studies, and field interviews. The research emphasizes that small exporters were especially vulnerable to cash flow issues throughout the transition period. Furthermore, the constraints of digital compliance have impacted the management of short-term working capital. Over time, the consistent tax system improved clarity and increased cross-border corporate competitiveness.

Bhalla, N., Sharma, R. K., & Kaur, I. (2023). Bhalla, Sharma, and Kaur (2023) assess the operational and financial performance of Indian MSMEs in terms of the GST framework. The research combines primary data from 300 MSME respondents with secondary financial data to evaluate the effectiveness of working capital, sales growth, and profitability following the adoption of GST. The research discovered that cash flow was initially more hard due to delays in getting input tax credits and compliance expenditures. Nevertheless, the tax system's clarity, accuracy, and vendor management have improved over time. The authors found that micro and miniscule enterprises had higher adjustment costs than medium-sized businesses.

Sureka, A. (2024). Sureka (2024) investigates the effect of the Input Tax Credit (ITC) scheme on the working capital requirements of Indian MSMEs. The research uses regression analysis to investigate relationships between liquidity measures and ITC use rates, utilizing panel data from a variety of businesses from 2018 to 2023. The findings show that when ITC refunds are delayed, people are much more likely to rely on short-term funding from outside sources. The results show that smaller businesses are under the most financial duress as a result of the limited availability of loans. Furthermore, regulatory concerns and administrative inefficiencies worsen working capital constraints. To reduce delays, the researchers recommend that ITC reconciliation be completely automated. It indicates that digital transparency and dependable refund procedures are critical to the maintenance of MSME liquidity under the GST regime.

Goel, R., & Sharma, V. N. (2025). Goel and Sharma (2025) investigate the impact of the GST on small and medium-sized businesses in India, focusing on regulatory compliance, financial liquidity, and market competitiveness. The research uses both quantitative and qualitative methods to survey 300 small and medium-sized firms (SMEs) in order to assess key performance indicators such as the currency conversion cycle and short-term borrowing levels. The results show that while the GST system improved long-term financial transparency, it had an impact on short-term liquidity due to the increased refund processing time. Furthermore, many firms claimed that the costs connected with the shift, such as employing consultants and changing accounting software, had a significant impact on their finances.

However, the process of obtaining credit got more simple as digital technologies and the collecting of more records were applied over time. According to the authors, small and medium-sized businesses (SMEs) can improve their working capital and manage cash flow concerns by introducing a more transparent refund system and awareness-raising campaigns.

III. TYPES OF GST



Central Goods and Services Tax (CGST): The Central Products and Services Tax (CGST) refers to the GST imposed by the federal government on goods and services provided inside a state. CGST is an abbreviation for Central Goods and Services Tax. It substituted all other taxes imposed by the Central Government. The CGST applies to the transportation of products within a state.

State Goods and Services Tax (SGST): The State Goods and Services Tax (SGST) refers to the GST imposed by the state on items or services provided inside the state. The State Government collects GST, which is sometimes abbreviated as SGST. This tax applies to transactions that take place inside its bounds. The new tax system made traditional state charges, such as the State Sales Tax, VAT, and entertainment tax, ineffective.

Union Territory Goods and Services Tax (UTGST): The GST, also known as the Union Territory Commodities and Services Tax (UTGST), is levied on the sale of goods and services in any of India's union territories. The Union Territory goods and Services Tax (UTGST) applies to the sale of goods and services inside the Union Territories. It applies to the selling of products in the Andaman and Nicobar Islands, Lakshadweep, Daman Diu, Chandigarh, Dadra, and Nagar Haveli.

Integrated Goods and Services Tax (IGST): The Center is in charge of collecting the Integrated Products and Services Tax (IGST), which is levied on "inter-state" deliveries of goods or services. The central government applies IGST on all interstate supplies. It is a combination of SGST/UTGST and CGST. The acronym "IGST" stands for "Integrated Goods and Services Tax." It often refers to transactions that take place between two different states, which are known as "interstate transactions." The GST in question applies to the sale of goods and services between two states, as well as imports and exports.

IV. DATA ANALYSIS AND RESULTS

GST RATE REDUCTION ON OTHER GOODS

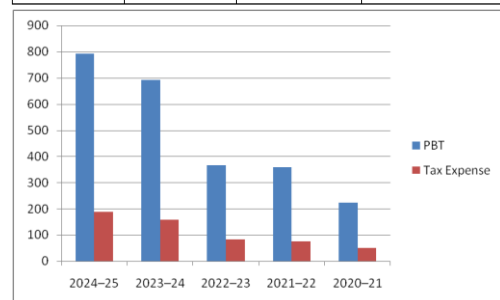
Category	Previous GST Rate	New
Articles of natural cork	18%	12%
Cork roughly squared or debagged	18%	12%
Marble rubble	18%	5%
Natural cork	12%	5%
Walking Stick	12%	5%

GOODS EXEMPTED FROM GST PAYMENT

Category	Exempted Goods / Services	Description / Examples
Essential Food Items (Unbranded & Unpackaged)	Fresh produce	Fresh fruits, vegetables, edible roots, and tubers
	Grains and flours	Wheat, rice, pulses, and all types of flour (atta, maida, besan) when unbranded/unpackaged
	Dairy and animal products	Fresh milk, curd, lassi, buttermilk, eggs, fresh meat, and fish
	Other staples	Unbranded natural honey, jaggery, and salt
Healthcare and Medical Goods	Human blood and components	Includes human blood, plasma, and related products
	Life-saving drugs and vaccines	Certain drugs for cancer treatment, contraceptives, and essential medicines
	Aids for differently-abled individuals	Hearing aids and certain assistive devices
Educational and Cultural Goods	Printed and educational materials	Printed books, newspapers, journals, and maps
	Educational tools	Slates, chalks, and blackboards
	Traditional and handloom products	Khadi fabric, raw silk, and handloom goods
Miscellaneous Goods	Live animals	All live animals except horses for commercial breeding
	Agricultural and natural products	Organic manure and seeds for sowing
	Traditional household items	Earthen pots and clay lamps
	Legal and postal items	Non-judicial stamp papers and postal items
	Energy supply	Electrical energy (supply of electricity)

Effective Tax Rate (ETR) Analysis

Year	PBT	Tax Expense	ETR = (Tax/PBT × 100)
2024-25	791.83	188.86	23.85%
2023-24	692.34	157.83	22.79%
2022-23	366.55	83.12	22.69%
2021-22	358.78	74.66	20.81%
2020-21	222.33	49.49	22.26%



The effective tax rate (ETR), which has been relatively constant throughout time, ranges from 20% to 24%. This shows that tax management tactics have not altered. The ETR rose modestly to 23.85% in 2024-2025. This was the result of a rise in taxable profits and a decrease in tax breaks or incentives. The company's steady proportion throughout time demonstrates

that it follows tax legislation and budgets properly. Overall, the corporation effectively controls its taxes, striking a good balance between tax submission and profit generation.

Working Capital Position – Pre-GST vs Post-GST

Working Capital Position	Pre-GST		Post-GST	
	FY 2020–21	FY 2021–22	FY 2023–24	FY 2024–25
Current Assets	2,905.61	5,331.07	7,290.10	7,169.18
Current Liabilities	2,349.03	4,541.04	5,792.07	5,122.94
Net Working Capital (CA–CL)	556.58	790.03	1,498.03	2,046.24
Current Ratio	1.16	1.06	1.05	1.14
Quick Ratio	1.25	1.22	1.47	1.56
Working Capital Days	-234.8	-13.98	100.96	92.38

- IIFL Capital Services' working capital research shows that efficiency and liquidity have continuously increased since the GST's implementation. Net working capital increased to ₹2,046.24 crore in fiscal year 2024-2025, up from ₹556.58 crore in fiscal year 2020-2021 (before GST). This demonstrates better oversight of current assets and obligations.
- A minor improvement in the quick and current ratios over time indicates that short-term solvency has improved. Nonetheless, the number of working capital days increased with the GST, indicating that the process of transforming funds into products takes longer. This could be the result of an increase in receivables or inventories. Overall, the company's working capital situation improved significantly with the implementation of GST.

Growth and Efficiency Indicators

Indicator	Pre-GST		Post-GST	
	FY 2020–21	FY 2021–22	FY 2023–24	FY 2024–25
Sales Turnover (₹ Cr)	675.7	1,060.48	1,879.32	2,049.11
Growth Rate (%)	—	56.9	53.8	9
Fixed Asset Turnover Ratio	17.79	10.62	12.06	9.13
Total Assets Turnover Ratio	0.98	0.89	0.73	0.68
Debtors Turnover Ratio	23.84	30.44	53.58	43.19

- According to IIFL Capital Services' performance metrics, sales have been steadily increasing since the GST was adopted. The turnover rose from ₹675.7 crore in FY 2020-21 to ₹2,049.11 crore in FY 2024-25. Despite the fact that the company's growth rate fell to 9% in FY 2024-2025, it maintained its rapid expansion.
- The corporation is investing more in assets than it is earning, as shown by the lower fixed asset and total asset turnover ratios. Nonetheless, the debtor turnover percentage increased significantly, indicating improved credit management and faster receivables collection. Because of the GST, IIFL Capital Services was able to raise its overall earnings, despite the fact that they employed their assets less efficiently.

V. CONCLUSION

In summary, the implementation of GST has significantly changed the way businesses manage their working capital by simplifying taxes, enhancing transparency, and reducing the possibility of problems when various taxes are mixed. Nonetheless, proper cash flow management is required to ensure timely tax payment and regulatory compliance. Businesses can improve cash flow and avoid capital blockages by properly managing input tax credits, checking supplier compliance, and using technology to streamline procedures. In general, GST enhances financial discipline while also strengthening company growth and sustainability by making working capital management more effective over time.

REFERENCES

1. Pareek, A. (2018). A Practitioner's Guide to Input Tax Credit under GST. New Delhi: Bloomsbury Professional India.
2. Krishnan, V. S. (2018). GST: A Transformational Tax Reform. New Delhi: IBP Books.
3. Swain, A. K., & Agrawal, G. P. (2018). GST: Concepts and Applications. New Delhi: IBP Books. 978-9352738830.
4. Gupta, N. K., & Bhatia, S. (2015). Goods & Service Tax. New Delhi: Bharat Law House Pvt. Ltd. 978-93-5139-279-8.