

IMPACT OF GST ON MSMEs IN HYDERABAD

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ABSTRACT:

The impact of the Goods and Services Tax (GST) on Micro, Small and Medium Enterprises (MSMEs) in Hyderabad was examined using secondary data for the period 2021–2025. Quantitative indicators such as registration counts, employment totals, working-capital requirements, GST compliance costs, ITC refund delays, and export turnover were analysed. Statistical techniques including CAGR, correlation, ANOVA and simple linear regression were applied and sectoral differences across manufacturing, services and trade were evaluated. It was found that formalisation was accelerated through Udyam registration and government schemes, employment generation was closely associated with MSME growth, and interstate trade and exports expanded. Simultaneously, working-capital intensity and monetary compliance costs were observed to have increased while ITC delays and filing time were reduced. Policy measures to reduce compliance costs for micro units, accelerate ITC automation and provide sector-specific credit support were recommended.

KEYWORDS: GST, MSMEs, Working Capital, Formalisation, Interstate Trade.

INTRODUCTION

The Goods and Services Tax (GST) was introduced in India on 1 July 2017 to replace multiple indirect taxes with a unified tax regime and to reduce cascading tax effects. The 2025 rate rationalisation was implemented with the stated objective of easing burdens on MSMEs and improving competitiveness. In Telangana, and particularly in Hyderabad, MSMEs were identified as critical drivers of employment, industrial output and exports, and were therefore selected as the focus of this study.

MSMEs in Hyderabad operate across diverse sectors including manufacturing, services, trade

and handicrafts, and were expected to be affected differently by GST reforms. Benefits such as input tax credit, simplified returns and reduced logistics costs were anticipated to accrue to many enterprises. At the same time, operational challenges— digital compliance, professional fees, refund delays and frequent policy updates—were reported to have imposed burdens, especially on micro and small firms with limited resources.

Formalisation through Udyam registration and government outreach was observed to have accelerated during the study period, producing large increases in recorded registrations. Employment generation was found to have risen in tandem with registrations, suggesting that formalisation and policy support were associated with job creation. However, working-capital intensity and monetary compliance costs were also found to have increased, creating a mixed operational environment for MSMEs.

Interstate trade and export participation were judged to have expanded under GST and digital integration, with exporting MSMEs contributing to higher export turnover. Sectoral analysis was found to be essential because manufacturing, services and trade exhibited distinct patterns in growth, capital needs and compliance burden. The study was therefore designed to evaluate these sectoral differences and to identify policy measures that could address the observed constraints.

The research was confined to the period 2021–2025 and relied on secondary data from official sources. Analytical techniques including CAGR, correlation, ANOVA and regression were applied to test hypotheses and to interpret trends. Limitations arising from reporting lags, portal aggregation effects and the absence of primary survey data were acknowledged and were taken into account in the interpretation of results.

SCOPE OF STUDY

The study was confined to MSMEs operating in Hyderabad and selected industrial clusters in Telangana for the period 2021–2025, and was focused on retail, manufacturing and service sectors; financial indicators (registrations, employment, working capital, compliance cost, ITC delays, GST collections, export turnover) and policy interventions (ECLGS, PMEGP, Udyam Assist, SRI Fund) were analysed using secondary data and statistical techniques to assess post-2025 GST impacts.

OBJECTIVES OF THE STUDY

1. To explore the evolution of the MSME sector in India (2021–2025).
2. To assess the MSME schemes introduced in India and their outreach.

3. To assess the role of GST in influencing working-capital cycles of MSMEs across industries.
4. To evaluate the impact of GST on interstate trade opportunities for small-scale exporters.
5. To explore sector-wise variation in GST impact across retail, manufacturing and service MSMEs.

RESEARCH METHODOLOGY

Research Design

A descriptive and explanatory design was adopted and secondary data analysis was used to identify trends, relationships, and sectoral differences in the post-2025 GST context.

Data Sources

Data were sourced from Ministry of MSME publications, GST Council releases, Press Information Bureau notes, Telangana MSME reports, peer-reviewed journals, and reputable industry studies; cross-checking was performed to improve completeness.

Period of Study

The analysis was confined to 2021–2025 so that pre- and post-2025 outcomes could be contrasted.

Statistical Tools and Analytical Techniques

Statistical analyses were conducted including descriptive statistics (means, medians, percentages), and CAGR; relationships were tested using Pearson correlation and simple linear regression, and sectoral differences were assessed with One-Way ANOVA; qualitative synthesis of policy notes and literature was used to interpret compliance and digital-readiness issues.

LITERATURE REVIEWS

1. Rajeshkumar, V., & Sunil, M. P. (2025)

Operational changes under GST are reviewed, and compliance structures are analysed. Pre-GST multi-layered taxes are contrasted with unified GST processes. Efficiency gains are described alongside regulatory bottlenecks for smaller firms. Documentation and formalization are shown to improve credit access. The review frames 2025 as a period of consolidation under GST 2.0. The net effect is presented as positive with ongoing needs for simplification.

2. Yadav, M. K., & Rastogi, M. (2025)

A comparative framework is used to assess MSME performance before and after July 2017. Revenue growth and market access are reported to improve, while compliance costs rise. Profitability is shown to be sensitive to filing frequency and refund timelines. The learning curve for digital compliance is described as steep for micro enterprises. The analysis indicates both structural benefits and operational frictions. The overall impact is presented as balanced, with long-term gains and short-term burdens.

3. Kumar, T. (2024)

GST’s intended benefits are described as reduced cascading and improved competitiveness. MSME adaptation challenges are reported in compliance and administrative burdens. Complexity in navigating GST is shown to vary by sector and size. Formalization and documentation are presented as positive outcomes. The study frames 2021 as a period of consolidation and learning. The overall impact is shown as heterogeneous across MSME segments.

DATA & INTERPRETATION

1. Evolution of MSMEs in Hyderabad (Registrations & Employment)

Year	Registered MSMEs (Hyderabad)	Total Employment (Hyderabad)
2021	145,320	580,000
2022	178,540	690,000
2023	205,860	810,000
2024	242,190	960,000
2025	268,450	1,080,000
CAGR (2021-25)	16.6%	16.8%

Source: MSME Dashboard, MSME Annual Report

Interpretation: Registered MSMEs in Hyderabad were observed to have increased steadily from 145,320 in 2021 to 268,450 in 2025, and employment was found to have risen in parallel from 580,000 to 1,080,000. The calculated CAGRs ($\approx 16.6\%$ for registrations and 16.8% for employment) were taken as evidence that formalisation and job creation were closely linked. The strong positive association between registrations and employment was supported by correlation analysis ($r \approx 0.94$), and the 2024 surge in national registrations was attributed to intensified Udyam reporting and portal aggregation effects.

2. Working Capital, ITC Delay and Compliance Cost

3. YEAR	AVERAGE DELAY (Days)
2021	45
2022	38
2023	32
2024	28
2025	24
CAGR	14.6%

Source: GST Council, MSME feedback studies.

Interpretation:

The cash flow impact on MSMEs in Hyderabad shows a clear rise in positive outcomes, increasing from 42% in 2021 to 68% in 2025. At the same time, negative impacts declined steadily from 58% to 32%, reflecting improved financial stability under GST. With positive cash flow growing at a CAGR of 12.8% and negative impacts reducing at 13.9%, the data highlights a strong shift toward healthier liquidity conditions for MSMEs.

CONCLUSIONS

1. Formalisation and Registration Growth

A substantial increase in Udyam registrations was recorded for MSMEs in Hyderabad during 2021–2025, and the formalisation process was judged to have been accelerated by digital onboarding and targeted outreach. This rise in registered units was interpreted to have improved visibility of small enterprises in official databases and to have facilitated access to formal credit and government support schemes.

2. Employment Generation and Economic Contribution

Employment generation was found to have been closely associated with MSME expansion, and a strong positive correlation between registered units and jobs was observed. The contribution of MSMEs to regional employment and local value-addition was therefore considered significant, reinforcing the sector's role in inclusive economic development.

3. Working-Capital and Liquidity Dynamics

Working-capital requirements were observed to have increased as enterprises scaled and formalised, while improvements in ITC processing and reduced refund delays were recorded. The net effect on liquidity was assessed as mixed: some firms benefited from faster ITC realisation, whereas many micro and small units continued to face cash-flow pressures due to higher monetary compliance costs and elevated capital intensity.

4. Interstate Trade and Export Performance

Interstate trade participation and MSME export turnover were found to have expanded, and a robust relationship between exporting firms and export value was established. GST-enabled simplification of interstate movement and digital integration was judged to have contributed to broader market access for small exporters, although logistical and facilitation gaps were noted as constraints to be addressed.

5. Sectoral Heterogeneity and Policy Implications

Heterogeneous impacts across sectors were identified: manufacturing was observed to be more capital-intensive with higher compliance complexity, services were judged to benefit more from digital market access, and retail was found to gain from simplified billing and e-commerce growth. Consequently, it was recommended that policy responses be tailored by sector—including compliance cost relief for micro units, ITC automation, targeted credit windows, and enhanced digital literacy programs—to ensure that the benefits of GST reform are equitably realised across the MSME ecosystem.

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