



Evaluating The Influence Of GST-Driven Input Tax Credit Mechanisms On Stock Transfers, Receivables, And Payables

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Abstract

This research delves into the ways India's Goods and Services Tax (GST) system, with its emphasis on Input Tax Credit (ITC) mechanisms, has reshaped stock transfers, accounts receivables, and payables for micro and small enterprises in Mumbai. We adopted a quantitative survey approach, collecting data from 162 GST-registered businesses across consumer-facing sectors like electronics retail, pharmaceuticals, wholesale trading, logistics services, hardware supplies, and consumer durables. Stratified cluster sampling was used across Mumbai's commercial hubs, targeting firms with under 50 employees, annual turnovers of ₹5–10 crore, and at least 12 months of GST compliance. The questionnaire, offered in Hindi and English, explored shifts in stock transfer practices over 6–12 months, ITC claim efficiencies, effects on receivables and payables cycles, and business context controls. Results show that strong ITC efficiency shortens receivables by 15 days on average ($r = -0.58$, $p < 0.001$) and allows strategic payables extension, bolstering cash flow. Firms scoring high on the ITC index (over 80) experienced fewer stock transfer delays and better working capital ratios. In sum, effective ITC handling drives smoother inventory flows and financial flexibility, and the authors recommend sector-tailored training to help small businesses in fast-paced markets like Mumbai maximize GST advantages and build resilience.

Keywords: GST Input Tax Credit (ITC), Stock Transfers, Accounts Receivables, Accounts Payables, Consumer-Facing Sectors, Tax Compliance Efficiency, Regression Analysis, Cash Flow Optimization, Invoice Matching.

Introduction

India's Goods and Services Tax (GST), launched in July 2017, marked a seismic shift in indirect taxation by merging a patchwork of central and state levies into one cohesive framework. Designed to end tax-on-tax cascading through robust Input Tax Credit (ITC) provisions, GST has profoundly influenced how businesses manage stock transfers, receivables, and payables—core elements of working capital for micro and small enterprises (MSEs). For these firms, often operating on razor-thin margins in dynamic urban markets like Mumbai, ITC isn't just a tax tool; it's a lifeline that can either unlock liquidity or create bottlenecks if mishandled.

At its essence, ITC lets businesses deduct taxes paid on inputs from their output tax liabilities, but only with matched invoices and strict compliance. This has transformed stock transfers:

what were once simple internal moves now demand e-way bills, GST invoicing, and precise documentation to secure credits, avoiding credit blocks that tie up funds. In payables, reliable ITC encourages suppliers to offer longer terms, knowing offsets are secure, while in receivables, faster credit realization pushes firms to collect quicker to sync with filing deadlines. Policy updates, such as the e-invoicing threshold drop to ₹5 crore from August 2023 and the 30-day reporting for ₹10 crore+ turnover firms starting April 2025, have tightened these processes, minimizing invoice losses and building trust in claims.

Picture a Mumbai pharmaceuticals wholesaler shifting stock from a Navi Mumbai warehouse to an Andheri outlet. Pre-GST, this might involve varying state taxes; now, it's an intra-state supply with ITC potential, but any mismatch delays credits, inflating costs and straining cash. Efficient ITC can shrink days sales outstanding (DSO) from 40 to 25 days, releasing funds for growth. On payables, assured credits let firms negotiate 60-day terms, improving days payable outstanding (DPO). Yet, asymmetries persist: tax increases prompt quick adjustments, but cuts see slower pass-throughs, often funneled into liquidity buffers.

Enforcement evolution, like shifting anti-profiteering to the Competition Commission of India (CCI) in 2023, adds scrutiny—firms must justify ITC usage without delaying payments or transfers. For MSEs, this means navigating compliance while avoiding cash crunches. Inverted duty structures in sectors like hardware exacerbate refund delays, complicating payables. The 56th GST Council meeting's narratives stress logistics simplifications, but on-ground realities reveal tech hurdles for small firms, fostering conservative inventory and credit strategies.

Three pivotal factors for working capital emerge: ITC timeliness speeds receivables; compliance rigor eases stock transfers; credit reliability stretches payables without disputes. As GST enters its eighth year in 2025, it curbs informal practices, stabilizing operations and favoring volume over tight margins. For wholesalers and logistics players, clear ITC means predictable transfers and balanced ledgers; for retailers, it cuts hold-ups. Ultimately, GST acts as a cash flow sculptor, favoring disciplined MSEs with competitive edges in Mumbai's bustling economy.

But challenges linger. Many MSEs struggle with digital mandates, leading to blocked credits and inflated costs. Studies show faster growth ties to ITC fluency, yet delays persist. This paper explores these dynamics, assessing how ITC influences stock, receivables, and payables, with implications for policy and practice.

Review of Literature

Existing research on GST's Input Tax Credit (ITC) mechanisms has consistently highlighted its potential as a transformative force in enhancing supply chain efficiency and bolstering financial stability for Micro and Small Enterprises (MSEs) in India, yet it also brings to light significant implementation challenges that can hinder these benefits. Introduced in 2017, the GST regime aimed to create a unified tax structure, eliminating the cascading effects of multiple taxes through ITC, which allows businesses to offset taxes paid on inputs against their output liabilities. For MSEs, which form the backbone of India's economy by contributing substantially to employment and GDP, this mechanism promises smoother operations, reduced overall tax burdens, and improved cash flows through timely credit

claims. However, hurdles such as delayed refunds, complex compliance requirements, and mismatches in invoice reconciliation often disrupt these advantages, leading to liquidity strains and increased administrative costs. Scholars have explored how ITC influences key areas like stock transfers, where seamless credits can minimize capital blockages during intra- or inter-state movements, and receivables/payables management, where efficient claims enable faster collections and strategic extensions of payment terms. Despite these positives, the literature frequently points to disparities based on firm size, sector, and digital readiness, with smaller enterprises facing steeper learning curves. Overall, while ITC fosters formalization and competitiveness, ongoing reforms are needed to address bottlenecks like refund latencies and supplier compliance issues, ensuring MSEs can fully leverage the system for sustainable growth. This body of work underscores the dual-edged nature of GST reforms, balancing innovation in tax administration with practical obstacles that demand policy tweaks for equitable impact (Goel & Sharma, 2025; Ravikumar, 2025; Hijas & Suganthiya, 2025).

In their analysis of GST's effects on Small and Medium Enterprises (SMEs), Goel and Sharma (2025) employed descriptive methods to unpack both the opportunities and pitfalls, revealing that while the regime curtails tax cascading and stimulates interstate trade, persistent ITC refund delays impose considerable strain on working capital, especially for micro firms averaging 23-day waits. Their study, drawing from surveys and secondary data, utilized ANOVA to demonstrate size-based disparities ($F=12.33$, $p<0.01$), showing that medium-sized firms adapt more effectively through digital tools, which facilitate quicker invoice matching and credit claims. For stock transfers, the authors noted a 20% reduction in logistics costs due to unified taxation, yet this gain is often offset by heightened compliance burdens, such as mandatory e-way bills and documentation, which can tie up resources for smaller players. They suggest accelerating refunds to optimize Days Sales Outstanding (DSO) and Days Payable Outstanding (DPO), arguing that such measures would enhance cash flow cycles and allow MSEs to reinvest in operations rather than buffer against delays. This perspective is particularly relevant for sectors like manufacturing and trading, where inventory movements are frequent, and ITC inefficiencies can lead to inflated carrying costs. Overall, Goel and Sharma emphasize the need for targeted support, like simplified portals and awareness programs, to bridge the gap between GST's theoretical benefits and on-ground realities, ultimately positioning ITC as a key lever for MSE resilience in a competitive market.

Ravikumar (2025) delved into the effectiveness of GST implementation on small businesses in India, focusing on digitization as a double-edged sword that offers opportunities for streamlined processes but also presents formidable compliance challenges. Although the study provides limited specifics on ITC, it implies significant working capital pressures stemming from rigorous record-keeping demands, such as monthly filings and real-time invoice uploads, which can overwhelm resource-strapped MSEs. Ravikumar's qualitative assessment, based on interviews with business owners, recommends simplified schemes like the Composition Levy to alleviate these burdens, enabling easier payables extension without the risks of credit denials due to mismatches. For instance, under GST, small firms can opt for quarterly returns, but lapses in ITC documentation often result in blocked credits, forcing them to absorb input taxes as costs and disrupting cash flows. The author highlights how this

affects stock transfers, where non-compliance can trigger penalties during interstate movements, increasing operational hesitancy. By advocating for user-friendly digital interfaces and reduced thresholds for mandatory e-invoicing, Ravikumar argues that such reforms could transform GST from a compliance hurdle into a growth enabler, particularly for rural and informal sector businesses. This aligns with broader calls for policy flexibility, ensuring that ITC mechanisms not only reduce tax liabilities but also foster a supportive environment for small enterprises to thrive amid economic uncertainties.

Hijas and Suganthiya (2025) adopted a mixed-methods approach to examine GST's impact on SMEs, uncovering that 68% of respondents encountered ITC delays, which deteriorated cash cycles by a staggering 55% through prolonged refund processes and mismatched claims. Their regression analysis identified firm size and digital readiness as critical predictors of adaptation, with larger manufacturing MSEs reaping benefits from ITC on inputs—like raw materials taxed at lower rates—but still grappling with liquidity hits from advance payments required under the regime. The study illustrates how stock transfers have become smoother for interstate flows due to unified GST rates, eliminating border checks and reducing transit times, yet rural firms lag because of infrastructure gaps, such as unreliable internet for e-way bill generation, directly impacting receivables collection as buyers delay payments awaiting credit confirmations. Hijas and Suganthiya incorporate qualitative insights from focus groups, revealing frustrations over administrative complexities that divert time from core business activities. They propose enhanced training programs and subsidized digital tools to mitigate these issues, emphasizing that effective ITC utilization could shorten DSO by enabling faster invoice reconciliations. This research adds nuance to the discourse by highlighting regional disparities, suggesting that while GST promotes formalization, tailored interventions are essential to prevent smaller, remote enterprises from being sidelined in the push toward a digital tax ecosystem.

Mohamed and Chinnu (2025) conducted a survey-based exploration of GST impacts on small and medium businesses, finding that 71.4% of participants acknowledged heightened compliance demands, while a mixed 51.8% disagreed on its overall ease for operations. Central to their findings is ITC's role in eliminating cascading taxes, which has enabled market expansion by allowing seamless credit offsets across states, thereby reducing effective costs and encouraging cross-border trade. However, the authors note that persistent delays in ITC claims exacerbate cash flow issues, compelling firms to maintain higher reserves and straining working capital management. For payables negotiation, streamlined claims could empower MSEs to secure better supplier terms, knowing credits are reliable, but current bottlenecks often lead to disputes and withheld payments. Mohamed and Chinnu's data from diverse sectors, including retail and services, underscores the need for policy refinements like automated refund systems to support these negotiations. They also discuss how GST's transparency has curbed evasion but at the expense of initial adaptation costs for small players lacking accounting expertise. By recommending user-centric portals and awareness campaigns, the study advocates for balancing compliance rigor with accessibility, ensuring ITC serves as a true enabler rather than a barrier, ultimately fostering sustainable growth in India's vibrant SME landscape.

Pavithra (2025) investigated the financial strain imposed by GST on small businesses in Tamil Nadu, observing increased operational costs without delving deeply into ITC specifics,

though her doctrinal analysis spotlighted administrative complexities that indirectly amplify working capital pressures through mismatches and delayed credits. Drawing from legal frameworks and case studies, Pavithra argues that the regime's intricate rules—such as multiple return filings and threshold compliances—exacerbate receivables delays, as suppliers hesitate to extend terms amid fears of credit blocks. For stock transfers, the study points to taxation on intra-state movements as a hidden cost, locking up capital until final sales and ITC claims are processed, which can be particularly burdensome for seasonal businesses reliant on quick inventory turns. She critiques the lack of provisional mechanisms for immediate relief, suggesting that this oversight contributes to cash crunches and reduced competitiveness against larger entities. Pavithra's work incorporates stakeholder interviews, revealing sentiments of overburden among micro entrepreneurs who struggle with digital transitions. To alleviate these strains, she proposes simplified guidelines and state-level support desks, emphasizing that while GST aims for equity, its current form risks marginalizing regional small businesses unless reforms prioritize ease and timeliness in ITC processes.

Subramania Nathan (2020) provided a detailed examination of MSME challenges under GST, particularly how stock transfers are treated as taxable supplies, effectively blocking capital until goods are sold and ITC is claimed, which can severely impact liquidity for firms with thin margins. He elaborates on the Reverse Charge Mechanism (RCM) for purchases from unregistered suppliers, adding an upfront tax burden that MSEs must pay before offsetting via ITC, often leading to cash outflows without immediate relief. Nathan suggests immediate credit provisions to improve DSO, allowing quicker collections by assuring buyers of seamless offsets. Additionally, he addresses arrest provisions for non-deposits, which further strain payables as firms prioritize tax payments over vendor settlements to avoid legal repercussions. Drawing from policy analyses and industry examples, the author highlights how these elements complicate inventory management, especially in multi-location setups where transfers are frequent. His recommendations include threshold relaxations and enhanced dispute resolution to mitigate these issues, arguing that GST's intent to formalize the economy must not come at the cost of stifling MSMEs. This early critique remains relevant, underscoring the need for ongoing tweaks to make ITC more accessible and less punitive for small-scale operations.

Asha Latha Tasupalli (n.d.) critically questioned whether GST truly serves as a gamechanger for MSMEs, pointing to ITC denials arising from supplier defaults as inherently unfair, contravening principles of non-penalization where buyers suffer for others' lapses. She discusses how the Composition Scheme limits ITC eligibility, pushing smaller firms toward higher effective costs and restricting their ability to compete with registered entities. For stock transfers, Tasupalli notes the taxation hikes working capital needs, as upfront GST payments precede credit claims, creating bottlenecks in cash cycles. Reforms like provisional refunds, she argues, could significantly shorten DSO by providing interim relief, allowing MSEs to maintain operations without excessive borrowing. Her analysis, informed by case studies and regulatory reviews, critiques the regime's one-size-fits-all approach, which overlooks the vulnerabilities of informal sector players. Tasupalli advocates for supplier accountability mechanisms and simplified opt-in rules to enhance ITC reliability, emphasizing that true transformation requires addressing these inequities to foster inclusive

growth. This perspective encourages a reevaluation of GST's design, ensuring it empowers rather than encumbers MSMEs in their pursuit of stability and expansion.

The DC-MSME note (n.d.) anticipated the seamlessness of ITC under GST but cautioned about restrictions for dealings with unregistered firms, which could erode business viability by tying receivables to supplier compliance and complicating credit chains. Pre-dating the regime's rollout, the document warned of time limits on stock transfers, potentially complicating inventory planning as delays in e-way validations or mismatches lead to held-up goods and inflated holding costs. It highlighted how unregistered suppliers might force MSMEs into RCM payments, straining payables without immediate ITC offsets, and suggested exemptions or simplified registrations to mitigate this. The note's forward-looking analysis underscored the need for robust support systems, like awareness campaigns and helplines, to help MSEs navigate these hurdles. By framing GST as a double-edged tool, it called for balanced implementation to prevent formalization from disadvantaging small players, ultimately aiming to enhance supply chain efficiencies through reliable ITC flows.

AJ (2025) concentrated on the implications of stock transfers under GST, noting that taxable interstate supplies lock capital until final sales, delaying ITC and heightening working capital demands, especially in seasonal sectors where inventory turnover is critical. Although the discussion omits direct mentions of receivables and payables, it implies ripple effects, such as strained supplier relationships due to upfront tax outflows without quick reimbursements. AJ's practical guide emphasizes compliance strategies like accurate valuation and e-way bill adherence to minimize disruptions, suggesting that while GST unifies processes, its capital-intensive nature for transfers can deter expansion for MSEs. By providing step-by-step insights, the article advocates for policy leniencies, such as extended claim windows, to alleviate these pressures and promote smoother operations.

The BUSY article (n.d.) elucidated ITC's pivotal role in offsetting taxes for MSMEs, thereby improving liquidity and competitiveness by directly reducing outflows and enabling reinvestment in growth areas. It explains how claiming credits on purchases—from raw materials to services—lowers net liabilities, but warns of common pitfalls like mismatches that block access. For payables, efficient ITC allows strategic extensions, as firms can defer settlements knowing offsets are secure, while for receivables, timely claims encourage prompt collections to align with filing cycles. The piece offers actionable tips, such as using software for reconciliation, to maximize benefits, positioning ITC as a tool for financial agility amid GST complexities.

Piceapp (2025) outlined key GST benefits for MSMEs, including ITC on capital goods that lowers costs, yet flagged challenges like refund delays disrupting cash flows, particularly for exporters reliant on zero-rated supplies. The Composition Scheme's denial of ITC is critiqued as limiting competitiveness, pushing firms toward full registration despite compliance loads. For stock transfers, upfront taxes increase capital needs, affecting inventory strategies, while integration with platforms like TReDS aids receivables through discounting. Piceapp recommends leveraging these hidden advantages via digital tools to optimize working capital, estimating savings of 5-7%.

ClearTax (2025a) reiterated capital blockages in stock transfers due to upfront GST, with ITC available only post-sale, which can strain MSEs' liquidity during transit periods. This setup demands careful planning to avoid penalties, impacting overall supply chain efficiency.

ClearTax (2025b) examined the MSME Act's interplay with GST returns, noting how ITC delays clash with payment cycles, prompting buyers to withhold funds and straining receivables; solutions like TReDS facilitate faster capital via invoice discounting, enhancing cash management.

Corpbiz (2020) highlighted positive ITC aspects enabling expansion through seamless credits, but negatives like stock transfer taxation raising capital needs and supply chain shifts due to non-compliant vendors, calling for balanced reforms.

CredAble (2025) emphasized hidden GST perks for MSMEs, such as Composition for low rates, ITC optimization reducing liabilities, export refunds, and QRMP easing flows, collectively boosting working capital by 5-7% through strategic utilization.

These studies collectively frame ITC as a cornerstone for working capital management in MSEs, effectively moderating frictions in stock transfers and harmonizing receivables with payables dynamics, yet they unanimously advocate for reforms to tackle persistent delays, compliance overloads, and inequities that undermine its potential. By synthesizing empirical data, surveys, and policy critiques, the literature reveals a consensus on GST's catalytic role in formalization and efficiency, but stresses the urgency of targeted interventions—like automated systems, provisional credits, and sector-specific exemptions—to ensure inclusive benefits. This evolving discourse not only illuminates implementation gaps but also guides future policies toward empowering MSEs in India's economic landscape.

Objectives of the Study

1. To investigate how GST ITC mechanisms affect efficiency and compliance in stock transfers for consumer-facing MSEs.
2. To analyze ITC realization's impact on receivables and payables cycles, and broader working capital.

Hypotheses

H1: Efficient ITC mechanisms correlate with fewer stock transfer delays and enhanced inventory management.

H2: Higher ITC efficiency positively affects receivables collection, payables extension, and cash flows.

Research Methodology

This cross-sectional quantitative study surveys GST-registered micro and small enterprises in Mumbai with turnovers ₹5–10 crore, under 50 employees, and 12+ months compliance. Sampled 162 firms via stratified cluster sampling from zones like Andheri, Dadar, Navi Mumbai, covering electronics (25%), pharmaceuticals (20%), wholesale (18%), logistics

(15%), hardware (12%), durables (10%). Questionnaire in Hindi/English captured stock transfer changes (frequency, delays, e-way issues), ITC efficiency (claim %, delays, blocks), receivables/payables (DSO/DPO shifts), profits, and controls (size, competition). H1 testing: T-tests compare transfer metrics high/low ITC; correlations link index to delays; regressions control confounders. H2: Correlations/regressions on ITC vs. DSO/DPO; ANOVA on quartiles.

Data Analysis

Exploring GST's ITC effects in Mumbai's small businesses reveals it as a pivotal force for stock efficiency and cash management. From 162 surveys in vibrant sectors, high ITC cuts transfer delays, trims receivables by 12-18 days, and stretches payables smartly. These hold after controls for market pressure and scale. Breakdown follows with stats, tables, interpretations. 68% saw ITC shifts, claims 82% in 60 days—decent, but room for Mumbai's hustle.

Sample Characteristics 162 valid responses, zones: Andheri (24%), Dadar (19%), Navi Mumbai (16%), etc. Sectors: Electronics 40 (24.7%), Pharma 32 (19.8%), Wholesale 29 (17.9%), Logistics 24 (14.8%), Hardware 19 (11.7%), Durables 18 (11.1%). Turnover avg. ₹3.8 crore, 58% < ₹5 crore. 75% compliant 24+ months.

Table 1: Demographic Breakdown of Sampled Firms

Characteristic	Category	Frequency (n=162)	Percentage (%)
Sector	Electronics Retail	40	24.7
	Pharmaceuticals	32	19.8
	Wholesale Trading	29	17.9
	Logistics Services	24	14.8
	Hardware Supplies	19	11.7
	Consumer Durables	18	11.1
Annual Turnover	< ₹2 crore	48	29.6
	₹2-5 crore	68	42.0
	₹5-10 crore	46	28.4
Employees	<10	85	52.5
	10-25	50	30.9
	26-50	27	16.7
Competition Level (self-reported, 1-5 scale)	Low (1-2)	30	18.5
	Medium (3)	70	43.2
	High (4-5)	62	38.3
Inventory Strategy	Just-in-Time	72	44.4
	Bulk Holding	55	34.0
	Mixed	35	21.6

Interpretation: This table sketches typical Mumbai MSEs—small teams in high-volume trades, facing fierce rivalry. Just-in-time dominance aligns with GST's quick transfer push, but ITC glitches can disrupt, as owners noted in qualitative feedback.

Testing H1: ITC Efficiency and Stock Transfers 110 firms (68%) had ITC changes, mostly smoother post-e-invoicing. High ITC reduced delays 20%. T-test:

Table 2: T-Test Results for Stock Transfer Delays (High vs. Low ITC Efficiency)

Group	n	Mean Delay (Days)	Std. Deviation	t-statistic	p-value	Cohen's d
High ITC (>80 Index)	95	5.2	2.8	-7.15	<0.001	0.95 (Large)
Low ITC (<80)	67	12.1	3.5	-	-	-

Interpretation: The stark 6.9-day gap shows efficient ITC streamlines transfers, with large effect size indicating real-world impact—high performers avoid hold-ups, freeing inventory for sales in competitive Mumbai.

Correlations:

Table 3: Correlation Between ITC Efficiency and Stock Transfer Metrics

Variable Pair	n	Pearson's r	p-value	Interpretation
ITC Index vs. Transfer Delay (Days)	162	-0.65	<0.001	Strong negative
ITC Index vs. Transfer Frequency (% Change)	162	+0.52	<0.001	Moderate positive
ITC Index vs. E-Way Compliance Issues (Binary)	162	-0.48	<0.001	Moderate negative

Interpretation: Strong negative r for delays means better ITC slashes wait times, while positive for frequency suggests confident moves. Compliance issues drop, as reliable credits reduce e-way disputes—owners said this cuts costs in logistics-heavy sectors.

Regression:

Table 4: OLS Regression on Stock Transfer Delays (Days)

Predictor	Coefficient (β)	Std. Error	t-stat	p-value	VIF
ITC Efficiency Index	-0.18	0.03	-6.00	<0.001	1.38
Firm Size (log turnover)	+0.95	0.25	3.80	<0.001	1.29
Competition Level	+1.05	0.32	3.28	0.001	1.25
Sector (dummy: logistics=1)	+1.15	0.38	3.03	0.003	1.12
Constant	15.2	1.8	8.44	<0.001	-
Model Stats	R ² =0.55, Adj R ² =0.53, F(4,157)=48.2, p<0.001				

Interpretation: ITC drives 0.18-day delay reduction per point, robust at R²=0.55. Larger firms and high competition add delays, logistics dummy highlights sector risks—pharma owners noted ITC cushions volatile transfers.

Table 5: Cross-Tab on Transfer Adjustments Post-ITC Improvements

Adjustment Type	High ITC (n=95)	%	Low ITC (n=67)	%	Chi-Square	p-value
No Change	55	57.9	58	86.6	15.3	<0.001
Increased Frequency	30	31.6	7	10.4	-	-
Reduced Volume per Transfer	10	10.5	2	3.0	-	-

Interpretation: Efficient firms boost frequency 31.6% vs. 10.4%, chi-square confirms link—high ITC encourages bolder adjustments, reducing per-transfer volume to minimize risks.

Testing H2: ITC Efficiency and Receivables/Payables Claims: 82% in 60 days, delays 38 days, 22% blocks. Index avg. 76.8. DSO 32.1, DPO 45.3. High ITC: DSO 28, DPO 48.

Table 6: Descriptive Stats on ITC Efficiency and Cycles

Variable	Mean	SD	Min	Max	n
ITC Claimed within 60 Days (%)	82.4	13.2	45	100	162
Average Delay (days)	38	20	8	85	162
Blocked Credits Incidence (%)	22.0	-	0	100	162
ITC Efficiency Index	76.8	17.5	40	99	162
DSO (Days)	32.1	8.4	15	50	162
DPO (Days)	45.3	10.2	25	65	162

Interpretation: High timely claims suggest maturity, but 22% blocks highlight mismatches—top performers optimize cycles, as wholesale owners reported faster collections aid reinvestment.

Correlations:

Table 7: Correlations Between ITC Efficiency and Financial Cycles

Variable Pair	n	Pearson's r	p-value
ITC Index vs. DSO	162	-0.58	<0.001
ITC Index vs. DPO	162	+0.54	<0.001
ITC Index vs. Cash Conversion Cycle	162	-0.61	<0.001

Interpretation: Negative DSO r shows ITC accelerates collections, positive DPO enables extensions—cash cycle shrinks, vital for durables where seasonal peaks demand liquidity.

Table 8: Regression on DSO (Days)

Predictor	β	SE	t	p	VIF
ITC Efficiency Index	-0.22	0.04	-5.50	<0.001	1.35
ITC Exposure (dummy)	+1.10	0.55	2.00	0.047	1.22
Competition Level	+1.80	0.40	4.50	<0.001	1.28
Firm Age (years compliant)	-0.12	0.07	-1.71	0.089	1.15
Constant	42.5	3.0	14.17	<0.001	-
Model: $R^2=0.52$, $F(4,157)=42.6$, $p<0.001$					

Interpretation: 0.22-day DSO drop per index point, $R^2=0.52$ explains variance—competition inflates, exposure adds caution; electronics firms noted ITC eases chases amid rivals.

Regression on DPO:

Table 9: Regression on DPO (Days)

Predictor	β	SE	t	p	VIF
ITC Efficiency Index	0.20	0.04	5.00	<0.001	1.35
ITC Exposure	+0.85	0.50	1.70	0.091	1.22
Sector Dummies (e.g., Wholesale ref)	Varies (e.g., Logistics - 1.2)	-	-	<0.05	<2
Constant	28.0	2.5	11.20	<0.001	-
Model: $R^2=0.49$, $F=24.5$, $p<0.001$					

Interpretation: 0.20-day DPO gain per point, sectors vary—logistics tightens due to perishable needs; pharma suppliers extend terms with ITC assurance.

Table 10: ANOVA on Cycles by ITC Quartiles

ITC Quartile	n	Mean DSO	Mean DPO	F-stat	p
Bottom (0-50)	35	40.2	38.5	18.2	<0.001
Lower-Mid (51-75)	48	34.8	42.1	-	-
Upper-Mid (76-90)	45	30.5	46.3	-	-
Top (91-100)	34	25.1	50.8	-	-

Interpretation: Progressive improvement—top cuts DSO 15 days, adds 12 to DPO; F-stat confirms significance, highlighting efficiency's compounding effect on cash, as hardware owners shared.

Findings

The survey of 162 micro and small enterprises (MSEs) in Mumbai paints a vivid picture of how the Goods and Services Tax (GST) Input Tax Credit (ITC) system reshapes the way these businesses handle stock transfers, receivables, and payables. With 68% of firms (110 out of 162) reporting recent changes in ITC processes, driven by updates like the e-invoicing threshold dropping to ₹5 crore in August 2023 and the upcoming 30-day reporting rule for firms with turnovers above ₹10 crore starting April 2025, it's clear that GST is a game-changer for these small players in sectors like electronics, pharmaceuticals, wholesale trading, logistics, hardware, and consumer durables. On average, firms claimed 82% of their ITC within 60 days, but delays stretching to 38 days and blocked credits hitting 22% of respondents show there's still some friction in the system. When it comes to moving stock—

say, from a warehouse in Navi Mumbai to a shop in Andheri—firms with high ITC efficiency (index scores above 80) were in a league of their own, slashing transfer delays to just 5.2 days compared to 12.1 days for those lagging behind ($t=-7.15$, $p<0.001$, Cohen's $d=0.95$). This isn't just a number; it's a lifeline for businesses paying steep rents for storage. A strong negative correlation ($r=-0.65$, $p<0.001$) ties efficient ITC to fewer delays, as seamless credits cut down on e-way bill disputes and paperwork snags. We also saw 31.6% of high-efficiency firms ramping up transfer frequency, compared to just 10.4% of low-efficiency ones ($\chi^2=15.3$, $p<0.001$), often tweaking shipment sizes to dodge higher tax hits. Our regression model backs this up, showing each ITC index point shaving 0.18 days off delays ($\beta=-0.18$, $p<0.001$, $R^2=0.55$), even when we accounted for firm size, competition, and sector quirks like the fast-paced needs of logistics. Talking to owners, especially in pharmaceuticals, it's clear that reliable ITC lets them move inventory confidently, avoiding piles of unsold goods that eat into cash. One wholesaler shared how clean credits cut his transfer costs by 15%, letting him adopt just-in-time strategies that sync with GST's digital tracking. But those stuck with blocked credits grumbled about higher holding costs, pointing to a need for smoother reconciliations. This shows ITC isn't just about tax savings—it's about keeping operations nimble in Mumbai's dog-eat-dog market, where small shops are up against online giants.

When we zoom in on the financial side, ITC efficiency is like rocket fuel for cash flow. Firms that nail their ITC claims shaved an average of 15 days off their Days Sales Outstanding (DSO), with top performers hitting 25.1 days compared to 40.2 for the bottom quartile ($F=18.2$, $p<0.001$). A tight correlation ($r=-0.58$, $p<0.001$) shows that quick credits push businesses to chase payments faster, as buyers settle up knowing their offsets are secure. On the flip side, Days Payable Outstanding (DPO) stretched impressively for efficient firms, hitting 50.8 days in the top quartile versus 38.5 in the bottom ($F=18.2$, $p<0.001$), with a positive correlation ($r=0.54$, $p<0.001$) reflecting how reliable ITC lets firms negotiate longer supplier terms without drama. Our regressions tell the same story: each ITC index point cuts DSO by 0.22 days ($\beta=-0.22$, $p<0.001$, $R^2=0.52$) and boosts DPO by 0.20 days ($\beta=0.20$, $p<0.001$, $R^2=0.49$), holding up even when we tossed in controls like competition and sector differences. Electronics shop owners told us fast ITC feels like getting a loan paid back early, letting them restock without borrowing at 18% interest rates. In logistics, firms said secure credits meant they could delay supplier payments to fund new trucks. But 22% of businesses hit by blocked credits—often from supplier invoice mismatches—saw their DSO balloon and payables tighten, especially in hardware where inverted duty structures drag out refunds. ANOVA results show a clear progression: top-quartile firms shrink cash conversion cycles by 20 days, a huge win for consumer durables facing seasonal rushes. These numbers line up with what owners told us—ITC delays act like a cash flow chokehold, forcing them to play it safe. For small businesses scraping by in Mumbai, efficient ITC translates to 10-15% better working capital, giving them a fighting chance against big-box stores and e-commerce platforms.

Tying it all together, ITC's influence on stock transfers and financial cycles tells a bigger story about GST as a structural shift for MSEs, but only for those who master its complexities. In high-pressure sectors like wholesale trading, where 38.3% of firms reported intense competition, ITC efficiency meant quicker tax benefit pass-throughs, with 70% of affected firms tweaking transfer frequencies or volumes to keep costs down. Regression controls showed competition pushing up DSO ($\beta=1.80$, $p<0.001$), but strong ITC softened the blow by

speeding up collections. Sector differences popped up: logistics firms, dealing with perishables, had tighter DPO ($\beta = -1.2$, $p < 0.05$) to keep suppliers happy, while pharma businesses used ITC to stretch payments, boosting DPO. Our cross-tab data (Table 5) showed high-efficiency firms strategically shrinking transfer volumes to align with GST's valuation rules, cutting tax liabilities. But we've got to be real—self-reported data might paint a rosier picture than reality, and Mumbai's urban hustle doesn't fully reflect rural India. Still, the trends are solid: ITC smooths operations, but delays and blocks are a real pain, especially for micro firms short on tech know-how. Owners kept mentioning clunky GSTN portals slowing down claims, suggesting that fixes like automated refunds could unlock 5-7% more working capital. This makes ITC a powerful tool for small businesses to hold their own against retail giants and online marketplaces, but only if policies iron out the kinks and make compliance less of a headache.

Conclusion

This survey of 162 micro and small enterprises (MSEs) in Mumbai really drives home how the Input Tax Credit (ITC) under GST shapes everything from stock transfers to managing receivables and payables, ultimately affecting working capital in consumer-driven sectors like electronics retail, pharmaceuticals, wholesale trading, logistics, hardware supplies, and consumer durables. Both hypotheses held up: smoother ITC processes cut down on stock transfer delays and improve inventory handling (H1), and better ITC realization speeds up collections, stretches payables, and boosts cash flow (H2). For instance, firms scoring high on ITC efficiency (over 80 on the index) saw stock delays drop to just 5.2 days, versus 12.1 days for others, backed by a solid negative correlation ($r = -0.65$, $p < 0.001$) and regression stats ($\beta = -0.18$, $p < 0.001$, $R^2 = 0.55$). Financially, the top performers shaved Days Sales Outstanding (DSO) to 25.1 days and pushed Days Payable Outstanding (DPO) to 50.8 days, shortening cash cycles by as much as 20 days ($F = 18.2$, $p < 0.001$). But it's not all smooth sailing—22% of firms dealt with blocked credits, especially in hardware due to inverted duties, which squeezed liquidity. In competitive areas like wholesale, ITC benefits flowed through quicker, while logistics folks faced tighter payables from handling perishables. Owners shared stories of ITC feeling like a lifeline, almost like getting a loan paid back, freeing up cash for reinvestment without pricey borrowing. Still, delays and the hassle of GSTN portals trip up smaller outfits lacking tech savvy. Overall, GST's ITC setup promotes efficiency, but it hinges on smooth execution, pointing to the need for fixes to make it fairer for Mumbai's MSEs in this bustling economy.

The takeaways here are practical and far-reaching, giving MSE owners and policymakers real ways to strengthen businesses under India's GST regime. For owners, keeping ITC in top shape—uploading invoices on time, doing thorough 2B/3B reconciliations, and chasing vendors—can prevent blocks and free up cash. In fast-moving sectors like pharma, tracking stock at the SKU level to match GST rules helps cut taxes and keep inventory lean. For hardware firms hit by inverted duties, tweaking supplier deals or using invoice financing can ease refund waits and steady payables. The data shows efficient firms cutting DSO by 15 days and extending DPO by 12, potentially boosting working capital by 10-15% through better tools and training—a big win in Mumbai's cutthroat scene. Policymakers should tackle the 22% blocked credit rate and 38-day delays with faster refunds and simpler invoice guidelines. Things like auto-refunds or sector-tailored clinics could help micro firms most.

With anti-profiteering now under CCI since 2023, enforcement should be balanced, letting MSEs adjust volumes without heavy penalties. Banks could offer loans tied to invoice data, and trade groups might run GSTN workshops. All this would help MSEs fully tap ITC, holding their own against big players and e-commerce while pushing more formal business in India.

This research sets a solid base for grasping ITC's role in MSEs, but it opens doors for more digging to build on it. Following the same firms over years, especially after the 2025 e-invoicing mandate kicks in at 30 days, could nail down cause-and-effect on transfers and cycles through real-time changes. Pulling in actual transaction data from POS or GSTN would swap out self-reports for precise, timestamped details on delays and payments. Branching out beyond Mumbai to semi-urban or rural spots would check if these patterns hold, factoring in gaps in tech and compliance. Adding competition angles, like HHI scores or private-label shares, could show how markets tweak ITC perks. Zeroing in on inverted duty areas like hardware might measure refund drags and test fixes such as supplier financing or temp credits. Checking upstream suppliers' compliance via audits would pinpoint their part in blocks and guide reforms. Looking at platforms like TReDS for discounting invoices could spotlight liquidity boosts. Sure, the one-time urban snapshot has limits, but these steps would amp up the insights, guiding tweaks to GST that spur growth and toughness for MSMEs across India's varied terrain.

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