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# Finding correlation in the Impact of Goods and Services Tax on the power looms of Banaras and Bhiwandi

## Article History:

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**Abstract:** Textile sector is one of the oldest industrial sectors in India. Indian fabrics are famous worldwide since time immemorial. If one travels across the country one realize that each state has some unique kind of textile to offer. From pashmina of kashmir to kanjivaram of Tamil Nadu patola of gujarat to Sambhalpuri of Odisha all these textiles are our national heritage. With time technological development can be seen in the textile sector and today one can see Powerlooms coming up. Powerloom industry is a subset of textile industry. It is one of the major sectors of our economy. According to data released by the government in the Press Information Bureau, 2022, it contributes nearly 58.4% to total cloth production and more than 60% of these fabrics are meant for exports. This whole sector was kept out of indirect tax or was lightly taxed before the new regime was introduced. The new regime introduces Goods and Services tax on this sector. The present paper is going to focus on how the power looms business in India used to run before GST at different parts of the country and studies the changes that have been brought after this “One nation One tax” has been introduced. Lastly the paper analyzes and compares the data from the city of Banaras and the city of Bhiwandi, the two major powerloom hubs in the state of Maharashtra and Uttar Pradesh. For the purpose of the study 70 samples were collected from both the cities and chi square test has been run on the data to understand the correlation between the introduction of Goods and services Tax and its impact on both the cities.

**Keywords:** - Textile, Powerlooms, GST, Profit, Turnover etc.

## INTRODUCTION

Goods and services tax was introduced in India on 1st of July, 2017. It is a continuous process of evolution. This new reform has not only subsumed 27 old indirect tax laws but at the same time widened the scope of indirect taxation by including those goods and services also under the ambit of indirect tax that were earlier excluded. One such sector is the “Textile Sector”. This sector has various verticals on the basis of machines and fabrics. On the basis of machines used it can be divided into Powerloom and Handloom. On the basis of fabrics it can be divided

into manmade and natural. Before GST most of these verticals of textile industry were exempted from indirect taxes. This is one of the most decentralized sectors. It was expected that the whole market dynamics of the textile sector would be changed once GST is introduced. Therefore it was important to identify the advantages and disadvantages of the new tax system in different textile cities. In the last seven years this industry has seen a lot of changes and therefore it is very important to understand how Goods and Services Tax affected the textile industry. The government has implemented different rates of

GST in the whole value chain of textile. This varies from 5% to 18%. In this paper the authors have collected data from two major textile hubs of the west and the east i.e. Bhiwandi and Banaras. The research focuses on realizing whether both the cities have similar outcomes after GST or there is any change in the effect. Various factors that have been considered to undertake the study are: Wages of the Labour, Profit, turnover and cost of production after the new development.

### LITERATURE REVIEW:

In recent years, several studies have been undertaken to explore the impact of GST on the textile industry of India, particularly focusing on the conditions of the weavers across different regions. Garg (2019) examined the wider impact of GST on various sectors of the Indian economy. The author has concluded that there has been a mixed impact of GST on the Indian economy, wherein the textile industry was among the most adversely affected ones. The author has highlighted that the inclusion of the textile industry under the purview of GST has led to confusion among small traders, increased the prices of goods, and hampered exports. Similarly, Kumar (2016) explains the conditions of weavers working in the Silk Industry of Banaras, wherein the author has highlighted the shift in the lifestyle, livelihood, and ethos of the weavers after powerlooms have taken over the handloom industry in the city. The author emphasizes that there is a need for education, skill development, and governmental efforts, in terms of providing better technology and better education for their future generation, to improve their socio-economic conditions. Borate and Ghorpade (2016), have theoretically explained the impact of GST on textile industry in India and how this sector manage to bring the out with the increased cost due to new tax law. Their study pointed out some positive and negative impact of GST on textile industry and the major changes regarding the tax rates in textile sector. The author also provides suggestions, how GST can be more profitable to this particular industry. While empirically, Khan and Sons (2016) focuses on the overall textile industry in Bhiwandi, Maharashtra. For their study, the authors collected data from 30 respondents who were selected through simple random sampling, which revealed that there was a complete removal of benefits under the cotton value chain, but GST will help the industry in the long run. Likewise, Basak et al. (2020), the authors tried to examine the effect of post GST on handloom weavers in West Bengal. They gathered data from 135 handloom weavers from different groups and had used regression analysis to describe the relationship between one dependent and 8 independent variable. Their study recommended that the efforts should be made to decrease the price of raw material and more focus should be made to marketing the handloom

products. Lastly, Jain (2020) examined the impact and consequences of GST on the textile industry of Surat, Gujarat, concluding that the textile industry of Surat city is negatively impacted from GST as there was increase in product costs, severely affecting thread manufacturers, traders, and the overall Indian economy.

### Social profile of two cities:

In a country like India which has limited capital and excess of human resource labor intensive industry like textile holds significant status. This sector fulfills one of the most fundamental necessities of life. According to the report of the National Institute for Micro, Small and Medium Enterprises, “this is one such sector which requires huge value addition at every stage of processing with its contribution of 14% of the total industrial production and it contributes to nearly 30% of the total exports.” This industry has the potential of generating a large number of employment opportunities. At present the industry is the second largest employment provider in India.

**Bhiwandi:** The city of Bhiwandi is one of the well known textile cities of India. It is a commercial city in Thane district. The city is well connected with roads and Ports infrastructure of Mumbai. This makes its location very favorable for exports and domestic distribution. It is Asia's biggest textile hub. It has around 33% of India's powerlooms. It produces around “420 lakh meters per day” (as per the data of 2016) ranging from grey, printed fabric, dyed fabric, cotton fabric to various mixes of cotton, synthetic, and other fibers” (Basu, 2019). The city produces various varieties of textile products but 76% of the product made by Bhiwandi is “grey cloth”. Bhiwandi is a city which not only contributes to GDP but also provides employment to around 20 lakhs mid skilled or low skilled workers. But the whole powerloom industry in Bhiwandi is much decentralized. This has created a lot of problems for the workers. While analyzing the social and the economic condition of the workers of the powerloom it is found that the working conditions of these workers are very poor. They are generally migrant workers who have limited skills. They are mostly not hired on role and therefore deprived of facilities like Provident fund, overtime, leaves, housing, insurance etc. The powerloom owners are also facing issues like obsolete machines, fluctuation in yarn prices, etc.

**Banaras:** The city of Banaras has a long history of textile industry. This is centuries old traditional fabrics of Banaras that is known worldwide for its quality fabric (Shweta, 2019). It is amongst the prominent textile cities of north India. To study the profile of the city the author has relied on field study and other secondary sources. The data is collected

from major textile clusters of the city. The city has three levels of hierarchy in the production: - The weavers, masterweaver and gadidar (Kumar, 2016). The weavers usually work on a job work basis and raw-material is provided by the master weavers. The weavers are usually very small and have an average of around 10 looms. There are various weavers who have just 2 or 3 looms only. The weaver community in Banaras is also unaware of the various implications of GST because of various reasons like, levels of education, less financial knowledge, decentralized weavers etc.

**Research Objective:**

The objectives of the study are as follows:

- To identify the correlation of “impact of Goods and Services Tax on wages of workers” in the powerloom industry of Bhiwandi and Banaras.
- To identify the correlation of “impact of Goods and Services Tax on the Cost of Production” in the powerloom industry of Bhiwandi and Banaras.
- To identify the correlation of “impact of Goods and Services Tax on the Profit of the organization” in the powerloom industry of Bhiwandi and Banaras.
- To identify the correlation of “impact of Goods and Services Tax on the Turnover of the business” in the powerloom industry of Bhiwandi and Banaras.

**Hypothesis:**

The implementation of Goods and Services Tax in India has significantly impacted various sectors in different aspects of the economy. Here in this paper we try to find out whether there is any similarity of impact of GST between two major textile hubs of India i.e. Bhiwandi and Banaras.

- ❖ H01 – There is no association between city and impact of GST on worker’s wages.
- ❖ H02 – There is no association between the city and impact of GST on the cost of Production.
- ❖ H03– There is no association between city and impact of GST on Profit of the organization.
- ❖ H04 – There is no association between city and impact of GST on Turnover.

**RESEARCH METHODOLOGY:**

The researcher seeks to study the textile industry of Biwandi and Banaras and compare the effects of the new tax regime in these two textile cities. For this purpose the researcher will divide the study into two parts primary and secondary. Secondary data was collected from books, newspaper reports, analysis of financial experts, and research articles on the subject. Primary data have been collected from 140 samples, 70 from each of the cities. Further expert opinions have also been taken to verify the answers of the loom owners.

Sampling technique: The collection of samples is done using convenience sampling. The cities selected for the studies are two major textile hubs of East and the West i.e. Banaras and Bhiwandi.

Tools and technique: Tool used for data collection is a structured questionnaire consisting of 11 questions.

Test: As the data collected are categorical in nature, Chi square test has been run on the data to test the hypotheses.

**Analysis and findings:**

This study investigates in particular the association between Impact of GST on workers’ wages, cost of production, profit of the organization and turnover in Banaras and Bhiwandi. Factors which affect the industry were examined. The primary data regarding impact of GST from Banaras and Bhiwandi were collected through survey method using a questionnaire in the month of March, 2022. The data were collected from 70 respondents from each city through a convenient sampling method. These two cities were selected to find out whether there is any association in the impact of GST and cities. Out of 70 respondents of Banaras and Bhiwandi 07 and 08 respondents were belonging to organized sector respectively and 63 and 62 respondents were belong to unorganized sector as shown in the table below:

**Table No: 01 Division of respondents on the basis of sector**

| City     | Number of respondents |                  | Total |
|----------|-----------------------|------------------|-------|
|          | Unorganized Sector    | Organized Sector |       |
| Banaras  | 63                    | 07               | 70    |
| Bhiwandi | 62                    | 08               | 70    |
| Total    | 125                   | 15               | 140   |

The data were collected on the basis that whether GST has impacted the respondent or not in respect of various factors. From the structure of the data it is clearly visible that Chi square is the most appropriate test as all the variables used in this study are categorical. All the categorical variables have two groups in each.

(i) Chi Square test between City and impact of GST on workers' wages

**Table No: 02 Chi Square Test Results**

|                    | Value | df | Asymptotic Significance |
|--------------------|-------|----|-------------------------|
| Pearson Chi-Square | .032  | 1  | .858                    |
| Correlation        | .000  | 1  | 1                       |
| Likelihood Ratio   | .032  | 1  | .858                    |

In this test we analyze whether there is any association between City and Impact of GST on workers wage. The result shows that there is no significant association between Banaras and Bhiwandi City's impact of GST on workers' wages as the significance value (.858) is more than the 0.05.

(ii) Chi Square test between City and impact of GST on Cost of Production

**Table No: 03 Chi Square Test Results**

|                    | Value  | df | Asymptotic Significance |
|--------------------|--------|----|-------------------------|
| Pearson Chi-Square | 11.938 | 1  | .001                    |
| Correlation        | 9.866  | 1  | .002                    |
| Likelihood Ratio   | 16.188 | 1  | .000                    |

In this test we analyze whether there is any association between City and Impact of GST on Cost of production. The result shows that there is a significant association between Banaras and Bhiwandi City's impact of GST on Cost of Production as the significance value (.001) is less than the 0.05.

(iii) Chi Square test between City and impact of GST on Profit of the Organization

**Table No: 04 Chi Square Test Results**

|                    | Value  | df | Asymptotic Significance |
|--------------------|--------|----|-------------------------|
| Pearson Chi-Square | 11.438 | 1  | .001                    |
| Correlation        | 10.323 | 1  | .001                    |
| Likelihood Ratio   | 11.600 | 1  | .001                    |

In this test we analyze whether there is any association between City and Impact of GST on profit of the organization. The result shows that there is a significant association between Banaras and Bhiwandi City's impact of GST on Profit of the organization as the significance value (.001) is less than the 0.05.

(iv) Chi Square test between City and impact of GST on Turnover

**Table No: 05 Chi Square Test Results**

|                    | Value  | df | Asymptotic Significance |
|--------------------|--------|----|-------------------------|
| Pearson Chi-Square | 25.905 | 1  | .000                    |
| Correlation        | 24.206 | 1  | .000                    |
| Likelihood Ratio   | 26.800 | 1  | .000                    |

In this test we analyze whether there is any association between City and Impact of GST on Turnover. The result shows that there is a significant association between Banaras and Bhiwandi City's impact of GST on Turnover as the significance value (.000) is less than the 0.05.

## CONCLUSION:

After analyzing the data and considering the social profiling of the cities it is found that both the cities have experienced problems with respect to GST.

There is a significant correlation between cities when it comes to impact of GST with respect to variables: - Cost of Production, Profit of the organization and Turnover. Whereas there is no association found in

the impact of GST on workers wage between two cities. Further we have also taken an overall feedback on the new regime and data suggest that major issues that are faced by the industry at large is blockage of working capital due to inverted duty structure and non cash refunds of Input tax credit. By and large the powerloom output is taxed at 5% but when it comes to raw material the manmade fiber is taxed at 12%. This creates an inverted duty structure (raw material taxed at higher rate when compared to final goods). The GST council time and again discussed increasing the rate of GST to 12% but that is still under consideration rather various textile clusters are against it as the whole business of looms works on credit system and therefore it will further furry the problem of blockage of working capital. After 7 years of GST, cities like Banaras that work in traditional ways have faced a major loss of labour because of lesser margins and issues of wages. On the other hand cities like Bhiwandi have seen an influx of textile workers from different cities of Uttar Pradesh in search of work. The data also suggests that the impact of GST on the wages of workers can be seen in the city of Banaras but the wages of workers are not affected at all from GST in the city of Bhiwandi.

(viii) [https://mdd.maharashtra.gov.in/Site/Uplod/Pdf/Bhiwandi\\_Report.pdf](https://mdd.maharashtra.gov.in/Site/Uplod/Pdf/Bhiwandi_Report.pdf) access on 25/08/2024.

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