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*Special Issue on the International E-Conference on*

***"Law in the Age of Artificial Intelligence: A Fundamental Perspective"***

*Organised by KES' Shri J. H. Patel College of Law, Mumbai, on 24 January 2026*

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# KES' Shri. Jayantilal H. Patel Law College

*About the College*

KES' Shri. Jayantilal H. Patel Law College is committed to nurturing and empowering students through quality legal education. The college provides an inclusive and academically enriching environment that encourages students to excel in their studies, participate in co-curricular activities, engage in research, and develop a strong sense of civic responsibility.

The college is affiliated to the University of Mumbai, approved by the Bar Council of India, NAAC accredited with 'B++' grade, and ISO 9001:2015 certified. It offers programmes including B.A. LL.B., LL.B., LL.M., and specialised diploma courses.

With qualified and experienced faculty, a strong academic environment, moot court training, research activities and modern infrastructure, the institution seeks to prepare responsible, skilled and socially conscious legal professionals equipped to meet the challenges of a rapidly changing world.

The college functions under the aegis of Kandivli Education Society (KES), an institution established in 1936 with a long-standing commitment to quality, inclusivity and value-based education.

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| **Affiliation** | University of Mumbai |
| **Recognition** | Approved by the Bar Council of India |
| **Accreditation** | NAAC accredited 'B++' |
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# Kandivli Education Society

*Established 1936*

Kandivli Education Society (KES), established in 1936, has grown from a small educational initiative into a dynamic educational institution serving thousands of students.

With a legacy of quality, inclusivity and value-based learning, KES has expanded its academic presence across various disciplines. Its educational institutions are committed to providing meaningful learning opportunities and fostering academic, professional and personal development among students.

KES' Shri. Jayantilal H. Patel Law College is one of its prominent institutions dedicated to legal education. Through academic excellence, research, practical learning and co-curricular engagement, the college seeks to empower students with the knowledge, skills and values necessary to contribute meaningfully to society.

## Educational Commitment

- Quality and inclusive education
- Value-based learning
- Academic and professional development
- Research and practical learning
- Holistic and future-ready education

# Law in the Age of Artificial Intelligence

*A Fundamental Perspective*

## About the International Conference

The International Conference on "Law in the Age of Artificial Intelligence: A Fundamental Perspective" provided an academic platform to examine the transformative impact of Artificial Intelligence on law, legal systems, governance and society.

The conference explored emerging legal and ethical questions relating to Artificial Intelligence, including intellectual property, authorship and ownership, liability, data privacy, cybersecurity, criminal justice, evidence law, human rights, ethics and accountability. It addressed the implications of Artificial Intelligence for legal education, commercial law, regulatory frameworks, policy development, research and scholarly communication.

The conference brought together academicians, research scholars, legal professionals and students to present research, exchange ideas and engage in interdisciplinary discussions. It encouraged meaningful academic dialogue and contributed towards the development of effective, ethical and inclusive legal responses to the rapidly evolving Artificial Intelligence landscape.

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| **Conference** | International Conference |
| **Theme** | Law in the Age of Artificial Intelligence: A Fundamental Perspective |
| **Date** | 24 January 2026 |
| **Time** | 10:00 AM onwards |
| **Mode** | Online |
| **Organised by** | IQAC, Student Research Society and Library Committee |
| **Publication Partner** | LawFoyer International Journal of Doctrinal Legal Research [ISSN: 2583-7753] |

# Principal's Message

*KES' Shri. Jayantilal H. Patel Law College*

It gives me immense pleasure to welcome all academicians, research scholars, legal professionals and students to the International Conference on "Law in the Age of Artificial Intelligence: A Fundamental Perspective."

Artificial Intelligence is transforming the way societies function and is increasingly influencing legal systems, governance, professional practices and education. These developments bring significant opportunities as well as complex legal, ethical and social challenges.

This conference provided a valuable platform for intellectual exchange and interdisciplinary dialogue on emerging issues such as data privacy, intellectual property, liability, criminal justice, human rights, ethics and the governance of Artificial Intelligence. The scholarly contributions and discussions during the conference encouraged deeper understanding and promoted responsible approaches to the use of Artificial Intelligence.

I extend my best wishes to all the speakers, researchers, presenters, participants and members of the organising team for a meaningful and intellectually enriching conference.

**Dr. Viral Dave**
*I/c. Principal*
*KES' Shri. Jayantilal H. Patel Law College*

# Organising Committee

*International Conference on Law in the Age of Artificial Intelligence*

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*Papers presented at the conference are published in the Special Issue of the LawFoyer International Journal of Doctrinal Legal Research [Volume IV, Special Issue I, 2026]*

# IMPACT OF LAW AND ARTIFICIAL INTELLIGENCE ON WORKING CAPITAL MANAGEMENT IN MSMES OF RAIGAD DISTRICT, MAHARASHTRA, INDIA

**Mr. Riyaz Nawabullah Pathan[1] & Dr. Farhat Fatma Mumtaz Husain Shaikh[2]**

## I. ABSTRACT

*Micro, Small and Medium Enterprises (MSMEs) are widely regarded as an important segment of the Indian economy because of their contribution to employment generation, industrial production, exports, and regional development. Efficient Working Capital Management (WCM) is particularly significant for MSMEs, as they largely depend on short-term funds for managing cash, inventory, receivables, payables, and day-to-day operational requirements. In recent years, legal reforms and the increasing use of Artificial Intelligence (AI) and digital financial technologies have influenced the working capital practices of MSMEs. This study examines the impact of law and AI on working capital management of MSMEs in Raigad District, Maharashtra. The study is based on primary data collected from 100 MSME owners and managers through a structured questionnaire, supported by secondary data from journals, government reports, statutory materials, and official publications. Simple statistical tools such as percentage analysis, tabulation, and comparison have been used for analysis. The findings show that 62% of MSMEs surveyed are aware of legal provisions such as the MSME Act and GST laws, while 38% still lack such awareness. Further, 75% of respondents reported that GST has a high to moderate impact on working capital due to advance tax payments and delays in input tax credit. The study also finds that 48% of MSMEs have adopted AI-based or digital tools, mainly for cash-flow forecasting, inventory management, and receivables control, while 52% have not yet adopted such tools. The distinct contribution of this study lies in examining the*

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*combined effect of legal regulation and AI adoption on MSME working capital at the district level, with specific reference to Raigad. The study concludes that legal awareness, timely compliance, and gradual adoption of AI-based financial tools can improve liquidity, reduce receivable delays, and strengthen the long-term sustainability of MSMEs.*

## II. KEYWORDS

MSME, Working Capital Management, Artificial Intelligence, GST, Raigad District.

## III. INTRODUCTION

Working Capital Management plays a vital role in the smooth functioning and financial health of business enterprises. It refers to the management of current assets such as cash, inventory, and receivables, and current liabilities such as payables and short-term borrowings. For MSMEs, efficient management of working capital is more critical than for large enterprises because MSMEs operate with limited financial resources and face higher vulnerability to market fluctuations.

In India, MSMEs contribute significantly to the national economy, accounting for approximately 29–36% of GDP and nearly 45% of total exports, as reflected in official MSME, SIDBI, and Union Budget-related sources. However, many MSMEs suffer from problems such as delayed payments, inadequate access to finance, high compliance costs, and inefficient inventory management. These issues often result in working capital shortages, affecting business continuity and growth.

In recent years, two major developments have influenced MSME operations. First, the introduction of various business and financial laws such as the MSME Development Act, Goods and Services Tax (GST), Insolvency and Bankruptcy Code (IBC), and labour laws has increased regulatory compliance but also provided legal protection and financial discipline. Second, the emergence of Artificial Intelligence and digital technologies has transformed traditional financial management practices by enabling automation, forecasting, and realtime decision-making. This study attempts to analyze how these two factors law and AI impact working capital management of MSMEs in Raigad District.

A significant legal development affecting MSMEs was the insertion of Section 43B(h) in the Income-tax Act, 1961 through the Finance Act, 2023, effective from 1 April 2024. The provision was introduced to ensure that amounts payable to micro and small enterprises beyond the time limit prescribed under Section 15 of the MSMED Act, 2006 are allowed as deductions only on actual payment, thereby encouraging timely settlement of MSME dues. However, since the Income-tax Act, 1961 stands repealed with effect from 1 April 2026 and has been replaced by the Income Tax Act, 2025, the manuscript must now refer to this legislative transition. The corresponding payment-discipline rule continues in substance under Section 37(2)(g) of the Income Tax Act, 2025, subject to the applicable transitional provisions for tax years and proceedings governed by the repealed 1961 Act. This development has a direct impact on working capital cycles because it strengthens payment discipline, reduces delayed receivables, and improves liquidity for micro and small enterprises.

### A. Profile of Raigad District

Raigad District is one of the important industrial districts of Maharashtra with rapidly growing industrial and commercial activities. Industrial areas such as Taloja, Panvel, Mahad, Roha, Uran, and Alibaug have a large concentration of MSMEs engaged in manufacturing, trading, logistics, agro-processing, and service activities. According to District Industries Centre (DIC), Raigad and MSME Ministry data, the district has a substantial number of registered MSMEs contributing to industrial output in regions such as Taloja, Panvel, and Mahad. Despite strong industrial potential, MSMEs in Raigad face challenges such as delayed receivables, rising compliance costs, and limited adoption of advanced technologies, which directly affect their working capital position.

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### B. Statement of the Problem

MSMEs in Raigad District often experience working capital problems due to delayed payments from customers, high inventory holding costs, and increased compliance-related cash outflows. Limited awareness of legal provisions and low adoption of AI-based financial tools further aggravate these problems. Hence, there is a need to study the impact of law and Artificial Intelligence on working capital management of MSMEs.

### C. Objectives of the Study

1. To study the importance of working capital management in MSMEs
2. To examine the impact of legal and regulatory provisions on working capital management.
3. To analyze the role of Artificial Intelligence in improving working capital efficiency.
4. To study the awareness and adoption of AI tools among MSMEs in Raigad District.
5. To suggest measures for improving working capital management through law and AI.
6. To examine relevant legal provisions and recent statutory amendments affecting working capital management of MSMEs.

### D. Research Questions

1. What is the significance of working capital management for MSMEs operating in Raigad District?
2. How do legal and regulatory provisions affect cash flows, receivable cycles, payables, and short-term liquidity of MSMEs?
3. To what extent does Section 43B(h), as introduced under the Income-tax framework and linked with the payment timelines under the MSMED Act, influence the receivable cycles and timely payment practices of MSMEs in Raigad District?

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4. How does the adoption of Artificial Intelligence assist MSMEs in improving cash management, inventory control, receivables monitoring, and working capital efficiency?
5. What is the level of awareness and adoption of AI-based financial tools among MSMEs in Raigad District?
6. What legal, technological, and policy measures can improve working capital management among MSMEs through better legal compliance and responsible AI adoption?
7. Which recent statutory amendments and legal provisions have a direct bearing on working capital management practices of MSMEs?

### E. Scope and Significance of the Study

The study is limited to MSMEs operating in Raigad District. It focuses on working capital components such as cash, inventory, receivables, and payables. The study is significant for MSME owners, policymakers, financial institutions, and researchers.

### F. Review of Literature

Several studies indicate that inefficient working capital management is one of the major reasons for financial stress among MSMEs. Researchers have highlighted that delayed receivables, limited access to formal credit, weak financial literacy, and poor inventory control frequently result in liquidity problems. Sharma (2021) highlighted that inefficient working capital management is a primary cause of financial distress among MSMEs, particularly due to delayed receivables and poor inventory control. Pant (2023) further observed that working capital financing in Indian MSMEs is closely linked with access to credit, trade finance, and the capacity of small enterprises to operate in a competitive economy. Reports by SIDBI (2023–24) indicate that MSMEs face persistent challenges in access to timely credit and receivable management, which directly affect liquidity.

The World Bank's work on SME finance also recognises that access to finance remains a central constraint for smaller enterprises and that improved financial infrastructure, credit support, and institutional mechanisms are important for enabling SMEs to obtain working capital and growth finance. Joshi (2022) similarly discusses the MSME credit gap in India, while IS, KV and Hungund (2025) highlight the importance of MSME financial literacy in improving financial decision-making and resilience. Studies on the regulatory impact reveal that while compliance may increase operational costs, legal provisions such as the MSMED Act provide protection against delayed payments.

Government and regulatory sources on TReDS, GST, delayed-payment provisions, and MSME classification further show that the legal framework has a direct bearing on liquidity, receivables, tax outflows, and access to institutional finance. Recent literature also emphasises the role of Artificial Intelligence and digital transformation in improving cash-flow forecasting, inventory optimisation, credit scoring, and receivables management. Kaur (2022) emphasised the growing role of AI in financial decision-making. Bhardwaj and Dey (2021) examined the digital transformation of MSMEs through AI and machine learning in India, while Singh and Sahu (2025) reviewed scholarship on small and medium enterprises and AI.

Kulkarni, Joseph and Patil (2024) further examined AI technology readiness for sustainability in MSMEs. NITI Aayog's National Strategy for Artificial Intelligence is relevant because it frames India's broader policy direction for AI adoption and identifies AI as a technology with cross-sectoral developmental significance. Studies by Abdul Latif Jameel Poverty Action Lab demonstrate the use of machine learning in credit scoring and financial inclusion for small businesses. Jain and Singh (2025) found that MSMEs adopting AI-based financial tools show improved operational efficiency and better working capital control. The RBI FREE-AI Committee Report (2025), formally titled *Framework for Responsible and Ethical Enablement of Artificial Intelligence in the Financial Sector*, highlights the importance of responsible AI frameworks in financial systems, particularly for lending, risk assessment, and financial-sector governance.

RBI released the FREE-AI Committee Report on 13 August 2025. However, limited research exists on the combined impact of legal frameworks and AI adoption at the district level, especially in regions like Raigad. The present study therefore contributes to existing scholarship by connecting MSME working capital management with statutory protections, tax and GST compliance, receivables financing, AI-enabled financial tools, and responsible digital governance

### G. Research Methodology

The study follows a descriptive and analytical research design.

1. **Data Collection**
    - **Primary Data:** Collected through a structured questionnaire administered to MSME owners and managers. The questionnaire consisted of 20 structured questions, including multiple-choice and Likert-scale items aimed at evaluating working capital management practices, awareness of legal provisions, and the adoption of Artificial Intelligence tools among MSMEs. Prior to final data collection, the questionnaire was validated through expert review and pilot testing on a small group of respondents to ensure reliability, clarity, and relevance. The Data was collected during September 2025- January 2026, which is relevant considering recent legal changes such as Section 43B(h).
    - **Secondary Data:** Collected from books, journals, government reports, RBI publications, and MSME ministry data.
2. **Sample Size and Sampling Method**
    - **Sample Size:** 100 MSMEs

- **Sampling Method:** Convenience sampling has been used due to accessibility constraints; however, this method may limit the generalizability of the findings across all MSMEs in Raigad District

3. **Tools for Data Analysis**
    - Percentage analysis
    - Tabulation
    - Simple comparison
4. **Limitations of the Study**
    - Limited sample size
    - Dependence on self-reported data
    - Time constraints

## IV. IMPACT OF LAW ON WORKING CAPITAL MANAGEMENT

Legal and regulatory provisions significantly influence working capital management of MSMEs. The Micro, Small and Medium Enterprises Development Act, 2006, particularly Sections 15 to 18, mandates timely payment to micro and small enterprises and provides for interest on delayed payments, recovery mechanisms, and dispute resolution through the Micro and Small Enterprises Facilitation Council. These provisions are directly connected with working capital management because delayed receivables block operating funds and increase dependence on short-term borrowings. The practical effectiveness of this statutory mechanism has also been clarified through judicial interpretation.

In *Silpi Industries v. Kerala State Road Transport Corporation*, the Supreme Court examined important questions relating to proceedings under Section 18 of the MSMED Act. The Court held that the Limitation Act, 1963 applies to arbitration proceedings under the MSMED Act and that counterclaims and set-off are maintainable before the statutory authorities constituted under the Act. At the same time, the Court held that an enterprise cannot claim the benefit of the

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MSMED Act for supplies made before it obtained registration under Section 8 of the Act.

Therefore, MSMED Act registration must exist at the relevant time of contract or supply for an enterprise to invoke the statutory protection for delayed payments. This ruling is significant for the present study because it shows that the MSEFC mechanism is not an automatic remedy for every unpaid MSME invoice. Its effectiveness depends on timely MSME registration, proper documentation, limitation compliance, and legal awareness. For MSMEs in Raigad District, delayed registration or weak record-keeping may defeat an otherwise valid working-capital claim, thereby worsening receivable delays.

Thus, legal awareness directly affects liquidity outcomes, as MSMEs that understand registration and procedural requirements are better positioned to use the delayed-payment remedy effectively. GST also has a direct impact on working capital due to tax-payment obligations, reconciliation requirements, and delays or restrictions in input tax credit. Issues such as blocked Input Tax Credit under Section 17(5) of the CGST Act, 2017 and invoice mismatches in GSTR-2B reconciliation may increase short-term cash requirements.

The Insolvency and Bankruptcy Code, 2016 has further contributed to payment discipline and credit assessment practices, while the Trade Receivables Discounting System regulated by the Reserve Bank of India provides a digital platform for discounting receivables and improving MSME liquidity.

## V. ROLE OF ARTIFICIAL INTELLIGENCE AND DIGITAL GOVERNANCE IN WORKING CAPITAL MANAGEMENT

Artificial Intelligence has emerged as an important tool in the financial management of MSMEs because it can convert accounting, sales, inventory, and payment data into timely decision-making inputs. Traditional working capital management often depends on manual bookkeeping and owner judgment. In contrast, AI-enabled tools can assist MSMEs in forecasting cash flows, identifying delayed receivables, automating reminders, analysing payment behaviour, estimating inventory requirements, and detecting unusual financial patterns.

In cash management, AI-based dashboards and predictive tools can help enterprises estimate likely inflows and outflows over short operating cycles. This is important for MSMEs that must make timely payments for wages, raw materials, rent, electricity, taxes, and supplier dues. In receivables management, automated invoicing and payment reminders can reduce debtor days by ensuring systematic follow-up. AI-supported classification of customers based on payment history can also help MSMEs decide whether to extend credit, shorten credit periods, or insist on advance payments. In inventory management, demand forecasting tools can reduce excessive stock holding and prevent unnecessary blockage of funds.

AI also has relevance for access to finance. Digital lending platforms, payment analytics, and alternative credit-scoring tools may allow lenders to assess MSME creditworthiness using transaction data, invoice flows, tax filings, and repayment behaviour. This can support faster credit decisions where conventional collateral is limited. However, the use of AI in credit assessment must be responsible, transparent, and fair, particularly where automated systems affect lending decisions or payment terms. The legal dimension of AI adoption is equally important. MSMEs using AI-enabled accounting, payment, inventory, or credit tools may process personal and financial data relating to customers, employees, suppliers, and borrowers.

Therefore, the Digital Personal Data Protection Act, 2023 and the Digital Personal Data Protection Rules, 2025 are relevant to MSME financial management. These rules strengthen the compliance framework for processing personal data and require attention to lawful processing, consent where applicable, purpose limitation, data security, and accountability. Further, MeitY's India AI Governance Guidelines, released under the IndiaAI Mission, emphasise safe, inclusive, and responsible adoption of AI across sectors.

 

For MSMEs, this means AI should not be adopted merely for automation; it should be used with safeguards such as human supervision, data accuracy checks, vendor accountability, cybersecurity precautions, and periodic review of automated outputs. Despite these benefits, several practical challenges continue to restrict AI adoption among MSMEs. These include software cost, limited digital literacy, lack of trained staff, dependence on third-party platforms, poor data quality, cybersecurity risks, privacy compliance concerns, and uncertainty about the reliability of automated predictions.

The survey findings in the present study support this concern, as only 48% of the sampled MSMEs reported adoption of AI-based or digital tools, while 52% had not yet adopted such tools. Therefore, AI adoption among Raigad MSMEs remains gradual and uneven. Accordingly, AI should be viewed as a supportive mechanism rather than a substitute for financial judgment. Its value lies in improving the speed, accuracy, and consistency of working capital decisions, provided MSMEs combine digital adoption with legal compliance, data protection, and managerial oversight.

## VI. DATA ANALYSIS AND INTERPRETATION

This chapter presents the analysis and interpretation of data collected from 100 MSMEs in Raigad District. Simple tools such as percentage analysis and tabulation have been used to understand the impact of law and Artificial Intelligence on working capital management.

### A. Table 6.1: Type of MSMEs Surveyed

| **Type of MSME** | **Number** | **Percentage** |
|---|---|---|
| Micro | 45 | 45% |
| Small | 35 | 35% |

| | | |
|---|---|---|
| Medium | 20 | 20% |
| **Total** | **100** | **100%** |

Interpretation: The above table shows that 45% of the respondents belong to Micro enterprises, 35% are small enterprises, and 20% are medium enterprises. This indicates that a majority of MSMEs in Raigad are small-sized units which are more prone to working capital issues.

**B. Table 6.2: Awareness of Legal Provisions**

| **Response** | **Number** | **Percentage** |
|---|---|---|
| Yes | 62 | 62% |
| No | 38 | 38% |
| **Total** | **100** | **100%** |

Interpretation: 62% of MSMEs are aware of legal provisions such as the MSME Act and GST laws, while 38% lack awareness. This shows the need for legal awareness programs among MSMEs.

**C. Table 6.3: Impact of GST on Working Capital**

| **Impact Level** | **Number** | **Percentage** |
|---|---|---|
| High | 40 | 40% |
| Moderate | 35 | 35% |
| Low | 25 | 25% |
| **Total** | **100** | **100%** |

Interpretation: The table indicates that GST has a high to moderate impact on working capital for 75% of MSMEs due to advance tax payment and delays in input tax credit.

**D. Table 6.4: Adoption of AI-Based Tools**

| Response | Number | Percentage |
|---|---|---|
| Yes | 48 | 48% |
| No | 52 | 52% |
| **Total** | **100** | **100%** |

Interpretation: Less than half of the MSMEs have adopted AI-based or digital tools, indicating that there is significant scope for increasing technology adoption.

**E. Table 6.5: Benefits of AI in Working Capital Management**

| Area | Percentage |
|---|---|
| Cash Flow Forecasting | 30% |
| Inventory Management | 25% |
| Receivables Management | 28% |
| Overall Improvement | 17% |

Interpretation: Respondents were asked to select the primary benefit of AI; hence, the total percentage equals 100%. AI tools are mainly used for cash flow forecasting and receivables management, which directly improves liquidity and working capital efficiency.

Overall Interpretation: The analysis indicates that MSMEs with higher legal awareness and adoption of AI-based tools demonstrate relatively better working capital efficiency compared to others.

# VII. FINDINGS, CONCLUSION AND SUGGESTIONS

## A. Findings

1. Working capital shortage is a common problem among MSMEs in Raigad District.
2. Legal provisions significantly influence cash flows and receivable management.
3. GST compliance increases short-term working capital requirements.
4. AI-based tools help improve efficiency in cash, inventory, and receivables management.
5. Awareness and adoption of AI are higher among small and medium enterprises than Micro enterprises.

## B. Conclusion

The present study highlights that working capital management is a critical challenge for MSMEs in Raigad District. Legal and regulatory frameworks play a dual role by increasing compliance-related cash outflows while also providing protection and financial discipline. Artificial Intelligence has emerged as an effective tool for improving working capital efficiency by enabling better forecasting, automation, and control.

Although the adoption of AI among MSMEs is still limited, those enterprises that have adopted digital and AI-based tools show better liquidity and operational efficiency. Therefore, a balanced approach involving legal awareness, compliance, and gradual adoption of Artificial Intelligence can significantly strengthen the working capital position and long-term sustainability of MSMEs.

## C. Suggestions

1. Government should strengthen initiatives such as the Digital MSME Scheme and Technology Upgradation Programs to support AI adoption.

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2. Legal awareness programs should be conducted to educate MSMEs about provisions under the MSMED Act and recent amendments such as Section 43B(h).
3. MSMEs should integrate accounting, compliance, and AI-based financial systems for better efficiency.
4. Legislative reforms may consider extending MSMED Act protections to medium enterprises.
5. GST compliance mechanisms should be simplified to reduce delays in Input Tax Credit for MSMEs.

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