



# Manufacturing sector

## Key expectations from Budget 2025



### Manufacturing sector - A bird's eye view

The sector contributes around **17%** to India's GDP and is projected to reach

**USD 1 trillion** by FY26 as India eyes to consolidate its position as a major global manufacturing hub.

**Gujarat, Maharashtra and Tamil Nadu** are the frontrunners in India's manufacturing growth story, with investments in automobile, electronics and textiles fuelling growth.

### Key roadblocks and issues

High cost of raw material inputs given the turbulent geopolitical environment

Significant dumping of raw materials and finished goods making Indian manufacturers less cost competitive

Challenges in acquiring land parcels and need to obtain multiple licences

Non-extension of the lower income tax rate for new manufacturing units restricting investments

Absence of focused incentives for R&D activities

Prolonged litigation around customs/GST classification of components resulting in high output cost of finished goods

### Key expectations from Union Budget 2025



Reintroduction of the concessional tax rate of 15% for newly set up manufacturing units



Focused tax incentives on R&D activities to catalyse innovation in the manufacturing sector and adoption of new techniques and practices



Enhanced deductions associated with additional employment generation for existing manufacturing units



Certainty on classification of raw materials and finished goods from a GST/customs perspective to reduce protracted litigation



Introduction of safe harbour rules on key payouts (royalty, management fee, etc.) to reduce litigation/uncertainty for MNCs operating in the manufacturing sector



Extension of PLI scheme to other sectors

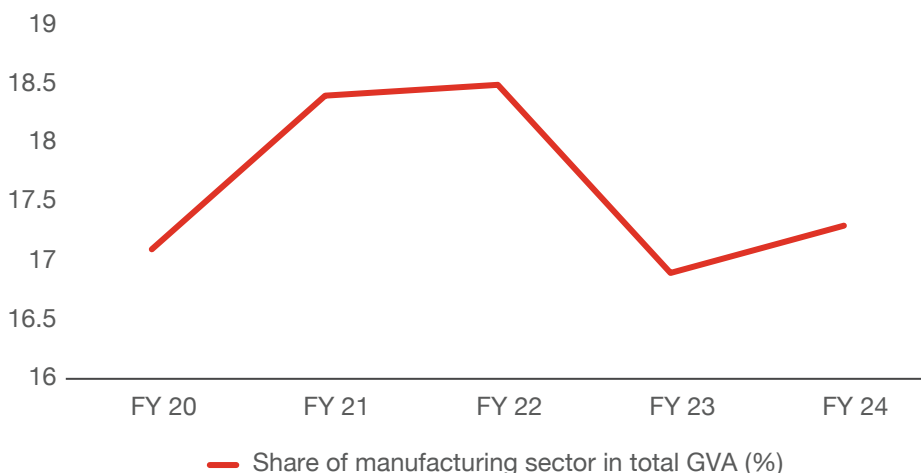


Additional guidance on trigger of permanent establishments and attribution of profits



Easing regulatory restrictions to enable Indian manufacturers to carry out toll manufacturing for overseas customers

Share of manufacturing sector in total gross value added (GVA) (%)



### Our perspective

India's manufacturing sector has witnessed robust growth over the past decade and is crucial to economic progress. It fosters job creation for the country's workforce, especially in the unorganised strata. The sector's significant contribution to exports also strengthens India's global trade position. Streamlined tax policies and clarity in tax positions can help attract investment and nurture innovation."