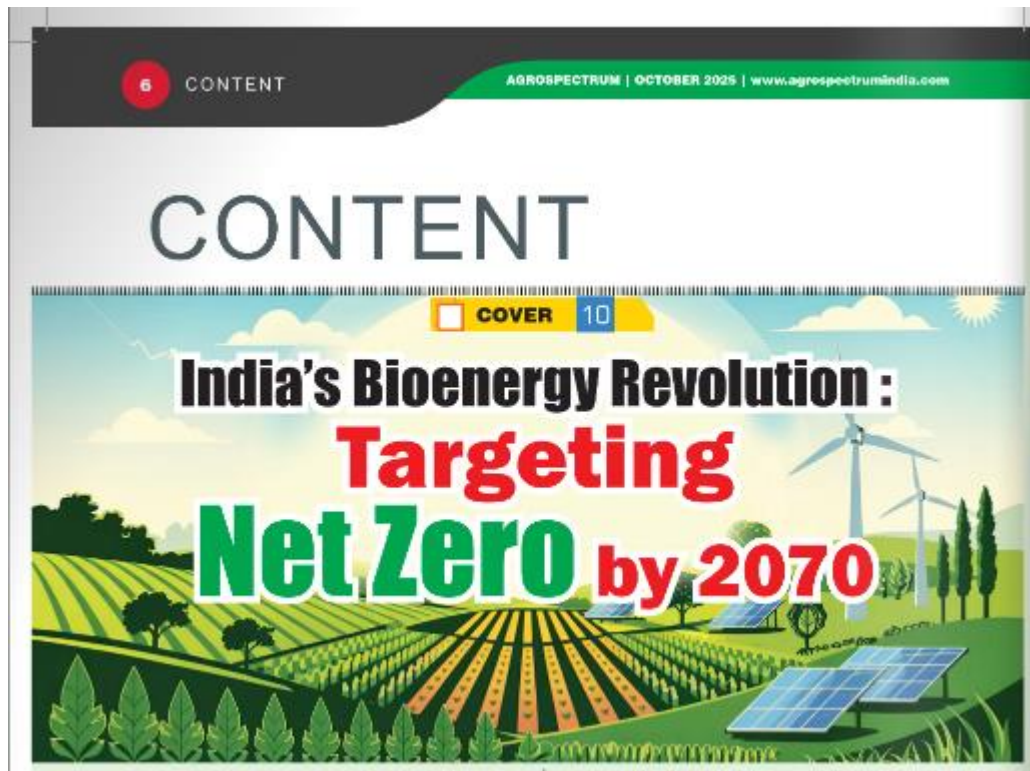





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Impact of government's GST 2.0 reform on Agri supply chain industry



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The agricultural sector plays a pivotal role in India's economy, contributing 16-18 per cent to the national GDP and providing income sources for more than 140 million farming households. Historically, fragmented taxation—encompassing state-level duties, cesses, and surcharges—led to inefficiencies from farm to fork. The implementation of GST in 2017 unified disparate levies and paved the way for improved transparency and value addition in agriculture. Despite this, gaps remained, particularly concerning input tax credit for farmers and elevated costs of storage and logistics.

The government's recent rollout of GST 2.0, characterized by a simplified two-rate structure of 5 per cent and 18 per cent, is designed to address these challenges. This reform echoes other strategic initiatives such as the formalization of warehousing, MSME empowerment, and the digital transformation of Agri-marketplaces. Sector experts and stakeholders recognize GST 2.0 as a major step forward in making agricultural supply chains more efficient, competitive, and inclusive.

GST 2.0: Key Features Relevant to Agriculture

The new Goods and Services Tax Regime introduces significant reductions in GST rates for crucial agricultural equipment—tractors,

compliance mechanisms for MSMEs, streamlining registration and returns, bringing relief and enabling growth for more than 63 million MSMEs in India, with a significant share in the agri and rural sector. Measures such as quarterly return filings, supply chain ITC streamlining, and compliance automation directly address longstanding bottlenecks, creating a more business-friendly tax regime.

Pre-GST 2.0 Landscape: Challenges and Limitations

The original GST regime, implemented in 2017, faced challenges including a complex multi-slab tax structure with rates at 5 per cent, 12 per cent, 18 per cent, and 28 per cent, leading to classification disputes and compliance difficulties, especially in sectors like agriculture and processed

harvesters, threshers, irrigation systems, and bio-pesticides—all previously taxed at 12–18 per cent but now brought down to 5 per cent. Key fertiliser inputs such as ammonia, sulphuric acid, and nitric acid, once attracting 18 per cent GST, now also benefit from a corrected lower rate of 5 per cent, making fertilizers more affordable for the farming community.

For processed and packaged foods, the GST has been rationalized to 5 per cent, helping cooperatives and FPOs expand processed offerings. In parallel, commercial goods vehicles—trucks and delivery vans essential to agri-logistics—now attract an 18 per cent GST, down from 28 per cent, reducing freight rates and logistics costs while boosting supply chain connectivity.

The reform also introduces improved

foods. A significant issue was the inverted duty structure, where inputs were sometimes taxed at higher rates than finished goods, causing blocked input tax credits and working capital constraints. Refund delays and a cumbersome compliance process further burdened MSMEs and exporters. GST 2.0 addresses these challenges by consolidating tax slabs into two primary rates—5 per cent for essential goods and 18 per cent for most others—thereby simplifying classification and enhancing ease of doing business. It corrects the inverted duty structure, ensuring input and output tax rates are aligned to improve liquidity and competitiveness. Procedural reforms include faster registration for low-risk businesses, automated provisional refunds and implementation of GSTAT (Goods

and Services Tax Appellate Tribunal) to expedite appeal resolution and reduce litigation. These measures aim to reduce litigation risk, promote formalization, and stimulate growth across sectors, including agriculture

Transformative Impact Areas

Direct Cost Relief for Farmers and Agribusiness

GST 2.0's reduction of tax on key machinery (such as tractors and components) to 5per cent offers direct savings. For example, a tractor costing Rs 5 lakh at the previous 12 per cent GST rate implied a tax outlay of Rs 60,000; at the new 5 per cent GST rate, the outlay drops to Rs 25,000, amounting to a saving of Rs 35,000 (nearly 60 per cent reduction). On automatic planters, the new GST regime delivers a saving of Rs 32,800 per unit (from a base price of Rs 4.68 lakh). Bio-pesticides and micronutrients, crucial for sustainable intensification, now taxed at 5per cent (from earlier 12per cent), make eco-friendly inputs more viable, and are anticipated to increase adoption rates among smallholder farmers

and FPOs. Drip irrigation systems and other water-saving equipment are also cheaper, supporting the expansion of managed irrigation and boosting productivity—central goals of national agricultural policies.

Supply Chain Efficiency and Market Connectivity

The GST reduction on commercial trucks and delivery vans from 28 per cent to 18per cent enables logistics companies to lower per tonne-kilometer freight rates, improving supply chain flow for agricultural goods (trucks carrying 65–70 per cent of India's goods traffic). Cold storage units, food processing, and packaging material (packing paper, crates)—now at 5 per cent GST—ease operational costs for food processors, cooperatives, and aggregators, allowing for cost-

effective scaling and better linkages between rural producers and urban markets. Streamlined GST return filing and claim processes mean MSMEs and logistics operators spend less on administrative overhead and compliance, allowing resources to be redirected to operational improvements and technology upgrades.

Competitive Boost for Exports and Domestic Offtake

GST rationalization on processed food and

Agri exports supports increased competitiveness in global markets, with India's Agri and processed food exports valued at over USD 35 billion. Reduced input costs and smoother logistics are expected to boost export volumes and help Indian products meet international price points more reliably. Enhanced compliance and reduced inverted duty structures facilitate faster movement of goods, faster refunds, and improved working capital for exporters—critical for MSMEs and FPOs participating in global supply chains.

Domestically, the rationalized 5per cent GST on packaged foods such as dairy products, jams, fruit pulps, and staple processed items makes these products affordable, fueling off-take and consumption even among price-sensitive segments, in line with government targets to double farmer incomes.

Impact on Rural Industry and Manufacturers

The GST cut to 5per cent on farm equipment

and components (tractor tyres, tubes, hydraulic pumps) not only makes farm mechanization accessible but also spurs demand across rural manufacturing units. Allied sectors—steel, polymers, chemicals used in equipment manufacturing—benefit from increased order volumes, estimated at 6–8 per cent annual growth in related output as mechanization rates rise.

Lower GST on energy-efficient and research-based equipment (now 5per cent) encourages rural entrepreneurs to adopt modern technologies, reinforcing government missions for 'Natural Farming' and energy-based agriculture.

Vision Forward

GST 2.0 is widely recognized by industry stakeholders, government sources, and sector

experts as a transformative reform for India's agricultural supply chain. By reducing input costs, simplifying logistics taxation, and easing compliance, the sector is poised for improved competitiveness, higher farmer incomes, and more resilient supply chains. Long-term success will rely upon sustained collaboration between government, industry associations, and grassroots entrepreneurs, ensuring that reforms are inclusively deployed and their benefits amplified for all segments of Indian agriculture. 🇮🇳