



GST Rationalisation: From Coffee Farms to Tech Hubs, Boosting Karnataka's Growth Story

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Key Takeaways

- **Coffee boost** with **71% of India's output**; **GST cut to 5%** to make instant coffee **11–12% cheaper** and strengthen small growers and exporters.
- **Dairy relief** for **26 lakh farmers**, as **milk and paneer** become tax-free and ghee and butter **5–7% cheaper**.
- **Coastal push** with GST cut to 5% on **cashew, coir, and marine products**, benefiting women-led MSMEs and coastal livelihoods.
- **Industrial lift** as **tractors, machinery, cement, and granite** become **6–8% cheaper**, boosting rural mechanisation and construction jobs.
- **Crafts and innovation** gain with GST down to 5% on **Ilkal sarees, Bidriware, rosewood inlay, and drones**, supporting artisans and tech startups.

Introduction

Karnataka stands at the **crossroads of tradition and technology**, a state where the aroma of Coorg's coffee plantations meets the hum of industrial machinery from Peenya to Hosur. From the **coastal fisheries of Dakshina Kannada** to the **craft clusters of Mysuru and Bidar**, the state's economy reflects **India's diversity, resilience, and entrepreneurial spirit**.

The recent **GST rate rationalisation** marks a **major milestone** for Karnataka's economy, offering **relief across agriculture, manufacturing, and services**. By reducing tax rates on key goods such as **coffee, dairy, garments, handicrafts, coir**, and essential industrial inputs, the reforms are set to **enhance affordability, stimulate domestic demand**, and strengthen the competitiveness of **MSMEs and exporters** alike.

With the new structure, Karnataka's **farmers, artisans, and entrepreneurs** stand to benefit from **lower compliance costs, stronger value chains, and expanded market access**. The rationalisation aligns with India's broader goal of **simplifying taxation** while reinforcing Karnataka's vision of **inclusive, innovation-led, and sustainable growth**.

Agriculture & Rural Livelihoods

Coffee

Karnataka is the heart of India's coffee economy, contributing around **71% of the country's total output**, with plantations concentrated in **Kodagu, Chikkamagaluru and Hassan**. The sector is dominated by **small and marginal growers**, who form part of the **6.7 lakh individuals** engaged in coffee cultivation and processing nationally, the majority based in Karnataka's Malenadu region.

The recent **GST reduction from 18% to 5%** on **coffee extracts, essences and instant coffee** is a major fiscal boost, expected to **cut retail prices by 11–12%**. The change will stimulate domestic demand, improve margins for small processors and cooperatives, and narrow the gap between India's and global per capita coffee consumption.

Karnataka's shade-grown Arabica and Robusta varieties, including **Coorg Arabica, Chikmagalur Arabica and Bababudangiris Arabica**, all **GI-tagged**, enjoy strong export demand in **Italy, Germany and Switzerland**. The rate cut strengthens the competitiveness of Karnataka's producers in both domestic and global markets.

Dairy

Karnataka's dairy sector, led by the **Karnataka Milk Federation (KMF)**, is a cornerstone of the rural economy, supporting over **26 lakh milk producers**, most of them small and marginal farmers. With over **15,000 primary dairy cooperative societies** across the state, including **major processing hubs in Bengaluru, Mysuru, Hassan and Tumakuru**, the sector provides **livelihoods** to around **22 lakh people** in rural and semi-urban areas.

KMF's flagship brand **Nandini** has become a **symbol of cooperative success**, connecting rural producers with urban consumers. In **FY24, Karnataka produced 13.46 million tonnes of milk**, while **KMF sold an average of 52.7 lakh litres per day**, ranking it **India's second-largest dairy cooperative**.

The recent **GST cuts, from 5% to nil on UHT milk and paneer**, and from **12% to 5% on ghee and butter**, will **lower retail prices by 5–7%**, boost demand for value-added products, and strengthen cooperative margins. This dual benefit enhances consumer affordability while enabling KMF to offer better and more stable prices to its farmer members, reinforcing dairy as a driver of rural income and women's empowerment in Karnataka.



Coastal and Cottage Industries

Cashew

The coastal districts of **Dakshina Kannada** and **Udupi** are **Karnataka's main hubs for cashew processing**, a labour-intensive industry **employing thousands of women** from rural and socially weaker communities. Dakshina Kannada alone houses around **66 processing units**, forming a vital part of the local economy.

With **GST on processed cashew nuts reduced from 12% to 5%**, prices are expected to fall by **6–7%**, improving margins for small processors and exporters. **India is a major global player in the cashew trade**, exporting cashew kernels to destinations including the **UAE, Japan, and the Netherlands**. The move is expected to boost domestic demand and enhance income stability for Karnataka's coastal women workforce.

Coir

The **coir industry**, spread across **Tumakuru, Hassan, Chikkamagaluru**, and coastal Karnataka, is a traditional cottage-scale sector that provides crucial non-farm rural employment, particularly for women. Supported by the **Karnataka State Coir Development Corporation** and the **Central Coir Board**, it plays a key role in women's empowerment and rural livelihood generation.

Nationally, the coir industry **employs around 5.5 lakh people**, and Karnataka, as a major coconut-producing state, has significant potential for expansion. **India is also the world's largest producer and exporter of coir products**, mainly to the **USA and China**. The **GST reduction from 12% to 5%** on coir mats, rugs, and geotextiles is expected to make them **6–7% cheaper**, boosting competitiveness against synthetic alternatives.

This reform supports the circular and **green economy**, promoting **eco-friendly products** made from coconut husk and encouraging **MSMEs to scale operations**. It also has the potential to create significant additional non-farm employment, particularly for women, in alignment with national job creation programmes such as the **Prime Minister's Employment Generation Programme (PMEGP)**.

Fisheries

Karnataka's **320 km coastline**, spanning **Dakshina Kannada, Udupi, and Uttara Kannada**, sustains thousands of traditional fishing families and a robust seafood processing industry that **provides significant employment**, especially for women. The sector **supports lakhs of fishermen and workers engaged in processing plants, cold storage units, and export houses along the coast**.

Karnataka ranks 5th in India's marine fish production. While much of the catch is consumed domestically, there is growing demand for processed and preserved seafood such as canned, frozen, and ready-to-eat products in both domestic and international markets.

The **GST reduction from 12% to 5% on processed fish and marine products** is expected to make items like canned tuna, frozen shrimp, and ready-to-eat fish curries around **6–7% cheaper**, boosting value addition within the fisheries value chain. This policy shift encourages local processing, creating more stable employment opportunities and reducing dependence on volatile export markets.

By enhancing competitiveness for seafood MSMEs and cooperatives, the reform provides a direct boost to coastal livelihoods, helping Karnataka's fishing communities capture greater value from one of the state's most vital natural resources.

Agricultural Machinery

The GST reduction on **tractors, agricultural machinery, and components** marks a major step toward enhancing rural productivity and industrial growth in Karnataka. With over **78 lakh farmers**, mostly small and marginal landholders, the **rate cut from 12% to 5% on tractors and machinery** and from **18% to 5% on tractor parts** will significantly reduce the cost of farm mechanisation.

For example, on a tractor priced at ₹8 lakh, the GST component now drops from ₹96,000 to ₹40,000, a direct saving of about ₹56,000 for the farmer. This makes essential equipment more accessible to farmers, Farmer Producer Organisations (FPOs), and custom hiring centres, supporting mechanisation and higher productivity.

Karnataka's industrial clusters in **Hubli-Dharwad, Belagavi, and the Bengaluru** automotive corridor will also benefit, as the state hosts a strong network of MSMEs manufacturing tractor parts and machinery components. The broader auto component industry is well represented in Karnataka, home to Toyota, TVS, Bosch, and several ancillary industries.

The demand for farm machinery, closely tied to agricultural performance, is expected to rise under the new GST structure, driving both industrial employment (over 55,000 workers) and rural incomes. By linking affordable mechanisation with stronger manufacturing ecosystems, the reform creates a virtuous cycle of rural and industrial growth across Karnataka.

Manufacturing & Industrial Growth

Textiles and Garments

The **ready-made garment (RMG)** and textile sector is one of **Karnataka's largest employment generators**, with **major hubs in Bengaluru, Ballari, Hubli-Dharwad, and Mandya**. Bengaluru, known as the **"Garment Capital of India"**, houses over **400 apparel units** and serves as a sourcing hub for global brands such as **Tommy Hilfiger, Nike, and Adidas**.

The industry provides livelihoods to about **six lakh people**, making it the **second-largest textile employer in India**. A majority of workers are women, many from rural and low-income backgrounds. Karnataka **accounts for 20% of India's garment production** and **11% of textile exports**, valued at approximately **₹4,000 crore**, with the **United States as a leading destination**.

Under the new GST structure, the value threshold for the **5% rate** has been increased from ₹1,000 to ₹2,500 per piece, offering major relief to MSME apparel units. The reform lowers the tax burden across a wider product range, boosts price competitiveness, and enhances working capital for domestic manufacturers. It is expected to strengthen Karnataka's export-oriented garment clusters, improve women's employment, and stimulate demand across the state's textile value chain, from spinning in **Davangere and Belagavi** to apparel production in **Bengaluru and Ballari**.

Granite

Karnataka is a major powerhouse in India's **granite industry**, with quarrying and processing clusters in **Ramanagara, Chamarajanagar, Ballari, Koppal, and Raichur**. The sector provides substantial employment to quarry workers, machine operators, and logistics staff, many of whom belong to marginalized and tribal communities.

The state **contributes nearly 32% of India's total granite exports**, making it a **key player in the global market**. India exports granite primarily to **China** as the main destination for raw blocks. The **GST reduction from 12% to 5%** on granite blocks will lower input costs for processing units by **6–7%**, directly improving margins for small and medium enterprises.

This cost advantage is expected to enhance the price competitiveness of Indian granite against global producers like **Brazil and Norway**, while encouraging greater investment in modern machinery, safety, and environmental standards across Karnataka's quarrying regions.

Cement

Karnataka's cement industry, concentrated in **Kalaburagi and Ballari**, is a cornerstone of industrial development in **North Karnataka**, benefiting from rich limestone reserves. The sector

employs thousands of skilled and semi-skilled workers, including engineers, technicians, and logistics personnel, and supports a wide network of ancillary services.

With major players such as **Ultratech Cement and ACC**, Karnataka is a key supplier to the construction and infrastructure sectors across South India. The **GST reduction from 28% to 18%** on cement is among the most significant policy measures, expected to **reduce retail prices by 7–8%**.

This major cost relief will lower input costs for housing, real estate, and public infrastructure projects, while boosting demand for building materials. The resulting expansion in construction activity is expected to generate broad-based employment for both skilled and unskilled workers and act as a powerful multiplier for economic growth across Karnataka's industrial and construction ecosystem.

Sandalwood and Soaps

Karnataka's legacy with sandalwood is timeless, embodied in the **world-famous Mysore Sandal Soap** produced by the **state-owned Karnataka Soaps and Detergents Limited (KSDL)** in Bengaluru. Using sandalwood oil sourced from across the state, over which **KSDL holds a historical monopoly**, the brand remains a symbol of Karnataka's craftsmanship and heritage.

Granted **GI status**, Mysore Sandal Soap **contributes nearly 75% of KSDL's turnover**. The **GST cut from 18% to 5%** is expected to **lower retail prices by 11–12%**, enhancing competitiveness in a market dominated by large FMCG players. The reform will help boost sales, strengthen profitability, and support modernisation and product diversification, ensuring this iconic brand continues to represent Karnataka globally.

Drones

Bengaluru is the centre of India's drone manufacturing, R&D, and services ecosystem, home to both established aerospace firms and a vibrant network of technology startups. The sector employs skilled engineers, software developers, and technicians, contributing to high-value innovation and industrial diversification.

Karnataka was the first state in India to introduce an aerospace policy, identifying the sector's high investment potential. The presence of **major R&D and manufacturing institutions** such as **Hindustan Aeronautics Limited (HAL)** and **ISRO** has helped build a strong technical base supporting drone innovation.

The **GST reduction** on unmanned aircraft (drones) from **18%/28% to 5%** represents a significant fiscal incentive, lowering the cost of domestically manufactured drones by **11–20%**. This move is expected to enhance competitiveness against imports and accelerate adoption in key areas such as **agriculture, logistics, infrastructure monitoring, and defence**.

The reform strengthens Karnataka's position as a leading centre for drone innovation and manufacturing, fostering job creation, technology advancement, and alignment with the **'Make in India'** initiative.

INDUSTRY & MODERN SECTORS

Lower Costs, Higher Growth



Handicrafts and Cultural Economy

Ilkal & Udupi Handloom Sarees

Karnataka's weaving heritage is best represented by the clusters of **Ilkal (Bagalkot)** and **Udupi**, where traditional artisan communities have practiced handloom weaving for generations. The sector **supports around 55,000 weaver families**, many of whom work from home-based units or cooperative societies, often facing challenges from fluctuating yarn prices and competition from power looms.

Both **Ilkal** and **Udupi sarees** enjoy **Geographical Indication (GI) status**, Ilkal sarees are renowned for their distinctive **Tope Teni weaving technique** that joins the body and pallu warp,

along with their signature red silk pallus, while Udupi sarees are prized for their fine cotton and traditional motifs.

With **GST reduced from 12% to 5%** on handloom sarees, prices are expected to become **6–7% lower**, improving their competitiveness against mass-produced alternatives. The reform is expected to boost sales through cooperatives, government emporiums, private retailers, and online platforms, thereby improving weaver incomes and helping sustain Karnataka's centuries-old handloom traditions.

Bidriware

Originating exclusively from **Bidar**, **Bidriware is one of India's finest metal handicrafts**, known for its intricate inlay of pure silver wire on a blackened alloy of zinc and copper, created using special soil from the **Bidar Fort**. Recognised with a **GI tag**, Bidriware represents a living legacy of craftsmanship passed down through generations of traditional artisan families.

The industry remains a vital source of skilled employment in the Bidar region, but low remuneration and competition from machine-made products have placed economic strain on artisans. The **GST reduction from 12% to 5%** offers a **6–7% price advantage**, making these handcrafted artefacts more affordable and competitive in both domestic and tourist-driven export markets.

With **Bidriware exported to over 90 countries**, the reform is expected to improve profitability for artisans and revive interest in this heritage craft, helping sustain livelihoods while preserving **Karnataka's centuries-old metal artistry**.

Mysore Rosewood Inlay

Practised by highly skilled, family-based artisan clusters in and around Mysuru, the **Mysore Rosewood Inlay craft is a hallmark of Karnataka's royal heritage**. Patronised by the **Wodeyar dynasty and Tipu Sultan**, this exquisite art form **involves embedding coloured woods, mother-of-pearl, and other eco-friendly materials into rosewood surfaces** to create decorative furniture and fine artefacts. Historically, ivory was used, but it has since been replaced with sustainable alternatives.

Granted **GI status in 2005**, the craft remains a core part of Mysuru's cultural ecosystem. Sales are driven by Cauvery Handicrafts emporiums, private galleries, and **niche exports to the US and UK**, with international demand also emerging through online platforms.

The **GST reduction from 12% to 5%** is expected to **lower prices by 6–7%**, improving affordability and competitiveness. For example, a rosewood dining set priced at \$4,000 could see savings of over \$250. This fiscal relief will enhance profitability for small, family-run enterprises, strengthening Mysuru's position in the global market for bespoke, high-value wooden art.

GST Cuts – Who Benefits in Karnataka?



55,000 weavers
& artisans

- Lower taxes on handlooms, handicrafts

Coastal women
workforce

- Gains from cashew & fisheries



78 Lakh
farmers

- Cheaper tractors & agri inputs



55,000 Industrial
workers

- Boost to auto & machinery MSMEs



Tech
Innovators

- Drones & aerospace sector expansion

Conclusion

The **GST** reforms provide **broad-based benefits across Karnataka's diverse economy**, from farmers cultivating coffee, dairy, and cashew to artisans engaged in handlooms and handicrafts, and entrepreneurs driving industrial and technological growth. **Lower tax rates will reduce costs, improve market competitiveness, and support greater value addition across key sectors**, enhancing income opportunities for both rural and urban communities.

By **strengthening the link between traditional livelihoods and modern industries**, the rationalisation fosters **inclusive, employment-oriented, and sustainable development**. These reforms are expected to boost productivity, stimulate domestic demand, and further consolidate Karnataka's position as **one of India's most dynamic and innovation-driven state economies**.

SK/M