

# Agriculture Industry

A short guide on Agriculture Industry in India.

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& Partners

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# Introduction

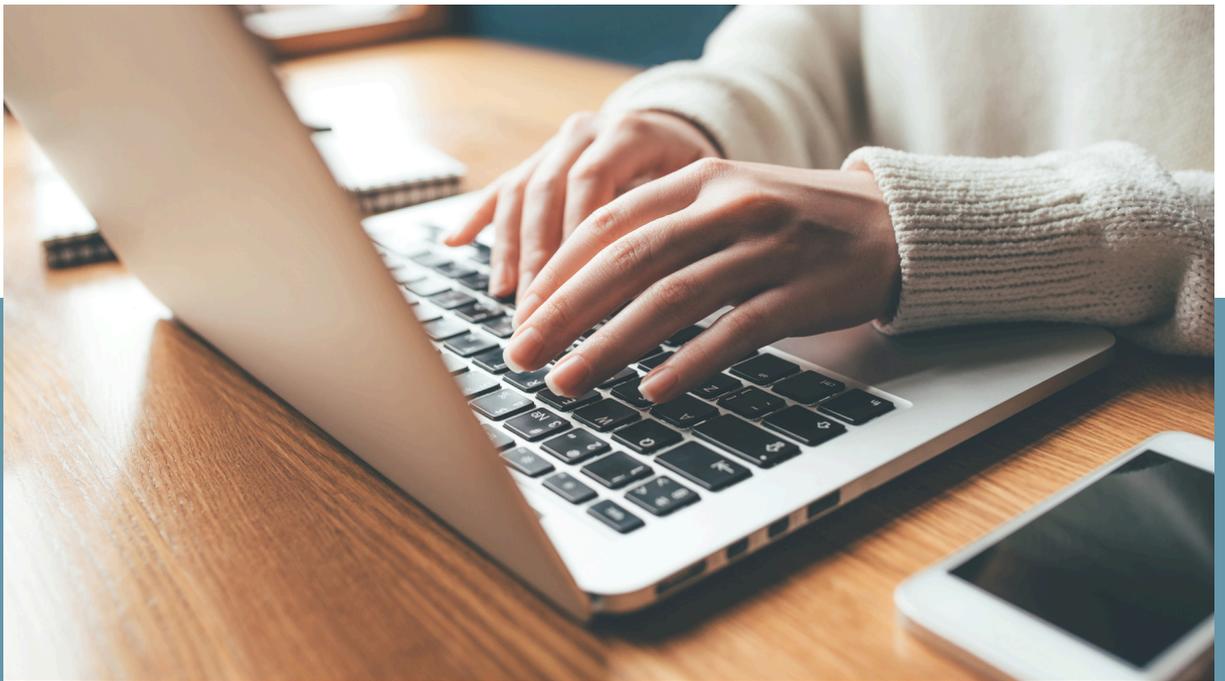
In India stands as a major player in the global agriculture sector, boasting the world's largest cattle herd (cows), the largest areas devoted to wheat, rice, and cotton cultivation, and holding the title of the largest producer of milk, pulses, and spices. The agricultural industry is a cornerstone of the Indian economy, serving as a significant employer. Approximately 60 per cent of the Indian population is engaged in agriculture, contributing around 18 per cent to the country's GDP. This percentage is gradually declining as the economy diversifies into other sectors. India's agriculture sector holds the record for the second-largest agricultural land globally, employing nearly half of the nation's population. Farmers play a pivotal role in ensuring a stable food supply for the country.

Favourable government policies across India are actively supporting and upgrading the overall agricultural infrastructure, positively impacting the market. The market is further propelled by the widespread preference for organic agricultural products among the masses. Agriculture serves as the primary source of livelihood for about 58% of India's population. After a contraction induced by the pandemic, consumer spending in India returned to growth in 2021, expanding by as much as 6.6%.

The Indian food industry is poised for significant growth, consistently increasing its contribution to the global food trade. This growth is driven by its immense potential for value addition, particularly within the food processing industry. The Indian food processing sector accounts for 32% of the country's total food market, making it one of the largest industries in India. It ranks fifth globally in terms of production, consumption, exports, and expected growth.

## Market growth

According to the fourth advance estimate for 2021-22, the production of food grains in the country is estimated at 315.72 million metric tons (MT), marking a 4.98 MT increase compared to the production during 2020-21. The agriculture sector in India serves as the primary source of livelihood for approximately 58% of the population. According to provisional figures released by the Directorate General of Commercial Intelligence and Statistics, agricultural exports have witnessed a growth of 19.92% during 2021-22, reaching \$50.21 billion. This growth rate is noteworthy, surpassing the 17.66% growth achieved in 2020-21 at \$41.87 billion. Remarkably, this growth was achieved despite unprecedented logistical challenges, including high freight rates and container shortages.





Record production estimates are reported for rice, maize, pulses, oilseeds, gram, rapeseed, mustard, and sugarcane. Wheat has experienced an unprecedented growth of over 273%, surging nearly four-fold from \$568 million in 2020-21 to close to \$2,119 million in 2021-22. Rice exports have earned the highest foreign currency in 2021-22, totaling \$9,654 million. Exports of pulses have witnessed a growth of 34%, while fruit and vegetable exports increased by 12%.

The export growth of fresh fruits and vegetables in terms of value is 14%, and the export growth of processed fruits and vegetables is 16.27%. Exports of other processed food items have grown by 34% during 2021-22, reaching \$1,164 million compared to \$866 million in 2020-21. Cashew exports have also increased by 7%, reaching \$452 million in 2021-22 from \$420 million in the previous year.

The surge in exports of agricultural and processed food products can be attributed to various initiatives by the central government through the Agricultural and Processed Food Export Development Authority (APEDA). These initiatives include organizing business-to-business exhibitions in different countries and exploring new potential markets through product-specific and general marketing campaigns with the active involvement of Indian embassies. Additionally, in collaboration with state governments, the government has organized over 300 outreach programs aimed at increasing agricultural produce exports. In the fiscal year 2020-21, 9,430 Custom Hiring Centers (CHCs) were established under the sub-mission on agricultural mechanization.

## Economic Overview

The agricultural sector has demonstrated remarkable resilience to the COVID-19 shock, registering a growth of 3.6 percent in 2020-21, which further improved to 3.9 percent in 2021-22. This robust performance played a pivotal role in driving the overall expansion of India's real GDP, reaching 9.2 percent in the fiscal year 2021-22, as per the economic survey for the same period. The survey notes that the growth in the allied sector aligns with the recommendations of the committee on doubling farmers' income.

According to the economic survey, the agricultural sector has experienced rapid growth in the last two years and stands as the largest employer in the country, contributing significantly to 18.8 percent of the country's gross value added (GVA) in 2021-22. The growth in allied sectors, including livestock, dairying, and fisheries, has been a major driver of overall sectoral growth, emerging steadily as high-growth areas.

The livestock sector, in particular, has exhibited a Compound Annual Growth Rate (CAGR) of 8.15 percent over the last five years, concluding in 2019-20. The Economic Survey highlights findings from the latest Situation Assessment Survey (SAS), revealing that the livestock sector has been a stable source of income for various agricultural households, constituting approximately 15 percent of their average monthly income.

Furthermore, the recent Statistical Analysis Software report underscores that the fragmentation of landholdings has elevated the importance of alternative sources such as livestock, fisheries, and wage labor for agricultural households. The document emphasizes the imperative to enhance the productivity of small and marginal farmers through the development and implementation of smallholding farm technologies.

# Investment

Several significant agricultural investments and developments have taken place, including:

- According to the Department for Promotion of Industry and Internal Trade (DPIIT), the Indian food processing industry attracted approximately US\$ 2.55 billion in FDI equity inflows from April 2000 to March 2022.
- In 2022, the Government of India plans to introduce Kisan drones for crop assessment, digitization of land records, and the application of insecticides and nutrients.
- Agricultural and processed food product exports totaled US\$ 22.07 billion between April 2020 and February 2021, as well as April 2021 and February 2022.
- Agriculture and allied product exports surpassed Rs. 3 lakh crores (US\$ 38.72 billion) between April 2021 and January 2022.
- The gross value added by the agriculture and allied sector was 18.8% in the financial year 2021-22, up until January 31, 2022.
- Agriculture and related activities achieved a growth rate of 3.9% in the fiscal year 2021-22, up until January 31, 2022.
- Consumer spending in India rebounded in 2022, following the pandemic-induced contraction, expanding by as much as 7%.
- Private consumption expenditure (at constant prices) for the fiscal year 2022 was estimated at Rs. 80.8 trillion (US\$ 1.08 trillion), compared to Rs. 75.6 trillion (US\$ 1.01 trillion) in the fiscal year



## Government initiatives

Several recent major government initiatives in the agricultural sector include:

- In the Union Budget for 2022-23, an allocation of Rs. 1.24 lakh crore (US\$ 15.9 billion) has been made to the Department of Agriculture, Cooperation, and Farmers' Welfare. Additionally, Rs. 8,514 crore (US\$ 1.1 billion) has been earmarked for the Department of Agricultural Research and Education.
- The PM Formalization of Micro Food Processing Enterprises ("PMFME") scheme was launched in July 2022. This initiative aims to provide financial, technical, and business support for the establishment or upgrading of micro food processing enterprises in the country, with a total outlay of Rs. 10,000 crore (US\$ 1.27 billion).
- The Indian government is set to introduce Kisan drones for crop assessment, digitization of land records, and the application of insecticides and nutrients.
- NABARD (National Bank for Agriculture and Rural Development) will play a crucial role in creating a blended capital fund with a specific focus on supporting the agricultural startup ecosystem. This fund will be utilized to finance startups related to the farm product value chain and rural enterprises.
- A network of 729 Krishi Vigyan Kendras has been established at the district level across the country. These centres are designed to ensure that newer technologies, including improved variety seeds of crops, new breeds and strains of livestock and fish, and advanced production and protection technologies, reach farmers.
- The Government of India has approved 100% foreign direct investment (FDI) in the marketing of food products and food e-commerce under the automatic route.



## Laws and policies

India is renowned for its geographical diversity, yet despite this, farmers have not witnessed substantial development over the 70 years since Independence. The introduction of new farm amendment acts by the current government aims to unify agricultural laws across the country. This move is part of a broader trend of legal unification undertaken by the incumbent government.

Recognizing the link between agriculture and the environment, government policies, schemes, and reforms are increasingly focusing on environmental sustainability and climate-resilient agriculture. Notable initiatives include the National Mission on Sustainable Agriculture, a component of India's national action plan on climate change. This mission aims to address the risks associated with climate change through adaptation and mitigation strategies, emphasizing soil and water conservation, water use efficiency, soil health management, and the development of rainfed areas.

Several laws govern agricultural practices in India, including the Seeds Act of 1966 and the Seeds Rules of 1968, which regulate the crop seed industry. The National Cooperative Development Corporation Act of 1962 established the NCDC to plan and promote cooperative-based programs in agriculture. The Competition Act of 2002, although not specific to agriculture, plays a role in ensuring fair market competition.

India's national agricultural policy aims for equitable, inclusive growth and sustainability, emphasizing resource efficiency and global competitiveness through scientific and technological advancement. The policy encourages the use of biotechnology for developing drought-resistant, pest-resistant, and environmentally safe crops with higher yields. It also underscores the conservation of bioresources and promotes various technologies, including biotechnology, remote sensing, and energy-saving technology.

Agriculture in India remains highly regulated, with both central and state governments imposing regulatory controls. Subsidies play a crucial role, in supporting various aspects of agriculture, including fertilizers, irrigation water, power, seeds, credit, export, and crop insurance. These subsidies are provided at both central and state levels to support the agriculture sector.

### Subsidies

Agriculture remains a highly regulated sector in India, with various government agencies having supervisory powers. Regulatory controls are imposed by both the central and state governments. Schemes for supporting agriculture are provided at both the central and state levels through subsidies for:

- fertilizers,
- irrigation water,
- power (electricity) used for irrigation and other agricultural purposes,
- seeds,
- credit,
- export,
- crop insurance.



# Tax framework

## Goods and Services Tax (GST) on Agricultural Products and Tools:

The GST Council has implemented a 5 per cent GST rate on various agricultural products. In a recent decision, the council reduced the GST rate on sprinkles and nozzles from 18 percent to 12 percent. This adjustment aligns with the government's emphasis on deep irrigation techniques to support agricultural practices in India.

According to GST norms, seeds used for sowing purposes are exempt from GST. This means that agriculturalists or farmers do not have to pay GST tax on seeds used for sowing.

## Agricultural Tools under Different GST Rates:

- 1.5% GST Rate:

- Solar water heater and system
- Hand pumps and parts
- Waste-to-energy plants or devices
- Solar lanterns and lamps

- 12% GST Rate:

Power-driven pumps primarily used for handling water (e.g., submersible pumps, centrifugal pumps, deep tube-well turbine pumps, axial flow, and mixed flow vertical pumps)

- Agricultural, forestry and horticultural machinery designed for soil preparation or cultivation or used as lawn or sports-ground rollers
  - Machinery used for milking and dairy activities
  - Machines used for composting

- Land Revenue Tax:

Land revenue tax is a state tax governed by state laws, payable on an annual basis on the gross proceeds of agricultural land. The applicable rates vary in each state, and land revenue tax related to agricultural land is generally minimal.

# Import and export

## Import Requirements for Seeds and Plant Products:

In India, the seed industry is regulated by the Seeds Act of 1966 and the Seeds Rules of 1968. Complementary to these regulations is the Seeds (Control) Order of 1983. Additionally, the Plant Quarantine (Regulation of Import into India) Order of 2003 plays a crucial role in regulating the import of plants and plant products. Notably, the following authorities oversee these regulations:

1. Central Seed Committee
2. State and Central Seed Laboratories
3. Seed Certification Agency

Under the Plant Quarantine Order, a power purchase agreement is established to issue import permits, impose restrictions, conduct Pest Risk Assessments (PRAs), and ensure inspections and disinfestations at specified entry points.

## Rules for the import of seeds and plant products include:

- Seeds, tubers, bulbs, cuttings, and saplings of vegetables, flowers, and fruit can be imported without a license but require an import permit under the Plant Quarantine Order.
- The Indian Council of Agricultural Research (ICAR) can import seeds, planting materials, and living plants without a license under conditions specified by the Ministry of Agriculture and Farmers' Welfare.
- Import of specific seeds, such as those of potato, garlic, fennel, coriander, cumin, and others, requires an import permit granted under the Plant Quarantine Order.

### Export Laws and Documentation for Agricultural Products:

Relevant laws for exporting agricultural products include the Foreign Trade (Development and Regulation) Act of 1992, the Foreign Trade (Regulation) Rules of 1993, the Export Quality Control and Inspection Act of 1963, the Food Safety and Standards Act of 2006, and the Agricultural and Processed Food Products Export Development Authority Act of 1985.

### Required export documentation includes:

- Documents related to agriculture goods: Invoice, packing list, and certificate of origin
- Documents related to shipment: Mate receipt, shipping bill (for sea route), and airline bill (for air route)
- Documents related to payment: Letter of credit, bill of exchange
- Documents related to the quality of goods: Phytosanitary certificate, global gap certification, health certificate
- Organic certification documents (if applicable)
- Documents related to foreign exchange regulations: Self-declaration form
- Other documents: Bank realization

### Regulatory Compliances for Exporting Agricultural Products:

Exporters must adhere to several key regulatory requirements:

1. Obtain and update the Importer-Exporter Code (IEC) annually.
2. Register under the Agricultural and Processed Food Products Export Development Authority (APEDA) within one month of starting the business and obtain the Register of Cumulative Membership Certificate (RCMC).
3. Adhere to currency requirements specified in export contracts regularly.

These compliances ensure a smooth and legally compliant export process for agricultural products from India.



# Dispute resolution

With an escalating number of civil cases each year and an increasing strain on court resources, parties involved in disputes are exploring alternatives beyond the traditional judicial system for faster and more straightforward conflict resolution. Enter Alternative Dispute Resolution (ADR), a set of processes designed to address disputes among individuals without the complexities, time constraints, and expenses associated with litigation.

ADR holds particular significance in the realm of agricultural law, offering a pragmatic approach to addressing numerous issues. Many contracts related to agricultural products or matters include clauses mandating parties to seek resolution through stipulated mediation or arbitration processes, providing a means to circumvent lengthy litigation and expedite the resolution process.

The agricultural industry has witnessed a substantial rise in complexity over recent decades, necessitating swift and equitable dispute resolutions. ADR provides a flexible framework wherein parties can collaboratively navigate intricate issues, avoiding the prolonged timelines often associated with the traditional judicial system. Contracts related to seed sales, environmental disputes, livestock production agreements, loan agreements, crop insurance, and challenges in global trade represent just a few of the multifaceted issues confronting the agricultural sector. ADR emerges as a well-suited mechanism for efficiently addressing these complexities and fostering timely resolutions.



## How we can help ?



Chandrawat & Partners possesses the versatility to assist clients worldwide, delivering bespoke solutions that align with their needs, industry requirements, and desired outcomes. Our commitment to providing high-quality services has remained unwavering since our inception. Leveraging a global and interconnected network comprising member firms and professional consultants, we are poised to effectively address challenges and capitalize on opportunities for our clients on a global scale.

Our overarching goal is to foster strong relationships with industry leaders, emphasizing flexibility and offering tailored solutions to provide clients with leading strategies. We collaborate closely with clients to anticipate industry disruptions, apply a unique perspective to agricultural trends and opportunities, and establish robust, efficient business models.

Having undertaken numerous international engagements within the agriculture industry, we have consistently delivered superior results. Our professionals play pivotal roles by adhering to four fundamental operating principles: access, teamwork, responsiveness, and rationality. These principles form the core of our business philosophy, guiding our interactions with clients and ensuring the delivery of effective and impactful solutions.

## SERVING CLIENTS WORLDWIDE



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