

Working Paper

Strengthening the Industrial Base in Rajasthan

Sectoral Landscape for achieving the \$350 Billion Economy





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Executive Summary

Introduction

This note examines how investments in Rajasthan's industrial sector influence state revenue and job creation. While investments naturally drive growth, directing them strategically can boost employment, strengthen exports and enhance the state's revenue base. To achieve inclusive and sustained economic growth, Rajasthan must build on its traditional industries while fostering new and emerging sectors that offer competitive and sustainable returns.

The state's revenue largely comes from **Own Tax Revenue (OTR)**, which accounts for about **82%** total revenue. Since OTR is closely linked with industrial output and consumption, it serves as a strong indicator of how well industrial growth supports the state's fiscal capacity.

In Rajasthan, changes in OTR are mainly driven by investment and economic activity rather than inflation. This means that the increase in tax revenue reflects real growth rather than price effects. However, the **investment multiplier**—the amount of value added by industry for each unit of investment—has been relatively low. To improve both revenue and job creation, Rajasthan must raise this multiplier by improving industrial competitiveness, targeting high-potential sectors, encouraging sustainable practices, and supporting exports.

Findings

- **Industry and revenue move together.** A higher share of industrial activity in the economy directly boosts OTR growth. Industrial expansion stimulates production, consumption, and tax generation.
- **Faster industrial growth is essential.** If the industrial sector continues to grow at its past rate, Rajasthan will not reach its economic goal of a \$350 billion economy by 2030. Industrial growth needs to increase by about **1 percentage point** each year to close this gap.
- **More investment is needed.** Based on trends from FY2015–16 to FY2024–25, the state's average investment multiplier is modest. Achieving the desired economic size will require a major rise in capital formation (CapEx) and asset creation.

- **Different sectors contribute differently.** Key manufacturing industries—textiles, food products, basic metals, machinery and equipment, and chemicals—have been major contributors to state output. However, their job creation varies. Textiles are highly labour-intensive, while metals and chemicals require heavy capital investment. Export contributions are strongest from engineering goods, gems and jewellery, metals, and textiles.
- **Emerging sectors show new promise.** Rajasthan is promoting new areas like **media and entertainment, logistics, green hydrogen, data centres, M-sand, eco-tourism, ethanol, and agro-processing**. These sectors vary in job intensity and investment efficiency but together provide strong potential for revenue and inclusive growth. For example, **data centres** yield high returns with limited jobs, while **tourism and agro-processing** generate more employment but lower capital returns. This mix calls for a balanced industrial policy that values both high-yield and high-employment sectors.

Recommendations

1. **Use data-driven investment evaluation.** Institutions should regularly assess proposed investments based on four key factors—competitiveness, employment potential, sustainability, and export prospects.
2. **Map revenue potential from trade and investment.** In addition to assessing projects by capital input, their broader impact on trade and local economic activity should also be analysed.
3. **Create a central mechanism for industrial data and coordination.** A dedicated body should collect and share reliable data, conduct analysis, and enable regular consultation with stakeholders and investors.
4. **Invest in enabling infrastructure.** Strengthening logistics corridors, worker housing, and critical utilities such as power, water, and telecom will increase both economic output and NTR collections through fees, tariffs, and user charges. Better infrastructure also ensures more balanced regional development and eases pressure on existing industrial hubs.
5. **Document and replicate good practices.** The Industry Department should review successful initiatives within the state, identify what worked, and institutionalize those practices across sectors and regions.

Limitations

- **Focus on manufacturing.** While the industrial sector includes mining, construction, and utilities, this analysis focuses primarily on manufacturing, which makes up over half of Rajasthan's industrial output.
- **Tax-based revenue analysis.** Only OTR (tax receipts) has been analysed because NTR does not directly track changes in industrial activity.
- **Data gaps.** The relationship between industrial growth and private consumption (PFCE) could not be included due to lack of state-level data.

Policy Implications

The findings underline a clear link between **industrial growth** and **fiscal strength**. To unlock Rajasthan's potential:

- The state must raise **investment efficiency** by improving infrastructure, governance, and policy execution.
- It should sustain momentum in high-performing sectors while scaling up **sunrise industries** that promise higher returns and employment.
- Policies such as the **Rajasthan Investment Promotion Scheme (RIPS) 2024** and targeted incentives for renewables, logistics, and digital industries are well-timed and should be implemented effectively.
- Coordination between departments—industry, finance, labour, and infrastructure—will be crucial to align incentives with outcomes.

1. Introduction

Rajasthan, India's largest state by area, has set an ambitious target of becoming a \$350 billion economy by 2030. Achieving and potentially surpassing this benchmark will require a concerted push across four key pillars: technical transformation in agriculture, expansion of industrial production, scaled-up investment in renewables and promotion of tourism infrastructure¹. This brief focuses specifically on the role of industrial expansion in driving economic growth and strengthening the state's fiscal capacity.

Over the past decade, Rajasthan's economy has grown steadily, bouncing back quickly after the pandemic with growth rates that were higher than the national average. In 2024–25, Rajasthan is projected to grow at 12.02%, raising a critical policy question: if this growth would translate into stronger revenue collections while ensuring the achievement of the vision of a \$350 bn economy in the next five years?

This brief explores how catalysing new investments including emerging sectors alongside strengthening historically robust industries in the state can unlock sustained revenue gains for the state.

2. Performance of the Industrial Sector in Rajasthan

Industrial sector has historically contributed less than a third to the state's overall gross value added (GVA), with the economy remaining predominantly services led. However, due to the strategic importance of the industrial sector (as outlined further in the brief), it has been a focal point for recent policy attention, especially in the context of green transition and employment generation.

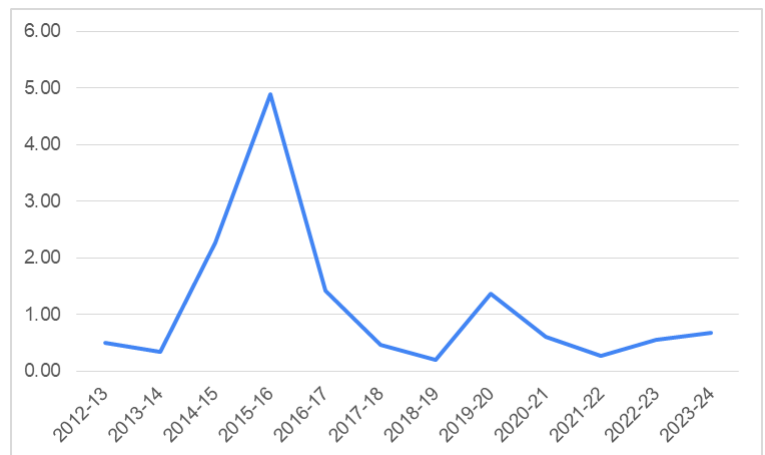


Figure 1: Investment Multiplier (FY 2013 – 2024)

In order to assess the potential output gains from investment in the state the investment multiplier² is estimated. Over the past decade, the **investment multiplier** in the state has been relatively subdued

¹ Page ix, [1666e484167-fab6-4ef2-bf0b-af8b187c7d5d.pdf](https://www.indicgroup.com/india/rajasthan/1666e484167-fab6-4ef2-bf0b-af8b187c7d5d.pdf)

² Investment multiplier is percentage change in GVA by percentage change in Gross Fixed Capital Formation (GFCF)

and declining—indicating that investments, particularly those by the public sector, have not consistently translated into proportional gains in output. This trend underscores the need for more strategically directed and efficient investments, especially in high-return and job-intensive sectors.

From a fiscal standpoint, the **tax buoyancy**³—a measure of how tax revenues respond to GSDP growth—has shown volatility. During the COVID-19 years, buoyancy in total tax revenue (at current prices) was negative, but tax buoyancy (both OTR and TR) values have exceeded '1' previously and the years after the pandemic, suggesting that the state has periodically benefited from revenue growth that outpaced economic growth. If the average levels of tax buoyancy prevailing over the last decade continue, the projected industrial growth could generate substantial gains in own tax revenue over the next five years.

In addition, the trends in the own tax revenue buoyancy at constant and current prices are broadly similar, especially during the past five years despite the high rates of inflation. Moreover, it is observed that during periods of low inflation the tax buoyancy at constant prices is higher. This suggests that the growth in tax buoyancy is not on the account of inflation. It could be that administrative efficiency and structure of the economy have significant bearing on the economy of Rajasthan. In our analysis we have taken OTR at current prices and assumed the same rate of annual inflation as prevailing over the decade. The projections therefore do not over-estimate the revenue growth on account of prices.

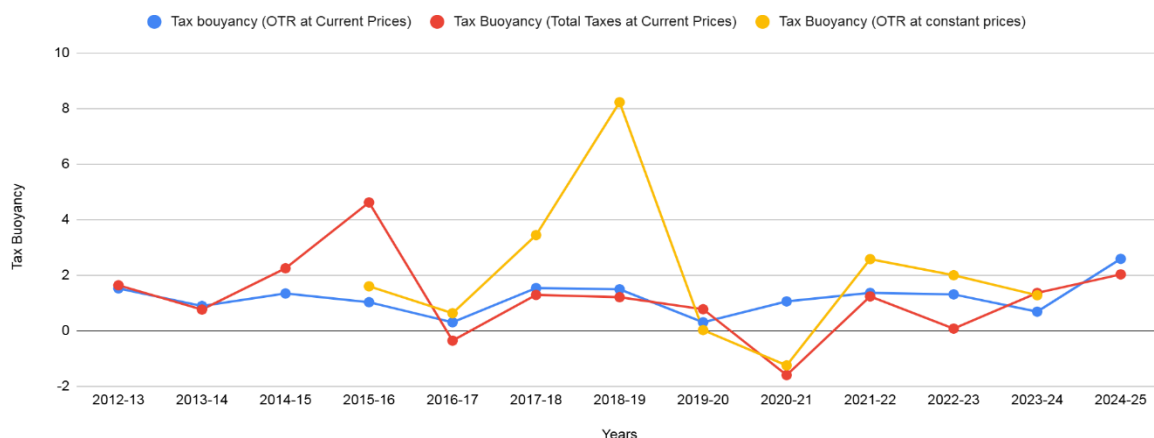


Figure 2: Tax Buoyancy and OTR Buoyancy

This indicates that revenue gains depend on aligning investments with sectors and geographies that maximize economic returns.

³ Tax Buoyancy is percentage change in tax revenue (Own Tax Revenue or Total Tax Revenue) by percentage change in GSVA at basic prices (at current prices or constant prices).

Recent policies reflect a **shift in Rajasthan's industrial strategy**, combining both spatial and sectoral targeting. The Rajasthan Investment Promotion Scheme (RIPS) 2024 introduces a tiered incentive structure, combining investment, capital, and turnover-linked subsidies, with top-ups for employment generation and thrust sectors like renewables. At the same time, the state is promoting regional industrial hubs, particularly in areas along national highways and underdeveloped districts in southern Rajasthan, requiring complementary support to logistics and urban infrastructure.

This evolving industrial focus will reshape budgetary demands. While subsidies—especially in the power sector—currently dominate state expenditure, allocations to industry and special area programs remain limited. Scaling up industrialization will therefore require **recalibrating expenditure**: increasing capital spending, reassessing subsidy allocations, and boosting outlays for industry and infrastructure. Expanding **public-private partnerships (PPPs)** beyond roads and power to sectors like urban infrastructure, which offer higher revenue potential will be important in freeing up state finances while also ensuring opportunities for revenue mobilisation.

3. Pathways to the USD 350 bn Economy (Scenarios)

Building on the earlier analysis of Rajasthan's industrial sector⁴ and its alignment with the state's economic ambitions, we now explore potential revenue mobilisation pathways. In this regard, two scenarios have been evaluated to assess the future contribution of the industrial and ancillary sectors to the state's economy and tax base:

Scenario 1 considers the Gross State Value Added (GSVA) contribution of the industrial sector based on its compound annual growth rate (CAGR) over the past decade (FY 2015–16 to FY 2024–25). This approach helps estimate the sector's share in Rajasthan's total GSVA by 2030 and the corresponding tax revenue it could generate, based on historical growth patterns.

Findings related to Scenario 1:

- If industrialisation results in growth aligning with the CAGR over the past decade, achieving the desired outcome would require either higher

⁴

The industrial sector comprises Mining and Quarrying, Manufacturing, Construction, and Electricity, gas, water supply and other utility services. In this section an elaborate analysis has been provided for the contribution of the manufacturing sector to the state's economy

investment or greater efficiency in investment to increase the state's investment multiplier

- Assuming the average investment multiplier (1.06) for the past decade (FY2015-16 to FY2024-25) for estimation of the size of investment needed to meet the corresponding GSVA growth, it is observed that increases in investment would have to be in excess of what is observed over the past decade
- If the share of industry remains constant in the total GSVA, while GSVA increases at the decadal CAGR, the growth in industrial GSVA will be lower than the growth in industrial GSVA if it grows at its own decadal CAGR. (A constant industry share implies that industry-led growth in GSVA will remain modest)

Scenario 2 aligns the sector's projected growth with Rajasthan's GSDP target of USD 350 billion by 2030. This scenario outlines the required growth rate of the industrial sector to meet this target and estimates the resulting tax revenue mobilisation from the sector, reflecting its role in achieving broader economic goals.

Findings related to Scenario 2:

- To achieve the USD 350 billion economy vision, the required rate of growth for sectors is different from what has been observed historically; specifically, the decadal CAGR (as used in Scenario 1) is lower than what is required, particularly for industry sub-sectors.
- There is at least a 1 percent variation between the CAGR based on historic data and that based on the required rate of growth needed to meet the USD 350 billion target.

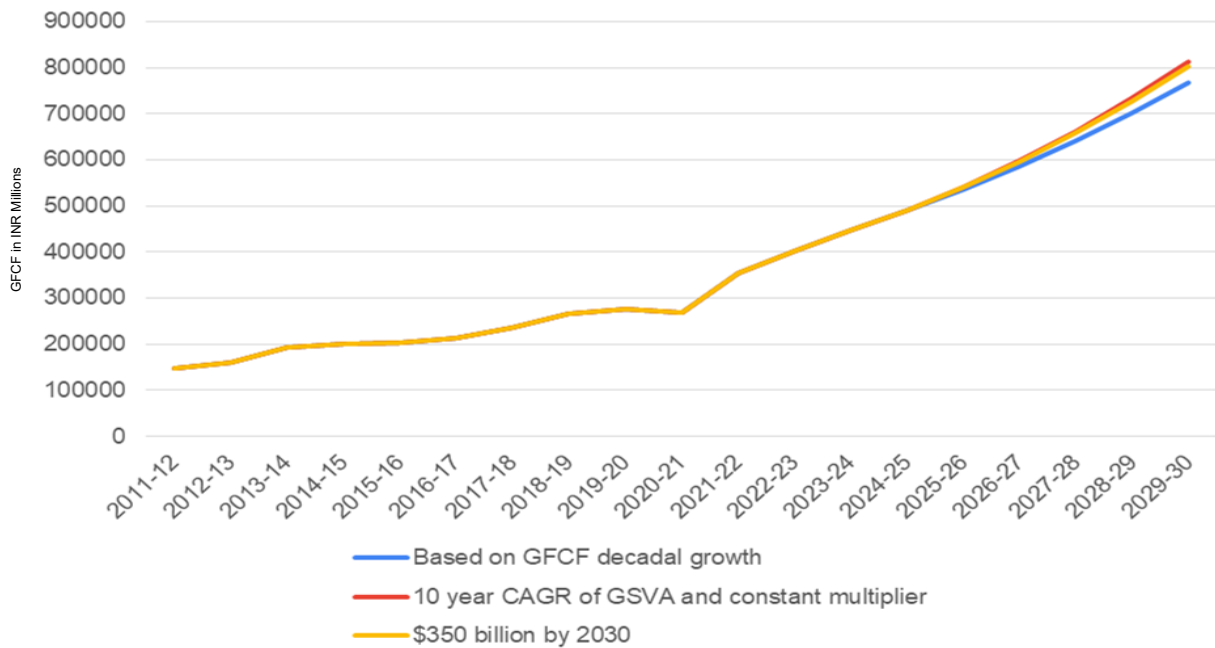


Figure 3: Gross Fixed Capital Formation (GFCF) under Scenario-1 and Scenario-2

The analysis⁵ highlights that a higher share of industry in the state economy has a direct and positive impact on the growth of own tax revenue (OTR), even if it does not significantly alter the OTR-to-GSDP ratio. This suggests that industrial expansion contributes meaningfully to revenue mobilisation, primarily through increased economic activity and consumption, rather than through structural shifts in the overall tax-to-GSDP ratio.

In the context of achieving Rajasthan's ambitious \$350 billion GSDP target, this relationship implies that industrial growth must be actively pursued. However, as observed in scenario-1, given the average investment multiplier of 1.06 over the last decade (FY2015-16 to FY2024-25), such growth will require a substantial increase in capital formation, particularly through higher Gross Fixed Capital Formation (GFCF). Scenario-2 estimates indicate that maintaining or accelerating GSVA growth in line with past trends will not be feasible without sustained and strategic investments.

⁵ A simple regression model was estimated to assess the relation between the share of industry in the state economy and growth of own tax revenue (OTR)

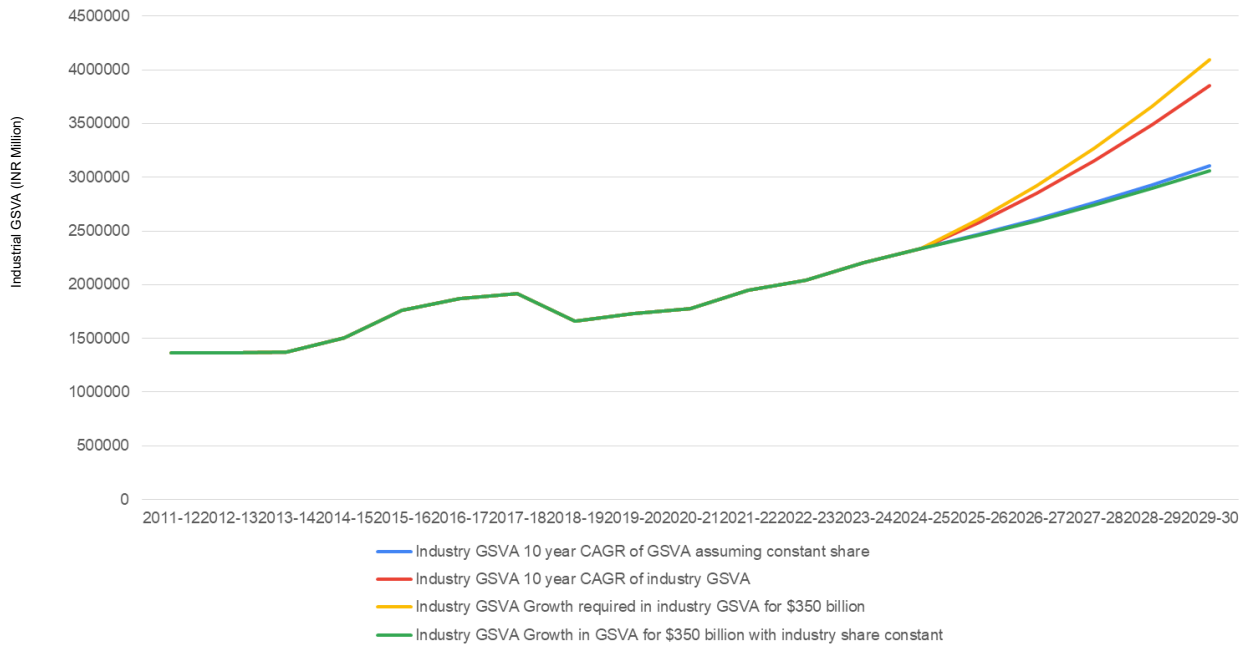


Figure 4: Industrial GSVA Growth for a) constant industrial GSVA share in total GSVA and b) changing industrial GSVA share as per decadal industrial sector CAGR, under Scenario-1 and Scenario-2

Therefore, expanding industrial output while ensuring improved tax compliance and administrative efficiency, can enhance the state’s revenue potential. In order for this to translate into a stronger and more sustainable tax base, increased public and private investment in industry and infrastructure is essential.

The nature of this industrial growth, however, will depend on the sectors that drive it— focus on both traditional industries and emerging sectors with high growth potential is critical. The next section explores the sector-level potential to understand how it can shape and inform future investment priorities.

4. Sectoral Priorities for Industrial Growth

4.1. Strengthening Historically Strong Industrial Sectors

As discussed earlier, accelerating industrial growth and strategically targeting sectors can deliver both output expansion and fiscal returns. While much attention is being directed towards emerging sectors and green industrialisation, it is equally important to consolidate gains from historically strong industries that have consistently supported Rajasthan’s manufacturing base.

Textiles, Food Products, Basic Metals, Machinery and Equipment, and Chemicals & Chemical Products are the top five contributors to Rajasthan’s manufacturing Gross State Value Added (GSVA) between FY 2016–17 and FY 2022–23. These sectors

have not only demonstrated stability in output but have also become integral to Rajasthan's export and employment landscape.

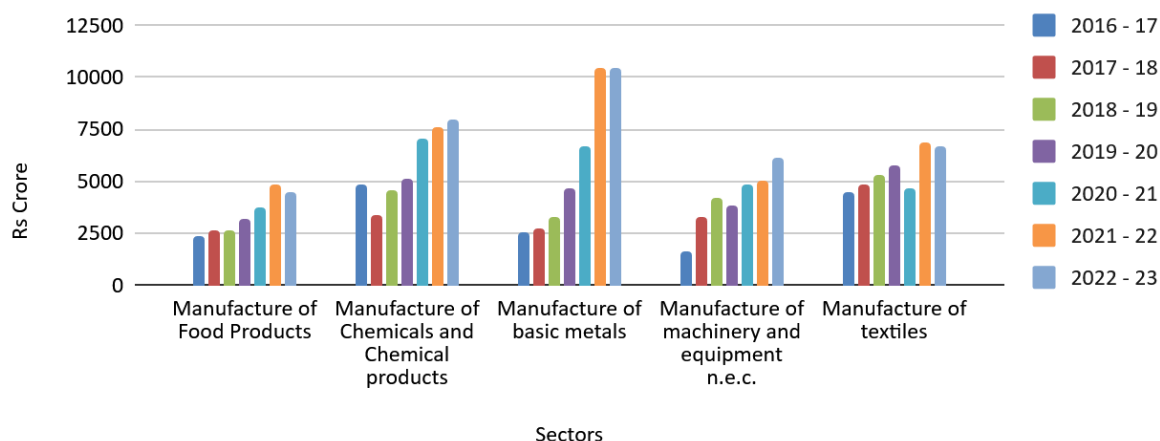


Figure 5: GSVA of High Performing Manufacturing Sub-sectors

Among the key sectors, the textile industry stands out for its high job intensity, employing around 15 persons per crore of GSVA. In contrast, sectors like Chemicals & Chemical Products and Basic Metals contribute to output and exports but have lower job intensity, reflecting their capital and automation intensive nature. This divergence suggests that while high-output sectors are crucial for driving growth and exports, they may not generate proportionate employment. Therefore, Rajasthan's industrial strategy needs to balance both objectives where it can leverage sectors like chemicals for revenue and export gains, while simultaneously investing in labour-intensive sectors like textiles to ensure broad-based employment growth.

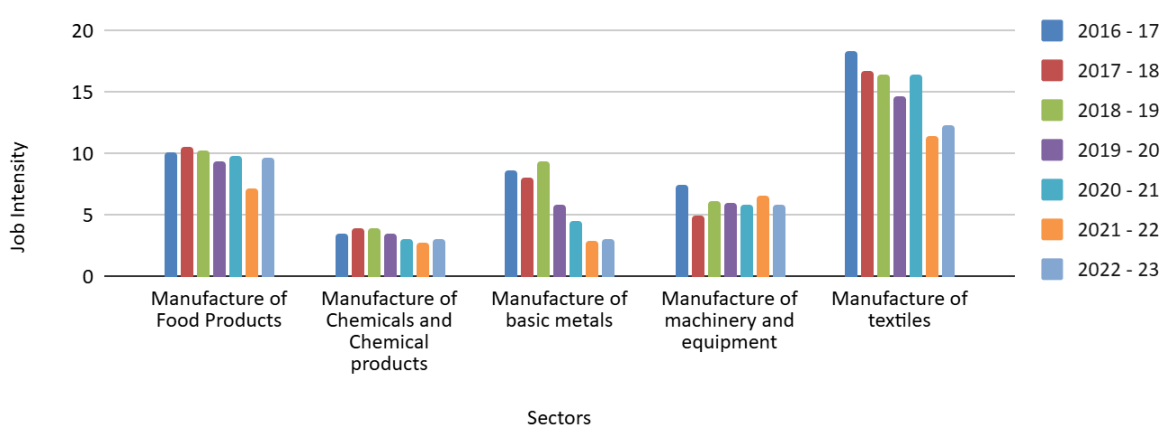


Figure 6: Job Intensity in High Performing Sub-sector

On the export front, **Engineering Goods (16.6%)**, **Gems & Jewellery (11.2%)**, **Metals (9.8%)**, and **Textiles (8.8%)** led Rajasthan's exports in FY2024, showcasing a healthy diversification in the industrial export basket. If the potential of sectors

across the metrics of exports, GSVA and employment is assessed, sectors such as textiles and metals rank high on all three parameters.

Rajasthan has to **retain the momentum** in these historically strong sectors while addressing administrative bottlenecks, ensuring timely implementation of announced investments and enabling technology-led upgrades. These industries remain critical anchors in the broader industrialisation roadmap offering both output growth and greater fiscal returns.

4.2. Catalysing Growth in New and Emerging Sectors⁶

While historical industrial trends offer a baseline and aligning with the USD 350 billion vision sets a growth imperative, another front that presents the opportunity to achieve **this vision is by leveraging new industries**. These sectors, enabled by recent **state-level policies**, especially in the wake of Rising Rajasthan summit, offer a **potent mix of high multipliers, employment generation and revenue mobilisation potential**, positioning them as pivotal engines for Rajasthan's next phase of economic transformation.

Investments in new sectors as identified below, aided by policy incentives show potential of **investment multipliers ranging from 1.5x–5x per unit of investment**. The concept of an investment multiplier refers to the total increase in GSDP resulting from investment. Different sectors exhibit varying multiplier effects. Infrastructure projects, such as those envisaged under the Logistics Policy and for supporting Green Hydrogen and Data Centre ecosystems, typically have a **high multiplier, as they stimulate demand across various allied industries** like cement, steel, and construction services, and create enabling conditions for further economic activity.

Sectors such as Tourism (Eco-Tourism Policy) and Agro-Processing (Agro-Processing Policy) have a relatively low investment multiplier but they **exhibit some of the highest employment generation potential, with 70–80 and 25–30 jobs**, respectively per crore of investment. These labour-intensive sectors are particularly significant for semi-urban and rural areas, aligning with inclusive growth goals.

⁶ Industrial sector comprises of Mining and Quarrying, Manufacturing, Construction, and Electricity, gas, water supply and other utility services. In this section an elaborate analysis has been provided for the contribution of the manufacturing sector to the state's economy

On the other end, Data Centres, governed by the Tech/Data Centre Policy, **offer low direct employment (0.1–0.2 permanent jobs per crore) but deliver very high fiscal returns**, particularly in the form of electricity duty and property tax in addition to increasing the attractiveness of the state as a preferred investment destination for other industries. Additionally, this would help ensure **readiness of digital infrastructure in the state**. This reflects a shift towards capital-intensive, high-revenue digital infrastructure sectors.

Sectors such as logistics and media & entertainment provide a **balanced profile, with moderate to high employment generation (3–10 per crore) and high revenue returns through GST, duties and fees (electricity charges, stamp duty, registration fees), entertainment tax, land revenue etc.** Their **investment multipliers range from 1.5x to 4x**, reinforcing their strategic importance in anchoring diversified industrial growth.

Emerging sectors demonstrate differentiated but complementary revenue streams with high revenue generation potential from sectors such as Tech and Media & Entertainment through GST on digital goods and services. Sectors such as tourism, logistics, agro-processing present moderate revenue generation opportunities supported by warehousing, tourism activity and mandi fees respectively. Additionally, creation of new assets would attract stamp duty, registration, etc. In addition, energy sectors, particularly Green Hydrogen and Ethanol, offer high potential through indirect taxation and excise duties, although **upfront incentives such as 100% waivers on transmission charges may temporarily compress the net fiscal inflow**.

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Sector	State Policies	Multiplier	Employment Generation (Per 1 crore of investment)	Revenue Potential (Qualitative)	Key Policy Incentives
Media & Entertainment	AVGC XR	1.5x-3x	5-10	High – digital content royalties, GST	Production Grants (Animation/VFX up to 30%, Game Dev up to 20%, Comics up to 25%); AVGC-XR Fund (grants, equity, financing); Content Promotion (local culture, folklore, localization); Support for IP (financial + legal + networking)
Logistics	Logistics (RIPS 2024)	2.5x-3x	3-5	Moderate – via GST, Fuel taxes (VAT), warehousing permits	Capital Subsidy or Interest Subsidy (varies by facility type); 100% exemption (Electricity Duty, Mandi Fee); Stamp/Conversion partially; Technology Upgradation Incentives; Green Solution Incentives (up to ₹12.5 Cr)
Energy	Green Hydrogen Policy	3x-5x	1-2	High – indirect taxes, energy levies	RIPS Benefits; Power-Related Waivers (50% transmission, duty, surcharge waiver); R&D Grants (up to ₹5 Cr); Priority Land Allocation
Tech	Data Centre Policy	3x-5x	0.1-0.2 (Permanent)	Very High – electricity duty, corporate tax, property tax	₹20,000 Cr investment, single window clearance

Minerals	M-Sand Policy	1.5x–2x	10	Low to Moderate – royalty, mining permits, Excise duty	Exemption from DMF, Royalty reduction, and auction relaxations; RIPS 2024 benefits (Investment/Employment subsidies, exemptions); Waiver of Eligibility Criteria; Market Assurance (mandatory use in govt works up to 50%)
Tourism	Eco Tourism Policy	2x–3x	70–80	Moderate – tourism tax, GST	Support for Infrastructure Development; Promotion of Community-Based Entrepreneurship; Development of Services and Products; Marketing Support
Energy	Ethanol Promotion Policy	2x–2.5x		Moderate – Excise, VAT, Sales Tax	Production Linked Incentive (₹1.5/litre up to 100% of Plant & Machinery); 100% exemptions (Stamp Duty, Mandi Fee, Electricity Duty, etc.); 75% Investment Subsidy (State tax reimbursement); 50%–75% Employment Generation Subsidy
Agriculture	Agro-Processing Policy	1.8x–2.2x	25–30	Moderate – Mandi fees, GST	Export hubs, processing subsidies

Note: These figures are indicative and subject to various economic and implementation factors, and may vary

The above analysis highlights the potential of new sectors to add to Rajasthan’s economy. The suite of new policies have come at the right time in Rajasthan’s growth story and are well equipped to give it a boost.

5. Way Forward

Rajasthan's vision of having a \$350bn economy in next five years is reliant on growth in both traditional and sunrise sectors. Policy push and incentives from the government highlight the institutional will to ensure the fulfilment of the vision. The path to realizing this potential is contingent upon several critical factors such as:

- Cluster and prioritise sectors with the highest economic and employment multipliers
- Ensure policy execution matches policy intent, particularly in land use, clearances and infrastructure provisioning
- Focus on complementarity between traditional and emerging sectors, using digital and logistical infrastructure as enablers

In essence, these sectors can act as force multipliers for achieving the 2030 vision, not only by adding scale to GSVA but by reshaping the composition of growth toward resilience, inclusion and fiscal buoyancy.

Methodology for Analysis

- **Investment Multiplier:** Ratio of change in Gross Value Added (GVA) to change in Gross Fixed Capital Formation (GFCF).

This was undertaken to assess the potential output gains that result from investments within the state.

- **Tax Buoyancy:** Ratio of change in tax revenue (Own Tax Revenue or Total Tax Revenue) to change in GSVA (current or constant prices)

This metric measures how responsive tax revenues are to changes and growth in the Gross State Domestic Product (GSDP)

- **GSVA and GSDP Projections:** GSVA and GSDP projections were calculated based on their past decadal Compounded Annual Growth Rate (CAGR)
 $CAGR = [(BV/EV)^{(n-1)} - 1] \times 100\%$;

where: EV=Ending value; BV=Beginning value; n=Number of years

The purpose was to estimate the industrial sector's potential share in Rajasthan's total GSVA by the year 2030 and the state's total GSDP.

- **GSVA and GSDP growth rate requirement for the industrial sector aligned with USD 350 bn total GSDP target:** Calculated based on the GSDP target of USD 350bn and CAGR.

T This was done to determine the necessary growth rate required for the industrial sector to meet this economic target

- **Relation of Industrial GSVA and OTR:** A regression analysis was conducted in order to determine the relationship between GFCF, Industrial GSVA and OTR, which is as follows:

$$OTR \text{ to GSDP} = A + B \text{ Log (GFCF) } + C \text{ (Share of industry)}$$

$$\text{Log (OTR)} = A + B \text{ Log (GFCF) } + C \text{ (Share of industry)}$$

This analysis aimed to understand and quantify the correlation between the proportion of the state's economy represented by industry and the growth of its own tax revenue

- **Job Intensity:** Job Intensity was calculated as total number of jobs created per unit of investment

This was calculated to ascertain the number of jobs that per unit investment can create sectorally to identify high-job potential sectors.