THE CFO BOARD

10 YEARS

# TAMIL NADU'S GROWTH IMPERATIVE

## The CFO Board's Recommendations for Fiscal Sustainability and Economic Competitiveness

**Insights and Action Plans for a Transformative Future**

# MESSAGE FROM THE CHAIRMAN OF THE CFO BOARD

Tamil Nadu stands at an important inflection point. With a strong industrial base, a deep talent pool and an increasingly diverse economy, the state has many of the ingredients needed to shape its next phase of growth. The question is no longer whether the opportunity exists, but how effectively it can be converted into sustainable, broad-based growth.

This report brings together the perspectives of 65+ CFOs and senior finance leaders operating across Tamil Nadu to explore that question. Their responses offer a pragmatic view of business sentiment, investment intent, emerging opportunities and the reforms that could make the greatest difference to competitiveness.

What emerges is encouraging: businesses are willing to invest, innovate and grow. But the message from finance leaders is equally clear - execution will matter as much as policy ambition. Speed of doing business, infrastructure, talent retention, fiscal discipline, policy stability and effective implementation will be critical to unlocking the next wave of growth.

Importantly, this is not simply a diagnosis of the challenges. The report puts forward practical recommendations from the CFOs' lens focused on improving business sentiment, strengthening state finances, enabling investment and building a more resilient growth ecosystem.

We hope these insights contribute meaningfully to the dialogue between government and industry and help shape a Tamil Nadu that is not only competitive today, but future-ready for the decade ahead.

**S Mahalingam**
Chairman
The CFO Board

# MESSAGE FROM KPMG IN INDIA

As the new Tamil Nadu Government marks its first 100 days in office, the initial period of transition has evolved into a phase of rising expectations. Both supporters and critics are anticipating policy decisions that may shape the state's future trajectory.

During these three months, the government has announced several welfare initiatives, published a whitepaper on the state's financial health, presented the budget for FY27 and most recently, hosted an investor summit to attract new investments. Amidst this dynamic activity, as the administration establishes its protocols and adapts to new responsibilities, the business community remains cautiously optimistic regarding the state's growth prospects and their own priorities, which are influenced by government policies.

Conversely, legitimate concerns remain about the state's fiscal health, with a growing chorus advocating a calibrated approach to welfare expenditure considering its debt and deficit position. Addressing these concerns through clear policy reassurance will be important to sustain business confidence.

To provide further insight, we conducted a survey among CFOs of companies operating in Tamil Nadu to gauge current sentiment and consolidate their opinions and recommendations on enhancing business confidence, controlling fiscal deficits and debt and improving the effectiveness of government initiatives.

This document aims to offer a concise overview of stakeholder perspectives and support policymakers in making informed decisions for the path ahead.

With the state having chosen its hero, we hopefully have a blockbuster in the making, if the editing is taut and the action sequence is compelling!!

**Vikram Srinivas**
Office Managing Partner
KPMG Chennai

# INTRODUCTION

Tamil Nadu stands as one of India's largest and most diverse economies, with a GSDP of ₹35 lakh crore, ranking it as the second-largest state economy among major Indian states. Despite accounting for only about 6% of the country's population and 4% of its land area, the state contributes approximately.9.4% of India's GDP.

The state remains a strong manufacturing and industrial hub, supported by a solid industrial base, a growing green energy sector, significant investment activity and one of the country's largest talent pools. These factors position Tamil Nadu well for sustained high growth over the next decade.

Although Tamil Nadu's economy has been registering healthy nominal growth, achieving the Government's ambition of becoming a US$1.5 trillion economy by 2036 will require sustained, faster growth and approaches that go beyond the historical growth drivers.

From a state-finance perspective, following the introduction of GST, states have limited unilateral flexibility over indirect taxation, with GST rates and exemptions governed through the GST Council framework. States also receive a share of divisible Union taxes based on the Finance Commission's devolution formula. Tamil Nadu's share is not determined by the Union taxes attributable to economic activity in the State alone, but by a wider set of federal criteria, including income distance, population, demographic performance, area, forest cover and contribution to GDP.

Tamil Nadu cannot alter this formula unilaterally, although it can advocate changes through the Finance Commission and other intergovernmental forums.

The State nevertheless retains certain revenue levers, including taxes and duties on liquor and petroleum products, stamp duty and registration revenues and mining-related royalties and levies. To strengthen these revenue levers, the Tamil Nadu Government has constituted a Revenue Augmentation Committee chaired by Montek Singh Ahluwalia. Its mandate includes improving compliance, plugging leakages, enhancing revenue buoyancy, rationalizing rates and identifying new and underutilized sources of revenue.

At the same time, policymakers need to address the state's debt levels and budget deficits, especially given limited tax-raising capacity. This necessitates improved operational efficiency, prioritization of cost reductions and rationalization of losses from state-run utilities. Balancing welfare programs with long-term capital investment remains a key fiscal challenge and failure to manage these issues could limit the budget available for capital expenditures.

The new government thus faces the dual task of stabilizing the state's finances while guiding Tamil Nadu toward further industrial and economic advancement. A refreshed policy approach could help streamline the state's finances while enhancing business confidence and securing the state's growth trajectory.

This forum draws on insights from Tamil Nadu's CFOs to provide practical suggestions for boosting business confidence, managing fiscal deficits and debt and improving effectiveness in the implementation of various government initiatives.

## Current State of Public Finances[1]

The Tamil Nadu White Paper on State Finances (2026), released in June, paints a challenging picture of the state's fiscal health. Despite the difficulties, the new government signals its intent to look ahead and focus on actionable steps, rather than dwell on shortcomings.

GSDP grew between FY22 and FY26 **at a CAGR of 14.3%**

From FY22 to FY26, the fiscal deficit ranged between **3.3% and 3.8% of GSDP**

Revenue deficit reached ₹78,324 crores in March 2026, which was **2.2% of GSDP**

Cumulative Government borrowings as at March 2026; **₹10 lakh crores**

Accumulated debt of state-owned PSUs as at 31 March 2026 **₹3.2 lakh crore**

Between FY22 and FY26, Tamil Nadu's capital expenditure averaged **1.6% of GSDP**

1. The Tamil Nadu White Paper on State Finances (2026)

# RESEARCH METHODOLOGY & SURVEY DEMOGRAPHICS

## Research Methodology

**The report combines primary CFO evidence with structured secondary research to develop actionable recommendations for Tamil Nadu**

**01 Frame The Report Agenda**
CFO Board discussions and selected Board interviews were combined with Tamil Nadu's fiscal and growth context to define the policy questions tested in the report.

**02 Test With CFO Evidence**
The survey and interview programme engaged c.100 CFOs. Survey responses cover 65 CFOs across 31 self-reported industries (74% privately held).

**03 Conduct Secondary Research & Triangulate**
A structured review of the 2026 State Finances White Paper, FY27 Budget, official policy and programme documents, peer-state and international benchmarks and in-house knowledge validated primary findings and shaped recommendations.

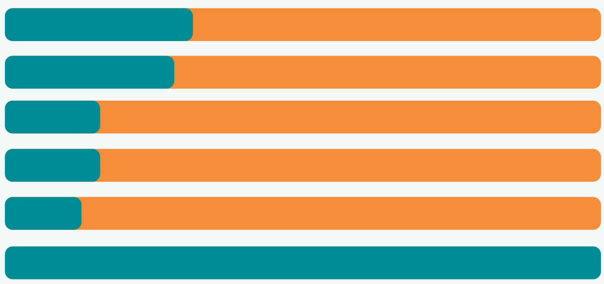
## Survey Demographics

**Sample at a glance**

The survey captures perspectives from 65 CFOs across 31 self-reported industries, spanning manufacturing, services and primary sectors. Automotive and industrial manufacturing account for 29% of responses, providing a strong industrial lens, while privately held companies constitute 74% of the sample. The cross-sector respondent base provides a broad view of Tamil Nadu's growth priorities, albeit with greater representation from privately held businesses.

### 1. Industry representation

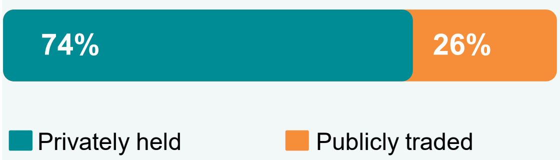
Top five labels; long tail grouped as other industries



| | Count \| Percent |
|---|---|
| Automotive | 10 \| 15% |
| Industrial manufacturing | 9 \| 14% |
| Technology | 5 \| 8% |
| Consumer / retail | 5 \| 8% |
| Infrastructure / transport | 4 \| 6% |
| Other industries | 32 \| 49% |

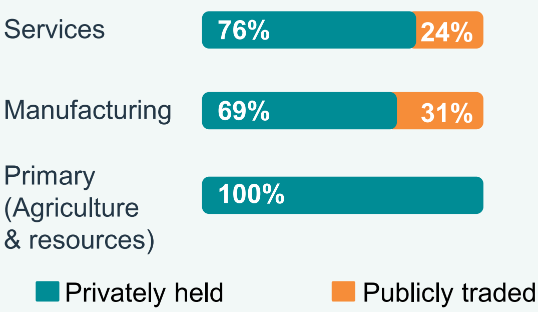
### 2. Ownership profile

Legal ownership structure of participating companies




### 3. Ownership by sector

Composition within each broad economic sector




| | Count Private \| Public |
|---|---|
| Services | 28 \| 9 |
| Manufacturing | 18 \| 8 |
| Primary (Agriculture & resources) | 2 \| 0 |

# KEY TAKEAWAYS FROM THE CFO SURVEY

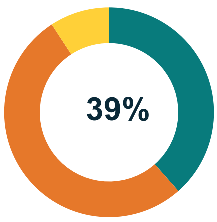
**We surveyed and interviewed c.100 CFOs from companies operating in Tamil Nadu to gauge their views on the new government's growth agenda and current business sentiment. The main findings are summarized below:**

## 1. CFO Perspective At A Glance

### EASE OF DOING BUSINESS

% of CFOs rating Tamil Nadu vs peers

*Exhibit 1*

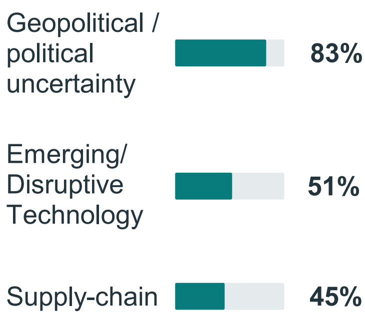



**Only 39% rate Tamil Nadu better; 61% place it on par or behind peers**

### TOP RISKS ON CFO RADAR

% of respondents

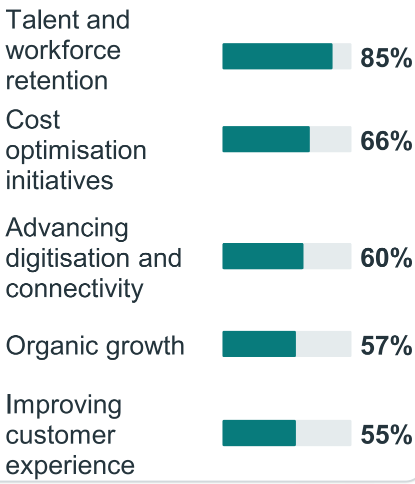
*Exhibit 2*




### CFO BUSINESS PRIORITIES FOR THE NEXT PHASE OF GROWTH

% of respondents

*Exhibit 3*




***Note:*** *Percentages are based on 65 survey responses. Exhibit 1 reflects a single-choice question, while Exhibit 2 allowed multiple selections; therefore,*
*Percentages in Exhibits 2 and 3 do not total 100% because respondents could select multiple options. Figures are rounded to the nearest whole number. Source: CFO Board–KPMG survey, Tamil Nadu, 2026.*

## 2. What The Survey Says

1

**39%**

**Ease of doing business**

- Only 39% rated Tamil Nadu better than other states; the remainder placed it at par or behind peers.
- Neighbouring states offer approvals within 30 days and within 15 days for mega projects, prompting Tamil Nadu to further strengthen its competitiveness through faster and more streamlined clearances.
- Respondents called for faceless clearances, self-certification, deemed approvals, transparent and time-bound SIPCOT land allocation and relationship managers for high-value projects to improve predictability and investor confidence.

2

**>89%**

**Confidence in reform**

89% expressed confidence in government-led speed-of-doing-business reforms. Confidence was also high for labour reforms at 88%, Make-in-India initiatives at 86% and environmental sustainability reforms at 80%.

| | | |
|---|---|---|
| 3 | **92%** **Capital is ready to deploy** | While 92% said access to growth capital is not a constraint, more than three-fourths are likely to invest in new capital expenditure within Tamil Nadu; two-thirds also foresee inorganic growth — a willingness to commit capital if execution and policy bottlenecks are addressed. |
| 4 | **85%** **Talent tops the CFO agenda** | Talent and workforce retention is the top priority (85% of CFOs), followed by customer-centric growth/market expansion (75%) and operational efficiency/cost optimization (66%). Digital transformation and AI are firmly mainstream (71% identify them as growth priorities); supply-chain resilience (43%) is likely concentrated among manufacturing, automotive, logistics and export-linked companies. |
| 5 | **Talent → output** **Convert skilling into productivity** | Tamil Nadu's talent advantage is a major asset. While the government has invested in skilling and education, the next phase must convert talent into economic productivity and long-term retention — stronger links between academia and employers, exposure to future manufacturing technologies and more apprenticeships and targeted programs for priority sectors. |
| 6 | **Livability** **Livability is strategy** | Investments in housing, transport, healthcare, education and recreation are essential to attract and retain top talent as national competition intensifies — potentially as important as industrial policy for future growth. |
| 7 | **83%** **Risk radar** | Geopolitical and political uncertainty dominates (83% of CFOs), followed by technology disruption (51%) and supply-chain or operational risks (45%). |
| 8 | **80%** **A practical, productivity-first AI agenda** | • CFOs prioritise back-office automation and support functions (80%), customer experience (72%) and manufacturing productivity (63%).<br>• Nearly two-thirds expect positive GenAI returns within five years.<br>• This aligns with the state's AI growth vision through Arivagam and broader AI-enabled governance, favouring productivity-led uses over experimentation. |

9

**Infrastructure first**

**Cluster-led Infrastructure Over Incentives**

CFOs had identified connectivity, logistics, digital infrastructure and workforce mobility as key asks on enabling infrastructure. While the FY27 budget addresses some of these, key recommendations from the survey, by cluster are:

| | |
|---|---|
| **Greater Chennai** | Improve digital, airport and urban infrastructure; Focus on improving Chennai's livability for a cosmopolitan/ international workforce. Several proposals in the budget resonate with the demand for the city's infrastructure enhancement, but significant ground needs to be covered to improve Chennai's attractiveness |
| **Hosur–Ranipet** | Enhance manufacturing and freight infrastructure, with an urgent need to institutionalize productivity enhancement and Industry 4.0 adoption through grants supporting adoption of robotics and AI-enabled quality control systems. |
| **Coimbatore–Tiruppur** | Improve export logistics and air connectivity; With the region identified as a node in one of the country's two defense corridors, the Government can actively solicit an anchor OEM to set up manufacturing there, on the back of which, ancillary companies can be incentivized to setup operations, aided by long-term land leases, fast-track environmental clearances and defense-specific testing infrastructure. |
| **Thoothukudi Madurai and Tirunelveli-Kanyakumari** | Developing ports, logistics and energy infrastructure will be key. The Budget's proposal to establish Thoothukudi and Tirunelveli as a Space Industrial Investment Zone, together with port-led growth and emerging energy investments, should position Southern Tamil Nadu as the state's next major industrial frontier. |

10

**61%**

**Chennai first; clusters rising**

- 61% of CFOs identify the Greater Chennai Cluster as requiring the most government support.
- Coimbatore–Tiruppur follows at 42%, alongside the southern corridors and Hosur–Ranipet.
- These priorities align with Budget investments in Metro Phase 2, road connectivity and innovation hubs.

11

**The next growth cycle**

| 75% | 68% | 68% |
|---|---|---|
| **Electric vehicles** | **Global Capability Centres (GCC)** | **Renewable Energy** |

**They are expected to lead — manufacturing leadership, technology-enabled services and sustainable investments, supported by budget measures for EV infrastructure and clean-energy incentives.**

# CFOs' RECOMMENDATIONS TO THE STATE

**The survey's growth and sentiment drivers and the recent budget announcement show that policymakers have recognized many critical areas and implemented targeted incentives.**

**The main expectation from the government is to prioritize execution excellence, infrastructure development, governance quality, talent development and policy stability. Industry, in turn, commits to investment, job creation, export growth and innovation to drive the next stage of development.**

**The forum's recommendations fall into three main categories:**

- **Improving business sentiment**
- **Measures to address the state's fiscal deficit and debt challenge**
- **Medium-term priorities for sustainable growth**

## Priority#1 - Improving Business Sentiment

### 1 Accelerate Business Reforms

*Current Status*

The Tamil Single Window Portal offers over 200 services across 30+ departments[1], aiming for a seamless, paperless approval process. Tamil Nadu ranks among the top three states nationally in ease of doing business. However, peer states have set higher benchmarks:

| | |
|---|---|
| **30 days**<br>**Telangana TG-iPASS** | Guarantees approvals within 30 days, with a 15-day fast track for mega projects. |
| **21 days**<br>**Andhra Pradesh Single Desk** | Provides clearances within 21 working days. These examples highlight the need for Tamil Nadu to further streamline its processes to maintain competitiveness. |

1. TNSWP Website

### *Key Recommendation*

- **Review and simplify approvals:** Critically evaluate all approval requirements under the single window portal. Implement self-certification for low-risk applications and adopt 'deemed approved' status after a pre-defined period.
- **Redefine service timelines:** Establish clear service level agreements (SLAs) with audit trails, escalation mechanisms and penalties for delays.
- **Relationship managers for mega projects:** Introduce dedicated "investment banking style" relationship managers responsible for end-to-end facilitation and accountability for large investments.
- **Strengthen investment predictability:** Establish stable and transparent approval timelines, while clearing the SIPCOT land-allocation backlog through a time-bound process, enabling businesses to invest with confidence and align expansion plans with the government's growth agenda.
- **Recent budget proposals such as Guidance 3.0**, Single Window 3.0, AI-enabled approval systems and the right to services framework are positive steps. Their effective implementation is critical to address current investor concerns.

## 2 Labour Reforms for Balanced Workforce and Investor Protection

### *Current Status*

The Central Labour Codes which unified twenty-nine labour laws into four main statutes, will reshape labour regulations, once fully operationalized across India. The code allows state governments to set their own rules and grant exemptions for diverse types of factories and businesses, with variances in how they manage shift schedules, four-day work weeks, overtime policies, seasonal exceptions, regulations for continuous process industries, as well as inspection standards and procedures. In 2023, Tamil Nadu proposed amendments to provide greater working-hours flexibility, but that amendment was subsequently held in abeyance. Any renewed reform, though not easy to implement, could be considered through consultation, with reassurances on compliance with the statutory weekly-hour, rest and worker-safety regulations.

From a skill development standpoint, the state has also expanded the Vetri Skill Training Scheme, targeting 1.2 million students, 100,000 unemployed youth and plans to facilitate 20,000 internships[1]. These initiatives aim to enhance employability with industry-relevant skills and partnerships.

### *Key Recommendation*

- Adopt best practices from Gujarat and Uttar Pradesh such as self-certification, risk-based digital inspections and streamlined industrial relations administration.
- Collaborate with premier institutions (e.g., IIT Madras, Anna University), to reform curricula across high-tech, core and niche fields, including electronics, semiconductors and other new-age sector technologies and expand the job-ready talent pool.
- Incentivize private sector-led skill development programs in Tier-II cities (e.g, Karnataka partnered with Tata Technologies and 20+ industry partners, targeting 20,000 advanced-skilled youth annually[2]).
- Invest in quality-of-life infrastructure, tourism, cultural amenities and schools offering global curricula in major cities to attract and retain top talent. Strengthen social infrastructure to enhance Chennai's standing as a global metropolis, while undertaking a brand-building initiative to highlight the advantages of living and working in Tamil Nadu's key cities.
- Engage with the private sector to periodically assess the quality of graduates from the state's colleges and develop agile skill development programs that produce job-ready talent. Identify catchment areas across the state to source reliable local blue-collar workforce and reduce dependence on migrant labour.

1. Tamil Nadu Budget 2026
2. Upskilling in Disruptive and Advanced Technologies Programme Brochure, Government of Karnataka

## 3 Accelerate Infrastructure Build to Minimize Bottlenecks

### *Current Status*

Capital expenditure in Tamil Nadu has averaged 1.6% of GSDP[1] over the past five years, dropping to 1.4% in FY27's projections. This is lower compared to states like Gujarat at 2.9%[1], Andhra Pradesh at 2.5%[2], Karnataka[3] and Maharashtra at 1.9%. FY27's budget prioritizes transport, urban infrastructure, energy transmission and industrial development, with an emphasis on cost optimization.

### *Key Recommendation*

- Ensure the timely completion of metro rail projects in the OMR corridor to enhance the region's attractiveness for GCCs. To maximize impact and accelerate adoption, the proposed integration of the metro and MRTS systems should be fast-tracked.
- Upgrade Chennai airport facilities to match the passenger experience of privately operated airports. Although AAI's ₹2,467 crore modernization of Chennai International Airport is intended to increase the passenger-handling capacity from 23 MPPA to 35 MPPA[4], the airport requires a significant upgrade to align the traveler and cargo operators experience with that of Mumbai, Delhi or Bengaluru.
- Develop additional multimodal logistics parks in manufacturing hubs such as Coimbatore-Tiruppur-Erode, Hosur and Tuticorin, mirroring Maharashtra's successful logistics cluster approach and enhance logistics connectivity through dedicated freight corridors connecting Tier-II cities and port locations.
- Ensure energy and water readiness to support data centres and other energy-intensive industries.
- Strengthen flood resilience so that infrastructure can support new growth and enhance Chennai's physical and digital connectivity.
- While Tamil Nadu is currently a power-surplus state, peak power demand is projected to increase from approximately 20 GW today to 30–35 GW by the mid-2030s, driven by the evolving EV landscape and the growth of data centres and other energy-intensive industries. Alongside developing a blueprint to meet this future demand, it is equally important to provide regular updates to the investor community on the progress of these development plans.
- Establish recycled water networks and industrial water resilience programs at the cluster level, especially in Chennai, Hosur and Coimbatore.
- Implement project-level delivery dashboards and cluster-level infrastructure scorecards to track investment efficiency and outcomes, as demonstrated by Gujarat's monitoring systems.
- Target a medium-term capital expenditure goal of 2.5%–3.0% of GSDP to align with leading states in public capital formation.

## 4 Accelerate Execution and Eliminate Bottlenecks in Sunrise Sectors

### *Current Status*

Tamil Nadu has established policy frameworks for high-growth sectors such as electric mobility, semiconductors, logistics, advanced manufacturing, renewable energy and the circular economy. More recently, the state has complemented these efforts through investments in industrial corridors, semiconductor design capabilities, renewable-energy infrastructure and logistics connectivity, while also seeking to strengthen its position in defense manufacturing and other strategic sectors.

1. The Tamil Nadu White Paper on State Finances (2026)
2. Andhra Pradesh Budget Analysis 2026-27, PRS Legislative Research
3. Karnataka Budget Analysis 2026-27, PRS Legislative Research
4. PIB Press Release on Phase 2 Expansion of Chennai International Airport

### Key Recommendation

- Strengthen supply-chain resilience and logistics efficiency by improving last-mile port connectivity, expanding multimodal infrastructure and reducing cargo turnaround times. Maharashtra's Aurangabad Industrial City (AURIC)—a smart industrial city with integrated multimodal logistics—has attracted ₹72,000 crores in investment and created 63,700+ jobs[1].
- India's annual demand for lithium-ion batteries is projected to increase from 40 GWh in 2025 to 210 GWh by 2030[2]. As India's traditional automotive hub, Tamil Nadu can strengthen its manufacturing footprint by accelerating EV battery and cell production, expanding testing infrastructure and developing integrated supplier parks modeled on China's EV clusters.
- Develop shared R&D and export-enablement facilities for semiconductors, defense and advanced electronics, similar to Taiwan's Hsinchu Science Park, which comprises 600 companies and over 160,000 employees[3].
- Prioritize execution speed, ecosystem integration and infrastructure readiness alongside policy incentives to attract investment.
- Deepen sector-body domain expertise in focus sectors (for e.g.,pharmaceutical manufacturing), where the existing lack of scale constrains the state's ability to attract fresh large-scale investments in this sector.

## 5 Aggressively Pursue Foreign Capital

### Current Status

Over the past decade, Tamil Nadu remains one of India's leading destinations for industrial investment, although the competitive intensity from states such as Gujarat, Maharashtra, Telangana and Karnataka has increased significantly, necessitating a more targeted approach towards attracting strategic foreign capital.

### Key Recommendation

- Target investments from countries with established business ties (e.g., Korea, Taiwan, Japan). Establish a single-window system with assured timelines and clarity on labour policies.
- Provide extended "after-care" through dedicated relationship managers, ensuring investors receive ongoing support and are insulated from bureaucratic delays. Singapore's Economic Development Board offers a best-practice example.
- Increase transparency and conversion rates of MoUs signed during Global Investor Summits by tracking implementation and publicly reporting outcomes.
- Address MNC's concerns about relocating to Chennai by positioning the city as a destination of choice, backed by targeted outreach, dedicated after-care and enhancing the cosmopolitan appeal of Chennai
- On the back of detailed research for each focus sector, solicit innovation-led businesses and high-value services industries to setup their presence in the state.

1. PIB Press Release on Six Years of AURIC Industrial Smart City - 1
2. PIB Press Release on Demand for Lithium-Ion Batteries
3. Hsinchu Science Park Overview, Hsinchu Science Park Bureau, Taiwan

## 6 Mainstream Artificial Intelligence for Productivity and Growth

### *Current Status*

The state budget prioritizes the AI Mission, TN SPARK program and advanced AI skill development for over 500,000 youth[1]. Initiatives include a Tamil Large Language Model and investments in quantum technology and AVGC-XR (animation, visual effects, gaming, comics and extended reality), an emerging area in India.

### *Key Recommendation*

- Focus AI deployment on industrial manufacturing and back-office automation, as organizations are keen on deploying artificial intelligence to boost productivity, automate processes and enhance operational efficiency, rather than engaging in speculative applications. Maharashtra provides a relevant implementation benchmark through a 20% subsidy on AI adoption costs for 5,000 MSMEs[2]. Also support MSME digital manufacturing and cluster development to serve OEMs, defence and renewable sectors.
- Expand AI adoption across government departments to enhance operational efficiency and lower costs, following Andhra Pradesh's use of AI for public service delivery.
- Develop an AI-ready workforce through partnerships with academic institutions and industry, modeled after Israel's national AI education strategy. Karnataka has explored an AI partnership with Anthropic to develop industry-backed certification programmes targeting up to 200,000 people, alongside plans to support 25,000 additional startups[3].

## 7 Implementation Rigor and Oversight

### *Current Status*

Resistance to change is a common challenge encountered during transformation initiatives; however, it should not deter the Government from implementing substantive reforms at the operational level.

### *Key Recommendation*

- Form a diverse task force of industry leaders and policy experts to regularly review and guide government initiatives, identifying policy gaps and suggesting course corrections.
- Engage retired senior private sector leaders as expert volunteers to support bureaucracy, oversee turnaround programs and drive results.
- Establish a dedicated program management office with performance-linked incentives, modeled after private sector best practices, to drive on-the-ground implementation of various Government initiatives.

1. Highlights For Revised Budget Estimates 2026-27
2. News Article on Maharashtra AI Policy 2026, Akashvani News
3. News Article on FY27 Growth Outlook and Guidance Risks for the Indian IT Industry, The Hindu BusinessLine

## Recommendations to Boost State Revenues

### Strengthen Tax Analytics

Project Anveshan, a nationwide effort aimed at uncovering weaknesses in GST collection, has exposed numerous cases of tax avoidance and fraud. Tamil Nadu could leverage on the experience thus far and adopt AI-powered compliance and analytics systems, similar to those implemented by Karnataka and Maharashtra, to detect tax evasion and improve GST collection.

### Increase VAT on Petroleum Products

Tamil Nadu currently levies between 19 – 25% state VAT on petrol and diesel[1], which is higher than Gujarat, but substantially lower than states like Karnataka and Andhra. Aligning VAT rates with states like Karnataka and Andhra Pradesh would boost revenues and incentivize electric mobility, although any such increase would have to be calibrated to manage the inflationary impact.

### Digitally Monitor Liquor Sales

VAT and excise duties from sale of liquor contributes over 26%[2] of the state's own tax revenues and are a significant contributor to the exchequer[2]. To plug leakages, the state could invest in digital tracking of sales, inventory and tax collections, supported by periodic audits and analytics-based anomaly detection.

### Stabilize Property Taxes

In 2022, property taxes in the state rose by 100 – 150%[3]. Despite this, taxes on commercial properties in Chennai are relatively lower compared to Mumbai, Bangalore or Hyderabad.

Any further increases might impact the investor's perception of Tamil Nadu's competitiveness and hence, it is critical to demonstrate policy stability and tax predictability. The Government could further consider offering targeted property tax incentives for an extended period for strategic sectors, under-developed districts and/or employment intensive investments as a means of attracting investors.

### Enforce Stamp Duty Collections

Stamp duties and registration fees in Tamil Nadu typically average 9% of the property value and are relatively higher vis-à-vis comparable peer states such as Karnataka, Gujarat, Maharashtra or Andhra Pradesh.

While any further increase in these levies will render the state uncompetitive as an investment destination, what can help strengthen this critical revenue stream for the Government is introducing an AI driven dynamic market value assessment model, as piloted in Maharashtra, to standardize tax computation and minimize undervaluation.

## Recommendations to Optimise Welfare Expenditure

Defer new discretionary spending and welfare measures until fiscal conditions improve, with funding for new initiatives being sourced from revenue gains or cost savings.

Collaborate with the private sector to incorporate welfare provisions into employee benefits and create transparent, voluntary co-funding platforms through which companies may support eligible social-development projects consistent with their board-approved CSR policies and applicable law.

1. The Tamil Nadu White Paper on State Finances (2026)
2. The Tamil Nadu White Paper on State Finances (2026)
3. Tamil Nadu Government Gazette - March 30, 2022_194_Ex_II_2

## Recommendations to Reduce State's Debt

Tamil Nadu owns and manages seventy-eight public sector undertakings (PSUs), with accumulated debt of those providing public utilities such as transportation, power generation and distribution totaling ₹3.2 lakh crores[1]. While the operational strategies of these PSUs are influenced by the policy priorities of successive governments, these liabilities can create contingent or indirect fiscal exposure for the State, particularly where debt is guaranteed or where essential-service entities require recurring budgetary support. To minimize the burden on the exchequer, the policymakers could consider the following:

### Reduce PSU operating expenses

Implement anti-fraud measures, reduce transmission losses and improve metering and collection, drawing on successful turnarounds in Gujarat, Odisha and Delhi.

### Benchmark Electricity Tariffs

Regularly compare industrial and commercial tariffs with peer states and reset as frequently as required, to remain competitive yet fiscally prudent.

### Modernise Transport Corporations

Leverage on private sector turn-around experts to transform the quality of customer service and evaluate the business case to modernize fleets, whilst simultaneously exploring outsourcing through the mobility-as-a-service model, as currently piloted with a fleet of electric buses across Chennai.

### Privatise Select State-Owned Assets

Establish an impartial framework to assess asset suitability for privatization, referencing the successful approaches of the Delhi electricity sector and Mumbai airport privatization. Use data-driven analysis and open communication to address stakeholder concerns during privatization or asset monetization.

### Leverage State-Owned Land and Infrastructure

Monetize state-owned land banks or infrastructure projects under the Real Estate Investment Trusts (REITs) or Infrastructure Investment Trusts (InvITs) model, to raise funds while retaining operational control, as demonstrated by the National Highways Authority of India, which has raised ₹26,366 crore by leasing out 1,614 km of highways while retaining ownership[2]

Another successful example is that of Madhya Pradesh's Public Assets Management Department, which was created in 2020. The department built a GIS-based register of state assets, identified 655 parcels for possible disposal and generated ₹1,134 crore over four years by monetizing unused land through open, competitive bidding[3].


1. The Tamil Nadu White Paper on State Finances (2026)
2. PIB Press Release on NHAI's Asset Monetisation Programme
3. News Article on Madhya Pradesh's Monetisation and Redevelopment of State-Owned Land, ThePrint

## Priority# 3 - Medium-Term Priorities to Grow sustainably

### Recommendations to Promote Entrepreneurship

Given its established strength in traditional manufacturing, Tamil Nadu has the opportunity to develop a distinctive presence in Industrial AI, Robotics, Drones, Precision Manufacturing, Electric Vehicles and Aerospace technologies. To achieve this, the state may consider implementing targeted policy initiatives to foster entrepreneurship, such as:

- Launch annual hackathons and innovation summits to identify and support high-potential startups, modeled after Karnataka's Elevate program.
- Engage universities (e.g., IIT Madras, Anna University) in research and commercialization partnerships. Extend these partnerships to chip-design innovation under India Semiconductor Mission 2.0 through shared design labs and state-funded programmes.
- Attract diaspora talent with relocation grants, expedited approvals and research partnerships, similar to Israel's "Returning Scientists" program.
- Identify Tamil Nadu-specific business challenges and incentivize startups to address them through funding and facilitation
- Facilitate fundraising initiatives for startups, via IIT-Madras Research Park and university incubators.

### Recommendations to Promote Sustainable Growth

Tamil Nadu's Budget has boosted the State's sustainability efforts by improving green energy infrastructure, supporting battery storage and electric mobility and funding climate-resilient projects. CFOs see sustainability as a medium priority, but it can drive competitiveness with green power, recycled water and circular manufacturing. They recommend:

- Building low-carbon manufacturing clusters powered by renewable energy, following the example of Gujarat's Dholera Special Investment Region.
- Champion the implementation of the TN Circular Economy Investment Policy 2026, with initial focus on EV battery recycling and green procurement with recycled-content mandates.

### Recommendations to Grow Revenues from the Mining Sector

Tamil Nadu's mining revenues are significantly lower than states like Karnataka, Odisha or Andhra, given its natural mineral footprint. However, with the recent announcement of the National Rare Earth Corridor and Tamil Nadu's potential reserves of monazite, the state could consider the following:

- Work with the Union Government, Geological Survey of India, Department of Atomic Energy and authorized public-sector entities to accelerate resource assessment and statutory clearances for eligible rare-earth and heavy-mineral projects.
- Following Australia's integrated value chain approach, develop the Tamil Nadu rare-earth corridor as an integrated value chain covering responsible resource assessment, mineral separation, refining, recycling, magnet manufacture, R&D and downstream applications, subject to environmental, coastal and atomic-mineral regulations.

# GLOSSARY

| Abbreviation | Full form |
|---|---|
| **AAI** | Airports Authority of India |
| **AI** | Artificial Intelligence |
| **AURIC** | Aurangabad Industrial City |
| **AVGC-XR** | Animation, Visual Effects, Gaming, Comics and Extended Reality |
| **CEO** | Chief Executive Officer |
| **CFO** | Chief Financial Officer |
| **CSR** | Corporate Social Responsibility |
| **EDA** | Electronic Design Automation |
| **EV** | Electric Vehicle |
| **FY** | Financial Year |
| **GCC** | Global Capability Centre |
| **GenAI** | Generative Artificial Intelligence |
| **GIS** | Geographical Information System |
| **GSDP** | Gross State Domestic Product |
| **GST** | Goods and Services Tax |
| **GW** | Gigawatt |
| **GWh** | Gigawatt-hour |
| **IIT** | Indian Institute of Technology |
| **InvIT** | Infrastructure Investment Trust |
| **ITES** | Information Technology Enabled Services |
| **MoU** | Memorandum of Understanding |
| **MPPA** | Million Passengers Per Annum |
| **MSME** | Micro, Small and Medium Enterprise |
| **OEM** | Original Equipment Manufacturer |
| **OMR** | Old Mahabalipuram Road |
| **PSU** | Public Sector Undertaking |
| **R&D** | Research and Development |
| **REIT** | Real Estate Investment Trust |
| **SIPCOT** | State Industries Promotion Corporation of Tamil Nadu |
| **SLA** | Service Level Agreement |
| **TG-iPASS** | Telangana State Industrial Project Approval and Self-Certification System |
| **TN** | Tamil Nadu |
| **TN SPARK** | Tamil Nadu School Programme for Artificial Intelligence, Robotics and Knowledge |
| **VAT** | Value Added Tax |

# BOTTOM LINE

**A reset in fiscal credibility and financial monitoring is essential. Establishing a Fiscal Recovery Dashboard modeled on CFO best practices and publishing monthly metrics on tax revenues, leakage reduction, procurement savings, PSU losses, cumulative debt, capital expenditure and financial impacts of new policies would help improve transparency and signal a clear commitment to reform.**

**Combining this with targeted policy interventions, disciplined execution and private-sector-style accountability would help Tamil Nadu build on its established industrial base and skilled workforce to set new benchmarks for growth and competitiveness.**

# THIS REPORT HAS BEEN PREPARED WITH GUIDANCE FROM

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