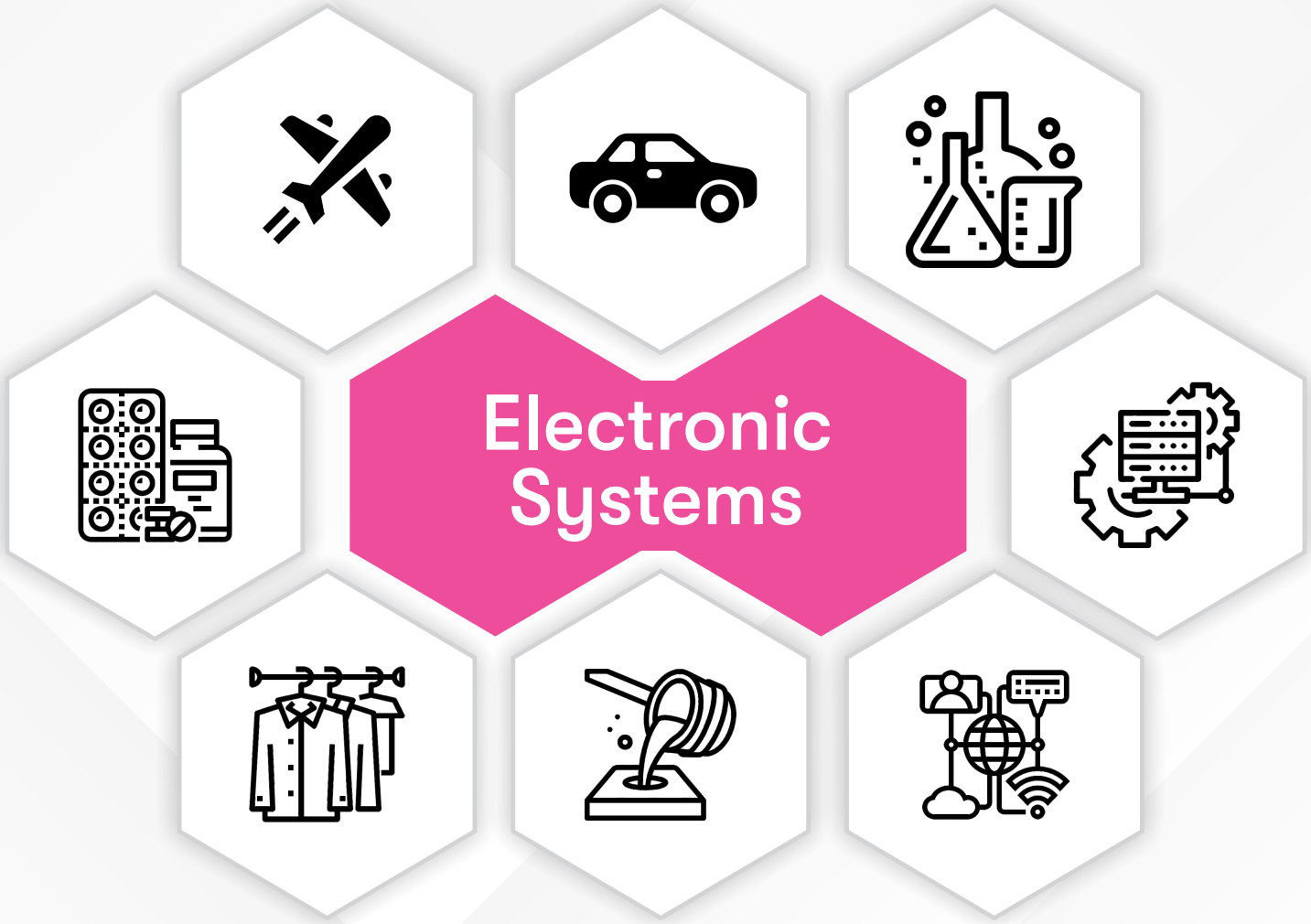
InvAsset's Voice

Production Linked Incentive (PLI) Scheme Steering India to a Manufacturing Mammoth



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What Is Production Linked Incentive (PLI)?

The PLI is an old and popular tool with governments to stimulate the production of goods that the country sees as necessary for social good, taxes, or employment-generation reasons. PLIs are essentially the incentives for companies to boost products. They could be in the form of tax rebates, import and export duty concessions, or maybe easier land-acquisition terms. Generally, the benefits of a PLI scheme are passed on to the final consumers of the goods in terms of lower prices. Through their implementation, it is hoped that economies of scale are created so that domestic manufacturing becomes competitive. The resultant benefits include job creation, export capabilities, and lessening the import dependency – particularly in critical sectors and high-tech goods.

Production linked incentive (PLI) schemes were first introduced in India in March 2020, targeting three industries – mobile manufacturing and electric components, pharmaceutical (critical key starting materials/active pharmaceutical ingredients), and medical device manufacturing. The PLI concept has since expanded with schemes rolled out for multiple sectors to boost India's manufacturing capabilities and encourage export-oriented production. The Government introduced this scheme to reduce India's dependence on China and other foreign countries. It supports the labour-intensive sectors and aims to increase the employment ratio in India by developing local supply chain capacities, introducing new downstream operations, and incentivising investments in high-tech production.

In addition to the three schemes announced earlier in March 2020, the Government Of India introduced 10 new PLI schemes in November 2020 and 1 new PLI scheme in September 2021. Honourable Finance Minister Nirmala Sitharaman has announced an outlay of INR 1.97 Lakh Crores for the Production Linked Incentive (PLI) Schemes across 14 key sectors to create national manufacturing champions and to create 60 lakh new jobs and additional production of 30 lakh crore during the next five years.

14 Product Linked Incentive Schemes On The Go

March 2020

- Key Starting Materials (KSMs)/Drug Intermediates (DIs) and Active Pharmaceutical Ingredients (APIs): Department of Pharmaceuticals
- Large Scale Electronics Manufacturing: Ministry of Electronics and Information Technology
- Manufacturing of Medical Devices: Department of Pharmaceuticals

November 2020

- Electronic/Technology Products: Ministry of Electronics and Information Technology
- Pharmaceuticals drugs: Department of Pharmaceuticals
- Telecom & Networking Products: Department of Telecommunications
- Food Products: Ministry of Food Processing Industries
- White Goods (ACs & LED): Department for Promotion of Industry and Internal Trade
- High-Efficiency Solar PV Modules: Ministry of New and Renewable Energy
- Automobiles & Auto Components: Department of Heavy Industry
- Advance Chemistry Cell (ACC) Battery: Department of Heavy Industry
- Textile Products: MMF segment and technical textiles: Ministry of Textiles
- Specialty Steel: Ministry of Steel

September 2021

- Drones and Drone Components: Ministry of Civil Aviation

How Will PLI Scheme Steer India Through Its Journey Of Becoming A Production Mammoth?

•**Employment Generation:** Large-scale manufacturing requires a large labour force. PLI schemes are expected to utilize India's human capital and enable upskilling, further minimizing unemployment and unskilled labour.

•**Surging Exports and Substituting Imports:** PLI schemes aim to plug the gap between the highly skewed Indian import-export basket, mainly characterized by heavy imports of raw materials and finished goods. The PLI schemes enable the domestic manufacture of goods, thereby causing a reduction in reliance on imports in the short term and expanding the quantum of exports from India over the long term.

•**Economies Of Scale:** The incentives are directly proportional to the production capacity/incremental turnover which will further compel investors to create large scale manufacturing facilities.

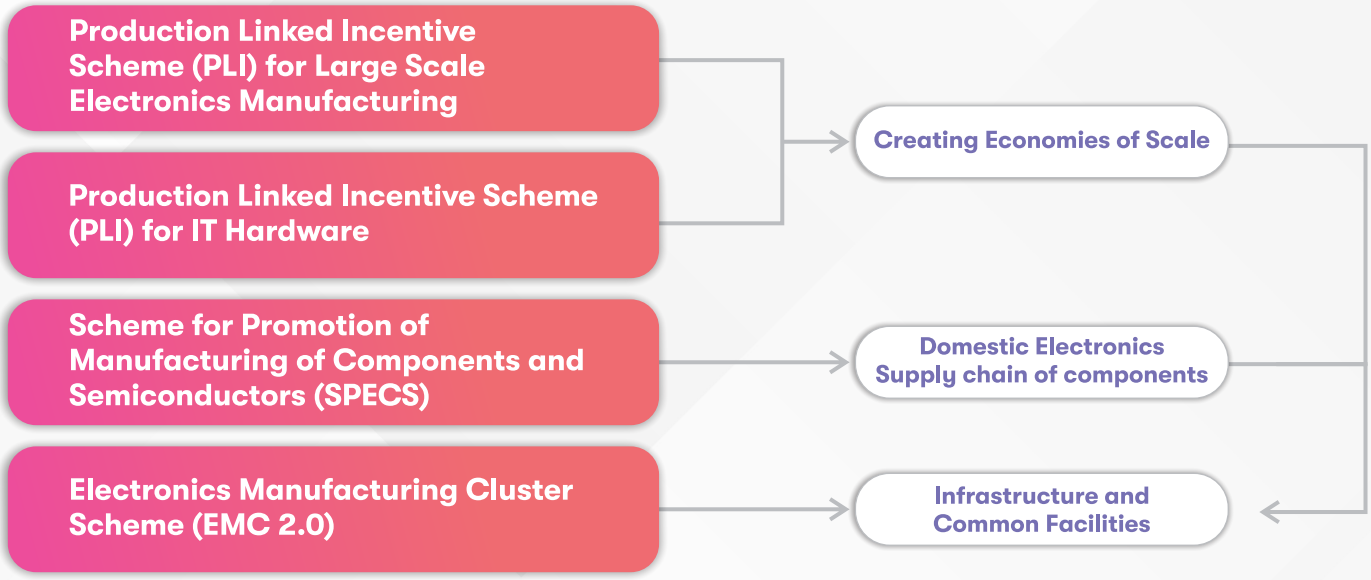
PLI Schemes For Electronic Manufacturing

The implementing agency for this scheme is the Ministry of Electronics and Information Technology. It includes mobile phones, specified electronic components, laptops, tablets, all-in-one PCs, servers, etc. To position India as a global hub for Electronics System Design and Manufacturing (ESDM) and push further the vision of the National Policy on Electronics (NPE) 2019, three schemes, namely the Production Linked Incentive Scheme (PLI), Scheme for Promotion of Manufacturing of Electronic Components and Semiconductors (SPECS) and Modified Electronics Manufacturing Clusters Scheme (EMC 2.0) were notified in April 2020. A fourth scheme, the Production Linked Incentive Scheme (PLI) for IT Hardware, was notified in March 2021.

इलेक्ट्रॉनिकी एवं
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MINISTRY OF
ELECTRONICS AND
INFORMATION TECHNOLOGY
सत्यमेव जयते

Electronics manufacturing in India has grown rapidly, with a CAGR of around 23% during the last 5 years, with domestic production of electronics hardware touching $76 bn in 2019-20. The electronics manufacturing industry currently employs over 2 million people in India. Each electronic manufacturing scheme has been carefully constructed to incentivize the electronics manufacturing industry to further facilitate large-scale manufacturing, develop a supply chain ecosystem, and build new manufacturing clusters in the country.

Since electronics manufacturing is characterised by high revenue-asset ratios, a production-linked approach is preferred over a capital expenditure-linked one. For the Government Of India, this approach guarantees that money is released only after all performance obligations (including investment, production, and sales) have been met. In addition, the scheme is meant to bring thsector's giants to India and incentivise them to lay roots here.



Scheme 1: Production Linked Incentive Scheme (PLI) for Large Scale Electronics Manufacturing

The domestic electronics hardware manufacturing sector lacks a level playing field vis-à-vis competing nations. The sector suffers disability of around 8.5% to 11% because of lack of adequate infrastructure, domestic supply chain and logistics; high cost of finance; inadequate availability of quality power; limited design capabilities and focus on R&D by the industry; and inadequacies in skill development.

The Production Linked Incentive Scheme (PLI) for Large Scale Electronics Manufacturing proposes a financial incentive to boost domestic manufacturing and attract large investments in the electronics value chain, including mobile phones, electronic components and ATMP units. Production Linked Incentives of up to INR 40,951 crores will be awarded over 5 years.

The vision of National Policy on Electronics 2019 (NPE 2019) is to position India as a global hub for Electronics System Design and Manufacturing (ESDM) by encouraging and driving capabilities in the country for developing core components and creating an enabling environment for the industry to compete globally.

Target Segment Eligible Under PLI Scheme

- SMT Components
- Discrete semiconductor devices including transistors, diodes, thyristors, etc.
- Passive components including resistors, capacitors, etc. for electronic applications
- Printed Circuit Boards (PCB), PCB laminates, prepregs, photopolymer films, PCB printing inks
- Sensors, transducers, actuators, crystals for electronic applications
- System in Package (SIP)
- Micro / Nano-electronic components such as Micro Electromechanical Systems (MEMS) and Nano Electromechanical Systems (NEMS)
- Assembly, Testing, Marking and Packaging (ATMP) units

- Highlights



Incentive

Incentive of 3% to 5% on incremental sales (over base year) of goods manufactured in India



Target Segments

Specified Electronic Components



Eligibility

Eligibility shall be subject to thresholds of incremental investment and incremental sales of manufactured goods



Tenure of the Scheme

4 years applicable from 01.04.2021

Companies That Have Filed Applications Under PLI Scheme for Mobile Manufacturing

Foreign Company	Domestic Companies
•Rising Star •Samsung •Foxconn Hon Hai •Wistron •Pegatron	•Lava •Bhagwati (Micromax) •Padget Electronics •UTL Neolyncs •Optiemus Electronics •AT&S •Ascent Circuits •Visicon •Walsin •Sahasra

Scheme 2: Production Linked Incentive Scheme (PLI) for IT Hardware

The Production Linked Incentive Scheme for IT Hardware proposes a financial incentive to boost domestic manufacturing and attract large investments in the value chain. The scheme seeks to incentivise companies to utilise the existing installed capacity to fulfil the increasing domestic demand. Product Linked Incentives of up to INR 7,300 crore will be awarded over a period of 4 years.

Target Segment Eligible Under PLI Scheme

- Laptops (Invoice value of INR 30,000 and above) for IT Hardware Companies
- Laptops for Domestic Companies
- Tablets (Invoice value of INR 15,000 and above) for IT Hardware Companies
- Tablets for Domestic Companies
- All-in-One PC
- Servers

- Highlights

Target Segments

Laptops, Tablets, All-in-One PCs, and Servers.

Eligibility

Eligibility shall be subject to thresholds of incremental investment and incremental sales of manufactured goods

Tenure of the Scheme

4 years applicable from 1 April 2021

Incentive

Incentive of 2% to 4% on incremental sales (over base year) of goods manufactured in India

Companies That Have Filed Application Under PLI Scheme For IT Hardware	
IT Hardware Manufacturing Companies	**Domestic Company**
• Dell • ICT • Flextronics • Rising Stars Hi-Tech (Foxcon) • Lava	•**Dixon (Listed)** •Infopower •Bhagwati (Micromax) •Syrma •Orbic •Neolync •Optiemus •Netweb •WDN •Smile Electronics •Panache Digilife •HLBS •RDP Workstations •Coconics

Scheme 3: Scheme for Promotion of Manufacturing of Electronic Components and Semiconductors (SPECS).

India has the potential to become a global hub for components manufacturing due to the availability of a cost-effective skilled workforce, fast-improving infrastructure and the Government's push for Ease of Doing Business in the country. As a result, the size of the Indian electronic components market has increased at a CAGR of 32% to $20.8 bn in 2018-19. Moreover, India's market opportunity for electronic components is expected to be around $200 bn by 2025.

The Scheme for Promotion of Manufacturing of Electronic Components and Semiconductors (SPECS) aims to strengthen the manufacturing ecosystem for electronic components and semiconductors. Target manufacturing of electronic components and semiconductors through the Scheme will help meet domestic demand, increase value addition and promote employment opportunities in this sector.

Incentives of up to INR 3,285 crore will be awarded under the Scheme over 8 years.

- Highlights

Incentive

Incentive of 25% on Capital Expenditure pertaining to plant, machinery, equipment, associated utilities and technology, including Research & Development on reimbursement basis

Target Segments

Electronic Components, Semiconductors, Specialized Sub-Assemblies and Capital Goods for these items

Eligibility

Applicable to Investments in New Units as well as Expansion of Existing Units

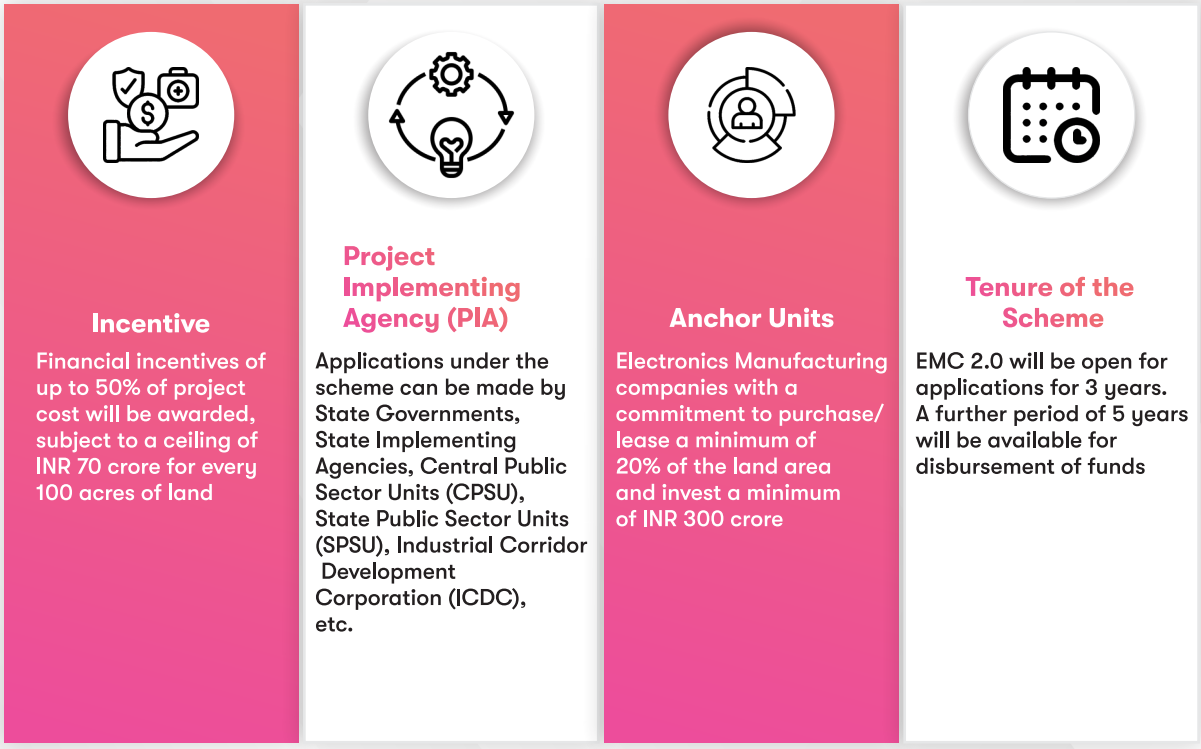
Tenure of the Scheme

SPECS will be open for applications for 3 years. Investments made within 5 years from the date of acknowledgement will be eligible for receiving incentive

Scheme 4: Modified Electronics Manufacturing Clusters Scheme (EMC 2.0)

The Modified Electronics Manufacturing Clusters (EMC 2.0) Scheme seeks to strengthen the infrastructure base for the electronics industry and deepen the electronics value chain in India. Developing industry-specific facilities like Common Facility Centres, Ready Built Factory, and Sheds/Plug and Play facilities will not only strengthen supply chain responsiveness and promote the consolidation of suppliers but also decrease time-to-market and lower logistics costs. EMC 2.0, therefore, provides financial incentives for creating quality infrastructure and common facilities and amenities for electronics manufacturers. Financial Incentives of up to INR 3,762 Crore will be disbursed over 8 years.

- Highlights



Expand PLI scheme to TV, washing machine, refrigerators': CEAMA

The Consumer Electronics and Appliances Manufacturers Association (CEAMA) has called out to the government to broaden the scope of product-linked incentive (PLI) and phased manufacturing programme (PMP) schemes in the electronic appliances segment to make the government's Make in India campaign successful.

Currently, the PLI scheme has been approved for only air conditioners. However, CEMA has requested to expand it to refrigerators, washing machines, televisions and small appliances. "The widening of the scope of PLI and PMP schemes is enough to make the Centre's 'make in India' campaign successful in the electronic segment," CEMA President Eric Broganza said.

The industry body said the PLI scheme for air-conditioners has supported growth in manufacturing in the sector. Most industry players clocked double-digit value growth during festival season this year with strong demand for premium products. "The volume growth has also been good. Overall, the industry is estimated to have clocked volume growth of about 8-10 per cent during the festival season. This growth was largely fuelled by strong demand for the mid and premium segments.," he added.

Deployment of production-linked incentive (PLI) capex is expected to pick up in FY 2024 for over 80 per cent of the projected investments: ICRA

The Indian semiconductor and electronics sector is expected to grow at a compound annual growth rate (CAGR) of 30-35 per cent for the next 5 years. Regulations by the US to limit exports of semiconductor and chip-making equipment to China will benefit India in the future. Five applicants under the semiconductor and display fabrication PLI scheme are expected to manufacture 1.2 lakh wafers per month

"Based on our calculations, the annual CAPEX from the PLI schemes is expected to cross Rs 1 trillion from FY24 and may peak out at Rs 1.7 trillion in FY26. Hence, FY24 could be an inflexion point for a surge in India's manufacturing CAPEX," said Rohit Ahuja, Head, Research and Outreach, ICRA.

Will firms leave India once the PLI scheme winds out?

PLI is a framework meant to incentivise large-scale manufacturing and supply chain development. The underlying vision is simple: to create globally competitive manufacturing ecosystems by building economies of scale, attracting global value chains and enabling domestic industry.

Here are 3 reasons why they won't:

Revenue Target: The steep revenue targets indicate a bias for large-scale and rapid ramp-up, which only the most committed players would sign up for. These are just different from the kind of volumes one moves around only for incentives. The majority of the companies moving in are from Beijing because of the geopolitical blunders of the communist Chinese government. These companies need a stable environment for operating and building their supply chains.

Domestic Demand: India itself is a huge market for electronic products. India is the world's second-biggest smartphone market.
For instance, Apple has long been trying to cut its dependence on China as a manufacturing base for its iPhones; on the other hand, India is rolling out sops for companies to boost its make-in-India initiative. As a result, made-in-India units will meet 85% of the local demand for iPhone, touching record highs in 2022, against just 10-15% last year. Further, Indian factories are expected to make 5-7% of all iPhones sold globally this year. In 2021, India's contribution stood at a little over 3%, and the number was less than 1.5% in 2020.

Supply chains: Covid is still a significant concern in China; adding to the problems of China's aggressive geopolitical standpoint, its ongoing Taiwan conflict could attract all the possible sanctions, further disrupting the supply chains. Supply chain executives care more about stability, predictability and sustained advantage than losing a few cents on cost. This is why supply chains don't get up and move around simply because another government elsewhere is willing to provide better incentives.

This research has been done by the Core Fundamental Research Team of InvAsset PMS Desk.

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