# InvAsset's Voice

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




INVASSET

India's Best Performing and Most Customer Centric PMS

## 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 goods, taxes, or employment-generation reasons. PLI's are essentially the incentives for companies to boost the 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 Fertilizers:

The Government of India established the Production Linked Incentives (PLI) scheme for eligible manufacturing companies in order to increase the domestic and local production of goods considered necessary for import substitution and for job creation, as well as to encourage foreign companies to find a workforce in India. This was done in order to boost the domestic and local production of goods considered necessary for import substitution and for job creation.

रसायन एवं
उर्वरक मंत्रालय
MINISTRY OF
CHEMICALS
AND FERTILIZERS
सत्यमेव जयते

**Atmanirbhar Bharat Abhiyaan or Self-reliant India** campaign is the vision of new India envisaged by the Hon'ble Prime Minister Shri Narendra Modi. On 12 May 2020, our PM raised a clarion call to the nation giving a kick start to the Atmanirbhar Bharat Abhiyaan (Self-reliant India campaign) and announced the Special economic and comprehensive package of INR 20 lakh crores - equivalent to 10% of India's GDP – to fight COVID-19 pandemic in India.

The aim is to make the country and its citizens independent and self-reliant in all senses. He further outlined five pillars of Aatma Nirbhar Bharat – Economy, Infrastructure, System, Vibrant Demography and Demand. Finance Minister further announces Government Reforms and Enablers across Seven Sectors under Aatmanirbhar Bharat Abhiyaan.

The government took several bold reforms such as Supply Chain Reforms for Agriculture, Rational Tax Systems, Simple & Clear Laws, Capable Human Resource and Strong Financial System.

## A self-reliant India with 5 pillars




## PLI scheme for Chemicals & Petrochemicals including Agrochemicals

The Ministry of Chemicals & Fertilizers is formulating PLI scheme for Chemicals & Petrochemicals including Agrochemicals. The key criteria here are import substitution of key intermediates and to ensure that India becomes self-reliant on these intermediaries needed for domestic manufacturing. This will help India to be a global sourcing hub for agrochemicals, especially with cost efficiency coupled with quality, and thereby enhance exports substantially.

At present, the R&D investment of Indian companies is at 1-2% of their turnover which is very minimal, and hence attractive incentives need to be extended to the industry to facilitate new innovations to be spurred. Implementation of the PLI scheme will boost this R&D investment too as many companies will actively get involved in the scheme.

It will be a win-win situation for the companies with a R&D focus involved with the PLI scheme as it will boost local production, bring new innovations, generate employment, spur exports, and hence earn more foreign exchange and will make India a preferred global hub for manufacturing.

## India: PLI Scheme for boosting R&D in Agriculture

The Government of India introduced the Production Linked Incentives (PLI) scheme for eligible manufacturing companies to boost the domestic and local production of goods considered necessary for import substitution and for job creation and to also encourage foreign companies to find a workforce in India.

The total expenditure for PLI across the 14 sectors approved was Rs 1.97 lakh crore (over $26 billion) in Union Budget 2021-22. In November 2020 the Government approved the PLI scheme in the food processing sector for a value of Rs.10,900 cr. The scheme will be implemented over a six-year period from 2021-22 to 2026-27. The implementation of the scheme would facilitate the expansion of processing capacity to generate processed food output of Rs 33,494 crore and create employment for nearly 2.5 lakh persons by the year 2026-27.

Achieving the full potential of this sector would require Indian companies to improve their competitive strength vis-à-vis their global counterpart in terms of the scale of output, productivity, value addition, and their linkages with the global value chain. For all these, a very strong R&D is desired to enhance the value addition aspect of the Fruits and vegetables to reduce the high post-harvest losses, and also for the other sectors namely fishing, dairy industry and beekeeping.

With the PLI scheme in place, it will give a fillip to the R&D in this sector as companies will invest to create the needed value addition, bring in new technologies, and focus on proper affordable storage infrastructures. All of this will strengthen the Indian brand of food products for global visibility and wider acceptance in the domestic and international markets. This will also ensure remunerative prices of farm produce and higher income for farmers.

## PLI scheme in key end-use sectors is driving growth in the Chemicals and Petro-chemicals sector: Minister of State for Chemicals and Fertilizers

Department of Chemicals & Petrochemicals, Ministry of Chemicals & Fertilizers, Government of India, jointly with FICCI, is organizing the 12th Edition of "India Chem" during November 2 - 3, 2022 at Pragati Maidan, New Delhi. India Chem is the flagship event of the Department and is one of the largest composite events of the chemicals and petrochemicals industry in the Asia Pacific region. It comprises an International Conference and Exhibition.

An industry Meet was held in Mumbai today, for the promotion of India Chem 2022. Union Minister of State for Chemicals & Fertilizers and New and Renewable Energy Bhagwanth Khuba was the Chief Guest for the occasion. Addressing the industry and other stakeholders, the Minister observed that the chemicals and petrochemicals sector is progressing at a steady pace, and that the sector will be a major contributor in realizing the goal of making India a 5 trillion-dollar economy.

**Business Opportunities:**

- Transfer of technology, investment, joint ventures, research and development.
- Supply of plant, machinery, process control equipment's, projects and services, etc.
- Logistics, warehousing & supply chain in Chemicals.
- Sourcing requirements from India.
- Showcase the latest products, machinery, equipment's & developments in the industry for generating business and marketing.
- Technology adaptation and up-gradation.
- Joint venture partners and project collaborators.
- Business tie-ups and collaborations.
- Contract research & manufacturing.

## Highlights

### Highlights of India Chem 2022

- International participation from Japan, Iran, Germany, Turkey, Vietnam, Korea are expected
- Participation of PCPIR States: Gujarat, Odisha, Andhra Pradesh, Tamil Nadu & Rajasthan
- Buyers delegation from South America, USA, CIS, West Europe, Middle East and South East Asian countries & many more to join
- Over 7000+ Business visitors from India and abroad expected
- Over 100+ Indian & International exhibitors expected
- Over 30 top CEO's from India and abroad will be deliberating at the Global CEO forum

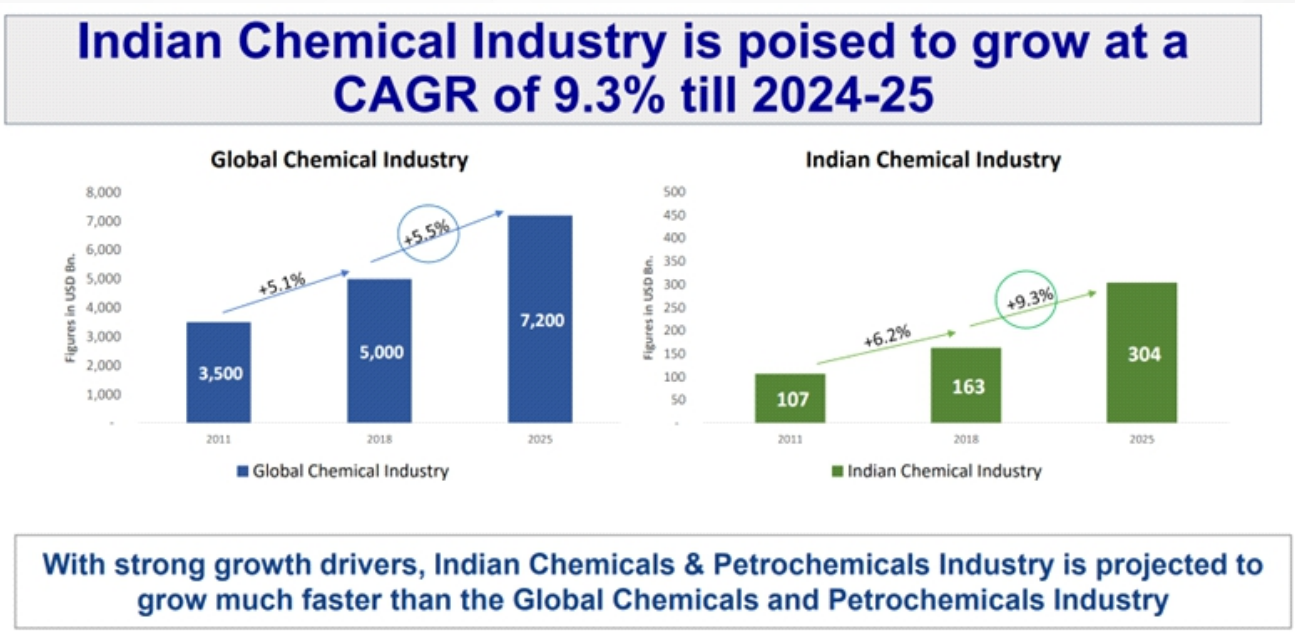
### Highlights of Petroleum, Chemicals & Petro Chemicals Investment Regions (PCPIRS) Policy by Government of India

- Strategic location at ports for domestic and global markets.
- Availability of adequate land with Government agencies / developers.
- Excellent connectivity.
- Institutional mechanism for management & implementation.
- Deregulated industry and promotion of 100% FDI.
- Ready availability of technical and skilled manpower.
- Opportunities for investment through PPP mode and consortium with Indian partners.
- Investment opportunities in utilities and services.

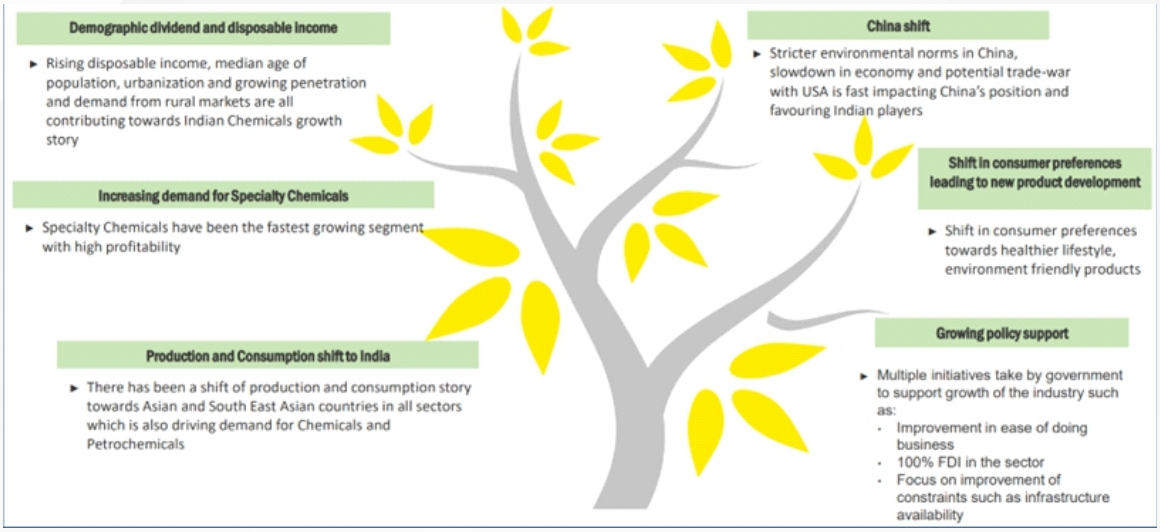
The Minister informed that as India aspires to become a global manufacturing hub for chemicals & petrochemicals, the Department of Chemicals and Petrochemicals intends to bring PLI for the sector. The Government is planning to redraft Petroleum, Chemicals and Petrochemicals Investment Region (PCPIR) policy guidelines; "We have requested the industry to share their viewpoints so that the same can be fine-tuned further", added the Minister.

The Minister said, PLI scheme in key end-use sectors is driving growth in the Chemicals and Petro-chemicals sector. "India has a huge demand for chemical and petrochemical products. Through Production Linked Incentive schemes with an incentive outlay of Rs 1.97 lakh crore, Government of India has recently given a thrust to promote key end-use sectors such as pharmaceuticals, telecommunication & networking equipment, automobiles, electronics, mobiles, medical devices and textiles. This will further drive the demand for chemicals and petrochemicals in the country. The tremendous growth in demand coupled with rationalization of customs duty will attract large scale investment in the sector. This additional production will support the entire chemical value chain in a big way. Starting from the raw materials to the finished goods, every single component in the value chain will see growth."

The Minister pointed out that the shifts of supply chain, rising sense of nationalism, accelerating commoditization, business integration and the rapid changes in the chemical industry are trends that have changed the industry dramatically. The Minister said that initiatives such as Joint Ventures and Mergers & Acquisitions will help us to bring the latest technology and sustainable solutions in the domestic market. "The vision of our Prime Minister for 'Make in India', and the steps in this direction will help the Indian economy to grow."



## Strong growth drivers for Indian Chemical Sector




## Expand PLI scheme to for pharma to make it research-linked, says industry

Mansukh Mandaviya, Minister of State, Chemicals and Fertilisers and Ports, Shipping Waterways encouraged industry stakeholders to avail the benefits of part II Production Linked Incentive (PLI) Scheme. In a recently held virtual interaction with the members of trade and industry, he urged them to focus on quality, science and technology.

In his address, he informed that for the Phase I PLI scheme the government has received a total of 115 applications and presently, the authorities are scrutinising of each application.

He highlighted that it is not always just adoption of digital for ensuring ease of doing business, there are various aspects as well, that need to be streamlined/implemented, for eg. land acquisition and building required infrastructure, is one amongst them. Therefore, the government is working in the direction of streamlining them, to achieve long-term benefits for the industry as well as the country.

With regards to the Phase II of PLI scheme, he mentioned that the government has invited public consultation and will be designing the scheme guidelines benefitting both, big companies as well as MSMEs. There will be different categories benefitting both the segments in making India Aatma Nirbhar.

He also emphasised that on the need to increase export performance, focus on building industrial developments etc. He stressed on the need to identify manpower, brainpower for the development of the industry/country. He said that some of the start-ups are great resources in building capabilities and can add value in larger volumes, therefore, they should be identified.

"We need to do futuristic planning to reduce cost and increase profitability. The industry needs to come forward and provide suggestions which will help the government in bringing the reforms," he said.

During the meet, the industry stakeholders highlighted key challenges which are impacting the sector's growth and suggested some solutions, which should be considered by the government authorities while designing the Phase II PLI scheme guidelines.

Dr Viranchi Shah, National Vice President, IDMA said, "We are happy to have interacted with Minister Mansukhbhai Mandavia. He has motivated the industry to align with the PM's target of achieving a target of becoming a $5 trillion economy. We have raised our queries during the interaction and are hopeful of positive support from the government. The future looks brighter for the Indian pharma industry."

The Minister also informed that besides the announced scheme, the government is also considering 10 new sectors for PLI scheme.

Disclaimer: This report has been prepared by the research department of Invasset, is for information purposes only. This report is not construed as an offer to sell or the solicitation of an offer to buy or sell any security in any jurisdiction where such an offer or solicitation would be illegal. Invasset have exercised due diligence in checking the correctness and authenticity of the information contained herein, so far as it relates to current and historical information, but do not guarantee its accuracy or completeness. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice.

The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time. Prospective investors are cautioned that any forward looking statement are not predictions and are subject to change without prior notice. Recipients of this material should rely on their own investigations and take their own professional advice. Invasset or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Invasset. or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

Invasset and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavour to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. This report is not directed to or intended for display, downloading, printing, reproducing or for distribution to or use by any person in any locality, state and country or other jurisdiction where such distribution, publication or use would be contrary to the law or regulation or would subject to Invasset or any of its affiliates to any registration or licensing requirement within such jurisdiction. Invasset may or may not hold any securities discussed in the article in its portfolios. Invasset may or may not take decisions based on the information contained in the article while curating portfolios for its clients. Without limiting any of the foregoing, in no event shall Invasset, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

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

**Anirudh Garg**
anirudhgarg@invasset.com

**Vrushali Temkar**
info@invasset.com

# INVASSET

India's Best Performing and Most Customer Centric PMS


**MUMBAI**
911 One Lodha Place,
Lower Parel, Mumbai 400013

**GURUGRAM**
4th Floor Two Horizon Centre,
DLF Phase 5, Gurugram,
Haryana 122002

**LUDHIANA**
1401, Aspen 2, Centara Greens,
Pakhowal Road, Opp. Riviera Resort,
Ludhiana 141001

1800-309-2172
98158-10172

info@invasset.com

www.invasset.com