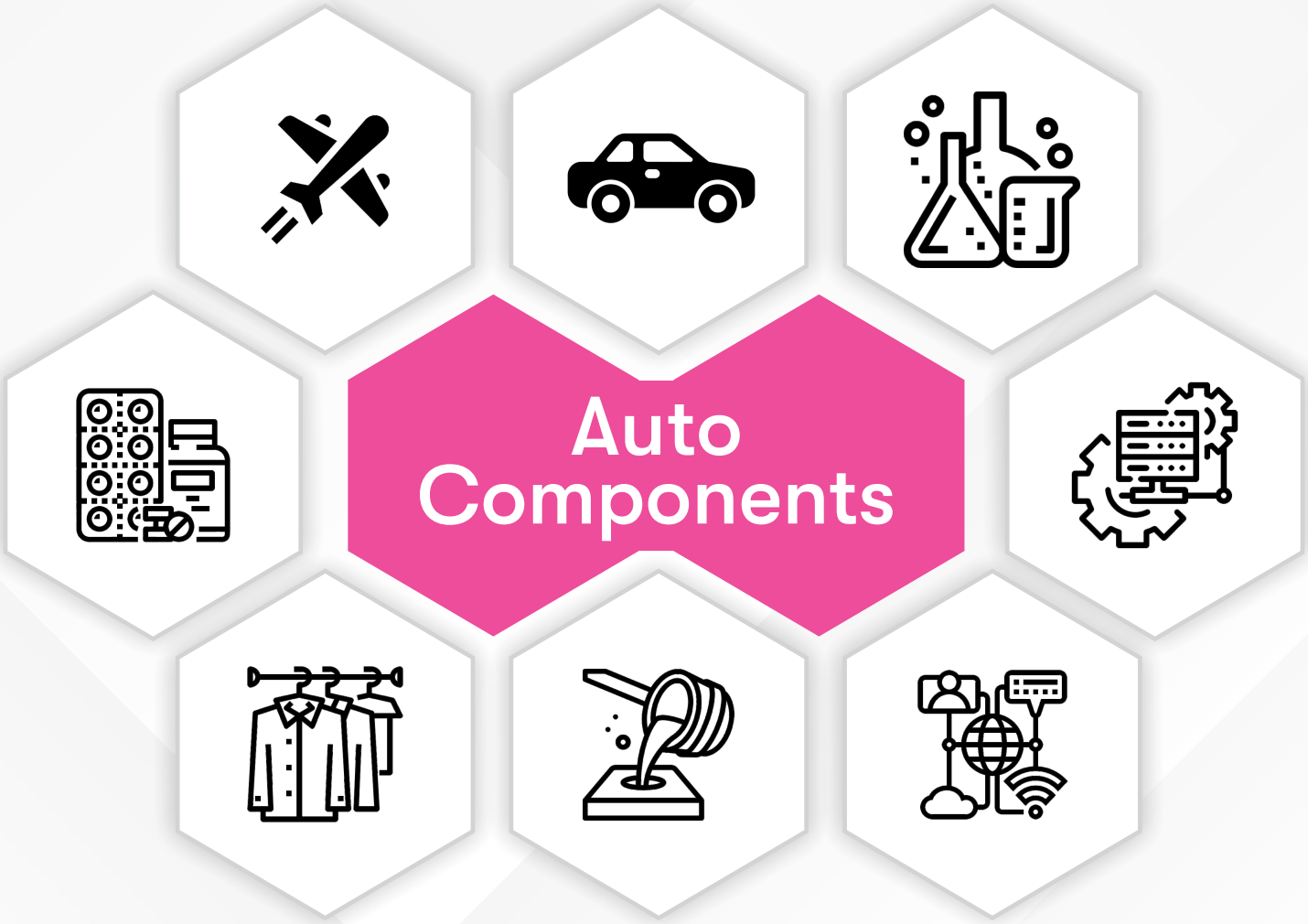
InvAsset's Voice

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 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 Auto Components:

The government has introduced the Production Linked Incentive (PLI) Scheme for Automobile and Auto Components Industry for Enhancing India's Manufacturing Capabilities for Advanced Automotive Products. This scheme proposes financial incentives to boost domestic manufacturing of Advanced Automotive Technology products and attract investments in the automotive manufacturing value chain.



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 Atmanirbhar Bharat – Economy, Infrastructure, System, Vibrant Demography and Demand. Finance Minister further announces Government Reforms and Enablers across Seven Sectors under Atmanirbhar 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.

PLI scheme for Auto Components:

The Production Linked Incentive (PLI) Scheme for the Automobile and Auto Component Industry proposes financial incentives to boost domestic manufacturing of Advanced Automotive Technology (AAT) products and attract investments in the automotive manufacturing value chain. The goal of the scheme is to make the automotive manufacturing value chain more competitive.

The Production Linked Incentive (PLI) Scheme for Automobile and Auto Components Industry in India has been approved by the government. The goal of the scheme is to improve India's manufacturing capabilities for advanced automotive products. The total cost of the scheme is Rs. 25,938 crores of rupees.

The Production Linked Incentive (PLI) Scheme for the Automobile and Auto Component Industry in India has been successful in attracting proposed investments totalling Rs. 74,850 crores, which compares favourably to the target estimate of investment Rs. 42,500 crores that was set for the scheme to achieve over the course of five years. The proposed investment of Rs. 45,016 crores is coming from applicants that have been approved under the Champion OEM Incentive Scheme, and the proposed investment of Rs. 29,834 crores are coming from applicants that have been approved under the Component Champion Incentive Scheme.

The objective of PLI Scheme:

The key objectives of the Production Linked Incentive (PLI) Scheme for Automobile and Auto components are to provide the financial incentives to boost domestic manufacturing of Advanced Automotive Technology products and attract investments in the automotive manufacturing value chain.

·Its prime objectives include overcoming cost disabilities, creating economies of scale, and building a robust supply chain in areas of Advanced Automotive Technology products

· The scheme also aims to generate employment in the country

· To facilitate the Automobile Industry to move up the value chain into higher value-added products

Feature of the PLI Scheme:

Production Linked Incentive (PLI) Scheme for Automobile and Auto Component Industry consists of two components incentivizing incremental sales of automobile and auto components related to Advanced Automotive Technology.

· The PLI scheme for the auto sector will incentivize high-value Advanced Automotive Technology vehicles and products.

· The PLI Scheme for the auto sector envisages overcoming the cost disabilities to the industry for manufacturing of Advanced Automotive Technology products in India.

· The incentive structure will encourage the industry to make fresh investments in indigenous supply chain/ deep localization of Advanced Automotive Technology products.

Eligibility Criteria for PLI Scheme for Automobile and Auto Component Industry

The eligibility criteria for the Production Linked Incentive (PLI) Scheme for Automobile and Auto Component Industry are as follows-

Eligibility Criteria for Existing Company:

Eligibility Criteria for a company or its Group Company with an existing presence in India or globally in the automotive vehicle and components manufacturing business is tabulated here:

Sr. No.	Eligibility Criteria	Auto Original Equipment Manufacturer	Auto-Component
1	Global group Revenue (from automotive and/or auto component manufacturing)	Minimum Rs. 10,000 crores.	Minimum Rs. 500 crores
2	Investment	Global Investment of Company or its Group in fixed assets (gross block) of Rs. 3,000 crores	Global Investment of Company or its Group Company in fixed assets (gross block) of Rs. 150 crores.

Eligibility Criteria for the New Company:

The eligibility criteria for a new non-automotive investor company or its Group company that may want to participate in this scheme are tabulated here:

Sr. No.	Eligibility Criteria	New Non-Automotive investor company or its Group company
1	Global net worth	Rs. 1000 crore based on audited financial statements for the year ending March 31, 2021.
2	Committed investment in India over five-year period	As per Minimum New Domestic Investment Conditions mentioned below

Minimum New Domestic Investment Conditions:

The Cumulative New Domestic Investment Condition of Performance (Rs. Crore) is as follows:

Cumulative new domestic investment to be achieved	Champion OEM (Except 2W & 3W)	Champion OEM 2W & 3W	Component Champion	New Non-Automotive investor (OEM) company or its group company(ies)	New Non-Automotive investor (Component) company or its group company(ies)
Upto or before March 31, 2023	300	150	40	300	40
Upto or before March 31, 2024	800	400	100	800	100
Upto or before March 31, 2025	1400	700	175	1400	175
Upto or before March 31, 2026	1750	875	220	1750	220
Upto or before March 31, 2027	2000	1000	250	2000	500

Production Linked Incentive (PLI) Scheme for Automobile and Auto Component Industry

- New investments should be made from the same legal entity as the one applying for the incentive.
- The cumulative new domestic investment made starting 1st April 2021 shall be considered under this condition.
- The approved Company is required to meet the cumulative investment condition for each year.
- In the event, any approved company meets the investment condition a few years before the end of the scheme; it will be eligible for incentives throughout the tenure of the scheme subject to meeting other conditions of the scheme.
- In case the approved company fails to meet the cumulative domestic investment condition in any given year, it will not receive any incentive for that year even if the threshold for determining sales value is achieved.
- Preference will be given to an eligible company or its Group Company committing to front-load their investment during the scheme period. Proposed investment commitment will be evaluated by calculating the Net Present Value (NPV) of the investment using the bank rate as the discounting factor.

Components of the Scheme

The Production Linked Incentive (PLI) Scheme for Automobile and Auto Component Industry has the following two components:

- Champion OEM Incentive Scheme
- Component Champion Incentive Scheme.

Any Automotive OEM company or its Group Company and New Nonautomotive Investor Company or its Group Company is eligible to apply for both the components of the scheme.

Champion OEM incentive scheme:

The Champion OEM incentive scheme has been launched to address the cost issues that Original Equipment Manufacturers (OEMs) face as a result of the impairments caused by Advanced Automotive Technology vehicles. This scheme is a "sales value linked" scheme, and it is applicable on Battery Electric Vehicles and Hydrogen Fuel Cell Vehicles of all segments, including passenger vehicles, commercial vehicles, tractors, automobiles meant for military use, and any other Advanced Automotive Technology vehicle as prescribed by MHI depending upon technical developments. These categories include two-wheelers, three-wheelers, passenger vehicles, and commercial vehicles.

- Automotive OEM company or its Group company and new Non-Automotive Investor company or its Group company will be eligible to apply for the Champion OEM incentive scheme
- Growth incentives (% of benefits) are applicable on Determined Sales Value

Component Champion incentive scheme:

The objective of the "Component Champion" Incentive programme is to identify and incentivize auto component champions who have the potential to achieve a global scale of operations and become "Automotive Champions" for the auto-component manufacturing sector related to advanced automotive technology. This goal will be accomplished through the use of the "Component Champion" Incentive programme.

The Component Champion Incentive programme is a 'sales value linked' programme that is applicable on preapproved Advanced Automotive Technology components of all vehicles, CKD/SKD kits, Vehicle aggregates of 2-Wheelers, 3-Wheelers, passenger vehicles, commercial vehicles, and tractors, including automobiles meant for military use, as well as any other Advanced Automotive Technology components prescribed by MHI depending upon technical developments. The programme is applicable on passenger vehicles, commercial vehicles, and tractors.

Eligibility

Auto-component manufacturing company or its Group company, Automotive OEM company or its Group company, and new Non-Automotive Investor company or its Group company will be eligible to apply for the Component Champion incentive scheme.

- Growth incentives (% of benefits) are applicable on Determined Sales Value
- The list of eligible Advanced Automotive Technology components will be prescribed by MHI.
- The list can be amended by MHI from time to time depending upon technological developments.
- The approved applicants will apply for registration of their products as eligible Advanced Automotive Technology components to seek incentives in this scheme
- Pre-approval of the eligible product will be done by the Testing Agency of MHI as Advanced Automotive Technology components as prescribed by MHI from time to time.

Minimum 50% domestic value addition will be required. Phased Manufacturing Programme similar to FAME-II Scheme will be followed

Scheme Incentive Mechanism

The approved applicants will be entitled to receive incentives on Determined Sales Value subject to meeting other conditions of the scheme.

· For the approved New Non-Automotive Investor Company that is currently not in the automobile or auto component manufacturing business eligible sales value in the base year will be taken as zero.

· Threshold Determined Sales Value for the first year is Rs.125 crore in respect of all companies' viz. existing Automotive and New Non-Automotive Investor companies under this component of the scheme to claim the incentive

· Year on Year (YoY) growth of a minimum of 10% in Determined Sales Value of first-year i.e., Rs.125 crores have to be achieved by all approved companies viz. existing Automotive and New Non-Automotive Investor companies, to become eligible to receive incentive.

· In case the approved company fails to meet the threshold for an increase in Determined Sales Value over the threshold for the first year i.e., Rs.125 crores, for any given year, it will not receive any incentive for that year.

The approved businesses that reach a target cumulative increase in determining sales of Rs. 10,000 crores over the course of the scheme's duration will be eligible for an additional incentive equal to 2% of the scheme's total budget. This cumulative increase in Determined Sales Value that is greater than Rs. 10,000 crores is eligible for an additional 2% incentive, which will be applied in this case.

Incentive Slabs for Champion OEM and New Non-Automotive (OEM) Investor Company:

Determines Sales Value (in Crores)	Incentives (% age of Determined Sales Value)
< = 2,000	13%
> 2,000 to 3,000	14%
> 3,000 to 4,000	15%
> 4000	16%

Incentive slab for Component Champion Incentive Scheme:

Determines Sales Value (in Crores)	Incentives (% age of Determined Sales Value)
< = 250	8%
> 250 to 500	9%
> 500 to 750	10%
> 750	11%

Expand PLI scheme to auto components to make it research-linked, says industry

It is anticipated that the PLI scheme for the automotive industry will bring in investments worth more than Rs. 42,500 crores in the next five years and will lead to incremental production worth more than Rs. 2.3 lakh crores.

On Wednesday, the Union Cabinet gave its approval to a Production Linked Incentive (PLI) scheme that will provide 26,058 crores of funding to the automotive and drone industries respectively. It is anticipated that the PLI scheme for the automotive industry will result in incremental production of more than 2.3 million crores of rupees and will bring in investments totalling more than Rs. 42,500 crores over the course of five years.

The programme will incentivize the emergency of the global supply chain for advanced automotive technologies in India, which will enable the country to leapfrog to more environmentally friendly electric vehicles and hydrogen fuel cell vehicles.

"The PLI scheme for the auto sector intends to overcome the cost disabilities faced by the industry so that advanced automotive technology products can be manufactured in India," "The incentive structure will encourage industry to make fresh investments for indigenous global supply chain of advanced automotive technology products," the government said. "The incentive structure will encourage industry to make fresh investments."

The scheme is expected to create additional employment opportunities for over 7.5 lakh people.

Existing automotive companies, in addition to new investors who are not currently engaged in the production of automobiles or automobile components, will be eligible to participate in the PLI programme for the automotive sector.

Component Champion Incentive scheme will be applicable on advanced automotive technology components of vehicles, completely knocked down (CKD) / semi knocked down (SKD) kits, vehicles, and tractors, among other things. Champion OEM Incentive scheme will be applicable on battery electric vehicles and hydrogen fuel cell vehicles. It will have two components: Champion OEM Incentive scheme and Component Champion Incentive scheme. Champion OEM Incentive scheme will be applicable on battery electric vehicles and hydrogen fuel cell vehicles. Component Champion Inc

In the meantime, it is anticipated that the PLI scheme for drones will result in new investments of more than 5,000 crores within the next three years as well as an increase in production of more than 1,500 crores. It is anticipated that this will result in the creation of 10,000 additional jobs.

"The PLI scheme for the drones and drone components industry addresses the strategic, tactical, and operational uses of this ground-breaking technology." "A product specific PLI scheme for drones with clear revenue targets and a focus on domestic value addition is key to building capacity and making these key drivers of India's growth strategy," the government said. "This is key to building capacity and making these key drivers of India's growth strategy."

The announcement of PLI schemes for 13 industries was made during the Union Budget 2021-22 with a total outlay of Rs. 1.97 lakh crores.

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