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 Metals & Mining

The sector of the economy known as "metals and mining" is the part of the economy that focuses on locating and extracting metal and mineral reserves all over the world. Mining the world's metal and mineral reserves for financial gain allows for their subsequent improvement in the manufacture of jewellery, various industrial processes, and financial transactions.
The Production-Linked Incentive (PLI) Scheme in Specialty Steel for Enhancing India's Manufacturing Capabilities and Enhancing Exports – Atmanirbhar Bharat has been given its approval to be introduced by the Union Cabinet, which is chaired by the Prime Minister, Shri Narendra Modi. This approval was given by the Union Cabinet. The application period ended on the 15th of September 2022, and we are no longer accepting submissions at this time.

भारत सरकार GOVERNMENT OF INDIA

सत्यमेव जयते

इस्पात मंत्रालय
MINISTRY OF
STEEL

Atmanirbhar Bharat Abhiyaan, also known as the Self-reliant India campaign, is the new India that the Honorable Prime Minister Shri Narendra Modi has envisioned. On May 12, 2020, our Prime Minister gave 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 to fight the COVID-19 pandemic in India. This amount is equivalent to 10% of India's GDP.

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 Metals & Mining

The Production Linked Incentive (PLI) Scheme for Specialty Steel in India was released on July 29, 2021 by the Ministry of Steel. This scheme will be implemented from Financial Year 2023-24 to Financial Year 2029-30 with a total budgetary outlay of Rs. 6,322 crores. The primary objective of the PLI Scheme for Specialty Grade Steel is to encourage domestic production of various steel grades falling into the aforementioned category. The PLI incentive will both significantly increase domestic investment in the production of "Specialty Steel" in the country as well as increase domestic production of "Specialty Steel." Additionally, it will assist the Indian steel industry in developing technologically and climbing higher on the value chain thanks to this development.

The objective of PLI Scheme

The aim of the scheme is to promote manufacturing of such steel grades within India. At present, the country operates at the low end of the value chain in steel manufacturing, with an average realisation of INR 51,000 - 58,000 / tonne (t) only. In contrast, India's steel imports have an average value per tonne of INR 1,46,000 – 1,83,000.

The PLI incentive will boost domestic production of "Specialty Steel" and attract significant investment for production of the same in the country.

Quantum of incentive

The scheme will extend the PLI at the rates given below:

The incentive slabs have been proposed based on the production that is currently taking place, with a higher incentive being proposed for those specialty grades that are either not being produced in India at this time or are only being produced in small quantities, leading to relatively large imports of the same. When taking into account the typical value of these specialty steels, imports of these grades result in a significant amount of foreign currency leaving the country.

PLI Slab	2022 - 23	2023 - 24	2024 - 25	2025 - 26	2026 - 27
PLI - A	4%	5%	5%	4%	3%
PLI - B	8%	9%	10%	9%	7%
PLI - C	12%	15%	15%	13%	11%

Target segments

The scheme shall be applicable for five indicative product categories:

- Coated / plated steel products
- High strength / wear resistant steel
- Specialty rails
- Alloy steel products and steel wires
- Electrical steel

Eligibility Criteria for PLI Scheme for Metals & Mining

- A company registered in India and engaged in end-to-end manufacturing of the identified "specialty steel" grades, subject to the input material being melted and poured within the country using iron ore / scrap / sponge iron / pellets etc.
- Joint ventures are also allowed to participate.
- The net worth of the company (including that of the group companies) / JV shall not be less than 30% of the total committed investment as may be notified in the guidelines.
- A maximum 20% of the total value-addition would be permissible through third parties; the incentive in such cases can however only be claimed by the company that has manufactured the end-product sub-category that is eligible under the PLI Scheme.

Tenure of the scheme

Incentive shall be provided for a maximum period of five years. The release of incentive will be from FY'23-24 to FY'29-30. The period will commence from FY'23 (PLI to be released in FY'24). The initial year may, however, be deferred by up to two years in case of specific product categories.
Due to any special / adverse circumstances, the eligible companies may be allowed to avail the incentive within one year by allowing deferment of the initial year by one year but the overall period for availing incentive is five years.

Total incentive

The expected indicative annual incentive outlay and cumulative incentive outlay under the scheme is as mentioned:

Financial Year	Outlay (in INR cr)
2023-24	775
2024-25	1,088
2025-26	1,394
2026-27	1,377
2027-28	1,293
2028-29	222
2029-30	173
Total	**6,322**

Incentive calculation

Incentive per eligible company (including group companies / JV) will be applicable on incremental production of manufactured steel grades year-on-year worked out with reference to production in the previous year or the base year, whichever is higher, subject to an annual ceiling of INR 200 crore.

In case baseline production is nil, production target for the first year will be arrived at by working backwards from the production target at the end of five years and the projected CAGR. For the purpose of calculating the incentive, incremental production figures shall be derived from audited annual sales data submitted by the applicant and divided by the weighted average sales price (net of taxes) for the current year for which incentive is being claimed.
The incremental production figures thus derived would be multiplied by the average per tonne sales price (net of taxes) for the current year or the base year (2019-20), whichever is less and multiplied by the PLI rate (as applicable) to calculate the payable incentive.

A = incremental sales in the current year with reference to the previous year or the base year whichever is higher.
B = weighted average sale price (net of taxes) in the current year.
C = weighted average sales price (net of taxes) in the base year (2019-20).
Incentive = (A/B) x (B or C, whichever is lower) x (PLI rate as applicable)/100.
*Current year means the year for which PLI has been claimed.

Expand PLI scheme to Metal & Mining to make it research-linked, says industry

This report provided an explanation of the PLI programme for the specialty steel industry, which the Union Cabinet had just recently given its approval for. It is anticipated that a large number of micro, small, and medium-sized enterprises (MSME), as well as other types of businesses, will be able to profit from the introduction of PLI in this industry because the benefit of doing so has been thoroughly evaluated. It is anticipated that it will play an important role in the achievement of growth rates that is significantly higher than those that are currently experienced by industries producing specialty steel, in the development of complete component eco-systems in India, and in the creation of global champions manufacturing in India. They will be required to conform to the criteria that are applicable for international markets. The PLI schemes will also lead to investments in areas such as innovation, research and development, as well as the upgrading of technologies that are developed and deployed by this sector.

This is in addition to PLI schemes for 10 other major sectors of the Indian economy chosen to spearhead the step towards the vision of "AatmaNirbhar Bharat Abhiyan". This scheme has been announced as part of the larger, ongoing campaign by the Indian government to promote resilience in domestic industries and strengthen their export capacities to ensure that India becomes an integral pillar in the global value chains.

The "AatmaNirbhar Bharat Abhiyan" was launched last year by Prime Minister Narendra Modi in the context of the global coronavirus pandemic that continues to significantly affect lives and livelihoods. It further led to a growing consensus about reducing over-dependence on a handful of countries for global supplies and promoting better capacities in domestic industries so they can cushion against future external shocks like disasters and pandemics. As a part of the "AatmaNirbhar Bharat Abhiyan," the widening of PLI scheme to a vast array of sectors provides immense scope for Indian manufacturing to bolster and prosper.

As the world continues to grapple with the pandemic while economies reorient themselves to the new reality, the learnings from this pandemic will play an important role in deciding the future role of many major countries, particularly those like India, having both vast potential and populations.

The government on Friday announced that it has selected 67 applicants from 30 companies under its Rs. 6,322 crores production linked incentives (PLI) scheme for specialty steel, which will lead to new investments of Rs. 42,400 crores. Primary steelmakers like Steel Authority of India Limited (SAIL), ArcelorMittal Nippon Steel India, Tata Steel and JSW Steel as well as multiple other smaller companies are present in the list of approved applicants. The companies will be setting up addition additional capacity of 26 million tonnes as part of the five-year scheme and this could lead to a potential employment generation of up to 70,000 as per a government statement.

The government had invited applicants for the PLI scheme for specialty steel last year but had to extend the deadline multiple times. It received 79 applicants from around 35 large and small steelmakers by the latest deadline of 15 September this year.

The scheme is designed to incentivise the localisation of steel used for specialised applications which at present is largely imported from countries like Japan and South Korea. This includes over 20 categories like galvannealed steel, coated products, steel for tyre bead wire, etc.

While India is largely self-reliant in terms of its steel requirements – with less than 10% of the domestic demand being met through imports – there are various categories of special purpose steel where the country is still completely reliant on imports.

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