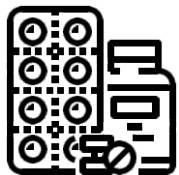


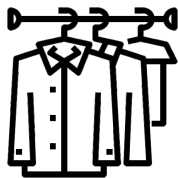
InvAsset's Voice



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



Aviation



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 Aviation:

A Production Linked Incentive (PLI) programme was introduced by the government for drone producers in India. In collaboration with the Drone Regulations 2021, this programme aims to encourage the expansion of the drone manufacturing industry in India. It offers incentives that will encourage the expansion of local drone and drone component manufacturers, encourages international investment in the industry, and create jobs. The details of the programme are described in this blog post, along with potential effects on the industry.

On September 30, 2021, the government announced a Production Linked Incentive (PLI) programme for Indian drone manufacturers. Under the Atmanirbhar Bharat Abhiyan, the programme aims to support an aggressive and self-sufficient drone manufacturing industry in India. The drone sector will find it easier to comply with regulations thanks to the Drone Regulations 2021, which were just announced and which support drone operations in India.



नागर विमानन मंत्रालय MINISTRY OF CIVIL AVIATION

In a press conference held here, Shri Jyotiraditya M. Scindia, Union Minister of Civil Aviation, informed the media about the key components of the PLI Scheme. Incentives of Rs. 120 crores will be paid over the course of the following three years, he claimed, under the PLI scheme. This sum is 1.5 times the total size of the drone manufacturing industry. An estimated 5,000 crore would be invested in the drone manufacturing industry over a three-year period, resulting in a revenue of 900 crores and the creation of 10,000 jobs. The Ministry of Civil Aviation is dedicated to assisting businesses, service delivery, and consumers in reaching the aforementioned goal, he continued, adding that our goal is to develop India as a worldwide drone hub by 2030.

Eligibility

Companies registered in India that manufacture drones and/or drone components have been considered for the PLI Scheme. The manufacturing operations can be carried out at one or more locations in India.

The PLI Scheme is applicable to group company(ies), start-ups, and micro, small, and medium enterprises (MSMEs).

Minimum Annual Sales Turnover for Claiming PLI			
Indian MSME and Start – up		Indian non – MSME	
Drone (INR)	Component (INR)	Drone (INR)	Component (INR)
20 million (approx. US \$ 242,376)	5 million (approx. US\$ 60,594)	40 million (approx. US\$ 484,751)	10 million (approx. US\$ 121,188)

Drone manufacturers and drone component manufacturers are both eligible to apply for the programme. Developers of drone software are also qualified under the programme. The programme includes protections for a variety of products, including hardware like the airframe, propulsion system, batteries, and power systems, communications systems, cameras, and sensors, drone safety components, and navigational tools like internal navigation systems, flight control modules, and ground stations. The plan does, however, stipulate that manufacturers must prove that the parts for which PLI is being claimed are only used in the production of drones. Who will be the right organisation to establish this is unclear. Industry organisations' feedback to the Ministry of Civil Aviation (MoCA) suggests that manufacturers self-certify. Considering the part, the Quality Council of India (QCI) would play in the Drone Regulations 2021, it may also be a viable organisation for certification. For startups and Micro, Small, and Medium Businesses, a lower minimum turnover is provided, which promotes the entry of new component and drone manufacturing businesses into the market. The scheme lays out certain minimum annual turnover requirements to claim the incentives. The incentive programme is in effect for three years, or until the 2023–2024 fiscal year.

Features of PLI Scheme:

- The total amount allocated for the PLI scheme for drones and drone components is INR 120 crore spread over three financial years. This amount is nearly double the combined turnover of all domestic drone manufacturers in FY 2020-21.
- The incentive for a manufacturer of drones and drone components shall be as high as 20% of the value addition made by her.
- The value addition shall be calculated as the annual sales revenue from drones and drone components (net of GST) minus the purchase cost (net of GST) of drone and drone components.
- The Government, has agreed to keep the PLI rate constant at 20% for all three years, an exceptional treatment given only to the drone industry. In PLI schemes for other sectors, the PLI rate reduces every year.
- The proposed tenure of the PLI scheme is three years starting in FY 2021-22. The PLI scheme will be extended or redrafted after studying its impact in consultation with the industry.
- The Government has agreed to fix the minimum value addition norm at 40% of net sales for drones and drone components instead of 50%, another exceptional treatment given to the drone industry. This will allow the widening of the number of beneficiaries.
- The PLI scheme covers a wide variety of drone components:
 - a. Airframe, propulsion systems (engine and electric), power systems, batteries and associated components, launch and recovery systems;
 - b. Inertial Measurement Unit, Inertial Navigation System, flight control module, ground control station, and associated components;
 - c. Communications systems (radio frequency, transponders, satellite-based, etc.)
 - d. Cameras, sensors, spraying systems and related payload, etc.;
 - e. 'Detect and Avoid' system, emergency recovery system, trackers, etc., and other components critical for safety and security.

- The list of eligible components may be expanded by the Government from time to time, as drone technology evolves.
- The Government has agreed to widen the coverage of the incentive scheme to include developers of drone-related IT products also.
- The Government has kept the eligibility norm for MSME and startups in terms of annual sales turnover at a nominal level - INR 2 cr (for drones) and INR 50 lakhs (for drone components). This will allow the widening of the number of beneficiaries.
- Eligibility norm for non-MSME companies in terms of annual sales turnover has been kept at INR 4 crore (for drones) and INR 1 crore (for drone components).
- The incentive payable to a manufacturer of drones and drone components shall be simply one-fifth of her value addition as illustrated below for a sample year (say, FY 2021-22):

Illustration: PLI calculation for a manufacturer (for sample year FY 2021 -22)					
Claim Year	Sales – Net of GST (INR cr)	Purchase – Net of GST (INR cr)	Value addition (INR cr)	PLI rate (%)	PLI due (INR cr)
FY 2021 -22	100	60	100 – 60 = 40	20 %	40 X 20 % = 8

- PLI for a manufacturer shall be capped at 25% of the total annual outlay. This will allow the widening of the number of beneficiaries.
 - In case a manufacturer fails to meet the threshold for the eligible value addition for a particular financial year, she will be allowed to claim the lost incentive in the subsequent year if she makes up the shortfall in the subsequent year.
15. The estimated payout schedule is as shown below:

Estimated payout schedule of PLU for drones and drone components						
Claim year	Sales – Net of GST (INR cr)	Purchase – Net of GST (INR cr)	Eligible value addition (INR cr)	PLI rate for value addition (%)	Applicable PLI (INR cr)	Disbursement year
FY 21 – 22	200	120	80	20 %	16	FY 22 – 23
FY 22 – 23	400	240	160	20 %	32	FY 23 – 24
FY 23 – 24	900	540	360	20 %	72	FY 24 – 25
TOTAL	1500	900	600	20 %	120	

Drones offer tremendous benefits to almost all sectors of the economy. These include– agriculture, mining, infrastructure, surveillance, emergency response, transportation, geo-spatial mapping, defence, and law enforcement to name a few. Drones can be significant creators of employment and economic growth due to their reach, versatility, and ease of use, especially in India's remote and inaccessible areas. Given its traditional strengths in innovation, information technology, frugal engineering, and its huge domestic demand, India has the potential of becoming a global drone hub by 2030.

Specifics of the scheme:

The eligible companies can get 20% of their value addition as an incentive from the government. The value addition is calculated as the value of sales by the company (inclusive of GST) minus the value of purchases (inclusive of GST) by the company. However, the company will only be eligible for this incentive if the value addition is at least 40% of the value of sales. Thus, if a company has done INR 100 Crore worth of sales, they should not have purchases higher than INR 60 Crores to be eligible. If the purchases are INR 60 Crores, they would have added INR 40 Crores worth of value and thus would be eligible for INR 8 Crores as an incentive from the government.

The government has projected sales of INR 200 Crores from the Indian drone industry in the financial year 2021-22. They predict that this amount will grow by a 100% in 2022-23, amounting to INR 400 Crores, and further by 125% in 2023-24, amounting to INR 900 Crores. Of this figure, the government expects a total of INR 600 Crores of value added across the three years. Thus, the government expects to pay out a total of INR 120 Crores in incentives across 3 financial years and has capped its outlay at this figure. The scheme will be administered by the Project Management Agency (PMA) to be created by the MoCA. The PMA is expected to create and maintain an online portal for processing applications for the scheme. The specific guidelines for the implementation of this scheme are expected to be notified separately.

Target Segments:

The target segments cover drones and drone components. The eligible products under drone components include:

- Airframe, propulsion systems, (engine and electric), power systems, batteries and associated components, launch and recovery systems. Inertial Measurement Unit, Inertial Navigation System, flight control module, ground control station, and associated components.
- Communication systems (radio frequency, transponders, satellite-based, etc.).
- Cameras, sensors, spraying systems, and related payload, etc.
- Detect and Avoid' system, emergency recovery system, trackers, etc., and other components critical for safety and security.
- Software for drone and drone components.

The list of eligible drones and drone components may be modified by the federal government from time to time. Also, the drone components for which the PLI is being claimed must be used solely in the manufacturing of a drone.

Financial Outlay

- The total financial outlay of the PLI scheme for drones and drone components is INR 120 crore.
- The total financial outlay during three years of the PLI scheme for drones and drone components is capped at INR 120 crore. In case the calculated incentive payout under this scheme exceeds the budget, it will be reduced on pro-rata basis.
- The administrative expenses for the scheme will be absorbed within the overall limit of INR 120 crore.
- Total PLI per manufacturer is capped at INR 30 crores which is 25% of the total financial outlay of INR 120 crores.
- Multiple claims by a manufacturer under different PLI schemes of Government of India may lead to disqualification of such manufacturer, in addition to legal action as applicable under the law.

Audit

The Scheme requires an audit by an external auditor (chartered accountant or cost accountant) appointed by the Project Management Agency/Ministry of Civil Aviation and whose cost is borne by the PLI applicant.

Calculation of Incentive:

The incentive applicable for an approved applicant is computed as Eligible Value Addition (EVA) × 20%

Where EVA = Eligible Sales Turnover (net of GST) – Eligible Purchase Cost (net of GST)

EVA should be at least 40% of the eligible sales turnover for the year

In case of return of sales, the Gross Sales shall be reduced by the amount corresponding to the such return of sales. If the corresponding sales have been considered for claim processing for the earlier period, the sales return shall be adjusted with Gross Sales for the period in which the actual sales return takes place.

A manufacturer failing to meet the threshold for EVA in India for a particular year will not receive the PLI incentive. The manufacturer will receive this incentive in the subsequent year if they make up the said shortfall in rupee terms in the subsequent year.

Excess incentive paid to any applicant will be adjusted in the incentive paid the next year, otherwise, it must be returned. Otherwise, the amount owed will be the excess incentive plus interest charged (3 years SBI MCLR).

Disbursal of Incentive

Disbursement claims for incentives must be filed annually within 12 months from the end of the financial year for the claims pertaining to FY 2021-22 and within six months from the end of the financial year to which the claim pertains for the remaining tenure of the Scheme.

The PMA and competent authority will examine the claims and process the incentive payments after all the pre-disbursal formalities are completed.

The incentives are disbursed in the form of direct bank transfer or through any other mechanism of adjustment in the name of the applicant only.

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

The scheme will serve as significant encouragement for investment in the drone sector and for the creation of new Indian startups catering to the industry. The Union Minister for Civil Aviation, Jyotiraditya Scindia, hopes to make India a global drone hub by 2030 with an expected turnover of INR 15,000 Crores by 2026. The PLI scheme, in combination with the Drone Rules 2021 is expected to galvanize the Indian drone industry to achieve these objectives.

The liberalized Drone Rules and the PLI scheme is already having a positive effect on the drone industry. Indian drone manufacturers claim that their sales have grown 3-5 times in the last year and that they plan to add a number of employees to their teams. Foreign drone component manufacturers are also contemplating setting up in India to avail the benefits of the PLI scheme. This will create a self-sufficient drone manufacturing ecosystem in India, with manufacturers of drones no longer requiring the import of foreign components.

The PLI scheme is an effective way of augmenting indigenous manufacturing of drones and drone components. It incentivizes foreign manufacturers to set up operations in India as well and creates employment opportunities in the sector. Alongside the Drone Rules 2021, the scheme is likely to enable growth for the drone industry.

The Central government on Saturday issued guidelines for the Production-Linked Incentive (PLI) Scheme to boost domestic manufacturing of drones and drone components.

The Ministry of Civil Aviation (MoCA) in a notification said Rs 120 crore have been allocated for the implementation of the PLI Drone Scheme from 2022-23 to 2024-25.

These guidelines inter-alia cover Definitions, Qualification and Eligibility, Application and Online Portal, Project Management Agency (PMA), Empowered Group of Secretaries (EGoS), and Competent Authority, a ministry statement added.

“The Production Linked Incentive Scheme (PLI) for Drones and Drone Components (hereinafter referred to as 'Scheme') has been notified vide notification No. CG-DL-E-30092021-230076 dated 30/09/2021 in the Gazette of India. The Scheme has come into effect from the date of its Gazette Notification. For the implementation of this scheme during 2022-23 to 2024-25, a corpus of Rs 120 crores has been allocated,” the MoCA added.

The liberalized Drone Rules, 2021 were released to create a growth-oriented regulatory framework for drones to make India a global hub for the research and development, testing, manufacturing, and operation of drones under the Atmanirbhar Bharat Abhiyan.

Drone companies with an annual turnover of Rs 2 crore and drone component companies with an annual sales turnover of Rs 50 lakh in the MSME & startup category are eligible for the scheme. In the non-MSME category, drone companies with an annual top line of Rs 4 crore and drone companies with annual revenues of Rs 1 crore will be eligible for the government's production-linked incentives.

Total PLI per manufacturer is capped at Rs 30 crore, which is 25% of the total outlay of Rs 120 crore for the scheme.

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