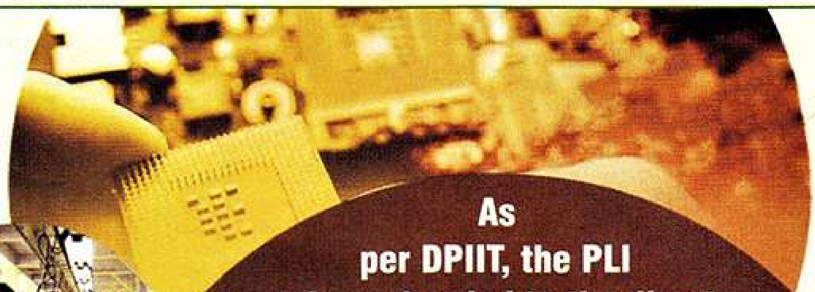
Production Linked Incentive Scheme for Aatmanirbhar Bharat



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Aatmanirbhar Bharat has been the bedrock of the present Government's policy of bringing manufacturing back to the country and creating employment in the secondary sector. Although the emergence of China as the global manufacturing hub in the early 2000s reduced the cost of manufacturing and brought greater profit to multinational corporations worldwide, it also created an abnormal dependency on a single country, which was both geopolitically as well as economically risky. The bitter fruits of this overdependence on China were tasted by the world during the Covid-19 crisis when manufacturing came to a standstill in China for months together and led to an unprecedented shortfall of both manufactured & intermediate goods across the world. Threatened with a near supply chain collapse and driven by the ongoing trade war between the USA and China, several MNCs in the developed countries, led by the USA, took a decision to diversify their manufacturing hubs and reduce their overdependence on China. In the latter half of 2020, as the US, European, and Taiwan-based companies started looking out for opportunities to gradually shift manufacturing out of China, the Government of India welcomed such companies to set up manufacturing units in India. Both the Union Government of India and the State Governments (Tamil Nadu, Andhra Pradesh, and Karnataka) welcomed several electronic product manufacturing giants with fast tracked clearances and land acquisitions.

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It was around this time that NITI Aayog came out with the Production linked Incentive (PLI) Scheme to provide financial incentives to companies for setting up manufacturing facilities in India for identified products. NITI Aayog identified 10 Sectors for providing incentives under the PLI scheme: Advanced Chemistry Cell (ACC) battery, Electronic/Technology Products, Automobiles & Auto Components, Pharmaceutical drugs, Telecom & Networking products, Textile products, Food products, High Efficiency Solar PV modules, white goods (ACs & LED) & Specialty Steel. The Union Cabinet on 11 November 2020 approved the PLI scheme for these 10 sectors, with a financial outlay of Rs. 1,45,980 Cr. The sector wise break-up of incentive that is to be released over a 5 Year period is as follows:

Priority No.	Sector	Implementing Ministry/ Department	Financial Outlay in Rs. Crore
1.	Advance Chemistry Cell (ACC) Battery	NITI Aayog and Department of Heavy Industries	18100
2.	Electronic/ Technology Products	Ministry of Electronics and Information Technology	5000
3.	Automobiles & Auto Components	Department of Heavy Industries	57042
4.	Pharmaceuticals Drugs	Department of Pharmaceuticals	15000
5.	Telecom & Networking Products	Department of Telecom	12195
6.	Textile Products	Ministry of Textiles	10683
7.	Food Products	Ministry of Food Processing Industries	10900
8.	High Efficiency Solar PV Modules	Ministry of New and Renewable Energy	4500
9.	While Goods (ACs & LED)	Department for Promotion of Industry and Internal Trade	6238
10.	Specialty Steel	Ministry of Steel	6322
	Total		145980

The above incentive was in addition to the PLI schemes which had already been notified .

1.	Mobile Manufacturing & specified	Rs. 40951 Cr.
2.	Critical key starting materials /Drug	Rs. 6940 Cr.
3.	Manufacturing & Medical Device	Rs. 3420 Cr..
		Rs. 51311 Cr.

Manufacturing of Drones and Drone component was also added subsequently to these 13 sectors, and an outlay of Rs. 120 Cr. was earmarked for this emerging sector, with a view to promote MSMEs and Startups.

With this, the total commitment of GoI towards PLI scheme for 14 Sectors stood at Rs. 197411 Cr.

The incentive under the PLI scheme is to be utilised for attracting investments in specific products in each of the 14 Sectors. These are the products for which there was a substantial import dependency, domestic manufacturing capacity was limited, and there was a lot of potential for the country to become an export hub for these products, whose global demand was also robust. The Government therefore tried to achieve four specific end results, viz.

1. Reduce import dependency for manufactured products/goods identified under the PLI Scheme.
2. Enhance the export of these products.
3. Attract FDI by setting up manufacturing capacities for these products in India.
4. Bring in cutting-edge technology into the country in these sectors and products.

The maximum investment under the PLI scheme has so far been in the Pharma sector, mainly in the manufacture of APIs and drug intermediaries. As a result of this scheme, the manufacturing of 35 APIs has commenced in India. These 35 APIs are among the 53 APIs for which India has 90% import dependence.

PLI scheme as a method of indirectly incentivising exports was also necessitated by the fact that the Merchandise Export Incentive Scheme (MEIS) of Department of Commerce had been challenged by the USA in the WTO for being non-compliant with WTO rules, and India, having lost the case as well as appeal in the WTO dispute panel, was required to discontinue MEIS, Export Oriented Units Scheme, SEZ, EPCG & DFIS schemes (MEIS was withdrawn w.e.f. 1 January2021)

Under the MEIS scheme, an average incentive of around 2% of the export value was provided to exporters. Whether this incentive actually promoted domestic manufacturing has always been disputed. However, the doubts in the minds of naysayers about the efficacy of the PLI Scheme have been laid to rest on account of the fact that PLI scheme so far has attracted an investment of over Rs. 62500 Cr and led to exports worth Rs. 2,60,000 Cr. As per DPIIT, the PLI scheme has led to the direct creation of more than 3.5 lakh jobs in the 14 sectors. So far, the Government has disbursed a PLI incentive of over Rs. 2900 Cr to the manufacturers. It is pertinent to mention that unlike the MEIS scheme, where the beneficiary can also be a trader/exporter, under the PLI, only manufacturers are eligible to submit a proposal and claim incentive under the scheme. The PLI scheme therefore directly promotes Aatmanirbharta and domestic manufacturing.

After approval by the Government, the sectoral ministries were required to work out the details of their PLI Schemes and get them approved by the Cabinet. Accordingly, each Ministry notified their PLI scheme, within the overall outlay that was specified in the Cabinet approval of November 2020. After notification of the scheme by individual Ministries, the scheme was opened for receiving specific proposals from the industry. The selection of partners under this scheme was based on their commitment to invest the maximum amount in setting up greenfield or brownfield manufacturing facilities in India, scale rapidly to provide the maximum returns in terms of incremental production, employment generation, and exports. The eligible products identified by the Ministries were such that they would invariably involve bringing state-of-the-art technology to the country. For example, in specialty Steel, Cold Rolled Grain Oriented (CRGO) Electrical steel was identified as one of the products under the PLI scheme notified by M/o Steel. CRGO is used in transformer cores and in the absence of the

required technology at Indian steel mills, this product was primarily imported. The limited manufacturing of CRGO in India was also not end-to-end and involved import of intermediate Cold Rolled Grain Oriented coils with minimal value addition in India.

The PLI scheme notified by M/o Steel as on 24 July 2021, earmarked an incentive of Rs. 1293 Cr (out of Rs. 6322 Cr. total outlay) for promotion of domestic manufacturing of Electrical steel, viz. CRGO & CRNO (used in electrical motors). CRGO was placed in the highest C slab with anincentive of 11-15% in view of the importance of this steel grade to the domestic Power sector as well as Charging infrastructure for Electric Vehicles. It is estimated that on account of this incentive under the PLI scheme, the domestic manufacturing of electrical steel is expected to rise from the baseline of 5.9 lakh tonnes per annum in 2019-20 to 1.4 million tonnes in 2026-27, with a CAGR of 13.3%. In order to be eligible to participate in the PLI scheme, the applicant had to commit a minimum investment of Rs. 5000 Cr. in setting up CRGO manufacturing plant of minimum 2 lakh tons per annum capacity, while achieving a minimum 40% YoY incremental production rate. The incentive payable to the selected applicants is to be calculated on the basis of incremental sales in the current year (A), weighted average sales price in the current year (B) & weighted average sale price in base year (2019-20)(C) with the formula (A/B) X (B or C, whichever is lower) X (PLI rate) / 100.

For CRGO, JSW Steel Ltd., which is an Indian Steel company, has been selected by the Ministry of Steel and has set up a 50:50 JV with JFE Japan. Incidentally, JSW already has a tie-up with JFE since 2012 for manufacturing Cold Rolled Non grain Oriented (CRNO) electrical steel in India. This JV between JSW and JFE shall initially set up a 2 lakh ton capacity CRGO plant at Vijaynagaram in Bellary district of Karnataka with an investment of over Rs. 8000 Cr. Given the long gestation time required to set up a steel mill, it is estimated that the plant shall commence manufacturing in 2026-27. This CRGO manufacturing facility at Vijaynagaram shall be the first end-to-end CRGO manufacturing facility in India; it would source HR coils from JSW Vijaynagaram steel mill and then do the further downstream processing to produce the final product. This shall be a watershed moment for India because, so far, no foreign steel manufacturer has agreed to transfer the complete CRGO manufacturing technology to a JV part owned by an Indian Steel producer. This has been made possible only because of the PLI scheme.

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When it comes to the most visible impact of the PLI scheme, it is difficult to miss the country's achievements in mobile phone manufacturing as well as export. India is set to cross Rs 1.2 lakh crore in mobile phone exports in 2023-24, in comparison to Rs 90,000 crore in 2022-23. A major share of this export surge is driven by Apple, which is now considering shifting around 18% of its global iPhone production to India by 2025; up from the current 7%. In 2022-23, India's electronics imports stood at $ 77 billion, which is next only to its petroleum imports, which stood at $ 158 Billion. The PLI scheme for electronics is expected to reduce this import dependency substantially.

In the telecom sector, the PLI scheme has resulted in import substitution to the extent of over 60% and the country has become Aatmanirbhar in Antennae, GPON (Gigabit Passive Optical Network), and CPE (Customer Premises Equipment). The success of domestic manufacturing in mobile devices and telecom equipment has therefore been phenomenal, and what makes this achievement special is the short span of just 3 years in which domestic manufacturing facilities have been set up & commenced production.

The Way Forward

So far, the stakeholder Ministries have approved a total of 733 applications in the 14 sectors, with an expected investment of Rs. 3.65 lakh Cr. Incentive claims of over Rs. 3,420 crore have so far been received under the PLI scheme for eight sectors – large-scale electronics manufacturing, electronics and technology products, bulk drugs, medical devices, pharmaceuticals, telecom and networking products, food items, and drones, of which over Rs. 2,800 crore have already been disbursed. The highest disbursal of Rs. 1,649 crore was made in large-scale electronics manufacturing, followed by pharmaceuticals at Rs. 652 crore, and food products at Rs. 486 crore. There was an increase of 76 per cent in FDI in the manufacturing sector in 2021-22 in comparison to 2020-21.

Sectors that are not picking up well include high-efficiency solar PV modules, advanced chemistry cell (ACC) batteries and Man-Made Fibre (MMF) textile products. The reasons for slow response in these sectors range from the longer gestation period required for setting up manufacturing in these sectors, unattractive incentive structure in the PLI scheme, the shorter window being made available by the Ministries while calling for proposals in these sectors, to the reluctance of MNCs to bring in cutting-edge technology in these sectors to India. Meanwhile, the Government is considering adding a few more sectors to the PLI scheme, namely toys, leather and footwear, and components for new-age bicycles, all of which have seen growing imports in the last few years. Although the non-tariff barriers have helped reduce import of cheap Chinese toys into India, there is still a serious shortage of state-of-the-art toy designing & manufacturing facilities in India. The inclusion of these sectors under the PLI scheme shall go a long way in setting up a manufacturing base in India for both domestic consumption as well as export.

To conclude, the PLI scheme has been a game changer for promoting Aatmanirbharta, and a lot has been achieved in the last three years. The impact of the scheme on employment generation has also been phenomenal. As manufacturing commences in sectors such as specialty steel, where the gestation period required for setting up manufacturing facilities is long, the impact on downstream industries shall be phenomenal and would help boost both direct and indirect employment as well as exports. ❑