



Production-Linked Incentive Scheme: An initiative for 'ATMANIRBHAR BHARAT'

PLI SCHEME WILL TAKE INDIA TO BE THE NEXT MANUFACTURING DESTINATION

The voice of 'Atmanirbhar Bharat' has once again brought manufacturing industry to the centre stage and emphasised its significance in driving India's growth and creating jobs in the country at a large scale.

The PLI scheme envisages a globally-integrated manufacturing in sectors such as automobile and auto components, pharmaceuticals, telecommunications, white goods and steel. These are crucial sectors in terms of their strategic importance, contribution to the GDP and employment-generation potential.

India offers an attractive domestic market and there are several benefits for the corporate world to participate in the PLI Scheme. If it is implemented in a very professional manner then it'll attract huge investments and certainly enter into the segment of global value chains. Government is aimed to do away with more than 6,000 compliance requirements.

Prime Minister Narendra Modi while speaking at a webinar organised by the Department for Promotion of Industry and International Trade and the NITI Aayog said manufacturing will get a \$520-billion PLI push in next 5 years. The sectors for PLI have been shortlisted on the basis of their potential for economic growth, revenue and employment generation.

PM Modi said the government was working at every level to promote industry through measures like ease of doing business, reducing the compliance burden, creating multi-modal infrastructure to reduce logistics costs, and constructing district-level export hubs. Industry representatives included those from Apple, Sun Pharmaceuticals, and Mahindra & Mahindra, as well as industry associations from the PLI beneficiary sectors. Job creation was a major item discussed. Sources said the focus was not on generating investment alone but to ensure that turnover rose, and jobs were created.

The PLI scheme was announced first for electronics in March last year, aimed at boosting domestic manufacturing and exports. It has since been expanded to 12 more sectors. PM Modi said, with PLI in the automobiles and pharmaceuticals sectors, there would be much less foreign dependence on auto parts, medical equipment, and raw materials for medicines.

He said the energy sector would be modernised with the help of advanced cell batteries, solar PV modules, and specialty steel. Similarly, PLIs for the textile and food-processing sectors will benefit agriculture.

Talking about the Electronics sector, In addition to electronics, whose PLI was earmarked with an allocation of Rs 40,995 crore for five years, those in IT hardware and telecom equipment manufacturing will lead to an increase in production and domestic value addition, Modi said.

The India Cellular and Electronics Association (ICEA) has submitted to the Ministry of Electronics and Information Technology that the PLI scheme should not be taken as a subsidy but as a tool to become globally competitive. It is imperative to offset the disabilities vis-à-vis other countries and encourage global value chains (GVCs) and domestic industry players to set up manufacturing facilities in India. We need to build policies to compete with countries and not companies," said Pankaj Mohindroo.



Aiming to encourage local companies to set up or expand existing manufacturing units and to cut down on import bills, Government of India in March this year introduced a scheme that aims to give companies incentives on incremental sales from products manufactured in domestic units. The scheme also invites foreign companies to set shop in India. The scheme has been rolled out for mobile and allied equipment as well as pharmaceutical ingredients and medical devices manufacturing. An outlay of INR 1.97 Lakh Crores for the Production-Linked Incentive (PLI) Scheme for 13 key sectors had been announced in the budget.



BISHAN JAIN
Director - Goldmedal Electricals

As a part of the PLI scheme for mobile and electronic equipment manufacturing, an incentive of 4-6 per cent is planned for electronics companies which manufacture mobile phones and other electronic components such as transistors, diodes, thyristors, resistors, capacitors and nano-electronic components such as micro electromechanical systems. Similarly, the PLI scheme for pharmaceutical ingredients and medical devices seeks that applicants will commit a certain amount prescribed by the government as investment to build capacities in these areas.

According to experts, the idea of PLI is important as the government cannot continue making investments in the capital-intensive sectors as they need longer times for start giving the returns. Whereas, to invite global companies with adequate capital to set up capacities in India is a good initiative. The government will pay the companies it selects for the scheme a specific proportion of their turnover from making and selling the bulk drugs or medical devices as an incentive over the next few years. The amount of the incentive would decrease as the years go by.

On this announcement Kunal Chaudhary, Tax Partner, EY India says, "The PLI scheme for IT Hardware i.e., Laptops, tablets, All in One PC's and Server with an allocation of INR 7300 crore is yet another step by the MEITY to fulfil the vision of making India an Electronic Manufacturing hub for the world and increase India's manufacturing

competitiveness. This scheme also promises a substantial increase in value addition which will further the components ecosystems."

Welcoming the PLI scheme, Lt. Gen. Dr. SP Kochhar, DG, COAI says, "We welcome the implementation of the PLI scheme on telecom equipment. Telecom is the backbone of a digitally connected India and this initiative will further boost local manufacturing and create employment opportunities. India is already the second largest telecom market globally and this will go a long way in making the country a global hub for telecom innovation."

On the importance of the scheme to the industries, Rajesh Uttamchandani, Director – Syska says, "We welcome the measures announced by the Uccccnion Cabinet to support the manufacturing sector through the production-linked incentive (PLI) scheme. The announcement for infusing a budget of Rs 6,238 crore towards air conditioners and LED lights will play a significant role in supporting home-grown businesses such as Syska Group to become truly Atmanirbhar (self-reliant). This scheme will present immense opportunities for our business as it will help in increasing our manufacturing capabilities for LED lighting products. Further, it will also support in raising the quality and system of production, help in generating employment opportunities as well as aid in increasing exports. This scheme will also enable cost competitiveness for the domestic industry. We are positive that these measures will make India an integral part of the global supply chain and will create global



RAJESH UTTAMCHANDANI
Director – Syska

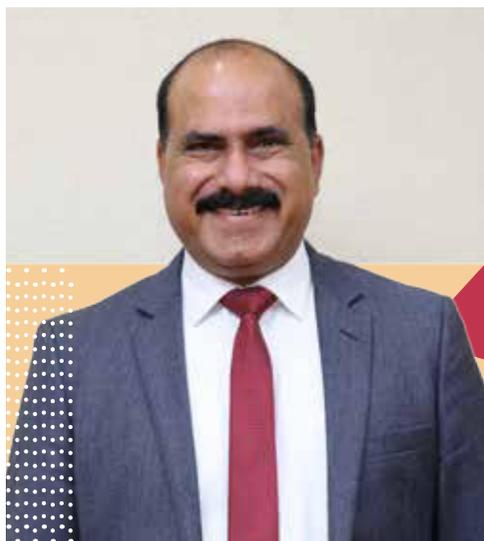
leaders of manufacturing in India."

"We are confident that the scheme will further help establish India as a global manufacturing hub by boosting exports and making India a prominent leader of the global supply chain. The scheme has been designed to create a complete component ecosystem by making India a fundamental part of the global supply chain. This will provide companies with a fillip to invest in technology to stimulate productivity in various aspects of functioning and result in a significant enhancement of manufacturing that will help companies such as ours to amplify the business operations," comments Rajesh.

Whereas, Bishan Jain, Director - Goldmedal Electricals, finds, "The PLI scheme is an excellent scheme for the Indian manufacturing industry across sectors. It will not only encourage and boost domestic manufacturing but also minimize the import of various parts and components. This scheme will definitely support companies such as ours. As a domestic manufacturer, there is a need for good infrastructure and support from the government. The electrical manufacturing sector has previously suffered due to a lack of infrastructure, proper domestic supply chain, and logistics. A scheme like the PLI is a step in the right direction, as it will offer us domestic alternatives to imports and remove the restriction of the supply chain. Goldmedal is an ardent supporter of the Make in India initiative and the PLI scheme will help us, like many other domestic manufacturers, to



ASHISH P. DHAKAN
MD & CEO, Prama Hikvision India



COL. DEEPAK ANAND
National Head for Technology and Government Sector, ESDS Software Solution

become completely Atmanirbhar and fast-track our manufacturing capabilities and production.”

Looking forward he adds, “This scheme holds great potential and we are looking forward to boosting our manufacturing capacities in the LED and other electrical segments. This scheme will also lower our dependence on imported parts for our LED production. Since the objective of the PLI scheme is to eliminate sectorial disabilities and promote economical and efficient manufacturing, create a robust production ecosystem, we are looking forward to benefiting from this exceptional output-oriented scheme.”

Col. Deepak Anand, National Head for Technology and Government Sector, ESDS Software Solution, feels, “The shifting global winds fuelled by the ongoing Pandemic has necessitated tectonic policy shifts and a De Novo look at the way Government of India (GoI) seeks to stimulate the domestic economy, employment and growth. GoI has precisely assimilated the stark realities of these times and the need to rise up to the global environment triggered by once in centuries kind of global health care emergency. The recent disruptions in global supply chains have deeply hurt the manufacturing sector and have thus forced the Govt to evolve innovative and path breaking policy provisions to incentivise domestic manufacturing and project India as an attractive investment destination, while still remaining within the boundaries of contemporary global trade policies and agreements.”

Col. Deepak also points out, at a macro level, the scheme endeavours to benefit the Industries in five major ways: -

- a. Facilitate in making Indian manufacturers competitive at global scale.
- b. Make India as an attractive destination for investments particularly in the focus areas of core competency and cutting-edge technology

- c. Focus on enhancing efficiencies across the value chain of identified sectors.
- d. Incentivise the focused sectors to enhance the production there by create economies of scale thus enhance exports.
- e. Make India an integral part of the global supply chain, thereby achieve multiple objectives.

Though ESDS as a leading cloud service provider does not benefit directly from this scheme, as the contours of operational directives for each sector would emerge, they are hopeful to ascertain possible areas of indirect benefit. As far as perspective from the service industry is concerned, they feel that in order to achieve the desired end state, it is imperative that the complete eco system is addressed and all pillars of the industry of which service sector is a major pillar, are incentivized.

Feeling hopeful about the scheme Col. Deepak says, “We are very hopeful that once the scheme is fully operationalized, it will boost the manufacturing sector and project India as a very attractive investment destination. We have seen it in the past also similar stimulus measures provided to sectors like Automobiles and Software have yielded benefits out of proportion and have proved to be a game changer for these sectors, we are sanguine that even this initiative of the Govt would deliver similar results. Although, we feel that if the complete ecosystem is addressed which includes critical service sectors which support the manufacturing sector, then the outcome would most certainly be in line with the expectations.

Ravi Asawa, CFO, Aeris Communications India comments, “The PLI scheme announced by the Government of India for the telecom equipment covered various HW devices including IoT access devices as well. The number of Internet of Things (IoT) devices worldwide is forecast to almost triple from 8.74 billion in 2020 to more than 25.4 billion IoT devices in 2030. The highest number of IoT devices is found in China with 3.17 billion devices and one of the largest manufacturers of these devices. This PLI scheme has been extended to MSME to support locally made products. Currently, most of the IoT access devices are being imported from China due to cost benefit analysis and I am sure the PLI scheme will encourage MSME to invest and manufacture these devices locally and make it available to the world.”

Evaluating the PLI schemes, Ashish P. Dhakan, MD & CEO, Prama Hikvision India, says, “Leading international companies are expanding production at their newly set up units in India after the government launched attractive initiatives such as the production-linked incentive (PLI) scheme for smartphones and other technology-driven sectors. Buoyed by the surge in interest from global manufacturers, the government is also planning PLI for other sectors to boost domestic manufacturing. Such



KUNAL CHAUDHARY
Tax Partner, EY India

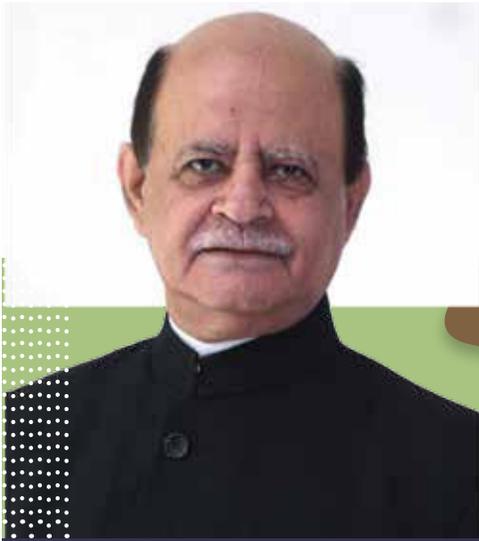
incentives like PLI Schemes would certainly help India increase the manufacturing sector's share in the GDP significantly. Foreign and Indian Firms are also expanding their factories to take advantage of the PLI scheme. We are currently evaluating the PLI schemes.”

Galvanized by the proactive steps taken by the government, Ashish feels, “We are impressed by the proactive steps taken by the government to bolster the local manufacturing sector with help of PLI scheme. It is a very recent development and we have seen the key beneficiaries of these schemes are mostly from the Mobile, White Goods, Pharma and Medical Equipment segments. We are looking for clarity on special incentives being offered to the electronic security system manufacturers. We are looking forward to it as a positive step, more clarity about the PLI scheme would certainly help to develop the Indian security product manufacturing ecosystem.”

ON THE PREPAREDNESS OF THE ORGANIZATIONS:

On the preparedness of the organisation towards the production-linked incentive schemes, Rajesh further adds, “This approved scheme by our honourable Prime Minister Shri Narendra Modiji will tremendously increase India's vision to become Atmanirbhar in the true sense, and further fuel its ability to become a global manufacturing hub. This initiative will offer extensive opportunities for home-grown companies as it will help in further augmenting the quality and method of production thereby making the country a global manufacturing hub. This will also help us bring in digital technologies that can boost productivity, adopt advanced machinery, strengthen infrastructure capabilities and upskill the workforce. Companies such as Syska will continue to support the government's mission of being Atmanirbhar by constantly developing innovative products in-house.”

On this point Bishan says, “We are ready to make the most of this scheme. Although the Covid-19 pandemic impacted our production,



LT. GEN. DR. SP KOCHHAR
DG, COAI

we are confident that we will be able to achieve our target to avail the benefit of the scheme.”

According to Ashish, “We are looking at PIL Scheme as a big boost to the local manufacturing sector. Our company is keenly studying the policy framework offered by the government, and its impact on the electronic security manufacturing. The government has introduced the Production-Linked Incentive (PLI) Scheme in the 10 key sectors for improving India’s manufacturing capabilities and enhancing exports. It is an important step towards empowering manufacturing sector for a self-reliant India (Atmanirbhar Bharat). We are hopeful of a better outcome.”

In Col. Deepak’s words, “PLI scheme is directly applicable to the manufacturing sector. However, as a leading cloud service provider, we earnestly urge the Govt to look at this vital sector and not only provide Infrastructure sector status to this but also roll out incentive scheme for the service sector. Although, as the manufacturing picks up and achieves global scale it would have to be done on the backbone of Digital Transformation (DX) of the entire process, so ESDS as a leading DX catalyst would be playing a pivotal role in supporting this growth. As such a large number of manufacturing industry even now uses our cloud services to achieve economy and efficiency in their operations. Going forward the innovative IPs on boarded by ESDS on SPOCHUB (SaaS Market place) will play a very significant role in fuelling this growth story. Industry 4.0 will most certainly be the main stay of these reenergised and repowered production power houses and SPOCHUB will provide all the required SaaS products to support this giant leap of manufacturing sector. We have visualised this and we have put in place a phenomenal marketplace that is home to some of the most innovative and cutting-edge tools that the technology has to offer. PLI powered manufacturing sector would have to look no further all solutions to support this giant leap will be available on SPOCHUB in SaaS model.”

CHALLENGES AND OPPORTUNITIES IN THE PLI SCHEME

On the key challenges and opportunities in the PLI scheme, Rajesh, perceives, “The PLI scheme has been deployed to help produce large-scale employment, encourage domestic manufacturing and overcome import dependence. Additionally, this allows for investment in the expansion of our business, besides providing flexibility to accelerate our manufacturing process. Further, it also provides an opportunity to conduct innovation, research, development and upgradation of technologies. Few years ago, a large chunk of the unorganized sector selling forfeited products posed a huge challenge / barrier for brands. However, with time, the overall share of the unorganized market has reduced. This is due to consumers gradually understanding the importance of relying on branded products that offer benefits such as durability, superior quality, customer service support, warranty and guarantee, thereby augmenting customer experiences. There is a great opportunity to streamline the process and further reduce the share of the unorganized sector by offering consumers products and services that will bring about convenience in their lives.”

In Bishan’s view, “Currently, one of the biggest roadblocks has been the pandemic, which impacted our production. However, we are optimistic that we will be able to get back on track soon. The lack of adequate infrastructure, insufficient availability of quality raw materials, and skilled labour are some of the other challenges that might hinder our production and thereby affect our chances of getting the PLI scheme. Having said that, we also see this as an opportunity to focus and adopt new technologies that will accelerate and improve production. It will enable us to achieve economies of scale that will benefit us in the long run. Finally, we also see this as an opportunity to accelerate our business sustainability efforts by optimizing the supply chain and using locally sourced sustainable materials for production.”

Whereas Ashish perceives, “The key challenge remains the clarity on eligibility criteria, process flow and successful rollout of PLI scheme. We foresee lots of opportunities for our organization in PLI scheme, but there is little more clarity required to avail the advantages by making the required investment in the local manufacturing.”

Anticipating the scheme, Col. Deepak comments, “The most significant challenge we foresee is implementation and monitoring of scheme like this which has mammoth magnitude and coverage. The financial outlay for incentivising the manufacturing would have to be carefully balanced and provisioned, given the burden the Govt is already facing due to Covid -19. Policy makers would have to walk a very tight rope between tariff and non-tariff measures, as at one hand they would have to encourage foreign investment to boost



RAVI ASAWA
CFO, Aeris Communications India

manufacturing capacities for attaining global scales of operation and on the other they would have to ensure protection of domestic consumption story and competitive pricing. We feel that there would definitely be a finite period before the benefits of the scheme are visible. The paradigm shifts in policy making and implementation would have to be across the ministries and departments to facilitate ease of establishment, production and global trade. We would have to recalibrate a number of other associated policies and rules to enable the success of this mega initiative of Govt. We must look at all associated functions in a comprehensive manner and align them towards facilitating the success of this scheme. We as a service provider see that, for attainment of intended goal from this scheme, we must include associated service industry also.”

TO CONCLUDE

Though nearly half of the Rs 7325-crore budget allocated for the PLI scheme for IT hardware, it is likely to go unused with the applicant companies such as Dell, Wistron, Flextronics, Foxconn cumulatively committing to produce far lower than expected by the government. Manufacturers are piqued over the low incentive structure of the scheme which offers only 1%-4% reward and does not compensate for the disabilities of shifting production to India of duty-free products like laptops, tablets and data servers from countries like China and Taiwan.

Thus, the 19 applicants of the scheme have pledged to produce goods only upto minimum eligibility threshold or goods worth Rs 1.60 lakh crore, including Rs 60,000 crore of exports over the four-year period of the scheme. This is sharply lower than the government's estimate of achieving production output worth Rs 3.26 lakh crore, of which exports were expected to be worth Rs 2.45 lakh crore. ■