

PRODUCTION LINKED INCENTIVE SCHEME

INTRODUCTION

The key focus of the Indian Government in recent years has been to strengthen domestic manufacturing, increase self-reliance and reduce import bills. To realize these objectives, Government has announced multiple fiscal and non-fiscal incentive schemes and measures, inviting Companies to invest and manufacture in India. One such scheme, that is widely discussed and promoted, is Production Linked Incentive (PLI) Scheme.

Through the PLI Scheme, the Government intends to promote its flagship Make-In-India program and also align with the Atmanirbhar Bharat campaign.

The scheme was first launched in April 2020, for the Large-Scale Electronics Manufacturing sector, and ever since has been extended to as many as 13 Target

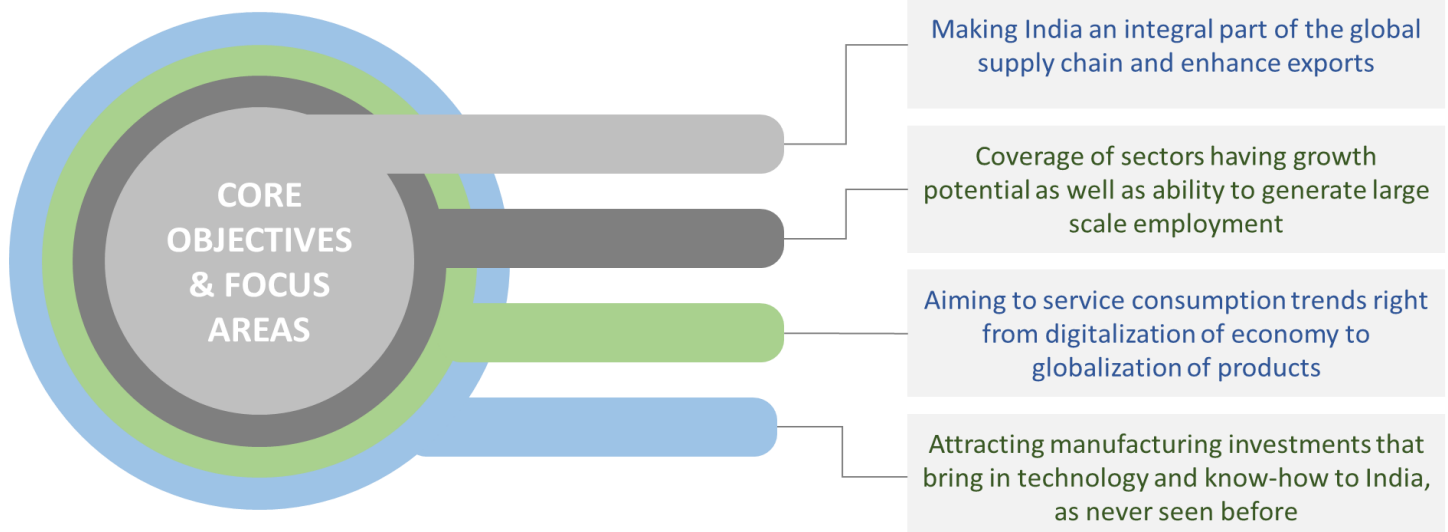
Sectors (10 being recent additions). Several large Indian & foreign businesses are already in the fray to avail these incentives given that the eligibility is restricted. Although the

2021 Union Budget allocation for PLI scheme at INR 1.97 Lakh Crores

overall objectives & contours of the scheme are defined at the central government level, the fine mechanics of the scheme i.e. the implementation policy is notified by the nominated GOI Ministry or department under aegis of Ministry of Commerce.

What's in Store?

- Incentive of 4% to 6% on incremental sales (outliers existent). Additional incentives for globalizing brands, in the form of branding and marketing support
- Eligibility basis fulfilment of investment and incremental turnover threshold as per sector specific schemes
- Total incentives capped for each applicant. Possible increase in scenarios, where other applicants are not able to fulfil thresholds

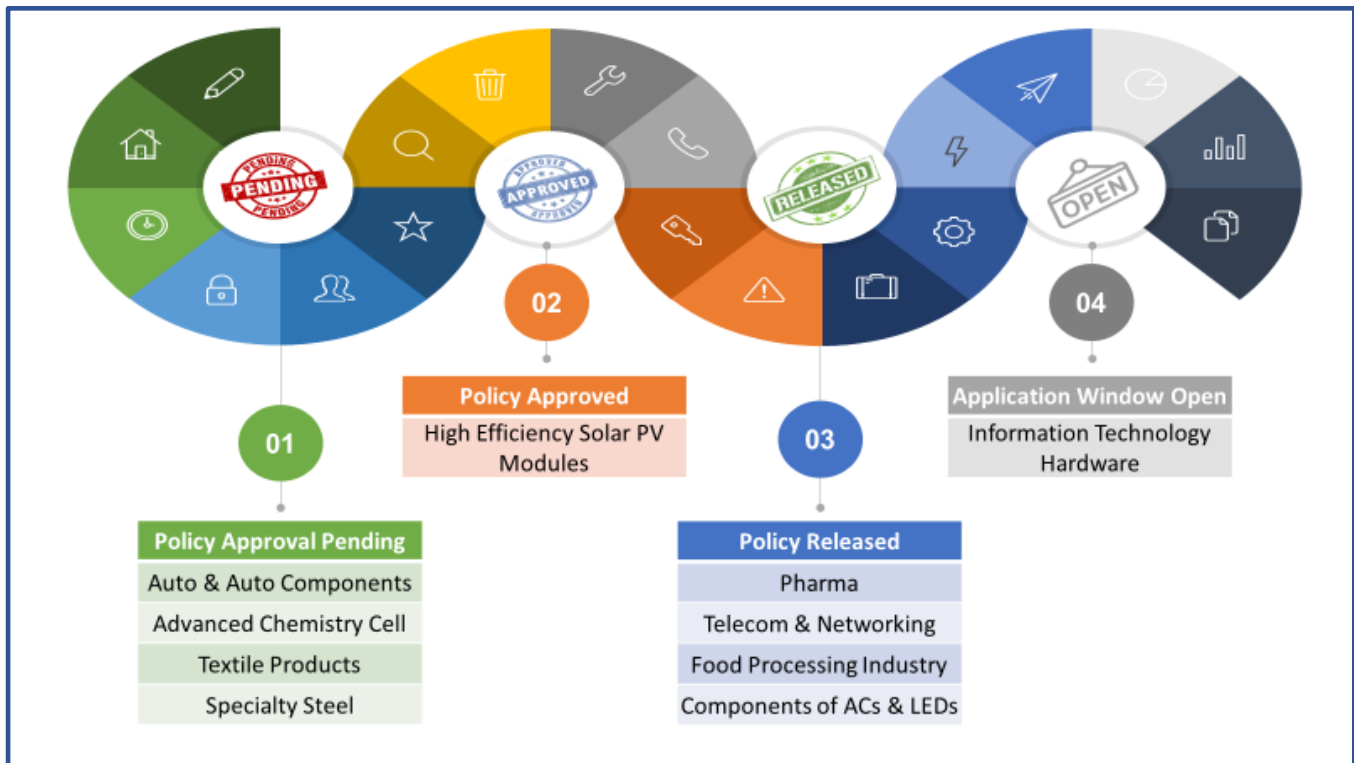


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BENEFICIARIES

Basis the parameters laid out, several beneficiaries of the PLI scheme have been identified. It is important to note that the implementation stage, i.e. policy formulation & subsequent action through nominated ministry/ department, currently varies.

Sector Policy Framing Status & Application Window



Note: Application window for (1) Mobile & Electronic Components (2) KSM, Drug Intermediates & API & (3) Medical Devices sector(s) is already closed.

The nominated ministry/ department details are as under:

Product	Nominated Agency
IT Hardware	Ministry of Electronics & IT
Pharma	Department of Pharmaceuticals
Telecom & Networking	Department of Telecommunication
Food Processing Industry	Ministry of Food Processing
Components of ACs & LEDs	Department of Promotion of Industry and Internal Trade

Product	Nominated Agency
High Efficiency Solar PV Modules	Ministry of New & Renewable Energy
Auto & Auto Components	Department of Heavy Industries
Textile Products	Ministry of Textiles
Advanced Chemistry Cell	Department of Heavy Industries
Specialty Steel	Ministry of Steel

PRODUCTION LINKED INCENTIVE SCHEME**MODALITIES**

Each PLI Scheme specifies conditions and qualifying criterion for eligibility. Qualifying parameters across notified PLI Schemes are similar, with threshold criteria differing in each Scheme. Key parameters are as follows:

Eligible Person

- Inclusion for entity engaged in manufacture of goods falling within Target Sector
- Scheme may provide inclusion or exclusion for domestic and foreign company
- Benefits to contract manufacturers, as defined in FDI Policy Circular of 2017, in certain Policies
- Maximum number of beneficiaries under Scheme & manner of selection specified in Scheme

Eligible Product

- Benefits restricted to notified goods falling within Target Sector. List of eligible products specified in Scheme
- Only manufacturing activity is covered and trading activity is expressly excluded. What constitutes as manufacture is defined
- Eligible product can be manufactured either in existing or new manufacturing facility

Scheme Period

- Incentives are eligible for 4 - 6 years (exceptions exist)
- Scheme Period excludes time allowed for making application
- Scheme may provide for re-opening for fresh applications during Scheme Period

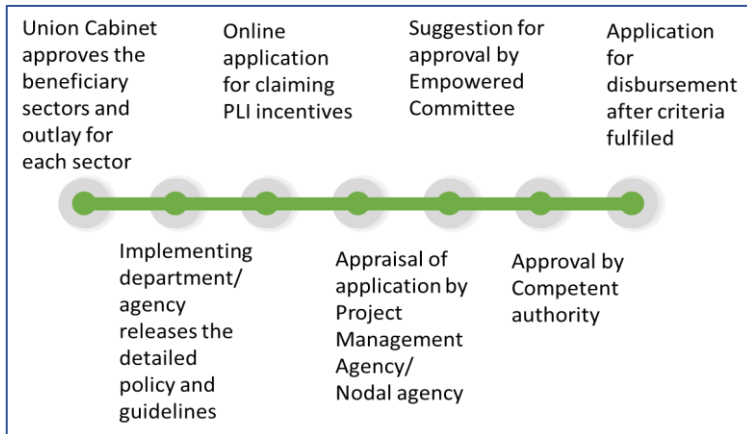
Investment Criteria

- Condition of prescribed incremental investment over Base Year. - both cumulative and annual thresholds specified
- Base Year is defined in Policy for determining incremental investment
- Separate thresholds prescribed for each Scheme
- Qualifying 'investment' expenditure is specified - Land and building cost is excluded

Sales Criteria

- Condition of prescribed incremental turnover over Base Year
- Base Year is defined in Policy for determining incremental turnover
- Separate thresholds for different products. **Currently Notified Policies does not include export sales as qualifying criteria**
- Credit notes and discounts to be excluded from sales

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In addition to above, a periodic review of eligible companies will be undertaken by an Empowered Committee (EC) through the Scheme period, with respect to investments, employment generation, production, and value addition requirement under the Scheme. EC is empowered to revise incentive rates, ceilings, target segments and eligibility criteria during the tenure of the Scheme.

Interestingly, non-fulfilment of investment or sale criteria in a specific year does not impact eligibility in other years.

EXPERT SPEAK

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Any person investing in manufacturing in India should undertake a detailed review of PLI Scheme from a coverage and eligibility perspective. Time bound evaluation & decision making to opt for the scheme is of essence.

PLI is a welcome support to the economy, especially in pandemic times. Corporates should align the plan for expansion/ diversification/ backward integration in view of the eligibility for the Scheme.

Comprehensive preparation of the application inter-alia building up a convincing 'company cum product profile' is key to secure benefits under the scheme. These efforts shall go a long way to address various scoring criterion too.

WAY FORWARD

- Evaluate coverage and eligibility under the Scheme for the investment pipeline. Non-coverage of specific products may warrant making suitable representation before relevant authority.
- Applications under PLI Scheme are to be undertaken within time bound manner. Thus, timely tracking of new releases and seeking clarifications is essential to file an application within timeline.
- Strict criterion for eligibility & scoring, warrants garnering information on past experiences and preparing a robust application.
- Additionally, the application should ensure that Applicant's interest is protected from future potential interpretational or other issues.

INTERESTING FACTS

Benefits under PLI Scheme are mutually exclusive from benefits available under other Schemes of Government. An entity can thus be a beneficiary under (2) or more schemes of the Central or State Government

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- While Government has until now identified (13) Target Sectors, the Indian market has demonstrated potential in other sectors, which can evolve into global champions. Non-Target sector can make a case for inclusion within PLI Scheme through representation before relevant forum.



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