An Assessment of the Production Linked Incentive (PLI) Scheme

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Aliva Smruti, Ashu Jain, Siddharth Singh

ISSUE BRIEF

The Production Linked Incentive (PLI) Scheme was introduced by India's Union Government in March 2020. While the scheme was welcomed by the industries to which it was applicable, it lacked clarity in terms of details and implementation guidelines.

The details started coming out gradually as the scheme got approved and the respective industries started putting out their notifications. In the scheme, the largest allocation is received by the Auto and Auto Ancillaries industry.

In this edition, we go on to analyse the details of the scheme for three major and strategic industries which are of particular relevance in the current scenario, namely **the pharmaceutical industry, the food processing industry and the electronic/technology products industry**.

The scheme is expected to improve India's global competitiveness and employment opportunities. Talking about global competition, there has been a lot of discussion around the China plus one strategy, while Vietnam and other global players are a competition for the same. We go on cover the role of the PLI scheme in the same.

INTRODUCTION

Production Linked Incentive – What is it?

- The Union government launched a scheme that aims at providing companies incentives on increased sales from goods produced in domestic units in order to improve domestic manufacturing and reduce import bills.

- The scheme aims to enable local companies to build or expand existing manufacturing units in addition to encouraging foreign companies to set up shops in India.

- Hence, this PLI concept is significant because the government cannot afford to invest in these capital-intensive sectors because they take longer to yield returns.

- The PLI scheme strives to enhance structural adjustment, foreign trade, cost-competitive and productive manufacturing, economy of scale, increased contribution in global value chains, and sales growth in the specified sectors.

Priority	Sectors	Implementing Ministry/ Department	Approved financial outlay over five-year period
1	Advance Chemistry Cell (ACC) Battery	NITI aayog and Department of heavy industries	Rs 18,100 Crore
2	Electronic /Technology Products	Ministry of Electronics and Information Technology	Rs 5,000 Crore
3	Automobiles and Auto Components	Department of Heavy Industries	Rs 57,042 Crore
4	Pharmaceuticals Drugs	Department of Pharmaceuticals	Rs 15,000 Crore
5	Telecom & Networking Products	Department of Telecom	Rs 12,195 Crore
6	Textile Products : MMF segment and technical textiles	Ministry of Textiles	Rs 10,683 Crore
7	Food Products	Ministry of Food processing Industries	Rs 10,900 Crore
8	High efficiency Solar PV modules	Ministry of new and renewable energy	Rs 4,500 Crore
9	White goods(AC & LED)	Department of Promotion of Industry and Internal Trade	Rs 6,238 Crore
10	Speciality Steel	Ministry of Steel	Rs 6,322 Crore

Source: pib.gov.in

Pharmaceutical Industry

Indian pharmaceutical industry is the 3rd largest in the world by volume and is USD 40 billion in terms of value. The country contributes 3.5% of total drugs and medicines exported globally. India exports pharmaceuticals to more than 200 countries and territories including highly regulated markets such as the USA, The UK, European Union, Canada etc.

At present a major component of Indian exports are low value generic drugs while a large proportion of the demand for patented drugs is met through imports. This is because the Indian Pharmaceutical sector lacks in high value production along with world class pharma R&D.

To incentivize the global and domestic players to enhance investment in these product categories, a well-designed and suitably targeted intervention is required to incentivize specific high value goods such as biopharmaceuticals, complex generic drugs, patented drugs or drugs nearing patent expiry, cell based or gene therapy drugs.

The objective of the scheme is to enhance India's manufacturing capabilities by increasing investment and production in the sector and contributing to product diversification to high value goods in the pharmaceutical sector.

The duration of the scheme will be from FY 2020-21 to FY 2028- 29. This will include the period for processing of applications (FY 2020-21), optional gestation period of one year (FY 2021-22), incentive for 6 years and FY 2028-29 for disbursal of incentive for sales of FY 2027-28.

For more: Pharmaceuticals.gov.in

Pharmaceutical Industry

Target Groups:

The manufacturers of pharmaceutical goods registered in India will be grouped based on their Global Manufacturing Revenue (GMR) to ensure wider applicability of the scheme across the pharmaceutical industry. The qualifying criteria for the three groups of applicants will be as follows

- Group A: Applicants having Global Manufacturing Revenue (FY 2019-20) of pharmaceutical goods more than or equal to Rs 5,000 crore.
- Group B: Applicants having Global Manufacturing Revenue (FY 2019-20) of pharmaceutical goods between Rs 500 (inclusive) crore and Rs 5,000 crore.
- Group C: Applicants having Global Manufacturing Revenue (FY 2019-20) of pharmaceutical goods less than Rs 500 crore. Within this group, a sub-group for MSME industry will be made given their specific challenges and circumstances.

Source: Pharmaceuticals.gov.in

Group of Participants	Minimum Cumulative Investment per participant (Rs. Crore)	Minimum Percentage Growth in Sales (Year on Year)
Group A	**Rs. 1,000 crore over 5 years**. FY 2021-22: 200 FY 2022-23: 400 FY 2023-24: 600 FY 2024-25: 800 FY 2025-26: 1000	For first year of production, participants shall have to achieve Minimum threshold sales which will be specified by value for each group in the scheme guidelines. For subsequent years, the participants have to achieve a minimum percentage growth of 7% Year on Year.
Group B	**Rs. 250 crore over 5 years.** FY 2021-22: 50 FY 2022-23: 100 FY 2023-24: 150 FY 2024-25: 200 FY 2025-26: 250	
Group C	**Rs. 50 crore over 5 years.** FY 2021-22: 10 FY 2022-23: 20 FY 2023-24: 30 FY 2024-25: 40 FY 2025-26: 50	

Source: Pharmaceuticals.gov.in

Food Processing Industry

Eligibility of Applicants Under PLI (Food Processing Industry)

Segment	Minimum Sales (Rs crore)	Minimum Investment (Rs crore)
RTE/RTC	500	100
Processed Fruits and Vegetables	250	50
Marine	600	75
Mozzarella Cheese	150	10 MTPD plant - Rs 23 crore
Innovative/Organic products of SME including FR Eggs, Egg products, Poultry Meat	Based on the proposal submitted by the Applicant	

- Production Linked Incentive Scheme for Food Processing Industry (PLISFPI) supports creation of global food manufacturing champions commensurate with India's natural resource endowment and support Indian brands of food products in the international markets with an outlay of Rs. 10900 crore.
- The objectives of the Scheme are to support food manufacturing entities with stipulated minimum Sales and willing to make minimum stipulated investment for expansion of processing capacity and Branding abroad to incentivize emergence of strong Indian brands.
- The implementation of the scheme would facilitate expansion of processing capacity to generate processed food output of Rs 33,494 crore.
- Create employment for nearly 2.5 lakh persons by the year 2026-27.

Source: MOFPI

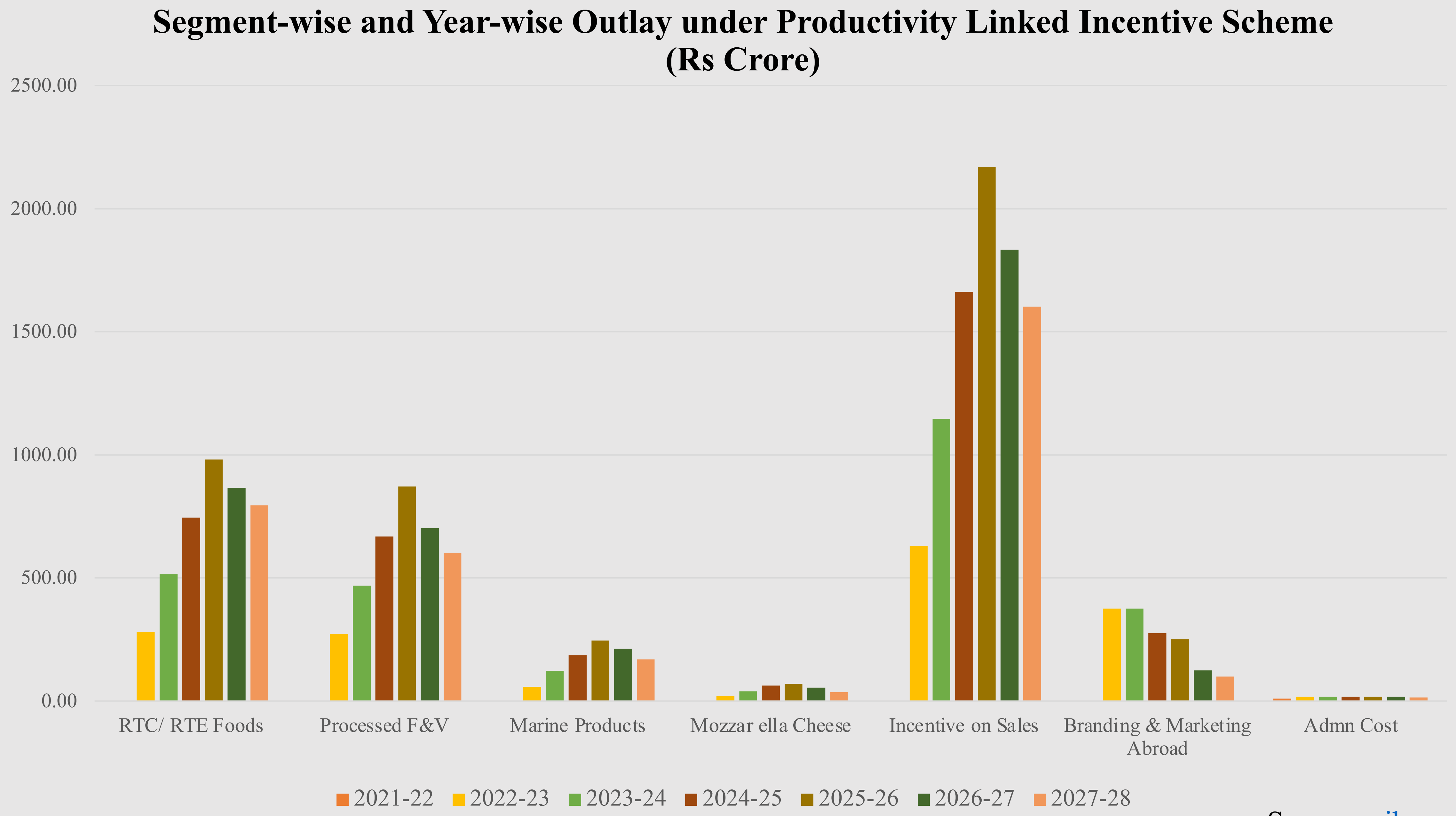
Food Processing Industry

Rates of Incentives on Sales over Years

Year	RTC/RTE	Processed F&V	Marine Products	Mozzarella Cheese
2021-22	10%	10%	6%	10%
2022-23	10%	10%	6%	10%
2023-24	10%	10%	6%	10%
2024-25	10%	10%	6%	8%
2025-26	9%	9%	5%	6%
2026-27	8%	8%	4%	4%

- From April 2000 to December 2020, India's food processing sector received FDI worth US$10.24 billion. By 2030, the sector is expected to be worth over half a trillion dollars, making India the world's fifth largest consumer market.
- Multinational companies ITC Limited, Nestle, Parle, Britannia, and Hindustan Unilever Limited (HUL), are the sector's top FMCG (fast-moving consumer goods) companies in India.

For more: India Briefing



Source: pib.gov.in

Electronic/Technology Products

Electronics permeate all sectors of the economy. The industry has grown rapidly with a CAGR of around 25% during the last 4 years. However, this pales in comparison to the actual potential for growth curtailed by specific constraints such as large capital investments and rapid changes in technology

India's share in global electronics manufacturing has grown from 1.3% in 2012 to 3.0% in 2018. The domestic production of electronics hardware has increased substantially from INR 1,90,366 crore (USD 29 billion) in 2014-15 to INR 4,58,006 Crore (USD 70 billion) in 2018-19.

With the domestic demand for electronics hardware expected to rise rapidly to approximately INR 26, 00,000 crore (USD 400 billion) by 2025, India cannot afford to bear the rapidly increasing foreign exchange outgo on account of import of electronics.

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The Scheme shall only be applicable for target segments namely mobile phones and specified electronic components. The Scheme shall extend an incentive of 4% to 6% on incremental sales (over base year) of goods manufactured in India and covered under target segments.

Source: MEITY

Electronic/Technology Products

The expected annual incentive outlay and cumulative incentive outlay under the Scheme is as follows:

Financial Year	Total Incentive (Rs Crore)
Year 1	5334
Year 2	8064
Year 3	8425
Year 4	11488
Year 5	7640
Total	40951

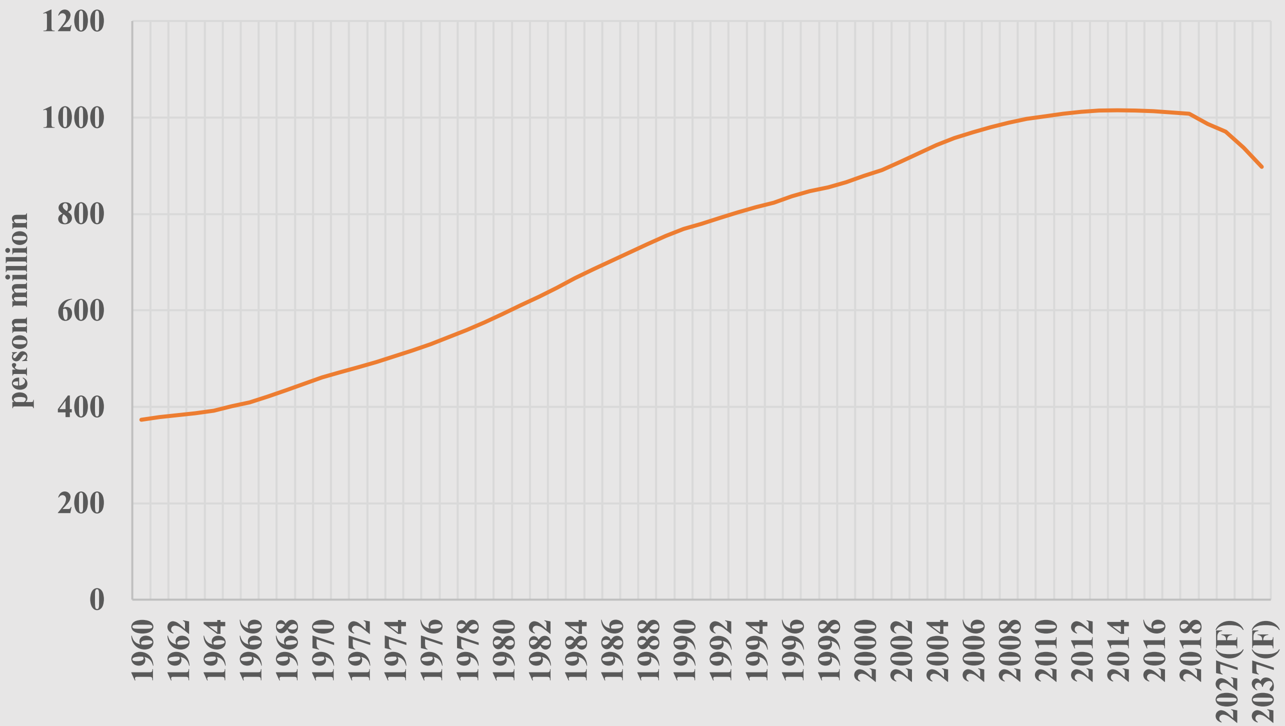
- Support under the Scheme shall be provided only to companies engaged in manufacturing of target segments in India. This shall include contract manufacturers as defined in the FDI Policy Circular of 2017.
- Eligibility shall be subject to thresholds of incremental investment and incremental sales of manufactured goods (as distinct from traded goods). An applicant must meet all the threshold conditions to be eligible for disbursement of incentive.

Source: MEITY

Structural Change : China's Declining Labour Force

There has been shift from production in China to other economies. US trade war in addition to structural factors have increased the investment prospects in India.

China's Working Population (Age 15-64)



The after-effects of the one-child policy mean that the labour force is expected to shrink as the fertility rate stagnated at 1.7

A large drop is showing up in industrial employment which has fallen by 28 million since December 2014, and down 28% from the peak, mostly in low-wage industries (textiles, toys, footwear, etc.)

Source: International Labour Organization

Electronics: Mobile Production

Japans Interest in India

Pharmaceuticals

- Credit Swiss forecasts production to reach 600mn by FY26, taking volume share for India to 40% which is lower than the government's aspirational target of 1 billion units.
- Two clusters specific to this industry, in Delhi and Chennai ,are emerging.

- In order to shift from dependence on chines industries, Japan has interest in investing in the already present large Indian pharmaceutical sector.

- Bulk Drugs PLI aims at import substitution (74%importedfromChina), this further creates incentives for Japanese investors.

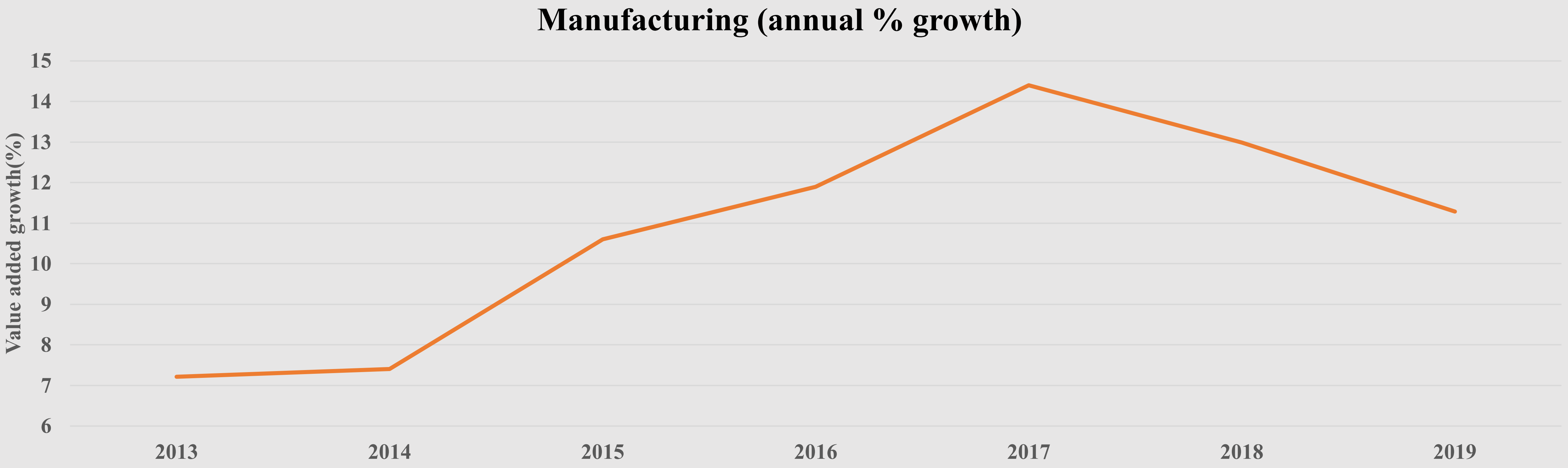
India-Japan Industrial Competitiveness Partnership (IJICP)

Under the IJICP, MoCI and METI will jointly work toward enhancing India's industrial competitiveness through discussion in areas such as development and utilization of industrial zones to promote foreign direct investment, lowering cost of logistics, and facilitating smooth governmental procedures. They will also identify challenges of specific industrial sectors and the means to mitigate these challenges.

Source: https://www.meti.go.jp/press/2019/12/20191210003/20191210003-3.pdf, credit swiss

Vietnam: An alternative to China (?)

Vietnam's shift from a centrally planned to a market economy has transformed the country from one of the poorest in the world into a lower middle-income country. Vietnam now is one of the most dynamic emerging countries in East Asia region. This country is not only an import alternative for India but a competitor for foreign investment into India.



Source: World Bank

- Low labour cost is one of the attractions for investment in Vietnam. It is almost 50 percent lower than China.

- Vietnam's biggest specialisations are in production of electronics, textiles and furniture. Eventually, electrical machinery, including electronics, are the biggest items of Vietnam's exports.

For more: https://www.nationalheraldindia.com/opinion/china-vs-vietnam-from-dragon-to-the-land-of-ascending-dragon,

Conclusion

- The PLI Scheme is expected to enable the setting up of a widespread supplier base for the global champions established under the scheme. It will help bring scale and size in key sectors and create and nurture better manufacturing performance for higher domestic and international standards.
- All units put together would help India to generate massive primary and secondary employment opportunities.
- The Union Government of India is making continuous efforts under Investment Facilitation for implementation of *Make in India* action plans to identify potential investors. We are yet to see tangible gains made in terms of productivity changes from the policy implementation cycle.
- Support is being provided to Indian Missions abroad and State Governments for organizing events, summits, road-shows and other promotional activities to attract investment in the country under the Make in India banner.
- Recently, in addition to ongoing schemes, Government has taken various steps to boost investments in India. These include the National Infrastructure Pipeline, reduction in Corporate Tax, easing liquidity problems of NBFCs and Banks, trade policy measures to boost domestic manufacturing.
- Government of India has also promoted domestic manufacturing of goods through public procurement orders, Phased Manufacturing Program (PMP), Schemes for Production Linked Incentives of various Ministries. A lot needs to be done in decentralizing the plan and making States a part of the policies implementation process to enable a more manufacturing performance.

Source: [pib.gov.in](pib.gov.in)

For any inputs, comments or clarifications please contact The Centre for New Economics Studies at cnes@jgu.edu.in.

Thank you!