TWISTS AND TURNS OF IT HARDWARE PLI

Focus shifts from exports to import substitution

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NEWS ANALYSIS

It started out as a Production Linked Incentive (PLI) scheme to make India an export hub. But after many a twist and turns, the latest 2.0 PLI for IT hardware, for which the 40 eligible candidates have applied till its deadline, is now focused on 'import substitution'.

The scheme will help in reducing India's over-dependence on imports (80 per cent of laptops are imported), especially from China which include laptops, tablets and servers. They will be assembled in India. Exports will take the back seat but the PLI will help in incentivising the local supply chain to support the products. The 40 players have committed only ₹28,288 crore as exports, which is only over 6 per cent of their projected incremental production value. In 2021, the government put out an estimate, while launching the initial IT hardware PLI, that it will lead to an incremental production of ₹3.26 trillion. Of this, nearly 75 per cent would be exported with an incremental investment of ₹2,700 crore. But three months later, based on a very tepid response from applicants, the targets were substantially tweaked. The total production that the eligible players collectively offered to reach was half, or ₹1.61 trillion, and their export commitment was only ₹60,000, a mere 37 per cent of the initial government target. What's more, the incremental investment that the companies were ready to commit was ₹2,350 crore, 12 per cent lower than the number the government had in mind. In total, 19 companies (14 Indian and 5 global) applied under the scheme, including Dell, Flex, Wistron, and Rising Star, and 14 were given the green signal. But it was clear from the beginning that the scheme would not work and this was reflected in the fact that, except for a few such companies as Dixon or Dell, most firms could not even meet their targets of investment and production for the first year to be eligible for incentives. The reason was that they had serious issues. For one, the time period for PLI was only for four years and the allocation of only ₹7,350 crore was not enough. The firms asked for seven years because there was hardly any supply chain in the country.

For another, the incentive at an average for four years, was a mere 2.2 per cent which clearly was not attractive enough for foreign firms to shift their manufacturing bases from China. Third, India was one of the signatories of the International Technological Agreement in which member countries agreed to zero duty on hardware.

The last issue was that the scheme imposed a tough timeline on localization of components which most players said was hard to implement. Domestic EMS players could not make any progress as they did not have the wherewithal and experience to tie up with global IT PC brands to become their vendors. The Ministry of Electronics and Information Technology was aware that the PLI scheme was not working and needed a revamp. In an interview, Minister of State for Information & Technology Rajeev Chandrasekhar said the ministry was working on a new IT hardware PLI where the focus would be to replicate the mobile device model and bring in big global players to shift capacity from China. He said, unlike in other countries, the number of laptop makers was limited to only a handful of players and he was talking to them to understand what they needed to make the shift.

These responses have led to the latest IT hardware PLI scheme. The big players — HP, Dell, Acer, Asus and EMS players like Foxconn and Flex — have all applied. Many of them might have shown renewed interest in the PLI because of the government's new diktat that companies now need a licence to import laptops and PCs, which is seen by many as a way to prod or impel them to make in India.

The allocation has also been more than doubled to ₹17,000 crore and the timeline is now six years. Minister of Communications Ashwani Vaishnaw told *Business Standard* that he expected value addition to be between 30-40 per cent soon, going up to 75 per cent if memory chips are made in India (Micron is making them).

ILLUSTRATION: BINAY SINHA

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	PLI hardware target as on Feb 21, 2021	PLI hardware target as on May 4, 2021, after 19 applications	PLI 2.0 IT hardware scheme as on May 30, 2023
Total value of production (In ₹ crore)	326,000	160,000	335,000
Exports as % of production	75	37	6*
Additional investment (In ₹ cr)	2,700	2,350	2,430
Additional employment	180,000	150,000	75,000**

** Direct employment; Source: PIB and public announcements; *based on commitments made by the 40 companies collectively