Apple surpasses PLI targets on 5 of 6 parameters

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Technology major Apple, the poster boy of India's production-linked incentive (PLI) scheme, has exceeded its targets on five of the six parameters that the government monitors.

A company must achieve the minimum target on four parameters — incremental production value, exports, investment, and the freight on board (FoB) value — every year to be eligible for PLI, which ranges from 4 per cent to 6 per cent under the scheme for mobile devices.

The good news is that the iPhone maker's three India vendors — Foxconn, Pegatron and Tata Electronics — have collectively surpassed these targets. The production value of iPhones assembled by the three in 2023-24 was ₹194,800 crore, 45 per cent higher than committed under the PLI scheme for the year, shows data given to government agencies. In fact, the production value of iPhones manufactured in India has crossed even the PLI incentive cap.

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APPLE'S BIG PLI PIE

Cumulative figures till FY24

PLI parameters	Target	Achieved
Cost of mobile (₹ per phone)	15,000	30,000
Production (₹ trn)	1.3	1.9
Exports (₹ trn)	0.97	1.4
Direct jobs	77,000	77,400
Investment (₹ cr)	2,250	NA
Domestic value addition (%)	21	12-14

Note: Cumulative denotes three years of PLI; Source: Submissions to govt agencies by states and Centre

Value addition only laggard for Apple under PLI

But Apple is looking to do more. According to JP Morgan, it plans to shift nearly 25 per cent of the production of iPhones from China to India by 2025-26, more than double its initial plan. Apple has not commented on these reports.

Apple's India success story is seen in exports too. At ₹140,280 crore, the total value of 2023-24 exports was 43 per cent more than its PLI commitment. And while it has invested much more than the ₹2,250 crore commitment in the third year, it is assembling iPhones, whose cost of production is twice as much as the ₹15,000 minimum FoB value required under the scheme.

There are two other crucial parameters not linked to incentives which the government monitors. Of these, on employment generation, the Apple vendors crossed their target of 77,000 direct jobs in 2023-24. But on the second, value addition, they are lagging. The government had pegged value addition in mobile devices under the PLI scheme at 21 per cent by 2023-24, and 35-40 per cent by 2025-26. The vendors are still at 12-15 per cent. The Opposition has attacked the government over this yawning gap and cited it as the failure of the PLI scheme and Prime Minister Narendra Modi's 'Make in India' ambition.

Why has Apple failed to perform on this despite exceeding the other targets? When Apple got the PLI scheme go-ahead, it hoped to bring in its Chinese supply chains to India. A third of its 187 suppliers are based there and 84 per cent of them have factories there. But border skirmishes between India and China in June 2020 changed the geopolitical equations. India tweaked its foreign direct investment policy and increased scrutiny of all Chinese investments. Hardly any Chinese company has since got a clearance to invest in India.

Many Chinese suppliers that wanted to come to India have dropped their plans. BYD tried twice — first to set up a mobile phone factory and then to assemble Apple iPads. After failing, it set up its iPad factory in Vietnam. ICT Luxshare, a key Apple vendor for components and mobile assembly, tried to expand India operations for three years. It even agreed to buy the defunct Motorola factory in Tamil Nadu and invest ₹750 crore. But it decided to shift to Vietnam last year.

In early 2023, 14 of Apple's Chinese suppliers were initially cleared by the Ministry of Electronics and Information Technology (Meity) under the existing FDI policy, provided they found majority joint venture (JV) partners in India. These included many new players like Salcomp, Justech, Secote and Boson. But the response from the Chinese companies was muted, probably amid increased scrutiny faced by those like Xiaomi and Vivo. Still, they did not lose out because, with a rise in production of mobile phones, component imports also went up. For instance, the share of Chinese imports in printed circuit boards went up by three percentage points in 2023-24 over the previous year.

Realising the challenges, Apple has changed tack in the past 18 months and is looking for non-Chinese suppliers in Taiwan, Japan and Korea and building home-grown players. But building a local supply chain is an arduous and time-taking process.

There have been some successes, too, like bringing Japan's TDK in 2023 to make battery cells, getting Tata for enclosure parts, Singapore's Interplex Holdings for design and manufacture of interconnect and mechanical parts, and the US-based ON Semiconductors. These led to the number of Apple suppliers in India rising marginally from 11 in 2021 to 14 in 2023.

There is some rethink in the government on whether the FDI door should be reopened to China. Rajesh Kumar, secretary, Department for Promotion of Industry and Internal Trade, hinted at the World Economic Forum in Davos in December last year that the investment rules could change once the border issues stabilised.

Lately, some Chinese proposals have been cleared. Encouraged, auto component companies like the Anand group have applied for FDI clearance for a JV with a Chinese entity.

Some say the government might reconsider its value-addition focus. It could replicate China and Vietnam's successful models in becoming global electronics players. Former electronics and IT minister Rajeev Chandrasekhar had acknowledged that value addition in electronics should be considered on an aggregate level, not a per-piece basis, as electronics were driven by scale and volumes.

With $1.2 trillion exports, China is the largest electronics exporter, but it also imports $600-700 billion worth of components. Even after 24 years, its gross value addition in mobile devices is 38-40 per cent. India's PLI can hardly do it in five years.

A study conducted by the Indian Council for Research on International Economic Relations with the Indian Cellular and Electronics Association shows countries like China and Vietnam first built scale in electronics and mobiles before pursuing domestic value addition. Scale was followed by more component imports until the local supply chain came up.

India is trying to achieve domestic value addition growth and scale simultaneously. Thailand also did this but lost out to Vietnam in the electronics game. Mobile device makers say the focus now should be on scale, which has to be built through domestic sales and aggressive exports.

Clearly, the ball is in the government's court.