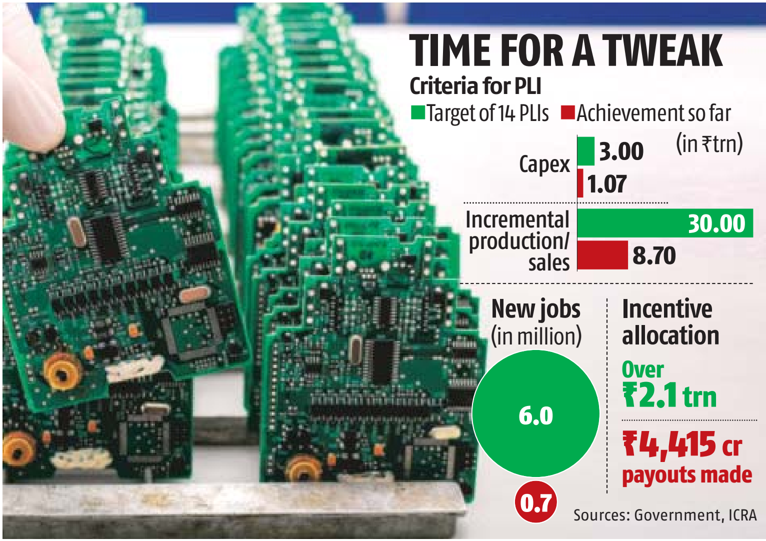
REMAKING PLI

Can a revamp of the scheme plug the gaps and speed things up, so that the ambitious targets can be achieved?



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Last week, Cabinet Secretary Rajiv Gauba chaired a meeting of the empowered group of secretaries to oversee the progress of the production-linked incentive (PLI) scheme. This came amid concerns over slow takeoff in some sectors and delays in processing of incentives. The secretaries asked the NITI Aayog to set up a mechanism to review the workings of the project management agencies, which process the incentives, and look at tweaking the rules, if needed.

PLI is Prime Minister Narendra Modi's dream scheme to transform India into a manufacturing hub for the world. It offers financial incentives of more than ₹2 trillion for four to six years across 14 industry schemes — from mobile devices and cells for batteries to textiles and speciality steel. The 14 schemes collectively are expected to bring in capital expenditure of ₹3 trillion in five years starting 2021-22 (FY22). This could push up the overall private sector capex by 15 to 20 per cent.

Till November last year, the total capex on the ground under PLI, says the government, was more than ₹1.07 trillion — around 35 per cent of the target. The scheme collectively is also expected to generate incremental sales, or production, ₹30 trillion by the end of the programme. Till November, though, ICRA estimates say it has achieved ₹8.7 trillion, or 30 per cent of the target.

The other aim is to generate more than 6 million jobs. So far the jobs created are about 700,000 — less than 12 per cent.

The bigger issue, though, is the abysmally slow pace of processing and disbursement of the incentives and their skew. In FY24, for instance, the total PLI disbursement till December 2023 was ₹1,447 crore across 10 schemes, but 78 per cent of it went to mobile devices. According to the Department for Promotion of Industry and Internal Trade (DPIIT), the total PLI payout since the first disbursement in FY23 has been ₹4,415 crore. The disbursement target for this financial year has been cut down to ₹8,285 crore, from the ₹11,000 crore expected earlier.

The good news is that the resources for PLI are being raised substantially for FY25. In the Interim Budget, allocations for eight key schemes have been nearly doubled to ₹15,198 crore. Schemes for automobiles and auto components will for the first time come up for incentive disbursement.

Government officials dispel any worries on capex. The PLI scheme has been structured in a way that the bulk of the big investments with long gestations, such as advanced cell chemistry (expected capex $5.2 billion), speciality steel ($5.1 billion), solar photovoltaic modules ($8.9 billion), automobiles ($5.1 billion) will get reflected from FY25 and peak in FY26. Estimates say 70 per cent of the expected capex will be reflected from FY25 onwards.

The skew

Electronics, especially mobile devices, dominate the PLI charts. The ratio of incentive to capex in mobile assembly is low, at 3.7, compared to high capital investment sectors such as speciality steel, where it is pegged at 6.2. Mobile's share of total PLI capex is 5 per cent, but it contributes 30 per cent of the overall PLI incremental revenues. In contrast, speciality steel will contribute a substantial 19 per cent of the capex but its contribution to incremental revenue will be no more than 4.4 per cent.

However, mobile PLI's success, many say, must be measured by how it catapulted India from an importer of finished phones to a hub for exports. At the projected export value of ₹1.2 trillion for FY24, led by Apple Inc, mobile will account for more than a third of the exports under all PLI schemes. As a result, electronics have become the fourth largest export item from India.

Rajeev Chandrasekhar, Minister of State for Electronics and Information Technology, says his ministry has paid ₹3,200 crore in PLI incentives to the eligible players seamlessly.

"Yes, the actual achievement under the PLI scheme for mobiles is more than what was committed. However, we have flexibility within the total allocation to ask for advancing money to meet these requirements for an earlier year," he says.

Long haul ahead

Many of the PLI schemes have focused on import substitution, and the results have been mixed, or too early to ascertain. The 14 PLI sectors account for 40 per cent of India's total import.

The telecom equipment PLI has been off to a good start. Communications Minister Ashwani Vaishnaw says eligible companies have already invested ₹2,419 crore — 60 per cent of their capex commitment. In many electronics products, the value addition has crossed 60 per cent. Data shows certain imports, for instance of modems, are down by 50 per cent compared to FY19, and of dish antenna by 20 per cent.

The white goods PLI, focused on creating a local component infrastructure for air-conditioners and LED manufacturing, had to be tweaked in October last year to make it easier. While 23 per cent of the eligible players have started production, the rest are in the initial stages.

For the pharma PLI, the task has been to reduce India's dependence on imports, especially from China. India imported 65 to 70 per cent of key starting materials, drug intermediates, and active pharmaceuticals ingredients in FY22. While companies under the PLI have started production from FY22, it is going to be a long haul (PLIs are for eight years) to achieve the objective of reducing Chinese dependence by 25 to 30 per cent and become self-reliant in APIs by FY29.

Many PLI schemes have been delayed. For example, the textiles PLI had to be amended because of lukewarm response from companies, which complained of the high minimum investment and turnover requirements and exclusion of many product lines. The amended scheme will be for five years, beginning FY24.

Of the 64 eligible applicants for textiles, only 30 had made capex investments of ₹2,100 crore till September 2023 — just about10 per cent of the total commitment, based on ICRA data. Worse, the incremental turnover achieved is not even 0.2 per cent of the ultimate target.

Even the auto PLI for electric vehicles — two-wheelers as well as cars — got extended by a year because the government as well as the companies found it difficult to come to a consensus on defining domestic value addition, which is a clause to determine eligibility for incentives.

"Due to problems in defining localisation more sharply in FAME II many allegedly gamed the system. For PLI they were extra careful, but one year got wasted as the government held back the certificates needed for incentives," says a senior executive of a leading electric vehicles company. FAME is short for Faster Adoption and Manufacturing of (Hybrid and) Electric Vehicles in India.

Even the IT hardware PLI had to be revamped, which meant a loss of time, because it was earlier focused only on exports and gave incentives only up to four years (increased to six), with low incentives (2 per cent; now raised to 5 per cent).

Those eligible under the new PLI 2.0 have been given the option to choose their base year. They can opt for incentives on incremental sales of FY24 onwards, but can extend it to FY25 or FY26 if they need more time to set up factories. The scheme will now end in FY30.