

Progress, challenges and revamps under 'Make in India'

SURAJEET DAS GUPTA

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Sunil Vachani does not hesitate to talk about his ambition. In five years, the dapper executive chairman of Dixon Technologies aims to be among the top 10 global players of the multibillion-dollar electronics manufacturing services (EMS) market, competing with giants like Foxconn, Pegatron, Jabil and Flex. In 10 years, he wants to be among the top five. Last year, he was 21 in the pecking order.

To be counted among the mammoths, Vachani is leveraging the government's production-linked incentive (PLI) scheme. Dixon is strategically engaged in five of the 14 key PLI schemes, straddling mobile

devices, telecom equipment and LED, and refrigerator components. He has recently become eligible for PLI Scheme 2.0 for IT hardware. "Around 40 per cent of our total revenues currently come from PLI segments," he says.

In 2023, he stitched a number of contracts with leading global firms such as Xiaomi, Intel, Motorola and Jio. The latest deal was with Chinese giant Lenovo.

Vachani is the PLI scheme's posterboy. He's an example of its potential to transform India's manufacturing landscape.

The year, however, has been a mix of good and not-so-good for the scheme, which is the cornerstone of Prime Minister Narendra Modi's "Make in India" strategy. While the scheme has made rapid strides in some sectors like mobile devices



(mostly because of Apple Inc and Samsung), electronics, food processing and pharma, others, such as IT products, PV modules, advanced chemistry batteries, speciality steel and textile products, have struggled to gain traction.

Challenges persist — the pace of disbursements and investments has been sluggish, compounded by shifting government priorities from export

orientation to import substitution.

Despite an initial allocation of ₹1.97 trillion under the PLI scheme, which was launched in 2020, only ₹2,874 crore had been released till March 2023. This was lower than the revised Budget estimates of ₹4,821 crore for financial year 2022-23 (FY23).

One would have expected the disbursements to peak in the fourth year of the scheme (FY24), but because

MOBILE MAKEOVER

▶ **Apple Inc vendors set to exceed FY24 targets by shifting 10% of global iPhone production to India, 2 yrs ahead of schedule**

▶ **India's mobile device export expected to touch \$15 bn in FY24, up from \$11 bn in FY23**

▶ **Export of mobile devices at No. 4 in India's overall merchandise exports**

▶ **Telecom firms under PLI have invested ₹2,419 crore, resulting in ₹7,600 crore in exports and 17,753 new jobs**

▶ **27 companies, including Foxconn, HP, Dell, and Dixon, eligible for revamped PLI scheme for IT products**

estimate that only a fifth of the allocation will be disbursed by FY25.

The bulk of disbursements, over 80 per cent, is projected for mobile, pharma and food processing industries, which are already on a growth trajectory. Other sectors like textiles, advanced chemical cell batteries and speciality steels have received disproportionately small allocations.

For example, the overall budgeted allocation in FY24 for PLI is ₹8,083 crore, and 10 sectors account for 99 per cent of this money. The lion's share — around 55 per cent — is allocated to mobile devices and electronics manufacturing.

The allocation for textiles (₹5 crore), advanced chemical cell batteries (₹1 crore, because no capacity is expected before March 2024), and speciality steels (nothing has been allocated as the MOU with 27 companies was signed only in March 2023) reflects the skew. Even though ₹605 crore was allocated for automobiles in FY24, no money has been disbursed yet.

Make in India...

Also, while 34 per cent of the total PLI capex has to be contributed by ACC batteries and specialty steels — meaning large investments — their share of total incentives is only 14 per cent. Many steel companies have been initially hesitant to make such large investments until the product list expands. However, for mobile, white goods and food processing, while their share of investments is only 8.9 per cent, they control a substantial share of incentives — amounting to 30 per cent. Consequently, these sectors appear to have gained momentum more swiftly.

Government officials remain optimistic, forecasting increased disbursements from FY24 to FY26 as substantial investments, particularly in specialty steel, auto and advanced chemistry cells, near completion.

According to their estimates, the actual investments realised by FY23 through the PLI scheme stood at ₹62, 500 crore, which is 17 per cent of the targeted investment across the 14 sectors. A lot of ground is yet to be covered.

What remains to be watched is whether Crisil's projected additional capital expenditure of ₹181,400 crore over the next three years materialises. It constitutes nearly half of the PLI scheme's investment target.

Meanwhile, other challenges have delayed disbursements — such as lack of consensus on how to define domestic value addition for electric vehicle (EV) players in auto PLI and addressing concerns around localisation norms in sectors like EVs and textiles. Until now, according to publicly available information, only two companies — Mahindra & Mahindra

and Tata Motors — are eligible for disbursements in the EV space. The government is moving with caution for a reason. Several two-wheeler companies have allegedly violated the localisation norms and availed of the FAME 2 subsidy, which they are now being asked to return. (FAME is an acronym for Faster Adoption and Manufacturing of Electric Vehicles.)

In the labour-intensive textiles sector, industry interest remains subdued due to high investment requirements and minimum turnover criteria. Meanwhile, Samsung, in the mobile devices sector, is in discussions with the government regarding the transfer pricing issues, causing delays in receiving its mobile device incentives even in the third year.

The government's aspiration to foster "global Indian champions" is yet to materialise. Among the five PLI-eligible homegrown players in mobile devices, three — Lava, Micromax and Optemus — haven't met the necessary investment and production value criteria to qualify for incentives. "We have failed not because we don't have money to meet the investment criterion, but because global brands selling in India don't want us as their EMS partners, let alone consider us for exports," says the chairman of one company, who does not wish to be named. To address the challenges that have caused delays, the government has revamped some schemes.

The initial IT products' PLI launched in 2021, projecting that 75 per cent of the laptops, PCs and small servers under the scheme would be exported, faltered when eligible players committed only 37 per cent for exports after three months. Dixon and Dell were notable exceptions.

The allocation, ₹7,350 crore,

was not enough. This year, the government replaced the scheme with a new one, increasing the allocation to ₹17,000 crore and the tenure to six years. It also focused on incentives for making components. With 32 eligible players, this signals a corrective step.

The focus is on import substitution. Despite 40 companies applying for the new scheme, their collective export commitment stands at a mere 6 per cent. Given that 85 per cent of laptops are imported, mostly from China, and with an inadequate domestic supply chain, this strategy might be a pertinent initial step.

The 'Make in India' initiative, launched in 2014, aimed for a 12-14 per cent manufacturing growth, contributing 25 per cent to India's gross domestic product by 2022. Analysts from Bernstein note that after an initial surge, manufacturing compound annual growth rate has been around 5.7 per cent, significantly below the target.

Nevertheless, the good news is that recent advances fuelled by PLI commitments show promising signs, especially in the surge in electronics and mobile phone production and exports. It is a work in progress.

Tamil Nadu...

On investments, Rajaa said the state would be choosy. "When we give incentives, we will choose who invests and what kind of jobs are created." Talking about "the Dravidian economy" in a fireside chat at the summit, the minister pointed out that inclusivity, diversity, equitable growth and redistributed growth were the main drivers of the model.

The summit, called 'Tamil Nadu: India's Rising Industrial Power' also featured two other sessions. The first, focusing on the state as India's advanced

