After a slow start, PLI scheme may switch on the afterburners in FY24

₹8,083 cr is expected to be disbursed this fiscal

SURAJEET DAS GUPTA, SHREYA NANDI, SOHINI DAS & SOURABH LELE
New Delhi/Mumbai, 27 April

As the government's ambitious production-linked incentive (PLI) scheme enters its third year in FY24, the disbursement of incentives is expected to triple to almost ₹8,083 crore.

On Wednesday, the Department for Promotion of Industry and Internal Trade (DPIIT) said that disbursement in FY23 stood at ₹2,874 crore, or only 1.4 per cent of the ₹1.97 trillion scheme which was launched in FY21 to make India a manufacturing powerhouse.

About 80 per cent of the allocation in FY24 is for pharmaceuticals, drug intermediaries and active pharmaceutical ingredients, medical devices, large scale electronics, including mobile devices, and food.

In the flagship PLI for large-scale electronics, the allocation in FY24 has been pegged at ₹4,499 crore, which is two-and-a-half times higher than what was disbursed in FY23. This is due in large part because Apple Inc is expected to make a big push in both production value and export of its smart phones.

Government officials said that FY24 will be the first year of production for many companies under PLI, and major claims for incentives will begin only in FY25.

"Incentive payouts are expected to peak only in the second and the third year. As production increases, the support given by the government (incentive) also increases," the officials said.

Nearly half ($10.7 billion) of the overall incentives ($22.4 billion) under the scheme are in four sectors — cell batteries, solar panels, auto and auto components and textiles. An allocation of ₹604 crore has been made in auto and auto components. In FY24 these companies are expected to generate reasonable incremental revenues of $3.6 billion, which will be eligible for incentives peaking at $8.7 billion by FY27, according to estimates by Credit Suisse. Electric two-wheeler and four-wheeler companies could be the big winners here.

Nearly half ($10.7 billion) of the overall incentives ($22.4 billion) under the scheme are in four sectors

Similarly, the ₹18,000-crore incentive for batteries for electric vehicles is expected to kick in in FY25 when production will start. The PLI in textiles will also take off in FY25, whereas that in steel is expected to start this year.

According to Budget documents, as of February, 717 applications under all 14 schemes have been approved, with an overall expected investment of around ₹2.74 trillion. While an investment of over ₹47,500 crore has been reported across 12 schemes, as many as 400,000 jobs have been generated across 12 schemes, and production/incremental sales of over ₹3.9 lakh crore has been reported across 11 schemes.

GETTING A FILLIP

	PLI incentives disbursed for FY23 (in ₹ crore)	PLI disbursement amount allocated under the budget to various departments (FY 24)
Large-scale electronics and mobile	1,649	4,499
Bulk drug/ pharamaceuticals and medical device (combined)	669	1,200
Food	486	801
IT hardware	Nothing disbursed	146
Textiles	No disbursements	5
Auto & auto components	No disbursements	604
Drones	30	33

ILLUSTRATION: BINAY SINHA

Challenges

Despite the progress of the PLI scheme, some serious challenges remain.

For example, the speciality steel PLI scheme is grappling with implementation challenges, including delay in land availability and high capex requirements. Again, the first edition of the scheme in textiles did not see a lot of interest from industry due to high investment and minimum turnover criteria, resulting in estimated savings worth roughly ₹4,000 crore out of the total allocation of ₹10,683 crore.

Experts say that there is a greater need for action in labour-intensive sectors such as textiles, which will ultimately result in job creation — a key objective of the scheme.

"One of the major problems of the scheme is that labour-intensive sectors such as textiles have not made as much progress as they should have. High-tech sectors are getting incentives–automobile, pharma, IT... In fact the automobile sector is shedding jobs because of new technology coming in," Biswajit Dhar, trade expert and former professor at Jawaharlal Nehru University said.

Madan Sabnavis, chief economist at Bank of Baroda, said that the kind of investment and output that the government is eyeing can only cater to the interest of the larger companies, as smaller companies may not be able to invest a large amount.

"Another challenge is how the government will evaluate the performance of the companies making investments. From next year onwards, there will be more clarity on how many companies have passed the test of a certain amount of investment as well as incremental output," Sabnavis said.

PLI Frontrunners

PLI for mobile manufacturing has seen the maximum progress till now, resulting in greater export of the product. Mobile exports crossed $11 billion during FY23, as compared to $5.48 billion during the same period a year earlier.

However, the PLI scheme for IT hardware such as laptops, tablets, desktops and servers has not been able to attract a lot of investments. As of June 2022, investments stood at ₹123 crore, far less than the government's target of ₹2,500 crore.

Experts believe that the rapid growth of the smartphone PLI scheme is a reflection of underlying demand. "The fundamental reason behind the success of this PLI scheme is that smartphones as a category has grown both from a domestic and global market perspective. 5G has further fuelled the growth of handsets. Because the sector was growing and there was a huge domestic demand, the PLIs, combined with state-level subsidies and improved infrastructure, made it far more lucrative for companies to start manufacturing here," said Manpreet Singh Ahuja, chief digital officer, PwC India.

Ahuja added that the oversupply of PCs after an unprecedented demand boom during the pandemic has created a glut, but that the IT hardware PLI scheme may see an uptick once the macroeconomic cycle turns back for the PC market, which may take a couple of years.

Another PLI scheme that is picking up is for bulk drugs, which aims to reduce the dependence on Chinese imports.

Deepak Jotwani, senior analyst, ICRA, said that Aurobindo Pharma's investment would roughly account for 55-60 per cent of the total capex lined up under the first phase of the PLI for APIs (application programming interface). "Around ₹6,000 crore capex is estimated in the first PLI scheme starting from FY21 to FY24. Not much information is available on how much has been invested so far, but the broad sense is that things are progressing in the right direction."

Jotwani also added that through the API PLI scheme, India's dependence on Chinese imports should reduce by 25-30 per cent in the next 4-5 years.