Budget hope: Bigger push for PLI schemes

Performance of mobile devices scheme to improve in FY23

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As part of the government's showcase scheme to make India *atmanirbhar* or self-reliant, in manufacturing, it has allocated $23.5 billion for Production Linked Incentives (PLIs) to be disbursed over the next 3-5 years.

With the Budget round the corner, there is an expectation that the PLI scheme might be extended to other industries or that its outlay for some of the existing PLIs, such as IT products, might be increased.

Experts say the allocation, based on various new schemes under discussion, could go up by at least 10 per cent in this financial year, but the exact details would be worked out after the budget.

Currently, 384 eligible companies, global and homegrown, in 14 industries are eligible for incentives. But while entry into the schemes is easy, the commitments that companies have to make in return on incremental investment and production value could be challenging, especially for domestic companies.

The combined capex committed by the companies in these 14 industries is a substantial $32 billion by FY27, with the majority concentrated in two years, FY23 and FY24 when over $21 billion will be put in.

That apart, the companies also have to generate total revenues of $65 billion, or three times the government incentive outflow. If everything goes as planned, Credit Suisse estimates that the additional revenue from the PLI scheme will add 0.8 per cent to the country's GDP by 2025, up from 0.3 per cent in FY23 and from 0.4 per cent in FY2024.

FY23 will be a crucial year for the scheme's progress as many of the companies in industries such as auto, auto components, white goods, telecom and network products, pharma and medical devices will complete their first year of PLI.

Yet the implementation of the PLI scheme has been a mixed bag, say many. They point to the performance of the mobile devices PLI which is hitting its second year. In FY22, the first year of the scheme, four players failed to meet the eligibility cut for incentives on incremental investment and revenue. They were Foxconn's group company Rising Star (now renamed FIH) and three homegrown players, Lava, Optiemus and Micromax.

The government had an incentive outlay of ₹5500 crore for FY22, based on a 6 per cent incentive on the FOB value of the phones (above ₹15,000 for global players and no restriction for domestic players).

Global players were eligible for the incentive if they hit a minimal incremental revenue of ₹4000 crore, going up to a ceiling of ₹15,000 crore. The allocation for incentive is made on the peak.

Yet according to mobile companies, what has been for incentive would disbursed till now is only ₹468.74 crore to just two players: Dixon Technologies and Foxconn Hon Hai which assembles phones exclusively for Apple.

The incentives for Wistron, Samsung and one homegrown player are still under consideration. But even if they get their entire dues, the figure will be far lower than the total outlay for the year.

It's possible that FY23 could be a better year. Apple's three vendors are expected to fire all cylinders. Each has committed itself to a minimum revenue of ₹8,000 crore, going up to ₹20,000 crore in revenue . (One of them, Pegatron, only started production this financial year).

PUSH FOR SELF-RELIANCE

First year of revenue	Scheme	Implementation
FY22	Mobile PLI	Delayed by a year
FY23	Medical devices	Delayed by 2 years
FY23	Telecom and networking products	Delayed by 2 years
FY23	Pharma	Delayed by a year
FY23	IT hardware	Scheme being reworked after lukewarm response
FY24	Speciality steels	Delayed from FY23
FY24	Battery	Revenue target from FY25

Source: Credit Suisse