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PLI scheme to unlock India's manufacturing capacity, generate jobs: Icra

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The government's PLI scheme, launched with the aim of incentivising manufacturing, is estimated to attract a capex of approximately ₹4 trillion for the next five years and has the potential to generate employment for over 3 million in India, ratings agency Icra said on Thursday.

In its latest sectoral strategy report, Icra has analysed the cumulative positive impact of the PLI scheme with focus on manufacturing that forms lion's share of 20-25% of the total capex in India currently. The report said that the sectors have been strategically selected by the government, considering India's surging demand (solar, semiconductors/electronics, automobiles etc.), and are critical to develop manufacturing capabilities (semiconductors, telecom gears, medical devices).

To boost India's manufacturing, employment generation, import reduction and exports growth, the Centre announced the Production-Linked Incentive scheme (PLI) covering 14 significant sectors of the economy involving a total outlay of Rs. 3 trillion.

"...there will positive implications (of PLI scheme) due to reduction in net imports, as incremental revenues are expected at Rs. 35-40 trillion over the next 5 years. Sectors under which PLI scheme have been announced currently constitute 40% of the total imports. The scheme, spread across 14 sectors, can enhance India's annual manufacturing capex by 15 to 20% from FY23. However, potential challenges are expected from execution delays, increasing funding costs, availability of requisite infrastructure and delays in approvals," Rohit Ahuja, head of Research and Outreach, Icra.

Of the total manufacturing outlay, about 80% is concentrated towards electronics, auto, solar panel manufacturing of which the focus towards semiconductors/electronics value chain is 50% of outlay. Incentives are based on incremental production/revenue, spread over five years on an average across sectors. Some schemes are also linked to capital investments.

Coming to specific sector outlays, PLI for semiconductor manufacturing is at ₹760 billionn, and aims to make India one of the leading manufacturers globally of this critical component. Shortage of semiconductor chips is leading to major production delays in autos and electronics globally as they are critical components used in automobiles and electronic items such as mobile phones/ smartphones, televisions, washing machines, refrigerators etc. Given the fact that India's dependence on semiconductors is expected to increase substantially, this PLI scheme is critical, the agency said.

For automobiles, the Cabinet has approved Rs. 259 bn (out of Rs. 570 bn earmarked) and bids for the same have been closed. PLI allocation of solar PV modules has been increased to ₹240 billion from ₹45 billion.

"Globally, India's manufacturing output as a percentage of GDP is comparable with developed economies like the United States, the European Union and developing economies like Russia and Brazil, however, it is way behind China. Massive opportunity emerging for India, as the world looks to diversify away from Chinaand the PLI scheme is a step in the right direction," Ahuja said.