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PLI scheme to unlock India's manufacturing capacity: Icra

Synopsis
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Incentives are based on incremental production/revenue, spread over five years on an average across sectors.

NEW DELHI: The government's ambitious production-linked incentive (PLI) scheme will look to unlock manufacturing capacity as well as support in attracting about Rs 4 lakh crore of capital expenditure over the next five years, rating agency Icra said on Thursday.

With an aim to boost manufacturing, employment generation, import reduction and exports growth, the PLI scheme covers strategically significant sectors that have seen surging demand (solar, semiconductors/electronics, automobiles etc), and are critical to developing manufacturing capabilities (semiconductors, telecom gears, medical devices).

Rohit Ahuja, Head of Research and Outreach, Icra, said, "Manufacturing capex forms around 20-25 per cent of the total capex in India currently. The PLI scheme, launched with the aim of incentivising manufacturing, is estimated to attract a capex of approximately Rs 4 lakh crore over the next five years."

It has the potential to generate employment for millions (skilled and unskilled labour) in India, Icra said.

Also, incremental revenues of Rs 35-40 lakh crore are expected over the next five years due to a reduction in net imports. Sectors under which the PLI scheme has been announced currently constitute 40 per cent of the total imports.

"The scheme, spread across 14 sectors, can enhance India's annual manufacturing capex by 15 to 20 per cent from FY23. However, potential challenges are expected from execution delays, increasing funding costs, availability of requisite infrastructure and delays in approvals." Ahuja said.

Of the total manufacturing outlay, about 80 per cent is concentrated towards electronics, auto, solar panel manufacturing, of which the focus towards semiconductors/electronics value chain is 50 per cent of the outlay.

Incentives are based on incremental production/revenue, spread over five years on an average across sectors.

PLI for semiconductor manufacturing is at Rs 76,000 crore, 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," Icra said.

For automobiles, the cabinet has approved Rs 25,900 crore (out of Rs 57,000 crore earmarked) and bids for the same have been closed. Additionally, the PLI for ACC battery is estimated at Rs 18,100 crore with incremental production estimated at 50 GW.

The PLI allocation of solar PV modules has been increased to Rs 24,000 crore. Considering India's ambitious plans to expand solar generation, this scheme may continue to attract additional allocation every year.

An outlay of Rs 24,900 crore has been made for pharma, Rs 12,200 crore for telecom, Rs 10,900 crore for food processing, Rs 10,700 crore textile exports. Rs 6,300 crore specialty steel and Rs 120 crore for drone segment.

Ahuja said "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 China and the PLI scheme is a step in the right direction."