

Regulatory Alert

November 12, 2021

Production Linked Incentive Scheme for Specialty Steel

The Ministry of Steel, Government of India notified¹ the Production Linked Incentive Scheme for Specialty Steel ('the Scheme'). The Scheme's objective is to promote manufacturing of specialty steel products, technology improvement and evolution in the value chain. The Ministry of Steel recently released detailed guidelines of the Scheme², to explain the *modus operandi* to apply under the Scheme and to claim incentives. This update is an insight into the key features of the Scheme, including vital guidelines.

Background

- The Scheme has been introduced with a budgetary outlay of INR 6,322 crores. It provides incentives for 5 years, from Financial Year (FY) 2022-23 until 2026-27.
- The Scheme aims to incentivize 5 product categories (target categories), namely:
 - A. Coated/Plated Steel Products
 - B. High Strength/Wear-Resistant Steel
 - C. Specialty Rails
 - D. Alloy Steel Products and Steel Wires
 - E. Electrical Steel

(Coverage of each of the above categories into sub-categories is captured in **Annexure 1**)

¹ Notification F. No. S-21018/1/2020-TRADE-TAX-PART(1), dated July 29, 2021

² File No. S-21018/1/2020-TRADE-TAX-PART(1), dated October 20, 2021



- The target categories/sub-categories have been divided into three different incentive rate slabs. The incentive rate slab for the 5-year window is given as under:

PLI Slab	Year 1	Year 2	Year 3	Year 4	Year 5
PLI - A	4%	5%	5%	4%	3%
PLI - B	8%	9%	10%	9%	7%
PLI - C	12%	15%	15%	13%	11%

- Incentives for a FY get paid in the next FY. Thus, incentives under the Scheme shall be granted from FY 2023-24 to 2027-28.
- The base year for the purpose of the Scheme shall be FY 2019-20.

Eligibility

- Application can be filed by a Company registered under the Companies Act, 2013 or a group of companies including Joint Ventures ('JVs').
- To be eligible under the Scheme, the Company should ensure domestic end-to-end manufacturing of eligible product, i.e., the input material is melted and poured within the country. A maximum of 20% value addition is allowed through third-party manufacturers.
- An applicant needs to fulfil the following thresholds to be entitled to benefit under the Scheme:
 - a) Minimum production capacity per unit
 - b) Minimum investment
 - c) Minimum incremental production year on year basis

*(Thresholds with respect to various product sub-categories are provided in **Annexure 2**)*

- In case an applicant wishes to opt in under multiple product sub-categories, the above thresholds would need to be fulfilled separately.
- For the first year (i.e., the year of commencement of commercial production), the following thresholds need to be fulfilled:
 - i) 80% of the prescribed investment; and
 - ii) 80% of the committed production
- The net worth of the applicant should not be less than 30% of the total committed investment. In the case of an application under multiple product categories, the net worth shall be computed on the basis of total committed investment.
- Eligible investment under the Scheme would include:
 - Plant & machinery including equipment and technological structure for the facility, auxiliary supporting facilities like Power Distribution, Pollution Control, Firefighting equipment etc.



- Construction of infrastructure such as road and railway network line, external water/power supply etc.
 - Land, Building and Civil works
 - Expenditure incurred on Research & Development and Transfer of Technology
 - Preliminary and pre-operative expenses like prefeasibility report, surveys and testing, establishment charges etc., and interest during construction
 - All non-creditable taxes and duties paid on the above
- Investments made after the date of notification of the Scheme (i.e. July 29, 2021) shall be considered.
 - The benefit under the Scheme does not preclude an applicant from applying for any benefit under the schemes provided by Central or State Governments including other PLI Schemes. However, the eligible investment/turnover provided for benefit under the Scheme should not be considered again for benefit under any other PLI Scheme.

Incentives

- Incentives under the Scheme are payable for a period of 5 years. The initial year may be deferred by up to 2 years in case of specific product categories within the overall budgetary allocation.
- In case of special/adverse circumstances (*force majeure* etc.), selected applicants can apply for a 1-year deferment of the initial year of incentive. Such deferment shall be subject to the approval of the Empowered Group of Secretaries (EGoS).
- Hence, the Scheme tenure works as under:

Particulars	Production years	Incentive disbursement years
Original Scheme	FY 2022-23 to FY 2026-27	FY 2023-24 to FY 2027-28
Deferment in case of specific product categories	FY 2024-25 to FY 2028-29	FY 2025-26 to FY 2029-30
Deferment in case of special/ adverse circumstances to selected companies	FY 2023-24 to FY 2027-28	FY 2024-25 to FY 2028-29

- Incentives under the Scheme shall be computed based on incremental production. The incremental production shall be obtained by dividing the incremental sales of the current year over the base year or the previous year, whichever is higher, by the weighted average sales price of the current year.
- Calculation of incentives shall be done with the following formula:

$$\text{Incentive} = (A / B) \times (B \text{ or } C \text{ or } D, \text{ whichever is the lowest}) \times \text{PLI rate as applicable} / 100$$

A = Incremental sales in the current year over the base year or previous year, whichever is higher

B = Weighted average sales price of the applicant of the current year

C = Notified weighted average sales price of base year

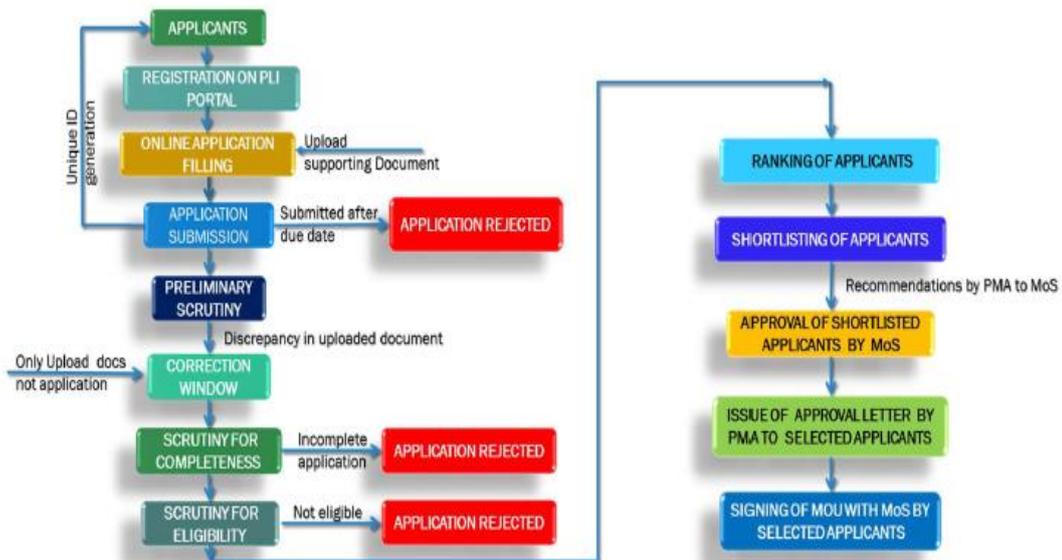
D = Notified weighted average sales price of current year



- The application for incentives is required to be made within 7 months from the end of the FY to which the claim pertains.
- The incentives payable under the Scheme are capped at INR 200 crores per annum per applicant, including group companies/JVs. The upper cap shall remain the same in case of application under multiple product categories. If the calculated incentive exceeds the limit, incentives shall be granted proportionately to all sub-categories for a total of INR 200 crores.
- As the Scheme is fund-based, if annual cumulative calculated incentives for all companies in a given product sub-category exceed the budget, the incentives shall be granted proportionately.

Application process and Selection

- The application under the Scheme shall be submitted within 90 days from the date to be notified separately.
- The application and selection process is pictured below:



- Selection under the Scheme shall be based upon a ranking criterion which is contingent upon the following:
 - a) 50% weight would be provided to the committed investment; and
 - b) 50% weight would be provided to the committed annual incremental investment during the Scheme period
- Preference shall be given to the applicants committing to frontload the investments.
- Selected applicants would be required to sign a Memorandum of Understanding ('MoU') with the Ministry of Steel, valid till the final year of disbursement of incentives. Also, a performance security of 0.5% of the committed investment is required to be submitted along with the MoU.
- Selected applicants also need to provide consent to audit of manufacturing facilities/offices for verification of the data and information submitted with the application.



Dhruva Comments

The Scheme offers lucrative incentives to the manufacturer of target product categories. In the long run, the Scheme endeavors to correct the trade imbalance in the Specialty Steel industry. At the same time, it will help the country to move up the steel value chain.

While the Scheme looks promising, it suffers from a major drawback of low return of investment, in as much as the Scheme pronounces an incentive of INR 6,322 crores on a minimum investment of 39,625 crores. Also, the computation of incentives under the Scheme that factors the impact of increased steel prices of the current year based on the sales price of the base year, FY 2019-20 will lower the actual incentive claim.

The Scheme is very different from other PLI Schemes announced previously in terms of incentive computation, investment criteria etc. It is advisable that all interested parties should think through all the nuances and features about the Scheme before applying.

It would also be advisable that while making an application under the Scheme, the industry appeals to the Ministry of Steel to either increase the total cap of incentives and/or grant benefit on the incremental sales without giving impact to the increased steel prices.

How can Dhruva assist?

Here at Dhruva, we have significant expertise in the tax and regulatory aspects of the steel sector and will be happy to assist in understanding the various nuances of the Scheme, helping you to plan and strategize your operations in an effective manner.

An illustrative list of how we can assist is depicted below:

- 1** Determining eligibility to access benefit under the Scheme
- 2** Estimating benefit available under the Scheme
- 3** Reviewing/restructuring existing business models
- 4** Assisting in undertaking detailed cost-benefit analysis in making future investments
- 5** Supporting in making an application for registration and incentive
- 6** Advocacy with regards to various matters of the Scheme



Annexure-1

Coverage of product segments under the Scheme

A. Coated / Plated Steel Products

- Galvanneal/GI- Auto-Gr
- Tin mill Products
- Coated/Plated products of Metallic/Non-Metallic Alloys
- Al-Zn coated (Galvalume)
- Colour Coated

B. High Strength / Wear-Resistant Steel

- HR Coil, Sheets and Plates API Gr $52 \leq X \leq 70$
- HR Coil, Sheets and Plates API Gr $> X - 70$
- High Tensile Sheets, Coil, Plates, $YS \geq 450$
- Auto Gr Steel AHSS (CRCA)
- Boiler Quality, Pressure Vessels
- QT/Abrasion Resistance and Wear Resistance

C. Specialty Rails

- Asymmetric Rails
- Head Hardened rails

D. Alloy Steel Products and Steel Wires

- Alloy Steel: Tool and Die Steel
- Alloy Steel: Valve Steel
- Alloy Steel: Bearing Steel
- Automotive power train steel
- Precipitation Hardened Stainless Steel
- Tyre Bead wire
- C - Class Zinc Coated Wire
- Zinc – Aluminium Coated Wire
- Tyre Cord (Brass Coated)
- Oil Tempered Spring Steel Wire

E. Electrical Steel

- Cold Rolled Grain Oriented (CRGO)
- Cold Rolled Non-Grain Oriented (CRNO)



Annexure-2

List of product categories, unit capacity, investment and incremental production threshold

Broad Category	Sl. No.	Sub-category	Unit capacity per product line (in thousand tonne)	Unit Investment per product line (in INR Crores)	Minimum year-on-year Incremental production	PLI Slab (Rate of incentive)		
Plated Steel Products	1	Galvanneal/GI- Auto-Gr	400	700	10%	PLI - A		
	2	Tin mill Products	200	600	20%	PLI - B		
	3(a)	Coated/Plated products of Metallic/Non- Metallic Alloys	250	200	10%	PLI - A		
	3(b)	Al-Zn coated (Galvalume)	250		30%	PLI - A		
	4	Colour Coated	250	300	20%	PLI - A		
High Strength /Wear resistant Steel	5(a)	HR Coil, Sheets and Plates API Gr 52<=X<=70	4500	2750	25%	PLI - A		
		HR Coil, Sheets and Plates API Gr >X-70				20%	PLI - B	
	5(c)	High Tensile Sheets, Coil, Plates, YS>=450			10%	PLI - A		
		Auto Gr Steel AHSS (CRCA)				900	1000	15%
	7(a)	Boiler Quality, Pressure Vessels			1200	2500	15%	PLI - B
	7(b)	QT / Abrasion Resistance and Wear Resistance			30%		PLI - B	
	Specialty Rails	8(a)			Asymmetric Rails	-	20%	PLI - A
		8(b)			Head Hardened rails	-	40%	PLI - A
Alloy Steel Products and Steel wires	9(a)	Alloy Steel: Tool and Die Steel	250	350	20%	PLI - B		
	9(b)	Alloy Steel: Valve Steel	250		15%	PLI - B		
	10	Alloy Steel: Bearing Steel	250		15%	PLI - A		
	11	Automotive power train steel	250		10%	PLI - B		



Broad Category	Sl. No.	Sub-category	Unit capacity per product line (in thousand tonne)	Unit Investment per product line (in INR Crores)	Minimum year-on-year Incremental production	PLI Slab (Rate of incentive)
	12	Precipitation Hardened Stainless Steel	1	100	30%	PLI - B
	13	Tyre Bead wire	100	300	20%	PLI - B
	14	C - Class Zinc Coated Wire	100	300	10%	PLI - B
	15	Zinc - Aluminium Coated Wire	100	300	10%	PLI - B
	16	Tyre Cord (Brass Coated)	100	700	20%	PLI - B
	17	Oil Tempered Spring Steel Wire	50	30	30%	PLI - B
Electrical Steel	18	CRGO	200	5000	40%	PLI - C
	19	CRNO	200	700	10%	PLI - B



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