

Production-Linked Incentive ('PLI') Scheme for Automobiles and Auto Components: Brief Overview

Background

With a 7.1 percent (approx.) contribution to India's GDP and the creator of 35 million job opportunities in the country, it is estimated to become the world's third-largest automotive market in terms of volume by 2026.

Keeping in mind the strategic and economic potential of the sector, the Central Government announced a separate PLI Scheme to boost investments and create global automotive manufacturing champions in India.

The PLI scheme for Automobiles & Auto Components ('Auto Scheme') was announced with planned financial outlay of ₹ 57,042 crores (the largest outlay amongst all PLI schemes). It sets an ambitious target of additional investment of over ₹ 1 lakh crore over a five-year period with potential for additional employment generation of 58.84 lakh jobs.

While the Auto Scheme is yet to be notified and is pending Cabinet approval, the outline of the Scheme is available in the public domain.

This alert provides a bird's eye view of the proposed Auto Scheme.

Implementing Authority

Department of Heavy Industries, Ministry of Heavy Industries and Public Enterprises.

Proposed Benefits

- Incentives ranging from 2 percent to 12 percent of the incremental sales and incremental exports vis-à-vis the Base Year (i.e., FY 2018-19)¹
- Benefits available to Original Equipment Manufacturers ('OEMs') and Component Manufacturers ('CMs'), subject to the fulfilment of the following eligibility criteria:

(₹ in Crores)

Category	Turnover	Export Turnover	Investment
OEMs	10,000	1,000	3,500
CMs	1,000	200	350

Source: ET Auto article dated December 17, 2020²

¹ Industry representations have been made to change the Base Year to FY 2019-20

² Article can be accessed at <https://auto.economicstimes.indiatimes.com/news/industry/etauto-exclusive-pli-scheme-draft-offers-benefit-to-big-auto-manufacturers-only-here-is-why/79751658>



- Benefits for new non-automotive entities, subject to the fulfilment of the following eligibility criteria:
 - Net worth: ₹ 1,000 crores
 - Commitment investment: ₹ 2,000 crores over five years³
- The Auto Scheme is proposed to be an 'umbrella scheme' comprising four sub-schemes, out of which a maximum of three sub-schemes can be availed. The sub-schemes are tabulated as follows:

(₹ in Crores)

Sub-scheme	Outlay	Objective
Sourcing Incentive	7,210	Benefits for incentivizing 'increase in purchase value'. <i>For OEMs and CMs.</i>
Champion OEM Incentive	18,075	Sales value linked incentives. <i>For OEMs only.</i>
Logistics Cost Incentive	23,628	Sales based incentives to offset logistics costs. <i>For OEMs and CMs.</i>
Component Champion Incentive	8,129	Incentives based on additional auto component sales. <i>For CMs only.</i>

Source: CNBC article dated February 26, 2021⁴

- The Government also plans to provide an additional 'growth incentive' of 2 percent to boost domestic manufacturing of Electric Vehicles.
- The total quantum of incentives is proposed to be capped at ₹ 8,556 crores (over five years) per applicant.
- Time limit of one year shall be granted to file an application once the Scheme is notified.⁵

Notable omissions

Tractors and 'off-road vehicles' have been excluded from the Scheme.

Some open points

- Incentives are proposed for the auto sector as a whole. More clarity is needed on the allocation of funds between OEMs and CMs.
- Whether the benefits provided under the Scheme are over and above any other benefit claimed by the Applicant, as is the case in Scheme for other sectors.
- Clarity needed on the mechanism to be adopted for calculating the turnover threshold (i.e., whether turnover / investment to be calculated at the Group level or entity level).
- Clarification on the eligibility criteria to be fulfilled by applicants making fresh foray into the Indian market.
- No clarity on whether additional benefits would be available for R&D activities undertaken in India.

³As per news report dated March 16, 2021. Same can be accessed at <https://www.businesstoday.in/current/economy-politics/govt-may-upgrade-eligibility-criteria-for-automakers-under-qli-scheme/story/433950.html>

⁴ Article can be accessed at <https://www.cnbcv18.com/auto/auto-qli-scheme-to-comprise-4-sub-schemes-here-are-the-outlays-8434781.htm>

⁵ Ibid.





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