Production Linked Incentive – A Perspective

*By Ashutosh Mahajan**

1. Perhaps for the first time in the history of Independent India, a Government has taken such a bold step in supporting & promoting manufacturing in India in the private sector, by introducing 'Production Linked Incentive' (PLI) schemes in various industry segments. Government has done so by earmarking a fund outlay of close to INR 2 Lakh Crore in around 14 sectors where the money would directly be paid to the approved manufacturers on fulfilment of conditions as laid down in respective schemes and guidelines.

2. While the inherent disability of Indian manufacturing sector in comparison to competing nations, was an acknowledged fact, and Governments in the past, did take some fiscal and non-fiscal measures to promote manufacturing, however, nothing matched PLI in either ambition or in scale. Not only are these schemes designed to support and grow the manufacturing sector exponentially, but the schemes are also seriously directed towards a quantum leap in technology as evident from some of the PLI schemes in Telecom & Networking Equipment, Automobile & Auto-Components through advanced automotive technology, Aviation – Drones and Drone Components, Chemicals – ACC Battery storage and Renewable Energy, to name a few.

3. PLI basically operates in three parts:

3.1 The commitments made by applicant manufacturers in the notified sectors to the Government, Government trusting & approving those commitments and in-turn committing cash incentive to them on achievement of targets within the laid down conditions. This phase is almost over in most of the declared PLI schemes where applicants have already been approved.

3.2 The hard part of approved manufacturers achieving the commitments made by them within the confines of agreed terms & conditions and filing their disbursement claims. For some of the schemes like Mobile Phones & Specified Components, IT Hardware, Telecom & Networking Products, Drones & Drone Components and Food Processing etc., incentives are already due for the first year and claims would be filed in next 6-9 months.

3.3 The most critical task of verification of claims by the Project Management Agency (PMA)/other bodies, and their approval by Nodal Ministry & Empowered Committee / Empowered Group of Secretaries (EGoS), leading to final disbursement of incentive.

4. While it all seems rosy, however, taking the money out from the Government has never been an easy task. Claims would be thoroughly tested on scheme conditions before any disbursement can take place. Having said that, it is public knowledge that Government wants this big initiative to succeed and is keen on disbursing all the money earmarked for the purpose within the bounds of schemes & guidelines.

5. What should the approved manufacturers expect from such verification and what should they do to ensure that the promised incentives are fully received? Here are some soft points & guiding principles:

5.1 Onus on the manufacturers

First thing to understand is that since the claims would be filed by the approved manufacturers, the onus to justify the claim is also on them. Simply the tough task of achieving the commitments will not suffice, the tougher task of justifying it with information and evidence will have to be completed to the satisfaction of PMA, Nodal Ministry and EGoS.

5.2 Substance over Form

This principle is at the core of any compliance and should be followed while taking any business decision including those related to PLI. It means that scheme conditions are to be met not only in letter but also in spirit. Since the objective of the PLI policy is to increase production in the country by offering incentives, manufacturers must ensure that overall production increases in comparison to the base year in similar value as the incremental sales on which incentives would be claimed by them.

5.3 Follow the approach 'We are in this together.'

Let us accept the fact that these are new policy initiatives, with neither the approved manufacturer nor PMA having experience on the subject. The best approach is to help each other in building a consensus on most of the sticky issues by discussing them threadbare and agreeing on a logical optimal solution.

5.4 Business in normal course

In most of the schemes, commitments have been made by the manufacturers on achieving one or more of the following targets such as a) threshold turnover or incremental turnover generally, or beyond a certain price point specifically, b) threshold investment or incremental investment, c) threshold CAGR, d) threshold incremental production, e) threshold value addition etc. Whatever be the commitment, business must be run in normal course as it was being run in pre-PLI period. Any intervention to tweak the terms of business to obtain a result more favorable than in the normal course, is likely to backfire and can have serious impact on incentive as well as goodwill of the manufacturer with the Government.

5.5 Transparency

Approved manufacturers are likely to be surprised by the level (breadth & depth) of details being asked by PMA during claim verification. Just as an example, it can even go to the extent of PMA asking details of all your issues under tax litigation and trying to gauge their impact on incentive claim. PMA would like to make sure that not only have they asked all the relevant questions, verified relevant information & collected all the related evidence, but also that in case they are audited by the Office of Comptroller & Auditor General of India (CAG) in future (the probability of which is very high), they have everything in their files even if remotely connected to the claim.

That leaves approved manufacturers with little choice but to be fully transparent in sharing information and evidence on whatever is being asked, even if remotely relevant. Please do expect greater scrutiny of transactions with the related parties.

6. While the approved manufacturers will do whatever is required to justify their claims, Government on its part can help remove one minor policy irritant and that specifically relates to computation of net sales in some of the schemes like Automobiles & Auto Components, IT Hardware, Mobile Phones, White Goods, Food Processing, Medical Devices and Telecom &

Networking Products etc. Net sales are to be computed by reducing sales discounts from gross sales.

Some of the schemes where invoice value is of consequence, policy requires actual sales discounts related to a particular invoice to be reduced for computing threshold invoice value as well as net sales of a particular financial year. There can be many reasons, why actual discounts may not be given in the year of sale by the manufacturer. e.g., in a multi-layered distribution channel where sales discounts are linked to sell out by the retailer to ultimate consumer, actual discounts may not be given in the year in which first sale has happened from Original Equipment Manufacturer(OEM). Actual discounts, in some cases, may not be even known on the date of filing the disbursement claim. In other schemes, it is not clear whether actual discounts related to sales of a financial year need to be reduced or PMA will accept discounts based on accrual method for computing net sales? This can lead to confusion during the PLI claim verification by PMA and can impact the incentive claims.

Government can help issue amendment/clarification that net sales shall be computed based on the method of accounting consistently followed by the manufacturer as per the laid down Accounting Standards. This would take away uncertainty around the issue. PMA would still be able to challenge any change in the method of accounting if carried out by the manufacturer with the intent to take undue advantage under the PLI policy.

A lot is at stake both for the Government and approved manufacturers, for the PLI scheme to succeed. One can only wish that it succeeds, and India comes out a winner as a powerhouse of manufacturing and technology.

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