What the PLI will mean for the economy?

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The PLI scheme for various industries has been announced over the last few months though the initial push was provided in 2020. The government is focused on furthering the pace of investment in industry and offering incentives which are linked with performance. In this context, the broad contours of the PLI need to be understood along with the goals being pursued by the government at the macro level. It is interesting to also juxtapose information at how these industries have fared on investment, sales and employment in the past to fathom the challenge that lies ahead for the concerned companies when leveraging the incentive being given by the government.

The PLI is a scheme which gives incentives in terms of cash to various companies which is earmarked to the turnover that is generated over a period. The incentive could vary between 4-6% of turnover for most categories and can go up to 10% for some products. This is conditional on a certain amount of incremental investment being undertaken over a period of between 4-6 years with FY21 or FY22 being the base year (this will vary depending on when the scheme is announced). The company is also to generate a certain amount of incremental output. In this process the government has also spoken of the number of jobs that can be potentially created assuming all the targets including the incentive buffer is fully utilized.

According to the government all the PLI Schemes covering 13 sectors with an outlay of Rs 1.97 lakh crore will ultimately lead to a minimum additional production of Rs 37.5 lakh crore over 5 years and minimum expected additional employment over 5 years is nearly 1 crore. Assuming a value added to sales ratio of 35% for the corporate sector, this would mean around Rs 13 lakh crore of nominal GDP being added over 5 years which is around Rs 2.6 lakh crore per annum. India's GDP in nominal terms in FY22 is targeted to be Rs 223 lakh crore. This would be about 1.1% increase in annual nominal GDP.

Based on the press releases made for some of the industries, the table below gives the indicative goals to be achieved under the PLI scheme. The government has made projections on the amount of investment that is expected to take place as well as turnover that would be generated over the period coinciding with the PLI scheme for various industries. Wherever mentioned, these targets have been included in the table below. For both investment and turnover/production the numbers are incremental for the time frame that is associated with the sector's scheme. To get an idea of the annual numbers, these amounts should be divided by the time frame mentioned alongside.

PLI: Contours for various industries

Sector	Investment Rs cr	Turnover Rs crore	Employment lakhs	Total incentive allocated	Time frame	Incentive %
Textiles	19,000	3.0 lakh	7.5	10,683	5	n.m
Auto parts	42,500	2.3 lakh	7.6	26,058*	5	n.m
Drones	5,000	1,500 cr	0.10		3	20
Auto- FAME	n.m	n.m.	n.m	10,000*	3	n.m
ACC (Advanced chemistry cell)	45,000	Import sub of Rs 2000 cr every year	n.m.	18,100	5	
Specialty steel	40,000	Output to be Rs 2.4 lkh crore in FY27 from Rs 0.9 lakh crore in FY20	5.25	6,322	5	4-12
White goods	7,920	1.68 lakh	4	6,238	5	4-6
Solar PV modules	17,200	17,500 cr	1.5	4,500	5	n.m
Food processing	33,494	27,816 exports	2.5	10,900	6	n.m
Pharmaceuticals	15,000	2.94 o/w 1.96 exports	1.0	15,000	6	3-10
IT hardware	n.m.	3.26	1.8	7,350	4	1-4
Large scale electronics	11,000	10.5 lakh	2.0 direct and 3 times indirect	40,951	5	4-6
Telecom equipment	3,000	2.4	n.m.	12,195	5	5-7
Medical devices	874	n.m	0.0424	3,420	n.m.	n.m
Drug intermediates	5,366	n.m	0.124	6,940	n.m.	n.m
Electronic /technology products				5,000	5	n.m

Source PIB various releases
*: for auto and components Rs 57,042 targeted as per November 2020 plan.
n.m. : Not mentioned explicitly for the sector in the press releases.

The above table is only illustrative of the sectors covered under PLI and the allocations made for around 5 years. The disbursements will depend on how many companies qualify for this incentive based on their performance and hence will vary over the years. The PLI scheme makes allowances of slippages in years due to changes in the environment. While prima facie, the government could be allocating around Rs 40,000 crore over 5 years for this project, the actual outflows will be dependent on the actual performance indicators of the companies.

How has industry done so far?

A sample of 2269 companies which excludes the BFSI sector has been considered for this analysis. The year chosen in 2020 where incremental plant and machinery has been considered, which is the main component of the PLI scheme as land is not included as investment. FY20 is the pre-pandemic year and hence removes the bias in the numbers. The sample consists of all the large companies but would exclude the unorganized sector and the smaller companies. This should not affect the analysis as the PLI is talking of large doses of investment materializing in the next 4-6 years which cannot be driven by the smaller units.

The industries here are broader than the specific products which are covered under PLI as the scheme is specific to individual products within an industry. But the broader groups give an idea of how challenging the task is for generating output/investment in the next 5 years or so. Alongside is also given the headcount changes that have been witnessed in FY20 for this sector. The numbers reported are those given in annual reports and hence would normally include only the permanent employees or rather the direct headcount. These numbers can be juxtaposed with the targets put forth by the PLI scheme to gauge how achievable will be these numbers.

Some takeaways on the aggregate sample

- Overall, there was an increase of Rs 3.10 lakh crore in plant and machinery in FY20 for the sample companies.
    - The top 5 industries accounted for Rs 2.31 lakh crore of this investment and included refineries (Rs 1.25 lakh crore), power generation (Rs 0.58 lakh crore), iron and steel products (Rs 0.19 lakh crore), telecom (Rs 0.16 lakh crore) and oil exploration (Rs 0.14 lakh crore).
- In terms of employment, there was not much traction for the sample companies, and it declined from 60.80 lakh in FY19 to 60.02 lakh in FY20. In fact, job creation was witnessed to a significant extent only in the IT-software space.
- Overall sales for the sample companies had fallen from Rs 57.61 lakh crore in FY19 to Rs 54.80 lakh crore in FY20.

Relating the PLI scheme to sample companies

The sample companies have been classified under broader heads as the PLI at times relates to specific products for which information is not available on the specific companies as at times it would be part of an array of products that are offered. The data is indicative nonetheless of the performance of these broader sectors in the areas of investment and sales in FY20 with some indication on the employment count.

Level of employment, plant & machinery and net sales of PLI linked industries in FY19 & FY20 (Number and Rs cr)

Broad sector	Nos	Headcount 2019	Headcount 2020	P&M 2019	P&M 2020	Sales 2019	Sales 2020
Food sector	170	3,38,340	3,34,139	40,339	43,194	1,48,674	1,59,049
Auto ancillary	138	3,24,662	3,15,853	71,420	81,722	1,91,389	1,67,435
Automobiles	18	1,15,734	1,15,244	78,123	87,077	3,42,933	2,78,240
Consumer durables	17	25,480	27,505	2,818	3,495	41,667	42,406
IT - Hardware	6	1,113	1,107	42	53	706	709
Electronics	25	12,300	11,538	1,713	1,851	9,754	10,765
Pharma and related	135	3,15,973	3,18,609	56,643	61,805	1,57,518	1,66,431
Steel and products	96	2,17,716	2,20,528	3,40,984	3,64,961	3,89,921	3,43,487
All textile related	231	4,85,418	4,84,553	59,807	62,018	1,34,427	1,24,155
Telecom Equipment	13	8,751	8,009	11,033	10,978	8,452	8,077
Total	849	18,45,487	18,37,085	6,62,922	7,17,155	14,25,441	13,00,753

Source: CARE Ratings calculations

The table shows that these broad sectors did witness a slowdown in sales at the aggregate level though food products, pharma, electronics and consumer durables did witness growth. But for investment the picture was impressive with around Rs 54,000 cr being incremental plant and machinery for this sample. Almost all sectors witnessed growth in plant and machinery which is a good sign. For all these sectors taken together investment is expected to be in the region of Rs 55,000-65,000 crore on an annual basis which will require a major internal push for companies in these sectors.

Again, in terms of employment there was less traction with steel products showing some increase. Companies have been relying a lot on technology to enhance productivity and hence job creation will have to be taken up by the SME sector in particular which was buffeted by the two lockdowns in the last two years.

PLI hence can be viewed as a progressive step to bring about acceleration in investment and hence production for the targeted sectors. The PLI is in fact providing the push towards new green products both for solar power as well as electric vehicles which are presently not dominant in this group of companies. Therefore, the fructification of this scheme would lead to more organized eco-friendly diversification in industry.

The products being targeted are:

- Food processing: ready to cook products, marine products, fruits and vegetables, honey, cheese, ghee, eggs, meat etc. These products are presently more in the unorganized domain with less of commercial thrust by industry.
- Electronic products encompassing mobile phones, laptops, tablets, PCs, servers etc. The thrust here will also lead to less dependency on imports.
- Specialty steel like coated steel, high strength steel, steel rails, bars and rods.
- Pharma covering biopharma, complex generic drugs, patented drugs, orphan drugs, complex excipients etc.
- Renewable energy including solar PVs
- Telecom equipment including core transmission equipment, 4g/5G next generation radio access network equipment, switches, routers etc.
- Textiles mainly in manmade fibres and technical textiles
- White goods covering air conditioner components, high value intermediates like copper tubes, compressors etc and low value intermediates like valves, fans etc.

More general targeting has been done for auto components, automobiles, chemicals (including batteries) and medical devices.

Collateral benefits

The PLI can be looked at as being a scheme that not just boosts production but has great potential to lower the dependence on imports. In particular, the imports of electronics can come down which is a major group after POL in the import bill. In FY21 total imports were $ 56.7 bn of which computer hardware ($ 10.4 bn), telecom equipment ($ 14.8 bn), electronic instruments ($ 7.4 bn), consumer electronics ($ 4.5 bn) and medical instruments ($ 4.1 bn) are the major components.

The total incentive being provided for electronic based goods would be in the region of Rs 60-70,000 crore. This is around $ 9-9.5 bn over 4-6 years. Intuitively if this helps to reduce the import bill by even 10% over this period, the incentive provided would have worked well.

The bigger challenge

The biggest challenge in this scheme is, however, job creation. The potential is evidently immense as laid out in the plans. But the organized sector that is largely covered here would provide the bulk of the thrust in most sectors in fulfilment of the targets. However here history of job creation has been weak. The PLI plan does not clearly talk of the employment targets in terms of direct and indirect job creation. It may be assumed that a substantial part which is more then 50-60% would be indirect. Also, in some sectors the SMEs would be expected to take some initiative where the investment and turnover targets are not very large.

Concluding remarks

The PLI is a very progressive scheme which rewards performance. There is a push being given to the technology driven sectors which will also have an impact on reducing imports at the margin. Some of the sectors have been linked directly with the ESG objectives like solar panels, EVs. But even conventional industries like textiles and food processing have been provided incentives.

Companies do have the advantage of a relatively low base year being used as a threshold on which incremental capital must be deployed and production enhanced as FY20 and FY21 were relatively off the trend path years. If the targets are met, there is high potential to add to 1% of nominal GDP which is significant.

Contact:

Economics Department		madan.sabnavis@careratings.com	
Mradul Mishra	Media Relations	mradul.mishra@careratings.com	+91-22-6837 4424

CARE Ratings Limited
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel. : +91-22-6754 3456 I CIN: L67190MH1993PLC071691

Connect :