THE POWER OF BEING UNDERSTOOD

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1.0 Background

In order to achieve vision of the National Policy on Electronics (NPE) 2019 and to create a level playing field for the domestic electronics manufacturers with the incentives comparable with those offered in other countries, the **MINISTRY OF ELECTRONICS AND INFORMATION TECHNOLOGY** has notified three schemes namely-

(a) Production Linked Incentive Scheme (PLI),

(b) Scheme for Promotion of Manufacturing of Electronic Components and Semiconductors (SPECS), and

(c) Modified Electronics Manufacturing Clusters Scheme ("EMC").

In India, electronics manufacturing has grown rapidly with a CAGR of around 25% during the last 4 years. However, this pales in comparison to the actual potential for growth which is curtailed by specific constraints such as large capital investments and rapid changes in technology. To facilitate large-scale manufacturing of mobile electronics, development of a supply chain and building of new manufacturing clusters in India, these schemes has been introduced to provide benefit to the electronics manufacturing industry.

2.0 Production Linked Incentive Scheme ("PLI") [1]

2.1 Objective

The PLI proposes a financial incentive to boost domestic manufacturing and attract large investments in the electronics value chain including electronic components and semiconductor packaging for Large Scale Electronics Manufacturing. Further, the expected annual incentive outlay and cumulative incentive outlay under the PLI Scheme is as follows:

Financial Year	**Total Incentive (*INR Crore)***
Year 1	5,334
Year 2	8,064
Year 3	8,425
Year 4	11,488
Year 5	7,640
Total	**40,951**

[1] https://meity.gov.in/esdm/pli

2.2 Quantum of Incentive

The Scheme shall extend an incentive of 4% to 6% on incremental sales (over base year) of **mobile phones** and **Specified Electronic Components (SEC)** manufactured in India, to eligible companies, for a period of five 5 years subsequent to the base year*

*[*Financial Year 2019-20 shall be treated as the base year for computation of incremental investment and incremental sales of manufactured goods (as distinct from traded goods)]*

2.3 Eligibility

The Scheme shall provide support only to companies engaged in **manufacturing and contract manufacturers of mobile phones and specified electronic components** as defined in the FDI Policy Circular of 2017**.** Further, Separate application will be filed for each target segment. Also, Eligibility shall be subject to thresholds of incremental investment and incremental sales of manufactured goods (as distinct from traded goods). An applicant must meet all the threshold conditions to be eligible for disbursement of incentive. Eligibility threshold criteria are detailed below:

Segment	Proposed Incentive Rate	Incremental Investment over Base Year	Incremental Sales of Manufactured Goods over Base Year
Mobile Phones (Invoice value of INR 15,000 and above) *	Year 1: 6% Year 2: 6% Year 3: 5% Year 4: 5% Year 5: 4%	INR 1,000 Crore over 4 Years	Year 1: INR 4,000 Crore Year 2: INR 8,000 Crore Year 3: INR 15,000 Crore ear 4: INR 20,000 Crore Year 5: INR 25,000 Crore
Mobile Phones (Domestic Companies) **		INR 200 Crore over 4 Years Cumulative Minimum (Crore): Year 1: 50 Year 2: 100 Year 3: 150 Year 4: 200	Year 1: INR 500 Crore Year 2: INR 1,000 Crore Year 3: INR 2,000 Crore Year 4: INR 3,500 Crore Year 5: INR 5,000 Crore
SEC - SMT components, Discrete semiconductor devices, Passive components, Circuit boards, System in		INR 100 Crore over 4 Years Cumulative Minimum (Crore): Year 1: 25 Year 2: 50 Year 3: 75 Year 4: 100	Year 1: INR 100 Crore Year 2: INR 200 Crore Year 3: INR 300 Crore Year 4: INR 450 Crore Year 5: INR 600 Crore

Package, Micro / Nano-electronic components, and ATMP units etc.			

For eligibility all Incremental Sales of Manufactured Goods (covered under target segments) irrespective of Invoice Value shall be considered.

****Domestic Companies shall be defined as those which are owned by resident Indian citizens. A company is considered as 'Owned' by resident Indian citizens if more than 50% of the capital in it is beneficially owned by resident Indian citizens and/or Indian companies, which are ultimately owned and controlled by resident Indian citizens.*

Furthermore, Eligibility under PLI scheme shall not affect eligibility under any other Scheme and vice-versa.

2.4 Tenure of the Scheme

Support under the Scheme shall be provided for a period of five **5 years** subsequent to the FY 2019-20. However, the Scheme shall be open for applications for a period of **4 months** initially which may be extended.

3.0 Scheme For Promotion Of Manufacturing Of Electronic Components And Semiconductors (SPECS) [2]

3.1 Objective

The scheme is introduced in order to strengthen the electronics manufacturing ecosystem in the country. Further, the expected cumulative incentive outlay under SPECS Scheme is **INR 3,285 crore.**

3.2 Eligibility

The SPECS will be applicable to investments in new units as well as expansion of capacity/ modernization and diversification of existing units.

3.3 Threshold Limit

The minimum threshold investment to be eligible under the scheme is mentioned in **Para 3.7**. The thresholds are same for new units or expansion of capacity/ modernization and diversification of existing units.

[2] https://meity.gov.in/esdm/SPECS

3.4 Tenure of the Scheme

The SPECS will be open for applications initially for 3 years from the date of its notification (i.e. 01 April 2020). The applications received under the scheme will be appraised on an ongoing basis and implementation will continue as per the approvals accorded under the scheme.

3.5 Incentives under the Scheme

An incentive of 25% on capital expenditure shall be provided to the units making investment for the goods as per list attached as Annexure-I. The incentive will be provided on reimbursement basis. The incentives, if any, offered by the State Government or any of its agencies or local bodies shall be over and above the incentive eligible under the proposed scheme.

Capital Expenditure *will be total of expenditure in plant, machinery, equipment, associated utilities and technology, including for Research & Development (R&D). The total value of refurbished plant, machinery an equipment (including for associated utilities and R&D), whether imported or domestically procured, not exceeding 20% of the total eligible plant, machinery and equipment (including for associated utilities and R&D), shall be considered for calculation of incentive in this regard*

3.6 The applicants shall also be eligible to take benefit under any other scheme(s) of Government of India. However, investments committed by the applicants under M-SIPS scheme for which incentives have been claimed will not qualify as eligible investments under SPECS scheme.

3.7 List of goods with Minimum Investment Threshold Limit

S. No.	Description of Goods	Minimum Investment threshold Limit (INR)
1	SMT components including LED Chips	5 Crore
2	Chip Modules for Smart Cards, RFID Antenna & Labels, CoB/ System in Package	
3	Passive components including resistors, capacitors, ferrites, etc. for electronic applications	
4	Electromechanical components including transformers, inductors, coils, relays, switches, micro motors, stepper motors, BLDC Motors, Connectors, Heat Sinks, Antenna, Speakers, Microphones, etc. for electronic applications	
5	Magnetrons, Wave guides, Circulators, Couplers,	

	Isolators, Filters, Magnets, RF Components for electronic applications	
6	Printed Circuit Boards (PCBs), PCB Laminates, Prepegs, Photopolymer films, PCB Printing Inks; Printed Flexible Electronics	
7	Sensors, Transducers, Actuators and Crystals for electronic applications	
8	Camera Modules, Vibrator motor/ ringer	
9	USB/Data Cables, HDMI Cables	
10	Capital goods for all the goods covered under SPECS	
11	Active Components: a. Discrete semiconductor devices including transistors, diodes, etc. b. Power semiconductors including FETs, MOSFETs, Thyristors, etc.	15 crore
12	Preform of Silica and Optical Fiber	
13	Display Assembly and Touch Panel/ Cover Glass Assembly	
14	Micro/Nano-electronic components such as Micro Electro Mechanical Systems (MEMS) and Nano Electro Mechanical Systems (NEMS)	25 Crore
15	Assembly, Testing, Marking and Packaging (ATMP) units	
16	Mechanics (plastic and metal parts) for electronic applications	75 Crore
17	Compound Semiconductors such as GaN, SiC, GaAs, etc. and Silicon Photonics devices/ Integrated Circuits, Optoelectronic components	250 Crore
18	Semiconductor Wafers	500 Crore
19	Semiconductor Integrated Chips (ICs) including Logic [Microprocessor, Microcontrollers, Digital Signal Processors (DSP), Application Specific Integrated Circuits (ASICs), etc.]; Memory; Analog/ Mixed Signal ICs, etc.	1,000 Crore
20	Display fabrication units including Liquid Crystal Displays (LCD), Light Emitting Diode (LED), Organic Light Emitting Diode (OLED), etc. for electronic applications	

4.0 Modified Electronics Manufacturing Clusters (EMC 2.0) Scheme [3]

4.1 Objective

Under the EMC 2.0 Scheme, electronics manufacturing clusters would be established to create infrastructure with common facilities and amenities in EMC projects and upgrade the infrastructure in Industrial Estates / Parks / Areas as Common Facility Centre (CFC) for attracting investment in electronics manufacturing. Further, the total outlay of the propose EMC 2.0 Scheme is INR 3,762.25 crore which includes the financial assistance of INR 3,725 crore.

4.2 Mode of application and eligibility criteria

The application under EMC 2.0 Scheme will be submitted by the State Government or State Implementing Agency (SIA) or Central Public Sector Unit (CPSU) or State Public Sector Unit (SPSU) or Industrial Corridor Development Corporation (ICDC) such as DMICDC, etc. (as the case may be) to **Project Management Agency** ("PMA") along with the details of the Anchor unit(s) clearly mentioning the roles and responsibilities of **Project Implementing Agency** ("PIA") and the relevant Anchor Unit(s). In case of CPSU or SPSU; the application would be submitted along with recommendations of the concerned Central Government or State Government (Administrative Ministry or Department) as the case may be.

4.3 Conditions - Application under EMC 2.0 Scheme should comply with the following:

4.3.1 For EMC Projects, there should be a commitment from Anchor Unit(s) or industry for taking (purchase or lease) atleast 20% of the saleable / leasable land area and a minimum investment commitment of Rs.300 crore;

4.3.2 The land parcel should not be less than 200 acres;

4.3.3 The land parcel required in all North-Eastern States, Hill States and Union Territories (UTs) should not be less than 100 acres. Minimum investment commitment from Anchor Unit(s) or industry for projects in these regions will be Rs.150 crore.

4.3.4 The proposed land parcel should be in possession of the PIA and preferably contiguous

4.3.5 Maximum of two land parcels within a radius of ½ Km will be considered as contiguous. Land parcels across the road will also be considered as contiguous.

4.3.6 In case, any existing cluster under the EMC Scheme is taken up for expansion and adjoining land is proposed to be developed under EMC 2.0 Scheme; the land with the

[3] https://meity.gov.in/esdm/emc2.0

existing manufacturing unit will also be considered as part of the land parcel. This will be subject to the condition that in the existing EMC, 80% of saleable / leasable land should have been allotted to the manufacturing units and atleast 50% of units who have been allotted land should have started production activity. In such cases, following conditions on land requirements will be applicable:

a) Atleast 100 acres of such land parcel that is adjoining the existing EMC will be considered for meeting the minimum land requirement for making application under the Scheme.

b) For all North-Eastern States, Hill States and UTs, atleast 50 acres of such land parcel that is adjoining the existing EMC will be considered for meeting the minimum land requirement for making application under the Scheme.

In such cases, only the new area proposed under EMC 2.0 Scheme will be considered eligible for financial assistance.

4.3.7 The proposed land parcel should be non-encumbered and for Industrial use.

4.3.8 For Common Facility Centre (CFC), there should be atleast 5 electronics manufacturing units identified as users of the facility.

4.3.9 PIA will provide Ready Built Factory (RBF) Sheds / Plug & Play facility in atleast 10% of the saleable/ leasable land within the EMC.

4.4 Financial Assistance - The financial assistance will be given for creation of world class infrastructure along with common facilities and amenities. The financial assistance will be provided for Electronics Manufacturing Cluster (EMC) Projects and Common Facility Centers as follows:

4.4.1 For EMC Project- Financial assistance will be restricted to 50% of the project cost subject to a ceiling of Rs. 70 crore for every 100 acres of land. For larger areas, pro-rata ceiling would apply but not exceeding Rs.350 crore per project. The remaining project cost will be borne by State Government or State Implementing Agency (SIA) or Central Public Sector Unit (CPSU) or State Public Sector Unit (SPSU) or Industrial Corridor Development Corporation (ICDC) such as DMICDC, etc. (as the case may be) with a minimum contribution of 50% of the project cost.

4.4.2 For Common Facility Centers (CFCs)- Financial assistance will be restricted to 75% of the project cost subject to a ceiling of Rs.75 crore. The remaining project cost will be borne by State Government or State Implementing Agency (SIA) or Central Public Sector Unit (CPSU) or State Public Sector Unit (SPSU) or Industrial Corridor

Development Corporation (ICDC) such as DMICDC, etc. (as the case may be) with a minimum contribution of 25% of the project cost.

4.5 All applications for financial assistance under EMC 2.0 Scheme shall be considered by a Project Review Committee (PRC) to be constituted by the Ministry of Electronics and Information Technology (MeitY). The PRC will make recommendations to PMA for approval/ rejection of the applications under EMC 2.0 Scheme. PRC will also review the progress of the approved projects.

4.6 **Scheme duration / timelines** - The Scheme will be open for receipt of applications for a period of three (3) years from the date of notification. Further period of five (5) years shall be available for disbursement of funds to the approved projects. The applications received under the Scheme will be appraised on an ongoing basis.

4.7 The illustrative list of eligible activities under the EMC 2.0 Scheme is as under:

Vital Services such as Boundary Wall, Internal Roads, Storm Water Drains, Electric Sub-Station/Distribution Network

Essential Services such as Waste Disposal/Recycling, Water Recycling/Water Treatment Plant, Effluent Treatment Plant, Sewage Lines, e-waste Management, Street Lighting, Backup Power Plant, Warehousing, Ready Built Factory sheds (RBF)/Plug & Play Facility, Fire Fighting and Safety services

Welfare Services such as Employee Hostel, Hospital and ESIC, Recreational Facility / Playground, Creche/Nursery, Educational Facilities and Banking and Financial Services.

Support Services such as Centre of Excellence (R&D, Incubation and Consultancy Services), Skill development Centre/Training Facility, Auditorium & Conference Facility, Video Conferencing, IT & Telecom Infrastructure, Business, Trade &Convention Centre

Manufacturing Support services such as Tool Room, CAD/CAM Design House, Plastic Molding/ Cabinet Manufacturing

5.0 Our comments

All the three schemes are a great initiative by Government of India to boost the electronic manufacturing sector and further help in generation of employment opportunities in India. PLI will encourage many companies engaged in manufacturing of mobile phones and electronic components worldwide to set up their manufacturing base in India thereby making India as an Investment hub for electronics manufacturing. Further, under the present times, the industry is demanding to revisit the limits since sales are badly affected due to COVID-19.

SPECS will also provide support to domestic manufacturing sector and strengthen the electronics supply chain ecosystem in India. However, the investments on which incentive under M-SIPS have been claimed, will not be entitled to benefit under this scheme. The timing of this policy is suitable as various companies are looking at shift their supply chain into India. Accordingly, SPECS makes India an attractive investment destination.

EMC 2.0 aims for the development of a world-class infrastructure for the ESDM sector. Under this Scheme, Electronic Manufacturing Clusters would be set up in geographical areas of a certain minimum extent where the focus would be on the development of basic infrastructure, amenities and other common facilities for ESDM units.

Further, with effect from FY 2019-20, any new domestic companies incorporated on or after 1 October 2019 making fresh investment in manufacturing have an option to pay income-tax at the rate of 15%with an effective tax rate of 17.01% (inclusive of surcharge & cess). Also, such companies shall not be required to pay Minimum Alternate Tax. This benefit is available to companies which do not avail any exemption/incentive under the Income- tax Act, 1961 and commence their production on or before 31 March 2023. Such reduction in tax rate coupled will create an opportunity for new manufacturing players and provide a level playing field with global giants existing in the world ecosystem.

The total outlay specifies that the benefit under the schemes will be available on first cum first basis. Therefore, companies willing to apply for the scheme should analyze the cost-benefits at the earliest in order to avail the incentives as laid down under all the three schemes.

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