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India's Production Linked Incentive Scheme (PLI)

India's manufacturing sector, contributing approximately 17% to GDP, remains low relative to its vast population and economic potential. Despite being home to the world's youngest workforce, with a **median age of 28 years**[1], India remains heavily dependent on imports in critical sectors like electronics, machinery, and energy. To bridge this gap and harness its demographic dividend, the government has implemented the Production Linked Incentive (PLI) Scheme, aimed at revitalizing domestic manufacturing. Unlike past incentive programs, which spread resources thinly across numerous companies, the PLI scheme focuses on identifying and supporting a smaller group of high-potential firms, fostering champions that can achieve scale and efficiency. Another distinctive feature of the PLI scheme is that it was designed after extensive consultations with the domestic industry. This collaborative approach ensured that the scheme incorporates practical insights and aligns with the needs of the manufacturing sector.

Introduced in 2020 under the "Make in India" initiative, **the PLI scheme targets 14 key sectors**, including electronics, pharmaceuticals, automotive components, and renewable energy. It incentivizes companies—both domestic and foreign—based on incremental production, with payouts ranging from 4-6% of revenue over a five-to-seven-year period. A total budget of $33 billion supports the program.

The PLI scheme has delivered significant outcomes. The **scheme has approved 755 applications**[2] across 14 sectors, attracting

[1] India Demographics 2024 - Worldometer

[2] Press Information Bureau Government of India

investments of US$16bn+ and has facilitated the production of goods worth US$130bn+ by June 24[3]. It has generated approximately 850,000 jobs. Notably, **exports linked to PLI beneficiaries have surpassed US$50bn**, contributing significantly to India's trade balance. From a net importer, India has emerged as a net exporter of mobile handsets. Smartphones are now the fourth largest export from India. **Apple achieved a $10 billion production milestone in India**[4]. Sectors leading this growth Electronics, Pharma, IT hardware, Solar PV modules, Drones and Food processing. Semiconductors and Advanced Chemistry Cell Batteries are also seeing increased participation. In a few categories, Indian government has used certain protectionist measures such as higher import duties and increased regulations for imports to give some cushion to domestic producers. This is also driving higher interest in PLI schemes.

Has it worked?

Although there has been success in some sectors, particularly electronics, the overall utilisation of PLI outlay has been slower than expected. **Approximately 11% of total allocated funds are expected to be utilized by FY2025** and of the total expected capex from the PLI scheme only 30-35% has been invested[5], partly due to the long gestation periods of capital-intensive projects. Some sectors, such as textiles and specialty steel, have lagged in meeting targets. The Government is however being proactive, and tweaking schemes based on feedback from the industry. The Government also continues to expand the coverage of PLI schemes. The government is planning to introduce additional incentive scheme for new sectors like toys, leather and footwear to attract anchor investors. Additionally, with a focus on increased backward integration, specific PLI's are being designed targeted at component manufacturing within a sector.

The PLI scheme is positioned to significantly boost India's manufacturing capabilities and exports, especially in high-tech sectors. Its future depends on addressing bottlenecks and capitalizing on India's strategic position in global supply chain shifts. Indian companies need to invest in R&D capabilities internally to move up the ranks. In a few categories, global companies still enjoy competitive advantage even with PLI incentives in place due to economies of scale; Indian companies need to reach critical size so that the government can remove import duties or reduce incentives for the companies to start competing globally. Continued policy refinement and strong industry-government collaboration will be key to achieving its long-term goals of taking manufacturing from 17% of GDP to 25% of GDP.

[3] Article from Economic Times Sep24
[4] Article from Economic Times Nov24
[5] Article from Financial Express Sep24

How is India Capital Growth Fund benefiting from this incentive?

India Capital Growth Fund is benefiting from PLI and its holding in Dixon Technologies (Dixon) exemplifies the scheme's success. Dixon, India's largest Electronics Manufacturing Services (EMS) provider, has capitalized on the PLI scheme for mobile manufacturing, becoming a market leader. Dixon counts almost the entire Android based mobile phone manufacturers as its clients, and it also has top 4 out of 5 global IT hardware companies as its clients under the respective PLI schemes. As a result, it has witnessed high growth – **revenue & profits growing at a CGAR of 40%+ in the last 5 years[6].** The government is planning to introduce new incentive schemes for components, Dixon is planning to expand and increase the value-addition in its offering. Dixon has already announced a JV for glass & display manufacturing with HKC (China), which will be used in mobile phones and IT hardware. We believe Dixon's move into backward integration will help its objective to increase value-addition and profitability in line with government's upcoming incentives plan on component manufacturing.

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[6] Ocean Dial Asset Management, end Mar 24

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