



M2K Advisors

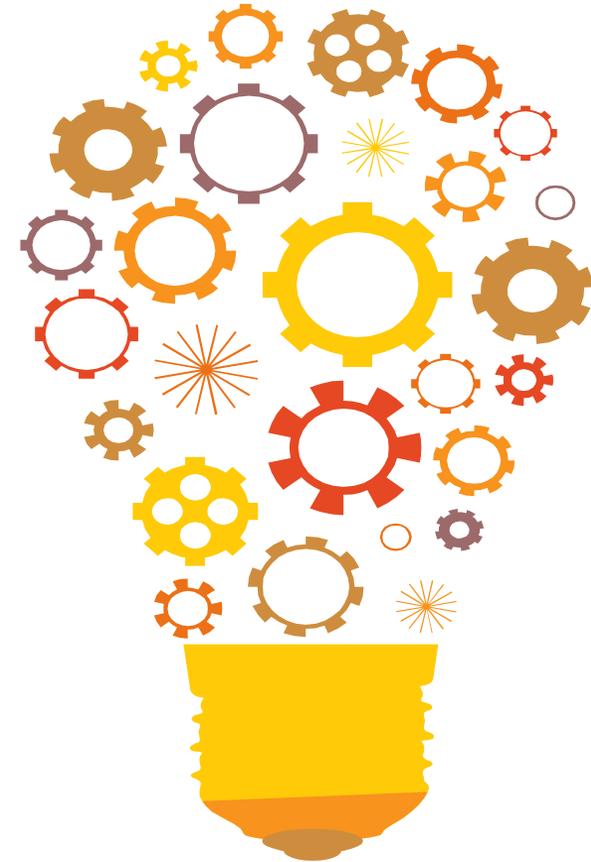
**M2K's
Insights**

**Production Linked Incentive
Scheme for Automobile and Auto
Components Sector**

1 Oct 2021

Background of the Scheme

- The Government of India has approved the new Central Sector scheme - Production Linked Incentive (PLI) Scheme for **Automobile and Auto Components Industry (PLI - Auto)** with a total budgeted outlay of **₹26,058 Crores** for enhancing India's manufacturing capabilities and exports under Atmanirbhar Bharat.
- The scheme will be under the governance of Ministry of Heavy Industries ("MHI").
- The objective of the scheme is to overcome cost disabilities, creating economies of scale and building a robust supply chain in areas of Advanced Automotive Technology products. It will also generate employment. This scheme will facilitate the Automobile Industry to move up the value chain into higher value-added products.
- The Scheme is classified into two parts – one for Original Equipment Manufacturers (OEM) and the other for Component Manufacturers.
- The scheme is for a period of 5 consecutive years from FY 2022-23 to FY 2026-27
- In the ensuing slides, we have summarized the benefits offered and relevant conditions under the aforesaid scheme.



1. Champion OEM Incentive Scheme

Both existing automobile OEM manufacturers and New Non-Automotive Investor (NNAI) are eligible to apply under this Scheme. The eligibility criteria, conditions and incentives under this scheme are given below.

A. Eligibility Criteria

Eligibility Criteria	Existing Companies*	NNAI Companies**
Minimum Global Group# Revenue	₹10,000 crores in FY 2020-21	N/A
Group Global Investment in fixed Assets (Gross Block)	₹ 3,000 crore as at 31 March 2021	N/A
Minimum Global Group Net Worth	N/A	₹1,000 crores as at 31 March 2021

*Existing Companies are the companies with existing presence in India or globally in the Automotive vehicles and components manufacturing business

**New Non-Automotive Investor company or its Group company are those who have no revenue from manufacturing of Automobile or auto components as on 31.03.2021.

#Group Company shall mean two or more enterprises which, directly or indirectly, are in a position to: Exercise twenty-six percent or more of voting rights in the other enterprise; (or) Appoint more than fifty percent of members of Board of Directors in the other enterprise (as defined in the FDI Policy Circular of 2020).

1. Champion OEM Incentive Scheme (Contd.)

B. Minimum New Domestic Investment Condition of Performance (₹ in Crores)

Cumulative new domestic investment to be achieved	Existing Companies (Except 2W & 3W)	Existing Companies 2W & 3W	NNAI
Up to or before March 31, 2023	300	150	300
Up to or before March 31, 2024	800	400	800
Up to or before March 31, 2025	1,400	700	1,400
Up to or before March 31, 2026	1,750	875	1,750
Up to or before March 31, 2027	2,000	1,000	2,000

- New investments should be made from the same legal entity as the one applying for the incentive.
- Cumulative new domestic investment made starting 1st April 2021 shall be considered under this condition.
- Investment shall mean expenditure incurred on Plant, Machinery, Equipment and Associated Utilities including tools, dies, moulds, etc. Further expenditure on buildings of the main plant and utilities will be considered upto 10% of the minimum investment. However, expenditure on land will not be considered.

1. Champion OEM Incentive Scheme (Contd.)

C. Eligible Products

- Battery Electric Vehicles;
- Hydrogen Fuel Cell Vehicles;
- Any other Advanced Automotive Technology Vehicle as may be prescribed by MHI; of all segments such as 2 wheelers, 3 wheelers, passenger vehicles, commercial vehicles, Tractors, Automobile meant for Military use, etc.

D. Incentives Offered:

Incremental (Determined) Sales Value ("DSV")	Incentives (% of DSV)
<= ₹2,000 crore	13%
> ₹2,000 - ₹3,000 crore	14%
> ₹3,000 - ₹4,000 crore	15%
> ₹4,000 crore	16%
Cumulative DSV of ₹10,000 Crores over 5 years (excess of ₹10,000 crores)	Additional 2%

- Base year for arriving at incremental sales is FY 2019-20. For NNIA base year sales will be taken as zero.
- Minimum threshold DSV of ₹125 crores to be achieved in first year to be eligible for Incentive.
- Minimum 10% YoY growth of first year DSV must be achieved to be eligible for incentive in subsequent years.
- Battery Electric Vehicles which meet the performance criteria of FAME-II scheme only be considered for incentives.

2. Component Champion Incentive Scheme

Both existing automobile component manufacturers and New Non-Automotive Investor (NNAI) are eligible to apply under this Scheme. The eligibility criteria, conditions and incentives under this scheme are given below.

A. Eligibility Criteria

Eligibility Criteria	Existing Companies*	NNAI Companies**
Minimum Global Group# Revenue	₹500 crores in FY 2020-21	N/A
Group Global Investment in fixed Assets (Gross Block)	₹ 150 crore as at 31 March 2021	N/A
Minimum Global Group Net Worth	N/A	₹1,000 crores as at 31 March 2021.

*Existing Companies are the companies with existing presence in India or Globally in the Automotive vehicles and components manufacturing business.

**NNAI company or its Group company are those who have no revenue from manufacturing of Automobile or auto components as on 31.03.2021.

#Group Company shall mean two or more enterprises which, directly or indirectly, are in a position to: Exercise twenty-six percent or more of voting rights in the other enterprise; (or) Appoint more than fifty percent of members of Board of Directors in the other enterprise (as defined in the FDI Policy Circular of 2020)

2. Component Champion Incentive Scheme (Contd.)

B. Minimum New Domestic Investment Condition of Performance (₹ in Crores)

Cumulative new domestic investment to be achieved	Existing Companies	NNAI
Up to or before March 31, 2023	40	80
Up to or before March 31, 2024	100	200
Up to or before March 31, 2025	175	350
Up to or before March 31, 2026	220	440
Up to or before March 31, 2027	250	500

- New investments should be made from the same legal entity as the one applying for the incentive.
- Cumulative new domestic investment made starting 1st April 2021 shall be considered under this condition.
- Investment shall mean expenditure incurred on Plant, Machinery, Equipment and Associated Utilities including tools, dies, moulds etc. Further expenditure on buildings of the main plant and utilities will be considered upto 10% of the minimum investment. However, expenditure on land will not be considered.

2. Component Champion Incentive Scheme (Contd.)

C. Eligible Products

- Pre-approved Advanced Automotive Technology components
- Completely Knocked Down (CKD) / Semi Knocked Down (SKD) kits
- Vehicle Aggregates
- Any other Advanced Automotive Technology components prescribed by MHI

of all segments such as 2 wheelers, 3 wheelers, passenger vehicles, commercial vehicles, Tractors, Automobile meant for Military use, etc.

D. Incentives Offered:

Determined Sales Value (DSV)	Incentives (% of DSV)
<= ₹250 crore	8%
> ₹250 to ₹500 crore	9%
> ₹500 to ₹750 crore	10%
> ₹750 crore	11%
Cumulative DSV of ₹1,250 Crore over 5 years. (in excess of ₹1,250 crores	Additional 2%
Battery Electric vehicles & Hydrogen fuel cell vehicles components	Additional 5%

2. Component Champion Incentive Scheme (Contd.)

- Components must be pre-approved by MHI.
- Vehicle aggregate is a sub-assembly / combination of different components for a defined vehicle model that are combined to provide a specific functionality to the vehicle. Aggregates of a vehicle typically include body shell / chassis, engine, transmission, suspension, steering systems, wheel assemblies, brake systems, seats etc.
- The list of advanced automotive technology components will be notified separately by MHI.
- Base year for arriving at incremental sales is FY 2019-20. For NNIA base year sales will be taken as zero.
- Minimum threshold DSV of ₹25 crores to be achieved in first year to be eligible for Incentive.
- Minimum 10% YoY growth of first year DSV must be achieved to be eligible for incentive in subsequent years.
- In the fifth year, the eligible sales relating to Internal Combustion Engine (ICE) vehicle components will be Multiplied by a factor of 0.9.

Common Conditions

- Minimum 50% domestic value addition will be required. Methodology of determination of domestic value addition will be same as in FAME scheme and will be certified by Testing Agency of MHI.
- $DSV = \text{Sales Value of eligible products for a particular year} - \text{Sales Value of eligible products in the base year}$.
- In case the approved company fails to meet the cumulative domestic investment condition in any given year, it will not receive any incentive for that year, even if the threshold for DSV is achieved. However, it will be eligible to receive the benefits under the scheme in the following years if it meets the conditions for that year.
- In case the approved company fails to meet the threshold for increase in DSV over the threshold for the first year, for any given year, it will not receive any incentive for that year. However, it will still be eligible to receive the benefits under the scheme in the next year if it meets the threshold for that particular year calculated based on 10% YoY growth over the threshold for the first year and thereafter for 4 consecutive years from when the incentive under the scheme becomes applicable (FY 2022-23).
- Early fulfilment of investment conditions is allowed.
- The approved applicant may submit a claim for disbursement of incentive only on an annual basis, that is, for the eligible sales made and domestic investment done in the period of April to March, of the said financial year. Claim for disbursement of incentive shall be filed by the approved applicant within 6 (six) months from the end of the financial year to which the claim pertains.

Evaluation Criteria

- An approved legal entity as Automotive OEM company or New Non-Automotive Investor company can avail incentives under both components of the scheme subject to the condition that any eligible product shall be incentivized only once under the scheme i.e., standalone basis at component level or in integration with the vehicle having appropriate value apportionment on the vehicle side.
- Preference will be given to eligible company or its Group committing to front load their investment during the scheme period. Proposed investment commitment will be evaluated by calculating the NPV of the investment using the bank rate as the discounting factor.
- The window for receiving applications through the Notice Inviting Applications will be for a period of 60 days. The applicant companies are required to submit the application along with financial & supporting documents. non-refundable application fee would be payable for each application.
- The Application Form along with details of all necessary supporting documents, to be submitted at the time of application, will be notified separately by MHI in due course of time.
- Incentives may be claimed under this scheme for vehicles having Advanced Chemistry Cell (ACC) batteries for which incentives have been claimed under the PLI scheme for ACC.



How Can We Assist?

Phase – I: Evaluation and Application



Evaluation of eligibility of the entity under the scheme based on the products manufactured and other criteria



Discussion with the management on basis / strategy of preparation of application, considering various selection parameters



Collation of documents / information required for preparation of application



Assistance in preparation and submission of the application including co-ordination with the team



Assistance in the representing before the authorities for any clarifications / questions regarding application

Phase – II: Post Selection Assistance



Monitoring of commitments / conditions included in the approval letter



Collation of necessary information and documents for submission to authorities for incentive claim



Assist in liaison before the authorities



Verification of financial information and computation of eligible incentive amounts on yearly basis



Assistance in preparation of submission of claim for incentive, on annual basis

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Thank you