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In IT policy pipeline: Rs 23k-crore electronic subsidy scheme for value-add and jobs

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Employment creation is also likely to see a major push through the scheme, with the government having set yearly direct job creation goals for participating entities. (Reuters/File)

THE IT Ministry has finalised the contours for an ambitious incentive policy for electronic components manufacturing, with an outlay of around Rs 23,000 crore, spread over six years, as the government looks to deepen domestic value addition after

successfully localising smartphone assembly in the country.

The components that the government is looking to target through the scheme include display modules, sub assembly camera modules, printed circuit board assemblies, lithium cell enclosures, resistors, capacitors, and ferrites, among others.

Employment creation is also likely to see a major push through the scheme, with the government having set yearly direct job creation goals for participating entities. "Overall, the government is targeting that the scheme will help generate 91,600 direct jobs over the six-year period, with annual incentive payouts ranging from Rs 2,300 crore to Rs 4,200 crore, conditional on companies meeting investment, production and employment goals for the corresponding year.

So, we have finalised the scheme with an outlay of Rs 22,919 crore," a senior government official told The Indian Express.

The official said that the components incentive scheme is a crucial next step for the country as the production linked incentive (PLI) scheme for smartphone manufacturing is nearing its sunset. Despite being able to attract companies like Apple and Samsung to localise some of their overall assembly in India, the domestic value addition has been relatively low, around 15-20 per cent, with the government hoping to raise it to at least 30-40 per cent. This is why a scheme to encourage component manufacturing is being seen as an important second step.

The scheme could offer three different kinds of incentives: depending on operational expenses, capital expenses, and a combination of the two. Operational incentives will be given based on net incremental sales, similar to PLI schemes, and capex incentives will be given on the basis of eligible capital expenditure.

EXPLAINED

Next big move after PLI scheme

THE ELECTRONICS component incentive plan is a crucial next step for India as the PLI scheme for smartphones nears its sunset. Despite the latter's success, local value addition in electronics manufacturing remains low at 15-20 per cent, with the government hoping to raise it to 40 per cent with the component subsidy plan.

Greenfield as well as brownfield investments would be eligible to avail subsidies, and foreign companies can participate in the scheme by either committing to a transfer of technology to an Indian company, or participating in the scheme through a joint venture with a domestic firm, the official said.

The IT Ministry did not respond to a request for comment.

In an internal assessment carried out by the IT Ministry last year, the government had identified a "huge" demand-supply gap in the electronic components sector — to the tune of $100 billion for domestic consumption alone, and $140 billion if India wants to export some components. That would be almost 10 times of what India's current domestic capacity is. In 2022-23, electronic components production in the country stood at $10.75 billion accounting for only about 10 per cent of total electronics production.

According to the assessment, which The Indian Express reported last August, the government has identified three key challenges facing India in terms of electronic components manufacturing.

First is the current lack of domestic scale in the country. Second is a high investment to turnover ratio — in terms of finished products such as smartphones, which is what India is currently focusing on, every rupee of investment can bring it around Rs 20. However, in case of electronic components, every rupee worth of investment will bring around Rs 2-4. And third is that because India has big domestic demand, a large chunk of components are being imported: electronics imports is the second largest import commodity after oil, and account for nearly 75 per cent of the total electronics production in India.

Going by this trend, component demand is expected to reach $160 billion by 2028-29. “As component imports continue to grow at around 12 per cent, our component production with exports would have to grow by a CAGR of more than 53 per cent to meet demand,” the ministry’s internal assessment said. This is why it is critical for the country to work out a domestic manufacturing scheme in the components sector.

The assessment acknowledged that while PLI scheme for smartphones has resulted in a near tapering of imports of finished products, import of key components and sub-assemblies, including integrated circuits, increased from $29 billion in FY21 to $46.5 billion in FY23.

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