Deloitte.

PLI Scheme for Auto sector: Key details and opportunities

30 September 2021

We will discuss...

Automotive PLI Project Dimensions

Automotive PLI Policy Details

Corporate tax and other incentives

Automotive PLI Project

Overview

PLI Schemes for Automotive sector – Overview

Relevant PLI Schemes

- Automotive
- Technical Textiles (Mobile Textiles)
- ACC to cover battery cells
- Speciality steel

Automotive PLI

Objective

- Boost domestic manufacturing of Advanced Automotive Technology products
- Overcoming cost disabilities
- Creating economies of scale and building a robust supply chain

Target Segment

- **Existing automotive companies** meeting threshold criteria of Global Group Revenue and Global Investment in Fixed Assets
- Scheme is **open for new non-automotive investors** as well

Scheme Components

- Incentivizing incremental sales of
  - Automobile
  - Auto Components

  related to Advanced Automotive Technology

Scheme Outlay

INR 25,938 crore for the scheme for Vehicle OEMs and Components Manufacturers

PLI – Business opportunities

PLI will bring in business opportunities of developing new business models and entering new markets

Changing Business Model

- Evaluating alternative business models for eligible auto OEMs – e.g. feasibility to now manufacture in India rather than CKD / SKDs

Entering New Markets

- PLI will increase FDI inflow from global co's into eligible products / co's
- Indian co's may invest/enter into PLI focus segments – (via greenfield & brownfield investment) – from current allied/non-allied segments

Import Substitution & Increase Exports

- Auto component co's relying on imports, can now evaluate tech transfer & manufacturing in India to cut imports
- Additionally, co's can benefit from PLI and become low-cost export centers

New Product Introduction

- Eligible co's may expand their portfolio, to offer products from the 22 segments under PLI scheme, aligning their portfolio with growing segments

Expanding Locations & Supplier Landscape

- With expanding markets & increasing demand, co's may expand to new locations (manufacturing and supply chain)
- Upstream supply chain and vendor base will also evolve to meet the changing requirements

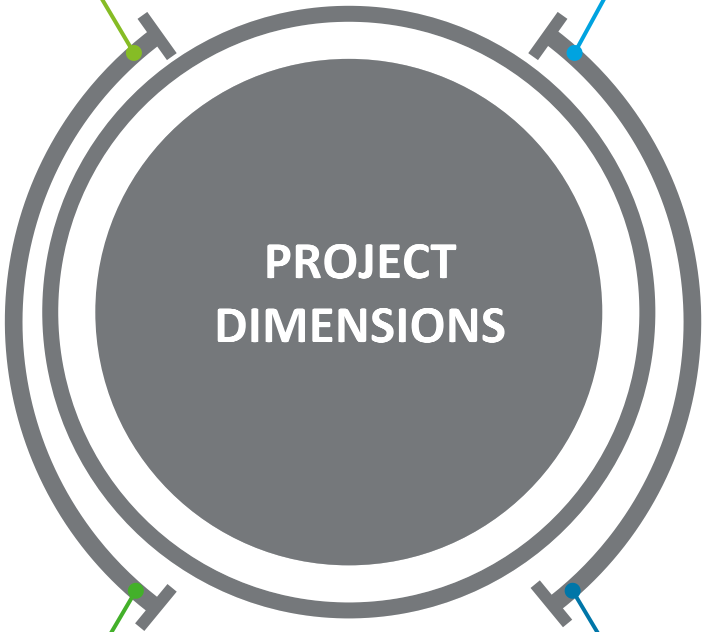
PLI Projects

1 STRATEGIC IMPERATIVES

Site selection, legal entity structure and funding

2 INCENTIVE ASPECTS

Add-on incentive programs, corporate tax benefits, management of investment certification and disbursals



3 IMPLEMENTATION

Sales targets, growth plans, employment targets, product mix etc.

4 SUPPLY CHAIN

Sourcing, domestic value addition, export hubs

PLI Scheme for Automotive

Framework

PLI Schemes for Automotive Sector – Overview

Champion OEM scheme

- **Battery Electric Vehicles** and **Hydrogen Fuel Cell Vehicles** of all segments:
  - 2 wheelers, 3 wheelers,
  - passenger vehicles,
  - commercial vehicles,
  - Tractors,
  - Automobile meant for Military use
  - any other Advance Automotive Technology vehicle as prescribed by MHI depending upon technical developments

(All vehicle segments which meet performance criteria of FAME-II scheme or as notified from time to time by MHI)

Component Champion Scheme

- Advanced Automotive Technology components of vehicles, Completely Knocked Down (CKD)/ Semi Knocked Down (SKD) kits, Vehicle Aggregates of:
  - 2 and 3 wheelers,
  - passenger vehicles,
  - commercial vehicles,
  - tractors, etc.

Exhaustive list to be notified)

Incentive Concepts

- **FY 19-20 shall be the base year** to compute eligible sales value
- **FY 20-21 shall be the considered for eligibility criteria** i.e., Global revenue, gross block, net worth
- **Scheme Tenure is 5 years** starting from FY 2022-23
- Incentives at a **specified percentage** of **determined sales value**
- **Determined sales value** net of all returns, discounts
- Requirement to meet minimum **cumulative threshold investment criteria**
- Requirement to meet **threshold determined sales** (increase of 10% YoY)
- **Domestic value addition norms** based on FOB value of imported material
- Notified products can be **amended by MHI**
- Incentives available for both **domestic and export sales**
- **Cash** subsidy
- Application to be invited within 60 days, **thereafter 60 days for filing application** (approx. 3-4 months in total)

Cumulative new domestic investment

INR in crore

Cumulative new domestic investment to be achieved	Champion OEM (Except 2W & 3W)	Champion OEM 2W & 3W	New Non-Automotive Investor (OEM)	Component Champion	New Non-Automotive Investor (Component)
Upto or before March 31, 2023	300	150	300	40	80
Upto or before March 31, 2024	800	400	800	100	200
Upto or before March 31, 2025	1400	700	1400	175	350
Upto or before March 31, 2026	1750	875	1750	220	440
Upto or before March 31, 2027	2000	1000	2000	250	500

Preference in selection criteria

- Applicants committing to front load their investment [to be evaluated by calculating the Net Present Value (NPV) of the investment using the bank rate as the discounting factor]

Eligible investment

- Plant, machinery and associated utilities
- Expenditure on building not exceed 10% of minimum cumulative domestic investment (expenditure on land in ineligible)

Investment period

- Cumulative new investment made from 1 April 2021 shall be considered

Applicant's legal entity

- New investments should be made from the same legal entity as the one applying for the incentive

Condition of performance

- Cumulative investment condition for each year should be fulfilled
- Failure to meet cumulative domestic investment in any year will make approved applicant ineligible for incentive for that year. However, incentive in subsequent years will be given if cumulative investment condition for next year(s) is met

Champion OEM Incentive Scheme

Battery Electric Vehicles

Hydrogen Fuel Cell Vehicles

Eligibility Criteria	Existing Auto Companies	New Non-Automotive investor
Global Group Revenue from Automotive or Component manufacturing	10,000	-
Global Group Gross Block of Fixed Assets	3,000	-
Global Net Worth	-	1,000
Cumulative New Domestic Investment (*Other than 2 and 3W/ 2 and 3W)	2,000/1,000*	2,000

Incentive Slab	Determined Sales Value – DSV (INR in Crore)	Incentive % of DSV
	Up to 2,000 (subject to meeting minimum DSV for each year)	13% of DSV
	More than 2,000 upto 3,000	14% of DSV above 2000 + 260
	More than 3,000 upto 4,000	15% of DSV above 3000 + 400
	More than 4,000	16% of DSV above 4000 + 550
	Cumulative DSV of 10,000 or more over 5 years	Additional 2% of DSV in excess of 10,000

Minimum DSV – with 10% YoY Growth	Minimum DSV (INR in Crore)
FY 2022-23	125
FY 2023-24	137
FY 2024-25	151
FY 2025-26	166
FY 2026-27	183

- **Minimum 10% YoY growth** in the DSV of first year i.e., 125 crore.
- **Minimum 50% Domestic Value Addition** will be required
- **Failure to meet YoY growth of 10%** in any year will make approved applicant ineligible for incentive for that year. However, incentive in subsequent year will be given if others condition for next year(s) is met
- Incentive under the scheme to Electric vehicle manufacturers will be independent of incentives given under FAME II scheme
- Incentives available in scheme for Battery Electric vehicles having ACC batteries for which incentives have been claimed under ACC PLI scheme

Component Champion Incentive Scheme

Advanced Automotive Technology components of vehicles, CKD, SKD kits, Vehicle Aggregates of 2W, 3W, passenger vehicles, commercial vehicle and tractors

Eligibility Criteria	Existing Auto Companies	New Non-Automotive investor
Global Group Revenue from automotive or component manufacturing	500	-
Global Group Gross Block of Fixed Assets	150	-
Global Net Worth	-	1,000
Cumulative New Domestic Investment	250	500

Minimum DSV – with 10% YoY Growth	Minimum DSV (INR in Crore)
FY 2022-23	25
FY 2023-24	27
FY 2024-25	30
FY 2025-26	33
FY 2026-27	37

	Determined Sales Value – DSV (INR in Crore)	Incentive % of DSV
Incentive Slab[1]	Up to 250 (subject to meeting minimum DSV for each year)	8% of DSV
	More than 250 upto 500	9% of DSV above 250 + 20
	More than 500 upto 750	10% of DSV above 500 + 42
	Above 750	11% of DSV above 750 + 67
	Cumulative DSV of 1,250 or more over 5 years	Additional 2% of DSV in excess of 1,250
	Battery Electric vehicles & Hydrogen fuel cell vehicles components	Additional 5%

- **Minimum 10% YoY growth** in the DSV of first year i.e., 25 crore
- **Minimum 50% domestic value addition** will be required
- **Failure to meet YoY growth of 10%** in any year will make approved applicant ineligible for incentive for that year. However, incentive in subsequent year will be given if others condition for next year(s) is met

[1]Multiplied by a factor of 0.9 in the fifth year for eligible sales relating to Internal Combustion Engine (ICE) vehicle components

Eligible investment

Eligible investment

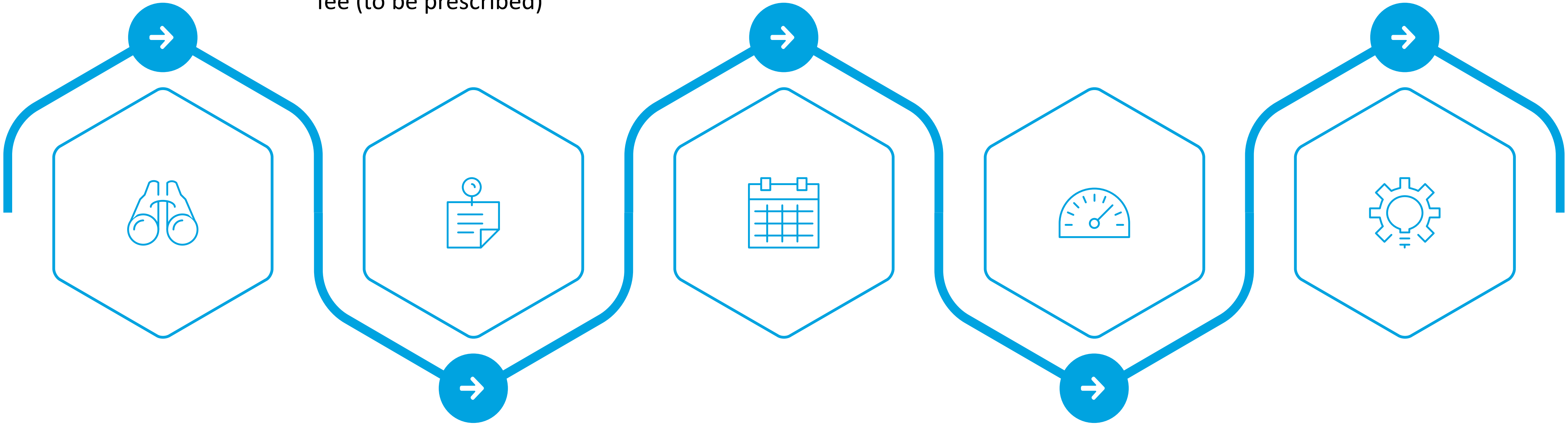
Plant, Machinery, Equipment

- Plant, machinery, equipment and associated utilities
- Tools, dies, moulds, jigs, fixtures (including parts, accessories, components and spares thereof)
- Associated utilities would include following:
  - captive power and effluent treatment plants
  - essential equipments required in operations area such as clean rooms, air curtains, temperature and air quality control systems, compressed air, water and power supply, and control systems
  - IT and ITES infrastructure related to manufacturing such as servers, softwares, and ERP solutions
- All non-creditable taxes and duties would also be included.

Land and Building:

- The **expenditure incurred on land is ineligible**
- **Expenditure on buildings** of the main plant and utilities will be **eligible subject to a capping of 10%** of eligible investment

Application process flow



Step 1 – Notice for Application
Notice inviting applications will be issued within 60 days (i.e., by 22 Nov 2021)

Step 2 – Application Filing Window
Application to be filed within 60 days of notice inviting application is issued, along with non-refundable fee (to be prescribed)

Step 3 – Online Application
Application to be filed on online portal maintained by PMA (to be prescribed). In case online portal is not available, then manual application to be filed

Step 4 – Scrutiny by PMA
Upon filing, PMA to scrutinise application, intimate deficiency to the applicant for response

Step 5 – Finalisation & Approval
Applicants to be finalised within 60 days of filing applications, and communication of approval will be given to applicants within 5 working days

Corporate tax benefits

Corporate tax benefits | Tax regime for new manufacturing companies

A snapshot

- **Tax rate of 15%** plus surcharge and cess [i.e. **effective rate of 17.16%**]
- No Minimum Alternate Tax (MAT)

Lower tax rate vis-à-vis select other jurisdictions –

- China: 25%
- Vietnam / Taiwan: 20%
- Philippines: 25%

Attractive tax regime for

- New manufacturing companies in India
- Incorporated on or after 1 October 2019

- Company engaged only in **manufacture** of any article or thing and **research** in relation to, or **distribution** of, such article or thing manufactured by it
- **Commencing manufacture on or before 31 March 2023**
- Not formed by splitting up or reconstruction of an existing business; and company does not use any machinery or plant previously used for any purpose

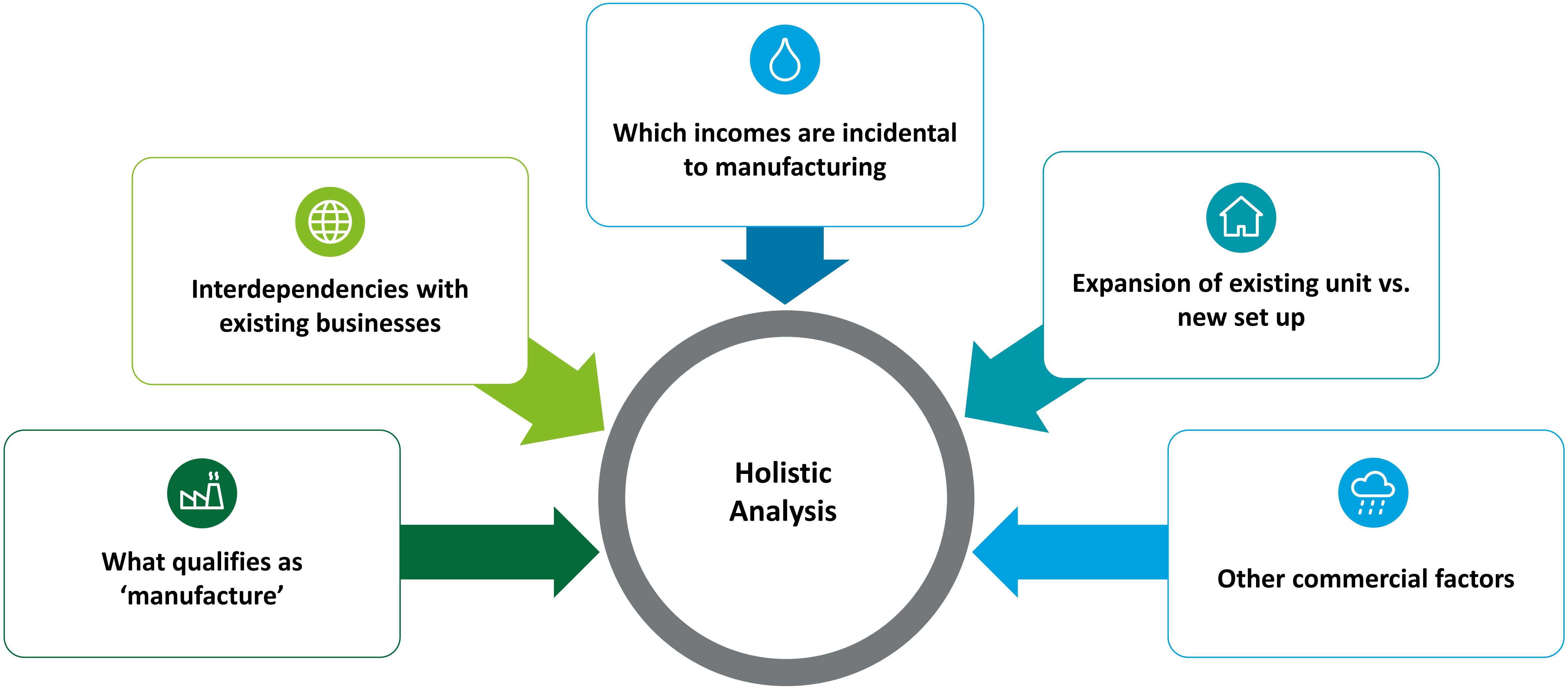
- Certain incentives not to be claimed (e.g. additional depreciation)
- Regime to be chosen at the time of filing the first tax return; cannot be withdrawn subsequently for any year
- Domestic transfer pricing provisions to apply

Other incentives

Income-tax benefits on **employment generation** available [deduction for 30% of additional employment cost for 3 years, subject to conditions]

Corporate tax benefits | Tax regime for new manufacturing companies

Key considerations vis-à-vis eligibility and PLI



Corporate tax benefits | Beneficial tax framework

- **Abolition of dividend distribution tax** – Dividend taxable for the shareholder
- **No cascading effect** – Dividends received not taxable for an Indian company, if it onward pays dividend in prescribed time

- Access to **lower dividend tax rates** under the treaty (**as low as 5% / 10%**)
- Ease of **tax credit** in parent company jurisdiction
- Reduction of group tax cost

- **Dividend received from foreign subsidiaries** is taxable at a **concessional rate of 15%***

- **Special tax rate of 5%*** in case of foreign lenders, for **interest** on monies borrowed before 1 July 2023 (subject to conditions)
- Strong **treaty network** with approx. 94 nations

Long term capital gains taxable at a **reduced rate of 10%***, in case of non-resident shareholders (subject conditions and treaty benefit, if any)

- No obligation to file an income-tax return by non-resident companies in case of royalty, technical service fee, dividend or interest income, if it has been subjected to WHT as per domestic tax law

India – a destination of choice for setting up manufacturing operations

**plus applicable surcharge and cess*

State incentives

Summary of the state government incentive schemes – Supply side

Key benefits

Fiscal

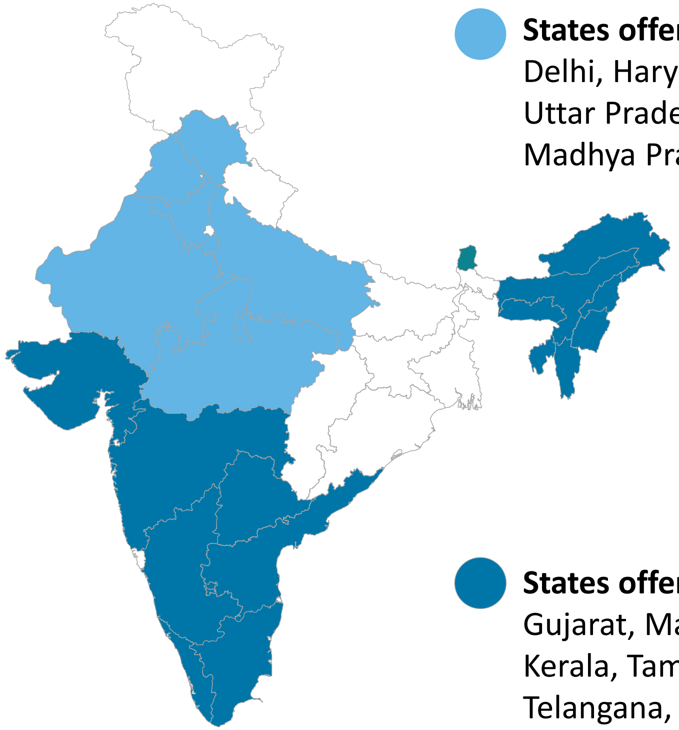
- Capital subsidy linked to investment outlay
- Training subsidy linked to job creation
- Gross or Net GST refund on supply of goods or services
- Exemption or concession from stamp duty on transfer or lease of land
- Concessional rates of power tariff
- Concessional land
- Interest free loans
- Sector specific policies

Non-Fiscal

- Single window clearance for permits
- Infrastructure benefits viz roads, water supply, IT infrastructure etc

Most of the above benefits open to negotiation by the government in large investment projects

Demographic overview



States offering moderate incentives
Delhi, Haryana, Punjab, Rajasthan, Uttar Pradesh, Himachal Pradesh, Madhya Pradesh

States offering higher incentives
Gujarat, Maharashtra, Karnataka, Kerala, Tamil Nadu, Andhra Pradesh, Telangana, North East

Key drivers for incentives negotiation

- Economic activity
- Status of the project (MSME, large, mega, ultra mega, etc
- Quantum of investment
- Investment period
- Employment generation
- Location or district of proposed operations

Illustrative areas for consideration

Parameters to consider while negotiating or applying for State incentives

- Negotiate higher capital subsidy (since SGST benefits are not provided under Gujarat Industrial Policy, 2020)
- Upfront agreement on exclusions and inclusions for eligible fixed assets depending on the items of investment
- Exclusions and inclusions for eligible fixed assets depending on the items of investment

- Grounds to argue that best in class benefits should be provided even though investment activity has commenced. Consider alternative States offering better incentives
- Implementation process – documentation, certification, separate GST registration for covered investments etc.
- Treatment of intangible assets such as royalty, technical know how, pre-operative expenses etc.; domestic or imported used assets

Recent developments under State industrial policies

In the recently announced state industrial policies, fiscal benefits getting de-linked from GST payments

Reimbursement linked to GST output

- Production linked Incentives
- Capital Subsidy linked to investment

Implemented by

- Gujarat
- Karnataka
- Uttar Pradesh
- Tamil Nadu

Key benefits of de-linking incentives from GST

- Better certainty of potential reimbursements by way of capital subsidy instead of net SGST payments in future
- Ease of filing reimbursement claims (no waiting period till completion of GST assessments, no certificate from GST commissioner etc.)
- In case of net SGST reimbursements, enterprises are discouraged from local procurements due to overall lower net SGST payment

Key sectors in focus under recent State industrial policies

- Electronics and ESDM*
- Startups / Innovation
- Industry 4.0
- Information Technology
- Electric Vehicle
- Pharma and Life sciences*
- Aerospace and Aviation
- Automobile

* Benefits available to industrial units in addition to incentives under PLI schemes by Central Government