

## Regulatory Alert

September 29, 2021



# Production Linked Incentive Scheme for Automobile and Auto Component Industry

With an objective to boost manufacturing of Advanced Automotive Technology products and attract investments in the automotive manufacturing value chain, the Ministry of Heavy Industries, Government of India ('MHI') notified<sup>1</sup> the Production Linked Incentive Scheme for Automobile and Auto Component Industry ('the Scheme'). Towards operationalizing the Scheme, MHI issued Guidelines<sup>2</sup> for the Scheme, providing a detailed framework to avail the benefit therein. This update is an insight on the key features of the Scheme, including vital guidelines.

### Background

- India's automobile industry is one of the largest in the world. The industry has witnessed high growth rates in the last three decades and continues its upward trajectory with increased Foreign Direct Investment (FDI) as well as technological advancements.
- The Government's second Automotive Mission Plan 2016-2026 (AMP 2026) aims to make the Indian automotive industry the engine in the Make in India initiative. In line with the objectives of Make in India, and to provide a further boost to the automotive sector, the Government of India recently approved the Production Linked Incentive Scheme for Automobile and Auto Component Industry ('the Scheme'). The Scheme also aims to overcome cost disabilities, creating economies of scale and building a robust supply chain in areas of Advanced Automotive Technology products.

---

<sup>1</sup> Notification S. O. 3946(E) dated September 23, 2021

<sup>2</sup> Notification S.O. 3947 (E) dated September 23, 2021



- The Scheme offers incentives of ₹ 25,938 crores for a period of five years. It operates from the Financial Year (FY) 2022-23 and disburses incentives in the following year i.e., FY 2023-24 onwards.
- The incentive will be granted to selected Applicants manufacturing Advanced Automotive Technology Vehicles and Advanced Automotive Technology components of all vehicles.
- The Scheme incentivizes existing players and new players willing to make fresh investments in this sector.

### Components of the Scheme

- The Scheme contains guidelines towards incentivizing vehicle manufacturers as well as component manufacturers. It therefore has two subsets:
  - (1) Champion Original Equipment Manufacturer (OEM) Incentive Scheme
  - (2) Component Champion Incentive Scheme
- The Scheme invites applications from any automotive company or new non-automotive<sup>3</sup> investor company or its group companies for any one or both the components of the scheme.
- The Scheme disallows double claiming for the same product under both the components of the Scheme.
- The Scheme will be implemented through a Project Management Agency ('PMA') appointed by the MHI, which will be responsible for appraisal of applications, examination of claims, monitoring the progress and performance of the Scheme.

### Component (1) – Champion OEM Incentive Scheme ('OEM Scheme')

#### A. Key Features

- The following vehicles are prescribed by the MHI as Advanced Automotive Technology Vehicles including two-wheelers (2W), three-wheelers (3W) and others:
  - (i) **Battery Electric Vehicles** - All vehicle segments that meet the performance criteria of Fame-II<sup>4</sup> segment or as notified from time to time by MHI
  - (ii) **Hydrogen Fuel Cell Vehicle** – All vehicle segments

MHI will prescribe further additions to the above list from time to time depending on the technological developments.

- Applicants will be required to make the prescribed minimum investment and should fulfil the minimum turnover limit to be eligible under the OEM Scheme.

---

<sup>3</sup> New non-automotive investor company or group company are those who have no revenue from manufacturing of automobiles or auto components as on March 31, 2021

<sup>4</sup> Faster Adoption and Manufacturing of Electric Vehicles in India Phase II



## B. Eligibility criteria

- Applicants must fulfil the following criteria to be eligible and to avail the incentive:

Criteria	Particulars			
<b>Global Group<sup>5</sup> Revenue / Global Net Worth</b>	<ul style="list-style-type: none"> <li>Minimum Revenue ₹ 10,000 Crore (For existing automotive companies)</li> <li>Minimum Net Worth ₹ 1,000 Crore (For new non-automotive investor)</li> </ul> <i>(The above criteria are based on the audited financial statements for FY 2020-21)</i>			
<b>Investment</b>	<ul style="list-style-type: none"> <li>Global Investment of Company or its Group Companies in Fixed Assets (Gross Block) of ₹ 3,000 Crore as on March 31, 2021</li> </ul>			
<b>Minimum Investment<sup>#</sup></b>	<ul style="list-style-type: none"> <li>Applicant should commit to undertake minimum investment as per table below:</li> </ul>			
	Cumulative new domestic investment	Existing OEM (Except 2W & 3W)	Existing OEM (2W & 3W)	New Non-Automotive investor
	Up to 31.03.2023	300	150	300
	Up to 31.03.2024	800	400	800
	Up to 31.03.2025	1400	700	1400
	Up to 31.03.2026	1750	875	1750
Up to 31.03.2027	2000	1000	2000	
<b>Minimum Domestic Value Addition</b>	<ul style="list-style-type: none"> <li>The Applicant is required to achieve a minimum of 50% Domestic Value Addition<sup>6</sup></li> </ul>			

### # Investment:

- Investment includes expenditure incurred on Plant, Machinery, Equipment and Associated Utilities
- Associated utilities would include captive power and effluent treatment plants, essential equipment required in operations areas, IT and ITES infrastructure related to manufacturing
- Expenditure on Land and Building of the main plant and utilities will be considered as part of investment, provided it does not exceed 10% of the Minimum Cumulative Domestic Investment
- New investments (counted for the Scheme) are required to be made from the same legal entity as applying for the benefit
- Investment made from April 1, 2021 shall be considered under the Scheme

<sup>5</sup> Group Companies shall mean two or more enterprises that directly or indirectly – (1) exercise 26% or more voting rights in the other or (2) Appoint more than 50% of member of Board of Directors in the other enterprise.

<sup>6</sup> Testing agency to certify the Domestic Value Addition based on FAME Scheme



### C. Incentive computation

- Applicants will be granted a fiscal incentive at a prescribed rate computed on the incremental turnover over the base year (i.e., FY 2019-20). The incentive rates are as under:

Incentive Slabs for OEM Scheme	
Incremental Turnover over Base Year (in ₹ Crore)	Incentives (% of Incremental Turnover)
< = 2,000	13%
> 2,000 to 3,000	14%
> 3,000 to 4,000	15%
> 4,000	16%
Cumulative Incremental Turnover of ₹ 10,000 crores over 5 years	Additional 2%

- Threshold Incremental Sales of the first year (i.e., FY 2022-23) should be at-least ₹ 125 Crore and thereafter the Applicants are required to achieve Year on Year (YoY) growth of a minimum of 10% in the Incremental Turnover over the first year.
- If the approved Applicant fails to meet the threshold for incremental turnover in a given year, it will not receive any incentive for that year. However, it will still be eligible to receive the incentive in the subsequent year if the threshold for that year is met based on the 10% YoY calculated over the first year.
- Incentives claimed for a particular year will be disbursed in the following year.
- The Incentive proposed under this Scheme are independent of the incentives provided under Fame-II Scheme and the PLI Scheme for Advanced Chemistry Cell (ACC) batteries.

### **Component (2) – Component OEM Incentive Scheme ('Component Scheme')**

#### A. Key Features

- Component Scheme incentivizes manufacturers of Advance Automotive Technology components, which include:
  - (i) Pre-approved Advanced Automotive Technology components of all vehicles, CKD/SKD kits, vehicle aggregates of 2W, 3W, passenger vehicles, commercial vehicles and tractors
  - (ii) Other lists of components as notified by the MHI from time to time

A process of pre-approval of Advanced Automotive Technology components shall be undertaken by Testing Agencies of MHI (detailed guidelines for this shall be prescribed separately).

- Applicants will be required to make a prescribed minimum investment and should fulfil the minimum turnover limit to be eligible under the Component Scheme.



## B. Eligibility criteria

- Applicants must fulfil the following criteria to be eligible and to avail the incentive:

Criteria	Particulars		
<b>Global Group Revenue / Global Net Worth</b>	<ul style="list-style-type: none"> <li>Minimum Revenue ₹ 500 Crore (For existing automotive companies)</li> <li>Minimum Net Worth ₹ 1,000 Crore (For new non-automotive investor) (Above criteria is based on the audited financial statements for FY 2020-21)</li> </ul>		
<b>Investment</b>	<ul style="list-style-type: none"> <li>Global Investment of Company or its Group Companies in Fixed Assets (Gross Block) of ₹ 150 Crore as on March 31, 2021</li> </ul>		
<b>Minimum Investment<sup>#</sup></b>	<ul style="list-style-type: none"> <li>Applicant should commit to undertake minimum investment as per the table below:</li> </ul>		
	Cumulative new domestic investment	Existing Manufacturer	New Non-Automotive investor in Component
	Up to 31.03.2023	40	80
	Up to 31.03.2024	100	200
	Up to 31.03.2025	175	350
	Up to 31.03.2026	220	440
Up to 31.03.2027	250	500	
<b>Minimum Domestic Value Addition</b>	<ul style="list-style-type: none"> <li>The Applicant is required to achieve a minimum of 50% Domestic Value Addition</li> </ul>		

<sup>#</sup> Investment: Same as of OEM Scheme

## C. Incentive computation

- Applicants will be granted fiscal incentive at a prescribed rate computed on the incremental turnover over the base year (i.e., FY 2019-20). The incentive rates are as follows:

Incentive Slabs for Component Scheme	
Incremental Turnover over Base Year (in ₹ Crore)	Incentives <sup>7</sup> (% of Incremental Turnover)
< = 250	8%
> 250 to 500	9%
> 500 to 750	10%
> 750	11%
Cumulative Incremental Turnover of ₹ 1,250 crores over five years	Additional 2%
Battery Electric vehicles and Hydrogen fuel cell vehicles components	Additional 5%

- Threshold Incremental Sales for the first year (i.e., FY 2022-23) should be ₹ 25 Crore, and thereafter the Applicants are required to achieve Year on Year (YoY) growth of minimum 10% in the Incremental Turnover over the first year.

<sup>7</sup> Incentive will be multiplied by a factor of 0.9 in the fifth year for Internal Combustion Engine vehicle components



- If the approved Applicant fails to meet the threshold for incremental turnover in a given year, it will not receive any incentive for that year. However, it will still be eligible to receive the incentive in the subsequent year if the threshold for that year is met based on the 10% YoY calculated over the first year.

### **Key mechanisms for filing the Application under both Schemes**

- The Application Form will be notified by MHI separately and must be submitted through an online portal maintained by the PMA.
- The application window is expected to be opened within 60 days of Notification of the Scheme and will remain open for 60 days from the date of opening.
- The products under the Scheme will require a pre-approval by the Testing Agencies of MHI within 90 days of making the application (towards such pre-approval).
- All of the applications will be finalized within 60 days from the date of submission of application.
- Post approval, PMA shall monitor the progress of the Applicants.
- A legal entity can opt to claim incentive under both OEM Scheme and Component Scheme. However, eligible products shall be incentivized only once under the Scheme.

### **Selection Process**

- For selection of the Applicants, the administrative mechanism created under the FAME-II scheme will be adopted, which was introduced to increase the demand of Electric Vehicles in India.
- Some of the relevant factors for approval under FAME-II were minimum technical performance and efficiency, standard test approvals under Central Motor Vehicle Rules (CMVR), local value addition, minimum ex-factory price, warranties included in the price, facilities for after sales service etc.
- Preference to be given to applicants committing to front load their investment during the Scheme period.

### **Disbursement of Incentives**

- Applicants shall be required to submit claims for disbursement of incentive on an annual basis, within six months from the end of the financial year. The claim will be required to be made in a prescribed format, which will be notified separately.
- After due scrutiny, the PMA shall process the claim within 60 days from the date of receipt of such a claim and shall arrange for disbursement of funds.
- After disbursement of funds, the Applicant will be required to undertake a reconciliation between the investment made and incremental sales turnover and submit it to the PMA by December 31<sup>st</sup> of the financial year subsequent to which the claim pertains.
- Excess claims disbursed shall be reimbursed to the MHI, along with specified interest.



## Dhruva Comments

- The Scheme provides attractive incentives to large automotive players operating in the Electronic Vehicle segment or Advanced Automotive Technology products. It may, however, be out of bounds for start-up or smaller automotive companies due to the high threshold revenue and investment criteria.
- The Scheme has capped incentive per Company or Group of Companies at ₹ 6,485 crore (i.e., 25% of the total outlay), which reflects the Government's intention of attracting large investors and creating a handful of global champions to boost the country's manufacture in advanced auto products.
- The application window under the Scheme is expected to open very soon and the Applicants willing to participate would need to showcase their capacity and worthiness to be approved. It is recommended that:
  - Companies who have made investments in FY 2021-22 onwards in the eligible segments must look forward in order to avail benefits under the Scheme.
  - Companies planning investments ahead can take cognizance of the Scheme and make applications thereunder.

## How can Dhruva assist?

Here at Dhruva, we have significant expertise in the tax and regulatory aspects of the automotive sector and will be happy to provide assistance in understanding the various nuances of the Scheme, helping you to plan and strategize your operations in an effective manner. An illustrative list of how we can assist is depicted below:





## ADDRESSES

### Mumbai

One World Center, 11<sup>th</sup> floor,  
Tower 2B, 841, Senapati Bapat Marg,  
Elphinstone Road (West),  
Mumbai 400 013  
Tel: +91 22 6108 1000 / 1900

### Ahmedabad

B3, 3rd Floor, Safal Profitaire,  
Near Auda Garden,  
Prahaldnagar, Corporate Road,  
Ahmedabad - 380 015  
Tel: +91-79-6134 3434

### Bengaluru

Prestige Terraces, 2nd Floor  
Union Street, Infantry Road,  
Bengaluru 560 001  
Tel: +91-80-4660 2500

### Delhi / NCR

101 & 102, 1st Floor, Tower 4B  
DLF Corporate Park  
M G Road, Gurgaon  
Haryana - 122 002  
Tel: +91-124-668 7000

### Pune

305, Pride Gateway, Near D-Mart, Baner,  
Pune - 411 045  
Tel: +91-20-6730 1000

### Kolkata

4th Floor, Unit No 403, Camac Square,  
24 Camac Street, Kolkata  
West Bengal – 700016  
Tel: +91-33-66371000

### Singapore

Dhruva Advisors (Singapore) Pte. Ltd.  
20 Collyer Quay, #11-05  
Singapore 049319  
Tel: +65 9105 3645

### Dubai

WTS Dhruva Consultants  
Emaar Square Building 4, 2nd Floor,  
Office 207, Downtown,  
Dubai, UAE  
Tel: + 971 56 900 5849

## KEY CONTACTS

### Dinesh Kanabar

Chief Executive Officer  
dinesh.kanabar@dhruvaadvisors.com

### Ritesh Kanodia

ritesh.kanodia@dhruvaadvisors.com

### Niraj Bagri

niraj.bagri@dhruvaadvisors.com

### Ranjeet Mahtani

ranjeet.mahtani@dhruvaadvisors.com

---

Dhruva Advisors has been consistently recognised as the **“India Tax Firm of the Year”** at the ITR Asia Tax Awards in 2017, 2018, 2019, 2020 and 2021.

Dhruva Advisors has also been recognised as the **“India Disputes and Litigation Firm of the Year”** at the ITR Asia Tax Awards 2018 and 2020.

WTS Dhruva Consultants has been recognised as the **“Best Newcomer Firm of the Year”** at the ITR European Tax Awards 2020.

Dhruva Advisors has been recognised as the **“Best Newcomer Firm of the Year”** at the ITR Asia Tax Awards 2016.

Dhruva Advisors has been consistently recognised as a **Tier 1 Firm in India for General Corporate Tax** by the International Tax Review's in its World Tax Guide.

Dhruva Advisors has been consistently recognised as a **Tier 1 Firm in India for Indirect Taxes** in International Tax Review's Indirect Tax Guide.

Dhruva Advisors has also been consistently recognised as a **Tier 1 Firm in India for its Transfer Pricing** practice ranking table in ITR's World Transfer Pricing guide

#### Disclaimer:

This information contained herein is in summary form and is therefore intended for general guidance only. This publication is not intended to address the circumstances of any particular individual or entity. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation. This publication is not a substitute for detailed research and opinion. Before acting on any matters contained herein, reference should be made to subject matter experts and professional judgment needs to be exercised. Dhruva Advisors LLP cannot accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication