

Regulatory Alert

May 24, 2021



Production Linked Incentive Scheme for Food Processing Industry

With the objective of boosting the manufacturing of food products in India and supporting the visibility of Indian food brands in the global market, the Government approved¹ the Production Linked Incentive Scheme for Food Processing Industry (“the Scheme”). Towards operationalising the Scheme, the Government issued Guidelines² for the Scheme, providing a detailed framework to avail the benefit under the Scheme. This update is an insight on the key features of the Scheme, including vital guidelines.

Background

- India’s food and grocery market is the sixth largest in the world and is seeing a rapid increase year on year³. With 100% Foreign Direct Investment (FDI) permitted through automatic routes, the Food Processing Industry in India is a sunrise sector. The Government of India, through the Ministry of Food Processing Industries (MoFPI), is also taking necessary steps to boost investments in this Industry.
- In keeping with the Prime Minister’s ‘*Aatmanirbhar Bharat*’ vision, the Government of India recently approved the Production Linked Incentive Scheme for the Food Processing Industry (“the Scheme”). The Scheme offers incentives of INR 10,900 crores, which will be granted to selected Applicants manufacturing eligible products. The benefit under the Scheme shall be over and above any other incentive/grant provided to the Food Processing Industry.

¹ F. No. FM-11-12/1/2021-PLIS-MoFPI dated April 9, 2021

² F. No. 11-18/3/2021-PLIS Division-MoFPI dated May 2, 2021

³ Source: www.ibef.org



Key Features of the Scheme

- The Scheme provides fiscal incentives under the following three broad categories viz.
 - Category I:** Incentives to select-large food processing entities making prescribed investment and achieving incremental sales in four specified target segments, viz. (i) Ready to Cook/Ready to Eat (RTC/RTE), including millet-based foods; (ii) Processed Fruits & Vegetables; (iii) Marine Products and (iv) Mozzarella Cheese.
 - Category II:** Support to Small and Medium Enterprises (SMEs) in the four target segments specified in (1) above which manufacture innovative/organic products, including free range eggs, poultry meat and egg products.
 - Category III:** Grants to entities carrying out branding and marketing of Indian brands in foreign markets.
- Applicants will be required to make prescribed minimum investment and should fulfill the minimum turnover limit.
- Applicants will be granted fiscal incentive at a prescribed rate computed on the incremental sales. The incentive rates are as under:

Incentive Rate on Incremental Sales				
Financial Year	RTC/RTE	Processed Fruits & Vegetables	Marine Products*	Mozzarella Cheese
2021-22	10%	10%	6%	10%
2022-23	10%	10%	6%	10%
2023-24	10%	10%	6%	10%
2024-25	10%	10%	6%	8%
2025-26	9%	9%	5%	6%
2026-27	8%	8%	4%	4%
*10% Incentive rate for Value-Added Marine Products for all six years				

- The Applicants are required to achieve specified minimum Cumulative Annual Growth Rate ('CAGR') over the base year⁴ in order to claim the incentive.
- The tenure of the Scheme is six years from Financial Year ('F.Y.') 2021-22 to 2026-27.
- Incentives claimed for a particular year will be disbursed in the following year.
- The Scheme will be implemented through a Project Management Agency ('PMA') appointed by the MoFPI which will be responsible for receipt and examination of claims, management of data regarding progress and performance of the applicants, disbursement of claims and providing any other support required.
- Eligibility under the Scheme shall not affect eligibility under any other scheme and vice-a-versa.
- 2% of the total incentive outlay under the Scheme has been earmarked for SMEs (under Category II).

⁴ The Base year will be F.Y. 2019-20 for the first four years and F.Y. 2021-22 and 2022-23 for the fifth and sixth year respectively



- The proposal/Expression of Interest is required to be filed through the online portal: <https://plimofpi.ifcilt.com>. The application deadline is **June 17, 2021 up to 5.00 pm**.

Eligibility and other Conditions

1. Category I – Incentive to Large Food Processing Entities in Target Segments

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

Criteria	Particulars										
Primary Condition	<ul style="list-style-type: none"> The Applicant should be engaged in the manufacturing of food products in India and the sale of such products covered under the Target Segments: (i) (RTC/RTE) including millet-based foods; (ii) Processed Fruits & Vegetables; (iii) Marine Products and (iv) Mozzarella Cheese A detailed list of products covered in the Target Segments is provided in Annexure-A 										
Minimum Sales	<ul style="list-style-type: none"> The Applicant should have minimum sales turnover in the Base Year as per the table below: <table border="1"> <thead> <tr> <th>Segment</th> <th>Minimum Sales (INR in Crores)</th> </tr> </thead> <tbody> <tr> <td>RTC/RTE</td> <td>500</td> </tr> <tr> <td>Processed Fruits & Vegetables</td> <td>250</td> </tr> <tr> <td>Marine Products</td> <td>600</td> </tr> <tr> <td>Mozzarella Cheese</td> <td>150</td> </tr> </tbody> </table>	Segment	Minimum Sales (INR in Crores)	RTC/RTE	500	Processed Fruits & Vegetables	250	Marine Products	600	Mozzarella Cheese	150
Segment	Minimum Sales (INR in Crores)										
RTC/RTE	500										
Processed Fruits & Vegetables	250										
Marine Products	600										
Mozzarella Cheese	150										
	Minimum sales includes food products sold in consumer packs including the food products covered under the Target Segments										
Minimum Investment[#]	<ul style="list-style-type: none"> Applicant should commit to undertake minimum investment as per table below: <table border="1"> <thead> <tr> <th>Segment</th> <th>Minimum Investment (INR in crores)</th> </tr> </thead> <tbody> <tr> <td>RTC/RTE</td> <td>100</td> </tr> <tr> <td>Processed Fruits & Vegetables</td> <td>50</td> </tr> <tr> <td>Marine Products</td> <td>75</td> </tr> <tr> <td>Mozzarella Cheese</td> <td>23 (for 10-metric plant per day)</td> </tr> </tbody> </table>	Segment	Minimum Investment (INR in crores)	RTC/RTE	100	Processed Fruits & Vegetables	50	Marine Products	75	Mozzarella Cheese	23 (for 10-metric plant per day)
Segment	Minimum Investment (INR in crores)										
RTC/RTE	100										
Processed Fruits & Vegetables	50										
Marine Products	75										
Mozzarella Cheese	23 (for 10-metric plant per day)										
Manufacturing location	<ul style="list-style-type: none"> The entire chain of manufacturing process, including primary processing, shall take place in India. This condition is exempt for additives, flavours and edible oils 										
Financial standing	<ul style="list-style-type: none"> The Applicant has not been declared bankrupt, willful defaulter, defaulter or been accused of fraud by any bank, financial institution or non-banking financial company The Applicant should not appear on the SEBI Debarred List 										



Investment:

- Investment can be a greenfield investment or an expansion of an existing manufacturing unit.
- Investment includes expenditure incurred on acquiring new plant and machinery, construction of building where the new plant and machinery are installed and associated infrastructure such as internal roads, storage, testing lab etc. (Value not exceeding 20% of the investment in new plant and machinery).
- Investment made by a contract manufacturer will be included if 100% of the manufactured output of that contract manufacturer is supplied to the Applicant.
- Investment in branding and marketing abroad for the first two years of the Scheme shall be included.
- Expenditure on land, second-hand plant and machinery, guest house building, residential colonies or similar structures shall stand excluded. Investment already made in Effluent Treatment Plant, Quality Control Lab etc. in an existing facility shall be excluded.
- Investment shall be made in two years i.e. F.Y. 2021-22 and 2022-23. Investments already made in F.Y. 2020-21 in plant and machinery shall also be included in the investment threshold.
- If any plant and machinery is taken on lease by the Applicant or by the contract manufacturer, the same should be a Financial Lease as per AS 19 of the Indian Accounting Standards.
- The installation of plant and machinery, construction of technical civil work and commencement of commercial production should be between April 1, 2020 and March 31, 2023.

2. Category II – Support to SMEs for manufacture of Innovative/Organic Food Products

Criteria	Particulars
Primary Conditions	<ul style="list-style-type: none"> • The Applicant should be Udyog Aadhar/Udyami registered • The Applicant shall be registered with APEDA⁵ for specified organic product
Minimum Sales	<ul style="list-style-type: none"> • Minimum sales of INR 1 crore during F.Y. 2019-20 for each of the innovative/organic product sought to be included
Minimum Investment	<ul style="list-style-type: none"> • No condition of minimum investment

3. Category III – Grant for Branding and Marketing support

- Support for branding and marketing is extended only for the promotion of Indian brands abroad.
- Incentive is granted towards expenditure incurred in branding and marketing of all Indian food products in branded consumer packs including those covered in the Target Segments.
- List of activities included in branding and marketing are in-store branding, shelf space renting, listing fee, electronic/social media and print media, outdoor publicity, billboard, commercial advertisement on channels etc. The expenditure will exclude trade discounts, expenditure incurred on distribution and overseas logistics expenditure.
- The Applicant shall submit a five-year proposal of expenditure that will be incurred towards branding and marketing.

⁵ The Agricultural and Processed Food Products Export Development Authority (APEDA)



- Quantum of grant shall be limited to 50% of the expenditure incurred, subject to an upper cap of INR 50 crores or 3% of the sale of food products, whichever is less.
- Minimum expenditure for incentive shall be INR 5 crore over a period of five years. In such case, an admissible grant would be INR 2.50 crore.
- Option available to apply branding and marketing along with the application under Category I. However, the applicant will be entitled to the benefit under any one category.

Key mechanisms for filing the Application

- The Application/Expression of Interest under this Scheme shall be made to the PMA through an online portal along with application fee. The application fee is in the range of INR 10,000 to 1,00,000 depending on the category applied for.
- All of the applications will be finalised within 90 days after the closure of the application window and the selected Applicants will be issued an approval letter by the PMA.
- On issuance of the approval letter, the selected Applicant shall submit a bank guarantee of a sum amounting to 3% of the Committed Minimum Investment in favour of the MoFPI. The bank guarantee shall be valid for three years or until the MoFPI releases such guarantee, whichever is later.

Selection Process

- Selection of Applicants will be based on marks obtained in the eligibility criteria (basis weightage given to several parameters such as Total Sales Turnover, Export Turnover, Committed Investment etc.
- The selection will be in order of rank, with a waitlist of applicants as well.
- Applicants will be selected subject to the budget allocation for the Segment.
- The maximum incentive for an applicant will not exceed 25% of the total budget of that segment and will not be less than 5%. The minimum requirement is, however, relaxed for the Fruits & Vegetable segment.

Disbursement of Incentives

- Applicants shall be required to submit claim for disbursement of incentive on an annual basis, within nine months from the end of the financial year to which the claim pertains.
- Applicant will be required to submit the calculation of sales with every claim along with a certificate from the Statutory Auditor in the case of a Company, and an Independent Chartered Accountant in the case of Proprietorship, Partnership Firm and LLP.
- After due scrutiny, the PMA shall process the claim within 60 days and shall disburse funds after receiving approval from the MoFPI.

Dhruva Comments

- The Scheme is part of a series of steps taken by the Government in its endeavour to promote 'Make in India' by incentivising products whose manufacturing takes place in India. The Scheme should be explored along with overall business plans, tax breaks, exchange control regulations, etc.



- The timeline for application under the Scheme is very close and the budget for the incentives are also fixed. Therefore, it is recommended that:
 - Food Processing companies who have made investments in F.Y. 2020-21 or have initiated such investments must look forward in order to avail benefit under the Scheme.
 - Companies planning investments ahead can take cognizance of the Scheme and make applications thereunder.
 - The Scheme is particularly attractive for SMEs engaged in the manufacture of organic products which do not have a condition precedent towards minimum investment/turnover.

Annexure A: List of Eligible Products

Sr. No.	Product Group	Product Covered	Products Excluded
RTC/RTE Segment			
1	Packaged Ready Meals, Soups and Ready Mixes, Other RTE/RTC Products	1. Ready Meals (shelf stable, frozen, dried, chilled ready meals which do not require any cooking preparation other than heating) & Dinner Mixes (in Ready-to-cook/prepare format); Diabetic Foods; Sausages, salamis, nuggets and other such preparation under heading 1601 & 1602 2. Soups & Broth (shelf stable, dehydrated, instant, chilled and frozen soup) 3. Ready Mixes (dessert mixes, batter mixes, thandai Mix) – All products under HSN 1601, 1602, 2104 – All products under HSN 2106	Protein concentrates, soft drinks, pan masala, betel nuts, churna for pan (21061000-40; 21069070)
2	Mixtures (Namkin, Bhujia), Puffed Snacks, Snack bars	1. Indian Savoury Snacks - Mixtures (Namkin, Bhujia) including extruded snacks 2. Puffed Snacks: Processed/reconstituted/ shaped cereals-based snacks 3. Snack Bars: Cereals and non-cereals bar, granola/muesli bars, breakfast bars, energy and nutrition bars, fruit bars and other snack bars (HSN 2106)	
3	Sweets	Packaged Traditional Indian Sweets (HSN 2106)	
4	Ice cream desserts, Ready to Drink Products	1. Ice Cream: Impulse ice cream, take home ice-cream, frozen dessert. Includes cakes, pies/tarts 2. Milk Based Beverages: Yoghurt, buttermilk, lassi 3. Soya Milk – All products under HSN 2105 & 0403 – All products under HSN 2202 except Aerated Water, Lemonade and Non-Alcoholic beer	Aerated water, lemonade, Non-alcoholic beer (HSN 22021010-9100; 22029990)
5	Bakery products - Biscuits, Packaged cakes	1. Sweet Biscuits: Chocolate coated biscuits, cookies, filled biscuits, plain biscuits, and wafers 2. Savoury Biscuits: Non-sweet biscuits and crackers often consumed with cheese and other savoury foods 3. Packaged Cakes: Chocolate cake, strawberry and other fruit flavoured cakes, fruit cake, carrot cake, cheesecake, muffins etc – All products under HSN 1905	Fresh/leavened bread
6	Millet Based Products with millet content above specified %	Any food product having minimum millet % as prescribed by MOFPI	Millet Flour
Processed Fruits & Vegetables			
1	Processed/Preserved Fruits and Vegetables products	1. Processed/ Preserved Fruits and Vegetables products - Steamed, Boiled, Frozen, Dried, Pickled, Provisionally Preserved	1. Fresh Fruits and vegetables



Sr. No.	Product Group	Product Covered	Products Excluded
		2. RTC Potato/Vegetable Products 3. Potato- Flour, meal, powder, flakes, granules and pellets 4. Fruit Squash – All products under HSN 0710, 0711, 0712, 0811, 0812, 0813, 0814, 1105, 1106, 1903, 2001, 2003, 2004, 2006, 2007 – All products under HSN 0804, 2005, 2008	2. Potato chips (HSN 20052000) 3. Products predominantly made of nuts, dates, figs (HSN 8041010-90, 8042010-90, 8043000, 8044000, 8045010-20, 8045090, 20052000, 20081100-1930, 20081990)
Sr. No.	Product Group	Product Covered	Products Excluded
2	Packaged Mixed Spices, Mixed Condiments & Seasonings	1. Packaged crushed or grounded dehydrated herbs and spice (Spices notified by spice board) 2. Mixed Condiments & Seasoning (Dry/ Dehydrated Sauces, Dry Recipe Powder mixes, dry powder marinades) 3. Oleoresins: All processed form of oleoresins – All products under HSN 0904, 0905, 0906, 0907, 0908, 0909, 0910, 1301, 2103, 2906, 3003, 3301	All raw/ unprocessed forms of herbs and spices, different gums, lacs and other vegetables saps and extracts
3	Fruit Juice and Fruit based drinks, Jam/ Jelly, Tomato Ketchup, pastes, purees and all Sauces, Coconut and other plant waters	1. 100% Fruit juice/pulp/paste- Not from concentrate 100% juice, reconstituted 100% juice and frozen 100% juice 2. Fruit based drink having fruit content => 10% Juice drinks made up of fresh juice or concentrate, having more than 10% fruit juice content; Packaged Coconut Water & other plant water 3. All fruits-based Jams/Jellies 4. Tomato- Ketchup, paste and puree 5. Packaged Sauces: Table sauces, pasta sauces, cooking sauces, dry sauces, ketchup, mustard, oyster sauces, salad dressings, dips, and other sauces – All products under HSN 2002, 2007, 2009, 2103 – All products under HSN 2202	Aerated Water, Lemonade, Non Alcoholic beer (HSN 22021010-9100; 22029990)
Marine Segment			
1	Fish Crustacean/Molluscs	1. Fish Chilled/ Frozen/ dried/ salted/ brined/ smoked 2. Fish Fillets & Meat -Fresh, Chilled & Frozen 3. Crustacean- Chilled, Frozen, Steamed, Boiled 4. Molluscs - Chilled, Frozen, Steamed, Boiled – All products under HSN 0302, 0303, 0304, 0305, 0306, 0307. Some of the products of IQF & AFD are included for higher incentive and appear in SI No 3 & 4 below.	
Marine Products with higher Value-Added Incentive			
2	Value added marine products	Value Added Marine products: Canned, Battered & breaded, Pickles, Sausages – All products under HSN 1604 & 1605	
3	IQF Value added Marine Products	1. IQF Shrimps: Stretched shrimp (Nobashi), butterfly/marinated shrimp, IQF Skewered shrimp, IQF Sushi shrimp 2. Blanched Squid pineapple cut, Cuttlefish Sushi, Tuna loins, Shashimi grade Tuna	
4	Freeze-Dried Value-Added Products	Accelerated Freeze Dried shrimp/ shrimp powder, Freeze dried Cephalopods	



Sr. No.	Product Group	Product Covered	Products Excluded
Mozzarella Cheese Segment			
1	Mozzarella Cheese	Mozzarella Cheese in Bulk Packaging Mozzarella Cheese in Consumer Packaging – Only Mozzarella Cheese under 0406 is covered	All other cheese except mozzarella (HSN 04061000-4000)



ADDRESSES

Mumbai

One World Center, 11th 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,
Prahlanagar, 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

Mehul Bheda (Mumbai/Ahmedabad)

mehul.bheda@dhruvaadvisors.com

Ajay Rotti (Bengaluru)

ajay.rotti@dhruvaadvisors.com

Vaibhav Gupta (Delhi / NCR)

vaibhav.gupta@dhruvaadvisors.com

K. Venkatachalam (Pune)

k.venkatachalam@dhruvaadvisors.com

Aditya Hans (Kolkata)

aditya.hans@dhruvaadvisors.com

Mahip Gupta (Singapore)

mahip.gupta@dhruvaadvisors.com

Nimish Goel (Dubai)

nimish.goel@dhruvaadvisors.com

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